

# Faith-consistent Investing Interest Group March '23

- I. Agenda & Updates (<5 mins)**
- II. Research Summary and Implications: [“... Sacrificing Alpha in the Name of Investment Exclusions?”](#) – Rashed Khan, Director, Portfolio Risk and Analytics Wespath (20 mins)**
- III. New Findings: “Faith-consistent Investing and Smaller Organisations” – Michael Even, Trustee FaithInvest (15 mins)**
- IV. ‘23 Schedule and Research / Topics (<5 min)**

# FaithInvest Investment Solutions

*Help faith-based asset owners align their assets with their values – Faith-Consistent Investing (FCI)*

- Develop and apply FaithInvest's FCI application process and methods with faith-based asset owners and providers (investment managers, consultants etc.)
- Conduct, direct and produce research and guidance for the application of FCI
- Seek and directly engage FBAOs to assist them with (further) implementing FCI practices
- Work with providers to deliver research, tools and products that help FBAOs engage with, and deliver on, faith-consistent investing

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A decorative graphic consisting of a series of seven golden-yellow arches, each with a small gap between them, positioned below a solid horizontal line.

*Global & Pan-faith*

## WELCOME TO OUR FCI NETWORK!

Discover the key issues our Investment Solutions team is focused on, the topics discussed by our quarterly FCI Interest Group and news about faith-consistent investing. [Join](#) our growing network of subscribers and community of faith-based investors.

### QUICK LINKS

[LATEST  
POSTS](#)[FCI INTEREST  
GROUP](#)[INSIGHTS &  
ARTICLES](#)[RESEARCH &  
PUBLICATIONS](#)[PODCAST  
INTERVIEWS](#)

### FCI INTEREST GROUP

### LATEST POSTS

We have a lively and active Faith-Consistent Investing (FCI) Interest Group that meets online every quarter to discuss issues

Hasnane Arain  
2 days ago

<https://www.faithinvest.org/our-network>



**Wespath**  
BENEFITS | INVESTMENTS

# Impact of Ethical Exclusions to Investment Performance

March 9, 2023



# About Wespath

## Wespath

An agency of  
The United Methodist Church



Founded in 1908



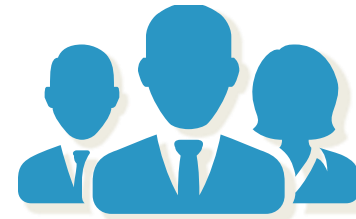
Largest reporting  
faith-based pension fund



Sustainable  
investment leader



Over \$24 billion in assets  
under management\*



Team of 20+ dedicated  
investment professionals\*\*

\*Assets under management of Wespath and its subsidiaries, as of December 31, 2022.

\*\*Wespath and its subsidiaries, including WII, utilize certain shared personnel, including the team presented above.

# What Is Wespath's Ethical Exclusion Policy?

-  Alcoholic beverages
-  Weapons
-  Tobacco products
-  Gambling
-  Adult entertainment
-  Privately-operated correctional facilities

# Values-Based Investing

Values-based investing seeks to align shareholders with their convictions.

*The Book of Discipline's* call to invest in alignment with the Church's values. The Church asks that Wespath “...make a conscious effort to invest... with the goals outlined in the *Social Principles...*” (¶717)

More details regarding Wespath's Investment Exclusions can be found at:

<https://www.wespath.org/retirement-investments/investment-information/investment-philosophy/investment-exclusions>



# Ethical Exclusion Policy

We avoid investments in company or entity whose core business activity involves the production and/or assembly, direct sale, and/or marketing of the following products and/or services:



Alcoholic  
beverages



Tobacco  
products



Adult  
entertainment



Weapons



Gambling



Privately-operated  
correctional facilities

# Management of Excessive Sustainability Risk Guidelines



*Climate Change (with a specific focus on thermal coal):*

Excluding investments that are inconsistent with the values of the Church or exposed to unsustainable climate-related financial risk



*Human Rights (with a specific focus on high-risk operating areas):*

Excluding investments that are inconsistent with the values of the Church or exposed to unsustainable human rights-related financial risk

# Impact of Investment Exclusion Policies



# Impact of Investment Exclusions on Fund Performance<sup>1</sup>

## *Passive Investment Strategy*

U.S. Equity Index Fund (“USEIF”) performance - Annualized Return as of June 30, 2022

	5-Year	10-Year	Since Inception (1/1/1998)
USEIF Return (gross-of-fees)	10.7%	12.5%	12.5%
Fund Benchmark (Russell 3000 Index)	10.6%	12.6%	12.6%
<b><i>Excess Return (Impact of Investment Exclusions)</i></b>	<b>0.1%</b>	<b>-0.1%</b>	<b>-0.1%</b>

<sup>1</sup>The performance analysis in this presentation is for P Series funds managed by UMC Benefit Board, Inc., an associated entity to Wespath Institutional Investments, available to certain institutional investors prior to January 1, 2019. The I Series funds, managed by Wespath Institutional Investments, became available for investment starting in January 2019. Although both P Series and I Series asset managers use very similar strategies, the performance of a P Series fund is used in this analysis due to its longer track record.

