A Research Study on CIF Member Funds Composite Performance Relative to Industry Averages

May, 2015

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The purpose of this study is to review the performance of the mutual funds managed by member firms of the Christian Investment Forum (CIF) over time relative to their respective Morningstar categories. This study is not meant to identify or rate individual mutual funds or managers, or their unique approaches to Christian faith based investing (frequently described as Biblically responsible investing, or BRI). Instead, the study seeks to analyze the broader relationship between performance and the use of BRI criteria in the investment decision making process. It is the hope of the Christian Investment Forum that others may follow with additional academic research in this specific area of investing.

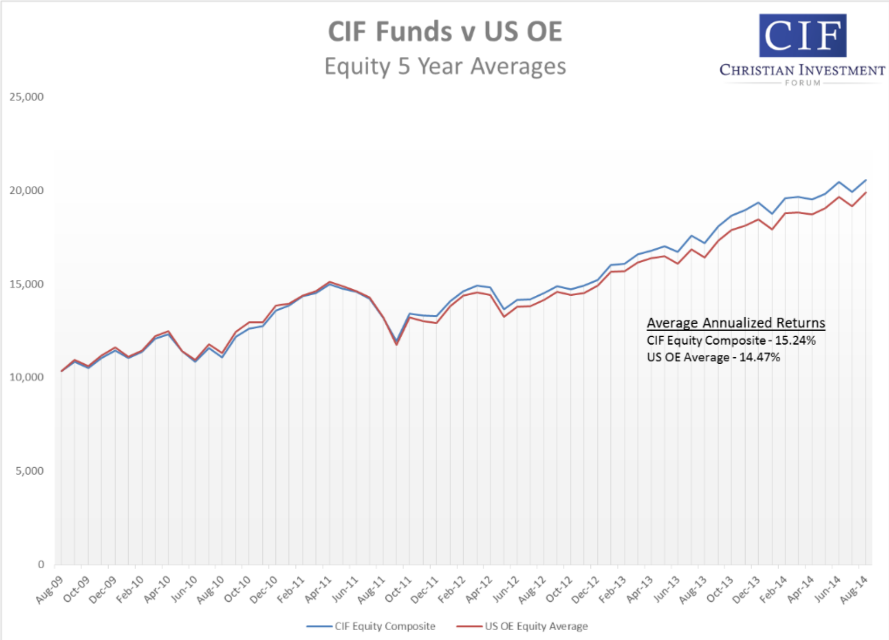
The use of Biblically responsible investing by CIF Members varies in the methods used and the priorities placed on each of the foundational aspects of BRI – Screening, Governance, and Advocacy. Some firms and asset managers focus mostly on exclusionary screens of the investment pool, while others use both exclusionary and inclusionary screening. Some firms also place a priority and focus on governance issues and shareholder engagement in addition to screening.

Previous research from other firms has shown that incorporating screens for social, environmental, and governance issues has a positive relationship to performance – said another way, funds that incorporate screening on average slightly outperform the market. A review of four of these research documents is included in this paper in a following section.

