

External Manager ESG Integration Appraisal

As a founding signatory to the Principles for Responsible Investment (PRI) and with a strong commitment to sustainable investment, Wespath Investment Management is dedicated to incorporating 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.

We actively encourage our external managers (and any prospective managers) to integrate material ESG factors into investment decisions to support sustainable, long-term performance. In 2015, we carried out a Pilot “ESG Integration Appraisal” (Appendix 1). For 2016, we have refined the questions in the attached Feedback Form as we are committed to improving this annual evaluation process. We hope to achieve three key objectives:

- 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.

ESG Integration Appraisal Reporting Form (2015/2016)

*Please consider activities during calendar year 2015 and fill out the information for **Firm level** or Wespath’s specific **Investment Strategy level** as requested in each section.*

Section 1: Policy and Internal Resources

(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 not, how do you ensure that ESG analysis is a part of generalists’ roles?
- 1.3. Is your firm a signatory to the UN Principles for Responsible Investment (PRI)? If so, please provide a link to your 2015 PRI Assessment Report. 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 for 2016? Provide details about your objectives and strategy for addressing them.

Section 2: ESG Integration

(Investment Strategy level)

- 2.1 How do you integrate ESG factors into your investment philosophy?

- 2.2 Provide a **detailed** description of how you integrate ESG into the financial analysis and investment decision-making process, (include details for buy/sell decisions, portfolio monitoring, and company meetings). Illustrate this process with examples.
- 2.3 How are material ESG factors identified, prioritized and addressed across industries and regions?
- 2.4 How do staff (Analysts, Portfolio Managers, ESG analysts, etc.) stay informed and build knowledge on ESG issues?
- 2.5 What resources (internal and external) are used for ESG research and analysis?
- 2.6 Describe how you are evaluating the impacts of climate change across your investments and your strategy for responding to the transition to a lower-carbon economy.

Section 3: Engagement¹

(Firm and Investment Strategy level)

- 3.1 Did you engage corporate executives on ESG issues in 2015? If so, provide at least one example, including the concern, the request and the outcome.
- 3.2 Did you engage public policy makers regarding ESG issues in 2015? If so, provide at least one example, including the concern, the request and the outcome.
- 3.3 Did you participate in any collaborative engagements with other investors or through any of the initiatives listed in response to question 1.4 in 2015? If so, provide at least one example of a company/organization, the concern, the request and the outcome.

Section 4: Proxy Voting

(Firm level)

- 4.1 Do you have internally developed proxy-voting guidelines? If so, please attach relevant documents or links.
- 4.2 Do your proxy-voting guidelines reflect your positions on environmental and social issues? If not, why not?
- 4.3 How do you implement your guidelines and ensure votes are executed as intended?

Advice for completing the ESG Integration Appraisal reporting form:

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 a lower carbon economy when making investment decisions;
- Engage strategically with companies on specific ESG issues.

2. Explain how ESG issues affect your investment process (even if you do not have 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.) Wespeth believes that successful ESG integration focuses on identifying material environmental, social and governance issues and incorporating them into investment decision making.

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.

¹ Direct communication between investors and companies (board/management) and regulatory institutions, regarding Environmental, Social and Governance matters.

4. Focus on material issues

We firmly believe that ESG integration enhances performance. While multiple ESG issues affect different sectors and regions, some are obviously more material than others. By way of reference, Wespath 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.

<http://materiality.sasb.org/>

5. Emphasize responses to Section 2

Last year’s Pilot “ESG Integration Appraisal” included a methodology section (Appendix 3) which explains how we weighted the response to each question. For 2016, we anticipate tweaking some of the weightings and emphasizing Section 2 (ESG integration).

Xxxx Investment Management

Peer Benchmarking ESG Integration

	A	B	C	D	E	F	Xxxx	H	I	J	K	L	M	N	O	P	Q	R	S	T
Size of Manager	Small	Med	Large	Large	Large	Large	Med	Med	Large	Large	Med	Large	Small	Large	Large	Small	Small	Med	Small	Small
Policy and Internal Resources																				
ESG Policy							√													
Policy Oversight							√													
Dedicated Resources							x													
PRI Signatory							x													
Collaborations/Initiatives							x													
ESG Integration																				
E & S							√													
G							√													
Integration Process							√													
Risk Analysis							√													
Opportunity Analysis							x													
External Resources/Research							√													
ESG Integration Reporting							√													
Company Engagement																				
E & S							√													
G							√													
Results/Impacts							x													
Proxy Voting																				
Corp Governance Guidelines							√													
Guidelines include E&S							√													
Active Voting							√													
	"Race Leaders"						"Chasing Pack"					"On the starting grid"								

Indicators

"Race Leaders":
Organizations in this group actively integrate ESG issues into investment decision making. They also seek to improve company performance through engagement on the most material ESG issues.

Indicators	
Yes	No
√	x

Wespath Priorities

- Identifies ESG issues as key components in value creation.
- Incorporates material ESG issues in the investment decision making process
- Evaluates the risks and opportunities of a lower carbon economy when making investment decisions.
- Engages strategically with companies to ensure oversight of Governance, as well as Environmental and Social issues.

Observations for further discussion:

- We are aware that Xxx holds several tech stocks, this sector has been characterized for having poor corporate governance practices such as dual class structures, golden hellos, and pay that is not aligned with performance. Considering that Xxx holds stocks for a long period of time, we would be interested in learning what steps are you taking in order to ensure management and shareholder interests aligned.
- We believe that ESG issues can present opportunities as well as risks to companies. Which specific companies in your portfolio could benefit in a lower carbon economy and how are you engaging with them in order to ensure they take full advantage of these opportunities.

