

2019–2020 Sustainable Investment Report



Wespath
BENEFITS | INVESTMENTS



About This Report

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, together with its subsidiaries, including Wespath Institutional Investments (WII), invests more than \$28 billion in assets on behalf of over 100,000 participants and over 130 United Methodist-related institutions (as of December 31, 2020).

Wespath implements the sustainable investment strategies for investment funds made available through it and its subsidiaries. As part of the Wespath organization, Wespath's subsidiaries utilize certain shared personnel. These shared personnel conduct the sustainable investment strategies—including, but not limited to, the approach to shareholder engagement, Positive Social Purpose lending, proxy voting, strategic partnerships and impact investing.

Sustainable investment is the foundation of Wespath's work to serve the UMC community. We believe sustainable investment activities strengthen our potential to consistently provide strong, long-term financial returns, helping our stakeholders reach their investment objectives. We are a founding signatory of the United Nations-convened Principles for Responsible Investment and continue to lead global sustainable investing efforts today.

This report highlights our sustainable investment activities throughout 2019 and 2020. In it, you will hear from Wespath's senior leadership and learn about our organization-wide approach to sustainable investment. More information about our latest sustainable investing activities can be found at:

- **Wespath Benefits and Investments**
wespath.org—[Twitter](#), [Facebook](#) and [LinkedIn](#)
- **Wespath Institutional Investments**
wespath.com—[Twitter](#), [Facebook](#) and [LinkedIn](#)

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Message from the CEO

It goes without saying that the publication of this biennial report follows what was an unprecedented and challenging year. The onset of the coronavirus pandemic thrust the world into dual public health and economic crises. Conversations about systemic issues like racial injustice and climate change reached new heights. Through it all, Wespeth remained committed to our foremost mission of caring for those who serve.

Looking past the unexpected events of 2020, I see many successes from the past two years.

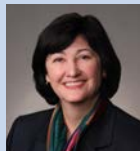
In early 2019, we launched our first suite of funds made available by the newly created Wespeth Institutional Investments, expanding our ability to offer investment solutions to a wider array of United Methodist-related institutions. We are well-positioned to support the broader UMC community long into the future. Meanwhile, our assets under management grew more than 23% from January 2019 to \$28 billion through December 31, 2020.

I am also pleased with our continued leadership in the global sustainable investment and stewardship community.

In April 2020, we deepened our commitment to the low-carbon transition by becoming the second U.S.-based asset owner to join the United Nations-convened Net-Zero Asset Owner Alliance. Throughout 2020, we celebrated the 30-year anniversary of our remarkable Positive Social Purpose (PSP) Lending Program.

The success of our work on climate change, affordable housing, and many other collaborative responsible and impact investing initiatives gives me great confidence that **we are on a path toward a brighter future—where equal opportunity, reliable access to basic necessities and resilient ecosystems are recognized and supported by investors as foundations for a sustainable, equitable world economy.**

I believe this brighter future will provide our stakeholders with the financial stability they need, especially in the midst of uncertainty about the future of the UMC and rapidly shifting trends in our shared society.



Barbara A. Boigegrain
General Secretary and Chief Executive Officer

Message from the CIO

While recent and unprecedented events introduced many new investment considerations, Wespath maintains a disciplined approach to long-term, sustainable investing. The past two years proved that the value and importance of this approach have never been greater.

A meaningful element of our approach is our vision for a sustainable economy, which we define through our sustainable economy framework. **This framework promotes the pillars of long-term prosperity for all, social cohesion and environmental health.**

When new topics and challenges emerge, we leverage our sustainable economy framework as a lens through which to view and respond to these issues. Naturally, this was exceedingly useful as we faced a novel pandemic, heightened social unrest and the early manifestation of climate change's physical risks. It also informed the progress we made within our existing investment program. I'm pleased to note the launch of our Impact Investments team, which will help us build on decades of impact investing experience to pursue new direct investments empowering the pillars of the sustainable economy. Through our engagement activity, we continued bilateral and collaborative corporate engagements on a wide range of issues. Meanwhile, we significantly increased conversations with our asset manager partners, empowering best practices for sustainable investing throughout the financial services industry.

In addition, our sustainable economy framework guides our understanding of how the world economy will change. As hockey legend Wayne Gretzky advised: "Skate to where the puck is going, not to where it has been." Prudent investors should position investments in alignment with how the economy and markets will evolve.

Ultimately, we believe the transformation to a sustainable global economy will help ensure the development of healthy financial markets and resilient companies, thereby improving market outcomes. This belief encourages us to use our influence to ensure that the economic evolution results in something that works for all—not just a lucky or privileged few.

So as you read about the last two years of our sustainable investing activities, I hope you understand that our work is more than just efforts to "beat the market." Consider instead our focus on positively contributing to improved performance of global markets and economies. A rising tide lifts all boats. **Together, we can be the tide needed to help achieve our sustainable economy vision, improve outcomes for people around the world, and deliver investment results that meet or exceed the expectations of our participants and institutional clients.**



Dave Zellner
Chief Investment Officer

Sustainability Snapshot: Highlights and Key Stats



ORGANIZATIONAL EXCELLENCE

- Serving The United Methodist Church for **over 110 years**
- Sustainable investment strategies covering portfolio of more than **\$28 billion** in assets under management
- Stewarding investment funds made available to over **100,000 participants** and **130 institutional clients**
- Transitioned office building electricity to **100% green-energy** certified provider; introduced composting and expanded recycling program
- **\$14,107** in employee-funded donations to **19 organizations** supporting COVID-19 response and social/racial justice



RECOGNIZED LEADER IN SUSTAINABLE INVESTING

- **Founding signatory and co-author** of the UN Principles for Responsible Investment
- **"A+" for Strategy & Governance** in latest PRI Assessment Module
- One of 47 global investors **recognized in PRI's 2019 Leaders' Group**
- **Co-leading four corporate engagements** on behalf of Climate Action 100+
- **Second U.S.-based investor** to join UN-convened Net-Zero Asset Owner Alliance; co-lead of the Alliance's Asset Manager Engagement working group



INVESTMENTS MAKING AN IMPACT

- **Nearly 8%** of total assets invested in low-carbon solutions
- **More than \$2.3 billion** invested through women- and/or minority-owned asset managers
- **Over \$2 billion** in Positive Social Purpose Lending Program investments since 1990
- Financed approximately **1,200 affordable housing units** in 2019 and 2020
- **\$57 million** in sustainable agribusiness strategies



CREATING LONG-TERM SHAREHOLDER VALUE

- Integrating ESG best practices with more than 50 external asset manager partners, covering a combined **+\$27 trillion¹** in USD
- Flagship multiple asset investment offering **ranked in top decile** of comparable universe for five-year performance²
- Institutional multiple asset investment offering **ranked in top decile** of comparable universe in 2020³

¹ Approximation based on publicly available information as of 06/08/2021.

² Refers to the Multiple Asset Fund – P Series (MAF-P). Historical returns are not indicative of future performance. Source for universe comparison: Lipper. The Lipper Multiple Asset Fund Universe is a group of mutual funds comparable to MAF-P. 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. Performance comparison is net of fees, as of 12/31/2021.

³ Refers to the Multiple Asset Fund – I Series (MAF-I). Historical returns are not indicative of future performance. Source for universe comparison: BNY Mellon Endowment and Foundation Universe. BNY Mellon provides a fund-level tracking service used to compare MAF-I's actual performance to the performance of similar asset pools of other institutional investors. Performance comparison is gross of fees, as of 12/31/2020.

Introduction

Interest in sustainable investing continues to grow, and more investors are now considering environmental, social and governance (ESG) factors than ever before. In fact, in the U.S., one in every three dollars under professional management now apply some form of sustainable investment strategy.⁴

Throughout the U.S. and around the world, the latest trends are compelling:

- Total U.S.-domiciled assets incorporating at least one ESG factor have grown 43% in just two years, reaching \$16.6 trillion in 2020⁴
- The majority of investors consider sustainable investing to be fundamental to investment processes and outcomes⁵
- In the first 11 months of 2020, global investors in mutual funds and exchange-traded funds (ETFs) invested nearly \$300 billion in sustainable assets, doubling their total from the entirety of 2019⁶
- Asset owners and investment managers representing a combined \$8.8 trillion in assets under management said they are engaged in dialogue with companies on ESG issues⁴

As a founding signatory to the United Nations-convened Principles for Responsible Investment, Wespeth is pleased to see this growth in both interest and action. But more importantly, we look forward to the next phase of this work: collaboratively building a more sustainable global economy.

