

# **Faith Alignment Methodology**

## **Fixed-Income Filtration Framework**

Transparent, auditable, theology-informed scoring for bond and structured credit selection

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## Executive Summary

Faith-aligned fixed-income investors deserve a system that is transparent, consistent, and auditable. This framework combines AI-driven document analysis with a documented rule set and human theology review. It produces a 0–100 Faith Alignment Score (FAS) where 50 is neutral, 0–49 reflects negative alignment, and 51–100 reflects positive alignment. The outcome is a repeatable, evidence-based process with clear inclusion, review, or exclusion decisions for ETF construction.

## From Critique to Design Choice

Each commonly cited shortcoming in legacy BRI approaches is explicitly addressed by a concrete design choice in this methodology.

Critique of Legacy Ratings	Our Design Answer	Investor Impact
Inconsistent application of criteria	Staged pipeline with rule enforcement at each step; AI parses filings/external sources; theology review adjudicates edge cases	Predictable outcomes, reproducible results, fewer surprises in holdings
Manual, subjective research	NLP over issuer docs, servicer reports, 10-D/ABS annexes, litigation records; structured features feed explicit thresholds	Scale and consistency without losing nuance
Opaque 'proprietary' claims	Written policies, factor libraries, score math, and retained logs; per-security scorecards	Verifiable methodology and auditability
Omitted or selectively weighted categories	Complete negative taxonomy with transparent severity bands and caps	No silent carve-outs; tradeoffs are visible and defensible
Lack of written procedures	Version-controlled policies and review checklists; Pass/Review/Exclude states with rationale	Compliance-ready documentation and traceability

## Methodology Overview (Plain English)

- 1) Start financially sound: research team pre-screens bonds for yield, duration, structure, and rating (BBB– or higher).
- 2) Data enrichment: for each CUSIP/ISIN, AI pulls primary documents and credible secondary sources to build a security dossier.
- 3) NLP scoring across four pillars: Moral Alignment, Pro-Social Good, Faith-Driven, and Long-Term Impact.
- 4) Hard exclusions: rule-based screens trigger automatic Review or Exclude; no guesswork.
- 5) Positive alignment only after a clean negative pass: if no negatives, best-in-class positives can lift the score above 50.
- 6) Human theology review: trained theology reviewers assess flagged cases; any override is logged with rationale.
- 7) Deliverable with audit trail: Pass/Review/Exclude, factor breakdowns, and notes delivered to the PM.

## Fixed-Income Differentiators

- Security-level analysis over issuer generalities, critical for ABS/MBS/CLOs.
- Negative taxonomy tailored to credit: predatory consumer ABS, SOEs under sanction regimes, addiction categories with transparent severity.
- Transparent severity math: published bands per category, log scaling of breadth × severity to stabilize scores.
- Positive discipline: positives never offset negatives; they only apply when negatives are zero.

## Handling Securitized Products and SPVs

We evaluate the cash-flow source first: who pays, not just who issues. We scrutinize tenant/obligor profiles, servicer practices, and pool composition trends. Thresholds are applied to pool shares and top exposures, and drift monitoring can move a bond from Pass to Review.

## Governance and Controls

Written policies and version control govern factor definitions, thresholds, and exception handling. Explainability artifacts (scorecards, rule hits, document excerpts) are retained. Two-layer adjudication (automation + theology review) is required, and scores are re-run when new filings post.

## Investor Implications

Fewer false positives: collateral that undermines faith alignment is caught even if the parent has glossy CSR. Fewer false negatives: genuine stewardship credits are recognized without PR dependence. Less style drift: criteria, sources, and math are fixed and logged, keeping the portfolio's faith profile stable.

## Process Snapshot

Input (financially vetted list) → AI enrichment & NLP → Rule screens → Pass/Review/Exclude → Theology review for flags → Final list + scorecards to PM.

## Appendix A. Negative Alignment Methodology (0–49 scale)

The negative alignment methodology establishes a consistent, auditable framework for identifying securities that fail to meet ethical, moral, and faith-based standards. Each finding is evidence-based, weighted by severity, materiality, and recency, then scaled logarithmically to ensure stability and fairness.

### A1. Scope and Unit of Analysis

Unit: security level (CUSIP/ISIN/tranche). For securitized credit, analysis is performed at the collateral/payor level, then rolled to the note.

Universe: investment-grade bonds and structured products pre-screened for financial quality.

Sources: primary filings (prospectus/OM, 10-K/10-Q, 8-K, ABS-15G, 10-D), trustee/servicer reports, litigation databases, enforcement actions, verified news, independent datasets.

