



January 12, 2018

Dear Partners in Ministry,

Update on ESG / Impact Investing

For nearly three years the Foundation's Investment Committee, Board of Directors, and investment consultant have researched, discussed, and reviewed many aspects of investing the Foundation's portfolios through "impact"-oriented strategies, including evaluating investment advisors that provide such strategies. At the Foundation's June 2016 annual meeting, held in the midst of annual conference in St. Charles, Envestnet Co-Founder and Executive Vice President James Lumberg shared a presentation about impact investing. I also highlighted the shift to impact investing during my presentation at the Foundation's 2017 annual meeting in June. On December 19, 2016, the Foundation integrated Envestnet | PMC's "Impact Quantitative Large Cap Core Portfolio" as a portion of the large cap sleeve of the Foundation's three model portfolios: Conservative, Moderate, and Aggressive. For 2017 this impact portfolio returned 23.59% versus 21.69%, its benchmark return (Russell 1000).

After considerable analysis and deliberation, **the Foundation decided at the December 2017 Board meeting to adopt the impact methodology** for the stock allocations of all three model portfolios.

What is Impact Investing?

Envestnet | PMC's Impact Quantitative Portfolios "track traditional market indexes with an explicit focus on companies with high sustainability ratings and/or **environmental, social, and governance** priorities [ESG]."¹ Envestnet | PMC uses several ESG factors from Sustainalytics, a global leader in ESG and corporate governance research and ratings, to construct the portfolios, "**excluding [companies] with high carbon footprints and ESG controversies.**"²

The result of the impact investment methodology is to go beyond the "clean hands" approach most commonly associated with **socially responsible investing (SRI)**, i.e. screening out the so-called "sin" stocks: alcoholic beverages, tobacco products, gambling enterprises, pornography, weapons, and private prisons. In addition to *screening out* the "bad" companies, impact investing *screens in* the "good" companies. Some of the ESG characteristics relate to lower carbon footprint compared to peers, usage of renewable energy technologies, human rights records, gender and racial diversity in the workplace and the boardroom, LGBTQ rights, and equitable compensation and benefits.

Through partnership with Glass, Lewis & Co., **the Foundation influences companies as shareholders to do good and align with our values** with proxy voting and constant and active corporate engagement.³

Impact / ESG investing is the approach most aligned with the "Investment Ethics" enumerated by The United Methodist Church in Resolution 4071 of the 2016 Book of



Resolutions of the UMC⁴ and the 2016 Book of Discipline ¶ 717, “Sustainable and Socially Responsible Investments.”⁵

What effect does this have on investments with the Foundation?

This is an important question. First, there is **no increase in fees**. Second, **asset allocation and sector diversification remain essentially unchanged**. The portfolios still invest according to the proven strategies of optimizing diversification across asset classes like domestic and international stocks (large, mid, and small cap), emerging markets, and domestic and international bonds. The portfolios still target the sector allocations of their underlying benchmark indexes, for example, such as the Russell 1000 and S&P Small Cap 600.

Diversification is the bedrock of risk management. **The portfolios are essentially unchanged in their strategies of diversification.**

The Bottom Line

The Foundation’s investments are now even more **deeply and closely aligned with the “Investment Ethics” of Resolution 4071** and place our Foundation in a select group of similar foundations.

Over the long haul, in theory and according to research and backtesting, “good” companies collectively outperform “bad” and “average” companies collectively because they are managed more sustainably. In the end, through impact / ESG investing we are not sacrificing our time-tested principles of healthy investment management through broad asset allocation, sector diversification, and passive management. And we gain the confidence of knowing that your and our investment dollars—a significant portion of God’s blessings for our collective life—are working the most good they can in the world according to our highest ethical standards.

Respectfully,

Rev. Chris Walters, President

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1 <http://www.envestnet.com/content/docs/impact-quantitative-portfolios>

2 http://www.envestnet.com/sites/default/files/documents/PMC-FS-ImpactQP_FINAL.pdf

3 <http://www.glasslewis.com/company-overview/>

4 <http://www.umc.org/what-we-believe/investment-ethics1>

5 <http://www.umc.org/what-we-believe/para-717-socially-responsible-investments>

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