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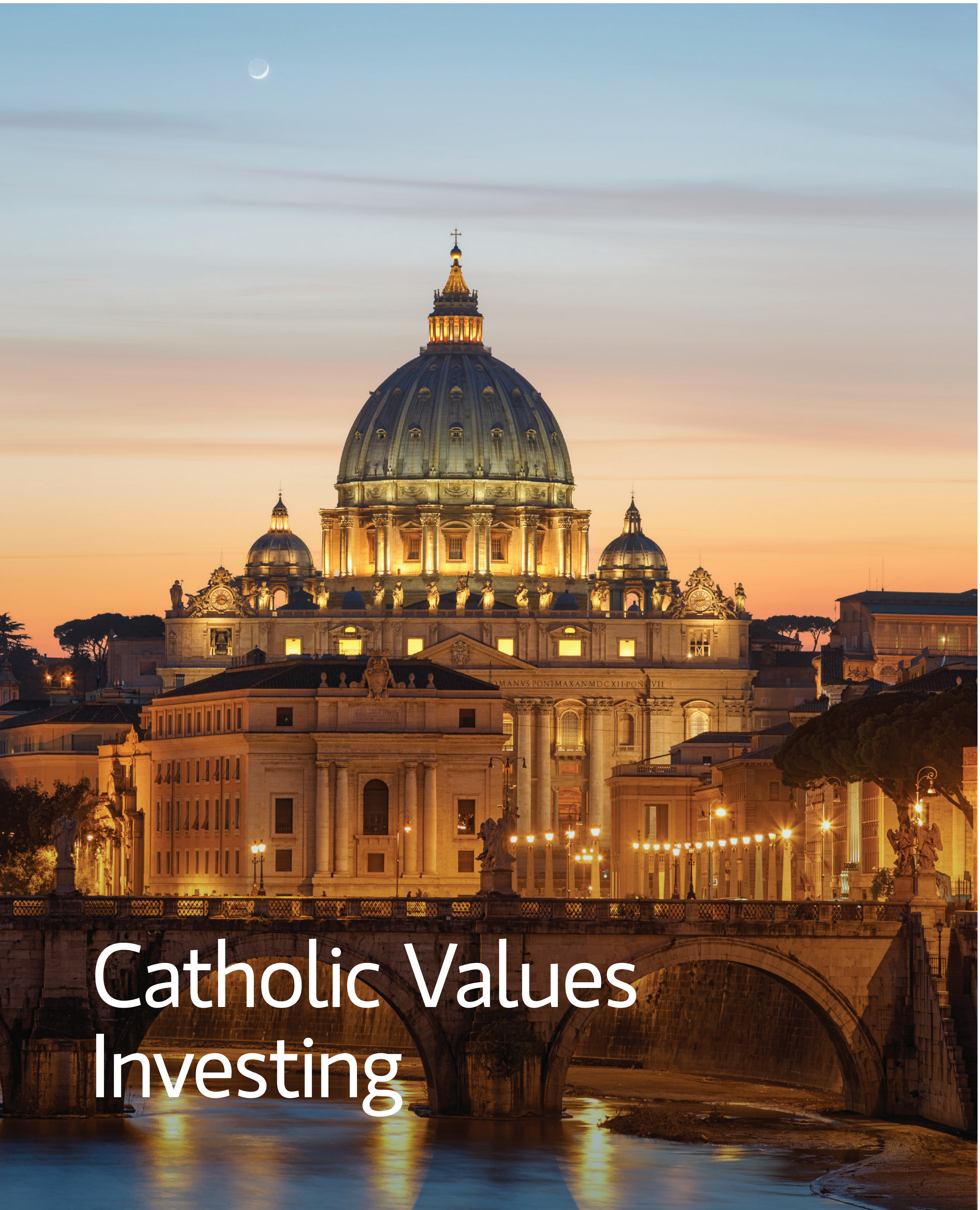

Catholic Values Investing

Background and Context

What is the Connection Between Faith and Investing?

Faith-based institutions and individuals have, for centuries, considered the social and environmental impact of their financial decisions. At the core of this approach is a mission, including to protect and promote the worth of every person, a belief at the foundation of the social teaching principles of the Catholic Church,[1] as well as a broad range of other faiths. Increasingly, stakeholders — including staff, trustees and donors, as well as those served by faith-based institutions such as parishioners, students and patients — call for a holistic approach to embracing their faith. This includes the management of investments as an extension of mission and as a complement to other activities, such as philanthropy. This approach includes integrating mission and values into the financial objectives and investment guidelines of the faith-based institution in line with fiduciary responsibility.