### A2. Negative Taxonomy

Each category has a definition, indicators, materiality thresholds, severity bands, a category cap, and verification rules. Severity bands are standardized across categories to prevent hidden bias.

Code	Category	Definition	Indicators	Materiality Threshold	Severity Bands (pts)	Category Cap
N1	Life-Harm & Exploitation	Direct participation in activities that materially harm human life or dignity	Abortion provision/manufacturing; assisted suicide; trafficking; child sexual exploitation; predatory lending	≥1% revenue or principal exposure; controlling role; or substantiated enforcement	Minor 6, Moderate 12, Severe 20	22
N2	Addiction Industries	Products or venues driving dependency and social harm	Tobacco, vaping, recreational cannabis, gambling, adult entertainment	≥5% revenue/exposure; tenancy ≥10% of NOI; top-5 obligor in ABS	Minor 3, Moderate 8, Severe 14	16
N3	Coercive Regimes & Sanctions	Material ties to regimes under sanctions or SDN entities	SOE bonds; sanctioned counterparties; state security suppliers	≥5% revenue/assets or key supplier/tenant; any SDN tie = Severe	Minor 4, Moderate 10, Severe 18	20
N4	Targeted Discrimination	Unlawful discrimination or suppression of fundamental civil rights	Documented practices, legal judgments, regulatory sanctions	≥2 substantiated incidents in 36 months or one consent	Minor 4, Moderate 8, Severe	16

				decree	14	
<b>N5</b>	Predatory Consumer Finance	Usury, fee-gouging, abusive servicing, deceptive marketing	APRs beyond caps, repeat CFPB actions, junk fees	≥10% of receivables; or ≥1 major enforcement in 36 months	Minor 5, Moderate 10, Severe 16	18
<b>N6</b>	Environmental Abuse Causing Human Harm	Illegal dumping or catastrophic negligence with human impact	Final judgments, consent decrees, incidents causing fatalities	1 major event in 60 months	Minor 3, Moderate 8, Severe 14	16
<b>N7</b>	Deceptive Practices & Corruption	Fraud, bribery, accounting manipulation	SEC/DoJ actions; restatements tied to misconduct	Any criminal charge or settled action	Minor 5, Moderate 10, Severe 16	18
<b>N8</b>	Pornography & Sexual Exploitation Supply Chain	Creation/monetization of exploitative explicit content	Production, distribution, monetization of exploitative content	≥1% revenue/exposure, or collateral NOI ≥10%	Minor 4, Moderate 9, Severe 15	16
<b>N9</b>	Weaponry Outside Legitimate Defense	Indiscriminate or banned weapon systems	Cluster munitions, landmines, chemical/biological agents	Any revenue exposure	Minor 6, Moderate 12, Severe 20	22
<b>N10</b>	Governance Failure With Moral Externalities	Repeated board-level failures enabling harm	≥2 board failures tied to harm categories	Two events in 36 months	Minor 3, Moderate 7, Severe 12	12

### A3. Securitized Products and SPVs

Collateral-first logic: evaluate payor/tenant/obligor sets. Pool materiality: ≥10% flagged obligors triggers Minor; ≥20% Moderate; ≥35% Severe. Top exposure rule: any flagged obligor/tenant ≥10% triggers at least Moderate. Servicer behavior maps to N5/N7. Drift above thresholds moves Pass → Review.

### A4. Materiality, Recency, and Cooling-Off

Lookback: 60 months for major events; 36 months for governance/consumer finance. Cooling-off: after 24 months clean, drop one band; after 60 months with verification, remove.

## A5. Computation

Per-finding contribution  $V = \min(\text{Severity} \times \text{Materiality} \times \text{Recency}, \text{Category Cap})$ . Category subtotal  $C = \min(\text{sum}(V), \text{Cap})$ . Raw total  $T = \text{sum}(C)$ . Breadth factor  $B = 1 + \min(0.08 \times (k-1), 0.32)$ . Breadth-adjusted  $T_b = T \times B$ . Log scale:  $N = \text{floor}(49 \times \ln(1+T_b)/\ln(1+T_{\text{max}}))$ , with  $T_{\text{max}}=120$  fixed. If  $N>0$ , Final FAS =  $50 - N$  and positives are disabled; if  $N=0$ , move to Appendix B.

## A6. Decision States

Exclude: any Severe in N1 or N9, or  $N \geq 35$ . Review: any Moderate in N1/N9, any Severe elsewhere,  $20 \leq N < 35$ , or securitized drift. Pass:  $N < 20$  with no Severe.

## A7. Governance and Overrides

Every finding is documented to source. Theology review may adjust severity  $\pm 1$  band with rationale. Method changes are versioned; historic scores remain reproducible.



