



DiMeo Schneider & Associates, Nonprofit Investment Stewards Podcast
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ESG Investing for Stewards: Part 2 — With Charles Kuchenbrod

[00:00:00] Welcome to Non-profit Investment Stewards Podcast with Bob de Mayo and Devon Francis from DiMeo Schneider and Associates, Bob and Devon are passionate about helping nonprofit organizations prosper. Whether you oversee endowment foundation or retirement plan investments, this podcast exists to help stewards improve performance, reduce costs and discover strategies that enable your charitable organization to prosper and advance its mission.

[00:00:27] Now onto the show. Hello, and welcome back to the Non-profit Investment Stewards Podcast. I'm Bob DiMeo as always joined by co-host Devon Francis today's episode marks the second in our ESG mini series, where we discuss environmental, social, and governance investing. So without delay, let's turn things to Devon and find out what's in store for today.

[00:00:52] Hi, Bob. I am so excited to kick off episode two of our ESG mini series. So in our first episode of the mini [00:01:00] series, we heard from our colleague Shreya Canakapalli who described the lay of the land with regard to ESG investing in our third and final episode, we will hear from a member of the sustainable investing team at a very prominent investment management firm, who is at the forefront of ESG investing.

[00:01:17] Today, we are joined by our esteemed guest, Charlie Kuchenbrod, Charlie serves as the executive associate conference minister for the Southern New England conference of the United church of Christ. The conference has been a client for about three years and their investment committee is truly one of the most thoughtful, well-informed and kind committees I have ever had the pleasure of working with.

[00:01:41] I really enjoy all of our quarterly meetings. So in his role as executive associate conference minister, among other things, Charlie oversees the consolidated trust funds. So I will let him describe what those funds are and what purpose they serve. But ESG investing has been a consistent [00:02:00] focus of the investment committee since I've been working with them.

[00:02:02] And also for quite some time before that they have a unique approach to ESG investing. So I'm excited for Charlie to share that approach with our listeners. So Charlie, welcome to the show. Thank you, Charlie. We are thrilled to have you on the show. And before we jump to the consolidated trust funds and your approach to ESG, please share your story with us.

[00:02:22] What path led you to where you are and the role you're in today. I have a MBA from Wharton and healthcare administration. And I served in a number of executive positions in healthcare. My last position in healthcare was I was the COO of a multi specialty physician practice and the CEO of a physician practice management company.

[00:02:48] That's when physician aggregators like five core MC partners were sexy after we formed the group and got it going. We sold the practice management company to a regional [00:03:00] healthcare system, which was very good for the group and the doctors, but didn't leave a future path for me. I then went looking for other options and my pastor let me know of a position with the United church of Christ, which is the church I was raised in to move into finance and administration.

[00:03:20] Becoming functionally, the CFO of an association of 240 churches in Connecticut with at that time about a hundred thousand members. That included doing the endowment management and working with the investment committee, as well as other responsibilities with the conference, you cross the street to the not-for-profit world.

[00:03:42] My wife did the same thing coming from a long career as a CPA on the for-profit side. And I find in talking to her and many others who have done this, that they find it very rewarding and fulfilling. So that's right. It's gratifying to work with such an interesting group of [00:04:00] colleagues in a non-corporate setting, we still have important organizational goals and many of the challenges of any organizations seeking to meet those goals.

[00:04:12] It is a different environment from what I experienced previously. And Charlie, I mentioned the consolidated trust funds when I introduced you to our listeners. So can you describe the role of those funds and provide a high level explanation of the two different asset pools and how they are similar or different

[00:04:33] The consolidated trust funds go back to the 1950s when the enabling legislation was passed in Connecticut, uh, similar to other States prior to then as a trustee, we were obligated to have separate asset pools for each trust. We had over a hundred trusts, some of them small and maintaining a portfolio for each of them was difficult.

[00:05:00] Uh, often the smaller endowment funds had only a handful of securities. The legislation allowed us to pull the investment funds and track the assets back to the different trusts and endowments. Using an unitization approach, much like mutual funds do, uh, that enabling legislation also allowed us to invite churches to participate if they wanted to invest.

[00:05:29] So you are running essentially a private label mutual fund for the benefit of our member churches. It's not offered to the public and it's not regulated in the same way. It's authorized by this legislation. We have hundreds of participants. And for many years we had a single fund, which was a moderate risk, balanced growth, and income fund designed to meet the needs of churches with [00:06:00] long-term investment horizons, suitable for endowments.

