



Wespath

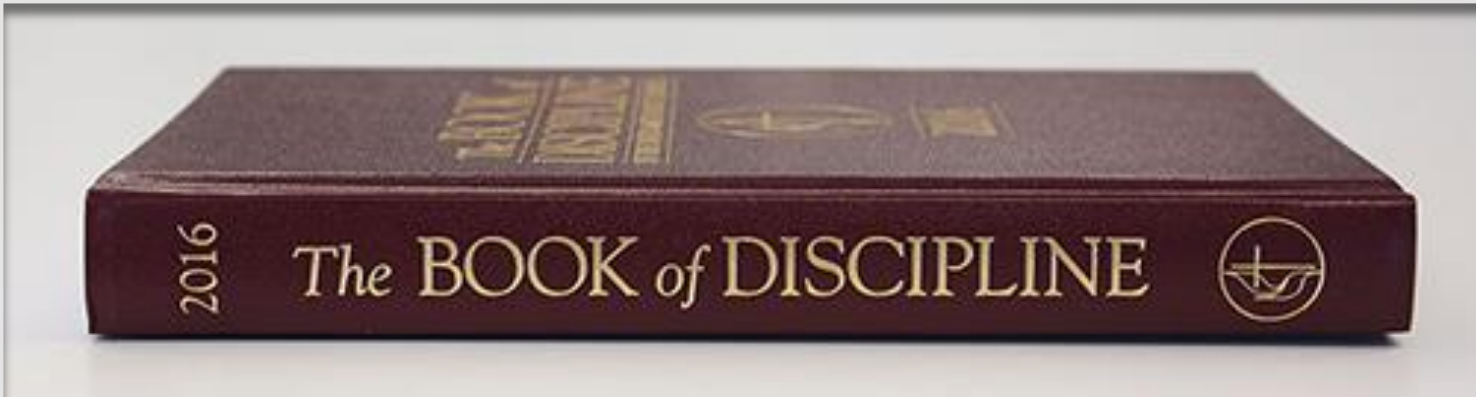
BENEFITS | INVESTMENTS



CONFERENCE FORUM

Sustainable Investment Strategies

Sustainable Investment Directives



¶1504.14

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

¶717

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

Defining Sustainable Investment



“...Meet the needs of the present without compromising the ability of future generations to meet their own needs...”

**1987 United Nations World Commission
on Environment and Development
“Bruntland Commission”**

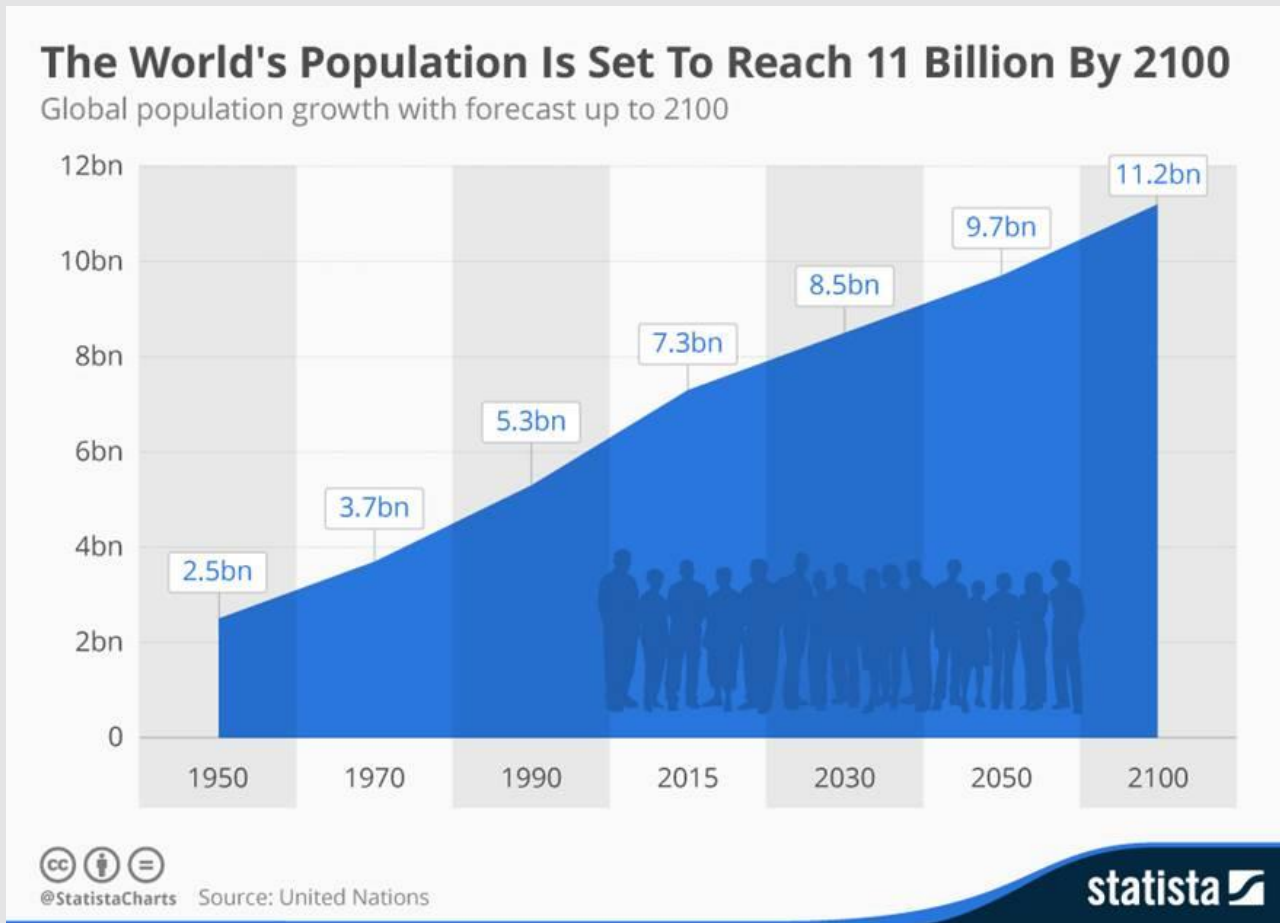
“Sustainability is becoming the lens through which a business is judged by its consumers, workforce, society and, increasingly, its investors”