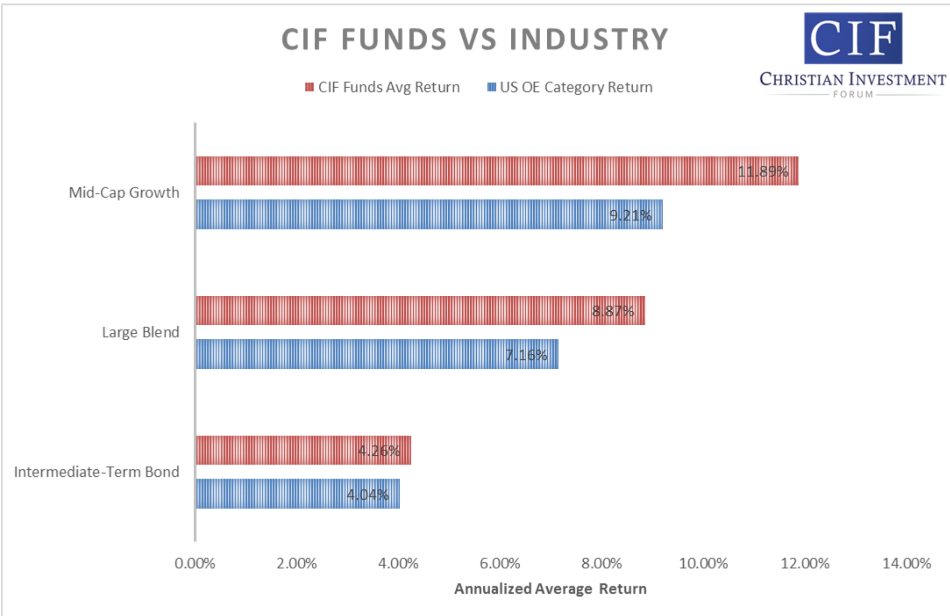
These cited research studies focused largely on socially responsible investing (SRI) funds and their performance relationship to the industry averages. Socially responsible investing criteria are similar to those used by faith based funds, and in fact the SRI databases usually include faith based funds in the universe studied. Thus it is reasonable to view the findings of these studies as good proxies for the performance of faith based funds relative to the industry, but the direct relationship between faith based funds and performance may be hidden within the larger universe studied.

This study by the Christian Investment Forum focused only on Christian values based investing and the funds that follow this approach. The goal was to test if this smaller segment of the broader socially responsible investing market had the same positive relationship to performance.

Based on the analysis of historical performance data from the funds managed by members of the Christian Investment Forum, the results did in fact corroborate the expectation that return performance was not reduced due to incorporating BRI, and in fact there was a general outperformance compared to the industry averages. Over the last 5 years, a composite of the returns from all of the equity mutual funds within the Christian Investment Forum outperformed the industry average by 77 basis points (bp) on an annualized basis.



This broad equity composite is an easy summary to communicate, but it lacks the specificity of individual asset classes that is more valuable for analysis and for actual implementation. Looking closer at specific categories, similar results were shown. Categories were chosen which had at least 4 CIF funds in order to reduce individual fund overweighting of results. In the Mid-Cap Growth category, the CIF funds composite outperformed the industry average 11.89% versus 9.21% on an annualized average return basis. For the Large Blend category, the CIF Funds had a composite return of 8.87% compared to the average of



7.16%. In the Intermediate-Term Bond category, the returns were very close, with a slight edge to the CIF Fund composite – 4.26% to 4.04% for the industry average.

Following the review of other Academic Research, we provide the details of the results for each asset class listed in the above chart – Mid-Cap Growth, Large Blend, and Intermediate-Term Bond.

In conclusion, the results of the prior research and this study of funds from CIF Member Firms reinforces what has been communicated by CIF on the advantages of BRI and the competitive performance of portfolio managers from firms in the Christian Investment Forum. More research is warranted to further what has been done to date, and as longer time periods become available to analyze. As is frequently pointed out, historical results are not predictive of future performance. This is also true for perceptions or expectations of under-performance for BRI funds based on some prior experience. With this study and others, we hope to re-engage with investors and advisors so they can review the current performance results of these BRI funds relative to the industry.

The results of this analysis are not meant to suggest that BRI funds will result in outperformance. The most important reason to incorporate BRI funds into an overall investment portfolio is to better align investments with an investor's values. For investors and their advisors, considering funds that can align with their Christian faith need not be a choice between values and performance.

Review of Academic Studies

It is valuable to consider the wider literature that exists related to research on the relationship between the broad Responsible Investing field and superior financial performance. This is important since there is widespread perceptions and opinions in the professional financial market that incorporating social or faith based values into investment decisions leads to inefficiency, higher risk, less diversification, and lower returns. This viewpoint is especially strong from those that espouse Modern Portfolio Theory and Shareholder Value Maximization as their beliefs of investing, and who do not view investing as ownership in the underlying assets but as an act entirely independent.

