



Holistic Approach to Socially Responsible Investing

Seventh Generation Interfaith

April 12, 2019

Welcome!

- ▶ Participants will be in listen only mode until the Q&A section.
- ▶ We will make recording and slides available and post on our website

Reflection



Companions in this conversation



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Agenda

- ▶ **Introductions & Background - Chris Cox**
- ▶ **Wespath Approach to SRI - Anita Green**
- ▶ **Mercy Approach to SRI - Susan Makos**
- ▶ **Q&A**



Seventh Generation Interfaith—April 2019



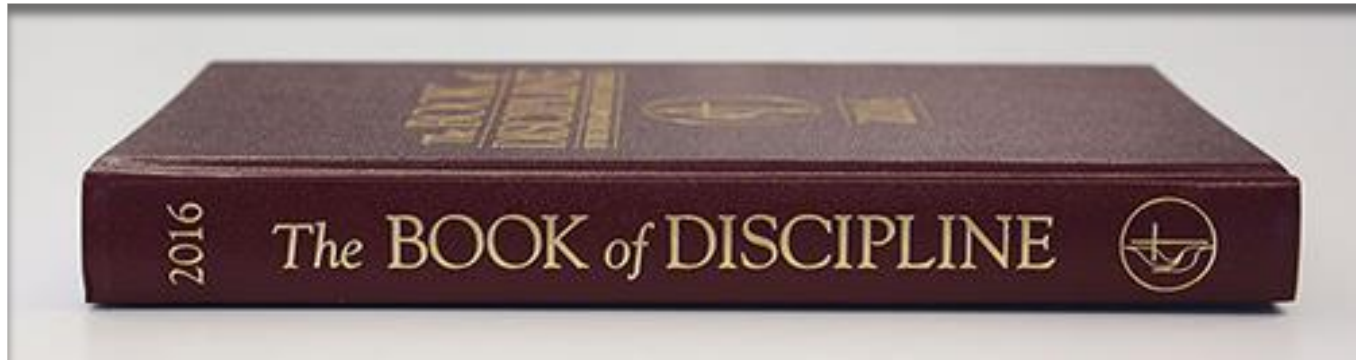
Wespath

BENEFITS | INVESTMENTS

Sustainable Investing

Program Overview

UMC Sustainable Investment Directives



“...discharge its fiduciary duties... solely in the interest of the participants and beneficiaries... with care, skill, prudence and diligence...”

“...make a conscious effort to invest...with the goals outlined in the Social Principles”

Investment Beliefs



Investor Focus



Optimistic Worldview



Sustainability



Low-Carbon Transition



Long-Term Perspective



Diversification



Stewardship



Culture



Expertise



Active Management

Aligning Fiduciary Duty with UMC Values

Avoid



- Ethical exclusions
- Financial risk exclusions:
 - Thermal Coal
 - Human Rights

Engage



- Proxy voting
- Shareholder resolutions
- Corporations
- Policymakers

Invest



- External manager ESG benchmarking
- Positive Social Purpose Lending Program
- Low-carbon energy solutions

Avoid: Performance-Screened Passive Portfolios vs. Benchmarks

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

Name of External Manager Benchmark	Index Weight of Eligible Stocks	Annualized Returns			Portfolio Inception Date
		1-Year	5-Years	10-Years	
Northern Trust Quantitative Advisors	97.7%	-7.7%	6.0%	11.1%	12/1/1998
Russell 1000 Value Index	100.0%	-8.3%	5.9%	11.2%	
<i>Difference</i>	-2.3%	0.6%	0.1%	-0.1%	
BlackRock, Inc.*	96.8%	-12.1%	4.4%	11.8%	3/1/2001
Russell 2500 Value Index	100.0%	-12.4%	4.2%	11.6%	
<i>Difference</i>	-3.2%	0.3%	0.2%	0.2%	
BlackRock, Inc.*	96.4%	-5.0%	7.7%	13.1%	6/1/1999
Russell 3000 Index	100.0%	-5.2%	7.9%	13.2%	
<i>Difference</i>	-3.6%	0.2%	-0.2%	-0.1%	

Note: This exhibit only includes Wespath's passively managed portfolios that have been in existence for at least ten years and that have been a part of the Wespath funds. Historical returns are not indicative of future performance. Please refer to the Investment Funds Description at wespath.org for more information about the Fund. This is not an offer to purchase securities. See the Investment Funds Description for a description of the fees and expenses related to the funds managed by all external managers including those listed above. Wespath Institutional Investments and the *I Series* of funds were launched on January 2, 2019. The information does not represent investment manager performance within the *I Series* of funds. *BlackRock's passive management of the Russell 3000 portfolio is based on a statistical sampling of stocks within the index. This strategy attempts to replicate the performance of the index by holding approximately three-fourths of its constituents.

