GIIN INITIATIVE FOR INSTITUTIONAL IMPACT INVESTMENT
CASE STUDY: *Christian Super, 2017*

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.

Christian Super is an Australian Superannuation Fund that invests on the principles of the Christian faith. In 2017, we spoke with Chief Investment Officer, Tim Macready, who is an advisory board member of the GIIN Initiative for Institutional Impact Investment and an Investors' Council member of the GIIN.

How do you define impact?

For Tim Macready and Christian Super, impact investing exists within a universe of 'ethical investments' – a dedicated part of the portfolio that seeks to generate investment returns and demonstrable environmental and/or social impact. They integrate environmental, social, and governance (ESG) criteria across the portfolio, including both negative and positive screening, but carve out a separate part of the portfolio for impact investments. This part of the portfolio actively seeks to make a positive difference, taking into account both qualitative and quantitative results of impact.

What have you done to start making impact investments?

Christian Super started making impact investments in 2006, motivated by interest from their beneficiaries rather than a directive from senior staff. At the time, the fund was actively avoiding investments in areas such as alcohol, tobacco, and gambling, which were not in line with their ethical investment standards. "Our members and beneficiaries asked us what good we were doing with their retirement savings, and how we were investing those savings for their future," recalls Macready.

A foundational question for Christian Super was whether to create a carve-out or integrate impact investments into the existing portfolio. They decided to create a carve-out with a dedicated team, because in their opinion impact investing requires a specialist skill set, and for it to become a significant part of the portfolio it needed its own attention. As Macready described, "I think it might be naïve to assume that you can just take your existing team, keep the structure the same, and build out a huge impact investing portfolio. The reason why we've carved it out is because we think you can do a lot of damage by jumping into a sector without the resources or expertise. There's something unique about most parts of the impact investing landscape, and you need to understand those risks and that due diligence process distinctly." Another benefit of Christian Super focusing on impact investing separately was their ability to make investments that may not have fit into other asset allocation buckets. Now, they invest in private debt and equity, unlisted assets, infrastructure, and property.

Today, Christian Super has a team dedicated to impact investing and structured by asset class, including specialists for each asset type to conduct research on various parts of the portfolio. As their expertise has grown, the fund has seen an opportunity to use their knowledge to help others. The institution has placed the team into a separate organization, called Brightlight, to provide research and due diligence services for other investors seeking to make the move into impact investing.

Why did your approach work?

Macready believes the team was successful because they were able to achieve two things: build an investment case and create a dedicated and diverse team. They were helped along in this process by their role as an Australian superannuation fund and an open-minded board.

At Christian Super, achieving social or environmental impact does not mean sacrificing financial returns. In addition, impact investments are looked upon as opportunities instead of risks. Macready views impact and financial returns as complementary and focuses the portfolio on investment opportunities where an investment's impact directly correlates with the financial goals. For the team, that meant doing as much research as possible and waiting until there were investible options. A good example of this was in microfinance. "We looked at microfinance a number of times prior to making our first investment in 2007," Macready says. "And each time we looked at it prior to 2007, we said 'no we can't, in good conscience as professional fiduciaries, allocate capital there.' And then when we looked at it in 2007, we said 'yes, this is now at a point where we can allocate capital.'" As far as solidifying that investment case and in a day where investors are increasingly chasing alpha, Macready says, "Our impact portfolio has held up very well through broader market downturns, and exhibits a basically zero correlation with every other asset class in our portfolio."

The next question for Christian Super was: 'How will the fund be able to identify opportunities that other funds are not already seeing?' Their answer: by building an impact investing team that draws from several areas of experience. As Macready remembers, "We needed to gather a bunch of people who didn't think exactly the same." They went out and hired engineers, lawyers, accountants, and others from different educational and cultural backgrounds, which enabled them to identify the best opportunities by rigorously testing new ideas from multiple perspectives.

Being an Australian superannuation fund has also helped the cause for impact in two ways. First, the Australian retirement market is almost entirely defined by contribution where investors bear the investment risk. This gives Christian Super an advantage over their North American and European peers. "We're far more concerned about liquidity than we are about duration. In fact, the biggest limit to us expanding our impact investing portfolio further is liquidity," says Macready. Second, Australians are able to 'vote with their feet' when it comes to their retirement money. People can move their retirement funds readily, and Christian Super saw impact investing as an opportunity to differentiate themselves and attract and retain participants, and that helped the board get comfortable in the process.