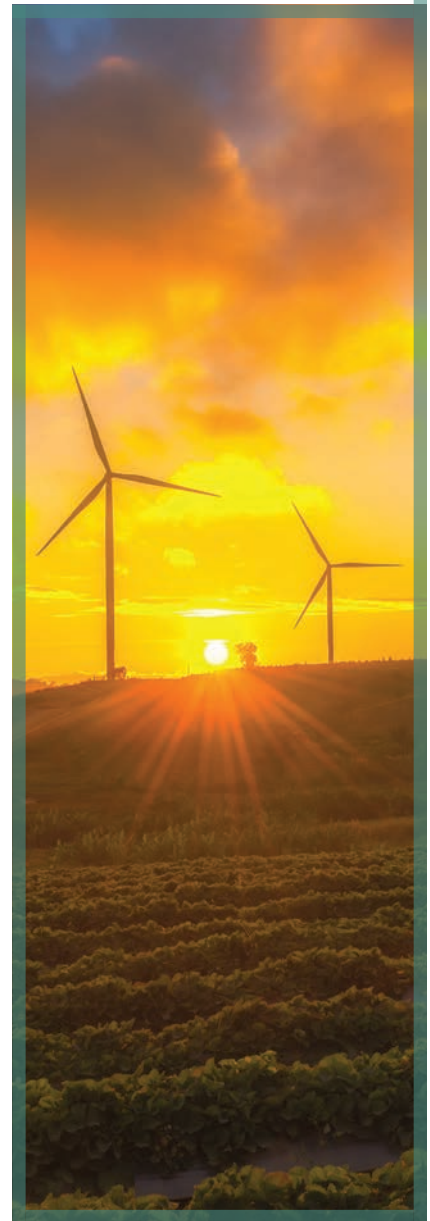
At Wespeth, we organize our sustainable investment activities through our sustainable economy framework and its three core pillars: long-term prosperity for all, social cohesion and environmental health. We use a set of actions—invest, engage and avoid—to ensure we are proactively contributing to the sustainable economy framework.

This report is built around the three core pillars and the actions taken to promote them. In each section, you will learn how investments, engagements and exclusions elevated one or more of the core pillars. Occasionally, we will interject this timeline with specific “Sustainability Stories,” which further explore certain concepts and initiatives. We hope you enjoy this journey through our 2019 and 2020 sustainable investment work—work that seeks to support a sustainable global economy and deliver financial security for our stakeholders.

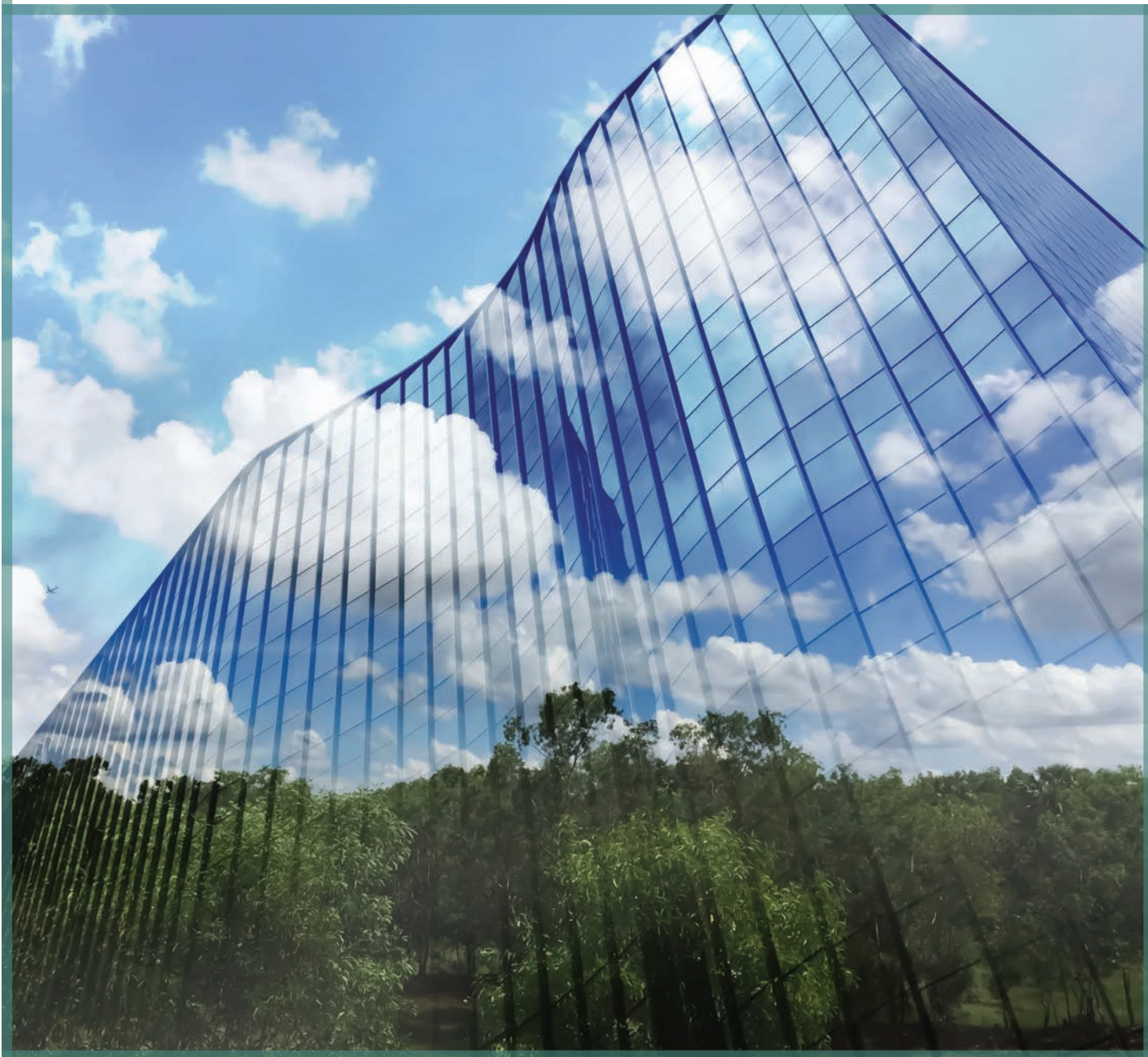
⁴ US SIF Foundation. Includes ESG incorporation, shareholder advocacy and overlapping strategies. “ESG incorporation” defined as “applying various [ESG] criteria in ... investment analysis and portfolio selection.” www.ussif.org/files/Trends%20Report%202020%20Executive%20Summary.pdf

⁵ BlackRock, Larry Fink CEO Letter. www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter

⁶ BlackRock. www.blackrock.com/corporate/about-us/blackrock-sustainability-survey



Long-Term Prosperity for All



Long-Term Prosperity for All

The pillar of “long-term prosperity for all” describes the concept of equal opportunity—be it equal access to quality jobs and healthcare, or equal opportunity to participate in financial markets. **We firmly believe that an economy wrought with inequity is an unsustainable one.**

The wide-reaching effects of the COVID-19 pandemic made this abundantly clear. The onset of COVID-19 quickly evolved from a public health emergency to a major economic and labor market crisis, underscoring the fragility of the status quo.

In the Wake of COVID-19

We supported a collective response to COVID-19—involving fellow investors, as well as companies, banks and public policymakers—that would both take immediate steps to respond to the crisis and help build a long-term path toward a sustainable global economy.

The first step was our endorsement of the [Investor Statement on Coronavirus Response](#). Organized by Domini Impact Investments, the Interfaith Center on Corporate Responsibility and the New York City Comptroller’s Office, it calls on members of the business community to demonstrate leadership in corporate citizenship and assist the communities where they conduct business. It was signed by over 250 institutional investors, representing more than \$6.4 trillion in assets under management.

More specifically, the statement urged companies to:

- Consider proactive steps such as paid leave and employment retention
- Protect worker and public safety by prioritizing remote work and enhanced protections and cleaning
- Work with suppliers and customers facing financial challenges to help stabilize the economy and supply chain
- Ensure the use of ethical financial management and consider limiting executive compensation for the duration of the crisis

Beyond the recommendations of the statement, Wespath issued its own appeal to major banks, asking that these institutions support their trusted borrowers and otherwise viable small business owners through direct action such as offering emergency 0% interest rate loans and increasing credit lines.

“Now is a time for big thinking and big action. It is important that investors, companies, banks and public policymakers form a collective response that takes immediate steps to respond to the crisis and builds a long-term path toward a sustainable global economy.”

—Wespath CIO Dave Zellner
March 31, 2020



Long-Term Prosperity for All

Engaging Asset Managers on COVID-19

Building a sustainable global economy is a collaborative endeavor. While the Investor Statement on Coronavirus Response was a clear call to action for the companies in which we invest, we also wanted to make sure our external asset manager partners understood Wespath's asks.

To accomplish this, we encouraged all our external asset managers to both sign the statement and disclose how they are considering COVID-19-related factors in their operations and decision-making. The results of this engagement were widely positive.



Five asset managers, representing over \$100 billion in total assets under management, signed the investor statement in direct response to our letter

Over a dozen asset managers provided insights on new employee safety protocols—including shifts to remote working, deep cleaning of office spaces and distribution of PPE

Several asset managers described their engagements with companies aimed at supporting sustainable responses to COVID-19

We were also inspired by the large number of asset managers sharing their employee-driven charitable responses. Many created donation funds or organized employee contributions to food assistance programs, essential worker support initiatives and small business relief efforts. We highlighted a few of these stories in our [“#DoBetterTogether”](#) social media campaign.