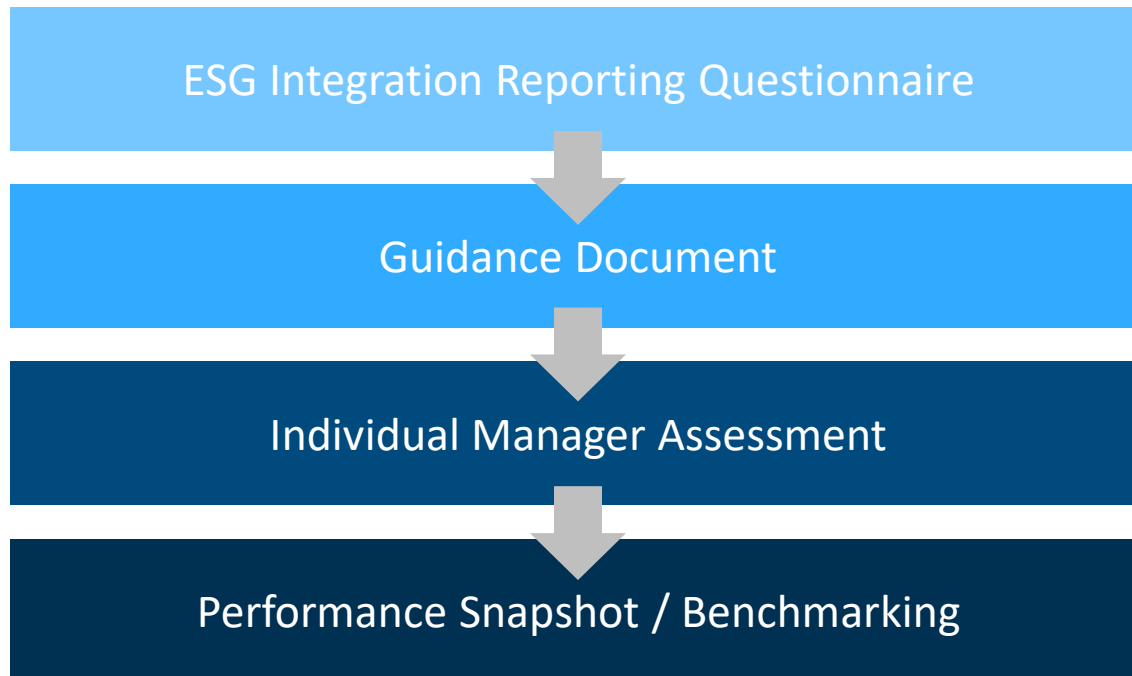
Invest: ESG Integration

One of Wespath's core investment beliefs is that *“the intentional integration of environmental, social and governance (ESG) factors in the selection and management of investments positively affects long-term performance.”*

- Starts with RFP
- Extends into annual manager evaluations

Invest: ESG Integration-External Manager Evaluation Process

Wespath's External Manager Evaluation Process:



“ It is essential for asset owners, like Wespath, to monitor external asset managers in order to fully discharge our fiduciary duties and to create more sustainable financial markets.”

Invest: ESG Integration Reporting Questionnaire

Sample Evaluation Questions

Section 1: Policy and Internal Resources

Please ensure your answers focus on ESG practices at the Firm level

- 1.1 Do you have a sustainable/responsible/ESG investment policy? If so, how frequently is it reviewed and updated and who approves it? Please attach relevant documents and/or links.
- 1.2 Do you have a dedicated team focusing on ESG integration? If so, how does it influence your research and investment activities? If not, how do other staff integrate ESG factors into their responsibilities?
- 1.3 Is your firm a signatory to the UN Principles for Responsible Investment (PRI)? If so, please explain how the six principles have been incorporated into your firm. If not, what are your reasons for not signing?
- 1.4 List your participation in any other sustainable investment initiatives (e.g. ICGN, CERES/IIGCC, USSIF/UKSIF, etc.)
- 1.5 What reporting do you provide to clients—and external parties—regarding your ESG activities? Please attach relevant documents or links or explain why you do not provide reporting.
- 1.6 What are your focus ESG issues? Provide details about your objectives and strategy for addressing them.

