Christian Super (CS) is a relatively small private pension fund serving around 20,000 members. It combines financial and biblical principles to achieve appropriate risk-adjusted returns. It applies negative and positive screens to all investments, and engages extensively.

The fund also puts substantial emphasis on investments that generate real long-term community impacts. It has allocated around 8% of the fund to investments in clean technology, renewable energy, sustainable agriculture, microfinance, community infrastructure and community finance.

This case study focuses on the latter two, illustrating the clear social impacts the selected funds aim to deliver. It also outlines the investment structures and risk mitigation strategies these funds employ to facilitate institutional investment. It is one of a series of case studies produced by the PRI Initiative's Environmental and Social Themed Investing Work Stream.

Key points:
- Despite being a relatively small pension fund, Christian Super dedicates significant resources to identifying investments with strong, clear social impacts. It focuses particularly on emerging sectors like community infrastructure and community finance, where it can help to support their development and generate genuinely additional social impacts.
- These investments play a valuable role in diversifying the fund's portfolio, and delivering stable returns and income streams uncorrelated with other assets. All investments must pass the fund's stringent due diligence process and meet appropriate financial thresholds.
- Fund staff place particular emphasis on understanding the significant and unique risks associated with these investments. They study the potential market, political, liquidity and other risks each investment presents and the mitigation strategies available internally (e.g. subordination) or externally (e.g. currency or interest rate hedging).
- Christian Super proactively seeks relationships with other organisations committed to developing innovative social investment structures. The fund leverages their knowledge and expertise when evaluating potential investments, sometimes co-investing. This can prove particularly valuable where Christian Super is looking at funds that invest in emerging markets where it cannot conduct its own local due diligence or access good information online on fund managers.

Rationale:
Christian Super's strong principles underpin its comprehensive responsible investment policies and drive its practices. However, as with any other institutional investor, it is governed by its fiduciary duty to provide good risk-adjusted returns to its members. The Fund's move into impact investing was driven in part by the global financial crisis. With returns becoming more volatile, Christian Super began to look for innovative ways to diversify its portfolio and deliver stable uncorrelated income streams not reliant on cash flows driven by supernormal profits and losses throughout the economic cycle.

Christian Super seeks investment opportunities where social and financial returns are aligned and mutually reinforcing: in fact, it believes the stronger the social outcomes an investment delivers, the better its financial returns will be. The fund particularly likes to support emerging sectors, such as community infrastructure or community finance, to help to establish ‘proof of concept’ and drive market development. Moreover, these investments are more likely to deliver true ‘additionality’ - the difference between what happened as a result of a particular intervention and what would have happened anyway. Being an early investor, providing capital that otherwise would not been provided, Christian Super seeks to generate genuinely ‘additional’ social impacts.
TYPE AND STRUCTURE OF INVESTMENTS

Christian Super invests round 8% of its assets (A$ 62 million/US$ 58.6 million) in impact investments. Although these include microfinance, clean technology, renewable energy and sustainable agriculture funds designed to deliver positive environmental impacts, this case study focuses on its investment in two forms of investment designed to deliver positive social impacts in its home market - Australia.

COMMUNITY INFRASTRUCTURE

In Australia, private capital has historically been deployed to support traditional infrastructure development, e.g. of roads, rails and airports. In recent years, opportunities have arisen for private capital to take a more active role in delivering social infrastructure and services that were traditionally provided and funded by the government and non-profit sector. Christian Super has invested in one such fund – the AMP Capital Community Infrastructure Fund – established in 2006.

This fund is designed to provide institutional investors with stable, long-term returns by investing in an unlisted portfolio of high quality 'public-private-partnership-style' assets in Australia and New Zealand. These assets fall within the education, health, justice, defence, community housing, recreational facilities, transport and other social infrastructure sectors. These investments perform very much like traditional infrastructure investments: they generate stable income, primarily derived from long-term, consumer-price index-linked concession arrangements with government entities. As shown in Figure 1, the fund has generated an average total return since inception in December 2006, and after fees, of 9.59%.

COMMUNITY FINANCE

Christian Super is an anchor investor in an innovative new community finance programme run by Foresters Community Finance. This long-established Community Development Finance Institution launched two linked funds under the auspices of the Australian Government’s Social Enterprise Development and Investment Funds (SEDIF) programme. This programme aims to facilitate the creation of new funds that offer finance and support to social enterprises to help them grow and increase the impact of their work in their communities. The funds are designed to attract a range of investors using layered structures that combine different types of capital in non-traditional ways, reducing risk for institutional investors like Christian Super.

The Foresters’ Social Enterprise Solutions programme has two underlying funds; the investment structure is a unit trust. The Community Finance Fund – Social Enterprise (CFF-SE) – provides secured loans to sophisticated social enterprises. The Social Enterprise Finance Fund (SEFF) provides unsecured finance to social enterprises, assisting in their strategic growth and development. Its long history, deep expertise and strong relationships mean that Foresters has access to a solid pipeline of investments.

