



## EIC CATHOLIC VALUE

*“...the Conference seeks to put in place policies that are broader, more explicit, active, flexible and effective in applying the teaching of the Church to the realities of the market.”<sup>1</sup>*

*-“Principles for USCCB Investments”*

Equity Investment Corporation (EIC) began investment operations in 1986 to follow investment principles espoused by Warren Buffett, particularly those related to the economic value of long-term business ownership. These principles have proven successful, producing a pattern of returns that has been repeated over numerous full market cycles. That pattern has been: relatively strong performance in down markets, better than expected during recovery, but under-perform during low-quality and momentum markets. Our investment objective for EIC Catholic Value is to deliver this market-cycle return pattern, while employing our long-term investment principles.

The mission objective for EIC Catholic Value is to be faithful to the **spirit** of the United States Conference of Catholic Bishops’ (USCCB) Socially Responsible Investment Guidelines. Using research inputs from MSCI, Inc., EIC has established negative and positive screens to eliminate holdings we believe violate the **spirit** of the Guidelines. Fiduciary arguments often undermine implementation of the Guidelines by seeking to maximize the potential investment candidate pool. Instead, by combining our long-established investment principles with robust SRI/ESG screens, we seek to reconcile and better balance this conflict between Catholic investors’ fiduciary and social responsibilities.

EIC Catholic Value investments will be drawn principally from EIC’s existing holdings in Large-Cap Value (LCV), All-Cap Value (ACV), and Mid-Cap Value (MCV) strategies. Additional replacement names are introduced as necessary. Current EIC exclusions are tied to specific language from the Guidelines, as detailed below:

## PROTECTING HUMAN LIFE

### A. Abortion:

*“USCCB should remain as it is, namely, absolute exclusion of investment in companies whose activities include direct participation in or support of abortion”<sup>1</sup>*

**Excluded EIC Holdings: GlaxoSmithKline**

### B. Contraceptives:

*“USCCB will not invest in companies that manufacture contraceptives or derive a significant portion of its revenues from the sale of contraceptives”<sup>1</sup>*

**Excluded EIC Holdings: Johnson & Johnson**

### C. Stem Cells:

*“USCCB will not invest in companies that engage in scientific research on human fetuses or embryos that (1) results in the end of pre-natal human life; (2) makes use of tissue derived from abortions or other life-ending activities; or (3) violates the dignity of a developing person”<sup>1</sup>*

**Excluded EIC Holdings: Baxter International, Baxalta, GlaxoSmithKline, Johnson & Johnson, Procter and Gamble**

## PROMOTING HUMAN DIGNITY

### A. Human Rights:

*“corporations . . . reap large profits from diamonds and oil while too often demonstrating little concern for the negative impact their activities may have on peace stability, human rights, and the environment”<sup>1</sup>*

*“USCCB will actively promote and support shareholder resolutions directed towards protecting and promoting human rights”<sup>1</sup>*

**Excluded EIC Holdings: Chevron, Exxon Mobil**

### B. Racial & Gender Discrimination:

*“USCCB will divest from those companies whose policies are found to be discriminatory against people of varied ethnic and racial backgrounds”<sup>1</sup>*

*“USCCB will divest from those companies whose policies are found to be discriminatory against women”<sup>1</sup>*

**Excluded EIC Holdings: Wal-Mart Stores**

### C. Access to Pharmaceuticals:

*“USCCB will encourage companies to undertake or participate in programs designed to make life-sustaining drugs available to those in low-income communities and countries at reduced, affordable prices, consistent with our Catholic values”<sup>1</sup>*

**Excluded EIC Holdings: None**

### D. Curbing Pornography:

*“USCCB will not invest in a company whose purpose is to appeal to a prurient interest in sex or to incite sexual excitement”<sup>1</sup>*

**Excluded EIC Holdings: None**

## REDUCING ARMS PRODUCTION

### A. Production and Sale of Weapons:

*“The Conference will . . . avoid investment in firms primarily engaged in military weapons production or the development of weapons inconsistent with Catholic teaching on war (e.g., biological and chemical weapons, arms designed or regarded as first-strike nuclear weapons, indiscriminate weapons of mass destruction, etc.)”<sup>1</sup>*

**Excluded EIC Holdings: None**

### B. Antipersonnel Landmines:

*“USCCB will not invest in companies that are directly involved in the manufacture, sale, or use of anti-personnel landmines”<sup>1</sup>*

**Excluded EIC Holdings: None**

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1. Usccb.org. “Socially Responsible Investment Guidelines.” N.p., 2015. Web. 5 Jan. 2015.

## PURSUIING ECONOMIC JUSTICE

### A. Labor Standards/Sweatshops:

*“it is respect for the objective rights of the worker--every kind of worker: manual, or intellectual, industrial or agricultural, etc.--that must constitute the adequate and fundamental criterion for shaping the whole economy”<sup>1</sup>*

*“USCCB will actively promote and support shareholder resolutions directed towards avoiding the use of sweatshops in the manufacture of goods”<sup>1</sup>*

*“USCCB will promote and support shareholder resolutions to promote generous wage and benefit policies and adequate worker safety guidelines”<sup>1</sup>*

**Excluded EIC Holdings: Chevron, Wal-Mart Stores**

### B. Affordable Housing/Banking:

*“The Conference will not deposit funds in a financial institution that receives less than a “satisfactory” rating from federal regulatory agencies under the Community Reinvestment Act”<sup>1</sup>*

**Excluded EIC Holdings: None**

## PROTECTING THE ENVIRONMENT

*“We must seek a society where economic life and environmental commitment work together to protect and to enhance life on this planet”<sup>1</sup>*

*“We ask business leaders and representatives of workers to make the protection of our common environment a central concern in their activities and to collaborate for the common good and the protection of the earth”<sup>1</sup>*

