Kiplinger's PERSONAL FINANCE

Get Religion With These 5 Funds

Faith-based investing doesn't mean you have to forgo profits. BY CAROLYN BIGDA

MUTUAL FUNDS THAT PRACTICE faith-based investing may be no more exciting than a font of still holy water or the worn cover of a Koran. But over the years, these funds have proved that you don't have to sacrifice your spiritual values when it comes to investing.

Faith-based funds invest according to a set of religious principles. Even if you don't share these funds' religious views, you may want to consider investing in some of them because they have many of the attributes you'd ordinarily seek in a fund. Moreover, some analysts contend that investors who take a faith-based approach may reap bigger rewards than those who invest just for the money. "When you have stronger ties to an investment because it's also expressing your values, you're more likely to stick with it for the longer term," says Jon Hale, who directs Morningstar's North American fund research.

Be aware of a couple of negatives. In many cases, the religious guidelines nix certain industries, limiting a fund's ability to diversify. And although fees have come down, the funds' expense ratios regularly top category averages. The five funds described here do not levy sales loads and have delivered solid returns despite their investing constraints. That should appeal to any investor.

LKCM AQUINAS VALUE (SYMBOL AQEIX) follows the guidelines of the U.S. Conference of Catholic Bishops. The fund, which owns mostly large-company stocks, avoids firms that deal with abortion, birth control and pornography, as well as certain weapons. Then comes the stock picking: Manager Paul Greenwell looks for companies that consistently generate a high return on invested capital (a measure of the return a company makes from each dollar invested in the business). "You want a business that management can't mess up," Greenwell says.

That strategy has paid off for long-term investors. Over the past ten years, Aquinas Value has delivered an annualized return of 8.3%, edging Standard & Poor's 500-stock index by an average of 0.3 percentage point per year and placing the fund in the top 22% of its peers—funds that focus on large-company stocks with a blend of value and growth attributes (all returns are through July 31). But in the first seven months of 2014, Value's 0.9% return lagged that of the S&P 500 by nearly five percentage points.

Value's light allocation to two of this year's best-performing sectors—health care and utilities—is mostly to blame. The fund excludes many health companies because of the religious screen, and it typically avoids utilities because they tend to have low returns on invested capital. Annual fees of 1.50% are above average.

EDWIN FOTHERINGHAM

AVE MARIA RISING DIVIDEND (AVEDX) takes a slightly different approach to investing according to Catholic values. The fund avoids companies with ties to abortion or pornography (including hotels that offer X-rated films in guest rooms). "It is a zero-tolerance policy," says co-manager George Schwartz. (But the fund doesn't specifically ban weapons makers.)

Still, only about 150 of the 3,000 companies in the Russell 3000 index are disqualified on religious grounds. From there, Schwartz and co-manager Richard Platte search for businesses with rising sales, earnings and cash flow—all signs that a firm can increase its dividend in the future. They prefer stocks that are reasonably valued and that they think can double over five years.

The strategy has helped smooth out market swings. In 2008, Rising Dividend dropped 22.8%, compared with the S&P's 37% plunge. And the fund, just under a decade old, is building a solid long-term record. It earned 17.2% annualized over the past five years, beating the S&P 500 by 0.4 percentage point per year and the average large-company blend fund by 1.8 points per year. Annual fees are a reasonable 0.93%.

Beneath the broad umbrella of Christian-oriented funds is **EVENTIDE GILEAD (ETGLX)**. Managers Finny Kuruvilla and David Barksdale believe work done in the service of others is blessed. So they look for firms that are sensitive to shareholders as well as to internal stakeholders (such as customers and employees) and external stakeholders (communities and the environment). They won't invest in companies that profit from alcohol, gambling and other potential addictions.

Although the managers will invest in companies of any size, their fund tilts toward midsize firms (53% of assets). Barksdale says smaller firms can pass faith-based screens more easily. "Very large companies have their fingers in a lot of pies, one of which is usually something we don't want to own," he says.

Barksdale and Kuruvilla favor fast-growing businesses, often in biotech and technology. Biotech stocks stumbled earlier this year when investors worried about lofty valuations (see "The Best Health Funds to Buy Now," Sept.). But, Barksdale says, biotech stocks can be good diversifiers. "A company's fate depends on the next data release or government actions, not the economy," he says.

So far, Gilead's performance has been divine. Over the past five years, the fund, which launched in 2008, earned 21.3% annualized, beating the S&P 500 by 4.5 percentage points per year and besting 98% of its peers (funds that invest in expanding midsize companies). One drawback: Annual fees are 1.64%.