We appreciate our asset managers for rising to the challenge of COVID-19 with holistic responses that matched Wespath's sentiment. We are more confident than ever that we partner with firms actively supporting our efforts to empower a sustainable global economy.



#WespathCares Initiative

As we asked the investment and corporate communities to respond to COVID-19 with empathy and understanding, we also sought to “walk the talk” in our own operations. Notably, Wespath staff launched the “#WespathCares” initiative, a charitable program organized and funded entirely by our employees.

Through #WespathCares, we donated more than \$14,000 in 2020—all to organizations supporting front-line workers, individuals hard-hit by the pandemic and those working to eradicate systemic racism. We are thrilled to have contributed to 19 groups, including local hospitals, food banks, senior care facilities, students, essential workers and social/racial justice activism organizations.

Long-Term Prosperity for All

Human Capital in the Age of COVID-19

Employee safety and well-being was a common theme of sustainable COVID-19 response initiatives. Workers, especially those in essential positions and on the frontlines, were uniquely exposed to virus risks, as well as the mental and physical tolls of doing their jobs amid a novel pandemic.

The public closely scrutinized how companies treated their employees throughout the crisis, and investors quickly began to assess the implications of worker safety plans for businesses. This sentiment is an example of heightened awareness of human capital management.

What Is Human Capital Management?

Human capital management refers to the practices used by companies in managing their most important resource: their workforce. Similar to other metrics and data points analyzed by investors, the well-being of a business' employees can have a meaningful impact on the value of a company and its long-term financial performance.

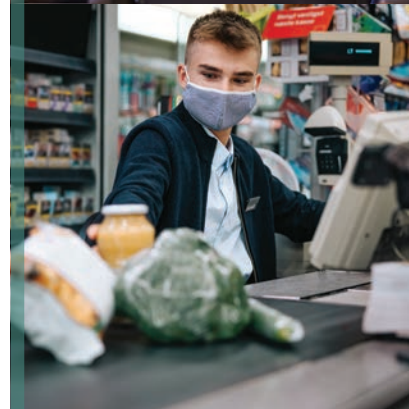
Wespath views human capital management best practices as an important element of a sustainable global economy—especially as it relates to the pillar of long-term prosperity for all. Quality employment is integral to this pillar, and strong human capital management helps ensure workers have an opportunity to secure quality employment.

With this in mind, Wespath joined the Human Capital Management Coalition (HCMC), a group of investors committed to engaging companies on their human capital management policies. The coalition includes 35 other institutional investors, stewarding approximately \$6.6 trillion in assets under management.⁷

In the second half of 2020, Wespath actively supported the work of the HCMC's asset manager subcommittee. Through this committee, we engaged two of our external asset managers—Wellington Management and Capital Group—regarding their approach to human capital management best practices when evaluating and engaging companies in their portfolios. Engaging our asset managers on this issue drives alignment and can lead to real change at portfolio companies.

We look forward to further collaboration with the HCMC as it seeks engagements that improve how human capital management contributes to the creation of long-term shareholder value. Check out more on the group's work here: www.uawtrust.org/hcmc.

⁷ As of 6/1/2021



Long-Term Prosperity for All

Continuing Work to Support Long-Term Prosperity for All

We have detailed our recent work to support the pillar of long-term prosperity for all—much of which was directly inspired by the onset of the COVID-19 pandemic. In addition, we are pleased to highlight the progress made on this theme through Wespath’s legacy initiatives and programs.



Board Diversity

We have long felt, and the research demonstrates,⁸ that diverse boards result in better company performance. Wespath holds membership in the **30% Coalition**, which advocates for gender and racial diversity in the board room. Through this group’s efforts, nearly 400 companies have added women to their boards since 2012.

In an effort to influence change and impact our local community, Wespath also participates in the Midwest Investors Diversity Initiative (MIDI). This group is dedicated to increasing diversity on corporate boards of companies headquartered in the Midwest U.S.

Board Diversity Engagement in Action

Exact Sciences (Exact) is a molecular diagnostics company based in Madison, Wisconsin. After noticing that the company lagged its peers on board diversity, Wespath in early 2019 requested a meeting with Exact.

Following engagement, the company agreed to amend its nominating and corporate governance committee charter to note that women and minority candidates will be included in candidate pools for future board searches. Subsequently, in Q1 2019, Exact appointed Kathleen Sebelius, an experienced businesswoman and former U.S. Secretary of Health and Human Services, to its board.

Century Aluminum (Century) is the largest producer of primary aluminum in the U.S. In Q3 2020, Wespath led an engagement with the company to discuss board diversity and the adoption of the Rooney Rule, which requires that candidate lists for open board or CEO positions include qualified female and diverse candidates. We asked that Century’s board of directors expand its gender diversity and establish greater racial diversity.

Following initial conversations with Century representatives, its board committed to providing a written response to investor recommendations regarding board diversity and scheduled a follow-up meeting. In this ensuing meeting, we again encouraged the company to determine concrete next steps for increasing board diversity. Century’s board agreed to consider our suggestions during the nominating process for the next available board seat—and scheduled another meeting to further discuss the Rooney Rule.

This ongoing engagement demonstrates how making progress takes persistence and time. We are encouraged by the progress made so far and look forward to the company implementing additional written rules and policies in the future.



⁸ CS Gender 3000, Credit Suisse Research, Sept. 2016.

Long-Term Prosperity for All

Community Development Investments

The pillar of long-term prosperity for all stands on the belief that individuals should have equal access to economic opportunities, healthcare and shelter. Through Wespath's Positive Social Purpose (PSP) Lending Program, we seek relevant thematic impact investments in facilities that serve individuals with low- and moderate-income levels, including transitional shelters for the homeless and healthcare centers.

In 2020, Wespath Chief Operating Officer Bill Kavanaugh visited 237 Landing—a 200-bed transitional shelter located in Bronx, NY financed in part by an investment through the PSP Lending Program.

237 Landing assists men experiencing homelessness by providing independent living training, food service, transportation and counseling. It is operated by Bowery Residents' Committee, Inc., which also provides employment counseling and training to residents.

"It was great to see the impact of the PSP Program in action. 237 Landing provides valuable services to people in the Bronx who need it most. I was happy that Wespath could be a part of it, and so appreciative of the dedicated staff I was honored to meet during my visit," Bill said.



Credit: Ronald L. Glassman/RLG Media.

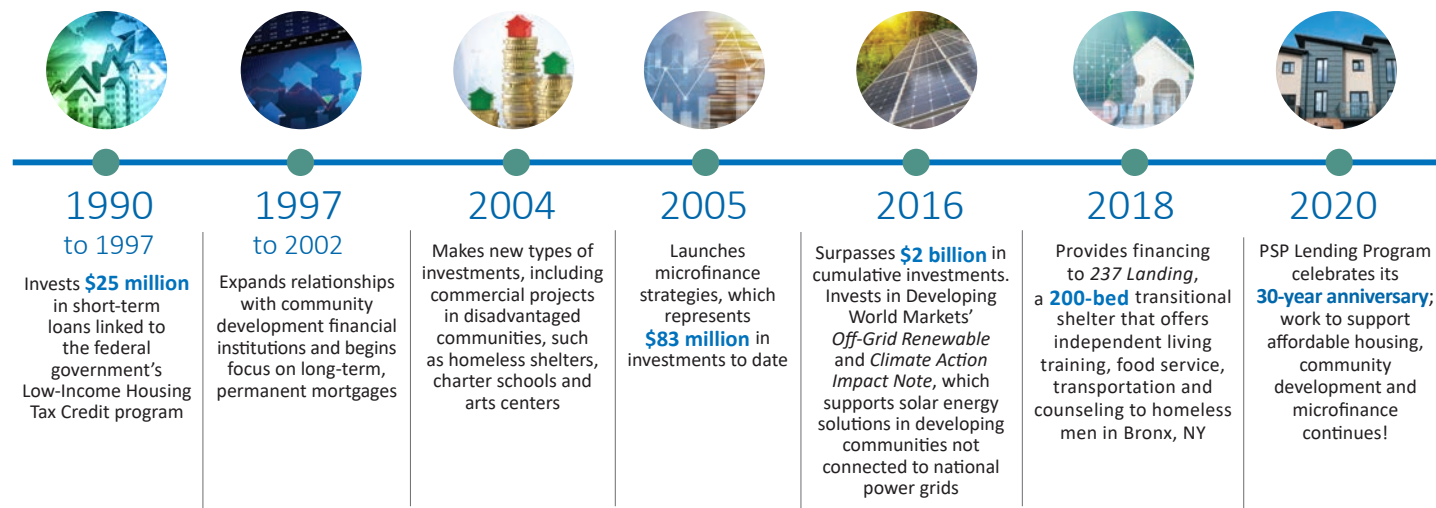
The pillar of long-term prosperity for all stands on the belief that individuals should have **equal access to economic opportunities, healthcare and shelter.**

30 Years of Impact. 30 Years of Performance.

Wespath's PSP Lending Program Celebrates Milestone Anniversary in 2020

When Wespath's investment committee began work on what would eventually become the Positive Social Purpose Lending Program, it started with a thesis: It is possible to meet or exceed market-rates of return while investing in affordable housing. While this certainly holds true more than 30 years later, it is safe to say that the committee could not have imagined just how monumental their idea would become.

