



ALTUM

Faithful Investing

# How faithful investing can beat the market

Applying Christian principles to financial decisions

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# 01 From sustainable to faithful investing

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Investing based on moral criteria is positive for society and necessary for personal and spiritual consistency. And while non-financial factors such as environmental, social, and governance sustainability (ESG) have become an important part of investors' analysis, this approach alone is insufficient for millions as it does not incorporate other important concerns and beliefs.

Altum's evidence also shows this type of investing does not lead to lower returns or less diversification. In fact, our investment philosophy leads to both good financial results and good moral consequences.

# 02 Stock market profitability and compliance with faithful investing principles

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To analyze the potential of "faithful investing", we have chosen the S&P 500 index, which includes 80% of the US stock market capitalization, as a reference. Next, we have taken 100 companies with equal weights - split between the 50 largest, by market capitalization, meeting our investment screening criteria (deemed "compliant" stocks) and the 50 largest not passing our screening (labelled as "non-compliant").

Charting this approach, the following table shows the degree of profitability associated with both "compliant" and "non-compliant" companies. Calculation of returns are the arithmetic mean of each group of companies for the past five years to the previous semester. For the periods above one-year, results are annualized, including dividends.

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1/2. Defined as total return for the period under observation. Gross dividend is used for all securities and dividends are reinvested. Bloomberg Fields: For periods <1y : "CURRENT\_TRR\_6MO/1YR"; for periods >1y: "LAST\_CLOSE\_ANN\_TRR\_3Y/5Y".

*Table 1. Returns<sup>1</sup> of S&P companies in regards to their compliance with faithful investing principles.*

Faithful Investing: S&P	6 months	1 year	3 years*	5 years*
Non-Compliant (Top 50)	0,11%	12,34%	21,21%	20,71%
Compliant (Top 50)	7,52%	29,23%	20,10%	19,00%

\*Annualized Return

While we found non-compliant firms exhibited slightly higher returns in the 3 and 5-year timeframe, last year's profitability for companies operating in a manner consistent with the principles of the Catholic Church has been as high as 29.23%. This translates to a 16.9 percent point advantage over investments in 'non-compliant' companies. Furthermore, when we look at the last semester, we find something similar: the portfolio made up of compliant companies enjoyed 7.52% growth, as opposed to 0.11% in non-compliant stocks.

These results suggest that an investor willing to invest in consistency with Catholic principles does not need to sacrifice profitability. In fact, ensuring financial decisions are consistent with moral, ethical and religious principles can be done at a rate very similar to conventional investing or, like results from last year and last semester show, the positive difference in profitability can in reality become remarkably higher.

A similar study was conducted with the top 600 public companies in Europe, as included in the EuroStoxx 600 where we compared the 50 largest companies compliant with faithful investing principles measured against the 50 largest firms that did not pass our screening process.

*Table 2. Returns<sup>2</sup> of Eurostoxx 600 companies in regards to their compliance with faithful investing principles.*

Faithful Investing: Eurostoxx	6 months	1 year	3 years*	5 years*
Non-Compliant (Top 50)	2,70%	9,28%	10,36%	8,58%
Compliant (Top 50)	-0,39%	13,69%	22,45%	21,13%

\*Annualized Return

1/2. Defined as total return for the period under observation. Gross dividend is used for all securities and dividends are reinvested. Bloomberg Fields: For periods <1y : "CURRENT\_TRR\_6MO/1YR"; for periods >1y: "LAST\_CLOSE\_ANN\_TRR\_3Y/5Y".

As seen in the previous chart, Euro companies compliant with faithful investing principles outperformed non-compliant stocks in the longer run (3 or 5 years) as well as over one-year, where the gap is significant (compliant stocks have 13.69% growth, in comparison to 9.28% for noncompliant firms). This trend may indicate European markets are already prepared for this investment approach.

## 03 Ensuring diversification

To ascertain which portfolio is more diversified we broke down all 100 stocks from the S&P500 Index into business categories and areas of activity using the Global Industry Classification Standard (GICS) methodology developed by S&P Dow Jones and MSCI.

