

The Church Pension Fund Sustainability Report In Response to Resolution A020

At the 79th General Convention, Resolution A020 entitled “Divest from Fossil Fuel Companies and Reinvest in Clean Energy,” vbinder.net/resolutions/A020?house=hd&lang=en included two statements with requested responses from The Church Pension Fund (CPF):

Resolved: General Convention urge CPF to be mindful of the Church’s desire to become increasingly invested in renewable and clean energy; and be it further

Resolved, That the General Convention request that the Church Pension Fund provide a report that includes a sustainability plan to the 80th General Convention.

CPF has been and continues to be mindful of the Church’s desire to become increasingly invested in renewable and clean energy. CPF has actively researched investment opportunities linked to sustainability and renewable/clean energy, which are described in the sustainability plan below.

The Church Pension Fund Principles of Corporate Social Responsibility¹ serve as the foundation for the CPF focus on sustainability. Those principles begin with the following statement:

“The faith and values of The Episcopal Church guide and inform all of the work of The Church Pension Fund (CPF) and its affiliates (collectively, CPG). CPF has been called upon to care for The Episcopal Church by providing comprehensive, cost-effective retirement, health and life insurance benefits to the clergy and lay employees who serve The Episcopal Church. In serving The Episcopal Church, CPG expresses the faith of The Episcopal Church by supporting its social, ethical and environmental values, while also satisfying CPF’s fiduciary, regulatory and other legal responsibilities.”

The CPF Principles for Corporate Social Responsibility are organized in three parts outlined in detail below: 1. Overall Corporate Values, 2. Investment Matters, and 3. Collaboration across the Church. For the purposes of the following report, the focus will be on how these principles apply to environmental sustainability. However, CPF also considers a broader definition of sustainability in the context of our work – specifically, what helps make CPF and Fund investments sustainable for the long term, which would include issues beyond just the environment such as diversity and inclusion, human rights, community engagement, corporate governance, and employee relations.

1. Corporate Values and Environmental Sustainability

As a business, we take meaningful efforts to support environmental sustainability including:

- **LEED Gold certification** – The corporate headquarters in New York has received LEED Gold certification for our implementation of environmentally sustainable practices in the construction and operation of our office.
- **Field Agent Transportation** – The agents for Church Insurance Agency Corporation receive higher transportation reimbursements when they use hybrid automobiles for business travel.

¹ Approved by the Board of Trustees on November 14, 2013

- **Sustainability in Claims** – In cases where buildings or appliances need to be replaced, we work with clients to encourage LEED and Energy Star standards are applied.
- **Electronic Statements and Publications** – We encourage the use of electronic publishing for documents and statements. We work with our benefits partners to provide their benefits statements electronically and offer all documents, from the annual report to our pension plan guides, electronically. If possible, enrollments and account updates are processed electronically.
- **Green Publishing** – Church Publishing continues to work with its vendors to publish its print titles using green processes and sustainable paper sources. The growth of our electronic offerings has reduced the demand for print titles.
- **Facilities Management** – Through the efforts of employees and facilities management, we follow sustainable practices in running our office. Our efforts include using low-VOC paints and carpets, tele- and video-conferencing to replace travel, sustainable construction methods and furniture selection, energy saving and recycled supplies, and recycling.

2. Investments and Environmental Sustainability

The Church Pension Fund investment portfolio is managed to generate returns needed to make benefit payments and meet financial obligations. We believe we can be true to this primary responsibility while also supporting environmental sustainability objectives through a four part socially responsible investing strategy.

- **Investing for Positive Impact:** proactively seeking out and investing with managers who deliver both strong returns and positive social outcomes;
- **Shareholder Engagement:** using CPF's position as an institutional investor to influence the behavior of companies in its investment portfolio;
- **Thought Leadership:** sharing CPF's experience and its industry relationships to create awareness of modern, effective strategies for using capital to achieve positive social impact; and
- **ESG Incorporation:** considering material environmental, social, and governance (ESG) issues as part of Investment analysis and review.

Investing for Positive Impact

Consistent with A020, we are aware of the Church's desire to actively invest in renewable energy. The impact investment strategy directly responds to this desire. Since the last General Convention CPF has made the following three investments:

- \$40 million in the New Energy Capital Infrastructure Credit Fund II, LP (Fund). The fund invests across clean energy infrastructure assets in North America, including solar, wind, energy efficiency, storage, and water.
- \$25 million in Actis Energy 5 LLP, a fund investing in power generation and distribution businesses in key emerging markets. A majority of the power generation assets are expected to employ solar and wind power.
- \$25 million in ECP Opportunity Fund II LLC, a fund investing in carbon credits trading within the California/Quebec Cap and Trade Program. The fund provides an indirect impact on carbon emissions by reducing the supply of carbon credits, making them more expensive and increasing the cost of carbon emissions.

