



CHADD GARCIA ON DAVE DURAND SHOW (RELEVANT RADIO) JUNE 5, 2021

Dave: Welcome back to the Dave Durand Show. As you are growing accustomed, we are able to speak to you about once a month. Chadd Garcia is from Ave Maria Mutual Funds, who are Relevant Radio underwriters. It's great to be with Chadd because I know that our listeners enjoy getting a really good understanding here of not just investment ideas, but also the way to invest really according to their, you know, well-informed Catholic conscience, which I think is a significant thing here. And it really allows for us to dive into all sorts of particulars. And there's some good information that I think people can get. In fact, a question I have for you is a term that people here, which is impact investing. And first of all, welcome back to the show. And if you have anything you want to open with that would be great. But also let us know what impact investing is.

Chadd: Thanks. It's great to be here. Impact investing are investments made with the intention to generate positive, measurable social and environmental impacts, alongside a financial return. And so, they go under several names you might hear environmental, social and governments, or ESG investing, socially responsible investing, it's also called sustainable investing. At the Ave Maria Mutual Funds, we practice morally responsible investing, which we would call subsegment of this.

Dave: So, do you have, you know, obviously Ave Maria Mutual Funds? This is really the essence of what they're about all together. How do people go about that? I mean, I know there's a lot of people that are probably just basically kind of saying, well, if this is something they do, how do I get a hold of them? That'd be, I think, a good place to actually start. But, you know, are people limited then to staying in this sort of investment, or are they able to do this sort of thing with you? And are there things that they should consider when they're not directly working with somebody like Ave?

Chadd: Well, the way that impact investing can work is, you can add something to a portfolio that would align with your values or remove something from a portfolio that conflicts with your belief system as an investor. At Ave Maria Mutual Funds, we screen out companies that use negative screens as opposed to having positive screens that have activities that will violate our moral screens.

Dave: You know, I think that what's really positive about what you're saying is that there's an adding and subtracting. And there generally is, by the way. You know, if you think about even our moral life, our spiritual life, our life of holiness outside of investing, we oftentimes have to restrain from certain activities and then replace those activities with other good things. Right? There are the sins of omission and then there's, you know, the things that we, of course, carry out. So, for a person to say, hey, you know what? I want to get a hold of Ave Maria Mutual Funds. I would like to invest there. That's one thing they can do. But another thing to do is they can just look at where their portfolio is in other places and basically say, hey, you know what? I think I've been supporting this company that aligns themselves with beliefs that I don't have. I need to move away from that one, too. So, it's kind of the addition and subtraction. How do they get a hold of you?

Chadd: They can call us at (866) Ave Maria or find us on the Internet at Avemariafunds.com.

Dave: Awesome. So anyway, there's a lot of chatter. There's a lot of different types of various investments, of course. And you've talked about some of these different types of things that people look at in the companies to screen out, which I think is really powerful. Let's get into how large is impact investing in the United States actually right now? And I think there's a little bit of a history there and some growth. Tell us about that.

Chadd: There's 392 funds that specialize in it in 2020. That's up 30% in one year. It's up 4x over the last decade. One-third of all assets in the US are now subject to some type of impact investing, that's all. And this could be, you know, good or bad. I mean, with the rise of indexation, you know, you're going to have the BlackRocks of the world try to enforce their values on companies.

Dave: Yeah, that is really an interesting thing. There's got to be some tension there between that when you think about that, because of impact investing. Kind of take me to school on this because I may have a misperception, but impact investing sounds like something that Catholics can be entirely aligned with, meaning that we ourselves want to make an impact by doing the right things. But impact investing could actually kind of run against what the Catholic Church teaches, where other companies are saying, no, we're going to impact invest, we're going to invest in the values and the morals that we have that might run contrary to that. So, kind of lumping together impact investing, it doesn't mean that all that impact investing is something that we might necessarily stand behind as Catholics, correct? It's kind of a mixed bag there?

