



# From Faith Values to Investment

A guide to faith-consistent investment policy and guidelines for institutional faith-based asset owners

September 2021

The logo for FAITHINVEST features the word "FAITH" in a gold, serif font, followed by "INVEST" in a blue, sans-serif font. A stylized, curved line in blue and gold arches over the text.

# Executive Summary

- A faith organisation's **investment policy statement and investment guidelines** are the essential governing documents required for the successful integration of faith values with investments.
- Translating well-documented faith values into investment objectives, parameters and instructions, or **'faith positions'** lies at the heart of this important exercise.
- Faith positions: **screening, engagement, and impact**, represent three major types that faith organisations can use for integrating faith values with investments via the investment policy and investment guidelines.
- Faith organisations should be pragmatic and process oriented when integrating their faith values with their investments, as implementing faith positions may be constrained today by factors like the investable universe or technology, though these constraints are changing rapidly.
- There are good publicly available policy and guideline examples of faith values integration, and FaithInvest is developing a library of plan documents, along with case-studies, tools and groups to help others along the path.
- **FaithInvest has resources available to directly assist in the development of policies and guidelines for faith values integration. Contact us directly at [info.faithinvest.org](mailto:info.faithinvest.org)**

“... there is the Business of religions. The faiths own about 8% of the habitable land surface – about 5% of all commercial forests are owned by faiths. They run, manage or founded around half of all schools worldwide – 64% in Sub-Saharan Africa according to UNICEF. They have more TV and radio stations between them than the whole of the EU and produce more books, newspapers and journals than any other network. They also own an estimated 10% of the world’s total financial investment.

“The Business of religion involves managing these assets ...”

– The [Zug Guidelines](#) to Faith-Consistent Investing

# Introduction

Faith-consistent investment policy and guidelines set out how your faith's values and positions inform and direct your faith's investments. Investment policies and guidelines set a strong foundation for faith-based organisations for communicating internally what they care about, and also to communicate externally the strategies and opportunities they want their investment service providers to align to as well.

While common among other institutional investors, documented and values-integrated guidelines and policies are more a rarity among the faiths. "Maybe 9 of 10 peers - Board members in [a major faith administration association] - have not yet fully integrated and aligned their faith beliefs into their plans and policies" according to a FaithInvest network subscriber. As we'll see in this paper, fully integrating faith values allows faiths to express these values in a significant avenue of ministry; their assets. As this network subscriber further notes "the limited integration we have seen, translating ethics opinions into investor proxies or exclusion lists, simply hasn't translated significantly into investments yet".

**"The limited integration we have seen, translating ethics opinions into investor proxies or exclusion lists, simply hasn't translated significantly into investments yet"**

This represents one of the largest opportunities today for faiths to impact the world.

This working paper expands on our Webinar [\*"From Values to Investment"\*](#) by providing a step-by-step walk-through, with definitions and examples, for ensuring that your faith values are incorporated into the foundational governing and operational documents for your faith's investable assets, and by this – ultimately reflected in the investments your faith makes.

If you have an existing investment policy and guidelines for your various asset pools, consider this document as support for a recurring "integration audit" to ensure the most thorough possible reflection of faith values in your investment activities.

If you don't yet have a policy or guidelines drafted for your faith's assets, consider this document an introduction to these two foundations of investment governance, used by institutional investors of all types and sizes to direct their ongoing management and investment activities – essentially providing a "compass" for expressing their faith-values in the faith assets.

***FaithInvest exists to empower faith groups to invest in line with their beliefs and values.***

# The governing documents: investment policy and investment guidelines

The standard of practice for oversight and management of assets on behalf of an institution for the benefit of its activities or operations, its employees or members, or recipients of its giving, is the use of a formal investment policy, and related investment guidelines.

**Investment policy:** A plan document establishing the purpose, objectives, relevant definitions, governance process and responsibilities, reporting expectations, assessment methods, and other key metrics, methods and responsibilities for a specific pool of assets.

**Investment guidelines:** Asset class or mandate-specific documents that establish the investment performance objective, relevant benchmark, risk and exposure parameters and expectations, time horizons for evaluation, and other important asset class, mandate or portfolio-specific metrics and measures.