Four recent studies or reports are particularly helpful for this review. Each of these papers provides a composite analysis of an even larger set of papers on these topics.

The Journal of Investing Paper

A research paper in the Journal of Investing in Fall 2010 attempted to determine if, as is widely suggested by some in the financial industry, the incorporation of faith based values into the investment decision making process, leads to under-performance relative to the broad market or to the related SRI market. The paper reviewed prior research on this topic, and performed primary research based on an aggregate of existing faith based funds. The conclusions from both literature review and the primary research contrasted with the perceptions in the market. The authors conclude that the additional screens and criteria used by the faith-based funds does not hinder performance relative to the market. The authors also found in their research that faith-based funds did better than SRI funds in general.

> "…the additional values-based screens used by these (faith-based) funds do not hinder their performance relative to the market overall. We also find that faith-based funds do better than SRI funds in general. From the findings, we can conclude that investors do not seem to sacrifice satisfactory economic returns by making ethically and socially responsible investing decisions based on their faith."

In this study by Lyn and Zychowicz, the researchers did specifically look only at faith based funds. However, the study included all faith based funds, and did not specifically look at Christian faith based funds. Also, the study used composite performance data across all categories so may distort or hide category specific variances in relative performance and relationships.

Mercer Research Report

There are two research reports from Mercer that reviewed the relationship between financial performance and ESG criteria. The most recent report is cited here, as it includes information on both the current report and the earlier report. The current report reviewed 16 studies that sought to identify the relationship between financial performance (annualized returns) and the use of ESG criteria in a “Responsible Investing” approach. Their analysis and conclusions led to the following results: 10 (62.5%) of the studies found a positive relationship between Responsible Investing and financial performance, 4 (25%) of the studies were neutral, and 2 (12.5%) of the studies found a neutral-negative relationship. No recent studies found a strong negative relationship.

Mercer also went back to an earlier report they had prepared in 2007 that had additional studies on this topic. Between the current report and that prior one, they’ve reviewed 36 studies that looked at performance issues and Responsible Investing with the following results: 20 (55.6%) show a positive relationship between ESG screens and performance, 2 (5.6%) are neutral-positive, 8 (22.2%) are neutral, 3 (8.3%) are neutral-negative, and 3 (8.3%) show negative relationship.

