Faith-based investing:
Applying personal values and beliefs to your portfolio

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Investing with values in mind is a way to tailor one’s investment portfolio to include nonfinancial goals while pursuing financial objectives. For many, religion forms the foundation of their personal values, beliefs and ethical choices. Many people look to their faith for guidance and are increasingly interested in incorporating their faith into investment decisions to align their beliefs with creating wealth, influencing companies to adopt policies for a common social good or fulfilling their unique sense of purpose.

In this report, we introduce the idea of faith-based investing and provide an overview of the various strategies available in this space. We also discuss expectations and the potential trade-offs that investors should factor in when considering whether a faith-based portfolio is appropriate for them.

Values for the long run
An indirect benefit of investing in strategies that are consistent with an investor’s values is that it can incentivize one to stay invested for the long run and across market cycles, ultimately helping achieve one’s financial goals.
Faith-based investing

Faith-based investing is rooted in the belief that the way you invest your money matters. Faith-based investors may prioritize investing in businesses that:

- Generate profits from serving others
- Enhance the common good
- Protect the environment
- Avoid profits from products and services that are at odds with their religious beliefs

Faith-based strategies may also evaluate how companies navigate their ethical duties to shareholders, employees and customers.

Exclusions

Identifying which products and services are deemed immoral and should be excluded from a portfolio varies according to the religion the investment strategy is designed to accommodate. Furthermore, asset managers differ in their methods to identify the companies that meet the exclusion criteria. Some rely entirely on an external religious organization to provide investment policy guidelines, while others use their own informed judgment to design their exclusions framework.

Certain types of businesses may be considered morally wrong according to many religions and are avoided by a wide range of faith-based investment strategies. Common examples include gambling, tobacco, firearms, abortion, stem cell research and adult entertainment. For instance, gambling can be viewed as a business model that profits disproportionately from a lower-income demographic, and tobacco usage may be viewed as harmful to health, which may contradict religious principles.

In other cases, religions might have varying views. Some Christian funds exclude alcohol, for example, while others allow it. Similarly, profits derived from fossil fuels, contraceptives, nuclear power, predatory lending, controversial weapons, pork products or the loss of biodiversity and natural resources are perceived differently based on the strategy.

Proactive themes

While excluding businesses that are considered harmful is the primary method used by most faith-based strategies, many actively invest in businesses that promote the common good. Faith-based strategies may include an objective to foster positive change and support businesses that seek to improve our world with an intentional allocation of capital. Common areas of investment include technologies that improve society or health care developments that benefit humanity. Examples include clean energy, clean water, cybersecurity, 5G infrastructure, home ownership, precision oncology and treatments for severe diseases.

Stewardship

In addition to investment selection, stewardship practices may be used to meet the objectives of a faith-based fund. Some faith-based asset managers engage with the companies in their portfolios about the company's business practices and policies. Active managers may include voting proxies of the portfolio’s underlying securities on their shareholders' behalf in alignment with faith-based principles.
Faith-based strategies explained

Many religions and faith organizations provide investment policy guidelines to govern how to integrate their teachings and values into an investment strategy. Below, we discuss investment strategies of the three most widely practiced religions in the United States: Christianity, Judaism, and Islam.¹ In the U.S. market, approximately 95% of faith-based mutual funds and ETFs adhere to Christian-based guidelines, while the remainder follow Islamic Sharia law.²

1 Source: The 2020 PRRI Census of American Religion.

Christianity

Christian-based strategies seek to allocate capital toward companies that align with Christian principles. This is often referred to as biblically responsible investing, which is based on the belief that investors are stewards of creation and should make investment decisions that allow it to flourish. Exclusionary and proactive screening used to identify companies that meet the investment criteria may be developed in-house or in conjunction with religious institutions that have provided guidance on compatible investment options.

Many fund strategies take an interdenominational approach and follow teachings of the Bible that align with many Christian faiths and organizations. Some, such as Catholic-based funds, identify specific guidance. Catholic funds follow the principles laid out by the United States Conference of Catholic Bishops (USCCB), which include five major categories:

1. Protecting human life
2. Promoting human dignity
3. Enhancing the common good
4. Pursuing economic justice
5. Saving our global common home

These categories form the basis by which specific exclusions, such as abortion, gambling, tobacco, and weapons manufacturing, are applied to the portfolio.

Judaism

The Jewish faith provides direction for investors who follow the teachings of the Torah. Protecting the environment, promoting social justice, and the responsibility of charitable giving are values embraced by the Jewish faith that may be woven into investment decisions. Guidance given by the Central Conference of American Rabbis (CCAR), for example, may serve as a resource to align Jewish beliefs with financial objectives.

Islam — Sharia

Sharia-compliant funds consider whether business practices are halal (permissible) or haram (impermissible). Sharia law generally prohibits debt and other interest-bearing investments, including bonds and highly leveraged companies. Likewise, companies that derive profit from alcohol, tobacco, gambling, adult entertainment, weapons, pork products, insurance and certain banking products are typically excluded. Ongoing compliance is a key foundation of Sharia-compliant funds. Sharia scholars provide direction to monitor fund holdings for halal compliance and identify earned income to be purified through charitable giving.
Guidance for investors

There is no clearly defined and universally accepted framework that all faith-based investments follow. Rather, varying and subjective interpretations of religious texts and principles lead to material differences in strategies and the portfolio. For this reason, it is important to work with your financial advisor to clearly establish the set of personal values you wish to apply to portfolio decisions to guide the process.

Potential trade-offs of faith-based investing

While there are many benefits to faith-based investing, it’s important to acknowledge the potential trade-offs that may come with a faith-based investing strategy. The more stringent or broad-based the exclusions are, the higher the potential impact on portfolio diversification. While extensive exclusions may meet your faith-based objectives, understand that this may create higher variability of outcomes, including potentially lower returns. Some investment vehicles may prioritize nonfinancial goals ahead of financial returns. Another consideration that investors should keep in mind is cost, which may be higher depending on the particular fund or fund family selected.

Last, investors should be aware that faith-based fund managers tend to be significantly smaller firms than traditional asset manager peers. Some faith-based asset managers outsource a part or all of the investment management function, supplying third-party subadvisors with an exclusion list of securities. For smaller teams that manage their funds in-house, this could mean heightened key-person risk or a less robust research process.

These potential trade-offs do not necessarily reduce the viability of the manager, and we find that many faith-based fund managers have favorable track records of delivering results for their clients. Faith-based strategies are evaluated in accordance with our investment philosophy. We believe investments that can balance returns with your values can help achieve your spiritual purpose as well as your financial goals.

Charitable giving

Many faiths consider giving of one’s time, talents and treasures an important part of following a religion’s beliefs. Including charitable giving in your financial strategy may yield benefits for the charity of your choosing and for you — in the form of tax benefits. Speak with your financial advisor to learn more about gifting strategies, including the timing of gifts, deduction limits, which assets to gift and common mistakes to avoid to help maximize your impact.