The Power of *Investing*

Promoting the Common Good

EVENTIDE

Legend has it that as Benjamin Franklin walked out of Independence Hall following the Constitutional Convention of 1787 a woman shouted, “Doctor, what have we got? A republic or a monarchy?” To which Franklin replied,

“A republic, if you can keep it.”

The structure of a republic meant that the people of the society would have the power to elect their own leaders as opposed to society sitting under the rule of an unelected monarch with limitless power. The enormous power once concentrated in the hands of the elite was now decentralized and placed in the hands of the people. Franklin’s response to the woman outside of Independence Hall begs the question,

What will you do with this power?

A Shift in Power

Nearly 200 years prior to the formation of the American Republic, a similarly significant shift in power took place within the finance industry in Europe in 1602.

From early civilizations and empires, the ability to develop innovations that would progress society greatly depended upon funding. Traditionally, funding was only available from the rulers of society who had personal wealth and the ability to tax citizens. Thus, the decisions of which progressive innovations would succeed were made by an elite ruling class. This was the prevailing system during the age of exploration as voyagers sought funding for their expensive expeditions. In 1492, after failing to secure funding from John II of Portugal and Henry VII of England, Christopher Columbus entered an investment agreement with King Ferdinand and Queen Isabella of Spain, which allowed him to receive a portion of future revenues from any of the lands he claimed for Spain on his voyage. Today, as a result of this agreement, the majority of Central and South Americans are Catholic and speak Spanish.

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An entirely new system of investing emerged in Europe in the 1600s. Up until that time, markets existed for the public to exchange goods and services. But, in 1602, for the first time, a market was created for ordinary people to buy and sell ownership in a company. A group of merchants in Amsterdam were looking to extend their trade routes farther east and needed a significant amount of capital to fund their expansion. Rather than seek funding from the royal elite, portions of ownership in their company, the Dutch East India Company, were sold to the general public. This event initiated a revolutionary relocation of power out of the hands of the ruling class and into the hands of the ordinary people in society, allowing them to collectively decide which innovative businesses they would fund. The power of investing had been democratized.

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The Responsibility of Power

The democratization of investing propelled Europe into the modern age. This system enabled capital to move rapidly from dormancy to production giving businesses access to the resources they needed in order to succeed. The success or failure of these businesses would in turn shape the cultures of the societies that harbored them and impact millions of lives. Innovators, investors and society often benefited from this business-friendly system. But, as *Robinson Crusoe* author and trader Daniel Defoe notes, there were some unintended consequences:

> *[Investing has raised] the fancies of credulous people to such a height that, merely on the shadow of expectation, they have formed companies, chose committees, appointed officers, shares, and books, raised great stocks, and cried up an empty notion to that degree that people have been betrayed to part with their money for shares in a new nothing.*[1]

Writing in 1697, Defoe quickly recognized an underlying consequence of business entities being financed by uninvolved investors—business owners no longer felt a sense of responsibility for the actions of their businesses. And so, he opined, "And when the inventors have carried on the jest till they have sold all their own interest, they leave the cloud to vanish of itself." This left a societal conundrum, namely, if businesses were taking on an increasing role in shaping the culture of society, who was responsible for shaping the businesses?

The Gilded age that followed the Civil War in America reinforced the authority of businesses over culture as the oil, railroad, and steel in-

Sullivan authored a set of principles mandating the equal and fair treatment of all employees in an integrated environment.

dustries came to dominate the economy and the American way of life. Beyond just their products, businesses impacted the culture through the way they operated. Henry Ford's greatest impact, for example, was not the invention of the automobile; it was the implementation of the assembly line into the Model T manufacturing process so that automobiles could be made more quickly and less expensively.

Processes like the assembly line that required less skilled labor made it easier for corporations to become multinational in their operations, setting up facilities in areas where labor is less expensive. This change expanded the powerful influence of corporations to areas outside of their immediate communities. In 1913, General Motors established a subsidiary company in South Africa and began assembling vehicles in Port Elizabeth in 1926. Almost 50 years later, as America was experiencing the fruit of the Civil Rights movement, an African American Baptist minister named Leon Sullivan was appointed as a board member of General Motors, making him the company's first black director.

