Church Pension Fund: Moving the needle

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The Church Pension Fund in New York reflects on how it practises impact investing

Church Pension Fund

• Assets under management: $13.2bn (31.12.17)
• Investment goal: 4.5% over inflation
• Annualised total returns in last 10 years: 6.6%
• Benchmark: 67% MSCI All Country World index, 33% Bloomberg Barclays Aggregate Bond index
• Asset allocation: equities 71.8%, fixed income 28.2%
• Equities: 31.3% global equities, 14.1% specialised strategies, 14.9% private equity, 8.7% real estate, 2.8% real assets. Fixed income: 23.9% global bonds, 4.2% TIPS, 0.1% cash
• Positive impact investments: environmentally responsible $100m, economically targeted $369m, women or minority owned firms $364m

Source: Church Pension Fund

The New York-based Church Pension Fund (CPF) has been involved in impact investing for nearly 20 years. In 2000, its board encouraged it to look at investing in women or minority-owned funds and the governing body of the Episcopal Church passed a resolution in community development, explains Candice Dial, investment associate at the $13.2bn (€11bn) fund.

"Since then, we've been actively investing and looking for investments in this space," she says.

Today the pension fund for the US Episcopal Church has $1bn committed to impact investments, of which $840m is invested. It invests across three themes under the headings of 'environmentally responsible investments' (sustainable forestry, clean technology and green buildings), 'economically targeted investments' (microfinance-related initiatives, affordable housing, sustainable farming and urban redevelopment) and 'women or minority-owned funds'.

The pension fund talks in terms of asset class 'buckets' and June Yearwood, managing director at CPF, says it has impact investing in all of them – fixed income, marketable equities, private equity, private real estate and real assets, which for CPF covers things like timber and metals.

Dial says it likes impact investments where its capital is "helping to move the needle rather than just being a drop in the bucket", as she puts it. "That's probably the reason why we haven't really invested into negative screens or positive screens and we've been going directly into straight impact strategies," she adds.

In terms of money being put to work, what the fund calls "positive impact investing" represents the entirety of its socially responsible investing (SRI) approach.

Positive impact investing, according to the fund, is “proactively seeking out and investing with managers who deliver both strong returns and positive social outcomes”.

It refers to shareholder engagement and thought leadership as the two other strategies that make up its SRI approach. As concerns the impact investments themselves, these must offer market-rate levels of return.

Christopher Rowe, vice president, investments group, at CPF, says finding suitable impact investments is challenging but so is finding good investments for the rest of the portfolio.

“It was important to me that people not necessarily assume that any time you put money to work in Africa that’s somehow going to do good”

June Yearwood

“It’s indicative of the fact that we look wide and deep for investment opportunities that meet our criteria and impact investing is no different,” he adds.

Dial says the number of opportunities in impact investing is not comparable to traditional investment, but the market is growing. “We’re trying to be good about making sure that we look at all those opportunities,” she says.

Yearwood adds that CPF does get incoming calls about opportunities – these days particularly in relation to impact – but that it is also proactive in sourcing deals.

“We tend to use our networks pretty deeply,” she says. “I think a lot of our opportunities come from using our networks in the industry, other institutional investors, recommendations from our other managers.”

And where pitched opportunities do not quite fit the bill, the pension fund will sometimes work with managers to create a deal that does.

Last year, for example, it worked with Developing World Markets (DWM), an emerging and frontier markets-focused impact investment firm, to structure a product that would address one of its primary concerns at the time – climate change and the environment.

This was after the manager had pitched a private equity investment for which CPF did not have capacity at the time. The pension fund did, however, have capacity in its fixed income portfolio and felt the manager was an expert in its field of microfinance, financial inclusion and credit assessments in the developing markets.

The end result of the co-operation was a DWM $60.8m Off-Grid Renewable and Climate Action Impact Note. It finances eight businesses in the developing world that lend to support renewable energy activities and three operating companies that are active in what it describes as “home solar solutions” – providing solar panels that go on roofs.

Dial says that by hooking up a battery to these panels people living off-grid in shacks or shantytowns can, for roughly the same price as kerosene, use cleaner energy and enjoy a better living situation. About 200,000 families are estimated to benefit from the note.

In helping to structure the note CPF was also able to derisk the investment, adds Dial.

“When we compared it to anything else that we could traditionally get in the open market, it was a lot more compelling to go into the DWM off-grid solar notes than it would have been to just buy something else that’s more traditional,” she says.

While DWM structured the note for CPF, the pension fund talked to other like-minded investors to help get it off the ground. In the end, CPF was the anchor investor in the note, investing $30m alongside Wespath Benefits and Investments, a general agency of the United Methodist Church.

Indeed, bringing other capital to SRI is a conscious aim of the pension fund, according to Rowe. “To the extent that we can both inform the dialogue but also be a catalytic investor is critically important to us,” he concludes.

African agriculture impacts delight

One of CPF’s impact investments is in Silverlands, a private equity fund managed by SilverStreet Capital that invests in agriculture and food production in sub-Saharan Africa.

It invested in the original Silverlands fund, which dates back several years, and the successor fund that SilverStreet has recently been fundraising for.

The idea behind Silverlands is to invest across the agricultural value chain. The manager refers to a ‘hub/outgrower’ model, effectively a joint venture with the local community that helps farmers improve their techniques to get better yielding and higher paying crops and also provide a market for the crops as well as logistical and marketing support.

Yearwood says that at the beginning CPF was attracted to Silverlands because of its cashflow properties and the financial and agricultural experience of the Silverlands team but that it did not see it especially as an impact investment. “I didn’t have a good sense of what [the] impact would be and it was important to me that people not necessarily assume that any time you put money to work in Africa, that’s somehow going to do good for the love of community, because we know that’s not the case.

“In this case, I would say the elements of impact have been well off any hope we had of what that would be. We knew that they would work closely with the local communities and that would have some benefits. We knew that sustainability had always been part of their thesis, but I think when we add up all the different elements of what they’ve been able to do … for me, it is well beyond my expectations. That part has been a very pleasant surprise.”

That assessment is based on site visits and reporting from SilverStreet. Yearwood guesses that over the years she has visited three-quarters of the investments.

“Obviously, I’m not an expert and it’s probably not so hard to pull the wool over my eyes, so we do a lot of site visits,” she says. “I’ve seen a lot of the investments, I’ve met the people running the businesses and some of the people working there but sometimes I have had opportunities to meet some of the local business partners as well.

“Certainly my impression is that they are very well integrated into these communities. When they say they work closely with local farmers and local farmers are happy to work with them then I’ve been pretty convinced when I’ve spoken to people that that’s true.”

Dial says SilverStreet publishes an annual ESG report, looking at the benefits of its activity as well as any potential drawbacks and how it mitigates that risk.