Investing for the Kingdom

Four Lessons Learned over Forty Years

***Chris Gillies** has some sound investment advice for institutions and individuals.*

I’ve spent about 40 years working in financial services. Amongst other things, I’ve been Managing Director of a life insurer, CEO of a medium-sized Bank, Managing Director of a financial services distribution business, Chief Marketing Officer of a global insurer, and Chairman of an online investment platform. So I’ve seen a lot of business investments, overseen the management of billions of other peoples’ wealth, and appraised many business and project investment proposals.

Through careful stewardship, I was able to become debt and mortgage free in my forties. Since then, the question of how best to invest my own savings has been an important personal consideration.

Alongside that, for the past 30 years, I’ve also been a trustee of eight charities and four churches. Amongst other responsibilities, I’m currently Treasurer of The Children’s Society (a national charity working to transform the hopes and happiness of young people facing abuse, exploitation and neglect), and Chair of Stewardship (a Christian donor-advised fund that helps 63,000 generous donors give about £100 million each year to thousands of charities, churches and Christian workers, as well as providing a range of support services to those church and charity partners). I’m also Churchwarden at St Aldates Oxford. This experience has provided a vital perspective on social impact investing in the not-for-profit sector, as well as a biblical perspective on how to handle money well.

In this article, I’d like to share four points that I’ve learned over the years. I hope they provoke your thinking about the purpose and meaning of investment:

First, pay attention to the source and structure of your investment funds

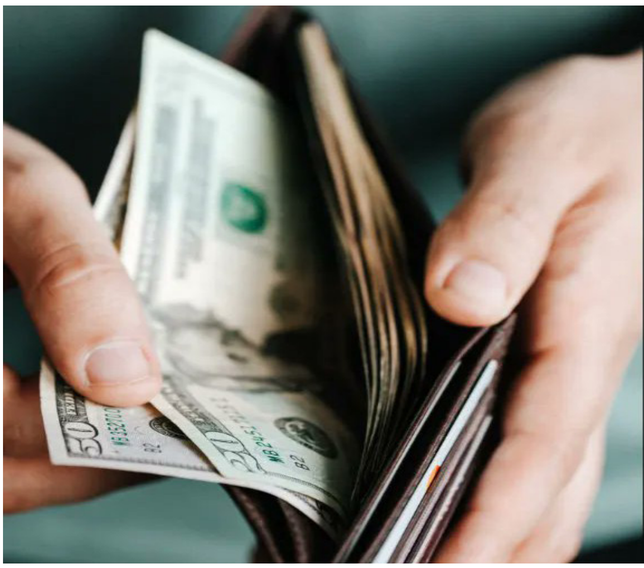
As an organisation seeking to raise capital

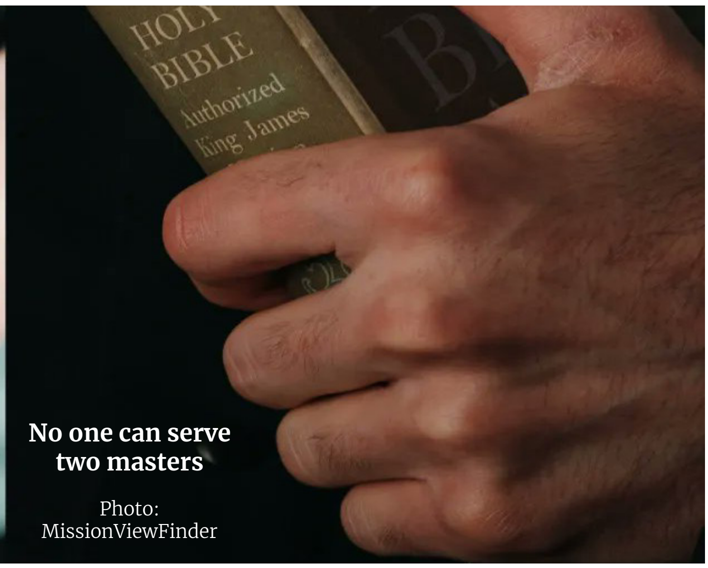
All organisations need funds to grow. These funds could come for example through share capital, a rights issue, private equity, various types of debt instruments, bank loans, grants, or donations. Every investor will wish to impose different requirements. Those requirements will fundamentally shape how your organisation is able to operate and - in some circumstances – those requirements could make your funder the master of your future.

