



# Wespath

BENEFITS | INVESTMENTS



2015-2016 SUSTAINABLE INVESTMENT REPORT

## Global Investor— Sustainable Investor

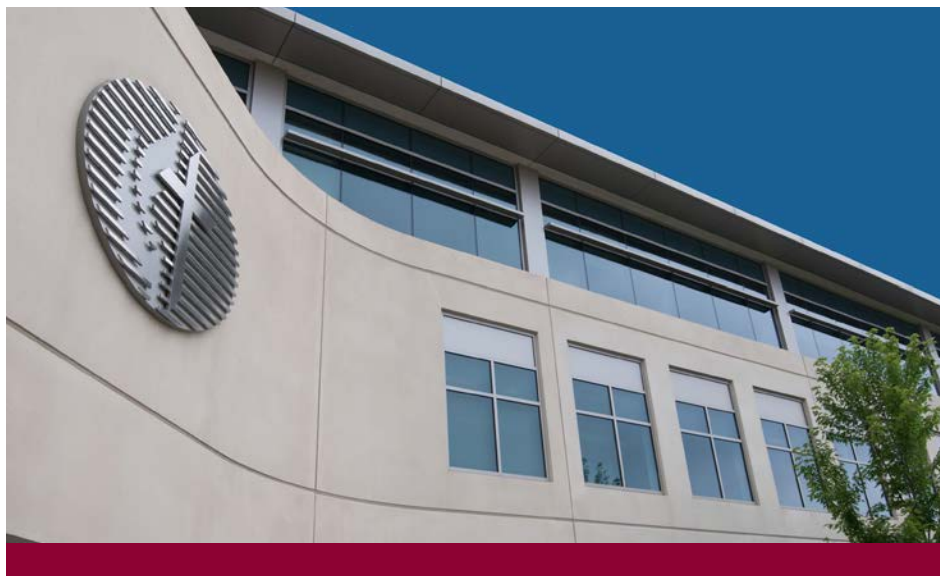
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# About Wespath Benefits and Investments

Wespath Benefits and Investments (Wespath) is a general agency of The United Methodist Church with fiduciary responsibility for the benefit plans it administers and the assets it invests.

Wespath supports benefit plans for more than 100,000 participants around the world, and investments for more than 100 United Methodist-affiliated endowments, foundations and other institutions. Wespath manages approximately \$21 billion in assets, proactively incorporating the consideration of environmental, social and governance factors into investments across asset classes and into our selection of external asset managers. Our activities reflect the stated values of the Church and help strengthen financial sustainability across all investments, consistent with our fiduciary obligation to all.

Wespath is the largest reporting faith-based pension fund in the world, and among the top 100 pension funds in the United States. As a sustainable and responsible investor, Wespath is committed to active ownership through

corporate and public policy engagement, proxy voting and the management of excessive sustainability risk. Wespath's sustainable investment activities are carried out by Wespath Investment Management, the agency's investments division.

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## Key Statistics as of December 31, 2016

**108** years service

**\$21 billion** assets under management

**5,400** companies represented in our investment funds

More than **100,000** participants

**117** institutional clients

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\* *Wespath Benefits and Investments* is the new name for the General Board of Pension and Health Benefits—it invokes John Wesley, and indicates a path to follow for financial success for those we serve. While our name has changed over the years, our commitment to helping participants and investors achieve their investment objectives through products and services aligned with the principles of the UMC has remained the same.

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# Message from the General Secretary and Chief Executive

## Global Investor—Sustainable Investor

Wespath Benefits and Investments is responsible for securing the retirement futures of over 100,000 United Methodist Church (UMC) pension and benefit plan participants around the world. We also manage the assets entrusted to us on behalf of 117 institutional investors. In total, we are the stewards of approximately \$21 billion in assets, making us the world's largest reporting denominational investor and among the top 100 pension funds in the United States.

We must act as prudent stewards of the assets entrusted to us by our benefit plan participants and UMC-affiliated institutional clients. As a non-profit agency of the UMC, our structure ensures that the returns from our investment programs flow directly to those we serve. By focusing on attaining excellent and sustainable investment performance, we aim to support the clergy, lay and UMC-affiliated organizations that carry out the work of the Church every day.

Our *core investment beliefs* require that we take a long-term view in investing, which we must do given the long-term nature of our obligations and the perpetual nature of the missions of our institutional clients. Our *active ownership strategy* focuses on identifying and engaging companies with unsustainable business policies and practices that present a risk to the value of the securities we hold on behalf of our plan participants and institutional investors. Wespath believes that our *constructive engagement approach* on environmental, social and governance (ESG) issues—taking advantage of our privileged position as a significant global investor—is the most powerful tool for effecting corporate change.

We fundamentally believe that we cannot ignore analyzing and understanding long-term global trends. These indisputable trends include significant increases in the world's population—particularly a growing middle class—which is placing more and more pressure on the resources on which we all depend: food, water, land, energy. The transition to a low-carbon future—in response to the reality of a changing climate, an uneven distribution of wealth and dramatic technological innovations—are all transforming the world as we know it.

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*Core investment beliefs—*  
Wespath takes a long-term view in investing

*Active ownership strategy—*  
We identify and engage companies with unsustainable business policies and practices

*Constructive engagement approach—*  
We take advantage of our privileged position as a significant global investor to effect corporate change

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## Reflection—Past Two Years' Progress

Over the past two years, as this report illustrates, we have made considerable progress in our sustainable investment approach. We celebrated the 25th anniversary of our pioneering Positive Social Purpose Lending Program, which has now provided over \$2 billion dollars in loans toward affordable housing and community development across the United States, and microfinance opportunities in developing countries. We made new investments in companies that we believe will support the transition to a low-carbon economy while providing diversification to our funds. We intensified our shareholder engagement on critical ESG issues with companies in which we invest—and we successfully created positive change. We forged new partnerships with like-minded investors around the world to scale our impact and support more sustainable and

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## Positive Social Purpose Lending Program

Celebrated **25th** anniversary

Over **\$2 billion** in loans across the U.S., and microfinance opportunities in developing countries

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Barbara Boigegrain  
General Secretary  
and Chief Executive

responsible corporate and investment practices. External organizations—recognized for their leadership in promoting sustainable investing—positively assessed our activities. Most notably, the Principles for Responsible Investment (PRI), which benchmarks global investor performance and provides feedback to drive continuous improvement, rated our efforts “A+” for *strategy and governance*.

In 2016, General Conference (the Church’s primary governing body), held its quadrennial meeting. General Conference addressed multiple petitions calling on Wespeth to divest from certain companies in the fossil fuel industry and those targeted for the use of their products by the Israeli Defense Forces in the Palestinian territories. We opposed these petitions, stressing the effectiveness of keeping “our seat at the table” with international and domestic corporations, engaging them and urging them to adopt more sustainable practices. While General Conference overwhelmingly supported Wespeth’s approach, we recognize that we have

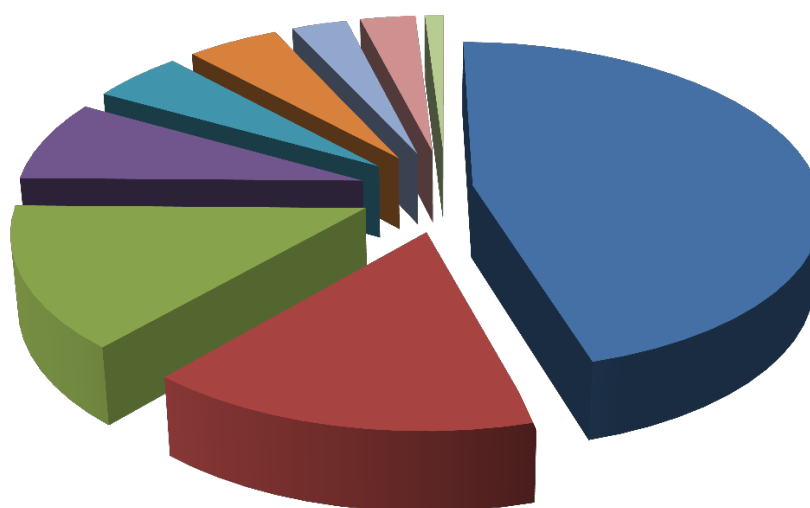
more to do in achieving a shared vision for a sustainable future that emphasizes the values of the UMC.

### Looking Ahead

Just as those we serve have little respite from their mission’s ministry, we have an obligation to continually evolve as we care for their benefits and investments. We will continue to use our leverage as a pension fund administrator, largest denominational investor and thought-leader, to make a difference on behalf of our participants, our clients and the wider world around us. It is our intent—reflected in our long-term strategic vision—to listen, actively participate in and lead global sustainable investing efforts. We will set the bar ever higher for ourselves and for the companies in which we invest, on behalf of those whose financial futures depend on us.

**Barbara A. Boigegrain**  
General Secretary and Chief Executive

Fund Asset Allocation as of December 31, 2016



■ Listed Equity	46%	■ Fixed Income Other	8%	■ Non-Listed Property	3%
■ Fixed Income Government	16%	■ Other	5%	■ Private Equity	2%
■ Fixed Income Corporate	14%	■ Positive Social Purpose	5%	■ Commodities	1%

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# Q&A with the Chief Investment Officer

**Dave Zellner** discusses global trends driving Wespath's sustainable investment activities, how a shift to a low-carbon economy presents unique investment opportunities, and his ultimate goal—for sustainable investment to become the status quo.

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**Q** **Wespath has a set of investment beliefs that underpin your investment activities. How does sustainable investment fit into these beliefs?**

**A** Wespath believes that the intentional integration of environmental, social and governance (ESG) factors into our investment activities positively affects the long-term performance and sustainability of the funds we manage for participants and institutional clients. This belief aligns with our obligation to prudently manage the assets entrusted to us by our stakeholders. Our investment beliefs also recognize that our investment approach honors the values, mission and traditions of The United Methodist Church (UMC).

A newly ordained clergy and his or her beneficiaries could be relying in some way on our agency for many years into the future. Meanwhile, most of our institutional investors intend that the assets we invest on their behalf to support their missions in perpetuity. We must invest for the very long-term and it is imperative that the companies in which we invest have sustainable business policies and practices that will help them to be viable well into the future.

