Sustainable Investment Report | 2021–2022

Wespath Benefits and Investments

Wespath

About Wespath

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 $24 billion in assets** on behalf of over 100,000 participants and over 150 United Methodist-related institutions (as of December 31, 2022). Wespath maintains one of the largest faith-based pension funds in the world.

Wespath implements the sustainable investment strategies for investment funds made available through it and its subsidiaries. This *Sustainable Investment Report* does not constitute an offer to sell securities. An offer for the sale of interests in the P Series funds and the I Series funds will only be made through the *Investment Funds Description – P Series* and *Investment Funds Description – I Series*, respectively.

This report primarily highlights Wespath's sustainable investment activities throughout 2021 and 2022. Keep up to date with our latest sustainable investing activities at:

Wespath BENEFITS | INVESTMENTS

wespath.org

Wespath INSTITUTIONAL INVESTMENTS

wespath.com

Table of Contents

We know it can be difficult to keep up with all the sustainable investing terminology, so we decoded it for you. If you see a term anywhere in this report in a teal font, you can click it for a definition.

Welcome from the General Secretary and CEO

"Our sustainable investing approach supports our mission."

On behalf of the entire Wespath team, I am thrilled to share our latest *Sustainable Investment Report*.

We produce these reports every two years, and the process always prompts us to pause and reflect on how Wespath has influenced a more sustainable economy in the recent past. Each time a *Sustainable Investment Report* is published, I am heartened by how our sustainable investing approach supports our mission to care for those who serve in two aspects as I described in a blog I published last year. First and foremost, our approach seeks to generate financial value for our customers by mitigating risks and contributing to a more sustainable economy. Secondly, it serves as a witness to the world of Methodist social holiness—that we are in this together striving for perfection.

In this report you will hear from our team, our industry partners and our various stakeholders about a range of sustainable investment topics—including the important, collaborative work undertaken across the themes of human rights; diversity, equity and inclusion (DEI); environmental health; and more.

Wespath has a long history of integrating these themes and others into our investment practices. In that time, we've seen that embracing a broader perspective that envisions a more just, equitable and sustainable future has improved our thoughtfulness as investors and provided strong financial returns for the individuals and organizations who entrust their savings to us. This *Sustainable Investment Report* showcases some of the many ways Wespath seeks to accomplish these objectives. We look forward to continuing this work on behalf of our stakeholders well into the future.

Andy Hendren
General Secretary and CEO

Our History and Scope

Sustainable investment strategies covering portfolio of more than

$24 billion in AUM[1]

Caring for those who serve for over

110 years

Stewarding investment funds for

over **100,000** participants[1]

150+ institutional investors[1]

Founding signatory and co-author of the UN Principles for Responsible Investment (PRI)

Dave Zellner
Chief Investment Officer

1 As of December 31, 2022.

Highlights and Leadership

Influence and Impact

120+ engagements with companies and asset managers on issues related to climate, human rights, diversity and inclusivity, and more in 2021 and 2022

Seeking to integrate sustainable investment best practices with 50 asset manager partners, covering a combined **$24.5T+ in USD**[2]

$51+ million invested through a private equity strategy[4] in positive impact investments focused on health, environmental sustainability and more

Approximately **11% of total assets** invested in low-carbon solutions[3]

$66+ million in investment activity[5] supporting the creation of 1,000 affordable housing units total in 2021 and 2022

Diversity, Equity and Inclusion

More than **$1.3 billion** invested in women- and/or minority-owned asset managers[6]

Wespath Staff

280 employees[7]

36% people of color
64% white

38% employed at Wespath for 10+ years

57% female
43% male

Board of Directors

32 members[7]

Over **40%** women and/or people of color

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2 Approximation based on publicly available information as of July 14, 2023.
3 Total assets invested as of December 31, 2022. Includes public and private market investment strategies which employ active and/or enhanced passive investment strategy decisions that intentionally consider the impact of the transition to a low-carbon economy.
4 Refers to capital deployed through the HarbourVest Private Markets Impact strategy. The strategy is held within a P Series fund that is not available for direct investment. Please see Page 18 for more information about the strategy.
5 Reflects Positive Social Purpose Lending Program investment activity in 2021 and 2022. Investment activity includes new forward commitments and purchases that were booked as forward commitments in previous years.
6 Total assets invested as of December 31, 2022.
7 Employee and board information as of December 31, 2022. Board information reflective of Board of Directors for Wespath Benefits and Investments.

Highlights and Leadership

We believe investor impact is greater when we join in partnership and work together with other like-minded organizations to form **strategic partnerships**. Our strategic partnerships provide opportunities to represent Wespath's stakeholders, learn from our peers and educate others on our vision for a sustainable economy. Where possible, we seek leadership positions within these partnerships to ensure we have an influential seat at the table.

Leadership Positions

PRI Principles for Responsible Investment

Serving on the United Nations PRI's Stewardship Advisory Committee

The Net-Zero Asset Owner Alliance

Co-leading the Engagement and Communications working groups

IOPA Investors for Opioid and Pharmaceutical Accountability

Co-leading the initiative

Climate Action 100+ Global Investors Driving Business Transition

Co-leading collaborative corporate engagements at four companies

ICCR Interfaith Center on Corporate Responsibility

Serving on their board of directors

Other Strategic Partnerships

Midwest Investors Diversity Initiative

Thirty Percent Coalition

GIIN Global Impact Investing Network

Council of Institutional Investors® The voice of corporate governance

Human Capital Management Coalition

Heartland Initiative

FAIRR A Coller Initiative

Intentional Endowments Network

Ceres Sustainability is the bottom line.

Message from the CIO

Over the course of my career, I have learned there is rarely a dull moment when it comes to financial markets. The past few years illustrate this well—just as investors were beginning to adapt to the "new normal" ushered in by COVID, we were met with generational-high inflation, geopolitical uncertainty and unprecedented central bank activity.

Remarkable as these events have been, I am pleased with the consistency Wespath has displayed in maintaining our disciplined, long-term approach to investing, which has weathered multiple periods of uncertainty and market volatility. We continue to empower our participants and institutional investors to achieve their financial goals while aligning with our collective values and maintaining our commitment to prudent, sustainable investment management.

An important influence on this work is Wespath's **Sustainable Economy Framework**, which describes our vision for a sustainable economy—one that promotes long-term prosperity for all, social cohesion and environmental health. We believe an economy aligned with these three pillars will develop healthy financial markets and resilient companies, thereby improving overall market outcomes and delivering exceptional investment returns over the long-term. As such, Wespath is motivated to manage investments in ways that hasten the transition to a sustainable economy.

Motivation for a Sustainable Economy

Over the years, our Sustainable Economy Framework has elicited a variety of thoughts and opinions from our stakeholders. Many agree with our Framework, recognizing its alignment with our Methodist values, or its connection to sustainable economic growth and development. Our Sustainable Economy Framework makes good business sense—it's difficult to successfully run a company and deliver returns to shareholders if your storefronts and warehouses are flooding due to changing weather patterns, or if you can't find enough motivated and productive employees.

Message from the CIO

While some reflect on our **Sustainable Economy Framework** as an aspirational vision, most still agree progress toward these aspirations will produce benefits. Others are more skeptical of the goals of sustainable investment, worrying that this work pursues a polarizing agenda misaligned with investors' best interests.

Let me be clear—for Wespath, the pursuit of a sustainable economy is fully aligned with our fiduciary mandate and the ultimate objective of achieving long-term investment success. Thus, our Sustainable Economy Framework is a valuable tool that will help achieve this success. It is a key element of our "toolkit" for assessing investment risks and finding investment opportunities.

A Framework for Investment Decision-Making

Consider the companies in which we invest that are dealing with sustainable investment-related issues, including changing weather patterns or tight labor conditions that may impact their ability to operate. If not adequately addressed, such risks are likely to result in lower returns for all investors.

Our Sustainable Economy Framework helps us identify, assess and respond to these risks—whether they are *idiosyncratic* (unique to each company) or *systemic* (affecting the entire economy).

Our Framework also helps us identify investment opportunities. There are countless companies and asset managers that operate or invest in alignment with achieving a sustainable economy and are well-positioned to deliver strong, long-term investment returns.

We also use our leverage as investors to encourage companies and partners to adapt more sustainable practices in alignment with our Sustainable Economy Framework. These **engagements** help us both manage risk and discover opportunities. Engagement also makes us more thoughtful investors with a well-informed perspective on how our portfolio is positioned for long-term success in a changing world.

To me, this is all very exciting. I truly value and am motivated by the different ways we can apply our Framework to important work—work that directly supports the goals of our participants and institutional investors. I hope as you read and engage with our stories of success and collaboration they will spark excitement for you as well.

Dave Zellner
Chief Investment Officer

Innovative Investment Strategies and Programs

Wespath's [Sustainable Economy Framework] is complemented by our Investment Beliefs and our disciplined, long-term investment philosophy.

Wespath's Investment Beliefs

Wespath's Investment Beliefs reflect our expectations regarding the long-term drivers of future economic growth, as well as our approach to investment management and client service:

- **Fiduciary Focus**
- **Integrated Sustainability**
- **Active Management and Engagement**
- **Diversified, Long-Term Perspective**
- **Culture Based Upon Professionalism, Integrity and Diversity**

With our Framework, Beliefs and philosophy as our investment program's foundation, we partner with asset managers to develop and manage investment strategies that support the goals of our participants and institutional investors.

This approach provides a unique and powerful opportunity to create innovative investment strategies that seek strong long-term returns and align with a sustainable economy.

Low-Carbon Solutions Strategies

(From left) Wespath staff: Jon Strieter—Analyst, Impact Investments; Sylvia Poniecki—Director, Impact Investments; and Jake Barnett—Managing Director, Sustainable Investment Strategies

IMPAX Asset Management | WELLINGTON MANAGEMENT®

As noted in our "Integrated Sustainability" Investment Belief, the global response to climate change presents risks and opportunities for investors. To date, there has been a seismic shift as vast numbers of governments, companies and individuals have made commitments and taken action to reduce their climate impact.

As a fiduciary, Wespath has an obligation to understand how our funds might be affected by these behavior changes and consider how to best position our investments. We have therefore partnered with several asset managers that specialize in identifying publicly traded companies well-positioned to succeed in the transition to a **low-carbon economy**.

Wellington and Impax Equity Strategies

Wespath has hired two asset managers—Wellington Management Company (Wellington) and Impax Asset Management Group (Impax)—to **actively manage** public equity strategies that invest in opportunities with an environmental lens.

Impax is a London-based firm with over $45 billion in assets under management (AUM)[1] that specializes in creating and managing investment strategies that align with the transition to a sustainable economy. Impax's strategies managed on behalf of Wespath seek to identify strong companies providing products and services across themes like: energy; food, agriculture and forestry; water; and waste management.

Wellington is among the 30 largest asset managers in the world and represents more than $1 trillion in AUM.[2] The firm manages several strategies on behalf of Wespath, including public equity strategies that focus on investing in quality companies enabling the low-carbon transition.

These Impax and Wellington strategies have both produced investment returns since inception that have exceeded Wespath's expectations.

1 *As of May 31, 2023.*

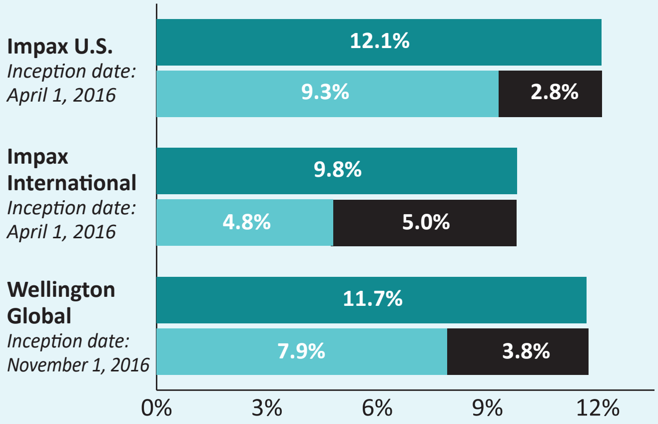
2 *As of March 31, 2023.*

Low-Carbon Solutions Strategies

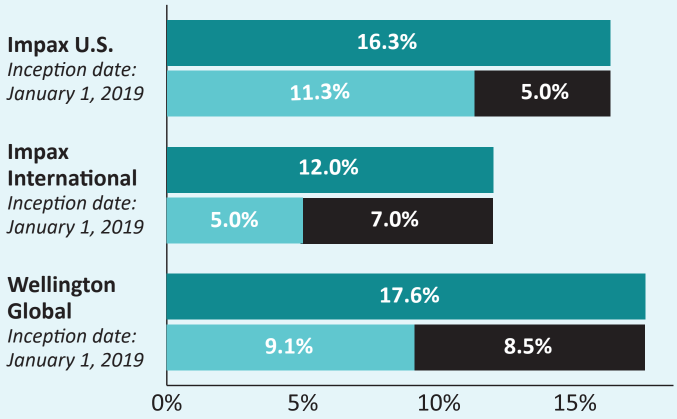
Annualized Performance of Wellington and Impax Strategies

The Wellington and Impax strategies are held within both the P Series funds, which are designed for participants, and the I Series funds for institutional investors.

