BRIGHTLIGHT
An EverSource Wealth Advisors Team.

Research Paper

State of Play for Faith-Based Investment Strategies in Public Markets

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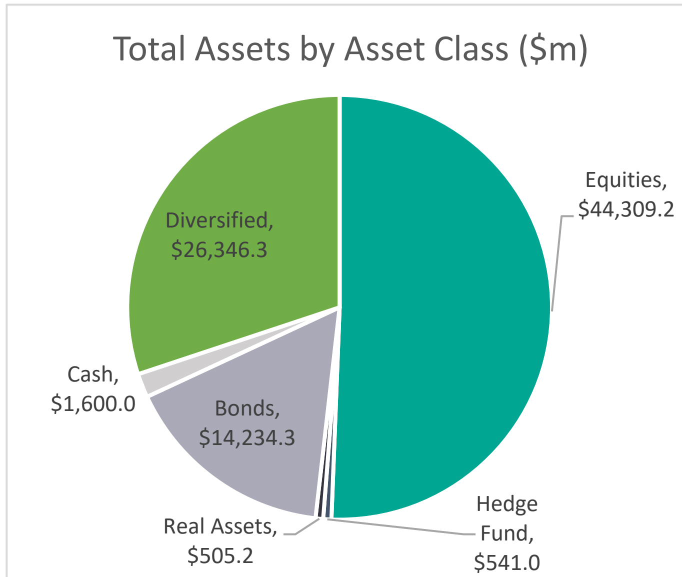
Introduction

We are observing a significant increase in the awareness by Christians of the opportunity to align their values with their portfolio. But what does this mean? What options are available, what is the state of the market and what strategies are being implemented?

The purpose of this paper is to give an overview of the state of faith-based investing in public markets. Information has been collected from various sources, including asset managers and various public reporting websites. Data represents the best information currently available.[1]

This paper is intended to focus on the market as a whole; data from individual asset managers and products has therefore been anonymized. Data was collected from products and strategies issued by a range of asset managers.[2]

Market Size



We first look at the total assets being managed in explicitly faith-oriented strategies.[3] Across the universe, we identified 155 products being managed by 19 different asset managers. We omitted 3 further managers either offering only separately managed accounts or where the structure of their product offering could not be determined.

Total assets managed by these products totaled $87.5bn. More than half of these products are in listed equities, while a further 30% are in diversified mutual funds or target date funds. The majority of assets (61%) within these diversified and target date funds were also invested in listed equities, meaning that roughly 70% of total assets available in listed assets within the faith-based investing landscape are equities.[4]

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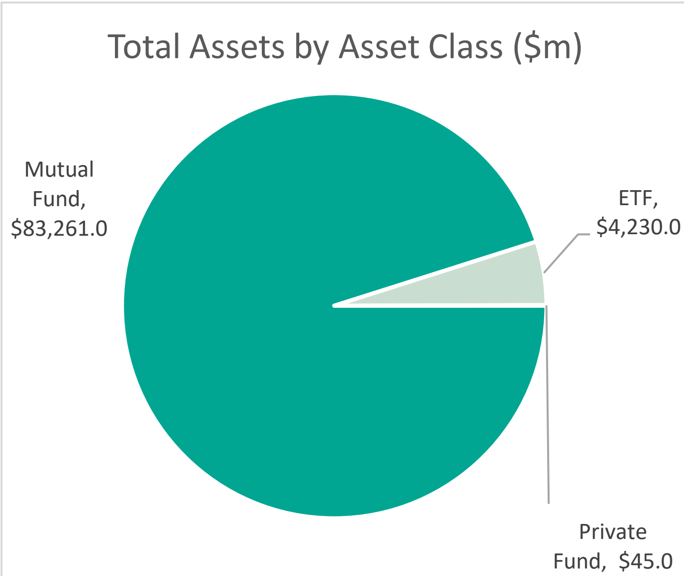
[1] Performance data is taken for the period to 31st December 2022. Strategy value data is effective 25th April 2023. Other data is effective either 28th February 2023 or 31st March 2023.

