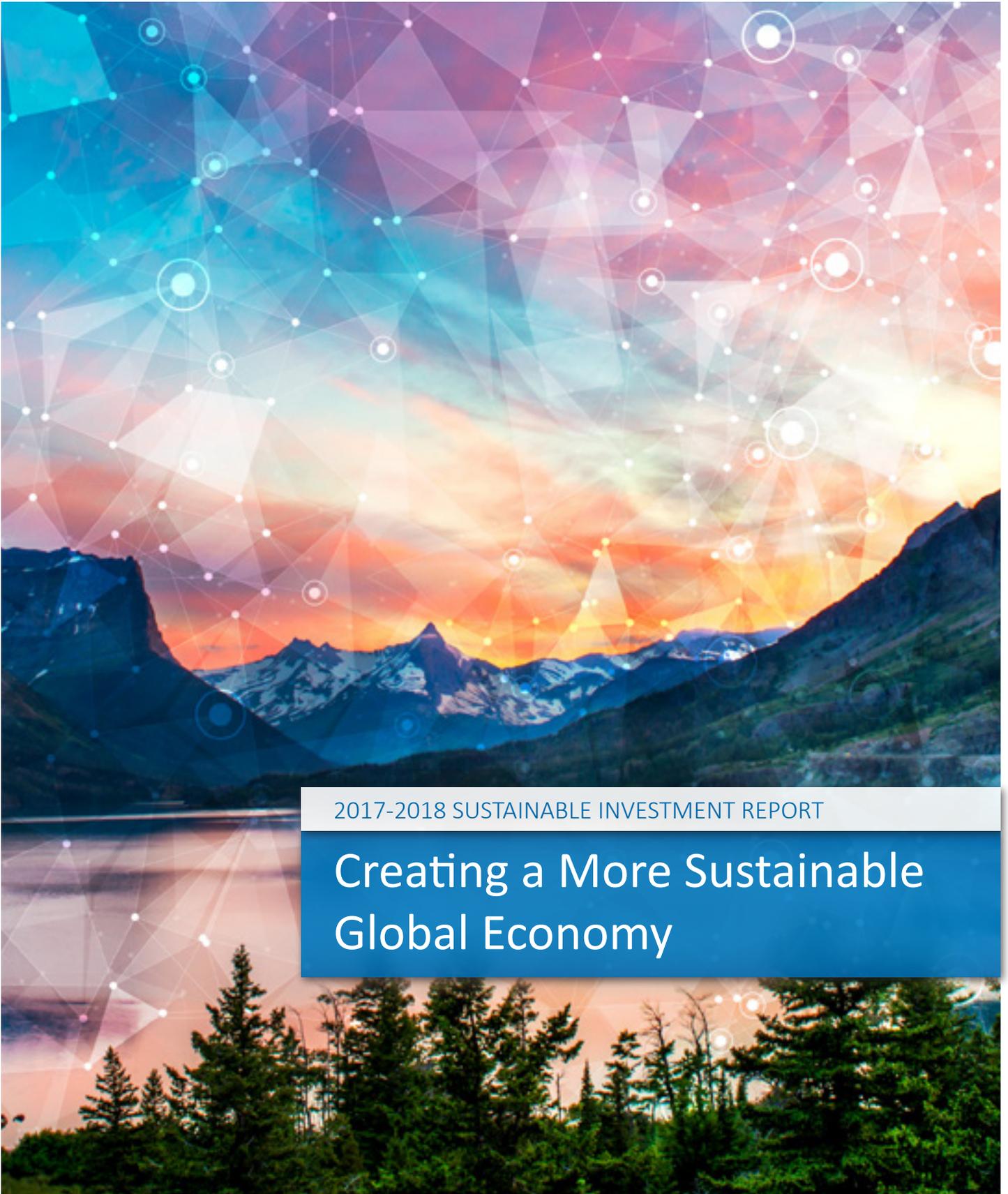




Wespath

BENEFITS | INVESTMENTS



2017-2018 SUSTAINABLE INVESTMENT REPORT

Creating a More Sustainable Global Economy

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About Us

Wespath Benefits and Investments (Wespath) is a not-for-profit agency that has been serving The United Methodist Church (UMC) for over a century. In accordance with its fiduciary duties, Wespath administers benefit plans and invests \$21.9 billion in assets on behalf of over 100,000 participants and over 130 United Methodist-affiliated institutions (as of December 31, 2018).

Wespath's comprehensive approach to sustainable investment supports its role as a prudent fiduciary and its aspiration to have a positive impact on the environment and society. Its investment process proactively incorporates the consideration of environmental, social and governance (ESG) factors into investments across asset classes and in the selection of external asset managers.

Wespath maintains the largest reporting faith-based pension fund in the world. For additional information about Wespath Benefits and Investments, please follow Wespath on [Twitter](#), [Facebook](#) and [LinkedIn](#).

 twitter.com/wespath

 facebook.com/wespath

 linkedin.com/company/wespath-benefits-and-investments



Investing for a Sustainable Future

Wespath Benefits and Investments (Wespath) achieved an important milestone in 2018—celebrating our 110th year of caring for those who serve The United Methodist Church (UMC).

Wespath is responsible for securing the retirement futures of over 100,000 UMC retirement and benefit plan participants around the world. We also manage the assets entrusted to us on behalf of over 130 UMC-affiliated institutions.

In total, we are the stewards of approximately \$22 billion in assets, making us the world's largest reporting faith-based investor.

Over the past century, we have diligently focused on activities that strengthen our ability to consistently fulfill our fiduciary responsibilities.

Decades-Long View

To accomplish this, we must apply a multi-decade-long view. Many of our participants and their beneficiaries will engage with our agency for up to 80 years, and our institutional clients expect to fulfill their missions in perpetuity.

Our Board of Directors oversees our sustainable investment activities. This includes adherence to fiduciary duty and alignment with UMC values, all in pursuit of strong, long-term financial returns (see page 45).

We have a heritage of sustainable and impactful investment activities that have delivered market rates of return. Indeed, we have a nearly three-decade-long history of financing affordable housing for low and moderate income families through our Positive Social Purpose (PSP) Lending Program (see page 22). We have directly engaged global companies and policymakers on climate issues material to investment returns for over 20 years (see page 27).



Barbara A. Boigegrain
General Secretary, Chief Executive Officer

David Zellner
Chief Investment Officer

Creating a Sustainable Financial Economy

To continue effectively serving our stakeholders, we look at what lies ahead for the world economy and how it may affect financial markets. A key theme of this report is the power of institutional investors, like Wespath, to broadly engage with organizations that will influence the development of a more sustainable financial economy.

We believe that, working together, investors can support a sustainable global economy that promotes long-term prosperity for all, social cohesion and environmental health. This will provide greater assurance for healthy financial markets and resilient companies—leading to greater financial security for our participants and institutional investors.

There are many ways in which we work internally and externally to promote financial, environmental and social sustainability.

First is the positive impact we achieve through our shareholder engagement work. We were pleased to lead a historic shareholder resolution asking Occidental Petroleum to provide investors with enhanced climate risk reporting. The 2017 resolution was the first of its kind to pass in the United States (see page 30). Shareholders like Wespath have been increasingly demanding more transparency around how companies are preparing for the physical and policy changes associated with the risks of climate change. We also engage companies on other issues important both to our society and their businesses, such as their protection of indigenous rights (see page 33) or actions they can take to mitigate the opioid crisis (see page 35).

Investing for Change

Additionally, we have made further progress regarding our ESG integration work. We have undertaken an extensive analysis of our funds to assess and manage climate-related risks, and determine where we can identify new opportunities (read about our Climate Action Plan on page 12). We have also expanded our ESG integration manager appraisal work to ensure they are conducting an analysis of ESG factors as they relate to their investment decision-making process (see page 20).

Finally, we make deliberate, thematic investments in companies we believe will produce strong financial results, as well as produce positive ESG impacts. This includes continuing to grow our PSP Lending Program, microfinance investments in the developing world (see page 26), and our new “Transition Ready” Strategy, which targets companies whose business models prepare them for the low-carbon transition (see page 21).

Our commitment to our participants and institutional clients extends decades into the future, and we fulfill our fiduciary duty for ensuring the assets we manage on their behalf reflect this long-term view. Wespath will continue its evolution as a world-leading sustainable investor focused on supporting the financial well-being of our participants and missions of our institutional clients.

Barbara A. Boige grain
General Secretary, Chief Executive Officer

David Zellner
Chief Investment Officer

“Over the past century, we have diligently focused on activities that strengthen our ability to consistently achieve strong, long-term financial returns.”

Key Statistics



Agency

- Managing **\$21.9 billion** in assets
- **110 years** serving The United Methodist Church
- Dedicated team of more than **20 investment professionals**
- Trusted fiduciary to **over 100,000 participants and over 130 institutional clients**



Impact

- Over **\$1.2 billion** invested in low-carbon solutions
- **\$1.1 billion** allocated to women and/or minority-owned asset managers
- Over **\$2 billion** dedicated to Positive Social Purpose investments since 1990



Engagement

- Making our voice heard by voting proxies at **nearly 5,000 global companies annually**
- Published **9 public policy statements** to regulators and lawmakers in 2017 and 2018
- Led **52 corporate engagements** in 2017 and 2018
- Participated in **over 350 collaborative corporate engagement efforts** in 2017 and 2018



Proven Performance

- Flagship Multiple Asset Fund has **outperformed 93% of its peer funds** since inception in 2002*

*As of December 31, 2018 net of annual fund operating expenses. Historical returns are not indicative of future performance. Inception date is May 1, 2002. Performance is compared to the Lipper Multiple Asset Fund Universe, a group of mutual funds comparable to the Multiple Asset Fund. Lipper utilized all mutual funds included in the pre-defined Lipper classification universes of “Mixed-Asset Target Allocation Moderate” and “Mixed-Asset Target Allocation Aggressive Growth” to construct this Universe. See the Fund’s Summary Fund Description at wespath.org/funds/maf for more information.

How to Read This Report

Wespath is pleased to provide our 2017-2018 Sustainable Investment Report, *Creating a More Sustainable Global Economy*. This report outlines our considerable work in carrying out sustainable investment strategies that aim to maximize the opportunities and manage the financial risks associated with a changing world, while having a positive impact on our society. We believe acting as long-term investors, with a combined focus on investment returns and impact, supports the financial well-being of our participants and United Methodist-related institutional clients.

Wespath’s Sustainable Investment Report consists of two main sections:

- *Creating a More Sustainable Global Economy*—an overview
- *Invest—Engage—Avoid*—stories of impact

The first lays out our view of sustainable investment as a tool for creating a society where all benefit financially and socially from more sustainable economic practices. Here, you will learn about the broad changes—megatrends—occurring today which have a long-term impact on global financial markets and on our investment approach.

Understanding the world around us helps us fulfill our fiduciary duty to be impactful long-term investors.

The second section, *Invest—Engage—Avoid*, is the framework we use to categorize our everyday activities.



- **Invest:** manager ESG integration, positive impact thematic investments
- **Engage:** engagement, proxy voting, strategic partnerships
- **Avoid:** financial risk exclusions

Financial Stability Board’s Task Force on Climate-Related Financial Disclosures (TCFD)

Wespath reporting incorporates TCFD disclosure framework

The TCFD was developed in 2015 by the G20 to create a voluntary disclosure roadmap that companies could use to better inform investors about the risks and opportunities climate change presents

to their business operations and future planning. Much of our activity over the past two years has focused on climate-related risks and opportunities associated with the transition to a low-carbon economy. While climate risk is not the only focus of our work, it is an area we believe, if mismanaged, has the potential for great investment losses. If managed well, opportunities for gains emerge.

In 2017, the TCFD provided guidance to asset owners and companies. Throughout 2017 and 2018, investors united in requesting measurable, comparable climate risk-related data from the companies in which they invest.

Global corporate engagement efforts, including Wespath’s, asked companies to report using the TCFD framework, which allows asset owners to translate climate risk exposure into usable financial metrics.

The TCFD is now widely recognized as a reporting framework that is mutually beneficial to companies and investors. Both benefit from uncovering potential pitfalls and growth opportunities inherent in how companies are managing climate-related issues.



TCFD Primer:

- Created voluntary approach to climate-related financial risk disclosures for companies to provide investors with comparable, decision-useful data
- Backed by more than 580 organizations (as of February 2019), including Wespath
- Developed by asset owners and asset managers
- Now being used by asset owners as a way to evaluate their own portfolios

Market-leading asset owners are starting to use the TCFD to evaluate their own portfolios. Understanding our own exposure to climate risk helps us better manage those risks, uncover potential opportunities and, ultimately, deliver stronger returns to those we serve. Taking the same steps we require of companies also helps inform our corporate engagement efforts and leads to stronger engagement outcomes.

Finally, we believe there is value in providing the same level of transparency we ask of the companies in which we invest.



The TCFD reporting broadly falls under four pillars:

- **Governance:** What is the role of Wespath's Board of Directors and management in assessing climate-related issues?
- **Strategy:** What climate-related risks and opportunities has Wespath identified, and how will these impact our business?
- **Risk Management:** How do we identify and manage climate-related risks?
- **Metrics:** How do we measure climate-related risks and opportunities? What are our own emissions? Do we set climate targets?



Governance



Strategy



Risk
Management



Metrics

Throughout this report, you'll find call-out icons directing you to the relevant pillar, and more detailed reporting in the Appendix (see page 43).



2017-2018 SUSTAINABLE INVESTMENT REPORT

A More Sustainable Global Economy Strengthens Financial Markets

A More Sustainable Global Economy Strengthens Financial Markets

Wespath believes that investors collectively can transform the world by helping to create and support a sustainable global economy that promotes long-term prosperity for all, social cohesion and environmental health. This transformation will ensure the development of healthy financial markets and resilient companies—providing greater security for our participants and helping our institutional investors attain their financial goals.

Acting as Long-term Investors

We are long-term investors. Embedded in our *Investment Beliefs*—a set of 10 principles guiding our investment decisions—is the conviction that maintaining a *Long-term Perspective* ultimately benefits the over 100,000 participants and approximately 130 institutional clients we serve.

