

Catholic Responsible Investments in the Catholic Foundation Portfolio

Executive Summary

At the General Meeting in November of 2021 a new version of the Socially Responsible Investment Guidelines for the United States Conference of Catholic Bishops (USCCB) were developed and approved by the full body. In comparison to the prior guidelines, the USCCB emphasizes even more “engagement” through corporate dialogue, proxy voting and support of shareholder resolutions to employ and enforce these guidelines.

As noted previously, investment managers such as CBIS, as well as organizations like the Foundation are still in the process of analyzing the updated guidelines as it considers to potential changes to investment strategies and portfolio screening. **Given this, the following analysis is done using the previous USCCB guidelines**, not the new guidelines approved in November of 2021. As seen in the following analysis, **there are currently zero stocks violating the Foundation’s guidelines** as shown in the table below.

Account	Market Value	Market Value as % of Foundation	Violation Securities as % of Account	Violation Securities as % of Foundation
Crossmark Large Cap	\$ 17,642,835	14.07%	0	0.00%
Crossmark Large Cap Quality	\$ 16,016,426	12.77%	0	0.00%
CBIS Core Equity Index	\$ 15,529,334	12.39%	0	0.00%
CBIS Small Cap Index	\$ 7,868,925	6.28%	0	0.00%
Boston Common International Catholic Equity	\$ 9,398,531	7.50%	0	0.00%
CBIS International Equity	\$ 10,723,659	8.55%	0	0.00%
DFA Emerging Markets Social Core	\$ 7,551,020	6.02%	0	0.00%
First National Bank Bond	\$ 9,491,325	7.57%	0	0.00%
CBIS Intermediate Diversified Bond	\$ 15,380,136	12.27%	0	0.00%
Vanguard Inflation Protected Securities	\$ 4,332,613	3.46%	0	0.00%
SPDR Dow Jones Global Real Estate ETF	\$ 3,888,715	3.10%	0	0.00%
Lazard Global Listed Infrastructure Portfolio	\$ 3,033,714	2.42%	0	0.00%
Lighthouse SRI Global Long/Short	\$ 4,188,117	3.34%	0	0.00%
				0.000%

The Foundation’s investments with Crossmark strategies are managed in a separate account format. The tables below detail the stocks that have been screened out from those accounts. This detail is also included in Appendix II. For informational purposes, we have included the new USCCB Socially Responsible Investment Guidelines as a separate document.

Crossmark Large Cap

<u>Stock</u>	<u>Ticker</u>	<u>Account</u>	<u>% of Index</u>	<u>Guideline Violated</u>
ABBOTT LABORATORIES	ABT	Crossmark Large Cap Index	0.55%	Contraceptives
ABBVIE INC.	ABBV	Crossmark Large Cap Index	0.78%	Contraceptives
Bristol-Myers Squibb Company	BMJ	Crossmark Large Cap Index	0.47%	ESCR
Centene Corporation	CNC	Crossmark Large Cap Index	0.15%	Abortion / Acute Care Facility
CHARLES RIVER LABORATORIES INTERNATIONAL, INC.	CRL	Crossmark Large Cap Index	0.03%	ESCR
Church & Dwight Co., Inc.	CHD	Crossmark Large Cap Index	0.06%	Abortion/Contraceptives
General Dynamics	GD	Crossmark Large Cap Index	0.16%	Weapons
General Electric Company	GE	Crossmark Large Cap Index	0.22%	ESCR
HCA Holdings, Inc.	HCA	Crossmark Large Cap Index	0.13%	Abortion / Acute Care Facility
Huntington Ingalls Industries	HII	Crossmark Large Cap Index	0.03%	Weapons
Johnson & Johnson	JNJ	Crossmark Large Cap Index	1.35%	Life Ethics
L3Harris Technologies, Inc.	LHX	Crossmark Large Cap Index	0.14%	Weapons
Leidos Holdings, Inc.	LDOS	Crossmark Large Cap Index	0.04%	ESCR
Lockheed Martin Corp.	LMT	Crossmark Large Cap Index	0.31%	Weapons
Merck & Co., Inc.	MRK	Crossmark Large Cap Index	0.67%	Contraceptives / ESCR
Newell Brands, Inc.	NWL	Crossmark Large Cap Index	0.02%	Contraceptives
Northrop Grumman Corporation	NOC	Crossmark Large Cap Index	0.23%	Weapons
ORGANON & CO.	OGN	Crossmark Large Cap Index	0.02%	Contraceptives
Pfizer Inc.	PFE	Crossmark Large Cap Index	0.77%	Contraceptives / ESCR
Raytheon Technologies	RTX	Crossmark Large Cap Index	0.39%	Weapons
Regeneron Pharmaceuticals, Inc.	REGN	Crossmark Large Cap Index	0.23%	ESCR
Textron	TXT	Crossmark Large Cap Index	0.04%	Weapons
THE BOEING COMPANY	BA	Crossmark Large Cap Index	0.25%	Weapons
The Cooper Companies	COO	Crossmark Large Cap Index	0.04%	ESCR
Thermo Fisher Scientific Inc.	TMO	Crossmark Large Cap Index	0.65%	ESCR
UnitedHealth Group Incorporated	UNH	Crossmark Large Cap Index	1.50%	Abortion / Acute Care Facility
Universal Health Services Inc.	UHS	Crossmark Large Cap Index	0.02%	Abortion / Acute Care Facility
Vertex Pharmaceuticals Inc.	VRTX	Crossmark Large Cap Index	0.23%	ESCR
Viatis Inc.	VTRS	Crossmark Large Cap Index	0.03%	Contraceptives