[2] American Values Investments, Ave Maria, Camelot, Capital Insight Partners, Christian Brothers Investment Services, Crossmark, Eventide, GlobalX, Guidestone, Harvest Investment Services, Inspire, Knights of Columbus Investment Services, Luther King Capital Management, New Covenant Funds, OneAscent, Praxis (including Everence), Sovereign's Capital, Stewardship Partners, Thrivent, Timothy Plan, Trinity Fiduciary Partners, and Vident Funds.

[3] This was defined as being in a 1940 Act Mutual Fund, Exchange Traded Fund or Limited Partnership where the manager specifically claimed that one or more products were being managed in accordance with a faith-based investment approach. Not included were separately-managed account strategies or mutual funds operated by secular managers with faith-based screens.

[4] Note that the total figures here probably overstate the value of the measured market due to the fact that several of the target date and diversified strategies invest in underlying equities and bonds strategies that are also counted separately.



Mutual Funds remain the strongly preferred method of accessing faith-based investment opportunities in listed markets, with 95% of assets in 1940 Act Mutual Funds. However, this is changing, with the ETFs tending to be more recent product launches. Of the products surveyed, 128 were mutual funds and 26 were ETFs.

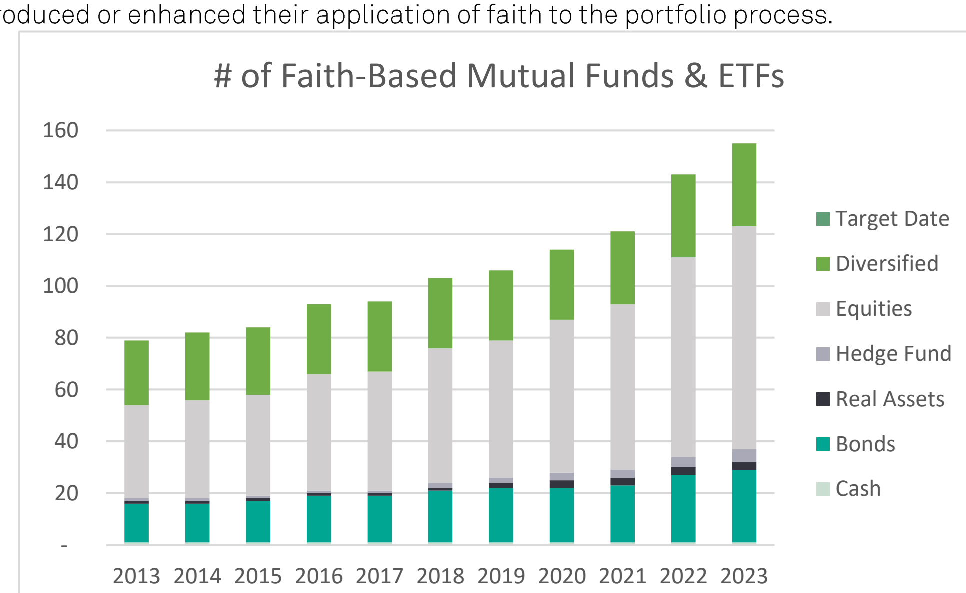
The Limited Partnership structure is less frequently used for listed portfolios and has significant limitations both in terms of operation (limited number and type of investors) and availability of information (they are not required to report publicly in the same way that mutual funds are).

In our analysis we were not able to include Model Portfolios and Separately Managed Accounts. Preliminary analysis indicates that this market is meaningfully larger than the ETF market.