We often talk about the “long tail of pensions,” the idea that promises made to pension participants now will be paid decades in the future. As of 2018, our

UMC pension plan sponsors have an obligation to fund participant pensions through about the year 2090, while foundation and endowment clients seek to serve their missions in perpetuity.

As long-term investors, we have an obligation to take action today that ensures the world economy evolves over the next 60, 70, 80 years in a way that strengthens financial security for all. The sustainable economy of the future requires societal and environmental health if we are to fulfill our long-term investment objectives.

Our *Investment Beliefs* point to a number of ways in which we can put the weight of the approximately \$22 billion in assets we manage to work in a manner that promotes a more sustainable economy.

We believe our focus on *Sustainability* will add financial value over the long-term and uphold the values of the UMC. Our approach requires that we invest in companies that will lead and benefit

from this global transformation, and often requires that we engage with many of the world’s largest corporations to encourage them in further adopting sustainable policies and practices. In 2017 and 2018, we purposefully invested in strategies providing sustainable solutions to some of the world’s most pressing issues. We also led corporate engagements with 52 companies on issues related to climate change risk, board diversity, human rights and more (see page 27). We believe these issues are critical for the transition to a sustainable economy.



“... We have an obligation to take action today that ensures the world economy evolves ... in a way that strengthens financial security for all.”

A More Sustainable Global Economy Strengthens Financial Markets (continued)

Five Megatrends Reshaping Our World

Wespath has identified five megatrends that are reshaping our world, each of which presenting financial risks and opportunities to our funds:



Demographic Shifts



Shift in Economic Power



Accelerating Urbanization



Climate Change and Resource Scarcity



Technology Advancement

The Megatrends Changing Our World

To operate as effective long-term investors, we must understand how the world around us is changing.

Indisputable shifts are occurring regarding the world's population, where people live, how goods and services are exchanged and the degree to which technology is embedded in every industry across the globe. These shifts have a profound effect on water, food and energy—all of which may create systemic risks and opportunities within the global economy and financial markets.

We strategically implement our sustainable investment strategies to respond to—and financially benefit from—these global trends.

For example, the number of people on Earth will grow by 1 billion to reach 8.6 billion by 2030,¹ and 60% of that population will be considered middle-class.² This will undoubtedly lead to an increased demand for natural resources, energy, high-protein food sources, and general goods and services associated with increased disposable income. These demands will create opportunities through the growth of consumer goods and services and shifting consumer preferences.

They will also create challenges related to limited resources like water, food, land and affordable housing in increasingly urbanized cities.

Likewise, the continued development of emerging economies like China and India, both with strong projected growth well into the future, will create new economic opportunities at the local level. However, this will also shift economic power away from the highly-developed regions that have historically driven financial markets.

At Wespath, we hold an optimistic worldview: we believe that the world is on a long-term path of modest, yet sustainable growth led by the developing economies of Southeast Asia, Latin America, Eastern Europe and Africa.

As the global population increases, along with urbanization rates and the rising middle-class in emerging economies, the accelerated adoption of technology in all regions and industries will have (and already has had) profound implications for society and the global economy.

The increased integration of these new and exciting technologies has created efficiencies that stimulate economic growth. At the same time, technology is evolving so quickly that it has become a major disruptive force in the economy, creating

not only risks, but unprecedented opportunities for companies and investors across the globe. As prudent fiduciaries, we must assess these global risks and opportunities in the management of our funds.



Our Strategic Approach to the Low-Carbon Transition

We view the world’s broad acceptance of climate change as the megatrend driving one of the most important shifts in the financial markets—the transition to the low-carbon economy. We believe that the companies able to manage the risks and capitalize on the opportunities created by this transition make attractive long-term investments.

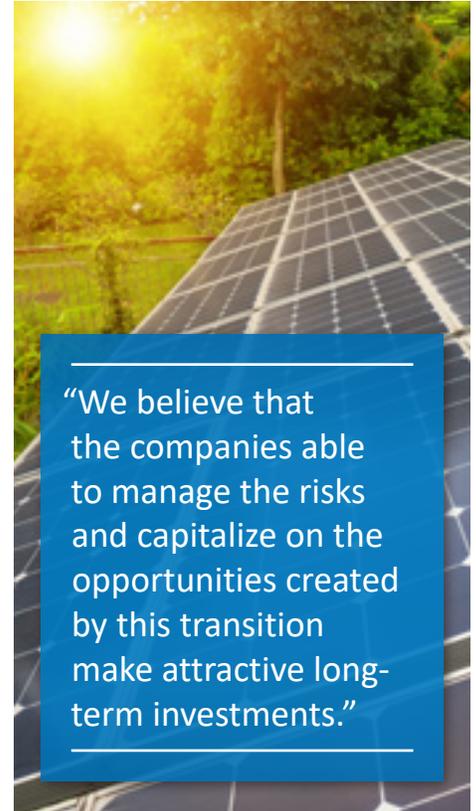
Change is already occurring both on the regulatory front and regarding the pace of technological advancements.

The number of climate laws passed globally has doubled every five years since 1997.³ In 2018, for example, China joined the Netherlands, Norway, France, the U.K. and India in setting an eventual end date for fossil-fuel-powered vehicle production.⁴ California passed a bill requiring rooftop solar on all homes built in the state starting in 2020.⁵ France announced

that it will ban oil and gas production by 2040.⁶

Overall, the world has adopted clean energy far faster than experts expected, and countries have moved aggressively in the past few years to reach their targets. This includes the U.S., where despite recent actions at the federal level, many states, cities, companies and citizens are taking action on their own to accelerate the transition to a low-carbon economy.

Meanwhile, the rate at which carbon-efficient technologies are deployed has accelerated as the cost of cleaner technologies has dropped and efficiency has improved.⁷ Within transportation, for example, due to declining costs and increasing battery storage capacity, the global fleet of electric vehicles is projected to triple in the next two years.⁸ We believe these underlying forces will continue to accelerate the transition to a low-carbon economy into the future.



“We believe that the companies able to manage the risks and capitalize on the opportunities created by this transition make attractive long-term investments.”

What does a low-carbon economy look like?



Using goods and services made in a more efficient and cleaner way



Using fewer services and products that give off high amounts of carbon dioxide



Procuring energy from renewable sources

How do we know that the shift to a low-carbon economy is happening?



Countries
51 programs are underway worldwide that price CO₂ emissions⁹



Cities
More than 100 U.S. cities are committed to 100% renewable energy¹⁰



Companies
Dozens of industry leading companies around the globe are moving to renewables¹¹



Cost
It is more costly to keep a coal plant running than it is to build a new wind farm¹²

A More Sustainable Global Economy Strengthens Financial Markets (continued)

Climate Action Plan

In 2017 and 2018, Wespath established and implemented a Climate Action Plan to help us identify, assess and systematically manage climate-related risks and opportunities. Wespath's Climate Action Plan provides a framework for all our climate-related investment activities.

Climate Action Plan:

- 1 Establish a Belief
- 2 Analyze Our Funds
- 3 Act Accordingly

TCFD Pillar
 Governance, Strategy, Risk Management and Metrics
See Appendix



Step 1: Establish a Belief

In 2017, Wespath undertook a journey to holistically evaluate its approach to the low-carbon transition. Wespath staff spent nearly a year conducting a detailed analysis on how our peers were investing with regard to the low-carbon transition, how companies were adapting and how policymakers were responding. The result

was a new investment belief, approved by our Board of Directors, which reflects the world in which we are operating.

This new *Low-Carbon Transition Investment Belief* states: "A global transition to a low-carbon economy is underway driven by the world's assessment of environmental risks. We believe public policies, emerging technologies and physical impacts associated with concerns about climate change are creating winners and losers across companies, industries and countries, impacting investment returns. As prudent fiduciaries, we must assess these global risks and opportunities in the management of our funds."

Creating an investment belief regarding the low-carbon transition ensures the views of Wespath's investment staff all align on how the world around us is changing, and allows us to move forward, together, as we mitigate the associated risks and uncover opportunities.

Step 2: Analyze Our Funds

We believe inefficiencies exist in financial markets, and therefore active management adds value through long-term strategic asset allocation decisions and fund construction. As such, a large portion of Wespath's assets are actively managed by external asset managers. We expect these external partners to

integrate the consideration of the risks and opportunities associated with the transition to a low-carbon economy into their investment analysis and decisions.

In Step 2 of the Climate Action Plan, Wespath assesses the degree to which each of our active managers integrates climate change analysis into their investment processes. Our analysis is part of our unique ESG Appraisal process, where we evaluate how ESG considerations are incorporated into investment decision-making (see page 20).

Wespath also invests in several passively managed investment strategies,¹³ providing broad market exposure. In Step 2 of the Climate Action Plan, Wespath issued a request for information (RFI) to a range of data vendors, index providers and asset managers to explore how to best minimize potential systemic risks associated with the transition. We believe these passively managed strategies do not adequately incorporate the risks and opportunities associated with a transition to low-carbon economy.

The RFI was based on the hypothesis that companies preparing for the transition to the low-carbon economy by adapting their business lines would be more resilient over the long-term and ultimately better investments.



The RFI responses we received highlighted the fragmented nature of low-carbon data, indices and investment products. However, the responses also demonstrated there is now more low-carbon data available than ever before, much of which provided financially relevant insights. This finding uncovered an opportunity to better align our passively-managed assets with our *Low-Carbon Transition Investment Belief*.

Step 3: Act Accordingly

The Climate Action Plan culminated in Wespeth creating a new approach to low-carbon investing. In 2018, we partnered with BlackRock, the world’s largest asset manager, to create the Wespeth Transition Ready Strategy.

The Transition Ready Strategy identifies the companies whose business models prepare them for the low-carbon transition, as we believe those adapting now

will outperform over the long-term (see page 21).

We also invest in other climate-related thematic investments such as water and waste management, sustainable agribusiness, off-grid solar, and more. We now invest about 6% of our total assets in low-carbon strategies.

Finally, our extensive shareholder engagement efforts specifically address material, climate-related risks and opportunities.

The Global View of Sustainable Development

The global investment community, including Wespeth, has a role to play in promoting and supporting sustainable financial systems that will achieve required investment returns, and a global economy that promotes long-term prosperity for all, social cohesion and environmental health.

In 2015, global leaders signed on to the ambitious 2030 Agenda for Sustainable Development¹⁴ at a special United Nations summit. The UN-led Agenda aims to end poverty, promote equality, protect the earth and improve global prosperity by 2030. The Agenda contained 17 Sustainable Development Goals (SDGs), creating a blueprint for achieving a sustainable future.

The United Nations describes the Agenda as a call to action for all countries to promote prosperity while protecting the planet.

There are echoes of Wespeth’s vision in the Agenda, specifically around the goal of achieving prosperity and protecting our environment.

“We now invest about **6% of our total assets** in low-carbon strategies.”

We Are Not Alone In Our Vision of a Sustainable Future

The UN’s 17 Sustainable Development Goals are broad yet interconnected and contain 169 specific targets for countries to achieve.

SUSTAINABLE DEVELOPMENT GOALS



A More Sustainable Global Economy Strengthens Financial Markets (continued)

Wespath's Vision

Long-term prosperity for all



Wespath's Activities

- Our sustainable investment activities support creation of long-term value for our participants and institutional clients.
- Our work with strategic partners promotes the development of more robust capital markets, raising the tide for all market participants.

Social cohesion



- Our Positive Social Purpose Lending Program invests in affordable housing and community development in the U.S., as well as microfinance opportunities around the globe. We bring needed capital to under-served communities worldwide.
- Our Management of Excessive Sustainability Risk Human Rights guideline dictates that we do not invest in 'high-risk operating areas,' including regions where documented human rights abuses occur.
- We engage companies and policymakers on issues of social impact like the risks of opioids to society, or the rights of indigenous populations.

Environmental health



- 6% of Wespath's assets are invested in low-carbon strategies.
- Our investments include low-carbon solutions, sustainable agribusiness and sustainable forestry.
- Much of our corporate engagement focuses on how companies are preparing for, and supporting the transition to, a low-carbon economy.
- We believe a low-carbon transition is underway. We invest in the change agents—those companies helping to bring about a low-carbon future.

Sustainable Economy and Global Markets

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

Wespath co-authored and is a founding signatory to The United Nations Principles for Responsible Investments (PRI).

The six Principles assert the importance of ESG issues in investment decision-making and call on signatories to actively "promote acceptance and implementation of the Principles within the investment industry."

The integration of ESG factors in all our activities is embedded in our *Sustainability Investment Belief*, which states: "The intentional integration of ESG factors in the selection and management of investments positively affects long-term performance."

Wespath was instrumental in developing the Principles and was among the 25 founding signatories. Since then, over 1,800 institutions from more than 50 countries, representing approximately \$70 trillion in assets under management, have become signatories. These signatories join Wespath in recognizing the major impact that ESG factors have on human life, our planet's health and sustainable portfolio performance.

Throughout this report, you will see these Principles reflected in our activities—from working with external asset managers to ensure they are incorporating ESG issues into their decision-making, to our significant corporate engagement activities.

We believe that companies skilled at identifying and managing ESG issues will be stronger long-term investments.

Companies that can efficiently recognize the risks to their businesses associated with a changing climate will act to mitigate those risks and uncover potential business opportunities.

Firms able to recognize the impact their operations may have on native populations can adopt policies to protect and respect the rights of those groups, and avoid social conflicts that could disrupt operations.

Corporations that recognize the value of diverse boards of directors have been proven to outperform their peers.¹⁵

Our world and the global economy are ever-changing. The challenges we face are serious and threaten our vision for attaining long-term prosperity for all, social cohesion and environmental health, which ultimately jeopardizes the financial security of the participants we serve and the fulfillment of the missions of our institutional partners.

By proactively and aggressively addressing these challenges, we can bring our vision to fruition: operating in sustainable markets that help our investors achieve their goals and enhance the world around us.

The Six Principles for Responsible Investments are:

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

PRI's Mission:

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

A More Sustainable Global Economy Strengthens Financial Markets (continued)

How Are We Doing?

