Catholic Investment: Principles and Practice

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Introduction

Today's s ecological and social crises raise new ethical challenges for Catholics and people of good will. We are all called to respond with, among other things, more sustainable lifestyle choices and a re-examination of how our money is being invested. In this paper we provide evidence that the conventional understanding of socially responsible investment generally accepted by Catholic investors is no longer ethically sufficient or scientifically sound. This is because we need to face the reality of what is happening to our common home and respond to the cry of the Earth and the cry of the poor.

Given these crises, the purpose of this paper is to assist Catholic individuals and institutions to align their investments with Catholic beliefs and values. Pope Francis' historic encyclical *Laudato si': On Care for our Common Home* provides the direction for us to respond to many issues in our care for each other, and our care for the earth. *Laudato Si'* articulates the Catholic principles that can be used to inform how we invest [1]. *Laudato Si'* draws on Church Social Teaching, the Judeo Christian tradition and the best available science. It makes clear the importance of responding to biodiversity loss, water and climate change and their root causes. Pope Francis calls for widespread economic, social and political reform based on a new principle he calls "integral ecology"" (para. 11; Chapter 4). His Holiness states that on climate change there is a clear, definitive and ineluctable ethical imperative to act. Unprecedented destruction could happen due to the disruption of the climate (para. 24, para. 161). There is an urgent need to develop policies so that, in the next few years, the emission of carbon dioxide and other highly polluting gases can be drastically reduced, for example, by substituting for fossil fuels and developing sources of renewable energy (para. 26, para. 165).

This paper describes the process of applying Catholic Social Teaching principles, including integral ecology, to our investments as individuals and institutions.

The decision making process

The process of making ethical decisions about investments involves a number of steps:

Step 1: a) decide relevant principles/values
b) define an ethical organisation
Step 2: define strategic risk
Step 3: a) decide negative and positive screens
b) decide what companies to engage with [2].

Negative and Positive Screening is where investment types are excluded, eg, tobacco, or preferred, eg, renewable energy. Engagement is where shareholders engage with companies to encourage positive change. Engagement uses ownership stakes to engage with those companies that are not meeting desirable standards, through dialogue and shareholder activism.

Some funds exclude a lot from the possible domain of investment. Others exclude very little but engage quite extensively with companies that they consider unethical. The most successful

[1] http://w2.vatican.va/content/francesco/en/encyclicals/documents/papa-francesco_20150524_enciclica-laudato-si.html
[2] This section draws on
a) *Your Faith Your Finance A Guide to Money, Faith and Ethics* http://www.yourfaithyourfinance.org/
b) How to Invest to Care for People and the Planet. http://www.arrcc.org.au/how-to-invest-to-care-for-people-and-the-planet.

organisation involved in shareholder engagement is the Interfaith Center for Corporate Responsibility (ICCR), a grouping of Protestant, Catholic and Jewish institutional investors in North America with a combined approximately $100 billion under investment [3]. Investors have many ways in which their voices can be heard in boardrooms and at AGMs, including the ICCR in North America, the ECCR in Britain, and the ACCR in Australia and New Zealand [4].

Weak sustainability versus strong sustainability

While Catholic social teaching does not directly address ethical investment (see reference in Chapter Ten of Compendium), it does highlight a range of core values which should guide economic decisions. The US Conference of Catholic Bishops has described certain principles to guide their Catholic investments: [5]

- ***Human Dignity*** *- The economy exists to serve the human person, not the other way around.*
- ***Justice*** *- The moral measure of any economy is how the weakest are faring.*
- ***Stewardship*** *- We are stewards of God's creation, which it is our responsibility to nurture, respect, preserve and protect for future generations.*
- ***Shared Prosperity*** *- Wealth is a gift to be shared, and work must be fairly and justly rewarded.*
- ***Responsible Ownership*** *- Ownership of capital should be used to promote corporate social responsibility and the common good.*
- ***Corporate Social Responsibility*** *- Businesses must be responsible not only to their shareowners but to all stakeholders. These include employees, communities, the environment and the public* [6].

Many concerned institutional investors aim to apply the social, environment and governance (ESG) framework and the UN Principles for Responsible Investment. These are no longer valid measures for ethical Catholic investors, because they are not ethically sufficient or scientifically sound. Even when investors apply additional frameworks, the interpretation of "ethical investment" or "socially responsible investment" has not usually excluded investment in the mining and export of fossil fuels, for example. ESG and the UN Principles for Responsible Investment are based on what is "a weak definition" of environmental and social care. There are problems with the validity of this definition and measure [7].