Further, high net worth individuals and families interested in aligning their faith with their investments generally seek to integrate guidelines specific to their interpretation of faith-based values into their financial objectives. Faith-based investment guidelines vary by financial goals, including time horizon, liquidity needs, and by the mission and teachings of the faith the individual, family or institution follows.

Faith-based investors are credited with inspiring investing for social and environmental impact, and serving as early advocates for encouraging companies to change their corporate practices, a process known as shareholder engagement.

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Historical Context for Faith-Based Investing

Early in the 19th century, Quakers and Methodists adopted investment guidelines grounded in religious mission and values. Methodists were firmly opposed to the slave trade, smuggling and conspicuous consumption. In accordance with these values, Methodist religious entities avoided investments in companies that manufacture alcohol and tobacco, and that promote gambling. Around this same time, guided by Quaker testimonies and values such as peace, simplicity, integrity and justice, the Friends Fiduciary Corporation established guidelines that avoided investments in companies that manufacture alcohol, tobacco and weapons. These guidelines, established centuries ago, have carried forward, alongside other evolving approaches, to Quaker and Methodist institutional and individual investment preferences today.[2]

Beginning in the late 1960s, Roman Catholic organizations alongside Protestant organizations spoke out publicly against apartheid in South Africa. Catholic nuns are credited with success in the 1970s, advocating that corporations withdraw any direct exposure to South Africa. Furthermore, the nuns used their pooled retirement assets as leverage to file shareholder resolutions with the intent of confronting corporations that had not yet adopted the Sullivan Principles. The Sullivan Principles, which are codes of conduct developed by the African-American preacher Reverend Leon Sullivan, are broad reaching in their commitment to promoting equality and inclusivity at corporations. As an example, the Sullivan Principles require a corporation to ensure that all employees are treated equally regardless of race.

Beyond Christian investors, there is a growing landscape of interdenominational investors. For example, the many followers of the Jewish and Islamic faiths view their investments as a powerful tool to effect positive change in the world and live their mission more deeply. In addition, there is increasing interfaith dialogue.

For example, the Interfaith Center on Corporate Responsibility (ICCR) began in 1971 as a small group of interdenominational religious investors and has grown to over 300 faith- and values-driven institutional investors, including faith-based institutions, pension funds, colleges, universities and asset management companies. This coalition represents over $500 billion in invested capital.[3]

In addition to coalitions such as ICCR, events such as The Vatican Conferences on Impact Investing (originated in 2014) was convened for investors to collaborate on Pope Francis' vision of "placing the economy at the service of peoples."[4] The inaugural biennial conference centered on understanding the core concepts of impact investing as a potential tool for the Church to help the poor. In 2018, the Dicastery for Promoting Integral Human Development and Catholic Relief Services hosted the Third Vatican Conference on Impact Investing.

The latest conference brought together 160 leaders representing large investment firms, including Morgan Stanley, social enterprises, government, institutional and family foundations, and the Catholic Church. The conference's objective was to move more money into the impact investing sector, with an emphasis on targeting the most vulnerable in four key issue areas: health, youth employment, migrants and refugees, and climate change. The conference resulted in pledges of almost $1 billion in new impact investments to be raised or deployed over the course of several years.[4]

Built on a strong historical foundation, interest among faith-based investors to integrate financial considerations alongside values and mission continues to grow.

What are Catholic Values?

Essential to understanding the roots of Catholic Values investing is the Catholic Framework for Economic Life (Exhibit 1). This is a set of 10 principles, set forth by the U.S. Conference of Catholic Bishops (USCCB), that are based on the Catechism of the Catholic Church, papal encyclicals, statements from bishops in the U.S., and the pastoral letter Economic Justice for All (described later in this section).

Through the Framework outlined by the USCCB, the Catholic Church recognizes that the financial markets and the economy at large are central to humanity. According to Dr. Joseph E. Capizzi, Executive Director of Human Ecology and Professor of Moral Theology at Catholic University of America, "Catholic social doctrine [recognizes] that finance is a form of human activity, as such, finance is therefore bound by principles placing it at the service of the human person in his or her fullness, and yet boundless by the limitless capacity of human creativity and wonder. The Church's claim that finance must serve the human person therefore imposes no artificial limits on finance. As Popes John Paul II, Benedict and Francis have all insisted, finance will flourish, if, and only if, bound by human dignity and the moral law. Should finance be disconnected from these, its gains would be short term at best, and at the price not merely of human beings, but of the flourishing it might have otherwise served."[5]

Nevertheless, as Pope Francis wrote in his 2015 encyclical Laudato Si, emphasizing that Catholic investors, through their investment decisions, can play an integral role in aligning their investment decisions with Catholic teaching. This brings us to the USCCB's 1986 pastoral letter Economic Justice for All, which underscores the importance of active involvement in investment decisions:[6]

"…by itself, the market cannot guarantee integral human development and social inclusion."

