University of Zurich[UZH]

CSP Center for Sustainable Finance & Private Wealth

Initiative for Blended Finance at the University of Zurich

Unleashing the Potential of Faith-Based Investors for Positive Impact and Sustainable Development

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Contents

Research Partners

The research was conducted through a partnership of academic institutions - Center for Sustainable Finance & Private Wealth (CSP) and the Initiative for Blended Finance both located at the University of Zurich - and practitioners - Roots of Impact. We would like to acknowledge the contribution of Viktoria Samberger, on whose thesis this report is partially based on. We also thank Porticus for financially supporting the study.

I. Executive Summary

Executive Summary

More than
7%
of the world's land surface is owned by religious institutions

More than 7% of the world's land surface is owned by religious institutions. This is just one example of the vast amounts of wealth steered and owned by faith-based institutions and actors. Due to the wealth, influence, values, and history of this group, faith-based investors have had a central role in driving the sustainable and responsible investment (SRI) movement. With their ingrained inclination for value-based investing and wealth management, it is no surprise that secular investors with an interest toward sustainability have a lot to learn from faith-based actors.

The key differences characterizing faith-based investors is their strong and well-defined value set. These values have allowed faith-based groups to create strict and detailed exclusion criteria leading to clearly defined sustainability approaches. When it comes to other impact approaches, such as thematic and impact investing, faith-based actors share more similarities with their secular counterpart than among themselves.

This white paper is based on field research of institutional investors with Judeo-Christian belief in Europe and the United States. Based on in-depth interviews and the shadowing of selected organizations, we find the below key points characteristic for faith-based investors and the learnings secular investors can derive from them.

Faith-based investors:

- Have formalized governance structures responsible for value-based decisions, such as an ethics committee, participating in the investment process. Faith-based investors typically have long-term investment perspective that makes combining impact and financial considerations easier.
- Are increasingly shifting their focus from negative screening and shareholder engagement towards more impact driven investments such as private market impact funds investing in emerging economies.
- Face challenges from their traditional or non-secular managers who who are bottlenecks for driving more capital towards impactful opportunities, since these managers lack the expertise or willingness to change their investment behaviors due to inertia, lack of incentives, and misconceptions about return.
- Mostly still seek market-rate returns in their investments, due to regulation or convention. While impact and financial return are not necessarily mutually exclusive, limiting investments to only those that offer market-rate returns can block investing in high-impact opportunities that result in returns, but perhaps not in competitive ones. This limits the extent of influence faiths can have to achieve developmental impact through their investment activity.

Based on our findings and in light of the goal of steering more assets toward sustainable and impact investing, we recommend:

- The facilitation of dialogues between secular and faith-based investors as well as within the faith community itself. Faith-based investors could learn from secular impact investors who have been leading the sector, while secular investors can learn from several practices of faith-based organizations in order to better better to their needs.
- For faith-based investors who are looking for impact through their portfolio, the seeking out of specialized advisors for the implementation of impact-driven investment strategies.
- The raising of awareness on impact-driven investment strategies among investors that see mission-driven work and positive impact as their priority. We encourage to go beyond market rate return investments and flexibility in regards to financial return for high impact-driven investment opportunities.

II. Why Should the Secular World Care What the Faith-Based World Is Doing

Why Should the Secular World Care What the Faith-Based World Is Doing

92%
33%

growth in thematic and impact investing in the recent years

According to The Oxford Handbook of Corporate Social Responsibility, since the very early steps of investing, religion has been the first motivation for socially responsible investing.[1] A common way of defining the faith-based approach is investing in a way that does not violate the investor's religious beliefs. This approach manifests in various sub-terms such as faith-based investing, morally responsible investing, faith consistent investing, value aligned investing, biblically responsible investing, and Sharia compliant investing or Islamic investing. As such, faith-based investing is regarded as a special subset of Socially Responsible Investing (SRI).

Despite being historical pathfinders, faith-based investors have since lost their position as thought leaders in the SRI movement. The investment industry has seen massive growth in thematic and impact investing in the recent years – of 92% and 33% per year respectively – yet the faith-based community has not been keeping up with the industry, let alone leading it.

Nevertheless, faith-based investors have the ability to contribute to the further development of the industry going forward, due to their history and potential.

The history of faith-based investing

Faith-based investing is often regarded as old as religion itself. The impact of faith-based investment decisions reached public knowledge through early activism through shareholder engagement on social and environmental topics. Several divestment movements have since been driven by religious investor institutions, and examples range from protests against the apartheid system in South Africa and the fossil fuels industry more recently.[2] A concrete example can be found from the early engagement of religious institutions in the fossil fuel divestment movement starting in the beginning of the 2000s, followed by the announcement of the Church of England in 2015 to divest their 9 billion pound investment fund from the most heavily polluting fossil fuels.[3]

Accounts of faith-based organizations pioneering in the community development impact investing field are also common. For instance, both Oikocredit and the Genesis Community Loan fund are faith-based impact investing organizations that pioneered the sector. Oikocredit, a USD 1 billion sustainable development financing organization, provides microcredit and financing for small and medium enterprises (SME) in emerging markets where access to credit is limited. The Genesis Community Loan fund has in turn provided capital to develop affordable housing and community facilities for vulnerable populations since 1991.

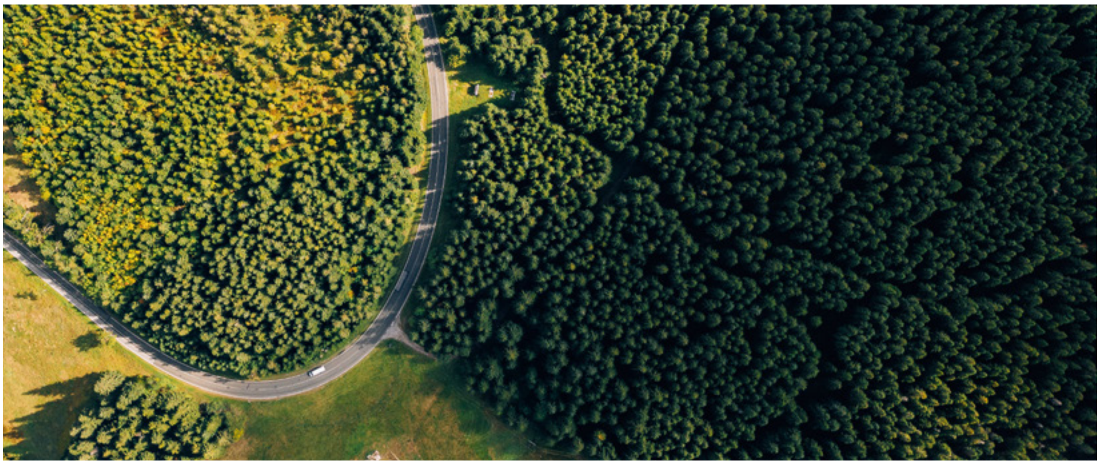
The above developments might all seem as natural steps, given that faith-based organizations have been the first "social service providers" of humankind, being the first to deliver services for health, education, nutrition, farming, sanitation, ecology, and energy. These organizations are also the oldest fundraisers and social capital builders, having extensive experience in running programs to empower and create communities.[4]

1 Kurtz, Lloyd. "Socially responsible investment and shareholder activism." In The Oxford handbook of corporate social responsibility. 2008.

2 Goodman, Jennifer, Céline Louche, Katinka C. Van Cranenburgh, and Daniel Arenas. "Social shareholder engagement: The dynamics of voice and exit." Journal of Business Ethics 125, no. 2 (2014): 193-210.

3 Vaughan, Adam. "Church of England Ends Investments in Heavily Polluting Fossil Fuels." The Guardian, April 30, 2015, sec. Environment. https://www.theguardian.com/environment/2015/apr/30/church-of-england-ends-investments-in-heavily-polluting-fossil-fuels.

