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# **Faith-based Investing, Stewardship, and Sustainability: A Comparative Analysis**

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# Faith-based Investing, Stewardship, and Sustainability: A Comparative Analysis

Petrina Tan Tjin Yi\*

Abstract:

This article seeks to examine the relationship between faith-based investing of three religious traditions, stewardship and sustainability through comparative lenses. It contributes to the literature by linking faith-based investing and sustainability through an analysis of the similarities and differences in the religious values and investment stewardship approaches of faith-based investing. The article accordingly focuses on Catholic, Church of England and Islamic faith-based investing in the US, UK, and Malaysia as illustrative examples. The first section examines the concepts of sustainability, sustainable finance, and the values and organising principles underpinning Catholic, Church of England, and Islamic faith-based investing to highlight areas of conceptual alignment and their nexus to sustainability. The second section places faith-based investing within their respective legal and regulatory frameworks, illustrating an extensive reliance on soft law and a continuum from a primarily market-driven regulatory approach in the case of the US to greater state involvement in the form of law and regulation specifically tailored for Islamic faith-based investing in Malaysia. The following section then compares the faith-based investment stewardship approaches in these jurisdictions. The closing section reflects on the opportunities and challenges in faith-based investing as a means of advancing sustainability.

Keywords: ESG, faith-based investing, stewardship, sustainability

*'Finance was born in the shade of sanctity.'* – Gustave Glotz<sup>1</sup>

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<sup>1</sup> Gustave Glotz, *Ancient Greece at Work* (1967), at 3

## Introduction

Faith-based investing<sup>2</sup> is investing in accordance with religious tenets, allowing investors who engage in this form of investing to adhere to the tenets of their faith while still having a diversified portfolio.<sup>3</sup> In recent decades, faith-based investing has grown rapidly alongside conventional investing. Although there is no estimated specific figure for total assets held by faith-based investors, it has been argued that faith-based investors represent trillions of global assets under management.<sup>4</sup> As an economic activity, faith-based investing plays a significant role in Islamic finance centres such as Malaysia which had US\$620 billion in Islamic finance assets in 2020, putting it in the third spot behind Iran and Saudi Arabia.<sup>5</sup> A key impetus driving faith-based investing is a desire to align investment choices with religious beliefs on the basis that among others, purchasing and the use of resources has both moral and economic dimensions.<sup>6</sup> Faith-based investing may also be conceived as a response to various social, economic, and ecological crises arising from deep-seated moral beliefs.

Concurrently, there is a need for a new paradigm to address these crises leading to the emergence of the concepts of sustainability and sustainable development in both policy and scholarly circles. In this connection, a question which arises is whether faith-based investing is able to advance sustainability and if so, what are the mechanisms which enable it to do so. To answer these questions, this article takes a comparative perspective to critically examine the foundational values and investment stewardship mechanisms of three forms of faith-based investing, namely Catholic, Church of England and Islamic faith-based investing as practised in the US, UK and Malaysia respectively. Religion has long been regarded as a private matter,

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<sup>2</sup> Similar terms for faith-based investing include faith-formed, faith-informed, faith-consistent, faith-aligned, and faith-inspired investing and may be used interchangeably.

<sup>3</sup> See for e.g. Christopher Akers, 'Religion is inspiring a different way to invest' (19 January 2023) <<https://www.investorchronicle.co.uk/news/2023/01/19/religion-is-inspiring-a-different-way-to-invest/>> A contrasting negative definition of the term i.e. investing without violating an investor's religious beliefs has been posited in the literature, but this is overly capacious and unclear. See T. Kwon and V. Samberger, 'Unleashing the Potential of Faith-Based Investors for Positive Impact and Sustainable Development', University of Zurich Center for Sustainable Finance & Private Wealth and Initiative for Blended Finance <[https://ibf-uzh.ch/wp-content/uploads/2021/05/CSP\\_Unleashing\\_the\\_Potential\\_of\\_Faith-based\\_Investors\\_29-4-2021-pages.pdf](https://ibf-uzh.ch/wp-content/uploads/2021/05/CSP_Unleashing_the_Potential_of_Faith-based_Investors_29-4-2021-pages.pdf)> (last visited 20 September 2023)

<sup>4</sup> The Global Impact Investing Network, 'Engaging Faith-Based Investors In Impact Investing', <<https://thegiin.org/research/publication/engaging-faith-based-investors-in-impact-investing>> (January 2020), at 1

<sup>5</sup> Mustafa Aidil and Redha Al Ansari, 'Islamic Finance Development Report 2021: Advancing Economies' (2021) <<https://www.refinitiv.com/en/resources/special-report/islamic-finance-development-report>>, at 24.

<sup>6</sup> See for e.g. Pope Francis, 'No Longer Slaves, But Brothers and Sisters' <[https://www.vatican.va/content/francesco/en/messages/peace/documents/papa-francesco\\_20141208\\_messaggio-xlvi-giornata-mondiale-pace-2015.html](https://www.vatican.va/content/francesco/en/messages/peace/documents/papa-francesco_20141208_messaggio-xlvi-giornata-mondiale-pace-2015.html)> (last visited 10 September 2023)

leading to the development of a ‘value free society.’<sup>7</sup> However, religions are now seen as a powerful complementary tool to combat irresponsible behaviours and attitudes, and to transform economic life.<sup>8</sup> This article therefore focuses primarily on the screening, engagement, and divestment mechanisms through which faith-based investment is able to advance sustainability. It contributes to the literature by linking faith-based investing to sustainability through investment stewardship as one of various pathways leading to sustainable development outcomes.

The choice of Christian and Muslim faith-based investing in this study is also motivated by the position of Christianity and Islam as the largest and second largest religions in the world, comprising more than fifty-five percent of the world’s population.<sup>9</sup> In addition, Catholic, Church of England, and Islamic faith-based investing have been chosen as central illustrative examples in this analysis in view of their common tradition as Abrahamic religions.<sup>10</sup> These religions have a specific cosmology that defines the role of human beings in God’s design for creation which has profound implications for the natural world.<sup>11</sup> As regards the other Abrahamic faith, Judaism, formalised Jewish faith-aligned investing is a much newer concept although Jewish investing principles have been discussed from as long as centuries ago.<sup>12</sup> Additionally, in view of the jurisdiction-specific nature of the law and regulation governing investment activities, this article will focus on the US, UK and Malaysia.

The article is structured as follows. The first section examines the concepts of sustainability and sustainable finance, situating faith-based investing within the universe of socially responsible investing (SRI) and environmental, social, and governance (ESG)<sup>13</sup> investing. It then compares the values and organising principles underpinning Catholic, Church of England, and Islamic faith-based investing to highlight areas of conceptual alignment and

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<sup>7</sup> G. Rice, ‘Islamic ethics and the implications for business’, 18(4) *Journal of Business Ethics* 345 (1999)

<sup>8</sup> A. Helfaya, A. Koth, & R. Hanafi, ‘Qur’anic ethics for environmental responsibility: Implications for business practice’ 150(4) *Journal of Business Ethics* 1105 (2016); R. Peace, ‘Accountants and a religious covenant with the public’ 17(6) *Critical Perspectives on Accounting*, 781 (2006); S. Uddin, ‘Understanding the framework of business in Islam in an era of globalization: A review’ 12(1) *Business Ethics: A European Review*, (2003) 23

<sup>9</sup> M. Volf, P. Ghazi & M. Yarrington (eds.), *A Common Word: Between Us and You, 5-Year Anniversary Edition* (2009), at 53, 72

<sup>10</sup> The term ‘Abrahamic religions’ is a modern concept which comprises Judaism, Christianity, and Islam as related faiths. See for e.g., M. Silk, ‘The Abrahamic Religions as a Modern Concept’ in A. Silverstein and G. G. Stroumas (eds.) *The Oxford Handbook of The Abrahamic Religions* (2015), at 71

<sup>11</sup> D. M. Abdelzahar, A. Koth & A. Helfaya, ‘Eco-Islam: Beyond the Principles of Why and What, and Into the Principles of How’ 155(3) *Journal of Business Ethics* 623 (2019), at 638. See also E. Chuvieco, ‘Religious approaches to water management and environmental conservation’ 14 (S1) *Water Policy* (2012), 9

<sup>12</sup> D. B. Bressler, ‘Ethical Investment’, in Moses Pava and Aaron Levine (eds.), *Jewish Business Ethics* (1996). See also A. Nicholls, G. Peterson & E. Sukumaran, ‘Oxford Faith-Aligned Impact Finance Project Phase 1 Report’ (September 2022), at 124

<sup>13</sup> The term ‘ESG’ is characterized flexibly and used in various settings. See E. Pollman, ‘The Making and Meaning of ESG’ *ECGI Working Paper* 2022: 22-23

their nexus to sustainability. The second section sets out the legal and regulatory framework of faith-based investing in the US, UK, and Malaysia illustrating a continuum from a primarily market-driven regulatory approach in the case of the US to significant state involvement in the form of law and regulation specifically tailored for Islamic faith-based investing in Malaysia. It also highlights the role played by soft law in the form of investment policies and principles. The third section of the paper analyses the investment stewardship approaches of Catholic, Church of England and Islamic faith-based investing in the US, UK, and Malaysia. The fourth section of the paper will highlight the opportunities and challenges which faith-based investing encounters in realising sustainable development objectives. Finally, the article concludes.