Figure 1 shows the relative weight of each sector and shows that companies in utilities, materials, real estate, industrials and energy sectors tend to enter less into conflict with faith-driven investing principles. On the other hand, non-compliant stocks seem to be more concentrated in communication services, financials, consumer discretionary, consumer staples and information technology.

Table 3 breaks down the composition of both portfolios, according to their GICS category. The portfolio of companies compatible with the principles of the Christian faith covers a total of ten economic sectors – two more than the portfolio of non-compliant stocks.

Therefore, just as the profitability indicators show faithful investing can yield higher profits, these investment principles also allow for the construction of solid, diversified portfolios – ensuring investments are well distributed among industries and areas of economic activity.

*Figure 1. Diversification according to compliance with faithful investing principles.*

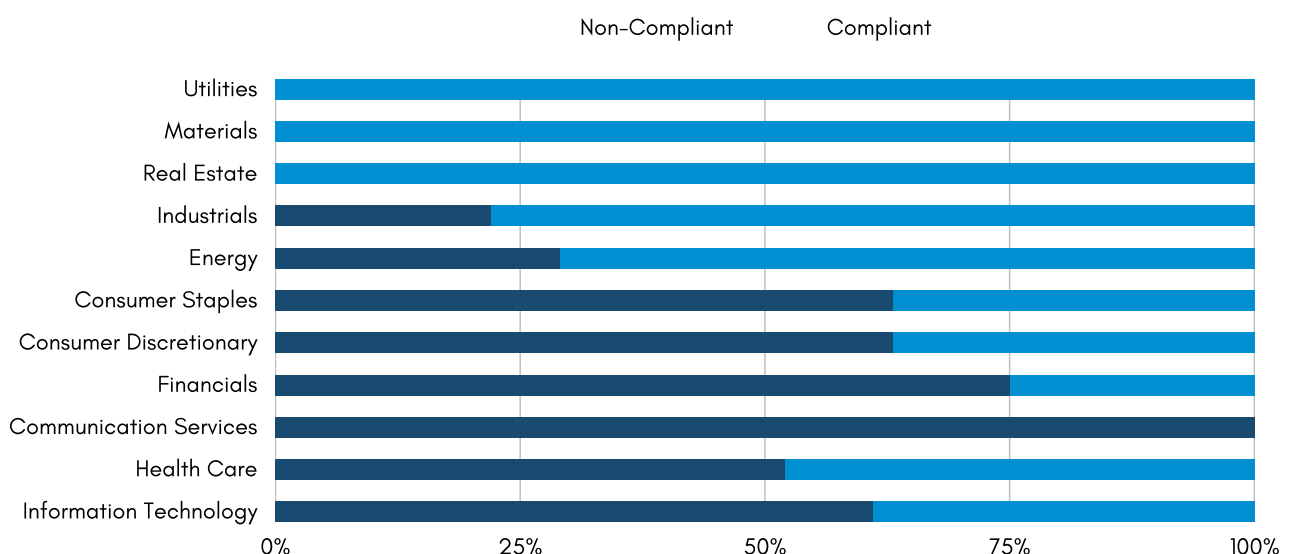




