Socially Responsible Investing in the PC(USA)

New Covenant Trust Company, N.A.

NCTC- Who We Are

- New Covenant Trust Company empowers churches, church institutions and church members to create and sustain healthy and vibrant ministries through faithful stewardship of their investments.
- Wholly owned subsidiary of the Presbyterian Foundation
- A limited purpose national bank regulated by the Office of the Comptroller of the Currency.
- Through a culture of servant leadership and unparalleled expertise, our people and our lasting relationships with our clients are our greatest assets.
- Our philosophy, approach and services are driven by the shared faith, values and integrity of the Presbyterian Church (U.S.A.).
- Our priority is the same now as it has always been — to take excellent care of each and every client, no matter the size of their account.

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What's Important to You?

Rank in order of importance to you for your own personal assets:

Maximizing Investment Return

Minimizing Risk

Diversification

Presbyterian Values

Protecting the Environment

Proxy Voting

Shareholder Engagement

Investment Process

Minimizing Cost

Diversity, Equity, & Inclusion

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What's Important to Your Church?

Rank in order of importance for your Church's assets:

Maximizing Investment Return

Minimizing Risk

Diversification

Presbyterian Values

Protecting the Environment

Proxy Voting

Shareholder Engagement

Investment Process

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What else? Anything missing?

<u>Key Questions to consider:</u>

Any other values?

Thresholds for these factors?

Good conversations to have as individuals and as the Church.

What is Socially Responsible Investing?

<table>
<tr><th colspan="3">CONSIDERING ESG ISSUES WHEN BUILDING A PORTFOLIO
(known as: ESG incorporation)</th><th colspan="2">IMPROVING INVESTEES' ESG PERFORMANCE
(known as: active ownership or stewardship)</th></tr>
<tr><td colspan="3">ESG issues can be incorporated into existing investment practices using a combination of three approaches: integration, screening and thematic.</td><td colspan="2">Investors can encourage the companies they are already invested in to improve their ESG risk management or develop more sustainable business practices</td></tr>
<tr><th>Integration</th><th>Screening</th><th>Thematic</th><th>Engagement</th><th>Proxy voting</th></tr>
<tr><td>Explicitly and systematically including ESG issues in investment analysis and decisions, to better manage risks and improve returns.</td><td>Applying filters to lists of potential investments to rule companies in or out of contention for investment, based on an investor's preferences, values or ethics</td><td>Seeking to combine attractive risk return profiles with an intention to contribute to a specific environmental or social outcome. Includes impact investing.</td><td>Discussing ESG issues with companies to improve their handling, including disclosure, of such issues. Can be done individually, or in collaboration with other investors.</td><td>Formally expressing approval or disapproval through voting on resolutions and proposing shareholder resolutions on specific ESG issues.</td></tr>
</table>

Sources: United Nations Principles for Responsible Investment

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Negative Screening

The divestment of industries or companies that are incompatible with an investors values. Examples include manufacturers of weapons of war, for-profit-prisons, tobacco companies, or human rights violators. Negative divestment is often viewed as a last resort, as it ends the investors relationship with the company.

Example: New Covenant Trust Company Fossil Fuel Free Strategy

Additional Resources: The Divestment Strategy: Principles and Criteria, 196th General Assembly PC(USA)

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NCTC Fossil Fuel Free Strategy

- Launched in 2015 with seed capital provided by a Presbyterian Church in order to be able to offer this across the denomination.
- Diversified, US Stock portfolio faithful to the GA Divestment list, while being fully divested from the energy and fossil fuel sectors.
- Tracking has been consistent with market returns over long periods of time.

Photo: fossilfreefunds.org

Positive Integration Screening

The evaluation of companies based on positive characteristics and highlighting and over weighting the ‘best-in-class’ companies within their industries. Rewards companies for maintaining best practices and pressures Corporate America to keep up on ESG ratings.

Example: NCTC Diversity, Equity, and Inclusion strategy

Positive Integration Screening

Companies in the pursuant portfolio have the following characteristics:

- 76% higher levels of diverse executives than the index average
- 42% higher levels of diverse board members than the index average
- 38% higher levels of women executives than the index average
- 25% higher levels of women board members than the index average

Image Source: marketplace.org

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Impact Investing/ Thematic

Recognizing the need for improved and affordable rental housing, Freddie Mac announced its first KG-Deal – an environmental and social impact series. This securitizes workforce housing loans made through the Green Advantage program.

Freddie Mac's Green Advantage program, first launched in 2016, addresses both the issue of environmental sustainability and affordable housing.

The program requires multifamily housing borrowers to reduce energy and water consumption by a total of 30% through improvements to existing properties. A minimum of 15% must be reduced through energy improvements.

