



## GIIN INITIATIVE FOR INSTITUTIONAL IMPACT INVESTMENT CASE STUDY: *Wespath Benefits and Investments, 2018*

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The [GIIN Initiative for Institutional Impact Investment](#) supports institutional asset owners seeking to enter or deepen their engagement with the impact investing market, by providing educational resources, performance research, and a community of practice. The Initiative is made possible by the generous support of JPMorgan Chase & Co., a founding member and longtime partner to the GIIN.

This series of case studies represents one type of educational resource offered to the growing institutional community. Each case study profiles one institutional asset owner that has started to make impact investments, providing a snapshot of what they did to make it work thus far. The case study series provides a useful tool for institutional investors seeking to understand how to make the case for, and then establish, an impact investment strategy, based on examples from peers. If you are interested in contributing to this resource, please contact [Josh Scott](#).

*Wespath Benefits and Investments is a not-for-profit administrative agency that supervises and administers the retirement plans, investment funds, and health and welfare benefit plans of active and retired clergy and lay employees of The United Methodist Church. For this case study, we interviewed Sylvia Poniecki, who is a member of the advisory board for the GIIN Initiative for Institutional Impact Investment and a GIIN Network Member.*

### How do you define impact?

Wespath's impact investing pursues opportunities, across asset classes, that seek to generate market rates of return while having a positive and measurable impact on society and the environment.

Impact investing is an important element of Wespath's Sustainable Investment Strategies, which aims to position participant and institutional client funds in ways that add financial value and create positive change.

Poniecki believes the role of impact investing and sustainable investing in promoting long-term value creation supports Wespath's role as a fiduciary. Wespath's *Investment Beliefs* clearly state all "investment decisions and activities must support the financial well-being of our participants and mission of our institutional investors."

One aspect of Wespath's impact investing activities is its Positive Social Purpose (PSP) Lending Program, which Poniecki leads. The PSP Lending Program has a nearly 30-year history of investing in affordable housing and community development projects in the United States and in global microfinance opportunities, while seeking to earn a market rate of return. One of the many ways the PSP program has had a meaningful impact on society is by creating over 52,000 housing units for underserved populations in the United States.

### What have you done to start making impact investments?

Wespath currently invests USD 3.2 billion in impact investments, with approximately USD 900 million invested through the PSP Lending Program (as of December 31, 2017).

Wespath established its PSP Lending Program in 1990, following a board-led taskforce, which explored ways to apply pension funds in a manner that improves the lives of impoverished individuals and families. The program launched with a USD 25 million investment in bridge loans for Low Income Housing Tax Credit (LIHTC) projects. Since 1990, the program has surpassed USD 2 billion in cumulative capital invested. PSP invests in loan participations for affordable housing and community facilities such as charter schools, shelters, and healthcare

centers in the United States, and internationally in microfinance and renewable energy loans. Its most recent microfinance investment was a USD 30 million investment in an Off-Grid, Renewable and Climate Impact Note offered by Developing World Markets. The Note makes financing available to organizations providing solar lanterns and solar home energy systems to communities across developing countries with no access to national power grids. Wespath is one of the first institutional investors to make this type of investment.

Separately, Wespath invested over USD 500 million with two public equity low-carbon solutions strategies focusing on energy efficiency, low-carbon electricity and transport, and water and waste management.

Wespath sources PSP loans through a participation structure. Roughly half a dozen intermediaries—typically community development financial institutions—present opportunities to Poniecki’s team, which then makes recommendations to members of Wespath’s senior leadership team. Intermediaries are responsible for underwriting and servicing the loans. All loan participations include credit enhancement, which may be provided in the form of a government guarantee or an intermediary first-loss provision.

Impact investment opportunities in other asset classes are presented through external managers and are more opportunistic in nature.

Wespath’s Chief Investment Officer has final authority over asset allocation targets and impact investments.

Of course, like many other organizations, Wespath continues to refine what ‘impact’ means within the context of its investments. Over the past year, Wespath has launched a major initiative to develop an internal impact investing working group to assess the ways in which Wespath can enhance its impact investing strategy.

Wespath’s goals include pursuing thematic investments that have strong financial and impact attributes, diversifying impact investments across asset classes, and continuing to build on the successful track record of its PSP Lending Program. Poniecki notes that, “the firm is working to create a more streamlined and consistent process for screening, conducting due diligence, and selecting impact investments, including both equity and fixed income transactions.”

### **Why does your approach work?**

Poniecki named two key factors that contribute to Wespath’s relative success in impact investing: a robust investment selection process and a cohesive team.

All impact investments undergo a thorough due diligence process to minimize risk and mitigate potential losses. For example, the PSP Lending Program uses a tiered pricing model run by a third party, which accounts for credit risk and other factors relevant to investing in these types of loans. Poniecki admits, “We are probably more conservative compared to other impact investors who tend to be more willing to accept some level of loss. As a fiduciary, we need to make sure that we are well protected long-term and that our participants are made whole in the event of a loss.”

A second contributor is the expertise of the Wespath investments team. Wespath has focused on assembling a highly skilled team familiar with the industry. Poniecki leads the PSP Lending Program with a background in affordable housing and tax credits, while other team members are investment professionals with prior real estate underwriting experience. Together, they have the collective ability to evaluate and monitor assets over the long term. “We’ve been successful. The loans we’ve funded have performed well. However, as with any investment strategy, you need a good team with established processes in place to address issues that may arise at any time,” stresses Poniecki.

## How was it received?

The reception to impact investing by Wespath's board of directors and staff has evolved over time. When the PSP Lending Program was in its early stages, there was some concern about the ability to both invest for returns and impact. Those concerns have subsided as the success of the program over nearly three decades has shown that impact investing can be executed in a manner that upholds fiduciary duty.

However, a new set of considerations have arisen as Wespath explores impact investment opportunities beyond those that fit under the PSP Lending Program. For example, Wespath is exploring:

- Finding external managers with sufficient experience;
- Ensuring the way in which a manager defines 'impact' aligns with Wespath's strategy and goals;
- Evaluating the optimal timing for certain impact investments, given that opportunities are constantly evolving;
- Evaluating investments that are best aligned with Wespath's expertise and capacity; and
- Ensuring managers have an appropriate focus on returns, as well as impact.

Discussions on these topics have helped the Wespath team refine and strengthen its analysis of what constitutes an appropriate impact investment.

Wespath's participants and institutional clients view Wespath's impact investing activities very favorably. They appreciate stories of how Wespath's assets are working for good, both in their communities and around the world. Poniecki notes that, "this is especially true with affordable housing. Participants want to see the fruits of our labor. In presentations to our institutional clients whose assets we manage, we highlight impact investments that have been made in their state or city, and the response to that has been very favorable."