

Living Our Mission Through Our Investments

By SUSAN SMITH MAKOS

For many years, Catholic and other faith-based organizations have used socially responsible criteria to align their investment choices with their values and beliefs. Research from the Forum for Sustainable and Responsible Investment indicates they are leading a charge: the number of investors using responsible investment techniques more than doubled from \$3.069 billion in 2010 to \$6.572 billion in 2014.¹

Socially responsible investing takes several forms: portfolio screening, shareholder advocacy, proxy voting and community investing. Most faith-based investors use two kinds of portfolio screening: negative, which excludes companies producing products contrary to the investor's beliefs and values, such as tobacco or weapons; and positive, which invests in companies addressing societal challenges, such as clean energy or community investing.

Socially responsible investors also have a rich tradition of using their share ownership to address issues aligned with their mission and advocacy agendas. Through shareholder advocacy, investors seek to influence the companies whose shares they own on questions of corporate social responsibility. Frequently, they focus on improving company performance regarding environmental, social and governance concerns. Shareholders file resolutions, vote proxies on annual meeting resolutions and engage company management in dialogues.

The Forum for Sustainable and Responsible Investment, a Washington, D.C.-based membership association, reports that while faith-based and health care investors comprised approximately 4 percent of socially responsible investment assets in 2014,² they represent nearly half of the organizations approaching companies on environmental, social and governance issues.³

CORPORATE IMPACT

In this increasingly globalized society, multinational corporations have a significant economic impact. Some companies' supply chains affect communities all over the globe, and their revenues exceed the gross domestic product of many nations. Based on 2012 data, a recent study identified the world's 100 largest economic enti-

ties, 40 of which are corporations. For example, Royal Dutch Shell Plc. ranked 26, ExxonMobil Corp. ranked 29 and Wal-Mart Stores, Inc. ranked 30.⁴

Although large companies have a significant impact on communities where they are based, investors tend to monitor the social and environmental impacts of how goods are produced and used, and the political influence of these companies on regulations and laws.

INTERFAITH CENTER ON CORPORATE RESPONSIBILITY

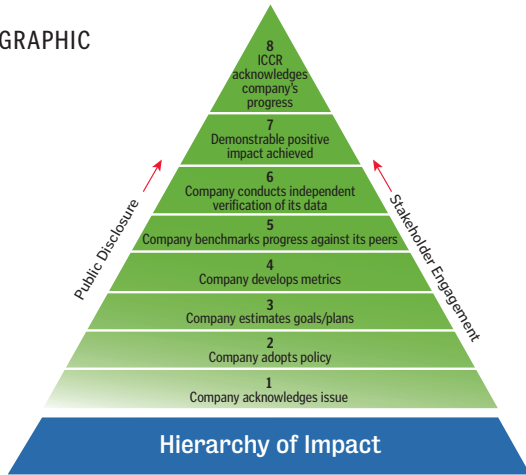
More than 40 years ago, a coalition of faith-based investors founded the Interfaith Center on Corporate Responsibility (ICCR) to collaboratively engage companies they owned to achieve a more just and sustainable world. While initially founded to respond to the discrimination and suffering caused by apartheid in South Africa, the coalition, which today includes more than 300 faith- and values-based investors, has addressed numerous environmental, social and governance issues.⁵

Collaboration with other like-minded investors means more shares

Through shareholder advocacy, investors seek to influence the companies whose shares they own on questions of corporate social responsibility.



GRAPHIC



- Benchmark 1:** Company acknowledges importance of issue
- Benchmark 2:** Company adopts policy to address the issue
- Benchmark 3:** Company begins to implement policy with programs/plans, goal and targets
- Benchmark 4:** Company develops metrics, starts measuring and disclosing information
- Benchmark 5:** Company benchmarks its progress against others in industry/sector
- Benchmark 6:** Company conducts independent verification of its data and operations
- Benchmark 7:** Company's strategic focus leads to demonstrable positive impact
- Benchmark 8:** ICCR publicly or privately acknowledges company's progress

Courtesy of Interfaith Center on Corporate Responsibility. Used with permission.

in a company are represented and garners more attention from the company. Getting a company's attention is the first step toward raising its awareness of the issue at hand. ICCR members have worked collaboratively to develop the Hierarchy of Impact, a set of benchmarks to track progress on company engagements with a focus on the company adopting policies, implementing performance improvement measures and publicly disclosing progress related to the environmental or social issues shareholders are addressing with the company. (See graphic.)