PwC

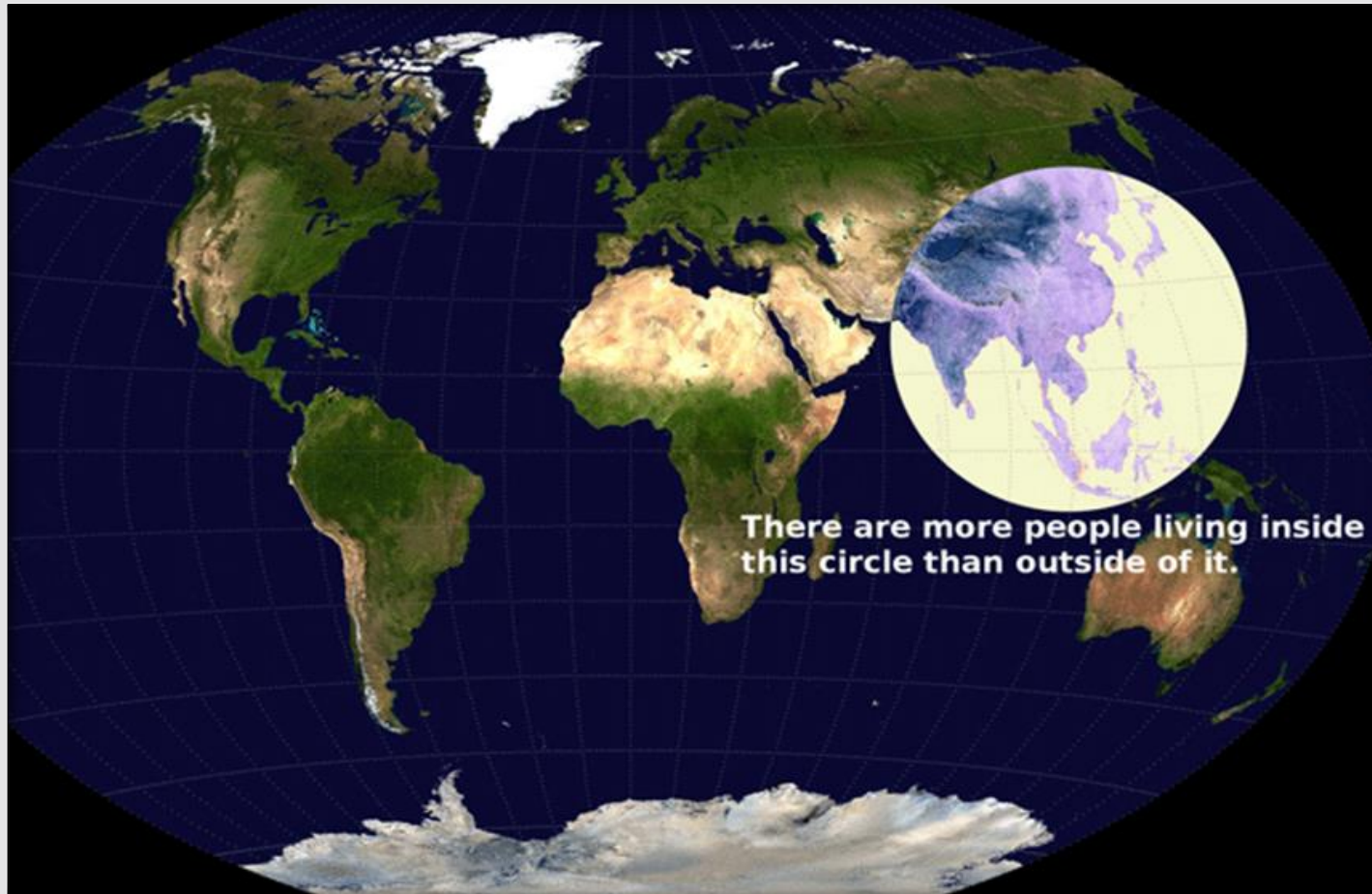
Five Global Shifts Reshaping Our World



Shift 1: Demographics



Shift 2: Change in Economic Power



Source: www.twicsy.com

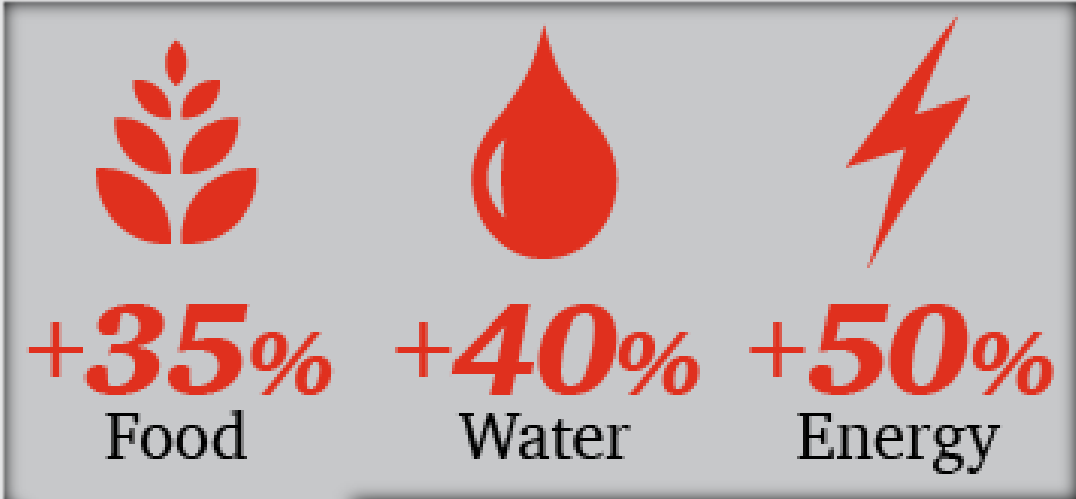
Shift 3: Accelerating Urbanization

1.5 million people are added to the
global urban population **every week**

Source: PwC analysis (United Nations Population Division (2014))

