

Wespath Analytical Insights—ESG Integration

Evaluating and Monitoring External Asset Manager Performance



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About Wespath Investment Management

Wespath Investment Management (Wespath) is a division of Wespath Benefits and Investments, a general agency of The United Methodist Church (UMC). Wespath provides investment solutions for the endowment and pension (defined contribution and defined benefit) portfolios of institutional investors, including foundations, higher education institutions, health care organizations, and churches through a broadly diversified family of daily-priced funds.

With over \$21 billion in assets under management and over 100 institutional clients, Wespath offers United Methodist-affiliated organizations a cost-effective, bundled service aligned with the Social Principles of the UMC. Wespath's investment process proactively incorporates the consideration of environmental, social and governance (ESG) factors into investments across asset classes and in the selection of external asset managers. We believe these efforts support long-term value creation while having a positive impact on the environment and society. Wespath's activities promoting sustainability include proxy voting, corporate and public policy engagement, and positive impact investing.

Why ESG Integration is Important Across Externally-Managed Portfolios

One of Wespath Investment Management's (Wespath) 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."* As a founding signatory of the United Nations Principles for Responsible Investment (PRI), we are committed to *"incorporating ESG issues into investment analysis and decision-making"* and *"promoting acceptance and implementation of the principles within the investment industry."*¹

Like many asset owners, a large portion of Wespath's assets are managed by external asset managers.² We expect our external partners to demonstrate how they integrate ESG considerations into investment decision-making—considering both risks and opportunities—as well as how they vote their proxies and engage with companies in their role as active owners.

We have an internal *ESG Appraisal* process to evaluate and monitor our external asset managers' policies and practices, which allows us to provide practical feedback to encourage ongoing progress.

Signatory of:



Wespath has been a signatory of the United Nations Principles for Responsible Investment since its inception in 2005.

This paper outlines Wespath's approach to ESG integration across our externally-managed portfolios and includes the insights we gained as we developed our internal process. By sharing these insights, Wespath hopes to stimulate discussion with like-minded asset owners around the world about the merits of our approach. **We welcome ideas and comments to further improve it.**

¹ www.unpri.org

² As of 12/31/2016, Wespath's total assets under management were approximately \$21 billion—95.5% of Wespath's assets are managed by 53 external asset managers.



Wespath's Approach to ESG Integration

In 2014, Wespath's Sustainable Investment Strategies and Investment Management teams agreed to a joint goal* to evaluate how our external asset managers were integrating ESG factors into investment decision-making. A close partnership between these two teams is fundamental in:

- Embedding ESG integration at the very start of the investment chain (i.e., the asset owner).
- Emphasizing Wespath's focus on ESG and long-term value creation.
- Communicating to managers with "one voice" that ESG integration is a core element in Wespath's overall management assessment and retention, and avoiding multiple lines of inquiry from Wespath representatives and related burdens on managers.

Wespath initially focused its *ESG Appraisal* on public equity managers because public equities is the largest asset class in Wespath funds and this asset class has received the most attention from the sustainable investment community in integrating ESG issues. We plan to extend the *ESG Appraisal* to other asset classes (with methodology adjustments as needed) in the years ahead.

Components of Wespath's *ESG Appraisal*

ESG Integration Reporting Questionnaire

Guidance Document

Performance Snapshot

Individual Manager Assessment

* Every year, Wespath's Investment Management, Sustainable Investment Strategies and Institutional Investment Services teams (all part of the Investments division, reporting to the Chief Investment Officer), agree to a set of performance goals. Many of these goals are shared across the three teams and their successful completion is a core component of performance measurement and compensation. The development of an *ESG Appraisal* was a shared goal between the Investment Management and Sustainable Investment Strategies teams.