In 2014, ICCR members filed resolutions on various issues, with the majority addressing environmental issues. (See pie chart.)

CHURCH TEACHINGS

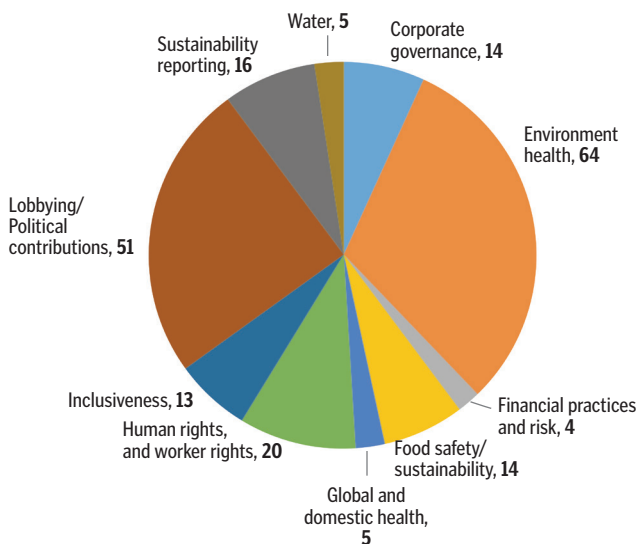
Pursuing justice in our economy has been an integral call from the Catholic Church. Pope John Paul II taught that investment always has moral, as well as economic, significance.⁶ Pope Benedict XVI wrote, "The Church's social doctrine has always maintained that *justice must be applied to every phase of economic activity*, because this is always concerned with man and his needs. Locating resources, financing, production, consumption and all the other phases in the economic cycle inevitably have moral implications. *Thus every economic decision has a moral consequence.*"⁷

He continued: "There is nevertheless a growing conviction that *business management cannot concern itself only with the interests of the proprietors, but must also assume responsibility for all the other stakeholders who contribute to the life of the business: the workers, the clients, the suppliers of various elements of production, the community of reference.*"⁸

Pope Francis has built on these teachings, writing: "The dignity of each human person and the pursuit of the common good are concerns which ought to shape all economic policies... Business is a vocation, and a noble vocation, provided that those engaged in it see themselves challenged by a greater meaning in life; this will enable them truly to serve the common good by striving to increase the goods of this world and to make them more accessible to all."⁹

In response to the church's call as well as their own critical concerns, the Sisters of Mercy have, for many years, used their role of long-term investor to engage corporations about their impact on the environment and on people. The Sisters of

2014 INTERFAITH CENTER ON CORPORATE RESPONSIBILITY RESOLUTIONS BY ISSUE



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Mercy have joined other congregations of women and men religious and Catholic health systems to address issues such as U.S. and global access to health care; corporate impact on the environment; water and sustainability; impact of company operations on human rights; and responsible governance practices.

In 2009, the Sisters of Mercy formed Mercy

Investment Services, Inc., the consolidated investment program for the Sisters of Mercy of the Americas and their sponsored ministries. In its shareholder advocacy work, Mercy Investment Services represents the Sisters of Mercy; the Adrian Dominican Sisters; the Daughters of Charity, Province of St. Louise; Mercy Health; and St. Joseph Health.

THE INTERFAITH CENTER ON CORPORATE RESPONSIBILITY

When implementing socially responsible investing, shareholders can approach companies in a variety of ways. The Interfaith Center on Corporate Responsibility (ICCR) is a faith-based, not-for-profit membership organization located in New York City. On its website, the organization provides the following definition of shareholder advocacy and suggests tools investors can use.

SHAREHOLDER ADVOCACY

Shareholder advocacy, also known as active ownership, covers a wide assortment of tactics used by investors to influence the companies they own on questions of corporate social responsibility. Levels of advocacy can range from proxy voting in favor of shareholder-sponsored resolutions to direct engagement of management in investor dialogues.

The intensity of engagement will depend on the priorities and resources of the investor. What is implicit in this work, however, is an acknowledgement of the responsibility that comes with stock ownership to ensure that management is doing what it can to improve its performance both financially and in terms of environmental, social and governance measures as this has direct implications for communities where they operate and throughout their global supply chains.

CORPORATE DIALOGUES

Dialogues are formal conversations with specific agendas and goals, and, in

many cases, dialogues occur on a regular schedule. Because shareholders have cultivated their relationships with corporate management and are viewed as serious long-term investors interested in improving the performance and sustainability of the companies they hold, these dialogues are conducted in an environment of mutual respect and in the spirit of finding common ground and resolution to investor concerns.