PRI Assessment: A+

All PRI signatories are required annually to complete an in-depth questionnaire to report on how they are adopting each of the six Principles. The PRI then produces individual ‘Assessment Reports,’ which provide valuable feedback, peer benchmarking and guidance to each signatory about how well they are integrating ESG factors into investment analysis and decision-making.

In 2018, Wespeth received the highest rating, A+, for our approach to Strategy and Governance. This overarching category covers our approach to sustainable investing, including our policies, resources and the ways in which we partner with other investors to affect positive change. This annual exercise provides us with the opportunity to reflect on how actively and effectively we are incorporating the Principles into our investment activities.

We also performed better than our peers in nearly every major category.

Assets Owners Disclosure Project

In 2017, Wespeth ranked among the top 4% of the world’s largest 500 asset owners (19th globally and 3rd in the United States) in the Asset Owners Disclosure Project’s (AODP) Global Climate 500 Index. AODP ranked the world’s 500 largest asset owners based on how they manage climate risk and invest in low-carbon solutions.

PRI Assessment Module— 2017-2018	Wespeth	Industry Mean
Strategy and Governance	A+	A
<i>Indirect—Manager Selection, Appointment and Monitoring</i>		
Listed Equity	A+	B
Fixed Income	A+	C
Fixed Income—Corporate Financial	A+	C
Fixed Income—Corporate Non-Financial	A+	C
Fixed Income—Securitized	A+	C
Private Equity	A	C
Property	A+	C
Infrastructure	A	C
<i>Direct and Active Ownership</i>		
Listed Equity Active Ownership	A	B
Fixed Income	B	B
Fixed Income—Securitized	B	C

Other ranking highlights include:

- **AA rating**—AODP rated Wespeth’s activities AA, placing us in the ‘Leaders’ category.
- **#5 Globally for Governance and Strategy**—Top 1% of global asset owners for the structure and approach we use to oversee climate risk objectives, and the degree of integration of climate risk principles into our policies and processes.
- **#10 Globally for Portfolio Risk Management**—Top 2% of global asset owners for the way we evaluate and manage climate change-related financial risk and opportunities.

Wespeth ranked in the top 4% of global asset owners for climate change investment activity.





2017-2018 SUSTAINABLE INVESTMENT REPORT

Invest—Engage—Avoid

Wespath’s internal framework of *Invest—Engage—Avoid* guides our sustainable investment activities:

- **Invest:** We seek to invest in companies that will generate a market-rate return and demonstrable social and environmental impacts.
- **Engage:** We engage companies and policymakers, urging them to adopt more sustainable practices and policies.
- **Avoid:** We avoid investments that pose sustainability-related financial risks to the funds we manage.



Invest



Engage



Avoid

In 2017 and 2018, our activities differentiated us as both positive influencers and innovative investors in the sustainability space. The following pages provide an overview of our 2017-2018 activities.

Invest—Engage—Avoid

Invest—Discovering ESG in Unexpected Places



Investing in a sustainable manner means Wespath incorporates the consideration of ESG factors into investments across asset classes and in the selection of external asset managers. Our *Investment Beliefs*, which help guide our investment approach, state that “the intentional integration of environmental, social and governance (ESG) factors in the selection and management of investments positively affects long-term performance.”

As a founding signatory of the United Nations Principles for Responsible Investment, we are committed to “incorporating ESG issues into investment analysis and decision-making” and “promoting acceptance and implementation of the Principles within the investment industry.”¹⁶

The Shape of ESG Integration

At Wespath, ESG integration takes many forms.

It means looking across asset classes to see how the \$21.9 billion we invest on behalf of our participants and institutional clients is positioned for long-term success in light of the megatrends we see impacting our world, much like we did with our Climate Action Plan (see page 12).

It means working with our existing and potential managers to understand how ESG factors influence their everyday decision-making (see page 20).

And it means specifically looking for investments that we believe can make a positive impact on the world around us, while allowing us to fulfill our fiduciary duty to those we serve.

Unexpected Benefits

One of the benefits of ESG integration is that it allows Wespath to take a holistic approach to sustainable investing in a manner that touches all assets under management. During this process, we have uncovered ESG opportunities in unexpected places.

One of the clearest examples of this is within Wespath’s Transition Ready Strategy (see page 21).

The Transition Ready Strategy, which we developed alongside BlackRock, identifies companies whose business models position them to benefit from the low-carbon transition, as we believe those adapting now will outperform over the long-term. The strategy scores companies based on their involvement in energy production and carbon-efficient technologies, as well as their capabilities relating to natural resource management in energy, water and waste. It then tilts toward those with higher scores.

What we found in the development of the Transition Ready Strategy is that the usual suspects—the renewable energy or electric vehicle companies—were not necessarily the ones the strategy recommends to overweight. Indeed, the ‘transition readiness’ of those companies is already factored into the share price.

The forward-looking nature of the strategy—we are looking for a company’s future preparedness for the low-carbon transition—combined with the fact that this strategy evaluates companies across all sectors means it recommends overweighting companies one would not immediately expect.



“One of the benefits of ESG integration is that it allows Wespath to take a holistic approach to sustainable investing in a manner that touches all assets under management.”

For example, the strategy overweights a discount retailer because it has consistently reduced the amount of electricity it uses in its operations. The company is doing this not because it explicitly wants to reduce its carbon footprint, but because it has recognized that doing so reduces its overall costs, streamlining its business and increasing profit margins.

Another example is a large oil and gas producer that has been focused on improving its water management by investing in new and innovative water management systems. Water is heavily used in the production of oil and gas products, and by better managing its water use, the company is able to reduce its input costs and generate its product more efficiently.

Uncovering ESG Integration Among External Asset Managers

Conversations with external asset managers through our Manager ESG Appraisal process have also revealed a deeper level of ESG integration than previously recognized.

We expect ESG integration from our asset managers and attempt to understand how the consideration of ESG factors filters down from organizational policies to everyday investment decision-making.

Our experience over the past four years of evaluating asset managers has been that, while certain managers may not specifically use the term “ESG” to describe their analysis, they do in fact assess many of the environmental, social or governance trends impacting specific sectors and industries.

Most recently we found that one of our external asset managers was evaluating multiple ESG-related data points, without ever referring to them as such, as part of its ongoing due-diligence process.

In this case, the manager had been tracking employee safety, including number of accidents per year, for one of its portfolio companies involved in the operation of heavy machinery, as well as the company’s fuel and natural resource usage. The manager saw significant improvement over time, which positively contributed to the manager’s assessment of company risk and ultimately influenced the decision to invest in the company.

Impact Investing

Wespath also considers itself an “impact investor.” Our longest-running impact investment program—the Positive Social Purpose Lending Program—has been operating for nearly 30 years. The PSP Lending Program focuses on providing needed capital to promote affordable housing and community development in the U.S., and microfinance opportunities worldwide (see page 22).

We recently decided to pursue a path that would allow us to scale the success of our PSP Lending Program by making impact investments in a variety of themes in countries around the world. To date, Wespath has specifically dedicated nearly 15% of our assets to investments that are creating measurable positive impact, in a range of themes including sustainable forestry, energy access, sustainable agribusiness, energy efficiency, renewable energy, and waste and water management.

We are pleased that the assets we invest on behalf of our participants and institutional clients can be used in a manner that strengthens our local and global communities, while aiming to enhance investment returns.

“To date, Wespath has specifically dedicated nearly 15% of our assets to investments that are creating measurable positive impact, in a range of themes including sustainable forestry, energy access, sustainable agribusiness, energy efficiency, renewable energy, and waste and water management.”

Impact Investing—Dollar by Dollar



Low-Carbon Solutions:
Over \$1.2 billion



Women and/or Minority-Owned Manager Program:
\$1.1 billion



Low Income Housing and Community Development:
\$870 million



Sustainable Agribusiness:
\$19 million

Invest—Engage—Avoid

Invest—Investment Highlights

Manager ESG Integration

Wespath believes that asset owners are a driving force for ESG integration across the investment industry. We have the ability to encourage a deeper consideration of ESG factors among both existing and prospective external asset managers. We view this as a driver of long-term performance and an element of our fiduciary duty.

Wespath applies an internal 'ESG Appraisal' process to evaluate and monitor our external asset managers' policies and practices. The appraisal allows us to provide practical feedback to encourage ongoing progress. We have been continuously improving this process since 2014.

The appraisal process involves:

- ESG Integration Reporting Questionnaire
- Guidance Document
- Performance Snapshot
- Individual Manager Assessment

Wespath developed an ESG Integration Reporting Questionnaire that we require our managers to complete as part of their annual reporting responsibilities. It includes questions about ESG integration

at the organizational (firm) level and the individual strategy (mandate) level. We also developed a Guidance Document to accompany the ESG Reporting Questionnaire. This Guidance Document highlights the level of detail, scope and the type of answers that will be most informative.

We use the responses to create a Performance Snapshot and Individual Manager Assessment for each external manager. We share these materials with each external manager to provide practical feedback, encourage ongoing progress and ensure alignment with Wespath's manager expectations.

More Than 50 Managers Evaluated

In 2018, we built a custom solution with a third-party software provider to conduct the ESG Appraisal online. The software streamlines the appraisal process and allows Wespath to conduct ESG assessments for more than 50 external managers and investment strategies annually. This helped us evaluate and benchmark the level of ESG integration of all 15 of our listed equity managers, all 14 of our fixed income managers and all 22 of our alternatives managers (including private real estate and private equity managers).

We use our ESG Appraisal to provide customized feedback to each of our managers regarding our expectations on their progress, and in certain cases, we hold follow-up calls to provide guidance on how to approach ESG integration.

ESG Integration in Manager Selection

Additionally, Wespath incorporates ESG integration into its manager search and selection process. We believe assessing a manager's ESG competencies during the selection process is an important element of enhancing long-term investment returns and mitigating investment risks.

TCFD Pillar

Governance, Strategy and Metrics

See Appendix



The external manager selection process involves:



RFP Creation:

Include ESG-specific inquiries directed at the firm and strategy level



RFP Distribution:

Send to a diverse group of managers, including those with notable ESG competencies



RFP Evaluation:

Compare key traditional and ESG criteria, manager presentations and onsite due diligence



Manager Selection:

Select managers who support our belief that a long-term view enhances performance and creates positive impact

Managers incorporating ESG factors into their analysis are able to demonstrate to us that they gain specific insights into a company’s business strategy and financial performance. These managers are also more likely to evaluate how corporate activity might positively or negatively affect all stakeholders (e.g., employees, local communities, customers, etc.) in a dynamic, complex and interconnected world. In doing so, best-in-class managers are increasingly highlighting connections between long-term value creation and the development of a truly sustainable economy that creates positive financial, social and environmental impacts.

Wespath has published two white papers explaining our approach to manager selection, appointment and monitoring processes:

- *ESG Integration in External Asset Manager Selection:*
wespath.com/assets/1/7/5152.pdf
- *Evaluating and Monitoring External Asset Manager Performance:*
wespath.com/assets/1/7/5020.pdf



Wespath “Transition Ready” Strategy

The world is changing. We are investing in the companies that are changing with it.

In 2018, Wespath partnered with BlackRock, the world’s largest asset manager, to develop a new way of investing for the low-carbon transition. This is a sector-neutral strategy that seeks to improve investment performance by tilting toward Transition Ready companies—those preparing now for a low-carbon future. The strategy evaluates companies across all sectors based on their current and planned core business involvement and natural resource management. It recommends investing in companies using natural resources more efficiently, utilizing carbon-efficient technologies and adopting strategies to reduce carbon emissions.

Wespath invested a combined \$750 million in the Transition Ready Strategy across our international and domestic funds.

For more information, read an interview with Wespath’s Juan Lois, Manager, Impact Investments, where he discusses Wespath’s approach to the low-carbon transition and the development of this market-leading strategy. Available here: wespath.org/assets/1/7/5398.pdf



Juan Lois
Manager, Impact Investments

TCFD Pillar

Governance, Strategy, Risk Management and Metrics

See Appendix



Invest—Engage—Avoid

Invest—Investment Highlights (continued)

Positive Social Purpose Lending Program—Nearly 30 Years of Impact

For nearly 30 years, Wespath’s PSP Lending Program has worked to promote affordable housing and community development for disadvantaged areas, while seeking to deliver market-rate returns, commensurate with risk, to investors.

The PSP Lending Program, through its qualified lending partners (intermediaries), participates in mortgage loans to real

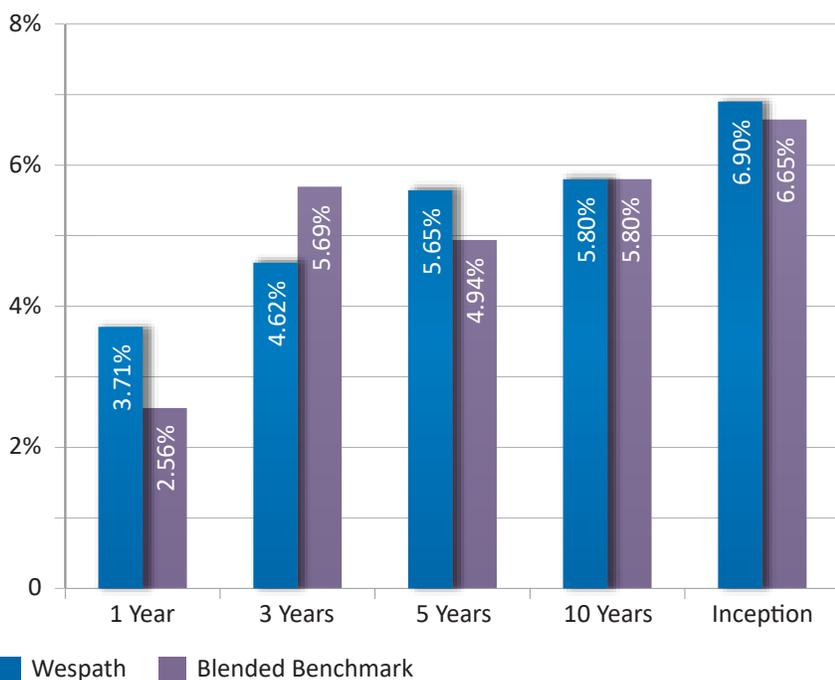
estate projects that support low- and moderate-income individuals, families and communities.