Section 2: ESG Integration

Please ensure your answers focus on ESG practices at the Investment Strategy level

- 2.1 How do your investment decisions incorporate risks and opportunities associated with ESG-related megatrends affecting the world economy (e.g. transition to a low carbon economy, resource scarcity, etc.)?
- 2.2 How are material ESG factors identified, prioritized and addressed at a security level within the strategy? Please illustrate this process with specific examples.
- 2.3 Provide a detailed description of how you integrate ESG into the financial analysis and investment decision-making process. Provide examples of how ESG factors positively or negatively contributed to an investment decision. What was the concern and what was the outcome?
- 2.4 Describe how you train, develop, and improve your staff's ESG competency?
- 2.5 What resources (internal and external) are used for ESG research and analysis?

Invest: Manager ESG Performance Snapshot

Performance Snapshot: External Public Equity Managers																				
Managers	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	Manager	P	Q	R	
1. Policy and Resources																				
ESG Policy																				
Dedicated Resources																				
2. ESG Integration																				
Integration Strategy																				
3. Active Ownership																				
Engagement																				
Proxy Voting																				
Overall Score	100%	100%	98%	97%	86%	79%	78%	75%	69%	67%	61%	55%	42%	34%	30%	30%	19%	19%	13%	
Momentum	↑	↑	N/A	↔	↔	↑	↔	↔	↑	↔	↔	↑	↑	↑	↑	↔	↑	↔	↔	
Category	Race Leaders					Chasing Pack							Starting Grid							

Invest: How does Wespath use this information?

We use the *ESG Appraisal* to:

- Enhance our evaluation of manager performance
 - Use as a core component of manager evaluations
 - Understand the processes that supports ESG integration
 - All else equal, can serve as differentiator / deciding factor
- Provide tailored feedback to managers
 - Work in partnership with managers
 - Be clear about the implications for poor performing managers
- Share ideas with other investors to help influence markets
 - Aim to be a resource for managers so they better integrate ESG into investment decisions
 - Share our knowledge with peers to further the integration of ESG assessments into performance evaluations



Invest: Positive Social Purpose (PSP) Lending Program

- Internally-managed investment strategy
- More than \$2 billion in PSP investments since 1990