One of the Co-Chairs of the Expert Group that drafted the UN Principles of Responsible Investment, Carlos Joly, has stated that the Responsible Investment community has not been more responsible than the investment community generally. He wrote that *"the trillions of dollars controlled by RI asset owners, managers and consultants are not deployed consistent with long term investment strategies that would conduct our economies in a direction consistent with sustainable development, environmental protection, and greater economic justice – which would imply radical departures from what the market feels comfortable with"* [8].

A strong definition of Corporate Social Responsibility describes the care necessary for living within the capacity of the ecological systems that support life on our planet. Pope Francis' encyclical

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[3] www.iccr.org/
[4] http://www.eccr.org.uk/; http://www.accr.org.au/
[5] These are based on the US Conference of Catholic Bishops Socially Responsible Investment Guidelines http://www.usccb.org/about/financial-reporting/socially-responsible-investment-guidelines.cfm
[6] See also Gregory R. Beabout & Kevin E. Schmiesing, "Socially Responsible Investing: An Application of Catholic Social Teaching," in *Logos* 6: 1 Winter 2003.
[7] Howell, R. 2013. United Nations Principles of Responsible Investment (UNPRI) and the Four Australian Banks. Retrieved from http://www.arrcc.org.au/socially-responsible-investment-and-the-big-four-australian-banks
[8] Joly, C. 2012. "Reality and Potential of Responsible Investment" in *Responsible Investment in Times of Turmoil*. Ed Vandekerckove, W et al. Dordrecht: Springer

encourages an “integral ecology”, an approach to living which holds together our deep spiritual needs, relationships with our brothers and sisters (especially the poor), love for Creation and love of God. Integral ecology endorses a strong definition of sustainability.

Defining an ethical organisation

If funds are to be invested in organisations concerned to act ethically, those organisations need to care for the ecological systems that maintain life, and promote a just distribution of our earth’s benefits in accord with our core values. Organisations need to be financially, socially and environmentally sustainable and responsible, treating all stakeholders fairly. Stakeholders include owners, members of the governing body, management, staff, subsidiaries, contractors, suppliers and distributors, customers, clients and the local communities.

From an ecological viewpoint, the organisation will respect and act in accord with nature and within the limits set by the ecological systems on which humans are dependent for life. This is a strong definition of ecological sustainability and succinctly describes an institution with an integral ecological profile.

The social component includes human rights, and companies’ use of their labour force, including health and safety and fair employment practices, as well as the meaningful involvement of labour in decision making.

An ethical organisation maintains good governance. It acts with financial and ethical integrity and transparency. This includes working with financial institutions and agents that espouse these values. It includes providing accurate and accessible financial and performance reports, and truthful advertising and promotion.

No company is completely sustainable or ethical, but investment will be in those companies that are closest to this standard (subject to other investment factors described below). The application of any ethical criteria will require weighting the various components or qualities that make up an ethical company. Because of the severe ecological degradation to our world caused by such factors as climate warming, strong ecological sustainability should take priority in the consideration of which companies to invest in.

Any agent or advisor when reporting or advising should take an account of how each company meets these ethical criteria and any engagement taken to encourage change.

Defining strategic risk [9]

A risk analysis is needed to take account of the factors that will significantly influence future conditions and events, both positive and negative, especially in the medium to longer term. The major global drivers will include population change; climate change; price increases for hydrocarbons; water; food; toxins; geopolitical shifts; wide swings in economic activity and technological advances. Ideally, companies have calculated their ecological impact, are living within it and have incorporated the major global drivers into their strategic planning. There will be complex interactions amongst all of these drivers that will cause abrupt and radical shifts in human living and work, creating risks and opportunities. Companies will have strategies to cope with this turbulence and the resulting volatility of returns. This may involve engagement with companies to encourage longer-term perspectives rather than the payment of dividends over the short term.

Preferred strategies to cope with this turbulence and volatility of returns will include investing in a smaller number of companies, taking a larger stake, and/or engagement where management is

[9] These global drivers are based on an analysis of the foresight literature in Strong Sustainability for New Zealand Principles and Scenarios. http://nz.phase2.org/

encouraged to take a longer-term perspective rather than a short term requirement to pay out regular or high dividends. The choice of company or fund will include how aware management is of the major global drivers and how they are incorporating these into their strategic plans [10]. When reporting, there will be an account of how each company deals with strategic risk.