[00:06:04] About five years ago, there was interest in our constituents and in the world at large, in divestment, from companies that were holding fossil fuel reserves. And so we took this as an opportunity to create a new fund, which would be a greener if you will, and its orientation in addition to exclude and fossil fuel.

[00:06:30] Reserves, we would take other steps to emphasize sustainability in the construction of the portfolio, the choice of the managers to try to offer a fund to churches that would reflect their values with regard to environmental sustainability. So Charlie, the ESG guidelines have been evolving. It sounds like.

[00:06:56] And can you talk just a little bit about the structure you have in [00:07:00] place an investment committee, how that works and then really what it's been like to let's call it, pushed down this continuum of ESG investing, and sometimes it can move swiftly and other times it really takes some time to get all stakeholders involved.

[00:07:17] Please share a little bit on that front. We started with exclusion strategies. Going back into the seventies and eighties, when that was the state-of-the-art for values-based or ethical investing concerns were way raised about whether it was appropriate to invest in businesses, profiting from sale of alcohol, tobacco, gambling, and defense weapons.

[00:07:45] Those were excluded from the portfolio, going back into the eighties and nineties and the decision-making process in the United church of Christ is very bottom up. It was a group of [00:08:00] people expressing concerns and interest and bring it to the attention of the conference to take a position on, on these matters.

[00:08:10] Uh, eventually we looked at options for moving beyond exclusion strategies and incorporating ESG criteria that would screen in stocks rather than screen out. We felt that that was

giving us a broader. Opportunity set for thinking about values based or ethical investing. Uh, other aspects of our approach include voting our proxies according to ethical guidelines adopted by the United church of Christ.

[00:08:47] As well as participating in some of the shareholder activism approaches. So there's a multifaceted approach to a values based investing now, [00:09:00] which includes exclusions, adoption of ESG criteria, proxy voting, and other approaches and Charlie, any, any interesting stories or challenges that you faced in terms of creating alignment with respect to these guidelines?

[00:09:17] Yes. One of the considerations and discussions that the investment committee has had and continues to have is what are the criteria for assessing the environmental track record of a company? A different criteria have been used and often. Different criteria results in different evaluations of companies, different rankings and ratings.

[00:09:47] It's been a challenge to not only say we want to invest according to our values, but figuring out how that will be implemented and expressed. And Charlie, I [00:10:00] think that the conference is very unique in the way that you approach ESG investing in that you have the exclusionary screens, but then you also InCorp.

[00:10:10] Incorporate an inclusionary approach and you have kind of a hybrid of the two, a lot of times with religious organizations, we only see the exclusionary screens, but your conference is really participating in shareholder engagement through the inclusionary managers that you employ. And then also through the proxy voting.

[00:10:31] So it's really, it's quite a unique structure that you have. It reflects that our portfolio include some separately managed accounts where we can specify what the exclusion strategies will be. But also for diversification purposes and efficiency, we can't use separately managed accounts to get into all asset classes and subclasses, which gets us into mutual funds and ETFs.

[00:10:58] And then, because we [00:11:00] can't use the exclusion strategies we can lose for managers that have adopted ESG criteria as a way to continue to express our values and our investing. And I do think that that's actually probably one of the biggest benefits that you bring to your participant churches is the asset size that allows you to engage in separately managed accounts.

[00:11:23] Whereas if, if you were talking about this very small endowments of these individual underlying churches, they certainly would not meet the minimum threshold to invest in a separate account. So I think that's a big benefit that you bring to the table. It is. And it's one of the reasons why churches participate.

[00:11:42] They have the entire universe of options in front of them, and some build their own portfolios. Many use a, a selection of mutual funds, but we bring the oversight of the investment committee, the attention to portfolio structure, and asset allocation [00:12:00] to rebalancing and to incorporating these.

[00:12:05] Values-based approaches in ways that would not be accessible for a local church. We're offering something that they cannot get off the shelf from any other vendor. So you talked a little bit about how the conference's approach to ESG investing has evolved over time. If you were to look forward into the future, how do you anticipate that the approach might continue to evolve?