Gross-of-Fees Annualized Performance of P Series Funds' Strategies[3] *(as of December 31, 2022)*



Gross-of-Fees Annualized Performance of I Series Funds' Strategies[3] *(as of December 31, 2022)*



Annualized Performance (Since Inception of Wespath Strategy)

Benchmark Performance (Since Inception of Wespath Strategy)[4]

Excess Return

3 *Historical returns are not indicative of future performance. The asset manager strategy performance is gross-of-fees. Inclusion of these fees would result in lower performance. These asset manager strategies are not available for direct investment but rather are held within applicable P Series or I Series funds. For more information about the P Series and I Series funds, including their historical net-of-fees performance, please see the Investment Funds Description – P Series and Investment Funds Description – I Series, respectively.*

4 *The benchmark for the Impax U.S. strategy is the MSCI USA Small Mid Index. The benchmark for the Impax International strategy is the MSCI World ex-USA Small Mid Index. The benchmark for the Wellington Global strategy is the MSCI ACWI IMI Index.*

The Impax and Wellington strategies are examples of how we gain exposure to the **low-carbon transition** through **active management**.

We also employ a slightly different approach—driven by the **BlackRock Transition Ready Portfolios**—that seeks to capitalize on the low-carbon transition while providing the diversified exposure typically provided by a **passively managed** strategy.

Partners for a Sustainable Economy: BlackRock Transition Ready Portfolios

Transition Ready Portfolios 101

What

The Transition Ready Portfolio (TRP) strategies are public equity investment strategies which seek to identify and invest in companies that exhibit superior low-carbon transition readiness characteristics. We consider the TRP strategies to be “enhanced passive” strategies because they aim to achieve broadly diversified exposure to a market. But unlike traditional passive strategies, they seek excess returns compared to a benchmark.

How

Through research, data and analytics, a company’s transition readiness is assessed in five key areas: energy generation/production, carbon efficient technologies, energy management, water management and waste management. The strategies are sector neutral, meaning overall weightings to sectors remain comparable to the benchmark. The investment framework suggests modestly overweighting companies with greater low-carbon transition characteristics, and modestly underweighting those that are less prepared for the transition.

Why

The strategies are based on conviction that there is inefficiency in the market related to the low-carbon transition, resulting in a mispricing of company stocks. Wespath partnered with BlackRock, the world’s largest asset manager,[5] to create investment strategies that seek to maximize the opportunities and minimize the risks associated with this mispricing.

From the start, innovation has been at the heart of the TRP investment strategy that Wespath co-created with BlackRock.

When Wespath approached BlackRock with the idea of creating a strategy focused on companies best-positioned for the transition to a low-carbon economy, there was nothing like it on the market, according to Jessica Huang (pictured above), BlackRock’s global head of sustainable and transition product integrity.

TRP launched on December 1, 2018, with an initial $750 million investment from Wespath. At the time, low-carbon investment strategies tended to either focus solely on emissions reduction, such as screening out carbon-intensive industries, or they were highly concentrated thematic strategies, such as concentrating on clean energy and technology.

“The landscape didn’t include a strategy that comprehensively considered both transition risks and opportunities, and leveraged diverse data sets to deliver long-term competitive financial returns relative to traditional benchmarks,” Huang said.

TRP strategies are rooted in a simple premise: The market is not accurately accounting for the transition to a low-carbon economy, leading to stock prices not reflecting reality for some companies.

“Financial markets don’t immediately price in slow-moving trends such as the impact of an aging population, rise of internet or low-carbon transition,” said Debarshi Basu (pictured at left), BlackRock’s head of quantitative research for sustainable investing. “The investment flows to the transition are still in their early stages, and we believe that the full consequences of a shift to transition-investing are not yet in market prices.”

5 *As of December 31, 2022; https://www.sec.gov/ix?doc=/Archives/edgar/data/1364742/000095017023004343/blk-20221231.htm and https://www.bloomberg.com/news/articles/2023-04-17/blackrock-assets-to-top-15-trillion-in-five-years-analyst-says#xj4y7vzkg*

He added: "We believe assets more transition-ready will become more expensive and earn a return benefit during this transition, while others will become cheaper over the coming years."

The strategy overweights companies relative to the benchmark index that are better positioned for the low-carbon transition, and underweights the less-prepared companies.

At Wespath, the TRP strategies replaced a portion of our passively managed assets—which seek to match the returns of a specific index. TRP is an "enhanced-passive strategy" that has delivered on its goal to outperform the index, while providing diversified exposure that is closely aligned to the benchmark's characteristics.

Given the success of TRP, BlackRock has expanded the investment strategy to other investors. The asset manager has grown the TRP strategy itself into a business accounting for $18 billion in AUM.[6] Wespath is proud to have co-created this strategy that is now being employed by many other investors.

Since TRP's launch, BlackRock has also sought to evolve and improve the strategy. For example, in 2020 the firm researched corporate carbon emission-reduction targets established by the Science Based Targets initiative (SBTi), an organization which helps companies set targets that align with the Paris Agreement.

At the time, BlackRock discovered there wasn't any source that compiled SBTi targets. BlackRock decided to create the dataset itself by scraping the SBTi website, analyzing the information, and adding the insights to the TRP strategy. Monitoring emission-reduction commitments helps BlackRock generate better forward-looking assessments.

"We remain committed to enhancing the framework over time as new themes emerge and new data becomes available," Basu said.

Research, Innovation at the Core of TRP

Debarshi Basu and Jessica Thye, directors and co-heads of the BlackRock Sustainable Investing Intelligence team, explain the BlackRock Transition Ready Portfolio (TRP) and how the strategy continues to incorporate new ideas.

Watch now

> **"We are grateful for Wespath's continued partnership and conviction in the research and the strategy, and are excited to see where the next five years take us!"**
>
> —Jessica Huang, *Global Head of Sustainable and Transition Product Integrity, BlackRock*

Five Key Areas of Transition Readiness

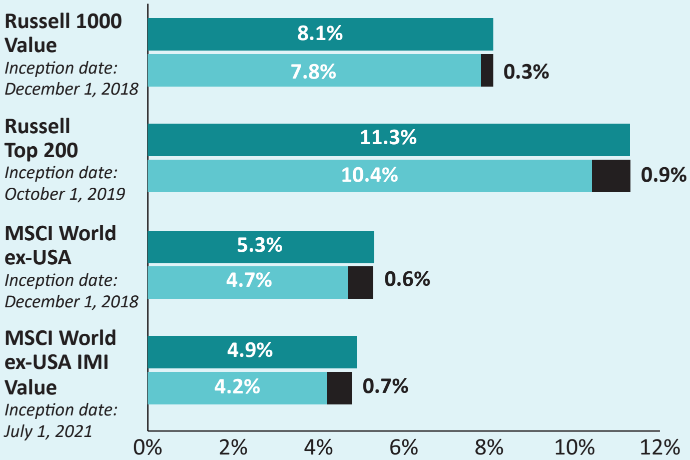
Energy Generation/ Production | Carbon Efficient Technologies | Energy Management | Water Management | Waste Management

6 *As of March 31, 2023.*

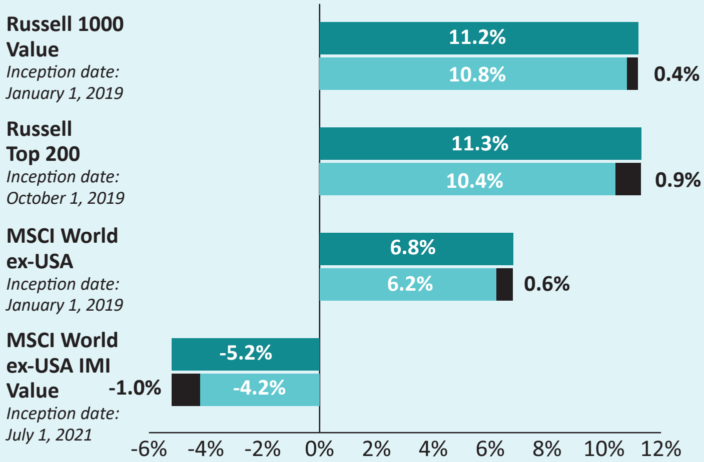
Annualized Performance of Wespath-BlackRock TRP Strategies

Wespath invests in eight total TRP strategies—four within the P Series funds and four within the I Series funds. The strategies focus on various investment styles and geographic exposures.

Gross-of-Fees Annualized Performance of P Series Funds' TRP Strategies[7] *(as of December 31, 2022)*



Gross-of-Fees Annualized Performance of I Series Funds' TRP Strategies[7] *(as of December 31, 2022)*



Annualized Performance (Since Inception of Wespath Strategy)

Benchmark Performance (Since Inception of Wespath Strategy)[8]

Excess Return

7 *Historical returns are not indicative of future performance. The asset manager strategy performance is gross-of-fees. Inclusion of these fees would result in lower performance. These manager strategies are not available for direct investment but rather are held within applicable P Series or I Series funds. For more information about the P Series and I Series funds, including their historical net-of-fees performance, please see the Investment Funds Description – P Series and Investment Funds Description – I Series, respectively.*

8 *The benchmark for the Russell 1000 Value TRP strategy is the Russell 1000 Value Index. The benchmark for the Russell Top 200 TRP strategy is the Russell Top 200 Index. The benchmark for the MSCI World ex-USA TRP strategy is the MSCI World ex-USA Index. The benchmark for the MSCI World ex-USA IMI Value TRP strategy is the MSCI World ex-USA IMI Value Index.*

Private Markets Impact Investing

Investing in private markets offers another opportunity to align with our **Sustainable Economy Framework** and seek strong returns. Wespath has a lengthy track record of using real estate, primarily affordable housing investments, to help foster social cohesion throughout the U.S. We also look to other private market investments, including private equity, for opportunities to make a positive impact and support the financial goals of our stakeholders.

Positive Social Purpose Lending Program

Wespath has a long history of "**impact investing**," or investing with the stated objective of strengthening local and global communities while also seeking to produce market-rate, risk-adjusted returns. Our longest running impact strategy is our Positive Social Purpose (PSP) Lending Program.

Established in 1990, the PSP Lending Program invests in loans that support affordable housing and community development for underserved areas in the U.S. Internationally, the program has supported lending opportunities that provide financing for small businesses and entrepreneurs in developing countries. In its more than 30 years, the PSP Lending Program has invested more than $2 billion, while consistently evolving to uncover new ways to achieve its goals.

PSP Lending Program impact investments

$2B+

For more than

30 years

PSP Lending Program Investment Performance as of December 31, 2022

Since its inception on June 1, 1990, the PSP Lending Program strategy has delivered market-rate, risk-adjusted returns

6.3% Gross-of-Fees Annualized Return for the PSP Lending Program[9]

5.5% PSP Aggregate Benchmark Annualized Return[10]

5.1% Annualized Return for the Bloomberg U.S. Aggregate Index[11]

9 Historical returns are not indicative of future performance. The PSP Lending Program performance is gross-of-fees. Inclusion of these fees would result in lower performance. PSP Lending Program strategies are not available for direct investment but rather are held within applicable P Series or I Series funds.

Performance reflects that of the PSP Lending Program composite employed by: (a) Wespath Institutional Investments through the I Series funds available as of January 1, 2019; and (b) UMC Benefit Board, Inc., an affiliated entity, through the P Series funds prior to January 1, 2019. After January 1, 2019 the composite includes both the applicable P Series funds and I Series funds (asset-weighted).

For more information about the P Series and I Series funds, including their historical net-of-fees performance, please see the Investment Funds Description – P Series and Investment Funds Description – I Series, respectively.

10 The benchmark is the Bloomberg U.S. Agency CMBS Index, +150 basis points, as of January 1, 2018. From January 1, 2016, to December 31, 2017, the benchmark was 50% Bloomberg U.S. Aggregate – Long (A) Index and 50% Bloomberg U.S. Universal ex-MBS Index. From January 1, 2007, to December 31, 2015, the benchmark was 60% Bloomberg U.S. Universal ex-MBS Index, 25% Bloomberg U.S. Long Credit A Index and 15% Bloomberg Credit 1 – 5 Years Index. From January 1, 1992, to December 31, 2006, the benchmark was the Lehman Agency Non-Callable Index. Prior to January 1, 1992, the benchmark was the U.S. Consumer Price Index, +200 basis points.

11 The Bloomberg U.S. Aggregate Bond Index measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. This broad-based index is a widely used proxy for the performance of the U.S. fixed income market and is shown for illustrative purposes only. The Bloomberg U.S. Aggregate Bond Index is not the PSP Lending Program's performance benchmark and is not used to determine whether the program achieved its investment objective.