Crossmark Large Cap Quality

<u>Stock</u>	<u>Ticker</u>	<u>Account</u>	<u>% of Index</u>	<u>Guideline Violated</u>
ABBOTT LABORATORIES	ABT	Crossmark Dividend Appreciation Index	1.56%	Contraceptives
Bristol-Myers Squibb Company	BMJ	Crossmark Dividend Appreciation Index	1.26%	ESCR
Church & Dwight Co., Inc.	CHD	Crossmark Dividend Appreciation Index	0.17%	Abortion/Contraceptives
General Dynamics	GD	Crossmark Dividend Appreciation Index	0.44%	Weapons
Johnson & Johnson	JNJ	Crossmark Dividend Appreciation Index	3.63%	Life Ethics
L3Harris Technologies, Inc.	LHX	Crossmark Dividend Appreciation Index	0.38%	Weapons
Lockheed Martin Corp.	LMT	Crossmark Dividend Appreciation Index	0.84%	Weapons
Northrop Grumman Corporation	NOC	Crossmark Dividend Appreciation Index	0.61%	Weapons
Perrigo Company	PRGO	Crossmark Dividend Appreciation Index	0.04%	Life Ethics
UnitedHealth Group Incorporated	UNH	Crossmark Dividend Appreciation Index	4.13%	Abortion / Acute Care Facility

1. What are the Foundation's Investment Statement guidelines regarding Catholic responsible investing?

The guidelines incorporate the principles and policies of ethical Catholic investing. They encourage investing in companies whose business practices are compatible with Catholic values, and discourage or prohibit owning shares of companies whose business practices are incompatible with those values. The Foundation's investment guidelines:

- Prohibit ownership of shares of companies which generate any revenue from activities involved in abortion, the use of aborted fetal tissue, and contraceptive manufacturing
- Prohibit ownership of shares of companies, which generate more than 25% of their revenue from producing weapons (atomic, biological, chemical, indiscriminate mass destruction) that are inconsistent with Catholic teachings of war.
- Require divestment of shares of companies adding to discrimination in our society

The first two screening guidelines are specific and quantifiable, using a percent of revenue test; the third is more general and uses divestment as the remedy for unwanted business practices by portfolio companies.

The portion of the Foundation's Investment Policy Statement pertaining to Catholic responsible investing guidelines ("Moral and Social Guidelines") is as follows:

Moral and Social Guidelines

The investment objectives must be pursued with consideration for moral and social implications of investing. The Foundation intends to encourage those corporations that promote the common good and to avoid investing in companies, which flagrantly jeopardize world peace or race relations, flout traditional Catholic ethics, or ignore equal opportunities for all people. The following moral and social guidelines will be followed to the best of the Committee's knowledge. There may be instances; however, where such information may not be available for certain asset classes. In these cases, the Investment Committee will determine if investment in the asset class(es) is acceptable.

Our policy is absolute exclusion of investment in the following companies:

- Those that involve direct participation in abortion, including those that involve the research and testing of aborted fetal tissue, and
- Those that involve the manufacture of contraceptives.

Our policy will be to avoid investment in companies primarily engaged in the following activities (that is, companies which derive more than 25% of revenues or profits from such activities):

- Those that involve the production of military weapons or the development of weapons inconsistent with the Catholic teaching on war (e.g., biological and chemical weapons, areas designed or regarded as first-strike nuclear weapons, weapons of indiscriminate mass destruction, etc.).

Our policy will be to divest from those companies whose activities are found to be discriminatory, as follows:

- Those that involve practices, which add to discrimination in our society.

The Investment Managers will be knowledgeable of, and sensitive to, the moral and social investment guidelines outlined in the policy; make investment decisions based on an understanding of these guidelines.

Source: Catholic Foundation for Eastern South Dakota Investment Policy Statement

2. What is the United States Conference Bishops (USCCB) guidance regarding Catholic responsible investing?

The full text for the USCCB commentary on Catholic responsible investing is included as **Appendix I**.

The USCCB position on Catholic responsible investments contains both principles and policies to guide ethical Catholic investing. The principles provide the ethical foundation upon which the Conference based their statement; the policies guidance on how to implement those principles in investment portfolios.

Excerpts from the USCCB website on principles and policies:

Principles for USCCB Investments

The United States Conference of Catholic Bishops ("USCCB", "Conference") is called to exercise faithful, competent and Catholic responsible stewardship in how it manages its financial resources. As a Catholic organization, the Conference draws the values, directions and criteria which guide its financial choices from the Gospel, universal church teaching and Conference statements. In order to function effectively and to carry out its mission, the Conference depends on a reasonable return on its investments and is required to operate in a fiscally sound, responsible and accountable manner. The combination of religious mandate and fiscal responsibilities suggests the need for a clear and comprehensive set of policies to guide the Conference's investments and other activities related to corporate responsibility.

USCCB Investment Policies

The USCCB investment policies cover the following areas: protecting human life; promoting human dignity; reducing arms production; pursuing economic justice; protecting the environment, and encouraging corporate responsibility.

Source: USCCB Website

Unsurprisingly, the principles are broad and conceptual while the policies are narrower and more specific. Similarly, the Foundation's IPS focuses most of its attention on what can be measured and acted upon, the policies:

Here is an outline of the USCCB statement that may be helpful in reading the document.

Principles for USCCB Investments

1. Background

The Catholic bishops of the United States have addressed this in the pastoral letter Economic Justice for All. The following excerpts from the pastoral letter emphasize three basic themes:

1. Church as Shareholder and Investor
2. Shareholder Responsibility
3. Church as Economic Actor

2. Principles of Stewardship

1. The Conference should exercise responsible financial stewardship over its economic resources.
2. The Conference should exercise ethical and social stewardship in its investment policy.

3. Strategies

1. Do no harm (avoid evil)
2. Active Corporate Participation
3. Positive Strategies (“Promise the Common Good”)

4. Financial Impact

5. Conference Directions

In carrying out these strategies the Conference will be required to strengthen its capacity in several areas:

1. Corporate Awareness
2. Investment Guidance
3. Prudence/Common Sense
4. Limitations

6. Summary

USCCB Investment Policies

1. Protecting Human Life

1. Abortion
2. Contraception
3. Embryonic Stem Cell/Human Cloning

2. Promoting Human Dignity

1. Human Rights
2. Racial Discrimination
3. Gender Discrimination
4. Access to Pharmaceuticals (e.g. HIV/AIDS)
5. Curbing Pornography

3. Reducing Arms Production

1. Production and Sale of Weapons
2. Antipersonnel Landmines

4. Pursuing Economic Justice

1. Labor Standards
2. Affordable Housing/Banking

5. Protecting the Environment

6. Encouraging Corporate Responsibility

Source: USCCB website

3. How has the Foundation implemented its guidelines?

The Foundation Board of Directors, through the Investment Committee, working with the Consultant, establishes the investment guidelines, disseminates them to the various investment managers, and monitors adherence to them.

