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## Faith grows as market force; Funds that choose their investments with the view that companies' products or practices should be in accord with religious or moral beliefs are attracting clients, and rewarding them

**BYLINE:** By Becky Yerak, Tribune staff reporter

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Earlier this year George Schwartz penned a public letter mentioning "abortion on demand" and the "debauchery that has poisoned the culture."

But the Bloomfield Hills, Mich., man wasn't writing as a politician, or a member of the clergy, or even a private citizen.

Schwartz was performing his duties as the president of a 5-year-old family of mutual funds that bases its investment decisions on the core teachings of the Catholic church.

Schwartz's goal: Continue to build on Ave Maria Mutual's roster of 15,000 shareholders who have invested about \$450 million in funds that screen out companies that facilitate abortion, pornography and non-marital partner benefits.

"We're hoping our assets get into the billions," said Schwartz, who saw his investor ranks grow by 40 percent in 2005. That way, Ave Maria would be able to influence practices at companies such as Eli Lilly, which the fund sold when the company began offering benefits to unmarried partners of employees.

"If we were the size of Fidelity, then maybe they would have listened to us," Schwartz said.

He's not the only mutual fund manager who has struck a nerve among investors who are as concerned about hot-button issues as they are about hidden loads.

While faith-based funds represent only a sliver of the mutual fund industry, the value of assets in religious-based funds has jumped from \$2.37 billion in 2000 to \$16.03 billion at the end of July, according to estimates by Morningstar Inc., a Chicago-based investment research provider.

The overall mutual fund industry has grown less quickly. According to the Investment Company Institute, the trade group for the industry in the U.S., mutual fund assets have grown from \$6.8 trillion at year-end 1999 to \$9.4 trillion at year-end 2005.

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And investors do not always have to sacrifice performance. Some of the funds have earned recognition from Morningstar or Lipper as high-performing funds.

The interest appears to be multid denominational.

Assets in Amana Mutual Funds, which invests according to Islamic principles, have grown from \$30 million in 2003 to more than \$315 million today.

Described as a pro-life, pro-family, biblically based mutual fund group, assets of the Timothy Plan, which now offers nine separate funds, have grown from \$31 million in 1999 to more than \$400 million today. In April Timothy said its large/mid-cap value fund was honored by Lipper, a mutual fund research company, for its 2005 performance.

Founded in 1999 and built on the heritage of the Presbyterian faith, New Covenant Growth Fund has assets of \$907 million, up from \$788 million at year-end 2000.

"There are more faith-based mutual funds out there than five years ago, and the ones that have been around have gathered a lot of assets," Morningstar mutual fund analyst David Kathman says. "There has been an upswing in religious feeling in this country, with the culture wars and a lot of people trying to emphasize their religion more in the current political climate, and one of the ways to do that is through investing."

As for the funds' performance, Kathman said it is difficult to generalize, noting that there are both liberal and conservative Christian funds with differing views on issues ranging from the environment to defense spending. Muslim funds such as Amana eschew interest-based institutions such as Bank of America; that's an exclusion that many Christian funds are unlikely to make. And each fund family has numerous funds, such as growth and income.

Assets \$8.56 billion

Last week GuideStone Funds marked its fifth anniversary, with assets now of \$8.56 billion, up \$1.56 billion from its debut in August 2001 as a registered mutual fund.

Previously it was solely the retirement plan, consisting mostly of non-registered funds, of ministers and workers of Southern Baptist churches and related institutions.

GuideStone in 2004 opened itself up to like-minded evangelical churches and claims to be the nation's biggest Christian-based, socially screened, registered mutual fund company.

Christian Anabaptists are among the other religious groups with a fund family grounded in their religious principles, the Goshen, Ind.-based MMA Praxis Mutual Funds. It has grown from three funds with \$154 million in assets in 1997 to five funds with \$804 million in assets today.

In a way, trends in faith-based investing seem to run counter to religion's perceived influence on American life.

In a recent survey by the Pew Forum on Religion and Public Life, 59 percent of respondents say religion is losing influence on American life, while 34 percent say that it is more influential.

But the good news for people like Ave Maria's Schwartz is that, overwhelmingly, poll respondents favor more, not less, religion in the country. Of those who say religion's role is declining, 79 percent believe that's a bad thing. Of those who feel religion's influence is growing, more say it's good than bad, by a margin of almost two-to-one.

Investing trends also mirror what is going on in other economic sectors, with devout consumers also dishing out more dollars for material things. CBA, the trade group for Christian retail channels, said sales of Christian products by its members were \$4.34 billion in 2004, up from \$4.2 billion in 2002 and \$4 billion in 2000.

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### Aging population

"The population is aging, and as you get old you get closer to God," said Schwartz, who has pictures of Jesus and the Blessed Mother behind his desk. "You start worrying about eternity more than whether you're going to get a raise."

Members of Ave Maria's advisory board include Bowie Kuhn, Major League Baseball commissioner from 1969 to 1984; Phyllis Schlafly, founder of family-advocacy group Eagle Forum; and Lawrence Kudlow, host of CNBC's "Kudlow & Company."

Other types of financial-services companies also are looking for ways to cater to those consumers who are increasingly willing to wear their religion on their sleeves.

In May 2005 the Federal Reserve Bank of Chicago penned a report called "Islamic finance in the United States: A small but growing industry."

Before 1997 no bank or bank branch in the United States offered formal Islamic financing that was both publicly approved by a U.S. regulator and sanctioned by a board of Islamic scholars, known as a sharia board, associate Fed economist Shirley Chiu wrote in her report. She went on to identify nine institutions that advertise formal Islamic asset finance products.

