



Sylvia Poniecki
Director, Positive Social Purpose
Lending Program

Sylvia joined Wespath in September 2011. She provides managerial oversight for all aspects of the Positive Social Purpose Lending Program for Wespath and its subsidiaries. Previously, she worked at the Illinois Housing Development Authority in positions of increasing responsibility, most recently overseeing the state's Low Income Housing Tax Credit and Illinois Affordable Housing Tax Credit programs. Also, she has managed a wide range of complex housing projects and programs including: TCAP, Section 1602, HOME Multifamily Rental Programs, Illinois Affordable Housing Trust Fund, taxable first mortgage financing and tax exempt bond financing. Sylvia received a bachelor's degree in Computing and Web Design from DePaul University.



Three Decades of Impact and Performance: Wespath's Positive Social Purpose Lending Program

Wespath Benefits and Investments (Wespath) and its subsidiaries, including Wespath Institutional Investments (WII)*, are committed to aligning their investments with the aspirations expressed by The United Methodist Church.

We make investments in specific initiatives with the objective of strengthening local and global communities while also producing market rates of return. We call this "impact investing."

Wespath is pleased to be a leading impact investor with a lengthy track record of investing for dual positive outcomes. We demonstrate this through our competitive investment results for our stakeholders, and through the enrichment of lives in the communities served.

Our longest running impact initiative is our Positive Social Purpose (PSP) Lending Program, which invests in loans that support affordable housing and community development for disadvantaged areas in the U.S. We have also invested with institutions that originate loans to small businesses in regions around the world not often served by traditional lenders.

Launched in 1990, the PSP Lending Program has cumulatively funded over \$2 billion in loans—with much of that directed to low-income housing in the U.S., where significant need still exists.

The persistent need for affordable housing gives the PSP Lending Program an opportunity to deliver positive social impact through its loans. Combining this opportunity with the unique elements of the program—including its synergies with government programs, its partnerships with industry leading financial intermediaries, and its strong internal governance—supports our belief that we can enrich communities while fulfilling our fiduciary obligations to those we serve.



The PSP Lending Program has cumulatively funded over \$2 billion in loans.

* Wespath and its subsidiaries, including WII, participate in the Positive Social Purpose Lending Program.

Three Decades of Impact and Performance (continued)

Bringing Housing Within Reach to Underserved Communities

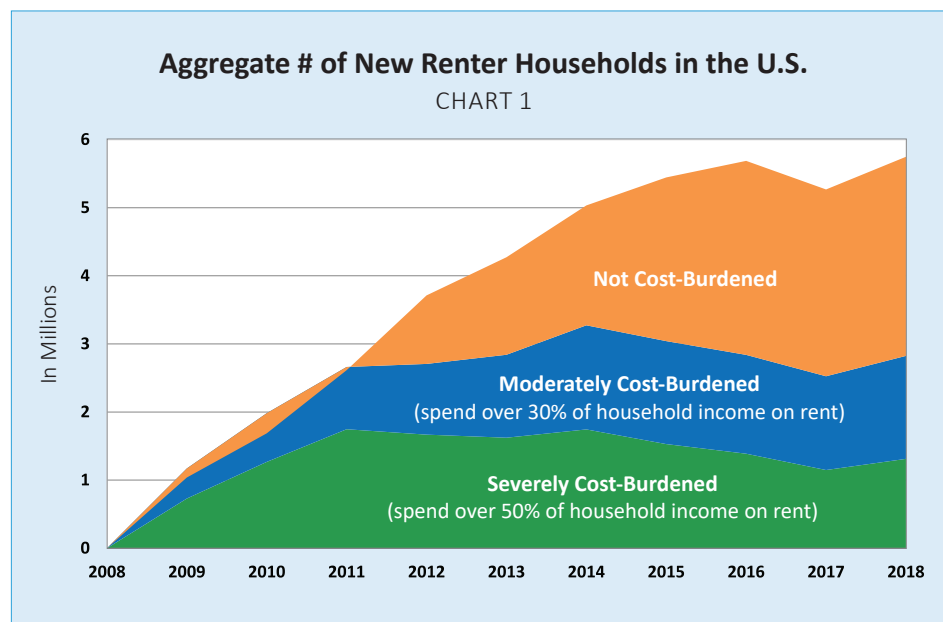


A significant portion of the U.S. population struggles to secure affordable housing. For example, in 2018, 38.1 million people in the U.S.—11.8% of the population—were living in poverty.¹ The challenge of finding affordable housing options is particularly difficult for these impoverished families and individuals, as is reflected in recent trends in renter households.