Wespath's Annual ESG Appraisal

I. ESG REPORTING QUESTIONNAIRE AND GUIDANCE DOCUMENT

Wespath developed an *ESG Integration Reporting Questionnaire* (Appendix 1) that we require our managers to complete as part of their annual reporting responsibilities. It includes questions about ESG integration at the organizational (firm) level and the individual strategy (mandate) level. Answers to the questions help us understand how ESG integration filters down from organizational policies to everyday investment decision-making. We use the responses to inform the *Performance Snapshot* and *Individual Manager Assessment* described later in this report.

We also developed a *Guidance Document* (Appendix 1) to accompany the *ESG Reporting Questionnaire*. This *Guidance Document* highlights the level of detail, scope, and the type of answers that will be most informative.

INSIGHTS—ASKING QUESTIONS

Highlight organizational priorities

Our goal with the *ESG Reporting Questionnaire* is to gather information from our managers that helps us determine their alignment with our organizational priorities relating to ESG integration. We try to be as explicit as possible about the type of information that will help us in this assessment, including:

- Specifying the level of detail required for each question (i.e., provide a detailed description of how the manager integrates ESG into financial analysis and investment decision making processes).
- Requesting specific examples that illustrate answers.
- Indicating how different questions contribute to our overall assessment (i.e., which ones are particularly important to us).

Clarify ESG terminology

We explicitly outline our definition of ESG integration to avoid confusion. While “ESG” may be an increasingly understood term within the investment industry, our experience demonstrates

“Wespath’s *ESG Reporting Questionnaire* helps us understand how ESG integration filters down from organizational policies to everyday investment decision-making.”

that clarification is always beneficial. For example, some early responses to our questions focused solely on how managers apply our ethical exclusions (i.e., negative screening of certain “sin” stocks) or on their own internal corporate social responsibility and philanthropic activities. Furthermore, we recognize that while certain managers may not specifically use the term “ESG” to describe their analysis, they do in fact assess many of the environmental, social or governance trends impacting specific sectors and industries.

Aim to get a complete picture of ESG integration

A particularly important learning has been understanding differing levels of ESG integration. Our questions are designed to capture how ESG integration occurs across an organization: at the firm/organizational level and in decision-making as it applies to a specific strategy/mandate. The *Guidance Document*, which accompanies our *ESG Reporting Questionnaire*, explains the type of answers we expect from managers to ensure their responses are as informative as possible.

Provide sufficient time for responses

We provide managers with a four to six week window to complete the *ESG Reporting Questionnaire*. We found that this time frame strikes an appropriate balance in obtaining the expected level of detail, especially from boutique/smaller managers, without causing disproportionate workload.

Wespath's Annual ESG Appraisal_(continued)

II. PERFORMANCE SNAPSHOT AND INDIVIDUAL MANAGER ASSESSMENT

After receiving the completed *ESG Reporting Questionnaires*, we analyze the responses in order to benchmark managers' ESG performance and create a *Performance Snapshot*. We found that benchmarking is an effective way to provide feedback, not least as it allows each manager to see their position relative to their peers (although we conceal the names of the other asset managers—*Figure 1*).

We benchmark manager performance across three distinct categories:

1. *Policy and Resources*
2. *ESG Integration Strategy*
3. *Active Ownership*

We have weighted each category to reflect our views on their relative importance. In the case of active managers, *Policy and Resources* has a 25% weighting, *ESG Integration Strategy* has a 50% weighting and *Active Ownership* has a 25% weighting. For passive managers—where ESG integration is not part of fundamental analysis, but active ownership is key

Figure 1: Sample 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			

to encouraging progress on ESG issues to raise overall market performance—we weight all the categories equally.

Each of the three categories includes a sub-set of indicators, which we have also weighted according to our view of their relative importance. We then score the performance of each manager on a scale from 0% to 100% and create three performance bands: *Race Leaders*, in the *Chasing Pack* and on the *Starting Grid*. The *Performance Snapshot* provides an illustrative “heat-map” which reflects each manager’s performance—green represents higher performance and red represents lower

performance for the indicators in each category. A momentum arrow reflects our perceived progress of each manager’s performance based on past history and future plans.