4 "Faith-in-Finance: Faith-Consistent Investing and the Sustainable Development Goals." ARC, 2016. https://jliflc.com/wp/wp-content/uploads/2016/11/Faith-in-Finance-Discussion-Paper.pdf



Potential of faith-based investors today

Historically seen, faiths have always dared to take on a leading role when it came to social development needs. Today, faiths continue to have substantial potential to create change through investments. More than 7% of global land surface is owned by religious institutions,[5] speaking of the sheer volume of wealth steered by these actors. A recent GIIN report illustrates that "[w]hile no specific figure has been estimated for total assets held by faith-based investors, there is strong evidence that illustrates vast accumulation of wealth and most likely represents trillions of global assets under management".[6]

In addition to the already existing wealth of these actors, faith-based investing has seen increasing growth in recent years. By the end of 2017, the Islamic finance industry grew to 2.4 trillion US dollars.[7] John Siverling, the executive director of the US-based Christian Investment Forum, estimates that 260 billion US dollars are invested in alignment with biblical principles, yet very little information going beyond estimations of the total sums exists as of yet. Interestingly, nearly a quarter of the approximately 90 biblically responsible investing funds in the USA, have been launched after 2015.[8]

Clearly, religious institutions have significant economic resources at their disposal. It should also be emphasized that money is only one part of how faiths contribute to sustainable development. Religious groups, institutions and individuals run schools, social agencies, and have significant political power. At the institutional level, they are able to reach a broad audience through their own networks as well as through interfaith coalitions, ecumenical groups, or faith-based transnational. This is also clearly stated in a recent publication by FaithInvest, an organization that helps religions align their activities with their values: "The reason that faith can be so powerful – for good and sometimes for bad – is its personal and community transformative power – which money can sometimes, but not always, assist."[9]

Additionally, the international recognition of faith leaders, especially the Dalai Lama and the Pope, can be seen as symbolic resources with powerful and influential voices.[10]

The Islamic finance industry grew to

2.4 trillion USD

by the end of 2017

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[5] Hillmann, Boris M., and Jan Barkmann. "Conservation: A Small Price for Long-Term Economic Well-Being." Nature 461, no. 7260 (September 2009): 37–37. https://doi.org/10.1038/461037a.

[6] GIIN. (2020). Engaging Faith-Based Investors in Impact Investing

[7] Islamic Finance Industry Grows 6% to Be Worth $2.4trn - Arabianbusiness." Accessed November 20, 2020. https://www.arabianbusiness.com/banking-finance/398813-islamic-finance-industry-grows-6-to-be-worth-24trn.

[8] Zweig, Jason. "When God Is Your Portfolio Manager." Wall Street Journal, October 11, 2019, sec. Markets. https://www.wsj.com/articles/when-god-guides-your-investment-portfolio-11570811305.

[9] "Faith-in-Finance: Faith-Consistent Investing and the Sustainable Development Goals." ARC, 2016. https://jliflc.com/wp/wp-content/uploads/2016/11/Faith-in-Finance-Discussion-Paper.pdf.

[10] Veldman, Robin Globus, Andrew Szasz, and Randolph Haluza-DeLay, eds. How the world's religions are responding to climate change: Social scientific investigations. Routledge, 2013.

Impact investing and faith – a rising trend

Increasingly, impact investing is making its way into the investment and mission strategies of faith-based organizations. The trend is most clearly seen in the three existing impact investing conferences hosted by the Vatican, as well as the emergence of new faith-based investors networks such as the Catholic Impact Investing Collaborative and JLens. These developments highlight that faith-based actors are increasingly seeking to have intentional and additional positive impact with their investments. When it comes to financing positive impact and sustainable development, impact investing has risen as one of the solutions that uses market-based mechanisms to solve social and environmental problems.

A common issue seen across the field of impact investors is the concern that investors favor financial return over social or environmental return and perceive impact investments as a substitute for philanthropic donations. This is where faiths can take on a leading role and light the path for impact investors. Faith-based investors have the ability to truly prioritize impact[11] by acting as impact-driven investors with a clear mission. Faith-based organizations have always used their assets to fund their mission. In this way, faith based actors can act as an example for aligning values with action.

An additional asset for faith-based investors is their approach as long-term holders with typically long investment horizons.[12] With this in mind, faith-based actors can play a leading role in aligning investments with long-term returns that do not come at the cost of sustainable development for short-term gains.

[11] innoFaith. "'Capitalism at Its Best': The Potential of Impact Investing for Faith-Based Institutions." Accessed September 19, 2019. https://www.innofaith.org/news/2018/11/3/capitalism-at-its-best-the-potential-of-impact-investing-for-faith-based-institutions.

[12] Goodman, Jennifer, Céline Louche, Katinka C. van Cranenburgh, and Daniel Arenas. "Social Shareholder Engagement: The Dynamics of Voice and Exit." *Journal of Business Ethics* 125, no. 2 (December 1, 2014): 193–210. https://doi.org/10.1007/s10551-013-1890-0.

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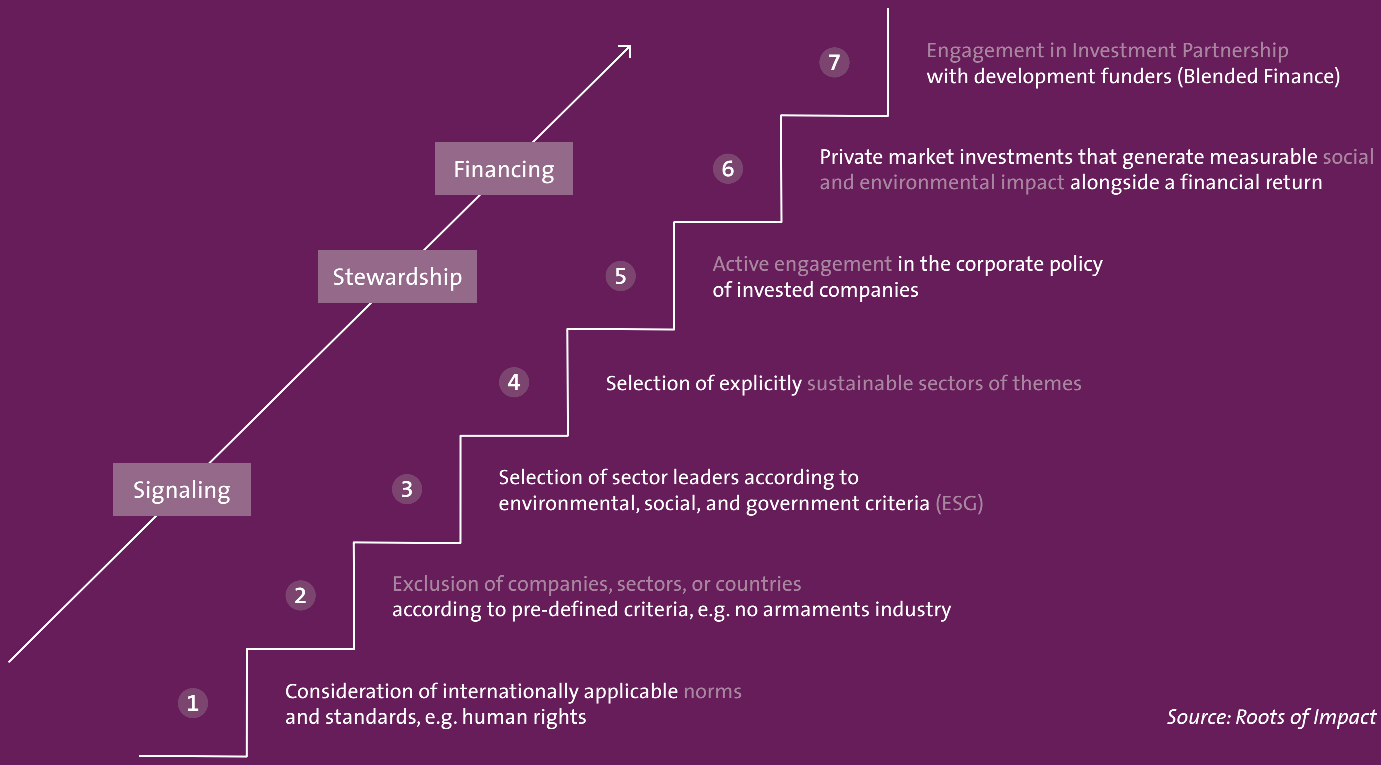
Investor Strategies To Finance Positive Impact and Sustainable Development

There are several steps through which an investor can have positive impact through the investment portfolio. The different steps and the corresponding sustainable investing approaches as well as their mechanisms are laid out below.



Source: Roots of Impact

Step 1-4 | Investments for signaling

Investment approaches such as negative screening, best-in-class, ESG integration can signal to the market that some investments are considered more or less desirable depending on their business practices. Such mechanisms have limited investor impact, given they only invest in the secondary market.

Step 5 | Stewardship

Active ownership through voting and engagement as a shareholder can influence the practices of companies, potentially leading to positive impact at scale. This is an approach allowing an investor to have impact in public markets.

Step 6-7 | Financing

Investing in private market investments allows the investor to create positive impact by financing companies and helping them grow.

For an investor aiming to have positive impact, it is important to differentiate between the impact the company has and the impact the investor has. The company owned by the investor might have positive impact, but this is not a change that the investor instigated and thus, should be seen rather as an 'impact exposure' than an 'investor impact.' Investor impact refers primarily to the changes that investor activities cause in company impact through:

a) encouraging the company to change (e.g., transition to renewable energy) (step 5) or
b) helping the company grow (more construction of wind farms) (step 6-7).

For encouraging the company to change (step 5), many investors believe the number of shares owned by the investor is a critical lever. However, research shows that engaging with the company is especially effective when:

a) an investor is influential,
b) the company is more experienced with ESG,
c) the suggested ESG practices have low implementation cost.