The universe of investments meeting these criteria may be smaller than would usually be the case and a narrower range of investments should be considered acceptable.

Negative and positive screening [11]

The strategies will include screening out, positive selection and/or promotion of various investments. Negative screens would include the production of:

- contraceptives;
- abortion/abortifacients;
- embryonic stem cell research;
- tobacco;
- pornography;
- weapons;
- unsustainable forestry;
- unsustainable fishing;
- fossil fuel extraction and infrastructure;
- fossil fuel-intensive products; and
- Indirect investment in fossil fuels.

Clearly, this is a widened set of criteria to those which many currently consider. On tactical grounds, there could be limited investment in some companies that would usually be screened out, when there is the scope for meaningful engagement.

Positive Screens will include organisations involved in industries and activities like:

- energy efficiency improvements;
- environmentally sustainable goods and services;
- technology transfer to developing countries;
- renewable energies;
- greening businesses;
- progressive employment practices;
- local community activities;
- public goods such as public transport;
- sustainable housing;
- low carbon technologies.

The principles of ecological and social sustainability will favour investment in goods and services essential for simple and sustainable living with a focus on local resources and production regarding factors such as food, housing, water and energy systems and clothing. Investment will favour production and distribution systems that are resilient and able to cope with relatively rapid changes in temperature and weather. Also favoured will be transport and communication systems that are not dependent on unsustainable energy and resource use.

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[10] See A drought in your portfolio: are global companies responding to water scarcity? EIRIS Water Risk Report, June 2011 www.eiris.org/files/research%20publications/EIRISWaterRiskReport2011.pdf
This research shows only a handful of the global 2000 companies analysed have the policies, management systems and reporting mechanisms they need to adequately address the risks they face from water scarcity. The report concludes that the vast majority of companies and investors remain unaware of both current and future water risks and are therefore failing to protect company value. Because of this, investors should think twice about investing in such companies.

[11] Based on those of Christian Brothers Investment Services.

Of course, implementing these screens takes time, and may require consultation with financial advisers or agencies with expertise in ethical investment. It usually involves a staged process over time, starting with divestment from more destructive industries.

Shareholder engagement versus divestment

There is some debate between advocates of fossil fuel divestment and those who advocate for shareholder engagement with a view to persuading companies to change their behaviour. The arguments for engagement include: (a) if we do not invest in certain stocks, will the investment be bought by people who want to continue Business As Usual? (b) While we remain shareholders or customers, our advocacy can stand a chance of being heard and acted upon. (c) It is more "Christian" to stay at the table and dialogue.

Christian Brothers Investment Services, Inc. (CBIS) in the USA is the leader in Catholic socially responsible investing, with approximately $4 billion in assets under management for over 1,000 Catholic institutions worldwide. [12] Dan Nielsen, the Director for Socially Responsible Investing, CBIS, states that [13] *"Through engagement, we have had success getting companies to adopt important policies and initiatives and improve transparency (e.g. Chevron and human rights, Walmart and workforce diversity, Wells Fargo and predatory lending)".*

Some companies with significant exposure to fossil fuel extractive industries may be open to influence, such as banks, super funds and insurance companies, but fossil fuel companies themselves have not responded substantially to shareholder advocacy to date. The European companies, Shell and BP, have been influenced to a limited extent over environmental degradation and human rights abuses. However, the North American companies, Exxon Mobil and Chevron, have largely been intransigent in response to shareholder advocacy.

CBIS engagement has not been successful with Exxon Mobil. Quoting Dan Nielsen again: *"Exxon Mobil has evolved over the last several years away from its historical skepticism about the science of climate change to adopt a more responsible stance, reducing its financial support for fringe groups that question the accepted science."* However, while *"the shareholder resolution requesting Exxon Mobil to adopt quantitative goals to reduce greenhouse gas (GHG) emissions received support from 26.5% of shareholders … the company remains reluctant to commit to and implement substantive reductions."*

Frynas [14], an experienced consultant in corporate social responsibility and strategic management with a particular focus on the oil and gas industry, claims that hope that the oil companies will voluntarily change is unrealistic and they should be closed down. He reviews the behaviour of the major privately owned oil and gas companies and the drivers that influence them. He shows that Shell and BP have been shown to be amenable to public criticism and protest. Exxon has not been amenable to public concerns in the same way. Exxon has been intractable about climate change. They have disputed the scientific findings of environmental groups and chose to combat its critics rather than to engage with them. They have funded think tanks and lobbyists to oppose attempts to reduce emissions. They assisted the Global Climate Coalition, a corporate lobby group that spent tens of millions of dollars trying to undermine the international climate negotiations. The 2001 boycott campaign against Exxon had little impact on the company's strategy, despite shareholder resolutions and media publicity.