The program focuses particularly on supporting affordable housing by participating in mortgage loans to independent third parties, usually not-for-profit organizations. Investments in multifamily, senior and special-needs housing achieve risk-adjusted rates of return and result in demonstrated improvements in the quality of life for the thousands of people served. Since its inception, the program

has made investments which have funded the construction, rehabilitation or preservation of over 52,000 affordable housing units in all 50 U.S. states and the U.S. Virgin Islands, and invested in microfinance opportunities across four continents.

The PSP Lending Program has proven its premise that positive impact can be achieved while fulfilling our fiduciary duties to those we serve.

PSP Historical Performance (gross of fees)



Historical returns are not indicative of future performance.

Multi-Horizon Report: Annualized Return
 Period: 08/1990 to 12/2018
 Benchmark: PSP Blended Benchmark
 Frequency: M
 Currency: USD

PSP Benchmark since 1/1/2018 is US Agency CMBS +150 bps.

The previous PSP custom benchmark consisted of 50% Barclays US ex-mbs and 50% Barclays long credit A.

PSP Intermediaries

Cinnaire Corporation
Lansing, Michigan

The Community Development Trust, Inc.
New York, New York

The Community Preservation Corporation
New York, New York

Community Reinvestment Fund
Minneapolis, Minnesota

California Community Reinvestment Corporation
Los Angeles, California

Greystone Servicing Corporation, Inc.
Atlanta, Georgia

Capital Impact Partners
Arlington, Virginia

The PSP Lending Program has three areas of focus:



Affordable Housing:

The program provides loans for properties benefiting individuals and families earning less than the area's median income.



Community Development:

The program invests in facilities that service low- and moderate-income individuals, including homeless and transitional shelters, healthcare centers and charter schools.



Microfinance:

The program invests in institutions that provide microfinance loans to individuals in developing regions—including Latin America, Eastern Europe, Southeast Asia and Africa—who have little or no access to traditional financial services.

Nearly **30** years

Positive Social Purpose Lending Program



Investments in all 50 states



\$83 million+ since inception in global microfinance investments across 4 continents



\$2 billion+ invested since 1990



\$1.9 billion in U.S. affordable housing has created or preserved over 52,000 units



\$79 million in community development projects

All while earning a market-rate of return

All data as of December 31, 2018

Investments in the Positive Social Purpose Lending Program are made through Wespath Funds which are available, depending on the nature of the investor, through Wespath Benefits and Investments or Wespath Institutional Investments. The information provided relates to the combined investments of all Wespath Funds in the Positive Social Purpose Lending Program.

Invest—Engage—Avoid

Invest—Investment Highlights (continued)

Stories of Impact

In 2017 and 2018, Wespeth financed a combined \$166 million in PSP permanent loans and forward commitments, bringing the total outstanding loans in the PSP portfolio to \$846 million as of December 31, 2018. Below is a snapshot of some of the homes and centers supported by Wespeth's investments.

New Parkridge Homes—A community supporting the chronically homeless:

In partnership with Cinnaire, Wespeth invested \$1.2 million in a loan to develop New Parkridge Homes, an affordable housing community in Ypsilanti, Michigan.

The 86-unit development targets families earning up to 60% of the area median income. Twenty-two units are operated as permanent supportive housing units, targeting residents that meet the Michigan State Housing Development Authority definition of 'Chronically Homeless'. Amenities include a community building with a management office, computer lab and social worker office. Residents can also take advantage of a tot lot and community gardens.

A Place for Us—An inclusive community:

In partnership with Cinnaire, Wespeth invested \$966,000 in A Place for Us. This is an inclusive community for individuals 55 and over with incomes of up to 60% of the area median income. Amenities include a fitness center, community room and business center. The property is close to public transportation, situated across from a light rail line.

The Brew House—Combining history, art and life:

In partnership with The Community Development Trust, Wespeth invested \$1.8 million in a loan to provide financing for The Brew House, a historic renovation in Pittsburgh combining affordable housing and artists' space.

The seven-story complex underwent a complete historic renovation that converted the former Duquesne Brewing Company building into a combination of residential and commercial space. The residential portion includes 76 units, of which 48 are restricted under the Low Income Housing Tax Credit program to households earning up to 60% of the area median income.

The commercial space is leased by the Brew House Association, which subleases the space for use as artist work studios, art gallery space and art education classes. Amenities include a laundry room, community room, fitness center and rooftop deck.

Croft Place—Priority to veterans: In partnership with Cinnaire, Wespeth invested \$1.55 million in a loan providing financing for Croft Place, a 52-unit development in

New Richmond, Wisconsin. Croft Place offers 48 units targeted at households earning up to 60% of area median income. Additionally, nine units are designated for individuals with hearing, vision or other physical impairments, with priority given to veterans.

Amenities include an elevator, fitness center, business center, raised gardens, laundry facilities, community room/clubhouse, wellness center, picnic area, playground, and on-site management office.

“Wespeth financed a combined **\$166 million** in PSP permanent loans and forward commitments.”



Croft Place—New Richmond, Wisconsin

237 Landing—Helping men transition out of homelessness: Wespath, in partnership with the Community Preservation Corporation, invested \$18.6 million in a loan providing financing for 237 Landing, a 200-bed transitional shelter for homeless men in Bronx, New York.

The shelter provides independent living training, food service, transportation and counseling. Bowery Residents' Committee, Inc., the operator of the shelter, also provides employment counseling and training to residents.

The shelter is located on the first two floors of a seven-story building and is connected to Landing Road Residences, which occupies the five upper floors and offers 135 permanent supportive rental housing to low-income individuals.

The shelter and rental housing are part of BRC Landing, the first project created under New York City Mayor Bill de Blasio's HomeStretch program, a multi-agency initiative focused on locating permanent supportive affordable housing alongside homeless shelters in order to put those in need on a path to independence.



237 Landing—Bronx, New York

The Need for Affordable Housing

The need to support affordable housing developments in the U.S. is clear. The country is in the midst of an affordable housing crisis. According to the National Low-Income Housing Coalition (NLIHC), there is a shortfall of 7 million affordable housing units available to rent for extremely low-income renters—families with household incomes at or below the poverty level, or at 30% of the median income of their area.

A recent NLIHC report showed that “only 37 affordable and available homes exist for every 100 extremely low-income residents.”¹⁷ The shortage impacts the most vulnerable among us—seniors, people with disabilities, children.

To learn more about affordable housing, and how your state stacks up to affordable housing needs, visit nlihc.org.



Invest—Engage—Avoid

Invest—Investment Highlights (continued)

Developing World Markets—Promoting energy access in the developing world:

The United Nation’s Sustainable Development Goals set an ambitious target to “ensure access to affordable, reliable, sustainable and modern energy for all.” Progress has been made in recent years as countries around the world develop energy access policies. According to the International Energy Agency, the number of people without access to electricity fell to below 1 billion in 2017, a decrease of 97 million from 2016.¹⁸

Wespath believes that investors also have a role to play in promoting energy access and in turn, supporting the creation of a sustainable financial economy.

In 2016, Wespath invested \$30 million in companies that provide or finance access to renewable energy for communities in developing countries that are not connected to national power grids. Our investment in the Developing World Markets (DWM) ORCA Impact Note has helped to provide financing to 13 institutions (three off-grid renewable energy companies and 10 microfinance lenders) operating across nine countries. These organizations help people purchase solar-powered lanterns, home solar kits and other products and services to light their homes, charge mobile devices, run their businesses, refrigerate their food and more.

This microfinance investment addresses a critical need around the globe.

“Investors also have a role in promoting energy access.”

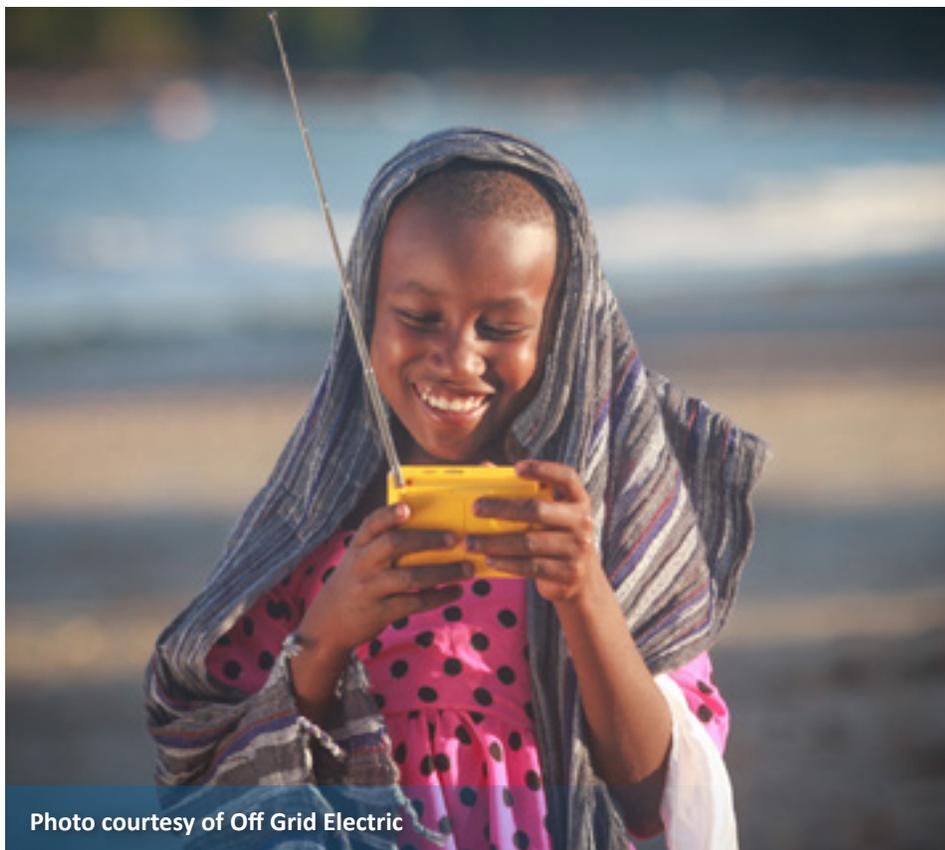


Photo courtesy of Off Grid Electric

In 2017, DWM provided Wespath with data showing the on-the-ground impact of the ORCA Impact Note:*

- 250,000 new homes received access to renewable energy across Africa, Asia and Latin America
- 623,000 homes served in total
 - saving \$16 million in annual energy expenditures
 - reducing CO₂ emissions by about 220,600 metric tons (the equivalent of removing over 47,000 cars from the road for a year!)
- 2 million solar lanterns sold
- \$61 million lent by microfinance institutions—25% of this supported renewable energy, 25% supported energy efficiency and 50% supported climate action (including the financing of native trees in coffee plantations)
- About 1,242 micro, small and medium enterprises (mSMEs) and over 101,000 individuals received ORCA-related loans

*Impact data as of December 2017; based on financing to 11 institutions—three off-grid renewable energy companies and eight microfinance lenders.

Invest—Engage—Avoid

Engage—Engagement at Scale

Engagement Highlights, 2017 and 2018:



Wespath led a combined **52 corporate engagements**

Submitted **9 public policy statements** to global regulators

Participated in over **350 collaborative corporate engagement efforts**

Shareholder engagement is the heart of our sustainable investment activities. As a global investor, Wespath is in the privileged position to bring the UMC voice to the table in conversations with global policymakers and corporations, as we urge them to create policies and practices that promote positive financial, environmental and social impacts.

Our *Investment Beliefs* recognize that “engagement with corporations is a powerful process” that has the ability to add long-term value. They also state that we have an “obligation to cooperate

with other like-minded investors to mitigate systemic financial risk,” which is demonstrated through our leadership and participation in many investor networks.

As both fiduciaries and long-term investors, we must seek to understand how the companies in which we invest are positioned to address and benefit from ESG-related risks and opportunities. We engage companies on issues we view as material to shareholder value. These include climate change, board diversity and human rights.

A Sea Change in Investor Engagement

2017 and 2018 marked a sea change in the way in which investors engage companies on material environmental, social and governance issues. Sustainable investors, including Wespath, have come together in coordinated and unprecedented ways to encourage more sustainable corporate behavior. Nowhere was this trend more evident than through investor action on climate change.

We began to see a shift in 2017, with the successful outcomes of shareholder resolutions Wespath filed at Occidental Petroleum and Chevron, and the success of a separate resolution filed at ExxonMobil, which Wespath supported.

In May 2017, the majority of shareholders of Occidental and Exxon made history by strongly supporting resolutions asking the



Invest—Engage—Avoid

Engage—Engagement at Scale (continued)

companies for greater transparency on how they are preparing for a low-carbon future. Wespath filed the resolution with Occidental, which passed with 67% support and was the first of its kind in the United States to receive majority investor support. A similar resolution at Exxon passed with 62% support. Both have released reports in line with shareholder requests.

Companies have also been responding with more frequency to investor requests for climate risk reporting. Shareholder resolutions are withdrawn when management and shareholders are able to come to an agreement before the resolutions come to a vote. Nearly half of environment-focused shareholder resolutions were withdrawn in 2018, versus 33% two years earlier, according to data by ISS Analytics.¹⁹

In 2017, Wespath withdrew a shareholder resolution filed with Chevron after the company agreed to issue its own climate risk report (see page 30).

Joining Forces

With the release of reports from Occidental, Exxon, Chevron and others, investors have more information than ever before with which to evaluate climate risk and opportunities in their portfolios. However, these successes do not happen without the support of like-minded investors willing to encourage companies to better serve shareholders through robust reporting.

Wespath has partnered with a number of organizations working to bring more transparency to investors looking to manage and benefit from ESG-related risks and opportunities.

Wespath is a member of the Climate Action 100+, a coalition of over 300 global investors, with a combined \$32 trillion in assets. Members engage the companies contributing most to global industrial emissions and those most able to drive a clean energy transition.