Chadd: No, there's definitely going to be people that have a progressive or a different view on life and values that we have. And, you know, they're going to want to get their influence.

Dave: Yeah, I mean, what does - go ahead.

Chadd: Yeah, one thing that we do at the funds is that each time we invest in a company that's new, the founder of our firm writes a letter to the CEO and introduces us as investors and new shareholders of the company. And if that company changes their practice where they do something that violates our moral screens, and we sell the company because of their activities, we often send them a letter in the mail letting them know that we did that.

Dave: No, that's good. Do you get feedback from that? Does that actually make, to use the term, an impact with them?

Chadd: I haven't heard of any companies starting to do an activity that have changed it based on a letter that we gave them. However, I did do some work on a company that had two hotels, and I asked them if they sold pornography in the in videos, and they said that they had removed it from one hotel, and they were considering removing it from the other. And I told him, well, we are not going to invest in you because of the pornography that you distribute. But to the extent that when you stop, let me know. And yeah, and

we'll look at you again. Well, that was interesting. It was interesting that they actually removed it from one hotel, and they were considering it for another,

It means they're inclined to do that. I mean, that just seems like the thing that they want to do, and a little nudge like that I think is important. I think is also good to hear, too, when somebody hears, you know, the credentials that you carry in your organization, and then they hear that term impact investing, to be able to be refined and smart about it. As you've articulated that. Hey, just because you hear somebody is an impact investor or that you have to say, well, what does that mean? You know, how do they look at that? What are the values that are through that for them? And everybody's kind of little nudge this way is important, you know, because it's kind of hard to find a 100% purely cut organization, because there's like spinoff ideas. You know, somebody else in the organization who may not be the company themselves, but has great wealth, and they are still affiliated with the company, and that company might be where they get their wealth, but they invest in things that might, you know, people might not, find acceptable. And so, it's like a well-informed conscience. That's one of the reasons that I like this topic, is because while it has to do with finance, I think that it also stands as a metaphor for people to shape their faith in many other ways, which is really valuable when you come on. So, tell us more about this sort of thing. I mean, I'm seeing a lot of numbers, there up. The one-third is there. You know, this is related to what you would call morally responsible investing, although that's kind of like a subset of impact investing. So, tell us what moral responsible investing is.

Chadd: Well, for us, we won't invest in companies whose activities are contrary to the faith. And so, what we actually screen out are companies that produce or distribute contraception, produce or distribute pornography, engage in abortion activities, or donate directly to Planned Parenthood or participate in embryonic stem cell research.

Dave: All right, well, that that that sums it up, and it makes people feel secure too, when they're writing that check. When it comes to, you know, a percent of this, and the impact of what this is, what is the percentage of the Russell 3000 Index that are removed during or due to moral screenings? How does that work?

Chadd: As of right now, our moral screenings remove 92 companies from the Russell 3000, which leaves us 97% of the Russell 3000 investible.

Dave: Oh, yeah. So, you know, actually, you know what I like about this, Chadd? People will oftentimes call or ask and they'll kind of take a dig at business as though, you know, business is corrupt or bad, or that if you're building a company that there's a bad thing. Most people don't think that, by the way. That's a kind of a narrow way of looking at it. But I'm a defender, in general, of business and companies because of this reason: that generally speaking, if you're going to build a great product or service, you have to treat people right. And you have to produce something, generally speaking, that is good for society in order for it to flourish and grow. Now, we do realize that when companies build their business around vice, okay, that they can actually run against the grain of goodness, and still find prosperity due to the fact that it's vice. But, you know, a light bulb is not a vice product. A doorknob is not, you know, carpet isn't, most things that we use - software, they're not vice oriented. And those products themselves can be run by people who are, you know, greedy and have a hard time building others for their benefit. And they're going to struggle as a result. And most of the companies that sell these products, it would be considered morally benign or neutral. They have to be good and centered beyond good things. And I think that you kind of say that when you're talking about 97% of the companies are investable, which is great. It means that people just don't really have to, like, take the back seat of sacrifice when it comes to getting into really good investments, and I think that's great. What advice do you have for investors? If you just kind of summarizing certain things that we're talking about here?