The conundrum of who is responsible for shaping businesses came into greater light in 1971 when a group of Episcopalian investors who were shareholders of GM brought a shareholder resolution to the board that addressed the inhumanity of apartheid in South Africa. Sullivan became an advocate for the Episcopalians and aggressively urged change not just from General Motors, but from all American corporations who had interests in South Africa.

Leon Sullivan

College students also fueled the fire by pressuring their universities to divest from their stock positions in companies that had operations in South Africa. In 1977, Leon Sullivan authored a set of principles mandating the equal and fair treatment of all employees in an integrated environment. These principles served as tangible standards that corporations could formally agree to as they continued to operate in South Africa. Pressure from institutional investors mounted on some of America's largest corporations to adopt the Sullivan principles or remove operations from South Africa altogether.

During this time, activist Adele Simmons, upon becoming president of Hampshire College in 1977, urged the college's board of trustees to divest all of the college's assets that were invested in companies doing business in South Africa. Writing in the Chicago Tribune in 2013, she retells the impact of her initial plea to the board:

If businesses were taking on an increasing role in *shaping* the *culture* of society, who was responsible for *shaping* the *businesses*?

FACT

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> *By 1988, 155 universities had divested, and the dollars were significant. In 1986, the University of California divested, selling $3.1 billion worth of stock. Some schools, like the University of Chicago and Northwestern University, did not divest, at least not totally. But faith organizations, unions, cities, counties and states joined in. Investment funds started to take a careful look at companies in their portfolios that had South African ties.*[2]

After meeting with Nelson Mandela, she recalls,

> *When I met with Mandela in 1990 in New York, he said that divestment was a crucial factor in ending apartheid. The movement against apartheid was led by South Africans, and Mandela was an inspiration throughout the decades, but the actions of U.S. investors gave the movement both visibility and legitimacy and had a decisive economic impact.*[3]

Adele Simmons

Investors had an unquestionable impact on the fall of Apartheid, which officially took place in 1994. The small group of Episcopalian investors who proposed the initial resolution to GM in 1971 took responsibility for the power entrusted to them as investors and decided to use that power to promote the common good and fight an evil that undermined human dignity. Indeed, the power of investing applied to promoting the common good changed the lives of millions in South Africa.

Accepting the Responsibility: A Call to Action

As Benjamin Franklin walked out of Independence Hall that day in 1787, he knew the weight of what had been accomplished by the Constitutional Convention—the wellbeing of the republic now rested in the hands of the people. And he knew that the young, fragile nation would only succeed if the people recognized and accepted the responsibility.

The systemic shift that occurred to democratize investing in Amsterdam in 1602 forever changed the landscape of business. Ordinary people are now responsible for leveraging the power generated by the force of investing. And investing for the common good will only succeed if the people recognize and accept the responsibility.

Along with the growth of the investment industry has come complexity, which has obscured the responsibility of investors. Modern investing often distances investors from the companies they own thus making their responsibilities less apparent. To recapture the original purpose of investing, we must start asking questions like

What types of companies do I want to own?
What is the true purpose of business?
What is my role as an investor to promote the common good?

Some have asked if exploring these questions is antithetical to a successful investment strategy. We believe the opposite is true–that these questions can be the foundation of a successful investment strategy. These types of questions undergird the ideologies of some of the most influential investors who also hold a deep understanding of the great responsibility they have when they become an investor, and therefore partial owner in a company. This same invitation to both participate in the fruits of investing as well as direct its power is extended to every investor:

What will you do with this power?

[1] Daniel Defoe, An Essay upon Projects, ed. Henry Morley (London: Cassell & Company, Limited, 1887), https://www.gutenberg.org/files/4087/4087-h/4087-h.htm.

[2] Adele Simmons, "Outside Opinion: Skeptics Were Wrong; South Africa Divestment Worked," Chicago Tribune, December 15, 2013, https://www.chicagotribune.com/business/ct-xpm-2013-12-15-ct-biz-1215-outside-opinion-20131215-story.html.

[3] Ibid.

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OUR INVESTMENT PHILOSOPHY

We believe high-quality companies that excel at creating value for others and trade at a discount to intrinsic value offer superior long-term risk-adjusted returns.

OUR PURPOSE

Eventide strives to honor God and serve its clients by investing in companies that create compelling value for the global common good.