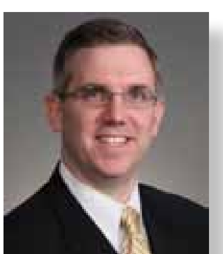
ICCR MEMBER PROFILES

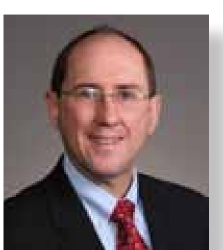
Wespath Investment Management

In each issue of the Corporate Examiner, we profile an ICCR member organization and their work in corporate social responsibility. Below, we spoke with Vidette Bullock Mixon, Anita Green, Michael Lohmeier, and Dave Zellner.


Vidette Bullock Mixon, Director, Corporate Relations


Anita Green, Manager, Socially Responsible Investing


Michael Lohmeier, Director, Positive Social Purpose Lending Program


Dave Zellner, Chief Investment Officer

The General Board of Pension and Health Benefits rebranded its investments division in 2011 under the name Wespath Investment Management—a deliberate evocation of John Wesley, the founder of Methodism and a pioneer in identifying socially responsible business practices. His sermon, "The Use of Money" remains as relevant today as it was when it was first delivered in the mid 1700s. Can you talk about the genesis of socially responsible investing in the United Methodist Church and how the practice has evolved to meet the needs of your constituents and the ESG issues we are confronting in today's world?

VIDETTE BULLOCK MIXON: John Wesley, Methodism's founder, believed and expected that "the people called Methodists" would be actively involved in their communities—feeding the hungry, tending to the sick, visiting prisons and helping the poor.

During the 105-year history of the General Board, our organization has maintained the belief that financial investments have ethical dimensions. We are committed to upholding the traditions of The United Methodist Church and seek to influence corporate policies and practices on ESG issues consistent with Church values as contained in the UMC Social Principles, which give voice to the hope that all of humanity may live in a world where rights are respected, freedoms are protected and creation is preserved.

The first major focus of shareholder advocacy undertaken by Wespath was human rights in South Africa. Letters were written, shareholder resolutions filed and dialogues held with companies doing business in South Africa requesting that corporate management endorse a set of human rights principles known as the Sullivan Principles (later referred to as "the Statement of Principles"). Our work in collaboration with other ICCR members resulted in companies acting to improve working conditions and protect the rights of black South Africans. Since advocating for human rights in South Africa, concerns have been raised about supply chain issues in Burma and Sudan, child labor in the cotton fields of Uzbekistan and the cocoa fields of West Africa, as well as conflict minerals in the Democratic Republic of the Congo, to name a few.

Would you discuss the proxy voting guidelines your organization has published (and the business case statements) and how they were developed? How are these being used by your constituents and how might they evolve in response to the changing ESG environment or a deeper understanding of the issues?

ANITA GREEN: Wespath's proxy voting guidelines align with United Methodist principles and reflect our obligations as a fiduciary. They are reviewed annually by a committee of our board of directors. As a service to others, we make our guidelines and our proxy voting record available on our website. Whenever possible we pre-disclose our votes in advance of corporate shareholder meetings, so others are aware of how we intend to vote.

Two years ago we developed a set of business case statements describing the correlation between certain ESG factors and corporate financial performance to further document our belief that ESG has financial impact. Although companies are making strides in many areas, the business case on corporate governance revealed widespread underperformance regarding board diversity. As a result, we amended our proxy voting guidelines to withhold our vote from members of the nominating committee if the board is less than 20% diverse, and we wrote to the companies in question to inform them of the reason for our actions. Nearly half of the replies we received stated the board exceeded the 20% threshold – however, the information was not disclosed in the proxy statement. This is a concern because in 2009, the Securities and Exchange Commission issued rules requiring listed companies to disclose in the proxy statement how diversity (including but not limited to gender) is considered in the selection of directors, and how the effectiveness of the policy is measured. From this process, we have learned that there are three facets of the board diversity conversation: 1) the composition of the board of directors, 2) the disclosure provided in the proxy statement, and 3) the ability of the proxy advisors to capture and analyze the data.

Wespath has been a leader in exploring alternative investments for its SRI clients in the way of other asset classes, i.e. fixed income and community reinvestment opportunities. Would you tell us more about the work being done in these areas and how these alternatives align with your core investment principles?

Michael Lohmeier: We instituted the Positive Social Purpose (PSP) Lending Program in 1990 with the goal of promoting affordable housing and community development for disadvantaged communities, while delivering competitive returns to investors. Today, the program has a market value of $750 million and has resulted in more than 30,000 affordable housing units. The PSP strategy complements our traditional fixed-income mortgage investments. By targeting underserved market niches and partnering with established, qualified lenders, we are able to provide market returns commensurate with risk, while creating high social impact. The loans that PSP makes offer attractive credit spreads and also provide strong prepayment protections.

The General Board was an early member of the ICCR coalition and continues to play an important role in our work. Can you describe a recent initiative that has been successful as a result of a collaboration with other ICCR members?

Anita Green: Wespath collaborates with ICCR members on a variety of issues. For example, ICCR is the perfect venue for our access to medicines work. As a result of the pharmaceutical round table hosted by ICCR two years ago, many of the corporate participants agreed to enter into negotiation with the Medicines Patent Pool. Not all of these negotiations will lead to agreements, but Wespath and ICCR helped facilitate conversations that may ultimately save lives.

Most of Wespath's assets ($19 billion) are managed externally. How does Wespath work with its managers to ensure the organization's commitment to ESG is upheld?

Dave Zellner: Wespath is convinced that an element of our fiduciary duty to our stakeholders is to ensure that our investment managers consider the impact that ESG factors will have on the long-term sustainability of our investments. Accordingly, we helped develop and were one of the original signatories to the United Nations Principles for Responsible Investment (PRI). We have aggressively encouraged our investment managers to become signatories to the PRI—currently signatories manage over 80% of our assets. Beyond the PRI, in the months and years ahead we will monitor the extent to which our managers have integrated ESG analysis into their investment process, and encourage a more robust analysis where we think our managers have fallen short of our expectations. We also aspire to leverage our relationships with our managers by collaborating on corporate advocacy efforts, focused initially on corporate governance issues.