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**Q** **How are ESG issues linked to your views about the global economy?**

**A** Much of the world's population is experiencing a rapid transition from poverty to what many would consider a traditional middle-class lifestyle. While extreme poverty presents its own set of challenges, greater wealth poses a different and unique set of challenges. These challenges include straining limited natural resources, particularly within the lesser-developed world. Changing dietary habits that include more protein-based food sources, increased uses of modern

transportation, and greater levels of consumer purchases all lead to increasing demands for resources, including energy, land and water.

It is becoming increasingly clear that we as a society must find ways to alleviate poverty while also managing our limited resources efficiently and equitably so that all can benefit.

Furthermore, it is very apparent to us that most of the world's governments are committed to pursuing the goals established by the 21st Conference of the Parties (COP21) meeting in Paris in December 2015, which aim to limit global temperature rises. This global agreement is hastening the transition to a low-carbon economy.

For long-term investors like us, these macro-economic trends linked to environmental, social and governance issues impact the companies in which we invest, and therefore, our funds. We must be aware of the risks and opportunities associated with these economic and policy transformations, and ensure that our external asset managers and our shareholder engagement activities recognize and address them.

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**Q** **What are you doing to address these risks and opportunities?**

**A** We are addressing the risks and opportunities of this economic transition in three primary ways. First, we have adopted a comprehensive process for evaluating how our external asset managers integrate ESG factors in their investment processes and decision-making. Our approach includes developing a scorecard regarding the managers' efforts and effectiveness. It also includes providing individual manager assessments with clear and practical feedback about things they are doing that meet or exceed our expectations, and where we think they are falling short.

Second, we engage with companies with business policies and practices that we believe are not aligned with industry-leading sustainable policies and practices. We often collaborate with other global



Dave Zellner  
Chief Investment Officer

investors to engage these companies and encourage them to align with best practices.

Third, we specifically look for opportunities to invest in companies likely to benefit from growth in the developing world and from the global shift to cleaner sources of energy. For example, in 2016, we committed \$350 million of our investments to strategies that will benefit from a transition to a low-carbon economy. We also invested \$30 million in loans to companies that help provide access to renewable energy sources to poor, rural communities in developing countries that are not connected to national power grids (read more about this investment on page 30).

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**Q This report provides an overview of Wespath’s sustainable investment activities in 2015 and 2016. Thinking back on those two years, what are you most proud of?**

**A** I am particularly proud of how all the members of the Wespath investments team have fully embraced the importance of integrating the consideration of ESG factors in the management of our funds. There is no “sustainable investment” silo. All team members can clearly articulate how and why our sustainable investment strategies align with the values of the UMC and how the strategies will lead to better investment results for our participants and institutional stakeholders.

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**Q Where have you experienced the greatest challenges?**

**A** I think the biggest challenge we have confronted is convincing others of the credibility of our motivation, which is to improve the investment performance of the companies in which we invest. We do not believe there is a contradiction between economic sustainability and environmental and social sustainability. However, there remains a degree of skepticism regarding the benefits of our sustainable investment initiatives. Some stakeholders will opine that we are motivated solely from a *moral* perspective

or that the actions we are taking are *political* in nature. While Church values unquestionably help guide our priorities, we must continue to operate as directed by Church polity: “...solely in the interest of the participants and their beneficiaries...with the care, skill, prudence, and diligence...” (*The Book of Discipline of The United Methodist Church 2016*, ¶ 1504.14). Accordingly, we truly believe that every action we take must ultimately strengthen our agency’s ability to fulfill our mission of caring for those we serve.

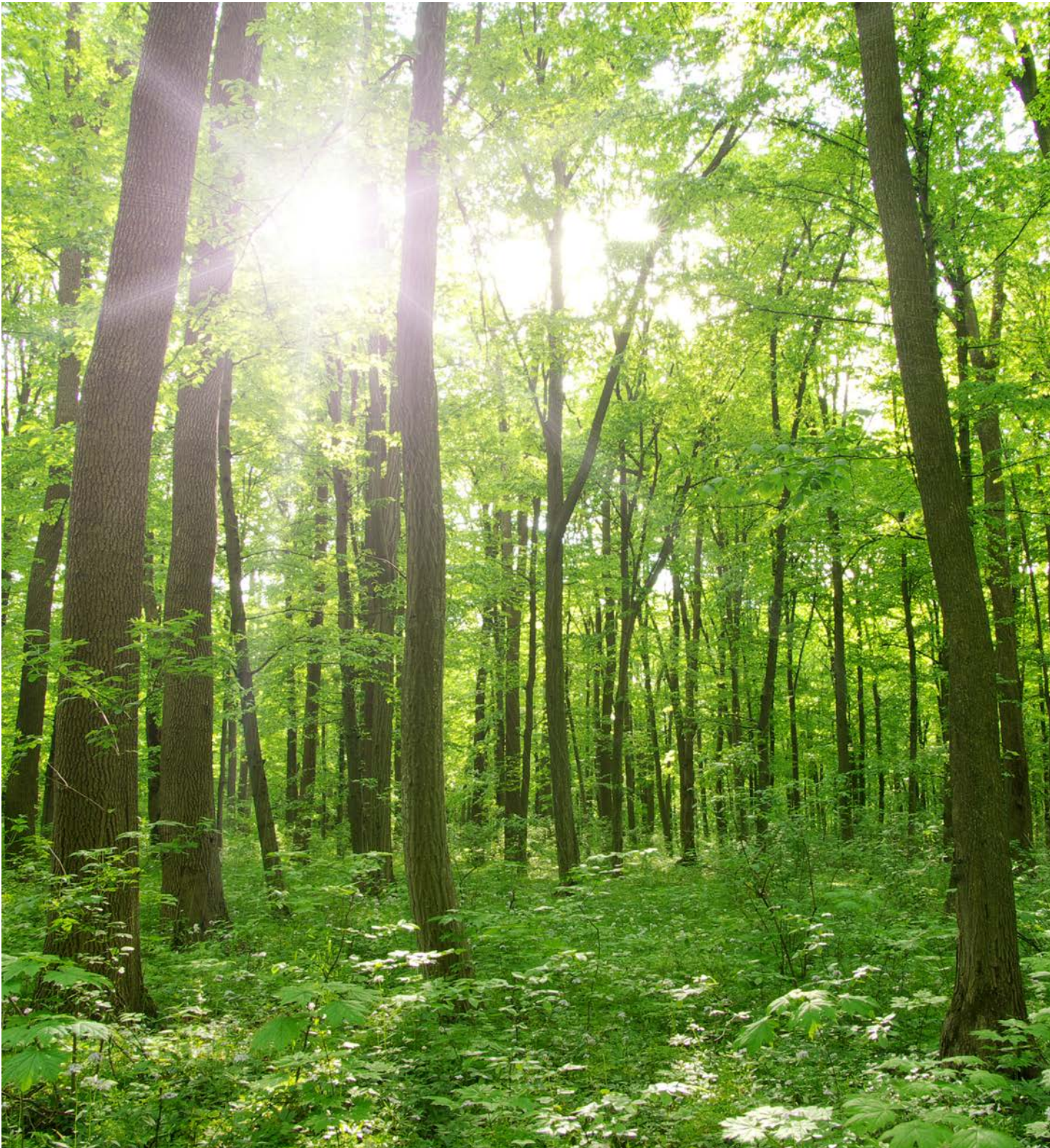
A second challenge is somewhat opposite of the first. Many faithful United Methodists have asked us to take a moral stand and divest from companies they believe have not behaved in a manner aligned with UMC values. While we seriously listen to all such concerns, we have consistently tried to demonstrate that engaging with companies is a more effective solution to creating positive change.

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**Q How do you see Wespath’s sustainable investment strategies evolving over the next five to 10 years?**

**A** My ultimate goal is for the full integration of sustainable investment practices by all of our external advisers across our entire platform of investments. While I have great confidence in the effectiveness of my team, we rely on our external asset managers to maintain long and deep trusting relationships with companies. This allows them to analyze and understand business models against changing economic landscapes. As our external providers increasingly recognize the importance of understanding the potential impact of a company’s ESG policies and practices on the long-term sustainability of its business, I believe they will be better equipped to identify risks and opportunities, which will result in stronger investment returns.

Although the time horizon for achieving this goal may be greater than five to 10 years, we remain optimistic that consideration of ESG factors will become as routine as the consideration of traditional criteria used to evaluate investment risks and opportunities.





# Sustainable Investment

*Wespath invests in a sustainable and responsible manner, creating long-term value for our participants and clients while aspiring to uphold the values of the UMC.*

Wespath is a founding signatory to the United Nations (U.N.) Principles for Responsible Investment (PRI), committed to “the incorporation of ESG issues into investment analysis and decision-making processes.”<sup>1</sup>

Investing in a sustainable manner means Wespath incorporates the consideration of ESG factors into investments across asset classes and in the selection of external asset managers. We believe these efforts support long-term value creation while having a positive impact on the environment and society.

The Church also instructs us to “make a conscious effort to invest in institutions, companies, corporations, or funds with policies and practices that are socially responsible, consistent with the goals outlined in the *Social Principles*.” (*The Book of Discipline of The United Methodist Church 2016*, ¶717)

Focusing on these commitments, we invest in line with our sustainable investment goals of:

- Strengthening the long-term viability of our plans
- Promoting long-term sustainable business practices and values
- Expanding the global sustainable investment community

We believe the successful outcome of these goals will help to positively influence the financial markets, leading to better investment performance for the funds we manage on behalf of our participants and institutional investors.

Sustainability is also embedded in Wespath’s investment beliefs which state that sustainable investment can positively impact the performance of the funds we manage.

It is this belief that has driven us during the past two decades to urge companies and policymakers to create more

sustainable practices. This effort will remain a priority well into the future.

The following report highlights our sustainable investment activities in 2015 and 2016.

## Our Sustainable Investment Strategies Include Five Key Elements

- 1 Active Ownership
- 2 Strategic Partnerships
- 3 Positive Impact Investments
- 4 External Manager ESG Integration
- 5 Ethical Exclusions



<sup>1</sup> [www.unpri.org/about/the-six-principles](http://www.unpri.org/about/the-six-principles)

# Sustainable Investment (continued)

## The Six Principles of the PRI<sup>2</sup>

- 1 We will incorporate ESG issues into investment analysis and decision-making processes.
- 2 We will be active owners and incorporate ESG issues into our ownership policies and practices.
- 3 We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- 4 We will promote acceptance and implementation of the principles within the investment industry.
- 5 We will work to enhance our effectiveness in implementing the principles.
- 6 We will report on our activities and progress toward implementing the principles.



