

**Faith-Based
Investing:**
Your Values,
Your Future

GLENMEDE

Faith and Finance: Bridging the Gap to Build a Stronger Future

The past two decades have seen dramatic advancements in opportunities to align faith and finance.



Every organization wants to push its good works further, grow its investment portfolio, and live its mission more deeply. Thanks to the huge quantities of data now available about a company's performance on environmental, social, and corporate governance questions—known collectively as ESG—it's possible to closely align investments and values while still earning competitive returns.

accordance with the big picture. At Glenmede, we see that impact investing is where real opportunity for world change and earnings lies, and nothing excites us more than being able to provide the information investors need to shape their portfolios with confidence, knowing that they can implement their values and grow their capital.

The biggest—and most rewarding—challenge is helping organizations define and adapt their goals, both financial and beneficent.

Faith-based organizations feed the hungry, care for the sick, broaden spirituality, fight for healthy communities, and take on innumerable other good works. While there have been many victories, need has skyrocketed at home and abroad in recent years, putting additional strain on already-stretched funds.

Often, the hardest part of impact investing isn't investment selection. Thanks to big data, that becomes more efficient and effective every day. The biggest—and most rewarding—challenge is helping organizations define and adapt their goals, both financial and beneficent. Tools like in-depth questionnaires help us align and prioritize an institution's objectives so that we can establish a fundamental decision-making framework before embarking on this new stage of development and growth. From there, we craft a long-term strategy that shifts toward impactful investments over time, always with careful consideration of the bottom line.

How can organizations fund a better world now while still protecting their endowments, ensuring that they can continue in their missions during the decades to come?

In addition to fundraising, faith-based organizations must be smart about growing their current capital. After all, there can be no good works without sufficient means. But responsible financial stewardship extends beyond the balance sheet. Organizations are considering whether their investments run counter to their mission, and if so, how prudent it is to continue to do so.

Glenmede is committed to the power of good data. We start with a bird's eye view of a company's ESG performance. That company profile is then broken down into individual buckets to evaluate, for example, their human rights record or responsible lending practices. For every client, we customize investments around the institution's mission, focusing on what's been identified as most pressing.

Many faith-based organizations rightly recognize that simply eliminating objectionable stocks from their portfolios—a practice called negative screening—can produce the likelihood of reduced financial returns. Yet these same organizations may not be aware that negative screening is no longer the be-all and end-all of values-aligned investing.

The key to a powerful portfolio isn't just comparing high and low ESG scores, but looking at performance holistically so as to maximize positive impact and return. When setting impact goals, context matters. To that end, we work closely with clients to act in

Recent innovations have provided a broad range of dynamic tools that make it possible to reward ethical companies, influence other companies to do better, and earn returns that meet or beat the market. There is ample opportunity, in other words, for organizations to use their economic power to better the world.

With Investments, Faith-Based Organizations Can Lift the World (and Their Endowments)

THE HISTORY OF FAITH-BASED INVESTING

Faith-based groups have long led the way in using the power of capital to bring about change. In the 1800s, Quakers launched the Free Produce Society, one of the first systematic, nonviolent protests against slavery. The movement began with a sugar boycott. More than 400,000 people refused to buy sugar produced by slave labor. From there, Quakers pushed further, creating their own business models for the production and distribution of goods without slave labor, proving its economic feasibility.

In 1891, Pope Leo XIII penned the [Rerum Novarum](#).¹ This highly influential encyclical on capital and labor argued that all members of society must contribute to its betterment and that all employers should pay workers a fair wage. “Each needs each other,” he wrote. “Capital cannot do without labor, nor labor without capital.”

By the following century, religious organizations from many faiths were at the forefront of negative screening—consciously and publicly ridding their portfolios of companies whose practices went against their beliefs. In the 1970s and 1980s, for example, groups divested from Dow Chemical to protest its production of Agent Orange and from South African companies in response to apartheid.