More than 1,600 properties have already been financed through the Green Advantage program, leading to projected savings of 4.7 billion gallons of water per year and 1.8 billion kBtu per year in energy. The savings from these projects will also reduce utility costs by an estimated $138 per year for tenants, many of whom are low income. Nearly 86% of financed units are affordable to tenants with incomes equal or less than area median income.

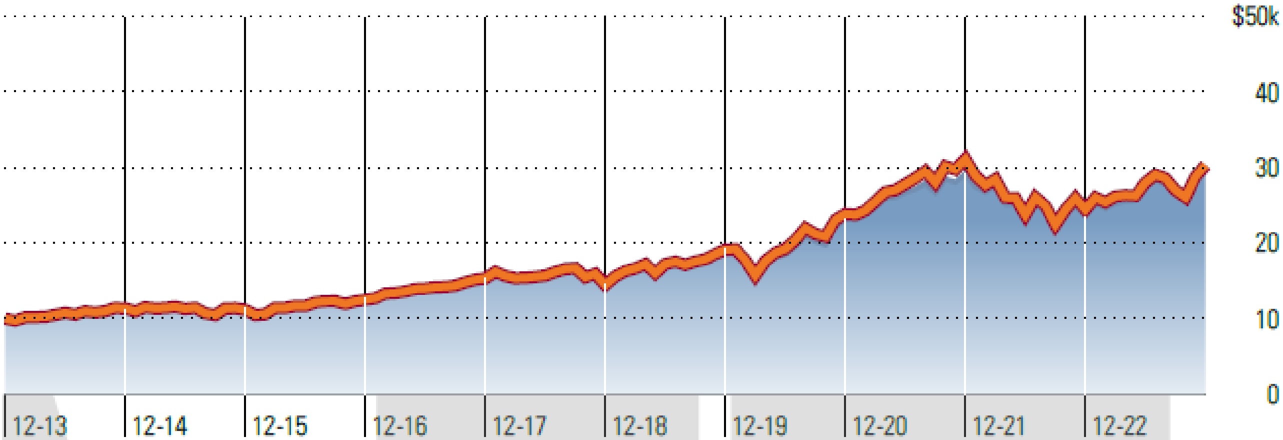
Responsible Investing Should be Good Investing

Performance 12-31-2023

Investment Activity Graph

Portfolio Gross — Benchmark

Portfolio Net — Final Mkt Val: $30,284



Trailing Returns	3 Mo	1 Yr	3 Yr	5 Yr	10 Yr	Since Inception
Portfolio Return-Gross	12.13	23.89	8.31	15.91	11.71	11.71
Portfolio Return-Net	12.13	23.89	8.31	15.91	11.71	11.71
Benchmark Return	12.07	25.96	8.54	15.15	11.47	11.47
Relative Return	0.06	-2.07	-0.23	0.76	0.24	0.24

Portfolio Inception Date: 12-31-2013

MSCI USA ESG Select ETF- SUSA
10 year return 12-31-2023
Past performance is not an indication or a guarantee of future returns

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Holistic Approach to Impact

CONSIDERING ESG ISSUES WHEN BUILDING A PORTFOLIO (known as: ESG incorporation)			IMPROVING INVESTEES' ESG PERFORMANCE (known as: active ownership or stewardship)	
ESG issues can be incorporated into existing investment practices using a combination of three approaches: integration, screening and thematic.			Investors can encourage the companies they are already invested in to improve their ESG risk management or develop more sustainable business practices	
Integration	**Screening**	**Thematic**	**Engagement**	**Proxy voting**
Explicitly and systematically including ESG issues in investment analysis and decisions, to better manage risks and improve returns.	Applying filters to lists of potential investments to rule companies in or out of contention for investment, based on an investor's preferences, values or ethics	Seeking to combine attractive risk return profiles with an intention to contribute to a specific environmental or social outcome. Includes impact investing.	Discussing ESG issues with companies to improve their handling, including disclosure, of such issues. Can be done individually, or in collaboration with other investors.	Formally expressing approval or disapproval through voting on resolutions and proposing shareholder resolutions on specific ESG issues.