## Appendix B. Positive Alignment Methodology (51–100 scale)

Positive scoring activates only when no negatives exist. Indicators must be externally verifiable. We use five equal-weight pillars with industry-normalized indicators to prevent sector bias.

### B1. Activation Preconditions

No negative findings after A-screening. All data must be independently verifiable.

### B2. Positive Pillars and Indicators

Pillar	Definition	Sample Quantified Indicators	Pillar Cap
<b>P1. Stewardship of Workers &amp; Suppliers</b>	Dignity, safety, fair treatment	Recordable incident rate vs industry; living-wage coverage; supplier code adoption; vendor audits	10
<b>P2. Community &amp; Customer Wellbeing</b>	Tangible benefit to communities and customers	Affordable access programs; product safety recalls rate (inverse); complaint resolution time; verified philanthropy % EBIT	10
<b>P3. Environmental Stewardship Tied to Human Good</b>	Care that reduces human risk	Scope 1+2 intensity vs industry; water stress mitigation; hazardous incidents avoided; third-party certifications	10
<b>P4. Governance Integrity &amp; Transparency</b>	Structures that reduce harm and enable trust	Independent board share; anti-corruption controls; whistleblower cases resolved; audit restatements (inverse)	10
<b>P5. Faith-Consistent Initiatives</b>	Programs aligned with faith-based care for people	Verified chaplaincy/employee care; paid volunteer hours; faith-consistent philanthropy without service exclusion	10

### B3. Normalization and Scoring per Indicator

Each indicator's industry-relative percentile is computed from an annually frozen peer set. Winsorized mapping converts percentiles to 0–1:  $s = \min(1, \max(0, (q-0.10)/0.80))$ . Pillar score  $P = \text{Cap} \times \text{average}(s)$ . Caps are 10 each; no single pillar contributes more than 10.

### B4. Breadth Bonus With Tight Guardrails

Broad goodness is rewarded lightly. If  $m$  pillars score  $\geq 6$ , breadth bonus  $BB = \min(0.5 \times m, 2.0)$ . Applied once after pillar summation.

### B5. Positive Index and Scaling

Raw total  $U = \text{sum of pillar scores (max 50)}$ . Add breadth:  $U_b = \min(U + BB, 50)$ . Map to 51–100 linearly: Positive Index  $P = U_b$ . Final FAS =  $50 + P$ .

### B6. Evidence Quality Weights (Optional)

Quality factor nudges toward verifiable impact:  $A=1.00$  (audited),  $B=0.95$  (externally verified),  $C=0.90$  (management-reported with documentation).

### B7. Special Rules for Securitized Products

Positive items must reduce borrower/tenant harm with measured outcomes. If  $\geq 30\%$  of the pool is covered by a beneficial program with measured outcomes, count at full indicator weight; 10–30% counts at 0.5 weight; below 10% ignored.

### B8. Decision States for Positives

Exemplary:  $FAS \geq 85$  with  $\geq 4$  pillars  $\geq 7$  and none  $< 5$ . Aligned: 70–84 with  $\geq 3$  pillars  $\geq 6$ . Baseline Pass: 60–69. Data-Light Pass: 55–59.

### B9. Governance, Auditability, and Refresh

Annual peer-set freeze for percentile math; quarterly refresh for fast-moving indicators. Any change to caps, bands, or thresholds increments the method version; historic scores remain reproducible.

## Worked Micro-Examples

Negative example (CMBS with adult-entertainment anchor at 18% NOI): N2 Moderate (8) + Minor (3), breadth  $k=1$ ,  $T=11 \rightarrow N \approx 21 \rightarrow \text{Final FAS}=29 \rightarrow \text{Exclude}$ .

Positive example (IG utility, no negatives):  $P1=7.5$ ,  $P2=8.0$ ,  $P3=7.0$ ,  $P4=9.0$ ,  $P5=5.5 \rightarrow U=37.0$ ,  $BB=2.0 \rightarrow FAS=89 \rightarrow \text{Exemplary}$ .

## **Definitions & Abbreviations**

ABS-15G / 10-D: US asset-backed securities reporting forms (significant repurchase demands / monthly distribution).

CFPB: Consumer Financial Protection Bureau.

FAS: Faith Alignment Score (0–100).

NOI: Net Operating Income.

SDN: Specially Designated Nationals (OFAC list).

SOE: State-Owned Enterprise.

## **Important Disclosures**

This document describes a faith-aligned screening methodology intended for research and educational purposes. It is not investment advice. Implementation should be accompanied by independent legal and compliance review. All trademarks belong to their respective owners.