This indicates that the investor does not necessarily need to have large assets, as long as it has other form of influence as we can see with many activist funds. At the same time, the companies to target for engagement need to be strategically selected, as well as the changes an investor wants to implement in order for the engagement to be successful. Such an approach can create positive impact at scale and is appropriate for incremental improvements, but not transformative changes.

For more fundamental changes, investors should look towards financing companies that provide solutions to social and environmental problems, and help them grow by making capital available. Such an approach is especially effective when:

a) the dependency on external financing is great (e.g., small and young firms, immature financial markets) (step 6) and
b) when investments are done on concessionary terms (step 7).

According to research, forms of financing that create the most positive impact are:

- Making investments at below market conditions
- Taking subordinated debt or equity positions
- Providing loan guarantees
- Accepting longer terms before exit loan guarantees
- Providing flexibility in adapting investments
- Identification of investment opportunities that the market fails to notice, which usually entails increased due diligence and monitoring costs

While not all investors can invest in such flexible financing forms, many development actors are creating investment vehicles – often referred to as blended finance vehicles – to make such high impact investments accessible to even traditional investors.

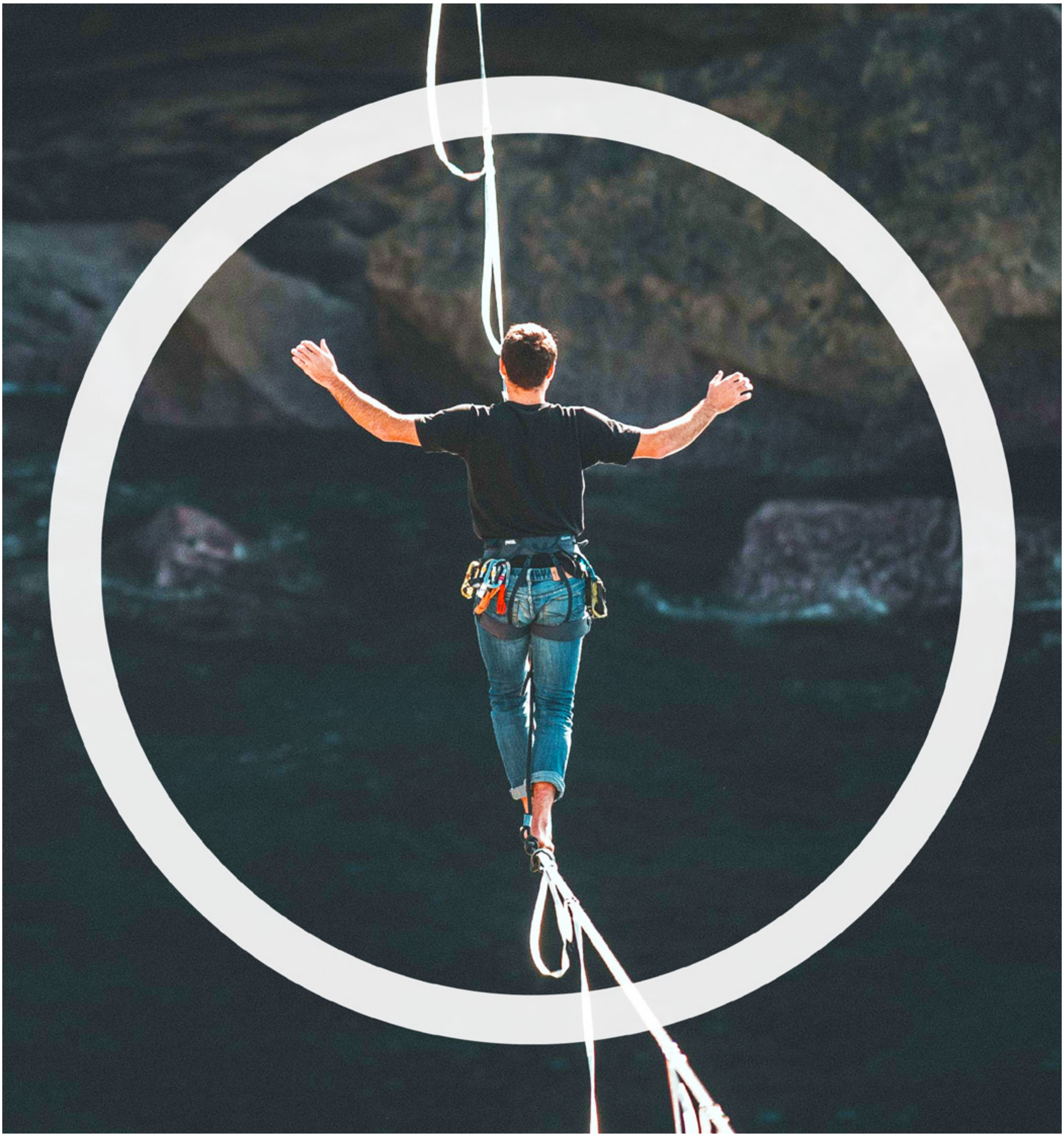
A summary of the different investment approaches, their potential investor impact, and their limitations based on academic literature can be found on the next page and behind this link (page 14-15).

Investor Impact Mechanism (based on IMP classification)		Type of Change	Evidence Level
Grow new/ undersupplied capital markets		Enabling Growth	B: Empirical Evidence
Provide flexible capital		Enabling Growth	B: Empirical Evidence
Engage actively	**Provide non-financial support**	Enabling Growth	B: Empirical Evidence
	Shareholder engagement	Encouraging Improvement	B: Empirical Evidence
Signal that impact matters	**Market signals**	Encouraging Improvement	C: Model-Based Prediction
	Non-market signals	Growth or improvement	D: Narrative

Requirements	Limitations	Typical Asset Classes
• Investments in companies with net-positive impact • Companies' growth is limited by external financing conditions. This is more likely: – For small and young companies – For companies with mainly intangible assets – In immature financial markets	• Not suited for investments in large, established companies, which have sufficient access to external financing	**Private markets:** • Private equity • Private debt • Venture capital
• Investments in companies with net-positive impact • Companies' growth depends on access to flexible capital	• Not suited for companies that have sufficient access to philanthropic or commercial capital	
• Investments in companies with net-positive impact. • Investors with know-how, reputations or networks that help companies grow faster	• Only suited for early-stage investments, where investors can directly influence the company	
• Focus on meaningful improvements that companies can achieve at reasonable cost • Investor with strong influence on a company. Influence increases with: – The number of shares held by investor – The cultural proximity with the company – Size and reputation of the investor	• Limited to incremental improvements; unlikely to transform industries	**Public markets:** • Public equity • Public debt
• Transparent ESG criteria that companies can meet at reasonable cost • Substantial portion of the market screening out or underweighting firms that don't meet the ESG criteria	• Effect unlikely for industry exclusion • Disagreement on how to measure ESG criteria	
• High level of public visibility of signals	• Impact is difficult to evaluate as it is indirect and depends on political action or cultural change	

Based on: Heeb, Florian. & Kölbel, Julian, The Investor's Guide to Impact (October 21, 2020).
More information here: https://www.csp.uzh.ch/en/research/Academic-Research/Investor-Impact.html

III. Faith-Based Investing



What Is Faith-Based Investing and How Is It Distinctively Different?

Faith-based investing means investing without violating an investor's religious beliefs. Faith-based investors can range from small communities consisting of few members to larger organizations that encompass several communities. Many faith-based investors are small to mid-sized organizations who have assets but limited investment capacity and expertise. Such organizations often find it challenging to approach and engage with their investment activities. Faiths with larger capital pools tend to have an institutionalized set-up, such as endowments or pension funds, and a professionalized team with expertise and capacity to oversee the investment process.

The different organizational set-ups of sizable faith-based investors can typically be categorized in one of three areas: pension funds, denominations and endowments, or organizations with a philanthropic mission such as foundations and development agencies.

- **Pension funds** are the largest asset owners and are similar to their secular counterparts due to their fiduciary duty and regulatory environment.
- **Denominations and endowments** can also be large asset owners with clear financial goals in order to finance their missions. Endowments typically have core programmatic activities in order to fulfill their purpose and are dependent on the returns of their investment portfolios to support this work. Therefore, they tend to invest and behave more conservatively. However, depending on the set-up, denominations or endowments can substantially focus on financing impact, such as women-led faith organizations, who are currently leading catalytic impact investing.
- **Foundations and development aid agencies** approach investing from two sides: 1) investment teams that are responsible for investing the foundation's endowment see the value of SRI and impact investing, but are limited by financial goals; and 2) program teams, which are responsible for funding impactful projects, may see the value of impact investing in creating even more impact but are concerned about becoming too commercial and drifting too far from deep impact.

The most prominent difference between faith-based investors and secular investors is their strong and well-defined value set that is easily transformed in exclusion criteria. Consequently, the biggest difference from secular investors in their investment behavior are their strict and detailed exclusion criteria, also called negative screening.