— Pope Francis

1. Church as Shareholder and Investor: "Individual Christians who are shareholders and those responsible within church institutions that own stocks in U.S. corporations must see to it that the invested funds are used responsibly. Although it is a moral and legal fiduciary responsibility of the trustees to ensure an adequate return on investment for the support of the work of the Church, their stewardship embraces broader moral concerns. As part owners, they must cooperate in shaping the policies of those companies through dialogue with management, through votes at corporate meetings, through the introduction of resolutions and through participation in investment decisions. We praise the efforts of dioceses and other religious and ecumenical bodies that work together toward these goals. We also praise efforts to develop alternative investment policies, especially those which support enterprise that promote economic development in depressed communities." (Economic Justice for All, 354). Investing in and of itself is not enough. There is the additional imperative of actively shaping the future of companies through shareholder engagement.

2. Shareholder Responsibility: "Most shareholders today exercise relatively little power in corporate governance. Although shareholders can and should vote on the selection of corporate directors and on investment questions and other policy matters, it appears that return on investment is the governing criterion in the relation between them and management. We do not believe that this is an adequate rationale for shareholder decisions. The question of how to relate the rights and responsibilities of shareholders to those of other people and communities affected by corporate decisions is complex and insufficiently understood. We therefore urge serious, long-term research and experimentation in this area. More effective ways of dealing with these questions are essential to enable firms to serve the common good." (Economic Justice for All, 306). Shareholder decision-making should encompass factors beyond just potential for returns and should consider the impact on communities affected by corporate decisions.

3. Church as Economic Actor: "Although all members of the Church are economic actors every day of their individual lives, they also play an economic role united together as Church. On the parish and diocesan level, through its agencies and institutions, the Church employs many people; it has investments; it has extensive properties for worship and mission. All the moral principles that govern the just operation of any economic endeavor apply to the Church and its agencies and institutions; indeed the Church should be exemplary." (Economic Justice for All, 347). Many dioceses and religious communities have also been seeking to apply these directions through their own policies on corporate responsibility.

Then, in 2003, the USCCB issued the Socially Responsible Investment Guidelines as a comprehensive, though equivocal, set of guidelines for Catholic Values-oriented investors to integrate the mission of the Church into the financial objectives of their investment portfolios. The Guidelines delineate specific areas

Exhibit 1: USCCB's Catholic Framework for Economic Life

1. The economy exists for the person, not the person for the economy.
2. All economic life should be shaped by moral principles. Economic choices and institutions must be judged by how they protect or undermine the life and dignity of the human person, support the family and serve the common good.
3. A fundamental moral measure of any economy is how the poor and vulnerable are faring.
4. All people have a right to life and to secure the basic necessities of life, such as food, clothing, shelter, education, health care, safe environment and economic security.
5. All people have the right to economic initiative, to productive work, to just wages and benefits, to decent working conditions as well as to organize and join unions or other associations.
6. All people, to the extent they are able, have a corresponding duty to work, a responsibility to provide for the needs of their families, and an obligation to contribute to the broader society.
7. In economic life, free markets have both clear advantages and limits; government has essential responsibilities and limitations; voluntary groups have irreplaceable roles, but cannot substitute for the proper working of the market and the just policies of the state.
8. Society has a moral obligation, including governmental action where necessary, to assure opportunity, meet basic human needs, and pursue justice in economic life.
9. Workers, owners, managers, stockholders and consumers are moral agents in economic life. By our choices, initiative, creativity and investment, we enhance or diminish economic opportunity, community life and social justice.
10. The global economy has moral dimensions and human consequences. Decisions on investment, trade, aid and development should protect human life and promote human rights, especially for those most in need, wherever they might live on this globe.

for Catholic Values investors to consider as part of their investment selection process (Exhibit 2). The Guidelines, however, do not provide explicit guidance on implementation and leave room for interpretation depending upon the teachings and preferences of specific organizations and individuals, as well as the financial objectives and investment constraints.

Investor Engagement

Who is Uniquely Interested in Catholic Values Investing?