Private Markets Impact Investing

Recent Highlights from the PSP Lending Program

Wespath's PSP Lending Program helped finance a total of 11 new properties in 2021 and 2022, including the rehabilitation of a property on the National Register of Historic Places.

The Abigail Senior Apartments (pictured below) in Lansing, Michigan, are located in two buildings that had previously been part of the Michigan School for the Blind. The main administrative building (which originally opened in 1916) and the high school building (1912) were converted into a total of 60 apartments for individuals 55 and older.

Both buildings have apartments and community space. Each apartment includes a dishwasher, full-size refrigerator, washer and dryer. Wespath loaned $713,000 and worked with intermediary Cinnaire on the project.

60
apartments

2018
campus added to National Register of Historic Places

2021
loan closed and funded in April

Upper right image courtesy of TWG; three other images courtesy of Cinnaire

A New Development to Support Individuals with Mental Health Conditions, Physical Disabilities

Wespath's PSP Lending Program contributed funding to the construction of a Poughkeepsie, New York, housing development with five apartments reserved for individuals with mental health conditions, and seven apartments designated for people with physical disabilities. Residents in these units can access on-site support services from a local not-for-profit organization.

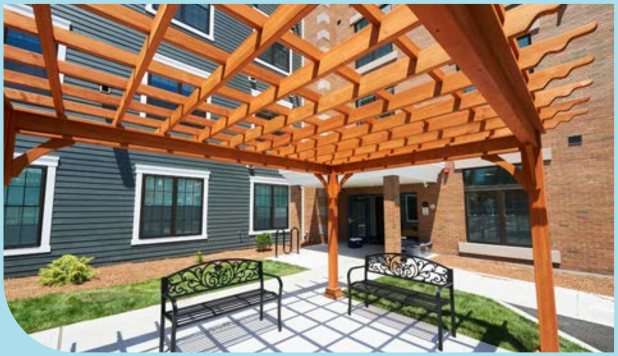
The 75-unit apartment building, Crannell Square, is an affordable housing development that also has 26 apartments earmarked for artists. The Crannell Square lobby doubles as a gallery space for a resident artist to display work for free.

Crannell Square is an energy-efficient building, achieving a LEED Gold certification. The building opened in June 2022 and includes a laundry room, community room, performance practice room and 30 parking spaces. Wespath loaned $5,550,000 to the project and worked with intermediary CPC (Community Preservation Corporation).

75 apartments

12 supportive apartments

2022 opened in June



Images courtesy of CPC

Find a PSP Property Near You

Wespath's PSP Lending Program has invested in properties in all 50 U.S. states. Check out our interactive PSP property map to find out if there is one in your community.

Click here

How Does Wespath Invest in Affordable Housing?

"Most PSP loans finance properties supported under the Low-Income Housing Tax Credit (LIHTC) program. Created in 1986, the LIHTC program is the federal government's primary tool for supporting the development and preservation of affordable housing across the country. It serves families, veterans, seniors, disabled persons and individuals experiencing homelessness," Impact Investments analyst Jon Strieter wrote on Wespath's *Investment Insights* blog.

Read more

PSP Lending Program Promotes Environmental Health

Three affordable housing properties in California that Wespath financed through its PSP Lending Program are now sourcing some of their energy from on-site solar installations. Sunrun, the largest U.S. residential solar, storage and energy services provider, installed roof solar panels on all three properties, and carport solar panels at one property, as part of its initiative to equip low-income properties with solar.

$1.2M
Cumulative estimated savings of the solar installations at the three properties over the next 20 years[12]

$900K
Estimated combined savings for residents of these properties via reduced energy costs[12]

500 megawatts
Sunrun has committed to bring at least this much energy to low-income properties across the country by 2030.[13]

You can power roughly 400,000 U.S. households with 500 megawatts.

12 https://www.wespath.com/Investor-Resources/Blog/0039

13 https://www.sunrun.com/sites/default/files/2020-Impact-Report-FINAL.pdf

Private Markets Impact Investing

HarbourVest Private Markets Impact Strategy

In June 2021, Wespath launched a new **impact strategy** in **partnership** with HarbourVest Partners,[14] a private market-focused asset manager with over 40 years of industry experience.

HarbourVest: By the Numbers

HARBOURVEST
GLOBAL PRIVATE EQUITY

1982
Founded

$106B+
in AUM[15, 16]

1,000+
Employees based in 13 global offices[16]

200+
Experienced investment team professionals[16]

2012
Started as Wespath asset manager through multiple private markets strategies

The new impact strategy seeks opportunities in the private markets throughout North America and Europe that HarbourVest expects will have positive environmental and/or social benefits as well as strong financial returns. More specifically, HarbourVest looks for impact investment opportunities across five primary themes:

- **Health**
- **Inclusive Finance**
- **Environment & Sustainability**
- **Education**
- **Community**

Wespath committed approximately $150 million to the strategy, and we believe its thematic focuses are clearly aligned with our **Sustainable Economy Framework**. To date, the HarbourVest strategy has invested in various companies, including:

- A provider of operational support services to offshore wind farms, and emergency response vessels to energy companies at sea
- A recycled carton board cardboard manufacturer and distributor
- A drug company focused on treatments for rare diseases in the hematology and immunology fields
- A technology company focused on small-scale cardiology equipment that can be used at a smaller doctor's office in lieu of going to a larger regional hospital

14 The HarbourVest Private Markets Impact strategy is held within the Special Opportunities Fund – P Series (SOF-P). Certain of Wespath's defined benefit plan assets are invested in SOF-P and therefore gain exposure to the strategy. SOF-P is not available for direct investment.

15 Reflects committed capital from limited partners, and inclusive of general partner commitment, for all active funds/accounts, excludes leverage and any funds/accounts that are in extension, liquidation or fully liquidated.

16 As of December 31, 2022.

Private Markets Impact Investing

"It is important to Wespath that we partner with asset managers like HarbourVest who share the same conviction that a sustainable global economy will result in positive outcomes and better investment returns for our participants and investors. Doing so helps us move the needle towards a more sustainable world for future generations."

– Sylvia Poniecki
Director of Impact Investments
Wespath

"HarbourVest's mission is to enable and extend the benefits of private markets. Through our ESG program, we aspire to bring value to our partners by advocating for broader and deeper adoption of ESG principles, and to repay our clients' trust in us by seeking to deliver on their sustainability-related objectives. Wespath is a globally recognized leader on responsible investment and it's a true privilege to work with them on strategic initiatives—their engagement makes us better investors."

– Nate Bishop
Head of Institutional Relations America
HarbourVest Partners

Encouraging Corporate Concern for Society

At the core of our Sustainable Economy Framework is the view that businesses play a crucial role throughout society.

Achieving social cohesion, long-term prosperity for all and environmental health requires a business community that embraces responsible corporate behavior and understands the impacts those businesses make on people and places.

Wespath seeks to promote corporate responsibility in its sustainable investment activities, including through engagement dialogues focused on issues directly impacting our local and global communities.

Opioids and Pharmaceutical Accountability

One of our primary focus areas for engagements in recent years has been responding to the crisis of opioid misuse in the U.S. Between 1999 and 2020, more than 564,000 people died in the U.S. from an opioid overdose, according to the Centers for Disease Control and Prevention.[1] That number includes deaths resulting from commonly prescribed opioids such as OxyContin® and Vicodin®; heroin; and fentanyl, a synthetic opioid that is both prescribed and illicitly manufactured.

In addition to its devastating impacts on individuals, families and communities, the opioid crisis creates adverse economic impacts. The crisis leads to increased healthcare spending, criminal justice costs, and lost economic productivity due to addiction, incarceration and premature deaths. To address these risks, we co-lead the **Investors for Opioid and Pharmaceutical Accountability (IOPA)** to engage companies involved in opioid production and distribution.

U.S. Opioid Epidemic: By the Numbers

191M
Opioid prescriptions dispensed to patients in 2017

25%+
Patients who receive long-term opioid therapy in a primary care setting that continue to struggle with opioid addiction

11.5M+
People reported in 2016 that they had misused prescription opioids in the past year

263K+
Opioid overdose deaths in the U.S. involving prescription opioids, between 1999 and 2020

17%
Increase in prescription opioid-involved death rates from 2019 to 2020

Source: U.S. Centers for Disease Control and Prevention

1 https://www.cdc.gov/opioids/basics/epidemic.html

Investors for Opioid and Pharmaceutical Accountability 101

Who

A diverse coalition of 67 members (including Wespath) representing treasurers; publicly elected comptrollers; asset managers; and faith-based, public and labor investment funds. Together the members represent over $4.2 trillion in assets under management.[2]

What

The IOPA focuses on corporate governance reforms that seek to promote responsible behavior within companies in the opioid and pharmaceutical industry.

How

IOPA members have led **engagement** dialogues and filed **shareholder resolutions** with opioid manufacturers, distributors and retail pharmacies.

Why

The IOPA was founded in response to the opioid epidemic, which has had a profound impact on communities across the country and created risks that threaten shareholder value. As shareholders, IOPA members like Wespath seek to improve the pharmaceutical companies they invest in.

Following a huge legal settlement in the wake of the opioid crisis, Johnson & Johnson's executive compensation practices left investors alarmed. The pharmaceutical giant agreed in 2020 to pay $5 billion to settle opioid lawsuits brought by state, local and tribal governments.[3] While the lawsuit settlement amounted to more than a third of Johnson & Johnson's net income that year,[4] the company CEO's compensation was unaffected. In fact, the CEO was given a pay raise of $4.2 million, bringing his total salary to $29.6 million.[5]

Among companies that produce and distribute opioids, legal settlements—in response to their negligence related to the opioid epidemic—totaled more than $50 billion.[6] And Johnson & Johnson's executive compensation practices were by no means an anomaly across the industry.

It was common practice for pharmaceutical companies to exclude large, one-time expenses when calculating earnings, which factor into an executive's pay and bonuses.

There is some merit to this approach, said Kevin Thomas (pictured at left), a co-lead of the Investors for Opioid and Pharmaceutical Accountability (IOPA) and the CEO of SHARE, a Canadian responsible investment organization. A merger, for instance, could cloud the picture of the company's long-term financial outlook if it was included in calculations. But a large legal settlement is not the same as a merger.

The IOPA saw these settlements as an opportunity for engagement.

2 *As of March 29, 2021.*

3 *https://www.jnj.com/statement-on-opioid-resolution*

4 *https://www.macrotrends.net/stocks/charts/JNJ/johnson-johnson/net-income-loss*

5 *https://www.fiercepharma.com/pharma/j-j-ceo-alex-gorsky-scores-29-6m-2020-pay-increase-despite-covid-related-business-slowdown#:~:text=Gorsky's%202020%20compensation%2swelled%E2%80%94to,according%20to%20a%20proxy%20filing*

6 *https://www.opioidsettlementtracker.com/globalsettlementtracker/#pot*

Partners for a Sustainable Economy: IOPA

The IOPA began to dialogue with companies in the opioid industry, urging them to align executive compensation with accountability. Members believe responsible pay practices can also incentivize companies and their leaders to focus on safely producing and distributing medicine.

Five big pharmaceutical companies—including Johnson & Johnson—agreed to the IOPA's proposal to include legal settlement charges in executive compensation metrics.

"That, to me, is a pretty critical win for us," Thomas said. "As we look to the future, (it) is probably setting us up in the right place for this industry."

The agreements, reached ahead of each company's 2023 annual general meeting (AGM), were years in the making.

Chirag Acharya (pictured at left), Wespath's senior analyst for sustainable investment stewardship, is the other co-lead of the IOPA. Both Acharya and Thomas said that since the IOPA launched in July 2017, members' foremost concern has been the people and communities affected by the opioid epidemic.

"We're looking for sustainable solutions," Thomas said. "How do we create the right systems, incentives and oversight? How do we engage as shareholders to try to improve these companies for the future? This isn't a punitive thing; it's not a campaign from the outside where the stakeholder doesn't have any interest in the company's success. We care deeply about the success of these companies, but that success is not going to be achieved by the same kind of practices and governance that allowed the opioid epidemic to take hold."

In addition to meeting with companies, the IOPA led "vote no" campaigns against the advisory votes on executive compensation at the 2021 AGM for both Johnson & Johnson and AmerisourceBergen.

> **"How do we engage as shareholders to try to improve these companies for the future?"**
>
> —Kevin Thomas, *Co-Lead of IOPA and CEO of SHARE*

At Johnson & Johnson, 43% of shareholders voted against the board's approach. Among shares not held by AmerisourceBergen insiders, 72% of votes were cast against the board's approach.[7]

In response to IOPA campaigns, AmerisourceBergen, as well as McKesson Corporation and Cardinal Health, made one-time cuts to CEO pay in 2021.