We also perform a gap analysis of individual manager performance, based on our 25 ESG Indicator Framework³ for evaluating ESG integration (*Figure 2* provides a sample). This assessment is the foundation of the benchmarking in the

³ The 25 ESG indicator framework applies to active managers; for index managers, we have adapted the framework accordingly.

Figure 2: Sample of Individual Manager Assessment—Wespath’s 25 ESG Indicator Framework (active managers)

1. Policy and Resources (25%)	Firm Level						
ESG Policy (20%)	E,S,G + ✓	Materiality ++ ✓	Active Ownership ++	Integration Process +++	Oversight ++ ✓	Refreshed +	PRI Signatory + ✓
Dedicated Resources (5%)	Collaboration and Initiatives +	Use of External Resources + ✓	Dedicated Personnel ++				
2. ESG Integration (50%)	Strategy Level						
ESG Strategy (50%)	E,S,G + ✓	Materiality ++ ✓	Risk and Opportunities ++	Influences Decision Making +++	Systematic/ Process Implementation ++	Knowledge Building ++ ✓	ESG Reporting +++
3. Active Ownership (25%)	Firm and Strategy Level						
Engagement (12.5%)	E,S,G + ✓	Strategic +++	Impact +++	Public Policy +			
Proxy Voting (12.5%)	Own Guidelines +++	E,S,G +	Active Voting +++	Assurance + ✓			
+++		++			+		
Primary indicators		Secondary indicators			Tertiary indicators		

Wespath's Annual *ESG Appraisal* (continued)

Performance Snapshot. Each manager receives an *Individual Manager Assessment* noting strengths and areas for improvement.

The *Individual Manager Assessment* includes a definition of each indicator (detailed in *Appendix 2*), an explanation of how indicators are weighted to determine overall performance and color-coding which reflects the relative importance to Wespath (primary, secondary and tertiary). Checkmarks on the manager assessment indicate that the manager meets Wespath's expectations for a specific indicator.

INSIGHTS—ASSESSING PERFORMANCE

Seek to understand the processes that support ESG integration

Wespath had 19 external public equity managers as of February 2017, each with unique investment strategies and approaches to ESG integration. We developed our 25 ESG indicator framework to understand and evaluate how successfully each manager integrates ESG factors into its investment philosophy and decision-making. For the purpose of the *Performance Snapshot* and *Individual Manager Assessment*, we focus more on process and less on outcomes. We believe this is the only way we are able to compare managers in a systematic way.

For instance, we believe that proxy voting is an important element of ESG integration, which can inform a manager's view on individual companies.⁴ We seek to evaluate the extent to which managers have tailored proxy voting guidelines, how they cast their votes and how they ensure quality control. These factors are more important in determining our benchmarking and overall assessment than how managers vote on specific issues.

“Wespath's external managers range from the world's largest managers to small boutique firms. Our *ESG Appraisal* aims to recognize that boutique managers can effectively integrate ESG issues.”

While we acknowledge that there are limitations to our approach, we try to address these nuances through other avenues. For example, if a manager receives a *perfect score* for proxy voting, yet we disagree with a specific vote cast, we prefer to contact the manager directly to understand the rationale for the specific voting decision.

Focus on how ESG is integrated into specific strategies/mandates

ESG integration exists at both the firm/organizational level and in decision-making as it applies to a specific strategy/mandate. Our expectation is for managers to demonstrate nuanced integration at the firm level and in specific strategies. However, from our experience, larger managers tend to struggle with filtering down their organizational ESG policies to multiple, specific investment strategies across different countries of operation. In order to gain better insights into this dynamic we:

- Create separate questions directed at both firm and strategy ESG integration in the *ESG Reporting Questionnaire*.
- Emphasize the importance of ESG integration in specific strategies by assigning a 50% weight (of overall scoring) to these indicators to in the *Individual Manager Assessment*.⁵
- Prioritize indicators that evaluate how systematically and effectively managers incorporate ESG issues into decision-making. We believe this provides the greatest insight into how embedded ESG issues are in the investment process.