Faith-Based Products

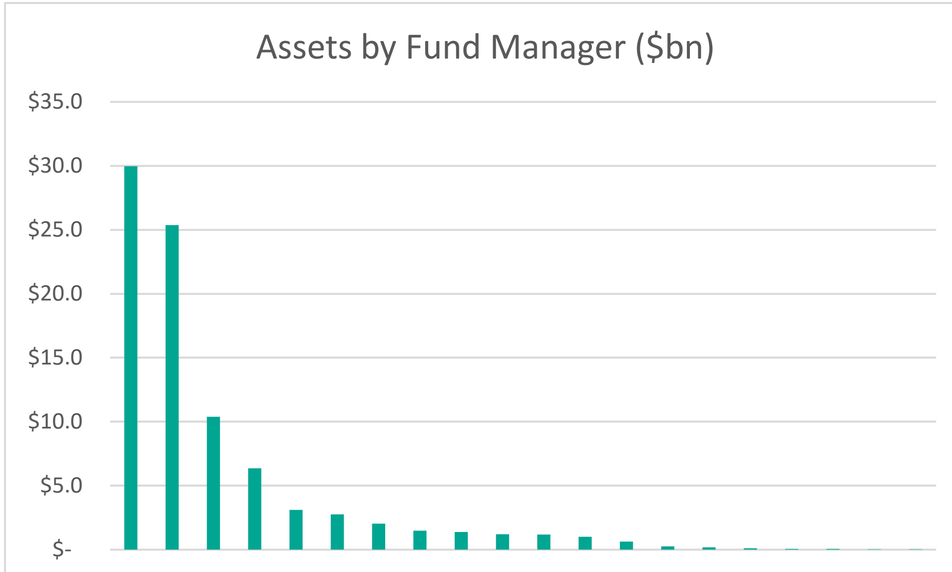
It is positive to see the growth in the number of products available for faith-based investors. This also likely underestimates the growth, as several of the products that have been in existence since before 2013 have only recently introduced or enhanced their application of faith to the portfolio process.

Growth over the period from 2013 to 2023 has primarily come from single-asset class funds in equities (number of strategies increased from 36 to 86 strategies) and bonds (number of strategies increased from 15 to 28).



Faith-Based Investing Asset Managers

The product set that was reviewed came from 19 asset managers. Three-quarters of total assets are managed by three single organizations. This represents a remarkably high level of concentration when compared to the broader market, where the top 5 asset managers in the world hold 23% of assets under management.[5] In the faith-based investing industry, the top 5 managers hold 86% of assets under management.



Product Mix

Equities Funds	#	$m	Fees	Bonds	#	$m	Fees
US Large Cap – Core	16	$10,034	0.64%	Core – Short Term	7	$3,859	0.46%
US Large Cap – Growth	9	$5,070	0.80%	Core – Medium Term	13	$6,392	0.66%
US Large Cap – Value	6	$3,634	0.61%	High Yield	2	$841	0.81%
US Mid Cap – Core	7	$5,176	0.79%	Global	1	$550	0.86%
US Mid Cap – Growth	4	$3,575	1.08%	Government / Muni	3	$1,414	0.54%
US Mid Cap – Value	4	$802	0.61%	Corporate	2	$1,179	0.46%
US Small Cap - Core	9	$4,190	0.72%	All Bonds	28	$14,234	0.60%
US Small Cap – Growth	4	$290	0.93%	**Cash**	**#**	**$m**	**Fees**
US Small Cap – Value	1	$529	0.06%	All Cash	3	$1,600	0.14%
Emerging Markets	2	$747	1.30%	**Diversified Funds**	**#**	**$m**	**Fees**
Specialist	3	$1,884	1.40%	Defensive	4	$2,089	0.78%
International	13	$5,764	0.84%	Balanced	10	$4,656	1.00%
Global	8	$2,616	0.87%	Growth	7	$5,347	0.88%
All Equities	86	$44,309	0.78%	High Growth	4	$5,768	0.82%
Real Estate	**#**	**$m**	**Fees**	Aggressive	2	$3,027	1.05%
All Listed Real Estate	3	$505	0.86%	All Diversified Funds	5	$20,888	0.91%
Alternatives	**#**	**$m**	**Fees**	**Target Date Funds**	**#**	**$m**	**Fees**
All Alternatives	5	$541	1.78%	All Target Date Funds	5	$5,459	0.74%

Overall, there is a reasonable product mix. The majority of products are actively managed equities. There is a significant fee range across the product mix, with total all-in fees and expenses ranging from 0.06% to over 2%. There is a small size effect, with a low negative correlation between product size and fee