Providing access to needed multi-family affordable housing



More than 52,000 affordable housing units financed

Supporting jobs and local communities*



- More than 65,000 jobs
- More than \$1.9 billion in tax revenue

International microfinance—supporting entrepreneurs in emerging markets



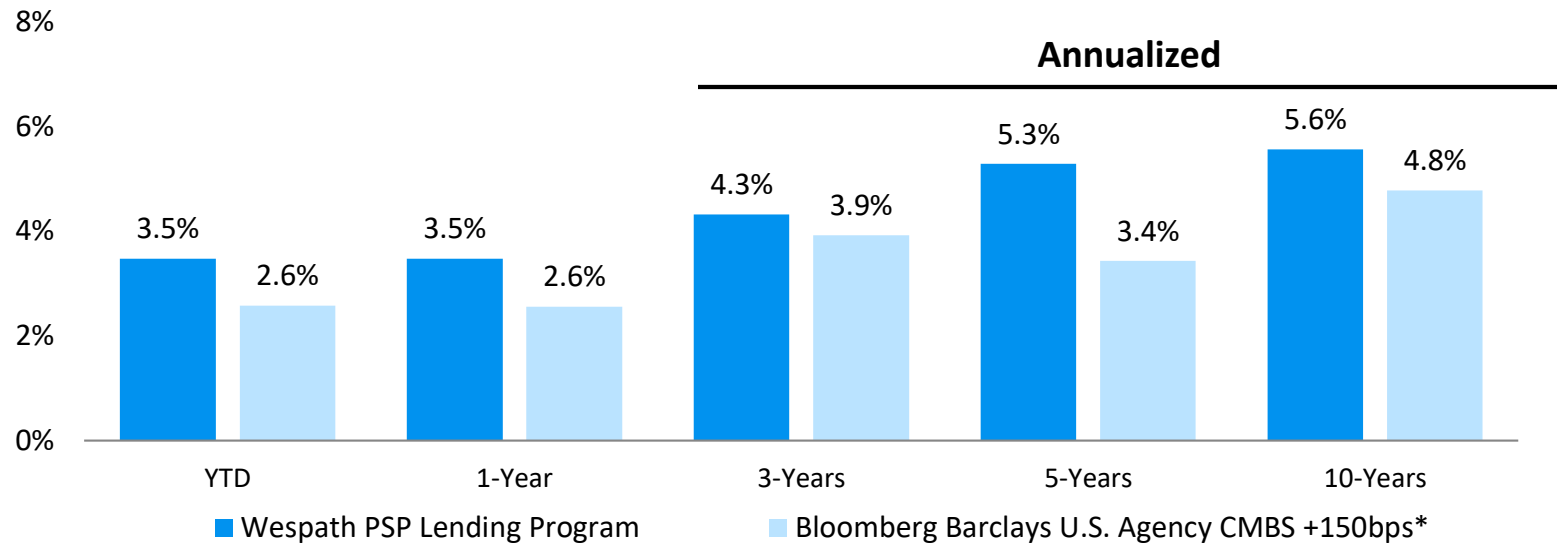
Invested more than \$83 million in loans to entrepreneurs

*Estimate based on data obtained from the National Association of Home Builders in 2016.

Wespath Benefits and Investments' subsidiaries, including Wespath Institutional Investments manage funds that participate in the Positive Social Purpose Lending Program. The information provided represents the combined investments of all funds.

Invest: PSP Lending Program Within the Fixed Income Fund

(Gross-of-Fees as of December 31, 2018)



Total Wespath affordable housing assets in the Fixed Income Fund (Fund) were approximately \$384 million as of December 31, 2018. Historical returns are not indicative of future performance. Please refer to the Investment Funds Description at wespath.org for more information about the Fund. Wespath Institutional Investments and the *I Series* of funds were launched on January 2, 2019. The information does not represent PSP Lending Program performance within the *I Series* of funds.

*Prior to January 1, 2018, the benchmark for the Positive Social Purpose Lending Program within the Fixed Income Fund was the Bloomberg Barclays U.S. Universal ex-MBS.



Wespath

BENEFITS | INVESTMENTS

Mercy Investment Services: Our Approach to Socially Responsible Investing

April 12, 2019



Mercy Investment Services, Inc.



The asset management program for the collective investment and professional management of the endowment, operating, and other funds of the:

- ❖ Sisters of Mercy; and
- ❖ 46 sponsored ministries

The mission of Mercy Investment Services is to enhance the financial resources of the Sisters of Mercy of the Americas through socially responsible investing.



The Critical Concerns

The Sisters of Mercy were founded out of a deep concern for persons who are poor. Today, that commitment is focused in five “Critical Concerns” that the Sisters address through prayer; attention to personal, communal and institutional choices; education; advocacy with legislators and other government leaders; and corporate engagement.

Immigration



Believing firmly in the dignity of every person, we work for just and humane immigration laws in the U.S., address policies that push people to flee their countries, and examine the global impact of immigration.

Earth



We believe in the need for sustainability of life, supporting both a lifestyle and legislation that acknowledge everyone’s right to water and the need to address climate change.

Racism



We believe racism is an evil affecting us all. We work to recognize and dismantle institutional racism in order to become an anti-racist multicultural community.

Women



Through our schools, colleges, health-care institutions and spirituality centers, and through our legislative advocacy, we give special attention to women’s education, health and spirituality.

Nonviolence



We work for peace through prayer, education, personal and communal practices of nonviolence, and legislative advocacy to reduce armed conflicts, gun violence and human rights abuses.

Comprehensive Approach to Impact



Social Responsibility Policy

Excluding companies conducting specific activities and selecting companies with positive environmental, social or governance (ESG) records.