Participants in corporate dialogues from the company side often include executive management such as CEOs, board members, investor relations representatives, corporate secretaries, legal counsel and sustainability officers. Shareholders are represented by a lead investor who is responsible for setting the agenda and moderating the discussion.

SHAREHOLDER RESOLUTIONS

Shareholder resolutions, also known as shareholder proposals, are an important investor tool typically used when a dialogue with a corporation on a given issue stalls or is unproductive.

Roughly one page (500 words) in length, proposals contain a formal “resolved” clause, which is a specific request or “ask” supported by a number of carefully researched rationales in the form of “whereas” clauses.

Shareholder proposals typically ask corporations to disclose information or to measure and report on the potential impacts of their operations, or to adopt or change policies and practices to mitigate

against those potential impacts.

To file a proposal, also known as a resolution, shareholders must meet several requirements, including holding \$2,000 worth of stock in a company and adhering to the company’s requirements regarding the length of the proposal and the submission deadline.

The company can challenge the resolution with the Securities and Exchange Commission, and shareholders can then appeal to the SEC to have the resolution included in the company proxy statement for voting.

Once successfully filed, a shareholder proposal is included in the company’s proxy materials sent out to investors for voting either by proxy or in person at the company’s annual meeting. Any resolution earning at least 3 percent investor support can be resubmitted the following year. Resolutions also may be withdrawn if the company and shareholders reach an agreement around a specific issue.

PROXY VOTING

When a corporation distributes the shareholder resolutions to be voted on at its annual meeting, shareholders determine how to vote on these issues based on established guidelines around issues of concern. For example, shareholders can vote either for, against, or abstain on a proposal.

Source: www.ICCR.org



RESPONDING TO GLOBAL HEALTH NEEDS

Protection of human rights is at the core of this work, and the United Nations has approved the “Guiding Principles on Business and Human Rights,” declaring that companies have the responsibility to respect, protect and remedy human rights within their operations. Companies that do not proactively address human rights can expose themselves to operational, legal and reputational risks.¹⁰ In addition, the UN “Universal Declaration of Human Rights” states, “Everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care ... Motherhood and childhood are entitled to special care and assistance...”¹¹

Pope John XXIII stated similarly, “Every human being has the right to life, to bodily integrity, and to the means suitable for the proper development of life; these (include) food, clothing, shelter, rest, (and) medical care.”¹²

More than 2 billion people worldwide lack regular access to medicines that they need and that are fundamental to achieving their right to health. Diseases such as HIV, AIDS, tuberculosis and malaria are prevalent in developing countries, particularly among the poor. Governments have the primary responsibility for ensuring access to health care for their citizens, but the global pharmaceutical industry plays a critical role in access to medications. Faith-based investors through ICCR began engaging pharmaceutical companies more than 15 years ago on responding to these critical needs, focusing in particular on the pricing and availability of certain lifesaving drugs, as well as on ensuring that they are easy to administer and appropriate for children.

Through efforts urged by faith-based investors and the Medicines Patent Pool (MPP), a United Nations-backed organization in Geneva that works to bring affordable HIV medicines to people living with HIV in developing countries, six major pharmaceutical companies have signed agreements to share their patents, making lifesaving drugs affordable and available in developing countries.

COLLABORATING TO REMEDY HUMAN TRAFFICKING

In his December 2014 World Day of Peace mes-

sage, Pope Francis said, “Businesses have a duty to ensure dignified working conditions and adequate salaries for their employees, but they also must be vigilant that forms of subjugation or human trafficking do not find their way into the distribution chain. Together with the social responsibility of businesses, there is also the social responsibility of consumers. Every person ought to have the

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— POPE JOHN XXIII

awareness that ‘purchasing is always a moral — and not simply an economic — act.’¹³

In 2013, the United Nations International Labour Organization in Geneva estimated that modern-day slavery (including forced labor and sexual exploitation) around the world claims 20.9 million victims, 55 percent of whom are women and girls.¹⁴ More recent reports estimate as many as 35.8 million victims.¹⁵ The organized multimillion-dollar industry of child sex tourism uses tour guides, websites and brothels. End Child Prostitution and Trafficking (ECPAT-USA), the Brooklyn, New York-based affiliate of ECPAT International, estimates that 25 percent of the men who sexually exploit children abroad are from the U.S. and Canada.¹⁶

Investors have addressed trafficking from several perspectives, using their collective voice to encourage hotel and airline companies to implement human rights policies to protect women and children and train staff to assist in identifying victims of commercial sex trafficking.

