



**Wespath**

BENEFITS | INVESTMENTS

IEN Learning Café

# The Future of Investor Engagement How to Engage on Systemic Risks



# Introduction

# About Us



**Ryan McQueeney**

Analyst, Sustainable Investment Stewardship  
7 years of investment experience  
Joined Wespath in 2019

Ryan supports the investment stewardship and engagement activities of Wespath and its subsidiaries, including pursuing opportunities that align with sustainable business practices and long-term investor value. Prior to this role, Ryan was a content manager, investments, responsible for spearheading communications and marketing efforts primarily focused on Wespath's sustainable investment initiatives.



**Karen Manczko**

Director, Institutional Relationships  
17 years of investment experience  
Joined Wespath in 2013

Karen is responsible for developing and managing relationships with institutional clients. Specifically, she helps guide clients with asset allocation analysis, investment policy statement development and in incorporating sustainable investing guidelines into an overall investment program.



**Evan Witkowski**

Manager, Institutional Relationships  
16 years of investment and business experience  
Joined Wespath in 2020

Evan is primarily responsible for developing and managing relationships with institutional clients along with overseeing development and execution of products and services that enhance the institutional investor client experience.

# Who Is Wespath?

**Wespath**

An agency of  
The United Methodist Church



Founded in 1908



One of the largest reporting  
faith-based pension funds



Sustainable  
investment leader



Over \$24 billion in assets  
under management\*

\*Assets under management of  
Wespath and its subsidiaries, as  
of December 31, 2022.



Question Break!

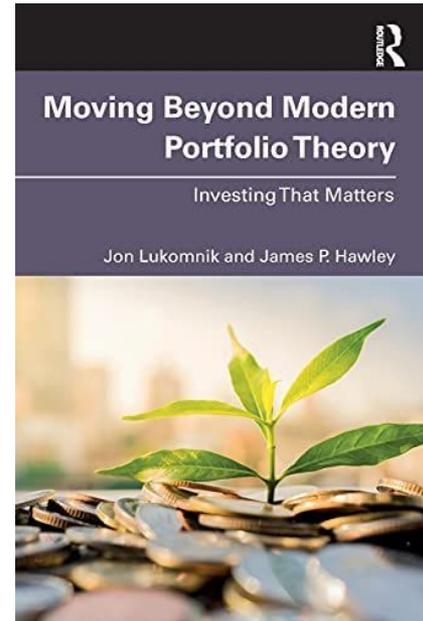
# Defining Key Terms

- **Stewardship:** Encompassing commonly used terms such as **corporate engagement** and **proxy voting**, as well as other levers of investor influence
- **Systemic Risk:** A type of investment risk that **can't be "diversified away"**, i.e., climate change or income inequality
- **Market Beta:** A measure of total market risk / volatility that affects the entire market
- **Net-Zero Asset Owner Alliance:** UN-convened coalition featuring **70+ asset owners from around the world and over \$10 trillion in AUM**



# Systematic Risks, Beta & Systemic Risks

- “Determinants of Portfolio Performance” (July 1986), Brinson/Good/Beebower: Researchers showed that the selection of asset classes – the choice of how much exposure to stocks, bonds, cash, etc. – explained nearly 94% of the variability in returns for the pension funds that they studied.
- “The Importance of Asset Allocation” (March 2010), Ibbotson: Argues that overall market movement is a better explainer of time-series variability of returns.
- **Either way: Long-term investors are much more affected by systematic market forces and beta than idiosyncratic risks**



# Why This Is Relevant for Endowment Investors

- Endowments, like other asset owners, seek to invest over long-term horizons and face similar systemic risks from climate change
- Universities are facing increasing stakeholder pressure to confront climate change through their investment assets



# Foundational Perspectives

- Examples and experiences mostly come from public equity asset class stewardship, although principles are relevant to systematic stewardship across various asset classes
- Observations made in the paper are primarily from developed markets, and we therefore welcome further research and dialogue related to Emerging and Developing Economies (EMDEs)
- **We are seeking to add *more breadth* and *more depth* to the engagement community**