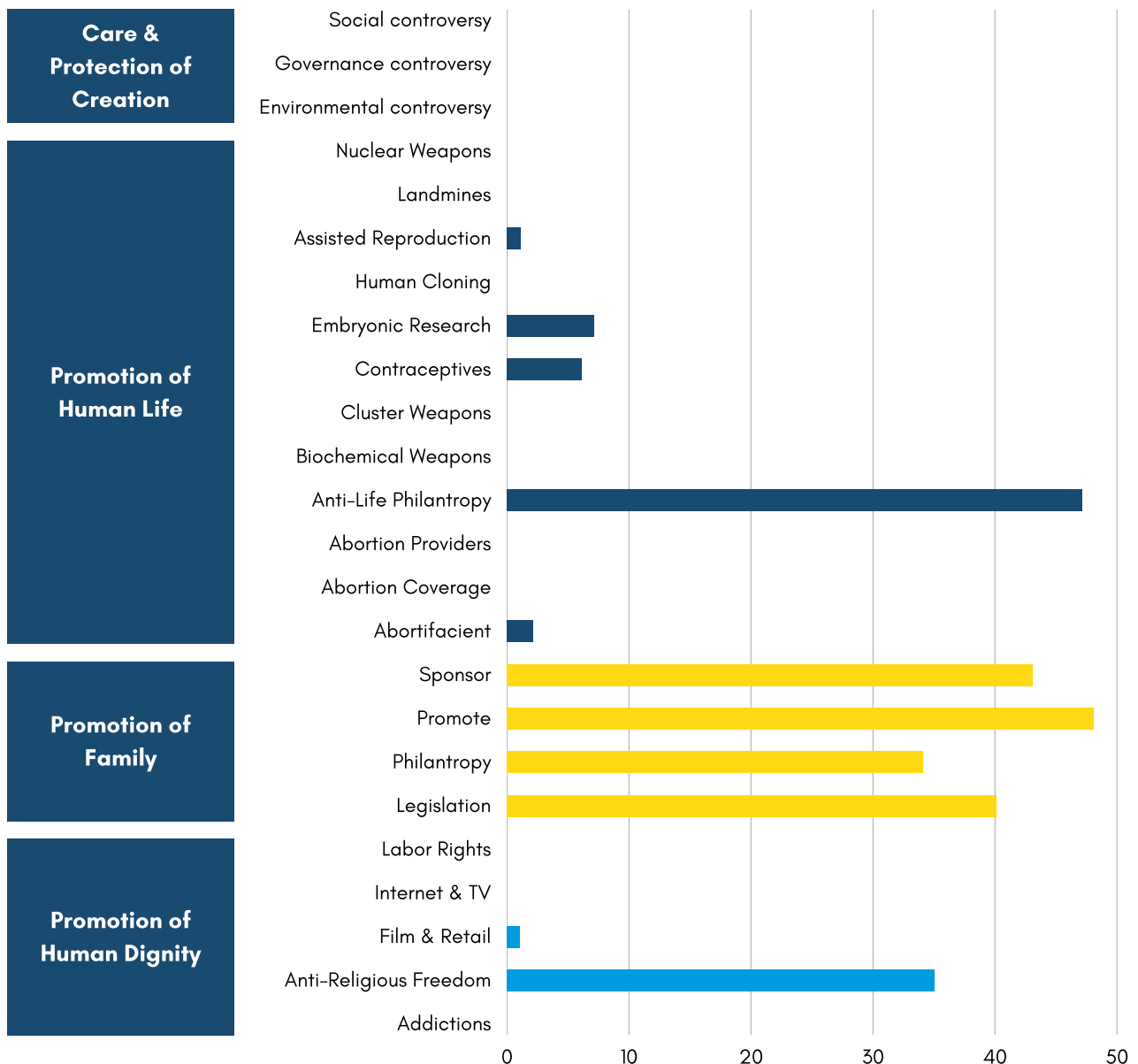
Figure 1. Diversification according to compliance with faithful investing principles.

Faithful investing: compliant		Faithful investing: non-compliant	
GICS category	Number of stocks	GICS category	Number of stocks
Real Estate	10	Information Technology	14
Information Technology	9	Health Care	9
Health Care	8	Communication Services	7
Industrials	7	Financials	6
Energy	5	Consumer Discretionary	5
Consumer Discretionary	3	Consumer Staples	5
Consumer Staples	3	Energy	2
Financials	2	Industrials	2
Materials	2		
Utilities	1		
Total	50	Total	50

## 04 Screening stocks with faithful investing principles

We now turn our attention to Altum's screening process, illustrating how stocks are analyzed and classified according to basic principles of the Christian faith. For instance, of the 50 largest non-compliant S&P companies we find that: 35 are not compatible with standards set out in our pillar Promotion of Human Dignity; 49 fail to meet the principles of the pillar Promotion of Family and 47 are insufficient in the pillar of Promotion of Life.