⁴ Wespath retains its voting rights but we expect our managers to conduct their proxy voting in a thoughtful and nuanced way as a means of creating long-term value.

⁵ Applies to active managers only.

Avoid size bias

Wespath's external managers range from the world's largest managers to small boutique firms. Our *ESG Appraisal* aims to recognize that boutique managers, despite having fewer resources, can effectively integrate ESG issues. In order to correct for any size bias we:

- Underweight the importance of indicators solely contingent on resources.
- Broaden the concept of "dedicated ESG personnel" to reflect likely distinctions between capacity at larger managers compared to smaller managers.

Adjust for index strategies

As a significant portion of Wespath's assets are allocated to portfolios that track indexes (passive strategies), we have adapted our 25 ESG indicator framework (initially designed for active strategies), to more appropriately evaluate index managers. Adjustments include:

- Eliminating indicators specific to fundamental analysis—most of the indicators in the *ESG Integration Strategy* category are not included in our evaluation of passive managers, with the exception of *Knowledge Building* and *ESG Reporting*.
- Adding specific indicators that evaluate whether active ownership occurs across multiple strategies—index managers sometimes limit their ESG engagement, or their support of environmental and social-related shareholder resolutions, to their Socially Responsible Investment (SRI) funds, rather than applying the same approach across all strategies/mandates.
- Overweighting active ownership to reflect its increased importance in passive strategies—as "universal owners," index managers have a unique incentive to encourage progress on ESG issues in order to raise overall market performance. Proxy voting and company engagement are important elements in driving this progress.

III. USING THE ESG APPRAISAL

Wespath developed the *ESG Appraisal* with the objectives of:

- Understanding and evaluating managers' ESG integration approach and performance, encouraging continuous progress of managers' ESG strategies to strengthen long-term value creation, and
- Collaborating with peer asset owners in sending a coordinated message to asset managers about the importance of ESG integration across the investment industry.

To date, we have used the *ESG Appraisal* to:

- **Enhance our evaluation of manager performance**—every two years we formally evaluate every external manager to inform decisions regarding manager retention and allocation rebalancing. The results of our annual *ESG Appraisal* and our reflections on each manager's progress are a key component of this evaluation, alongside six other major factors: Investment Philosophy, Investment Process, Organizational Structure and Staffing, Trading Costs, Client Service, Performance and Portfolio Characteristics.
- **Provide tailored feedback to managers**—we share the *Performance Snapshot* and *Individual Manager Assessment* with each manager annually. The benchmarking shows managers how they compare with their peers, serving as a proxy to how they are positioned within the investment industry. The *Individual Manager Assessment* reveals specific aspects on which to focus in order to improve overall ESG integration performance. Sharing the *ESG Appraisal* has enabled us to have better conversations with our managers about their strategies and to send a clear message about our expectations.
- **Share ideas with fellow investors**—we are increasingly sharing our *ESG Appraisal* with other asset owners who are also eager to evaluate and monitor their external managers. These discussions help us continuously refine our approach and consider potential next steps for the industry to promote broader ESG integration.

Wespath's Annual *ESG Appraisal* (continued)

INSIGHTS—ANALYZING RESULTS

Communicate the importance of ESG with “one voice”

Evaluating external managers' ESG performance remains a joint goal for Wespath's Investment Management and Sustainable Investment Strategies teams. We believe that this partnership is fundamental to all stages of the *ESG Appraisal* including when communicating feedback to external managers. Demonstrating a united approach between our teams sends a clear message that ESG integration is a priority and is integral to how Wespath makes allocation decisions.

Work in partnership with managers

Wespath's suite of external managers includes small, boutique managers that are relatively new to ESG integration. While the *ESG Appraisal*—in particular the *Individual Manager Assessment*—provides some direction to help managers improve their performance, some have requested additional support. We have been able to partner with them in:

- Directing them to additional sources of information and examples of best practices, including materials provided by the Sustainability Accounting Standards Board (SASB), Principles for Responsible Investment (PRI), International Corporate Governance Network (ICGN), Ceres, Interfaith Center on Corporate Responsibility (ICCR).
- Providing advice and feedback as they develop ESG policies.
- Sharing our experiences about specialist ESG vendors and research providers.
- Encouraging joint corporate engagement.

