



Wespath

BENEFITS | INVESTMENTS



2015-2016 SUSTAINABLE INVESTMENT REPORT

Global Investor— Sustainable Investor (an excerpt)

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.³



Elements of Active Ownership Strategy

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.

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

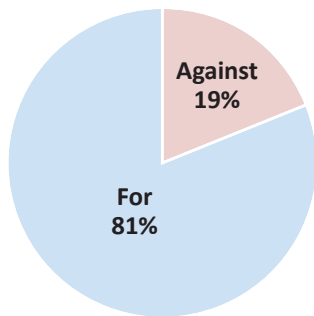
Active Ownership (continued)

PROXY VOTING

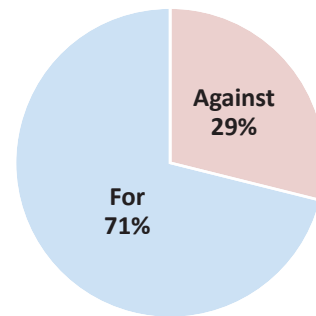
Wespath holds shares in 5,400 companies around the world. We have the opportunity, and an obligation, to vote at the Annual General Meetings (AGMs) of these companies. In the absence of more direct engagement, proxy voting represents one of the most important tools we have to influence a company's governance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

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

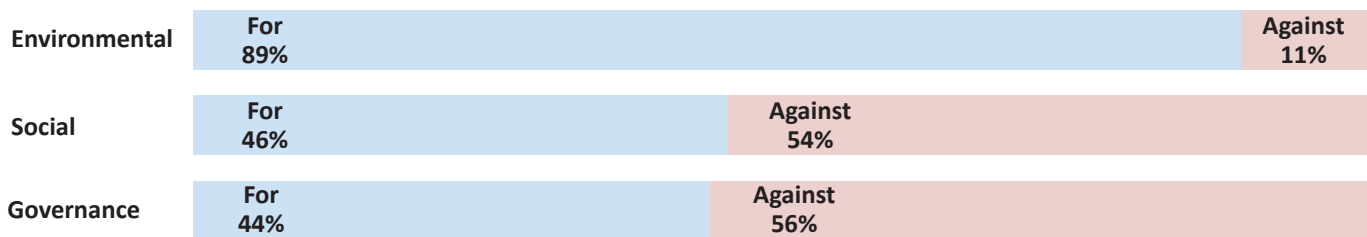
- **Total times we voted for and against management (2016)**



- **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'. The main headline is 'Mylan to Settle EpiPen Overpricing Case for \$465 Million' by Katie Thomas, dated Oct. 7, 2016. The article text begins: '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. The federal government said this week that Mylan had been told multiple times that it was wrongly classifying the EpiPen, which led the Medicaid and Medicare programs to overpay for the product. 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. 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 Bu'. The main headline is '5,300 Wells Fargo employees fired over 2 million phony accounts' by Matt Egan, dated September 9, 2016, at 8:08 AM ET. The article text begins: 'Everyone hates paying bank fees. But imagine paying fees on a ghost account you didn't even sign up for. That's exactly what happened to Wells Fargo customers nationwide. 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. The phony accounts earned the bank unwarranted fees and allowed Wells Fargo employees to boost their sales figures and make more money.'

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).

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.⁴

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

⁴ 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).

- **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.

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 A⁵” 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

⁵ “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

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 vote⁶. 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 resolution⁷.



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.

⁶ www.issgovernance.com/rare-u-k-shareholder-proposal-receives-rarer-company-support

⁷ 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*.

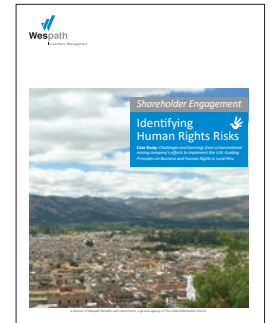
We have published and shared this report with our peers to illustrate the importance of conducting effective engagement with companies to help mitigate human rights-related risks. We believe that engagement with companies is more powerful when investors work together to encourage dialogue about these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

The full report can be found at www.wespath.org/humanrights.

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 women⁸. Research⁹ 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 States¹⁰)—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**.

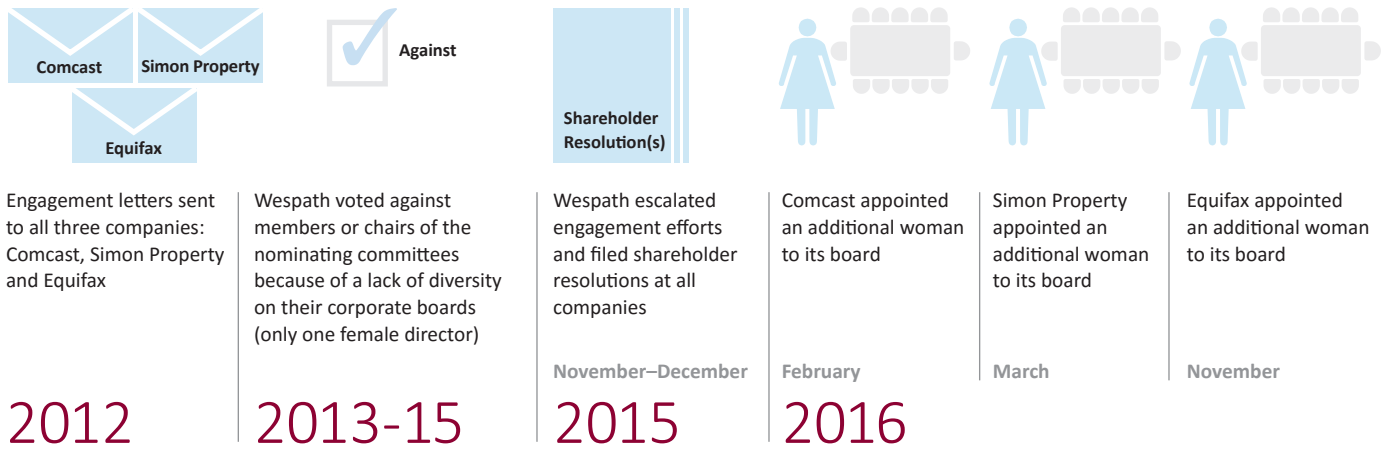
⁸ www.30percentcoalition.org (as of September 30, 2016)

⁹ 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).

¹⁰ 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.