[00:12:30] Can you anticipate any potential changes to the approach on the horizon? Yes. I think that our looking back our approach has been somewhat scatter shop. Why focus on alcohol, tobacco, gambling, and weapons, and not on a whole other set of range of issues that might be worthy. And. We might also need to think about our values [00:13:00] in, in other sectors of the market.

[00:13:03] So I think we're going to look to have a more systematic or comprehensive approach to both exclusions, as well as the kinds of strategies that are available for integration into, uh, our investment approaches. So I think that we are on a journey that we are only part way down . We will continue to go down this direction.

[00:13:29] Yeah. Charlie, what are some of the concerns about ESG investing that you or other board or committee members may be contemplating at this point and on a go-forward basis? From the beginning, there has always been a concern about trade-offs. Would we be reducing. Risk adjusted returns by adopting exclusion or ESG approaches.

[00:13:53] And is that fulfilling our responsibility to our [00:14:00] participants? It's not a matter of good versus evil, sometimes it's a matter of good versus good, which is high returns support the mission and ministry of the congregations participating in the program. So that's a good thing. Also investing according to them, our values is a good thing.

[00:14:21] To the extent that people are concerned that we're trading one off against the other. There's definitely some concern about striking the right balance. I do think that people monitoring this are somewhat less concerned going forward, that the adoption of an ESG strategy comes at the expense of lowering your risk of duster returns.

[00:14:45] That concern may be somewhat diminishing, but it hasn't gone away. Yeah. And I think with regard to that, there is a misperception in the marketplace, so to speak. So I think, as you say, [00:15:00] the concern about perhaps sacrificing returns in order to invest, according to your values is perhaps dissipating, but it hasn't gone away altogether.

[00:15:11] If you actually look at some results in recent history, socially responsible or sustainable strategies have actually outperformed broader indices. We, you know, it also is heavily dependent on the time period you're looking at and a multitude of other factors. I think that that is a common concern for investors and perhaps unwarranted based on what data you're looking at.

[00:15:39] So I'm not surprised that it's something that the participants have brought up. Why do you think it was important when it first became part of your strategy and why do you think it continues to be important for the conference to adopt an ESG approach? Well, I, I don't want it to go [00:16:00] deeply into theology here, but we are a faith based organization.

[00:16:06] Some people mistakenly think that faith is mostly about what you believe or orthodoxy. We think that it has as much or really more to do with the choices we make in life. How we behave orthopraxis if we're going to be faithful people, we need to look at the choices that we're making in our lives and in particular with how we use our money.

[00:16:37] And that's both on an individual level and the choices that we make, but on an organizational level, how we use our money, how we invest our money should be driven by faith and our faith based concerns. So that's why I think that, uh, this will continue to be a permanent part and a growing part of our [00:17:00] approach because we are faithful people.

[00:17:02] That's what we're trying to accomplish. And Charlie, I think that is part of the whole ESG and SRI dynamic in that. Then we worked with a very large array of nonprofit organizations, endowments foundations, and such. It's not really our job to dictate its effects. Not, not really, it is not our job to dictate what an ESG or SRI strategy might be, but to rather really try to understand that committees and that organization's objectives, and then hopefully give them through portfolio construction, a fighting chance of doing what you and Devon referred to earlier.

[00:17:42] Both achieve attractive returns. And advance their ESG or SRI program. So, so with that, I would ask how your funds participants be at the churches or participants in general have reacted to

the use of ESG. And do you see [00:18:00] an uplift in interest? Yes. I think that first of all, Our churches make their investment decisions independently and autonomy asleep.

[00:18:12] They're not bound to invest through the denomination. They can choose other options. And the ones that are opting in are choosing our fund. Uh, one of the key drivers is the socially responsible investing ESG approaches that we've adopted. So that continues to be important. We've also seen growing interest in the newer fund, which we call the Eden fund that we've offered offer.

[00:18:41] We are offering not only because of its environmental focus, but it's stronger ESG focus. We're coming up on five years of history with that fund and it has outperformed our more traditional fund. Part of that is the last five years have not been great for the energy [00:19:00] sector. But it's also benefited from the different portfolio managers, different approaches that have been used in that fund have helped drive performance, and that's going to attract additional participation entirely.

[00:19:17] We've talked a lot about ESG and we've covered much of the landscape in that realm. One of the things that we've been touching upon with many of our guests on the podcast is governance. And I mentioned how much I enjoy working with the conferences, investment committee and how I just think that the group is so thoughtful well-informed and they, they come to meeting prep, meetings prepared, and it's just such a great group of folks.