For the Catholic tradition, negative screening of activities related to arms, tobacco, and human rights violations based on international conventions is derived from the belief in the wellbeing and common of people and society. For instance, the faith-based organization Catholic Missionary Oblates of the Mary Immaculate exclude 7–10% of the US stock-listed companies based on these principles. In addition both the Holy Scriptures as well as the 'reflections and contemplations' published by the Vatican Catechism and Compendium have played an important role in their decision-making process.[13] Further examples of Christian exclusion areas can be found in Table 1.

[13] Louche, Céline, Daniel Arenas, and Katinka C. van Cranenburgh. "From Preaching to Investing: Attitudes of Religious Organisations Towards Responsible Investment." Journal of Business Ethics 110, no. 3 (October 1, 2012): 301–20. https://doi.org/10.1007/s10551-011-1155-8.

Table 1: Examples of Christian exclusion areas

Negative screens	Positive screens	Engagement	Impact investing
Nuclear weapons	Environmental policy and programmes	Proxy voting	Community development
Military armaments	Employee welfare and rights	Writing letters	Micro-finance
Tobacco	Diversity and inclusion	Shareholder resolutions filing	Affordable housing
Pornography	Transparency	Having meetings with company's representatives	Fair trade
Abortion	Supply chain labour practices	Public divesting	Clean energy or environmental management

When it comes to investing for positive impact and sustainable development, meaning investments 'for' instead of 'against' something, the investment behavior of faith-based organizations substantially overlaps with secular investors. This can be identified especially when talking about the SDGs. One of the interviewed asset owners consulted for the research explained that "as a faith-based investor, our ethical investment policy comes from our faith-based values and mission, so we look at those and map them out to sustainable impact themes, which in turn, we then map out to the sustainable development goals. [...] They are fairly standard what you see like health, education, energy efficiency, renewable energy." This indicates that faith-based investments that are 'for' something are similar to secular ones. Table 2, which has been put together based on academic research and our interviews, depicts examples of how Christian values are linked to the SDGs.

Table 2: How Christian values correspond with SDGs

Christian Value	Explanation	Corresponding SDGs
Creationism	Creationism is a belief that God has created the world which implies we are living in God's world, a world that is not governed by blind chance but by a faithful creator. This principle applies to the physical environment but also to individual human beings which in turn derives the values of stewardship and agapism.[14]	SDG13 Climate Action; SDG14 Life Below Water; SDG15 Life on Land
Stewardship	Stewardship refers to the idea that we are entrusted with God's world and therefore shouldn't exploit it but take care of it. The Church of Scotland elaborates on the magnitude of this responsibility: "Human beings have been given dominion over the earth... but with these privileges comes the responsibility to exercise this God-given dominion and intelligence, as stewards called to serve God's purposes by sharing the earth's resources with others, showing special concern for the poor, caring for living creatures and conserving the environment for future generations."[15]	SDG7 Affordable and Clean Energy; SDG11 Sustainable Cities and Communities; SDG12 Responsible Consumption and Production
Agapism	Complementary to Stewardship, the Christian value 'agapism' is the belief in selfless, charitable love that consists of two components, namely the love and worship of God as well as the service to disadvantaged people.[16]	SDG1 No Poverty; SDG2 No Hunger; SDG3 Good Health and Well-Being; SDG4 Quality Education; SDG5 Gender Equality; SDG6 Clean Water and Sanitation; SDG10 Reduced Inequalities; SDG16 Peace, Justice and Strong Institutions
Engagement	Engagement can take the form of 'prophetic ministry of denunciation' where the churches speak out against injustice or the form of pragmatic engagement where the churches seek practical solutions.[17]	SDG17 Partnerships for the Goals

One aspect that might still be unique to faith-based investing that is 'for' something is evangelicism. Evangelicisim denotes the approach of Christians seeing it as their mission to evangelize and convert everyone to Christianity. In investments, this takes the shape of, for example, investing in Christian companies or entrepreneurs. However, many faith-based investors consider evangelicism as an uninvestable theme, especially within their liquid portfolio, and prioritize other themes for their illiquid portfolio. However, some invest in this 'theme' through funds that support faith-based entrepreneurs or start-ups.

14 Kreander, Niklas, Ken McPhail, and David Molyneaux. "God's Fund Managers: A Critical Study of Stock Market Investment Practices of the Church of England and UK Methodists." Accounting, Auditing & Accountability Journal 17, no. 3 (January 1, 2004): 408–41. https://doi.org/10.1108/09513570410545803.

15 Calkins, Martin S. J. "Recovering Religion's Prophetic Voice for Business Ethics." Journal of Business Ethics 23, no. 4 (February 1, 2000): 339–52. https://doi.org/10.1023/A:1005989824688.

16 Kreander, Niklas, Ken McPhail, and David Molyneaux. "God's Fund Managers: A Critical Study of Stock Market Investment Practices of the Church of England and UK Methodists." Accounting, Auditing & Accountability Journal 17, no. 3 (January 1, 2004): 408–41. https://doi.org/10.1108/09513570410545803.

17 Kreander, Niklas, Ken McPhail, and David Molyneaux. "God's Fund Managers: A Critical Study of Stock Market Investment Practices of the Church of England and UK Methodists." Accounting, Auditing & Accountability Journal 17, no. 3 (January 1, 2004): 408–41. https://doi.org/10.1108/09513570410545803.

Investment Characteristics of Faith-Based Investors

While acknowledging the diversity of faith-based investors, one can nonetheless identify a few characteristics shared by most actors in the space:

1 Low-risk appetite and market-rate return expectations

2 Dependency on external advisors and managers

3 Acceptance of higher management fees for faith-alignment

4 A desire to collaborate or join communities

1. Low-risk, market-rate return

Faith-based investors usually tend to pursue rather low-risk, market-rate return investments. The main reason for this is seeing the purpose of the portfolio as the source of funding for programmatic work or retirement schemes.[18]

Consequently, even though faith-based investors have a history in SRI, their uptake of impact investing has been limited. According to a 2019 GIIN Faith-Based Investing Survey, the percentages of assets under management by investing strategies were 88% for divestment and negative screening and 61% for ESG screening. Impact investing represented a mere 11%.

2. Dependency on external advisors and managers

Faith-based investors often have limited internal financial expertise and are therefore heavily reliant on their advisors and managers to guide and execute their investment strategies. Investment activities are also often not seen as the primary purpose of religious institutions, hence investments sometimes lack the needed attention. Consequently, if advisors or managers are not informed about or interested in SRI and impact investing, faith-based investors will have little to no exposure to these opportunities and topics.

3. (Willingness to accept) Higher costs for faith-alignment

Faith-based funds usually have a smaller size of assets under management which increases the expense ratio. Further additional costs occur because companies need to be constantly monitored in order to guarantee alignment and compliance along the investment horizon.

An additional topic is that faith-based funds tend to prefer small-cap companies as larger companies are more likely to be engaged in undesirable activities. Islamic funds in particular have to invest in less-than-optimal leverage companies as the use of conventional debt is prohibited. Additionally, Sariah-compliant forms of investment transactions are exposed to double taxation in various countries.[19]

This indicates that in general, faith-aligned investing incurs a higher cost. Given the recent growth of faith-based investments, many asset owners seem to be willing to accept the additional cost.

4. Desire to collaborate or join communities

Many faiths are quite community-oriented and seek out groups and communities with similar perspectives and challenges. Many of the interviewees have expressed the desire to connect with 'like-minded investors' to share experiences and co-invest. The possibility of establishing working groups or cohorts on specific topics has been floated as a means of accelerating the adoption of impact investing among faith-based investors.

While religious values are key drivers of building such a community, it does not necessarily need to be limited to faith-based investors. The extended SRI and impact investing community could benefit from the practice of faith-based organizations of building grassroot networks and inter- and intra-religious collaborations.

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18 "Engaging Faith-Based Investors in Impact Investing." GIIN, 2020. https://thegiin.org/assets/Engaging%20Faith-Based%20Investors%20in%20Impact%20Investing_FINAL.pdf.

19 Davis, Miles K., Wafica Ali Ghoul, and Clifford F. Thies. "The Performance of Faith-Based Mutual Funds: A Matched-Pair Approach." Journal of Applied Business and Economics 19, no. 7 (October 30, 2017). https://www.articlegateway.com/index.php/JABE/article/view/742.

IV. Methodology and Scope

The three research questions investigated in this white paper are:

1. How do faith-based investors make investment decisions?
2. What are the challenges and drivers for impact-driven investments among faith-based investors?
3. What are some key learnings that can be derived from the case studies?

The white paper is based on extensive desk research based on academic and non-academic literature, using key words such as 'faith-based investing', 'faith-aligned investing', 'biblical investing', 'Sharia compliant investing' across databases such as Web of Science and Google Scholar. The non-academic literature has also been collected through getting in contact with faith-related organizations such as FaithInvest, Interfaith Centre for Corporate Responsibility (ICCR), and the Catholic Impact Investing Collaborative (CIIC) as well as secular organizations such as the GIIN.

