

GLOBAL X ETFs RESEARCH

Updates to Catholic Investing Guidelines Signal a Shift

The U.S. Conference of Catholic Bishops (USCCB) approved new socially responsible investment (SRI) guidelines for Catholic investing in November 2021, its first notable changes to the guidelines since 2003.¹ The update includes additions to investment restrictions; however, the restrictions do not materially affect the underlying indices tracked by the [Global X S&P 500 Catholic Values ETF \(CATH\)](#) and the [Global X S&P Catholic Values Developed ex-U.S. ETF \(CEFA\)](#). One significant change includes the Pope calling for the Catholic community to take the threat of climate change seriously and promote more active engagement efforts and impact investing.²

Key Takeaways

- The Catholic Church's revised guidelines add restrictions related to existing excluded themes, such as certain healthcare practices, adult entertainment, controversial weapons, gambling, tobacco, and recreational cannabis.
- The Church took a notable stance against climate change, sending a strong signal that companies who fail to incorporate policies related to the Paris Agreement will be excluded in the future.
- SRI typically expresses values by using brute exclusions, but with this update, the Church takes a new approach, encouraging more proactive corporate engagement and impact investing opportunities.

Underlying Indexes Minimally Affected by the USCCB's Revised Guidelines

Passively managed socially responsible investing funds track a specific index. SRI guidelines include a list of prohibited corporate activities or business models. Any company that participates in excluded categories is "screened" from, or taken out of, the index constituents and therefore the fund's holdings.

CATH tracks an index that uses the S&P Catholic Values Indices Methodology. To help create the indices methodology to ensure their adherence to Catholic values, S&P consults with the Oblate International Pastoral Investment Trust, a charitable trust that invests alongside the values of Roman Catholic-related organizations. After reviewing the revised guidelines, S&P identified no immediate revisions to the existing methodology.

The new USCCB guidelines are grouped into five broad categories: Protecting Human Life, Protecting Human Dignity, Enhancing the Common Good, Pursuing Economic Justice, and Saving Our Global Home. Given their passively managed nature, the USCCB's new restrictions affect the Global X Catholic Values ETFs, but their impact is expected to be minimal. The S&P Catholic Values Indices Methodology already included negative screens for certain healthcare activities, adult entertainment, and weapons prior to the revised guidelines. These types of restrictions have been foundational to Catholic SRI since its inception in 1991.

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Related ETFs

Please click below for fund holdings and important performance information.






[CATH – Global X S&P 500 Catholic Values ETF](#)

[CEFA - Global X S&P Catholic Values Developed ex-U.S. ETF](#)



ADDITIONAL USCCB RESTRICTIONS AS OF NOVEMBER 2021

Source: Global X ETFs with information from: Committee on Budget and Finance of the United States Conference of Catholic Bishops. (2021, November). Socially responsible investment guidelines for the United States Conference of Catholic Bishops. United States Conference of Catholic Bishops, Washington, DC.

 Protecting Human Life	 Protecting Human Dignity	 Enhance The Common Good	 Pursuing Economic Justice	 Saving Our Global Common Home
Direct participation in abortion, euthanasia, or assisted suicide	Production of pornography	Production of indiscriminate and irresponsible weapons	No additional investment restrictions in this category	Consistently fail to initiate policies aligned with Paris Agreement
In vitro fertilization	Gender reassignment services/surgeries	Manufacture of firearms (unless exclusively for hunting/military/law enforcement)		Caused/contributed to biodiversity loss without remediation
Research that results in end-of-life or makes use of tissue from life ending activity	Manufacture (or >10% of sales from) contraceptives	Primarily focused on gambling, tobacco, recreational cannabis		Directly deplete or degrade water
RESTRICTION				Extract resources without complying with Extractive Industries Transparency Initiative
The USCCB encourages Catholic institutions to “not invest,” “consider divestment,” or “avoid” companies engaged in the above activities as well as those companies that are not genuinely engaging with shareholders.				Non-compliant with UN Global Compact

Church Codifies Its Commitment to Tackling Climate Change, Encourages Action

To achieve its investment objectives of investing in alignment with the values of the Catholic church, the USCCB outlined three strategies: Avoid Doing Harm through investment exclusions, Actively Work for Change through corporate engagement, and Promote the Common Good through impact investing. Active engagement efforts and impact investing are historically related to investment strategies such as actively managed funds and private markets, where measurable impact can be tied back to a specific investment. The investment strategy that utilizes investment restrictions to Avoid Doing Harm is most commonly found in passively managed fund vehicles.

Uniquely, the revised USCCB guidelines take a firm stance on climate change, as outlined in the Saving our Global Common Home category. The USCCB expects Catholic investors to do their part, not only through investment exclusions but also active corporate engagement and impact investing. As a result, we believe that Catholic investors may become one of the loudest voices pressing companies to set Paris-aligned carbon emissions reduction targets, prevent biodiversity loss, and ensure human rights compliance with the United Nations Global Compact.

In our view, the USCCB’s new climate-related priorities suggest that, if companies repeatedly fail to improve on these climate-related issues, they risk removal from an index. Last year, in preparation for the 26th United Nations Climate Change Conference (COP26), over 70 faith institutions with a total of \$4.2 billion assets under management announced fossil fuel divestment commitments. The institutions committing to divest



included the Catholic Bishops' Conference of Scotland and 15 Catholic dioceses in the United Kingdom and Ireland.³ Bishop Robert McElroy of San Diego even hinted at possible complete fossil fuel divestment in the future at the USCCB's fall 2021 general assembly, reflecting how seriously Catholic leaders consider climate change.⁴

Exclusions No Longer the Church's Only SRI Investment Strategy

Socially responsible investing through investment restrictions will likely remain the bedrock of Catholic investing. However, the USCCB's new guidelines empower the Catholic community to go beyond exclusions and take a proactive approach to capital allocation, particularly on climate change. Greater corporate engagement activity from Catholic institutional investors appears likely. And on the impact investing side, the USCCB outlines possible private market partnerships with other non-profit organizations that align with its mission. More broadly, we believe that the USCCB's new guidelines and proactive strategies signal how Catholic investing may evolve in the modern world.

1. Committee on Budget and Finance of the United States Conference of Catholic Bishops. (2021, November). Socially responsible investment guidelines for the United States Conference of Catholic Bishops. United States Conference of Catholic Bishops, Washington, DC.
2. Lowen, M. (2021, October 29). Pope urges 'radical' climate response in exclusive BBC message. BBC News.
3. Gosden, E. (2021, October 26). Churches co-ordinate \$4bn move away from fossil fuels. The Times.
4. Sadowski, D. (2021, November 17). Bishops approve new socially responsible investment guidelines. National Catholic Reporter.

Investing involves risk, including the possible loss of principal. The Funds' consideration of the Guidelines in their investment processes may result in choices not to purchase, or sell, otherwise profitable investments in companies that have been identified as being in conflict with the Guidelines. This means that the Funds may underperform other similar funds that do not consider the Guidelines when making investment decisions. International investments may involve risk of capital loss from unfavorable fluctuation in currency values, from differences in generally accepted accounting principles, or from economic or political instability in other nations. CEFA is non-diversified.

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Carefully consider the funds' investment objectives, risks, and charges and expenses. This and other information can be found in the funds' full or summary prospectuses, which may be obtained at globalxetfs.com. Please read the prospectus carefully before investing.

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