Through the Climate Action 100+, Wespath leads or co-leads engagements with four companies and is a supporting investor on eight additional company engagements.

Through this initiative, we co-lead a team engaging a large U.S. oil and gas company that includes 25 investors across six countries. As a result of these efforts, the company conducted climate scenario analysis, published an enhanced climate assessment report that aligns with the TCFD framework, joined the Oil and Gas Climate Initiative and agreed to set a greenhouse gas emissions reduction goal. We had similar results with a different oil and gas company.

Engagement efforts in 2018 laid the groundwork for increased support for the goals of the Paris Climate Agreement from global oil and gas majors in 2019. This is joint engagement in action!



Climate Action 100+

- Over 300 investors
- Combined \$32 trillion in assets
- Through this coalition, Wespath leads engagements with four companies
- Wespath serves as supporting investor in eight companies
- Wespath leads a 25-strong engagement group representing 25 investors across six countries

TCFD Pillar
Strategy and
Risk Management
See Appendix



Asset Owners and Asset Managers Partnering for Change

Wespath is also a member of the Sustainability Accounting Standards Board's Investor Advisory Group. Through this leadership group, we have the opportunity to partner with the world's largest asset managers to influence the leading companies to provide more standardized reporting on material ESG issues. We believe it is vital for investors to have access to standard reporting on a broad range of material ESG risks and opportunities to comprehensively evaluate company performance.

Through these relationships, asset owners and managers make a powerful statement that all investors need useful and standardized data in order to make smarter investment decisions.

Asset Managers Tackle Board Diversity

Board diversity, an area of focus for Wespath, also gained prominence over the past two years, with global asset management firms touting the importance of diverse boards to shareholder value.

On the eve of International Women's Day in March 2017, a statue of a young girl defiantly facing the Wall Street bull appeared in New York City. The statue, "Fearless Girl," was placed there by State Street Global Advisors, as the manager announced a sweeping call to some 3,500 companies to increase the number of women on corporate boards.

In his 2017 open letter to company directors, Vanguard Chief Executive F. William McNabb III wrote: "There is compelling evidence that boards with a critical mass of women have outperformed those

that are less diverse. Diverse boards also more effectively demonstrate governance best practices that we believe lead to long-term shareholder value. Our stance on this issue is therefore an economic imperative, not an ideological choice."

And BlackRock Chief Executive Officer Larry Fink, in his 2018 letter to CEOs, said: "(Diverse boards) are less likely to succumb to groupthink or miss new threats to a company's business model. And they are better able to identify opportunities that promote long-term growth."

We engage companies on board diversity alongside other investors, and through investor coalitions like the Midwest Investor Diversity Initiative. We view board diversity as an element of sound corporate governance that supports long-term value creation. Board diversity is an area we will continue to support throughout 2019.



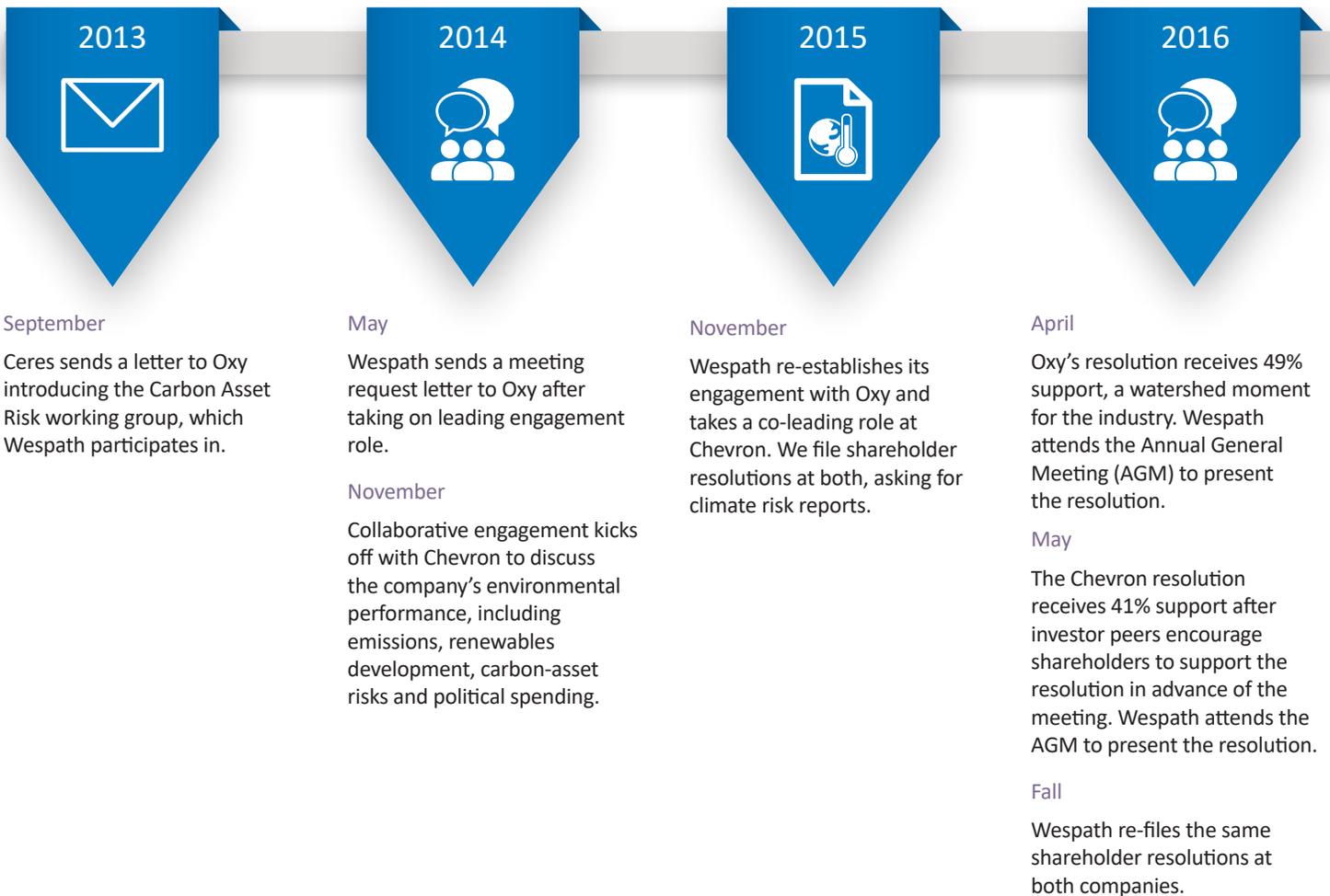
"We believe it is vital for investors to have access to standard reporting on a broad range of material ESG risks and opportunities."

Invest—Engage—Avoid

Engage—Engagement Highlights

Engaging for Change: Wespath’s Engagements with Occidental Petroleum (Oxy) and Chevron

Wespath has engaged companies on climate-related issues for over 20 years, as we have long believed that climate change is a material risk that must be managed. Our most recent corporate engagements include those with Occidental Petroleum and Chevron. We have worked with these companies and others to provide climate risk disclosures. Wespath believes this analysis is critical in understanding the companies’ long-term resilience to an energy sector in transition, particularly in light of global efforts to support a shift to a low-carbon economy.





March

Chevron publishes “Managing Climate Change Risks”²⁰ in response to the resolution.

May

Wespath withdraws its proposal at Chevron.

The Oxy resolution passes with majority support, marking a first for a U.S. oil and gas company. Wespath attends the AGM to present the resolution. Oxy subsequently begins including environmental information in its quarterly earnings calls.

February

New Chevron CEO Mike Wirth takes the helm and establishes a dedicated ESG Engagement Team to meet with investors. Wespath meets with the company throughout the year.

March

Oxy publishes, “Climate Related Risks and Opportunities: Positioning for a Lower Carbon Economy.”²¹ Wespath meets with OXY to provide feedback and discuss scenario analysis results.

March

Chevron publishes, “Climate Change Resilience: A Framework for Decision Making.”²⁰

September

Both companies join the Oil and Gas Climate Initiative (OGCI) and each commit \$100 million to the OGCI technology fund, which pursues strategies to lower their carbon footprints.²²

Both companies signal additional commitments to come in 2019. Wespath’s engagement work continues.

TCFD Pillar
 Strategy and Risk Management
 See Appendix

Invest—Engage—Avoid

Engage—Engagement Highlights (continued)

Diversity

Wespath supports diverse boards of directors and believes that a commitment to diversity in the boardroom is a key attribute of a well-functioning company. Board diversity demonstrates sound corporate governance and has been shown to improve business results.

The CS Gender 3000 reports, issued by the Credit Suisse Research Institute in 2012, 2014 and 2016, link board diversity to better stock market and financial performance, including higher return on equity, more efficient use of debt, higher price/book ratios and improved growth prospects. The reports suggest several explanations for this better performance.¹⁵ These include a stronger mix of leadership skills, improved understanding of consumer preferences (women control more than two-thirds of U.S. consumer spending) and a larger candidate pool from which to select top talent.

It is with this understanding that Wespath engages the companies in which it invests to promote board diversity. Historically, we have filed or supported resolutions at companies where board diversity lags industry standards, or where Wespath has previously communicated with the company or withheld director votes due to the board's lack of diversity. Notable recent diversity-related activities include:

Midwest Investor Diversity Initiative

(MIDI): Wespath is a member of MIDI, a coalition of investors with over \$300 billion in assets dedicated to improving board diversity of companies headquartered in Illinois, Indiana, Minnesota, Michigan, Ohio and Wisconsin as a means of protecting shareholder value. This relatively-new group has made significant strides in promoting diverse boards in the Midwest.



Result: In 2017 and 2018 combined, MIDI member engagements, including those by Wespath, resulted in 21 companies adopting search policies that promote diversity and four companies adding diverse candidates to their boards.

Entegris: Entegris is a major global provider of materials and components used in the technology manufacturing industry. We noticed that the company lagged its peers with regard to board diversity. After it failed to satisfactorily respond to our request for dialogue, we filed a shareholder resolution asking management to include women and minority candidates in future director searches.

Shortly after the filing of our resolution, Entegris agreed to meet.

Result: The company affirmed its commitment to board diversity and agreed

to amend its nominating policy to include our requested language. Wespath withdrew the resolution. The engagement underscores Wespath's ability to leverage the tools and resources available to shareholders to quickly enact diversity policies.

Allison Transmission: Allison is an industry-leading manufacturer of automatic transmissions and hybrid propulsion systems. We contacted the company in early 2018 to discuss board diversity. Allison explained that it was in the process of amending its nominating committee's policy and felt that Wespath's engagement was timely.

Result: Allison added gender diversity to its list of director search criteria. The company also pledged to develop resources that would help it better connect with potential candidates.

Human Rights

We seek to influence positive change and advocate for human rights around the globe, while helping our participants and institutional clients meet their investment objectives. Using the United Nations Guiding Principles on Business and Human Rights (Guiding Principles) as our foundation, we engage companies to protect human rights, acknowledging that businesses face risks when operating in areas where the security of rights may be uncertain. Noteworthy human rights engagements include:

Caterpillar: We have maintained a years-long dialogue with Caterpillar, one of the world's largest construction equipment companies. Caterpillar is subject to scrutiny because of the use of its products in conflict areas, and Wespath has consistently sought that management develop effective risk mitigation and impact assessment policies. Our discussions with Caterpillar have resulted in several positive developments.

Result: Caterpillar has strengthened and improved disclosures relating to its human rights policies, including conducting assessments in alignment with the Guiding Principles. Caterpillar also applied that policy beyond its direct operations to include its suppliers and dealers.

Dakota Access Pipeline (DAPL): The DAPL project gained national prominence in the wake of uncertainty surrounding the pipeline's impact on the treaty territory of the Standing Rock Sioux Tribe. As a shareholder of several companies involved with the project, Wespath felt compelled to monitor construction and financing to ensure that risks were addressed in alignment with the Guiding Principles.

Wespath attended a number of investor calls and meetings to better understand concerns about the project and learn what companies might be doing to address human rights risks.

Wespath also joined a coalition of investors representing \$653 billion in assets in requesting that banks financing DAPL support the Standing Rock Sioux Tribe's request for a re-route of the pipeline.

Wespath proposed and supported numerous shareholder resolutions related to the project. We voted in support of a resolution filed with Wells Fargo asking the bank industry giant to develop a global policy regarding the rights of indigenous peoples.

Wespath also co-filed a shareholder resolution asking DAPL part-owner Enbridge to provide a report on its due diligence process for identifying and addressing social and environmental risks.

Result: Wespath's resolution received 30% support from investors, leading Enbridge to amend its policies related to indigenous rights.

ConocoPhillips: ConocoPhillips is one of the world's largest energy exploration and production companies. Wespath is a frequent attendee of its semi-annual meetings related to ESG issues, including human rights and indigenous peoples. At these meetings, ConocoPhillips presents ideas, explains decision-making and seeks investor feedback.

We believe that attending these types of meetings is important to fulfilling our fiduciary responsibilities, as open dialogue helps us better understand management's process for creating policies. Consistent meetings also give us an opportunity to track the evolution of policies over time.

For instance, ConocoPhillips in 2018 explained the rollout of its new human rights policies to its internal business units. The framework included considerations of agreements, land use, relocation, economic development, environmental conservation and cultural heritage.

Result: Investors in attendance expressed support for the policy and associated training materials designed to aid implementation.



“We seek to influence positive change and advocate for human rights around the globe while helping our participants and institutional clients meet their investment objectives.”

Invest—Engage—Avoid

Engage—Engagement Highlights (continued)

Public Policy

In addition to our engagements with the companies in which we invest, Wespath frequently writes to public policymakers and issues position statements on matters of importance to our participants and clients. We seek to promote rules and regulations that support a sustainable economy and help us fulfill our fiduciary responsibilities. Recent public policy engagements include:

Shareholder Rights: Wespath is committed to protecting the rights of shareholders, especially as it pertains to holding management and boards of public companies accountable and fostering the integrity of markets.