Timeline of PSP Lending Program's Evolution and Impact



The Need for Affordable Housing

The idea to launch a program focused on financing affordable housing was an acknowledgement of the persistent need for this type of funding in the U.S.

Significant demand for affordable housing still exists today—in fact, prior to the pandemic, which created even more hardship for struggling communities, nearly 12% of the U.S. population was living in poverty.⁹

Finding affordable housing is particularly challenging for the impoverished. Of the approximately nine million renter households formed between 2008 and 2018 with income less than \$20,000, more than 88% were housing cost burdened, meaning they were spending in excess of 30% of their income on housing.

⁹ www.census.gov/library/publications/2019/demo/p60-266.html

30 Years of Impact. 30 Years of Performance.

Making an Impact

Wespath invested over \$2 billion through the PSP Lending Program, accounting for the creation or preservation of more than 52,000 affordable housing units and various investments in community development projects in the U.S., as well as microfinance loans to borrowers in developing regions around the world.

Much of this work is focused on communities and populations that need it the most—from low-income families to veterans, seniors and those without access to traditional financial services. The program supports opportunities for individuals to secure reliable housing, transition out of homelessness, access quality healthcare and job training, and more.



“Over the course of my career and my time with Wespath, I’ve had the opportunity to meet and speak with several residents and families who reside in properties that we have helped finance... It’s a blessing to know that our work has positively impacted someone’s life in a very meaningful way.”

—Sylvia Poniecki, Director, Positive Social Purpose Lending Program

Return Performance

The PSP Lending Program has proven its success by delivering decades of consistent, market-rate returns when compared to the program’s performance benchmark.



“The impact of the PSP Lending Program, for both society and the returns generated for our participants, fully aligns with our vision of a sustainable global economy.”

—Dave Zellner
Chief Investment Officer

¹⁰ Reflects performance of the PSP Lending Program Strategy in applicable *P Series* funds, including those made available through Wespath. For more information about the funds that use this strategy and are available for investment, please refer to the *Investment Funds Description – P Series*.

¹¹ The benchmark for the PSP Lending Program Strategy is the Bloomberg Barclays US Agency CMBS +150bps. Prior to January 1, 2018, the benchmark for the PSP Lending Program Strategy was a blend of Bloomberg Barclays US Universal ex-MBS and Bloomberg Barclays Long Credit A.

Social Cohesion



Social Cohesion

The pillar of social cohesion affirms that members of our global society have reliable access to basic necessities, including sustainable food and water, clean energy, safe affordable housing, and peaceful living conditions.

Social cohesion speaks to our belief that a sustainable economy requires healthy and happy people. This results in a more productive society and better functioning markets. It also reduces the risk of instability and unrest, which can create uncertainties that hinder economic growth.

You have read about our [PSP Lending Program](#), a foundational initiative in our efforts to support social cohesion through our investments. But our work does not stop there. In fact, we have a long history of elevating the importance of addressing and responding to social issues, and we have greatly expanded this work over the past two years.

Increasing Investor Attention on Social Issues

While we [already noted](#) that awareness of ESG as an important investment tool has steadily risen for years, there is no doubt that one of those elements —the “S” for “social”—really garnered investor attention in 2020.

For starters, the COVID-19 pandemic drew attention to a number of existing inequities. The virus disproportionately affected minority and low-income communities, underscoring our concerns about ready access to public health resources. From a financial standpoint, many economists identified the so-called “K-shaped” recovery—one that is unequal across industries and groups of people. For example, while some workers in largely office-based jobs were quick to adapt to the new normal by working remotely, workers in often lower-paying industries such as travel, hospitality and food services, fell further behind as their jobs disappeared.

Just as it became obvious that COVID-19 could exacerbate a number of social issues, conversations about other systemic issues—including racial inequality—reached a global stage following the killings of George Floyd, Breonna Taylor and others. Ensuing protests, demonstrations and civil unrest caused us to think critically about how our sustainable investment activities interact with injustices across racial and socioeconomic lines.



Social Cohesion

The Investment Industry and Racial Justice

We began with what we knew for certain: the corporate and investment communities in the U.S. do not adequately represent the diversity of the nation. There is a plethora of data supporting this: more than one-third of S&P 500 companies do not have a Black board member,¹² only four percent of directors at S&P 500 companies are women of color,¹³ just one percent of venture-backed founders in 2019 were Black¹⁴ and about four percent of mutual funds are run by people of color.¹⁵

In the investment industry, the lack of representation is partly driven by a tendency for investors to more critically evaluate funds led by people of color compared to those led by white investment professionals, as demonstrated by a study from Stanford University and private equity firm Illumen Capital.¹⁶

This bias is not in the best interests of investors, as diversity of leadership is commonly linked to strong company performance. Notably, a 2017 McKinsey study showed that the most ethnically diverse executive teams have a statistically significant likelihood of outperforming on profitability.¹⁷

It goes without saying that this is a complicated topic with no universally accepted set of solutions. But as a leading sustainable investor with experience addressing difficult and emerging topics, we sought solutions to these problems with many of the same tools we would approach other sustainability issues.

Our first step was to endorse a new position statement, the “[Investor Statement of Solidarity and Call to Action to Address Systemic Racism](#).” Organized by the Racial Justice Investing Coalition, the statement includes a clear call to dismantle systemic racism in the U.S. and asks investors to integrate racial justice factors in their activities.

“ We recognize that the investor community has contributed to and benefited from racist systems and the entrenchment of white supremacy. We therefore take responsibility and commit to hold ourselves accountable for dismantling systemic racism and promoting racial equity and justice through our investments and work. ”

—Investor Statement of Solidarity and Call to Action to Address Systemic Racism

¹² www.blackenterprise.com/power-in-the-boardroom-corporate-governance/

¹³ <http://news.bostoncommonasset.com/racial-justice-investing/>

¹⁴ https://ratemyinvestor.com/pdfs/full?file=%2FDiversityVCReport_Final.pdf

¹⁵ https://kf-site-production.s3.amazonaws.com/media_elements/files/000/000/281/original/2019_KF_DIVERSITY_REPORT-FINAL.pdf

¹⁶ <https://www.businesswire.com/news/home/20190812005572/en/It%E2%80%99s-Pipeline-Problem-Illumen-Capital-Stanford-SPARQ>

¹⁷ <https://www.mckinsey.com/business-functions/organization/our-insights/delivering-through-diversity>

Social Cohesion

Importantly, the statement creates a framework to engage companies and policymakers on these topics. It also advocates for direct investments that empower minority communities and amplify underrepresented voices in the investment industry. Wespath has a history of this—we’ve allocated over \$2.3 billion to women- or minority-owned investment management firms, and we’ve originated more than \$2 billion in loans for affordable housing and community development.

We know there is more work to be done. We endeavor to pursue additional investments that make an impact in communities of color and expand our focus on racial justice as it relates to our shareholder engagements.

Acknowledging Systemic Racism Alongside the UMC

As faith-based investors working on behalf of the broader United Methodist connection, it is important that we live out the values of the UMC through our work. This includes clear calls to combat racism. We find these mandates directly stated in the Social Principles of *The Book of Discipline*.

The Social Principles acknowledge white privilege and clearly oppose institutional racism.¹⁸ In the spirit of these values, the General Secretaries Table—a group comprising the General Secretaries of each UMC agency, including Wespath’s Barbara Boigegrain—in June 2020 issued a statement on racism. In it, the General Secretaries pledged to “commit to look with new eyes and renewed commitment at matters relating to staffing, the make-up and leadership of our boards of directors and the allocation of resources to the important work of racial justice and equity.”

This pledge marked the start of a new journey for all UMC agencies. Though we know this will take time, and in many ways will be ongoing for as long as our work continues, we are pleased to have taken initial steps. At Wespath, we have begun a deep analysis of how systemic racism intersects with our work culture and have partnered with the National Diversity Council to evaluate our internal diversity, equity and inclusion efforts.

We look forward to continued collaboration toward the deconstruction of systemic racism.

What Are the Social Principles?

The United Methodist Church’s Social Principles are a set of thoughtful guidelines that speak to issues faced by the modern world.

The Social Principles are approved by General Conference, the UMC’s central governing body, and are based on biblical and theological interpretations.



¹⁸ www.umcjustice.org/who-we-are/social-principles-and-resolutions/the-social-community-162/the-social-community-rights-of-racial-and-ethnic-persons-162-a

Social Cohesion

Engagement in Support of Human Rights

When we refer to social cohesion and access to basic necessities, in many ways we are referring to fundamental human rights.

We have a long track record of championing human rights in our sustainable investment activities—due in large part to our commitment to the values of the UMC, but also because of the investment uncertainties associated with businesses operating in areas with high-risk of human rights violations.

We use our position as a large institutional investor to bring our voice to the table in support of mitigating human rights-related business risks through corporate engagements. 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 heightened risks when operating in areas where the security of rights may be uncertain.

One recent area of focus for our human rights engagements has been the online travel services industry.

