

# Sustainable Investing

Transforming Companies through Environmental, Social and Governance Best Practices



General Board

**Pension and Health Benefits**

*Caring For Those Who Serve*

# Contents

<b><i>Social Principles: Foundation for Sustainable Investing</i></b>	1
<b>Transforming Companies through Sustainable Investing</b>	2
<b>Message from the General Secretary and Chief Executive</b>	3
<b>Message from the Chief Investment Officer</b>	4
<b>About the General Board</b>	6
<b>Economics</b>	10
<b>Environmental</b>	18
<b>Social</b>	22
<b>Corporate Governance</b>	28
<b>Risks and Opportunities</b>	32
<b>ESG Advocacy—Transforming Businesses and Communities</b>	39



“Sustainable investing” is the term the General Board uses to encompass its approach. “Socially responsible investing” and “ESG investing” are among other industry terms.

Published July 2014

# Social Principles: Foundation for Sustainable Investing

“ All creation is the Lord’s, and we are responsible for the ways in which we use and abuse it. ”

¶160, Social Principles, *The Book of Discipline of The United Methodist Church 2012*

“ It shall be the policy of The United Methodist Church that all general boards and agencies, including the General Board of Pension and Health Benefits, ...shall, in the investment of money, make a conscious effort to invest in institutions, companies, corporations or funds whose practices are consistent with the goals outlined in the **Social Principles**; and shall endeavor to avoid investments that appear likely, directly or indirectly, to support racial discrimination, violation of human rights, sweatshop or forced labor, gambling, or the production of nuclear armaments, alcoholic beverages or tobacco, or companies dealing in pornography. The boards and agencies are to give careful consideration to shareholder advocacy, including advocacy of corporate disinvestment. ”

¶1717, Socially Responsible Investment, *The Book of Discipline 2012*

The *Social Principles* of The United Methodist Church (UMC) are a series of position statements that address contemporary world issues using biblical and theological concepts interpreted through the lens of the United Methodist tradition. They serve as a foundation for the sustainable investing philosophy and practices of the General Board of Pension and Health Benefits (General Board).

The UMC’s *Social Principles* call on us as an institution and as individuals to respect all of God’s creation: the natural world and its resources, the world community and its people, the economic systems and more. The Principles also ask us to recognize the responsibility of the Church and its members to place a high priority on changes in economic, political, social and technological conditions to support a more ecologically equitable and sustainable world for all God’s creation.

*The Book of Resolutions of The United Methodist Church* broadens the *Social Principles*, providing an analysis of specific issues including a more detailed statement on Church investing.

For example, UMC Resolution 4071 *Investment Ethics* states: “The United Methodist Church’s investment philosophy is based on the biblical concept that all resources are God-given and can be used to promote the reign of God on earth. Accordingly, the Church believes that social justice must be given consideration together with financial security and financial yield in the investment of funds by individuals, churches, agencies and institutions in the United Methodist family.”

**The General Board, through our Wespath Investment Management division, combines Church values with our fiduciary responsibility, as we address environmental, social and corporate governance (ESG) matters.**

Our role—and our responsibility—is to respect, honor and sustain God’s creation by advancing ESG best practices, applying the tenets of sustainable investing in our own business practices. The General Board has more than \$20 billion in assets under management,\* providing us financial influence to engage companies with whom we invest in order to advocate for positive change.

The *Social Principles* can be found in both *The Book of Discipline* and *The Book of Resolutions*, and describe the UMC position on environmental, social, economic, political and investment issues. Both books are amended every four years by General Conference, the Church’s highest legislative body.

*The Book of Discipline* details general administrative provisions for the General Board and other general agencies, local churches and UMC annual conferences (regional bodies). *The Book of Resolutions* further defines the UMC official stance on contemporary issues.

\* Assets under management: As of December 31, 2012—\$18,444,010,387; As of December 31, 2013—\$20,462,062,992

# Transforming Companies through Sustainable Investing

The business rationale for sustainable, ESG-sensitive practices is clear: entities that consider environmental, social and corporate governance issues in their operations are more likely to perform better over the long term, thanks to reduced risk and costs coupled with increased efficiency and competitiveness. The business community shows growing recognition of the strategic link between ESG best practices and favorable financial performance.

We are encouraged by this trend; it reflects the General Board's central fiduciary goal of providing competitive financial returns while honoring the mission and principles of The United Methodist Church. We embrace a comprehensive approach to ESG best practices in our own investment strategy. The General Board's commitment to ESG issues is driven by parallel goals: being a prudent financial steward and doing our part to influence change to assure a sustainable future for all God's creation.

As one of 25 international co-authors and original signatories of the United Nations Principles for Responsible Investment (PRI), the General Board helped craft the six principles of this global initiative. PRI signatories acknowledge the importance of ESG and commit to considering these factors in investment decision-making and business operations.

This report describes the General Board's sustainable investing program through its Wespeth Investment Management division, and our approach to economics, environmental factors, social concerns and corporate governance issues. Highlighted under each subject heading are examples of our advocacy efforts undertaken during 2012 and 2013 to mitigate risks and/or to maximize returns. In the final section of the report, we discuss the risks and opportunities that impact us as a Church general agency and as a successful service provider.



*On the cover:*

*The butterfly develops through a process called metamorphosis—a Greek word meaning transformation or change in shape.*

*The General Board is helping transform companies worldwide through its promotion of—and commitment to—ESG best practices.*



General Board

## Pension and Health Benefits

*Caring For Those Who Serve Since 1908*

1901 Chestnut Avenue  
Glenview, Illinois 60025-1604  
www.gbophb.org

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

### Message from the General Secretary and Chief Executive

*“...when the Possessor of heaven and earth brought you into being and placed you in this world, he placed you here not as a proprietor, but a steward...”*

JOHN WESLEY, 1760

John Wesley’s words reflect the stewardship obligation we share for all God’s creation—the earth is the Lord’s and humankind is its protector and steward. We are entrusted with the care and stewardship of the earth’s resources and all creatures who share them, today and for the future. We are to respect, honor, manage and sustain them, as they are the work of God our Creator.

#### Stewardship

In Luke (*Chapter 16*), we find a “steward” described as one who manages or takes care of another’s property. A *steward* is a *manager* of a house, not the *owner*—a steward is responsible for taking care of those things that belong to someone else. Being a steward implies an obligation to be faithful and competent to protect even the smallest of resources—and in doing so, demonstrates worthiness of trust with greater resources as well.

The mission of the General Board of Pension and Health Benefits is one of a *financial* steward, working on behalf of 91,000 plan participants. We care for the clergy and lay workers of the Church by providing investment and benefit services that honor the mission and principles of The United Methodist Church.

We are the *steward of the financial resources* that have helped secure the retirement futures for hundreds of thousands of clergy and lay workers for more than 100 years.

#### Sustainability

*Sustainability* is a term that also has broad application to our work—as pension and benefits plan administrator, investor of more than \$20 billion in assets, and employer of human resources. The whole idea of pension support is rooted in sustainability—that means making sure payments and other benefits are secure and delivered, when they are expected—not just today, but well into the future.

We are a sustainable investor, committed to promoting environmental, social and corporate governance (ESG) best practices in our decision-making process. In this report, you will find our philosophy detailed and the efforts we put in place to support it clearly delineated.

#### Global Impact

The global economy is dynamic—events in one corner of the world can have far-reaching impact in another. We are aware of the far-reaching impact of our operations and are committed to implementing ESG principles and practices. In the companies in which we invest, we advocate for the application of ESG principles, assuring awareness of sustainable business practices and the commitment necessary to the world’s resources we share and are obligated to protect.

Wespath Investment Management (our investments division) offers investment services to UMC entities and UM-affiliated institutions. As a long-recognized leader in sustainable investing, we incorporate ESG considerations into our investment approach through shareholder advocacy, portfolio screening, proxy voting and positive social purpose lending.

Our role as financial steward implies sustainability of financial resources for the long-term protection of those who serve the Church, advocacy for sustainable business practices in those companies in which we invest, and the recognition that these actions all combine to deliver a global impact.

It is our obligation as a financial steward—and as a steward of all God’s creation—to work to effect positive change for the resources we are dedicated to preserving for future generations.

We invite your comments about our *Sustainable Investing Report*.



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



## Message from the Chief Investment Officer

### ESG and Sustainable Investing

The General Board is an active voice on environmental, social and corporate governance and sustainability issues in the corporate world. We view this advocacy role as both a duty and an opportunity to influence corporate behavior. The General Board's Wespeth Investment Management division actively promotes consideration of ESG factors as a means of transforming businesses and communities around the world. Too often, investors encourage short-term profit-maximizing strategies that minimize ESG impact and threaten the long-term viability of companies and our global economy.