As one financial writer notes, the investment policy statement is “your compass, a check to keep your investment portfolio on course to meet its goals even when the market and your emotions are telling you to run for the hills.”<sup>1</sup>

The investment guidelines essentially express the relevant parts of the investment policy, in suitable investment terms, language and detail, for a specific segment of the total pool of assets – such as a faith retirement benefits plan, or an endowment. The segment could be an asset class, like the equity portion of the pool, and/or a specific mandate, for example a global large company stock portfolio managed by a specific asset manager within the equity segment. The guidelines essentially

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<sup>1</sup> [Making Your investment policy Statement | Morningstar](#)

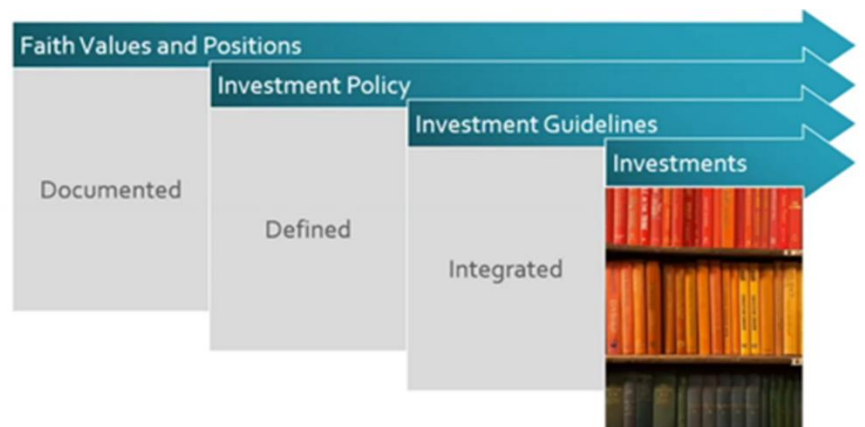
“nest” within the policy, translating the policy into specific *investment* language for parts of the portfolio.

## Aligning faith values and investments

Helpfully, for this process, all Faiths have long-established documents stating what the faith truly values, supports and promotes in terms of social principals, environmental beliefs, and other areas of focus and activity important to that faith. Further, many faiths have more specific officially-approved statements or position papers on environment, social justice, health, housing, weapons and other activities, based on the religion's beliefs and priorities.

These established documents, statements and papers provide a foundation of content for the process of integrating faith values into the Governing Documents and ultimately into the faith's investments. As discussed earlier, investment guidelines are an expression of the investment policy; the investment policy should be, in-part, an expression of the faith values. Without this alignment the resulting investments of the faith may resemble a disorganised library or bookstore, lacking the coherent structure needed to be effective.

The goal of alignment is that by defining the faith-values in the investment policy, and integrating these values into Guidelines, a clear organisation of investments around the documented values of the faith is created.



# The investment implications of faith values

Before getting into the *process* of faith-values alignment, a quick comment on investment performance and risk. We are often asked the question “if I incorporate the values of my faith into my investments, what are the implications for investment performance, risk, or fees?” We find that many faith-based investors strongly believe that investing consistent with their faith values leads to either better long-term performance, improved risk, or lower costs – or some combination of these three.

This is a very important discussion to have with your faith leaders, investment leadership and the governing board overseeing the faith's assets, and any investment consultant you may employ. Make sure you're clear on this position – the implications of faith-consistent investing on return, risk and costs, and that you've documented your beliefs and expectations in the investment policy.

From a purely financial research perspective, there has certainly been much study of this “values implications” question. A recent meta-study from NYU summarized over a thousand published studies on the effect of ESG principals (environmental, social and governance values in investing) on investment performance. The findings are very supportive of the positive long-term impact of ESG values on investment performance, and further, the authors found that “ESG integration as a strategy seems to perform better than negative screening approaches [alone]”<sup>2</sup>. This and other available research should provide some of the substantive underpinning to support a discussion in your organisation, and the documentation needed to capture your beliefs and expectations of values integration within the investment policy. This is very important to do.

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<sup>2</sup> [NYU-RAM ESG-Paper 2021 Rev 0.pdf](#)



# Bridging the gap: from faith values to investment holdings

Let's get specific. As discussed earlier, faiths have documented their values very thoroughly. A careful reading of these values documents very often can lead to a list of negative actions or activities to avoid or reduce, and positive actions to promote or pursue. We call these items *faith positions*. These faith positions are essentially a translation of the values into things to do and things not to do in an investment context. We find that faith positions usually fall into one of three categories:



## Screening

The process of screening faith positions includes listing specific investments to fully avoid, as they are involved in activities clearly antithetical to the faith's values. This type of screening often takes the form of specific documented exclusions (for example, media & entertainment companies) and/or securities of particular companies, countries, or other issuer types. This is a straight-forward approach common among *many* institutional investors, often referred to as *negative screening*.