Christian Super purchased A$ 6 million (US$ 5.67 million) of ordinary units of the CFF-SE. The Australian government matched this amount, with A$ 4.3 million (US$4.06 million) being used to buy ‘capital warranty’ units of the CFF-SE (i.e. a subordinated capital investment) and A$ 1.7 million (US$ 1.13 million) being used to provide an operating capital grant to Foresters Community Finance. The fact that the government takes the first loss and reduces the risk-return profile facilitated Christian Super’s investment. The superfund will receive a targeted distribution rate on its invested capital, set at the beginning of each month; this rate will be no less than the cash rate minus five basis points and has no ceiling. As the other unit holder, Foresters also receives a distribution on any profits from the fund.

APPROACH

Strong foundations and specialist, aligned investment teams: Christian Super was established in 1984 to provide a superannuation option for Christians by combining financial and biblical principles. Its four sponsors, board of trustees, directors and members are fully aligned and provide a strong

Figure 1: Total returns, net of fees, of AMP Capital Community Infrastructure Fund – Wholesale

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<tr>
<th>1 month</th>
<th>3 months</th>
<th>1 year</th>
<th>2 years</th>
<th>3 years</th>
<th>5 years</th>
<th>Since Inception</th>
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</thead>
<tbody>
<tr>
<td>AMP Capital Community Infrastructure Fund - Wholesale</td>
<td>Inception: 27 Dec 2006</td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>Total return - after fees</td>
<td></td>
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<tr>
<td>1.49%</td>
<td>5.57%</td>
<td>7.26%</td>
<td>11.64%</td>
<td>22.91%</td>
<td>10.2%</td>
<td>9.59%</td>
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</table>
foundation for its investment activities. Moreover, as active Christians, the fund’s staff are fully aligned to its mission and particularly motivated to seek out impactful investments.

**Significant resources dedicated to understanding key risks:** The fund often spends between two and twelve weeks more than it would for more well-established forms of investment evaluating impact investments. The team’s time is spent getting comfortable with the fund manager and/or intermediary, and developing an intimate understanding of the potential market, political, liquidity and other risks each investment might present. Christian Super focuses particularly on the specific factors that might affect the social and financial outcomes, and the mitigation strategies available internally (e.g. subordination) or externally (e.g. currency or interest rate hedging). Monitoring and engagement post-investment, with either the particular intermediary or the wider sector, also typically takes more time with this type of investment.

**Rigorous ‘finance-first’ due diligence processes:** When evaluating an impact investment, one member of the investment team first assesses its financial characteristics. If it does not meet standard return or other investment objectives, due diligence does not progress. If it does, another team member will independently evaluate the social impact case. Only if strong financial and social returns are demonstrated will Christian Super proceed. It aims to invest with organisations that have particular expertise and strong relationships in their sector, and good operational and administrative capacity. This helps to ensure that they have a strong pipeline, their due diligence of underlying investments is sound and they can provide the financial and social reporting required by Christian Super.

**A proactive approach to identifying potential investments:** Christian Super is a member of several impact investment bodies through which it monitors the development of the market and identifies potential investment opportunities. These include the Global Impact Investing Network (GIIN), the Responsible Investment Association of Australia (RIIA) and Global Impact Investing Rating System (GIIRS). It also maintains strong links with organisations including development finance organisations, government agencies and NGOs that initiate and often co-finance impact investments.

**CHALLENGES**

**Higher transaction and due diligence costs:** Given the esoteric nature of impact investment, the costs associated with selecting and making impact investments are generally higher than other traditional asset classes, especially when the deals are small. Moreover, understanding both the financial and social performance drivers for impact investment, and how they interrelate, may require specialist non-financial skills that may not be readily available to all investors in-house. Intermediaries with the right skills can be useful in these situations, but it takes additional time and effort to find those with a demonstrable track record and bring them into the process.

**Working with others to find or develop investible structures:** While an increasing number of impact investment opportunities are coming to the market, many are not suitable for investors like Christian Super, either because they are too small or do not have appropriate structures, or both. Asset owners wishing to increase their allocation to this type of investment may need to work with others – like governments or other investors – to develop appropriate structures with acceptable risk/return profiles, which further adds to the costs and time of due diligence.

**Demonstrating real social impact:** It is particularly important to Christian Super that an impact fund can demonstrate concrete social impacts. The fund fears that if this promising sector fails to set true impact metrics it may suffer the same pitfalls as foreign aid or Indigenous Australia programmes did in the past, where the amount invested or donated (input metrics) became the measure of success while both the social and environmental impacts (outcome metrics) were poor. It therefore makes its reporting requirements clear to selected managers at inception and embeds these requirements in all Investment Management Agreements.