Investing in the Option for the Poor

Christopher W. Cox, M.Div.
Ann Roberts, MLS

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Just as the commandment “Thou shalt not kill” sets a clear limit in order to safeguard the value of human life, today we also have to say “thou shalt not” to an economy of exclusion and inequality. Such an economy kills. How can it be that it is not a news item when an elderly homeless person dies of exposure, but it is news when the stock market loses two points?

Pope Francis
Evangelii Gaudium, #53

With these words from his 2013 Apostolic Exhortation Evangelii Gaudium, Pope Francis offered a theological critique of the financial market. This paper intends to examine how a faith perspective, informed by the preferential option for the poor, may shape and direct Catholic institutions to engage, as active owners, in their market investments. Insofar as the preferential option for the poor involves, to some measure, material poverty, the movement of money is fertile ground both for theological reflection and social action. Indeed, it is our belief that the preferential option for the poor offers critical insights that promote a more just and sustainable world.

Catholic Investments
Most U.S. Catholic institutions had humble origins. A priest, recognizing the premature deaths of men in factories and the subsequent loss of wages for their families, created a mutual aid society for his parishioners at St. Mary’s Church in New Haven, Connecticut. That priest, Venerable Michael McGivney, founded what today is known as the Knights of Columbus, an organization that holds just under $25 billion in assets (Fortune, 2019). Another priest, accompanied by seven religious brothers, settled in a cabin not far from here to take possession of a donation: 524 acres. That priest, Fr. Edward Sorin, C.S.C., founded, among other things, the University of Notre Dame. Notre Dame reported its endowment last year at $13.1 billion. The endowment of Boston College has $2.6 billion in assets. Georgetown University’s endowment was $1.66 billion in 2017. St. Louis University reported a $1.1 billion endowment in 2018. Santa Clara University reported its endowment at a fraction under $1 billion last year. Up from 143 foundations in 2016, today 181 U.S. dioceses and archdioceses have foundations with a total investment pool of about $9.5 billion (Dillingham, 2019). The returns on these invested funds enable significant ministries that serve many poor and vulnerable. Nonetheless, the investments themselves are not beyond ethical critique.

Perhaps a more subtle quotation might be more persuasive, but a single sentence from the 2018 Vatican document Oeconomicae et pecuniariae quæstiones brings the tension between profit and justice into view: “No profit is in fact legitimate when it falls short of the objective of the integral promotion of the human person, the universal destination of goods, and the preferential option for the poor” (#10). While the returns, the profits, on church assets provide resources to advance the mission of the church, those profits may very well place the church in an ethical quandary of an unjust means that corrupts an otherwise good end, given
the criteria proposed by *Oeconomicae et pecuniariae quaestiones*. Clearly, one of the explicit critical lenses for the relationship between profit and justice for the document’s authors is the preferential option for the poor. Similarly, U.S. Catholic bishops have explicitly endorsed the preferential option for the poor in their pastoral letter, “Economic Justice for All.” The U.S. Conference of Catholic Bishops expressly bring the preferential option for the poor, although narrow in its application, into their “Socially Responsible Investment Guidelines” (2003, 4).

While some investments are prohibited by guidelines from the USCCB, like investments in abortion and nuclear war, investments in a variety of other industries raise ethical issues. Investments in tobacco might be ruled out by some as their product kills half of its customers. Others may elect not to invest in alcohol or gambling. Others may more broadly choose not to invest in arms makers. Concern for climate change may motivate still others not to invest in energy companies in carbon-based businesses, like petroleum and coal companies.

The complexity of modern companies and finance make those dividing lines between “good” companies and “bad” companies much more difficult to distinguish. In banking, a company like Wells Fargo has been hit by ample headlines for its ethical failures in recent years. Other banks are not immune from significant criticism. Banking is slowly becoming more cognizant of the risk involved in issuing lines of credit for new carbon-based power plants. In technology, companies like Microsoft, Google, and Amazon are at the forefront of developing technologies that drive military programs and immigration-enforcement programs that face significant ethical hurdles. Transportation companies like Lyft and Uber likely reduce use of public transportation, increasing climate impacts from individual vehicles. Most consumer electronics goods sold in the U.S. cannot adequately verify the origin of rare earth metals,
increasing the likelihood that our cell phones are contributing to child labor and funding warlords in countries that suffer unrest. During this conference, we have been fed and nourished with food that likely exploited farm workers here and abroad.