## Gaining International Recognition

Wespath has been recognized as a global leader for our sustainable investment practices.



### A+

#### Strategy and Governance

Wespath received an “A+” (on a scale from A+ to E) from the PRI in the area of *strategy and governance* in its annual assessment of how we are implementing sustainable investing across our funds. This covers our overall approach to sustainable investing, including our policies, targets, resources and the ways in which we partner with other investors to affect positive change.

### A

#### Listed Equity

We received an “A” for the *listed equity* category, which evaluates how we select and monitor external asset managers regarding responsible investing. (You can read more about our efforts to evaluate and benchmark our managers regarding their sustainable investment practices on page 33.)

### PRI’s Mission

“We believe that an economically efficient, sustainable global financial system is a necessity for long-term value creation. Such a system will reward long-term, responsible investment and benefit the environment and society as a whole.”

*The PRI is a leading proponent of sustainable and responsible investment.*

<sup>2</sup> [www.unpri.org/about/the-six-principles](http://www.unpri.org/about/the-six-principles)

ASSET  
OWNERS  
DISCLOSURE  
PROJECT

Ranking: **3<sup>rd</sup>** and **15<sup>th</sup>** Climate Change

Wespath ranked third among U.S. investors, and fifteenth globally for sustainable investment related to climate change, according to the 2016 Asset Owner Disclosure Project (AODP). The AODP is an independent not-for-profit organization which annually ranks 500 of the world's largest investors based on how they manage climate risk and invest in low-carbon solutions. Wespath was commended for ranking among the top 3% of asset owners in the world and specifically for our engagement activities, where we placed seventh globally.

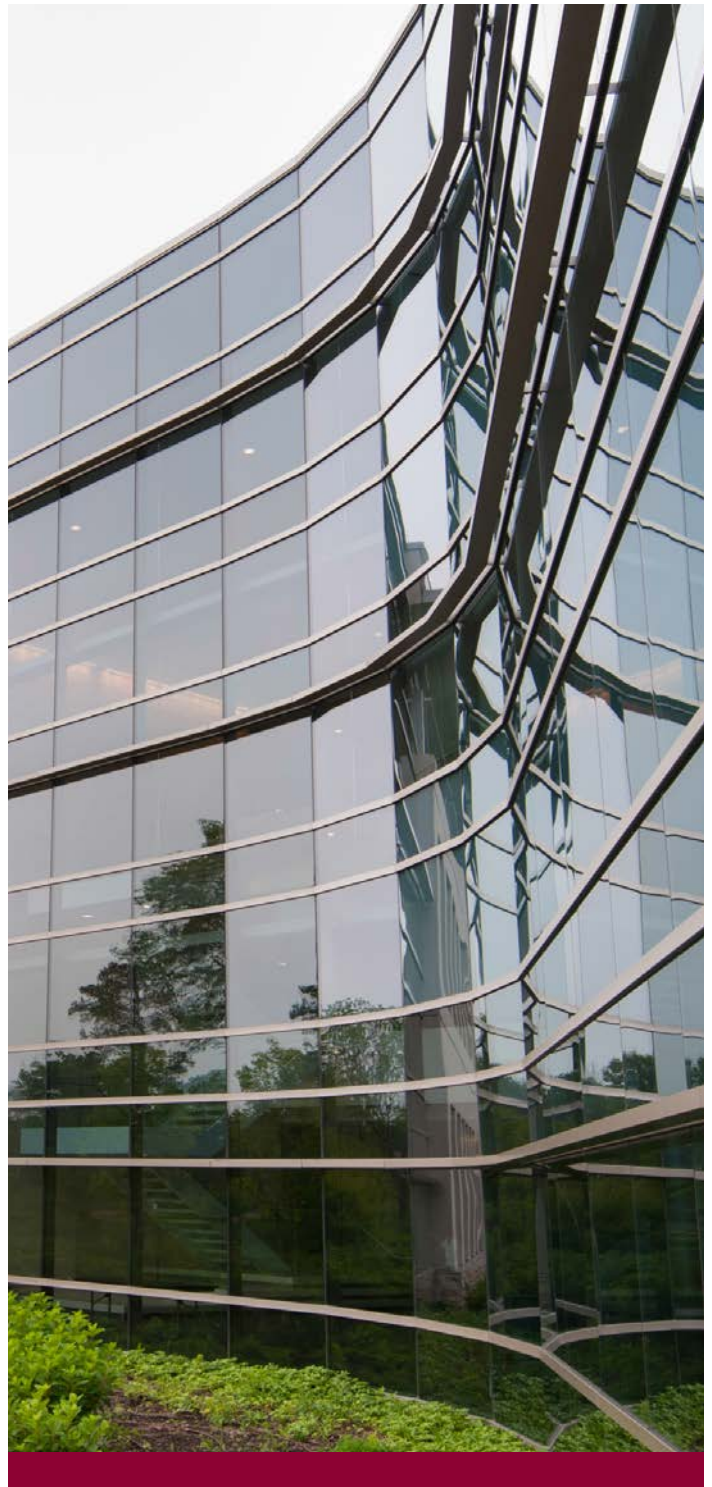


Ranking: **7<sup>th</sup>** Engagement Activities



ASSET  
OWNERS  
DISCLOSURE  
PROJECT

2016 GLOBAL CLIMATE INDEX  
THIS FUND RANKS AMONG THE TOP 3%  
OF ASSET OWNERS IN THE WORLD WHEN  
IT COMES TO MANAGING CLIMATE RISK.





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# Active Ownership

Wespath's **active ownership** strategy strives to improve company performance relating to material ESG issues while honoring the **Social Principles** of the Church. It includes proxy voting, the filing of shareholder resolutions, corporate and public policy engagement, and managing excessive sustainability risk (financial risk associated with unsustainable ESG practices).

We are in a privileged position to use our voice to influence changes that we believe will enhance long-term corporate performance and create positive impacts on society and the environment. It is our duty as fiduciaries to help promote sustainable practices and policies—88% of global sustainability studies demonstrate that companies with solid ESG practices achieve stronger operational performance; 80% of studies show good sustainability practices positively influence stock price.<sup>3</sup>



*Elements of Active Ownership Strategy*

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In 2015 and 2016, we concentrated our efforts on three ESG areas—climate change, human rights and diversity in corporate boardrooms.

## Climate Change

We believe climate change is a material investment risk that must be managed. We are preparing for and supporting the transition to a low-carbon economy by identifying and prioritizing where climate-change related risks and opportunities are likely to occur across our funds.

## Human Rights

We seek to influence change to improve the lives of those affected by human rights abuses while helping our participants and clients meet their investment goals. The *United Nations Guiding Principles on Business and Human Rights (Guiding Principles)* provide the foundation for our activities.

## Board Diversity

We support diverse boards of directors and believe that is a key attribute of a well-functioning board, demonstrating a measure of sound corporate governance. Board diversity in the United States—specifically the inclusion of women on boards—is a particular area of focus for us.

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<sup>3</sup> "From the Stockholder to the Stakeholder: How Sustainability Can Drive Financial Performance" (March 2015); University of Oxford and Arabesque Partners

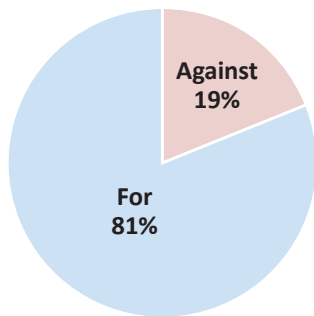
# Active Ownership (continued)

## PROXY VOTING

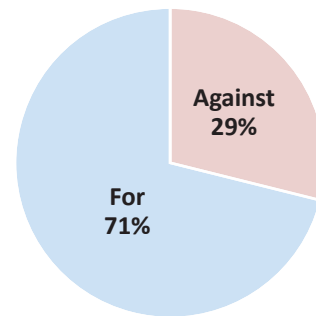
Wespath holds shares in 5,400 companies around the world. We have the opportunity, and an obligation, to vote at the Annual General Meetings (AGMs) of these companies. In the absence of more direct engagement, proxy voting represents one of the most important tools we have to influence a company's governance and business practices.

“Wespath holds shares in 5,400 companies around the world.”

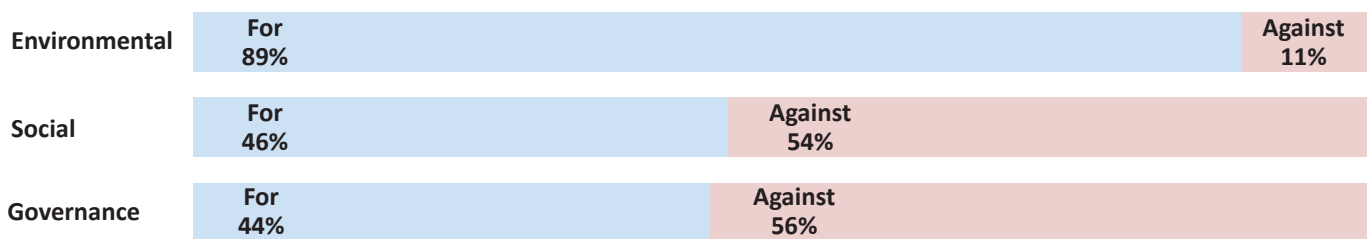
- Total times we voted for and against management (2016)



- Compensation-related votes (2016)



- Total times we voted for and against shareholder resolutions on Environmental, Social and Governance issues (2016)



- Areas of focus in 2016

**Supported 43** shareholder resolutions asking companies to **address climate change risk** and/or improve disclosures

**Supported 10** shareholder resolutions encouraging companies to **improve their human rights practices**

**Voted against 881** chairs of nominating committees because of **lack of diversity** on boards

## Noteworthy Votes

*Wespath voted against “say-on-pay” proposals at Mylan and Wells Fargo in 2016, both cases where we felt executive compensation policies did not promote sustainable business growth.*

- **Mylan**—Mylan landed in the news in 2016 when the company increased the price of its life-saving “EpiPen” to \$600 for a pack of two from \$100 in 2007. EpiPen is used by those suffering a severe allergic reaction to inject epinephrine, the drug of choice for treating anaphylaxis. Significant numbers of shareholders have opposed executive compensation packages at the firm since 2012. The most controversial element of its compensation structure was a one-time, five-year incentive plan that had the potential to reward disproportionately large payouts to 100 top executives, including the chief executive, based on short-term stock price increases. Proxy voting advisory firm Glass Lewis labeled these “questionable one-off arrangements” that could discourage long-term value creation. We agreed. Last year we voted against the executive compensation package, and against two members of the executive compensation committee.
- **Wells Fargo**—The California bank became embroiled in scandal in 2016 after it emerged that thousands of employees opened unauthorized customer accounts in order to meet aggressive sales targets. Wells Fargo paid a \$190 million regulatory settlement, but as of December 2016 other government inquiries and investor lawsuits were still active. We voted against the executive compensation package at the bank in 2016 over concerns that the company’s short-term incentive plans were largely discretionary and because of the poor disclosure regarding the upper limits of the chief executive’s short-term incentive. We believe an emphasis on short-term pay can negatively impact management’s ability to run a business in the best long-term interests.