Chart 1 shows the annual number of new renter households formed from 2008 to 2018, and the extent to which these households are “cost burdened.” The U.S. Census Bureau (Bureau) defines “moderately cost-burdened” renter households as those that spend in excess of 30% of their income on housing, while “severely cost-burdened” renter households devote over 50% of their income to housing.

As the chart shows, in 2018, nearly 50% of new renter households formed since 2008 across the U.S. were classified as cost burdened, according to data from the Bureau.² Overall, the Bureau found that more than 20 million renter households around the country fell into this category. As income drops, the percentage of cost burdened households only increases. Of the approximately nine million renter households with income less than \$20,000, more than 88% were housing cost burdened.

Government agencies, lenders, investors and various other organizations have all sought ways to address this ongoing issue. Throughout its 30-year history, the PSP Lending Program has leveraged its relationships with these different institutions to find new solutions.



¹ census.gov (<https://census.gov/library/publications/2019/demo/p60-266.html>)

² <http://data.census.gov>

Three Decades of Impact and Performance (continued)

From Proof of Concept to a Strong Growing Industry

The majority of the PSP portfolio consists of loans that fund affordable multifamily housing supported by the Low Income Housing Tax Credit (LIHTC) program created in 1986 under Section 42 of the Internal Revenue Code.

Congress designed the program as a means of incentivizing the private market to support and invest in the creation and preservation of affordable rental housing in the U.S. It is considered the most important and successful federal resource for the affordable housing industry. Between 1987 and 2017, the program was responsible for creating over three million affordable rental-housing units.

Annually, the LIHTC program finances the creation or rehabilitation of approximately 100,000 housing units, supporting approximately 96,000 new jobs and generates \$3.5 billion in tax revenue.³

Because of the LIHTC, property performance in the affordable multifamily rental sector remains strong. In 2018, Cohen Reznick, a large accounting, tax and advisory firm, released a study on the LIHTC program and the performance of LIHTC properties.

The study examined the financial health of LIHTC properties as measured by key operating metrics such as occupancy rate and debt service coverage ratio (DSCR).

Generally, rental properties are considered financially sound if they are consistently near full occupancy and have DSCRs meaningfully above 1.00 (breakeven).

After surveying the property level performance of over 22,000 LIHTC properties, Cohen Reznick found, on a median basis, 97.9% occupancy and a 1.40 DSCR. This represents the strongest operational performance in the LIHTC program's 30+ year history.

For comparison, Wespath's PSP portfolio had a weighted average DSCR of 1.47 and occupancy of 96% over the same period. These figures compare favorably to LIHTC's all-time best performance metrics, underscoring the success of our program.



Occupancy Rate: The ratio of total units occupied at a property.

DSCR: A measure of a property's ability to pay near-term debt with available cash flow.

³ rentalhousingaction.org/



“Generally, rental properties are considered financially sound if they are consistently near full occupancy and have DSCRs meaningfully above 1.00 (breakeven).”

Three Decades of Impact and Performance (continued)

Collaboration and Governance

Another integral element of the PSP Lending Program's success is our relationships with industry leading financial partners.

Wespath works through a network of intermediaries who source loan opportunities and service existing loans for the PSP Lending Program. The intermediaries are generally not-for-profit community development financial institutions. Their primary mission is providing housing and services to disadvantaged communities.

The PSP Lending Program's intermediaries are responsible for performing initial project due diligence and ongoing loan servicing. This means they conduct much of the work before project planning begins—including identifying opportunities and judging the viability of proposals—and work to address the many required administrative tasks during the life of the loan.

Intermediaries also provide credit protection on individual PSP loans and pools of loans by absorbing losses up to a specified percentage of the outstanding unpaid loan balance. Credit protection is extremely important because it helps protect Wespath from incurring loss on PSP loans.