An emerging complement to negative faith screening is *positive faith screening*: What should the faith own or emphasize in the portfolio that specifically aligns with the faith's values? Many popular ESG stock indices available today essentially take this approach – underweighting or excluding low-ranked ESG companies (negative screening), and overweighting high-ranked ESG companies (positive screening).

## Engagement

Proxy voting policy is one of the most common and popular methods for implementing engagement. Proxy voting policy should be aligned with the faith values, so when a proxy arrives, it is checked against the proxy voting guidelines and voted appropriately as instructed on the issue. An example from one faith includes the following proxy voting guideline, based on the faith's "Just World" value:

"We support [proxy] proposals asking companies to adopt a comprehensive human rights policy based on existing international standards. Such standards would include the 1948 UN Universal Declaration of Human Rights and the International Labor Organization's (ILO) core labor conventions."

While proxy voting policy is *reactive* to receiving a ballot, increasingly spreading throughout the global faith community is a more *pro-active* engagement, in primarily two areas: Actively promoting a faith-value aligned issue to be added to a company's proxy ballot, with the goal of changing an activity of the company. This can be a complex and involved process today for shareholders, though there are organizations such as Interfaith Center on Corporate Responsibility<sup>3</sup> and JLens<sup>4</sup> that are very good at organizing, aggregating, and leading faiths through the proxy nomination process.

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<sup>3</sup> [ICCR \(Interfaith Center on Corporate Responsibility\) | Inspired by faith, committed to action](#)

<sup>4</sup> [Home | jlensnetwork](#)

Another approach is directly engaging company leadership through dialogue and exchange on an issue or value of importance to the faith, with the goal of changing company behavior. This similarly requires some focus and resources of the faith, and while it can be done by individual faith investors, particularly for larger organizations, we also see it done in groups, either self-organised around an issue, or through non-profit advocacy organisations.

## Impact

The final area for faith positions is impact, where along with a financial return objective for the investment, there is a purposeful and specific *values outcome* expected. These types of investments tend to be targeted and specific to a value or theme, like affordable housing or healthcare, and sometimes are aligned with PRI Sustainable Development Goals<sup>5</sup>. Impact tends to take the form of private equity or private debt investments, sometimes as a direct holding, such as providing capital to a local company developing affordable housing, or via an “impact investing” fund (in the US these can also take the form of a Community Development Financial Institutions Fund<sup>6</sup>), that is professionally managed and diversified across a specific impact theme or themes.

Regardless of method, impact investing is specific, targeted, and purposeful, with a values-aligned outcome expected along with a financial return. This can be a complex area of activity for a faith, given the predominantly, and often necessarily, private nature of these investments – there are greater requirements for sourcing, due-diligence, monitoring and measuring outcomes than is typically associated with publicly listed / traded portfolios. Fortunately, there are many [impact investing non-profit organizations](#), including FaithInvest, offering guidance and assistance for faith-based investors.

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<sup>5</sup> [Impact investing market map | Thought Leadership | PRI \(unpri.org\)](#)

<sup>6</sup> [Home | Community Development Financial Institutions Fund \(cdfifund.gov\)](#)

Overall, a way to think about these faith positions is from simple to complex. Many faith investors have already incorporated some of the easier faith positions to implement: negative screening for investments to avoid, or proxy voting policies that align with faith values. The more difficult or complex faith positions often involve being proactive or direct and purposeful around faith values; proposing proxies, engaging management, pursuing impact investments.

As an investor moves through the process of documenting faith-positions for their policy and guidelines, or “auditing” faith-positions in an existing policy and guidelines, they can begin to identify the resources needed to move from the easier activities to the more complex and active faith positions. Helpfully, there are organisations, including FaithInvest and others, along with peers, who can help translate values to positions, and positions to types of activities – then capture and document these positions and activities in the Policy and Guidelines.

# Faith-based portfolio construction in practice

How do we see faith positions appear in practice? Fortunately, many faiths make their investment policy and guidelines available to the public on the internet. At FaithInvest we've also read many policies and guidelines for faiths. Examples of what is found today for screening in policies and guidelines we see:

- ✓ "Exclude the following sectors [as defined by GICS code]: Exploration & Production, Integrated Oil & Gas, Oil Equipment & Services, Pipelines."
- ✓ "Not invest in any company where more than 10% of its revenues are derived from the extraction of thermal coal or the production of oil from oil sands on the basis that such companies are unlikely to be able to assist with the transition to a low carbon economy."
- ✓ "Managers ... are expected to instead invest in companies that contribute to solving the climate issue in a constructive manner."

