

MSCI ESG THOUGHT LEADERS COUNCIL

FROM MSCI ESG RESEARCH LLC

TRENDS IN CATHOLIC INVESTMENT STRATEGIES | MAY 2017

INTRODUCTION TO THE MSCI ESG THOUGHT LEADERS COUNCIL

The MSCI ESG Research Thought Leaders Councils are convened to provide a forum for specialists to discuss topical and challenging ESG issues confronting investors. The forum typically consists of 4-7 participants. These discussions serve as an opportunity for the invited experts and MSCI ESG Research to have an open and frank exchange of ideas.

Results of the discussion are summarized and posted on MSCI's web site.

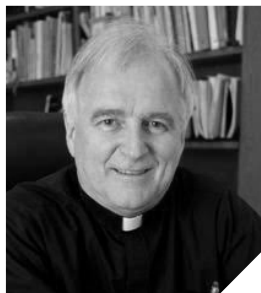
COUNCIL MEMBERS



Susan Makos
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Social Responsibility,
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Frank Coleman,
Executive Vice
President, Christian
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KEY TAKEAWAYS

CLIMATE CHANGE

There was general agreement that climate change has emerged as an issue of significant concern for Catholic institutional investors. This at least partly reflects the themes of the Laudato Si encyclical and Pope Francis's noted concern for the environment. Participants also noted the direct connections between climate change and more longstanding Catholic concerns like poverty and human rights.

IMPACT

A robust conversation on the rise of impact investing covered a range of issues. Most noted that impact investing has long been a component of some Catholic investment strategies, but that it was typically limited to community investment funds targeting economic development and housing in poorer communities.

Impact has now spread to interest in multi-asset classes. Most noted that there was a strong demand for improved metrics. The UN Sustainable Development Goals (SDGs) have become a notable component of the impact discussion, fitting in well with some Catholic organizations' concern for global poverty alleviation, access to basic needs, etc.

Participants also emphasized that engagement was an important form of impact. Developing good metrics on how to measure the impact of engagement was also discussed. Engagement/active ownership via proxy voting or direct contact with management has long been a core tenant of most Catholic investment strategies.

KEY DISCUSSION POINTS

STRATEGY: EXCLUSIONS VS. BEST-IN-CLASS?

Participants noted that in North America exclusionary screens were still a critical component of most Catholic investing strategies and “aren’t going away”. While Catholic investors’ interest in ESG investment strategies is growing – whether best-in-class selection or tilting, de-carbonization, or other – this interest is in addition to the continued desire to avoid investing in companies’ whose primary business activities run counter to core Catholic teachings. The most common exclusions remain abortion, contraceptives, and embryonic stem cells, with adult entertainment, weapons, and human rights violations following close behind.

CATHOLIC INVESTING AND RESOURCE CONSTRAINTS

A common theme was that Catholic institutions had to manage the implementation of their ESG guidelines in the context of limited resources. This included the increased outsourcing of managing investments to laity which creates challenges around implementing their ESG strategies since the external managers may be unfamiliar with Catholic Social Teaching, Catholic identity and culture. This extends to interpreting how to screen and engage on Catholic priority issues.

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BENCHMARKING CATHOLIC INVESTMENT PERFORMANCE

In general, participants indicated that investment performance is still always compared to a standard market benchmark and that this is likely to continue. However, some noted that there might also be demand for additional benchmarking against a Catholic or a broader ESG benchmark. This might, for example, allow investors to compare their carbon footprints or Catholic values alignment against a more appropriate benchmark.

FINAL THOUGHTS

Participants emphasized that although Catholic investors seek to invest with their values and, increasingly, to affect some positive impact on the world, fiduciary duty and financial returns remain key considerations.