We encourage companies to employ ESG best practices in their day-to-day operations. We do this through our proxy voting and through company-specific advocacy. During 2013, in addition to voting nearly 3,000 proxy ballots, we engaged more than 200 companies using advocacy tools such as letter writing, conference calls, in-person meetings and shareholder resolutions. We are pleased that several companies responded to our corporate advocacy by enacting meaningful policies to address complex issues such as executive compensation, access to medicines and animal welfare.

### Shared Commitment

We partner with other investors who share our commitment to financial and social performance. These partners include members of the Interfaith Center on Corporate Responsibility (ICCR), Ceres and its Investor Network on Climate Risk (INCR) project, the Forum for Sustainable and Responsible Investment (US SIF), the United Nations Principles for Responsible Investment (PRI) and, of course, other United Methodist investors. Most of our advocacy takes place in cooperation with these partners; our achievements are shared achievements.

### ESG Integration

We have been involved in ESG integration for many years. As an active member of several professional organizations committed to sustainable business practices, we can cite many examples of the power of ESG to transform business operations and to effect change; among them:

- 1) In 2006, the United Nations convened a group of the world's leading sustainable investors to develop a

transformative model for integrating consideration of ESG factors into investment management practice. The General Board was honored to be among the investors invited to participate in this meeting and in crafting the six principles that outline a framework for incorporating ESG factors into investment analysis. The resulting Principles for Responsible Investment (PRI) is now a far-reaching international network of more than 1,200 asset owners, investment managers and service providers—representing nearly \$35 trillion in assets—dedicated to promoting the acceptance and implementation of the Principles within the investment industry. Significantly, PRI signatories (including such well-known investment managers as BlackRock, Capital Group, J.P. Morgan and PIMCO) manage nearly 80% of Wespeth's investments.

The PRI has had a meaningful influence on the investment community. With access to global resources, coalitions of signatories have engaged companies on a number of ESG issues. We participated in several of these engagements. In addition, we helped develop the Principles for Inclusive Finance, a PRI initiative focused on expanding the range of financial services available to low-income individuals. (The General Board has been making loans on behalf of underserved communities since 1990.)

- 2) Wespeth has sought to transform the basic financial reporting framework by promoting the consideration of ESG issues. We have supported provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, and directed letters to the Securities and Exchange Commission (SEC) to encourage implementation of the Act. Specifically, we supported efforts to require companies to disclose conflict mineral activity.
- 3) Wespeth's Positive Social Purpose Lending Program continues to transform the lives of underserved individuals and families by providing financing for affordable housing and better access to health care and education. One of our recent projects, located in Los Angeles, provides affordable housing for formerly homeless and incarcerated individuals, particularly

single mothers. A community development project in Newark, New Jersey, provided financial support for the acquisition and development of two campuses of the North Star Academy charter schools. These campuses enroll mostly African-American and Hispanic students. For six consecutive years, 100% of North Star's students graduated from high school and were accepted into four-year colleges.

Whether supporting charter schools, affordable housing, financial reform or sustainable investing, Wespath is committed to helping transform the companies in which we invest and the markets in which we operate into more sustainable, responsible and profitable enterprises. As always, we welcome your thoughts and suggestions.



A handwritten signature in black ink, appearing to read "David H. Zellner".

**David H. Zellner**  
*Chief Investment Officer*



# About the General Board



The General Board of Pension and Health Benefits is a not-for-profit administrative agency of The United Methodist Church (UMC). We are responsible for the general supervision and administration of pension, disability, death and health benefits, programs and funds, as authorized by General Conference, the highest legislative authority of the UMC. Our plan participants include United Methodist clergy, lay workers, retirees and surviving spouses in the U.S. We also support pension programs for UM clergy and surviving spouses around the world.

As the largest denominational pension fund in the world, we also rank among the 100 largest pension funds in the United States. Our Wespath Investment Management division,\* established in 2011, serves the investment needs of plan participants and UMC-affiliated institutions such as foundations, colleges, children's homes, universities and hospitals.

Wespath helps participants and institutional investors achieve financial returns aligned with UMC values. We balance dual goals: helping to transform companies through sustainable investment practices, and prudently managing financial resources for those who serve the Church.

## Our Mission

*We care for those who serve by providing investment and benefit services that honor the mission and principles of The United Methodist Church.*



*\* In 2011, the General Board branded its investments division as Wespath Investment Management. Wespath's sustainable investing initiatives and ESG focus build on the General Board's century-long practices.*

## Senior Leadership

A five-member team consisting of the general secretary (chief executive), chief operating officer, chief financial officer, chief investment officer and general counsel oversee the day-to-day operations of the General Board. In accordance with the framework set forth in *The Book of Discipline*, the General Board is governed by a board of directors.

## Board of Directors

In 2012, the General Board welcomed a new board of directors to begin a four-year term. All board members are United Methodists and are appointed as follows:

- Three bishops, elected by the UMC Council of Bishops;
- Six members, elected by General Conference, following Council of Bishops' nominations;
- Sixteen members, elected by UMC jurisdictional conferences; and
- Eight members, nominated by a committee of existing board members whose terms are expiring.

Nine additional non-board committee members, elected by the board of directors, support the board of directors' work. Each board member serves a four-year term with the possibility of serving a maximum of three consecutive terms. Board members possess a variety of expertise in theology, actuarial science, finance, audit, banking, law and sustainable investing.

The board of directors is responsible for appointing the General Board's general secretary, who serves as the chief executive of the agency. A listing of the current board of directors and the General Board senior leadership team is available on our website ([www.gbophb.org](http://www.gbophb.org)).

## Board of Directors—Committees

Much of the board of directors' work is accomplished at the committee level. Committees with direct oversight of ESG-related activities include:

- *Fiduciary Committee*—Establishes a *Statement of Administrative Investment Policy* and monitors the General Board's compliance with this policy. The Fiduciary Committee monitors investment performance and must approve investing in any new asset class.
- *UMC Principles Committee*—Interprets the *Social Principles* and other directives of General Conference as they apply to the General Board's investment program. The UMC Principles Committee also ensures that the General Board demonstrates UMC values in its work, including in its investment policy, internal policies and external relationships.
- *Audit Committee*—Oversees internal and external audit processes, including services of an independent, certified public accounting firm. The Audit Committee also reviews the General Board's annual financial statements and Annual Report, and other matters related to our accounting, auditing and financial reporting.

## Senior Leadership Team and Board of Directors Committees

### Senior Leadership Team

Barbara Boigegrain  
*General Secretary and  
Chief Executive*

Mark Busbia  
*Chief Operating Officer*

Sarah Hirsén  
*General Counsel*

Tim Koch  
*Chief Financial Officer*

Dave Zellner  
*Chief Investment Officer*

### Appeals

Zedna Haverstock  
*Chair*

### Audit

Jennifer Burton  
*Chair*

### Bellwether/Services

Rev. Gary George  
*Chair*

### Board Life and Governance

Jerry Pinkerton  
*Chair*

### Executive

Bishop Paul Leeland  
*Chair*

### Personnel

Rev. Gary George  
*Chair*

### Fiduciary

Don Brackey  
*Chair*

### Legislation

Paul Nessler  
*Chair*

### UMC Principles

Rev. Dr. Ed Tomlinson  
*Chair*



## General Conference

General Conference is the policymaking body of the UMC. Meeting every four years, this international gathering of up to 1,000 delegates sets policy and direction for the worldwide Church—it is the only body that officially speaks for the 12 million United Methodists. General Conference delegates include clergy and lay members representing UMC annual conferences in the U.S. and around the world.



## Stakeholders

Our stakeholders are varied and include individuals and entities that benefit directly and indirectly from our operations. For example, the General Board is directly responsible for managing retirement financial resources in the sole interest of plan participants. We also are responsible to those we employ and to those institutions whose money we invest.

Specifically, we are accountable to:

- **91,000** plan participants in the U.S. (actively working clergy and lay employees; retired clergy, retired lay employees, and surviving spouses; and those with account balances on record);
- more than **2,800** retired clergy and surviving spouses covered by pension plans in the central conferences outside the U.S.;
- UMC annual conferences (i.e., regional conferences of the Church in the U.S. and around the world);
- more than **100** UMC-affiliated institutional investors, including many annual conferences, general agencies and UMC foundations;
- **246** General Board employees; and
- UMC General Conference.

Other stakeholders include low-income and underserved populations around the globe who benefit from our Positive Social Purpose Lending Program and sustainable investments, strategic partners with whom we collaborate on various ESG advocacy issues, and the Glenview, Illinois, community where our organization is located.

## Promoting Health in All Its Dimensions

Promoting a healthy workforce is not just the right thing to do, it is also good business—overall, healthy employees are more productive. The General Board's Center for Health was recognized by the National Business Group on Health in 2012 and 2013 with the Best Employers for Healthy Lifestyles award for our commitment to promoting a healthy workplace for our agency employees and for clergy and lay workers throughout the denomination.



This award highlights the General Board's comprehensive wellness programming, incentives and communications—all of which are anchored by data on health risk, claims, clergy and participant opinions, and more.