Online travel service companies may exacerbate human rights risk if they advertise rentals and other travel services in conflict-affected areas. Naturally, investors want to ensure that companies operating in these areas are adhering to best practices for supporting human rights.

For example, Wespath observed that Booking Holdings (Booking)—a large and fast-growing online travel agency—was expanding into conflict-affected areas. We led an engagement with the company and eventually filed a shareholder resolution requesting information on Booking’s policies and procedures to address human rights-related business risks.



Booking responded by agreeing to conduct a risk assessment and continue a dialogue with investors on human rights risk. We subsequently withdrew our resolution following this commitment—as we often do when companies make noticeable progress on issues of shareholder interest. Nevertheless, our engagement with Booking is ongoing as we continue to analyze the company’s policies and the implementation of management’s pledges to investors.

Social Cohesion

Human Rights Exclusion Guideline

While we believe engagement with corporations is often the most powerful tool to enact positive change, we also acknowledge there are issues and/or corporate business practices associated with human rights that present excessively high levels of financial risk for investors. In these cases, we may avoid certain investments exposed to these risks.

How We Manage Excessive Sustainability Risk

Wespath's board of directors adopted a policy that we call our "Management of Excessive Sustainability Risk (MESR)" guidelines, focusing on two issues: climate change and human rights.

We implement our MESR human rights policy via proprietary analysis and the incorporation of data from industry-leading providers, seeking to identify high-risk areas and the companies that operate in these areas.

As described in our guidelines, we exclude companies operating in countries demonstrating a prolonged and systemic pattern of human rights violations and in conflict-affected areas where significant human rights violations have been widely documented. We also exclude sovereign debt of any country demonstrating a prolonged and systematic pattern of human rights abuses.

As of December 31, 2020, we excluded 35 companies and the debt of 12 countries subject to our human rights guideline.

Tackling the Opioid Crisis Through Investor Collaboration

Another clear obstacle to social cohesion and the development of a sustainable economy is the opioid crisis.

Opioid misuse is rampant in the U.S. and has been declared a public health emergency by the U.S. Department of Health and Human Services.¹⁹ This crisis has wide-reaching effects, creating economic uncertainties and headwinds that have measurable consequences for economic growth.

Economic Impact of Opioid Misuse

According to the Society of Actuaries, the opioid crisis carried an economic burden of at least...

\$631 billion
from 2015 to 2018²⁰

In addition to the tragic human costs of this crisis, the opioid crisis directly impacts the economy in a handful of ways:

- Unexpected healthcare spending
- Criminal justice costs
- Lost productivity due to addiction and incarceration
- Lost potential earnings due to premature deaths
- Lower labor force participation



¹⁹ www.hhs.gov/opioids/about-the-epidemic/index.html

²⁰ www.soa.org/globalassets/assets/files/resources/research-report/2019/econ-impact-non-medical-opioid-use.pdf

Social Cohesion

Tackling the Opioid Crisis Through Investor Collaboration (continued)

Wespath joined forces with the Investors for Opioid and Pharmaceutical Accountability (IOPA), a coalition of institutional investors representing \$4.2 trillion in assets under management that engages drug manufacturers, distributors and pharmacies on the risks of opioids to society, the economy and shareholder value. IOPA members believe improved corporate governance can mitigate the business risk associated with the opioid crisis and, in turn, create positive change for society.

The IOPA is currently engaging with 15 companies. Recent engagement wins include:



Mallinckrodt

Several IOPA-supported shareholder resolutions—including those related to executive compensation, risk reporting and lobbying—received record-setting, majority support at the company's 2019 annual meeting.



AmerisourceBergen

Following IOPA engagement, the company agreed to disclose the impact of opioid-related costs affecting its bottom line. Wespath also wrote a letter to AmerisourceBergen seeking more information on their COVID-19 response ahead of their 2020 shareholder meeting. The company responded with a detailed disclosure that helped to inform engagements with other pharmaceutical companies by the IOPA.



Gilead

An IOPA member filed a shareholder resolution asking the company to adopt misconduct and disclosure policies. After positive dialogue between the IOPA and leaders at the company, management agreed to adopt the policies.

The IOPA also formed a working group in 2020 featuring more than a dozen pharmaceutical companies. The group is developing industry standards for executive pay, including mechanisms to make it easier for companies to hold executives financially accountable for misconduct.

Social Cohesion

Looking Ahead: New Impact Investments

Wespath understands that significant additional investor action is needed to fully empower the pillar of social cohesion and the broader development of a sustainable global economy. This includes direct funding and investment from the private sector.

We can play a major role in this by making impact investments—defined as investing in specific strategies with the stated objective of strengthening local and global communities while also producing market rates of return. Our PSP Lending Program is a fantastic example.

Recognizing that a major need for funding remains across many important themes, Wespath in 2019 established a dedicated Impact Investments team. This team is actively seeking investment opportunities in the familiar landscapes of affordable housing, sustainable agribusiness, and renewable energy and infrastructure, as well as new focus areas like education and healthcare. We seek to use our sustainable economy framework and the United Nations Sustainable Development Goals as our foundation for these investment themes.



Recognizing that a major need for funding remains across many important themes, Wespath in 2019 established a dedicated Impact Investments team.

The United Nations Sustainable Development Goals

The United Nations Sustainable Development Goals (SDGs) are a set of 17 aspirational targets, developed and adopted by all UN member states, focused on upholding the spirit of peace and prosperity for people and the planet.

SUSTAINABLE DEVELOPMENT GOALS



The SDGs speak to the intersectional nature of the issues facing our modern world. To end poverty and inequality, we must improve healthcare and health outcomes, education, and access to clean energy, while supporting long-term economic growth and mitigating the severe consequences of climate change.

The United Nations Sustainable Development Goals

Published in 2015, the SDGs are a result of more than two decades of work. In fact, the SDGs trace their roots to 1992’s Earth Summit, where nearly 180 countries agreed to build a global partnership for sustainable development. In 2013, the UN formed a 30-member working group to shape the SDGs, which were eventually released as part of the UN’s [2030 Agenda for Sustainable Development](#).

The immense scale of the SDGs means that all members of our global society can—and should—play a role. For institutional investors like Wespath, the SDGs provide a valuable framework for many actions—from shareholder engagements to impact investments, public policy advocacy and beyond.

Achievement of the SDGs will depend on unprecedented collaboration between individuals, businesses, investors and policymakers. We are encouraged that the SDGs are growing ever more ubiquitous across these key groups as we seek to hold each other accountable in our roles as those influencing the future of the world.

The SDGs and Wespath’s Sustainable Economy Framework

There are many similarities between the SDGs and our sustainable economy framework. Indeed, both frameworks take a long-term view of global development and economic growth and provide a hopeful vision for a better future.

We can actually categorize the SDGs into the three pillars of our sustainable economy framework:



This is by no means an exact science—all of these goals and themes are closely connected and, at times, deeply intertwined. Nevertheless, we show this illustration to demonstrate the relationship between the SDGs and Wespath’s work. As momentum builds to achieve the SDGs, so too does support for the development of a sustainable global economy!

Environmental Health



Environmental Health

The pillar of environmental health describes the need to develop resilient ecosystems and address the adverse effects of climate change.

The necessity of prioritizing environmental health cannot be overstated—the potential consequences of extreme climate change will not only disrupt our work on the other two pillars, but also create significant uncertainties for businesses and markets around the globe.

But in the face of this uncertainty there is also great hope. We have long believed that climate change presents both investment risks and investment opportunities. In fact, our “Low-Carbon Transition” Investment Belief, one of 10 beliefs that shape our investment philosophy,²¹ states this in clear terms:



“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.”

A growing number of other asset owners, asset managers, businesses and policymakers have echoed this conviction. Corporate commitments to achieve net-zero greenhouse gas emissions (GHG) tripled between fall 2019 and 2020, while city and regional governments representing over 846 million people have now made similar pledges.²² Concerns about climate change were also a major factor in the 2020 U.S. elections, with then-candidate Joe Biden vowing to return the U.S. to the Paris Climate Agreement—a promise which he fulfilled soon after his inauguration.

Our own experiences mirror this broader trend, as support for the low-carbon transition and climate action have remained key focus areas of Wespath’s recent sustainable investment activities.

²¹ Wespath’s subsidiaries, including WII, each employ Investment Beliefs approved by their respective boards of directors. Investment Beliefs applicable to the *P Series* funds are available [here](#). Investment Beliefs applicable to the *I Series* funds can be found [here](#).



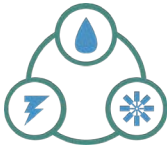


²² https://newclimate.org/wp-content/uploads/2020/09/NewClimate_Accelerating_Net_Zero_Sept2020.pdf

Environmental Health

Wespath and the Net-Zero Asset Owner Alliance

In April 2020, Wespath became the second U.S.-based asset owner and second faith-based investor to join the UN-convened Net-Zero Asset Owner Alliance (Alliance), a group of pension funds and insurers committed to pursuing strategies that will facilitate the transition of their investment portfolios to achieve net-zero GHG emissions by 2050.