Investment Choices

Capital invested to achieve certain social or environmental returns.



Engaging companies through shareholder resolutions and dialogues.

Active Ownership

Voting of company resolutions.

Responsible Investing Implementation

	<u>Negative Screens</u>	<u>ESG Investing</u>	<u>Impact Investing</u>
Equities	>99.9%	29% + 37% ¹	2%
Fixed Income	100%	30%	0%
Hedge Funds	100%	0%	N/A
Private Equity	100%	N/A	30%
Mercy Partnership	100%	N/A	100%

¹ An additional 37% of the global equity portfolio is screened based on environmental criteria and is invested in companies that generate fewer carbon emissions.

Impact Investing

- ❖ Achieve environmental and social impacts through:
 - ✓ Mercy Partnership Fund (asset allocation-currently \$38 million) – Focused on global community investments offering less than market rate returns with high social and environmental impacts;
 - ✓ Environmental Solutions Fund (up to 50% of the Non-Marketable Alternatives Pool) – Devoted to mission-related, market-rate investment strategies.

Mercy Partnership Fund

- ❖ Global community investing program of Mercy Investment Services
- ❖ Sisters of Mercy, along with other religious communities, were among the pioneers in the field



Environmental Solutions Fund

Through the creation of the Environmental Solutions Fund, Mercy invests in companies focused on renewable energy, energy and water efficiency, materials recycling, green buildings and sustainable agriculture.



- ✓ To date, commitments totaling more than \$80 million have been made in solar and wind projects in the U.S., Asia, and Africa and on other environmental solutions such as recycling, waste reduction and technology.



Statement on Climate Change

“Mercy Investment Services: Our Responses to Climate Change” describes our efforts and the multiple approaches of company engagement, proactive investments in clean energy solutions, exclusion of certain sectors and the need for attention to our own carbon consumption.

Mercy Investment Services: Our Responses to Climate Change

As the socially responsible investment program of the Sisters of Mercy of the Americas, Mercy Investment Services recognizes the moral imperative to work for a just and sustainable world, and realizes that addressing climate change is the greatest moral imperative of our time. We know well the serious issues we confront from global climate change—severe weather events, rising sea levels, serious health concerns including transmission of infectious diseases, deaths from extreme heat, and disrupted food production – and the devastating impacts on vulnerable persons, particularly women and children. The 2014 Intergovernmental Panel on Climate Change (IPCC) Synthesis Report warns that global warming will have “severe, pervasive and irreversible impacts for people and ecosystems.” Pope Francis, in his encyclical *Laudato Si* (2015), has called all across our world to address global climate change in our Common Home, the most pressing environmental and social justice issue of our time. He states: “Today, in view of the common good, I urgently appeal, then, for a new dialogue about how we are shaping the future of our planet. We need a conversation which includes everyone, since the environmental challenge we are undergoing, and its human roots, concern and affect us all.”¹⁴

Mercy Investment Services’ mission statement calls us to raise the collective voice of the Sisters of Mercy to effect systemic change in corporate policies and activities in our investment program with a special focus on the Critical Concerns of the Sisters of Mercy, including “to reverence Earth and work more effectively toward the sustainability of life...” and “to continue to embrace our special concern for women.” We are called to act globally, in harmony and interdependence with all creation. With businesses and individual activities generating carbon emissions and our current dependency on fossil fuels, we acknowledge the complexity of addressing climate change and finding impactful solutions. Recognizing our important role in promoting the transition to a low-carbon future, Mercy Investment Services is committed to:

- **Engage companies:** The Sisters of Mercy have a long and rich tradition of engaging companies on their impacts on climate change and water sustainability. We affirm engagement of energy and other companies as our primary approach to address climate change and to promote company practices that are essential to the transition to a low-carbon economy. While some choose divestment, we view dialogue and raising the voice of the Sisters of Mercy with companies as essential to achieving systemic change.
- **Exclude investments:** We have implemented exclusionary screens in companies extracting thermal coal and oil sands: due to significant health and environmental concerns to the most vulnerable;
- **Direct capital to lower-carbon energy sources and solutions:** With the creation of the Environmental Solutions Fund, we continue to increase capacity in lower-carbon energy sources and efficiency solutions. Through Mercy Partnership Fund, we have increased our support of organizations globally that provide cleaner, renewable energy sources to those unable to afford them;
- **Incorporate environmental concerns into investment selection:** Since our beginning, our investment approaches have incorporated environmental factors, creating an investment portfolio with fewer negative environmental impacts. We will measure our progress through the reduction of company emissions within the portfolio; and
- **Reduce our carbon consumption:** Mercy Investment Services is committed to and encourages the Institute to continually review our organizational consumption and operations to accelerate the reduction of our carbon footprint.