Given the experience of Morgan Stanley working with faith-based investors, we have found that the following are interested, or actively pursuing, an approach to aligning capital and mission:

- Catholic and Jesuit educational institutions—lower, middle and high schools, colleges and universities
- Catholic health care and service organizations
- Catholic Archdioceses/Dioceses—regional grouping of parishes
- Catholic nonprofits/charitable organizations
- Families and family offices
- High net worth individuals

Catholic Values and other faith-based investing approaches are at the vanguard of the growing market for sustainable and impact investing. Morgan Stanley recently conducted a survey and found that 84% of asset owners, defined as public and corporate pensions, endowments, foundations and other large asset owners, are pursuing or considering the integration of environmental, social and governance (ESG) data into their investment process. This is driven by the desire to achieve mission alignment, but also risk management and return potential.[5] Asset owners broadly are increasingly integrating mission alignment and sustainability into their investment processes, given the broad growth in sustainable investing strategies as well as increasing demand from key institutional stakeholders and the regulatory backdrop.

Laying the Foundation for a Catholic Values Investment Approach

While the USCCB Guidelines outline specific criteria, there is no explicit language around the specifics, including "revenue threshold" at which these criteria should be implemented as part of portfolio construction. Based on our experience working with clients of all sizes and types, there can be many interpretations of what the appropriate threshold is based on the unique vantage point of a client. For some investors, there are negative screens (such as the exclusion of abortifacients) where an absolute implementation approach can be taken (i.e., all companies with any percentage of their revenue in that industry must be avoided). Other investors may have different tolerance levels and may consider revenue-related thresholds as a way to measure the underlying operations of companies, whereby investors may seek to avoid those that derive a majority of their revenue (e.g., 50% or greater) from any given industry. Further still, some investors look to invest in companies with "de minimis" revenue exposure, which could be defined as 1%, 5%, 10% or 15%, etc. This is a case-by-case discussion and it's important to keep in mind that there may be certain investment product constraints as well.

Investors can work with a Morgan Stanley Financial Advisor or Graystone Institutional Consultant to develop a tailored investment approach based on their preferences with regard to integrating Catholic Values. This process, which can be informed by the USCCB Guidelines and may include additional impact criteria not outlined in the USCCB Guidelines, is part of the development of a lasting investment plan that addresses a client's unique financial and faith-based or impact goals.

Exhibit 2: Interpretation of the USCCB's Socially Responsible Investing Guidelines

The USCCB Guidelines include negative (exclusionary) screening, targeted positive environmental and social impact, and active corporate participation with regards to stock holdings.[7] Over the past decade, we have seen Catholic investors increasingly tilt their investments toward generating positive environmental and/or social impact, representing an evolution beyond the Guidelines as a negative screening tool. This shift has paralleled the broader growth in the sustainable and impact investing industry targeting positive environmental and social impact alongside market-rate returns.

Exclusionary Catholic Values can include restricting investment in companies that derive significant revenue from the following areas:

- Gender discrimination
- Human rights deficiencies
- Life ethics; abortifacients; contraception, and embryonic stem cell research
- Pornography/adult entertainment
- Predatory lending
- Racial discrimination
- Tobacco
- Weapons, including conventional and nuclear, weapons of mass destruction, firearms and landmines

Inclusionary Catholic Values Criteria can include investment in companies that derive revenue from or promote:

- Access to affordable housing
- High corporate social responsibility
- High environmental standards
- High labor standards

Active Corporate Participation involves leveraging an investor's position as shareholder to shape corporate policies and decisions, including dialogue with corporate leadership, shareholder resolutions, and working with other groups, such as ICCR, that are working for corporate responsibility broadly.

To guide mission-aligned investors, including faith-based investors, Morgan Stanley has developed a framework, called Mission Align 360⁰, that serves as a road map for investors to evaluate all pools of capital—human, philanthropic and financial—and allocate to faith and mission. This proprietary process starts with affirming the mission of the organization and culminates in continuous portfolio monitoring. To align financial capital (which may include endowments, retirement accounts, pensions, cash pools, donor-advised funds, for example), the following steps in the Mission Align 360⁰ framework apply:

Developing an Integrated Investment Policy Statement: Once an investor has decided to integrate Catholic Values into their investment portfolio, the next step is to build or evolve an existing investment plan or investment policy statement (IPS). The IPS clarifies and formalizes the investor's priorities, risk tolerance, return objectives, benchmarks and time horizon, and can also lay down a framework for approaching Catholic Values investments across all relevant asset classes. In order to gain consensus on an investment plan and/or IPS, an extended meeting with a Financial Advisor or Institutional Consultant can be a helpful exercise, especially with institutional boards. This allows the Financial Advisor or Institutional Consultant to direct the conversation with several key discussion questions that will help form the investment plan/policy statement. This can help to set investor expectations prior to portfolio implementation, and provide enough flexibility to allow the investment strategy to evolve over time as the investment opportunity set grows and adapts to market demand. Ultimately, the goal is to develop a long-term investment plan, which seeks to achieve both the desired faith-based impact goals and target financial objectives.