Shift 4: Resource Scarcity

Demands of the global population by **2030**

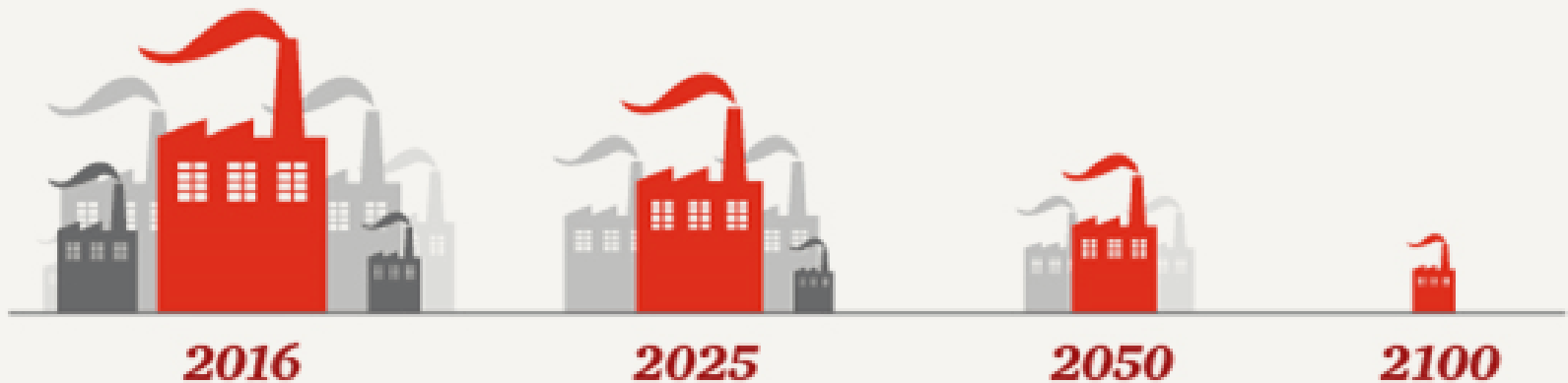


2030

Source: National Intelligence Council

Shift 4: Climate Change

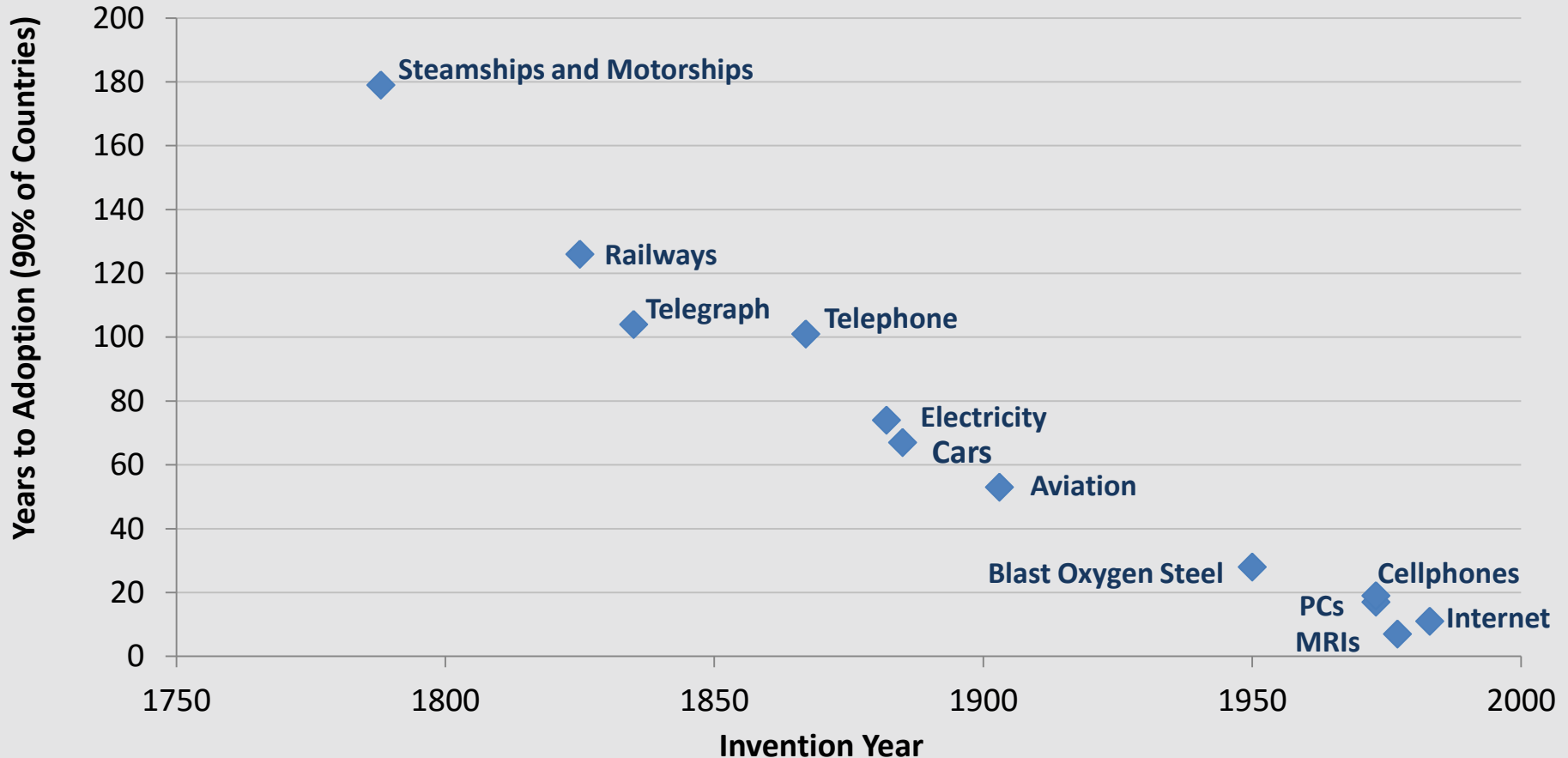
To stay within **2°C**, the world needs to cut its carbon intensity by **6.5%** every year to **2100**



Source: PwC Low Carbon Economy Index (2016)

Shift 5: Technology Advancement

Adoption of New Technologies has Become Faster Over Time



Source: D.A. Comin & B. Hobijn (2008), *An Exploration of Technology Diffusion*

Sustainable Investment— Balance Nimbleness with Steadiness

“Our goal is to understand how change linked to environmental, social and governance (ESG) issues affects our investments, and how we can **respond accordingly**.”