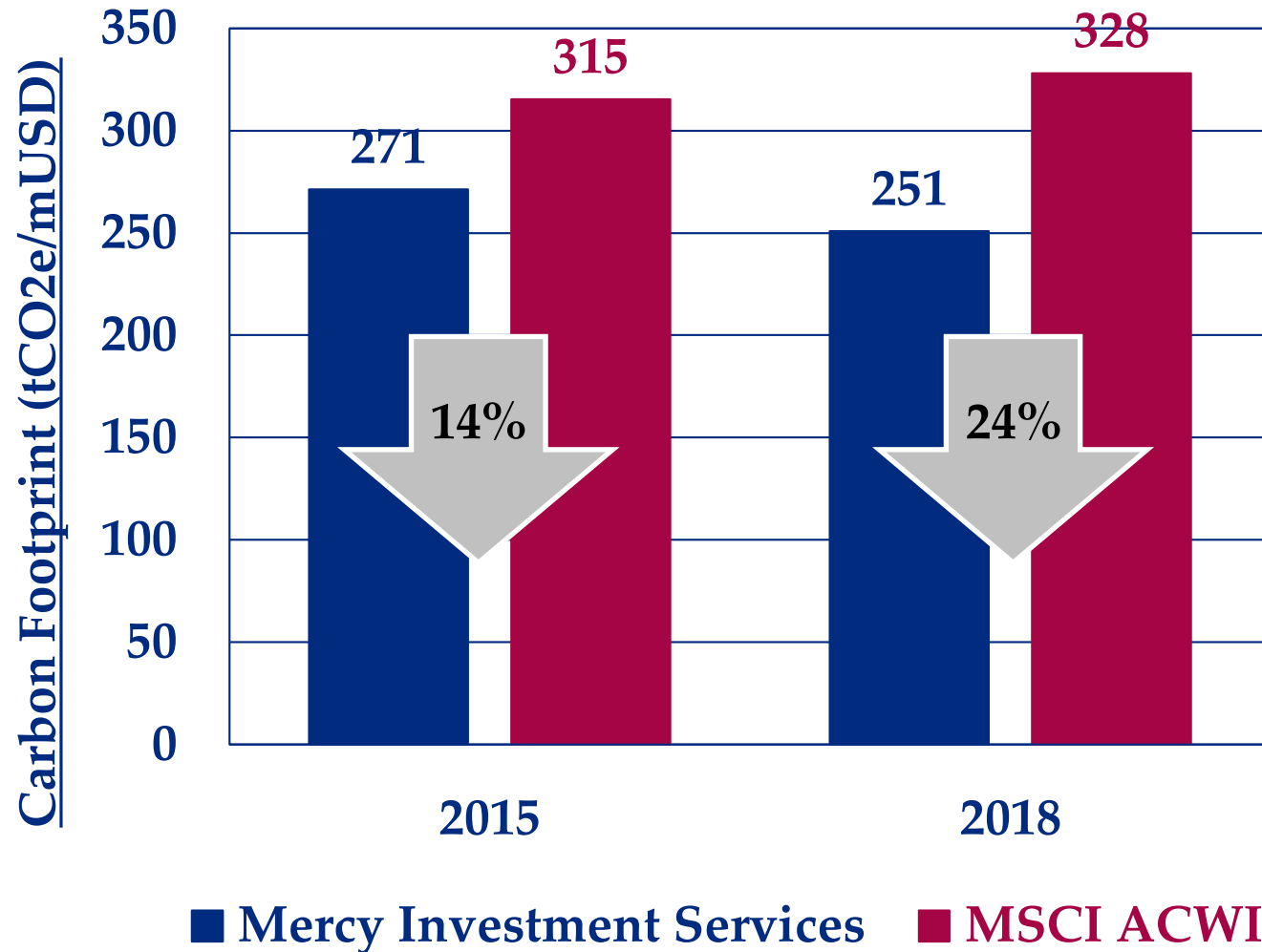
To fulfill our mission as the socially responsible investment program of the Sisters of Mercy, Mercy Investment Services will periodically evaluate our approaches and progress in responding to climate change and promoting the transition to a low-carbon future.