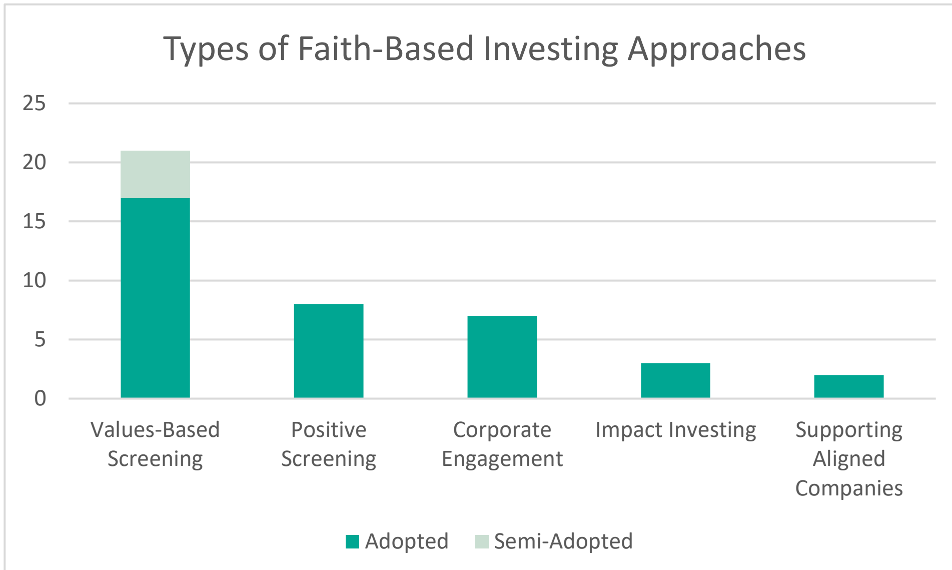
[5] Source: https://www.ipe.com/top-400-asset-managers-2018-10-years-of-asset-growth/10025004.article

levels, indicating that products get slightly cheaper as they become larger. ETFs are, on average, significantly cheaper (0.63%) than Mutual Funds (0.84%).

Minimum investment sizes range from $1,000 for the most accessible product to $500,000 for the least accessible. Typically, minimum investments were below $5,000, with different unit classes available for investors based on their investment amount.[6] For ETFs, minimum amounts would be set based on the individual advisor.

Values Integration

For faith-based investing to be genuine, we would expect some integration of faith into the portfolio. We have reviewed the publicly available information for 22 different faith-based asset managers operating in listed markets to identify their approaches.



While most asset managers claim a unique approach to faith-integration, the individual strategies being used can be divided into broad categories. Note that a significant number of managers implement several of these faith-alignment strategies.

- Values-Based Screening – ensuring that companies that are engaged in activities contrary to Christian values are excluded from the portfolio.[7]
- Positive Screening – seeking to include a higher allocation to companies contributing to human flourishing.
- Corporate Engagement – seeking to positively influence company behavior by seeking dialogue with company executives.
- Impact Investing – including allocations to assets specifically intended to achieve positive impact.
- Supporting Aligned Companies – intentionally investing in companies with a strong values foundation and/or Christian leadership.

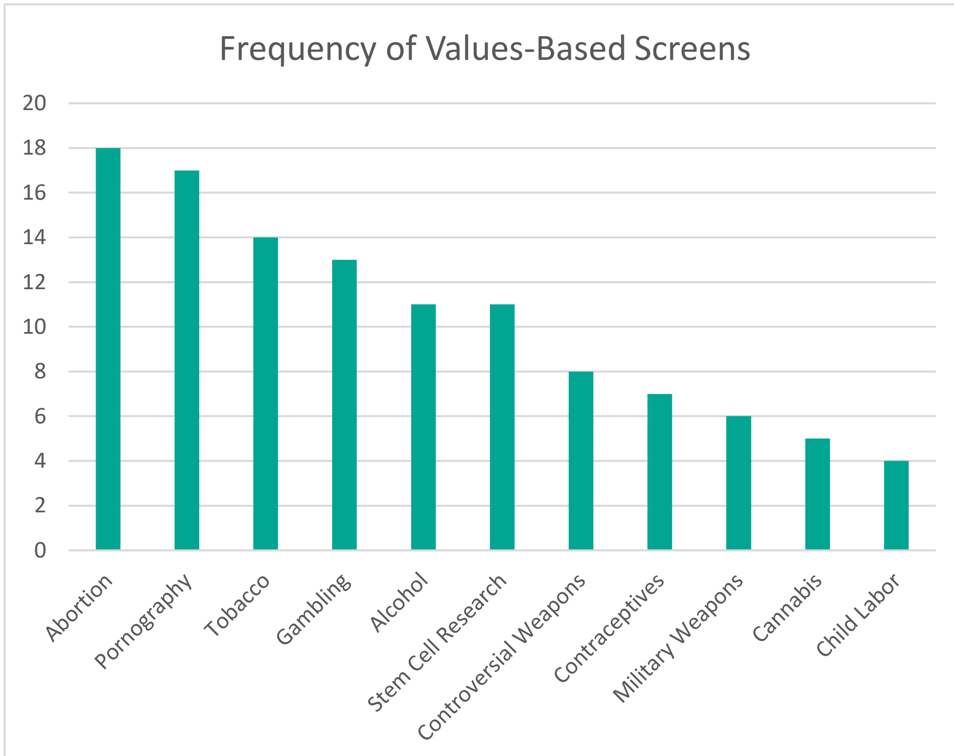
Encouragingly, we are seeing innovation in this space beyond merely values-based screening. In the last few years, several managers have expanded their engagement capabilities, enhanced proxy voting activity and introduced programs to positively support and influence companies.