Through the Center for Health, we offer a unique, multidimensional perspective that promotes wellness and vitality in UMC mission and ministry through five dimensions of health: physical, emotional, social, spiritual and financial. Collaboration among the General Board of Pension and Health Benefits, the General Board of Global Ministry and the General Board of Discipleship sharpens the focus on health in all its dimensions—relating to each agency's individual mission—as essential to long-term UMC vitality.



# Economics



“Corporations are responsible not only to their stockholders, but also to other stakeholders: their workers, suppliers, vendors, customers, the communities in which they do business, and for the earth, which supports them. ...We applaud corporations that voluntarily comply with standards that promote human well-being and protect the environment.”

¶1631, Social Principles (Corporate Responsibility), *The Book of Discipline* 2012



Bryan Busowicki / Shutterstock.com

## Economics and Our Mission

Financial sustainability is inherent in the General Board's mission:

*We care for those who serve by providing investment and benefit services that honor the mission and principles of The United Methodist Church.*

## Economic Performance— Direct and Indirect Impact

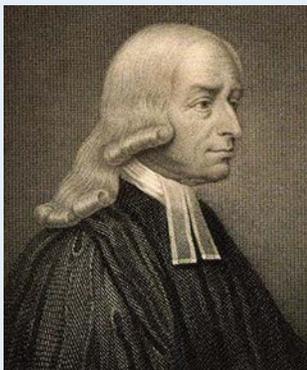
The performance of the General Board's funds—on par and frequently surpassing industry benchmark performance—confirms that sustainable investing need not sacrifice or compromise strong financial returns. The General Board's 91,000 plan participants and growing roster of UMC-affiliated institutional investors, who depend on the General Board for future financial growth, also rely on our long-term financial

sustainability. For more details about the General Board's economic performance, please see our *2013 Annual Report* and monthly investment reports at [www.gbophb.org](http://www.gbophb.org).

## Investment Ethics

The General Board regards Resolution 4071 *Investment Ethics* as a guidepost for sustainable investing. General Conference 2012 amended this resolution to reflect current trends in sustainable investing and to broaden the resolution's reach. The changes encourage all United Methodist-related investors—from individuals and churches to agencies, universities and foundations—to follow *Investment Ethics* guidelines to the best of their ability.

*Investment Ethics* reflects the Church's long-standing concern for social and economic issues, a concern going back to Methodism's founder, John Wesley, and the Church's first Social Creed adopted in 1908.



John Wesley

## Wespath Investment Management—Philosophy

“ We affirm the importance of international trade and investment in an interdependent world. Trade and investment should be based on rules that support the dignity of the human person, a clean environment and our common humanity. ”

¶163K, Social Principles (Trade and Investment),  
*The Book of Discipline 2012*

Wespath's investment philosophy is rooted in the UMC *Social Principles* and Resolution 4071 *Investment Ethics*, and reinforced by our agency's core values, including Integrity and Mutual Respect. We carefully screen our investments to avoid investing in companies with business lines we perceive as unethical or contrary to United Methodist Church values. On an ongoing basis, we review the companies that comprise our investment portfolio to identify those that could benefit from improved ESG policies and procedures; we focus our advocacy interests on these companies.

## Investment Screening

Investment screening is part of Wespath's sustainable investing philosophy. In application, this means selective investing based on defined portfolio screens aligned with Church values. Consequently, we generally avoid investments in companies that earn 10% or more of their revenues from gambling, alcoholic beverages, tobacco-related products, pornography, weapons or prison facilities. Our screening guidelines honor the *Social Principles* and are based on UMC values. Monitoring investment screens is a dynamic process. Wespath employees conduct daily monitoring to assure assets purchased are in accordance with our six exclusion screens. We also update screening lists monthly and review financial performance against screens annually.

It is always our intent and expectation to conduct business in ways we believe are morally right. Our financial performance monitoring and other studies have shown that our screening of investments has had little if any adverse financial impact on our total investment portfolio. Our funds' historical performance demonstrates that our commitment to six screens has not hindered financial earnings; this supports our belief that excluding investments in “sin stocks” and focusing attention on social values do not negatively affect financial outcomes and long-term business results. Year after year, the General Board maintains its position as the world's largest faith-based pension fund (among those reporting) and in the top 100 of all pension funds in the U.S.



Our newest screen, prisons, grew out of concern voiced by the United Methodist Interagency Task Force on Immigration that immigrants were being detained in these facilities without due process. Our board of directors' UMC Principles Committee adopted the prison investment screen in late 2011 and referred the resolution to the board's Fiduciary Committee, which amended the *Statement of Administrative Investment Policy*, which governs our investment program.

In 2012 we announced that Wespath sold all of its common shares of Corrections Corporation of America (CCA) and The GEO Group, the largest companies operating prisons in the U.S. Wespath's

exposure to these companies was less than \$1 million held in passively managed index funds.

The decision to withdraw investments from CCA and The GEO Group came after Wespath's careful study of the human rights issues, dialogues with both companies, a prison facility site visit and additional collaborative engagements with fellow investors in the Interfaith Center on Corporate Responsibility (ICCR).

## Advocacy and Economics

The General Board's Wespath Investment Management division contracts with more than 50 investment management firms and positive social purpose lending partners. We encourage our partners to be aware of and attentive to ESG issues in portfolio management. Our funds' historical performance demonstrates that applying social values to our own actions and expecting the companies in which we invest to adhere to ESG standards can deliver desirable, competitive investment returns while also

benefitting society-at-large. We see social good and financial returns as complementary, rather than in conflict.

We also encourage our investment partners to consider ESG standards in their business practices, to become signatories to the United Nations Principles for Responsible Investment and to make the pledge to incorporate ESG issues into their investment analysis and decision-making. Investment managers that also are PRI signatories direct more than 80% of our assets under management.

Our advocacy efforts align with sustainable investing strategies as described in Resolution 4071 *Investment Ethics*, which encourages all United Methodists

“ to persuade corporations to integrate responsible business practices on environmental, social, and governance issues into their operations and to be transparent in monitoring and documenting these practices in public reports. ”

### Case Study: PRI—Actively Involved

Eight years after collaborating with like-minded investors to craft the United Nations Principles for Responsible Investment, the General Board through Wespath remains actively involved in this initiative. Wespath employees participate on several committees dedicated to encouraging implementation of the PRI, including:

- *Principles for Investors in Inclusive Finance, steering committee*—Promotes responsible, sustainable investment in alignment with the PRI with direct and indirect investors, and advises the United Nations secretariat on global work-stream strategy and progress relative to social responsibility.
- *Impact Investing Asset Owners, working group*—Develops discussion forums where asset owners explore issues regarding social and environmental concerns, including global health, microfinance, sustainable forestry and water supplies, and renewable energy.
- *PRI-sponsored webinars and engagements*—Wespath team members actively participate in business forums.



## Advocacy Partners

The General Board is a member of several leading advocacy organizations—each of which offers expertise in a specific strategic area. Membership enables us to access ESG research and to network with like-minded investors. For example, the General Board's participation in the PRI connects us to an international network of organizations dedicated to sustainable investing. In many cases, General Board employees serve on the boards of directors and leadership committees of these organizations. We also collaborate with United Methodist Women, the General Board of Global Ministries and the General Board of Church and Society to promote ESG issues.

Other advocacy partners include:



## Encouraging ESG Integration Among Investment Managers

We strongly encourage our current and prospective asset management partners to consider ESG issues when making investment decisions on our behalf. As part of our due diligence, we annually ask current investment managers to describe how they factor ESG issues into their investment decisions.

Requests for Proposal (RFPs) issued to prospective investment managers require that the firm under review disclose its record on ESG and other sustainability issues and explain how consideration of ESG issues affects its investment decisions and business operations.

Responses to the following questions influence Wespath's selection of new investment managers:

- Is your organization a signatory to the PRI? If not, please explain why.
- What types of ESG issues do you consider when making investment decisions?
- How do you train your investment professionals on ESG issues?
- Describe the scope of all ESG activities in which your parent organization is involved.

## Positive Social Purpose Lending Program

Our Positive Social Purpose (PSP) Lending Program was launched in 1990 with a strategic vision: to help others in areas typically overlooked by traditional investors, while earning returns commensurate with risk.

The PSP Lending Program began with a \$25 million initial commitment to balance social and financial goals—socially, to foster community development in disadvantaged communities; and financially, to deliver competitive returns on investments. It facilitates risk-adjusted investments for individuals and communities that lack ready access to traditional sources of capital.

Since it was established, the PSP Lending Program has invested more than \$1.6 billion in projects that have touched every state in the U.S. Program funding supports affordable housing, community health centers, charter schools, homeless shelters and other community development projects, as well as microfinance that cultivates private and small business projects around the world.

The PSP Lending Program is a testament to the premise that social good is compatible with financial return. This program has changed people's lives by providing the means for housing, health, education and the opportunity to earn a living, while providing market returns commensurate with risk.



