

Issue Bulletin

Examining Critical Issues in Faithful Catholic Education

November 29, 2021

Investment Strategies in Catholic Education Should Seek More than Profits

By J. Patrick Kearns

Catholic nonprofits—including colleges, schools, and other entities—need a more complete moral framework for investing their funds, looking beyond the profit motive to also avoiding evil and doing good. Catholic moral investing can be complex, and so it requires the help of experts in both ethics and finance who understand the demands of Catholic teaching.

As Catholics, we believe that everything that we have comes as gifts from a loving Creator. He asks us to use them for His greater glory. In Matthew 22:36-40, Jesus tells us how to do so: we are to follow the two Great Commandments. It is clear from Jesus' insistence that we do this "with thy whole heart, and with thy whole soul, and with thy whole mind, and with thy whole strength" and that everything in our lives is to be included.

Jesus also makes it clear that we are not to bury our talents (Luke 19:11-27). Those talents should include both senses of the term: our monetary resources and our God-given abilities. Neither our resources nor our abilities are for our own enrichment or aggrandizement. They are to be used for His greater glory. They are to be used to live out the two Great Commandments.

Accepting the reality that all that we have is really on loan, we can more readily focus on what Our Lord wants us to do with His gifts. So now we must begin the difficult work of applying our mind and will to determining the most prudent way to do so. With humble reliance on His grace, we seek to balance justice and mercy, proximate and remote needs, risk and reward, cost and benefit, deliberation and decisiveness, confidence and humility, etc.

Material Realities, Spiritual Significance

Angels have the luxury of an immaterial existence, but men do not. Therefore, God has charged us from the days in the Garden until the Last Judgement to sanctify ourselves in a material world. That world has grown more complex, as it has moved from the good and evil of an apple on a Tree to the good and evil of an Apple in your phone. One unfortunate example of today's complexity is the ubiquitous presence of pornography. Since the abolishment in 1968 of the Hollywood Code on morality in motion pictures and the 1973 Supreme Court case redefining obscenity (*Miller v. California*), companies' direct and indirect involvement in pornography has exploded.

In simpler times, living out justice and mercy could be largely achieved through a code of conduct evidenced in the Torah. Jesus supplemented the Ten Commandments with the Beatitudes. As the Church's Magisterium developed the spiritual and corporal works of mercy and the growing body of social teaching, the need for prudent judgment regarding material affairs has increased dramatically. In finance, as in human conduct generally, the concrete application of the Beatitudes requires much more study and analysis than the simpler application of the prohibitions of the Ten Commandments. As an example, it can be easier to avoid investing in companies that manufacture abortifacients than it is to identify investment opportunities that "bless the merciful."

Much has been studied and written regarding the criteria for making judgments about economic systems, and St. John Paul II and Pope Francis have written extensively about the need for employers to emphasize the person over profit. However, there remains much more to be considered about the application of these Great Commandments to the financial affairs of individuals and nonprofit institutions. For Catholics and Catholic institutions with monetary talents, a proper formation of mind and will is critical.

Investing for Profit, with Integrity, for the Common Good

As a general rule, Catholic nonprofit institutions in this country seem to have taken a rather secular approach to these issues. The maxim for investments has been: "Get good portfolio returns and use them to advance our mission." Does that sound like it is infused with the two Great Commandments?

For a long while, it seemed there was little attention to moral considerations on both how invested money is used and how the money is made. Somehow the principle that "the end does not justify the means" was lost. What moral/ethical concerns have emerged on Wall Street have been very much a mixed bag, with the current focus on ESG (Environmental, Social, and Governance) investing. A classic example is the popular focus on protecting the environment; that can be an important good, but without a proper moral perspective, it can lead to such evils as population control.

Endowments, foundations, and retirement savings should be vigorously reviewed on the basis of the avoidance of evil and the promotion of good — a commitment to both the Ten Commandments and the Beatitudes. Just as many Catholics prayerfully protest abortion clinics and also promote pregnancy centers, the same avoidance of evil and promotion of good should be applied to portfolios. If the managers of labor union pension funds can have strong enough conviction to do business only with those that support “the working man” and refuse to do business with those that do not, our Catholic principles demand an even more deliberate strategy.

The common tool for the avoidance of evil in a portfolio has been the utilization of “screening services,” by which specific violators are excluded from the portfolio, such as pharmaceutical companies that manufacture or distribute abortifacients. Unfortunately, the screen is only as good as the data available. In addition, very few consultants are familiar with the criteria used by the screening service: Is a company screened based on revenues or earnings or charitable gifts? What percent of revenues, earnings, or charitable gifts warrants disqualification? Does every drugstore chain get disqualified if it dispenses certain drugs? Is there any “offset” for the good that the store provides in making legitimate medicines available to the sick?