RECENT INNOVATIONS AND THEIR IMPACT ON RETURNS

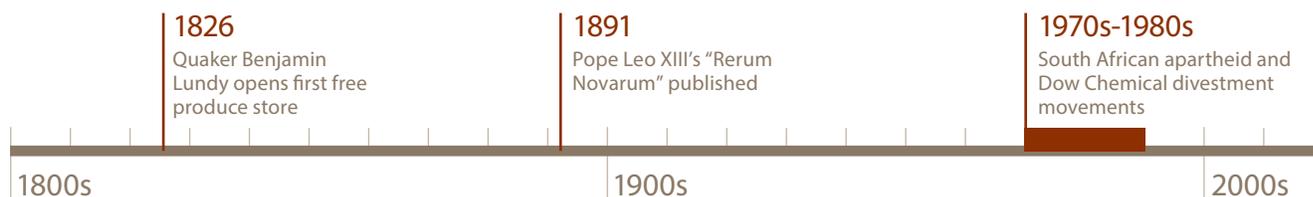
Today, faith-based organizations are empowered to do more than just refrain from supporting the objectionable. As investors and markets have

evolved, so has interest in expressing values through investments.

New creative techniques help organizations to nurture and grow the good, using their values to guide their overall investment strategy. Asset managers can divest from companies with unacceptable social or environmental practices while at the same time emphasizing—or positively tilting toward—companies that have exemplary human rights records, sustainability policies, labor management practices, or other positive attributes. Best of all, unlike previous approaches, rewarding the positive is more likely to result in [market-rate returns](#).²

Positive screening is a relatively new and increasingly popular investment technique that involves layering mission-aligned, market-competitive investments into a portfolio using environmental, social, and governance data (ESG). It’s not unlike the old rule in nutrition that says if you want to change the way you eat, you can’t just take out junk food—you have to add in new, healthy foods in order to make a long-term impact on your health. The same goes for your portfolio. Negative screening is merely a removal process, and it can remove profits right along with undesirable stocks. On the other hand, positive screening adds in new values-aligned investments, keeping portfolios in a healthier state.

1 Pope Leo XIII. 1891. “Rerum Novarum.” Liberia Editrice Vaticana.



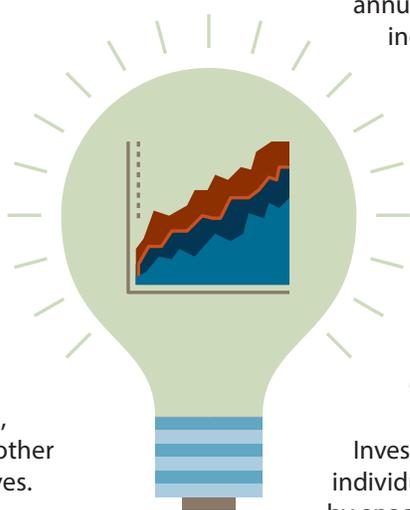
Environmental, social, and corporate governance (ESG) integration is an innovative, values-minded investment strategy. With this method, asset managers analyze companies holistically, weighting numerous factors including ESG performance. This strategy acknowledges that poor ESG performance may not only be a moral matter, but a financial one. The fallout from poor ESG may equate to increased risk and therefore have a negative effect on stock prices over the long term.³

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For example, a company with poor environmental ratings may be subject to punitive fines due to industrial pollution.

These new techniques exist thanks to the rise of big data, which allows potential investments to be broken down by a variety of metrics that were previously unavailable. There is a growing number of tools and data sets available from third-party providers, government records, advocacy groups, other nonprofits, and the companies themselves.

As public interest in mission-aligned investing grows, more organizations are making relevant data available. This, in turn, permits asset managers to produce increasingly customized portfolios. It's a circle of cause and effect that gives investors more tools and more power each time the wheel goes around. Mission-aligned investors can help "turn the wheel" faster by demanding accountability from companies on important issues and backing up their statements with capital.



Mission-aligned portfolios are not only increasingly popular—they've also proven that they can generate solid returns.

Interest in faith-aligned investing is [growing fast](#).⁴ Mission-aligned portfolios are not only increasingly popular—they've also proven that they can generate solid returns. An analysis of impact investments by [Morningstar](#) found that sustainable and responsible funds perform on par with conventional funds and that there is no performance penalty associated with choosing the latter.⁵ According to the [Forum for](#)

[Sustainable and Responsible Investment](#), the annualized growth rate of funds incorporating ESG factors in the US was 7% from 2001 to 2007.⁶ From 2010 to 2016, that number jumped to 29%. The industry will continue to strengthen as available data mounts and more investors see that they can live their mission through investments without sacrificing returns.