Here is a broader discussion of the findings of our screening process:



- **Pillar 1:** Promotion of Human Dignity. We find that 35 of the non-compliant companies are currently involved in projects, initiatives, activities, or support legislation that directly conflicts with religious freedom. For example, the Equality Act propose ending the right of conscientious objection to immoral actions, thereby violating the basic principle of an individual's conscience.
- **Pillar 2:** Promotion of Family. Firms failing in this area systematically promote ideologies or activities in direct conflict with Christian anthropology. Of the 50 non-compliant firms: 40 promote laws that represent a conflict for a Catholic investor; 34 have philanthropic policies promoting initiatives contrary to the Christian conception of family and marriage; 48 are involved in promoting ideologies (through the organization or participation in different sociopolitical activities) contrary to the Catholic magisterium and; 43 engage in forms of collaboration with initiatives that ultimately endanger the Christian community.

- **Pillar 3:** Promotion of Life. In this pillar we find 2 companies involved with products linked to abortion, 6 companies related to the contraceptive industry and 7 engaged in research with human embryonic stem cells. In addition, 47 of the 50 companies engage in philanthropic donations or collaborations with entities that ultimately promote policies and actions contrary to life, from abortion to contraceptives.

Altum also developed a fourth pillar, which deals with the Care and Protection of Creation. It evaluates the behavior of companies in relation to the environment, as well as the actions that a company takes to respect, care for and preserve our natural resource. No significant controversy has been detected, which makes sense, given that the analyzed companies are the ones with the highest market capitalization, which are also the ones that dedicate more resources to preserve their relationship with the environment. To support this fact, the average MSCI ESG Rating for the 50 non-compliant companies is "A" (being AAA the best possible score and CCC the worst). This demonstrates the power of non-financial measures, with these large companies dedicating more resources to preserving a relationship with the environment and, thereby, gaining high ESG ratings and ensuing less public hostility.

Altum's goal is to raise the impact of Catholic values to a similar level, ensuring companies pay as much attention to our human environment as they do to our natural one.

## 05 Market cap and degree of compliance

Our analysis also looked at the correlation of market capitalization and compliance with faithful investing principles. As seen in Figure 2 and Figure 3 there is a marked divergence between the S&P 500 and the Euro Stoxx 600. In the US 'non-compliance' is more frequent among these larger firms while in Europe 'compliance' is higher among companies with a larger capitalization.