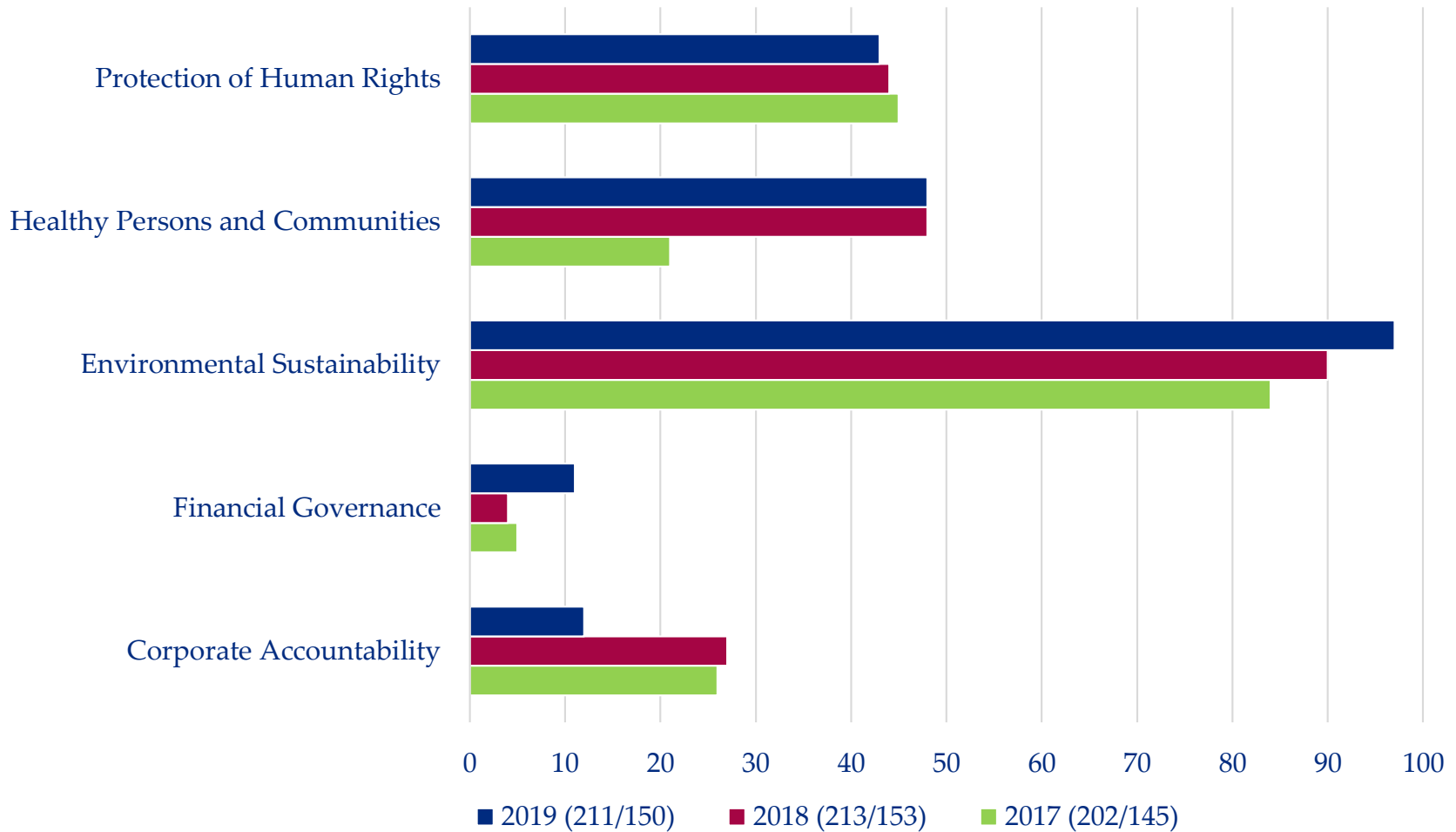
January 2017

www.mercyinvestmentservices.org

Carbon Footprint Results – Equity Pool



Company Engagements 2017-2019



Fiscal Year (Number of Engagements / Number of Companies)