The desk-research is supported with findings from field research and interviews with 11 faith-based investors, 2 asset managers consulting faith-based investors, and 1 organization that educates asset managers about faith-based investments.

Table 1: Breakdown of the interviewees

Asset owner	11
Asset manager	3
Total	14

Endowment / denomination	7	Women-led denominations	3
Pension fund	3		
Aid agency	1		
Asset manager	3		
Total	14		

Europe	7
USA	6
Australia	1
Total	14

The interviews were conducted in a semi-structured interview approach. The conversations were recorded, transcribed, and coded in order to guarantee scientific rigor. The interviews were complemented with two roundtable discussions.

Due to the research focus, we chose a theoretical sampling strategy, which means we specifically approached religious organizations that are in the planning phase and to some degree implement sustainable and impact investing. We limited our work to investors with Judeo-Christian faith. The reason to focus on these two denominations is based on the scale and influence of the two religions, as well as the accessibility to data. Furthermore, we focused on institutional investors, excluding individual investors. Interviewees represent primarily asset owners, but 3 interviews were carried out with asset managers that work with faith-based investors. This enabled the triangulation of findings from the interviews.

V. Findings

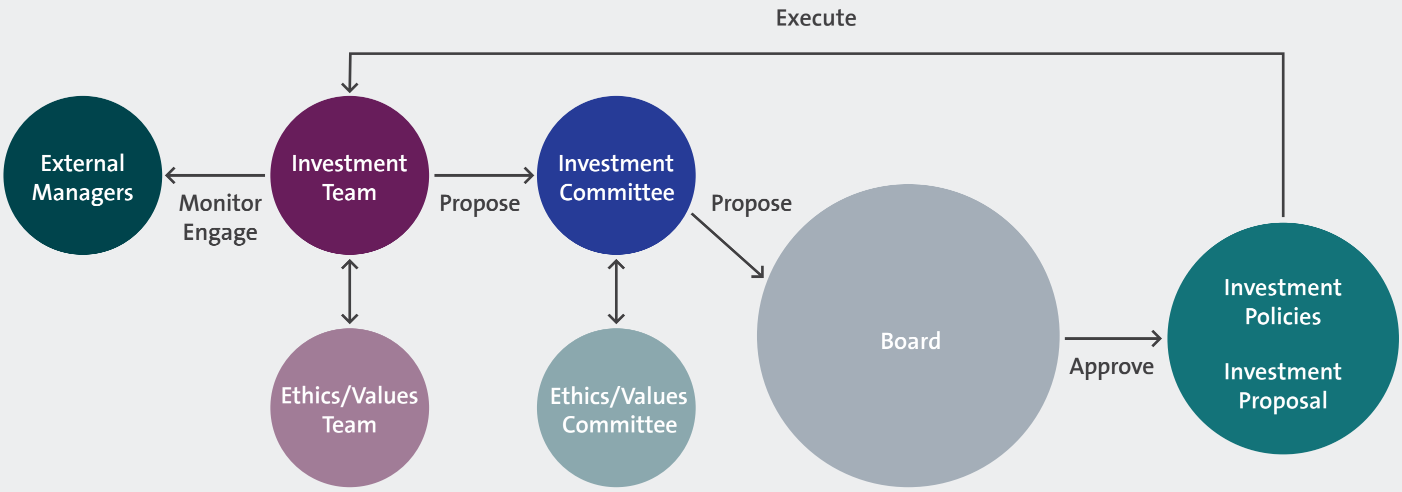
Findings

In order to manage the complexity of the data generated, the findings have been organized along the lines of the three research questions and zoom in on the investment decisions, challenges and drivers, and learnings from faith-based investors.

Given the diversity of faith-based investors, it is impossible to find a single investment decision-making process that would apply to all faith-based organizations universally. Nonetheless, the research process found a few commonalities.

Graph 1 visualizes a typical investment decision-making process of faith-based investors. It implies a rather sophisticated decision-making process, which can be found in organizations that have a large pool of capital. The key parties involve the board, ethics committee, investment committee and investment team. The investment team either invests directly or through investment managers, selecting and monitoring the investments or managers. This is consulted with an ethics/values team (whether institutionalized or more casual) to make sure the investments correspond to the values of the organization. Afterwards, the final investments are proposed to the investment committee and is approved by the board on a final level. Once the proposal is approved, the investment team executes it. A more detailed description of the activities of the key parties can be seen below.

Graph 1: The typical investment decision-making process of a faith-based organization



Board

The board officially holds the final word in the investment decision-making process. It consists of internal as well as external experts, with the internal members often coming from faith and the external members bringing in financial expertise. One of their primary responsibilities is to create clear investment policies and to give a direction for the investment team. Therefore, many dialogues between ethics, theology, investment, and business considerations take place in the board. These discussions in turn influence final decisions.

Ethics Committee

The ethics committee can take multiple places in the governance structure. It can be a) a sub-committee of the board, b) a sub-committee of the investment committee, or c) an independent committee that advises the board, investment committee, or investment team whenever required. The members mostly have a theological and ethics background, especially when highly independent. The committee is assigned the task of exploring set topics from an ethical and theological perspective, and is therefore responsible for providing guidelines and investment policies. In practice, the committee is usually in charge of setting exclusion policies on a higher level. When the investment team is undecided on the operationalization of certain investment policies, the ethics committee is consulted on the subject matter on an individual basis. The existence of an ethics committee is fairly unique to faith-based investors. Their role can be limited to creating only the exclusion policy. However, it can also play a much larger role, such as leading engagement activities or developing thought leadership on certain topics. For instance, the Church of England has led the Transition Pathway Initiative (TPI), which is an initiative for asset owners that assesses companies' preparedness for the transition to a low-carbon economy. The efforts have been partially driven by its Ethical Investment Advisory Group (EIAG), which is the ethics committee overseeing the endowment, pension fund, and investment branch of the Church of England.

Investment Committee

The investment committee is a sub-committee of the board and consists primarily of members with a financial background. The members are mostly external but work closely with the investment team. The committee's responsibility is to approve investment proposals of the investment team. However, for important or difficult decisions, especially when they are at odds with the opinion of the ethics committee, the proposal is brought to the board for a final decision.

Investment Team

The investment team is in charge of selecting, monitoring, and engaging with external advisors and managers. Their responsibility is to operationalize investment policies and execute investments and operationalize policies. The team is usually relatively small, sometimes being as few as one or two people. The size and expertise of this team varies across organizations and reflects their level of financial sophistication. While the final word in the investment decision lies with the investment committee and the board, the investment team has the largest influence in the investment process. At the end of the day, it is the investment team that decides which investments they find appropriate to propose. The team is the one with most finance expertise and works in direct exchange with advisors and managers. The committee and board generally respect the fact and try to not interfere with micromanagement. While many faith-based organizations depend on external advisors and managers, there are a few activities that are executed in-house, such as selecting impact investments and executing engagement activities. However, when it comes to faith-based investors leading in impact investing, they embark on building up in-house capabilities, once they realize that their advisor and manager have little expertise in selecting impact investments. With time and more experience, they also find advisors who have the matching expertise in selecting impact investing opportunities.

External Managers

External asset managers have a crucial role in the investment process, especially as most organizations depend on their managers to select underlying investments. The asset managers usually have more investment expertise and are therefore a more efficient and cost-effective option for faith-based investors than having an in-house team that invests directly. The increasing trend of SRI is also reflected in the increasing number of managers that understand and apply SRI, which provides faith-based investors with more opportunities. Naturally, the collaboration between the investment team and the external asset managers requires clear communication on expectations and on the intentions of their investment policies, but few faith-based investors expressed difficulties with the process of discussing them with their managers.

Investment Policies

Due to the well-defined values, all of the faith-based investors consulted for this research had investment policies, which consist, to a large degree, of negative screening criteria. Larger organizations often included proxy voting and engagement policies as well as ESG criteria. However, the uniqueness of faith organizations is reflected more in negative screening policies, especially around topics such as bioethics and reproductive health, and less so in positive screening policies.

CASE STUDY

Implementing Impact Investing: How To Start

There are many paths how a faith-based organization can implement more impact investing throughout their portfolio. Based on our research, we have listed some key steps and mentioned illustrative cases.

Depending on the organization, the investment team would use several steps, either alone or in combination over time, to implement impact investing:

a) C-level executive(s) develop(s) capabilities,
b) hire someone new with expertise, and/or
c) identify an advisor specializing in impact investing.

Three case examples implementing impact investing:

A Franciscan Sisters of Mary

CEO developing capabilities in impact investing

B Missionary Sisters of the Sacred Heart, Church Commissioners

Hired an impact investing specialist

B Phoenix Capital

Advisors specializing in impact investing advising faith-based asset owners

Christian Super, a Christian pension fund in Australia, is a special case in that regard. Having built up in-house expertise in impact investing since 2006, they decided to spin-off the team into an advisory and manager firm called Brightlight that focuses on impact. While it is not uncommon for larger faith-based investors to eventually set up a separate investment management firm, Brightlight is special in focusing entirely on impact investing and providing services to other asset owners from the very beginning too.