## I. Sustainability and Faith-Based Investing: A Values-Centred Nexus

This article begins by examining the definition of sustainability, a broad term which encompasses the deployment of business and finance in a manner that protects the stability and resilience of the environment, facilitates social justice and promotes long-term economic prosperity securing the social foundation of humanity without further degradation of the planetary boundaries.<sup>14</sup> It follows that sustainability is the bedrock of sustainable development in which current and future generations will have the resources needed e.g. food, water, healthcare and energy, without stressing processes within the Earthly system.<sup>15</sup> This is reflected in the United Nations (UN) 2030 Agenda for Sustainable Development (2030 UN Agenda) which was adopted by all United Nations member states in 2015.<sup>16</sup> The 2030 UN Agenda is focused on the maintenance of ecology that allows the human species to flourish<sup>17</sup> and is broadly focused on people, planet, and prosperity.<sup>18</sup> Gladwin, Kennelly and Krause<sup>19</sup> have defined five principles of sustainable development as follows: comprehensiveness<sup>20</sup>,

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<sup>14</sup> B. Sjøfjell and C.M. Bruner, 'Corporations and Sustainability' in B. Sjøfjell and C.M. Bruner (eds.), *The Cambridge Handbook of Corporate Law, Corporate Governance and Sustainability* (2019), 3, 7-10. To date, six of the nine planetary boundary zones are in the red. See <<https://www.science.org/doi/10.1126/sciadv.adh2458>> (13 September 2023)

<sup>15</sup> K. Raworth, *Doughnut Economics* (2017)

<sup>16</sup> United Nations Department of Economic and Social Affairs: Sustainable Development, 'Sustainable Development Goals' <<https://sdgs.un.org/goals>>

<sup>17</sup> B. Sheehy and F. Farneti, 'Corporate Social Responsibility, Sustainability, Sustainable Development and Corporate Sustainability: What is the Difference, and Does it Matter?' 13(11) *Sustainability* 5965 (2021), at 5968.

<sup>18</sup> United Nations, 'Transforming our world: the 2030 Agenda for Sustainable Development', <<https://sdgs.un.org/2030agenda>> (last visited 12 September 2023)

<sup>19</sup> T.N. Gladwin, J. J. Kennelly, & T-S. Krause, 'Shifting Paradigms for Sustainable Development: Implications for Management Theory and Research' 20(4) *Academy of Management Review* 874 (1995)

<sup>20</sup> This refers to the holistic or all-embracing nature of sustainability in terms of space, time, and component parts.

connectivity<sup>21</sup>, equity<sup>22</sup>, prudence<sup>23</sup> and security.<sup>24</sup> Although sustainable development is a holistic concept, Norström et al. argued that it is necessary to address trade-offs between the ambition of economic, social and environmental goals and the feasibility of reaching them, recognising biophysical, social and political constraints.<sup>25</sup>

In tandem and under the umbrella of the 2030 UN Agenda, seventeen Sustainable Development Goals (SDGs) and one hundred and sixty-nine targets have been developed to facilitate the effective utilisation of business and financial resources to realise sustainability and sustainable development objectives. The SDGs function as a focal point for all countries to cooperate in addressing long-standing issues such as health, education, the reduction of inequality as well as environmental concerns including those of climate change which have become more acute in recent years and are of critical importance for humankind and the Earth. They provide direction towards government policies e.g. regulation and taxation of environmental and social challenges.<sup>26</sup> The seventeen SDGs are interrelated and may be classified according to the levels of the economy,<sup>27</sup> the society<sup>28</sup> and the environment.<sup>29</sup>

Sustainable finance plays an important role in allocating investment to sustainable corporates and projects, enabling the transition to a low carbon and more circular economy in line with sustainable development.<sup>30</sup> It focuses on the interaction between investing and

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<sup>21</sup> In this context, it is an understanding of the world's challenges as systemically interconnected and interdependent.

<sup>22</sup> Here this refers to a fair distribution of resources and property rights, both within and between current and future generations.

<sup>23</sup> The focus is on keeping life-supporting ecosystems and interrelated socio-economic systems resilient, avoiding irreversible actions, and keeping the scale and impact of human activities within regenerative and carrying capacities.

<sup>24</sup> Security in this regard is centred on a safe, healthy, high quality of life for current and future generations.

<sup>25</sup> A. Norström, A. Dannenberg, G. McCarney, M. Milkoreit, F. Diekert, G. Engström, R. Fishman, J. Gars, E. Kyriakopoulou, V. Manoussi, K. Meng, M. Metian, M. Sanctuary, M. Schlüter, M. Schoon, L. Schultz, & M. Sjöstedt, 'Three necessary conditions for establishing effective Sustainable Development Goals in the Anthropocene' 19(3) *Ecology and Society* at 8 (2014)

<sup>26</sup> Principles of Sustainable Finance at 15

<sup>27</sup> Goal 8, Goal 9, Goal 10, and Goal 12

<sup>28</sup> Goal 1, 2, 3, 4, 5, 7, 11, 16

<sup>29</sup> Goal 6, 13, 14, 15. See also J. Rockström and P. Sukhdev, 'How food connects all the SDGs', Stockholm Resilience Centre, < <https://www.stockholmresilience.org/research/research-news/2016-06-14-the-sdgs-wedding-cake.html>> (last visited 10 September 2023)

<sup>30</sup> Dirk Schoenmaker and William Schramade, 'Principles of Sustainable Finance' 2019 CUP, 4, 18. The concept of the circular economy focuses on reform of the predominantly linear economic model of the production and distribution of goods (which has become known as "take, make, and dispose") into a system where disposal is minimised. See Pauline Deutz, 'Circular Economy' in Audrey Lynn Kobayashi (ed.), *Encyclopedia of human geography*, (2020), 193-201. A policymaker-oriented definition of sustainable finance is 'the process of taking ESG considerations into account when making investment decisions in the financial sector, leading to more long-term investments in sustainable economic activities and projects. See European Commission, 'Overview of Sustainable Finance'

economic, social and environmental issues and deals with the inherent uncertainty about environmental issues such as the impact of carbon emissions on climate change with a shift from short-term profit to long-term value creation.<sup>31</sup> The concept of sustainable finance may be further divided into the following stages: Sustainable Finance 1.0, Sustainable Finance 2.0 and Sustainable Finance 3.0.<sup>32</sup> Under Sustainable Finance 1.0, the concept of shareholder value was refined in which profit was still maximised but investments in ‘sin’ stocks were minimised. Companies with extremely negative impacts or companies were accordingly urged to introduce sustainable practices and policies into their business. Corporate success was still evaluated from a purely economic point of view and remained focused on serving the business itself and its economic goals.<sup>33</sup> Sustainable Finance 2.0 sought to create shareholder value through the internalisation of social and environmental externalities which was more relevant for equities rather than bonds, in view of the maturity of the financial instrument in question.<sup>34</sup> To do so, investors incorporated the negative social and environmental externalities into their investment decision with reference to the triple bottom line (people, planet, profit) and integrated profit and loss accounting approaches.<sup>35</sup> Finally, Sustainable Finance 3.0 pivoted from risk management to realisation of opportunities, in which investments were made only in sustainable companies and projects – but the problem was how the financial part of the decision is made, particularly in relation to its economic and financial viability.<sup>36</sup> The ultimate aim was that of long-term value creation for the common good<sup>37</sup> which may be defined as what is shared and beneficial for all or most members of a given community.

This paper argues that there are elements of all three forms of sustainable finance in faith-based investing with regard to its underlying values, and investment stewardship approaches. Faith-based investing encompasses the entirety of the investment chain i.e. faith-based asset owners, asset managers, and investees, and is underpinned by support functions in the form of investment service providers, investment networks as well as other related partner

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<[https://finance.ec.europa.eu/sustainable-finance/overview-sustainable-finance\\_en](https://finance.ec.europa.eu/sustainable-finance/overview-sustainable-finance_en) > (last visited 20 September 2023)

<sup>31</sup> Schoenmaker and Schramade, above n. 30, at 5

<sup>32</sup> M. Friedman, *The Social Responsibility of Business is to Increase Its Profits* (1970)

<sup>33</sup> T. Dyllick and K. Muff, ‘Clarifying the Meaning of Sustainable Business: Introducing a Typology from Business-as-Usual to True Business Sustainability’ *Organization & Environment* 1 (2015)

<sup>34</sup> Schoenmaker and Schramade, above n. 30, at 22

<sup>35</sup> See J. Elkington, *Cannibals with Forks: The Triple Bottom Line of 21st Century Business* (1999)

<sup>36</sup> D. Schoenmaker, ‘From Risk to Opportunity: A Framework for Sustainable Finance’ Rotterdam School of Management, Erasmus University, Rotterdam (2017)

<sup>37</sup> See for e.g. J. Tirole, *Economics for the Common Good*, (2017)

organizations.<sup>38</sup> Religious organisations which are asset owners are commonly associated with faith-based investing, although faith-based asset owners also include faith-related family offices, foundations, health services and non-profit pension plans.<sup>39</sup> Critically, there is a bottom-up element in the role played by devout individuals who engage in faith-based investing and either construct their own investing portfolio or invest through asset managers who function as intermediaries to oversee the operation and value of an investment portfolio. It follows that investment decisions by individuals engaging in faith-based investing are manifestations of a voluntarily bound autonomy or free will with regard to purchasing choices to align with the religious values which they uphold. This raises a question of how these values are then expressed in an investment management context.

Faith-based investing has further been conceptualised as a subset of SRI and ethical investment, both of which have been broadly described as an investor including factors in addition to the standard finance theory variables of risk and returns.<sup>40</sup> The growth of the financial performance of SRI has enabled it to become financialised, prioritising financial goals over ethical goals and applying financial strategies of conventional funds to SRI funds.<sup>41</sup> Faith-based investing is also generally regarded as synonymous with values-based investing which has more secular connotations. It has been argued that ethical, socially responsible, green, and faith-based investments should be considered as different approaches within the broader field of sustainable investing.<sup>42</sup> Faith-based investing is conceptually distinct from impact investing in which impact investments are those made with the intention to generate positive, measurable social and environmental impact alongside a financial return<sup>43</sup> and are different from established practices of socially responsible and ethical investment.<sup>44</sup>

Be that as it may, early forms of SRI stemmed primarily from religious motivations<sup>45</sup>, with scholars tracing the earliest version of social screening of investment opportunities back

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<sup>38</sup> GIIN, 'Faith-based investing definitions' (Faith-Based Investing Map) June 2022

<sup>39</sup> Ibid.