North Star Academy Charter School, Newark, New Jersey

## Market Value of PSP Assets: \$727.4 million\*

475 separate properties financed and currently held in portfolio have created or preserved:

- 27,947 units of affordable housing
- 9 charter schools
- 3 community centers for job training, mental health, dental services, social services, etc.
- 1 community health care facility



*The Terraces, Orleans Parish, Louisiana (200 units)—the General Board is helping to reshape the face of affordable housing in the U.S. with modern design, bright colors and fewer stories than traditional low-income housing.*

## U.S. Loans: 39 U.S. States and Virgin Islands

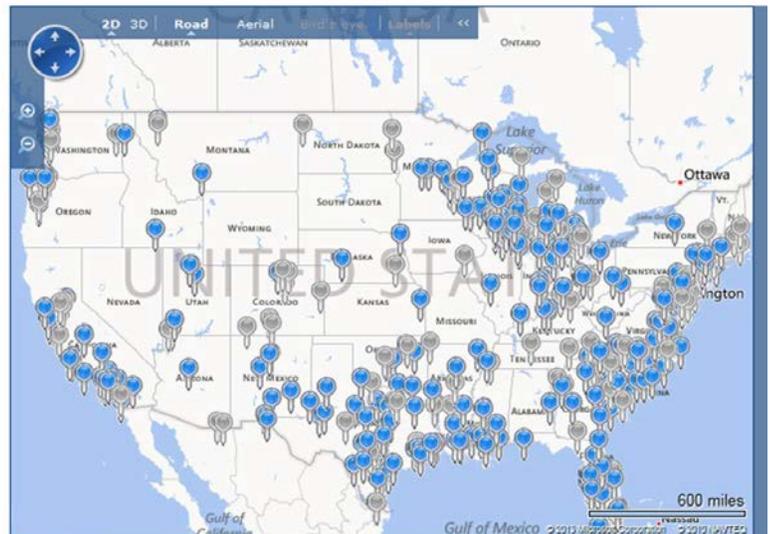
Top 5 states (current PSP investments \$305.4 million\*):

1	Texas
2	Wisconsin
3	California
4	Florida
5	Illinois

\*As of December 31, 2013

## Positive Social Purpose (PSP) Lending Program Property Map

*Through the PSP Lending Program, the General Board has financed properties in all 50 states.*



## International Equity Fund— Market Segments\*

	2012*	2013*
Canada	7.2%	6.4%
Developing Markets	22.9%	16.6%
Europe ex UK	30.6%	33.5%
United Kingdom	13.3%	14.1%
Japan	13.3%	15.4%
Pacific ex Japan	12.0%	11.0%
Other	0.7%	3.0%

\*Allocations as of December 31 for each year

## Developing Markets

Wespath's investments in the developing world comprise nearly 17%\* of our International Equity Fund; 13%\* of our Fixed Income Fund; and 9.4%\* of our Inflation Protection Fund.

Investments in businesses in China, India, Brazil, Russia and other developing markets present unique opportunities to address and affect environmental, social and corporate governance issues. For these investments, Wespath partners primarily with two investment managers specializing in these markets: Genesis and Capital Group (formerly known as Capital Guardian Trust Company). We have worked with these equity managers since the late 1990s. Both companies are committed to ESG issues and are PRI signatories.

Wespath and its investment managers also exert influence on corporate conduct through ESG-sensitive investments, proxy voting and other advocacy measures, to provide safe and fair working conditions, demonstrate appropriate environmental stewardship and avoid oppressive political regimes.

*The decline in developing markets allocation from 2012 to 2013 is primarily due to underperformance of developing markets (i.e., "emerging markets") relative to the developed markets and reclassification of certain holdings in our dedicated developing markets portfolio.*

\* As of December 31, 2013

## Financial Literacy Initiatives

The General Board offers a variety of programs and services to enhance and expand financial literacy among our plan participants and institutional investors, including:

- **Benefits Education**—The General Board's benefits educators and conference liaisons conduct financial and benefits

workshops in person and electronically, working closely with UMC annual conferences and other groups across the U.S. Our benefits education team has broad experience and expertise, including credentials in business administration, financial planning and public accounting.

- **Clergy Benefits Academy (CBA)**—The CBA is a program of benefits and financial education seminars delivering personal financial information in the context of ministry for clergy serving the UMC. The CBA is offered regionally to clergy and spouses, covering UMC benefit plans, retirement, tax laws, housing and disability, as well as the importance of taking care of personal physical and emotional health.
- **revitup! For a Lifetime in Ministry**—Launched in 2013, the revitup! event targets young clergy (age 25 to 39), and provides a unique opportunity to learn about benefit and leadership issues that affect personal life and ministry. Class topics include: resolving seminary and personal debt, handling conflict, raising dollars for ministry initiatives, managing finances, and living healthy and balanced lives.
- **EY Financial Planning Services**—The General Board offers financial consultation through EY at no direct charge to eligible plan participants. EY's financial planners provide confidential, objective guidance related to saving for retirement, making investment decisions, managing debt, buying a home, understanding tax issues and more.
- **Quadrennial Benefits Conferences (QBCs)**—Following the quadrennial UMC General Conference, the General Board holds regional meetings to educate conference leaders on benefits and financial changes resulting from General Conference actions. In 2012, the General Board reinforced our conference partnership with three regional QBC meetings

that offered UMC annual conference boards of pensions, benefits officers and conference leadership an overview of the programs, changes and challenges relevant to the Church, its clergy and lay workers. Discussions focused on retirement and welfare plan changes approved by General Conference 2012, impact of health care reform on individuals and employers, and more.

- *Web-Based Education for Participants*—We are committed to helping our participants make informed decisions when their financial well-being is impacted. Our main website ([www.gbophb.org](http://www.gbophb.org)) and our Benefits Access portal ([www.benefitsaccess.org](http://www.benefitsaccess.org)) offer a menu of tutorials, self-paced e-learning, and articles on topics such as preparing and saving for retirement, investing assets and household budgeting.

## Central Conference Pensions

Central Conference Pensions (CCP) provides retirement support for clergy who serve the UMC central conferences (those outside the U.S.) in Africa, Asia and Europe. During its fundraising stage, it was known as the Central Conference Pension Initiative (CCPI). This initiative grew from a mere concept to a \$25 million endowment devoted to establishing and seeding pension plans in countries with little or no

government pension support. All central conferences seeking pension support through CCP have met the necessary start-up criteria to establish pension plans.

Administered by the General Board, CCP now serves more than 2,800 retired ministers and surviving spouses—many of whom live in remote villages with limited access to modern technology. Financial assistance provided through CCP pension payments enables many of these individuals to afford the basic daily needs that most people in developed countries take for granted—a roof overhead, food on the table, essential medicine and school tuition for grandchildren. One 85-year-old retiree's experience illustrates the difference CCP has made to her: After receiving pension payments from CCP, she could afford her first-ever mattress; she says it's the best thing she's ever done for her health.

Initial CCP funding came from the United Methodist Publishing House and UMC annual conference contributions. As the initiative became more visible within the Church, six general agencies, local churches and individuals joined the effort with donations and pledges, helping grow the CCP financial assets that are being invested to make pension payments possible through investment earnings.



**Challenge goal: at least \$25 million**

**Amount raised: \$25.1 million\***

**Percentage of challenge goal attained: 100%**

*\* Data as of December 31, 2013*

# Environmental



“ All creation is the Lord’s, and we are responsible for the ways in which we use and abuse it. Water, air, soil, minerals, energy resources, plants, animal life, and space are to be valued and conserved...let us recognize the responsibility of the church and its members to place a high priority on changes in economic, political, social and technological lifestyles to support a more ecologically equitable and sustainable world leading to a higher quality of life for all of God’s creations. ”

¶160, Social Principles (The Natural World), *The Book of Discipline* 2012



*General Board of Pension and Health Benefits, Glenview, Illinois*

## Environmental Philosophy

Just as we all share in the resources of this earth, the General Board believes we have a shared responsibility to safeguard them for future generations.

We also believe sound environmental practices make good business sense. Environmental stewardship can positively impact productivity, shareholder value and a company's long-term viability, realized through more efficient use of natural resources, lower waste, higher output and favorable reputation in the marketplace.

Our Wespeth division concentrates its environmental advocacy in four key areas:

- Reducing greenhouse gas emissions to address climate change
- Improving water and energy efficiency
- Reducing waste
- Supporting safe and sustainable food systems

## Greener Earth Begins “at Home”

Protecting our environment begins at home—which for us is the General Board’s headquarters in Glenview, Illinois, constructed in 2010. Our building and grounds earned a Leadership in Energy and Environmental Design (LEED) Gold Certification from the U.S. Green Building Council. This prestigious certification was awarded after rigorous review of the facility’s design, construction, operation and maintenance.