While the three approaches are not the only pathways to construct a more impact-driven portfolio, our research and the cases show that these have been the key drivers in the implementation process.

Another way faith-based organizations can align their investments with their values is through being an active owner and engaging with their investees. Larger faith-based investors that struggled to commit a substantial amount to impact investing, due to the high cost of due diligence mostly, focused instead on engagement to create impact at scale.

Given that the values of the faith need to be represented and communicated for such engagements, in almost all the cases, the investment team, together with other divisions (e.g. ethics committee), was responsible for engagements. In addition, the team would engage with their asset managers to increase their SRI efforts and capabilities, something that smaller faith-based organizations often choose to do too.

Categories of Faith-Based Investors

As mentioned earlier, institutional faith-based asset owners can be roughly categorized in one of three areas: denominations/endowments, pension funds, or foundations and development aid agencies. The following section further elaborates on their differing objectives, investment behaviors, and approaches to impact investing.

Denomination/Endowment

Investment objective

Generate return for the church to maintain its operations and work on its mission.

Investment behavior

While the objective is to generate return, liquidity, return requirements, and regulatory restrictions are not as limiting as for pension funds. Some investment teams of endowments are increasing their impact investments within their various mandates, but it is not their main focus.

Approach to impact investing

Impact is mainly achieved through church activities. Only few see investment activities as part of a tool to create impact. When there are more impact-driven investments made, it is usually as part of the church's mission activities and the decision is thus not driven by the investment team. Similar to corporate investors in the secular world, the impact-driven investment needs to be aligned with the church activities.

Pension Funds

Investment objective

Generate return for pension fund beneficiaries and support their retirement.

Investment behavior

Operate with clear financial targets, liquidity, and investment constraints imposed by the regulatory and market environment. More explicit tension between financial objective and impact.

Approach to impact investing

Impact investing can be a differentiator in a market where employees have the option to choose their pension fund. It is, among other things, seen as a business opportunity. However, impact is not the only differentiator, and when it comes into tension with market and regulatory constraints, it is not prioritized. Larger pension funds focus more on 'liquid impact' than smaller, private market investments.

Development Agency / Foundation

Investment objective

Run and finance programs to create social (and environmental) impact.

Investment behavior

Have their own assets and/or receive funds from denominations, government agencies, donations, and grants for operation and thus, 'investment' means financing development projects. In line with secular aid agencies, faith-based agencies express interest in deploying their assets more effectively and efficiently.

Approach to impact investing

Impact investing is seen as an alternative to grants. The interest is driven by the desire to provide more effective and efficient programs for development. The push-back does not come from the tension between financial return and impact, but rather from the existence of financial return and its philosophical implication. When it comes to investing own assets, the investment team is more welcoming of impact investing but faces similar challenges and restrictions to those in the endowment category.

CASE STUDY

Women-Led Organizations

Female faith-based investors, also referred to as nuns or sisters, stood out among the interviewees in a special sense. They commit a substantial share of their portfolio towards impact investing, which even includes impact-first or concessionary investments. As one of our asset owner interviewees explained: "Women-led religious organizations are committed to their mission and are often far more socially radical and adhere to social justice principles more stringently than any mainstream secular impact investor. They have that very passionate, fiery justice DNA in them."

Contributing factors to why these organizations are able to be more radical and concessionary in their impact investments are: declining in numbers in sisters, liquidity events (e.g. selling hospitals), and decisions to 'spend down' as in spend the entire portfolio as long as it supports the last sister. Especially due to older and fewer members, these organizations make a decision against establishing a perpetual endowment, and, instead, use the money for their mission during the lifetime of the community, while remaining financially independent and prudent to care for themselves.

It is unclear why women-led organizations dare to be so radical, but one aspect might be that highly mission-driven organizations are a self-selecting group. In other words, you become a sister when you feel very passionate about a cause, such as giving back to the world.

Challenges in Implementing Investing for Impact and Sustainable Development

There are challenges that are faced by faith-based investors and these are usually comparable with those of secular investors. Here we note five prominent challenges faith-based investors struggle with to successfully implement impact investing.

Lack of strong leadership

might be the most decisive challenge on the impact investing journey. Similar to their secular counterparts, getting explicit endorsement from top management is an obstacle for many, especially for highly institutionalized organizations. A lack of diversity in the board, committees, and management reinforces this challenge and hinders effective decision-making and the changing of mindsets.

Perception of below market-rate return

constitutes a typical challenge for institutional-quality impact funds. Due to financial targets imposed by regulation, internal requirements, or market conditions, many faith-based organizations are restricted to investing in market-rate, institutional-quality funds. However, when neither the investment team nor the advisor or manager has exposure to impact investing, such funds might seem few and far between.

Lack of knowledge and experience

can keep the organization from going further than conventional SRI. The challenge appears in the shape of a misconception on the trade-offs between impact and return, as well as in the form of a lack of expertise to effectively implement impact investments.

The dependency of faith-based investors on financial advisors and managers

was noticed to be a hurdle in many organizations. In some cases, managers are legacy managers and lack expertise on the impact investment industry. Such managers would not be able to bring suitable investments for a faith-based investor that wants to start implementing more impact within its portfolio.

The lack of willingness to adapt of a legacy advisor or manager

is also not there, given that the relationship has survived long without such a new approach. In other cases, while the manager might be able to provide impact investing opportunities, the asset size of the faith-based organization is not large enough for the manager to accommodate the organization's customized needs.

This lack of willingness from a traditional advisor or manager is also due to the structural challenges that managers face themselves. Managers have a list of products they can offer to their clients, which is created after doing due diligence on chosen investment opportunities. Many impact funds are coming from smaller and newer funds and therefore, do not yet have the track record or size that the manager would accept to do due diligence on. This means faith-based investors looking for impact investing are less likely to find a satisfactory offering through their legacy manager.

Lastly, unclear and unstandardized metrics for measuring and monitoring impact is another typical challenge stated as an obstacle along the impact investing journey.

Drivers for Implementing Investing for Impact and Sustainable Development

The emergence of investing for positive impact and sustainable development often follows a step-by-step journey, starting off with exclusion criteria, transitioning to positive screening and ESG integration, before making the step toward impact investments and innovative and blended finance (Graph 2).

Most faith-based investors have implemented exclusion or negative screening from the very beginning of their investment activities. With the spread of ESG investing, many faith-based investors are also joining the wave and trying to integrate ESG criteria across all of their investments. For a lot of larger endowments and pension funds, this has already been implemented ahead of the curve, and also combined with engagement activities to have impact at scale.

However, the majority of organizations seem to be either in transition or still reluctant when it comes to investing for impact and sustainable development. Furthermore, faith-based investors who have committed to concessional impact investments are a rarity, despite their natural fit to achieving the mission of many of these faith-based organizations. Nevertheless, there are industry best practices that have been identified. The key drivers that helped or triggered the transition toward each step will be discussed in the following part.

Graph 2: Steps towards an impact-driven investment strategy

Step 1	Step 2	Step 3	Step 4
Exclusion	ESG Integration	Impact (market-rate)	Impact (concessional)
“We do not want to profit from activities that go against our faith.”	“We want to further align our faith with our investments, without changing our investment strategy too much.”	“We want to put our portfolio to work to create impact, without sacrificing financial return.”	“We want to maximize impact by implementing market mechanisms.”
		• Public market - engagement • Alternative - impact investing	• Mission activities • Winding down assets

Little exchange between the two divisions

Steps 1 & 2

The first step, exclusion, is traditionally widely implemented by faith-based investors due to their well-defined value sets. For faith-based investors, defining negative screening policies is usually not a challenge and just a matter of execution. In order to commit to ESG integration, however, it is necessary to have a senior employee or committee member that is passionate about the topic and drives the agenda forward. Implementing a new strategy requires resources, which are not readily available without any commitment from senior leadership. The transition to a younger generation of investors and stakeholders also fosters the step towards full ESG integration. Younger investment committee members and other stakeholders are more likely to start asking questions on sustainability and thus demand more ESG integration.

Step 2 to Step 3

The transition to market-rate impact investments is encouraged through knowledge sharing and community building. For example, peer group story sharing and peer group commitments such as the Catholic Impact Investing Collaborative (CIIC) pledge inspire other faith-based organizations and help them make the transition. Community engagement can be triggered through professional friends in the industry who call for collective effort to promote and engage with impact investing.

Another drive to make the leap towards impact investments is finding advisors with expertise. Faith-based organizations that do not have internal financial expertise rely fully on their financial advisor/manager as their counsel and therefore advisors are often gatekeepers moving toward impact investments. While it is more likely that an organization's internal impact advocate asks questions and pushes the topic forward, it is not unheard of that a financial advisor starts to trigger such discussions within the organization.