What Is the Net-Zero Asset Owner Alliance?

				
Convened by the United Nations' Environment Programme Finance Initiative (UNEP FI) and Principles for Responsible Investment (PRI)	Comprising more than 30 institutional investors, representing \$5.1 trillion in assets under management ²³	Goals consistent with Paris Climate Agreement and limiting temperature rise to 1.5°C above pre-industrial levels	Members engage with asset managers, companies, industries and policymakers to facilitate a low-carbon transition throughout the global economy	Intermediate targets set and reported on every five years

A founding signatory of the UN-supported PRI, Wespath has for years partnered with other investors committed to achieving a sustainable economy. In fact, we believe that investor coalitions like the Alliance are essential for delivering the scale required to influence the change necessary to realize this vision.

Importantly, the Alliance also encourages collaboration in setting and reporting on emissions reduction targets. In October 2020, the group released for public consultation its inaugural 2025 Target Setting Protocol, which details how its members plan to implement significant interim GHG emissions reductions by 2025. The Alliance requested feedback from academics, businesses and governments on these plans ahead of finalization and the release of individual member targets in 2021. By working with these real economy influencers, we can better ensure that targets are viable and impactful.

Partnering with the Alliance also provides Wespath with another opportunity to apply its expertise to global climate action. For example, Wespath co-leads the Alliance's asset manager engagement working area and contributes to other working areas focused on policy, reporting and communication. By joining in this collaborative work, we bring our sustainable economy framework to the table in conversations that will help influence and shape the global low-carbon transition.

We are “all in” on net-zero and look forward to further collaboration with the Alliance and others!

²³ As of December 31, 2020

Environmental Health

Engaging on the Low-Carbon Transition

We believe the most impactful way to support the pillar of environmental health is by engaging companies on the urgent need to transition their business operations. By working with portfolio companies and policymakers, as well as our external asset managers, we can achieve real change around the world, ultimately achieving a more sustainable economy.

Engagement Wins in the Oil and Gas Industry

Wespath has directly engaged with companies on climate issues for over two decades. In recent years, much of our climate engagement has focused on the oil and gas industry. Our premise for engaging this business area is simple: we acknowledge that fossil fuels are a foundational element of our current economy, while recognizing that companies built on producing carbon-emitting products must be able to clearly state and act on their plans to evolve in alignment with the low-carbon transition. As investors in these companies, we have a vested interest in ensuring this transition happens.

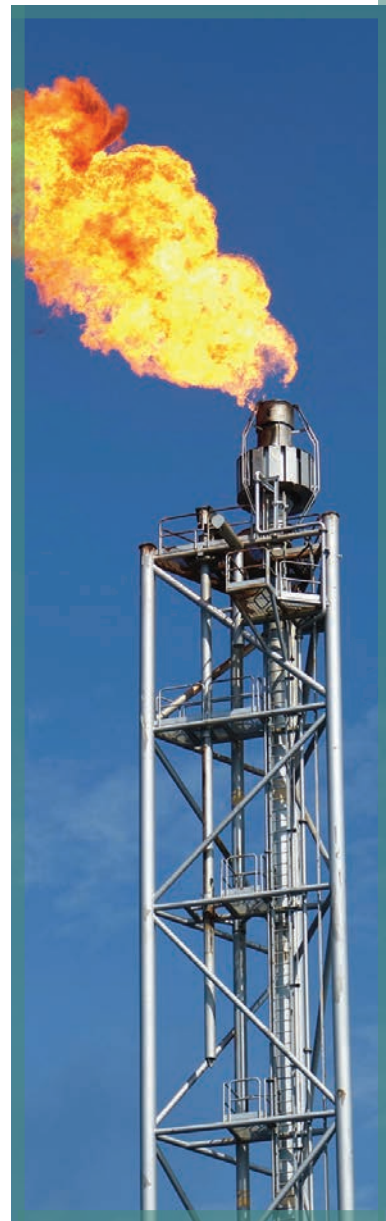
Below we detail some of our most important engagement “wins” with oil and gas majors.



Chevron is one of the world’s largest and most influential oil companies. It is involved in nearly every aspect of the petroleum and natural gas businesses, with operations reaching practically every corner of the globe. Wespath has maintained a years-long engagement with Chevron, and as a result, we have witnessed the company conduct climate scenario analyses, publish its first climate risk report and agree to set GHG reduction goals. Most recently, Chevron set new methane reduction goals and tied them to its bonus structure for all company employees, demonstrating its commitment to reaching those targets.



Occidental Petroleum (Oxy) is a U.S.-based oil company known as a major producer in the Permian Basin, one of the largest oil reserves in North America. Wespath’s engagement with Oxy dates back to at least 2014. In 2017, we supported a historic initiative: leading a shareholder resolution asking Oxy to provide greater transparency on its plans for the low-carbon transition. The resolution received 67% support, making it the first successful environmental-focused resolution at a major U.S. oil and gas company. Then last year, Oxy became the first U.S. oil major to pledge to achieve net-zero in their Scope 1, 2 and 3 emissions by 2050.



Environmental Health

Engaging on the Low-Carbon Transition (continued)

Key Engagement Partners

Partnerships with engagement coalitions allow us to pool our resources and more strongly influence the companies in which we invest. Many of our engagement partners focus on work relevant to the pillar of environmental health—here’s a quick look at a pair of relevant examples.



Climate Action 100+’s mission is to engage the world’s largest corporate GHG emitters on the steps needed to align their business models with the low-carbon transition. The coalition has made significant progress in high-emitting sectors, where support for the Paris Climate Agreement has grown thanks to its targeted engagements. The group is also actively working on cutting-edge tools to measure and evaluate corporate plans to achieve net-zero emissions. Through the initiative, Wespath co-leads ongoing engagements at four companies: Chevron, Oxy, Cummins and WEC Energy Group. During the course of our engagements, three of these companies have set targets to become net-zero by 2050.



The Transition Pathway Initiative (TPI) assesses how individual companies are positioned for the transition to a low-carbon economy. Wespath was one of a group of 13 major global investors representing over \$2.4 trillion in assets under management that developed the TPI. TPI’s research and analysis play an integral role in engagements related to the low-carbon transition. In 2020, just three years after its launch, membership in the TPI crossed the \$20 trillion threshold, with its more than 80 investor supporters spanning the globe. The TPI was also named the 2020 “ESG Assessment Tool of the Year” by *Environmental Finance*.

Expanding Wespath’s Industry-First “Transition Ready” Strategies

As mentioned in our “Low-Carbon Transition” *Investment Belief* the global response to climate change presents risks and opportunities to investors. One opportunity Wespath has pursued relates to our view that markets can be inefficient at accurately pricing these risks and opportunities. In alignment with this belief, we partnered with BlackRock to develop the “Transition Ready” framework.

While active managers are very deliberate with how they invest sustainably, many institutional investors also seek passively managed strategies that track common indexes or benchmarks. Doing so provides what is typically a low-cost method to gain exposure to a specific market segment, such as international equity. But if we ignore the inefficiencies in how markets price the risks and opportunities associated with the low-carbon transition, our passive investments miss the chance to concentrate investment in those companies that are well-prepared and that will likely benefit from the transition. The Transition Ready strategies, which we describe as “enhanced passive,” are our answer.

Environmental Health

The Transition Ready framework—a first of its kind in our industry—seeks to deliver long-term competitive financial returns relative to standard investment indexes by weighting investments toward companies best positioned for the low-carbon transition. The 2018 launch of the Transition Ready framework saw Wespath and its subsidiaries commit \$750 million to Transition Ready strategies benchmarked to the Russell 1000 Value Index and MSCI World Ex US Index.

In 2019 we expanded the program to include enhanced passive strategies benchmarked to the Russell Top 200 Index comprising the largest 200 U.S. stocks on a market capitalization basis. With the launch of these new strategies, Wespath and its subsidiaries have committed over \$1 billion to assets employing the Transition Ready framework.

The framework utilizes a proprietary mix of data sources,²⁴ industry materiality and analysis conducted by BlackRock to score individual pillars and create an overall Transition Readiness assessment. The framework then suggests overweighting companies with stronger Transition Readiness characteristics and underweighting²⁵ those that are less prepared for the transition. The Transition Ready strategies are also sector neutral relative to the benchmark, ensuring the framework recommends securities based on readiness at the industry level, across all sectors.

Measuring a Company's "Transition Readiness"



Energy Generation/ Production

Involvement in extraction, refinement, 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

Interestingly, this process means that the framework does not always recommend overweighting companies one might immediately expect, such as renewable energy and electric vehicle companies. We feel the Transition Readiness of those companies is more likely to already be factored into the company's share price.

²⁴ Including MSCI, Sustainalytics, Asset4, RepRisk and SASB

²⁵ Relative to the benchmark for the portfolio managed by each individual strategy.

Environmental Health

Climate Change Exclusion Guideline

As noted earlier in the report, we have determined that there are issues and/or corporate business practices that represent excessively high levels of financial risk for investors. To address this, we employ our Management of Excessive Sustainability Risk (MESR) guidelines to exclude certain companies and avoid their associated risks.