The screenshot shows the top of a New York Times article. The header includes the search bar, the New York Times logo, and links for 'SUBSCRIBE' and 'LOG IN'. Below the header, it says 'BUSINESS DAY' and the article title 'Mylan to Settle EpiPen Overpricing Case for \$465 Million'. The author is listed as 'By KATIE THOMAS' and the date as 'OCT. 7, 2016'. The article text begins with 'Mylan, the maker of the allergy treatment EpiPen, said Friday that it had reached a \$465 million settlement with the Justice Department and other government agencies over questions on whether the company had overcharged Medicaid for the treatment by improperly classifying it as a generic drug.' It continues to mention that the federal government said this week that Mylan had been told multiple times that it was wrongly classifying the EpiPen, which led to the Medicaid and Medicare programs to overpay for the product. It also states that although it has not been disclosed how much it had overpaid, officials said spending on the EpiPen totaled nearly \$1.3 billion from 2011 to 2015. The final sentence reads: 'Mylan has been under intense scrutiny since the summer for raising the price of EpiPen to more than \$600 for a pack of two from about \$100 since'.

The screenshot shows the top of a CNN Money article. The header includes the CNN logo, the word 'Money', and navigation links for 'U.S.', 'Business', 'Markets', 'Tech', 'Media', 'Personal Finance', and 'Small Biz'. The article title is '5,300 Wells Fargo employees fired over 2 million phony accounts'. The author is 'by Matt Egan @mattmegan5' and the date is 'September 9, 2016: 8:08 AM ET'. The article text begins with 'Everyone hates paying bank fees. But imagine paying fees on a ghost account you didn't even sign up for.' It then states 'That's exactly what happened to Wells Fargo customers nationwide.' The next paragraph says 'On Thursday, federal regulators said Wells Fargo (WFC) employees secretly created millions of unauthorized bank and credit card accounts -- without their customers knowing it -- since 2011.' Below the article, there is a 'Powered by smartAsset.com' logo and a 'Calculate Your Monthly Home Payment' button. To the right of the button, it says 'The phony accounts earned the bank unwarranted fees and allowed Wells Fargo employees to boost their sales figures and make more money.'

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# Active Ownership (continued)

## CORPORATE AND PUBLIC POLICY ENGAGEMENT, INCLUDING FILING SHAREHOLDER RESOLUTIONS

Engagement is the heart of Wespath’s active ownership strategy—it is our opportunity to enter into constructive, and persuasive, dialogue with companies and policymakers, expressing concerns, offering suggestions and working together to encourage sustainable policies and practices.

Some of our engagement efforts occur behind the scenes through in-person meetings with company board members and management, or through conference calls. Other efforts are more public, like our letters to public policymakers, which we always post on the public policy page of our website ([www.wespath.org/investments/public-policy-statements](http://www.wespath.org/investments/public-policy-statements)).

Another tool at our disposal is shareholder resolutions. Filing shareholder resolutions is not our primary method of engagement, but it is a powerful one. It escalates our concerns and recommended actions to the attention of a company and its shareowners when we believe that an issue poses a serious risk to the company.

We filed eight shareholder resolutions in 2016. We aim to be as strategic as possible in choosing when to file a resolution by focusing on:

- Issues with clear links to shareholder value. For 2016, we focused on climate change (specifically carbon asset risk) and board diversity;
- Material holdings for Wespath;
- Companies that are unresponsive to engagement and/or are significantly lagging behind their peers on the specific issue.

More details on our engagement efforts and resolutions are detailed below.

## ENGAGEMENT HIGHLIGHTS

### *Climate Change Engagements*

In our experience, actions designed to address and mitigate the impact of climate change, or adapt to it, align with the interests of long-term investors. We have persuaded companies to adopt reasonable, cost-effective, climate-related strategies for more than 20 years.

Wespath expects companies to develop strategic plans for responding to both the threat of climate change and global policies that are being adopted to mitigate the risks of rising global temperatures. This clarity helps investors evaluate, assess and protect the value of the investments they manage.

Our ongoing engagements include meaningful discussions with the world’s largest publicly-traded oil and gas companies, utilities, mining companies and others about their role in supporting an orderly transition to a low-carbon economy. We also recognize that companies operate under environmental guidelines set by legislators and regulators, so we engage policymakers, urging them to enact cost-effective policies that strengthen the sustainability of our investments.

The 2016 proxy season marked a banner year for climate change-related shareholder resolutions, spurred in part by the historic agreement reached in Paris in December 2015—and which went into effect in November 2016—to put policies in place worldwide to limit global temperature increases. Investors sent a clear signal to the companies in which they invest that climate change is an issue the global business community cannot ignore. Shareholders filed a record number of climate-related resolutions, which received higher levels of support than ever before.<sup>4</sup>

Successful Wespath engagements include:

- **UN Framework Convention on Climate Change (UNFCCC) 21st Conference of the Parties (COP21)**—Recognizing the threat of climate change, world leaders gathered in Paris in December 2015 for COP21. A joint UMC general agency letter signed by Wespath Benefits and Investments, the General Board of Church and Society, Global Ministries and

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<sup>4</sup> [blueandgreentomorrow.com/2016/05/26/record-breaking-number-oil-investors-back-climate-resolutions](http://blueandgreentomorrow.com/2016/05/26/record-breaking-number-oil-investors-back-climate-resolutions)



United Methodist Women strongly encouraged attendees to reach an international agreement to limit global warming to less than 2-degrees Celsius.

COP21 ultimately produced an agreement supporting this long-term goal—the position advocated by the UMC—which went into effect in November 2016. **The pledge that emerged from this historic meeting provides investors with increasing confidence to support and accelerate investments in low-carbon technologies, energy efficiency and climate change adaptation.**



*United Nations Secretary-General Ban Ki-moon (left) speaks to the press on April 22, 2016 following the Signing Ceremony for the Paris Agreement on Climate Change that resulted from COP21. On the right is Christiana Figueres, the Executive Secretary of the U.N. Framework Convention on Climate Change (UNFCCC).*

The resolutions asked the companies to evaluate the impact of fluctuating supply and demand for their products against a rapidly transforming energy sector, and amid clear shifts in public policies aiming to address climate change. We believe this type of analysis is critical in understanding a company’s long-term strategic positioning. We re-filed both resolutions toward the end of 2016, ahead of the 2017 proxy season.

- **Anglo American and Rio Tinto**—Wespath was one of 100 co-filers of resolutions for both of these U.K.-based mining companies. We asked the companies to report on their strategic resilience in five key climate-related areas. An investor coalition known as “Aiming for A<sup>5</sup>” coordinated the resolutions as part of their in-depth, climate resilience engagement with the 10 largest U.K.-listed extractives and utilities companies. **Both resolutions had the support of management and passed overwhelmingly—96% of shareholders voted in favor of the Anglo American resolution; the Rio Tinto resolution received a vote of 99%.**
- **ConocoPhillips**—Wespath led a collaborative investor engagement to discuss carbon asset risk with company executives that began in 2013. We asked the company to conduct and disclose the results of “stress tests” on its oil and gas reserves and report the projected resilience of its assets in a variety of price-and-demand scenarios.

**In November 2015, in response to our efforts, the company disclosed the potential impact of four possible carbon pathways on its portfolio—the first major U.S. oil and gas company to do so.** This provides investors with more complete information in order to assess the company’s long-term ability to compete in carbon-constrained marketplaces.

- **Investor letter to the premier of Alberta, Canada regarding climate change**—In 2015, Wespath co-signed a letter to Alberta, Canada’s Premier, Rachel Notley, joining 120 investors with \$4.6 trillion in assets in supporting

<sup>5</sup> “Aiming for A” is an investor coalition undertaking in-depth engagement with the 10 largest U.K.-listed extractives and utilities companies. [investorsonclimatechange.org/portfolio/aiming-for-a](http://investorsonclimatechange.org/portfolio/aiming-for-a)

- **Chevron and Occidental Petroleum**—Wespath and United Kingdom (U.K.)-based investor Hermes EOS co-filed a resolution asking Chevron to “stress-test” its fossil fuels portfolio in anticipation of a low-carbon future. The resolution received strong support at its May 2016 annual general meeting, with 41% of investors voting in favor. A similar “stress-test” resolution we co-filed at Occidental Petroleum—the first of its kind filed with the company—received a 49% vote in favor in April 2016. While neither resolution received the majority support needed to pass (and were opposed by company management), in both cases **the results reflected unprecedented support from investors for first-time, climate-related resolutions** and attracted significant positive media attention.

# Active Ownership (continued)

Premier Notley's announcement for plans to update and strengthen Alberta's climate change policies. **The unprecedented combined show of support from international players allowed Premier Notley to institute sweeping changes to environmental policy in Canada's largest oil-producing province.** Alberta subsequently disclosed details about plans to shutter coal-fired power plants by 2030, phasing in renewable energy and increasing the province's carbon tax—Alberta was one of the first jurisdictions to price carbon dioxide emissions (\$C20/ton). Alberta's government intends to “shape a clear, ambitious and informed climate change policy that positions our province's economy for long-term success in a lower-carbon world.”