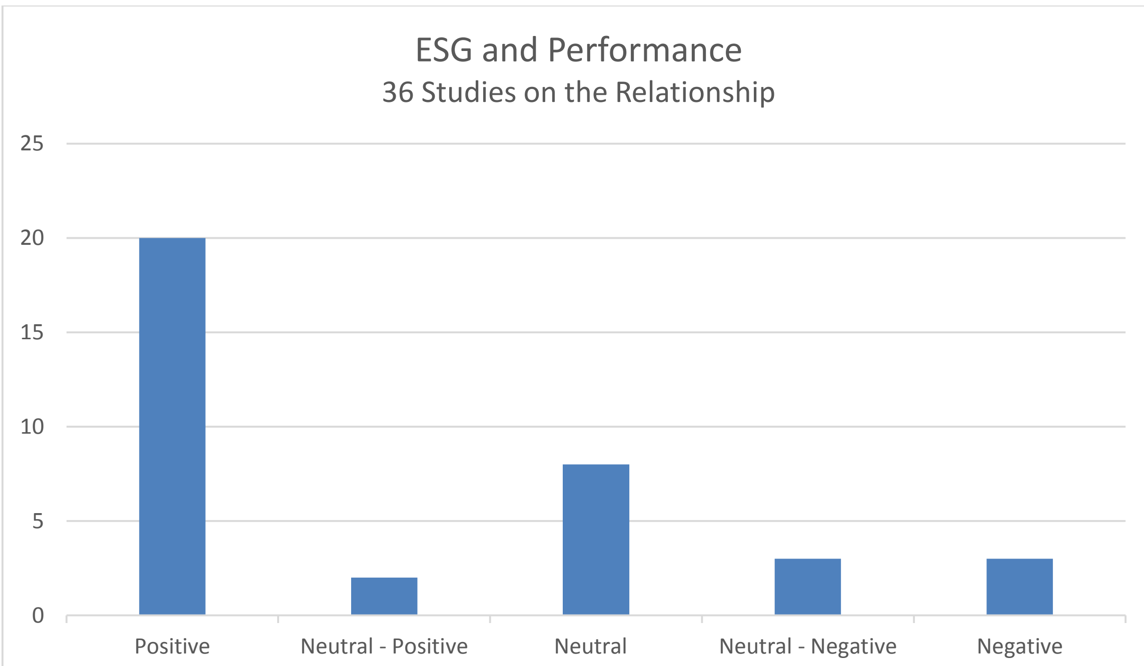


Figure 1 - ESG Performance Studies; source: Mercer Research

In summary, the studies show clear support, and Mercer concluded the same, that social screening and ESG integration have either neutral or more likely positive effects on performance.

> “We have shown that the results are leaning in favor of the value-added proposition of ESG integration, and we are encouraged to see more research considering the impacts across different asset classes (beyond equities) and the effects at the disaggregated level (such as sector impacts).”

DEUTSCHE BANK REPORT

This report focused on what they describe as Sustainable Investing, first providing a history of the evolution in the approach from simple negative screens, to Socially Responsible Investing (SRI) which generally includes both negative and positive screens, and finally to what they describe as Responsible Investing (RI) which takes into account ESG factors in a more integrated fashion.

They reviewed primary and secondary research to determine correlation between ESG factors and positive financial performance (risk adjusted superior returns). What was interesting to note is they found correlation between ESG integration and superior risk adjusted returns, but more so at the individual company level, not in the funds that seek to invest in those same companies.

> "We do indeed find positive correlation in a majority of securities studies, particularly those that look at securities that rate highly with regard to CSR (Corporate Social Responsibility) and/or ESG."

MSCI REPORT

The MSCI report focused largely on testing and analyzing different enhanced index portfolio designs with the use of various Environmental, Social, and Governance (ESG) factors. They used their own proprietary Intangible Value Assessment (IVA) rating system to measure the relative performance of companies on ESG factors. Because this was designed to analyze different enhanced index strategies, the research focused on individual companies and index funds created specifically for this analysis. It did not compare to existing index funds, but only to industry benchmarks. The three strategies for an enhanced index design were 1) to exclude the companies with the worst ESG scores ("ESG Exclusion"), 2) to overweight those companies with the best ESG scores ("Simple ESG Tilt"), and 3) to overweight those companies with the greatest improvement in their ESG score over a period of time ("ESG Momentum"). The results of the research are summarized in the below highlight from the report:

> "Proponents (of ESG Investing) argue that markets do not efficiently price ESG factors because they address long-term risks that have not been absorbed by the economy, and that alpha generation is possible as markets begin to recognize these undervalued influences. Academic studies and industry analyses have supported both sides of this argument, although on balance they find that investors employing ESG factors do not impose a significant performance penalty, that investors can achieve comparable risk-adjusted returns to non-ESG tilted strategies, and that investors may be able to enhance their returns through the use of certain ESG strategies."

CIF STUDY DETAILED RESULTS

The Christian Investment Forum Study on member firm BRI funds was designed to analyze the performance of a composite of BRI funds in comparison to the mutual fund industry averages. With over 70 mutual funds available from CIF members, it was felt this provided a sufficient universe of funds to include in the study. Two phases of analysis were done once the data was compiled. The first was to compare a broad average of the CIF funds in equity and bonds against the same broad classes in the mutual fund industry. The second was to analyze more specific asset categories to understand the results at a more granular level that may be more useful for implementation strategies. Details on the methodology used is included at the end of this study.