The following measures further reduce the General Board’s environmental impact:

- Sun harvesting lighting
- Green cleaning equipment, techniques and supplies
- Zero VOC (volatile organic compounds) paint
- High-efficiency boilers for heating the building
- No chemicals used to maintain HVAC system’s water quality
- Beet-juice based product for snow and ice control, to avoid damage to plants or water supply
- Native plants in the landscape

## Environmental Advocacy—Proxy Voting

Proxy voting is one of the advocacy tools employed by Wespath to urge companies to replace dangerous or damaging environmental practices with sustainable best practices. Our voting has supported

many initiatives calling for protection of natural resources. We have supported calls for ExxonMobil, Chevron and Ultra Petroleum to report risks associated with hydraulic fracturing, a controversial method of extracting natural gas. We also supported resolutions urging ConocoPhillips, DTE Energy and ExxonMobil to reduce greenhouse gas emissions.

## Environmental Advocacy—Carbon Asset Risk

We joined a coalition of 70 global investors starting a new advocacy initiative focused on financial risks associated with climate change. In 2013, the investors—representing more than \$3 trillion in total assets—sent letters to 45 oil, gas, coal and electric companies worldwide asking them to conduct risk assessments using two possible assumptions:

- 1) No change in current business operations
- 2) A low-carbon alternative based on the goal to reduce greenhouse gas emissions 80% by the year 2050

The investors are concerned that the proven oil, gas and coal reserves of many energy companies could not be developed if the world’s governments enact regulations designed to reduce greenhouse gas emissions.



## Case Study: Water Conservation

Although water covers much of the earth, it is a limited resource. Its availability and responsible usage are growing worldwide concerns exacerbated by climate change. Wespath's engagement with foodservice leader Sysco, for example, has focused attention on the company's water usage and, according to company representatives, has led to operational efficiencies that save both money and natural resources. In 2011, Wespath co-filed a shareholder resolution that called attention to the hydrologic climate change risks in Sysco's extensive supply chain. The resolution was withdrawn after Sysco agreed to begin measuring and monitoring water usage among its agricultural suppliers. The company also agreed to report its progress in 2013, which it did by participating in the Carbon Disclosure Project's *Investor and Water Surveys*. This action will help Sysco identify opportunities to lower its carbon footprint, reduce water use and enhance water quality.



## Case Study: Water and Chemicals

As the third-largest potato supplier in the U.S., ConAgra's agricultural practices leave a significant impact on the environment. Wespath began a dialogue with ConAgra in 2009 in collaboration with other sustainable investors to address sustainability issues. In response to input from Wespath and other investors, ConAgra established five sustainability goals, including lowering its use of agricultural chemicals and water. Today, ConAgra's Integrated Pest Management Program and its proprietary Grower Information Edge Program help its farmers diagnose crop disease, reduce chemicals and optimize irrigation. Wespath continues its dialogue with ConAgra by holding periodic conference calls to monitor progress.



# Social



“ We affirm all persons as equally valuable in the sight of God. ...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. ...Our respect for the inherent dignity of all persons leads us to call for the recognition, protection and implementation of the principles of The Universal Declaration of Human Rights so that communities and individuals may claim and enjoy their universal, indivisible, and inalienable rights. ”

¶162, Social Principles (The Social Community), *The Book of Discipline* 2012



## Social Philosophy

Wespath addresses four aspects of social responsibility and sustainability that can affect people and corporate profits. These are:

- Equal employment opportunity and diversity
- Human rights
- Code of conduct for suppliers and global facilities
- Community development and responsible corporate citizenship

We encourage the adoption of the United Nations Guiding Principles on Business and Human Rights (“Ruggie Principles”)

and measure our own conduct against high standards. From diversity and equal opportunity within our workforce, to our national and international investments, Wespath and the General Board aspire to be model corporate citizens.

- *Diversity and Equal Opportunity*—The General Board is committed to diversity and equal opportunity. That commitment is reflected in the gender/ethnic diversity of agency employees and members of our board of directors.

As of December 31, 2013, we employed 246 persons of varied racial/ethnic identities who possess the education, skills and professional experience necessary to support our agency mission. Similarly, our board of directors reflects diversity of education, experience, gender, race/ethnicity, clergy/lay, and conference location to support the mission of the agency.

- **Employee Competency**—More than half of the Wespath division’s employees completed certification in “Responsible Investment Essentials” through the Responsible Investment Academy. This multi-module training heightens employee awareness of ESG issues and evolving trends related to sustainable investing.

- **Customer Satisfaction**—Customer Satisfaction is among our agency’s core values. We use formal and informal measures to assess our stakeholders’ perception of the job we are doing. Formal measures include online surveys and personal interviews of participants and plan sponsors, and written evaluations following General Board-hosted events. Informally, we monitor feedback received through our website and Customer Service call center. Listening Sessions held during our regularly scheduled board of directors’ meetings provide an opportunity for participants and other stakeholders to present issues of importance to them regarding General Board plans, program and investments.

### Employee Demographics\*

White	58.54%
African-American, Black	25.20%
Asian	6.50%
Hispanic/Latino	4.88%
Native Hawaiian/ Pacific Islander	0.81%
Unspecified	2.44%
American Indian or Alaska Native	0.41%
Two or more races:	1.22%

**Total: 246 employees**

*\*As of December 31, 2013*

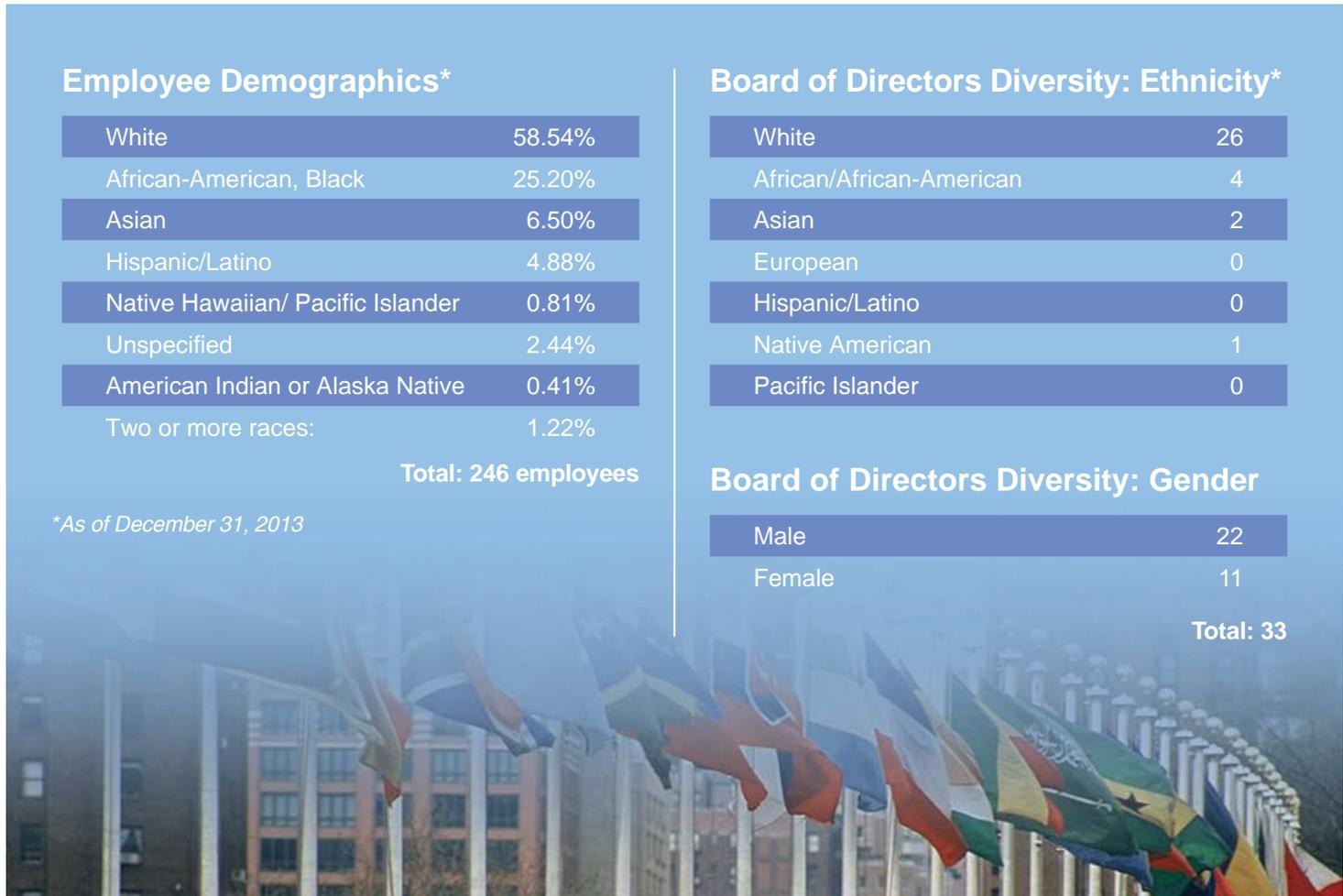
### Board of Directors Diversity: Ethnicity\*

White	26
African/African-American	4
Asian	2
European	0
Hispanic/Latino	0
Native American	1
Pacific Islander	0

### Board of Directors Diversity: Gender

Male	22
Female	11

**Total: 33**



## Case Study: Child Labor

Growing and harvesting cocoa is a labor-intensive process conducted primarily on 2 million family-run farms across West Africa. Access to modern agricultural methods is limited. Incomes are low and child labor is common—children often miss school in order to work in the fields, where they risk exposure to pesticides and injuries from handling machetes used to cut pods off the trees.