<sup>40</sup> J. Tippet, 'Ethical Investment in Australia' (PhD thesis on file at RMIT University, Australia)

<sup>41</sup> C. Revelli, 'Socially responsible investing (SRI): From mainstream to margin?', 39(PB) *Research in International Business and Finance* 711 (2017), at 711

<sup>42</sup> K. Lesser, F. Rößle & C. Walkshäusl, 'Socially responsible, green and faith-based investment strategies: Screening activity matters' 16 (C) *Finance Research Letters*, 171, at 178 (2016)

<sup>43</sup> Global Impact Investing Network, 'Core Characteristics of Impact Investing' <[https://thegiin.org/assets/Core%20Characteristics\\_webfile.pdf](https://thegiin.org/assets/Core%20Characteristics_webfile.pdf)> (last visited 16 September 2023)

<sup>44</sup> S. Findlay and M. Moran, 'Purpose-washing of impact investing funds: motivations, occurrence and prevention' 15(7) *Social Responsibility Journal* 853 (2018)

<sup>45</sup> R. Sparkes, 'Ethical investment: whose ethics, which investment?' 10(3) *Business Ethics: A European Review* 194 (2001). See also R. Sparkes, 'A historical perspective on the growth of socially responsible investment' in R. Sullivan and C. Mackenzie (eds), *Responsible Investment* (2006), at 39



more than 2000 years to the Hebrew bible.<sup>46</sup> In the period between the 17<sup>th</sup> century until the mid-20<sup>th</sup> century, the idea of socially screened investment remained a small, religiously centred movement.<sup>47</sup> However, the growing civil rights, women's rights, and environmental movements in the 1960s led to a renewed interest in SRI in the 1970s.<sup>48</sup> Since the introduction of Pax World Fund in 1971<sup>49</sup> which was the first broadly diversified fund to use social and financial criteria in investment decisions,<sup>50</sup> other similar funds have come onto the market such as the Domini Social Equity Fund and Calvert Social Investment Fund.<sup>51</sup> Subsequently, investor opposition to South African apartheid policies in the 1980s drove the further development of SRI.<sup>52</sup> Although the origins of SRI lay in Abrahamic faiths, SRI has become increasingly secular as a result of the secularization of Western Europe which is considered the heartland of modern SRI as well as a wider change in social values from those espoused in classic SRI.<sup>53</sup>

Sustainable finance accordingly encompasses faith-based investing in terms of its engagement with non-financial factors and is similar to ESG investing. Faith-based investing and ESG investing share many common principles such as being a good steward to society and the environment. However, faith-based investing has a distinct character of its own arising from the teachings and fundamental principles of the religions in question, especially relating to moral aspects at the heart of the religion. By contrast, ESG investing is premised on the fundamental belief that ESG factors may have a material effect on investment returns especially over the long term, and that responsible companies seek to either mitigate social impacts or produce better ones by making better long-term investments<sup>54</sup> without being rooted in deeper faith values. Faith-based investing therefore provides a foundation for investment other than

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<sup>46</sup> S. J. Toson, *The SAGE Encyclopedia of Business Ethics and Society* (2018)

<sup>47</sup> Ibid.

<sup>48</sup> S. Schueth, 'Socially responsible investing in the United States' 43(3) *Journal of Business Ethics* 189 (2003)

<sup>49</sup> Jennifer Hopfinger, 'Where's your piggy going to market? The dividends of faith-based investing' 68(1) *US Catholic*, (2003), at 15

<sup>50</sup> C. Louche, D. Arenas & K.C. v Cranenburgh, 'From Preaching to Investing: Attitudes of Religious Organisations Towards Responsible Investment', 110(3) *Journal of Business Ethics* 301(2012)

<sup>51</sup> Hopfinger, above n. 49

<sup>52</sup> See for e.g., T. Siew Hong, I. Welch, & C. P. Wazzan, 'The Effect of Socially Activist Investment Policies on the Financial Markets: Evidence from the South African Boycott', 72(1) *The Journal of Business* 35 (1999); W. H. Kaempfer, J. A. Lehman & A. D. Lowenberg, 'Divestment, Investment Sanctions, and Disinvestment: An Evaluation of Anti-Apartheid Policy Instruments', 41(3) *International Organization*, 457 (1987)

<sup>53</sup> U. Hayat, 'Sustainable, Responsible, And Impact Investing And Islamic Finance: Similarities And Differences' CFA Institute (2019), <<https://www.cfainstitute.org/-/media/documents/survey/sri-investing-and-islamic-finance.pdf>>, 8 (last visited 13 September 2023)

<sup>54</sup> G. E. Henderson, 'Making Corporations Environmentally Sustainable: The Limits of Responsible Investing' 13 *German Law Journal* 1412, at 1413-1414 (2012)

pure financial reasons i.e. through religious lenses which may then be linked to sustainability. Given that the remit of sustainability is broad as reflected by the wide-ranging nature of the SDGs, they require prioritisation and it is arguable that environmental concern is one of the most urgent.<sup>55</sup> This article will therefore focus on environmental concerns in the subsequent discussion.

In this section, the originating values and principles underscoring faith-based investing are analysed from a comparative perspective to understand their relationship with sustainability as well as to draw out their similarities and differences. These values are important as they form a conceptual foundation which is expressed in the investment management space. Furthermore, values can act as relatively stable guiding principles that enable individuals to evaluate situations, end states, or modes of conduct in terms of desirability.<sup>56</sup> They have also been shown to influence investment decisions.<sup>57</sup> A foundational principle of Christianity and Islam is love of the One God and neighbour.<sup>58</sup> For example, in the Holy Qur'an, *surah Al-Muzzammil* 73:8 describes the necessity for the love of God<sup>59</sup> and a *hadith*<sup>60</sup> by the Prophet Muhammad expands on the necessity of love for neighbour.<sup>61</sup> Further, in the New Testament of the Bible, Jesus Christ taught about the importance of loving God with all one's heart, soul and mind and to love one's neighbour as oneself.<sup>62</sup> The two great commandments are accordingly an area of common ground and a link between the Qur'an, the Torah and the New Testament.<sup>63</sup>

A manifestation of love for God and neighbour is recognising the abundance of God's bountiful blessings and resources. To this end, man is positioned as a steward on Earth of all of its resources.<sup>64</sup> The principle of stewardship of human beings on Earth is the principal value

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<sup>55</sup> R. Bandari, E. A. Moallemi, R. E. Lester, D. Downie & B. A. Bryan, 'Prioritising Sustainable Development Goals, characterising interactions, and identifying solutions for local sustainability,' 127 *Environmental Science & Policy*, 325 (2022). See also C. Allen, G. Metternicht & T. Wiedmann, 'Prioritising SDG targets: assessing baselines, gaps and interlinkages' 14 *Sustainability Science*, 421 (2019)

<sup>56</sup> S. A. Schwartz, 'Theory of cultural values and some implications for work' 48 *Applied Psychology* (1999) 23

<sup>57</sup> W. R. Pasewark and M.E Riley, 'It's a Matter of Principle: The Role of Personal Values in Investment Decisions' 93(2) *Journal of Business Ethics*, 237 (2010)

<sup>58</sup> Volf, Ghazi & Yarrington, above n. 9, at 53

<sup>59</sup> *Ibid.*

<sup>60</sup> *Hadith* refers to the corpus of the sayings or traditions of the Prophet Muhammad, revered by Muslims as a major source of religious law and moral guidance. See A. Sayeed, 'Hadith' in *Encyclopedia Britannica* (2003)

<sup>61</sup> Volf, Ghazi & Yarrington, above n. 9, at 53

<sup>62</sup> See for e.g., Matthew 22:34-40; Mark 12:28-31

<sup>63</sup> Volf, Ghazi & Yarrington, above n. 9, at 68

<sup>64</sup> Global Ethical Finance Initiative, *Edinburgh Finance Declaration: An Interfaith Shared Values Framework on Ethical Finance*, (22 October 2018), < <https://www.globalethicalfinance.org/wp-content/uploads/2018/06/Edinburgh-Finance-Declaration-Overview.pdf>> See also the Qur'an 2:30 and Genesis 1:26-27

upon which Christianity and Islam base their understanding of an ethical economy. Dominion over the resources of the Earth is to be tempered with a responsibility in light of the divine commands of temperance, purposefulness and care which are based on cultivating and nurturing civilisation in both Christianity and Islam.<sup>65</sup> It follows that the stewardship of all created goods, including all forms of financial activity such as asset management and investment should be directed to reflect this gift of God to the human family, by serving the common good, respecting justice and ethical standards.<sup>66</sup> The Catholic Church further notes that every decision is latent with grace from the Holy Spirit for building God's kingdom and responding to God's great gift of love with our lives; one of the gifts of such grace is discerning the true value and therefore measure, of all things.<sup>67</sup> The Islamic understanding of man as representative guardians for the divine will or *khalifah* has been further argued to mean that man is the custodian of creation who is tasked with maintaining creation's order and may enjoy the fruits of the earth but must not wastefully exploit its resources.<sup>68</sup>

In construing the connection between investment and growth, Christian and Islamic faith-based standpoints emphasise development beyond the economic dimension. Development is a human life goal which always considers the moral and spiritual spheres and universal uplift in the process.<sup>69</sup> The principle of social justice and overall societal well-being are central to Christianity and Islam. Key principles of Catholic Social Teaching<sup>70</sup> focus on the human person and human dignity<sup>71</sup>, the common good, solidarity, social justice,<sup>72</sup> subsidiarity, care for our common home, the inclusion of the most vulnerable, and integral ecology.<sup>73</sup> While the UN has fashioned measures of just, inclusive, and ecologically-sound practices, the Catholic Church believes that there is no investment algorithm to 'simulate the human conscience and that numbers are an imperfect representation of priorities in the investment

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<sup>65</sup> Global Ethical Finance Initiative, above. n. 64

<sup>66</sup> The Pontifical Academy of Social Science, '*Mensuram Bonam - Faith-Based Measures for Catholic Investors: A Starting Point and Call to Action*', 2022, 4. While finance is an important sector and includes investing as an activity, it must actively be at the service of the real economy and not be used solely as a means of unproductive speculation.