This governance plan is outlined in the Executive Summary of the Foundation Investment Policy Statement as follows:

- The Catholic Foundation for Eastern South Dakota Board of Directors, ultimately, is responsible for making the decisions that affect the Foundation. The Board receives information and recommendations from the Investment Committee.
- The Investment Committee is charged with recommending investment policy, and with superintending and managing the investment of the funds of the Foundation and the property of the Foundation in which its funds are invested.
- The Consultant is charged with monitoring the Foundation's performance and recommending investment strategies in order to obtain the Long-Term Objectives of the Foundation.
- Investment Managers are required to invest assets in accordance with the guidelines and restrictions dictated by the Statement of Investment Policy.

Source: CFESD IPS

The IPS lists, among others, these roles for the Consultant regarding the SRI process:

1. Assisting in the development and implementation of investment policies, objectives, and guidelines;
2. Communicating investment policies and objectives to the managers, monitoring their adherence to such policies and reporting all violations;

Source: CFESD IPS

To accomplish these tasks, the Consultant:

- Delivers a copy of the IPS to the Investment Manager at the time of hire and discusses it with them.
- Suggests the manager read the USCCB guidelines for a fuller exposition of ethical Catholic investing.
- Answers questions from the Investment Managers about implementing the guidelines in the portfolios they manage for the Foundation.

4. How is the portfolio compliance with the guidelines monitored?

The consultant annually:

- Obtains portfolio holdings data directly from the custodian(s) and analyze them for compliance with the Foundation's investment guidelines.
- Reports to the Investment Committee on the results of analysis.
- Works with the manager to resolve any compliance violations.

5. Is the portfolio in compliance with its guidelines?

The portfolio is in compliance with its guidelines. Details of the portfolio's holdings are summarized below.

Account	Market Value	Market Value as % of Foundation	Violation Securities as % of Account	Violation Securities as % of Foundation
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The index-based Crossmark funds screen out holdings from their respective indices that violate a custom set of criteria prior to each fund's inception. The holdings screened out of each Crossmark fund based on the Catholic Responsible Investment Guidelines, as well as securities in other funds that violate these Guidelines, can be found in **Appendix II**.

6. What should the Investment Committee do, if anything, about non-compliant holdings?

What should be done about non-compliant holdings is a normative question, outside the scope of the Consultant's role and is something that the Investment Committee will have to discuss and decide. The Consultant can offer information about and analysis of the portfolio and offer a range of options for the Committee to consider.

One response is: do nothing, because the amount of non-compliant holdings is de minimis at present and is likely to remain quite low for the foreseeable future. This is a reasonable position to take if the evaluation of portfolio compliance with the guidelines is based only on the (small) percentage of the total portfolio the objectionable investments comprise. The USCCB statement notes in the section "Prudence/Common Sense":

"Our work with investment advisors and others interested in corporate responsibility will require both prudence and common sense in carrying out these policies. The basic direction is set by Conference policies. The strategies employed and their scale, timing and pace will depend on the considered judgments of the Committee on Budget and Finance, USCCB staff and advisors."

Source: USCCB website

At the other end of the spectrum of responses is: hire only investment managers who can screen their portfolios per the Foundation's investment guidelines. This has the advantage of achieving full compliance with the Foundation's investment guidelines. It has the disadvantage of potentially limiting investments in market sectors that would otherwise be attractive from a risk reduction or return enhancement perspective. The ability to monitor a company's business practices is determined by the availability of good accounting and disclosure data of the type mandated by most of the developed market regulators. In some emerging markets, the quality of the data, although improving, does not afford the level of detail needed to analyze the companies' financial statements for compliance.

We will continue to work toward being able to offer a comprehensive set of investment options that are fully compliant with the Foundation's guidelines while recognizing that limitations (lack of data, size of investment) do exist that may not allow for a perfect investment solution

Appendix I

United States Conference of Catholic Bishops Catholic Responsible Investment Guidelines

From the United States Conference of Catholic Bishops (USCCB) Catholic responsible investing guidelines dated November 12, 2003:

Principles for USCCB Investments Introduction

The United States Conference of Catholic Bishops ("USCCB", "Conference") is called to exercise faithful, competent and Catholic responsible stewardship in how it manages its financial resources. As a Catholic organization, the Conference draws the values, directions and criteria which guide its financial choices from the Gospel, universal church teaching and Conference statements. In order to function effectively and to carry out its mission, the Conference depends on a reasonable return on its investments and is required to operate in a fiscally sound, responsible and accountable manner. The combination of religious mandate and fiscal responsibilities suggests the need for a clear and comprehensive set of policies to guide the Conference's investments and other activities related to corporate responsibility.

1. Background

The Catholic bishops of the United States have addressed this in the pastoral letter Economic Justice for All. The following excerpts from the pastoral letter emphasize three basic themes:

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 enterprises that promote economic development in depressed communities and which help the church respond to local and regional needs. When the decision to divest seems unavoidable, it should be done after prudent examination and with a clear explanation of the motives." (Economic Justice for All, 354)

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)

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. The USCCB Committee on Budget and Finance has sought a review and updating of these guidelines based on universal Church teachings and USCCB statements and policies. More than a decade ago the Bishops' Conference adopted and began to implement Catholic Responsible Investment Guidelines (adopted at Nov. 1991 General Meeting and presented in *Origins*, Nov. 28, 1991, Vol. 21. No. 25). The Committee on Budget and Finance and the related Conference staff have carried out these policies, but more comprehensive and clear corporate responsibility guidelines are needed. Until now, the Conference corporate responsibility policies have consisted primarily of exclusions, choosing not to invest in companies that comprise about ten percent (10%) of the S&P 500. Through this current review, 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.