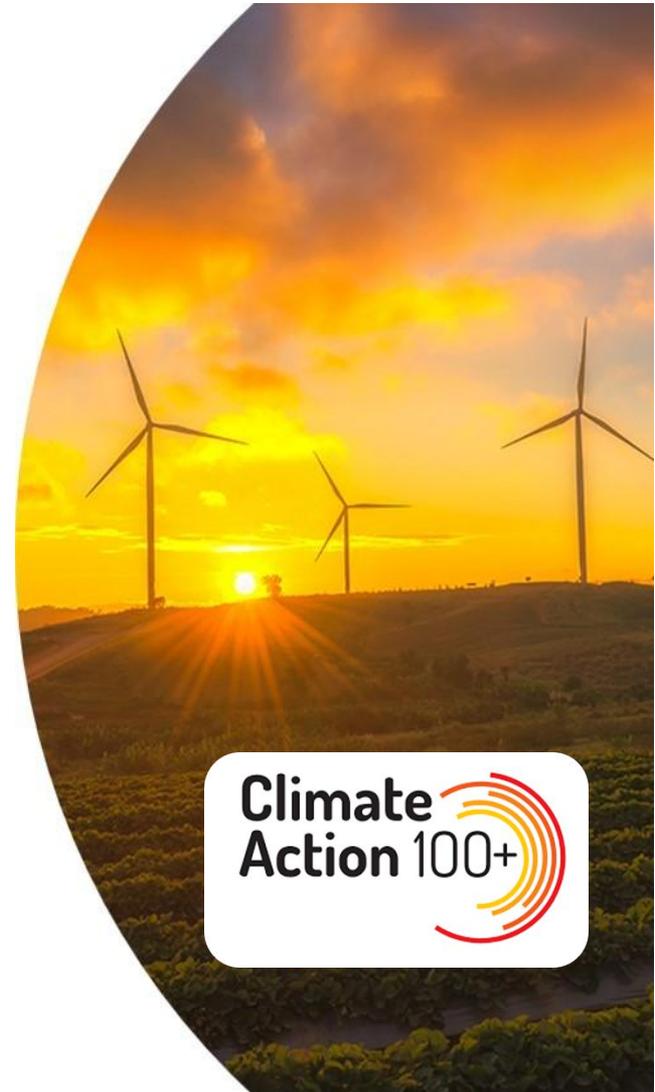


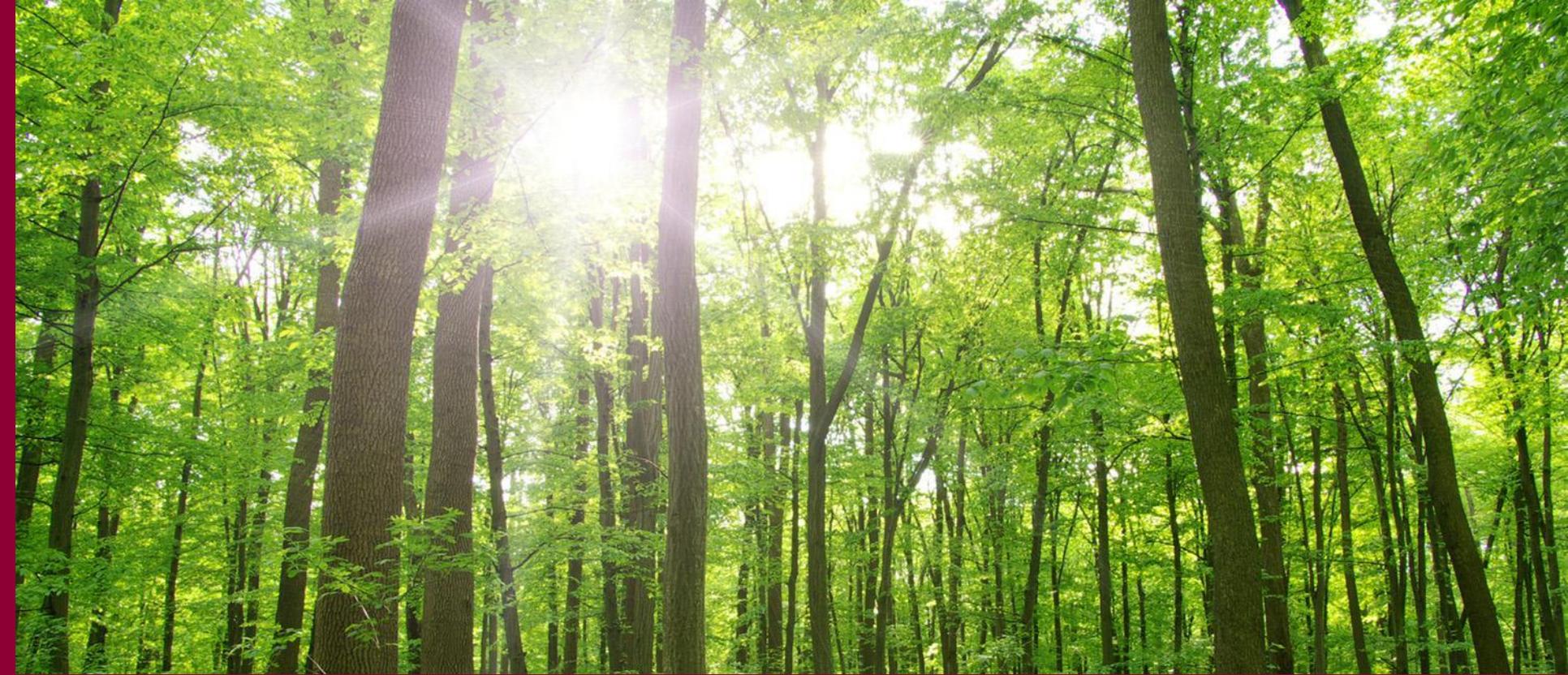
# The Engagement Landscape

## Today

Most common form of engagement = corporate engagement with publicly listed companies

- Corporate engagement is an effective and important tool for stewardship, having helped drive much of the corporate climate action to-date
- The most prominent collaborative corporate climate engagement group is **Climate Action 100+ (CA 100+)**
  - Includes over 600 cooperating investors representing \$65 trillion





Question Break!

# The Limits of Corporate Engagement



# Limits of Corporate Engagement



## Limit 1:

Significant resources needed for effective engagement

## Limit 2:

A narrow, single company focus

## Limit 3:

Inefficiencies of focusing on voluntary, company-by-company, disclosure

## Limit 4:

An uneven investor focus across companies and asset classes

## Limit 5:

Boundaries set by the “rules of the game”



# Expanding Investor Engagement

# Sector and Value Chain Engagement

- In this form of engagement, investors bring together multiple stakeholders—including peer companies, suppliers, regulators and customers



# How Does Sector/Value Chain Engagement Improve Outcomes?

- Addresses engagement's scalability issues by facilitating collaborative outreach and action from investors
- Helps end circular nature of engagement bringing stakeholders together to address information asymmetries and explore innovative ways to address collective hurdles
- Identifies the structural economic hurdles which result in gap between company ambition and real-world implementation
- **Example: Investor Mining and Tailings Safety Initiative** – investor group engaged over 700 extractive companies, resulting in a new globally recognized tailings safety standard



# Policy Engagement

- Three primary ways by which investors can influence the policy arena:
  - **Approach 1:** Request and inform mandatory corporate disclosure requirements
  - **Approach 2:** Engage portfolio companies on their lobbying practices and industry associations
  - **Approach 3:** Support industrial policy that effectively addresses climate change



# Examples

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- [Comment Letter to the SEC on "Enhancement and Standardization of Climate-Related Disclosures for Investors"](#)
- [Comment Letter on the Methane Regulations Administered by the Environmental Protection Agency \(EPA\)](#)
- <https://www.wespath.com/sustainable-investme nt/public-policy-and-position-statements>





Question Break!

