

Catholic Institution Achieves Its Income Needs Without Sacrificing Its Values

CHALLENGE

Design a portfolio that meets the institution's need for income while also adhering to its Catholic beliefs.

SOLUTION

Apply Parametric's Catholic Values Screen to our proprietary Dividend Income Strategy.

RESULTS

The client was able to meet its yield requirements without compromising its faith-based mission.

Challenge

A Catholic institution sought an income-focused US equity portfolio to help it meet its distribution needs, which include funding employee wages and retirement plans as well as furthering its charitable mission. But a targeted dividend-yield strategy could expose the institution to underdiversified portfolios and value traps, since many of the highest-yielding dividend payers are most at risk of sudden price depreciation or dividend cuts.

Equally important to this client was that all investments be consistent with Catholic values. However, the only relevant socially responsible funds the institution had been able to find were actively managed—an approach that failed to resonate with the institution's investment philosophy.

Parametric solution

To address the income need, Parametric proposed our Dividend Income Strategy, which seeks to build a diversified portfolio of durable dividend payers to provide elevated current income and attractive, long-term total returns. Our research shows that firms with both elevated dividend distributions and lower levels of risk have historically provided good proxies for durable dividend payers. The strategy's equal weighting approach, across and within economic sectors, emphasizes broad portfolio diversification while mitigating company-specific risk.

To address the client's mission alignment request, Parametric recommended our Catholic Values Screen. This screen ensures the portfolio owns only those public companies whose business activities and behaviors meet the standards contained in the US Conference of Catholic Bishops' Socially Responsible Investment Guidelines, which covers six policy areas:

- › Protecting human life
- › Promoting human dignity
- › Reducing arms production
- › Pursuing economic justice
- › Protecting the environment
- › Encouraging corporate responsibility

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Our strategy seeks to build a diversified portfolio of durable dividend payers to provide current income and total return.

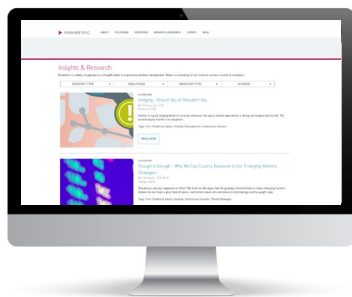


Ultimately Parametric suggested applying the Catholic Values Screen to the Dividend Income Strategy. Our analysis showed that, after applying the screen, 85%–90% of the original strategy was still eligible for investment, suggesting it would be possible to build a diversified portfolio that met both the yield and mission-related requirements.

Results

Drawing on our experience building custom portfolios for clients, Parametric was able to combine our Catholic Values Screen with a dividend-oriented strategy, helping the client satisfy its need for income while ensuring the portfolio remained within the guidelines of the institution's faith.

We helped the client satisfy its need for income while ensuring the portfolio aligned with its faith.



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