2. Principles of Stewardship

This current effort to fashion such guidelines is guided by two fundamental and interdependent principles: Principle 1: The Conference should exercise responsible financial stewardship over its economic resources. In practical fiscal terms, this means obtaining a reasonable rate of return on its investments. For example, the Conference now expects its managers to perform at least at the level of the market. In some areas the Conference has an actual fiduciary role (e.g., pensions). This requires caution in terms of risks taken with Conference resources. Principle 2: The Conference should exercise ethical and social stewardship in its investment policy. Catholic responsible investment involves investment strategies based on Catholic moral principles. These strategies are based on the moral demands posed by the virtues of prudence and justice. They recognize the reality that socially beneficial activities and socially undesirable or even immoral activities are often inextricably linked in the products produced and the policies followed by individual corporations. Given the realities of mergers, buyouts and conglomeration, it is increasingly likely that investments will be in companies whose policies or products make the holding of their stock a "mixed investment" from a moral and social point of view. Nevertheless, by prudently applying traditional Catholic moral teaching, and employing traditional principles on cooperation and toleration, as well as the duty to avoid scandal, the Conference can reflect moral and social teaching in investments.

3. Strategies

These two major principles work together to encourage the Conference to identify investment opportunities that meet both our financial needs and our social criteria. These principles are carried out through strategies that seek: 1) to avoid participation in harmful activities, 2) to use the Conference's role as stockholder for social stewardship, and 3) to promote the common good. Briefly, these three approaches may be described as follows:

1. Do no harm (avoid evil):

This strategy involves two possible courses of action: 1) refusal to invest in companies whose products and/or policies are counter to the values of Catholic moral teaching or statements adopted by the Conference of bishops; 2) divesting from such companies. The decision to divest, or to refuse to invest, would be based on the principle of cooperation and the avoidance of scandal. It would have to be done prudently, with care taken to minimize the

financial impact and possible other negative consequences. In some cases, Conference policy may not absolutely require divestment, but significant Conference investments in these areas might cause confusion or scandal (e.g., heavy investment in conventional military weapons producers, gambling stocks, etc.). In these cases, prudence would be the guiding principle.

2. Active Corporate Participation

Given the clear teaching of Economic Justice for All, it seems appropriate for the Conference to adopt a strategy of active corporate participation with regard to its stock holdings. Under this approach the Conference will seek to exercise its normal shareholder responsibilities, especially casting informed votes on proxies and shareholders' resolutions in accord with Conference policies. It should be noted that failure to vote in such situations, or assigning proxies to management, is effectively counted as a vote for current management and the status quo. In the future the Conference should vote its proxies and use its opportunities as a shareholder to support policies in accord with its values and oppose those in conflict with them, within the limitations discussed below. This strategy involves actively using the Conference's position as shareholder to influence the corporate culture and to shape corporate policies and decisions. These activities could include dialogue with corporate leadership, initiating or supporting shareholder resolutions, and working with various religious and other groups who are working for corporate responsibility, writing letters to corporate executives and board members to advocate specific steps or to support or raise objections to a corporation's activities or policies. This approach could also enable the Conference to deal effectively with the reality of "mixed investments." One way to be a Catholic responsible investor is to set limits for corporations engaged in questionable or objectionable activities, to hold a minimal position in those companies that fall under the threshold, and then to use one's position as shareholder to work actively to influence or redirect the activities or policies of the corporation toward activities and policies which are socially beneficial and serve the common good. Investments of this type may be tolerated, after careful application of the principle of cooperation and the duty to avoid scandal, so long as the Conference engages in active participation and there is a reasonable hope of success for corporate change.

3. Positive Strategies ("Promote the Common Good")

These strategies involve at least two possible courses of action: 1) supporting policies and initiatives in companies owned by the Conference that promote the values of Catholic moral and social teaching or positions advocated by Conference statements while earning a reasonable rate of return; 2) investments that promote community development, which, in some cases, may result in a lower rate of return, but which nevertheless are chosen because they give expression to the Church's preferential option for the poor or produce some truly significant social good. In the first case, the Conference can support companies and financial institutions which, in addition to their fiscal merits and investment advantages, have strong records in such areas as labor relations, affirmative action, affordable housing, (for example, market-rate certificates of deposit in institutions with special programs for low cost housing, or common stocks of companies that produce socially superior products and perform well in the market, etc.). In the second case, the Conference already has positive experience with community development investments through the Catholic Campaign for Human Development ("CCHD") Given the purpose of the funds which the Conference holds, and, in some cases, its fiduciary responsibilities, opportunities for investing in community development initiatives with lower rates of return will probably be limited to CCHD's efforts or other special initiatives.

4. Financial Impact

The experience of the Conference has been that there has not been a negative impact on the financial return of the Conference's investments since these Catholic Responsible Investment Guidelines have been in place. When the guidelines were put into place and in our review, the Conference consulted with advisors and groups who have extensive experience in managing funds under these kinds of policies. Each of them presented evidence that their restricted funds had performed better than or at the level of the market as a whole. Theoretically, a corporate responsibility program that precluded investment in a significant segment of the market would reduce the options available to the portfolio management and could negatively impact performance. Since the market is so large, every investor selects some stocks and avoids others, using a variety of financial and other evaluative financial criteria. The addition of the ethical criteria is an extension of this process. Some argue that further limiting investor options reduces flexibility, can distort market choices and could negatively impact financial return. Others argue that the market is so large and varied that ethical criteria do not unduly inhibit investor choice, and there are ample options available to a capable and skilled advisor. They also argue that there are many well-run and profitable companies that practice corporate responsibility. In fact, they suggest that in today's environment of increased regulation and social concern, those companies with good records in these areas often perform better than their counterparts. It is not possible to predict future results from past experience; therefore, the financial impact of these policies needs to be continuously monitored.

