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Faith-Based Investors Evolve ESG Beyond Negative Screens

By Mariana Lemann October 25, 2016

Faith-based organizations, a client group that helped pioneer environmental, social and governance (ESG) investing, are taking a step beyond screening out so-called "sin stocks" from their portfolios in favor of taking a proactive stance on their investment choices.

"We've been working with a lot more religious institution clients who have an interest in looking at more proactive opportunities, using really the whole portfolio as a tool for impact investing," says **Jessica Matthews**, head of Cambridge Associates' mission-related investment practice. These investors, she adds, are moving from portfolios "articulated through ESG investments, and ESG integration in public equities, over to wanting to do things that are more impact-focused and private equity."

Religious organizations are no stranger to ESG and socially responsible investing (SRI). They have been at the forefront of these investment disciplines, but in recent years, they have more prominently moved beyond an exclusionary focus on sin stocks to embrace a more proactive investment approach. That has been made possible by the growth of investment opportunities and the increased visibility of ESG and impact investments.

"It is eye opening for a lot of religious institutions when they learn from their peers, or their advisors help them figure out, that they just don't have to stop with the negative screening, it really can go well beyond that, where there are a lot of issues that they feel passionate about, and the fact that... the opportunity set for impact investments is growing," Matthews says.

Besides the sheer product proliferation, ESG and impact investing have been championed by **Pope Francis**, who made the role of capital markets a focus of his papacy. In fact, the Vatican sponsored an Impact Investing Conference in the summer, as reported by the *Financial Times*.

"The pope has been a very positive force," says **Josh Zinner**, CEO of the **Interfaith Center on Corporate Responsibility** (ICCR). "The Pope has talked about impact investing... and that is also helping to set a frame for getting investors to really think about how to deploy capital for social good."

The message has resonated strongly in the U.S., adds **David Sand**, chief investment strategist and impact officer at Community Capital Management.

"The focus that Pope Francis has put on responsibility and accountability has particularly reached the faith-based investment community, at least the one we see in the United States," he says.

Faith-based organizations represent a small fraction of ESG institutional investors tracked by the Forum for Sustainable and Responsible Investment (US SIF). US SIF's most recent survey data available, from 2014, shows 40 faith-based institutional investors had \$72.3 billion in ESG assets, compared to \$2.7 trillion from 184 public funds.

For Community Capital Management, faith-based organizations have been an engine of growth.

In the past two years, **Community Capital Management**, a \$2.3 billion fixed income impact investing firm, has seen inflows of approximately \$45 million from religious institutions, representing 70% growth of its \$60 million in faith-based client assets. Over the same time, the firm has experienced 15% growth.

"[Faith-based investors are] a significant part of our recent growth in clients," says Sand. "Certainly we have more financial institutions than we do faith-based investors.... but if you look back at new account relationships, new client relationships, I think [faith-based investors are] the faster growing section."

Cornerstone Capital Group, an investment consultant that specializes in sustainable investing, has also seen an uptick in interest in ESG and impact investing from faith-based institutions.

"We've certainly seen increased interest going back a few years," says **Craig Metrick**, manager of due diligence and thematic research at Cornerstone Capital Group. "Institutions that may have been doing negative screening based on their religious values are now looking to do more positive investments to alleviate poverty for example or help the environment."

Still, while the product offering has expanded, there are areas of the market where capacity is not adequate, he says.

"On the private side, or on fixed income, there is a need for more strategies, more innovation," he says. "But those strategies have also been increasing in size and proliferating in number."

In certain cases, institutions take matters on their own hands.

"[Some] of the faith based institutions have their own set of mutual funds or manage investments in-house with their own screening strategies.... [and they are] trying to increase the number of strategies that are out there for investors to take advantage," Metrick says.

Wespath Investment Management, the investment division of the **General Board of Pension and Health Benefits of the United Methodist Church**, opened its gates to investors outside of the pension universe. In February 2015 the company carved out \$500 million of a U.S. equity index fund managed by BlackRock to launch a standalone fund, benchmarked to the Russell 3000 Index, as reported.

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