# Asset Manager Engagement

- **One of the most important and impactful engagement opportunities we have is engaging our asset manager partners to support greater climate action, in line with our best interests**
  - The benefit for most asset owners, particularly resource mindful endowments, is greater systemic impact at oftentimes less resource intensity
  - Engagement topics can include asset managers' climate engagement approach, proxy voting activities, public discourse and lobbying, portfolio planning and products, net zero target setting



# Example

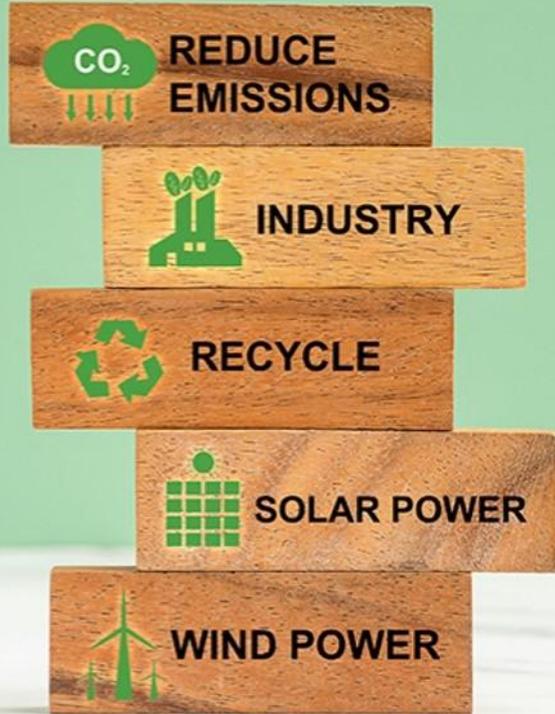
## Annual Asset Manager Appraisal—Equity 2022