5. Conference Directions

In carrying out these strategies the Conference will be required to strengthen its capacity in several areas:

1. Corporate Awareness

The Conference will have to build on its current efforts and monitor more closely how Catholic teaching and Conference policy are advanced and undermined in the marketplace and by corporate actions. It will need to make use of the growing resources that regularly monitor corporate responsibility issues and stay in touch with networks of others who share similar concerns. In addition, the Conference ought to subscribe to the publications of groups that offer research, advice, and assistance in the area of corporate responsibility.

2. Investment Guidance

The Conference will have to continue to work closely with its investment advisors, to clearly articulate its goals and policies in this area and assist them in carrying them out. A tool that has proven useful for others is a set of instructions for voting proxies on issues of concern to the client. The Conference needs investment advisors who have shown themselves to be sympathetic, skillful and successful in carrying out an effective investment program within these kinds of constraints.

3. Prudence/Common Sense

Our work with investment advisors and others interested in corporate responsibility will require both prudence and common sense in carrying out these policies. The basic direction is set by Conference policies. The strategies employed and their scale, timing and pace will depend on the considered judgments of the Committee on Budget and Finance, USCCB staff and advisors.

4. Limitations

We seek to implement these guidelines without new investments in staff. In carrying them out, they may need to be phased in over time. It will be necessary to focus our efforts on a few areas at a time rather than trying to implement in a sweeping way a comprehensive set of

policies. Clearly, this task will require additional attention from the Committee on Budget and Finance and its related staff, as well as other Conference staff with expertise in related areas (e.g., Doctrine, Pro- Life, Social Development and World Peace, etc.).

6. Summary

In seeking to carry out these continuing principles and directions, the Conference has both limitations and opportunities. Its corporate responsibility policies need to reflect both the financial and fiduciary responsibilities of the Conference, and the mandate to apply our traditional social teaching in the world of investments. The Conference cannot preach to others what it does not practice itself. The Committee on Budget and Finance seeks to pursue these policies in good faith, recognizing the limitations of staff and other committee commitments. The Committee seeks to pursue these policies not in any spirit of confrontation or conflict, but in a sincere desire to work for a more just society and more peaceful world through the careful stewardship of the limited resources of the Conference. In this modest, but hopefully useful effort, the Committee on Budget and Finance seeks both to protect the financial resources of the Conference and to exercise its responsibilities as an investor to advance in a small way the values of the faith. While recognizing the complexity and challenge of this exercise of faithful stewardship, the Committee is convinced that the Conference cannot fulfill its responsibilities without a clear commitment to Catholic responsible investing.

USCCB Investment Policies Introduction

Introduction

The USCCB investment policies cover the following areas: protecting human life; promoting human dignity; reducing arms production; pursuing economic justice; protecting the environment, and encouraging corporate responsibility.

Each policy recommendation is presented according to the following format:

1. One or more statements of Catholic teaching or Conference policy on the topic drawn from a pastoral letter or other documents adopted by the bishops
2. A general statement of policy or policies to guide the investment activities of the Conference
3. In certain areas, a series of options that are based on the principles as noted beginning on page 1

1. Protecting Human Life

"Life in time, in fact, is the fundamental condition, the initial stage and an integral part of the entire unified process of human existence. It is a process which, unexpectedly and undeservedly, is enlightened by the promise and renewed by the gift of divine life, which will reach its full realization in eternity (cf. 1 Jn 3:1- 2). At the same time, it is precisely this supernatural calling, which highlights the relative character of each individual's earthly life. After all, life on earth is not an "ultimate" but a "penultimate" reality; even so, it remains a sacred reality entrusted to us, to be preserved with a sense of responsibility and brought to perfection in love and in the gift of ourselves to God and to our brothers and sisters." (Pope John Paul II, *The Gospel of Life (Evangelium vitae)*, no. 2; 1995. "Human life is sacred because from its beginning it involves 'the creative action of God', and it remains forever in a special relationship with the Creator, who is its sole end. God alone is the Lord of life from its beginning until its end: no one can, in any circumstance, claim for himself the right to destroy directly an innocent human being." (Congregation for the Doctrine of the Faith, *Donum vitae*, no. 5 and Pope John XXIII's encyclical, *Mater et magistra*)

1. Abortion

"...we proclaim that human life is a precious gift from God; that each person who receives this gift has responsibilities toward God, self, and others; and that society, through its laws and

social institutions, must protect and nurture human life at every stage of its existence. These beliefs flow from ordinary reason and from our faith's constant witness that 'life must be protected with the utmost care from the moment of conception' (Pastoral Constitution on the Church in the Modern World, no. 51) - a teaching that has been a constant part of the Christian message since the apostolic age." (U.S. Catholic Bishops, Pastoral Plan for Pro-Life Activities: A Campaign in Support of Life, pp 1-2, November 2001.) "At this particular time, abortion has become the fundamental human rights issue for all men and women of good will. The duty to respect life in all its stages and especially in the womb is evident when one appreciates the unborn child's membership in our human family, and the grave consequences of denying moral or legal status to any class of human beings because of their age or condition of dependency..." (Resolution on Abortion, November 7, 1989)

Policy In view of the nature of abortion, the investment policy of the USCCB should remain as it is, namely, absolute exclusion of investment in companies whose activities include direct participation in or support of abortion. Direct participation in abortion may include, but not be limited to, companies involved in the manufacture of abortifacients and publicly held health-care companies that perform abortions when not absolutely required by federal or state law.

Additional Policy Recommendation The Conference will consider supporting shareholder resolutions on abortion-related issues when deemed appropriate.

2. Contraceptives

"The Church...teaches that each and every marital act must of necessity retain its intrinsic relationship to the procreation of human life." (Paul VI, *Humanae vitae*, n.11) "In contraceptive intercourse the procreative or life-giving meaning of intercourse is deliberately separated from its love-giving meaning and rejected; the wrongness of such an act lies in the rejection of this value." (To Live in Christ Jesus: A Pastoral Reflection on the Moral Life, NCCB, November 11, 1976, n. 46.)