For the first analysis of broad markets for the 5 Year period ending August, 2014, the results showed very close performance between the average of CIF funds and the overall averages for the market. In equities, there were 35 funds included in the CIF Composite, and the CIF Funds had a slight above average performance of 77 basis points. In the bond space, there were 12 funds included in the CIF Composite, and the CIF funds had a slight below average performance of 70 basis points.

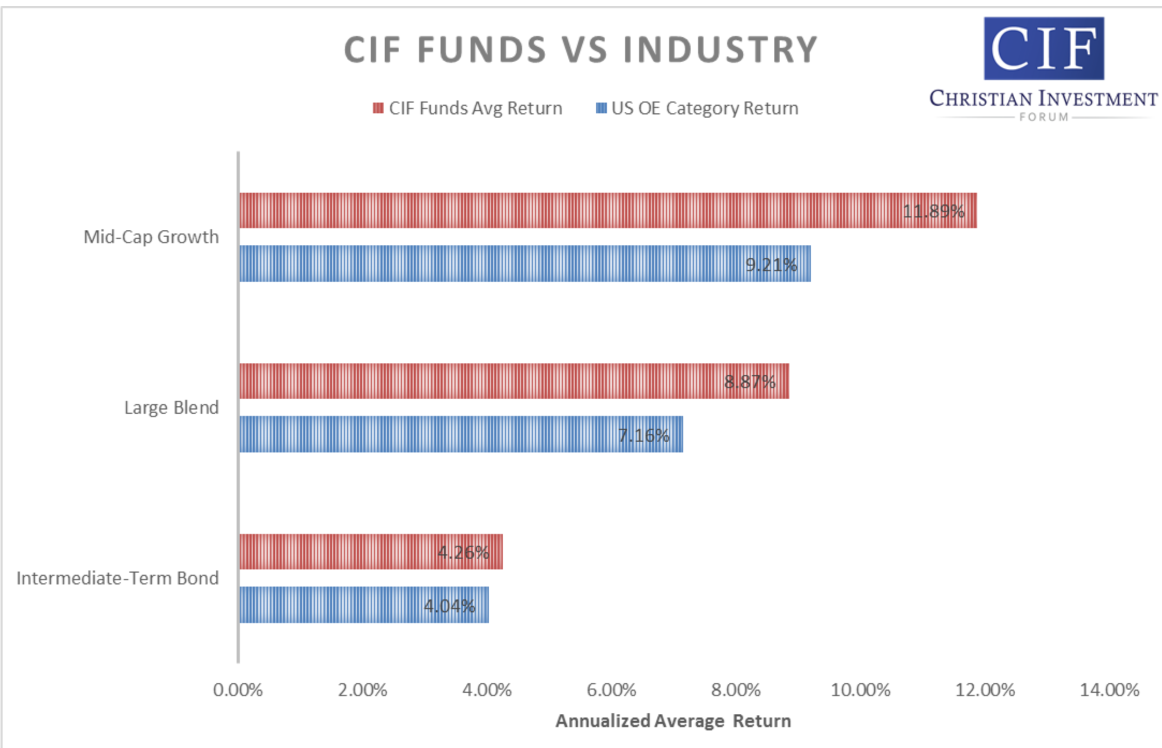
Category	Start Date	US OE Return	CIF Avg Return
Equities	**8/1/09**	**14.47%**	**15.24%**
Bond	**8/1/09**	**6.55%**	**5.85%**

*Source: Morningstar, returns are annualized, calculated on a total return basis, and are net of all mutual fund fees, past performance is not a guarantee of future results.