It’s important to have integrity and to honour the terms of any funding agreement (e.g. Proverbs 10:9). However, in Matthew 6:24 and Luke 16:13, Jesus says, ‘No one can serve two masters. Either he will hate the one and love the other, or he will be devoted to the one and despise the other.’ This highlights how easy it can be for an organisation striving to serve its funders to lose sight of godly principles.

Every funder is different, so organisations need to consider carefully each funder’s requirements and the constraints that those requirements might involve:

- When I worked for Zurich Insurance, a listed company, the shareholders’ required rate of return on equity was 12% per annum. That kind of return was difficult to achieve





No one can serve two masters

Photo: MissionViewFinder

in highly regulated, capital-intensive markets such as the UK; developing countries with less demanding capital regulations found it easier to out-perform the target. This made securing new investment for the UK more difficult.

- Private equity investors in your organisation are more interested in achieving a target valuation after a period of time – usually between three to seven years. Investors typically look to exit having achieved a multiple of maybe three to five times their original investment. As the time to exit approaches, investors frequently demand action to enhance short-term value that may not be in the long-term interests of the company's other stakeholders.

- Commercial lenders want their money back, usually plus a market competitive rate of interest, adjusted for the likelihood of default. Often security is required and it's important to think about whether that security creates limitations. One example might be that personal security is required from a shareholder, which can drastically change the balance of risk and reward between the company and the shareholder; another might be that security over company assets can limit your organisation's ability to sell or change those assets.

- Family owners making investments in the company will often take a much longer-term view, wanting to pass on a healthy business to the next generation. In this case, constraints might come because of family expectations – for example if it is not in the best interests of the company for a long-anointed family member to become the next CEO.

- Employee shareholders making investments in the company want it to prosper as long as they intend to hold the shares...which can vary enormously. The number and seniority of employees holding shares are also important variables to bear in mind.

- Charities and social enterprises need to fulfil the wishes of their donors, or pay attention to the requirements of their social impact investors.

When you look at the capital structure of your organisation, you will inevitably find that the investors who are supporting the organisation have requirements that constrain what you are able to do. If you are raising new funds, take great care to ensure that your funding source is really compatible with the use you envisage for those funds.

As an investor looking for the right place to invest

As personal investors, maybe through our pension scheme, savings, and surplus capital, we find that the investment vehicle we choose often also comes with constraints imposed by the pension scheme, or the investment manager, or the instruments they choose to invest in. Active stewardship can be a way to influence pension schemes and fund managers. Some investment managers now offer ethical fund choices, so it's worth making sure you make full use of the fund range available, although the definition of 'ethical' varies considerably. There's also a handful of ethical banks to consider for cash savings.

Organisations like *Stewardship* and *Faith Driven Investor* provide opportunities for Christians to invest any surplus capital in Christian ventures, whether for-profit or not-for-profit. As Christians, we might be willing to accept a lower rate of return in exchange for the satisfaction of investing in a Kingdom venture. That said, it's also important to think carefully about the risk profile of the venture in which you're investing – if the organisation can't afford to pay a market rate of return, is there something about their business model that makes it less likely to succeed, thereby increasing the investment risk, or is the lower return creating competitive advantage and reducing the risk? Good matching of your requirements as an investor to the investment purpose is vital if you want to avoid problems down the road.

Financial services institutions and large companies invest massive amounts daily. Every organisation making large investments during the normal course of business will have a framework of policies and processes to ensure that the investments fit appropriately into the organisation's strategy. Christians who work for such organisations in positions of influence have an opportunity to think about the requirements these frameworks impose, and whether the balance of power between investor and investee is appropriate. There's also an opportunity to influence investment choices away from ventures that have potential to cause harm (whether to the natural environment or to society) towards investments with a more positive impact.

Second, the reward for generosity is joy

Many people get terribly hung up on making sure they achieve an attractive financial return on their investments. Yet we see an Old Testament model that encourages interest-free lending to fellow Jews[1], and cancels debts every seven years[2].

In the New Testament, the parable of the talents[3] is a frequently quoted source of stewardship advice, and the servants who doubled their investment are praised, but we also see Jesus encouraging radical generosity and Paul teaching how God loves a cheerful giver[4].

Everything we have comes from God[5], we are saved by His loving grace[6], and it all belongs to God[7]. Our wealth, our time, our talent - it's all been entrusted to us to steward wisely.