Policy In view of the Church's clear teaching on the immorality of contraceptive intercourse, the USCCB will not invest in companies that manufacture contraceptives or derive a significant portion of its revenues from the sale of contraceptives, even if they do not manufacture them.

3. Embryonic Stem Cell/Human Cloning

"No objective, even though noble in itself, such as a foreseeable advantage to science, to other human beings or to society, can in any way justify experimentation on living human embryos or fetuses, whether viable or not, either inside or outside the mother's womb...To use human embryos or fetuses as the object of instrument of experimentation constitutes a crime against their dignity as human beings having a right to the same respect that is due to the child already born and to every human person." (Congregation for the Doctrine of the Faith, *Donum vitae*, no. 4.) "[The] evaluation of the morality of abortion is to be applied also to the recent forms of intervention on human embryos which, although carried out for purposes legitimate in themselves, inevitably involve the killing of those embryos. This is the case with experimentation on embryos..." (Pope John Paul II, *Evangelium vitae*, no. 63.) "...attempts or hypotheses for obtaining a human being without any connection with sexuality through 'twin fission,' cloning or parthenogenesis are to be considered contrary to the moral law, since they are in opposition to the dignity both of human procreation and of the conjugal union." (Sacred Congregation for the Doctrine of the Faith, *Donum vitae*, no. 6) "It is immoral to produce human embryos destined to be exploited as disposable 'biological material.'" (*Donum vitae*, no. 5)

Policy The 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. Specific activities covered by the policy will include:

1. Embryonic stem cell research (ESCR);
2. Fetal tissue research or stem cell research derived from embryos; and
3. Human cloning.

Because this field of research is dynamic, new forms of research, or products and services derived from such research, will be evaluated on a case-by-case basis.

2. Promoting Human Dignity

1. Human Rights

"Promotion of the full complement of human rights and religious liberty has been and remains a central priority for our conference...the maintenance of peace and the progress of authentic democracy in the world will require enhancing the priority in US foreign policy of human rights, especially of the poor, women and vulnerable children, and improving international arrangements for their enforcement." (The Harvest of Justice Sown in Peace, 1993) "In each of these countries, foreign corporations - American, European, Asian, and others 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. As part of this exchange for natural resources, individuals, multinational corporations, and foreign governments have provided arms to African governments and non-governmental entities resulting in further instability and deeper human suffering." (A Call to Solidarity with Africa, p. 17) "Catholics managing U.S. and multinational corporations bear a special responsibility in the exercise of their professional obligations, particularly where the activities of their corporations might exacerbate conflict, corruption, human rights abuses, and environmental degradation in Africa. They could play a central role in helping to promote prosperous and just economics in Africa." (A Call to Solidarity with Africa, p. 30)

Policy USCCB will actively promote and support shareholder resolutions directed towards protecting and promoting human rights. For example, USCCB could join efforts to influence corporations that are engaged in extractive industries or are operating in countries with significant human rights concerns.

Additional Policy Recommendations USCCB will use selected shareholder resolutions and other means to encourage companies to provide sufficient wages, working conditions and other social benefits that enable their employees and families to meet basic human needs. USCCB will seek means to encourage efforts by companies to promote a respect for fundamental human rights, especially in those countries in which these companies operate that have documented practices that deny or violate the human rights of their citizens.

2. Racial Discrimination

"Discrimination based on the accidental fact of race or color, and as such injurious to human rights regardless of personal qualities or achievements, cannot be reconciled with the truth that God has created all men with equal rights and equal dignity." (Discrimination and Christian Conscience, n. 11.) "Racism is a sin: a sin that divides the human family, blots out the image of God among specific members of that family, and violates the fundamental human dignity of those called to be children of the same Father." (Brothers and Sisters To Us, n. 9.) "Discrimination in job opportunities or income levels on the basis of race, sex, or other arbitrary standards can never be justified." (Economic Justice For All, n. 73.)

Policy USCCB will divest from those companies whose policies are found to be discriminatory against people of varied ethnic and racial backgrounds that have been historically disadvantaged.

Additional Policy Recommendations USCCB will actively promote and support shareholder resolutions directed towards equal opportunities for minorities. USCCB as a shareholder will actively work for the inclusion of minorities on corporate boards.

3. Gender Discrimination

"Since women are becoming ever more conscious of their human dignity, they will not tolerate being treated as mere material instruments, but demand rights befitting a human person both in domestic and public life." (Pope John XXIII, *Pacem in terris*, n. 41) "Forms of social or cultural discrimination in basic personal rights on the grounds of sex, race, color, social conditions, language or religion must be curbed and eradicated as incompatible with God's design." (*Gaudium et spes*, n. 29.) "We also urge that women should have their own share of responsibility and participation in the community life of society and likewise of the Church." (1971 Synod of Bishops, *Justice in the World*, III/4.) "The concrete and historical situation of women...is weighed down by the inheritance of sin . . . This inheritance is expressed in habitual discrimination against women in favor of men." (*Mulieris Dignitatem*, n. 14) "Vigorous action should be undertaken to remove barriers to full and equal employment for women" (*Economic Justice for All*, n. 199.)

Policy The USCCB will divest from those companies whose policies are found to be discriminatory against women.

Additional Policy Recommendations The USCCB will direct its investment advisors to invest in companies that actively promote corporate policies on equal pay and promotion opportunities for women, and accommodation of legitimate family needs. The USCCB will exercise its responsibility as shareholder to promote the active participation of women in the life of the company, particularly in terms of policy and decision-making, and inclusion in corporate leadership positions.

4. Access to Pharmaceuticals (e.g. HIV/AIDS)

"Most [Africans] lack access to health services or safe drinking water. Malaria, tuberculosis, HIV/AIDS, and other communicable diseases threaten to wipe out as much as one-quarter of the populations of some African countries over the next twenty years." (*A Call to Solidarity with Africa*, p. 13) We also urge the international community and major pharmaceutical companies to respond more effectively to the needs of AIDS patients in poor countries "so that these men and women, tired in body and soul, may have access to the medicines they need." (*A Call to Solidarity with Africa*, p. 21)

Policy 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.