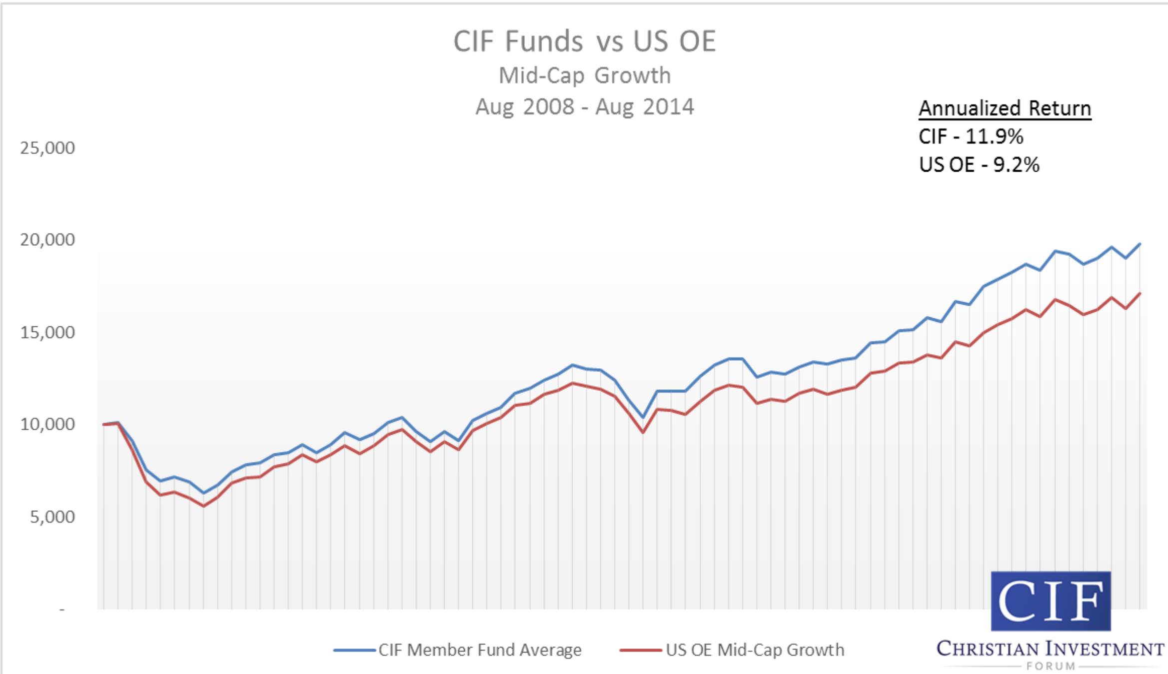
For the second approach to analyzing based on specific categories, the results showed similar relatedness, though in each of these categories the CIF Fund composite performance was above the category average in each case, by an average of 154 basis points (bp) annually, from a low of 23 bp outperformance annually in the Intermediate-Term Bond category, to 268 bp outperformance in Mid-Cap Growth.

Morningstar Category	Start Date	US OE Category Return	CIF Funds Avg Return
Intermediate-Term Bond	**6/1/03**	**4.04%**	**4.26%**
Large Blend	**6/1/05**	**7.16%**	**8.87%**
Mid-Cap Growth	**8/1/08**	**9.21%**	**11.89%**

*Source: Morningstar, returns are annualized, calculated on a total return basis, and are net of all mutual fund fees, past performance is not a guarantee of future results.