<sup>67</sup> The Pontifical Academy of Social Science, above n.66, at 14

<sup>68</sup> A. Rakhmat, 'Islamic Ecotheology: Understanding the Concept of Khalifah and the Ethical Responsibility of The Environment' 3 (1) *Academic Journal of Islamic Principles and Philosophy*, 20 (2022)

<sup>69</sup> Jeremiah 29:6-7, Surah Al-Muwatta

<sup>70</sup> A. M, Gómez-Bezares and F. Gómez-Bezares. 2021, 'Catholic Social Thought and Sustainability. Ethical and Economic Alignment' *Journal of Risk and Financial Management* 14: 11. 1

<sup>71</sup> Pontifical Council for Justice and Peace, *Compendium of the Social Doctrine of the Church* (2006)

<sup>72</sup> The Pontifical Academy of Social Science, above n.66, at 23

<sup>73</sup> Pope Francis, '*Encyclical Letter of The Holy Father Francis on Care for Our Common Home: Laudato Si*' 2015, paragraphs 10-11. See also E. d. Quay, 'Integral Ecology in the Roman Catholic Pope Francis, n. 79 Church' <<https://lsri.campion.ox.ac.uk/IntegralEcologyRC>> (last visited 21 September 2023)

calculus.’<sup>74</sup> Under Islam, concepts of common welfare (*maslahat*) and the broader purpose of the *Shariah*<sup>75</sup> (*maqasid*) speak to the ultimate goal of life in Islam to protect the five essential interests, namely the faith (*din*), the self (*nafs*), the intellect (*‘aql*), the progeny (*nasl*) and wealth (*mal*). *Maqasid* emphasises a holistic view of life in Islam and is a foundation towards a righteous way of life in which these outcomes can be achieved: the fulfilment of basic human needs, the optimisation of natural resource consumption, the promotion of economic well-being and social justice, the alleviation of poverty and reduction of income disparities as well as the adoption of permissible and productive activities while eschewing prohibited and harmful activities under the rubrics of Islam. It has been argued that there is no significant difference between the *Shariah* and the SDGs in view of their compatibility with each other<sup>76</sup>, with the difference being in the means or *wasa’il*.<sup>77</sup>

Faith-based investing holds as important the preservation of natural resources and the maintenance of ecological equilibrium. In the Catholic understanding of the natural order, the economy is nested within society, impacts human beings in positive and negative ways, and is bound by natural limits.<sup>78</sup> As stated in the papal encyclical *Laudato Si*, ‘creatures tend toward God, and in turn it is proper to every living being to tend towards other things, so that throughout the universe we can find any number of constant and secretly interwoven relationships.’<sup>79</sup> The Anglican Church declaration of Five Marks of Mission which expresses the mission statement of the Church of England includes striving to safeguard the integrity of creation and to sustain and renew the life of the Earth.<sup>80</sup> From an Islamic perspective, the concept of *fitrah* describes the original natural order while the principle of *tawhid* or unity describes all elements of divine creation as related to each other and because they are all equal signs of God, are equally important, valuable, and worthy of preservation. Further, *tawhid* is premised on belief in one God and man as servant to God which accordingly drives the believer

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<sup>74</sup> The Pontifical Academy of Social Science, above n.66, at 7

<sup>75</sup> *Shariah* is defined as the totality of guidance that God Most High has revealed to His Prophet Muhammad pertaining to the dogma of Islam, its moral values, and its practical legal rules. See M. H. Kamali, *Shariah and The Halal Industry*, (2021)

<sup>76</sup> M. Bhoyroo, ‘Islamic finance converges with sustainability’ (19 July 2022) <<https://www.ftserussell.com/blogs/islamic-finance-converges-sustainability>>

<sup>77</sup> UK Islamic Finance Council, ‘Islamic Finance: Shariah and the SDGs (Thought Leadership Series Part 4 – October 2021),’ <<https://www.ukifc.com/wp-content/uploads/2021/09/IF-Report-part-4-Oct-2021.pdf>>

<sup>78</sup> The Pontifical Academy of Social Science, ‘*Mensuram Bonam - Faith-Based Measures for Catholic Investors: A Starting Point and Call to Action*’, 2022, 13-14

<sup>79</sup> Pope Francis, n. 73, at 240

<sup>80</sup> Anglican Communion, ‘The Five Marks of Mission’ <<https://www.anglicancommunion.org/mission/marks-of-mission.aspx>> (last visited 21 September 2023)

to conduct all activities with good intentions, good manners, and the prevention of harm to others. The Quran also cites the concept of *mizan* or balance which has been interpreted as intending the ‘natural regeneration of the diverse life forms on earth’ in a state of properly ordered creation which needs to be maintained or restored. The values underpinning faith-based investing are essential in providing a solid theological foundation for investment choices. Returns on investment are important in faith-based investing across both Christianity and Islam. However, in the Christian context, these must be distinguished from the promises of wealth as evidence of God’s blessings pursuant to the prosperity gospel which has different theological bases from the Catholic and Church of England faith traditions.<sup>81</sup>

## II. The Legal and Regulatory Framework of Faith-Based Investing

Faith-based investing takes place within an overarching legal and regulatory framework which encompasses the law governing religion within a state and permissible investment activities. It is argued that there is a continuum from a primarily market-driven regulatory approach in the case of the US to extensive state involvement in the form of law and regulation specifically tailored for Islamic faith-based investing in Malaysia, with the UK standing in between. This continuum has implications on the reliance on public versus private mechanisms in the governance and certification of faith-based investment securities and products.

The First Amendment of the US Constitution provides that the country shall have no official religion,<sup>82</sup> although debates have arisen about the line between religion and government since the founding of the country.<sup>83</sup> By contrast, the Church of England is the established church in England which means that the reigning monarch is the supreme governor of the church, the church performs various official functions, and the church and state are linked.<sup>84</sup> Islam is established as the state religion under Article 3(1) of the Malaysian Federal Constitution, although other religions may be practised in peace and harmony, and the

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<sup>81</sup> See generally Kate Bowler, *Blessed: A History of the American Prosperity Gospel*, (2013)

<sup>82</sup> US Congress, ‘Constitution Annotated: First Amendment’

<<https://constitution.congress.gov/constitution/amendment-1/>> (last visited 10 September 2023); R. Leppert and D. Fahmy, ‘10 facts about religion and government in the United States’ (5 July 2022)

<<https://www.pewresearch.org/fact-tank/2022/07/05/10-facts-about-religion-and-government-in-the-united-states/>>

<sup>83</sup> See for e.g. N. Totenberg ‘Supreme Court says Boston unconstitutionally barred Christian flag from city hall’ (2 May 2022) <<https://www.npr.org/2022/05/02/1095943871/supreme-court-says-boston-unconstitutionally-barred-christian-flag-from-city-hal>>

<sup>84</sup> David Torrance, ‘The relationship between church and state in the United Kingdom’ (14 September 2023), <<https://commonslibrary.parliament.uk/research-briefings/cbp-8886/>>

establishment of Islam shall not derogate from other provisions in the Constitution.<sup>85</sup> Nevertheless, the general law in Malaysia is secular, and separate *Shariah* jurisdiction is carved out for personal matters for persons professing the religion of Islam.<sup>86</sup>

As there is no official state religion in the US, it follows that there is no specific legal and regulatory framework for faith-based investments and US asset managers that practise faith-based investing in the Catholic tradition are subject to the same law and regulations as conventional asset managers.<sup>87</sup> Catholic faith-based investing in the US is reliant on soft law and guidelines, such as those issued by the Vatican Pontifical Academy of Social Sciences and the US Conference of Catholic Bishops (USCCB) who jointly exercise pastoral functions on behalf of the Christian faithful. In 2021, the USCCB issued an expanded version of its Socially Responsible Investment Guidelines<sup>88</sup> supplementing the USCCB's Catholic Framework for Economic Life which are based on the Catechism of the Catholic Church, papal encyclicals, statements from US bishops and the pastoral letter, *Economic Justice for All*.<sup>89</sup> This was soon followed by the issuance of a public guideline for ethical investing titled *Mensuram Bonam*<sup>90</sup> by the Pontifical Academy of Social Sciences in November 2022. These guidelines serve as a call to all Catholics involved in investing to formally adopt and apply faith-based criteria in the stewardship of their finances. To this end, they are called to reconcile economic objectives with the overarching principles of the Church's moral and social teachings and to use their expertise, engagement skills, and ethical concerns to contribute to changing economic culture to accelerate the flourishing of integral human development.<sup>91</sup> Compliance with the Vatican and USCCB guidelines with regard to investment funds' religious standards and criteria is

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<sup>85</sup> Article 3(4) Malaysian Federal Constitution

<sup>86</sup> Schedule 9, List II, Malaysian Federal Constitution sets out these matters, including succession, testate and intestate, marriage, divorce, and the punishment of offences by persons professing the religion of Islam against precepts of that religion. See also Dian Shah, 'Constitutions, Religion and Politics in Asia' (2017), at 24.