"The objective of our **engagement** is not to have (it come to) a vote (at the AGM)," Thomas said. "It's to try to put something on the table, have a productive dialogue and find a way to craft a solution for that company that works for them and works for us."

When the IOPA engages a company, it has an eye toward the management of future risks.

"We're asking for that not only because of the opioid litigation, but we're trying to actually prevent this from happening again as much as possible," Acharya said.

The IOPA has made such material progress with corporate governance at pharmaceutical companies that investors feel only nominal gains remain in most cases. As a result, the IOPA will likely wind down in the years to come. The opioid epidemic undoubtedly continues in the U.S., and Wespath will continue to monitor—and engage on—this topic.

7 *https://www.iccr.org/sites/default/files/resources_attachments/iopa_investor_brief_on_executive_compensation_and_accountability.pdf*

Working Conditions and Human Capital Management

The widespread availability of quality jobs, and the good health, well-being and satisfaction of workers are all crucial to the development of a sustainable economy. Our work seeks to support these outcomes whenever possible.

Engaging with Faith-Based Peers

One key engagement **partner** focused on these themes is the Interfaith Center on Corporate Responsibility (ICCR), a coalition of over 300 faith-based institutions and supporters from the asset management and advocacy industries.

A recent **engagement** focus area within ICCR is the dollar store industry. Through analysis and connecting with dollar store worker representatives, Wespath and other investors recognized that these companies face unique risks and opportunities.

While companies like Dollar General and Dollar Tree play an important role in providing affordable products—particularly to low-income communities—they have faced issues related to store safety and employee well-being.

Notably, the unique inventory practices used to stock dollar stores often create safety hazards for workers. This has led to numerous fines from the Occupational Safety and Health Administration[8] and growing concerns from investors about employee retention and turnover.

In 2022, ICCR organized a working group to develop a strategy for engaging with dollar store companies on labor-related issues. Wespath supported ICCR and its members' outreach to Dollar General and Dollar Tree to address the risks faced by these companies. The engagement team urged the companies to improve store safety and requested more information about other dimensions of worker well-being, including average wages and how the companies are investing in employees. Both companies agreed to meet, and follow-up dialogues have continued into 2023.

This ICCR working group is just one example of a collaborative engagement focused on working conditions and **human capital** management. These topics are also a focus area for our partners at the **FAIRR Initiative**.

A coalition of

300+

faith-based institutions and supporters from the asset management and advocacy industries

8 https://www.osha.gov/news/newsreleases/national/01262023 and https://www.osha.gov/news/newsreleases/region5/08012022

Partners for a Sustainable Economy: FAIRR

FAIRR Initiative 101

Who

The FAIRR Initiative is an international investor network focusing on sustainability risks and opportunities in the global food sector. Based in London, its members represent over $70 trillion AUM.[9] Wespath joined FAIRR in the first quarter of 2022.

What

The Initiative organizes collaborative corporate **engagements** and publishes research on global food companies with the goal of improving sector-wide performance on key sustainability issues. FAIRR was founded by the Jeremy Coller Foundation and is 100% philanthropically funded. This allows FAIRR to provide its services to investor members without any fees or charges.

Why

FAIRR's research, expertise and collaborative engagements offer Wespath the insights and platforms needed to make a positive impact on an economically critical sector that is highly relevant to our **Sustainable Economy Framework**.

The COVID-19 pandemic took a staggering toll on the people who worked at and lived near meatpacking plants. One academic study estimated that 6% to 8% of all COVID-19 cases and 3% to 4% of all COVID-19 deaths in the first few months of the pandemic were linked to outbreaks at livestock plants.[10] The media—and as a result, the public—took notice of the alarming outbreaks which were attributed to unsafe working conditions.

It's no surprise, then, that meatpacking companies faced subsequent labor shortages, which hurt business productivity and caused production setbacks. Labor relations, already an important topic for an industry heavily dependent on workers, became even more material for companies and their investors.

The FAIRR Initiative—a collaborative investor network that works with institutional investors, including Wespath, to address the material sustainability risks in animal agriculture—responded by creating a campaign to engage seven of the world's largest meat processors on their working conditions. Tyson Foods, Sanderson Farms and Smithfield Foods parent company WH Group were among the companies.

"When you try to address working conditions issues, it's not for the short-term, the price of the share today versus tomorrow," said Sofía De La Parra (pictured at left), FAIRR's investor outreach manager. "This is for the longer term. Therefore, it needs more fundamental and systemic solutions."

9 As of February 14, 2023.

10 https://www.pnas.org/doi/full/10.1073/pnas.2010115117

Working Conditions Engagement: By the Numbers[11]

7
of the world's largest meat processing companies were engaged by FAIRR

500K+
Workers employed by the engaged companies. Many of them face hazardous conditions due to dangerous machinery, repetitive tasks and chemicals.

77
Investors representing over **$16 trillion** in combined assets participated in Phase 2 of the engagement

6
of the companies now report the total number of grievance cases received annually, up from 3 in the first phase of the engagement

3
of the companies now report on their paid sick leave policies

FAIRR and its member investors focused their engagement on three topics that each serve to elevate workers' voices: health and safety, fair working conditions, and worker representation. Investors considered several key questions:

Health and safety: Does the company offer sick pay? Is there an effective means by which workers can report grievances? Does the company report metrics on its grievance cases?

Fair working conditions: Does the company publish data on its workforce, including subcontracted workers? Does the company have a policy supporting equal rights for its workers regardless of an individual's contract or role? Does the company report labor metrics to the board on a regular basis?

Worker representation: Are the company's workers represented by an independent trade union? Did the company negotiate with a group of employees to establish a collective bargaining agreement? Does the company consider the social impacts of its climate and automation strategies?

FAIRR ESG analyst Siân Jones (pictured at left), who leads the working conditions engagement initiative, said that while worker representation often receives attention from investors, FAIRR felt it was important to engage companies across multiple themes.

"Our individual, unique angle here is that we've united these three different points that all ultimately elevate worker voice in a more holistic way," Jones said.

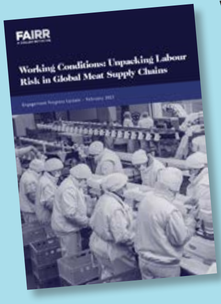
De La Parra added: "We're really trying to drive not only disclosures of these companies, but actual outcomes that improve working conditions on the ground."

11 As of February 13, 2023.

Partners for a Sustainable Economy: FAIRR

FAIRR launched its first phase of [engagement](#) on working conditions in January 2021 and embarked on a second phase of engagement with the same seven companies in 2022.

“We definitely noticed a shift from the companies,” Jones said of Phase 2. “Most of them were very willing to have a bit more of a candid conversation with us as we’ve developed that relationship. They also came with questions and definitely had follow-up questions as well: ‘Can we (FAIRR) provide best-practice examples?’ ‘Can we provide more information on how they can improve their disclosures?’ Which was really great to see.”



Wespath joined Phase 2 of the FAIRR engagement in the first quarter of 2022 and signed outreach letters to JBS USA, Sanderson Farms, Tyson Foods and WH Group.

Wespath also took part in a dialogue with JBS USA, the leading beef producer and the second leading pork and poultry producer in the U.S. Jones said Wespath’s knowledge of U.S. companies and its understanding of global human rights issues made a big difference in the engagement with JBS USA.

“Wespath has been an essential part of the impactful and positive outcomes that we’ve had … given your expertise of course in human rights and the deep knowledge of the American companies,” De La Parra said.

She added: “(Wespath’s) understanding (of) human rights… has been quite invaluable and therefore the key recommendations that we are giving to the company post the dialogue are very much in line to something that is pragmatic, something that is constructive.”

The conversations didn’t end with the post-engagement recommendations or the Phase 2 progress report (pictured above). FAIRR and its members are planning a third phase of working conditions engagement with several of the same companies in 2023.

A Just Transition in the Food Sector

The FAIRR Initiative recognizes that sustainability themes like working conditions and climate change are closely intertwined. Sofía De La Parra and Siân Jones demonstrate this understanding in a video explaining the idea of a “just transition” on climate change, and how it aligns with considerations about working conditions.

[Watch now](#)

> **“Wespath has been an essential part of the impactful and positive outcomes that we’ve had.”**
>
> —Sofía De La Parra
> *Investor Outreach Manager*
> *FAIRR*

FAIRR
A COLLER INITIATIVE

$70T+
in AUM

2022
Wespath joined in Q1

Promoting Diversity and Human Rights

As an investor in companies operating all around the world, Wespath takes a global perspective on the wide range of economic issues facing individuals and businesses.

Our **Sustainable Economy Framework** is designed with the same global focus in mind, though it also recognizes that a truly sustainable economy upholds certain core tenets across international borders and markets. The principles of human rights, diversity and inclusivity, for example, are important themes to support in a globally diversified portfolio.

Business and Global Human Rights

Wespath has a long track record of advocating for human rights in our sustainable investment activities. Our perspective is guided by the **United Nations Guiding Principles on Business and Human Rights** (Guiding Principles), which set forth expectations for how governments and businesses should act to ensure human rights are upheld.

The Guiding Principles are particularly helpful for responding to human rights risks in conflict-affected and high-risk areas (**CAHRAs**). CAHRAs are areas of the world experiencing armed conflict, instability, widespread violence or other risks that can harm its people.

There are many risks for companies who do business or have suppliers in CAHRAs, including, but not limited to, seizure of assets, regulatory sanctions or import bans, litigation brought forth by stakeholders, and brand reputational damage for conducting business with rights-violating states.

To help identify and address these risks, we work with **Heartland Initiative**, a not-for-profit research organization that promotes the fundamental rights and freedoms of people impacted by armed conflict, repression and violence.

(From left) Wespath staff: Sylvia Poniecki—Director, Impact Investments; Trent Sparrow—Manager, Impact Investments; Chirag Acharya—Senior Analyst, Sustainable Investment Stewardship; and Jon Strieter—Analyst, Impact Investments

Heartland Initiative 101

What

Heartland Initiative provides technical support to Wespath and other stakeholders seeking to **engage** companies and develop solutions that prevent and mitigate human rights risks in conflict-affected and high-risk areas (**CAHRAs**) while simultaneously managing the heightened legal, reputational, and financial risks faced by companies and investors.

How

Heartland takes a holistic approach to analyzing corporate human rights risks and supporting investor-led engagements, meaning that instead of focusing on one issue—such as child labor in a supply chain—or one area of the world, it works with investors to engage companies on their human rights and material risks across CAHRAs.

Why

The material financial risks present in CAHRAs are often global and complex. Heartland's expertise and global relationships enhance Wespath's ability to engage companies and asset managers on these risks within our portfolio.

An approximately 6-foot-tall painting by the Mexican artist David Villasenor towers over Sam Jones when he sits in his home office north of Atlanta. Villasenor's painting depicts a Mayan woman in traditional attire and is filled with vibrant colors. Her orange garment has a large floral print and she's wearing several beaded necklaces. "I like to think that she keeps me accountable, in terms of the work," Jones said.

Jones is the president and co-founder of Heartland Initiative, a not-for-profit organization that promotes fundamental rights and freedoms of people in CAHRAs by bringing together institutional investors, civil society organizations, and companies.

For many years, Heartland Initiative has helped Wespath with numerous aspects of corporate engagement on human rights risks in CAHRAs, including conducting research, joining calls with company executives and hosting events on emerging geopolitical trends. Jones said he believes this work builds on—and benefits from—Wespath's efforts to address other sustainability issues.

"Wespath is a recognized leader among socially responsible and faith-based investors, especially in terms of identifying the most severe and systemic risk related to climate change and taking meaningful engagement action. We help Wespath do the same with human rights risk," Jones said. "In doing so, Wespath reflects its values of being in tune to people, planet and portfolio."

Wespath, drawing on Heartland Initiative's research and expertise, focuses its engagement on the companies in which Wespath invests that have the most systemic and severe human rights risks around the world.

"When we work with Wespath to engage a company, we look at their full universe of conflict and human rights-related risk," Jones said. "This approach considers a greater percentage of operations, a greater percentage of revenues and it demonstrates to the company that we're really taking seriously both the human rights and the business case for risk prevention and mitigation."

Partners for a Sustainable Economy: Heartland Initiative

Wespath has engaged with Caterpillar, a manufacturer of construction and mining equipment, for several years. Heartland Initiative's research and analysis of publicly available sources highlighted Caterpillar's operations in a number of CAHRAs, including Western Sahara, which is territory occupied by Morocco; the Xinjiang Uyghur Autonomous Region; the Occupied Palestinian Territories; and Myanmar, where revenue from jade mining has financed conflict.

In recent Wespath engagements with Caterpillar, the company failed to provide details concerning how it put its human rights policies into practice in CAHRAs, according to Jones. When the engagement conversations did not adequately address shareholder concerns, Wespath filed a shareholder resolution in 2022 that called for Caterpillar to create a report "on the company's approach to mitigating the risks associated with business activities in conflict-affected and high-risk areas."