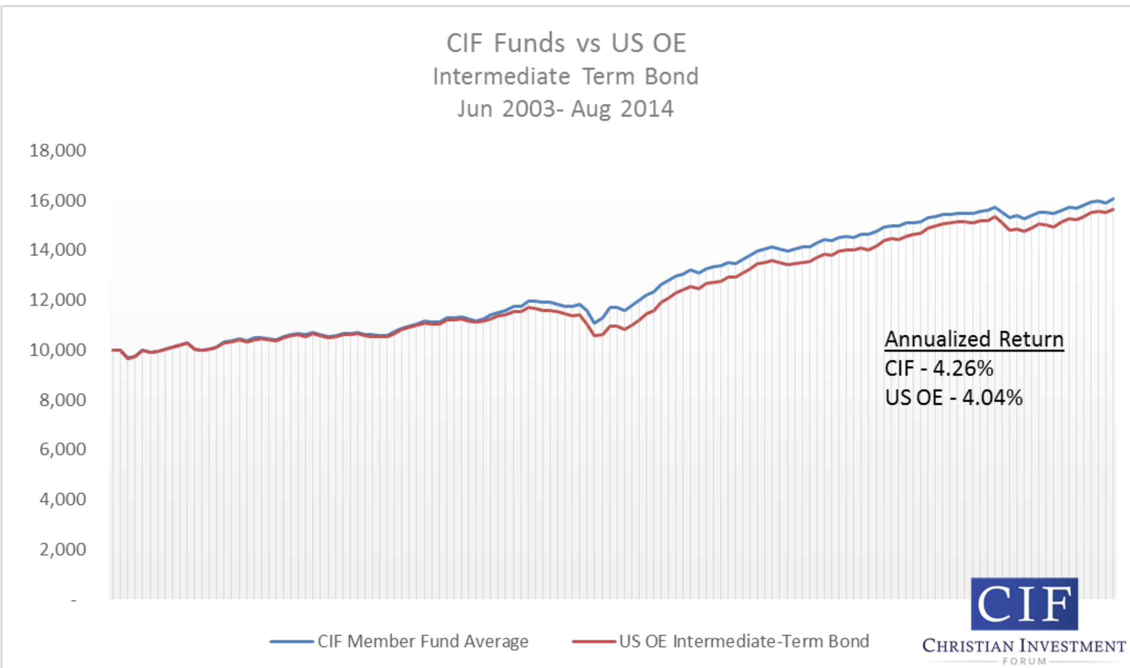
Mid-Cap Growth



In the Mid-Cap Growth Category, there are four funds from CIF Members: Timothy Plan Large/Mid-Cap Growth (TLGAX), Timothy Plan Aggressive Growth (TAAGX), Ave Maria Growth (AVEGX), and the Eventide Gilead Fund (ETGLX). The time period analyzed begins in August 2008 with the launch of the Eventide Gilead Fund as the fourth fund from CIF Members in the category. From August 2008 through August 2014, a hypothetical $10,000 investment in the CIF funds would have grown to $19,807 compared to $17,088 with the industry average. The annualized return outperformance for the CIF funds is 268 basis points over the average.