Evaluating Existing Financial Capital: With an IPS in place, an investor's existing assets must be evaluated according to both financial goals and alignment toward faith-based objectives. An essential resource in this part of the process is Morgan Stanley Impact Quotient® (Morgan Stanley IQ), a patent-pending, award-winning technology launched in 2019, that delivers multidimensional analysis on a portfolio's alignment to a client's unique impact objectives, such as Catholic Values as well as over 100 other potentially relevant impact objectives and global frameworks, including the United Nations Sustainable Development Goals (SDGs). Ultimately, the result of this assessment will identify where there are opportunities to strengthen the alignment between investments and faith-based or impact objectives over time.

Allocating and Transitioning Assets: Based on an understanding of the client's financial and faith-based goals, supported by the analysis of a portfolio's alignment to Catholic Values from Morgan Stanley IQ, Financial Advisors and Institutional Consultants can guide clients in determining appropriate asset allocation and manager selection.

Ongoing Portfolio Monitoring: The final step is more continuous and ongoing—clients can, and should, work with their trusted Financial Advisor or Institutional Consultant to understand their portfolio's alignment to Catholic Values and other impact objectives to help establish a baseline, and also as a tool to help monitor the portfolio's evolution over time through Morgan Stanley IQ.

Moving the Conversation Beyond Investments: Institutions, such as Catholic and Jesuit educational institutions, diocese and archdiocese, may also have charitable vehicles (for example, donor-advised funds) that can help drive toward faith-based alignment and are complementary to their financial investments. Investors may also be interested in participating in faith-based membership organizations and networks to maintain awareness of best practices amid like-minded peers. Some examples include the Interfaith Center on Corporate Responsibility (ICCR), Faith Invest and the International Interfaith Investment Group (3iG).

Implementation

Overview of Different Investment Approaches

As part of our work in guiding investors in transitioning assets to align with faith-based impact objectives, we have created the Catholic Values Investment Framework (Exhibit 3), which is organized along a continuum, from minimizing misalignment with Catholic Values to increasing direct positive impact in alignment with Catholic Values.

Exhibit 3: Morgan Stanley Catholic Values Investment Framework

MINIMIZE MISALIGNMENT WITH CATHOLIC VALUES → INCREASE DIRECT IMPACT TO CATHOLIC VALUES

Restriction Screening	ESG Integration	Thematic Exposure	Impact Investing
• Investments that seek to minimize or avoid exposure to certain companies, sectors, geographies or themes. • The USCCB Guidelines outline restricting investments in companies that derive significant revenue from tobacco, predatory lending, human rights deficiencies, embryonic stem cell research, abortifacients, pornography/adult entertainment, weapons, etc.	• Invest in companies with sustainable corporate practices, including efficient natural resource use, efforts to reduce greenhouse gas emissions, high labor standards, diversity and inclusion, as well as other methods of promotion of human dignity and environmental protection. Some of these are outlined in the inclusionary criteria of the USCCB.	• Focuses on sectors of the market dedicated to addressing specific objectives in a manner that is consistent with Catholic Values goals. • Invest in companies with innovative products and services targeting solutions to key sustainability goals such as alleviating poverty, increasing diversity and inclusion, community development and climate solutions, in alignment with Pope Francis' encyclical Laudato Si'.	• Provides access to investment funds focused on private enterprises structured to deliver specific positive social and/or environmental impacts. • May incorporate restriction screening or be focused on positive thematic tilts to align with the USCCB.
PUBLIC + PRIVATE MARKETS			PRIVATE MARKETS

Shareholder Engagement: Investments across approaches can drive improvement toward social and environmental goals through active dialogue with invested companies.

Given this framework, it's important to note that individuals, families and institutions that are seeking to align their investments with Catholic Values do not need to sacrifice performance. The Morgan Stanley Institute for Sustainable Investing released a study in 2019 that analyzed the performance of nearly 11,000 mutual funds, from 2004 to 2018, and demonstrated that "there is no financial trade-off in the returns of sustainable funds compared to traditional funds, and they demonstrate lower downside risk."[8]

We see a growing, although still somewhat limited, landscape of investment choices and opportunities in the Catholic Values space. At Morgan Stanley, we work with over 300 asset managers, a subset of which have met the higher bar necessary to be on the Investing with Impact Platform and take an approach to integrating Catholic Values. Most third-party investment managers have developed an in-house approach to interpreting the Catholic Values guidelines set forth by the USCCB, resulting in a proprietary investment process largely consisting of a combination of four approaches (Exhibit 3).