For example, the Sisters of Mercy filed a shareholder resolution with Delta Airlines in 2010, asking for the company to address the issue of child sex tourism and to sign the ECPAT Code. Following dialogues with the company on how it could help stop human trafficking and identify victims within the travel industry, Delta became the first U.S. airline to sign the ECPAT Code. It also has implemented its own corporate human trafficking awareness training program.¹⁷

In the weeks leading up to the 2014 Super Bowl held in East Rutherford, N.J., the FBI and local, state and federal law enforcement partners rescued dozens of U.S. and international sex trafficking victims, including 50 women and 16 juveniles in New York and 25 children in New Jersey.

“High-profile special events, which draw large crowds, have become lucrative opportunities for child prostitution criminal enterprises,” said Ron Hosko, assistant director of the FBI’s Criminal Investigative Division, in a Feb. 2, 2014, press release announcing the action and its related arrests.

For years, ICCR members have joined with regional Leadership Conference of Women Religious members urging hotel chains with facilities near major sporting events to train staff to identify trafficking victims. Women religious contacted more than 1,200 hotels in the New York and New Jersey areas surrounding the 2014 Super Bowl stadium, and 78 percent of the hotels responded favorably, displayed resources and trained their staff. The efforts, which also raised public awareness through media coverage, led to corporate dialogues with hotel chains including Starwood Hotels and Resorts Worldwide, Inc., Choice Hotels International, Inc. and Wyndham Hotels and Resorts.

ICCR members also have encouraged companies in such sectors as retail and restaurant chains to assure the protection of workers in their supply chains by identifying and eliminating various types of forced labor and ensuring safe working conditions.

IMPROVING COMMUNITY HEALTH

Environmental justice is premised on the right of individuals to have access to clean air, water or soil, regardless of race, sex or social class. Environmental concerns also raise significant health concerns. In *Connecting Health Care with Public & Environmental Health*, published by the Catholic Health Association, Ted Schettler, MD, MPH, science director of the Science and Environmental Health Network based in Eugene, Ore., notes the interconnection between a healthy environment and community: “Catholic health care is committed to protecting the environment, to minimizing environmental hazards and to reducing our contribution to the problem of climate change. We

care for those who are harmed by the environment, we strive for internal practices to ensure environmental safety and we advocate public policies and private actions that bring solutions.”¹⁸

The Sisters of Mercy have used their role as an investor to promote a healthy community by helping residents of Mossville, La., an area with significant air and water pollution, to advocate with chemical companies operating nearby. As an investor in these chemical companies, the sisters leverage their position as shareholders to help the community.

Mossville, an African-American community founded in the 1790s next to Lake Charles, La., once was a thriving area devoted to farming, fishing and hunting. Today, according to the Environmental Protection Agency, Mossville is surrounded by 14 industrial facilities that collectively release more than 1,000 tons of toxins into the air annually. In 1998, a pattern emerged of residents developing chronic and life-threatening diseases including cancer and respiratory, immune and

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reproductive illnesses that have been linked to chemicals released by the surrounding facilities. Residents’ concerns frequently had gone unanswered by area companies.

Since 2009, ICCR members have used their role as investors in these companies to bring community concerns directly to corporate management. These efforts accelerated in 2012 when the South African company Sasol announced plans to develop a \$21 billion complex nearby. The plant’s growing footprint, resulting in less space for residents and increased challenges for clean water and clean air, reduced property values, making it difficult for residents to sell their homes and relocate to other areas.

Following Mercy Investment Services’ dialogue with Sasol management, the company scheduled regular meetings with the Mossville community and instituted a comprehensive, voluntary home purchase program on favorable terms. More than 80 percent of eligible homeowners initially registered to participate in the pro-



gram, which included 566 homes in Mossville and the nearby communities of Brentwood and Westlake. While not an ideal solution — that is, one that would allow residents to stay in their homes with clean air and water — it has enabled residents to purchase homes in healthier communities.

RESPONDING TO THE CALL TO SEEK JUSTICE

We, as faith-based organizations, have a moral obligation to accept the invitation and the call of the church, our mission and our values, to seek justice through our investments. The rich tradition of Catholic health systems and religious communities, both in our ministries and through portfolio screening, proxy voting and community investing, has built a strong foundation for raising our collective voices to create change, especially for those most in need and the unheard in our society. Now is the time to expand the legacy of our founders by becoming more active investors, engaging companies through shareholder advocacy.

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