A number of funds follow the principles of Islamic, or sharia, finance, including **AMANA INCOME (AMANX)**. Sharia bars investments in companies involved in alcohol, pork, gambling, pornography or tobacco. It also requires that investors avoid interest. One way manager Nicholas Kaiser and deputy manager Scott Klimo deal with that is to eliminate banks and companies whose total debt adds up to more than 33% of their stock market value.

Then Kaiser and Klimo look around the world for companies that offer a dividend yield higher than the S&P's (currently 1.9%) and can increase their dividend over time. Today, about 85% of the fund's assets is in U.S. stocks, and 15% is in foreign stocks. In addition, industrial and health care firms account for about 40% of the portfolio. One top holding is Swiss drugmaker Novartis, which has raised its dividend 17 consecutive years. The stock yields 3.1%.

The focus on low debt has allowed Income to hold up especially well during downturns. So has the fund's zero stake in banks. In 2008, during the financial crisis, Income fell only 23.5%. Annual fees are reasonable, at 1.19%.

For a fixed-income fund option, consider **AVE MARIA BOND (AVEFX)**. The fund applies the same Catholic principles of its stock-owning sibling to a mostly fixed-income portfolio. Bond currently has about 85% of its total assets in U.S. Treasury bonds and corporate bonds with strong credit ratings, as well as cash. (Treasuries are not subject to the religious sieve, but corporate bonds are.) The rest of the money is in dividend-paying stocks. That adds risk to the portfolio but has helped pad returns recently. Last year, for example, when interest rates rose after the Federal Reserve announced that it would begin winding down its bond-buying program, the Barclays U.S. Aggregate index fell 2.0% (bond prices fall as rates rise). But Ave Maria Bond gained 6.1%.

A stock market correction could drag down returns because of the fund's stock holdings. So could a spike in interest rates. To protect against the latter, Platte and co-manager Brandon Scheitler are keeping the average duration of the fund's bonds to less than three years (duration is a measure of interest-rate sensitivity). The fund, which yields 0.65%, charges 0.56% annually for expenses, well below the average of 0.88% for taxable, intermediate-term bond funds. That is praiseworthy, indeed. ■

Total Returns as of September 30, 2017							
	Year to Date	1 Yr.	3 Yrs.^	5 Yrs.^	10 Yrs.^	Since Inception^*	Prospectus Expense Ratio
Ave Maria Rising Dividend Fund	9.49%	13.26%	7.21%	12.23%	8.22%	9.12%	0.93%
S&P 500® Index	14.24%	18.61%	10.81%	14.22%	7.44%	8.70%	
Ave Maria Bond Fund	3.07%	2.66%	3.02%	3.43%	4.21%	4.22%	0.51%
Bloomberg Barclays Intermediate U.S. Govt./Credit Index#	2.34%	0.23%	2.13%	1.61%	3.64%	3.56%	

^Annualized * Since Inception date for AVEDX is 5-2-2005 and 5-1-2003 for AVEFX. #Benchmark index to Ave Maria Bond Fund.

Performance data quoted represents past performance, which is no guarantee of future results. Investment return and principal value are historical and may fluctuate so that redemption value may be worth more or less than the original cost. Current performance may be lower or higher than what is quoted. Performance data reflects certain fee waivers and reimbursements. Without such waivers, performance would have been lower. Call 1-866-AVE-MARIA or visit www.avemariafunds.com for the most current month-end performance.

IMPORTANT INFORMATION FOR INVESTORS

AVEFX may also invest up to 20% of its net assets in equity securities, which include preferred stocks, common stocks paying dividends and securities convertible into common stock.

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The investment performance assumes reinvestment of dividends and capital gains distributions. Performance data reflects certain fee waivers and reimbursements. Without such waivers, performance would have been lower. The S&P 500® Index is a capitalization weighted unmanaged index of 500 widely traded stocks, created by Standard & Poor's. The index is considered to represent the performance of the stock market in general. Indexes do not incur fees and it is not possible to invest directly in an index. AVEDX invests primarily in dividend paying companies and it is possible these companies may eliminate or reduce their dividend payments. AVEFX invests primarily in fixed income securities and as a result the Fund is also subject to the following risks: interest rate risk, credit risk, credit rating risk, prepayment and extension risk and liquidity risk. The Bloomberg Barclays Intermediate U.S. Govt./Credit Index is the benchmark index used for comparative purposes for this fund. Indexes do not incur fees and it is not possible to invest directly in an index. **Request a prospectus, which includes investment objectives, risks, fees, expenses and other information that you should read and consider carefully before investing. The prospectus can be obtained by calling 1-866-283-6274 or online at www.avemariafunds.com.** Distributed by Ultimus Fund Distributors, LLC.

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