This first type of screening is very common; essentially excluding an industry that is involved in an activity that controverts a stated value of the faith, as captured in the faith documents. This particular faith investor uses a GICS<sup>7</sup> industry definition, which are standard and relatively easy for asset managers to implement, and easy for investors to monitor through standard reporting.

The second example shows how some faith investors get more nuanced with screening; they seek to define the "core of a business" and base screens on this definition. This particular faith investor defines "core" as any business line or division within a company where the revenues are greater than 10% of total company revenues. If a screened activity is

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<sup>7</sup> [GICS - Global Industry Classification Standard - MSCI](#)

core to a company, in this case coal or oil production, the company cannot be held in the portfolio.

This more targeted approach allows this faith to hold a company where the business segments that don't align with its faith values are a very small – “non-core” - part of the company, so the faith can still benefit from the acceptable core activities of the company. This is a little more complex, and more difficult to monitor, but the data exists in many cases, and an investment manager should be able to provide reporting and perform the screening.

The third area that we see is a little more advanced and less common, essentially saying: “We've identified what not to own in the portfolio – here's what we want you to own, emphasize or overweight.” In this example, the faith investor has defined a *positive screen* for owning companies that contribute to solving the climate issue in a constructive manner, and later in their guidelines define what “a constructive manner” means.



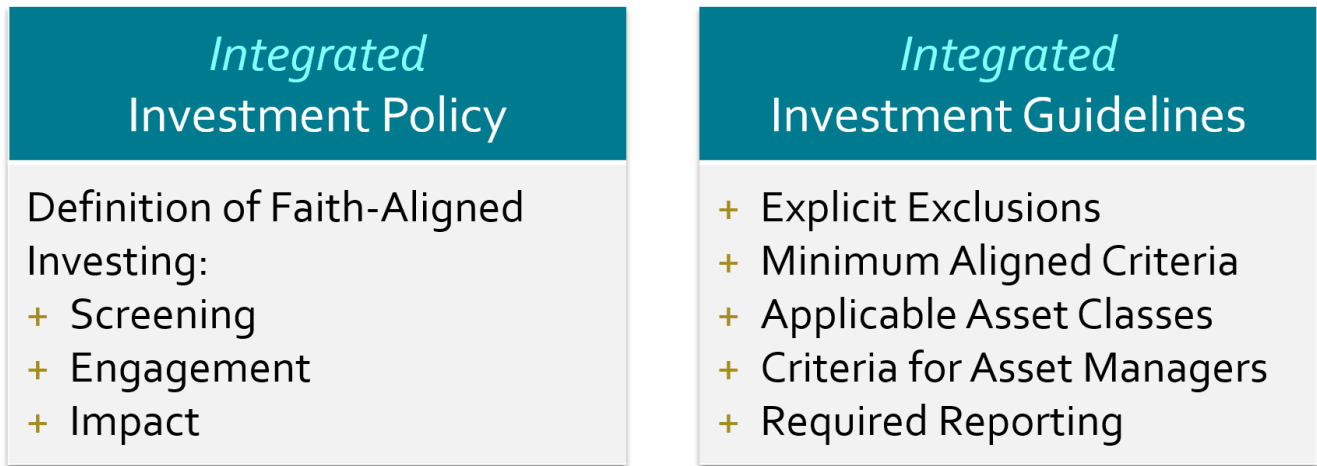
At this point in the “faith values to investments” journey, a faith Organisation has done a lot of work:

- They've reviewed their documented faith values;
- Turned those values into faith positions in one or more of the three categories described earlier (screening, engagement, impact);
- And documented and included the relevant faith values in the investment policy statement.