“...We must also maintain our **long-term investment horizon** and our **patient approach** to engaging with companies.”



Three Main Strategies: Avoid—Engage—Invest

Avoid

- Ethical exclusions



- Financial risk exclusions



Engage

- Proxy voting
- Shareholder resolutions
- Corporations
- Policymakers

Environmental



Social



Governance



Proxy Voting



Invest

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



Engage—Use our ‘Seat at the Table’ to Improve Long-Term Performance

Engage

- Proxy voting
- Shareholder resolutions
- Corporations
- Policymakers

Environmental



Social



Governance

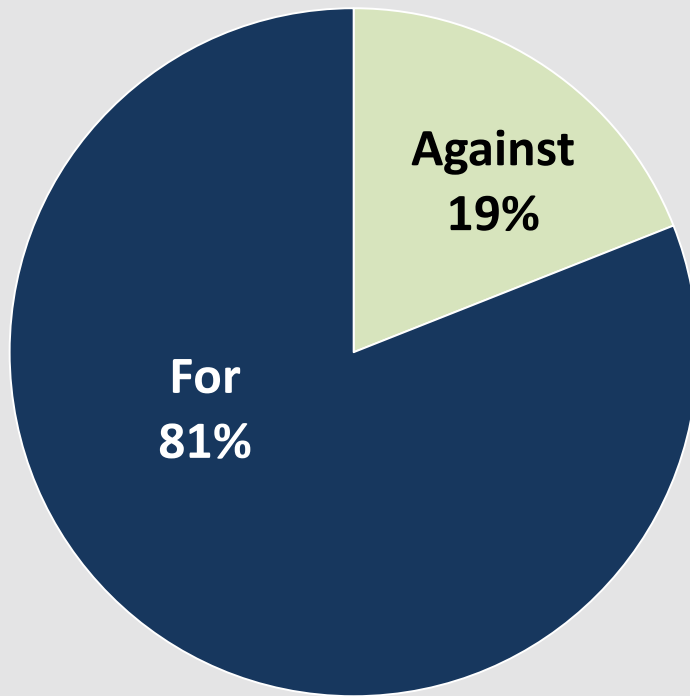


Proxy Voting

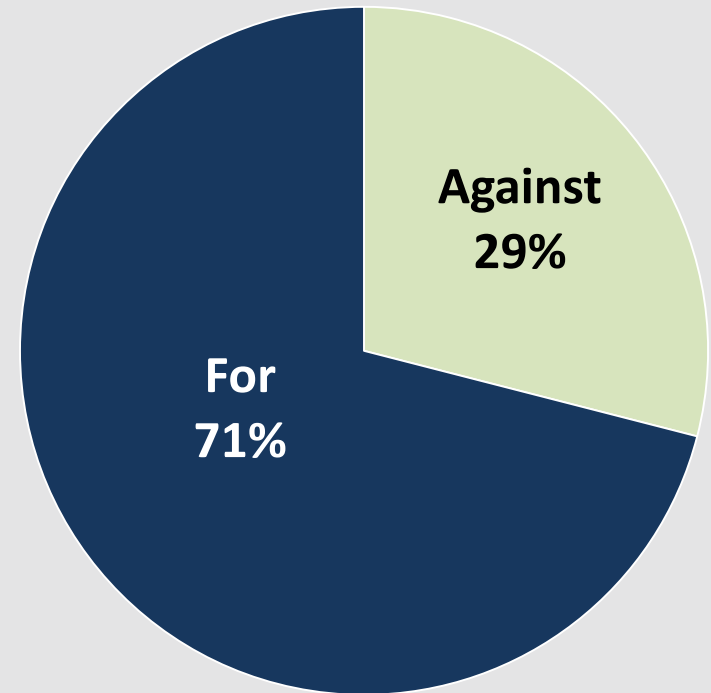


(I) Proxy Voting—5,000+ Companies

Total times Wespath voted for and against management (2016)



Compensation-related votes (2016)