Our **MESR climate change guideline** relates to thermal coal, which we consider an energy source that is incompatible with the low-carbon transition and therefore not sustainable. More specifically, as described by the guideline, we exclude companies in developed countries that derive 50% or more of their revenue from the extraction and/or mining of thermal coal, as well as electric utilities deriving 75% or more of their overall fuel mix from coal. In developing countries, the guideline applies to companies deriving approximately 50% of revenue from the extraction and/or mining of thermal coal.

We conduct proprietary analysis and incorporate data from ESG research provider Sustainalytics to identify and exclude high-risk companies involved in the thermal coal industry.

As of December 31, 2020, we excluded 63 companies under the climate change guideline.



Environmental Health

Supporting a Just Transition

We ended 2020 by endorsing the PRI's Statement of Investor Commitment to Support a Just Transition on Climate Change (Just Transition Statement).

The Just Transition Statement calls on investors to support a low-carbon transition that is both fast and fair, with responsible management of the social impacts of this transition in the workplace and wider community.

“ There is an increasing recognition that the social dimension of the transition to a resilient and low-carbon economy has been given insufficient attention... Investors can make an important contribution as stewards of assets, allocators of capital and as influential voices in public policy to make sure that the transition produces inclusive and sustainable development. ”

—Just Transition Statement

In other words, the Just Transition Statement asks investors to integrate the consideration of social issues into their own approach to the low-carbon transition. Investors should consider how the transition will affect people, places and communities, and it should factor these considerations into climate change-related investment strategies, engagement activities, capital allocation decisions, impact investments, policy advocacy and more.

We firmly believe that positive social impact will be a vital element of a successful low-carbon transition, and the Just Transition Statement expresses this well. The statement also underscores the interconnected nature of the pillars of our sustainable economy framework, reminding us that adjacent issues—social cohesion and long-term prosperity for all—must be considered as we seek to fulfill our fiduciary duty.



The Role of Asset Managers and Asset Manager Engagement



A Conversation with Jake Barnett—Director, Sustainable Investment Stewardship

As Director of Sustainable Investment Stewardship (SIS) for Wespath and its subsidiaries, Jake leads our shareholder advocacy and engagement efforts. Specifically, Jake and the SIS team focus on engagement efforts that align with the values of the UMC and support the transition to a sustainable global economy.

Prior to Wespath, Jake worked for over six years at a leading Wall Street-based asset management firm. Jake's experience in the asset management side of the investment industry brings a unique and important perspective to an asset owner like Wespath. This is especially valuable as Wespath looks to advance the ways we work with and engage our own external asset managers on our sustainable economy framework. Let's hear from Jake on this emerging focus area!

You joined Wespath with years of experience in the asset management industry. Do you feel that asset managers are strategically positioned to support the transition to a more sustainable global economy?

I think there is a wide range of preparedness, and it varies across asset classes. On one side of the spectrum, there are managers who are falling behind in terms of ESG integration in their investment process. On the other side, there are impact managers with measurable results supporting specific Sustainable Development Goals. Overall, I think most managers fall somewhere in the middle of the spectrum, where ESG is a key part of their regular internal discussions and analysis. These managers can make strong partners in the development of a sustainable global economy.

What about asset owners engaging with their asset managers? Many asset owners, including Wespath, utilize external asset managers to invest large portions of their portfolios. Can asset owners engage their asset managers to ensure they are supporting their interests as it relates to sustainable investment activities?

Absolutely! To me it is not a matter of can; it is a matter of should. Asset owners should engage with their asset managers on sustainability. The relationship between an asset owner and an asset manager is a partnership. Building strong dialogues, relationships and interest alignment—especially on sustainability concepts—helps elevate that partnership. We have long supported this work at Wespath, and I am excited about the growing opportunities to do this work collaboratively with partners like the Net-Zero Asset Owner Alliance.

Suppose an asset owner and asset manager are aligned on the transition to a sustainable global economy and are seeking to drive real-world change. How can both parties leverage their relationship to engage with portfolio companies and policymakers?

Our voice in corporate and public policy engagements is louder when we have support and alignment with our asset managers. There is power in numbers. Engagement techniques can look the same—conversations with management, filing shareholder resolutions, dialoguing with policymakers—just on a larger scale. Working together strengthens those engagements, hones each party's perspective, and leads to a more powerful and cohesive call for change.

Let's talk about ESG integration at Wespath. How do we assess and measure our managers' incorporation of ESG considerations?

We have a robust process to assess and measure our managers' ESG approaches. In addition to regular manager meetings, we have an annual questionnaire with approximately 20 questions specifically dedicated to ESG integration. Our goal is to ask pointed and direct questions to rigorously evaluate the manager. We thoroughly review the answers, measure the results and share our analysis with the managers. Finally, we engage directly with those asset managers with poor scores with the goal of improving ESG integration.

The Role of Asset Managers and Asset Manager Engagement

Progress in the Asset Management Community

Wespath and its subsidiaries utilize a multi-asset-manager structure to construct the diversified investment funds offered to participants and institutional clients. Together, the funds invest with over 50 asset manager partners.

We integrate ESG considerations across all these relationships, and over the years we have built partnerships on cutting-edge sustainable investing strategies and thought leadership. We are pleased to share a few examples of our asset manager partners acting in alignment with Wespath's sustainable economy framework.

BlackRock®

"There is no company whose business model won't be profoundly affected by the transition to a net zero economy..." In his annual letter to CEOs, BlackRock chief executive officer Larry Fink echoed the importance of corporate climate action and called on businesses to build sustainable value for all their stakeholders.

BlackRock is the world's largest asset manager and one of our biggest managers as measured by Wespath assets under management. In addition to our collaboration on the Transition Ready strategies, we maintain a strong and open dialogue with BlackRock. We are pleased to see the firm become a leader in sustainable investment on a global scale.

WELLINGTON MANAGEMENT®

Wellington Management (Wellington) is a Boston-based firm managing over \$1 trillion in assets, including a low-carbon global equity strategy for Wespath and its subsidiaries.

Wellington is an industry leader on the integration of climate change considerations in the investment process. In 2018, the firm launched a collaboration with Woodwell Climate Research Center to study the physical risks of climate change to financial markets and company valuations. Now, its dedicated climate research team works with scientists to identify climate-related risks and opportunities around the world.

Schroders

Schroders is a British asset manager with a strong global presence. In December 2020, Schroders—alongside Wellington and 28 other founding members—helped launch the Net Zero Asset Managers initiative. Similar to the Net-Zero Asset Owner Alliance, the asset managers initiative is focused on achieving net-zero investment portfolios by 2050.

The initiative's members have pledged to work closely with their asset owner clients to support decarbonization efforts. Through this important asset owner-asset manager relationship, we are confident we can influence the change needed in the real economy to reach our net-zero goals.

Conclusion



Closing Thoughts from the CIO



Throughout this report you have heard about Wespath's commitment to achieving a sustainable global economy. I hope it is clear that this commitment is deeply ingrained in the very foundation of our work—it is a major effort of our more than 110-year history and influences nearly every action we take as an organization.

For this reason, it is often difficult to conclude reports such as this one. Our efforts are always evolving—one project influences and informs the next, providing key lessons and challenging us to do more. How can we be certain where one chapter ends and the next begins?

And yet, reflecting on the accomplishments of the past two years—and certainly after the unparalleled events of 2020—it certainly seems as though we have entered a new chapter. The interconnectedness of our sustainable economy framework's three core pillars has become even more apparent. The scale of work required to achieve our aspirational vision has never been clearer. There is now a heightened sense of urgency to address the world's systemic challenges. Nevertheless, I see great opportunities for long-term investors like Wespath and have great hope for our global society as we continue down the path toward a sustainable future.

As we head further into 2021, I am pleased to share that our momentum on a number of key initiatives has continued.

The U.S. has officially rejoined the Paris Climate Agreement, and here at Wespath, our climate focus remains a top priority. We have further built upon recent momentum with partners like the Net-Zero Asset Owner Alliance and Climate Action 100+. We announced our first interim target for reducing portfolio carbon intensity—35% carbon intensity from October 2018 levels by 2025—en route to the long-term goal of net-zero emissions by 2050, and we have also taken steps toward further embracing the Just Transition Statement.

Our Impact Investments team is finalizing its first custom impact strategy focused on delivering competitive returns while promoting our sustainable economy framework, in partnership with a leading asset manager.

We are actively engaging companies and supporting shareholder resolutions related to diversity, equity, human rights and creating meaningful sustainable change in the real economy. Elsewhere, we are actively participating in exciting new initiatives designed to improve asset owner-asset manager engagement.



Closing Thoughts from the CIO

I would be remiss if I did not also update you on our net-zero commitment collaboration with our fellow agencies of the UMC. On Earth Day 2021, we joined 10 other agencies in endorsing a joint statement, “Our Climate Commitment to Net-Zero Emissions.” The statement pledges to achieve net-zero GHG emissions across our organizations’ ministries, facilities, operations and investments by 2050. This is an exciting opportunity to work together with the broader United Methodist connection in support of a net-zero future!