*Figure 2. Compliance with faithful investing and market cap: S&P 500.*

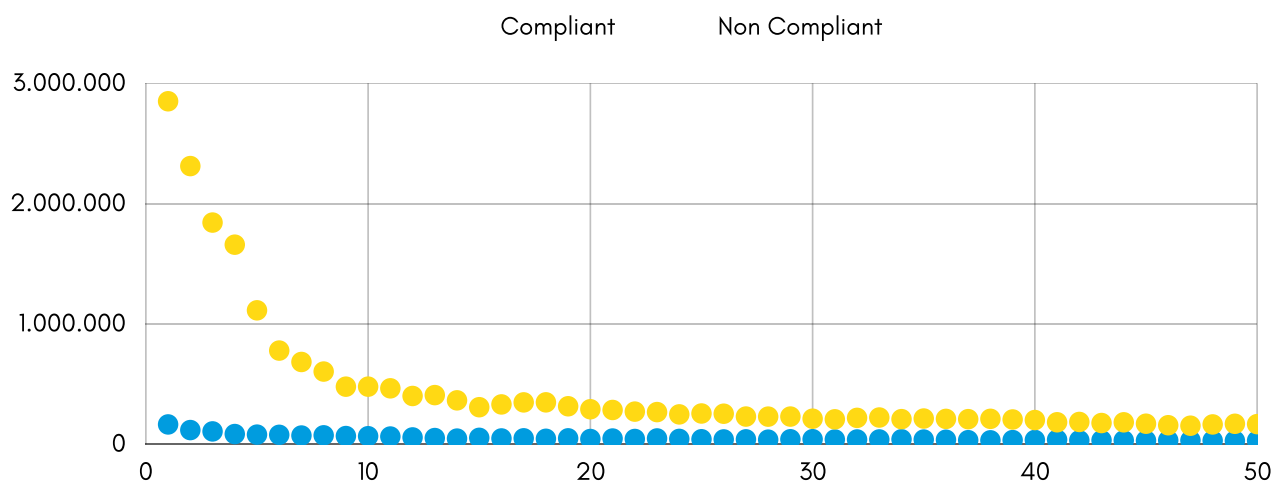
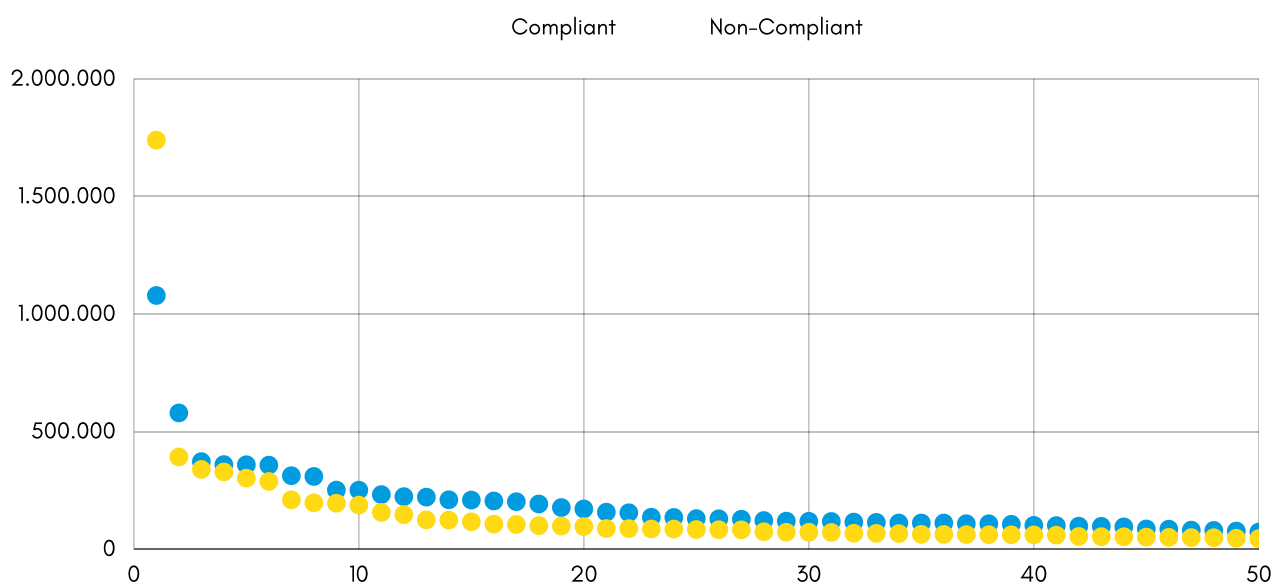


Figure 3. Compliance with faithful investing and market cap: Eurostoxx 600.



## 06 Some final comments

After careful review of our findings, we asked ourselves some questions about this evolution. First, are we experiencing the change from traditional investment to faithful investing? Second, are investors starting to prioritize companies that incorporate certain criteria that is more aligned with their personal values? Third, does faithful investing outperform conventional investing methods? In all three cases, we believe that the answer seems to be positive.

We hope that the analysis and results selected in the report can serve as material for reflection. On the one hand, for investors with a Christian sensitivity, encouraging them to become a "creative minority", to move away from mainstream thought and discover alternatives that can unite faith and consistency when investing. On the other hand, for company managers and CEOs. We are convinced that if this report ever reaches their hands, they will know how to respond and adapt their policies so that the dignity of the person is always respected and that in no case will the end justifies the means.





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