Investment managers may also utilize shareholder engagement, either through in-house teams or in partnership with external organizations such as As You Sow, a nonprofit that promotes corporate social responsibility through shareholder advocacy and coalition building, as a complement to all four approaches above in order to drive positive change across environmental, social or governance-related areas of concern in a portfolio. Shareholder engagement approaches include proxy voting, which provides investors with an opportunity to influence corporate responsibility matters, dialogue with company executives, shareholder resolutions and more. Shareholder resolutions are a particularly important tool in instances when dialogue with a company does not advance, and typically require that companies disclose information, report on the potential impact to their operations if the issue is not addressed, or make a commitment to adopt or change their policies. Third-party managers rely on both proprietary sources of data, including conversations with company management, as well as external sources, including environmental, social and governance (ESG) data provided by third parties to determine a company's adherence to Catholic Values guidelines.

Given the above, there are three main ways that clients can invest through Morgan Stanley across asset classes — including public equity, public fixed income and private markets:

- Predefined Catholic Values managed strategies that include a standard set of exclusionary and positive criteria in line with USCCB guidelines.
- Managers that can integrate an investor's custom Catholic Values preferences into their existing investment discipline. Certain managers are able to implement negative screens only; others include both negative and positive approaches to integrating Catholic Values. See page 9 for an example of a custom strategy that incorporates both positive and negative dimensions.
- Overlay restriction screens on separately managed accounts: Clients can work with their Financial Advisor or Institutional Consultant to apply screens to avoid certain objectionable industries not already covered by the investment process (note: it is not possible to apply overlay restriction screens on mutual funds or exchange-traded funds). In order to better enable Financial Advisors and Institutional Consultants to serve the needs of their Catholic Values investors through custom restriction screening, Morgan Stanley has retained the services of a leading independent third-party provider of objective research and technology solutions to evaluate corporate ESG criteria — environmental, social and governance from both an exclusionary screening and positive or proactive Best-in-Class[10] perspective. See below for a definition of currently available restriction screens:

CATHOLIC EXCLUSIONS ONLY

- Exclusions include abortion, adult entertainment, contraceptives, firearms, stem cells and weapons
- All exclusion screens at 1% revenue thresholds (e.g., excludes companies that derive greater than % revenue from the screens outlined above)

CATHOLIC VALUES (EXCLUSIONS AND POSITIVE CRITERIA)

- Restriction screens consisting of Catholic Exclusions such as abortion, adult entertainment, contraceptives, firearms, etc. (Exhibit 3)
- Best-in-class ESG criteria include environmental ratings and human rights ratings. Best-in-class ESG criteria allow investors to avoid companies whose performance in regard to select ESG practices is in the bottom 5% of all rated companies.

ADDITIONAL CUSTOMIZATION AVAILABLE

Financial Advisors and clients can work directly with ISS-ESG[11] to define and develop customized revenue thresholds for Catholic Values exclusions.

Asset Allocation Approach to Catholic Values

When looking at the specific investment opportunity set that can be pursued across asset classes, it is important to note there are more robust investment opportunities (across separately managed accounts, mutual funds and exchange-traded funds as well as individual securities) in certain asset classes than others; for example, there is greater product availability across most public market equities (though not in emerging markets, for instance) and fixed income (for example, ultra-short and high yield) than there is in alternative investments—hedge funds, private equity and debt. Further, investors are unique and not every asset class will be appropriate or relevant. In instances where there are limited asset class opportunities, investors may consider allocating to funds that incorporate an ESG integration approach addressing a broad range of sustainability and impact issues or traditional investment strategies seeking no approach to generating positive environmental and social impact. An important constraint for investors to also consider is the size of the investment portfolio, which will influence the selection process.

Investors can work with their Financial Advisor or Institutional Consultant to develop a tailored investment approach to incorporate Catholic Values into their portfolio to achieve long-term financial and impact goals.

Following are brief summaries from two asset managers investing in the equity and fixed income asset classes, in their own words, about how they can integrate Catholic Values into their investment process.[12]

PUBLIC FIXED INCOME

Community Capital Management invests in single-family agency mortgage-backed securities, agency collateral mortgage-backed securities, taxable municipal bonds, and asset-backed securities (available as both a mutual fund and separately managed account). They work with clients from multiple faiths (as well as non-faith-based investors) to customize portfolios with emphasis on 18 themes proactively seeking market-rate bonds that positively contribute to community and economic development in the United States. Themes include affordable housing, education, gender lens, etc. An example of a bond in the portfolio might be an affordable housing situated in a difficult development area and a minority census tract. In addition to themes, investors can customize their investments to support specific geographies.[13]

PUBLIC EQUITY

Parametric Portfolio Associates offers a suite of custom tilts that can be applied on top of a wide range of indexes, providing investors with the ability to implement both predefined faith-based strategies that already incorporate the negative and positive screens set forth by the USCCB, as interpreted by Parametric and a third-party data provider, as well as custom tilts specific to Catholic Values. The offering is delivered as a quantitatively managed, separately managed account constructed to target low tracking error to a selected benchmark (for example, the S&P 500 Index) around policy areas such as protecting human life, promoting human dignity, reducing arms production, pursuing economic justice, protecting the environment and encouraging corporate responsibility. Environmental, labor management, or other corporate behavior that would conflict with the spirit of the Guidelines may also be considered.[14] Investment criteria can be customized to represent the unique goals of the client.