<sup>87</sup> US Securities and Exchange Commission, 'The Laws That Govern the Securities Industry' <<https://www.investor.gov/introduction-investing/investing-basics/role-sec/laws-govern-securities-industry#:~:text=Act%20of%201940%20.-.Investment%20Advisers%20Act%20of%201940.regulations%20designed%20to%20protect%20investors.>> (last visited 5 September 2023) See also Harvey Bines and Steve Thel, 'The Varieties of Investment Management Law', 21(1) Fordham Journal of Corporate & Financial Law 71, (2016)

<sup>88</sup> US Conference of Catholic Bishops, 'Socially Responsible Investment Guidelines For The United States Conference Of Catholic Bishops', (November 2021) <[https://www.usccb.org/resources/Socially%20Responsible%20Investment%20Guidelines%202021%20\(003\).pdf](https://www.usccb.org/resources/Socially%20Responsible%20Investment%20Guidelines%202021%20(003).pdf)>

<sup>89</sup> US Conference of Catholic Bishops, 'Economic Justice for All: Pastoral Letter on Catholic Social Teaching and the U.S. Economy' (1986) <[https://www.usccb.org/upload/economic\\_justice\\_for\\_all.pdf](https://www.usccb.org/upload/economic_justice_for_all.pdf)>

<sup>90</sup> Jason Horowitz, 'Catholic Church Issues Guidelines for Ethical Investing', New York Times (25 November 2022)

<sup>91</sup> The Pontifical Academy of Social Science, above n.66

determined by internal Catholic advisory boards set up by the asset manager<sup>92</sup> and there is no external certification authority in this respect.

Although the Church of England is the established church of England, there is no prescribed legal and regulatory framework for faith-based investing in accordance with the Church of England teachings. Asset managers in the UK which conduct faith-based investing are subject to the prevailing laws regulating conventional asset managers. Faith-based investing in accordance with the teachings of the Church of England considers guidelines such as the statement of ethical investment policy issued by the National Investing Bodies of the Church of England, namely the Church Commissioners for England, the CBF Church of England Funds and the Church of England Pensions Board.<sup>93</sup> This statement outlines in broad terms the Church of England's position relating to stewardship, engagement, and investment exclusions with more detailed policies and reports on topical concerns which include climate change and supply chain engagement as well as sectors such as extractive industries.<sup>94</sup> These policies and reports provide theological reflections and practical recommendations with regard to investment strategies. Similar to the US position, certification of compliance of faith-based investments with Church of England guidelines is conducted by internal faith advisory committees.<sup>95</sup>

The legal framework of Islamic faith-based investing sits within the wider Islamic finance framework in Malaysia. Islamic finance is a long-standing and viable alternative to conventional finance. Islamic faith-based investing is contrasted with Christian-aligned investing which operates within the mainstream financial system, given fewer restrictions on fundamental tenets such as the payment of interest<sup>96</sup> and the integration of various

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<sup>92</sup> See for e.g. Ave Maria Mutual Funds, 'Advisory Board' (2021) <<https://avemariafunds.com/about-us/advisory-board.html>>; Morgan Stanley, 'Catholic Values Investing' (September 2016) <<https://www.morganstanley.com/content/dam/msdotcom/articles/building-value-values/IIP-CatholicValues-Primer.pdf>>

<sup>93</sup> Church of England, 'Ethical Investment Advisory Group', <<https://www.churchofengland.org/about/leadership-and-governance/ethical-investment-advisory-group>> (last visited 1 September 2023)

<sup>94</sup> Church of England, 'Policies and Reviews' <<https://www.churchofengland.org/about/leadership-and-governance/ethical-investment-advisory-group/policies-and-reviews>> last visited 1 September 2023

<sup>95</sup> See for e.g. S. Hickey, 'Church of England investment manager launches retail fund' (13 June 2022), <<https://www.ftadviser.com/investments/2022/06/13/church-of-england-investment-manager-launches-retail-fund/>>

<sup>96</sup> W. Ghoul and P. Karam, 'MRI and SRI Mutual Funds: A Comparison of Christian, Islamic (Morally Responsible Investing) and Socially Responsible Investing (SRI) Mutual Funds' 16(2) *The Journal of Investing* 96 (2007)



denominations of Christianity within the Western and global financial system.<sup>97</sup> Under Malaysian law, asset managers which carry out Islamic faith-based investing are subject to the legislative and regulatory requirements pursuant to the Islamic finance law and regulations. These include quasi-legislative guidelines issued by the Malaysian Securities Commission which are subject matter specific. Islamic finance products are also subject to *Shariah* regulations which are fundamentally different from the common law.<sup>98</sup> The Quran is the primary legal source followed by the *Hadith*<sup>99</sup> and other secondary sources.

While US and UK faith-based investments include equities and ETFs<sup>100</sup>, Islamic faith-based investments are open to an even broader range of financial products beyond the equity universe such as Islamic bonds or *sukuk* which must comply with *Shariah* requirements. In this respect, *Shariah* certification is conducted on a national level in Malaysia through the Shariah Advisory Council.<sup>101</sup> The Council plays an essential role to ensure that the implementation of the Islamic capital market complies with *Shariah* principles. It is a formalised version of an earlier Islamic Instrument Study Group which was formed in 1994 and its establishment was endorsed by the Minister of Finance to ensure that the implementation of the Islamic Capital Market complied with Shariah principles. Its scope of jurisdiction is to advise the SC on all matters related to the comprehensive development of the Islamic capital market and to function as a reference centre for all Islamic Capital Market issues. Shariah compliant and non-Shariah compliant business is differentiated by the Shariah Advisory Council using Shariah equities screening criteria which may overlap with ESG in the focus on socially responsible purposes and the exclusion of businesses which are deemed unethical.<sup>102</sup> Their decisions are documented in the resolutions of the Shariah Advisory Council.<sup>103</sup>

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<sup>97</sup> R. S. Stultz, 'An Examination of the Efficacy of Christian-Based Socially Responsible Mutual Funds', *The Journal of Impact and ESG Investing* (2020)

<sup>98</sup> V. Chen, 'Law and Society in the Evolution of Malaysia's Islamic Capital Market Regulation', 4 *Asian Journal of Law and Society*, 133 (2017)

<sup>99</sup> Ibid.

<sup>100</sup> The increasing popularity of ETFs also means that investment advisors must carefully monitor the companies which the ETF invests in for adherence to religious values to prevent 'faithwashing'. See M. Penton, *Connecting with Clients Through Faith-Based Investing* Wealth Management, 27 October 2021

<sup>101</sup> Securities Commission Malaysia, 'Shariah Advisory Council'; <<https://www.sc.com.my/development/icm/shariah/members-of-the-shariah-advisory-council>> (last visited 18 September 2023)

<sup>102</sup> Lee S. P., 'Environmental, Social And Governance (ESG) Practices And Performance In Shariah Firms: Agency Or Stakeholder Theory?' 16(1) *Asian Academy of Management Journal of Accounting and Finance* 1, at 8 (2020)

<sup>103</sup> Securities Commission Malaysia, 'Resolutions Of The Shariah Advisory Council Of The SC' <<https://www.sc.com.my/development/icm/shariah/resolutions-of-the-shariah-advisory-council-of-the-sc>> last visited 2 September 2023



Certification of investment compliance with faith principles is central to faith-based investing. As the above analysis shows, there is reliance on private mechanisms in the form of internal faith advisory committees in the UK and US which is contrasted against the use of a public mechanism in the form of the Malaysian Shariah Advisory Council. The usage of private certification mechanisms allows for flexibility in the interpretation of religious principles in investment decisions, but they are also more susceptible to divergences between official religious precepts and investment choices driven by a variety of factors.

### III. A Comparative Perspective of Faith-Based Investing Stewardship Approaches

Investment stewardship approaches in faith-based investing are akin to a bridge which links the abstract values in Section I with tangible actions. As such, this section analyses the investment stewardship approaches in the US Catholic, UK Church of England and Malaysian Islamic finance contexts. As argued earlier, investment decisions by individuals engaging in faith-based investing are a form of voluntarily bounded autonomy driven by their beliefs. The foundational principle of stewardship which is at the heart of these religions is in turn realised in the faith-based investment context through the investment stewardship approaches discussed below. These approaches enforce the legal and social limits applicable to faith-based investing and are typically performed by asset managers on behalf of the said individuals as a result of the asset managers' greater knowledge and strength of their collective voice. Investment stewardship has been regarded as operating in the form of a bull's eye model – investments related to faith at the centre as an ideal followed by causes that have an impact on the SDGs as the second ring.<sup>104</sup>

To begin with, faith-based investing is based on a screening process<sup>105</sup> to ensure investments are compliant with the values and teachings of the religion. With regard to negative screening, certain activities and products are screened out so that their portfolios align with the values of the beneficiaries or clients and the overarching goals of developing a sustainable and fair society without harming people or damaging the environment.<sup>106</sup> The usage of investment screens is similar to the approach under Sustainable Finance 1.0 discussed in section I in which

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<sup>104</sup> See for e.g. Stewardship, 'New Investment Strategy', (12 January 2022), <<https://www.stewardship.org.uk/blogs/new-investment-strategy>> and R. L. Root 'What faith groups' move toward value-based investing means for NGOs' (16 May 2022), <<https://www.devex.com/news/what-faith-groups-move-toward-value-based-investing-means-for-ngos-103151>>

<sup>105</sup> P. D. Kinder and A.L. Domini, 'Social Screening: Paradigms Old and New', 6(4) *The Journal of Investing*, 12 (1997)

