FEG UPDATE ON NEW USCCB SOCIALLY RESPONSIBLE INVESTMENT GUIDELINES

USCCB APPROVED NEW SOCIALLY RESPONSIBLE INVESTMENT GUIDELINES, MODERNIZING RESPONSIVE INVESTING PERSPECTIVE

The U.S. Conference of Catholic Bishops (USCCB) approved an expanded version of the existing socially responsible investment guidelines during their November 2021 General Assembly. The revisions modernize the USCCB's responsive investing perspective and incorporate *Laudato Si': On Care for Our Common Home*, Pope Francis' encyclical letter written in 2015. The Pope's letter is considered revolutionary and has been viewed as a call to action for the Catholic Community to combat the impacts of climate change—particularly its impact on those living in poverty. The changes to the USCCB's responsive investing guidelines are considerable and will have meaningful implications going forward as Catholic investors seek to align their investments with the most recent teachings of the Catholic Church.

Historically, The USCCB has provided thought leadership and a viable framework upon which Catholic institutions and stakeholders can base investment decisions. The USCCB first provided socially responsible investment guidelines in 1991, and they were subsequently revised in 2003. The fact that this is only the third time in 30 years the USCCB has revised its guidelines and altered its responsive investing framework is notable. The full guidelines can be found here.

But perhaps even more important, from an investment perspective, is the newest guidelines seem to have aligned themselves more closely with ESG investing in that there is a greater emphasis on language promoting corporate engagement, community impact, and proactively seeking out investments that promote the "common good."

The new USCCB guidelines are grouped into five broad categories:

- Protecting Human Life
- Protecting Human Dignity
- Enhancing the Common Good
- Pursuing Economic Justice
- Saving Our Global Home

They are outlined into three approaches to address each of these five categories:

- Avoid Doing Harm (i.e., do not invest)
- Actively Work for Change (i.e., seek change through engagement)
- Promote the Common Good (i.e., invest in companies consistent with USCCB guidelines)

Of these approaches, Avoid Doing Harm leaves the least amount of room for interpretation. Some notable changes from prior guidelines are the adding of companies that:

- Participate in gender modification surgeries
- Manufacture firearms (except for military, law enforcement and hunting purposes)
- Primarily derive revenue from gambling, production of tobacco, or recreational use of cannabis
- Consistently fail to initiate policies intended to achieve the Paris Agreement goals

- Are not in compliance with UN Global Compact Principles 7, 8 and 9 (all of which address environmental responsibility)
- Are not in compliance with the Extractive Industries Transparency Initiative (regarding the extraction of natural resources)

The changes to the Avoid Doing Harm approach, noted above regarding the environment (e.g., Paris Agreement, UN Global Compact, EITI), are examples of how the new guidelines are moving closer to ESG principles in some regards. Furthermore, the Actively Work for Change and Promote the Common Good approaches are more aligned with an ESG approach. As previously mentioned, those approaches leave more room for interpretation when it comes to how to implement and monitor these guidelines, which leads to the last aspect of these new guidelines that should be addressed: how these guidelines will be implemented and monitored in our client portfolios.

In talking with investment managers and screening providers, it is clear that everyone is still digesting the new guidelines and how they will change the services they provide to Catholic clients going forward. We have not seen a comprehensive list of new companies that violate these screens, but one will undoubtedly emerge once the proper amount of time has passed to effectively apply these guidelines to the universe of investable companies. Additionally, the Actively Work for Change aspect of the guidelines introduces a level of engagement that will need to be determined in the implementation process. While the Promote the Common Good aspect implies a level of proactively investing (not divesting) in companies aligned with the guidelines that will also require additional implementation considerations.

FEG has and will continue to be in contact with investment managers applying these screens as part of their investment process, as well as the third-party screening providers we partner with that help us monitor the implementation of these guidelines in client portfolios, and will share findings and best practices in due time.