CPF has existing investments with SIMA (Social Investment Managers and Advisors) and Developing World Markets that help to finance operating companies and financial institutions that provide off grid solar in the emerging markets. Details on these investments can be found here: cpg.org/global/about-us/investment-profile/responsible-investing/positive-impact-investing/environmentally-responsible/. In addition to sourcing these investments, CPF continues to research additional opportunities on an ongoing basis.

Shareholder Engagement

CPF uses our voice as a shareholder to advance issues of environmental sustainability within the companies we own. The shareholder engagement process includes letters, dialogues, and, if necessary, the filing of

shareholder resolutions to raise issues we believe to be important to faith-based investors. Historically, CPF has advocated for increased environmental disclosure from companies with high carbon emissions, believing that “what gets measured gets managed” and that more efficient management of resources leads to better investment results. While advocating for disclosure is still a component of the CPF strategy, recent efforts have been guided by General Convention Resolution C021² Climate Change and additional support for EC Committee on Corporate Social Responsibility which requested:

“The Executive Council Committee on Corporate Social Responsibility (CCSR), in conjunction with the Church Pension Fund, to identify 10 companies within our portfolio that significantly impact the environment, and initiate shareholder engagement to advocate for the inclusion of an expert in sustainability on their boards.”

To date, engagements have taken place with companies including airlines, oil and gas companies, and consumer product companies. The engagements have taken place in collaboration with other investors focused on corporate environmental responsibility. The conversations have yielded useful insights on both sides. For example, companies have appreciated the importance of these issues as a strategic driver of long-term financial results, as opposed to just marketing campaigns. On our side, we learned that naming a sustainability expert alone is not enough. That individual needs to have organizational credibility and influence to bring about required changes.

Thought Leadership

CPF seeks to convene and connect investors, to advance best practices in socially responsible investing, and to increase the flow of capital into these investments. CPF has hosted in person events and virtual Insights & Ideas events outlining best practices in shareholder engagement. These events have brought together industry leaders and stakeholders across the Church to advance our shared knowledge of the space. CPF professionals have spoken at conferences on sustainable investing as well, including events hosted by New York University, Columbia University, Institutional Investor, Pensions & Investments and the Global Impact Investing Network. We have also hosted industry working groups in the CPF offices including a shareholder engagement group connected with Ceres, a non-profit focused on corporate environmental sustainability. The goal for all this work is to share our perspective, lend our support for sustainable investment, and learn from other experts. Replays of some of these events can be found here: cpg.org/global/about-us/research/insights-ideas-centennial-conversations/.

Other Material Environmental Sustainability Investment Considerations

The CPF investment team believes many environmental, social and governance issues (ESG) present material opportunities and risks. As part of normal investment analysis and review, CPF investment professionals work with current and prospective managers to more fully understand how they incorporate environmental issues into their investment decision making. As an example, the CPF real estate and fixed income teams surveyed our managers on how they evaluate Environmental, Social, and Governance issues. The findings not only inform the considerations in our existing investments, but how to approach prospective managers going forward. We have also held follow-up meetings with these managers to both share the findings and highlight best practices consistent with our thought leadership effort.

Among the most material ESG issues, climate change presents significant opportunities and risks to investors. Significant capital will be flowing into climate change solutions, which could generate attractive returns. On the other hand, climate change may negatively impact some industries and investments and companies need to manage the transition to a lower carbon economy. The CPF investment team has introduced climate change as one macroeconomic lens that may be considered in constructing a long-term investment portfolio. This lens can be applied to understanding what investment themes to pursue.

² vbinder.net/resolutions/C021?house=hd&lang=en

3. Collaboration Across the Church

In pursuing a socially responsible investment strategy, CPF collaborates with those across the Church who help inform the decisions CPF professionals make in the best interest of the Fund. We work closely with the Committee on Corporate Social Responsibility (CCSR) of Executive Council to coordinate on shared priorities. We are focused on meeting our fiduciary obligations while also supporting environmental sustainability. The Fund has invested in renewable energy, advocated on issues of environmental sustainability and corporate social responsibility, collaborated and invested with other sustainable investors, and incorporated environmental considerations into the portfolio where material and prudent. In doing so, we support the call for Stewardship of Creation and the faith and values of the Episcopal Church are reflected in our work.