
Jay Jacobs: Hello, everyone, and thank you for joining today's webinar, A Conversation on Catholic Investing. My name is Jay Jacobs, and I'm the director of research at Global X. Today, we're joined by two special guests. We're very excited to be joined by Fr. Séamus Finn, who directs the US Oblate Justice/Peace and Integrity of Creation Office of the Missionary Oblates of Mary Immaculate. He's the chief of faith-consistent investing for the OIP Trust, which manages the long-term financial assets of the oblate congregation, and he's actually one of the foremost experts in Catholic faith-based investing.

I'm also joined here by a colleague of mine at Global X, Jim Glowonia, who is the northeast regional director. He's been working very closely on one of our recent launches, which is the Global X S&P 500 Catholic Values ETF. That ETF's ticker is CATH, and it invests in stocks in the S&P 500, but removes out companies that have been screened for being involved in practices that are inconsistent with guidelines set forth by the U.S. Conference of Catholic Bishops, or the USCCB, for short.

Before we get started, I just wanted to give everyone an overview for today's webinar. We do have a few slides to share with everyone, but we really want this to be conversational in nature. We're going to start with about five minutes on the background of values-based investing. Jim is going to talk a little about CATH, that recent ETF we just launched, and then we're going to turn it over to Fr. Séamus and really pick his brain, as he is one of the foremost experts in this space. Without further ado, I'm going to pause for just a couple of minutes on the disclosures here.

All right, so what is values-based investing? I'm sure many of you have heard the terms values-based investing, or SRI, or ESG. There's tons of different names for this space, and they do differ a little bit, but we want to focus on values-based investing, which we really define as looking at securities not only for their financial return, and risk, and the traditional profile you would look at securities with, but with an added layer of what those companies are involved in and whether they adhere to particular values.

It can really run a really wide spectrum. It can be religious in nature, such as investing in Catholic values or other religions. It can have an environmental focus, so that would be investing in low carbon or companies that try to promote more environmentally friendly practices. They can be social in nature, such as gender equality.

They can even be more broad and be focused on the greater good, which is a multi-stakeholder approach, companies that treat their employees, their customers, the environment, and everyone in that whole ecosystem of that company, treating them well. There's many different approaches.

Why do people do it? One, it's really personalizing investing. We've spoken to many clients, and oftentimes investing can be very impersonal. It's making money out of money, or planning for something very far in the future that isn't very tangible. Applying a layer of values-based investing really makes an intangible, impersonal event or process for many people and makes it more personal.

Second, it allows people to vote with their dollars, not just investing in companies for the sake of gain, but to put those dollars to work in something people believe in. Even beyond that, there's some approaches that are really alpha-seeking in nature. If you believe in the long term that investing in companies that are consistent with Catholic values, or with the environment, or people that treat their employees well, that could be a source for long-term gain. There's many facets to this investing that appeal to different investors.

I do want to talk about two different approaches quickly. One is a negative screen approach, which is starting with a benchmark index like the S&P 500 and removing companies that are inconsistent with a particular value. You can start with the S&P 500 and screen out the companies that do not adhere with Catholic values as defined by the US Conference of Catholic Bishops. These approaches tend to have lower tracking error because you're starting with a benchmark and screening out companies. For example, CATH invests in about 469 of the 500 securities in the S&P 500. Because it's a lower tracking-error strategy, it's also not really alpha seeking. It's trying to behave as close as possible to something like the S&P 500, but with this values overlay.

The other approach to this is to do positive screening, where you do not start with a benchmark and you're actively identifying companies that are promoting a specific value, identifying companies that promote environmentalism. This can have higher tracking error by nature, but it can also have more of an alpha opportunity because it's different from a benchmark by a greater degree. With that overview, I do want to turn it over to Jim Glowonia

for the next slide. He's going to talk and just do an overview of CATH and walk us through that product.

Jim Glownia: Thanks, Jay. My name is Jim Glownia. I cover the Northeast for Global X. I wanted to share a little bit of a backstory on Catholic Values, the ETF, and how we were able to launch this product. In September of 2014, I reached out to a couple clients of mine who are heavily involved in the Catholic investing space, and they expressed a need or a demand from their clients to have a simple solution to get exposure to things that they believe in. After doing some research on the space and understanding the market opportunity, we decided to proceed with launching the Catholic Values ETF.

Jay Jacobs: Jim, we've had this product out there for a few weeks now. What has the initial feedback been when you talk to clients about this?