<sup>106</sup> Hayat, above n. 53 at 3

profit maximisation is prioritised while minimising investment in so-called ‘sin stocks.’ It is therefore important to identify what constitutes ‘sin stocks’ within the Catholic, Church of England, and Islamic faith traditions. This is contrasted with positive screening in which investments are made in companies with better or improving ESG performance relative to sector peers which are also known as best-in-class methodology, positive selection, or positive alignment.<sup>107</sup>

Catholic investment screens are widely used by the securities industry to prepare and market new offerings.<sup>108</sup> There are a list of twenty-four categories of concern or prohibition which identifies issues for investors which require discernment from faith<sup>109</sup> and which have already been examined by various local Catholic Episcopal Conferences. They may further be divided into four major categories i.e., namely upholding the intrinsic dignity of human life, avoiding destructive behaviours, recognizing global and sustainability impacts, and securing environmental protection. The USCCB guidelines also address the issue of mixed investments and suggest that socially responsible investors could set limits for corporations engaged in questionable or objectionable activities, to hold a minimal position in those companies that fall under the threshold, and then to use one’s position as shareholder to work actively to influence or redirect the activities or policies of the corporation toward activities and policies which are socially beneficial and serve the common good.<sup>110</sup> Investors are invited to consider grey areas that may require additional research, new metrics or third-party consultation before an informed decision can be made; these areas include the abuse of speculative products or investment techniques or using accounting practice loopholes that exploit the protection of tax havens. Interestingly, the Catholic Church does not see speculation in the form of games of chance or wagers as contrary to justice in themselves, although they become morally unacceptable when they deprive a person of what is necessary to provide for his needs and those of others.<sup>111</sup> The Church of England also practises investment exclusions including indiscriminate weaponry, the production and distribution of pornography, as well as companies

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<sup>107</sup> Ibid.

<sup>108</sup> The Pontifical Academy of Social Science, above n.66, at 11

<sup>109</sup> In practice, Catholic investors reflecting on their faith would use a matrix of questions and prompts to guide their investing practices. These include probing the Catholic scriptures, enquiring of the Catholic Church’s teachings, summoning their own ethical wisdom, and striving in their own way for openness to the gifts of the Holy Spirit. See also The Pontifical Academy of Social Science, above n. 66, 1at 10. See also Isaiah 11:1-3 and Paragraphs 1285–1287, 1830–1831, and 1845 of the Catechism of the Catholic Church

<sup>110</sup> United States Conference of Catholic Bishops, *Socially Responsible Investment Guidelines for The United States Conference of Catholic Bishops* (2021)

<sup>111</sup> The Holy See, *Catechism of the Catholic Church*, paragraph 2413

that derive more than 10% revenue from tar sands or thermal coal.<sup>112</sup> At this juncture, it is observed that the Catholic Church and Church of England methodology for investment screening is chiefly based on the economic activities of the enterprise in question.

For Islamic faith-based investing or *Shariah* compliant investing, securities that have been identified as exposed to *haram* or forbidden products and activities are excluded from the portfolio and investment universe, for e.g. alcohol or pork products. It is noted that the *Shariah* screening procedure has no specific standard that covers environmental and social issues.<sup>113</sup> As detailed in Section II above, the certification of equities is conducted by state bodies such as the Shariah Advisory Council. However, there are differences on the international front as Malaysia's Shariah Advisory Council takes a comparatively liberal stance in its interpretation of *Shariah* considering all four major Islamic schools of thought. This approach is in line with an identified divergence in the interpretation of *Shariah* which results in distinct Arab and Malaysian models of Islamic finance.<sup>114</sup>

In addition, pursuant to Islamic finance principles, the capital structure of the investee company is considered, with companies financed primarily through debt rather than equity being regarded as more problematic as far as debt in the capital structure is interest based. Under the Islamic view, it is essential that the money at the centre of the enterprise is used for productive purposes related to a real underlying asset and the sharing of risk and reward rather than through speculation. Islam also prohibits *riba* which certain scholars regard as equivalent to interest although there is no generally accepted consensus on this matter<sup>115</sup> as well as any speculative activity (*gharar*). This is unlike the comparatively relaxed position which Christianity adopts as regards interest and speculation.<sup>116</sup> *Riba* has also been viewed as negatively affecting society as the poor are less likely to be able to earn *riba* and accumulate wealth; *riba* also acts as a disincentive of charity as interest earners are more motivated by *riba*

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<sup>112</sup> Church of England, 'Ethical Exclusions' <<https://www.churchofengland.org/about/leadership-and-governance/church-commissioners-england/how-we-invest/responsible-investment-3#:~:text=We%20exclude%20from%20our%20direct,sands%2C%20subject%20to%20revenue%20thresholds>> last visited 15 September 2023

<sup>113</sup> D. Ashraf and M. Khawaja, 'Does the Shariah screening process matter? Evidence from Shariah compliant portfolios' 132 *Journal of Economic Behavior & Organization*, 77 (2016)

<sup>114</sup> N.F. Mohammed, F.M. Fahmi & A. E. Ahmad, 'The Influence of AAOIFI Accounting Standards in Reporting Islamic Financial Institutions in Malaysia' 31 *Procedia Economics and Finance* 418 (2015), at 422

<sup>115</sup> M. O. Farooq, 'The Riba-Interest Equivalence: Is there an Ijma (consensus)?', 4(5) *Transnational Dispute Management*, 26 (2007)

<sup>116</sup> Catholic Answers, 'Encyclopedia: Speculation' <<https://www.catholic.com/encyclopedia/speculation>> last visited 16 September 2023. As regards betting and gambling, they are viewed as morally problematic although the Catechism of the Catholic Church which is an organic synthesis of the essential and fundamental contents of Catholic doctrine relating to faith and morals is not explicit on the matter. See Iglesias-Rodríguez, P, 'The gambling business from the point of view of Catholic moral and social teachings' *Studies in Religion* (2023)

and wealth creation rather than building a cohesive society that benefits everyone. It is arguable that there are theological reasons for the detailed stipulations related to financial ethics in the Islamic tradition; laws governing usury should be seen as emerging from a deep commitment to achieving God's grace. Islamic finance is based on principles designed to regulate self-interest and to give primary consideration to the needs of society through various commandments, prohibitions and doctrines.<sup>117</sup> The relative strictness of the screening criteria moves from a sectoral to a capital centred approach with regard to the role of debt, with practitioners reporting that a 100% compliance rate with screening criteria may not be possible. Under these circumstances, the fund may evaluate the percentage of revenue which an investee company derives from a prohibited activity.<sup>118</sup>

Monitoring and engagement with the investee companies as a form of active ownership is a key investment stewardship approach in faith-based investing. On the secular front, the UN Principles of Responsible Investment<sup>119</sup>, the UK Stewardship Code<sup>120</sup> and the Malaysian Code for Institutional Investors<sup>121</sup> have stipulated stewardship principles which overlap with the stewardship values and practices under the umbrella of faith-based investing. For instance, engagement strategies outlined in *Mensuram Bonam* map against Hirschman's well-known model of voice, vote, and exit.<sup>122</sup> According to *Mensuram Bonam*, active engagement in investee companies is encouraged to influence through dialogue, mutual learning, and collaboration in the enterprises in which they invest. This usually means creating greater alignment between operations not only in relation to relevant international legal and ethical standards, but also coherence with the spirit of Catholic Social Teaching principles.<sup>123</sup> The necessity for patience in extending dialogue with other to support proposals that offer an opportunity to achieve professional results that accord with the ethos of their faith is also emphasised.<sup>124</sup> Such an approach is not new. The first retail mutual funds for Catholic investors launched in 1994 took an advocacy approach in engaging with companies to advocate for

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<sup>117</sup> UK Islamic Finance Council, above n.77, at 27

<sup>118</sup> See for e.g. Paul Sullivan, 'Faith-Based Investing Makes Up Ground in Gains and Convenience' (14 May 2021), <<https://www.nytimes.com/2021/05/14/your-money/faith-based-investing.html>>

<sup>119</sup> United Nations, 'Principles for Responsible Investment' <<https://www.unpri.org/about-us/what-are-the-principles-for-responsible-investment>> last visited 16 September 2023

<sup>120</sup> UK Financial Reporting Council, 'UK Stewardship Code' <<https://www.frc.org.uk/investors/uk-stewardship-code>> last visited 16 September 2023

<sup>121</sup> Institutional Investors Council Malaysia, 'Malaysian Code for Institutional Investors 2022' <<https://www.iicm.org.my/malaysian-code-for-institutional-investors-2022>> last visited 17 September 2023

<sup>122</sup> See A. Hirschman, *Exit, Voice, and Loyalty*, (1977)

<sup>123</sup> The Pontifical Academy of Social Science, above n.66, at 30

<sup>124</sup> *Ibid.*

change.<sup>125</sup> Failure to vote or assigning proxies to management, is effectively considered as a vote for current management and the status quo.<sup>126</sup> Similarly, the Commissioners for the Church of England practise active ownership and voting i.e. where there is direct holding of shares, they vote themselves rather than delegating this responsibility to the asset managers to whom they give investment mandates.<sup>127</sup> Voting is conducted in line with the policy recommendations of the Church of England's Ethical Investment Advisory Group (EIAG) on corporate governance, executive remuneration, and other ethical issues. On the issue of engagement, the Commissioners believe that asset managers should monitor the investment quality of investee companies, with a longer expected holding period leading to greater stewardship responsibilities.<sup>128</sup> Further, it is expected that investment managers will conduct engagement activities, including on ESG issues, as appropriate in light of their expected holding periods and issues arising at investee companies which should be reported to the Commissioners.<sup>129</sup> To the best of the author's knowledge, strong and active engagement practices have not been documented as part of Islamic teaching or principles.<sup>130</sup>