These deliberations can be tricky, as numerous prudential decisions need to be made on a variety of investments. For those decisions to be fully informed, a blend of investment expertise and moral theology needs to be applied. Rarely is the investment committee of a Catholic institution comprised of members with the requisite blend of expertise. Even worse, investment consultants are often hired who also lack such expertise. As the Gospel warns us: “If a blind man guides a blind man, both will fall into a pit” (Matthew 15:14).

The avoidance of evil should also extend to the asset managers, investment consultants, attorneys, and other professionals hired by the Catholic institution. If employees are expected to be practicing Catholics who are faithful to the Magisterium, why would compensation in the form of fees be paid to anyone who does not meet that description? What a scandal to pay fees to someone, who then uses some of that income to advance organizations diametrically opposed to the Catholic faith! While it would be nice if everyone did the right thing because it is the right thing to do, many times we do the right thing because of the negative consequences of doing the wrong thing. Insisting that every service provider align with the principles of the institution can be a concrete opportunity for evangelization.

A Teachable Moment

It would be wonderful if Catholic institutions could provide serious leadership on these issues by consulting with experts in moral theology and experts in finance. Catholic nonprofits need concrete criteria based on experience with screening services and asset management across various asset classes. The criteria need to be supported by a careful application of Catholic moral theology. For

example, how does the First Commandment bear on portfolio growth goals? Is there a point at which pursuing a larger and larger endowment becomes the pursuit of “a strange god?”

While there is significant research to indicate that a morally screened portfolio does not necessarily lead to reduced market performance, questions of potential return shortfalls (short term and/or long term) should be considered. Is there a consensus on Proverbs 16:8, “Better a little with justice, than a large income with injustice”?

Just as the Ten Commandments are a wonderful guide to the avoidance of evil, so the Beatitudes are a wonderful guide to the promotion of good. As human experience demonstrates, prohibitions are easier to enact than commitments to pursue the good, the true, and the beautiful. Still the followers of Jesus should not settle for less, just because it is more difficult. Catholic nonprofit investment committees should be willing to spend the time and energy to wrestle with these challenges on a regular basis. Achieving acceptable rates of return while avoiding evil is commendable but insufficient. We are called to both hate the sin and love the sinner.

Here are some simple initial steps that might be taken to implement these commitments:

- Ensure that employee retirement plans include some Catholic values-screened mutual fund options (there are various fund providers available).
- Ensure that the investment management consultant on the endowment portfolio has specific expertise on these issues and has a robust professional practice concentrated in Catholic institutions.
- Form an ad hoc committee of the board of directors to review all service providers contracted with the institution to verify commitment to the teachings of the Magisterium. (Student interns can be a convenient source of assistance for such research.)

Ultimately, a commitment to “Catholic morally responsible investing” is a call to accepting the reality of natural moral law and the truth of Catholic moral principles. Investing in companies that ultimately kill their customers are clearly bad investments: abortion kills the child, and pornography kills the man. Investments in businesses that promote what is good in man’s nature should prosper with proper corporate management. Of course, all of this requires professional investment expertise, but it also requires an unrelenting passion for aligning talents with the two Great Commandments.

There is no one moral theologian who has all the answers, just as there is no one asset management company that has all the answers. An enormous amount of prayer, study, discussion, and analysis needs to be done. It is worth the effort. The impact can be enormous.

It is now estimated that over one third of all investment assets under management are managed with some kind of socially responsible screening. As these policies grow in influence on Wall

Street, they will have a tremendous impact on endowment portfolios and retirement plans. Will these policies foster a culture of life or detract from it? The answer is dependent upon how vigorously Catholic institutions commit to morally responsible investing. Ten talents could turn into ten cities.

J. Patrick Kearns joined Morgan Stanley as a Senior Investment Management Consultant in 2014 and now serves as an Investing with Impact Director. He began his career on Wall Street in 1977, after graduating magna cum laude from the University of Notre Dame with a B.A. degree in Finance and Business Economics. Prior to joining Morgan Stanley, he founded Fulcrum Advisory Services, Inc. and Fulcrum Securities, LLC. in 2003. He has spent a majority of his past 40 years in the financial services industry managing branch offices and maintaining key client accounts for firms such as Smith Barney, Merrill Lynch, and Prudential Securities. As a former branch manager, he successfully supervised and guided more than 500 professional investment advisors who were responsible for more than 250,000 client accounts. Kearns has earned the distinguished designation of Certified Investment Management Analyst® (CIMA®) from the Wharton School of Business at the University of Pennsylvania and continues to attend advanced training programs on critical aspects of the securities industry. He serves on the boards of several charitable organizations, including The Cardinal Newman Society.