Chadd: Well, I would know what you own, is good advice. And you can do that from a financial perspective. You know, one trick that I use is, if I can't explain what a company does and why I'm investing in it to my seven-year-old, that's probably something I don't want to invest in. And then if you take that to a step further to morally responsible investing, if you know what the company does and why you'd want to invest in it, make sure that their activities align with your morals,

Dave: You know, there's a lot of people who listen to the Dave Durand Show that watch Shark Tank, you know, and I know that because they say it, right? And they're always kind of sitting around saying, I, you know, I should be in that business, or I thought of

that business, or if I had them as an audience, I know they'd want to invest in my idea. And yet some people out there and others aren't. And one of the things that you just said, I think is really brilliant for people. And it's nice to be able to take what you're providing as financial advice, and to spill it out and just kind of general good common knowledge about, you know, really business in general. When I have a person that comes to me and they want me to invest into an idea, particularly as an entrepreneur or whatever it might be, or within the company. They have an investment they want us to make within the company in order to build it. If I don't understand what they're saying in a relatively short period of time, I am very disinclined to do it. So sometimes I know there's a disconnect. Somebody comes in from one angle or another, and there are some, you know, extra pronouns used that people were unaware of what happened from a previous conversation. So, we'll give them the benefit, the doubt. But if that's continued to be explained, and it is difficult to understand, it is quite often not a good investment. Now you're on the block long enough, there are certain things that are actually pretty complex and that's what makes them work, but simplicity is beauty. How would you kind of summarize that idea of having people bring into their financial circumstance? Because people are listening to you, they are oftentimes saying, hey, this to me, this is about retirement. How can you help? What advice do you have to help them simplify what they're doing?

Chadd: Well, I'd say that there's several deadly sins when it comes to investing. But here's two that really stick out for me. Number one is selling your investments after a large market pullback. And then number two would be trading too much. And when I look at what we do within, being an impact investor or morally responsible investor, our shareholders tend to be stickier than that of an average mutual fund. In an average mutual fund, if you have a market pullback, you'll see redemptions pretty quickly, as investors exit that fund and go look for another one to find returns. That's bad for two reasons. For the portfolio manager, like myself, if you have redemptions, you are forced to sell, and if you had a pullback and you were for sale, you're selling it at exactly the wrong time. Secondly, for the investor if you're trading too much, that usually does not lead to good outcomes. And so, our investors tend to be stickier because they invest with us for a good, acceptable return and also our moral screens. And I think that serves them well for those two reasons.

Dave: I love it. You know, here the people are, overcomplicating it. They're making it more difficult than it is. I empathize for you because I have been that guy who has not listened. And I think the good thing about being decades older is that you go, okay, I should have listened before. And then you actually calm down and you start to say, okay, I'm not going to sell during these pullbacks, and I'm not going to buy and sell as often as possible. And you just kind of let the pros do the thing, you know? I mean, you guys are pros. You're doing this every single day. And so, to let you be the ones that make it happen, really matters. So, I'm with Chad Garcia of Ave Maria Mutual Funds. And he joins us about once a month, or so, to help us. So, make sure you're tuning in for this, because it's really good information. And I think you're going to want to take the podcast that we have and share it with others, and really encourage them to get involved in things like the Ave Maria Mutual Funds, which they can find out about you again, Chadd, in what way?

Chadd: They can call us at (866) AVE-MARIA or visit us online at www.avemariafunds.com.

Dave: That's great. Chadd, it's been great to be with. You've been listening to the Dave Durand Show. It's always a pleasure to be with you throughout the weekend. And I'm looking forward to next week, as well. Make sure you email us at Dave@relevantradio.com if you want to join the conversation with your comments or questions.

IMPORTANT INFORMATION FOR INVESTORS

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