In terms of exit or divestment of investments, the decision to divest has been described by the USCCB as emanating from the principle of cooperation and the avoidance of scandal.<sup>131</sup> An investor maintains the freedom to choose to dis-invest or divest from such funds in accordance with their awareness of these guidelines and the impact on their conscience.<sup>132</sup> This would effectively be a faith-informed market response made necessary by the non-binding nature of *Mensuram Bonam* and the USCCB guidelines. As regards the Church of England position, the EIAG may recommend divestment of any individual company if after sustained dialogue, the company does not respond positively to EIAG concerns about its practices on the

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<sup>125</sup> Hopfinger, above n. 49

<sup>126</sup> US Conference of Catholic Bishops, *Socially Responsible Investment Guidelines for The United States Conference of Catholic Bishops*, 2021, 5

<sup>127</sup> See for e.g. Church Commissioners for England, 'For the Common Good: Stewardship At the Church Commissioners' (2021), <[https://www.frc.org.uk/getattachment/8e8fdb87-6c32-4bf3-b549-e8209db00976/The-Church-Commissioners-for-England\\_Stewardship-report-2020.pdf](https://www.frc.org.uk/getattachment/8e8fdb87-6c32-4bf3-b549-e8209db00976/The-Church-Commissioners-for-England_Stewardship-report-2020.pdf)> (last visited 13 September 2023)

<sup>128</sup> Church Commissioners for England, 'Responsible Investment Policy' (November 2022), <<https://www.churchofengland.org/sites/default/files/2023-02/church-commissioners-updated-responsible-investment-policy-november-2022.pdf>> (last visited 13 September 2023)

<sup>129</sup> Ibid.

<sup>130</sup> See for e.g. UN Principles of Responsible Investment, 'Islamic finance and responsible investment' (13 July 2017) <<https://www.unpri.org/environmental-social-and-governance-issues/islamic-finance-and-responsible-investment/610.article>> (last visited 13 September 2023)

<sup>131</sup> United States Conference of Catholic Bishops, above n. 88, at 5

<sup>132</sup> B. P. Green, 'Catholicism and Conscience' (1 May 2013) <<https://www.scu.edu/ethics/focus-areas/religious-and-catholic-ethics/resources/catholicism-and-conscience/>>

basis that responsibility and a resolution to improve are more important than perfection.<sup>133</sup> Similar to the position on active engagement, Islamic investing has not focused on divestment as part of its investment stewardship approaches.

The importance of a long-term standpoint in investment is especially pertinent with regard to divestment from high-emitting assets. Nevertheless, there are also contrary views which assert that divestiture is nothing more than greenwashing as it does not change the (carbon) footprint of the world.<sup>134</sup> Instead, proponents of this view argue that active engagement with oil majors to set them on the path towards transition and improved corporate conduct should be the preferred course of action, using a voice over exit strategy.<sup>135</sup> While there are staunch advocates in favour of divestment, the literature indicates that there are also strong arguments against divestment necessitating further research on its effectiveness or otherwise in advocating for real change.<sup>136</sup> Be that as it may, there is currently a tidal wave of climate pledges by various faith-based organisations to divest from the fossil fuel sector and reinvestment in low-carbon projects to the tune of \$3.92 billion.<sup>137</sup> The collective power of these climate pledges and its translation into the faith-based investing arena is left to be seen.

#### IV. Faith-Based Investing: Sustainability-Centric Opportunities and Challenges

The fourth section of the paper will highlight the opportunities and challenges which faith-based investing encounters in advancing sustainability. As regards opportunities for the growth of faith-based investing and its contribution to sustainability, the evidence points to the performance of faith-based investment funds which are able to hold their own in comparison to conventional funds, thus making it a viable option which may help to promote sustainability. For example, Kurtz and DiBartolomeo found that compared to the S&P 500, funds that invest according to Catholic church teachings had higher beta, lower market capitalization, higher

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<sup>133</sup> Church of England Ethical Investment Advisory Group Statement of Ethical Investment Policy, (October 2018) <<https://www.churchofengland.org/sites/default/files/2019-01/statement-of-ethical-investment-policy-october-20181.pdf>>

<sup>134</sup> MIT GCFP – Conferences, ‘8th Annual Conference MIT – Financial Policy and the Environment (21 July 2021), <<https://gcfp.mit.edu/mit-gcfp-8th-annual-conference/>>

<sup>135</sup> See for e.g., E. Broccardo, O. Hart & L. Zingales, ‘Exit Versus Voice’ [2022] 130(12) *Journal of Political Economy* 3101

<sup>136</sup> See for e.g. S. Braungardt, J. v. d. Bergh, & T. Dunlop, ‘Fossil fuel divestment and climate change: Reviewing contested arguments’ *Energy Research & Social Science* [2019] 50 191

<sup>137</sup> Edie Newsroom, ‘Global fossil fuel divestment movement surpasses \$39trn as cities and faith groups make new pledges’ (26 October 2021), <<https://www.edie.net/global-fossil-fuel-divestment-movement-surpasses-39trn-as-cities-and-faith-groups-make-new-pledges/>>

valuation ratios and higher anticipated growth.<sup>138</sup> Boasson, Boasson and Cheng found statistical evidence that these faith-based funds did not underperform the market on a risk-adjusted basis and that the mutual fund with the most restrictive exclusionary screen, the Catholic-based Aquinas fund, experienced extraordinary performance during their sample period.<sup>139</sup> This study showed that faith-based funds that refrained from investing in more profitable lines of business on the grounds of moral or ethical reasons could perform just as well as funds that did not have such restrictions, suggesting that investment managers could incorporate moral or ethical components into their investment decisions without unduly short-changing their clients to whom they owed fiduciary duties.<sup>140</sup> In Malaysia, from 2018 to 2020, both ESG and Islamic indices have outperformed traditional indices. Additionally, from 2016 to 2020, Malaysia's FTSE4Good outperformed the local capital market indices which is an indicative marker of the ESG investment focus and its performance in the market.<sup>141</sup> An increase in the number of available faith-based investment products across the board is needed for increase in investor participation, particularly those who are attuned to the faith and seek to live out its values in pursuit of sustainable development.

However, the flipside is that faith-based investing funds tend to be more expensive because of the dual layers of research required to determine investment potential and social criteria.<sup>142</sup> The variability of the performance of faith-based funds during crisis and non-crisis markets which are arguably a result of the funds' screening activity and the performance drivers and reducers within each sustainable strategy<sup>143</sup> may be a factor which detracts from the popularity of faith-based investing.<sup>144</sup> Be that as it may, SRI investors have been found to expect to earn lower returns from SRI funds than conventional funds, suggesting that they are willing to forego financial performance to invest according to their social preferences<sup>145</sup> and this would arguably be true of faith-based investors. In this regard, customisation through direct

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<sup>138</sup> L. Kurtz and D. Dibartolomeo, 'The KLD Catholic Values 400 Index' 14 (3) *Journal of Investing* 101 (2005)

<sup>139</sup> E. Boasson, V. Boasson & J. Cheng, 'Investment Principles and Strategies of Faith-Based Funds' 32(10) *Managerial Finance*, 837 (2006)

<sup>140</sup> Ibid.

<sup>141</sup> Ernst & Young, 'Trending: Sustainable responsible investment in Malaysia and the region 2021', <[https://assets.ey.com/content/dam/ey-sites/ey-com/en\\_my/topics/climate-change/ey-trending-sri-in-malaysia-and-the-region-final-22022022.pdf](https://assets.ey.com/content/dam/ey-sites/ey-com/en_my/topics/climate-change/ey-trending-sri-in-malaysia-and-the-region-final-22022022.pdf)> (last visited 20 September 2023)

<sup>142</sup> Hopfinger, above n. 49, at 17

<sup>143</sup> Lesser, Rößle & Walkshäusl, above n. 42 at 171, 178

<sup>144</sup> This was pithily described by a Catholic mutual fund manager as "We're a Catholic values fund, not a Catholic martyrs fund" as faith-based investment was still an investment and not a donation to charity in Hopfinger, above n. 49, at 17.

<sup>145</sup> A. Riedl and P. Smeets, 'Why Do Investors Hold Socially Responsible Mutual Funds?' *The Journal of Finance* (2017)



indexed private funds may be a solution in which investors are able to customise their portfolios to their specific values.<sup>146</sup> Advances in AI are likely to enable even more granular customisation of investment preferences which would further advance faith-based investing.<sup>147</sup> In view of the longer-term horizon of faith-based investing, governments can also help by providing economic incentives for acting in the long term e.g., through taxes on short trading in corporate securities and capital gains tax deductions for patient investors.<sup>148</sup>

The growth of faith-based investment is also linked to impact investment which aligns with Sustainable Finance 3.0. The presence of a greater being i.e., God, which is central to the tenets of faith, broadens the understanding of the role of investing and eases the dissonance faced by secular investors around marrying impact and financial considerations.<sup>149</sup> Nevertheless, a January 2020 GIIN Report on engaging faith-based investors states that there are factors which make impact investment challenging for faith-based investors, including a lack of investments with appropriate risk-return profile, availability of investments which match their values, finding opportunities of the right size, and concerns about the exit options or liquidity.<sup>150</sup> These are significant challenges for faith-based investors who generally pursue low-risk, market rate return investments.<sup>151</sup> However, initiatives by the Catholic Impact Investing Collaborative have been endorsed by the USCCB to promote this strategy.<sup>152</sup> From an Islamic perspective, the link between faith-based investing and sustainability is also conceptually supported by its embeddedness in the real economy<sup>153</sup> as well as its potential for redirection to finance infrastructure development.<sup>154</sup>

Nevertheless, a significant challenge in the role of faith-based investing in advancing sustainability arises from the interaction between political and faith beliefs and its spill over

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<sup>146</sup> Louche, Arenas & v Cranenburgh, above n. 50, at 29

<sup>147</sup> Deloitte, 'Artificial Intelligence: The next frontier in investment management', <<https://www.deloitte.com/global/en/Industries/financial-services/perspectives/ai-next-frontier-in-investment-management.html>> (last visited 20 September 2023)

<sup>148</sup> B.J. Richardson, 'Socially Responsible Investing for Sustainability: Overcoming Its Incomplete and Conflicting Rationales' 2(2) *Transnational Economic Law* 311 (2013), at 336.