## Shareholder Resolutions in the U.K. vs. the U.S.

Resolutions in the U.K. (often classified as “special resolutions”) are binding if they receive 75% support, whereas the vast majority of U.S. resolutions are non-binding. Shareholder resolutions are used sparingly in the U.K. compared to the United States as British investors have traditionally enjoyed much more open access to company management and board directors. U.K. regulators also set a higher threshold both for filing and adopting resolutions. A U.K. resolution needs at least 100 shareholders to co-file—or for the shareholders to hold at least 5% of the value of outstanding shares—in order to reach a vote<sup>6</sup>. In contrast, in the United States, any shareholder with at least \$2,000 worth of shares or who holds at least 1% of the company's shares continuously for at least a year preceding the submission date, is able to file a resolution<sup>7</sup>.



## Wespath's Strategic Approach to Climate Change:

### Avoid—Engage—Invest

- **Avoid**—We manage excessive sustainability risks by identifying and excluding from investment companies that are most negatively affected by climate change, specifically those with significant exposure to thermal coal (coal used to make electricity).
- **Engage**—We work directly with companies and policymakers, encouraging them to adopt more sustainable and environmentally-sensitive business practices and policies. We do this through public policy and corporate engagement, proxy voting and the filing of shareholder resolutions.
- **Invest**—We urge our investment managers to consider the impact of climate change when making investment decisions on our behalf, and evaluate the degree to which they integrate environmental factors. We also invest in companies offering climate-related solutions, such as renewable energy, energy efficiency and sustainable forestry.



## Supporting Climate-Resilient Markets

The world we live in is changing. As the climate changes, the way companies and policymakers adapt will be of vital importance to all long-term investors. Wespath's *Avoid—Engage—Invest* framework allows us to make a contribution to addressing climate change while maintaining a diversified portfolio. We believe engaging the companies in which we invest while simultaneously deploying capital in support of low-carbon products and services will reduce investment risk, which promotes the long-term sustainability of the funds we manage on behalf of participants and institutional investors.

To read a full report on our strategic approach to climate change, visit [www.wespath.org/climatechange](http://www.wespath.org/climatechange).

<sup>6</sup> [www.issgovernance.com/rare-u-k-shareholder-proposal-receives-rarer-company-support](http://www.issgovernance.com/rare-u-k-shareholder-proposal-receives-rarer-company-support)

<sup>7</sup> [www.ussif.org/resolutions](http://www.ussif.org/resolutions)

## Human Rights Engagements

Wespath seeks to influence change to improve the lives of those affected by human rights violations. The *Guiding Principles* provide the foundation for our activities. The *Guiding Principles* have gained widespread support from policymakers, companies, investors and civil society as a global standard for preventing and addressing the risk of adverse impacts on human rights linked to business activity. They increasingly provide a reference for companies developing and implementing human rights policies and practices that support operational stability and societal well-being.

We engage companies on human rights issues, recognizing that businesses face many risks when operating in regions torn by violence, conflict and the violation of human rights.

- **Newmont Mining Corporation**—Wespath and German fund manager Union-Investment led a collaborative engagement regarding Newmont’s implementation of the *Guiding Principles*. **As a result of the engagement, Newmont established a plan to evaluate complaints and grievance mechanisms—a core component of a robust human rights program—and a three-year plan to track the effectiveness of its security training in relation to human rights.**



Stakeholders, including Wespath and other investors, visit a water treatment facility at the Yanacocha gold mine majority-owned by Newmont.

In 2015, Wespath also visited two gold mines in rural Peru owned by Newmont to learn first-hand how the company was implementing the *Guiding Principles*. The insights gained from our field visit have positively influenced the way we engage global companies on human rights issues.

Following the visit, we developed a case study containing practical learnings and engagement questions for investors on five key challenges faced by the extractives sector when implementing the *Guiding Principles*.

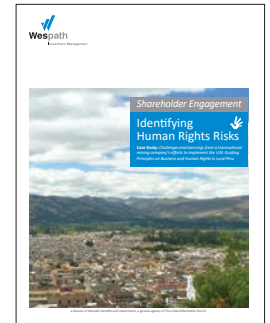
We have published and shared this report with our peers to illustrate the importance of conducting effective engagement with companies to help mitigate human rights-related risks. We believe that engagement with companies is more powerful when investors work together to encourage dialogue about these issues.

The full report can be found at [www.wespath.org/humanrights](http://www.wespath.org/humanrights).

We have concluded our active engagement with Newmont, but will continue to track its progress on addressing human rights issues.

- **Caterpillar Incorporated**—Wespath has engaged Caterpillar on human rights issues for a number of years. This is a company subject to scrutiny because of the use of its products by the Israeli Defense Forces in the Palestinian territories. During 2015 and 2016, **in response to Wespath’s engagement, Caterpillar strengthened and improved disclosure relating to its human rights policy**, including conducting human rights impact assessments in alignment with the *Guiding Principles*. Notably, the policy applies beyond the company’s direct operations to include its suppliers and dealers.

Our previous discussions also led to the publication of the company’s first corporate sustainability report. This type of report discloses corporate policies and performance on ESG issues. Separately, Caterpillar has identified “sustainability” as one of the company’s five core values and appointed its first Global Director of Sustainable Development to lead its activities. Caterpillar has made notable improvements to its corporate governance policies and environmental performance.



# Active Ownership (continued)

## Engaging Our Largest 100 Holdings on Climate Change and Human Rights

While much of our engagement is focused on company-specific situations, we also conduct broader engagement across multiple companies to raise important ESG issues. In 2015, we evaluated the human rights policies of Wespath's 100 largest holdings for adherence to the *Guiding Principles*. We wrote to 67 companies that lack a human rights policy, or whose policy does not reflect the *Guiding Principles'* "protect, respect, remedy" framework. In addition, we asked 18 companies among our 100 largest holdings to complete the CDP (formerly the Carbon Disclosure Project) questionnaire on climate change policies and practices to better inform our understanding of their environmental management. These engagements respond to the UMC's General Conference 2012 petition number 21071, *Aligning UMC Investments with Resolutions on Israel-Palestine*, and Resolution 1023, *Environmental Justice for a Sustainable Future*.

### 2015—Climate Change and Human Rights Policies

Evaluated Wespath's **100** largest holdings

Wrote to **67** companies regarding *Guiding Principles*

**18** companies were also asked to complete CDP questionnaire

## Board Diversity Engagements

Wespath's corporate engagement efforts promoting diversity have successfully influenced companies within the S&P 500 Index to increase the number of female directors on their corporate boards. Currently only 19% of S&P 500 directors are women<sup>8</sup>. Research<sup>9</sup> has shown that companies with diverse boards exhibit a stronger mix of leadership skills and improved understanding of consumer preferences (women control more than two-thirds of consumer spending in the United States<sup>10</sup>)—both are linked to better stock market and financial performance.

We filed board diversity resolutions at companies where:

- diversity on the board had not improved in the last five years and lags peers;
- Wespath had previously withheld our vote from certain directors due to the board's lack of diversity;
- Wespath had previously communicated with the company regarding the issue.

We filed diversity-related resolutions at the following companies in 2016:

- **Simon Property Group**—Simon is one of the largest real estate companies and owners of shopping malls in the United States. **The company added an additional woman to its board, and agreed to amend its director qualification policy to explicitly include women and minorities**—as requested in our shareholder resolution. As a result, we withdrew our resolution before it went to vote at the annual general meeting.
- **Comcast Corp.**—We filed a shareholder resolution at the global, mass-media company in December 2015 asking the company to report on its strategy for adding women and minority board directors. Our resolution was rejected on a technicality, but **the company added an additional woman to its board in February 2016**.
- **Equifax**—We filed a shareholder resolution at the consumer credit company but withdrew it after **the company agreed to add an additional female board member, which it did in November 2016**.

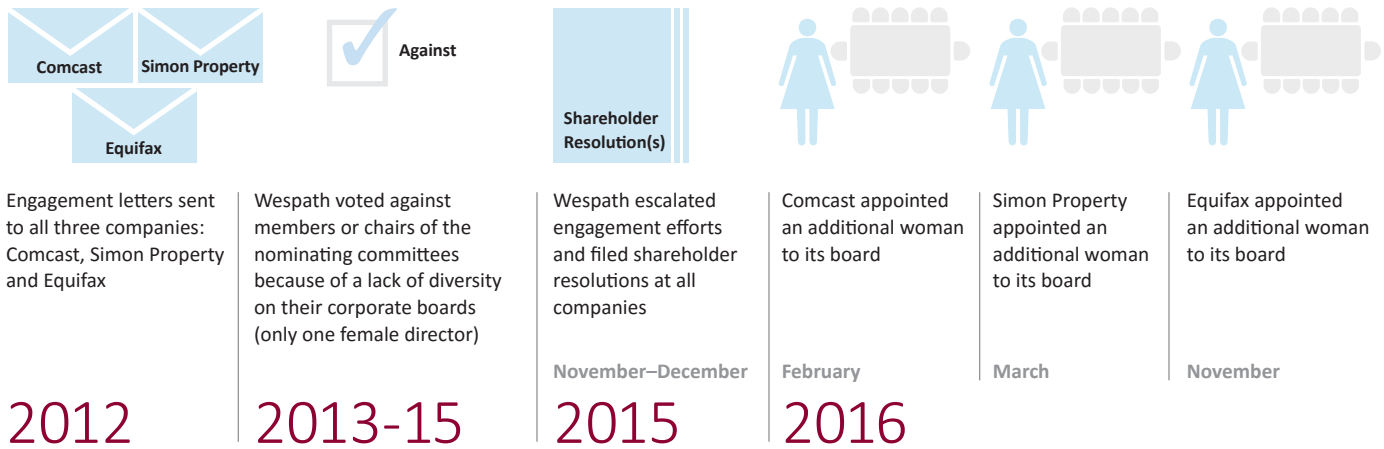
<sup>8</sup> www.30percentcoalition.org (as of September 30, 2016)

<sup>9</sup> 2012 and 2014 Credit Suisse research report, "*Gender Diversity and Corporate Performance*," links board diversity to better stock market and financial performance (higher return on equity, higher price/book ratios and improved growth prospects).

<sup>10</sup> July 2013 Fleishman Hillard research report, "*Women, Power & Money: Wave 5*"

Our engagement efforts span years, and they achieve results:

### Engagement Timeline—Board Diversity



We not only encourage diversity through our engagement activities, we also promote it within the asset management firms we hire to invest our funds through our Woman and Minority-Owned Manager Program. Women- and/or minority-owned investment managers are responsible for managing 5.6% of Wespath's total assets.