[00:19:43] Can you describe. What goes into the process of creating the investment committee and what you think may be the secret sauce is to your particular committee.

[00:19:57] That's a good question. [00:20:00] Devon. We have been blessed with strong committee leadership for the duration of my involvement with the conference, which goes back 18 years now. And the, the leadership has helped, uh, identify and recruit people to serve on the committee. There is a nominating committee. The committee is appointed by the board, but our committee has helped identify and source the candidates and taking advantage of connections, taking advantage of the people I meet.

[00:20:37] As I work with churches, we've been able to. Have a good combination of some very long-term serving members that have a great institutional memory, if you will, with some newer people that will cause us to revisit some of our past decisions or bring a different perspective to things, [00:21:00] strong leadership, diversity, and, and tenure, and some background of some of the people.

[00:21:08] I think the secret sauce, if anything, is the committee, people really enjoy working together and enjoy each other's company. There's nobody on this committee that is saying, gosh, I just can't stand the thought of spending another couple of hours with these people by and large, they're saying, you know, this is one of the best committees or best groups of people I work with.

[00:21:34] And so that provides an energy that sustains the committee. Charlie before we jumped to a bit about you, the person, what parting words of wisdom or advice would you have for an investment committee or a nonprofit organization? That's maybe just getting on the continuum or the path towards ESG investing.

[00:22:00] [00:22:00] Get good expert advice. We've been well supported by Devon and, uh, diminish Schneider in our journey. That certainly one thing, I think that also just an openness to learning how the landscape is evolving is important. And to remember that. We're balancing numerous objectives in running these funds as a faith-based organization, or if you work with other nonprofits, they have a mission that extends beyond maximizing financial returns.

[00:22:50] Not that there's necessarily a compromise, but it's important to. Look at all the different [00:23:00] aspects of investing in performing the construction. So really taking a holistic approach to not only trying to achieve the best possible returns, but also stay true to you, your values. Yes. Great.

So let's talk a little bit about Charlie, the person we always like to find out a bit more about the guests that we have on the show.

[00:23:22] And I think that I know you fairly well, but obviously our listeners don't Charlie, what are some of the things that you enjoy doing outside of work for fun? I enjoy reading. I read a bunch of mysteries. I read a bunch of theology. I enjoy reading. I enjoy running, which surprises me a little bit until I was about 50.

[00:23:48] Whenever I got the urge to exercise, my response was to lie down and wait for the urge to go away. I reached a point where. It, it just felt better [00:24:00] to be more active and it's been a long road, but, uh, I'm now up to the point where I run in three or four half marathons a year and enjoy doing that as well as the comradery that you have with, uh, your fellow runners at, uh, events and otherwise.

[00:24:22] I enjoy spending time with my family and I'm very much involved in my local church. That's great. And I, you know, I am also a runner. I'm not as avid or elite a runner as you, but I have to say that the current environment with these virtual races, it's just not the same. You don't get that comradery and the motivation of people cheering on the sidelines.

[00:24:44] I really miss that. It's true. It doing something like the Hartford half marathon, where there are thousands and thousands of people out is really an experience. And I, I did miss that, uh, this fall and I'm very [00:25:00] much looking forward to being able to run in live events again. Absolutely. Well, thank you so much for coming on the show.

[00:25:09] It's been a real pleasure and I, I truly mean everything that I say. When I say how much I enjoy working with you and the investment committee at the conference. It's just such a pleasure. We appreciate you sharing your insights with us and have really enjoyed speaking with you. Thanks so much for having me Devon.

[00:25:28] Charlie, it's been an absolute pleasure. Thank you. So, as we wrap up, remember to subscribe and rate the show, your reviews really help expand. The audience. Listeners should also know about a new resource for nonprofit leaders. It's a 20 page guide that Devon and I coauthored with another colleague. Title six tips to managing endowment and foundation investments.

[00:25:49] It's not only timely, but we hope provide super useful insights. Uh, there's a link in the show notes and you can download it without costs. So to all you good stewards. Thanks for investing [00:26:00] time to help your nonprofits prosper. We'll connect with you soon on the next episode. Thank you for listening to the non-profit investment stewards podcast.

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