Working Together to Effect Change



Mercy Advocating for Justice at the State and Federal Level



Mercy Promoting Global Change at the United Nations



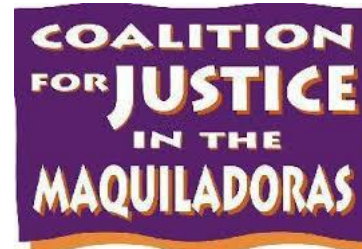
Mercy Ministering and Investing in the Community



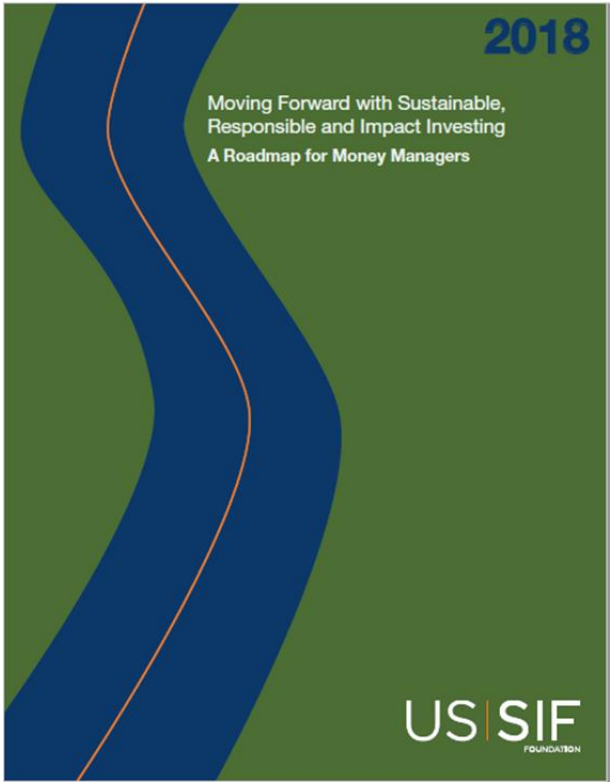
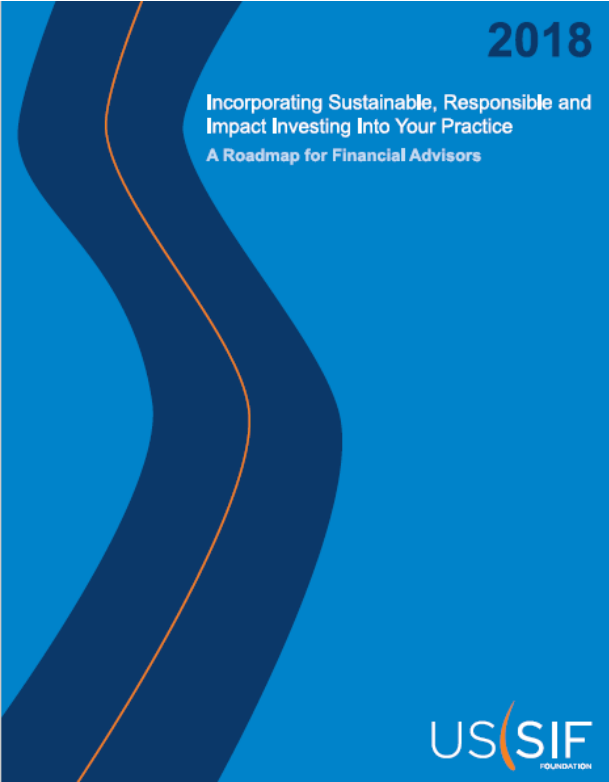
Mercy Investing for Impact and Working for Corporate Change

Engaging in Collaborative Efforts

Working with other organizations to create social and environmental change:



Tools from USIF: Financial Advisors & Money Managers



Questions?



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Thank You

SeventhGenerationInterfaith.org