**Excluded EIC Holdings: Chevron, Exxon Mobil**

## ENCOURAGING CORPORATE RESPONSIBILITY

*“While economic returns are important, they should not take precedence over the rights of workers or protection of the environment”<sup>1</sup>*

*“USCCB will encourage companies to report on social, environmental, as well as financial performance”<sup>1</sup>*

*“The private sector must be not only an engine of growth and productivity, but also a reflection of our values and priorities, a contributor to the common good”<sup>1</sup>*

**Excluded EIC Holdings: Wal-Mart Stores**

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*–“Principles for USCCB Investments”*

Our investment objective for EIC Catholic Value is to apply the investment principles we have used since 1986 to deliver a full market-cycle return pattern similar to that experienced in unrestricted accounts. The mission objective for EIC Catholic Value is to be faithful to the **spirit** of the United States Conference of Catholic Bishops’ (USCCB) Socially Responsible Investment Guidelines. By combining our established investment process with robust SRI/ESG screens, we seek to reconcile and balance the conflict between Catholic investors’ fiduciary and social responsibilities.

## INVESTMENT PROCESS

- ❖ **Valuation** – Economic value is determined using a valuation approach developed and used by EIC since 1986. The approach determines value based on a reasonable expectation of earning a premium above inflation over a targeted holding horizon as a 100% business owner.
- ❖ **Growth** – Companies that cannot grow typically prove to be poor investments, regardless of price. EIC developed graphical value-trap avoidance tools in 1995 to reduce investment mistakes from owning structurally or managerially unhealthy businesses that cannot grow.
- ❖ **Quality** – Earnings are examined to reduce mistakes of capitalizing unsustainable earnings.

## SRI / ESG PROCESS

- ❖ MSCI, Inc. ratings of corporate ties, controversies, degree of impact, and progress rating are inputs.
- ❖ Negative screening excludes companies involved in areas identified for *divestment* by the USCCB.
- ❖ Positive screening allows under-performing companies suggested for *advocacy* efforts by the USCCB.
- ❖ Corporate policies and progress evaluated based on controversy history and ESG management performance relative to peers.

## PORTFOLIO CONSTRUCTION

- ❖ Holdings: largely drawn from EIC All-Cap Value (ACV), Large-Cap Value (LCV) and Mid-Cap Value (MCV) strategies
- ❖ Replacement names introduced as necessary
- ❖ Diversification: 30-40 holdings
- ❖ Position Weights: 2-4% at inception
- ❖ Industry Weights: typically < 20%

## SELL DISCIPLINE

- ❖ **Valuation** – if stock reaches full economic value
- ❖ **Growth** – fundamental deterioration
- ❖ **Quality** – significant decline in financial strength, balance sheet stress, major change in business that renders historical data invalid
- ❖ **Diversification** – trim if > 6% of portfolio
- ❖ **New Opportunities** – when available
- ❖ **SRI** – irreparably violates SRI/ESG criteria

## PORTFOLIO STATISTICS (AS OF 3/31/16)

<u>Statistics</u>		<u>Top Ten Holdings</u>		<u>%</u>	<u>Sector</u>	<u>Sector Allocation</u>		<u>%</u>
Average # holdings	30-40	Cognizant Tech Solns.	3.7	Technology	Financials	28.7		
Current # holdings	32	Apple Computer Inc	3.3	Technology	Technology	26.9		
Median Mkt. Cap.	\$33.6B	MSC Industrial Inc	3.3	Industrials	Industrials	8.7		
Median P/E Ratio	14.4x	Whole Foods Market Inc	3.2	Consumer Staples	Cons Discretionary	6.9		
Median P/BV Ratio	2.6x	T Rowe Price Group Inc	3.1	Financials	Consumer Staples	5.5		
Median Debt/Capital	28.5%	Alphabet Class C	3.1	Technology	Utilities	2.9		
Median ROE	14.1%	Taiwan Semiconductor	3.1	Technology	Healthcare	2.1		
Active Share	89.2 %	Exelon Corp	2.9	Utilities	Materials	0.0		
ACV/LCV as % SRI	58.4/58.4%	Honda Motor Co Ltd	2.9	Cons Discretionary	Energy	0.0		
MCV as % SRI	28.5%	PNC Financial Corp	<u>2.8</u>	Financials	Telecommunications	0.0		
Cap. Exposure (%)	Lg/Md/Sm	<b>Total</b>	<b>31.4</b>		Cash	<u>18.3</u>		
Current	66/27/7%					<b>100.0</b>		

*Holdings in EIC Catholic Value are subject to change. The inclusion or exclusion of securities is not intended as a recommendation, nor is there any implication about past or future performance or profitability. The securities identified do not represent all of the securities purchased, sold or recommended for client accounts. Statistics are calculated from representative EIC Catholic Value accounts using Morningstar Direct<sup>SM</sup>. Active Share is the proportion of portfolio holdings that differ from those of the Russell 1000<sup>®</sup> Value Index, our benchmark portfolio. Sector weights may not equal 100% because of rounding conventions. Because the social screens applied to an SRI account/portfolio may exclude securities of certain issuers, industries and sectors for non-financial reasons, EIC may forgo some available market opportunities. As a result, the account/portfolio investment returns may be affected. In addition, since EIC will generally sell the securities of a company that no longer meets the social screens, its portfolio turnover rate may be higher than it would otherwise and it may be selling securities when it not otherwise beneficial to do so. EIC votes proxies for SRI account/portfolio securities consistent with social and environmental guidelines, but will not support proposals we determine to be potentially harmful to shareholder value. This is a presentation of EIC. The presentation may contain confidential information and unauthorized use, disclosure, copying, dissemination or redistribution is strictly prohibited.*