"Wespath takes seriously its commitment to long-term financial performance and risk prevention and mitigation among its portfolio companies," Jones said. "(In the case of the Caterpillar resolution,) that proved to be the necessary next steps."

Wespath's leadership in systemic stewardship has helped alert other companies and fellow investors that conflict and human rights risks are important issues to address, according to Jones.

"An increasing number of investors are taking up the mantle of focusing on conflict-affected and high-risk areas for … the benefits to people, the benefits to companies, the benefits to the investors themselves, and so you're seeing more engagements over the last two to three years by investors in North America and in Europe with the theme being conflict-related risk," Jones said.

Successful Engagement with a European Company

Sam Jones details another Wespath-Heartland collaborative engagement that led to positive progress at German building materials giant HeidelbergCement.

Watch now

HEIDELBERG CEMENT

"Wespath takes seriously its commitment to long-term financial performance and risk prevention and mitigation among its portfolio companies."

—Sam Jones
President and Co-founder
Heartland Initiative

Partners for a Sustainable Economy: Heartland Initiative

Beyond Engagement: Sustainability Risk Exclusions

Wespath also partners with Heartland Initiative to assess all the companies in our investment portfolio for human rights risks and to help implement our Management of Excessive Sustainability Risk (MESR) **exclusions** related to human rights.

While Wespath believes that **engagement** is often the most powerful tool to enact positive change, our MESR policy acknowledges there are issues and/or corporate business practices that present excessively high levels of financial risk for investors. In these cases, Wespath excludes certain investments exposed to these risks.

Heartland Initiative's research, insights and experience—along with other proprietary analysis and data from industry-leading providers—help Wespath identify investments facing excessive human rights risk.

Business and Global Human Rights

Additional Human Rights Engagements

Wespath hosted or participated in a number of engagement dialogues in 2021 and 2022 that were focused on human rights. Highlights include:

Booking Holdings: Wespath continued a multi-year engagement with Booking Holdings focused on how the online travel services company addresses conflict- and human rights-related risks. Wespath previously withdrew a shareholder resolution following an agreement with Booking to conduct a salient human rights risk assessment, develop corresponding practices and continue engaging with investors. In recent dialogues, Wespath has encouraged Booking to develop and publish a human rights policy that aligns with international standards like the UN Guiding Principles.

Tripadvisor: Ahead of the company's 2021 annual general meeting, Wespath and Mercy Investment Services co-filed a shareholder resolution calling on Tripadvisor to adopt a global human rights policy. Mercy and Wespath withdrew the resolution after Tripadvisor agreed to continue engaging on the need to develop a policy. We believe withdrawing a shareholder resolution is an effective step to acknowledge a company's willingness to meaningfully engage, set the stage for positive future dialogues, and ultimately develop rights-respecting policies and practices.

Twitter: Wespath led an engagement with Twitter (while it was still a publicly traded company) to discuss the social media company's progress toward developing and conducting human rights due diligence (HRDD), how the company will incorporate investor feedback on its HRDD process, and how Twitter addresses salient human rights issues that may arise in conflict-affected areas.

Diversity, Equity and Inclusion

(From left) Wespath staff: Rashed Khan—Director, Portfolio Risk and Analytics—and Karen Manczko—Director, Institutional Relationships

As described in our Investment Beliefs, Wespath recognizes that, "An inclusive culture and decision-making process drives diversity of thought, resulting in improved investment decisions and better client outcomes." We have long sought to promote diversity, equity and inclusion (**DEI**) within our own teams and among our external stakeholders.

The Business Case for Diversity

"Diverse groups perform better. They make better decisions. They are less prone to group think. In a business context, they are better able to understand the different customer demands and market trends. ... And there are studies to back up all these statements."

– Max Dulberger, *Director of Corporate Governance and Engagement Segal Marco Advisors*

Several studies linking diversity to company performance are summarized in a paper titled, "**The Investment Case for Board Diversity**," which was published by the Illinois State Treasurer.

One of our longest-standing strategic partners focused on diversity is the 30% Coalition, an initiative which advocates for gender and racial diversity in corporate boardrooms. This group's efforts have contributed to women being added to the boards of 600 companies since 2011.[1]

THIRTY PERCENT COALITION

We also make a local impact on DEI through our participation in the **Midwest Investors Diversity Initiative (MIDI)**.

1 *As of June 28, 2023.*

Partners for a Sustainable Economy: MIDI

MIDI 101

Who

MIDI is a 17-member alliance of institutional investors,[2] representing over $820 billion in AUM and advisement.[3]

What

Members work collaboratively to engage Midwest-based companies and help them take steps to improve their racial, ethnic and gender diversity and enhance disclosure practices related to diversity.

How

MIDI seeks to offer customized guidance to the companies it engages. It created a Company Toolkit for Board Diversity & Disclosure and a handout with Examples of Diverse Candidate Search Language.

Why

A regional focus on smaller companies, which typically are not engaged by investors as often as large multinational firms, helps Wespath raise awareness and generate positive adoption of DEI best practices throughout our portfolio.

2 *As of April 10, 2023.*
3 *As of July 20, 2022.*

The Midwest Investors Diversity Initiative (MIDI) seeks to increase racial, ethnic and gender diversity on corporate boards and the workforces of companies headquartered in the Midwest, given the correlation between diversity and long-term outperformance.

Max Dulberger (pictured at left), who serves as MIDI's co-lead, has been involved with MIDI since its inception in 2016. In that time, he's noticed a philosophical change among the companies that MIDI engages.

Dulberger said initially "we were getting a little more pushback" from companies who questioned the benefits of a diverse board. Other companies told MIDI they could not find qualified women and people of color to serve on their boards. Companies are now less likely to raise either argument, he said.

"I think folks now recognize that diversity is valuable," said Dulberger, who is also director of corporate governance and engagement for Segal Marco Advisors. "I feel like that has just been accepted, internalized in the community, probably as a society, perhaps, even more so."

As corporate opinions regarding diversity have evolved, so too has MIDI's work.

While MIDI continues to advocate for companies to add women and people of color to their boards, it is also increasingly working with companies to adopt diverse candidate search policies, publicly disclose the gender and race/ethnicity of board members, and publicly disclose the diversity of its workforce across different job responsibilities.

In 2019 and 2020, MIDI engaged 22 companies that added, or committed to add, at least one diverse board member. As MIDI began to focus more on company policies rather single director nominations, that figure dropped to 10 total in 2021 and 2022. Meanwhile, the number of MIDI-engaged companies adopting diverse candidate search policies climbed to a total of 18 in 2021 and 2022, from 13 in 2019 and 2020.

MIDI: By the Numbers

Since MIDI was formed in 2016 through July 20, 2022:

70
Companies engaged on the issue of board diversity spurring significant changes

95
Women and people of color appointed to boards at companies MIDI engaged:

75 women

38 people of color

18 women of color

46
Companies publicly disclose board diversity data (after MIDI's engagement)

51
Companies added a policy to include diverse candidates in board member searches (after MIDI's engagement)

"MIDI can (help companies) set up policies and practices that can help ensure boards are positioned to increase and sustain their board diversity," said Dulberger, adding, "Companies are busy; maybe they have not had time to look at what are best practices in this area, so we can be a resource to companies."

In the last year, Wespath has helped MIDI expand who it engages. MIDI has traditionally worked with companies its members invest in, but the initiative is now also engaging with members' asset managers, thanks in part to Wespath's suggestions. MIDI is talking with asset managers about their own diversity and diversity policies—as well as their engagement with corporations and proxy voting practices related to diversity. The Initiative has thus far contacted two major global asset management firms, as well as a smaller asset manager located in the Midwest.

"This was Wespath bringing an idea to the group that there was group consensus on—and basically raising their hand and saying, 'We're ready to lead on this,'" Dulberger said. "We're in the midst of asset manager engagements now because of the initiative demonstrated and because of the follow through (by Wespath)."

In the last year, Wespath has helped MIDI expand who it engages.

Diversity, Equity and Inclusion

Asset Manager Diversity

Asset manager diversity has been a longstanding priority for Wespath. Since our asset managers conduct significant investment decision-making and risk management on our behalf, we want to ensure they are considering the value-adding benefits of diversity.

Each year, as part of a broader due diligence questionnaire, we collect information from our asset managers on their efforts to support **DEI** within their teams. We **engage** with our asset managers that lag their peers on diversity best practices.

We also strive to identify and retain industry-leading asset managers that are owned by women and/or members of an ethnic minority group. Wespath's women- and/or minority-owned managers invest more than $1.3 billion on our behalf.[4] These firms have shown a time-tested ability to deliver competitive long-term investment returns.

$1.3B+ invested
in women- and/or minority-owned asset managers

Gross-of-Fees Performance of Wespath's Women- and/or Minority-Owned Asset Managers
(as of December 31, 2022)

Asset Manager and Strategy[5]	Annualized Performance *(Since Inception of Wespath Strategy)*	Benchmark Performance *(Since Inception of Wespath Strategy)*	Excess Return
Brown Capital Management U.S. Small-Cap Growth *Inception date: June 1, 1994*	13.2%	7.3% *(Benchmark: Russell 2000 Growth Index)*	5.9%
Zevenbergen Capital Investments U.S. All-Cap Growth *Inception date: August 1, 1994*	10.4%	9.7% *(Benchmark: Russell 3000 Growth Index)*	0.7%
Sprucegrove Investment Management International Equity *Inception date: April 1, 2001*	6.5%	4.6% *(Benchmark: Since April 1, 2017: MSCI EAFE IMI Index. Previously: MSCI EAFE Index.)*	1.9%

4 *Total invested as of December 31, 2022.*

5 *Historical returns are not indicative of future performance. The manager strategy performance is gross-of-fees. Inclusion of these fees would result in lower performance. These manager strategies are not available for direct investment but rather are held within applicable P Series funds only. For more information about the P Series funds, including their historical net-of-fees performance, please see the Investment Funds Description – P Series.*

Engaging to Support a Healthy Planet

Complementing our low-carbon transition investment strategies, we also work diligently on engagement and stewardship that support environmental health.

This engagement strategy builds on our Belief that, to ensure sustainable economic growth and secure the investment returns our stakeholders depend on, we need a healthy planet that can provide for people today, as well as the needs of future generations.

Engagement is one of our primary tools for supporting a healthy planet. We engage companies, public policymakers and asset managers on the need to support environmental health and mitigate climate risks.

Climate and Environmental Engagements

Wespath participates in Climate Action 100+ (CA100+), an investor-led engagement initiative seeking to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. CA100+ is the largest-ever collaborative engagement initiative.

Over	Representing
700 investor members	**$68T+** in AUM

Statistics as of March 30, 2022.

Climate Action 100+ Engagements Co-Led by Wespath

Company	2021–2022 Engagement Focus Areas
Cummins Engines, Filtration and Power Generation Products	• Increasing emission-reduction targets for products • Elevating strong company-wide climate practices by adopting public-facing leadership on climate issues • Aligning lobbying practices with climate goals
Occidental Petroleum Oil and Gas	• Improving climate-related disclosures, adding climate expertise to board of directors • Aligning lobbying practices with climate goals
Chevron Oil and Gas	• Setting strong targets for decarbonization, reducing methane emissions • Aligning lobbying practices with climate goals
WEC Energy Electric and Natural Gas Utility	• Increasing transparency of climate goals for natural gas business • Supporting a just transition • Aligning lobbying practices with climate goals

Climate and Environmental Engagements

Climate Action 100+ Engagement in Focus: Cummins

Cummins Inc. is an Indiana-based heavy equipment manufacturer that makes engines, filtration and power generation products. Since first being engaged by CA100+ investors, Cummins has set a goal to become net-zero by 2050. The company's "Destination Zero" roadmap also includes near-term targets to reduce Scope 1, 2 and 3 emissions, as well as a goal to reduce emissions of compounds produced from its painting and coating operations.

In recent engagements, Wespath and other investors have encouraged Cummins to analyze its oversight of climate-related lobbying, especially the lobbying conducted by the trade associations it belongs to. We believe it is important for companies to ensure lobbying is aligned with publicly stated commitments and goals.

Cummins was responsive to this engagement and has since published increased disclosure on its lobbying, including a commitment to align all lobbying with its stated support of the Paris Agreement.

Sector/Value Chain Engagement

CA100+ also provides platforms to engage with broader stakeholder groups, including representatives from across a particular sector. For example, in 2021, Wespath helped facilitate a roundtable discussion involving nine publicly traded North American utilities companies, approximately 12 institutional investors, and representatives from CA100+ and the Transition Pathway Initiative (TPI). Led by asset owners, TPI is an initiative that assesses the preparedness of companies in high-carbon sectors for the transition to a low-carbon economy.

The conversation centered on the importance the utility sector will play in the transition to a low-carbon economy—since so many companies and individuals rely on utilities for their electricity, it is crucial that utility companies establish clear plans to transition quickly and efficiently to clean sources of power.

