Bonus

Religious Funds Are Attracting Assets

Awad's Fund Has Taro

Funds let shareholders invest in accord with their religious beliefs

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More Americans are putting their money where their faith is, according to a new study. But so far, religiously oriented funds generally have slightly underperformed the market.

The study, done for MMA Praxis Mutual Funds, found the number of religiously oriented funds reached 75 by March 31, 2002, more than doubling from March 1999. Funds of all types grew 16% in that time.

Assets in religious funds grew 21% to $4.42 billion from $3.65 billion. Assets in all long-term funds grew 11% to $4.8 trillion.

MMA Praxis is a fund group run by the Mennonite church. Thomson Financial's Wealth Management Group compiled data for the study.

Almost all of the funds have a Christian orientation. Thomson did not count funds by faith.

Despite their growth, religious funds' performance lagged the market. Nine bond funds tracked by Thomson had an average annual return of 4.7% in the three years ended Aug. 31. More than 2,300 U.S. long-term fixed income funds tracked by Lipper Inc. averaged 5.44% a year.

The 25 religious stock funds with three-year records followed by Thomson produced an average annual loss of 8.01%. U.S. diversified stock funds averaged a 6.06% loss.

Stock funds overall, including foreign and sector portfolios, fell 6.25% a year. At least four religious stock funds invest outside the U.S.

But inflow of new investor money to religiously oriented funds was strong, resulting in asset growth despite the performance decline.

Religious funds tend to use a growth-oriented investment strategy, says Rusty Leonard, chief executive of Stewardship Partners Investment Counsel, a North Carolina investment firm. The market's rotation toward value since early 2000 accounts for the religious group's underperformance, he says.

But performance is not necessarily the main goal of religiously oriented investors, says MMA Praxis President John Liechty. Asset growth reflects shareholders' desire to invest in line with their religious views.

The group's funds typically avoid stocks involved with casinos, defense, sexually offensive activities and other things they see as unethical.

Such screens have not prevented individual funds from outperforming.

The $40 million Timothy Plan Small Cap Value Fund notched an average annual return of 9.88% in the three years through Aug. 31. For this year going into Wednesday, the fund was down 22% vs. a 28% decline for the S&P 500.

"Religious screening has not hurt our returns," said manager James Awad. "About 90% of our stock picks pass all the screens, anyway."

Awad is also chair of Awad Asset Management. "We are subadviser to the Timothy Plan, which is in Orlando, Fla.," Awad said. "We run the plan on Christian principles as defined by Timothy."

Awad does not get Timothy's OK to buy a stock in advance. Instead, Timothy periodically lists companies it does not want to invest in.

"If a stock is on the list, we have as much time as needed to sell it, because Timothy wants us to get the best price," Awad said. "We run another socially screened fund, Calvert New Vision Small Cap. We have to get (Calvert's) permission before we can buy a stock."

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> **James Awad,** *Timothy Plan Small Cap Value Fund*

Awad says he runs the Timothy fund with a value tilt. He also aims for low volatility. "We'd rather be up 20% two years in a row than up 70% one year and down 30% the next," he said.

Awad adds that his fund seeks companies with consistent earnings growth. It also wants firms that dominate a market niche, with a good balance sheet and excess cash flow.

It wants stocks with high insider ownership. And it aims for stocks whose price-earnings ratio is below the Russell 2000's, below book value or that appear to be an acquisition candidate.

Its small caps holdings commonly have little or no Wall Street coverage.

The fund's 38.4% weighting in industrials is more than double the Russell 2000's. Its 18.3% tech weighting is half again bigger than the benchmark's.

Its 15.7% weighting in financials is less than two-thirds the size of the bogey's.

One of the fund's top-rated holdings was AmeriCredit. The consumer lender has an IBD Earnings Per Share Rating of 99.

"We sold most of it in April or late May in the high 30s and 40s," Awad said. "We sold the rest between 13 and 15. There were hints of credit-quality problems for their clients."

Awad still likes Taro Pharmaceuticals. The firm has scored triple-digit earnings growth in four of the past six quarters.

"They specialize in ointments and creams, a market that's too small for most giant pharmaceutical firms," he said. "They have $3.50 a share in free cash. They'll probably earn $1.75 a share over the forward four quarters, maybe $2 in 2003. On 2003 earnings — which is the number the stock should be priced on — you're paying only 16 times for 20% growth. If they earn $1.85, you're paying 17 times."

At 4.4% of assets, StarTek was the fund's biggest position as of June 30. The stock is up about 19%. Awad was a 1969 classmate of StarTek founder and Chairman Emmet Stephenson Jr. at Harvard Business School.

"I have tremendous confidence in him," Awad said. "The company is an outsourcer for tech companies such as Microsoft and Hewlett-Packard. When those firms make a product, it gets shipped to StarTek, which wraps it. And the 800-number for customer service is theirs.

"They have an excellent balance sheet, several dollars per share in cash and nearly $2 a share in earnings power. They've been hurt by the recession. But they'll have tremendous leverage when tech and the economy recover."

Like any stock-fund category, success among religious funds hinges on good stock-picking. "You can invest according to your conscience and not get penalized relative to investors with no social or religious screens," Awad said.

Catholic Fund Votes Against Auditors Doing Other Work

FROM IBD NEWS SERVICES

Catholic Equity Fund said it voted contrary to a variety of management recommendations on numerous issues at annual meetings in the May-July 2000 period.

The meetings covered 50 companies in the S&P 500.

The fund's most common contrary vote was against ratifying a company's auditor because the company engaged the auditor to perform an excessive amount of nonaudit work.

This occurred at over 40% of the 50 annual meetings held in the period.