ALTERNATIVE INVESTMENTS

As mentioned earlier, options are currently limited for alternative investments[15] (including hedge funds and private equity) that integrate both the exclusionary screening and positive impact aspect of Catholic Values guidelines. To be eligible to invest in alternative investments, you would need to be a qualified investor who is able to understand the complex investment strategies sometimes employed, and tolerate the risks and liquidity constraints of alternative investments.

An example of an investment previously available to our clients includes a global private equity fund that seeks to create measureable climate solutions and poverty alleviation by targeting a range of environmental investments. This particular investment implemented the USCCB negative criteria.

When choosing investment managers that are experienced and capable of integrating Catholic Values, it is important to understand there are many different approaches and having a Financial Advisor or Institutional Consultant to help navigate the ever-growing landscape is essential.

As described earlier, managers may utilize negative screening, positive tilts or ESG Integration, or a combination of all. To give context to the approach that managers take, Morgan Stanley's proprietary framework for Investing with Impact (Exhibit 3) can help investors of all sizes navigate the different approaches to align their portfolio with their impact objectives—including adhering to Catholic Values guidelines.

Investors can work with their Financial Advisor or Institutional Consultant to develop a tailored investment approach to incorporate Catholic Values into their portfolio to achieve long-term financial and impact goals.

Portfolio Construction

There are at least three different ways to think about constructing an investment portfolio that incorporates Catholic Values:

Total Portfolio Solution:
An investor can activate their entire portfolio based on their financial and Catholic Values objectives. This may include utilizing mutual funds, exchange-traded funds and separately managed accounts that, to one extent or another, incorporate pre-defined positive and/or negative Catholic Values into their investment discipline, depending upon the investors preferences. One limitation to be aware of is that the universe of available opportunities may limit the diversification of a portfolio.

To help overall diversification, it's worth noting that Catholic Values-oriented investors may also resonate with our Morgan Stanley Investing with Impact Platform broadly and may be interested in pursuing investment strategies that, while not explicitly employing USCCB negative screening guidelines, may have de minimis exposure overall and would include the positive aspects of Catholic Values (e.g., investing in companies that are environmental leaders and good corporate citizens) that are part of the broad consideration of environmental, social and governance or thematic criteria.

Partial Portfolio Solution:
Where options exist that meet the financial and Catholic Values objectives of the investor these investments can be integrated into the context of a fully diversified portfolio that may include non-Catholic Values integrated investments. In contrast to a total portfolio solution, a partial solution may be implemented by transitioning a portion of the overall assets, either by asset class or based on a catalyst such as an underperforming manager, to strengthen the mission alignment over time.

Carve-Out:
An investor may choose to have a portion of their assets aligned with their version of Catholic Values—either the public equity/public fixed income, alternatives (note: for qualified investors only) or a diversified carve-out across all asset classes. This could be a specific amount or percentage allocation and creates a target and mandate that can be a great way for institutions to start on their journey of mission alignment across investments.

Catholic Values in Action: In Stewardship of the Faith

"As each one has received a gift, use it to serve one another as good stewards of God's varied grace." —1 Peter 4:10

Morgan Stanley has been at the forefront of faith-based investing, launching its first Catholic Values Investing Tool Kit in 2015 and collaborating closely with asset managers and industry organizations since then to expand investment opportunities for its clients and the broader market. Today, Morgan Stanley Investing with Impact offers its clients customization across multiple faiths such as Christianity (for example, Baptist, Catholic, etc.), Islamic and Jewish Values, as well as a suite of portfolio solutions that seek to advance broad sustainability solutions as well as mitigate climate change, support diversity and inclusion, promote community economic development, and more. Morgan Stanley also produces informative insights and actionable ideas on a range of sustainability themes through publications and reports from Investing with Impact, the Institute for Sustainable Investing and Morgan Stanley & Co. Equity Research.