To put a theological term on it, there is structural sin. We cannot remove ourselves from it. The question becomes “What will we do about it?” As consumers and investors, we are complicit. Do we remain silent? Or do we work to make things better? How might we do that work?

**Origins of Shareholder Advocacy**

In March 1971, the Episcopal Church filed a shareholder proposal asking General Motors to withdraw from South Africa for as long as apartheid continued. While previous shareholder resolutions had been filed on governance topics, this was the first with a social theme to appear on a corporate proxy. The General Motors proposal received less than 3% of the vote, but one of the company’s directors, Baptist minister Leon Sullivan, voted for the proposal and spoke in favor of it at the annual general meeting. He would go on to author the Sullivan Principles, a code of corporate conduct designed to pressure the apartheid system in South Africa, and to exert investor pressure to encourage adoption of the Principles. General Motors, along with many other U.S. companies, signed on to the Principles and eventually divested from South Africa entirely, prodded by a variety of faith organizations. In time apartheid ended by negotiation rather than revolution, sooner than it would have without the initiative of religious groups banding together to oppose it. Thus began the shareholder-advocacy movement, as well
as the coalition of religious entities that became the Interfaith Center on Corporate Responsibility (ICCR) (Robinson, 2002).

Considering social good above financial gain has long been the practice of religious organizations. In biblical times, Jewish laws dictated how to invest according to ethical values. In the 18th century, Quakers refused to invest in, or have business dealings with, companies that supported the slave trade. Followers of John Wesley, founder of the Methodist movement, avoided investing in or partnering with companies profiting from alcohol, tobacco, gambling or weapons—known as “sin stocks.” Islam prohibits the charging of interest, so a Muslim investor will avoid investing in banks and finance companies, as well as companies with business models dependent on debt. The members of ICCR have taken this tradition of values-based investing to a new level, championing human rights, environmental concerns, and a variety of social issues in order to serve the common good.

Values-based investing (also known as socially responsible investing, or SRI) can be achieved in several ways. As mentioned above, negative screening was the earliest implementation method for values-based investing. Investors avoided investing in companies whose activities or products conflicted with the investor’s values. Related to negative screening is divestment, whereby an investor will liquidate (divest) any positions previously owned. Just as divestment of companies operating in South Africa in the 1980s helped bring an end to apartheid, currently there is an active movement, led by 350.org, to encourage investors to divest from fossil-fuel producers. As investors began to seek constructive ways to encourage sought-after results, positive screening became an alternative to negative screening. With positive screening, an investor seeks to steer capital to companies with desirable characteristics.
or products. Examples include seeking investments in companies with shareholder-friendly
corporate governance, positive employee relations, or a history of helping to improve human
rights in developing countries in which they operate. A best-in-class approach suggests a
broadly diversified portfolio that may invest in areas some SRI investors might avoid, but
includes those companies that strive to minimize any (perhaps unavoidable) detrimental effects
of their business activities.

Finally, many equity investors are recognizing their role as owners, or the influence they
have as lenders through debt instruments such as bonds. Active ownership describes proactive
efforts as owners or partners to influence corporate behavior and direction. These efforts can
take many forms, including active proxy voting, engagement or dialogue with company
management. Corporate engagement generally takes the form of regular, and often long-
standing, dialogues between investors and management to address the social and
environmental impacts of corporate activity on the most vulnerable in society. Advocacy efforts
can be directed at companies through management, boards, and employees, but can also be
directed to regulators, policy makers, customers, and other investors. Investors engage in
public-policy advocacy to ensure that the voices of responsible investors are represented in
legislative and regulatory discussions on pressing social and environmental issues. If companies
do not sufficiently address the risks raised in dialogues, investors may file shareholder
resolutions, voted on by all shareholders. Shareholder resolutions appear on the companies’
proxy statements and can be an effective way to grab the attention of company management
while alerting other investors to ethical concerns.

“Called, as Sentinels”
The document *Oeconomicae et pecuniariae quaestiones* ("Considerations for an Ethical Discernment Regarding Some Aspects of the Present Economic-Financial System"), approved by Pope Francis, running to just over 11,000 words, brings Vatican heft to financial instruments including shareholder risk, subprime mortgages, derivatives, credit default swaps, interbank loans (LIBOR), shadow banking systems (think, cryptocurrency), and offshore tax havens. While some may consider Pope Francis an outlier, the 49 footnotes, grounded in traditional Catholic teaching, illustrate the continuity of St. John Paul II, Pope Benedict, and Pope Francis on papal teaching related to the economy. The document aims to apply those principles to the current context.