One was Chicago-based Devon Bank, which in 2003 started an Islamic financing program that enabled observant Muslims in the Chicago area and some other states to buy homes and businesses in a manner consistent with their faith, which avoids interest collections or payments.

"It has become the largest part of our mortgage business," David Loundy, Devon's corporate counsel, said. "We are doing business in 36 states, adding Nebraska and Alabama this week, and it's a growing part of our commercial business as well."

Loundy was planning to attend Friday's opening in Rosemont of the 43rd annual convention of the Islamic Society of North America. Sessions include "Concepts of Islamic Banking" and "Estate Planning in Compliance with U.S. Law and Shariah Obligation."

One of the scheduled speakers in a Saturday session called "Retirement Planning and Options" was Monem Salam, director of Islamic investing for Bellingham, Wash.-based Saturna Capital Corp., which runs the Amana funds.

Amana is an Islamic-friendly fund that avoids investments in businesses involved in such industries as alcohol and pornography and those associated with interest.

Amana's criteria also screen out companies whose debt to total capital exceeds 33 percent.

"We like clean balance sheets," Salam said.

Salam cites several factors for the increased investor interest in Amana Mutual Funds.

Muslims are under more scrutiny since the September 2001 terrorist attacks, making it harder for them to do business with regular financial institutions, Salam said.

"They'd rather go with a Muslim-based fund," Salam said.

Also, members of the Baby Boomer generation continue to plan for their retirement.

Amana also has a bigger budget to market the fund as a result of a fee that it has instituted, Salam said.

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Lastly, Amana has been logging returns that anyone, Muslim or otherwise, can love.

Fund rating service Morningstar has consistently given Amana's growth fund its "large growth" category's highest rating.

Its average annual total return as of June 30 was 19.8 percent, and 8.4 percent during the past one and five years, respectively, beating the Standard & Poor's 500 for both periods.

Amana's independent board chairman is Chicago businessman Talat Othman. Saturna's controlling shareholder and president is Nicholas Kaiser, who has a master's in business administration from the University of Chicago.

Saturna is in the process of establishing a presence in Washington, D.C., and in Chicago, where it plans to set up a cubicle at Devon Bank by the end of the year.

"There is a large Muslim community here," Salam said. "By 2010 we hope to have \$1.5 billion in assets."

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Funds take faith in the market to new level

Assets in faith-based mutual funds have increased substantially in recent years. Such funds screen out investment options that may be objectionable to members of certain faiths.

#### FAITH-BASED FUNDS

FUND FAMILY: Amana

FAITH: Islam

AVOIDS COMPANIES TIED TO ... Alcohol, banks, gambling or pornography

TOTAL ASSETS: \$315 million

SAMPLE FUND: Amana Growth

3-YEAR AVERAGE ANNUAL RETURN: 20.15%

RANK VS. CATEGORY: Top 1%

FUND FAMILY: Ave Maria

FAITH: Catholic

AVOIDS COMPANIES TIED TO ... Abortion, pornography or that offer benefits to unmarried partners

TOTAL ASSETS: \$450 million

SAMPLE FUND: Ave Maria Growth

3-YEAR AVERAGE ANNUAL RETURN: 11.56%

RANK VS. CATEGORY: 38%

FUND FAMILY: GuideStone

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FAITH: Southern Baptist

AVOIDS COMPANIES TIED TO ... Abortion, alcohol, gambling, pornography or tobacco

TOTAL ASSETS: \$8.6 billion

SAMPLE FUND: GuideStone Growth, Equity GS2

3-YEAR AVERAGE ANNUAL RETURN: 7.48%

RANK VS. CATEGORY: 43%

FUND FAMILY: MMA Praxis

FAITH: Anabaptist

AVOIDS COMPANIES TIED TO ... The military, weapons, countries with poor human rights records or that are not environmentally friendly

TOTAL ASSETS: \$804 million

SAMPLE FUND: MMA Praxis Core Stock B

3-YEAR AVERAGE ANNUAL RETURN: 6.42%

RANK VS. CATEGORY: 88%

FUND FAMILY: New Covenant

FAITH: Presbyterian

AVOIDS COMPANIES TIED TO ... Alcohol, gambling, tobacco and weapons

TOTAL ASSETS: \$1.9 billion

SAMPLE FUND: New Covenant Growth

3-YEAR AVERAGE ANNUAL RETURN: 11.12%

RANK VS. CATEGORY: 30%

FUND FAMILY: Timothy

FAITH: Christian

AVOIDS COMPANIES TIED TO ... Abortion, alcohol, non-married lifestyles, anti-family entertainment, gambling, pornography and tobacco

TOTAL ASSETS: \$449 million

SAMPLE FUND: Timothy Plan Large/Mid-Cap Growth A

3-YEAR AVERAGE ANNUAL RETURN: 5.42%

RANK VS. CATEGORY: 71%

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Note: Asset data are most recent available. Fund performance data is through Thursday and preliminary.

Sources: The funds, Morningstar Inc.

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**GRAPHIC: PHOTO** (color): After saying his prayers, Monem Salam, director of Islamic investing for the parent company of Amana Funds, studies his lecture notes for a talk in Chicago Friday. Tribune photo by David Trotman-Wilkins

**PHOTO:** 'The population is aging, and as you get old you get closer to God.' --George Schwartz, president, Ave Maria Mutual Funds. Photo for the Tribune by Rob Widdis

**GRAPHIC: ASSETS IN FAITH-BASED FUNDS**

2000-2006

At year's end, scale in billions

\$16.03 billion As of July 31, 2006

Note: Assets in faith-based funds increased more than four-fold in 2001 with the introduction of several new funds.

Source: Morningstar Inc.

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- See microfilm for complete graphic.

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