Hershey has responded to concerns raised by Wespath, United Methodist Women, the Interfaith Center on Corporate Responsibility (ICCR) and others to alleviate these harmful practices. Now, the company is using fair trade-certified cocoa for its Bliss product line and has pledged to source all its cocoa from certified suppliers by 2020. Fair trade certification standards address widespread issues in this industry, including child labor exploitation and low incomes for farmers. Hershey also is investing \$10 million over the next five years to improve farming practices and raise farmers' living standards.



## Case Study: Conflict Minerals

Mining of tin, tantalum, tungsten and gold plagues the Democratic Republic of Congo, where mining operations are forced to fund rebel militias who inflict brutalities on the Congolese people in that country's long-running violent conflict. Minerals extracted under such inhumane conditions are described as "conflict minerals." Motorola Solutions is proactively addressing this issue to assure minerals within its supply chain are derived from conflict-free sources.

In partnership with the PRI, Wespath has been in discussion with Motorola Solutions on this and other human rights issues since 2009. We applaud the company's Conflict-Free Smelter Project, Solutions for Hope Project and leadership role in the industry-wide Global e-Sustainability Initiative (GeSI)—efforts that establish guidelines, processes and financial incentives aimed at eradicating funding for militia atrocities while cultivating economic stability in this troubled region. Wespath has also engaged in similar advocacy discussions with Microsoft, Hewlett-Packard and Intel.



## Disaster Relief—Hurricane Sandy



When Hurricane Sandy pummeled the Northeast in October 2012, the General Board stepped in with compassionate assistance for affected participants and communities in crisis. We offered:

- *Accelerated access to hardship loans and hardship withdrawals* for participants in the United Methodist Personal Investment Plan, providing the ability to use retirement savings to rebuild homes and lives, many years before they normally would be eligible for retirement withdrawals.
- *Annual Election deadline extension* for the General Board-administered health plan (HealthFlex), allowing participants sufficient time to make their health plan choices and flexible spending account elections for 2013.
- *Supportive services* for affected participants, including a crisis hotline and access to eight no-cost counseling sessions to help participants under stress cope with the losses they experienced.
- *Flexibility obtaining medical care or prescription drug refills* outside the standard in-network timeframes for participants in the HealthFlex plan.
- *Hotel rooms for those who lost their homes.* These rooms had been reserved for attendees at a General Board-sponsored conference that was canceled due to the storm.



*Two members of the Wespath team, which took a break from spreadsheets and stock market reports to spend a day packing 350 boxes of fresh produce at the Greater Chicago Food Depository. The food depository provides the equivalent of 134,800 meals a day—serving 678,000 adults and children annually through a network of food pantries, soup kitchens and homeless shelters.*

## Helping to Feed the Hungry

Wespath is engaged in dialogue with ConAgra Foods, Hormel Foods and Mondelez International on issues related to nutrition, food labeling and food safety—issues that impact health, particularly among those who cannot afford costly nutritious food options. As an investor in these and other major food manufacturers, Wespath indirectly supports programs such as ConAgra's *Child Hunger Ends Here* and Hormel's *On Our Way to Ending Hunger*.

## Case Study: Human Rights

Many United Methodists are concerned about human rights issues related to the long-running conflict between Israelis and Palestinians. In 2012, our general secretary and chief investment officer traveled to Israel and the Palestinian territories and met with leaders on both sides of the issue. Wespath uses shareholder advocacy to highlight investor concerns over the risks to companies operating in the Palestinian territories. In these engagements, we encourage companies to strengthen their human rights policies and practices, and to carefully examine whether their policies are being upheld. Companies we have engaged in this effort include Caterpillar, Hewlett-Packard, Intel, Microsoft and Motorola Solutions.

*Chief Investment Officer Dave Zellner (second from left) and General Secretary Barbara Boigegrain (second from right) met with Israeli and Palestinian leaders to discuss human rights issues.*



## Case Study: Predatory Lending

In 2012, Wespath participated in a dialogue with Wells Fargo regarding the company's Direct Deposit Advance (DDA) lending program. Wespath was concerned about the high fees and interest rates associated with this product, which is often used by low-income borrowers and can turn a modest two-week loan into a debt that takes months to pay off. In partnership with the Interfaith Center on Corporate Responsibility (ICCR), Wespath wrote letters and held conference calls urging Wells Fargo to amend its Direct Deposit Advance program; however, the company was unresponsive. Investors are not the only concerned stakeholders. The Consumer Financial Protection Bureau (CFPB) also examined these short-term, high-interest loans. After regulators issued more stringent guidelines on this type of product in November 2013, Wells Fargo announced the product would be discontinued. Direct Deposit Advance loans were also discontinued at Fifth Third Bank, Regions Bank and US Bank.



# Corporate Governance



“ ... We believe private and public economic enterprises are responsible for the social costs of doing business, such as employment and environmental pollution, and that they should be held accountable for these costs. ... ”

¶163, Social Principles (The Economic Community), *The Book of Discipline* 2012



## Corporate Governance Philosophy

Complementing the *Social Principles*, the Church's *Book of Resolutions* affirms the UMC's support for ESG issues. Resolution 4071 *Investment Ethics* encourages companies to integrate ESG issues into business operations and calls on UMC agencies, including the General Board, to select third-party investment portfolio managers and funds that make a positive contribution to realizing the goals outlined in the *Social Principles* and *The Book of Resolutions*.

Our commitment to strong corporate governance begins with our own actions and extends to our expectations for others. During 2012 and 2013, Wespeth addressed corporate governance issues with more than 160 companies, concentrating on the following:

- *Separation of positions of chief executive officer and chairperson of the board*—We believe these positions should be held by two distinct individuals to allow the board of directors optimal independence in their oversight role.



Further, we prefer a corporate structure in which the board of directors is independent from company management. The general secretary of the General Board is an ex-officio, non-voting board member and the only employee representative on our board of directors.

- *Fair executive compensation*—We regard exorbitant pay for top executives as unjustified. Wespath votes to support corporate resolutions that link executive pay to corporate performance, as measured by industry benchmarks. Compensation for the General Board senior management strikes a balance between the need to attract and retain qualified executives, and a sensitivity to the agency’s not-for-profit status as a UMC administrative financial operation. Executive compensation data is disclosed in the General Board of Pension and Health Benefits *2013 Annual Report*, available at [www.gbophb.org](http://www.gbophb.org).
- *Board Diversity*—We believe in equal opportunity and diversity at all levels of operation, particularly at the upper levels of management and on boards of directors. Several studies have shown that companies with independent and inclusive boards are more successful in the global economy. The McKinsey Quarterly April 2012, for example, reports that companies with diverse boards enjoy significantly higher earnings and return on equity. According to their research, margin on earnings before interest rate and taxes (EBIT) was 14% higher and the return on equity (ROE) was 53% higher in companies with the most diversity as compared with companies with the least diversity. Our board of directors reflects 21% racial/ethnic diversity and 36% gender diversity.
- *Political spending and lobbying*—We believe corporate political contributions should be publicly disclosed. During 2012 and 2013, we supported multiple shareholder resolutions that called on Caterpillar, Chevron and other companies to disclose their political spending and lobbying activities. As a 501(c)(3) tax-exempt organization, our organization avoids all support for political candidates. The General Board is a member of the Church Alliance, which is a coalition of CEOs of denominational pension plans.

Together, we collaborate to influence Congressional legislation that will have a positive outcome for the thousands of participants whom we collectively serve.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, a direct response to the corporate and banking practices that contributed to the nation’s economic collapse in 2008, gives shareholders additional tools to influence corporate policies and practices through non-binding votes and other advocacy avenues.

## Proxy Voting

Voting proxies gives Wespath a strong voice to influence corporate behavior. We exercise our fiduciary duty to cast proxy votes on corporate governance issues such as executive pay, disclosure of political spending and lobby expenditures, and sustainability reporting. For example, we withhold our vote from members of the nominating committee if the board of directors is less than 20% diverse and a reasonable explanation is not given for the lack of diversity.

Wespath votes more than 3,000 proxies annually. Wespath’s proxy voting record for the General Board can be viewed at [www.wespath.com](http://www.wespath.com).