[6] Note, however, that fees quotes are typically using the Class I (Institutional) fee rates. For smaller investments higher fees typically apply.

[7] Note in the graph above that four companies have classified as having partially adopted values-based screening approaches. These include two managers whose screens only apply across a part of their products, and two managers for whom values based screening is implied based on their positive screening approach.

Values-Based Screening

The most common approach being adopted is values-based screening, with most managers using this for all or part of their assets under management. Over one-third of managers use this as their only approach to faith integration.



Unsurprisingly, the most popular values-based screens were based on two consistent expressions of faith-based support for a pro-life position (abortion and embryonic stem-cell research) and four harmful addictive behaviors (alcohol, gambling, pornography, and tobacco).[8]

While some managers may be screening out more than they claim in their public disclosures and we should be cautious in drawing conclusions only based on the publicly available information, some interesting observations come out of this data:

- Creation Care is not an issue that is commonly considered in values-based screening. Of 21 managers implementing values-based screens, only 3 claim any screens relating to creation care.
- There is significantly more emphasis in values-based screening on addressing immoral and addictive behavior than in broader issues of human flourishing and dignity such as child labor, controversial weapons, or human rights abuses.
- Screening appears to be based on objective matters rather than subjective matters. Just under half of providers screen out companies based on more subjective moral issues, such as human

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[8] In addition to the screens shown, the following screens were adopted by 3 or fewer managers:

- Three managers – Abortion Philanthropy, Anti-Family Entertainment, Civilian Firearms, Human Rights Abuses, Labor Rights Abuses, LGBT Legislation & Philanthropy and Predatory Lending.
- Two managers – Gender & Racial Discrimination, Environmental Destruction, Slave Labor & Human Trafficking, Unethical Marketing, and Violent Entertainment
- One manager – Abortion Legislation Support, Animal Abuse, Bribery & Corruption, Chinese State-Linked Companies, Nuclear Energy, Poor Corporate Governance, Private Prisons, Sexual Harassment, and Tax Controversies.

rights abuses, child labor, gender & racial discrimination, predatory lending, supplying oppressive regimes, or unethical marketing.

Credibility

There is a range of credibility of claims and widely varying qualities of disclosure. In regard to values-based screening, we observed widely different disclosure approaches, with several managers outlining their research process and screening approach in detail, while others merely list screens without providing any further explanation. There is also a range of tolerance levels applied, with some managers adopting a zero-tolerance approach to any revenue from the screened activity and others allowing up to 2%, 5%, 10%, or even 50% of revenue to be sourced from screened activities before applying the screen.

One of the challenges likely to face the industry in coming years is increased scrutiny of claims in relation to values-based investing. Anecdotally, we were able to identify companies in several portfolios that appear to violate the screens that are claimed to be implemented. We saw several managers claiming to be using either positive screening or corporate engagement – only occasionally was a description of the approach taken, and few managers provide evidence or reporting in relation to their positive screening, corporate engagement, or impact investing activities.