Use the *ESG Appraisal* to create a comprehensive manager profile

Wespath has long-term relationships (on average over ten years) with our external managers; therefore we believe in evaluating their progress in ESG integration over time. The annual *ESG Appraisal* only captures a manager's performance at a specific point in time. It is just one component of a more comprehensive profile that includes insights obtained through regular meetings with managers.

Be clear about the implications for poor performing managers

The results of the *ESG Appraisal* and managers' progress over time is one of several key indicators that Wespath uses to inform our manager retention and rebalancing allocations. We acknowledge that consistently poor performance on ESG integration alone is unlikely to lead to us terminating a mandate. However, we communicate clearly that it is a key component of our overall scorecard. For example, during 2016, we re-allocated capital from four managers that were consistently underperforming in our overall manager evaluation. Three out of four of the mandates were run by managers on the “starting grid” in our *ESG Appraisal* and with limited evidence of positive momentum.

“Demonstrating a united approach between our teams sends a clear message that ESG integration is a priority and is integral to how Wespath makes allocation decisions.”

Results—Charting Progress

Over the past two years, Wespath has evaluated all of our public equity managers using our *ESG Appraisal*. Many managers have been surprised (both positively and negatively) by their position in the benchmarking analysis and/or by their individual performance evaluations. Initial reflections on our progress include:

- **Improving ESG integration at Wespath**—by developing the *ESG Appraisal* as a joint goal between the Investment Management and Sustainable Investment Strategies teams, we have improved our internal collaboration and ESG integration across our activities.
- **Enhancing manager ESG integration**—managers have welcomed our feedback and a systematic (if qualitative) evaluation of their ESG activities. The *ESG Appraisal* allows us to have better conversations with managers, including supporting several of our smaller/boutique managers in their ESG policy development and integration strategy.
- **Refining our understanding of managers' investment approaches**—the results of the *ESG Appraisal* and our review of manager progress year-over-year has allowed us to create a more comprehensive profile of each manager, informing our ongoing allocation and retention decisions.

Looking Ahead

Wespath believes that asset owners are a driving force for ESG integration across the investment industry. One of the objectives of sharing our *ESG Appraisal* is to encourage greater discussion between asset owners about the best ways to evaluate and monitor external manager progress in incorporating ESG factors into investment decision-making. We propose several topics for ongoing discussions:

- **Sharing approaches**—what are the merits and limitations to Wespath's approach? What alternatives exist and what can we learn from them?
 - **Differentiating between asset classes**—to what extent should *ESG Appraisals* be adapted for different asset classes? Should certain asset classes be prioritized?
 - **Incorporating ESG analytics**—while Wespath's current *ESG Appraisal* evaluates manager policies and processes, should we incorporate additional analytics (i.e., ESG company scores aggregated at the portfolio level)? How could company ESG scores be used to better understand how ESG factors influence a manager's rationale for holding specific stocks?
- “One of the objectives of sharing our *ESG Appraisal* is to encourage greater discussion between asset owners about the best ways to evaluate and monitor external manager progress in incorporating ESG factors into investment decision-making.”
- **Integrating PRI tools**—how should tools like the PRI's *Assessment Reports* be incorporated into *ESG Appraisals*?
 - **Collaborative engagement**—is there a case for asset owners sharing knowledge and views on common managers? If so, how best could groups of asset owners engage collaboratively with asset managers on ESG integration?