(II) Shareholder Resolutions—2016 Filings

Low-carbon resilience



49%



41%

Board diversity



All successfully withdrawn

(II) Shareholder Resolutions: Changing Dynamics



Low-carbon
resilience

2016 Shareholder Resolution

Co-filers: 1
Hermes EOS

Final "In Favor" Vote:
41%

2017 Shareholder Resolution

Co-filers to-date: 9

- Hermes EOS
- CalPERS
- New York City Comptroller's Office (including NYCERS)
- Church Pension Fund
- Connecticut Retirement Plans and Trust
- NEI Investments
- Portico
- Vermont Pension Investment Committee
- Zevin Asset Management

Final "In Favor" Vote:
TBD Spring 2017

(III) Engagement: Responding to Growing Global Commitments to Reduce GHG Emissions

2015

- **Paris Agreement** adopted by 195 countries agreeing a global framework to limit rise in Earth's temperature to 2°C above pre-industrial levels, with ambition for 1.5°C

2016

- **Paris Agreement** ratified earlier than expected
- **Canada** confirms national carbon price standard in 2018
- **Global aviation emissions reduction** agreement reached by 197 countries
- **Global hydro-fluorocarbons (HFC)** phase-out agreement reached by 190 countries

2017

- **China** launches national emission trading system (poised to be the world's largest)

(III) Engagement: Launching Transition Pathway Initiative



Wespath's CEO and General Secretary, Barbara Boigegrain, launches the Transition Pathway Initiative with 13 leading international asset owners

Launch: January 11, 2017 at London Stock Exchange

Initiative: Allows investors to assess a company's progress towards a low-carbon economy through a public online tool

Led by: Church of England and Environment Agency Pension Fund, in partnership with Grantham Research Institute at London School of Economics

(III) Engagement: Transition Pathway Initiative—Partners



Transition Pathway Initiative— Toolkit Overview

Structure

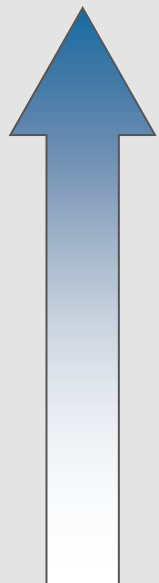
1. Quality of Management Indicators
2. Corporate Carbon Performance
 - Alignment of current and future activity/emissions with transition to low-carbon economy



Coverage

- High-impact sectors
 - Fossil fuel extraction (oil and gas, mining—20 to date)
 - Electricity utilities—20 to date
 - Carbon-intensive manufacturing (iron and steel; cement; aluminium; pulp and paper; chemicals and petrochemicals)
 - Auto manufacturers
- Largest companies by market cap

(III) Engagement: Transition Pathway Initiative



Level 4 – Strategic Assessment

Level 3 – Integrated into Operational Decision Making

Level 2 – Building Capacity

Level 1 – Acknowledgement

Level 0 – Unaware / Not Acknowledging

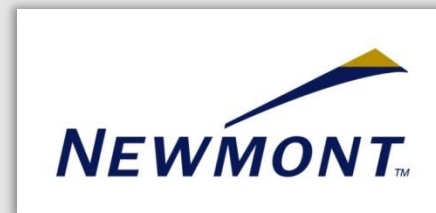
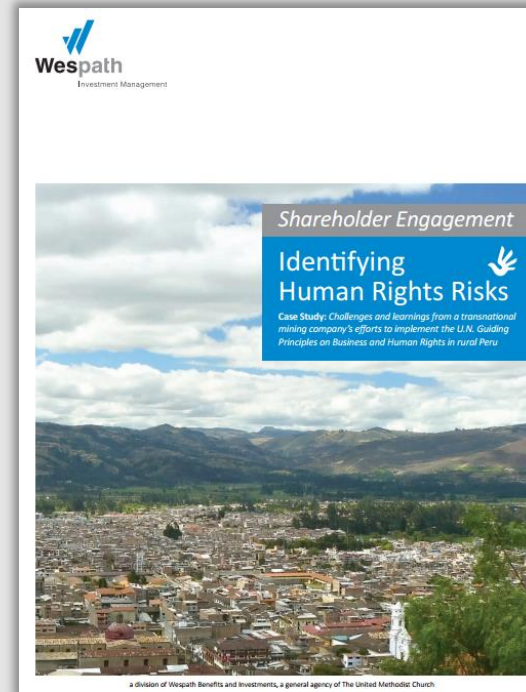
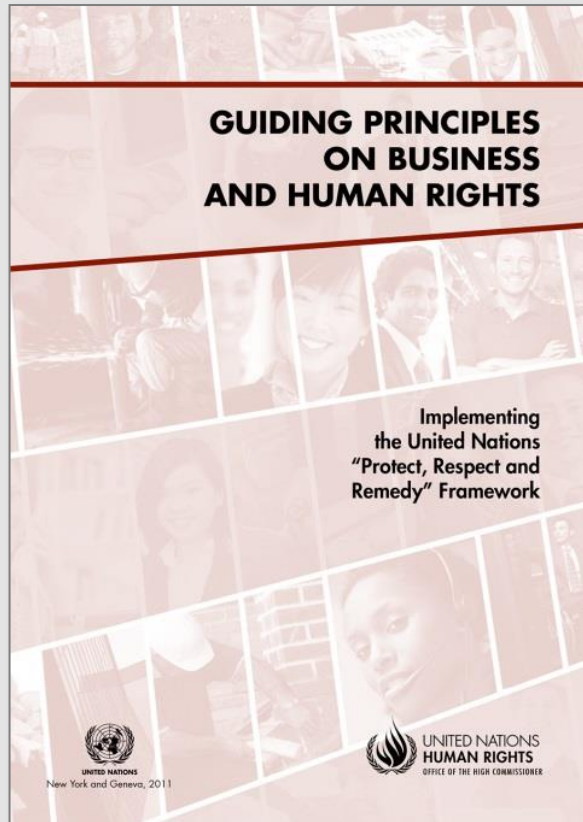