FAIRR
A COLLER INITIATIVE

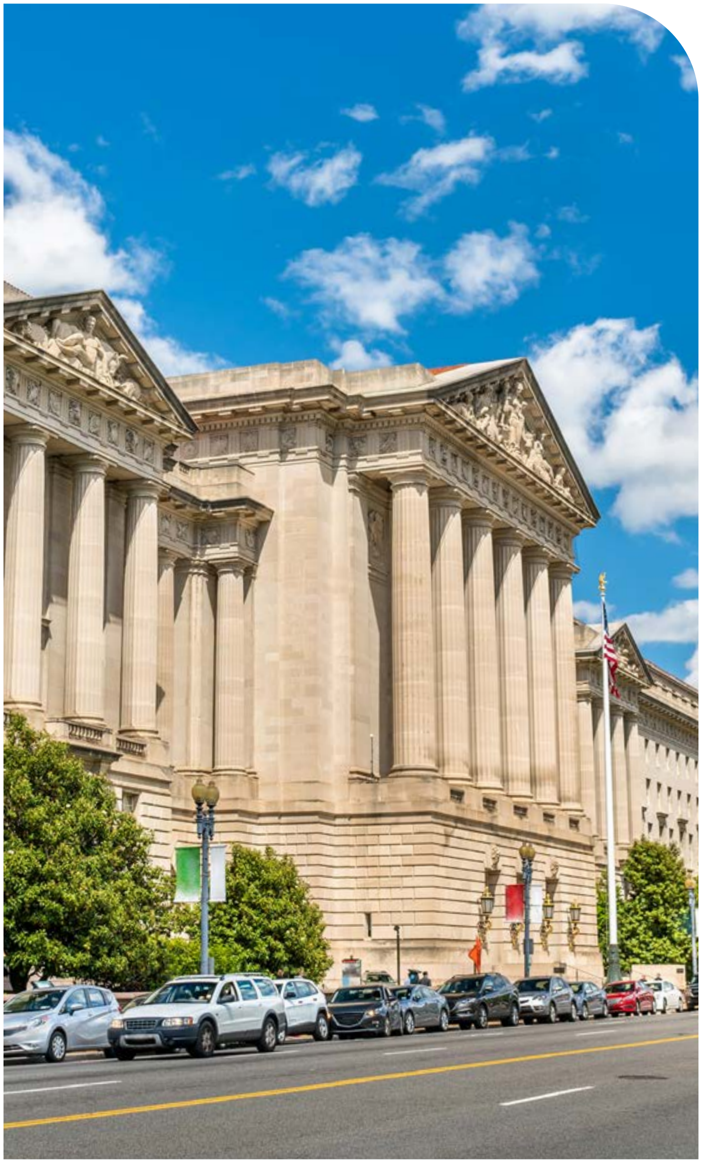
Our partners at the FAIRR Initiative also offer many opportunities to collaboratively engage on environmental health topics. Recent engagements include:

JBS S.A.

JBS S.A. is the Brazilian parent company of JBS USA and Pilgrim's Pride. It produces processed meats, including beef, chicken and pork. Wespath joined other investors for a FAIRR-led dialogue with JBS on its approach to the low-carbon transition, deforestation, biodiversity and other important environmental topics. JBS noted it recently published a net-zero goal and will seek approval of this target from the Science Based Targets Initiative, a highly regarded third-party resource for ensuring company commitments align with climate science.

Saputo

Saputo is a Canadian dairy company that makes milk and cheese products. It is one of the largest dairy processors in the world. This engagement was part of FAIRR's "Sustainable Proteins" focus area. The dialogue centered on Saputo's plans to diversify its product line with more environmentally sustainable foods, including plant-based dairy alternatives, and how the company can reduce emissions in its traditional dairy supply chain.



Environmental Protection Agency in Washington D.C.

Climate Policy Engagement

Policy engagement is another tool we use to support our Sustainable Economy Framework, and in recent years, there have been numerous opportunities to engage policymakers and regulators on issues relevant to environmental health and climate change.

Policy Engagement—An Example in Action

In 2022, Wespath wrote to the U.S. Environmental Protection Agency (EPA) regarding the EPA's regulation of methane emissions. Methane, the primary component of natural gas, is a powerful greenhouse gas. While carbon dioxide is the primary contributor to climate change, methane pound for pound has approximately 86 times more potency than carbon dioxide over a 20-year period.[1] Methane unnecessarily released in the production of oil and natural gas is a significant and wasteful contributor to climate change. Our letter to the EPA focused on the agency's proposed standards for regulating methane emissions in the oil and gas industry, and offered suggestions for how these standards could be strengthened to further address climate risks.

Read the full letter

Through policy engagements, we seek to advocate and engage on ideas and topics at the macroeconomic level that we believe will create better returns for the whole market and drive greater alignment with our Sustainable Economy Framework.

This type of broad-based, systemic engagement is informed by our work with strategic partners like the **Net-Zero Asset Owner Alliance**.

1 https://www.iea.org/reports/methane-tracker-2021/methane-and-climate-change

Partners for a Sustainable Economy: Net-Zero Asset Owner Alliance

Net-Zero Asset Owner Alliance 101

Who

The Net-Zero Asset Owner Alliance (the Alliance) is a group of 86 asset owners (including pension funds and insurers), with over $11 trillion combined assets under management,[2] committed to transitioning their investment portfolios to **net-zero** greenhouse gas emissions by 2050. **Carbon dioxide** is a greenhouse gas that is the primary contributor to global warming and climate change.

What

Alliance members seek to encourage the companies they invest in to align with the **Paris Agreement** and prevent the Earth's temperature from rising more than 1.5° Celsius. When these companies begin **transitioning to low-carbon** business models, the asset owners' portfolios also decarbonize.

How

According to the Alliance's FAQs, members seek to reach their net-zero goals by "advocating for, and engaging on, corporate and industry action, as well as public policies, for a low-carbon transition of economic sectors in line with science and under consideration of associated social impacts."

What started as a simple e-mail exchange about shareholder **engagement** sparked groundbreaking work in sustainable investing.

Not too long after he joined Wespath in 2020, Jake Barnett e-mailed Patrick Peura, an ESG engagement manager with Allianz Investments, inquiring about the engagement work being done at the Alliance. Peura and Allianz were active in the Alliance, and with Wespath recently joining the group, Barnett was interested in becoming part of the Alliance's engagement activities.

Peura remembers being on a bike ride when he received a notification about Barnett's e-mail. When he stopped for an espresso, he replied that Alliance members should engage with the asset management firms that invest on their behalf, not just the companies they own stock in.

"'Come with me on asset manager engagement and let's get some work done,'" Peura recalled saying. "Jake and I ended up focusing exclusively on asset manager engagement, and it proved to be quite successful."

The Alliance is unique because there are not many sustainable investment groups comprised strictly of asset owners (i.e., pension funds, insurers and endowments). Its members are seeking to address a one-of-a-kind, systemic problem: climate change, which touches all sectors of the economy and nearly all types of investments. Left unchecked, climate change will likely result in depressed earnings potential for the companies in which asset owners invest, negatively impacting investment returns. Because of climate change's near-universal reach, portfolio diversification alone can't ward off all its potential impacts, and new approaches are needed.

2 *As of June 13, 2023.*

Partners for a Sustainable Economy: Net-Zero Asset Owner Alliance

The focus on asset manager **engagement** became a key priority for the Alliance. By engaging with asset managers, asset owners can broaden their efforts to address systemic risks like climate change. Asset managers select the individual companies in asset owners' portfolios. Therefore, asset owners have a vested interest in asking that their long-term perspective be reflected by their asset managers.

The Alliance's work is divided into six areas, or working tracks, and member representatives elected Peura and Barnett as leaders of the Engagement track. In that role, they co-authored a 34-page discussion paper titled ***The Future of Investor Engagement*** in April 2022, which advocated for new forms of engagement—including asset manager engagement—to address climate risk.

"The Future of Investor Engagement" argues asset owners should engage their asset managers on climate topics. This can include dialogues with asset managers on their own engagement with companies and sectors, their decisions when voting on company board directors, and their support for climate-related **shareholder resolutions**. The paper also suggests asset owners consider other forms of broad-based engagement like sector/value chain engagement and policy engagement.

"Many risks present for asset owners like Wespath are also present in multiple companies or sectors across our portfolio," Barnett said. "One example of this is the need to limit methane leakage in oil and gas infrastructure and pipelines. In these cases, maybe the conversation isn't best suited for an individual company. Instead, investors can help convene conversations with the broader industry to ask questions around common problems they're facing and best-practices that can help provide a solution.

(From left) Jake Barnett—Wespath's Managing Director of Sustainable Investment Strategies, visited Patrick Peura—ESG Engagement Manager with Allianz Investments, in Germany

Asset Owners and Asset Managers: What's the Difference?

Asset owners and asset managers are both important parts of the investment world, each playing different roles.

Asset owners own or are entrusted with financial assets—usually with a specific goal in mind, like funding retirement payments or maintaining an endowment. Individuals, governments, pension funds, endowments and insurance companies can all be asset owners.

Asset managers invest financial assets on behalf of asset owners. For example, Wespath works with about 50 asset managers that each provide different skills and expertise to help us achieve a globally diversified portfolio.

Click here to view our full list of asset managers.

Partners for a Sustainable Economy: Net-Zero Asset Owner Alliance

"If that also illuminates that there's certain policy or regulatory next steps that will help establish a good floor for what is in the best fiduciary interests of broad, diversified investors, then maybe investors need to go forth and make their voice known, to say to policymakers, 'Hey, we think this is the best thing for our interests as long-term investors.'"

Barnett and Peura also **published a resource** to help asset owners **engage** with asset managers on their climate-related **proxy voting** through the Alliance in April 2021.

Peura said his work with Barnett through the Engagement track has filled a gap in thought leadership.

"We'll have an exchange in our regular touchpoints trying to figure out how we address a problem or where do we find resources on this topic, and then we realize there's really not much out there yet," Peura said. "And then when you sit back and you think about it a little bit, you think, 'Well, there actually hasn't been a group of asset owners this large addressing a systemic issue like climate change before, so of course some of these things have never been explored.'"

Barnett and Peura both praised Wespath Chief Investment Officer Dave Zellner for his support and feedback on their Alliance-related work. Other colleagues are also integral to Wespath's support of the Alliance. Ryan McQueeney, manager of investments marketing and communications, serves as co-lead of the Communications track, and Fred Huang, senior investment analyst, represents Wespath in the Monitoring, Reporting and Verification track.

"I can't underscore enough, this is a very unique attribute of an asset owner to have people across multiple functions, multiple departments, working with a global mind and a global scale, but sitting close enough together and working effectively enough together, to really get incredible and inspiring work done," Peura said of Wespath's participation in the Alliance.

Key Contributors from Wespath

Patrick Peura explains the value that Wespath staff members have brought to the Alliance.

Watch now

Wespath staff: (left) Dave Zellner; (top right) Ryan McQueeney; (lower right) Fred Huang

Partnering with the Methodist Community

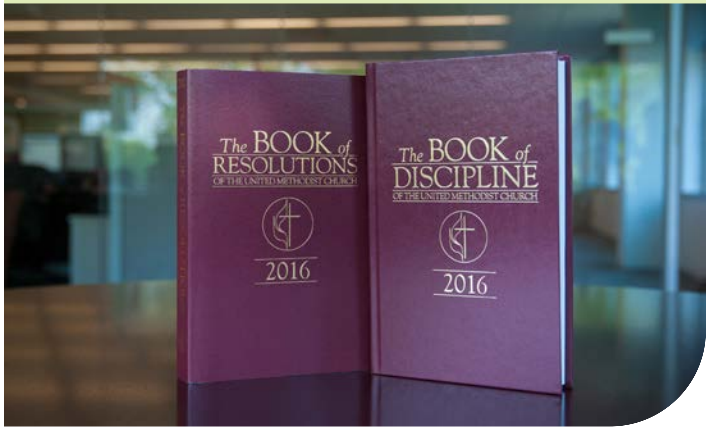
One of the many ways Wespath is unique within the sustainable investment community is our grounding in The United Methodist Church (UMC). Wespath is a general agency of the UMC and has been serving the Church for over 100 years. The UMC clearly establishes our role as a fiduciary and encourages us to consider the values of the Church when investing.

Guided by Fiduciary Duty and Methodist Values

The UMC asks that Wespath:

"…discharge its fiduciary duties… solely in the interest of the participants and beneficiaries… with care, skill, prudence and diligence…" (*The Book of Discipline*, ¶1504.14) and

"…make a conscious effort to invest… with the goals outlined in the Social Principles" (*The Book of Discipline*, ¶717)



These calls to action influenced the development of our Sustainable Economy Framework and are key reasons why the pillars of the Framework closely align with our core Methodist values.