For those who engage in socially responsible investing, the document concludes with some significant encouragement:

In front of the massiveness and pervasiveness of today's economic-financial systems, we could be tempted to abandon ourselves to cynicism, and to think that with our poor forces we can do very little. In reality, every one of us can do so much, especially if one does not remain alone.

Numerous associations emerging from civil society represent in this sense a reservoir of consciousness, and social responsibility, of which we cannot do without. Today as never before we are all called, as sentinels, to watch over genuine life and to make ourselves catalysts of a new social behavior, shaping our actions to the search for the common good, and establishing it on the sound principles of solidarity and subsidiarity. (Congregation for the Doctrine of the Faith, #34)

Perhaps the most evocative phrase from the document is here, that “we are all called, as sentinels.” The founder of our organization, the late Fr. Mike Crosby, O.F.M., Cap. filed the first shareholder resolution concerning climate change with Exxon Mobil in 1992. Sr. Nora Nash, O.S.F. was recently profiled under a headline reading: “Why is Wells Fargo afraid of this nun?” (Blumenthal, 2018). Leading challenges to gun makers for years, Sr. Judy Byron, O.P. finally
garnered ample support for her resolutions after the Stoneman Douglas High School shooting (Schuppe, 2018). While more and more people are taking up the work of fighting human trafficking, we would be nowhere, were it not for the work of so many dedicated religious sisters who have kept a laser-like focus on the issue. Time and again, faith-based socially responsible investors take up a concern, “as sentinels,” long before others take notice. While Fr. Crosby may be the only one of the preceding with an advanced degree in theology, all of them engage in a practical theology and are, in some sense, public theologians, even if they would not describe themselves as such. These consecrated religious also exemplify the prophetic dimension of religious life. Not only are religious “called, as sentinels,” numerous laity live this prophetic call in their stewardship of invested funds—in faith-based organizations, secular institutional investors, and personal investments. Google “John Chevedden” to see the impact of one individual on corporate governance issues with an investment of just over $2,000 in each of a series of companies.

**Supply-Chain Human Rights**

In business terminology, the words “supply chain” are embedded in a myriad of sticky wickets and yawn-inspiring details, and, yet, no area of business operations has greater impact on environmental and social issues. From sourcing to manufacturing, from distribution to sales, from the product’s use and eventual disposal, supply chain is where companies’ choices affect carbon emissions, stewardship of water and energy, reduction of waste, and protection or harm of workers.
The 2010 Dodd-Frank law requires publicly traded companies to disclose annually to the Securities Exchange Commission if their products contain conflict minerals. The first reports were due in 2014. A study of those reports came to a chilling conclusion:

Only about 1% of the companies were able to declare that their products were conflict-free beyond a reasonable doubt. Of the rest, 19% declared that they had no reason to believe their products contained DRC conflict minerals. The remaining 80% admitted that they were unable to determine their raw materials’ country of origin. (Kim, 2017)

It is likely that our cellphones, our televisions, our computers, all of our consumer electronics contribute to global conflict. As well, clothing, chocolate, and coffee have exceptionally troubled supply chains.

Consumers, investors and the general public see evolving responsibilities for companies to address human-rights issues within company supply chains. As a result, the regulatory landscape is becoming more stringent with laws passed in California, the United Kingdom, Australia, and France requiring companies to report on their actions to eradicate human trafficking and modern-day slavery in their operations and supply chains. Even the Vatican, through its Migrants and Refugees Section, issued new Pastoral Orientations on Human Trafficking in 2019 that call upon companies to perform an “ethical assessment of current business models” (#30) to uncover human trafficking “often hidden within the labyrinth of supply chains” (#32).

Broadened company responsibilities are delineated in the United Nations Declaration of Human Rights, the International Labor Organization’s Declaration on Fundamental Principles, and the Guiding Principles on Business and Human Rights (UNGP). The Guiding Principles is the authoritative framework for corporate responsibility to respect human rights, including putting
in place a “human rights due diligence process” comprised of a statement of policy articulating the company’s commitment to respect human rights, periodic assessment of actual and potential human rights impacts of company activities and relationships, integrating these commitments and assessments into internal control and oversight systems, and tracking and reporting performance. In the coming months, ICCR members will bring shareholder resolutions to a vote at more than 30 companies regarding these basic principles.