Meanwhile, the PSP team continuously reviews loans in the PSP portfolio, allowing for the timely recognition and mitigation of any potential issues that could adversely affect timely repayment of principal and interest. An advisory committee of Wespath's senior leaders meets bimonthly to review new PSP investment opportunities and ongoing asset management requests related to the program. The PSP team annually performs a deeper analysis of the portfolio, which it presents to the advisory committee for review. In addition, the PSP Lending Program is subject to an internal audit every other year.

This collaborative governance structure has resulted in cumulative losses under the program of only five basis points (0.05%) on the nearly \$2 billion invested since 1990.



Return Performance

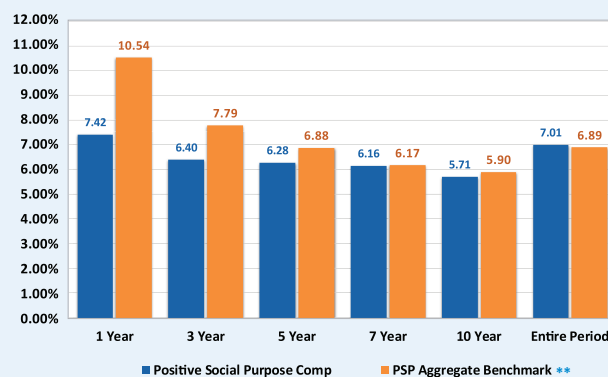
Beyond these minimal loss rates and the aforementioned operating performance metrics, the PSP Lending Program has proven its strength by delivering decades of consistent, market-rate returns when compared to the program's performance benchmark.

Chart 2 shows the PSP portfolio has outperformed its benchmark index since inception, and over most periods.

Strong performance over the long term supports our initial thesis—established back in 1990—that we still hold today: it is possible to meet or exceed market-rates of return while investing in affordable housing.

PSP Lending Program—Historical Performance*

CHART 2—As of June 30, 2020



* Reflects cumulative performance of the PSP Lending Program Strategy in applicable P Series funds, including some made available through Wespath. For more information about the funds that use this strategy and are available for investment, please refer to the *Investment Funds Description – P Series*.

** The benchmark for the PSP Lending Program Strategy is the Bloomberg Barclays U.S. Agency CMBS +150bps. Prior to January 1, 2018, the benchmark for the PSP Lending Program Strategy was the Bloomberg Barclays U.S. Universal ex-MBS.

Three Decades of Impact and Performance (continued)



Conclusion

The PSP Lending Program began three decades ago with a \$25 million initial investment. Since then, Wespeth has financed the construction, rehabilitation or preservation of affordable rental housing properties across all 50 states and the U.S. Virgin Islands, financing more than 52,000 housing units along the way.

These properties directly support low-income individuals, families, seniors, veterans and those with special-needs—the most vulnerable communities in a market with a systemic short supply of affordable housing.

The PSP Lending Program has demonstrated that investors can do well financially while investing in strategies that have a truly positive impact on the lives and well-being of others. As we reflect on the program as it reaches its 30-year anniversary, we are pleased with the work of our partners and internal PSP team, and we look forward to a future where we can continue to create high-impact social benefits while seeking to deliver strong returns for our stakeholders.

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About WBI

Wespath Benefits and Investments (Wespath) is a not-for-profit agency that has been serving The United Methodist Church (UMC) for over a century. In accordance with its fiduciary duties, Wespath administers benefit plans and, together with its subsidiaries, including Wespath Institutional Investments, invests nearly \$21 billion in assets on behalf of over 100,000 participants and over 130 United Methodist-affiliated institutions (as of March 31, 2020). Wespath funds invest in a sustainable manner that supports long-term value creation while having a positive impact on the environment and society and upholding the values of the UMC. Wespath maintains the largest reporting faith-based pension fund in the world.



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About WII

Wespath Institutional Investments (WII) is a not-for-profit subsidiary of Wespath Benefits and Investments (Wespath), a general agency of The United Methodist Church (UMC). WII provides investment solutions for institutional investors related to the UMC, including foundations, children's homes, older adult facilities, higher education institutions and healthcare organizations. WII offers diversified global exposure to its world-class investment managers through a family of daily priced funds. WII's investment process proactively incorporates the consideration of environmental, social and governance (ESG) factors into investments across asset classes and in the selection of external asset managers.