### MANAGEMENT OF EXCESSIVE SUSTAINABILITY RISK

As a long-term investor, Wespath favors investing in companies that have sustainable business practices. To assist in identifying and managing financial risk associated with ESG issues, our board of directors (board) adopted a “Management of Excessive Sustainability Risk” policy in 2014, which is found in Wespath’s *Statement of Administrative Investment Policy*, Section III.D.2.

It recognizes that there may be instances when a particular issue, set of companies or industries—or both—pose high levels of risk to investors. In such instances, the board will approve an investment guideline to inform the execution of Wespath’s active ownership strategy. The board approved an investment guideline for climate change, with a specific

focus on thermal coal, and one on human rights, with a focus on high-risk operating areas.

In 2015, we worked with our global ESG research provider, Sustainalytics, to identify and assess the management policies and practices of companies that pose excessive sustainability risk under our new guidelines.

Informed by research provided by Sustainalytics and our internal analysis, we identified nine companies for exclusion under the Climate Change guideline and 39 companies for exclusion under the Human Rights guideline.

Additional information on both of these guidelines can be found on the Climate Change and Human Rights section of our Sustainable Investments webpage:

[www.wespath.org/si](http://www.wespath.org/si).





# Strategic Partnerships

Wespath's strategic partnerships allow us to pool our resources and voices to achieve greater influence with companies across market sectors and around the globe. We work in partnership with other like-minded investors and organizations dedicated to corporate accountability and sustainability.

Our strategic partners complement Wespath's full range of sustainable investing activities and include the groups below. We also work informally with our investor peers on issues of mutual concern.

**The United Nations Principles for Responsible Investment (PRI)**—adds a global perspective to our strategies

- **1,500** investment institution signatories
- **\$62 trillion** in assets

[unpri.org](http://unpri.org)

**US Social Investment Forum (US SIF)**—brings expertise on U.S. financial market policy issues

- US SIF data shows **\$8.72 trillion** in US-domiciled assets managed using sustainable, responsible and impact investment strategies in 2016<sup>11</sup>

[ussif.org](http://ussif.org)

**Ceres**—offers scale when addressing environmental issues, particularly climate change. We are actively involved in Ceres' Investor Network on Climate Risk (INCR)

- **120** institutional investors participate in INCR
- **\$14 trillion** in assets represented by INCR members

[ceres.org](http://ceres.org)

**Interfaith Center on Corporate Responsibility (ICCR)**—allows for a stronger, faith-based voice

- **300** members
- **\$100 billion** in invested capital

[iccr.org](http://iccr.org)

**Council of Institutional Investors (CII)**—connects us to U.S. corporate governance-focused peers

- **120** pension funds
- **\$3 trillion** in assets

[cii.org](http://cii.org)

**International Corporate Governance Network (ICGN)**—provides access to global corporate governance peers

- **678** members
- **\$26 trillion** in assets

[icgn.org](http://icgn.org)

**Thirty Percent Coalition**—provides research and cooperation opportunities on global board diversity issues

- Over **80** members including public companies, private equity, institutional investors and others
- Goal to have women hold **30%** of board seats across public companies

[30percentcoalition.org](http://30percentcoalition.org)

**Global Impact Investing Network**—links us to a global network of impact investors

- members include **250** asset owners, asset manager and service providers
- Investors committed over **\$15 billion** to impact investing in 2015<sup>12</sup>

[thegiin.org](http://thegiin.org)

<sup>11</sup> US SIF: *US Sustainable, Responsible and Impact Investing Trends 2016*

<sup>12</sup> [thegiin.org/impact-investing/need-to-know/#s8](http://thegiin.org/impact-investing/need-to-know/#s8) (February 2017)

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# Strategic Partnerships (continued)

Our strategic partnerships provide valuable opportunities to amplify our voice. However, we often find opportunities to work with other asset owners separate from those partnerships in order to promote sustainable investment on a global scale. In 2016, we took advantage of two unique opportunities to join together with our peers to help shape the global sustainability reporting landscape:



## Transition Pathway Initiative

Wespath was part of a group of 13 major global investors representing over \$2.4 trillion in assets under management that developed the Transition Pathway Initiative (TPI). The TPI, which launched in early 2017, assesses how individual companies are positioning themselves for the transition to a low-carbon economy. Through a public, transparent online tool, TPI will enable investors to better understand how this shift could affect their portfolios. The assessment tool TPI has designed supports the requirements of the Task Force on Climate-Related Financial Disclosures (TCFD), comparing future projected emissions to the two-degree Celsius target and other current public policy commitments. The Initiative was led by the Church of England's National Investing Bodies and the U.K.'s Environment Agency Pension Fund in partnership with the Grantham Research Institute at the London School of Economics.

Chief Executive and General Secretary Barbara Boige grain said, "For some years, Wespath Benefits and Investments has recognized the transition underway to a low-carbon global economy and the need for us to understand the long-term trends affecting our investments. We will use our leadership position to influence other North American funds and investors to use the TPI in analyzing their portfolios."

[transitionpathwayinitiative.org](http://transitionpathwayinitiative.org)



## Sustainability Accounting Standards Board's (SASB) Investor Advisory Group (IAG)

In 2016, Wespath Chief Investment Officer Dave Zellner became a founding member of SASB's IAG. The group, which includes global asset owners such as the California State Teachers' Retirement System and asset managers including BlackRock and Goldman Sachs Asset Management, will work to improve the quality and uniformity of sustainability reporting by listed companies. By partnering with SASB and other like-minded investors, we are better able to encourage robust ESG disclosures among the companies in which we invest, as well as in the broader financial markets.

[sasb.org](http://sasb.org)





“For some years, Wespath has recognized the transition underway to a low-carbon global economy and the need for us to understand the long-term trends affecting our investments. We will use our leadership position to influence other North American funds and investors to use the TPI in analyzing their portfolios.”

—BARBARA BOIGEGRAIN



*Solar panel installation—courtesy of Off Grid Electric*

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# Positive Impact Investment

Wespath's *positive impact investments* reflect the intent that our global investment activities have a positive impact on society and the environment. An area of focus is our Positive Social Purpose (PSP) Lending Program, which promotes affordable housing, community development and entrepreneurship among underserved populations worldwide.

## Positive Social Purpose Lending Program

For more than a quarter century, Wespath has invested in loans that support affordable housing and community development for the most disadvantaged neighborhoods in the United States, while also earning a market-rate return. Our PSP Lending Program has financed real estate development in all 50 states, providing shelter, education and health services to low-income, underserved populations.

We also invest in microfinance strategies in developing markets around the world, which facilitate loans to individuals who have little or no access to traditional financial services.

In 2015, the PSP Lending Program celebrated its 25th anniversary. It began in 1990 with a \$25 million commitment to affordable housing and surpassed \$2 billion in cumulative investments in 2016.

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## PSP Lending Program Statistics

PSP celebrated **25th** anniversary in 2015

Investments in all **50** states

**Global** microfinance loans in developing countries

Surpassed **\$2 billion** in cumulative investments in 2016

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## Social Value

Wespath seeks to enable our clients and participants to meet their investment objectives while honoring the values of the UMC.

The UMC's *Social Principles* state: "We support the basic rights of all persons to equal access to housing, education, communication, employment, medical care, legal redress for grievances, and physical protection."

The PSP Lending Program has focused on investing in three categories:

- **affordable multifamily rental housing** for families, seniors and those with special needs
- **community development** properties, including community centers, charter schools, health centers/clinics, homeless shelters and grocery stores
- **microfinance lending** in developing markets, including Latin America, Eastern Europe, Southeast Asia and Sub-Saharan Africa

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## PSP Lending Program Investments

**\$1.93 billion** in affordable housing across U.S.

**\$59.3 million** in community development

**\$83 million** in microfinance investments

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Since the program's inception, we have invested **\$1.93 billion** in affordable housing across the United States, resulting in:

- the creation or preservation of nearly **52,000 affordable housing units** for families, seniors and populations with special needs, and
- approximately **\$1.9 billion**<sup>13</sup> in federal, state and local taxes generated

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<sup>13</sup> Calculated using data from National Association of Home Builders: [www.nahb.org/en/research/nahb-priorities/low-income-housing-tax-credit.aspx](http://www.nahb.org/en/research/nahb-priorities/low-income-housing-tax-credit.aspx)

# Positive Impact Investment (continued)

## Social Value (continued)

We have invested **\$59.3 million in community development projects**, including financing:

- **23 charter schools** providing quality education to over **8,700 students**
- **10 community facilities**, including health centers, substance abuse treatment centers and shelters for the homeless

Our **\$83 million in microfinance investments** since 2005 have helped over **1 million people**—many of whom live on less than \$2 per day.

Currently, we have approximately **\$3 million invested with Shared Interest**, a non-profit social investment fund dedicated to assisting South Africa’s townships and rural communities. Since 2007, our investment with Shared Interest has supported the South African community by:

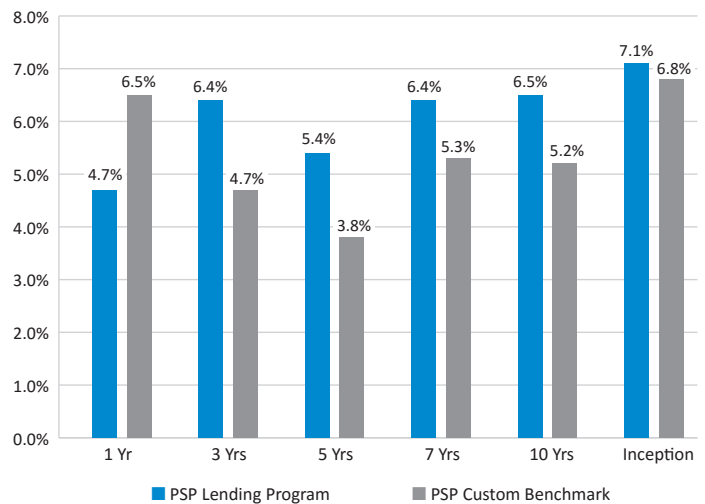
- assisting **152,139 small- and micro-enterprises**
- helping **21,605 homeowners**
- creating **291,937 jobs**

**“Our \$83 million in microfinance investments since 2005 have helped over 1 million people—many of whom live on less than \$2 per day.”**

## Financial Impact

The impact of the PSP Lending Program extends well beyond its social value—the program has outperformed its benchmark in the 25-year, 10-year, 5-year and 3-year periods, helping to secure the financial sustainability of our funds.