Jim Glownia: It's a really exciting time to work on a product like this. I think this is an area of the market that has really been underserved for the last few years, and it's really been a place where people are paying way too high of active management fees for underperformance while trying to still align their investments with their beliefs. This product was really a great way to be able to come out and provide two things, really. Low cost – it's 39 basis points with a 10 basis-point free waiver, so it's a 29 basis-point net expense ratio – so we were able to provide low cost.

One of the other things that we wanted to address was the fact that it takes significant money for people to get access to these types of exposures. A lot of clients have been doing this through SMAs or through mutual funds, but a lot of the time there's a minimum amount requirement needed for somebody to come into a product like this. With the ETF and the luxury of trading on the New York Stock Exchange, we're able to offer this product to a grandma in Oklahoma that is looking to invest her IRA into something like this. Anybody can come in with any sort of money as long as they have enough to buy one share, which is I believe around \$25.

We try to reiterate that the USCCB are guidelines. They're not exact. Everybody does have their own beliefs. Not everybody is going to strictly adhere to the guidelines. Some might want to get a little more strict or a little less strict, depending on their beliefs. What we tried to do was we tried to create something that does have mass appeal.

Whenever you're dealing with religion, everybody has their own views, but a lot of people will use the USCCB as a good starting point to invest in their beliefs. It's just a matter of whether they tune it up or tune it down based on their tolerance level.

Jay Jacobs: We talked about the negative screens for CATH, how it's pretty close to the S&P 500, with a few companies removed. I think we typically see those companies coming out of the industrial sector, with some of those weapons manufacturers, and we see them coming out of the healthcare sector with some of those screens. How would people use this in a portfolio?

Jim Glownia: We really view it as a core in a portfolio. It is going to give you that broad US beta exposure. It's just eliminating certain sectors or certain names within sectors from the index. The beauty of it is that not all industrial companies and not all healthcare companies are primarily engaged in some of these activities that the USCCB frowns upon. There are some healthcare names that are left. There are some industrial names that are left. What ends up happening is we'll place higher weights on the remaining securities to have similar sector exposure to the S&P. We definitely view this as a core in a portfolio for somebody that wants to invest in their beliefs. That's how we're seeing it be used currently.

Jay Jacobs: Fr. Séamus, now that we have you on, we'd love to pick your brain for a little bit here, and we want people to ask their own questions. First off, can you tell us a little bit about your background in the OIP Trust, which you are the chief of faith-consistent investing for?

Fr. Séamus Finn: I've been active in this particular area for about 30 years. The OIP Trust is a fund that our congregation, the Missionary Oblates, put together in 1991 to respond to the asset management needs of the congregation. It's got about 230 participants. Most of the participants are from the congregation, but the fund was opened up two years ago to any Catholic diocese or congregation around the world. As I said, it's had pretty active negative screen guidelines that are built on the Bishops' Conference. We are, through the Interfaith Center on Corporate Responsibility, actively engaged with a large number of corporations that we hold shares in that do pass our individual screens.

Jay Jacobs: I'd love to follow up with that because our product and ETF investing is very passive in nature. It's buying a very broad index less a handful of companies that have been screened out for not

being consistent with the USCCB's guidelines, but you also take a somewhat active approach with these individual companies. You've worked with them on many occasions, so could you talk a little bit about that ground-level work that you're doing with individual companies, as well?

Fr. Séamus Finn: I think we've certainly over the years with our colleagues in the interfaith institutional investing space had a long history of relationships with a number of the companies that we hold; therefore, while it may have started out at one period of time where it was indeed maybe somewhat chilly, or frosty, or cold, and maybe adversarial in the sense that we might show up at annual meetings or file stockholder resolutions and maybe look at each other at a distance, I think we've grown and they have grown to respect our input on a variety of issues. They are receptive to our interventions if we have a question about something that comes from the grassroots, which is where much of our intelligence comes from. If it's a mining company, or if it's a bank, or if it's a retail supplier like Walmart, or if it's Disney or McDonald's, any of those that might have factories overseas, companies are quite receptive and quite willing to talk to us and in most instances quite receptive to any proposals or ideas that we want to bring forward in ways that they might improve their profile and their reputation.

Jay Jacobs: In working with you, do you think that companies are coming at it from an approach of you're an expert in the SRI space and we want to hear your thoughts, or are they also looking at it as there's actually a lot of money following Catholic investing and by adhering to your advice and the USCCB's guidelines that perhaps it would be better performance for them, as well?

Fr. Séamus Finn: Definitely. I can put it very simply. I think when I compare to where we are now to where we were 30 years ago if somebody wanted to invest their money according to their values or their beliefs and follow some guidelines like the Bishops' Conference, it was a lot of work. A great deal of time was spent in terms of actually trying to write letters, send faxes, make phone calls, and collect data. It was very labor-intensive. Most people I talk to, they hope their checkbook is going to balance itself at the end of the month and maybe will think about balancing it once every six months, so the notion that they were going to be able to put any time into this was immediately a non-starter.