(III) Engagement: Transition Pathway Initiative—Analysis

- Almost all companies are at least acknowledging climate change as a business issue
- Few companies are at the level of strategic assessment which means most can improve
- The “typical” company is building capacity (Level 2)
- Initial sectoral results: electricity utilities are marginally more advanced than oil and gas producers



(III) Engagement: Navigating Business and Human Rights



Invest—Deploy Capital to Seek Competitive Returns and Positive Social/Environmental Impact

Invest

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



Invest—External Manager ESG Evaluation

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—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 51,000
affordable housing
units financed

**Supporting jobs and
local communities¹**



- 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

¹Estimate based on data obtained from the National Association of Home Builders in 2016.

Positive Impact: Lizeta Jose Gojamo's Story, Mozambique



Invest—Three New Thematic Mandates: Low-Carbon Solutions



- \$250 million investment
- Impax Specialists Strategy

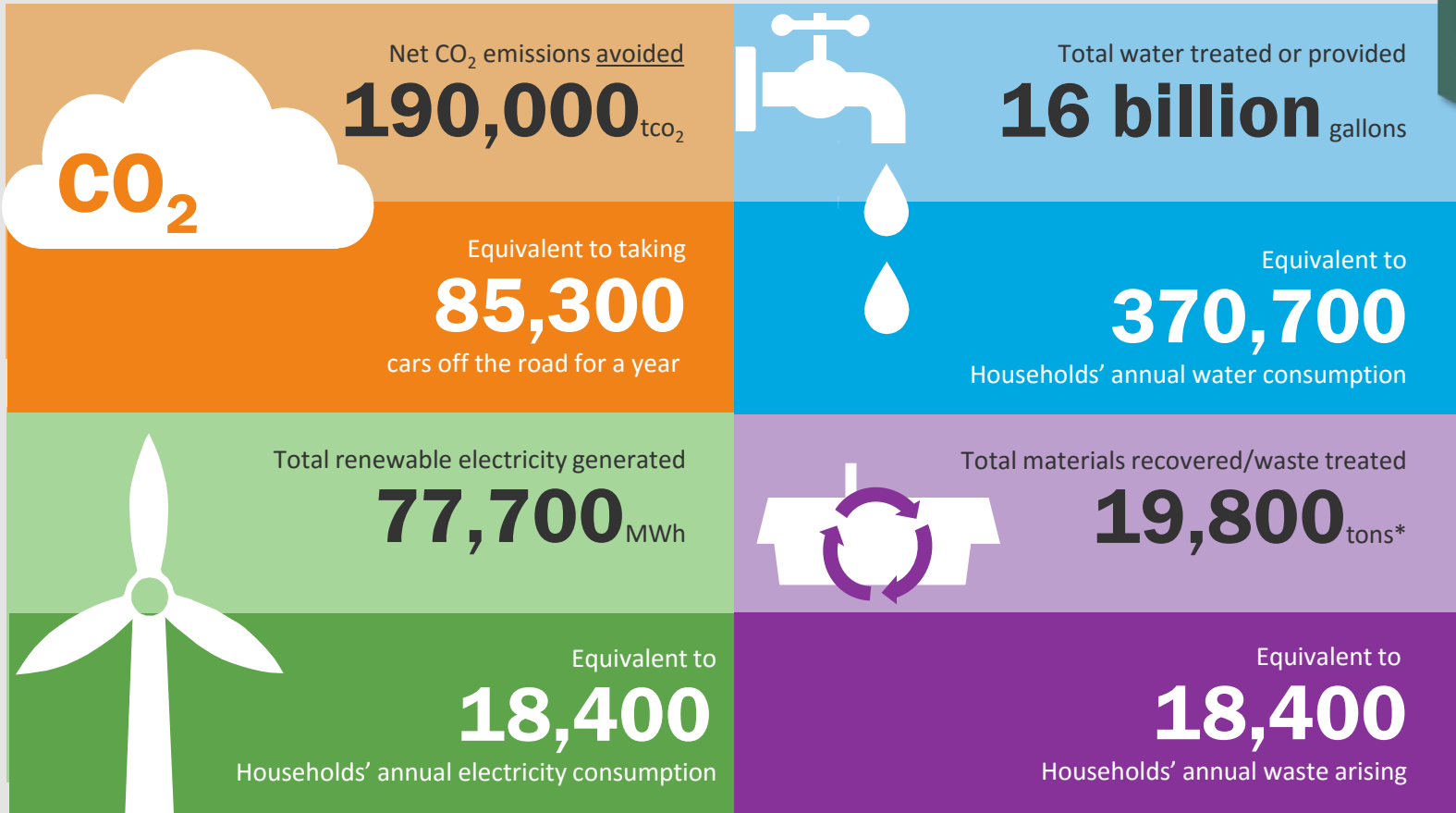


- \$100 million investment
- Global Environmental Opportunities



- \$30 million investment
- Off-Grid Renewable Climate and Action Notes

Positive Impact: Investment in Impax Strategy



*Source: Impax Asset Management. US Tons. Impact of \$250 million invested in the strategy for one year. The UK Green Investment Bank's calculator was used to translate the impact into everyday equivalents (e.g., cars on the road, household energy use). Based on most recently reported annual impact data for holdings in the portfolio as of 31 December 2015. Methodology has been assured by Ernst & Young LLP.