<sup>149</sup> Kwon and Samberger, above n. 2, at 37

<sup>150</sup> The Global Impact Investing Network, 'Engaging Faith-Based Investors In Impact Investing', <<https://thegiin.org/research/publication/engaging-faith-based-investors-in-impact-investing>> (January 2020)

<sup>151</sup> Institutional Shareholder Services, 'Seeking Impact: New Catholic Investing Guidelines Break the Mold' (10 February 2022) <<https://insights.issgovernance.com/posts/seeking-impact-new-catholic-investing-guidelines-break-the-mold/>>

<sup>152</sup> Ibid.

<sup>153</sup> S. E. Hidayat, Y. Izharivan & C. A. Sari, *Islamic Finance and Sustainable Economy: A New Model of Islamic Financial Ecosystem*, 279

<sup>154</sup> H. Ahmed, M. Mohieldin, J. Verbeek & F. Aboulmagd 'On the sustainable development goals and the role of Islamic finance', *World Bank Group Policy Research Working Paper* 2015:7266



effects in investment choices. It has been shown that views on climate change among US Catholics vary by political affiliation, race and ethnicity, and age.<sup>155</sup> While 82% of Catholics who are Democrats or lean toward the Democratic Party say global climate change is an extremely or very serious problem, just a quarter of Republican or Republican-leaning Catholics say the same, according to a 2022 Pew Research Center survey.<sup>156</sup> Views among Catholics differ, reflecting similar splits in the wider US population: U.S. adults who are 49 or younger, Democratic, or identify as a race or ethnicity other than non-Hispanic White are generally more likely than those who are 50 or older, Republican, or White to express concern about climate change.<sup>157</sup> This political gap on the topic of climate change has resonance with the rejection of ESG and its dismissal as ‘woke’ ideology by conservative critics in a sharp divergence in views from those on the opposite side of the political spectrum.<sup>158</sup>

A striking example of this divergence from official Catholic teaching in an investment context is the example of Catholic-value funds such as the Ave Maria value fund which has 44% of its portfolio in energy stocks, including fossil fuel companies that have been poorly rated by ESG ratings-service, Sustainalytics.<sup>159</sup> This fund has often voted against shareholder proposals to improve the sustainability of its energy holdings e.g. when it voted against a proposal at Chevron, which formed 6.2% of the fund’s portfolio, to set long-term greenhouse gas emission reduction targets for the company.<sup>160</sup> The lead portfolio manager of the fund relied on a decision by their Catholic Advisor Board which held that the issue of ‘climate change’ was an ambiguous term with a multitude of definitions and interpretations and was the subject of debate for more than 50 years.<sup>161</sup> This reasoning contrasts starkly with the position taken by the Pope that climate change is a moral issue<sup>162</sup> and may be due to the fact that despite

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<sup>155</sup> J. Diamant, ‘The pope is concerned about climate change. How do U.S. Catholics feel about it?’ (9 February 2023), <<https://www.pewresearch.org/short-reads/2023/02/09/the-pope-is-concerned-about-climate-change-how-do-u-s-catholics-feel-about-it/>>

<sup>156</sup> B. A. Alper, ‘How Religion Intersects With Americans’ Views on the Environment’ (17 November 2022), <<https://www.pewresearch.org/religion/2022/11/17/how-religion-intersects-with-americans-views-on-the-environment/>>

<sup>157</sup> J. Diamant, above n. 154

<sup>158</sup> M. Corsalini, ‘ESG Capitalism from a Law and Religion Perspective’ 14(3) *Religions* 418 (2023); A. Brownstein, ‘Religious ‘woke’ capitalism? The problem with conservative arguments against ESG’ (19 December 2022) <<https://thehill.com/opinion/judiciary/3780778-religious-woke-capitalism-the-problem-with-conservative-arguments-against-esg/>>

<sup>159</sup> Lewis Braham, ‘New Vatican Investing Guidelines Pose Challenge to Many Faith-Based Funds’ <<https://www.barrons.com/advisor/articles/vatican-investing-guidelines-faith-based-mutual-funds-51671732855>>

<sup>160</sup> Ibid.

<sup>161</sup> Ibid.

<sup>162</sup> See generally Pope Francis, above. n. 73

the extensive nature of the USCCB and Pontifical Academy guidelines, there are no sanctions for non-compliance as they are only meant to inform consciences. Further, the reliance on a private advisory board illustrates the influence of politics in driving divergences between official Church teachings and how they are translated into action.

Despite the apparent intractability of faith and climate change among certain quarters in the US which is unlikely to change in the short-term, there are efforts to bridge faith and climate change at the global, regional, and national levels. These include the United Nations Environment Programme COP 28 Engagement by the Interfaith Coordination Group on Climate Change which focuses on combined efforts against climate change.<sup>163</sup> At a regional level, the Church of Scotland and the UK Islamic Finance Council signed a partnership agreement to co-develop an ethical finance solution based on the shared values between the faith traditions in 2016 which subsequently culminated in a Shared Values Framework which was formally launched as the Edinburgh Finance Declaration in 2018.<sup>164</sup> In addition, in line with the developmental aspirations of Islamic finance, regulators in Islamic finance centres including Malaysia have begun to connect Islamic and sustainable finance with the support of the World Bank<sup>165</sup> illustrating the importance of regulator and policymaker initiatives to drive development of this sector.

These international and governmental efforts are commendable and necessary. However, the engagement of individual believers is also important through faith teachings connecting its values with that of care of the environment and investment to overcome the tendency towards a separation of belief and action. This is a process which lies beyond the remit of law and regulation. Indeed, the exercise of voluntarily bounded autonomy in the investment space begins with knowing the nature of the boundaries in accordance with the tenets of one's faith and the enforcement of those boundaries for the greater good as conceived by the teachings of the faith. To sum up, the notion of autonomy is synonymous with that of freedom which consists 'not in doing what we like, but in having the right to do what we ought.'<sup>166</sup>

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<sup>163</sup> See for e.g. UN Environment Program, 'Faith-based engagement at COP28' <<https://www.unep.org/events/conference/faith-based-engagement-cop28>> (last visited 20 September 2023)

<sup>164</sup> Global Ethical Finance Initiative, above n. 64

<sup>165</sup> The World Bank, 'Connecting Malaysia's Islamic and Sustainable Finance to the World' (18 April 2019) <<https://www.worldbank.org/en/news/feature/2019/04/18/islamic-finance-initiatives-from-the-hub#:~:text=In%202017%2C%20Malaysia%20launched%20its,Shariah%20law%2C%20which%20prohibits%20interest>>

<sup>166</sup> Revelli, above n. 41 at 714; St Pope John Paul II, 'Apostolic Journey to the United States of America: Homily of His Holiness Pope John Paul II' <[https://www.vatican.va/content/john-paul-ii/en/homilies/1995/documents/hf\\_jp\\_ii\\_hom\\_19951008\\_baltimore.html](https://www.vatican.va/content/john-paul-ii/en/homilies/1995/documents/hf_jp_ii_hom_19951008_baltimore.html)> 4

## Conclusion

As this paper has shown, faith-based investing is an expression of individual autonomy which is bounded by a combination of legal and social limits arising from the values and teachings of a particular faith. Faith-based investing is conceptualised as a pathway towards sustainability through similarities in terms of the underlying values of the religions underpinning faith-based investing and its provision of a way to align deeply held religious values with investment outcomes which extend to include positive effects on the environment and humankind. Indeed, the strength of the bottom-up approach in faith-based investing is that it promotes change through the collective power of individual investment decisions in favour of sustainability over the long-term. The legal and regulatory framework of faith-based investing is an essential element in the scaffolding which supports its investment approaches. However, the extensive use of soft law in Catholic and Church of England faith-based investing as a form of private ordering raises questions about the strength of their enforcement and overall effectiveness.

Although there are commonalities in the screening, engagement, and divestment approaches among Catholic, Church of England, and Islamic faith-based investors, there are also significant differences driven by deeper underpinning theological values. However, these divergences should not be regarded as inimical to the expansion of faith-based investing. The parallel development of institutional investor stewardship codes is promising and aligns well with this important underpinning value across the faiths in question. Further research into the inter-relationship between the stewardship codes and faith-based investing, particularly from an empirical perspective, would be helpful to better understand its role in advancing sustainability. For example, it might be interesting to examine the take-up of stewardship codes among faith-based asset managers and how this affects their stewardship practices.

A closer analysis of the opportunities and challenges relating to faith-based investing and its realisation of sustainability reveals many areas for growth amid a movement of faith-based investing from a marginal to mainstream presence. However, there are also concerns in relation to issues arising from the effectiveness of divestment in taking a long-term view of development and a divisive political climate as well as overall scepticism towards ESG. There is accordingly a need to build bridges between these faiths on the issue of common values while respecting the differences. Further, it is also necessary for believers to recognise and respond

to the call of living out the faith's fundamental values in their purchasing and investment choices because it is in their collective buy-in that changes can be effected to prepare for the ecological and social challenges in the years to come.<sup>167</sup>

(11378 words including footnotes)

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<sup>167</sup> See for e.g. M. O'Leary and W. Valdmans, *Accountable: The Rise of Citizen Capitalism* (2020)