I think what internet access, rapidity in terms of communication, and facility in terms of some of the things that we have been doing in terms of engaging corporations, and their being proactive and actually reaching out and saying, “How are we doing? What do you think?” and serving people, I think that all has been a game-changer. Folks who previously might not have looked at saying, “Well, I’d like to do this, but it’s too much work,” are now saying it’s not as much work, and it’s actually made much earlier. I think they’ve been much more receptive in terms of hearing and listening to these kinds of proposals that allow them to maybe take a second look at some of the companies that they’re investing in.

Jay Jacobs: Thanks, Fr. Séamus. You mentioned people doing this type of stuff 30 or 40 years ago, and it might have been a little more labor-intensive. Can you expand on how the USCCB has evolved over time? I know one of the hot-button issues that recently came up was the pope mentioning environmental issues and global warming, but that has not yet been fully incorporated into the guidelines. Can you expand a little bit more on how these guidelines evolve over time?

Fr. Séamus Finn: I think clearly the baseline document from the U.S. bishops was the pastoral letter on the economy that they wrote in 1986, out of which came their basic thinking on the moral responsibility of shareholders, that they be active owners. Out of that came a first set of guidelines in the early ‘90s and then the updated guidelines in 2003. That may be fine for somebody in the academy or somebody doing research to say, “Well, that was nice that they updated them after 12 years, and it’s now 13 years later.” They don’t move at great speed, so that’s accounts for the lag in picking up the more environmental issues that are raised by Pope Francis, but I suspect that they will be looking at these guidelines again.

I know there have been a number of calls to them saying, “Well, how are they going to incorporate the thinking of Pope Francis on the environment and care for our common home into these guidelines?” It maybe doesn’t happen as quickly as some of us would like, but we’re certainly lobbying for them to set up a committee and some professionals that will help them to add some further guidelines on the environmental questions. I think that would appeal to a whole other group of investors out there who are keenly tuned into issues of the environment and of climate change.

Jay Jacobs: Thank you, Fr. Séamus. When we talk about the guidelines, we understand that they are meant to be guidelines. Everybody has their

own interpretation of them. Can you talk a little bit about how this product might have mass appeal to not only those that are Catholic and follow the USCCB, but also people of different Christian beliefs? Do you think a product like this does have mass appeal?

Fr. Séamus Finn: Yeah. I think my experience is that investors, particularly individuals, have been continually looking for, and I get asked often, “Can you point me in the direction of an asset manager who is willing to listen what concerns that I have, values that I hold, or beliefs that I want integrated into the money that I am asking them to manage?” This is particularly true of folks that are not billionaires. Billionaires can obviously employ teams of people to do this for them, so they’re looking for a more receptive asset management group that can create products. I think when you look at the issues that the bishops have already dealt with, they are priority issues for lots of folks.

One thing that should be acknowledged is I’m not aware of any other bishops’ conference around the world, Catholic or otherwise, that has put together a set of guidelines like this. European Catholics that I know tend to look to the USCCB at least as a starting point, as many do. They may add some things to these guidelines for their own purposes. There are some basic issues identified by the bishops that would have broad appeal. Again, going back to my earlier comment, people are looking for tools, mechanisms, and ways of getting this done that’s not going to eat up their whole weekend and drive them crazy in trying to follow.

One of the things is a guideline, obviously, needs to be broken down into specifics that can then be applied by researchers to come up with which companies pass those guidelines and which don’t. You’re relying on somebody to do that, so the guidelines have to be written in such a way that they actually can be operationalized by the researcher that is doing the work. That makes them appealing to a broader audience than just Catholics, just as some may look at Methodist tradition and John Wesley, which are the social principles that some will look at because they have a clear prohibition on alcohol and on tobacco. Looking at what Methodists may come up with in that regard, if that’s something that somebody wants to look at, that’s another kind of tool that’s in a different tradition, but has the same kind of accessibility for individual investors.

Jay Jacobs: Excellent. Thank you. We’re going to ask a couple more questions of Fr. Séamus and then just want to remind people that you can type

in your own questions to ask Fr. Séamus, as well, and we can directly ask him here. Fr. Séamus, you've met with a lot of people that are currently trying to incorporate some sort of faith-based product into their portfolios. How do you mostly see people incorporating a Catholic values product into their portfolios? Are they SMAs? Are they using mutual funds? What are some of the success stories that you've seen and maybe even some of the companies that have struggled to do something like this in their portfolios?