2021/2022 Benchmark Ranked Categories	Number in Annual Questionnaire	Maximum Points Possible	Asset Manager A	Asset Manager B	Asset Manager C	Asset Manager D	Asset Manager E	Asset Manager F	Asset Manager G	Asset Manager H	Asset Manager I	Asset Manager J	Asset Manager K	Asset Manager L	Asset Manager M	Asset Manager N	Asset Manager O
ESG Integration Philosophy and Process (50%)	Question 13	50	45.00	44.34	40.63	40.00	40.63	38.13	39.38	41.88	39.38	38.13	26.88	33.75	25.00	13.33	10.00
Describe ESG Integration	a)	20	20.00	20.00	20.00	15.00	20.00	15.00	15.00	20.00	15.00	20.00	15.00	15.00	10.00	5.00	10.00
Provide examples	b)	10	10.00	7.50	7.50	10.00	7.50	10.00	10.00	5.00	10.00	10.00	2.50	5.00	5.00	5.00	0.00
Governance mechanisms	c)	7.5	5.63	7.50	5.63	5.63	3.75	3.75	5.63	7.50	5.63	1.88	3.75	5.63	1.88	0.00	0.00
Who is responsible?	d)	7.5	5.63	5.63	3.75	5.63	3.75	5.63	5.63	7.50	5.63	3.75	1.88	5.63	5.63	1.88	0.00
Resources or partnerships	e)	5	3.75	3.75	3.75	3.75	3.75	3.75	5.00	3.75	2.25	2.50	3.75	2.50	1.25	0.00	0.00
Active Ownership and Systemic Stewardship (25%)	Question 34	25	24.06	17.88	18.63	19.50	16.69	16.19	17.56	16.19	15.00	13.94	13.56	7.75	10.63	9.94	2.63
Provide proxy guidelines	a) i	1.5	1.50	1.50	1.50	1.50	0.38	0.75	1.50	1.50	0.75	1.13	1.13	0.38	1.13	0.38	0.75
Voting record disclosure	a) ii	1	1.00	0.25	1.00	0.75	0.00	1.00	0.50	1.00	0.75	0.25	0.75	0.25	0.50	0.00	0.00
ESG influence of voting	a) iii	3	3.00	1.50	2.25	3.00	1.50	1.50	1.50	1.50	1.50	1.50	1.50	0.75	0.75	0.75	0.75
Proxy voting responsibility	a) iv	1.5	1.50	1.13	1.13	0.75	1.13	1.13	1.50	1.50	1.13	1.13	1.13	0.75	1.13	0.75	0.38
Merit-based approach	a) v	3	3.00	2.25	1.50	2.25	1.50	1.50	2.25	2.25	1.50	1.50	1.50	0.00	1.50	1.50	0.75
Engagement on systemic	b) i	3.75	3.75	3.75	3.75	2.81	3.75	1.88	3.75	2.81	3.75	2.81	0.94	1.88	1.88	0.94	0.00
Example - engagement success	b) ii	3.75	3.75	3.75	2.81	2.81	2.81	2.81	2.81	0.00	1.88	2.81	2.81	1.88	0.94	2.81	0.00
Who's involved in engagement?	b) iii	3.75	2.81	1.88	2.81	3.75	2.81	3.75	2.81	3.75	2.81	1.88	1.88	1.88	2.81	2.81	0.00
Future of Investor Engagement alignment	b) iv	3.75	3.75	1.88	1.88	1.88	2.81	1.88	0.94	1.88	0.94	0.94	0.94	0.00	0.00	0.00	0.00
Strategy/Materiality (25%)	Question 22-25	25	20.63	16.50	19.31	16.81	17.44	19.63	16.88	15.63	12.38	9.94	11.31	6.63	10.00	6.69	3.81
Alignment with decarbonization	22 a)	3.75	2.81	2.81	2.81	2.81	2.81	2.81	3.75	2.81	2.81	3.75	0.94	1.88	0.94	0.00	1.88
Assessing climate risk	22 b)	3.75	3.75	2.81	2.81	2.81	3.75	2.81	3.75	2.81	2.81	2.81	1.88	0.94	0.94	0.94	0.00
Evaluate diversity info/engage	23 a)	3.75	3.75	3.75	3.75	2.81	3.75	2.81	2.81	1.88	0.00	0.94	3.75	0.94	0.94	0.00	0.00
Evaluate HCM data	23 b)	3.75	2.81	1.88	3.75	2.81	2.81	3.75	0.94	1.88	1.88	0.00	2.81	0.94	2.81	1.88	0.00
Alignment with UNGP's	24 a)	5.25	3.94	3.31	2.63	2.63	3.31	3.94	2.63	2.63	2.63	3.31	1.31	1.31	2.63	2.63	1.31
Example - human rights engagement	24 b)	2.25	1.69	1.13	1.69	1.69	1.13	2.25	1.13	1.13	2.25	1.13	0.00	0.00	0.56	0.00	0.00
SDG alignment	25	2.5	1.68	1.88	1.88	1.25	1.88	1.25	1.88	2.50	0.00	0.00	0.63	0.63	1.25	1.25	0.63
Overall Score		100	89.69	78.75	78.56	79.31	74.75	73.94	73.81	71.69	66.75	62.00	56.75	48.13	45.69	29.75	16.44
2022 Rank			1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Ranking Group			"Race Leaders"			"Chasing Pack"					"On the starting grid"						

How we do it: <https://www.wespath.com/assets/1/7/5020.pdf>



Question Break!



**More Examples  
and Tips from  
Wespath and  
Peers!**

# Our Investment Policy

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## **Section IV: Sustainable Investment Strategies (SIS) Program**

**B: Active Ownership:** (Wespath) shall pursue strategies to actively influence company performance and public policy relating to material ESG issues and manage excessive sustainability risk for all investments held in separately managed accounts and co-mingled passive investment funds ...

**E: Public Policy Engagement:** shall focus on how macro-level ESG issues relate to the structure, function and governance of markets as a whole and how they can undermine investors' long-term financial interests. Engagement may include supporting regulatory interventions if, in the judgment of (Wespath), such action shall improve the sustainability of its investment funds.

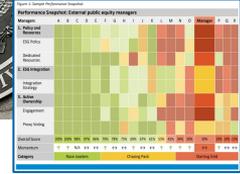


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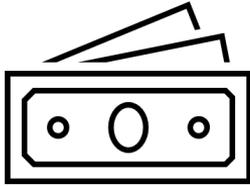
Encourage “little things” and make them personal



Learn from peers



Asset manager and policy engagements: just get started!



Incentivize contributions at the organizational level



Partner with other like-minded investors

UM Agencies Commit to Net-Zero Emissions by 2050



Partner with peers in broader societal communities



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