I've found over the course of many years that generosity brings me far more joy than an investment that yields an attractive financial return. It's good to invest wisely, but even better to give generously. There is undoubtedly a return...just not a financial one[8].

Thirdly, Christians have an opportunity to go beyond ethical and strive for something redemptive

When I started out in financial services, a Christian could stand out as markedly different from the crowd simply by being honest, ethical, and honouring their commitments.

Today, the transparency and speed of information flow that comes with the internet has led to the development of a whole new approach to ethical investment. News about a scandal, or the dishonesty of a director, or poor health and safety, travels so fast on the world-wide web that share prices adjust rapidly.

Investors have discovered that the top quartile companies in the Dow Jones Sustainability Index tend to outperform, and that a positive brand reputation helps keep the share price high. So nowadays the secular world is investing 'ethically' because it's more profitable.

Investors and investment managers now pay attention to environmental, social and governance factors and we're beginning to see an increasing trend towards responsible stewardship in shareholder voting around topics like executive remuneration and climate change. Often that's sufficient progress... and we can rejoice that some aspects of corporate life have improved greatly compared to the twentieth century.

But Christian investors, entrepreneurs and business leaders also have an opportunity to go further, to go beyond ethical, and to build a business that displays redemptive qualities.

Here I must give credit to Jon Tyson, Andy Crouch and the team at Praxis Labs for this thinking. I commend to you the Praxis Course[9], which explores how our faith calls us to take redemptive action in the world through entrepreneurship, creativity, and sacrifice.

Consider a mindset that thinks:

We create from strength, for progress, through hustle, with optimism, in striving.

Every part of that mindset is potentially a good thing, and that mindset can create a really ethical business.
But taken together, that mindset is fundamentally about ourselves - our strength, our hustle, our optimism, our achievement.

The mindset of the redemptive leader, on the other hand, is altogether different:

We create from love, for restoration, through sacrifice, with hope, in freedom[10].

The Praxis course unpacks how this redemptive mindset is rooted in God's love and Christ's death and resurrection. In order for our work to result in outcomes in the world that are restorative, truthful, and humanising, we must start with a redemptive mindset.

Which brings me to my final point.

Invest for positive impact

Many of the ethical investment frameworks screen out undesirable investments, such as arms, tobacco, gambling and pornography, leaving managers and investors to choose from what is left. It's essentially an approach that says, 'Do no harm'.

But if we want to reach beyond ethical, towards a redemptive investment approach, we need to go beyond 'do no harm' and invest in ventures that strive to make a positive social impact, whose products and services are restorative and humanising.

Some investment managers are beginning to offer funds with these characteristics, and the recent rise in social impact investing is another example of this. Ventures founded on a Christian ethos can potentially take this to another level and I commend the team at Faith Driven Investor and Entrepreneur, who are matching up Christian impact investors with Christian entrepreneurs to do just that.

At Stewardship, we've developed a set of investment goals that put positive impact investing at the bull's eye of the target[11]. We're now striving to manage an increasing proportion of our balance sheet towards investments that have a Kingdom impact and investments that make a positive impact towards achieving one of the United Nation's sustainable development goals.

As with so many aspects of life, it's taken me forty years to distil this thinking about the purpose and meaning of investment. I offer these four lessons to you in the hope that it might save you some distillation time.

1. See for example Lev 25:36 & 37 and Deut 23:19 & 20.
2. Deut 15:1-6
3. Matt 25:14-29
4. See for example Matt 5:42, Mark 12:41-44, John 12:1-8, as well as 2 Corinthians 9:6-7.
5. Deut 8:18
6. Romans 3:21-24
7. Psalm 24:1
8. John 15:10-11
9. The Praxis Course (praxislabs.org)
10. See for example John 3:16, Acts 3:21, Eph 5:1 & 2, Rom 5:1-5 and Luke 4:18
11. New Investment Strategy (stewardship.org.uk)

__Chris Gillies__ is Chair of Stewardship, Treasurer of The Children's Society, and a trustee of several other charities and churches. He previously had an executive career in financial services, working for companies such as KPMG, Allied Dunbar, British American Financial Services and Zurich Insurance. His last executive role was as Zurich Insurance's Chief Growth Officer for Global Life; he also led the development of Zurich Insurance's corporate responsibility framework and policies.