According to Frynas, multinational companies often do not recognise the full extent of their interactions with society and politics, and they do not accept responsibility for issues concerning the society-wide impact of their industry. While companies clearly exercise political influence, they tend

[12] http://www.cbisonline.com/
[13] Personal communication with Robert Howell.
[14] Frynas J G. 2009 Beyond Corporate Social Responsibility. Cambridge: Cambridge University Press.

to reject the notion that they could play a constructive role in helping to address governance failures. This conclusion is supported by Leggett where he found that the carbon fuel bosses agreed to the reality of global warming, but claim that governments need to provide the leadership on the matter [15]. Advocacy has its place but the fossil fuels industry has not shown any signs of committing to change, and it is now the time to divest.

Divestment Campaign

Norway's sovereign wealth fund, the world's largest [16], and the Rockefeller Foundation [17] are notable examples of funds that have committed to divest from fossil fuels. The divestment movement is now global and diverse, with pledges from over 500 hundred institutional investors and tens of thousands of individuals. As of Dec. 2, 2015, the assets under management of divesting institutions exceeded $3.4 trillion – up from $2.6 trillion just over one month prior [18]. A list of religious communities and organisations who have committed to divest is available on the Greenfaith website [19], and a list of specifically Catholic organisations is available on the Global Catholic Climate Movement site [20].

An important element in the effectiveness of divestment for the common good is the step of making the decision public. While the ethical integrity being shown through fossil fuel divestment decisions has intrinsic value, much of the beneficial impact is in the prophetic message such decisions send to the broader society. By making decisions public, organisations add to the important momentum for change being created by the divestment movement. They show leadership by putting on the public record that creation must be safeguarded from continued exploitation, so that the children growing up today inherit the earth as beautiful as when we inherited it. Our common home needs our protection. Similar to the Divest from Apartheid movement, the Divest from Fossil Fuels campaign has had a major impact. It has challenged the financial sector to seriously face up to the dangers of climate warming in a way that they can no longer ignore.

Conclusion

Pope Francis in his encyclical *Laudato Si': On Care for our Common Home* laid out the Catholic values, principles and reason for acting as a matter of urgency. Included in these actions should be the application of these values to our investments. A process was described above that involved deciding relevant principle and values; defining an ethical organisation; defining strategic risk; deciding negative and positive screens; and deciding what companies to engage with.

Applying Catholic Social Teaching principles found in *Laudato Si'* to our investments involves describing a list of negative and positive screens. Developing a comprehensive framework for investment calls for a truly integrated ecological approach. By following through our Catholic principles into action, ethical Catholic organisations are joining with organisations such as the ICCR, the ECCR or the ACCR which provide vehicles for collective engagement, and the Global Catholic Climate Movement [21], and 350.org [22] who support ethical investments. Divesting from fossil fuels

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[15] Leggett, J. 2014. The Energy of Nations. London: Routledge
[16] http://www.theguardian.com/environment/2016/feb/05/norways-wealth-fund-sells-out-of-73-companies-as-fossil-fears-grow
[17] Neate, R. March 2016. Rockefeller family charity to withdraw all investments in fossil fuel companies http://www.theguardian.com/environment/2016/mar/23/rockefeller-fund-divestment-fossil-fuel-companies-oil-coal-climate-change
[18] http://divestinvest.org/philanthropy/wp-content/uploads/sites/3/2016/01/12.22_Divest-Invest-Brief_web2.pdf
[19] http://www.greenfaith.org/programs/divest-and-reinvest/listing-of-known-religious-divestment-efforts
[20] http://catholicclimatemovement.global/fossil-fuel-divestment-at-catholic-institutions/
[21] https://catholicclimatemovement.global/
[22] https://350.org/

and reinvesting in renewable energy recognises the urgency of the need to create a safer climate for all. Making our actions publicly known progresses them from the sphere of private morality to being a much needed prophetic voice in the world today.

Vulnerable communities, including the many species with which we share this planet and coming generations cannot be heard right now. They are dependent on this generation to have the wisdom and courage to hear the call, understand our investments and make a commitment to act.