Wespath and all other UMC general agencies exist to support the mission of the Church, which is "to make disciples of Jesus Christ for the transformation of the world." (*The Book of Discipline*, ¶121) The Reverend Jenny Phillips—senior technical advisor for environmental sustainability at the General Board of Global Ministries, a fellow agency—explained how that applies.

"What 'transformation of the world' means, as it connects with our faith journeys, is about the vision that we are called to cast toward God's realm that we see throughout Scriptures, a place of justice and love, equity, inclusion, flourishing of all of creation, including God's people," said Rev. Phillips, adding, "We know that we're called to point toward that by living like that's where we're headed."

One way the agencies are working together is the **United Methodist Interagency Just and Equitable Net-Zero Coalition (the Coalition)**.

Partners for a Sustainable Economy: UM Interagency Coalition

United Methodist Interagency Just and Equitable Net-Zero Coalition 101

What

On Earth Day in 2021, Wespath and 10 of its fellow UMC agencies publicly pledged to achieve net-zero emissions across ministries, facilities, operations and investments by 2050. The United Methodist Interagency Just and Equitable Net-Zero Coalition (the Coalition) has since grown to 12 general agencies.

Why

The Coalition allows Wespath and its general agency peers to learn from—and work with—one another. The group's shared UMC values and experiences help its members find solutions to common challenges. The Coalition also places an emphasis on a just and equitable transition to net-zero to ensure structural barriers to racial and gender equity are addressed alongside climate issues.

How

Coalition members meet regularly to share insights and offer feedback. In April 2022, the Coalition published its first progress report and detailed all the work being done by member agencies.

When The Reverend Jenny Phillips reflected on the formation of the Coalition, she remembered a sense of excitement among her peers about the prospect of working together to achieve net-zero emissions by 2050.

"We also felt deeply aware of how ambitious this goal is and aware that none of us could do it alone," said Rev. Phillips, co-chair of the Coalition. "We really needed each other to be able to navigate this path."

Rev. Phillips (pictured at left) added: "The interagency collaboration is important, in part, because although the desired outcome is clear, the path to get the agencies' ministries, facilities, operations and investments to net-zero is not."

The Coalition can be traced back to conversations Rev. Phillips and Wespath's Cynthia Dopke, a manager on the church relations team, had in 2020 about doing more to address climate change. By Earth Day 2021, the General Board of Global Ministries (Global Ministries), Wespath and nine other UMC agencies had come together to announce their shared net-zero commitment. Rev. Phillips co-chairs the Coalition with Wespath's Jake Barnett.

> **"We also felt deeply aware of how ambitious this goal (net-zero emissions by 2050) is and aware that none of us could do it alone."**
>
> —Reverend Jenny Phillips, *Co-Chair of the Coalition and Senior Technical Advisor, Global Ministries*

Partners for a Sustainable Economy: UM Interagency Coalition

The Coalition has taken initial steps toward [net-zero]() emissions by creating guidance for meeting planning and business travel. The General Council on Finance and Administration led the Coalition's effort to create the guidance.

Another point of emphasis within the Coalition's work is the intersection of climate and other societal challenges, including equity and social justice. "Just and Equitable" was added to the group's name soon after its formation, so those concerns would receive the same consideration as the net-zero commitment, according to Rev. Phillips.

This speaks to the importance of environmental justice, which means all people receive the same level of protection from environmental hazards and are involved in the development and implementation of environmental policies. In the context of climate change, this involves recognizing that physical and transition risks can have a disproportionate effect on historically marginalized communities. But while a general agency's greenhouse gas emissions can be measured and tracked, there aren't universal metrics to measure justice and equity.

"Candidly speaking, I think it invites in the tension of not knowing all the answers for how we transition in a just and equitable way," Barnett said. "I've been grateful for the challenge and accountability that has come from putting that (justice and equity) front and center consistently."

Barnett said the Coalition provides Wespath a chance to work through the challenges with organizations that share the same values and similar experiences. Wespath is also a member of the United Nations-convened Net-Zero Asset Owner Alliance (the Alliance), but in that initiative the other institutional investors aren't thinking about the UMC and its Social Principles.

Wespath's work with the Alliance also benefits the Coalition. Wespath shares insights from the Alliance—which it joined a year before the Coalition launched—with its general agency peers.

"Wespath has provided really strong leadership and support and creativity," Rev. Phillips said.

Coalition Energizes General Agency

Global Ministries was trying to incorporate renewable energy into its work prior to the Coalition's launch, but Coalition co-chair The Reverend Jenny Phillips said in a recent discussion that the net-zero commitment has pushed her general agency to do even more to reduce emissions.

Watch now

A Visit to United Nations Climate Talks

In November 2022, several Coalition members traveled to Egypt to participate in the latest edition of the annual United Nations Climate Change Conference, most commonly referred to as COP27. Staff from Church and Society, Global Ministries, United Women in Faith, Wespath and United Methodist Communications hosted live broadcasts from COP27 to reflect on what they learned and experienced.

Watch now

Measuring Our Impact

The work detailed throughout this report highlights how we put our Sustainable Economy Framework into action across many important themes. But how exactly do we measure success?

Investment returns are a crucial metric, though we also seek ways to complement that reporting with measurements that help us understand how aligned our investments are with a sustainable economy.

Alignment with UN Sustainable Development Goals

In 2022, Wespath embarked on a journey to expand our measurement and reporting capabilities by incorporating sustainability data that is related to our Sustainable Economy Framework. Our goal was to create an **Impact Measurement and Management (IMM)** tool that could help us improve how we:

1. **Measure** our alignment with the Sustainable Economy Framework
2. **Engage** with our asset managers about our investments
3. **Communicate** to our stakeholders about the methodologies used to evaluate what's in our funds

Our first step was to find reliable datasets that included relevant information. This meant identifying guidelines comparable to our Sustainable Economy Framework that were covered by third-party data providers.

Several major data providers offer resources that measure a company's alignment with the United Nations Sustainable Development Goals (SDGs). The SDGs represent 17 goals that seek to tackle sustainable global development and long-term economic growth while providing a hopeful vision for the future. These goals map well to the Framework's three pillars of long-term prosperity for all, social cohesion and environmental health. As such, we felt SDG alignment data could serve as an appropriate proxy for our IMM tool.

Pillars of Wespath's Sustainable Economy Framework and Corresponding SDGs

Alignment with UN Sustainable Development Goals

How Our SDG Data Works

After examining the marketplace for SDG data, we selected a dataset created by an industry-leading sustainability data provider. This SDG dataset groups the 17 SDGs into 15 proprietary sustainability objectives, with companies' products and services ranked on a sliding scale from "significant obstruction" to "significant contribution" for each respective sustainability objective.

For example, "combating hunger and malnutrition" is the sustainability objective used to classify food and beverage products. If a company primarily generates revenue from the sale of fruits and vegetables, it would be classified as a company that significantly contributes to combating hunger and malnutrition. Conversely, if a company generates revenue largely from the sale of sweets and refined sugars, it is classified as a significant obstruction to combating hunger and malnutrition.

Once a company's revenue is evaluated across each of the relevant 15 sustainability objectives, the data provider uses an aggregation formula to generate an overall SDG alignment score. This standardized score allows for comparison across industries and sectors. It can also be bundled up at the fund or index level to compare certain baskets of companies.

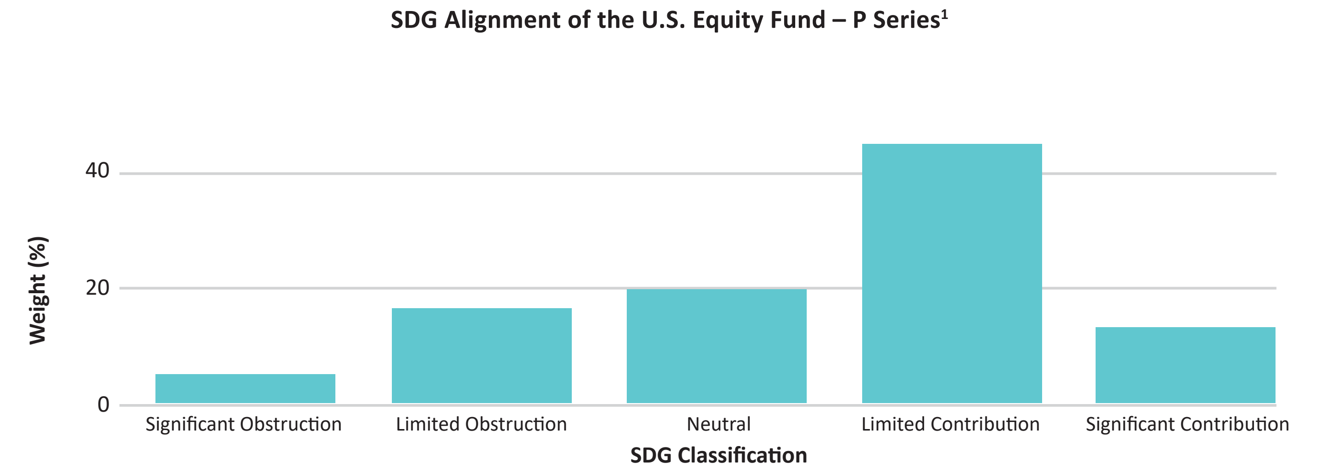
We used the data to build our IMM tool by creating a dashboard that visualizes the SDG alignment of our funds. The tool has various uses. For one, it helps us zoom in on the funds to see which holdings are contributing to SDG alignment or misalignment. We can also compare the SDG alignment of a fund—or a specific asset manager strategy—with its benchmark. We can then dive deeper into a fund or strategy to examine which holdings contributing to alignment or misalignment are over- or under-weight relative to the benchmark.

These capabilities can influence **engagement** with Wespath's asset managers by providing valuable insights on portfolio characteristics and the impact of companies within funds and strategies.

(Second from left) Trent Sparrow—Manager, Impact Investments—presents to Wespath colleagues

Alignment with UN Sustainable Development Goals

A Look Inside Wespath's Impact Measurement and Management Tool



Above is an example of our IMM tool illustrating information about the U.S. Equity Fund – P Series (USEF-P). The data shows that USEF-P's largest category is "limited contribution," with about 45% of the fund falling into that classification. On the other hand, about 40% of the fund falls at or below the "neutral" classification. This snapshot provides a valuable starting point for further analysis and measurement of progress over time.

A Note on Limitations

The SDG data used in our IMM tool represents the data provider's "best efforts" to estimate how a given company's products and services contribute to or detract from the SDGs. Measuring SDG alignment is a developing discipline that requires estimation and assumptions because most companies don't publicly disclose SDG alignment data. Therefore, when utilizing the IMM tool, it is important for us to have additional discussions with our asset managers and external partners to better understand the full picture of a company's positive and negative impacts on society.

1 *As of September 30, 2022, representing the most current available data as of this report's writing.*

Portfolio Carbon Footprinting and Target Setting

Another way we seek to measure our investments' impact and alignment with the **Sustainable Economy Framework** is through analyzing the **carbon footprint** of our funds.

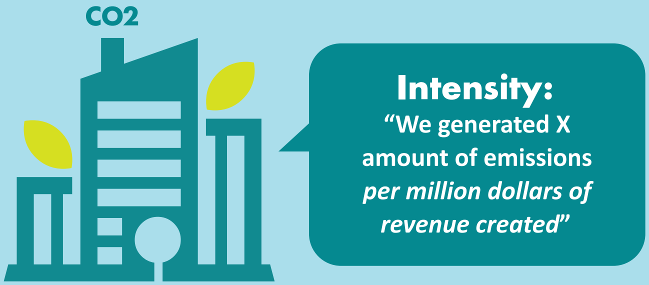
The carbon footprint of an investment fund reflects the carbon footprints of all the individual investments within that fund. For funds investing in company stocks or bonds, this means measuring the fund companies' carbon emissions (simply put, a measure of their impact on the planet) and calculating how much counts toward the fund's carbon footprint based on the investment size.

Our data provider also offers a dataset that tracks company emissions. Some companies publicly disclose this information, allowing the data provider to aggregate and organize the information. In cases where companies do not disclose their emissions, the data provider estimates emissions based on what it does know about a company's business and the activities of comparable companies. The data provider also presents carbon footprint data in both absolute and intensity-based terms.

Carbon Footprinting: Absolute or Intensity?

Not all carbon footprint metrics are made the same—it is important to recognize the difference between absolute emissions and emissions intensity:

- **Absolute emissions:**
  The total amount of emissions generated by a company. For **Scope 1 and Scope 2 emissions**, this covers direct emissions from sources owned or controlled by a company, and indirect emissions created by things like purchased electricity, heating and cooling.
- **Emissions intensity:**
  An efficiency metric that adjusts total emissions based on an economic amount. For example, one might look at the amount of emissions generated by a company per unit sold or per dollars of revenue.