The worry of impact investing not fulfilling fiduciary responsibility is typically brought up among the institutional community when entering the impact investing space, but Christian Super didn't face that challenge internally. "Our board was pretty open minded," Macready remembers. They worked under the assumption that Australian legislation allows trustees to act in the best interest of their beneficiaries. Where some institutional funds may need explicit direction, Christian Super took the view that, "If something is prohibited, of course you should be taking it into account as a fiduciary. We just needed to show the evidence that this is consistent with what we're aiming to do," recounts Macready. However, they still didn't want to dive into the deep end. Instead, Christian Super started by making investments into sectors that their board was familiar with: cleantech and microfinance. The fund achieved successful financial and impact returns through these investments as well as positive feedback from beneficiaries, and slowly began to add more unfamiliar sectors to grow the portfolio.

How was it received?

Christian Super's board and beneficiaries have been supportive of the move into impact investing. For the board, a big part was starting off with something familiar (i.e., cleantech and microfinance) and then moving gradually into less familiar sectors. That was helped by a strong, diverse team managing a separate carve-out so they could actually make the case for impact investing within the portfolio. For beneficiaries, Macready has found that they like to know what kind of benefit their money is having. In a monthly report using a couple of metrics, Christian Super breaks down the impact that each of their 25,000 beneficiaries has made by being invested in the fund. This reporting takes no more than one day, but provides participants with a concrete example of how their money is helping others.

The Australian regulator also had no major pushback to Christian Super's impact investment strategy, and never raised the topic of fiduciary responsibility. "The regulator in the early years was interested to see the documentation around why we believed [impact investing] was a good idea; but we have never had a complaint from a member and have never been investigated more heavily by the regulator. They're simply looking for due diligence documentation around investment strategy; both the broad investment strategy and what we're aiming to achieve by going into [impact investing]. Then, for individual deals that we've done, we simply ensure that the documentation is there, that it is signed off by the appropriate people, and that it addresses all the strategic issues that a normal due diligence document must address. We need to demonstrate that what we're doing is consistent with our fiduciary responsibilities and other legal obligations, just like with the overall portfolio."

As far as influencing Christian Super's fiduciary peers about impact investing, Macready has found the following argument seems to work best when talking to other fiduciaries about impact investing. "Look at where the world's economic growth is going to come from; unless you think that we're going to have a significant productivity revolution again in the west, it's difficult to see growth coming from there. We thus tend to focus on where [one is] getting exposure to consumers who are earning USD 2000 per year now, but in five years' time will be earning USD 10,000 per year. We're getting exposure to economies where when you provide education, the opportunity for productivity grows. It's huge, plus the demographics are still working in their favor, as opposed to against them."

Organizational Snapshot

Further details about the organization and its impact investing strategy.

Fund type	Pension fund
AUM	Entire Portfolio: AUD 900m Impact Investments: AUD 100m
Ultimate decision-making authority for asset allocation targets	Trustee Board approves Strategic Asset Allocation; Investment Committee approves Dynamic Asset Allocation adjustments
Ultimate decision-making authority over manager selection and investment selection	Investment Committee for allocations > $5m; CIO for allocations <$5
Number of investment staff	Total Investment Staff: 9 total with 7 being Full Time Employees Responsible / Impact Investing Staff: 6 total with 3 being Full Time Employees
Criteria and/or policy guidance to screen investments, including impact investments?	Negative Screening Policy (http://www.christiansuper.com.au/about-us/ethical/topical-positions/), ESG Integration across listed portfolio, dedicated impact investment allocation.
Average time (in months) for manager selection and capital deployment	4 months
Organizational model for impact investing – total portfolio integration vs. carve-out	Carve-out
Impact themes	No specific themes. We work across education, health, housing, social enterprise, employment, environment, indigenous, etc.
Current asset classes for impact investing	Private Equity, Private Debt, Infrastructure