### Historical Performance as of December 31, 2016 (Gross of Fees)



Performance data on aggregate PSP portfolio, PSP Custom Benchmark since 1/1/2010 is comprised of 60% Barclays Universal ex-MBS, 25% Barclays US Long Credit A, 15% Barclays Credit 1-5.

We rely on a network of intermediary partners—primarily community development financial institutions (CDFIs) that focus on providing credit and financial services to underserved markets and populations—who serve as key contributors to the financial success of the PSP Lending Program.

PSP intermediaries are responsible for initial transaction due diligence, underwriting, monitoring and servicing of loans. For the majority of transactions, they also act as a buffer—absorbing initial losses in the case of a default. (As of December 2016, total losses account for approximately 0.05% of cumulative PSP investments since program inception.)

Many of the intermediary relationships established early on in the PSP Lending Program are still in place and continue to contribute to the growth and success of the program.

## Small Business Owners with Impact

*Lizeta and Dona Rosa—small business owners in Mozambique’s Manhica district—are among those our investments with Shared Interest have reached. Both accessed loans through AfricaWorks Mozambique (AWM), which uses the loan guarantee from Shared Interest to provide financing to businesses around the country. Here are their stories.*



### Lizeta Jose Gojamo

Lizeta began selling vegetables in Manhica in 1978. Today, she supports the 15 people in her household, including four adult children and 10 grandchildren. Four years ago, she received her first loan from the microfinance institution AWM. She had been selling tomatoes, but found that they often rotted, and her income was insufficient to feed her family.

The loan from AWM, and subsequent loans, enabled her to expand the size of her shop to include tee-shirts, blouses, head scarves and other items, and allowed her to rent additional display space in the local market. With the increased profits, she has been able to send her grandchildren to school. “And now,” she said, “all the children eat every day. This was not true before.”



### Rosa Biatriz Manganho (“Dona Rosa”)

Dona Rosa took charge of the vegetable stall in the Manhica market after her mother’s death. Following in her mother’s footsteps—and with the help of credit from AWM—she has been able to make significant improvements in her family’s lives. Her children are pursuing their high school and college educations. With the money she has borrowed as part of an AWM borrowing group, she has broadened her stock/inventory to include additional kinds of vegetables (cabbage, carrots, potatoes and cucumbers). The profits of her business have enabled her to purchase a gas stove, refrigerator and sofa, and to expand her house, which is home to seven people, including her four children.

She has been a steady AWM customer and is now repaying her seventh loan. Her first was for MZM5,000 (\$68.25), and her current loan is for MZM13,000 (\$177.44).

She is proud that one of her sons (age 26) is a fifth-grade teacher, and that her daughter is currently completing 11th grade. With the ongoing credit support from AWM, Dona Rosa plans to continue to expand the business, attract more customers and finance her daughter’s education.

Personal stories courtesy of Shared Interest.

# Positive Impact Investment (continued)

## 25 Years of Success

For over 25 years, the PSP Lending Program has benefited participants and communities worldwide. Investors benefit from positive financial returns. Individuals, families and underserved communities benefit from new or redeveloped assets, social services and job opportunities. We all benefit from more vibrant and stable neighborhoods with better schools and support services that contribute to thriving communities.

## INVESTMENT HIGHLIGHTS

### *Rochester View Apartments*



This affordable housing property targets the special needs population in Henrietta, New York. Thirty-three units are designated for individuals involved with New York State's Office of Mental Health, and 28 units are designated for income-eligible members of the deaf community. Units are restricted to tenants earning up to 50% of the area median income. Residents have access to a variety of social services such as housing retention, coordinated and managed mental health, and general health care and stabilization.

- Location: Henrietta, New York
- Units: 61
- Loan Amount: **\$5.4 million**

### *West Michigan Academy of Environmental Science Charter School*



West Michigan Academy of Environmental Science is a top-ranked charter school in Michigan, with 90% of its graduates continuing to higher education. We helped finance the expansion of the school's facilities, including renovations to the existing primary school building and construction of a new building on the school campus that replaced temporary modular classroom structures. The school, which serves 900 students, is located on a 62-acre campus and its curriculum incorporates environmental themes into students' studies.

- Location: Walker, Michigan
- Loan Amount: **\$7 million**

### *Off-Grid Renewable Climate Action Notes/ Developing World Markets (DWM)*

Wespath joined with the Church Pension Group, the pension fund for the Episcopal Church, to invest \$30 million each in companies that help provide solar energy to poor communities in developing countries that are not connected to national power grids.

Our microfinance investment with DWM provides financing to 11 institutions operating across nine countries. These organizations help people purchase solar-powered lanterns, home solar kits, and other products and services to light their homes, refrigerate their food and charge their mobile devices in an increasingly connected world.



Courtesy of Off Grid Electric

**“Over one billion people globally have no access to electricity, while another billion only have occasional access. For many around the world, energy access is vital to supporting a move out of poverty.”**

According to the United Nations, over one billion people globally have no access to electricity, while another billion only have occasional access. For many around the world, energy access is vital to supporting a move out of poverty.

UN Secretary-General Ban Ki-moon has said: “Energy is the golden thread that connects economic growth, social equity, and environmental sustainability.”

### **Deploying Capital in a Low-Carbon Economy**

Wespath believes companies that are positioned to benefit from a low-carbon global economy are attractive long-term investments. In 2016, we invested \$350 million in two new *low-carbon energy solutions* public equity mandates.

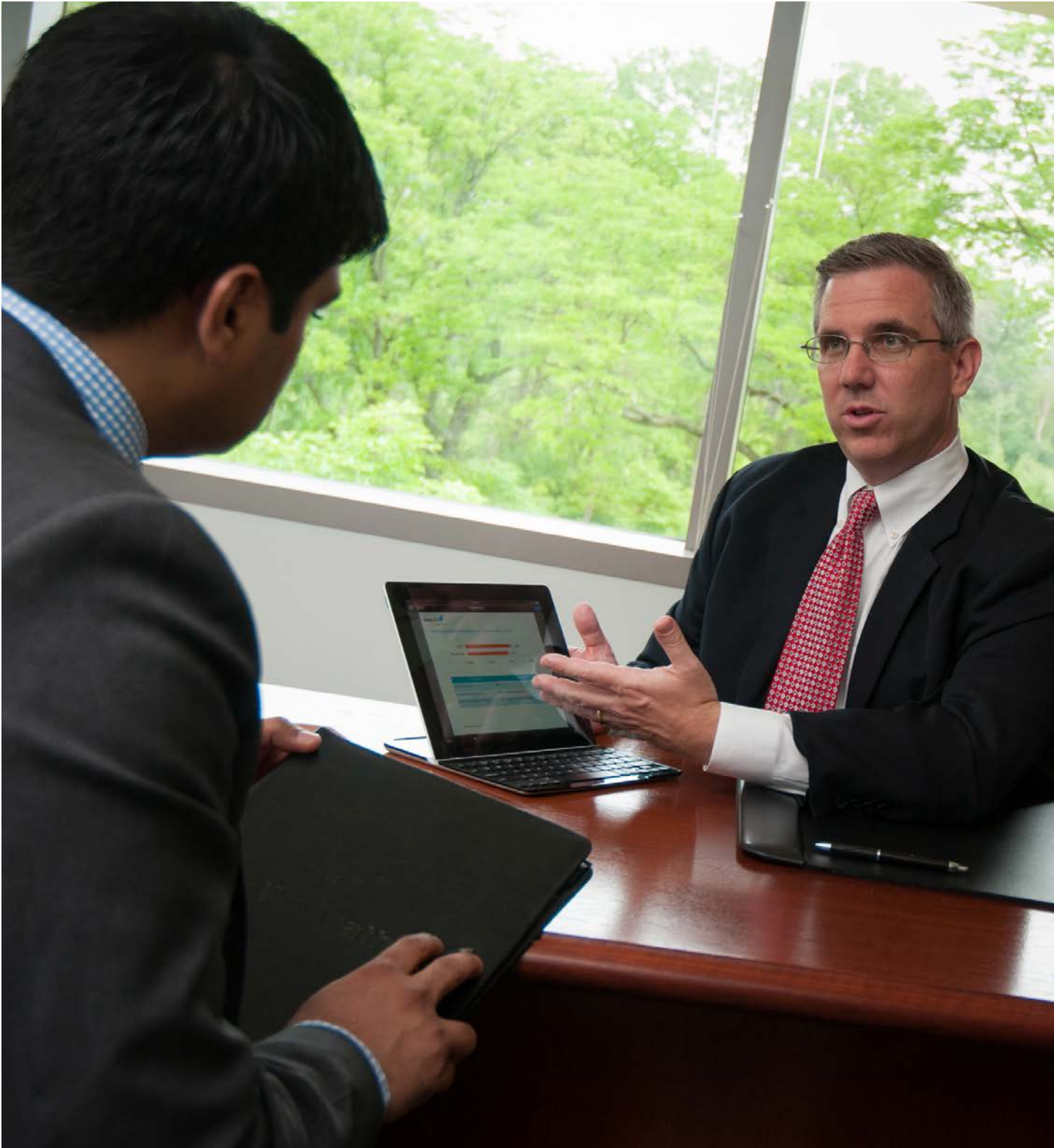
These investments include companies providing:

- energy efficiency
- renewable energy
- water infrastructure and
- pollution control

All are solutions to the challenges arising from climate change.

**“In 2016, Wespath invested \$350 million in two new *low-carbon energy solutions* public equity mandates.”**







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# External Manager ESG Integration

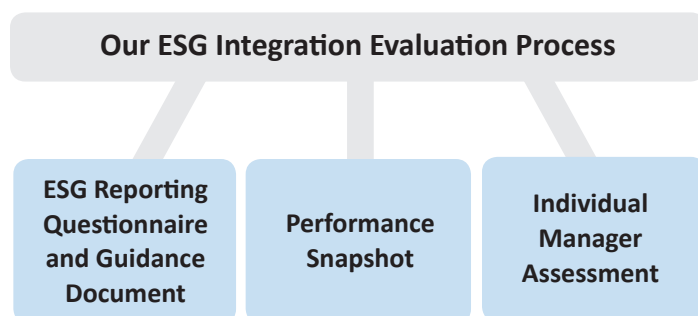
*As a founding signatory to the PRI, Wespath is dedicated to incorporating ESG issues into our investment analysis and decision-making processes as we believe it supports long-term value creation. This extends to our relationships with our external asset managers.*

Since 2014, we have been developing and refining a methodology that helps us evaluate and benchmark how our external investment managers integrate ESG issues into their decision-making processes. It creates a framework that helps us provide practical feedback to our managers in order to encourage progress year-over-year. This is an element of the ongoing performance and retention assessment of our managers. To date, we have focused on our public equity managers, but we intend to extend our methodology to other asset classes.