# Impact of Investment Exclusions on Fund Performance

## Active Domestic Investment Strategies

U.S. Equity Fund performance and its active managers' composite performance—10-year annualized returns as of June 30, 2022 (gross-of-fees) <sup>1,2,3</sup>

	All-Cap Growth Strategy	Large- Cap Value Strategy	Mid-Cap Core Strategy	Mid-Cap Growth Strategy	Small-Cap Growth Strategy
USEF - Portfolio Return	13.5%	11.7%	12.2%	12.4%	13.4%
Manager Composite Return	13.2%	12.1%	12.2%	12.3%	13.4%
<b>Excess Return (Impact of Investment Exclusions)</b>	<b>0.3%</b>	<b>-0.4%</b>	<b>0.0%</b>	<b>0.1%</b>	<b>-0.1%</b>

<sup>1</sup>The performance analysis in this presentation is for P Series funds managed by UMC Benefit Board, Inc., an associated entity to Wespath Institutional Investments, available to certain institutional investors prior to January 1, 2019. The I Series funds, managed by Wespath Institutional Investments, became available for investment starting in January 2019. Although both P Series and I Series asset managers use very similar strategies, the performance of a P Series fund is used in this analysis due to its longer track record.

<sup>2</sup>All USEF managers with a 10-year performance track record have been used in the analysis.

<sup>3</sup>Source: eVestment.

# Impact of Investment Exclusions on Fund Performance<sup>1</sup>

## *Active International Investment Strategies*

International Equity Fund (“IEF”) performance and its active managers’ composite performance—10-year annualized returns as of June 30, 2022 (gross-of- fees) <sup>1,2,3,4</sup>

	Developed Market Strategy I	Developed Market Strategy II	Developed Market Growth Strategy
IEF - Portfolio Return	6.7%	4.7%	8.1%
Manager Composite Return	7.2%	4.6%	8.2%
<b><i>Excess Return (Impact of Investment Exclusions)</i></b>	<b><i>-0.5%</i></b>	<b><i>0.1%</i></b>	<b><i>-0.1%</i></b>

<sup>1</sup>The performance analysis in this presentation is for P Series funds managed by UMC Benefit Board, Inc., an associated entity to Wespath Institutional Investments, available to certain institutional investors prior to January 1, 2019. The I Series funds, managed by Wespath Institutional Investments, became available for investment starting in January 2019. Although both P Series and I Series asset managers use very similar strategies, the performance of a P Series fund is used in this analysis due to its longer track record.

<sup>2</sup>All IEF managers with a 10-year performance track record have been used in the analysis.

<sup>3</sup>Source: eVestment.

<sup>4</sup>Emerging-market active managers are not included here, as the portfolios differ from their composites for various reasons. The return comparison will not show exclusion policy impact for emerging market investments.

# Summary

A review of the long-term performance for both passive and active portfolios indicate that there has been no meaningful adverse impact resulting from values-based investment exclusions. While there are very small positive and negative deviations, these change over time depending on the date of analysis and the performance period selected.

## **A New Publication from FaithInvest:**

### ***Faith-consistent Investing and Smaller Organisations***

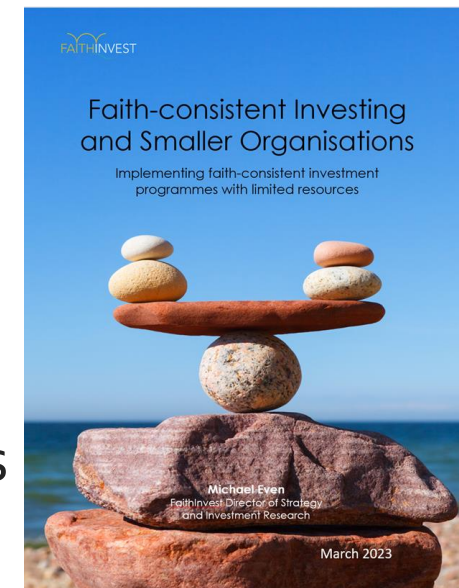
**Presentation to the FCI Interest Group**