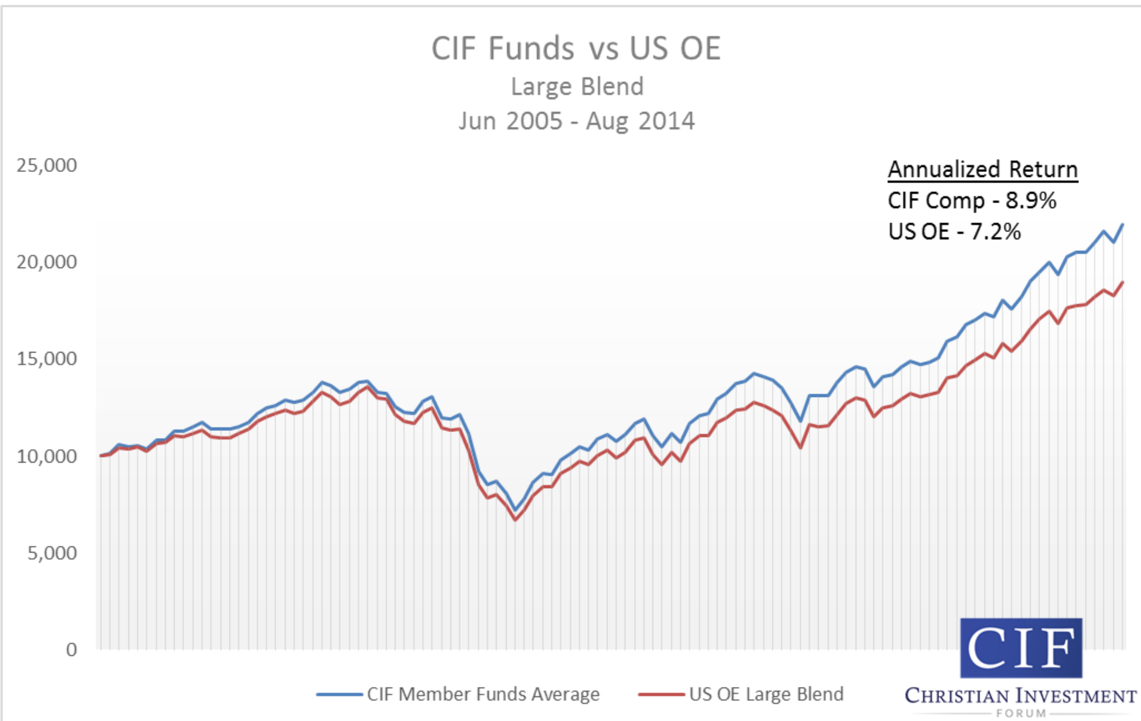
Intermediate-Term Bond

There are five CIF funds in the Intermediate Term Bond category. The funds are: Ave Maria Bond Fund (AVEFX), Epiphany FFV Strategic Income Fund (EPINX), GuideStone Funds Medium-Duration Bond Fund (GMDZX), Praxis Intermediate Income Fund (MIIAX), and Timothy Plan Fixed Income Fund (TFIAX). The time period reviewed began in June 2003 when the Ave Maria Bond fund was launched. From June 2003 until August 2014, a hypothetical $10,000 investment in the CIF funds would have grown to $16,047 compared to $15,657 for the industry average, an annual return outperformance of 22 basis points.



Large Blend

There are five CIF funds in this category: Ave Maria Rising Dividend (AVEDX), Epiphany FFV Fund (EPVNX), GuideStone Funds Equity Index Fund (GEQZX), Steward Large Cap Enhanced Index Fund (SEEKX), and the Timothy Plan Large/Mid Cap Value Fund (TLVAX). The analysis period began in June 2005 with the launch of the Ave Maria Rising Dividend Fund which was the 4th launched in the category. During this time period, a hypothetical $10,000 investment in a composite of the CIF Funds would have grown to $21,943, while the industry average would have grown to $18,957. On an annual basis, the outperformance of the CIF funds average was 171 basis points.



Methodology

Monthly performance information for the mutual funds offered by each CIF member organization was downloaded from Morningstar™. The study was run using default share classes in Morningstar which primarily represent load-waived A-share or comparable NTF share classes. Note that the use of institutional fund share classes would benefit fund performance further. Monthly returns were also downloaded for all of the relevant Morningstar™ category averages. All data is through August 31, 2014. Only categories containing at least two CIF member funds as of 8/31/14 were included in the study. Morningstar asset allocation categories were not included in the study given sometimes significant differences in asset allocation between funds within these categories.

Two sets of analysis were done on the data obtained. First, a broad based average was calculated for equity funds and bond funds for a five year period ending August 31, 2014. To calculate results CIF Member fund custom composites were constructed including all CIF Member equity funds and all CIF Member bond funds. These composites are based on the average monthly returns for the CIF funds starting in August, 2009. The custom composite returns were then compared to an average of the category average returns that included CIF Member funds. Returns were calculated on a total return basis, and are net of all mutual fund expenses.

The second analysis was based on separate Morningstar categories, to account for variances among category performance benchmarks. To calculate results a CIF Member fund custom composite was constructed for each category. Only those categories that included at least 4 CIF funds were analyzed due to preferred sampling size. This composite is based on the average monthly returns for CIF funds within each category, starting with the start date of the fourth fund. The custom composite returns were then compared to the category average returns from the start date to August 31, 2014. Returns were calculated on a total return basis, and are net of all mutual fund expenses.

There are 71 mutual funds available from CIF Member Firms across 28 categories. Of these, 20 are US Equity Funds, 12 are Fixed Income Funds, 12 are Foreign Equity Funds, 5 are Specialty Funds, and the other 22 funds are asset allocation or Target Date Funds.

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