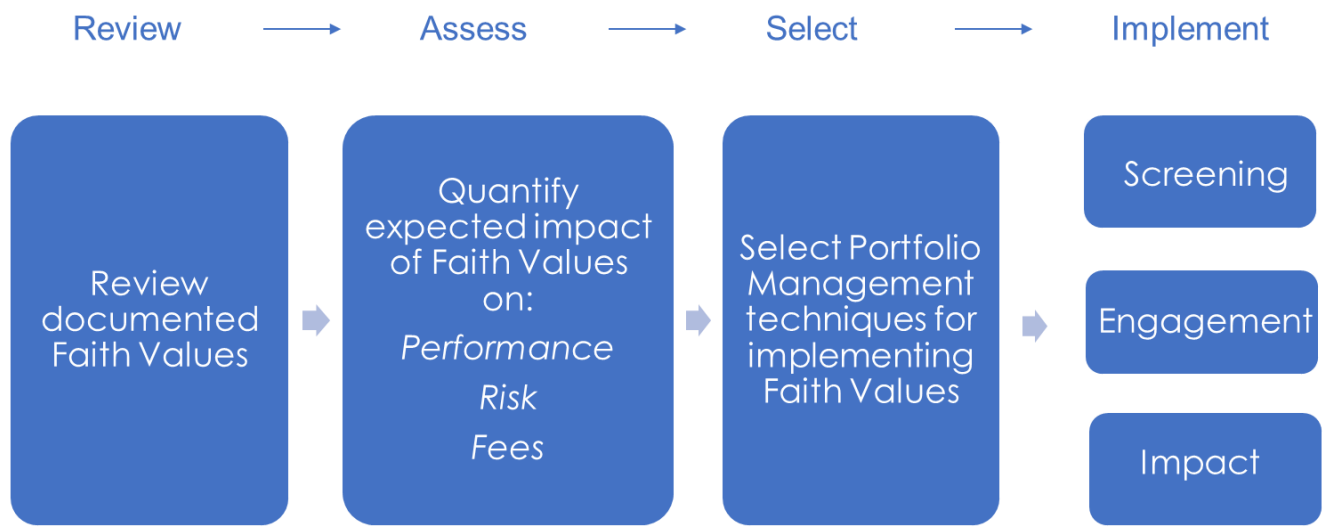
Screens are now defined in the policy (at the plan level) and in guidelines where relevant (at the asset class or mandate level). Definitions for engagement – the proxy voting policy, the proxy *promotion* policy and management engagement policy – are documented and incorporated in the policy and relevant guidelines.

Impact activities are also addressed at the plan level, and in guidelines, that are designed to answer questions such as: What type of faith values

will be pursued with the impact activities? How will this be measured? How much of the portfolio will be committed to impact and will it be governed and overseen by the faith?



In all cases, the high-level definitions and statements for the plan are captured in the investment policy, while the investment guidelines turn these definitions and statements into investment instructions, such as explicit industry or core business exclusions, along with reporting criteria to make sure that guidelines can be monitored. Helpfully for monitoring and reporting there have been significant developments over last 10 years with efforts such as SASB<sup>8</sup> and IMP<sup>9</sup> providing reporting frameworks and data that faiths can use to monitor their investment alignment.



<sup>8</sup> [SASB](#)

<sup>9</sup> [Home | Impact Management Project](#)

# The role of pragmatism

A key message we hear from faiths with extensive experience integrating faith values and investments, is **pragmatism**. For example, implementing faith positions in some parts of the portfolio may not be possible today. We hear from some faith investors that finding an ESG-oriented investment manager for emerging equity markets is very difficult, there isn't a lot of choice, there isn't the same level of data and reporting on ESG criteria. The faith-plan governing body may decide that the benefits of investing in emerging markets, and the impact that invested capital has on emerging markets, is enough that, for the time being, emerging markets as an asset class is excluded from certain screening criteria. This is pragmatic.

An important step after this decision is to document this position in the investment policy and do two things as part of the plan governance process:

- Periodically revisit the availability of ESG strategies in emerging markets, and
- Actively promote the need for emerging market ESG strategies in the investment management and consulting communities.

Emerging markets are but one example among many that may become evident as organisations integrate faith values and investments.

Pragmatism requires examination, judgement and follow-through, and is an area where FaithInvest, your peers and other organisations can help, as you work through the practicalities of implementing faith-positions.



# The path from here: ongoing commitment and advocacy

Integrating faith values into faith investments via the investment policy and investment guidelines is a foundational and recurring exercise. For some readers, this will be novel. For those who have done this in the past, we encourage and support a periodic “integration audit” to ensure maximum pragmatic alignment, as changes over time in the investment industry, technology, data and product availability, and in other areas, may open new avenues for expressing faith positions in the investments.

