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Spotlight on faith-based investments: Principled investment

Providers have developed sophisticated investment strategies catering to a range of ESG preferences. Many investors now also want options aligned to religious beliefs and personal values. Niamh Smith finds out more

by [Corporate Adviser](#)

[November 28, 2024](#)

ESG investment strategies have become increasingly sophisticated, with funds now tailored to a range of investor preferences. While most of these focus on sustainability issues — many investors also want to see strategies that reflect religious beliefs and personal values.

Religion might be deeply personal, but common values exist between the millions who adhere to each of the main faith groups. In the UK almost half (46.2 per cent) of the population identifies as Christian, while 6.5 per cent are Muslim, according to the latest Office for National Statistics census on the topic.

Many pension scheme members have strong religious beliefs, which has led to a growing interest in faith-based investment strategies.

These investments can fall under the broader category of impact investments, which seek to generate positive social and environmental outcomes alongside financial returns. But these faith-based investments will also seek to align with the specific beliefs of these different groups — with strategies varying depending on the unique missions, ministries, goals and values of each faith tradition.

Increasingly such funds are no longer being viewed as a 'tick box' for asset managers and pension providers, but instead seen as an important way to improve engagement, retirement adequacy and customer satisfaction.

Sin stock exclusions

Several faith-based investment strategies are available. For example, the CCLA Catholic Investment Fund acts in alignment with the mission of the Catholic Church to deliver positive change in society, while BlackRock's Catholic Charities Growth & Income Fund also excludes

direct investments in companies which profit from products like alcohol, gambling and pornography.

Many faith-based organizations that offer these types of investments will also make similar exclusions in their strategies, in order to avoid investing in stocks that are contrary to the moral and social teachings of their faith.

For example, investment strategies tailored to Catholics would typically avoid investing in abortion, armaments, capital punishment, embryo stem cell research and animal abuse because they contradict what the Church considers the intrinsic dignity of human life.

However, Matthew Jensen, director of faith-consistent investing at FaithInvest, says that rather than just excluding so-called “sin stocks”, faith-based investment strategies also need to focus on actively directing money to help make a material change and deliver a wider impact in the world.

“Many faiths know what they don’t want to do, and when we work with faith-based asset owners, they often have restricted lists, so the challenge is about really determining what they want to do with their assets,” he says.

Dave Zellner, executive chair of FaithInvest, adds that although exclusions are an important first step to developing a faith-consistent investment portfolio, they are not sufficient to achieve a broader impact for the good of people and the planet. This requires a more comprehensive strategy.

“While exclusions are an important element of faith-aligned investing, increasing numbers of faith-aligned investors are adopting a more nuanced and impactful approach that incorporates three elements: invest, engage, and avoid,” he says. “Such a strategy allows an organization to maintain strong financial performance, while more actively pursuing its mission of driving positive change.”

Meeting different beliefs

When it comes to providing faith-based strategies, it is important for providers to understand that there is no one-size-fits all, notes Susie Weldon, director of communications at FaithInvest.

She says that while many faith traditions share common values, such as care for the poor and vulnerable, human dignity and social justice, each faith organization will be different in terms of the emphasis they place on these principles in their investment strategies.

“One faith group might focus on the principle of stewardship to emphasize responsible management of resources which, in investment terms, may translate to a focus on long-term value creation rather than short-term gains. But another might focus on the concept of human

dignity to prioritise investing in companies with strong labour practices and community engagement.”

As values are a deeply personal thing and can differ from person to person even within the same religion, this actually presents an opportunity for providers to review how existing options could be positioned to meet investor’s different beliefs and values before they create a separate faith-based fund, according to Jesal Mistry, head of DC investments at Legal and General.

“We’re looking to take part in a review looking at whether we should offer other faith-based type funds, or are they more general ethical-type solutions?” he says. “We have lots of sustainable solutions already available, could they be better communicated so they meet the requirements of other faiths?”

However, he cautioned that this doesn’t apply to all faith-based investments. For example, Sharia-compliant investment strategies must strictly adhere to Islamic law, which means Sharia funds avoid investing in bonds or other interest-bearing investments.

Maiyuresh Rajah, director of investments at Aviva agrees that some providers do not realize that existing strategies could already be meeting the beliefs of some investors.

“A number of our clients that are religious organisations use our sustainable stewardship default strategy.” Rajah adds that this won’t cover all faith-based groups, which is why it also offers Sharia-compliant funds.

Meanwhile, faith-based investments may not cater solely to religious beliefs—they can also align with personal values and lifestyles, such as vegetarianism or veganism, to meet the diverse beliefs of all investors. Animal rights organisation Peta has created a guide to cruelty-free funds and US-based firm Beyond Investing offers the US Vegan Climate ETF, which aims to avoid investments in companies that contribute to animal suffering, environmental destruction and climate change.

Creating products for all

Although trustees’ fiduciary duties centre around acting in the best financial interests of members, many members are now expecting trustees to consider non-financial factors, such as their personal beliefs and values, especially if it doesn’t negatively impact financial returns.

Aviva’s spokesperson said where possible, pension providers should seek to reflect the diversity of their customer base with the investments they offer. This includes offering lifestyle solutions and funds catered to different ethical or religious beliefs, as well as common requests such as different price points and different levels of investment sophistication.

Growing demand for investment strategies aligned to personal beliefs, not only meets consumer expectations but can also help close pension savings gaps and enhance retirement adequacy, Mistry adds. Legal & General first started exploring faith-based investments when it was trying to drive increased participation and savings rates across the board. When research revealed an ethnicity pensions gap, the firm realised the right solutions weren't available to its Muslim members, which led to the creation of its first Sharia-compliant investment strategy.

Mistry says that it was important to ensure this product was similar to other DC default options, so it's simple for investors to access, meaning they don't have to be an investment expert to invest in a way aligned with their beliefs.

"That was really important because that means that we can now work with employers to provide it to people as part of their new joiner journey or communicate to employees that there's something ready-made and easy for you to join," he says.

This provides a good foundation to close the pensions savings gap, he says, but more education and communication is needed to make sure all members are fully aware of these options.