In 2017, we were troubled by certain provisions in the proposed Financial CHOICE Act that we felt would erode those rights. Joining our partners from the Council of Institutional Investors (CII), we wrote to Congress to express our opposition to those provisions.

In 2018, similar issues arose during a Securities and Exchange Commission (SEC) roundtable. Wespath believed the proposed legislation had the potential to negatively impact the effectiveness of proxy advisory firms and weaken the independent proxy research we rely on to make informed voting decisions. Ahead of the SEC's roundtable discussion, we wrote to the commissioner, urging them to consider the viewpoints of Wespath and the CII.

Result: A version of the CHOICE Act passed through the House of Representatives, but ultimately did not become law.

Auto Fuel Economy and Emissions:

Wespath often has the opportunity to engage with policymakers regarding sustainability and environmental issues and encourage them to consider the

effect to shareholder value in their decision-making. In 2018, Wespath issued a statement to the U.S. Environmental Protection Agency (EPA) and National Highway Traffic Safety Administration (NHTSA) opposing an easing of automotive fuel economy and emissions targets.

In 2018, the EPA and NHTSA proposed revisions to existing policies under the Safer Affordable Fuel-Efficient (SAFE) Vehicles Rule. The proposal offered an option that rescinded planned incremental increases in fuel economy and emissions targets beyond model year 2020. We believed that this option would widen the gap between U.S. and international regulations, making it more difficult for American automakers to grow global market share.

Joint UMC Support for the Paris Climate

Agreement: We remain committed to the Paris Climate Agreement, a historic agreement made among countries throughout the world with a goal of limiting the increase in global average temperature to below 2-degrees Celsius. In 2017, Wespath joined United Methodist Women, The General Board of Church and Society and the General Board of Global Ministries in writing to policymakers ahead of the 23rd Conference of the Parties (COP23) to the United Nations Convention on Climate Change. We urged all world leaders to honor their commitments to implement the Paris Agreement and expressed our hope that COP23 would strengthen our common interests of justice, stewardship and sustainability.



Proxy Voting

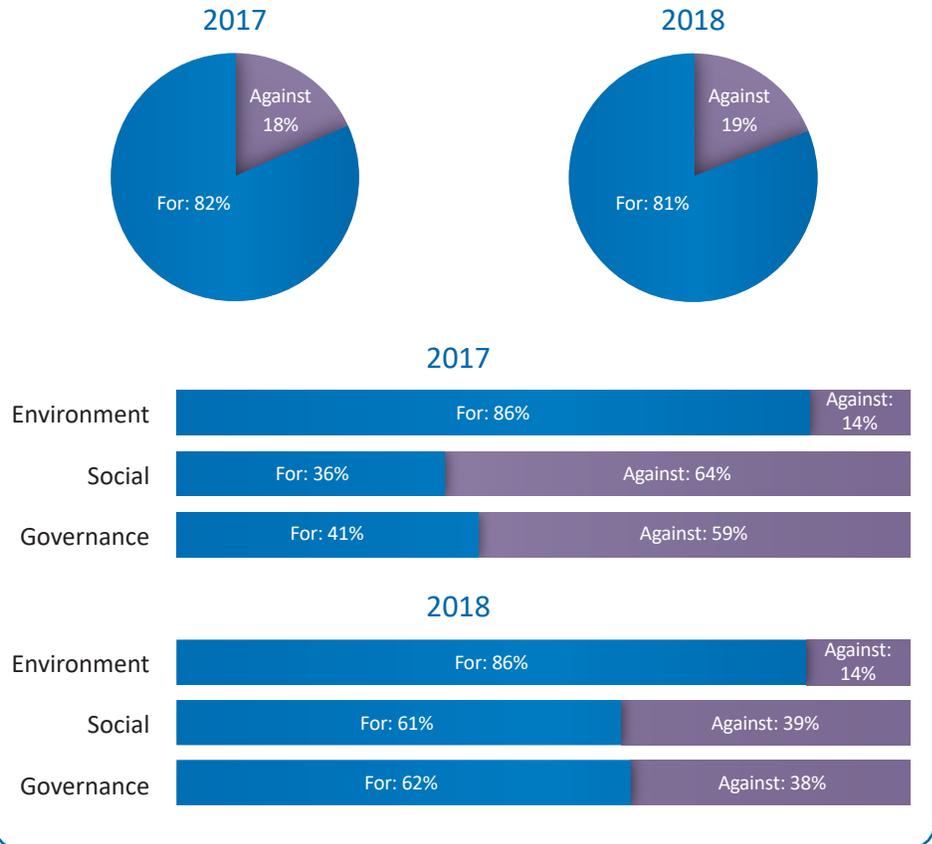
Wespath has the opportunity to vote at the Annual General Meetings (AGM) of the nearly 5,000 companies in which we hold shares. In the absence of more direct engagement, proxy voting is an integral tool for fiduciaries, as it offers a format to express concerns and encourage sustainable business practices. We cast votes in accordance with our Proxy Voting Guidelines, which representatives of our Board of Directors annually update and approve.

Generally, we support shareholder resolutions that incorporate ESG issues into corporate strategy and promote long-term value creation.



Summary of Voting Activity, 2017 and 2018:

We support shareholder resolutions regarding the incorporation of ESG issues into corporate strategy, when they promote long-term value creation.



Our votes extend throughout the ESG spectrum:

Environmental: In recent years, much of our voting has focused on mitigating climate risk and ensuring support for the Paris Agreement. We have voted in favor of resolutions asking major companies, including energy infrastructure giant Kinder Morgan, to prepare 2-degree scenario analysis reports.

The resolution at Kinder Morgan received majority support at the company's 2018 annual meeting. At that same meeting,

we also voted for a resolution that requested an annual sustainability report. This also passed with majority support.

Wespath and its fellow investors hope that companies like Kinder Morgan will work toward full transparency on ESG issues and their efforts to mitigate potential business risks associated with the transition to a low-carbon economy.

Social: Opioid abuse has reached epidemic proportions. In 2017, 47,600 people died from opioid-related overdoses, according to data from the Centers for Disease Control and Prevention (CDC).²³

Invest—Engage—Avoid

Engage—Engagement Highlights (continued)

Wespath and other institutional investors are engaging opioid manufacturers, distributors and retail pharmacies regarding the business risks related to the growing opioid epidemic. Companies are increasingly asked to assess their risks and implement strong governance controls related to drug marketing and due diligence to ensure suspicious orders are reported.

In 2018, Wespath voted in favor of a resolution asking pharmaceutical chain RiteAid to provide a risk report related to the opioid epidemic. The resolution passed with 61% support.

Governance: We cast votes with corporate governance best practices in mind. For example, Wespath in 2017 supported an advisory vote opposing an executive compensation plan from the Walt Disney Company.

In our view, Disney’s proposed plan was poorly structured and overlapped short- and long-term incentive metrics, effectively overemphasizing short-term payments. We believe a focus on near-term pay can negatively impact management’s ability to run a business in the best long-term interests.



“Investors, including Wespath, are engaging opioid manufacturers, distributors and retail pharmacies regarding the business risks related to the growing opioid epidemic.”



“We cast votes with corporate governance best practices in mind.”

Strategic Partners

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



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



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



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



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



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



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



ICGN MEMBER
Inspiring global governance standards
www.icgn.org

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



Sustainability Accounting Standards Board's (SASB) Investor Advisory Group (IAG)—Wespath's Chief Investment Officer David Zellner is a founding member of SASB's IAG. The group brings asset owners and asset managers together to engage companies on the disclosure of material environmental, social and governance factors, helping investors comprehensively evaluate company performance.

Partner Highlight—Transition Pathway Initiative

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

This asset owner-led initiative has become an important climate action benchmark and is now the primary data source used by the Climate Action 100+.



Invest—Engage—Avoid

Avoid—Managing Sustainability-related Financial Risk

As a long-term investor, we are committed to “value-adding” sustainable investing that creates a more sustainable global economy while fulfilling our fiduciary duty to attain suitable investment returns. One element of our value-adding activity is the intentional exclusion of companies we believe pose sustainability-related financial risks to the Wespath funds.

In 2014, Wespath adopted its Management of Excessive Sustainability Risk (MESR) Policy, which assists us in identifying and managing ESG-related financial risk.

The MESR policy recognizes that there may be instances when a particular issue, company or industry exposes investors to high levels of risk. In such instances, Wespath’s Board may adopt an investment guideline that will apply additional limits regarding companies in which Wespath may invest.

Wespath currently implements two guidelines under the MESR policy: Climate Change (thermal coal) and Human Rights.

We work with our global ESG research provider, Sustainalytics, to identify and assess the management policies and practices of companies that pose excessive sustainability risk when subject to these guidelines. Informed by research provided by Sustainalytics and our internal analysis, we exclude 17 companies under the Climate Change guideline, and 35 companies under the Human Rights guideline as of December 31, 2018. We also exclude the debt of 12 countries because of human rights-related risks.

The guidelines pertain to companies meeting the following criteria:*

 Climate Change (Thermal Coal)	 Human Rights
<i>Developed Countries:</i> Any company with revenues of 50% or greater stemming from extraction and/or mining of thermal coal	Companies operating in countries demonstrating a prolonged and systematic pattern of human rights violations**
<i>Developed Countries:</i> Electric utilities deriving 75% or more of their overall fuel mix from coal	Companies operating in conflict-affected areas where significant human rights violations have been widely documented***
<i>Developing Countries:</i> Any company deriving approximately 50% of revenues from the extraction and/or mining of thermal coal	The sovereign debt of any country demonstrating a prolonged and systematic pattern of human rights abuses**
TCFD Pillar Risk Management See Appendix	

* The details above provide a high-level summary of Wespath’s Climate Change and Human Rights MESR guidelines. Full details of the guidelines can be accessed through Wespath’s Climate Change and Human Rights pages on wespath.org/si/.

** Defined as countries with the worst ranking in Freedom House’s annual “Freedom in the World” report.

*** May include sectors of a country’s economy recognized as prolonging conflict and violence, or areas in which significant breaches of international law occur.

Enhancing Wespeth's Human Rights Exclusion Process

As a sustainable investor with a commitment to addressing human rights risks within our funds, Wespeth believes it is prudent to incorporate current best practices in the management of our funds.

In identifying the countries excluded under our Human Rights guideline, we rely on Freedom House's "worst-of-the-worst" list of countries with the lowest-possible ratings for both political rights and civil liberties. Freedom House is an organization focused on expanding freedom and democracy through analysis, advocacy and action.

We also monitor conflict-affected areas where a United Nations Security Council resolution or an advisory opinion by the International Court of Justice has identified significant breaches of international law.

In 2018, Wespeth worked with the Heartland Initiative, a practice-oriented not-for-profit research organization, to develop a more comprehensive framework to identify "high-risk operating areas" with regard to human rights.

When Wespeth adopted the human rights guideline in 2014, we identified three military occupations based on UN Security Council resolutions and rulings by the International Court of Justice. Since then, we have monitored the evolution of available resources to identify military occupations and have selected a database that systematically categorizes situations of armed conflict according to definitions found in international humanitarian law.

The use of this database resulted in the addition of six new areas/territories to Wespeth's "conflict-affected areas" list, and improved our ability to address human rights-related risks within the Wespeth funds.

Excluded High-risk Countries

Central African Republic
Equatorial Guinea
Eritrea
Libya
North Korea
Saudi Arabia
Somalia
South Sudan
Sudan
Syria
Turkmenistan
Uzbekistan

Conflict-affected Areas*

Abkhazia and South Ossetia
Badme Area
Crimea and City of Sevastopol
East Jerusalem, West Bank and Gaza
Golan Heights
Nagorno-Karabakh
Northern Cyprus
Shebaa Farms
Transnistria
Western Sahara

* 2018 additions are outlined in yellow.



Ethical Exclusions

This policy guides us in avoiding investments in any company or entity whose core business activity involves the production, assembly, direct sale, distribution, operation or marketing of:



Alcoholic beverages



Tobacco products



Adult entertainment



Weapons



Gambling



Privately-operated correctional facilities

Invest—Engage—Avoid

Avoid—Managing Sustainability-related Financial Risk (continued)

While we view our sustainability-related financial exclusions as value-adding on a *financial* basis, we recognize that The United Methodist Church depends on Wespath to reflect its *religious* values in our investment activities.

Wespath’s Ethical Exclusions policy restricts investing in the securities of certain

companies based on long-standing UMC religious beliefs about social concerns.

Generally, a “core business” is one that accounts for 10% or more of a company’s revenue derived from products and/ or services that do not align with UMC values, and where discontinuation of the activity is likely to materially impact the

company’s operations. Different thresholds apply for restaurants and suppliers of key components to the products and services included in our policies.

Wespath closely monitors the impact of these exclusions on overall fund performance and has found it to be minimal.

Performance Comparison: Wespath’s Screened Passive Portfolios vs. Benchmarks

Gross-of-Fees Return Data as of December 31, 2018

Manager Strategy Benchmark	Index Weight of Eligible Stocks	Annualized Returns			Portfolio Inception Date
		1-Year	5-Years	10-Years	
Large-Cap Value Investments Manager	97.5%	6.1%	7.8%	14.4%	12/1/1998
Russell 1000 Value Index	100.0%	5.7%	7.7%	14.5%	
Difference	-2.5%	0.4%	0.1%	-0.1%	
Small-/Mid-Cap Value Investment Manager*	96.6%	2.0%	6.2%	15.2%	3/1/2001
Russell 2500 Value Index	100.0%	1.8%	6.0%	15.0%	
Difference	-3.4%	0.2%	0.2%	0.2%	
Large-Cap Core Investment Manager*	96.2%	8.9%	10.0%	15.9%	6/1/1999
Russell 3000 Index	100.0%	8.8%	10.4%	16.0%	
Difference	-3.8%	0.1%	-0.4%	-0.1%	

Note: This exhibit only includes Wespath’s passively managed portfolios that have been in existence for at least 10 years and that have been a part of the Wespath funds. Historical returns are not indicative of future performance.

