

# Wespath Transition Ready Strategy

## *A Solution for Investing in the Low-Carbon Economy*

Wespath and BlackRock have partnered to create a new, innovative investment framework designed to maximize the opportunities and minimize the potential risks associated with the transition to a low-carbon economy.

### Development

In 2017, Wespath established and implemented its Climate Action Plan to help identify, assess and systematically manage climate-related risks.

#### Climate Action Plan:



One result of the Plan was the creation of a new **investment belief** reflecting our view on the low-carbon transition—as well as a commitment to move forward in mitigating the associated risks and uncovering opportunities in the management of our funds.

Step 2 of the Climate Action Plan revealed a chance to improve the way our passively managed investment strategies might respond to the low-carbon transition. This led us to partner with BlackRock in developing the ‘Transition Ready’ strategy.



The Transition Ready strategy is based on the belief that there is inefficiency in the market related to the low-carbon transition, resulting in a mispricing of securities. This enhanced-passive strategy aims to capture this mispricing and generate excess returns against a benchmark by identifying companies that exhibit superior ‘Transition Readiness’ characteristics.

### Funding

Our new strategies take a long-term view and provide a systematic tilt for our funds to better capture upside opportunities and protect against downside risks associated with the transition to a low-carbon economy. In the long run, we believe that firms exhibiting greater Transition Readiness will deliver better environmental outcomes resulting in better financial performance than their industry peers.<sup>1</sup>

Wespath and WII initially committed a combined \$750 million to Transition Ready strategies designed to replace a portion of Wespath’s passively managed assets that used traditional benchmarks and were found in U.S. and international equity funds.<sup>2</sup>

<sup>1</sup> Relative to the benchmark for the portfolio managed by the strategy  
<sup>2</sup> WII began offering funds in 2019.

## Strategy Composition

The key components of assessing the Transition Readiness of a company are its core business involvement and natural resource management. The strategy uses five 'investable pillars' to evaluate companies based on these components:



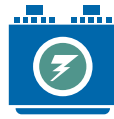
### Energy Generation/Production

Involvement in extraction, refinery, production, generation and ownership of fossil fuel assets



### Carbon Efficient Technologies

Involvement in renewable energy, energy efficiency, green building, low-carbon transportation



### Energy Management

Energy use, mix, efficiency and indirect emissions through electricity consumption



### Water Management

Water consumption, withdrawal, efficiency, physical stress, and recycling practices



### Waste Management

Company waste generation, recycling, and product lifecycle management

Our unique framework analyzes data from multiple sources,<sup>1</sup> considers industry materiality and incorporates BlackRock's proprietary analysis to score individual pillars and create an overall Transition Readiness assessment.

The strategy then suggests overweighting<sup>2</sup> companies with greater Transition Readiness characteristics and underweighting those that are less prepared for the transition.

### Sector Weighting

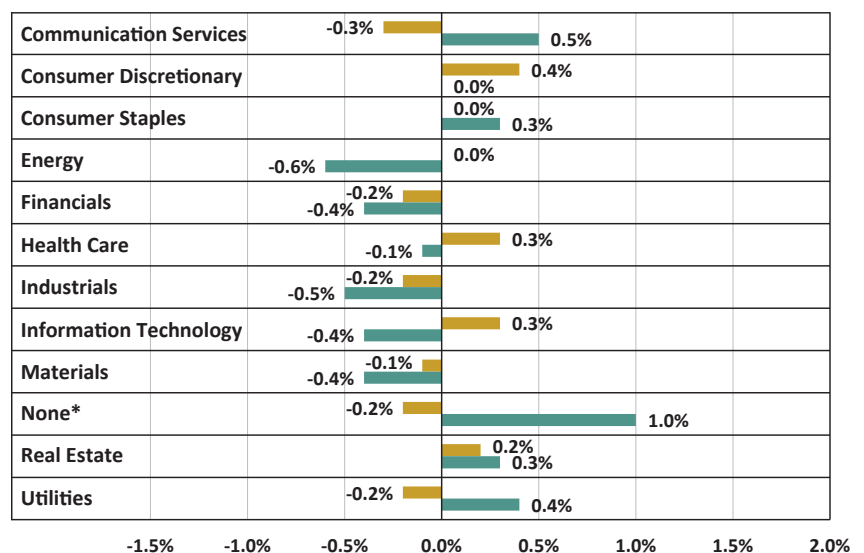
The strategy maintains relative economic sector neutrality<sup>3</sup> when compared to traditional indices. This ensures the framework makes security-by-security selections based on transition readiness at the industry level, across all sectors.

### Security Weighting

While the strategy aims to enhance the overall environmental characteristics of the portfolio, it does not always recommend overweighting the 'usual suspects'—for instance, renewable energy companies or electric vehicle manufacturers. Indeed, the Transition Readiness of those companies may already be factored into the company's share price, providing limited financial upside.

The **forward-looking** nature of the strategy, combined with the fact that it evaluates companies across all sectors in an effort to generate financial returns above the benchmark, means it may recommend overweighting companies one would not immediately expect.

### TRP Portfolio Sector Neutrality



Active Weights in Transition Ready Portfolios<sup>4</sup> ■ Russell 1000 Value ■ MSCI World Ex U.S.  
 \*\*None\* sector reflects futures exposure in the portfolio.

### Top 5 Overweights in U.S. Equity Fund<sup>4</sup>

Company Name	Wespath	Russell 1000 Value	Variation
Sempra Energy	1.3%	0.3%	1.0%
Amgen Inc.	1.0%	0.1%	0.9%
American Water Works, Inc.	1.0%	0.2%	0.8%
Eversource Energy	1.0%	0.2%	0.8%
Becton, Dickinson, and Co.	1.2%	0.5%	0.7%

### Top 5 Overweights in International Equity Fund<sup>4</sup>

Company Name	Country	Wespath	MSCI World Ex USA	Variation
Swisscom AG	Switzerland	1.1%	0.1%	1.0%
E.ON SE	Germany	1.1%	0.2%	1.0%
Siemens AG	Germany	1.6%	0.6%	1.0%
Rakuten, Inc.	Japan	1.0%	0.1%	0.9%
Nippon Express Co., Ltd.	Japan	0.9%	0.0%	0.9%

<sup>1</sup> Including MSCI, Sustainalytics, Asset4, RepRisk and SASB

<sup>2</sup> Relative to the benchmark for the portfolio managed by the strategy

<sup>3</sup> Sector weighting must be  $\pm 2\%$  relative to the benchmark

<sup>4</sup> As of June 28, 2019