Additional Policy Recommendations USCCB will actively encourage and support shareholder resolutions directed towards making life-sustaining drugs more available and affordable to low-income communities and nations.

5. Curbing Pornography

"Pornography itself, which denies the dignity which God gives each human being. This kind of 'entertainment'...blocks the moral and emotional development of those who are lured into its use...At this level we are dealing with what is usually referred to in legal terms as obscenity and indecency." "Soft-core pornography (sometimes described as erotic rather than obscene)

which is readily available in several forms. Some R-rated movies [which] are only marginally less offensive than X-rated films." "Material which, while not usually identified as either hard core or soft core, is disturbing because it seems to pervasively present, offering portrayals of sex in a frivolous and titillating manner." (Renewing the Mind of the Media, pg. 109)

Policy The USCCB will not invest in a company that derives a significant portion of its revenues from products or services intended exclusively to appeal to a prurient interest in sex or to incite sexual excitement. These would include, but not be limited to, sexually explicit (X-rated) films, videos, publications, and software; topless bars and strip clubs; and sexually oriented telephone and Internet services.

Additional Policy Recommendation The USCCB will promote and support initiatives, including in some cases, shareholder resolutions, to promote responsible and family-oriented program content development by media companies.

3. Reducing Arms Production

1. Production and Sale of Weapons

"While extravagant sums are being spent for the furnishing of ever new weapons, an adequate remedy cannot be provided for the multiple miseries afflicting the whole modern world.

Disagreements between nations are not really and radically healed. On the contrary, other parts of the world are infected with them . . . Therefore, it must be said again: The arms race is an utterly treacherous trap for humanity, and one which injures the poor to an intolerable degree." (Gaudium et Spes, n. 81) "The serious distortion of national economic priorities produced by massive national spending on defense must be remedied. Clear-sighted consideration of the role of government and the economy shows that the government and the economy are already closely intertwined through military research and defense contracts. Defense-related industries make up a major part of the U.S. economy and have intimate links with both the military and civilian government; they often depart from the competitive model of free-market capitalism. Moreover, the dedication of so much of the national budget to military purposes has been disastrous for the poor and vulnerable members of our own and other nations. The nation's spending priorities need to be revised in the interests of both justice and peace." (Economic Justice for All, n. 320) "We do not perceive any situation in which the deliberate initiation of nuclear warfare on however restricted a scale can be morally justified." (The Challenge of Peace, n. 150)

Policy The Conference, through its investments as well as its advocacy, seeks to discourage any nuclear and conventional arms race and to limit the distortions in the U.S. and global economy resulting from disproportionate military spending. The Conference will, therefore, 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.)

Additional Policy Recommendation The Conference will support shareholder actions to limit weapons production, to limit foreign sales of weapons and to convert corporate capacity to non-military uses.

2. Antipersonnel Landmines

"Government controls do not absolve those involved in the arms industry of moral responsibility for their decisions to sell arms. They have a moral obligation not only to ensure compliance with export controls, but also to avoid sales that will probably be used for illegitimate purposes or that will threaten stability and peace." We would like to add our voice

to the appeals of Pope John Paul II and the growing movement to control and eventually ban antipersonnel landmines. The Holy Father has issued "a vigorous appeal for the definitive cessation of the manufacture and use of those arms called 'anti-personnel'..." (Sowing the Weapons of War)

Policy USCCB will not invest in companies that are directly involved in the manufacture, sale, or use of anti-personnel landmines.

4. Pursuing Economic Justice

1. Labor Standards/Sweatshops

"If the dignity of work is to be protected, then the basic rights of workers must be respected--the right to productive work, to decent and fair wages, to organize and join unions, to private property and to economic initiative." (Sharing Catholic Social Teaching, p. 5) "The attainment of the worker's rights cannot however be doomed to be merely a result of economic systems which on a larger or smaller scale are guided chiefly by the criterion of maximum profit. On the contrary, 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, both on the level of the individual society and state and within the whole of the world economic policy and of the systems of international relationships that derive from it." (Laborem Exercens, #17)

Policy USCCB will actively promote and support shareholder resolutions directed towards avoiding the use of sweatshops in the manufacture of goods.

Additional Policy Recommendations USCCB will promote and support shareholder resolutions to promote generous wage and benefit policies and adequate worker safety guidelines.

2. Affordable Housing / Banking

"We are particularly concerned about the abundant evidence of 'redlining' or disinvestment. . . . Where it exists it must be condemned; discrimination based on geography is as destructive as other forms of discrimination. We must insure fair and equal access to available credit. We urge banks and savings and loan associations to meet their responsibilities in central city areas. We recommend financial institutions which have chosen to intensify programs of investment in these neighborhoods. . . . We also urge individual depositors and those responsible for Church funds to encourage a responsible and sensitive lending policy on the part of the financial institutions which they patronize." (The Right to a Decent Home: A Pastoral Response to the Crisis in Housing, November 20, 1975, n. 32.)

Policy 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.

Additional Policy Recommendations The Conference, through private correspondence and appropriate shareholder action, will encourage the financial institutions where it deposits its resources to undertake programs and implement policies to secure an "outstanding" rating under the act. The Conference will communicate, where appropriate, to its financial institutions our support for their positive performance under the Community Reinvestment Act.