AUTHORS

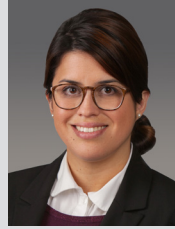


Kirsty Jenkinson

Managing Director, Sustainable Investment Strategies

Having joined Wespath in May 2014, Kirsty leads Wespath's Sustainable Investment Strategies team, ensuring that ESG issues are integrated into Wespath's investment selection

and monitoring process. Previously, Kirsty was director of the Markets and Enterprise Program at the World Resources Institute, a Washington, D.C.-based global research organization. She also spent eight years as a Director of Governance and Sustainable Investment at F&C Asset Management and six years in the Fixed Income division of Goldman Sachs International, London. Kirsty currently sits on the board of the Business and Human Rights Resource Centre. She received an M.A. degree in International History from the University of Edinburgh, Scotland.



Daniela Jaramillo

Daniela worked as a Sustainable Investment Specialist at Wespath from December 2014 through November 2016. She led Wespath's corporate governance activities and was instrumental in the development of the external manager ESG Appraisal detailed

in this report. She left Wespath in 2016 to relocate to Australia and is currently employed at HESTA (Health Employees Superannuation Trust Australia) as an Investment Analyst—ESG.

Contacts

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This report expands on a case study included in the Sustainability Accounting Standards Board (SASB) inaugural "ESG Integration Insights." Our thanks to Katie Schmitz Eulitt, Strategic Advisor Stakeholder Outreach, for her review and feedback.



Appendix 1

ESG Integration Reporting Questionnaire

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?

Section 3: Engagement¹

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

- 3.1 Did you engage corporate executives and/or public policy makers on ESG issues last year? If so, provide at least one example, including the concern, the request and the outcome.
- 3.2 Did you participate in any collaborative engagements with other investors or through any of the initiatives listed in response to question 1.4 last year? If so, provide at least one example of a company/organization, the concern, the request and the outcome.

Section 4: Proxy Voting

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

- 4.1 Please attach any proxy voting guidelines that guide your voting activity or explain why they are unavailable.
- 4.2 Explain how your proxy voting guidelines reflect your positions on environmental and social issues, particularly relating to shareholder resolutions? If they do not, please provide your rationale?
- 4.3 How do you implement your voting guidelines and ensure that votes are executed as intended?

If you need support filling out the *ESG Reporting Questionnaire* please do not hesitate to contact Nick Abel, Sustainable Investment Specialist, nabel@wespath.org

¹ Communication between investors and companies (board/management) and regulatory institutions, regarding ESG matters.

ESG Appraisal: Public Equity Guidance Document

As a founding signatory to the Principles for Responsible Investment (PRI) and with a strong commitment to sustainable investment, Wespeth Investment Management is dedicated to incorporating the consideration of environmental, social and governance (ESG) issues into our investment analysis and decision-making processes. We evaluate how our external managers integrate ESG issues as part of our ongoing performance assessment and as one of our core sustainable investment strategies.

The three key objectives of our *ESG Appraisal* are:

- Understand individual manager approaches, taking into account specific mandate requirements;
- Provide our external managers with clear feedback about our expectations regarding ESG integration to encourage continuous performance improvement;
- Promote ESG integration across the asset management industry by sharing knowledge with U.S. and international asset owner peers.

Advice for completing the reporting questionnaire:

1. Consider Wespeth priorities

When evaluating ESG integration, Wespeth expects external managers to:

- Identify ESG issues as key components in value creation;
- Incorporate material ESG issues into investment decision-making;

- Evaluate the risks and opportunities of the transition to a low carbon economy when making investment decisions;
- Engage strategically with companies on material ESG issues.

2. Explain how ESG issues affect your investment process (even if there is not a formal ESG structure)

While we value formal structures devoted to ESG integration, we are not prescriptive about a specific approach that all managers should follow. Our focus is on understanding how investment decisions account for significant shifts in the world economy linked to ESG issues (e.g., climate change, resource scarcity, population growth, urbanization etc.).