At Morgan Stanley, we see both individual and institutional investors motivated to invest their portfolios in accordance with their personal and faith-based mission and values. We believe it is important for investors to partner with a Financial Advisor or Institutional Consultant to help navigate the complexity of this ever-evolving approach to investing. Financial Advisors and Institutional Consultants can be vital in helping investors to identify what investment options and portfolio approach will help to achieve faith and financial goals. In our experience, success around integrating Catholic Values requires active participation from clients, working alongside their trusted financial professionals, to recognize the advantages and limitations of the current market and shape the marketplace to benefit future growth in adoption of Catholic Values investing.

In the context of Catholic Values, the Parable of the Talents (Matthew 25:14-30) underscores the importance of maximizing the use of God-given talents and resources to fulfill God's work, emphasizing how resources are used—such as financial capital—which Catholic investors can leverage as part of a holistic approach to embracing their faith.

"Impact investors are those who are conscious of the existence of serious unjust situations, instances of profound social inequality and unacceptable conditions of poverty affecting communities and entire peoples."

—Pope Francis, 2014 Vatican Symposium on Impact Investing

Investing with Impact

Launched in 2012, Morgan Stanley Investing with Impact provides our wealth management clients—including faith-based investors—a suite of investment options, portfolios, tools and analysis to deliver solutions that can generate both market-rate financial returns and measurable, positive environmental and social impact. To learn more about Investing with Impact at Morgan Stanley, contact your Financial Advisor or Institutional Consultant and visit: www.morganstanley.com/impactinvesting.

Institute for Sustainable Investing

In 2013, Morgan Stanley launched the Institute for Sustainable Investing to accelerate the adoption of sustainable investing, produce informative insights and develop the next generation of sustainable finance leaders. To learn more about these efforts and read the latest insights visit: www.morganstanley.com/sustainableinvesting

NOTES

[1] United States Conference of Catholic Bishops, "Life and Dignity of the Human Person." http://www.usccb.org/beliefs-and-teachings/what-we-believe/catholic-social-teaching/life-and-dignity-of-the-human-person.cfm

[2] US SIF: The Forum for Sustainable and Responsible Investment, "Community Investing Tool Kit for the Faith-based Community," 2009, http://www.ussif.org/files/ Publications/FaithBased_Toolkit.pdf

[3] Interfaith Center on Corporate Responsibility, http://iccr.org/about-iccr

[4] Vatican Impact Investing Conference 2018 Report, "Third Vatican Conference on Impact Investing: Scaling Investment in Service of Integral Human Development," https://www.viiconference.org

[5] Morgan Stanley Institute for Sustainable Investing, "Sustainable Signals: Asset Owners Embrace Sustainability," 2018

[6] Capizzi, Dr. Joseph E. Personal Interview. (December 2019)

[7] United States Conference of Catholic Bishops, "Economic Justice for All: Pastoral Letter on Catholic Social Teaching and the U.S. Economy," 1986, http://www.usccb.org/upload/economic_justice_for_all.pdf

[8] United States Conference of Catholic Bishops, "USCCB Socially Responsible Investing Guidelines," 2003, http://www.usccb.org/about/financialreporting/socially-responsible-investment-guidelines.cfm

[9] Morgan Stanley Institute for Sustainable Investing, "Sustainable Reality: Analyzing Risk and Returns of Sustainable Funds," 2019.

[10] Best-in-class refers to ISS-ESG's ratings on selected ESG criteria relative to all companies in the Russell 3000 index for the same criteria. These ratings can be used for either negative (exclusionary) purposes to eliminate the worst performers or positively (inclusion or over-weighting), dependent on how the client wishes to approach the topics.

[11] ISS-ESG is not affiliated with Morgan Stanley and acts as an independent contractor, subject to Morgan Stanley's ongoing due diligence.

[12] The investment manager examples are for illustrative purposes only and should not be deemed a recommendation to purchase, hold or sell any securities or investment products. They are intended to demonstrate the types of approaches taken by managers who focus on Catholic Values in their investment strategy. There can be no guarantees that a client's account will be managed as described herein.

[13] Community Capital Management, *Religious Client Overview*, 2018

[14] Parametric Portfolio Associates, *Parametric Responsible Investing Screen Menu*, Q3 2019

[15] Alternative investments may only be offered to clients by AI-qualified FAs/ PWAs. Before AI-qualified FAs/PWAs may discuss a particular private fund with a prospective investor, they must confirm that the prospective investor meets the offering's minimum qualification requirements by submitting the appropriate client information into the firm's Reg D system. Only firm-approved offering materials (generally, the offering memorandum, pitchbook, and related materials) may be used to offer or sell interests in a particular fund.

[16] The third-party website links are provided for your convenience and information only. The inclusion of these links is not and does not imply an affiliation, sponsorship, endorsement, approval, investigation, verification or monitoring by Morgan Stanley of any information contained on these websites.

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