**March 9, 2023**



# Introducing *Faith-consistent Investing and Smaller Organisations*

- Faith Organization assets are huge - and highly fragmented
  - Yet each “fragment” is often unique, for good reasons
- Fragmentation leads to small pools and limited resources
  - Many (maybe even most?) pools do not have dedicated staff
- Introducing ESG or Impact adds pressure on already limited resources
  - New knowledge and specialization required
  - Complexity is increased
- Luckily there are solutions, in the shape of collaborative groups, faith-based OCIO solutions and specialty consultants



***Faith-consistent Investing and Smaller Organisations* explores the challenges and offers some potential solutions**

# FaithInvest and How We Got Here

Our Mission: to increase the focus on, and scale of, faith-consistent investing

Our Method: to bridge the gulf between Faiths and Investments, and to offer practical, leverage-able help

The Three Challenges:

1. Raise awareness and translate faith beliefs into investment guidelines
2. Help with execution
3. Create faith-specific specialized products

*Faith-consistent Investing and Smaller Organisations* is all about #2 – execution

# Exploring the pressures on small plans

Small plans cater to the specific needs of Faith groups and may:

1. Have a geographic focus
2. Cater to a specific “order” or “religious sub-group”
3. Exist for differing purposes (e.g., pension, operating fund, charity)

Often, investment goals may be unique, reflecting a particular religious focus or emphasis

It is possible that no one associated with a small plan has professional investment training

The challenges of risk & return (e.g., asset allocation, manager selection, monitoring, re-balancing) may already be stretching resources

# Adding Faith-consistent Investing

FCI introduces a range of new demands and expertise above and beyond risk/reward:

- Interpretation of Faith beliefs into investment terms and investment guidelines
- Decisions about how to reflect FCI:
  - Which asset classes to use?
  - How do FCI needs impact risk/return and how much FCI to “express”?
  - How to select managers to fulfill FCI goals?
  - How to monitor and judge the FCI program (and how to judge its integration with risk/return goals)?
  - Proxy voting and potential activism
  - New asset classes (e.g. private markets impact investing)

Think about all this (as a measure of complexity): how much extra time will the governance body (Board) need to review the FCI efforts?

# Six Specific FCI Challenges

1. The greater oversight requirements of FCI
2. The need for customised versus off-the-shelf solutions to address unique faith-values
3. The uniformity of commingled pools
4. The need to apply FCI across multiple asset classes, including impact investments
5. The resources required for engagement activities
6. The education and support required for greater FCI participation by the faithful

# Some Potential Solutions

If you're concerned about the challenges we've cited, here are potential solutions:

**Outsourced Chief Investment Officer (OCIO):** takes on all the decisions your internal team normally makes and reports to your Board

**Consortiums** and self-help groups: forums that help organizations by sharing ideas and resources

**Consultants:** can potentially bring capabilities and expertise of an OCIO, but only advise; consultants do not necessarily implement their recommendations by doing the actual investing

# How FaithInvest Can Help

- Now creating a reference database of solutions providers, building on the case studies included in the *Faith-consistent Investing and Smaller Organisations*
- Over time: efficiently create connections between likely solutions providers and specific faith groups, and work with providers to refine and focus solutions

Plus, our ongoing slate of services and supports, including but not limited to:

- Faith and Investment Staff / Board / Committee Education
- Investment Policy & Guidelines Statements
  - Review and Scoring
  - Beliefs, Teachings and Values Application and “Translation”
  - Drafting, and Ongoing Revisions Assistance

# From December --- Proposed '23 Research Topics and Papers

3QU

Seeking Partner

2QU

Today!

- **Faith-consistent Investing: Governance Practices**
  - Best practices, resources and guidance for faith-based asset owners
  - Addition to the FCI library, along with *Faith Values to Investment* and “Good Intentions” on IP&Gs
- **“Good Intentions” IP&G Study Update**
  - Revision of the [original piece](#) at its one-year mark with added data and updated findings
- **The Investment Implications of Faith’s “Beliefs, Teachings and Values”, a reference guide**
  - Explores the relationship between specific faith values and related investment implications
  - Would show both the commonality and uniqueness of various beliefs as translated into investments
- **FCI for Smaller Faith-Based Portfolios and Plans**
  - Using case studies, shows how small faith plans can become more faith-aligned, even with limited resources
- **The Case for Blended Finance**
  - Explores the variety, efficacy and effectiveness of strategies that simultaneously attract three kinds of capital - philanthropic, concessionary, and market rate to achieve impact objectives
- **Investment for Faiths**
  - An entry level document on the role of faiths as stakeholders with a voice and agency, regardless of size.



# Cadence and Connections

- FCI Interest Group – quarterly
  - 2023 Sessions Scheduled: 9 Mar, 1 June, 7 Sept, 7 Dec
  - Topical research and guest experts
  - Recent findings / experience and research guidance

Contact any of us with projects, questions and ideas...:

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