Absolute and intensity-based measurements are also relevant when calculating the footprint of investment funds. For the purposes of setting targets to reduce our funds' emissions, we opt for a revenue-based intensity metric that accounts for the size of the funds' holdings in companies and their emissions created per $1 million in revenue. This approach helps us see whether companies are becoming more efficient over time by generating more revenue while working to reduce their carbon footprint.

Portfolio Carbon Footprinting and Target Setting

We utilize the data provider's information to form a general understanding of the carbon intensity of the public equity and fixed income holdings within our funds. This is an approximation as it relies on estimates and does not cover other asset classes like government bonds and private equity, but it provides a valuable baseline for the target setting we conduct through the Net-Zero Asset Owner Alliance (the Alliance).

Setting Targets on the Path to Net-Zero

As part of our membership in the Alliance, we committed to pursue strategies that will achieve net-zero portfolio emissions by 2050. To help ensure we are on track to fulfill this long-term goal, we also set near-term targets for emissions reductions.

We set additional targets for engagements because we believe the best way to reach our net-zero goals is through active engagement with companies and our asset managers.

Our current targets to complete by 2025 are:

10

Participate in 10 collaborative corporate engagements focused on climate topics

35%

Reduce carbon intensity of investment funds by 35% (from a 2018 baseline year)

15

Lead 15 direct asset manager engagements focused on climate policies and stewardship

Living Into Our Values

In addition to our sustainable investment activities, we seek to live into our values and support the principles of our Sustainable Economy Framework in our office and day-to-day operations.

Wespath's Green Team

The Green Team is a group of Wespath employee volunteers who support and lead environmental-friendly initiatives for the organization. The team organizes "green" challenges and learning activities to reduce the environmental impact of our daily work and encourage coworkers to adopt sustainable habits.

Green Team 2021–2022 Highlights

"Bags to Bench" Challenge

Wespath staff members were encouraged to bring their old plastic bags to our Glenview, Illinois, headquarters to be recycled. In six months, we collected over 500 pounds of bags—earning us a commemorative bench made from recycled plastic that now resides in the atrium of our building.

Calculating Our Carbon Footprint

As part of our commitment to achieving net-zero emissions, the Green Team led the charge to begin calculating our baseline carbon footprint. In 2022, the team identified GreenPlaces, a software company that tracks clients' sustainability information. Wespath is now partnering with GreenPlaces to gather data about everything from how many refrigerators we have in the office to the commuting patterns of our employees. GreenPlaces will also help us analyze the data and offer advice on how we can reduce our impact.

"Adopt-A-Highway" Program

The Green Team helped Wespath join the Illinois "Adopt-A-Highway" program and sponsored a road near our headquarters. Wespath employees have volunteered for four roadside cleanups to date.

Community Supported Agriculture (CSA)

Green Team members help organize our CSA program, which supports a local food cooperative. The CSA offers staff a fresh fruit and vegetable delivery program to our Glenview building.

Educational Opportunities

The Green Team led employee education activities focused on our in-office composting program, Earth Day, World Oceans Day and more.

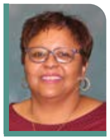
Adopt-A-Highway volunteers

Wespath's DEI Council

The DEI Council is an employee group which supports Wespath's effort to be a more diverse, equitable and inclusive organization. Evolving out of a late-2020 collaboration between Wespath's Senior Leadership Team (SLT), consultants from the National Diversity Council and input from various Wespath employees, the DEI Council helped create a multi-point Action Plan focused on improving DEI outcomes for all at Wespath.

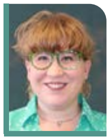
Progress on DEI Action Plan

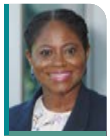
DEI Council Members


Otisstean Arrington
Compliance

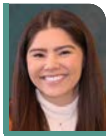

Micah Burkley
Plan Sponsor Relations


Matt Gallardo
Information Technology


Jess Haas
Customer Service

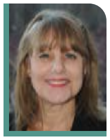

Krystal Holmes
Plan Sponsor Relation

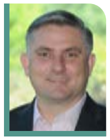

Fred Huang
Investments

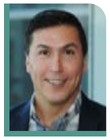

Lauren Hugh
Communications


Dale Jones
Church Relations


Ryan McQueeney
Communications


Michelle Rapaport
Communications


Trent Sparrow
Sustainable Investment Strategies


Manuel Vargas
Plan Sponsor Relations

Learning and Development

- Created a job shadowing program where Customer Service employees can "shadow" another employee to learn about other job functions and career opportunities at Wespath.
- Implemented an ongoing DEI curriculum that includes e-learning modules and in-person training. To date, employees in all job roles have learned about microaggressions, generational differences in the workplace and gender dynamics.

Process Improvement

- Intensified outreach to over 100 HBCUs (historically Black colleges and universities), the City Colleges of Chicago system and other resources that reflect Chicagoland's diversity to ensure we fill job openings with the best candidates.
- Reviewed and modified certain approaches to employee evaluation to ensure equity and inclusivity throughout our performance management process.

Communicate and Celebrate

- Raised awareness and appreciation for employees' unique cultural, religious and other identities through internal communications and events. Programs celebrating Black History Month, Asian American and Pacific Islander Heritage Month, Pride Month and National Hispanic Heritage Month drew more than 120 employee attendees.
- Employee-funded and directed donations provided financial support for organizations promoting global vaccine equity for COVID-19, humanitarian relief for Ukrainian citizens, and legal and social support for migrants. This effort is called #WespathCares.
- Hosted numerous listening sessions with General Secretary Andy Hendren and Chief Operating Officer Bill Kavanaugh to provide a safe and confidential space for employees to talk about their identities, challenges and perspectives. Sessions spotlighted varied definitions of diversity, including race, ethnicity, religion, national origin and sexual orientation.

Sustainable Investing Dictionary

The Tools We Use to Support a Sustainable Economy

These terms are several of our *tools* to help support a sustainable economy:

Sustainable Economy Framework

Describes our belief that investors must create and support a sustainable global economy—one that promotes long-term prosperity for all, with equal opportunities for advancement; social cohesion, with reliable access to basic necessities; and environmental health, with resilient ecosystems. A sustainable economy is essential for creating healthy financial markets, that will in turn support our participants and institutional investors in reaching their long-term financial goals.

Invest—Engage—Avoid

A phrase used to describe the tools we use to proactively contribute to the Sustainable Economy Framework. We *invest* in companies and strategies that demonstrate strong returns, preparedness for the future, and meaningful social and environmental impacts. We *engage* companies, policymakers and asset managers by urging them to adopt sustainable practices and policies. We *avoid* certain investments due to ethical exclusions or because they pose excessive sustainability-related financial risks.

Engagement

Also called *investment stewardship* and *active ownership*, engagement describes using our influence as an investor to enter constructive dialogues and offer suggestions to companies, policymakers and asset managers. Engagement takes many forms, including:

- ***Corporate Engagement:*** Involves direct dialogues with the companies in which we invest, often through collaborative initiatives alongside other like-minded investors.
- ***Asset Manager Engagement:*** Engaging with our current and prospective asset manager partners on issues relevant to the Sustainable Economy Framework.
- ***Policy Engagement:*** Reaching out to policymakers and regulators to support ideas and topics at the macroeconomic level that we think will lead to improved market-wide returns.

Impact Investing

Investing in specific initiatives with the stated objective of producing market-rate, risk-adjusted returns, while generating *positive impact* by strengthening communities or supporting the environment. Examples include the Positive Social Purpose (PSP) Lending Program and the *Transition Ready* strategies.

Sustainable Investing Dictionary

Investment Exclusions

Describes areas of the market excluded from our investments. Wespath implements two types of investment exclusion policies:

1. Values-based or "ethical exclusions" guided by the UMC's Social Principles, *The Book of Discipline* and T*he Book of Resolutions.*
2. Sustainability-related financial risk exclusions defined by our Management of Excessive Sustainability Risk (MESR) guidelines.

Proxy Voting

Voting as a shareholder on items at the Annual General Meetings (AGMs) of the companies in which we invest. All shareholders have the opportunity to participate in AGMs and vote on shareholder resolutions, board director nominations and other corporate governance topics.

Shareholder Resolution

A formal proposal submitted to a company by shareholders. A resolution is usually focused on a shareholder's suggestion for how a company can improve its corporate governance or better address a particular topic, including sustainability issues. Shareholder resolutions are voted on at a company's AGM.

Strategic Partnerships

Collaborative industry initiatives with other like-minded investors and organizations committed to corporate accountability and sustainability. By partnering with peers, we can achieve greater impact and learn from the diverse experiences and expertise of others.

The Terms We Use Frequently

These terms are some of the most commonly used words and phrases in the sustainable investing world:

Active Management

An investment strategy intended to take advantage of market opportunities as they occur. In contrast to passive management, active asset managers attempt to outperform their benchmarks by utilizing research, market forecasts, and their own judgment and experience in selecting securities to buy and sell. For example, Wespath selected the asset manager Hotchkis & Wiley to actively manage its large-cap value strategy and seek to outperform the Russell 1000 Value Index benchmark.

Carbon Dioxide

A greenhouse gas, or heat-trapping gas, that is caused by burning fossil fuels (such as coal, oil and natural gas) and wildfires, among other things. It is the primary greenhouse gas emitted by human activity, and greenhouse gases contribute to global warming and climate change.

Carbon Footprint

A measurement of the amount of greenhouse gases released into the atmosphere as a result of our activities. Carbon footprints can be calculated for individuals, companies, products, investment portfolios, countries and more. Our carbon footprints are impacted by how much we use greenhouse gas emitting things—like burning fossil fuels for transportation.

CAHRAs

The acronym is short for conflict-affected and high-risk areas. The European Union describes these as areas "either suffering from armed-conflict, such as civil war, a state of fragile post-conflict, or witnessing weak or non-existing governance and systematic violations of international law, including human rights abuses."

Sustainable Investing Dictionary

The Terms We Use Frequently (continued)

DEI

An abbreviation for diversity, equity and inclusion. This refers to organizational efforts, including efforts by employers, to encourage the fair treatment, representation and participation of everyone. This applies especially to groups of people who have traditionally been discriminated against or underrepresented. According to Investopedia, "The goal of DEI is to hire a diverse workforce and have systems in place that give all workers a voice and include them in business happenings."

Human Capital

"The economic value of a worker's experience and skills," according to Investopedia. This "includes assets like education, training, intelligence, skills, health." When a company invests in its employees, it has the potential to improve productivity and success.

Low-Carbon Transition

The ongoing shift from an economy that depends heavily on fossil fuels to generate energy to one that uses low-carbon energy. The change is being driven by technology, government policy, and consumer and investor preferences.

Net-Zero

"Put simply, net-zero means cutting greenhouse gas emissions to as close to zero as possible, with any remaining emissions re-absorbed from the atmosphere, by oceans and forests," according to the United Methodist Interagency Just and Equitable Net-Zero Coalition **webpage**.

Paris Agreement

An international treaty on climate change adopted in 2015 that seeks to substantially reduce the effects of climate change by limiting the increase in global temperatures to 1.5 degrees Celsius above pre-industrial levels. The U.S. is one of the signatories of the agreement.

Passive Management

This is a style of asset management in which a strategy is designed so that it closely matches a benchmark. This is the opposite of active management, in which an asset manager attempts to outperform a market index. For example, the U.S. Equity Index Fund – I Series attempts to mirror the Russell 3000 Index.

Scope 1, 2, 3 Emissions

Scope 1 and 2 emissions can be thought of as emissions that a company owns or controls. More specifically, Scope 1 emissions are greenhouse gas emissions caused by things like a company's furnaces and vehicles. Scope 2 emissions are greenhouse gas emissions linked to a company's purchase of electricity and other energy sources for heating and cooling. Scope 3 emissions are the result of a company's activities. Scope 3 emissions often represent the majority of an organization's greenhouse gas footprint and include emissions resulting from the use and disposal of a business' products and services.

Resources

Featured Videos

Wespath's Investment Beliefs

Members of our investment team present a series of videos highlighting our refreshed Investment Beliefs, which reflect our expectations regarding long-term drivers of future economic growth, as well as our approach to investment management and client service.

Unscripted: A Conversation with Wespath's Asset Managers

Wespath's Mark Warren, manager of public equities, hosts one-on-one interviews with several of our asset managers to learn about their investment approach and unique perspectives.

Resources for Participants and Plan Sponsors

Available on Wespath.org

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

Available on Wespath.com

***Investment Insights* Blog**

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

Funds

The "home base" for information on each of the Wespath Institutional Investments (WII) investment funds available to institutional investors.

Fund Performance

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

Investor Resources

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

OCIO Services

Provides an overview of the Outsourced Chief Investment Officer services offered by WII.

Partnering with WII

A brochure detailing how WII seeks to deliver on its "Mission – Impact – Performance" commitment to institutional investors.

Sustainable Investment

Provides an overview of our sustainable investing initiatives.

Envisioning a more just, equitable and sustainable future

Wespath

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