Fr. Séamus Finn: Some people who have started on this – and I think, first of all, it starts as something that they have thought about, and that they're looking for, and that they finally are at peace with, which I think the data bears out now after the academic research has been completed, that they're not sacrificing on the financial return on investment that they may need for their retirement, or for their kid's college, or whatever it is that they're counting on for a return. I think once they've passed the threshold of saying, "Okay, I can look for a social return on investment, or I can look for an environmental return on investment, as well as a financial return," then once they've crossed that threshold, then they're beginning to look for products that are going to be suitable for what they're trying to accomplish.

They haven't had a lot to choose from. I know at the Interfaith Center on Corporate Responsibility, where I chair the board at the moment, it's 300 or 400 institutional faith-based investors, but they're institutional. If I'm the individual person who has some assets that I'd like to invest, then it's not the right place for them. They may make use of some of our research and join on some of our activities, but they haven't had a lot of the kinds of funds or offerings whereby they can actually follow through on something that they've been wanting to do.

The other big factor, in my estimation, of late is that people are excited by Pope Francis and by his down-to-earth approach to things. In many ways, lots of folks out there just want to be on his team. They can do it in a lot of different ways, but this is one place where they're beginning to take a second look and say, "If he's concerned about care for our common home and what we're doing in terms of leaving the world a better place for generations to come, I want to be able to put my assets or invest my portfolio in a way that is consistent with the direction he's calling us." Whether it's on the human rights side or on the care of the earth side, they're eager and willing. If the demand is there, I think it's really important that

there be products put in place where they have an opportunity to do that.

Jay Jacobs: You've mentioned the data behind this and the research that's involved in identifying these companies. If we go down a couple slides, we can see the screens are very particular in the amount of revenue that a company can generate in the specific segment before it is screened, which to me sounds like it's something that should be fairly easy within the US, where companies report good data, but is this more difficult to apply in other asset classes or different geographies?

Fr. Séamus Finn: It is. No question about it, it's more difficult. Maybe in Europe and the US, it's easier, but then when one starts looking at other holdings, it becomes more difficult in other assets. For those who've gone into private equity, that was an area where it seemed like it was going to be pretty hard to apply these principles or guidelines there, for instance, or in hedge funds. I think over a few years the folks who run these funds have been willing to listen to the guidelines, and those who are trying to be vigilant in terms of applying them have had some significant conversations with some of these private equity funds and have been able to put in place some opt-out letters and some other things that actually allowed them to be notified if the fund is going to invest in an area that probably is not consistent with these guidelines. This is a learning experience for everybody, and I think as long as the requests are reasonable and people are willing to learn, what my experience is is that we've been able to find the tools that allow us to apply these guidelines to a lot more asset classes that we previously would've thought.

Jay Jacobs: We just had our first write-in question from the audience, so I'm going to ask you it. I also just want to remind everyone if you do have questions, it's an open forum, so please feel free to type those into the box on the right-hand side. I find this one particularly interesting. It says that clients are trying to avoid cooperating with evil, so if you own a non-screened ETF, a normal S&P 500 product that doesn't screen out companies, is that sometimes considered cooperating with evil, meaning if you're not doing this process, are you inadvertently supporting companies that would go against the Church?

Fr. Séamus Finn: Yeah, it seems to me if you are if you're investing in a product that doesn't take into account the ethical behavior, or the ethical products, or the ethical service that a particular company is

producing and offering, then you're really not making much of an effort to disassociate yourself from the profits that you might be gaining from that investment. It's a serious question and one that I think more and more people of good will and people who want to feel like they are doing the best they can to be consistent with their beliefs and with their conscience do indeed need to figure out a way to apply some kind of a screen to whatever funds they choose to put their money in. Yeah, I would say I think you are, yes.

Jay Jacobs: We also have a follow-up to that one, which is about corporate giving, when companies either match employee donations or do their own donations to specific organizations that would not be consistent with Catholic guidelines. Is that something that is looked at or discussed when you engage with these companies?

Fr. Séamus Finn: It's not. I suppose maybe it's discussed in a general way. I'll go back to some of my earlier comments. I think we put together guidelines and then we put together almost a checklist, and I think we're constantly challenged to make sure that the checklist doesn't get to be 100 points. I'm like anybody else. If I'm trying to respond to a set of priorities or a set of questions, if it's a 10-page questionnaire, I'm going to shy away from it.