Our process includes:

- **ESG Reporting Questionnaire and Guidance Document**—managers annually respond to a set of questions about their ESG integration strategies
- **Performance Snapshot**—we compare each manager against our other external managers based on their responses; each manager can see its position relative to its peers (although we do not disclose the names of the other managers)
- **Individual Manager Assessment**—we provide individual assessments with clear and practical feedback about each manager’s level of integration and our expectations

We have found that this type of engagement ensures there is alignment between our belief that incorporating ESG factors into the investment process adds value, and the way in which assets are being invested on behalf of our participants and institutional investors. We also believe that it is essential for asset owners, like Wespath, to monitor external asset managers in order to fully discharge our fiduciary duties and to create more sustainable financial markets. We expect to keep working closely with our asset owner peers around the world to share knowledge and expectations on this important topic.



**“It is essential for asset owners, like Wespath, to monitor external asset managers in order to fully discharge our fiduciary duties and to create more sustainable financial markets.”**

# External Manager ESG Integration (continued)

## External Manager ESG Integration Performance Snapshot

Performance Snapshot: External Public Equity Managers																				
Managers	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	Manager	P	Q	R	
<b>1. Policy and Resources</b>																				
ESG Policy																				
Dedicated Resources																				
<b>2. ESG Integration</b>																				
Integration Strategy																				
<b>3. Active Ownership</b>																				
Engagement																				
Proxy Voting																				
Overall Score	100%	100%	98%	97%	86%	79%	78%	75%	69%	67%	61%	55%	42%	34%	30%	30%	19%	19%	13%	
Momentum	↑	↑	N/A	↔	↔	↑	↔	↔	↑	↔	↔	↑	↑	↑	↑	↔	↑	↔	↔	
Category	Race Leaders					Chasing Pack							Starting Grid							

This “heat map” informs public equity managers about their relative performance regarding their integration of ESG factors into investment decision-making. We believe this tool encourages improvements as managers are told if they are *race leaders*, in the *chasing pack* or on the *starting grid*.

We evaluate them on:

- **ESG policies and resources**, including staff dedicated to ESG analysis
- **ESG Integration** in day-to-day investment activities and decision-making
- **Active ownership** including shareholder engagement and proxy voting

## Individual Manager Assessment—Wespath’s 25 ESG Indicator Framework (Sample—Active Managers)

<b>1. Policy and Resources (25%)</b>	Firm Level						
ESG Policy (20%)	E,S,G + ✓	Materiality ++ ✓	Active Ownership ++	Integration Process +++	Oversight ++ ✓	Refreshed +	PRI Signatory + ✓
Dedicated Resources (5%)	Collaboration and Initiatives +	Use of External Resources + ✓	Dedicated Personnel ++				
<b>2. ESG Integration (50%)</b>	Strategy Level						
ESG Strategy (50%)	E,S,G + ✓	Materiality ++ ✓	Risk and Opportunities ++	Influences Decision Making +++	Systematic/ Process Implementation ++	Knowledge Building ++ ✓	ESG Reporting +++
<b>3. Active Ownership (25%)</b>	Firm and Strategy Level						
Engagement (12.5%)	E,S,G + ✓	Strategic +++	Impact +++	Public Policy +			
Proxy Voting (12.5%)	Own Guidelines +++	E,S,G +	Active Voting +++	Assurance + ✓			

+++	++	+
Primary indicators	Secondary indicators	Tertiary indicators

Wespath also performs a *gap analysis* of individual manager performance, based on our 25-ESG indicator framework for evaluating ESG integration. Each manager receives feedback on indicators, noting strengths and areas for improvement.

Checkmarks on the manager assessment indicate that the manager meets Wespath’s expectations for a specific indicator. Indicators are color-coded to reflect their importance to Wespath (primary, secondary and tertiary).



# Ethical Exclusions

*Since 1908, Wespath has aspired to reflect the values of the UMC in achieving our investment objectives. Our ethical exclusions policies guide us in avoiding investments in any company or entity whose core business activity involves the production and/or assembly, direct sale, distribution and/or marketing of alcoholic beverages, tobacco products, adult entertainment, weapons, gambling and privately-operated correctional facilities.*

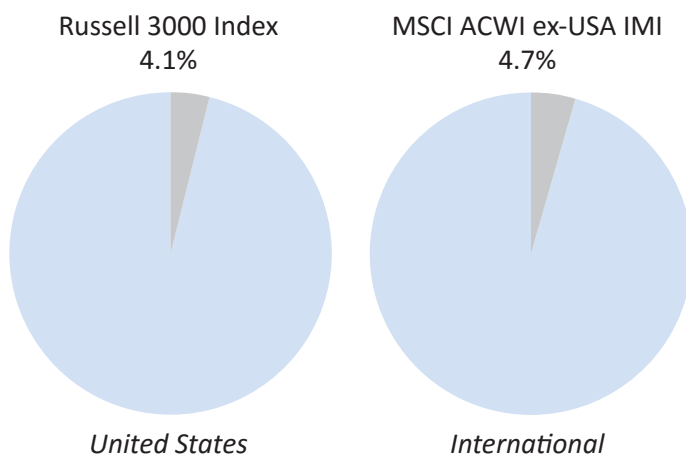
Generally, a “core business” is one that accounts for 10% or more of a company’s revenue derived from the excluded products and/or services, and discontinuation of the activity is likely to materially impact the company’s operations. Additional thresholds apply for restaurants and suppliers of key components to the products and services excluded under our policies.

In 2015, we hired a new external ESG research partner, Sustainalytics, to help us better implement our ethical exclusions policies. With their help, we regularly evaluate the more than 5,000 companies in our investment funds to ensure that we properly identify companies ineligible for purchase. While many exclusion decisions are self-evident, others are more challenging and benefit from in-depth analysis and debate to ensure that we reach the most appropriate conclusions.

In 2015, we strengthened our ethical exclusions process by clarifying how our core business thresholds apply, refining our definition of controversial weapons excluded from investments and creating efficiencies in our process.

These changes have allowed us to more faithfully implement our ethical exclusions policies. We continuously monitor the impact that these exclusions have on the performance of our funds. While they can create some short-term impacts, over longer-time periods, there has been marginal impact on performance.

## Percentage of Assets Excluded from the Broader Stock Market Indexes



*“The Board shall endeavor to exclude from investment the securities of companies that produce products and/or provide services that are not aligned with United Methodist values as described in the Social Principles, ¶1717 of The Book of Discipline 2012 and Resolution 4071 (“Investment Ethics”) of The Book of Resolutions 2012 provided that to do so does not abrogate the Board’s fiduciary responsibility as described in ¶1504.14.”*

Wespath’s Statement of Administrative Investment Policy, [www.wespath.org/assets/1/7/investment\\_policy.pdf](http://www.wespath.org/assets/1/7/investment_policy.pdf)



# 2017—A Look Ahead

Kirsty Jenkinson  
Managing Director, Sustainable  
Investment Strategies



2017 will be a year of transitions. The world is changing dramatically, both in economic terms—as our Chief Investment Officer, Dave Zellner, highlights in his introductory comments—and politically, as the United States and other countries experience leadership changes. In addition, The United Methodist Church (UMC) has entered a new quadrennium with many complex questions about its structure in the years ahead.

## Sustainable Investment Strategies Balance Nimbleness with Steadiness

Our goal is to understand how change linked to environmental, social and governance (ESG) issues affects our investments, and how we can respond accordingly. However, we must also maintain our long-term investment horizon and our patient approach to engaging with companies.

Our internal framework of *Avoid—Engage—Invest* will guide our activities. We will continue to *avoid* investing in certain companies because their core business relates to one of our six ethical exclusions or because of the financial risks they face from specific sustainability-related issues. We will leverage our “seat at the table” with global companies and *engage* with them in order to create positive financial, environmental and social change. We will also aim to *invest* wisely by evaluating the competencies of our external managers in integrating ESG issues into investment decision-making, and by thematic investments dedicated to seeking market-rate returns and demonstrable social and environmental impact.

Partnerships across the UMC and with our fellow global investors will help us manage environmental risks and encourage good corporate governance practices. They will also assist us in supporting the promotion and protection of human rights, as clarified by the *United Nations Guiding Principles on Business and Human Rights*. Furthermore,

we hope they will offer us insights on how best to address emerging and increasingly important issues, like water scarcity and cyber security risk.

## Increased Focus on Low-Carbon Transition

The transition to a low-carbon economy is underway and will require greater focus. As prudent fiduciaries, we need to evaluate the impact of the shift to cleaner sources of energy on our global investments. During 2017 and in the years ahead, we hope to gain a better understanding of how specific companies in high-carbon sectors are positioning themselves for a low-carbon future. This is one reason why, in 2016, we helped develop the Transition Pathway Initiative (TPI), a tool that assesses companies’ progress in transitioning to a low-carbon economy (see page 24). We intend to use this tool to better inform our engagement with companies in 2017 and beyond.

While we recognize that the new U.S. administration will likely shift domestic climate-related policy, a change in the U.S. political environment is unlikely to deter aggressive global action on climate change. We believe that there is significant momentum from the Paris Agreement to address climate risk, and concerted global efforts are focused on achieving carbon emissions reduction goals. We also believe emerging low-carbon technologies will increasingly present alternatives to “business as usual.” These factors provide us with increasing confidence to support investment in low-carbon technologies, energy efficiency and climate change adaptation.

We remain committed to caring for the participants and institutional investors we serve and are excited about the opportunities we have to promote more sustainable financial markets. The future is uncertain but we are approaching it with hope, enthusiasm and a deep desire to play a role in making it brighter for all!

**Kirsty Jenkinson**  
Managing Director, Sustainable Investment Strategies



Video:  
Sustainable Investment Strategies  
(*Avoid—Engage—Invest*)



# Wespath

BENEFITS | INVESTMENTS

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*Caring For Those Who Serve*

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Investment Management