CREATING CHANGE FROM WITHIN

Investors—both religious institutions and individuals of faith—can amplify their voices by enacting mission-aligned strategies that couple positive screening with shareholder engagement tactics.

In one example, the Midwest Capuchin Franciscan Brothers used their position as long-term shareholders of ExxonMobil to advocate for the oil giant to appoint a climate specialist to their board. In June, [the Brothers celebrated](#) when the company did so. And the Congregation of Benedictine Sisters was one of many engaged shareholders who [convinced McDonald's](#) to stop using certain antibiotics in its chicken products.^{7,8}

3 Dunn, Jeff, Shaun Fitzgibbons, and Lukasz Pomorski. 2017. "Assessing Risk through Environmental, Social, and Governance Exposures." AQR Capital Management, LLC.

4 Taylor, Chris. 2017. "Gotta have faith: The rise of religious ETFs." Reuters.

5 Hale, John. 2016. "Sustainable Investment Research Suggests No Performance Penalty." Morningstar Asia Ltd.

6 US SIF. 2017. "Global Sustainable Investment Alliance Releases Biennial Global Sustainable Investment Review 2016." US SIF.

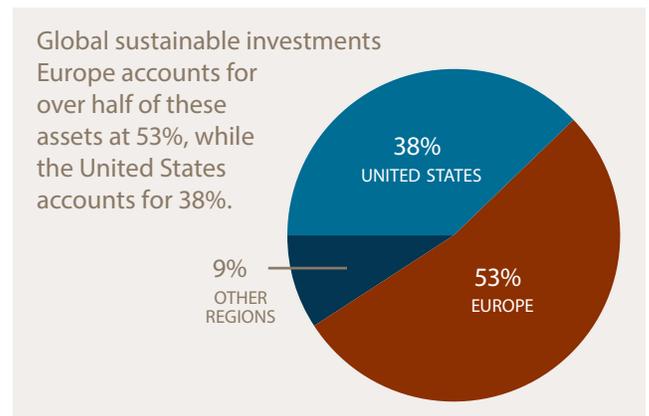
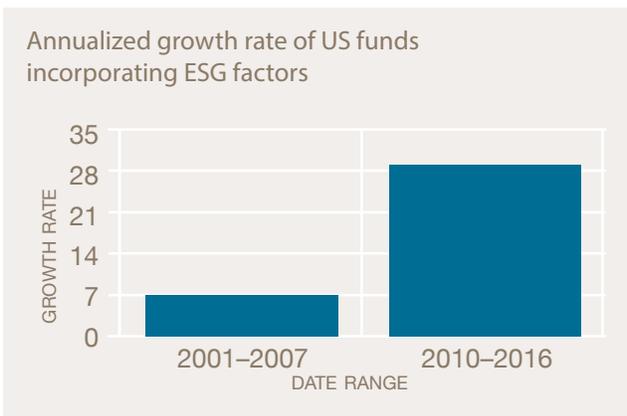
7 Arkin, Fatima. 2017. "How faith-based shareholders are pushing companies to do more on climate change." Devex.

8 Mitchell, Dan. 2015. "A group of nuns challenges McDonald's over antibiotics in meat." Fortune.

Never before have organizations been so empowered to use all of their assets to advance their mission and lift the world.

There were hundreds of shareholder resolutions filed by members of the [Interfaith Center on Corporate Responsibility \(ICCR\)](#) in the 2017 proxy season alone.⁹ The ICCR, which boasts nearly 300 member organizations, reports that its members have negotiated 28 substantive agreements with companies related to their requests.

Faith-based organizations striving to be true to their values have long considered the conversation between their investments and their missions. At the end of the day, mission-aligned investing can fulfill an institution's financial goals while paving the way for a healthier and more just world. Never before have organizations been so empowered to use all of their assets to advance their mission and lift the world. With the path to more good works laid out before them, organizations need only to take the first step.



Source: Global Sustainable Investment Alliance Releases
Biennial Global Sustainable Investment Review 2016

9 Interfaith Center on Corporate Responsibility. 2017. "ICCR's 2017 Shareholder Resolutions." Interfaith Center on Corporate Responsibility.

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DISCLOSURE

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