**Gender and Racial Justice**

While well-documented that women, in general, receive lower wages than men, the *New York Times* reported that, in 2018, female founders received only 2.2 percent of the $130 billion in venture capital, approximately $2.9 billion of the $130 billion invested last year (Marikar, 2019). In other words, one might conclude that the prevailing thinking in business is that men have 97.8% of the good, profitable ideas. It is a safe bet that the prevailing thinking of the investment community is wrong.

The Black Lives Matter movement campaigns against violence and the underlying systemic racism against Black people. It has successfully drawn attention to police shootings of unarmed Black people. Similarly, a recent study from the Action Center on Race in the Economy revealed that, in addition to the direct impacts of the violence against people of color, banks and investors actually profit from these incidents of violence. Cities are unprepared to payout for the settlements. Bonds are issued to finance the payments to the victims’ families. Chicago alone will pay more than $1 billion in interest to investors for bonds issued between 2010 and 2017 (Action Center on Race in the Economy, 2018, 29-30).
The mass incarceration of African-American males and the separation of children from immigrant families are issues with significant market implications. Private-prison corporations like CoreCivic and GEO Group make a hefty profit off of federal and state contracts. Those companies also require lines of credit that involve many U.S. banks. As a consequence, banks like JPMorgan Chase have been significant financiers of private prisons and immigrant-detention centers. ICCR members have engaged the leadership of JPMorgan Chase since May 2017 about those investments, and we are gratified that they recently announced that the bank will no longer invest in private prisons and immigrant-detention facilities (Simon, 2019).

It is essential to advocate for policies which promote racial justice and address the role of wealth and capital in ongoing injustice. Some investors are developing strategies of social equity investing. Efforts need to be made to hold companies accountable for how their policies and practices impact people of color, including via shareholder proposals, company dialogues, interactions with asset managers, and more. As always, the voices of those most impacted need to be heard, so we can aim to center the perspectives and expertise of people of color. Catholic investors can work to build coalition with and work in accountability to racial-justice activists and organizers.

Four Gospel Attitudes

Fr. Dan Crosby, O.F.M., Cap. identified four “Gospel attitudes” in faith-based shareholder advocacy in an address to honor the occasion of the 45th anniversary of the founding of Seventh Generation Interfaith Coalition for Responsible Investment (SGI): collaboration, solidarity, courage, and hope (Crosby, 2018).
As pioneers in socially responsible investing, religious institutions have a long history of aligning their investments with their mission and values. For nearly 50 years, ICCR has provided a forum for faith-based and values-driven investors to strategize around shareholder advocacy. ICCR members engage the companies in their portfolios to advocate for effective management of social and environmental risks, with the conviction that companies that do so perform better over the long term. Recognizing the value in collective action, Coalitions for Responsible Investment function as regional networks of institutional investors to facilitate and coordinate their shareholder advocacy activities. Collaboration, working in this ministry alongside the Jewish community, the Islamic community, and Protestant leaders, as well as unions and values-driven investors, enriches the experience for all. One might ask: even if you were big enough to do it alone, who would want to?

Faith-based shareholder advocacy began as an act of solidarity with people oppressed by the apartheid regime of south Africa. The on-going and living heartbeat of this ministry is the on-going connection to those who suffer.

The church gives witness with courage to the plight of immigrants and refugees and the unborn. It takes courage to speak the truth in love. We take it for granted that the Catholic Church advocates for federal policies and comments upon legislation through the U.S.C.C.B. Further, in each state, the Catholic bishops of that state have their own Catholic Conference that engages in policy and legislative advocacy. It is considered normal that the church lobbies state and federal government. For many, engaging with corporations is considered out of the ordinary. It takes courage for a faith-filled person to call powerful corporations to hear the cry of the poor.
Finally, this ministry is born of hope. Faith-based shareholders need to see the world both as it is and as God made it to be. The experience of colleagues in this ministry show them to be committed to a slow-going work that gradually changes things for the better and, ideally, for the betterment of all. Indeed, the common good is best served by paying particular attention to those most in need.

In the present condition of global society, where injustices abound and growing numbers of people are deprived of basic human rights and considered expendable, the principle of the common good immediately becomes, logically and inevitably, a summons to solidarity and a preferential option for the poorest of our brothers and sisters. This option...demands before all else an appreciation of the immense dignity of the poor in the light of our deepest convictions as believers. We need only look around us to see that, today, this option is in fact an ethical imperative essential for effectively attaining the common good.

Pope Francis

Laudato Si’ (#158)

References


