



Wespath

BENEFITS | INVESTMENTS



2015-2016 SUSTAINABLE INVESTMENT REPORT

Global Investor— Sustainable Investor (an excerpt)

External Manager ESG Integration

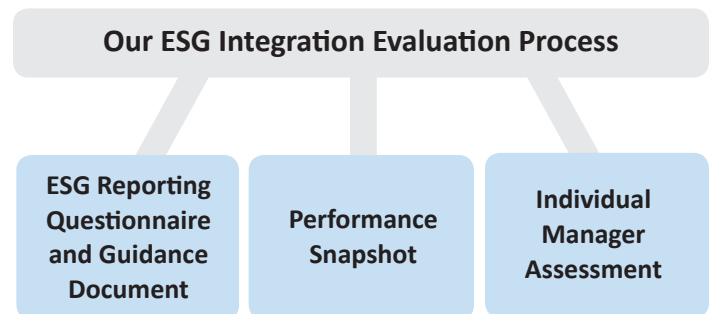
As a founding signatory to the PRI, Wespath is dedicated to incorporating ESG issues into our investment analysis and decision-making processes as we believe it supports long-term value creation. This extends to our relationships with our external asset managers.

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

Our process includes:

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

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



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

External Manager ESG Integration (continued)

External Manager ESG Integration Performance Snapshot

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

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

We evaluate them on:

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

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

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

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

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

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