*The large-cap core investment manager’s passive management of the Russell 3000 portfolio is based on a statistical sampling of stocks within the index. This strategy attempts to replicate the performance of the index by holding approximately three-fourths of its constituents.

Social Values Choice Suite of Funds

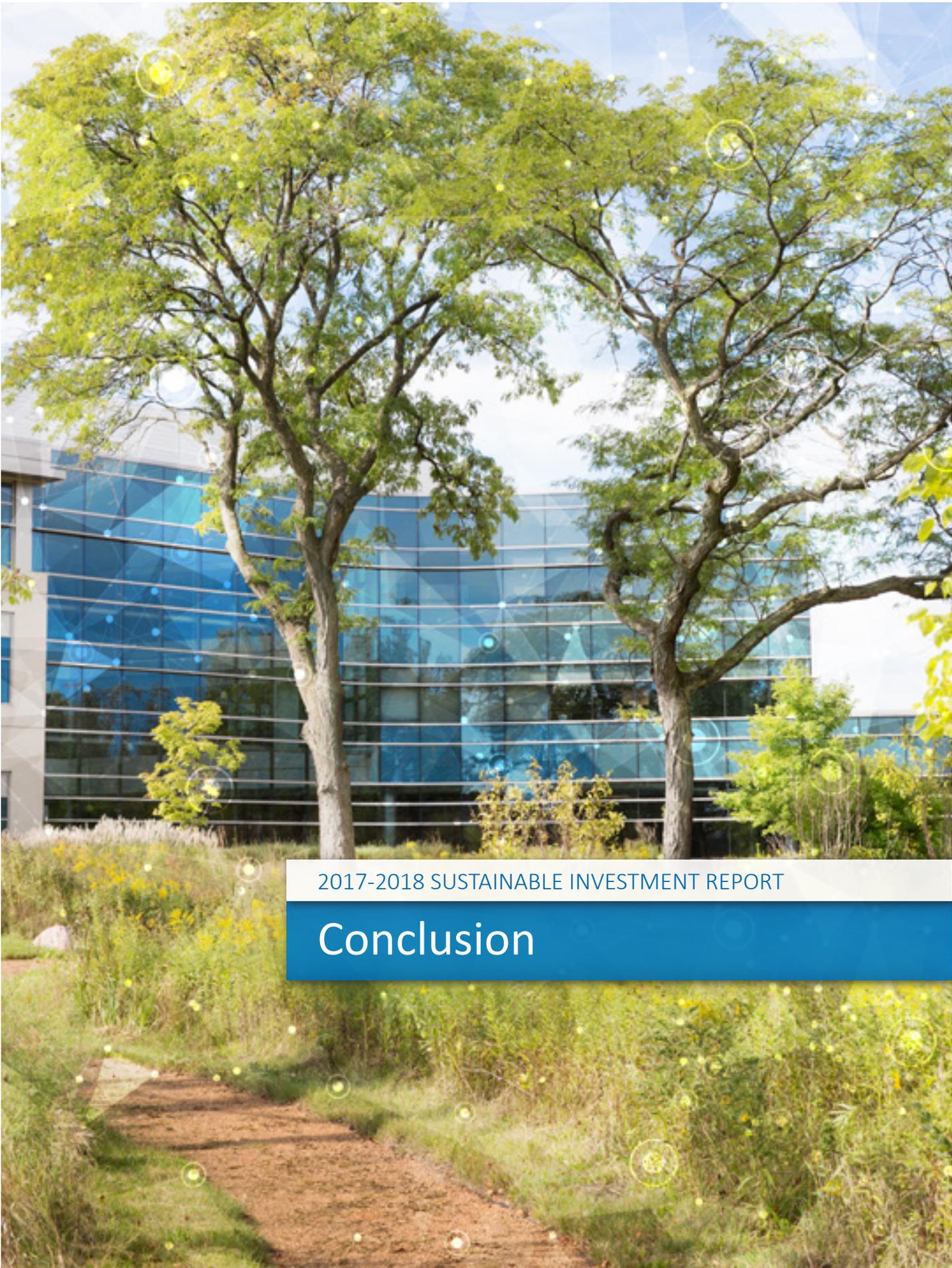
In 2017, Wespath launched the Social Values Choice Suite of Funds, specifically designed in response to resolutions approved by United Methodist annual conferences regarding:

- companies that derive a significant amount of revenue from the production of fossil fuels; and
- companies named in petitions related to peace in the Middle East.

Investment Approach

[More at wespath.org/investments/funds](http://wespath.org/investments/funds)

Social Values Choice Equity Fund	Social Values Choice Bond Fund	U.S. Treasury Inflation Protection Fund
Exclude companies with fossil fuel reserves used for energy purposes, and specific companies named in annual conference resolutions concerning Israel and the Palestinian Territories		Invests primarily in U.S. Treasury Inflation Protected Securities (TIPS)



2017-2018 SUSTAINABLE INVESTMENT REPORT

Conclusion

Looking Ahead—2019 and Beyond

Wespath remains committed to promoting the development of a sustainable financial economy with the belief that doing so strengthens the long-term financial well-being of our stakeholders.

Our 2017-2018 Sustainable Investment Report reflects the progress Wespath has made in implementing our value-adding sustainable investing activities.

We collaborated with peers to engage companies on material ESG issues such as climate change, board diversity and human rights.

We analyzed the investments in our own funds, so that we could better understand our exposure to climate-related risks.

We subsequently uncovered new investment opportunities.

We strengthened our manager ESG integration appraisal process, allowing us to assess the extent to which our managers are integrating the consideration of ESG factors into their decision-making process.

Finally, we made deliberate, impactful investments that we believe will provide improved returns, and that will ultimately result in positive impacts on the environment and society. These include investments in low-income housing loans through the nearly 30-year-old PSP Lending Program, sustainable agribusiness and low-carbon solutions.

Deeper Engagement

Looking ahead, we identified ways in which we can continue to enhance our impactful work.

We believe collaborative shareholder engagements will continue to drive global companies to commit to stronger ESG

practices. We will continue our work with coalitions like the Climate Action 100+, the Midwest Investor Diversity Initiative, and others to engage companies on issues material to shareholder value.

One 2019-2020 area of focus for Wespath is the opioids epidemic and the role businesses can play in mitigating the crisis. The data is staggering. Some 47,600 people died from opioid-related overdoses in 2017.²³ The epidemic cost the United States over \$1 trillion between 2001 and 2017.²⁴

We have joined the Investors for Opioids Accountability, a coalition of 54 investors with a combined \$3.5 trillion in assets, to engage pharmacies, distributors and manufacturers on the risks of opioids to society, the economy and shareholder value.

Working With External Managers

We will also more aggressively promote our joint corporate engagement efforts with external asset managers. Our asset managers maintain frequent contact and have long-established relationships with company managements. Accordingly, they have a duty to engage on ESG issues that enhance shareholder value. Through our work with the Sustainable Accounting Standard Board's Investor Advisory Group, we will help bring the asset owner and asset manager voice together to encourage companies to implement and adhere to more sustainable practices.

Growing Our Impact

An important element of supporting the development of a sustainable economy is to proactively invest in companies that we believe will deliver superior returns and have a positive impact on the environment and society.

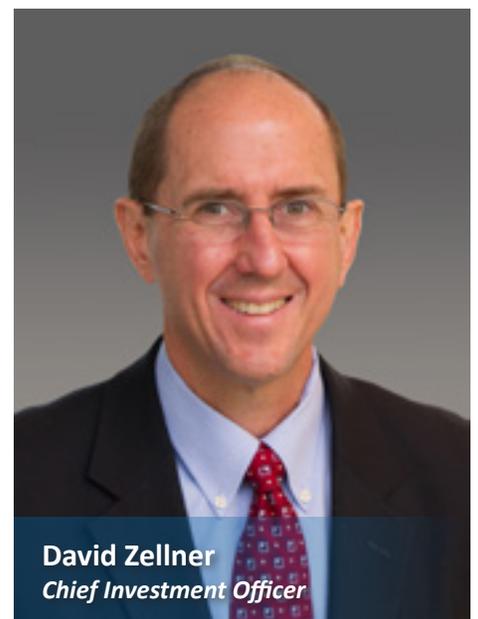
In 2018, Wespath laid the groundwork for the launch of a new Impact Investment team that will lead the strategic direction and growth of Wespath's Impact program. Wespath currently invests about 15% of its total assets in companies that make a measurable, positive impact, and we anticipate that we will be growing this exposure in the coming years.

A Sustainable Future

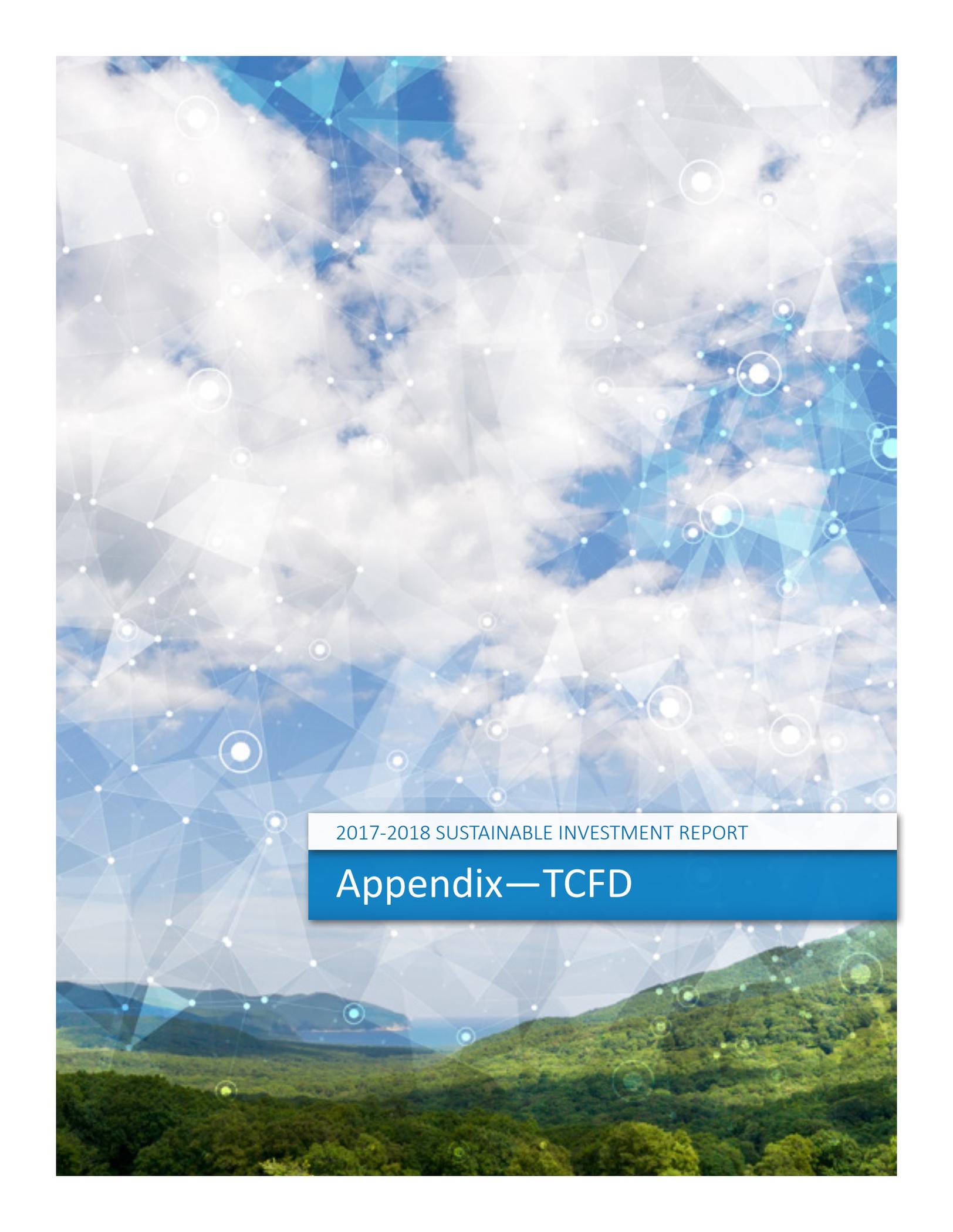
We are in the privileged position to use the weight of nearly \$22 billion in assets to influence the transformation of companies and markets.

We will diligently endeavor to position the funds we manage for participants and institutional investor clients for long-term growth. We will identify relevant investing opportunities and work with our peers to support the creation of a more sustainable future for all.

David Zellner
Chief Investment Officer



David Zellner
Chief Investment Officer



2017-2018 SUSTAINABLE INVESTMENT REPORT

Appendix—TCFD

Appendix—TCFD

Financial Stability Board’s Task Force on Climate-related Financial Disclosures (TCFD)

Wespath reporting in line with TCFD disclosure framework

Wespath Benefits and Investments is pleased to provide our first-ever report aligned with the Task Force for Climate-related Financial Disclosures (TCFD).

Wespath was an early supporter of the TCFD framework, which was developed in 2015 as a voluntary disclosure roadmap to guide corporate reporting on climate-related risks and opportunities.

We have long championed the idea that robust and standardized disclosure from companies leads to better investment decision-making for investors. Likewise, companies benefit from identifying climate risks and opportunities, as they can then manage those risks and uncover potential for growth.

In 2017, the TCFD expanded its framework to include reporting guidance for asset owners. A number of market leaders, including Wespath, are now evaluating their own funds and portfolios in alignment with the TCFD.

This has provided a valuable opportunity to understand our own exposure to climate risk, to better manage those risks, and to uncover potential opportunities. Undergoing the same rigor we expect from the companies in which we invest also helps inform our engagement efforts, and hopefully leads to stronger outcomes.

We hope this report encourages other asset owners to do the same as we work together to create a more sustainable financial economy.

Anita Green
Director, Sustainable Investment Services



Anita Green
Director, Sustainable Investment Services



“Undergoing the same rigor we expect from the companies in which we invest also helps inform our engagement efforts, and hopefully leads to stronger outcomes.”