Appendix 2

Glossary: Wespath's ESG Integration Indicators (2014/2015)

<i>Policy and Resources</i>	
ESG policy	A policy that defines the Asset Manager's approach to integrating ESG risks and value creation opportunities into investments.
Policy oversight	The ESG policy has been approved and signed off by the Asset Manager's board or by a member of senior management.
Dedicated resources	Resources devoted exclusively for ESG research, analysis and/or integration (i.e. An analyst or team).
PRI signatory	The Asset Manager is a signatory to the Principles for Responsible Investment (PRI)
Collaboration/initiatives	The Asset Manager has participated in ESG initiatives/engagements with peers, or members of the broader ESG industry (e.g. CERES, ICGN, CII, and IIGCC etc.)
<i>ESG Integration</i>	
E&S	Integration focused on Environmental and Social issues.
G	Integration focused on Governance issues.
Integration process	The Asset Manager has developed a process for systematically integrating ESG issues into investment decision-making.
Risk analysis	The Asset Manager integrates ESG risks into its investment process (e.g. environmental costs, carbon asset risk, brand and reputation losses).
Opportunities analysis	The Asset Manager integrates potential opportunities relating to ESG issues into its investment process (e.g. products and services for a lower carbon economy).
External Resources/Research	The Asset Manager uses specialized ESG research in its analysis (e.g. MSCI, Sustainalytics, Bloomberg ESG data, etc.)
Reporting of ESG integration	The Asset Manager reports on its ESG integration efforts and their links to overall investment strategy.
<i>Company Engagement</i>	
E&S	The Asset Manager engages with company management/board on Environmental and Social issues.
G	The Asset Manager engages with company management/board on Governance issues.
Results	The Asset Manager records the results of company engagement.
<i>Proxy Voting</i>	
Corporate governance guidelines	The Asset Manager has developed its own Corporate Governance/Proxy Voting Guidelines.
Guidelines include E&S	The corporate governance/proxy voting guidelines incorporate the Asset Manager's position on voting-related Environmental and Social issues.
Active Voting	The Asset Manager actively votes its proxies or a third party votes on behalf of the Asset Manager based on customized Corporate governance/proxy voting guidelines.

Appendix 3

Methodology FAQs (2014/2015)

1. *Is Wespath conducting ESG Integration Appraisals for all managers in its portfolio?*

The 2014/2015 pilot appraisal focuses on our Equities Asset Managers. We will be extending the appraisal to managers in other asset classes in subsequent years.

2. *What information has Wespath based the ESG Integration Appraisal on?*

The ESG Integration Appraisal 2014/2015 is based on Asset Manager responses to Wespath’s Annual Reporting questionnaire 2014. Going forward we hope Managers will share as much information as possible on ESG integration activities, including annual PRI assessment reports.

3. *How is each ESG integration indicator scored?*

For this pilot appraisal, each indicator has been scored with a simple “Yes” or “No” response to the specific criteria. Every “Yes” response earns one point. For example, if an Asset Manager has an ESG Policy, it receives one point. We have not assessed the quality or completeness of the policy.

4. *How are the ESG integration indicators weighted?*

The indicators are weighted (as shown below) to best reflect Wespath’s determination of the most important factors affecting successful ESG integration. When an Asset Manager earns a point, it is multiplied by the weighting for the respective indicator.

Weighting of Indicators		
Policy and Internal Resources		
ESG Policy		2x
Policy Oversight		2x
Dedicated Resources		2x
PRI Signatory		1x
Collaborations/Initiatives		1x
ESG Integration		
E & S		1x
G		1x
Integration Process		2x
Risk Analysis		1x
Opportunity Analysis		2x
External Resources/Research		1x
ESG Integration Reporting		2x
Company Engagement		
E & S		2x
G		1x
Results		2x
Proxy Voting		
Corp Governance Guidelines		1x
Guidelines include E&S		1x
Active Voting		1x

5. *Have all Asset Managers been evaluated with the same parameters?*

No, we recognize that our Asset Managers are diverse, in terms of both their size and their approach. We appreciate that larger Asset Managers are likely to have more resources related to ESG integration than smaller Asset Managers. As such, we have adjusted the appraisal for relative size so that smaller firms are not at a disadvantage.

6. *What do the categories “Race Leaders”, “Chasing Pack” and “On the Starting Grid” represent?*

“Race Leaders”

Organizations in this group actively integrate ESG issues into investment decision making. They also seek to improve company performance through engagement on the most material ESG issues.

“Chasing Pack”

Organizations in this group recognize the value of integrating ESG issues and are in the process of incorporating them into investment decision making.

“On the starting grid” Organizations in this group have yet to establish specific policies or processes to integrate ESG issues into investment decision making.

7. *What will Wespath do with the information from the ESG Integration Appraisals?*

The ESG Integration Appraisal is an important component of Wespath’s investment management evaluation. The results are shared with the Investments team, including our CIO. We expect to see year-on-year progress in Asset Manager’s performance.

8. *Why is there an “Observations for further discussion” section?*

This section includes topics that we would like to discuss further to understand each Asset Manager’s unique approach to ESG integration.

9. *What happens next?*

We hope that the pilot ESG Integration Appraisal deepens our relationships with our Asset Managers and builds our understanding of their ESG capabilities.

Please share any feedback on the evaluation process so that we can improve our Annual Reporting Questionnaire and the ESG Integration Appraisal for future years. We anticipate sending out our 2015/2016 Questionnaire in January 2016 and compiling evaluations in March 2016.