As you turn to focus on your plan, consider next steps in two particular areas: *investment strategy* and *advocacy strategy*. Faith-based organisations have a responsibility to do both – align the faith’s investments to be faith-values consistent, and also work with others to advocate for this kind of integrated approach.

What are the right next steps?

1. **Review your faith values** and ask, have I fully translated these values into faith positions? Have I prioritized these positions in terms of how important each is relative to what the faith says is important? Document those positions, agree on them among the governing body, and record them and use that process of building up your faith-consistent investment policy and guidelines to build up from these positions all the way through to the plan investments.
2. **Audit, or review** what is documented and implemented today. Examine what organizations are currently engaged, and even how grants and philanthropy activities could be extended into investments. Ask, what proportion of assets are truly faith aligned and what that says in terms of aspiration? Faith values integration and alignment is a journey, and there has been a lot of progress in terms of improved data, more supporting organisations, and groups who can share what they know.

3. **Be aspirational** in this work, because it is possible to build the kind of critical mass that helps investment consultants and asset managers, and other investment service providers, to really provide the kind of data, product, reporting, pricing etc. needed to shift and align capital with faith-values.
4. **Seek internal buy-in** among faith and faith-investment leadership and organisations and seek out peers and other organisations where you can get the support in order to deliver a real change in the way in which you invest.
5. **Advocate, share policies**, show the link from the faith values to positions to portfolio. Communicate not only to the faith investment organisation, but also to the laity, the faithful who look to their organisations for leadership and guidance on how to invest. Communicate with the investment consultant, investment managers and other investment service providers who are really helping us along this journey.

One of the questions we get is: “How can faith-based organisations identify which investment consultants and investment managers understand us, understand our faith-consistent investing?”

There is important advocacy work to be done by faith-based asset owners internally with their laity and with those service providers so that the whole ecosystem together can work to create more opportunities that really deliver the change that we want to see. This links very strongly into engagement; engaging with coalitions, organisations, networks, and really seeing how we can build that momentum, share that knowledge and not be working individually, but working on this in conjunction with others to evolve the business of managing the faith's assets.

## The path from here: examples

Many faith-based asset owners make their investment policies available to the public on-line on their websites. One excellent example among many is Church of Sweden's [Responsible Investment Instructions...](#)<sup>10</sup>, which combined with their [Financial Policy...](#)<sup>11</sup> cover all aspects of faith consistent investing, including overall objectives and parameters, governance, asset allocation, and specific rules and metrics for qualifying investments.

While guidelines are less likely to be publicly available, as they are often part of a negotiated service agreement between a faith-based asset owner and a specific asset manager, some faiths post their general asset class guidelines.

A good example is found in the Wespath [Investment Policy](#)<sup>12</sup> beginning on page 14, Exhibit A: Investment Strategy, U.S. Equity Fund – P Series. From here, Wespath provides asset class level guidelines for international equities, fixed income, and other major asset classes with the overall investment program. Over the course of research for our [webinar](#) and this *Guide*, FaithInvest has built a collection of faith-based asset owner publicly available investment policies and guidelines that we'll make available to our network subscribers as a consolidated library. Finally, though somewhat dated and primarily focused on ESG investing, PRI Association published a helpful guide [Writing a Responsible Investment Policy](#)<sup>13</sup>, with links to investment policies of other faith and non-faith asset owners.

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<sup>10</sup> Responsible Investment Instructions for ethical and sustainable Asset Management for the National Level of the Church of Sweden Adopted by the Asset Management Council 15 June 2010

<sup>11</sup> Financial Policy for the National Level of the Church of Sweden Adopted by the Central Board of the Church of Sweden 1 June 2010

<sup>12</sup> Investment Policy UMC Benefit Board, Inc

<sup>13</sup> Writing a Responsible Investment Policy UN PRI Initiative

# The path from here: communications and governance

We have covered a lot of territory in this *Guide*, mostly focused on **documentation and implementation**. These elements are critical for fully-realized faith-values integration, but not sufficient! Faith-based asset owners far down the path of faith-consistent investing also emphasize the importance of **communications**, both internally and externally, and internal investment **governance** – the people, processes, and procedures responsible for maintaining, executing and overseeing the entire investment programme, from the content of the plan documents to the contents of the ultimate portfolios.

**The “faith values to investment” journey is complex and demanding, but FaithInvest is here to help! Contact us to find out more about how we can support the development of your faith-value policies and guidelines!**

[info@faithinvest.org](mailto:info@faithinvest.org)

[FaithInvest website](#)