There is ambiguity in terms, with some managers using "impact" to describe allocations to market-rate investments, some using it to describe allocations made to concessional investments, and others using it to describe their philanthropic undertakings that sit entirely outside their investment portfolio.

With increased scrutiny of values-based investing claims by managers, we see this as an area where material improvement is both needed and achievable.

Investment Performance

Overall Performance

Neither space nor time permits an extended analysis of investment performance. However, we have undertaken a high-level performance analysis of products in comparison to the relevant Morningstar performance benchmark.[9]

There is wide dispersion in performance outcomes, including in some strategies that would not ordinarily be expected to exhibit such significant dispersion.

All Strategies

Over the time period to December 31st, 2022, most managers underperformed their respective benchmark over longer time periods but outperformed over shorter time frames.

To 12/31/2022	10 Years	7 Years	5 Years	3 Years	1 Year
# Strategies	79	93	102	113	142
# Outperformed	28	36	47	59	74
% Outperformed	35%	39%	46%	52%	52%

[9] Note that this may differ from the manager's stated performance benchmark. In calculating aggregate figures, benchmarks have also been aggregated.

On a year-by-year basis, we have seen improvement in the performance of faith-based strategies over time. The last two calendar years represent the first time that most managers have outperformed their benchmark. While this is not statistically significant enough to be a clear trend, it nonetheless provides a sense of optimism for forward-looking approaches.

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
# Strategies	78	81	83	92	93	102	105	113	120	142
# Outperformed	35	19	24	40	44	31	37	34	71	74
% Outperformed	45%	23%	29%	43%	47%	30%	35%	30%	59%	52%

Bond Funds

The average faith-based bond fund has outperformed over all time frames. However, performance of bond funds tends to track closely to the overall benchmark.

To 12/31/2022	10 Years	7 Years	5 Years	3 Years	1 Year
# Outperforming	8 / 15	10 / 18	11 / 20	11 / 21	14 / 26
Avg Performance[10]	1.47%	1.53%	0.76%	-1.58%	-10.01%
Index Performance[11]	1.31%	1.34%	0.44%	-1.85%	-10.60%

Equity Funds

Performance of equity funds has been mixed. While most funds have underperformed over the long term, those that outperformed have done so by substantial amounts and therefore the average fund is flat against the 10-year benchmark. Over shorter time frames performance is more promising, with meaningful outperformance over the last 3 years and funds demonstrating some resilience against their benchmark over the more recent period of negative performance.

To 12/31/2022	10 Years	7 Years	5 Years	3 Years	1 Year
# Outperforming	15 / 36	15 / 45	23 / 52	31 / 59	40 / 77
Avg Performance	9.76%	8.57%	8.03%	5.02%	-18.19%
Index Performance	9.79%	9.14%	8.07%	4.74%	-18.72%

[10] Straight (not asset-weighted) average of manager performance.

[11] Straight (not asset-weighted) average of index performance.

Diversified & Target Date Funds

The story is not so positive for diversified and target date funds. Most are showing meaningful underperformance relative to their composite benchmark performance over longer time periods. Recent performance has been more positive, albeit with most funds still underperforming the benchmark.

To 12/31/2022	10 Years	7 Years	5 Years	3 Years	1 Year
# Outperforming[12]	4 / 26	10 / 27	12 / 27	13 / 27	15 / 32
Avg Performance	5.19%	5.31%	4.68%	2.07%	-14.44%
Index Performance	6.43%	6.08%	5.11%	2.29%	-15.43%

Relative Performance

We analyzed the frequency of annual returns relative to standardized market benchmarks[13] across the entire product universe. As expected, we saw a clustering of performance around the benchmark – with 32% of strategies delivering performance within +/- 1% of the benchmark in any given year, and 60% of strategies delivering performance within +/- 2.5% of the benchmark. However this dispersion is higher than we would have expected and further analysis may be helpful.

Almost 11% of funds underperformed the standardized benchmark by more than 5% in any given year, while 8% of funds overperformed by the same amount. And across the roughly 1,000 data points we found 31 instances of underperformance by more than 10%. This speaks to the importance of understanding the nature of a strategy before making an investment.