We take seriously our votes’ potential impact on corporate policies and business practices, and follow stringent controls to assure our voting decisions embrace the intent of the *Social Principles* and help to fulfill our fiduciary responsibility.

While Wespath’s employees thoughtfully assess proxy voting issues, we are not experts on all issues for all companies in which we hold shares. For this reason, we rely on our proxy voting advisor, Glass Lewis, for additional analysis. Our advisor helps us make informed voting decisions that enhance the financial viability of our investments while demonstrating sensitivity to human rights concerns and the protection of natural resources.

Wespath’s proxy voting guidelines include:

- *Securities Lending Program Administration*—Established processes to ensure securities on loan to other institutions are recalled whenever practical, so the securities are in Wespath’s possession at the time of voting.
- *Internal Proxy Control Program*—Proxy votes are executed through our third-party processing partner, Glass Lewis, based on Wespath’s defined proxy policy. Voting issues not covered by the standing policy are thoroughly assessed and weighed against the *Social Principles* and our investment philosophy before proxy votes are made.
- *Transparency*—Wespath’s voting record, proxy guidelines, stance on ESG issues and discussion of current engagements are available on our website at [www.wespath.com](http://www.wespath.com).

## Case Study: Regulatory Compliance

Regulatory compliance breaches and health care fraud in recent years resulted in significant fines for several major pharmaceutical companies. As an active member in a corporate/investor working group, Wespath partnered with the Council of Institutional Investors (CII) to examine the impact of compliance failures and evaluate ways to strengthen corporate controls. The group developed a policy document to guide corporate governance practices and address these issues. In response to dialogue with Wespath and other investors, Amgen, Bristol-Myers Squibb, Eli Lilly, Johnson & Johnson, Merck & Co., Pfizer and Regeneron Pharmaceuticals agreed to adopt the policy.



## Case Study: Political Spending

Corporate transparency on political spending protects investors and the public from companies that use assets for public policy objectives that may be at odds with a company's or shareholders' long-term interests. Through letter-writing and corporate dialogue, Wespath together with the Council of Institutional Investors (CII) called on many companies, including Gilead Sciences, to disclose information regarding board policies, processes and controls related to political spending. Gilead Sciences provided an earnest, comprehensive response and agreed to provide additional disclosure of political and lobbying expenditures. We commend Gilead Sciences on their responsiveness to shareholders and willingness to be transparent by disclosing the requested data on political spending.



# Risks and Opportunities



Significant issues continued to influence General Board operations—including UMC trends and challenges, federal health care reform and global economic pressures. These issues and other trends present risks to the agency's long-term sustainability, as well as opportunities for growth.



UMNS

## UMC Trends—Aging Clergy, Declining Membership, Financial Challenge

The UMC, like other mainline Protestant denominations in the U.S., draws fewer people into its pews than it did a few decades ago. The most recent data (2012) from the UMC General Council on Finance and Administration (GCFA) identified 7.4 million lay members in the U.S., down from 9.8 million in 1975 despite growth in the U.S. population overall.

The Church's U.S. clergy population is aging as well. Pastors 55 to 72 years old comprise 52% of UMC active clergy in the U.S., while clergy under 35 make up less than 6%. The UMC tradition of guaranteed clergy appointments and lifetime pension, exacerbated by the shrinking U.S. congregation base, puts financial pressure on the Church as a whole and the General Board as the administrator of pension and welfare benefits.

## 2008-2009 Global Financial Crisis

The global financial crisis of 2008-09 brought UMC economic and demographic realities into harsh focus. As the value of investment assets fell, it became clear additional resources would be needed to fund pensions at current levels. The General Board addressed this risk by initiating Church-wide financial conversations. These candid conversations continue as we join UMC leadership in addressing issues that challenge the UMC's ongoing sustainability. These issues involve not only General Board-administered benefits and rising benefits costs for annual conferences and general agencies, but also include broader UMC financial implications as church membership shrinks, donations from members diminish and debt increases among local churches.

As part of this dialogue, we engaged annual conferences in discussion about the shared responsibility of conference pension liabilities. Funding these liabilities in recent years is a challenge for many conferences struggling with multiple financial pressures.

## General Conference 2012

We turned risk into opportunity by asking that General Conference 2012 amend the denomination-wide, General Board-administered clergy pension plan (Clergy Retirement Security Program). General Conference adopted changes intended to strengthen the plan's long-term sustainability by reducing annual conferences' plan costs while maintaining clergy's lifetime retirement benefits.

In 2012, the General Board also created the LifeStage Retirement Income tool for retirees. This innovative tool turns retirees' defined contribution account balances into monthly payments designed to last through a participant's lifetime. Payment amounts are adjusted each year based on age, remaining account balance and LifeStage target allocation. This tool gradually reduces exposure to market volatility as a retiree ages and lessens the risk that the account balance will be depleted during one's lifetime by making adjustments as needed. The General Board's forward-thinking approach to building retirees' financial security was recognized with a 2013 Innovator Award from Crain's *Pensions & Investments* magazine and the Defined Contribution Institutional Investment Association.

## Conference Consultation

Financial challenges exist beyond our agency's direct business lines. General Board actuarial and treasury employees and conference liaisons provide consultation to conferences using various projection tools, helping to develop goals and strategies for funding current and future financial obligations. For conferences that request assistance, the Financial Advisory Consulting Team (FACT) provides comprehensive analysis and financial consultation. FACT is a strategic partnership among the General Board, the General Council on Finance and Administration and retired bishops, which provides guidance directed at the conference's financial sustainability, as well as intra-conference communication, culture and other systemic issues as identified. In 2012-2013, FACT consultations were conducted with six UMC annual conferences.

## Health Care Reform

The UMC *Social Principles* state:

“ Health care is a basic human right. ”

Federal health care reform under the Affordable Care Act (ACA) is intended to expand health coverage to millions of currently uninsured Americans, with the ultimate goal of near-universal health coverage. Since the law's passage in 2010, the General Board has closely monitored ACA regulations to interpret the law's impact on the UMC. The General Board, in collaboration with the multi-denominational Church Alliance, meets with and writes to officials in President Obama's administration and Congressional representatives regarding issues that impact clergy and lay employees covered by church health plans.

Open enrollment for federal and state Health Insurance Marketplaces ("exchanges") began in October 2013. The ACA's most significant changes took effect in January 2014, when premium tax credits (PTCs, federal subsidies for individuals with incomes below defined levels) and actual benefits through Marketplace coverage became available. Many UMC clergy and lay employees may qualify for PTCs, which will help them purchase health coverage through ACA Marketplaces if they are not covered by an employer's health plan.

## Affordable Care Act—Impact on Health Plans

ACA directly affects the General Board-administered health plan, HealthFlex, which covers nearly half of UMC annual conferences and three non-conference plan sponsors, as well as health plans of other UMC entities. For HealthFlex, the ACA presents sharply contrasting possibilities: the potential for plan growth and the risk of plan diminishment or termination.

*(continued on page 36)*

## Wespath: Building Assets to Strengthen Sustainability

In 2011, the General Board branded its investments division as “Wespath Investment Management” and began actively marketing its investment funds to UMC-affiliated institutions with investable assets. While the General Board served more than 100 institutional accounts at the inception of Wespath, this initiative strengthened our institutional service model.

By building on the General Board’s century of responsible and sustainable investment experience and demonstrated commitment to sustainable investing, Wespath is uniquely positioned to offer UMC-affiliated institutional investors performance combined with principled investing that honors UMC values.

Wespath has added \$723 million in new institutional assets since its launch. At year-end 2013, institutional assets comprised approximately \$2.5 billion of the agency’s \$20.4 billion total assets under management.

## Wespath Investment Management

New assets under management:

2011	\$166.2 million
2012	\$316.8 million
2013	\$240.0 million

<b>Total</b>	<b>\$723.0 million</b>
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## CCP Addresses UMC Global Growth

Although church membership is declining in the U.S., the United Methodist population is growing worldwide. Today, 4.4 million United Methodists live in Africa, Asia and Europe. Central Conference Pensions (CCP) is administered by the General Board to provide pension programs in the central conferences that need them, helping to meet clergy retirement needs among this growing segment of the UMC outside the U.S. (See page 17 for more on CCP.)



## **Affordable Care Act...** *(continued)*

Currently, many UMC churches offer health insurance to clergy only. Under the ACA, large employers (at least 50 full-time equivalent employees) will be required to offer health coverage to all their full-time employees—potentially increasing the number of individuals enrolled in HealthFlex as churches add lay employees to the plan.

Further, annual conferences not currently in HealthFlex may experience diminution of their health plans as small churches (not required to offer coverage under the ACA) depart from annual conference plans so their clergy can benefit from premium tax credits and the Marketplaces. As their own plans diminish in size and scale, these annual conferences may enroll their remaining clergy and eligible lay employees in HealthFlex—bringing growth to the General Board-administered health plan.