As I think about exactly where we go from this point, I think back to a personal experience I shared on Wespath’s Investment Insights blog back in September 2020.

You may recall that during this time, several western U.S. states were facing serious natural disasters in the form of uncontrolled wildfires caused by record heat, dry conditions and, in some cases, reckless human activity.

I was on a two-week visit in Seattle, which was unfortunately cut short as the city was enveloped by smoke from fires in California and Oregon. On my way to the airport, I captured this photo:



As I shared at the time, this picture struck an emotional chord. I thought about the many millions on the West Coast struggling to breathe amid this environmental disaster. I thought about our battle against COVID-19, a novel virus that attacks the lungs. And I thought about people around the world who felt suffocated by the pressure of inequalities laid bare by the pandemic and racial injustice.

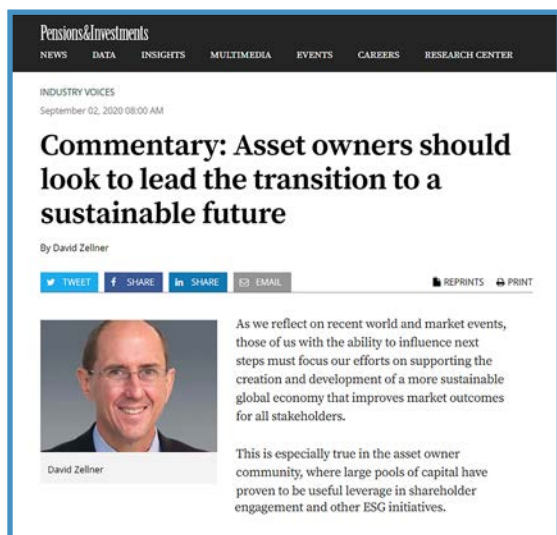
Unsurprisingly, we have not solved all these issues in the few months since my trip. Racial justice is still firmly in the international consciousness, but I sense the systemic change we need will take quite some time. Pandemic conditions have improved due to impressive vaccination efforts, though we must still address virus variants and the equitable distribution of vaccines. Wildfires and the other physical effects of climate change remain real threats.

But we can, and will, continue to make progress. We have both the motivation and the tools. For Wespath, the motivation is our fiduciary duty to faithfully steward the assets that support the long-term financial well-being of our participants and institutional clients. The tools are those detailed in this report—all of which are grounded in our sustainable economy framework.

Appendix



Wespath in the News



Asset Owners Should Look to Lead the Transition to a Sustainable Future—September 03, 2020

This article, written by Wespath's Chief Investment Officer Dave Zellner, was originally published in [Pensions & Investments \(pionline.com\)](https://pensionsandinvestments.com).

As we reflect on recent world and market events, those of us with the ability to influence next steps must focus our efforts on supporting the creation and development of a more sustainable global economy that improves market outcomes for all stakeholders.

This is especially true in the asset owner community, where large pools of capital have proven to be useful leverage in shareholder engagement and other ESG initiatives.

As the chief investment officer at Wespath Benefits and Investments, a faith-based asset owner and sustainable investor with a total of \$24 billion in assets across its subsidiaries, I know firsthand that asset owners are united by a common focus on the long-term interests of their constituents.

All too often, however, stewards of capital direct their attention toward simply meeting or exceeding the performance of stated investment benchmarks. In this moment, we must recognize that seeking to accomplish our financial goals should inspire us to advocate for, take part in and lead discussions and actions promoting long-term sustainable investing. We strongly believe that these actions will lead to better market returns.

Wespath is a founding signatory of the United Nations Principles for Responsible Investment, and we are proud of our work promoting sustainability-related topics like ESG integration and climate risk mitigation. During my time leading our investment activities, I have witnessed how the market's response to these issues and others has evolved, and how asset owners can benefit from leading these conversations.

Our own investment strategy maintains an aspirational, long-term vision for a sustainable global economy—one that promotes economic prosperity for all, social cohesion and environmental health. We believe the transformation to this sustainable global economy will help ensure the development of healthy financial markets and resilient companies, ultimately improving market outcomes.

Of course, the recent coronavirus pandemic—and economic uncertainty that has ensued—threatens to disrupt these efforts. In response to this global crisis, as an asset owner, we have sought to leverage our existing investment framework to guide actions that not only address the near-term effects of the virus, but also place the global economy on the path to a sustainable future.

Appendix

For instance, in March, Wespeth signed the Investor Statement on Coronavirus Response calling on members of the business community to demonstrate leadership in corporate citizenship and assist the communities where they conduct business, including working with their employees to find ways to support local businesses. We also urged banks to take common-sense actions to support viable borrowers. We then engaged with all our asset managers, encouraging them to take similar actions.

We believe that these steps taken now will play a crucial role in defining the speed and strength of the economic recovery for the long-term.

These actions represent just a snapshot of our COVID-19 response plan; we trust that each of our asset owner peers will identify activities that resonate best for them and their stakeholders. However, as a community, we collectively need to be thinking as big as ever.

Just as it is clear that responding to COVID-19 will require bold, creative and coordinated action, asset owners are beginning to recognize that a “business-as-usual” approach to the challenge of long-term systemic issues such as climate change or social inequality—as witnessed with recent global protests calling for racial justice—threatens our collective ability to fulfill the long-term investment goals of our stakeholders.

We recognize many groups of like-minded investors are elevating engagement strategies on these key issues. Some groups—such as the newly formed Net-Zero Asset Owner Alliance, which Wespeth joined earlier this year—are specifically focusing on how asset owners can best contribute to climate risk conversations. More broadly, the Investor Statement of Solidarity to Address Systemic Racism, shows that leaders in our industry are identifying ESG issues as investment issues. This reminds us that we are far from alone in our efforts.

In recent years, asset owners have started demonstrating greater involvement in ESG integration and sustainability best practices as a means of supporting and improving long-term returns, and we fully expect that this momentum will continue in the post-pandemic world. But beyond the increasingly mainstream acceptance that ESG integration adds to shareholder value over time, I believe asset owners can drive additional value for our organizations by bringing our leadership and expertise to these rapidly evolving conversations.

The insight we gain from this leadership inspires more thoughtful and informed discussions internally, with our peers and with industry partners. We can then build upon these relationships to better position our funds and help improve market returns, ultimately benefiting our individual and institutional stakeholders.

The world’s ability to transition to a sustainable global economy will ultimately impact the returns of all asset owners. Rising to the challenge of this transition will require that investors think creatively in redefining prudent fiduciary practice in a rapidly changing world. We welcome our peers as together we stand ready to confront this challenge.

David Zellner is chief investment officer of Wespeth Benefits and Investments, affiliated with the United Methodist Church, Glenview, Ill. This content represents the views of the author. It was submitted and edited under Pensions & Investments guidelines, but is not a product of P&I’s editorial team.

Appendix

Featured Videos



Update from the CIO: Coronavirus (COVID-19) and Stock Market Volatility—March 10, 2020

Uncertainty surrounding COVID-19, CIO Dave Zellner spoke to our participants and institutional clients about the sharp declines in global financial markets and our perspective as a long-term investor.



Wespath Joins the Net-Zero Asset Owner Alliance—April 7, 2020

General Secretary and CEO Barbara Boigegrain and CIO Dave Zellner announce Wespath joining the UN-convened Net-Zero Asset Owner Alliance.

This video was originally posted by the [United Nations Environment Programme Finance Initiative](#).



PSP 30th Anniversary: Introduction—January 29, 2021

Wespath celebrated the 30-year anniversary of its Positive Social Purpose (PSP) Lending Program with a new video that shares the program's broad social impact and introduces its three core investment themes: affordable housing, community development and international microfinance.

Resources for Wespath Participants

[Benefits Access](#)

Easy access to all your benefits information!

[News and Announcements](#)

A landing page for the Investment Insights blog, as well as press releases, special commentaries and organizational updates.

[Funds](#)

The “home base” for information on each of the Wespath investment funds available to participants.

[Fund Performance](#)

A summary of daily, monthly, quarterly and annual investment performance.

[Sustainable Investment](#)

Provides an overview of our sustainable investing initiatives—includes links to information on our investment approach related to climate change and human rights, the PSP Lending Program, and more.

[Publications and Reports](#)

Features links to our Monthly Investment Report and other useful investor documents.

Resources for Institutional Investors

[Investment Insights Blog](#)

Timely insights covering financial market news, trends in sustainable investing and more.

[White Papers](#)

White papers and thought leadership articles written by our team of investment professionals.

[OCIO Library](#)

Thought leadership resources for up-to-date market information; tips on not-for-profit governance; details on spending policies, investment solutions, and OCIO activities; industry commentary and more.

[Insights from WII Sub-Advisors and Industry Leaders](#)

Our asset managers produce commentary on the state of the economy, markets and other topics of interest to institutional investors.

[Funds](#)

The “home base” for information on each of the WII investment funds available to institutional investors.

[Fund Performance](#)

A summary of daily, monthly, quarterly and annual investment performance.



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BENEFITS | INVESTMENTS

Caring For Those Who Serve

1901 Chestnut Ave.

Glenview, IL 60025-1604

847-869-4550

wespath.org