Performance Persistence

Finally, we briefly address the issue of performance persistence – whether a manager that outperforms in one year continues to do so.

Assessing performance over calendar years, managers outperformed the standardized benchmark roughly 40% of the time. Taking the subset of managers who outperformed in year 1, 40% then outperformed in year 2; similarly just under 40% of managers who outperformed in years 1 and 2 then outperformed the benchmark in year 3. This suggests that persistence of outperformance in those first 3 years is negligible.

However, after year 3 the numbers change. Over 60% of managers who outperform in years 1, 2, and 3 then go on to outperform in year 4, and we see the same effect from year 5. This suggests that there may be a subset of products able to drive consistent outperformance against benchmarks.

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[12] Includes Target Date Funds

[13] Note that this is a standardized Morningstar benchmark which may differ from the manager's own stated benchmark.

Preliminary Observations

In analyzing the options for faith-based investors in listed equities, we find some positive trends, opportunities for improved clarity, and potential challenges to address. We intend to continue this analysis, but some preliminary observations follow:

1. The number and breadth of faith-based funds in listed assets is increasing steadily. Asset flows into products appear to be strong.
2. Assets held within the sector are dominated by the two largest players, both of whom hold significant denominational funds.
3. Application of faith-based approaches is still developing, with most managers still using values-based screening as their primary integration technique. The rigor and breadth of screening is mixed and there are significant differences in screening approaches and consistency between different managers and products. Nevertheless we are encouraged to see momentum on deeper integration.
4. New faith integration strategies are gaining some traction, particularly corporate engagement.
5. Recent performance of faith-based strategies have performed broadly in line with the market, particularly where strategies are specialized. Diversified and target date funds have struggled to deliver performance aligned to their benchmarks.

About Brightlight

Our Purpose

We partner with investors seeking to achieve deep alignment between their faith and investment portfolio without compromising financial outcomes - building portfolios across the spectrum of investment opportunities consistent with faith.

We come alongside investors to help them navigate the questions, complexities, and challenges in applying their faith to their investment portfolio in their own context. Wherever an investor is in their journey, we support them in identifying and implementing strategies for deeper portfolio values alignment. Working collaboratively, we develop and deliver solutions that are designed to achieve the dual outcomes of faith alignment and investment objectives.

We exist to transform lives through purposeful and redemptive investing.

Our Services

Brightlight offers a wide range of services to institutional investors, advisors, asset managers and other participants in the faith-based investing ecosystem. Our services include providing support with:

- Portfolio Review and Portfolio Design
- Investment Opportunity Identification
- Product Research for Public and Private Markets
- Screening and Engagement for Public Equities
- Training, Capacity Building and Education in Faith-Based Investing
- Portfolio Construction
- Impact Measurement & Monitoring

Our History

In 2016, Brightlight Group (Australia) was formed through the spin-out of part of the Investment Team of Christian Super, a faith-based Australian pension fund serving 30,000 beneficiaries and managing AUD $1.5bn. Brightlight Group (Australia) holds an Australian Financial Services License and provides advice to a range of values-based investing cl ients across Australia, Japan, and New Zealand. Brightlight Group (Australia) also provides some services to clients in the United States, supporting with values-based screening and engagement. Brightlight Group (Australia) is a certified B-Corp.

In 2017, EverSource Wealth Advisors, LLC, was formed to provide a platform for faith-based wealth advisors. EverSource is an SEC-registered investment advisor ("RIA") managing almost $2bn and was named the second fastest growing U.S. RIA in 2021. In 2022, Tim Macready joined EverSource, and through EverSource's collaboration with Brightlight Group (Australia), EverSource is able to leverage Brightlight Group (Australia)'s capabilities and track record to provide US clients with the full spectrum of investment management and advisory services enjoyed by Brightlight clients globally.

With the blessing of Brightlight Group (Australia), Tim and his team operate as a part of EverSource under the trade name "Brightlight" – a choice which reflects the close working relationship between Brightlight Group (Australia) and EverSource.

All Brightlight (US) personnel are employed by EverSource Wealth Advisors, which is responsible for supervision of all advice provided by Brightlight (US).

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