A contrasting scenario, however, could result in HealthFlex shrinking to an unsustainable level, as churches opt out of HealthFlex in favor of the ACA Marketplace. The move to a marketplace/exchange model has already gained momentum with the HealthFlex Medicare companion (retiree) plans, as many of the HealthFlex conferences transitioned to OneExchange for Medicare (retiree) supplemental coverage as of January 2014.

The non-Medicare market is significantly different from the Medicare market, so the General Board is exploring various plan designs for the non-Medicare population, including competitive consumer-driven plans, private exchanges and ways to serve the segment of the denomination's population that is ineligible for PTCs. These options may keep HealthFlex financially sustainable for the foreseeable future.

The General Board's interest in health care reform extends beyond our health plan. Each time the federal government issues ACA notices and guidance, the General Board responds with information and consultation to help participants, annual conferences, local churches and other UMC employers understand the law's impact and requirements, so they can make informed decisions.

The General Board—through its Center for Health—is strengthening its commitment to denominational health by offering wellness programs to annual conferences and affiliated groups not in HealthFlex and by serving as a wellness and research resource. This is an opportunity to promote health, which in turn results in healthy congregations.

## **Dodd-Frank Wall Street Reform and Consumer Protection Act**

Title VII of the Dodd-Frank legislation delegated authority to the Commodity Futures Trading Commission (CFTC) and the Securities Exchange Commission (SEC) to regulate the use of certain derivative transactions by financial entities. The CFTC and SEC have issued regulations to protect employee benefit plans in their use of these derivatives to mitigate or hedge certain financial risks. These regulations apply to the General Board's retirement and other benefit plan assets, but they will have a very minimal impact on the execution of the General Board's investment strategies. We will continue to monitor rules and regulations published as a result of the Dodd-Frank legislation and adjust the execution of our investment strategy as required.

## **Investment Performance and the World Economy**

Steady though modest economic growth continued in the U.S. and throughout the developed world, as very strong stock market results reflected increased optimism that economic conditions would continue to improve. Meanwhile, deceleration in developing world economic growth signaled caution, particularly as China—now the world's second-largest economy—works through growing pains in its transformation to a modern, developed nation.

The U.S. must confront a dilemma that most certainly affects the long-term sustainability of continued economic stability. While technological advances in the production of fossil fuel reserves have made significant contributions to employment conditions and are projected to eliminate U.S. dependence on foreign energy sources, continued U.S. reliance on fossil fuels further exacerbates the adverse impact of carbon dioxide emissions on the environment. The longer the U.S. waits to deal with the issue of climate change, the greater the risk of devastating consequences to our economic future.

Despite this and other challenges, the General Board remains optimistic about the future. The dollars invested on behalf of General Board-administered plans and United Methodist-affiliated institutions depend heavily on the positive future performance of domestic and global financial markets. Our diversified investing approach supports long-term growth and sustainable business practices. Our funds have demonstrated consistent and reliable performance over the long-term, and compare favorably to their benchmarks and similar funds offered by other financial service providers. At year-end, total market value of all funds managed by the General Board was \$20.4 billion, up from nearly \$18.5 billion the previous year.

## UMC General Conference 2012

Substantive changes to certain General Board-administered benefit plans (i.e., the mandatory clergy plans) require General Conference approval. Legislation approved by General Conference 2012 brought changes to clergy long-term disability and retiree death benefits provided through the Comprehensive Protection Plan (effective January 2013) and retiree pension benefits through the Clergy Retirement Security Program (effective January 2014). Changes to both plans balance the commitment to providing adequate benefits for clergy with the need to assure long-term sustainability of these plans. (See "UMC Trends," page 33.)



## Climate Change and Risk

Worldwide natural disasters caused more than 9,000 deaths and affected 100 million people in 2012 alone [International Disaster Database (EM-DAT)]. Despite these numbers, 2012 had the second-fewest natural disasters and the fewest deaths from natural or technological disaster since 2003. Nonetheless, occurrences such as Hurricane Sandy, 2012's unrelenting heat and drought followed by 2013's record-setting cold across the U.S., typhoons in the Philippines, and flooding in Russia, China, Pakistan and Nigeria kept climate risk on the radar screen for ESG-focused organizations. In addition to the alarming risk to humans and the environment, climate risk and natural disasters cause significant financial impact. Broad diversification within the General Board's investment portfolio helps protect assets under management against volatility caused by climate-related risks.

Protecting the environment is a key advocacy opportunity for the General Board. Through Wespath, we support activities:

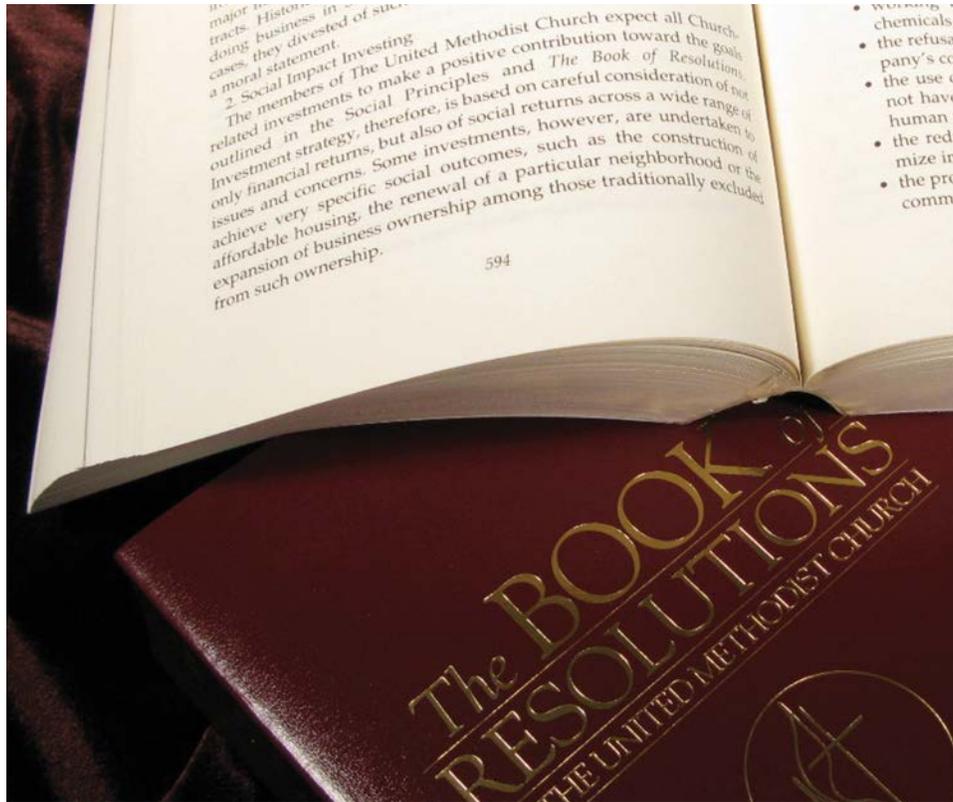
- aimed at protecting natural resources and curbing climate change;
- asking companies to reduce their greenhouse gas emissions; and
- promoting renewable energy resources, sustainable forestry practices, and equitable use of water.

In addition, Wespath spoke at a public hearing of the Environmental Protection Agency (EPA) in support of Tier 3 fuel standards. The standards mandate the use of low-sulfur fuel and are projected to increase fuel efficiency, reduce vehicle emissions and decrease health concerns such as asthma, lung disease and heart disease. Wespath also co-signed a letter to President Obama in support of new power plant performance standards, which set carbon emission limits for newly-constructed power plants.

These and other responsible environmental practices protect our natural resources, while favorably impacting corporate sustainability and shareholder value.



# ESG Advocacy—Transforming Businesses and Communities



The General Board and its Wespeth Investment Management division stand firmly committed to a comprehensive approach to transforming companies and communities through consideration of environmental, social and corporate governance best practices, as described throughout this *Sustainable Investing Report*. As a faith-based investor, we view social and environmental responsibility and financial performance as inter-related and complementary—both can be realized; neither should be compromised.

We consider ESG factors in our financial decisions and urge our business partners and the companies in which we invest to do the same. Our sustainable investing approach is founded on the UMC *Social Principles* and reflects its values. As a financial steward for those who serve the Church, we are directed to grow responsibly the assets entrusted to us, so that we can continue providing retirement, welfare and health benefits long into the future.

We care for those who serve the Church—and through ESG advocacy, we do our part to promote ESG best practices in the U.S. and around the world.

More information about the General Board's ESG advocacy is available at [www.gbophb.org](http://www.gbophb.org) ("Investments") and [www.wespath.com](http://www.wespath.com).

For questions or comments regarding the information in this *Sustainable Investing Report*, please contact [sustainableinvestment@wespath.com](mailto:sustainableinvestment@wespath.com).







General Board

## **Pension and Health Benefits**

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*Caring For Those Who Serve*

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