Step 3 & Step 4

While there is a strong division between market-rate and concessional impact investments, there are cases that successfully transition from market-rate to impact investing. For instance, faith organizations that are winding down their assets are able to screen investments according to their impact and finance it on concessional terms when necessary. They see investments as a way to continue their mission and with no requirements to grow or maintain the portfolio in perpetuity, and hence have the freedom to invest for maximizing impact. This can especially be observed among sister organizations (see case study on p. 26). Faith-based development agencies are also approaching impact investing from both sides, where the endowment considers market rate return impact investments and the program teams engage themselves with concessional financing for positive impact and sustainable development. While in many cases, there is little exchange between the investment arm and the philanthropic arm of the organization (see graph 2), a greater alignment between them or a possible collapsing of them would lead to further impact investments and disseminate the learnings to different parts of the organization.

Enablers of Impact

An organizational structure that is relatively unique to faith-based investors and helps fasten the transition to investing for positive impact and sustainable development is the existence of an ethics committee. Regardless of the governance form it takes, the ethics committee takes the role of constantly reminding the investment team to think of values and brings it into the discussion. Such practice enables the investment team to be aware that investing is not a morally neutral activity and thus, allows for the team to be more open to investing for positive impact.

Another unique aspect among faith-based investors that triggers financing positive impact and sustainable development, is the existence of a supreme being and the practice of faith. While many investors express the tension - if not trade-off - between positive impact and financial return, faith-based investors engaged in impact investing had a different perspective. They still went through operational tension of having to prioritize one above the other on case-by-case bases. Yet, these faith-based investors did not see this as a fundamental conflict due to their ability to take a long-term, large-scale, multi-dimensional perspective in order to resolve conflicts. Through the systematic and regular practice of reminding themselves of their faith and god's perspective in the form of a collective prayer at the beginning of the week or a community meal at the end of the week, these faith-based investors dissolved the perceived tension between impact and financial return effectively. This is a tension that traditionally holds back a lot of other investors and stops them from taking the first step toward impact.

Looking at the different categories of faith-based investors, the following key drivers for impact investments were mentioned by the interviewees:

<table>
<tr><th></th><th>Endowment/Denomination</th><th>Pension Fund</th><th>Foundation or Aid-/Development Agency</th></tr>
<tr><td rowspan="2">COMMON DRIVERS</td><td colspan="3">• A senior employee or committee member that is passionate about the topic and drives sustainable investing forward.
• Hiring of internal impact investing experts speeds up the implementation process.
• Existence of an ethics committee.
• Regular practice of faith that reminds members of the organization of the bigger picture to dissolve perceived tension between impact/mission and financial return/fiduciary duty.</td></tr>
<tr><td colspan="2">• A realization that the investment portfolio can be used as a means for good rather than just avoiding the negative.
• The notion that endowed money is accompanied by the responsibility to make it work for the benefit of society.
• Intense engagement with the asset manager through demanding to maximize the impact within their portfolios.
• Having a history of thinking about ethics materializes in ambitious board members and employees.</td><td></td></tr>
<tr><td>INDIVIDUAL DRIVERS</td><td>• Realization that (despite older and fewer members,) the mission can still be pursued through their financial resources.</td><td>• Opportunity to differentiate themselves from other funds and offer value for its beneficiaries.</td><td>• A recognition that there can be more effective and efficient ways to deploy financial resources than grant giving, and that with financial returns, there can be even more long-term impact.</td></tr>
</table>

VI. Best Practice Case Studies

The following section introduces a case for each organization type, pension fund, endowment, and development agency that implemented impact-driven investment strategies throughout its portfolio. The cases are kept anonymous for confidentiality reasons, but are nevertheless revealing enough to serve as inspiration and benchmark for other organizations.

Pension Fund A

10%
of the fund's portfolio

is invested in various sectors such as mental health, forestation, food waste

This pension fund has been founded more than 30 years ago, managing retirement funds of those of Christian faith. It manages about € 1 bn in assets under management. The objective of the fund is to generate financial return for the retirement of its beneficiaries in a way that is aligned with their values. Similar to other pension funds, it operates in a highly regulated environment and is bound by fiduciary duty.

The pension fund has an exclusion list that is updated regularly by an in-house analyst with the support of regular team discussions and the ethics committee, and results in excluding about 20% of the investment universe. The managers for the liquid portfolio are selected based on how well they integrate ESG into the investment decision. The pension fund has committed a substantial portion - 10% in 2019 - to impact investing, which is unique in the pension fund ecosystem.

The investment team consists of ten people, among which three are engaged with impact investing responsibilities: a) sourcing and screening impact investing opportunities and b) measuring and reporting impact. For sourcing and screening, they work closely with an advisor that specializes in impact investing, and the team makes sure that the opportunity fits the financial requirement as well as has impact.

The fund was one of the early institutional investors in impact investing, having made its first investments in 2006 in microfinance. While the fund has always had strong value-alignment aspect in terms of negative screening, the CEO wanted to implement more impact into the portfolio and started expanding the investment team with that idea. Since then, the fund has invested in various sectors such as mental health, forestation, and food waste, amounting to 10% of its portfolio. One of the senior employees stated, "Christians are often portrayed for things we are against. We want to demonstrate what Christian values are all about and what we are for."

The pension fund had a deeply committed top management team - the CEO and CIO - who drove the efforts. While the board did have some questions, the board members were supportive and happy to sign off for the investment team to increase efforts in investing for positive impact. In addition to the values and beliefs that drove management, it was also a business decision to provide distinctive values to its beneficiaries that would differentiate the pension fund from others. This has proven to be fruitful, given that the fund is among the fastest growing ones in terms of memberships, despite the decrease of practicing Christians in the region.

In terms of sourcing and selecting investments for positive impact and sustainable development, the team is bound by the regulatory environment and fiduciary duty. Thus, it selects only investments that meet market-rate return. However, it is 'concessional' in terms of the resources it puts in for due diligence and the investment time horizon. This shows that concessionality does not always have to be forgoing financial return of a fund but can be provided in other forms.

Pension Fund A

about € 1 bn

in assets under management

"Christians are often portrayed for things we are against. We want to demonstrate what Christian values are all about and what we are for."

Endowment B

In their engagement work, they engage with individual companies in order to improve their climate policies and employment policies among others.

This endowment fund belongs to a large church in Europe, managing the historic property assets of the church for over 70 years. The entity is managing almost € 10 bn (Interview, 2019) in assets under management. The generated money is used to support the cost of mission projects, dioceses in low-income areas, bishops, cathedrals, and pensions. Like many other endowments, this fund aims to support the work and mission of the church and spends roughly 42% of its annual charitable budget on its mission activities.

In financial terms, their returns target is 5% above inflation over the long-term. It has a diversified portfolio with multiple asset classes, including private equity/venture capital, real estate, and infrastructure.

The investment of the endowment is, together with the church's pension fund, governed by an ethical investment guideline that has been created by an independent committee. Within the organization, they recently built up more SRI and impact investing functions.

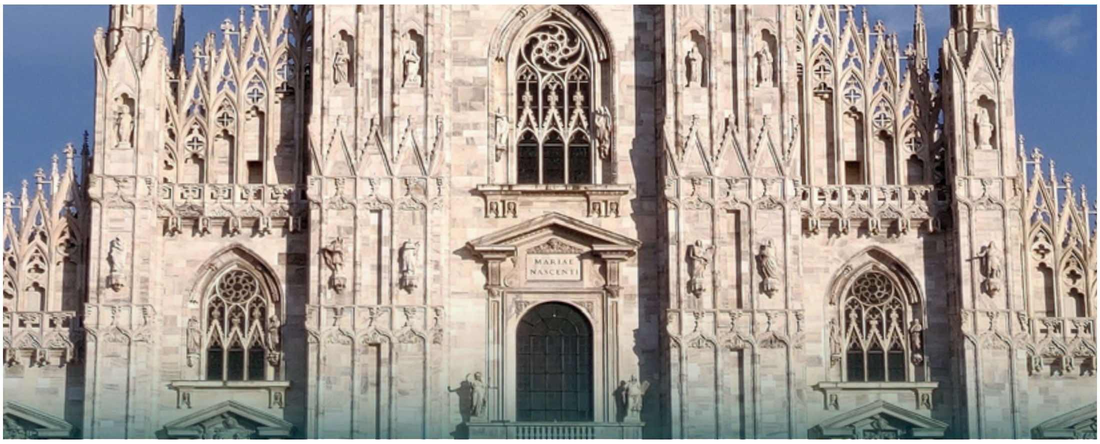
The impact investing team within the endowment is relatively new, less than 3 years old, and part of the responsible investment team, which consists of seven people. To have a seven people strong in-house investment team, is quite large for an asset owner in Europe of their size.

