



# Wespath

BENEFITS | INVESTMENTS



2015-2016 SUSTAINABLE INVESTMENT REPORT

## Global Investor— Sustainable Investor (an excerpt)

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# Q&A with the Chief Investment Officer

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

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

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

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

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

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

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

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

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

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

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

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

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



Dave Zellner  
Chief Investment Officer

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

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

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

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

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

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

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

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

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

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

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