5. Protecting the Environment

"Our tradition calls us to protect the life and dignity of the human person, and it is increasingly clear that this task cannot be separated from the care and defense of all creation...We must seek a society where economic life and environmental commitment work together to protect and to

enhance life on this planet." "The ecological problem is intimately connected to justice for the poor...the poor suffer most directly from environmental decline..." "Environmental progress cannot come at the expense of workers and their rights." "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." (Renewing the Earth, 1991)

Policy USCCB investment policy will actively promote and support shareholder resolutions which encourage corporations to act "to preserve the planet's ecological heritage, addressing the rampant poverty in the poorest nations, redirecting development in terms of quality rather than quantity in the industrial world, [and] creating environmentally sensitive technologies." (Renewing the Earth, 1991)

Additional Policy Recommendations USCCB investment policy will encourage policies and business that "undertake reasonable and effective initiatives for energy conservation and the development of alternate renewable and clean energy resources... [and offering] incentives to corporations to reduce greenhouse gas emissions and assistance to workers affected by those policies." (Global Climate Change, 2001)

6. Encouraging Corporate Responsibility

"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. Examples of greed and misconduct must be replaced with models of corporate responsibility." (A Place at the Table, 2002) "Ethical responsibility is not just avoiding evil, but doing right, especially for the weak and vulnerable. Decisions about the use of capital have moral implications: Are companies creating and preserving quality jobs at living wages? Are they building up community through the goods and services they provide? Do policies and decisions reflect respect for human life and dignity, promote peace, and preserve God's creation? While economic returns are important, they should not take precedence over the rights of workers or protection of the environment." (Everyday Christianity, p. 6)

Policy USCCB will encourage companies to report on social, environmental, as well as financial performance.

Additional Policy Recommendations USCCB will actively promote and support shareholder resolutions directed towards adoption of corporate social responsibility guidelines within companies.

Source: <http://usccb.org/about/financial-reporting/socially-responsible-investment-guidelines.cfm>

Appendix II

Stocks violating CFESD guidelines and Stocks screened from funds

As of August 31, 2022

There are currently no stocks violating CFESD guidelines

Stocks screened from Crossmark funds

Crossmark Large Cap

<u>Stock</u>	<u>Ticker</u>	<u>Account</u>	<u>% of Index</u>	<u>Guideline Violated</u>
ABBOTT LABORATORIES	ABT	Crossmark Large Cap Index	0.55%	Contraceptives
ABBVIE INC.	ABBV	Crossmark Large Cap Index	0.78%	Contraceptives
Bristol-Myers Squibb Company	BMJ	Crossmark Large Cap Index	0.47%	ESCR
Centene Corporation	CNC	Crossmark Large Cap Index	0.15%	Abortion / Acute Care Facility
CHARLES RIVER LABORATORIES INTERNATIONAL, INC.	CRL	Crossmark Large Cap Index	0.03%	ESCR
Church & Dwight Co., Inc.	CHD	Crossmark Large Cap Index	0.06%	Abortion/Contraceptives
General Dynamics	GD	Crossmark Large Cap Index	0.16%	Weapons
General Electric Company	GE	Crossmark Large Cap Index	0.22%	ESCR
HCA Holdings, Inc.	HCA	Crossmark Large Cap Index	0.13%	Abortion / Acute Care Facility
Huntington Ingalls Industries	HII	Crossmark Large Cap Index	0.03%	Weapons
Johnson & Johnson	JNJ	Crossmark Large Cap Index	1.35%	Life Ethics
L3Harris Technologies, Inc.	LHX	Crossmark Large Cap Index	0.14%	Weapons
Leidos Holdings, Inc.	LDOS	Crossmark Large Cap Index	0.04%	ESCR
Lockheed Martin Corp.	LMT	Crossmark Large Cap Index	0.31%	Weapons
Merck & Co., Inc.	MRK	Crossmark Large Cap Index	0.67%	Contraceptives / ESCR
Newell Brands, Inc.	NWL	Crossmark Large Cap Index	0.02%	Contraceptives
Northrop Grumman Corporation	NOC	Crossmark Large Cap Index	0.23%	Weapons
ORGANON & CO.	OGN	Crossmark Large Cap Index	0.02%	Contraceptives
Pfizer Inc.	PFE	Crossmark Large Cap Index	0.77%	Contraceptives / ESCR
Raytheon Technologies	RTX	Crossmark Large Cap Index	0.39%	Weapons
Regeneron Pharmaceuticals, Inc.	REGN	Crossmark Large Cap Index	0.23%	ESCR
Textron	TXT	Crossmark Large Cap Index	0.04%	Weapons
THE BOEING COMPANY	BA	Crossmark Large Cap Index	0.25%	Weapons
The Cooper Companies	COO	Crossmark Large Cap Index	0.04%	ESCR
Thermo Fisher Scientific Inc.	TMO	Crossmark Large Cap Index	0.65%	ESCR
UnitedHealth Group Incorporated	UNH	Crossmark Large Cap Index	1.50%	Abortion / Acute Care Facility
Universal Health Services Inc.	UHS	Crossmark Large Cap Index	0.02%	Abortion / Acute Care Facility
Vertex Pharmaceuticals Inc.	VRTX	Crossmark Large Cap Index	0.23%	ESCR
Viatrix Inc.	VTRS	Crossmark Large Cap Index	0.03%	Contraceptives

Crossmark Large Cap Quality

Stock	Ticker	Account	% of Index	Guideline Violated
ABBOTT LABORATORIES	ABT	Crossmark Dividend Appreciation Index	1.56%	Contraceptives
Bristol-Myers Squibb Company	BMJ	Crossmark Dividend Appreciation Index	1.26%	ESCR
Church & Dwight Co., Inc.	CHD	Crossmark Dividend Appreciation Index	0.17%	Abortion/Contraceptives
General Dynamics	GD	Crossmark Dividend Appreciation Index	0.44%	Weapons
Johnson & Johnson	JNJ	Crossmark Dividend Appreciation Index	3.63%	Life Ethics
L3Harris Technologies, Inc.	LHX	Crossmark Dividend Appreciation Index	0.38%	Weapons
Lockheed Martin Corp.	LMT	Crossmark Dividend Appreciation Index	0.84%	Weapons
Northrop Grumman Corporation	NOC	Crossmark Dividend Appreciation Index	0.61%	Weapons
Perrigo Company	PRGO	Crossmark Dividend Appreciation Index	0.04%	Life Ethics
UnitedHealth Group Incorporated	UNH	Crossmark Dividend Appreciation Index	4.13%	Abortion / Acute Care Facility