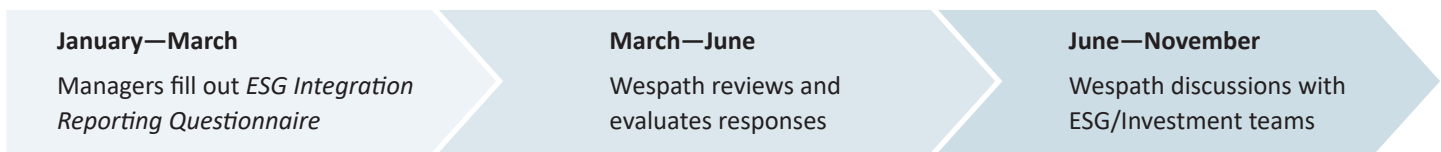
3. Provide relevant examples

We are particularly interested in specific examples detailing how material ESG issues have influenced investment decision making. We encourage respondents to use as many examples as possible to illustrate answers. Include details about how your investment decision-making process works and the rationale that supports final decisions.

4. Focus on material issues

We firmly believe that ESG integration enhances long-term performance. While multiple ESG issues affect different sectors and regions, some are obviously more material than others. By way of reference, Wespeth believes that the “SASB Materiality Map”, developed by the Sustainability Accounting Standards Board, provides a comprehensive analysis of the most material ESG issues by industry.

ESG Appraisal Annual Timeline



Appendix 2

Active Manager: Individual Manager Assessment

Wespath's 25 ESG Indicator Framework

+++	++	+
Primary indicators	Secondary indicators	Tertiary indicators

1. Policy and Resources (25%)	Firm Level						
ESG Policy (20%)	E,S,G + Includes a position on all three environment, social and governance issues	Materiality ++ Clarifies ESG analysis is based on financial materiality (i.e., sector, geographic location, company size, holding period of security)	Active Ownership ++ Describes the manager's approach to engagement and proxy voting	Integration Process +++ Explains details of the ESG integration strategy across its portfolios	Oversight ++ Signed-off at the Board, CEO, CIO or compliance level	Refreshed + Reviewed and updated constantly as-needed	PRI Signatory + Signatory to the PRI
Dedicated Resources (5%)	Collaboration and Initiatives + Collaborates and/or is affiliated with relevant partners (i.e., CII, ICGN, CERES, etc.)	Use of External Resources + Uses ESG data or research from ESG providers and sell-side	Dedicated Personnel ++ Has dedicated personnel for ESG strategy and activities that works closely with the investments team				
2. ESG Integration (50%)	Strategy Level						
ESG Strategy (50%)	E,S,G + Incorporates all three environment, social and governance issues	Materiality ++ ESG analysis is based on financial materiality (i.e., sector, geographic location, company size, holding period of security)	Risk and Opportunities ++ Considers ESG issues from both, a risk and an opportunities perspective	Influences Decision-Making +++ Includes a clear protocol for when ESG issues trigger a buy/sell, overweight/underweight decision-making	Systematic/Process Implementation ++ ESG analysis is systematically integrated into each security's financial analysis (not ad-hoc to only certain situations)	Knowledge Building ++ Formal structures exist to further develop and/or share ESG knowledge beyond the ESG team (i.e., training, development of proprietary research, etc.)	ESG Reporting +++ ESG activities are measured and reported on a systematic basis and shared with clients
3. Active Ownership (25%)	Firm and Strategy Level						
Engagement (12.5%)	E,S,G + Covers all three environment, social and governance issues	Strategic +++ Targets and topics are chosen strategically considering materiality and overall risk/opportunities at portfolio level	Impact +++ Positively impacts company's performance by increasing disclosure or improving practices	Public Policy + Addresses public policy in cases where ESG issues impact a whole segment/sector of the market			
Proxy Voting (12.5%)	Own Guidelines +++ Publishes its position regarding specific proxy voting issues	E,S,G + Guidelines include a position on all three environment, social and governance issues	Active Voting +++ Issues are voted individually and manually or through a customized policy reflecting manager's guidelines (i.e., not only in line with ISS or Glass Lewis)	Assurance + Accountable for voting activity (i.e., publishes votes, issues annual report/audit of voting)			



Wespath

BENEFITS | INVESTMENTS

Caring For Those Who Serve

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