

The Pope's Encyclical and the Response from Catholic Institutions

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“There is an urgent need to develop policies, so that in the next few years, the emission of carbon dioxide and other highly polluting gases can be drastically reduced, for example substituting for fossil fuels and developing sources of renewable energy.”

In *Laudato Si*, Pope Francis called on the Catholic community to recognize the urgency in addressing the climate change crisis that is looming. Furthermore, he urges individuals and communities “to recognize the need for changes of lifestyle, production and consumption, in order to combat [global] warming.” While Pope Francis clearly calls for change in daily habits and tendencies, his views on divesting from fossil fuel investments is up for interpretation.

In the Encyclical, the Pope urges companies to invest in efficient and green technologies; however, he does not provide guidance to Catholic institutions regarding investments in their endowment. He did not address divestment from fossil fuels—an action that some institutions have taken to remove energy positions from their portfolios. This leaves Catholic institutions to infer whether or not this is part of his call for action.

This report will explore the Catholic community’s response to *Laudato Si*, specifically how institutions have changed their investing policies. We will also review how these institutions are adapting non-investment policies to answer the Pope’s call. There is no doubt that the Encyclical has had an effect on the Catholic community. The effect on investment practices, however, is up for debate.

Response from Catholic Investors

The response from Catholic institutions regarding investment practices has been mixed. With a few exceptions, most institutions have not moved to divest or become a signatory of a “responsible investing pledge” since the release of the Encyclical. Some communities, such as the Sisters of Loretto, voted to divest from fossil fuels, but most institutions have yet to take a pledge or enact a formal responsible investing policy concerning climate change. However, that is not to say that stakeholders at Catholic institutions have not had conversations around divestment.

Many institutions view their investments as a way to generate capital to help fund operations—not to make a statement regarding climate change. As energy stocks have historically paid large dividends and offered stability, the energy sector has been a part of the investment portfolio for many institutional investors.

As of September 30, 2016, 25% of the 612 institutions that had pledged to divest from fossil fuels were faith-based organizations, according to gofossilfree.org. This included four U.S.-based Catholic institutions: Georgetown University, Franciscan Sisters of Mary, University of Dayton, and Sisters of Loretto. At the Feast of St. Francis of Assisi on October 4, 2016, seven Catholic organizations from Canada, Italy, the U.S., Australia, Brazil, and Hong Kong announced their decision to divest from fossil fuels.

Many financial firms that Catholic institutions rely on to manage their investments, such as Christian Brothers Investment Services (CBIS) and Ave Maria, have taken a firm-wide stance on how to invest in light of the Encyclical. CBIS Executive Vice President Francis Coleman has taken the position that remaining invested in fossil fuels allows institutions to force change upon energy companies. He said, “our strategy has been active ownership, to get companies to understand the impact of their emissions and to reduce them, to look at their carbon footprint and to invest in other technologies.”

Despite a majority of Catholic institutions refraining from divesting, many have re-evaluated their fossil fuel investments, including the Archdioceses of Chicago (over \$100 million in fossil fuel investments in 2015) and Boston (about \$4.5 million in energy investments in 2014). Additionally, Catholic investors and other faith-based investors are exploring investments in renewable energy, with some citing economics as reasons for support. At the University of Dayton’s divestment conference, the Rev. Fletcher Harper, Executive Director of GreenFaith, noted “The largest carriage makers of the 19th century did not become the largest auto makers of the 20th.”

“Beyond Paris, we will continue to raise our voices, and strengthen our efforts to reduce demand for fossil fuels while focusing on investments in renewables. We have faith that cleaner energy for future generations is not only necessary, it is entirely possible.”

—Laura Berry, Executive Director of the Interfaith Center for Corporate Responsibility

Non-Investment Related Responses

While a majority of institutions have chosen not to divest, they have responded to the Encyclical through alternative means. As promoted by CBIS, some investors have used active ownership to promote change in the culture of companies. In July 2015, the Wall Street Journal reported there were 12 shareholder resolutions related to environmental proposals versus seven the previous year.

Influencing public policy is also a common response to the Encyclical. Institutions and members of the church have actively encouraged change to combat global warming. For example, Catholics contributed nearly half of the 1.8 million signatures in an interfaith petition calling on nations to approve the Paris Climate Change Agreement (COP21) in December 2015. In April 2016, the U.S. Conference of Catholic Bishops joined more than 120 faith-based groups in urging Congress to fully fund President Obama's \$750 million budget request for next year's U.S. contribution to the Green Climate Fund. The fund was established to help developing nations address and adapt to climate change, which aligns with Pope Francis's view that climate change disproportionately impacts those least able to cope with it.

Institutions have also begun local initiatives to raise awareness on climate change. According to the Catholic News Service, organizations around the world have formed study groups, planted gardens, created actions plans to reduce energy/water use, developed curricula, and produced webinars.

Catholic universities and grade schools have also introduced new initiatives to educate students on climate change. Sustainable student clubs focused on climate change are funded and supported by universities.

Regis University in Denver established a global environmental awareness course as a required part of their core curriculum. Others, including Georgetown University, have an office devoted to supporting, monitoring, and launching sustainability initiatives. Some schools have introduced speaker series and schoolwide initiatives in an effort to start broad discussions on climate change.

A trend that has become increasingly popular—not only with Catholic institutions—is the construction of energy-efficient buildings. This initiative, along with others such as the implementation of recycling programs, have reduced the carbon footprint of institutions. Boston College now has six LEED silver-certified buildings on its campus, which is a designation recognizing a level of efficiency based on criteria from Leadership in Energy & Environmental Design (LEED) certification program. Meanwhile, Rockhurst University is replacing lighting and plumbing fixtures to be more eco-friendly and Saint Louis University is installing solar panels on campus.

Concluding Thoughts

Many faith communities have spent the last year and a half since the publication of *Laudato Si* developing a fuller understanding of Pope Francis' message and considering the best way to integrate it into their practices.

Some communities began the process of aligning their investments with their concerns about the environment, while others have made changes in their operations or worked with public policymakers on climate change policy.

Throughout our history, we have partnered with clients to align their investments with their mission. The table on the right outlines some of the initiatives. Please contact your client service team with any questions related to mission-aligned investing.

CLIENT INITIATIVES

- Create investment policy statements that incorporate investor mission and outline a strategy for mission aligned investing
- Develop socially responsible investment guidelines
- Quantify portfolio exposure to products or industries, such as weapons or coal, to help inform decision making around divestment
- Share research to address performance and fiduciary concerns
- Set priorities for implementation based on financial and social return goals and the robustness of each asset class universe
- Create monitoring tools to track progress toward mission related goals
- Educate investment committees about mission-aligned investing

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