Positive Impact: DWM Investment— Product Examples



Off-Grid Electric



d.light



Saija



Kingo



Fund Change: Equity Social Values Plus Fund (ESVPF)

What?

- Adding specific, additional screens to the fund

Why?

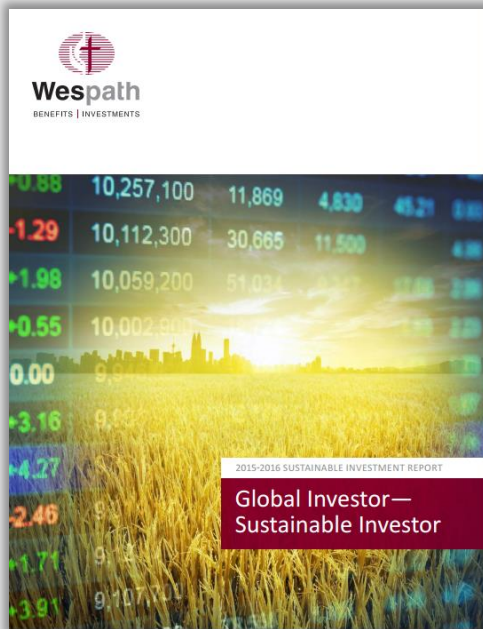
- To respond to annual conference petitions for fossil fuel-free investments and elevated human rights screening related to the Palestinian territories
- To provide a cost-effective option to interested parties

How?

- By changing fund benchmark to MSCI World Environmental, Social, Governance (ESG) ex-Fossil Fuels Index
- By amending *Statement of Administrative Investment Policy* to allow additional exclusions in ESVPF, based on significant annual conference activity

Now Available: Wespath Sustainable Investment Report (2015 - 2016)

Full report



wespath.org/investments/sustainable-investment-report

Excerpts from the 2015-2016 *Sustainable Investment Report*



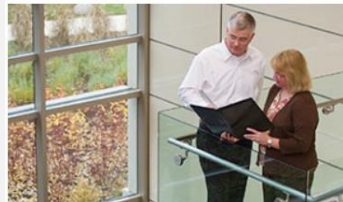
Message from the General Secretary and Chief Executive



Q&A with the Chief Investment Officer



Sustainable Investment—An Overview



Active Ownership -- Engagement



Strategic Partnerships



Positive Impact Investment



External Manager ESG Integration



Ethical Exclusions



2017—A look ahead with the Managing Director, Sustainable Investment Strategies



Wespath

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