I think philanthropy is an important part of what companies do and what employees are sometimes asked, looking for matching grants or matching contributions, so it seems to me that responsibility resides with the particular employee. As much as there are, I suspect there are not a lot of questions we're not willing to ask in our meetings with corporations, but there's a certain amount of time that we have to put into this work and certainly the corporations have in terms of engaging with us. I think as long as the question is a serious question, they are willing to look at it and willing to be responsive.

I think it's trying to maintain a balance between whose responsibility is it in terms of the giving and matching giving that employees are sometimes asked to participate in. Then I think the larger question is the philanthropic choices that a company makes in terms of their donations. I think it's an important question to ask. It does come up from time to time, but like I said, it has to be put in line with the many other questions that come up, as well.

Jay Jacobs: We have another question that came in. I pulled up the USCCB strategies, and there's two sides to it. One is to avoid evil, to not invest in companies that are inconsistent with the USCCB, but the

other side is to actively participate in that investment. The question is around proxy voting and how the USCCB guidelines and how your work has been involved with proxy voting. What types of issues come up in proxy votes that the Church has a strong opinion on?

Fr. Séamus Finn: Active ownership covers a number of areas, rightly so. That means monitoring the behavior of the corporation, but I think also taking time out to read a proxy and looking at the different issues that are presented in the proxy, whether it's CEO compensation, or management compensation, or diversity on the board of directors, or compensation for directors, or if there are other issues that other shareholders have put on the ballot for the proxy for shareholders to vote on. I think voting proxies is extremely important more and more as the SEC is becoming more attentive and responsive to protecting the rights of shareholders. Those are three, or four, or five ways in which I think somebody can exercise the kind of ownership and responsibility that the bishops are talking about.

On voting, the bishops don't prepare proxy voting guidelines, although a number of organizations do that are tailored to where their priorities are and what they're supporting. I think at the moment those are not a part of how the bishops see their responsibility in preparing guidelines. Since I think the issue becomes if you're not going to hold a number of these stocks you've relinquished immediately, your opportunity to engage a corporation is at least through the proxy if you don't hold the shares.

I know bishops have joined, and dioceses have joined, and faith groups have joined on a variety of issues about tobacco, and advertising, and obesity, and things of that sort, but per se, the Bishops' Conference do not put out a proxy voting guideline like a number of other groups do. I can't think at the moment of a set of issues that they would clearly suggest that somebody's going to vote on. If the companies aren't being held already and don't pass the priority list that the bishops have, then somebody's not going to be looking at those and have the opportunity to vote on them.

Jay Jacobs: Where do you see the future of faith-based investing going from here? In my own research, I was pretty surprised to see trillions of dollars are already following faith-based investing. A lot of it is endowments for universities or different organizations, but do you see this growing in retail adoption, mom and pop investing this way?

Do you see companies putting a greater focus on this? Where do you see this going?

Fr. Séamus Finn: My sense is that it can only continue to increase. I've certainly seen a lot more demand in terms of folks asking their asset managers or their financial consultants for options. They're looking for a buffet or they're looking for a menu of things that they can choose from in terms of being able to participate in this particular activity that they feel is an important way in which they live out their faith. They do want choices, and they do want different opportunities to do that.

My sense is, having just come back from places like Africa last week, even there folks are asking clearly about the corporations that are operating in their space. They're asking how they can talk to companies. They're asking what Catholics might be doing in other parts of the world, or what believers are doing in terms of actually addressing some of these corporations. More and more, as that menu of alternatives or opportunities are presented to people, I can't see that it's not going to continue to grow. It's reached a certain plateau level for the last number of years, simply I think because there were still not enough opportunities and not enough products out there.

In some ways, I think the asset management community maybe wasn't getting enough questions, or enough clients, or enough of their customers coming to them and asking for products and for mechanisms and tools whereby they could exercise this particular option. What I'm hearing these days is that they're getting those questions a lot more. These folks obviously want to be responsive to their clients and those relationships, so they're pushing the asset management and the financial consultants to identify more of these ways in which folks can feel like, as I said earlier, to be in solidarity and supportive of Pope Francis, but also to be in solidarity and supportive of the small farmer in Africa who is trying to get a start on whatever product he's trying to introduce, and as he takes that to market and sells it to one corporation or another in the supply chain, that they feel like they're getting a fair price, whether it's for tea, or for coffee, or whatever other product that they're engaged in. There's a connectivity going on that I think people are looking for and they feel like that they're personally connected to.

Jay Jacobs: Fr. Séamus, thank you so much for your time today. We really appreciate your insights and your expertise in this space.

Fr. Séamus Finn: Thanks for the opportunity to join you finally, and I hope everybody has a good afternoon.