The responsible investment team has three functions: a) to collaborate with and monitor the external asset managers, b) engagement work, and c) impact investments. The majority of the team's capacity is, however, dedicated to their work with the asset managers. They make sure that the asset managers meet a minimum responsible investment hurdle and push them in their journey towards creating better SRI products and capabilities. In their engagement work, they engage with individual companies in order to improve their climate policies and employment policies among others.

Endowment B

almost € 10 bn

in assets under management



Employees responsible for impact investments have two tasks. First, they look at the current portfolio and try to identify where it already delivers a positive impact. This step is about awareness creation and gaining a better sense of what the endowment is already doing, which in turn, is important to know in order to scale up positive impacts. Second, they raise efforts in increasing the amount of impact investments in the portfolio. This involves sourcing opportunities that meet the financial criteria and due diligence.

The trigger for the church to decide to embark on the impact investing journey was the simple idea of using the investment portfolio as a means for good instead of just avoiding the negative. There is a strong sense of responsibility to use the endowed money to the best of its capabilities for the benefit of society. From there, it was a gradual process until impact investing became an official part of the responsible investing team.

When introducing impact investing to the endowment, one key challenge was to establish a cohesive strategy. While people were welcoming the idea, everyone still had their own opinion about what an impact investment is, what role it should have within the portfolio and how it should be implemented. To arrive at a cohesive strategy required debate and time within the investment team.

Based on the discussion, the investment team looked at their faith-based values and mission and mapped them out to sustainable impact themes, which in turn, are then mapped out to the SDGs. These sustainable investment themes are fairly standard such as health, education, energy efficiency or renewable energy. Within impact investment, the company or project has to contribute to at least one of those themes.

Considering the endowment's primary mission, they cannot take on undue risk in order to develop the impact investment ecosphere or take on the role of a catalyst. Any investments they make have to be the best possible investments from a financial point of view as long as they are within their responsible and ethical framework. However, when they do identify a potential impact investment, they devote more attention to it and put it first and foremost in their investment pipeline.

For the next steps, the church is looking into sourcing investment opportunities that focus on local communities and creates positive impact for the local society that, at the same time, also meet the financial requirements of the church.

In addition, they also aim to measure the positive impact they have in order to understand and scale it effectively, across all asset classes.

Aid Agency C

More than

90%

of the expenditures go directly to their programs

This international humanitarian agency has a Catholic background and works in countries across the globe. It is primarily focusing on humanitarian relief and to some degree on agricultural livelihoods, health, nutrition and youth employment. It has an annual budget of over € 900 million and more than 90% of the expenditures go directly to their programs.

The impact investing unit was set up five years ago and was inspired by a Vatican meeting in 2014 on impact investing. This conference discussed whether the Vatican and/or Catholics should be thinking about impact investing. The result was a strong yes, which worked as a trigger for the organization. The agency's CEO of that time was very interested in impact investing and thought it would be the way forward in development work. This led to setting up a unit that specializes in impact investing.

A key challenge when setting up the impact investing unit was that, even though the CEO and the board were very excited about it, the worldwide staff had no idea what it was and whether it was something that really could be adopted across all the country offices. The organization is completely decentralized, thus every country representative had the power to choose to go along with impact investing or not. To convince and get the buy-in from country representatives, the first couple of years were focused on facilitating learning trips where the top management sought to bring the board and country representatives to the field and to convince them to look at companies.

What is unique about the team is that it is in charge of impact investing across the entire spectrum. On the one side, it supports the investment team that is responsible for managing the reserves to integrate impact further into the portfolio. On the other side, it works with program teams on the ground and encourages them to implement market-based mechanisms. When setting up the impact investing unit five years ago, the unit decided to invest in impact funds in order to learn from them to apply to their programs. However, it became quickly clear to the organization that you cannot reach the poor and vulnerable with these institutional-quality impact funds and therefore, the learning curve from such funds was negligible. To provide relief services, the organization had to distinguish between institutional-quality impact funds and program-aligned impact investments in the private sector.

The different roles translate into a twofold investment approach:

1. A certain percentage of their reserves are taken to invest in institutional-quality impact funds on which they do due diligence and which is less risky; and

2. A program-aligned investment strategy within the private sector engagement where they invest in enterprises and vehicles that extend the skill and sustainability of their program work. The second strategy is highly risky and it is necessary that their country program center and country leader fully understand why they are working with companies where there might be opportunities. It massively favors impact over return and therefore invests in SMEs or vehicles that improve the lives of poor farmers in rural areas.

Aid Agency C

over € 900 million

annual budget

For the first investment approach, investing in institutional-quality impact funds, four parties are involved: an external committee, the in-house impact investing team, the funds committee, and the investment sub-committee of the board.

The in-house investment team regularly gets on a call with the external committee in order to vet funds they have heard about or know that there is a good fund manager. The external committee consists of impact investing experts and board members. After taking the fund through an initial negative screen, the fund committee gets involved in order to go through the pros and cons of each investment fund. In this step, questions of whether the fund aligns with the overall mission of the organization as well as questions regarding the fund's sector, impact, geography and the quality of the manager gets discussed. Ultimately, recommendations will be made for the investment sub-committee, consisting of board members and external experts.

For the second investment approach, program-aligned impact investing in the private sector, a multitude of parties is involved: the investment team, the country representative, the regional director and the internal program leadership team. On the program side, investment decisions for impact and development are not initiated top down. The country representative finds an opportunity to create scale or sustainability of their program work through collaborating with the private sector. The representative then contacts the impact investing unit of the parent organization. The unity will then determine whether or not it is a vehicle or an enterprise they want to look at. The other way around, if the impact investing unit finds an interesting opportunity in a certain country, they will first contact the country representative and ask whether this would fit their strategy and work to get their consent.

The decision-making on program work is less of a financial decision and more of a programmatic decision. Therefore, it is not an investment committee that makes the final decision but the internal program leadership team that consists of the CEO, CFO, COO, and the Head of the program. It needs to be emphasized that this team is heavily influenced by the local program workers. The investment team will vet all the financial aspects of it, such as the due diligence, and then give a recommendation to the internal program leadership to make the final decision.

The organization also recognizes that working with the most vulnerable people requires all kinds of investments and blended finance options, such as working capital loans, structured financing vehicles along value chains, and philanthropic components of blended financing.

Additionally, the international development ecosystem is also forcing agencies to start engaging more deliberately with the private sector. The pursued strategy is to make transformative change where every single implemented project now has a private sector strategy baked into it. Instead of development-as-usual, the industry and countries are asking for catalyzing the private sector.

To further the program-aligned investment efforts, the impact investing unit is now aiming for more awareness raising and education within the organization. Many program managers are still not aware of impact investing, let alone innovative and blended finance instruments, and sometimes have misconceptions about having any financial return. However, once local program managers are on board, they become a great resource for recognizing business potential and the need for investments to go into new regions and make the investment team aware of it so that they can take on the due diligence.

VII. Conclusion

Based on our research, we conclude with the following findings on faith-based investors and actions that can be taken by faith-based investors as well as other relevant stakeholders, such as wealth managers or secular impact investors.

→ Faith-based investors seeking to engage in impact-focused investing face similar problems to their secular counterparts. Having said that, the common engagement of an ethic committee in decision-making processes is a differentiating characteristic of faith-based actors. Additionally, the presence of a greater being (i.e. God) shifts the understanding of the role of investing, and eases the dissonance faced by secular investors around marrying impact and financial considerations.

Action: Foster communication between secular and faith investors. These are distinctive features that can also provide secular investors with insights and best practices to drive impact investing.

→ Faith-based investors engagement has been characterized by a focus on negative screening and shareholder engagement. There are signs that proactive investment for impact is starting to institutionalize within this space, with the formation of the Catholic Impact Investing Collaborative being representative of these developments. The movement is, however, still limited in breadth and scope.

Action: Foster communication within faith communities. There seems to be a need for a(n) (inter)faith community of impact investors, where faith-based investors can share their experiences in a trusted environment.

→ Most assets under management are managed by legacy asset managers, many of whom have little exposure to and/or interest in impact investing. This leads to a lack of impact-related deal flow and a predominant 'business-as-usual' attitude. This is one of the major bottlenecks delaying a stronger engagement in impact investing among faith-based investors.

Action: Encourage investors to seek out specialized advisors and managers for a specific part of their portfolio, if not the entire one. Legacy advisors and managers will get them only so far in impact investing. A specialized impact manager will allow the faith-based investor to learn about the topic faster and in depth.

→ Most faith-based investment still seeks market-rate returns. While this is not necessarily negative, it does limit the extent to which the faiths can influence the development of the impact investing sector and the speed with which impact can be made more central within the investing practices of faith-based investors.

Action: Raise awareness on investing for impact among faith-based investors that do mission work and see creating positive impact as their priority. This can be foundations, mission work divisions of faith-based organizations, or organizations that are no longer in a capacity to continue their work and are spending down.

Resources

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