Governance

Describe the board's oversight of climate-related risks and opportunities, and management's role in assessing and managing of climate-related issues.

Wespath's Board of Directors:

Wespath has two Board committees that oversee sustainable investment and climate-related issues. The committees meet three times each year.

The UMC Principles Committee is charged with overseeing Wespath's adherence to the values of The United Methodist Church (UMC), including efforts to "seek investments in institutions, companies, corporations, or funds that promote racial and gender justice, protect human rights, prevent the use of sweatshop or forced labor, avoid human suffering and preserve the natural world, including mitigating the effects of climate change."

Annually, the committee approves Wespath's proxy voting guidelines and monitors voting activity. In addition, the committee reviews Wespath's engagement priorities and the disposition of all shareholder resolutions filed. On a quarterly basis, the committee receives a report detailing Wespath's corporate and public policy engagements, and an update on companies excluded under the Management of Excessive Sustainability Risk (MESR) Thermal Coal Policy.

The Fiduciary Committee is charged with overseeing Wespath's mandate to "discharge its fiduciary duties with respect to a benefit fund, plan or program solely in the interest of the participants and beneficiaries."

Both committees receive annual reports on Wespath's MESR Thermal Coal Policy.

Both committees, and the full Wespath Board of Directors, discussed and approved Wespath's Climate Action Plan and the ensuing *Low-Carbon Transition Belief* in 2017. During development of the Wespath "Transition Ready" Strategy, the committees reviewed the strategy's methodology and received project updates at every meeting.

Wespath Management:

The Chief Investment Officer oversees all sustainable investment strategies activities, including Wespath's:

- Climate Action Plan, including the implementation of the Wespath Transition Ready Strategy
- MESR Thermal Coal Policy
- Corporate engagement and proxy voting strategies relating to climate change
- Manager ESG assessments to evaluate and ensure ESG and climate competency among external investment managers

Wespath's Senior Leadership Team, as well as the UMC Principles and Fiduciary Committees, receive a quarterly report regarding all sustainable investing activities.

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—including climate change—into their decision-making processes. Our ESG integration process 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, and is also a part of all requests for proposals issued for new investment mandates.

Appendix—TCFD (continued)



Strategy

Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy and financial planning where such information is material.

Wespath serves the UMC, and our commitment to those we serve extends decades into the future. Our UMC pension plan sponsors have an obligation to fund participant pensions through about the year 2090, while foundation and endowment clients seek to serve their missions in perpetuity.

Therefore, it is important that we ensure that we invest with a long-term horizon.

Identifying Risk Factors: Wespath believes the low-carbon transition is already underway, and that the impacts will affect our investments over the short-, medium- and long-term. This transition presents risks and opportunities through four channels:

- Regulatory (including carbon taxes and emissions trading schemes)
- Technological (including rapid price reductions and increases in efficiency across a range of industries, products and services)
- Physical (including more frequent and severe weather events)
- Reputational (including changing consumer preferences regarding the low-carbon transition)

Climate Action Plan: To better understand potential responses to the four risks and opportunities referenced above, Wespath conducted a comprehensive review of best-practice investment strategies and solutions. The review process included an assessment of domestic and international public policies aimed at facilitating the transition to a low-carbon economy, including the recommendations provided by the Task Force on Climate-related Financial Disclosure (TCFD). We also sought to understand barriers that would delay or prevent the transition. Wespath discussed all findings and potential solutions internally, resulting in a Climate Action Plan that provides our overall framework for our climate-related investment activities.

Investment Beliefs: Wespath's 10 *Investment Beliefs* help define our investment philosophy and guide our investments. In 2017, Wespath adopted a *Low-Carbon Transition Investment Belief*, which reflects the findings of the comprehensive review undertaken as part of the Climate Action Plan. The belief states: "A global transition to a low-carbon economy is underway driven by the world's assessment of environmental risks. We believe public policies, emerging technologies and physical impacts associated with concerns about climate change are creating winners and losers across companies, industries and countries, impacting investment returns. As prudent fiduciaries, we must assess these global risks and opportunities in the management of our funds." The belief guides Wespath in incorporating the risks and opportunities associated with the transition to a low-carbon economy into the management of our funds. It also guides our extensive corporate and public policy engagements related to the low-carbon transition.

Wespath has taken steps to integrate climate opportunities at the investment strategy/asset class level. We do this through investments in real assets, such as sustainable forestry, and in thematic, low-carbon solutions mandates that are invested in our U.S. and International Equity Funds.

Another important component of our strategy is our **External Manager Selection and Monitoring**. Wespath's requests for proposals include questions that seek to determine the extent to which managers assess and consider ESG factors in their investment process

In addition, our annual **Manager ESG Appraisal** evaluates and benchmarks our external asset managers on ESG integration, asking specific questions related to the management of risks and opportunities associated with climate change. The ESG Appraisals help ensure adequate climate competencies for all new and existing investment strategies. We benchmark the managers according to their ESG competencies (including climate) and provide the results to the managers.

Within our internal operations, Wespath endeavors to reduce its environmental footprint. Our headquarters is a LEED Gold Certified building, and, rather than manicured lawns, our 26-acre campus features native prairie grasses. We have established a "Green Team" that is sponsored by the Chief Operating Officer. In 2018, we installed four electric car charging stations to complement the transit discount we offer to employees who use public transportation. Looking ahead to 2019, we will launch a composting program to reduce the amount of waste we send to the landfill and audit our energy use to identify emissions reduction opportunities.



Risk Management

Disclose how the organization identifies, assesses and manages climate-related risks.

As a fiduciary, Wespath evaluates all risks and opportunities related to our funds. However, climate risks permeate nearly every investment sector. Due to its significance, we developed a Climate Action Plan to help us identify, assess and manage climate-related risks. We have operationalized the Climate Action Plan in several ways:

Global Engagement Strategy: As an active owner, Wespath believes it is our responsibility to engage our portfolio companies to promote sustainable business policies and practices as the world transitions to a low-carbon economy. For over 20 years, we—in partnership with other sustainable investors and sustainable investment initiatives—have persuaded companies to adopt reasonable, cost-effective, climate-related strategies.

Through leadership in the Climate Action 100+, Wespath is persuading the world's most systemic greenhouse gas emitters to adopt strong corporate governance, set greenhouse gas reduction goals and strengthen climate-related financial disclosure. Wespath leads or co-leads engagement with four companies and is a supporting investor on eight additional companies. We co-lead the engagement team of a large U.S. oil and gas company that includes 25 investors across six countries. We conducted five in-person meetings with the company and communicated progress to the supporting investors. As a result of the engagement, the company conducted scenario analysis and published an enhanced climate assessment report that aligns with the TCFD framework, joined the Oil and Gas Climate Initiative and agreed to set a greenhouse gas emissions reduction goal.

We had similar results with another oil and gas company. In this instance, the company conducted scenario analysis and published a climate risk report that aligns with the TCFD framework, joined the Oil and Gas Climate Initiative and increased its investments in low-carbon technology.

In addition to the Climate Action 100+, Wespath is an active participant in climate engagements via Ceres, ICCR and the PRI. Through these networks, in 2017-2018 we engaged 15 oil and gas companies, four electric utilities, two auto manufacturers and seven companies in other industries. To enable investors to better understand the companies' climate-related risks, the engagements frequently request disclosure that aligns with the TCFD framework. We also encourage practices that align with the goals of the Paris Agreement.

Wespath serves on the Steering Committee and the Technical Advisory Committee of the Transition Pathway Initiative, which launched in 2017 to provide investors with a standardized way to assess companies' preparedness for the transition to a low-carbon economy. We also provide funding to the initiative. The TPI is a primary data provider to the Climate Action 100+ initiative.

Transition Ready Portfolio (TRP): In 2018, Wespath invested \$750 million to drive alignment of our investments with the transition to a low-carbon economy by identifying and investing in companies preparing their business operations for the low-carbon transition. The TRP mandate follows the request for information (RFI) issued in 2017 to vendors, index providers and asset managers in order to better understand available investment strategies and analytical tools associated with the transition. Wespath selected an asset manager as its partner and collectively built a new investment methodology that seeks to reflect a company's future preparedness for the transition. The TRP draws on qualitative and quantitative analysis in order to optimally position a portfolio to benefit from companies supporting an orderly transition to an economy committed to achieving global emission reduction targets. The TRP is an enhanced passive strategy that modestly overweights or underweights the securities within an index as a way to add long-term value in a risk-controlled manner.

Management of Excessive Sustainability Risk (MESR) Policy: Wespath's MESR policy provides direction for identifying and managing sustainability-related financial risks that could affect the value of assets held on behalf of participants and institutional investors. In response to an excessive level of regulatory, technological and reputational risk related to thermal coal, Wespath in 2014 began excluding certain mining and electric utility companies that are heavily reliant upon thermal coal. Our processes are reviewed annually and, in 2018, 17 companies were excluded.

Thematic Investment Opportunities: Wespath believes companies positioned to benefit from the transition to a low-carbon economy are attractive long-term investments. We currently have over \$1.3 billion, or about 6% of our total assets under management, invested in companies providing low-carbon solutions, including renewable energy, energy efficiency, and water and waste management solutions.

Appendix—TCFD (continued)



Metrics and Targets

Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

Metric Type	Description	Coverage	Purpose
Weighted Average Carbon Intensity	Portfolio's exposure to carbon-intensive companies	Minority of Assets	Inform Investment Decisions
Carbon Intensity	Volume of carbon emissions per million dollars of revenue (carbon efficiency of a portfolio)	Minority of Assets	Inform Investment Decisions
Total Carbon Emissions	The absolute greenhouse gas emissions associated with a portfolio	Minority of Assets	Inform Investment Decisions
Portfolio Carbon Footprint	Total carbon emissions for a portfolio normalized by the market value of the portfolio	Minority of Assets	Inform Investment Decisions
Exposure to Carbon-Related Assets	The amount or percentage of carbon-related assets in the portfolio	Minority of Assets	Inform Investment Decisions
Exposure to Clean Technologies	The amount or percentage of carbon-efficient assets in the portfolio	Minority of Assets	Inform Investment Decisions
Level of ESG Integration	Assets under management, by asset class, that employ (1) integration of environmental, social, and governance (ESG) issues; (2) sustainability themed investing; and (3) screening	All Assets	Inform Investment Decisions
Description of approach to incorporation of environmental, social and governance (ESG) factors in investment and/or wealth management processes and strategies	Evaluate approach to incorporation of ESG factors in investment processes and strategies of external asset managers	All Assets	Inform Investment Decisions
Description of proxy voting and investee engagement policies and procedures	Evaluate proxy voting and engagement policies and procedures of external asset managers	All Assets	Inform Investment Decisions
Diversity of Employees	Gender and racial/ethnic group representation for (1) executive management, (2) non-executive management, (3) professionals, and (4) all other employees	All Assets	Inform Investment Decisions
Liquidity Classification of Open-End Fund Assets	Percentage of open-end fund assets under management by category of liquidity classification	All Assets	Inform Investment Decisions

TCFD Metric SASB Metric

Metric Unit	Metric Methodology
tons CO2e / \$M revenue	$\sum_n^i \left(\frac{\text{current value of investment}_i}{\text{current portfolio value}} * \frac{\text{issuer's Scope 1 and Scope 2 GHG emissions}_i}{\text{issuer's \$M revenue}_i} \right)$
tons CO2e	$\frac{\sum_n^i \left(\frac{\text{current value of investment}_i}{\text{issuer's market capitalization}_i} * \text{issuer's Scope 1 and Scope 2 GHG emissions}_i \right)}{\sum_n^i \left(\frac{\text{current value of investment}_i}{\text{issuer's market capitalization}_i} * \text{issuer's \$M revenue}_i \right)}$
tons CO2e / \$M invested	$\sum_n^i \left(\frac{\text{current value of investment}_i}{\text{issuer's market capitalization}_i} * \text{issuer's Scope 1 and Scope 2 GHG emissions}_i \right)$
\$M (or %) of current portfolio value	$\frac{\sum_n^i \left(\frac{\text{current value of investment}_i}{\text{issuer's market capitalization}_i} * \text{issuer's Scope 1 and Scope 2 GHG emissions}_i \right)}{\text{current portfolio value (\$M)}}$
\$M (or %) of current portfolio value	$\sum \$M \text{ current value of investments in carbon related assets}$
% of asset class AUM	$\sum \$M \text{ current value of investments in carbon efficient assets}$
Proprietary evaluation framework	Qualitative and quantitative process using a proprietary framework customized to each asset class
Proprietary evaluation framework	Qualitative and quantitative process using a proprietary framework customized to each asset class
% of total employees	$\frac{\sum \text{assets that (1) integrate ESG, (2) are sustainability themed or (3) screen}}{\text{asset class AUM}} * 100$
% of open-end funds by asset class by liquidity classification	$\frac{\sum \text{employees with gender and racial or ethnic group representation}}{\text{total number of employees}} * 100$
% of open-end funds by asset class by liquidity classification	$\frac{\sum \text{open end fund assets by liquidity classification}}{\text{asset class AUM}} * 100$

Footnotes

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- 8 IEA (2018). Global EV Outlook 2018. International Energy Agency.
- 9 Source: World Bank Group: State and Trends of Carbon Pricing 2018.
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- 11 <https://www.theclimategroup.org/partnerships/business>
- 12 <https://www.cbsnews.com/news/its-now-cheaper-to-build-a-new-wind-farm-than-to-keep-a-coal-plant-running/>
- 13 As of December 31, 2018, Wespath had approximately \$5.6 billion in passive assets
- 14 Read more about the 2030 Agenda and the SDGs at: <https://www.un.org/sustainabledevelopment/development-agenda/>
- 15 CS Gender 3000: The Reward for Change; Credit Suisse Research Institute, September 2016
- 16 <https://www.unpri.org/>
- 17 National Low Income Housing Coalition, The Gap: A Shortage of Affordable Homes; March 14, 2019
- 18 <https://www.iea.org/sdg/>
- 19 Krouse, Sarah; Francis, Theo. "Climate Changes as Firms Heed Investors on Social Issues." Wall Street Journal, May 1, 2019
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