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Religious endowments move to the forefront of ethical investing

Faith investors move beyond divestment into more proactive approaches, such as impact investing and corporate engagement.
Dietrich Knauth | 26 Apr 2018

Churches and their endowments have long been leaders in socially responsible investing, but those efforts are increasingly moving beyond divestment into more proactive approaches, including impact investing and corporate engagement.

In addition to negative screening and divestment, religious organizations are embracing shareholder engagement, thematic investments — choosing to invest in companies or industries that are aligned with their organization's goals — and impact investing. The proactive turn has been encouraged by growing investor sophistication, better coalition building, and the Pope, who encouraged Catholic organizations to embrace impact investing in a 2014 speech.

"I think that was a turning point for several of the clients that we work with, where they started thinking in a more proactive framework," **Kristine Pelletier**, a member of **NEPC**'s endowment and foundation practice, told

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FER. “A lot of institutions felt that call to action, and maybe that put more fire into some initiatives that were already going on.”

Divestment and screening

Religious organizations have historically been more eager than other investors to divest from, or negatively screen, stocks that represent ethical or social risks. Often, they avoid a much broader range of companies than other investors.

While public pensions can debate whether to divest from fossil fuel companies or gun manufacturers, religious organizations have additional criteria. For example, the U.S. **Conference of Catholic Bishops** (USCCB) published socially responsible investing guidelines in 2003 that encourage avoidance of investments related to abortion, contraceptives, stem cell research, human cloning, pornography, arms manufacturers, and antipersonnel land mines.

The USCCB guidelines have been a useful tool for many Catholic organizations, including the University of **Notre Dame University**, which has an $11.8bn endowment fund. “We do have a very rigorous SRI program complying with Catholic social teaching as reflected in the USCCB guidelines on investing,” Notre Dame CIO **Scott Malpass** said in an email.

USCCB hopes that the guidelines can be a useful tool for other organizations, including investment managers, collaborators, and other investors.

“The Guidelines are intended as a resource for all users not just those affiliated with Catholics or other religious charities,” **Joyce Jones**, chief financial officer of USCCB, told *FER*. “Although recent events have brought heightened attention to, and awareness of, the Guidelines, I am pleased to report that asset managers have always been willing to work with us and apply the SRI guidelines.”

Shareholder engagement and proxy voting

Perhaps because of that experience with negative screening, religious organizations have also been quicker to embrace more proactive strategies for ethical investing, according to Pelletier.

Catholic organizations aren't the only group of religious investors taking a more proactive approach. The **Church Investors Group**, which represents 61 Church of England and Methodist Church organizations with combined investment assets of approximately £17bn ($23bn), issued new shareholder voting rules in February, focusing on executive pay, gender diversity and climate change.

"Church investors have long sought to address excessive executive pay and encourage the adoption of the living wage," **Stephen Beer**, CIO of the **Central Finance Board of the Methodist Church**, stated in a release. "Our new policy will enable us to send a clear signal to companies that we expect them to consider fairness when setting executive pay levels."

Religious investors are less constrained by concerns about financial materiality than other investors like public pension funds, which often struggle to convince their various constituents that environmental, social, and governance concerns are a core part of their fiduciary duty. Church investors can make a purely ethical case, and often seek to make in impact in areas where a company might immediately see a direct relation to their business operations, according to **Tracey Rembert**, assistant director of Catholic responsible investing at **Christian Brothers Investment Services** (CBIS), which manages $7bn in assets for Catholic institutions and their advisors.

"Faith investors are very often the canary in the coal mine, that early bellwether of the issues that are going to be playing out over time," Rembert told *FER*. "Faith investors are very often focused on the "S," the social part of ESG – like human rights, human trafficking, child forced labor, et cetera – that mainstream managers really take a while to dig into."

Among its shareholder engagement efforts, CBIS has pressured **Campbell Soup Company** to fight human trafficking and exploitative labor practices among the farms in its supply chain. It also urged tech companies to crack down on child pornography and child sexual exploitation through social

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media, rebuked **Wells Fargo** for unethical business practices, and participated in the successful shareholder effort to convince **ExxonMobil** to create a long-term plan for compliance with the *Paris Accord* on climate change.

Human trafficking is an obvious area for religious groups to throw their weight around, Rembert said. It's an issue that companies might not see as a core part of their mission or business, until investors can highlight how unintended impacts and poor oversight can encourage unethical behavior that they do not want to be associated with. Tightening supply chain controls can have outsized impact on the quality of life for exploited workers and children, so religious investors see it as low hanging fruit for engagement, Rembert said.

Religious organizations can also lay the groundwork for engagement efforts, like gun divestment, that break into the broader investor consciousness after attracting media and political attention, she added.

"Lots of efforts recently on guns have been successful and that's because faith investors and smaller responsible investors have been working on guns for the last 15 years," Rembert said. "It helps that you've been making that case, and building that coalition for a while, for it to come together in the market."

NEPC's Pelletier said that increasing interest in corporate engagement side is an exciting development. Religious institutions, though, often have to team up with other investors – religious or not – in order to make their voices heard.

"The challenge is for smaller organizations, where they don't necessarily have the staff, or the separate account, or other structures that would allow them to be as engaged as they would like to be," Pelletier said.

Fortunately, the infrastructure for investor collaboration has been improving, as organizations and frameworks like the UN Principles for Responsible Investing, and the Interfaith Center for Corporate Responsibility encourage investors to come together.

"Faith investors, I think it's in their DNA to collaborate because of things like ICCR, which started in 1971," Rembert said. "In the next year, I think you'll see more big, formal coalitions, and UN PRI is a big part of that. We just have better mechanisms now for getting together and sharing information than we did 20 years ago."

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