Sources: United Nations Principles for Responsible Investment

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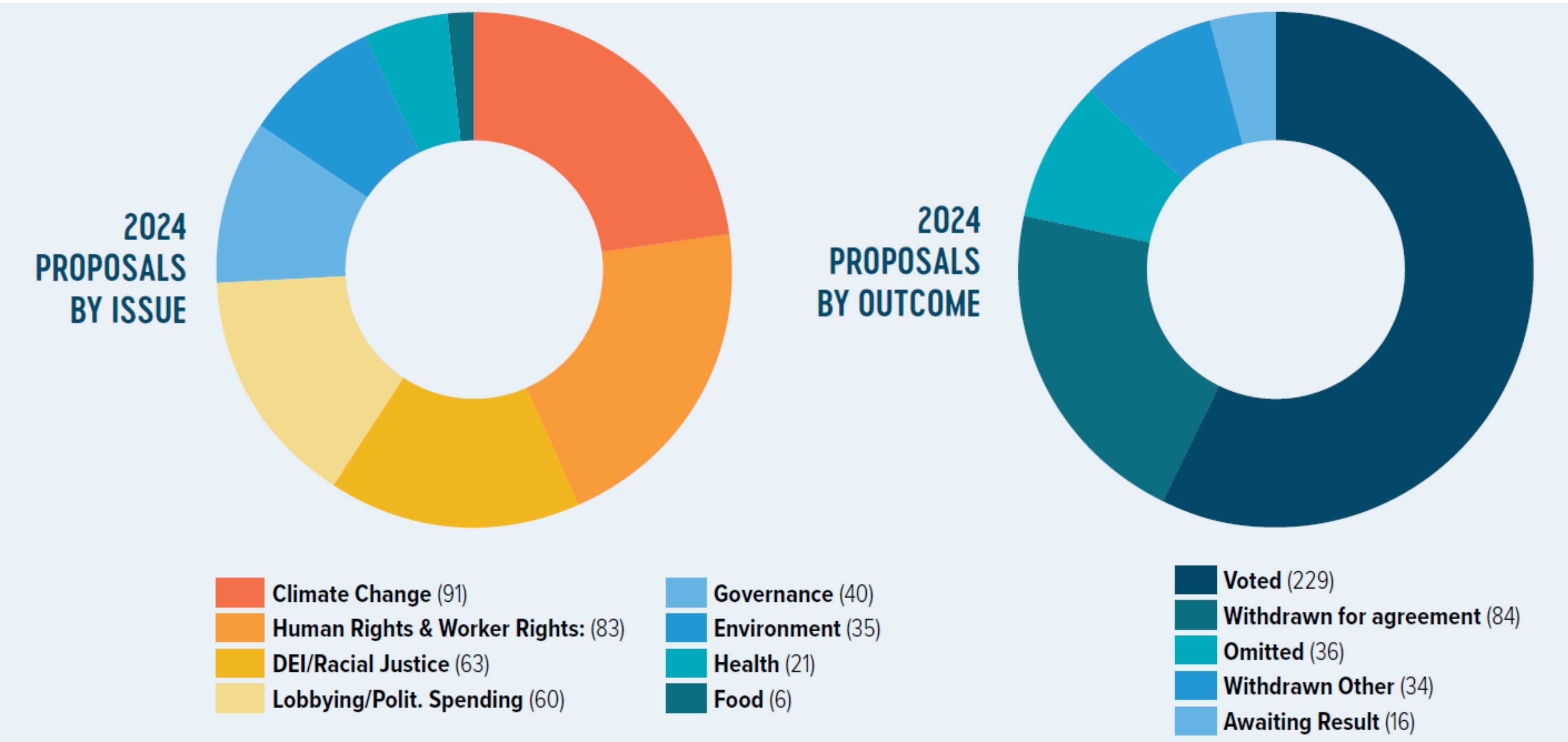
Don’t Ignore Proxy Voting



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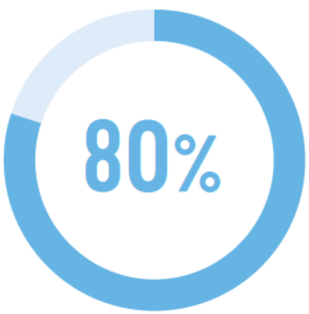
Don’t Ignore Proxy Voting

Report on Gender and Racial Pay Gap
(12 proposals)

AI Transparency Report
(3 proposals)

Climate Transition Plans and GHG Reduction Goals
(6 proposals)



Lobbying Expenditures Disclosure
(30 proposals)*

Respect for Freedom of Association
(4 proposals)

Political Contributions Disclosure
(13 proposals)

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Don’t Ignore Proxy Voting

CLIMATE CHANGE AGREEMENTS

Berry: Agreed to publish an annual Sustainability Report and set quantitative methane-specific reduction target. (Trinity Health)

Ingredion: Committed to enhance disclosures within a year on progress on stated emission reduction targets and Scope 3 emissions. (Mercy Investment Services)

Public Storage: Agreed to publicly disclose Scope 1 and 2 emissions reduction targets. (Amalgamated Bank)

Royal Bank of Canada: Agreed to annually report portfolio results of the assessment of energy sector clients using their transition readiness framework based on GFANZ and CA100+. (Vancity Investment Management)

TJX: Agreed to disclose progress towards Scope 1 and Scope 2 targets and disclosing Scope 3 emissions in generated waste, business travel, and downstream transportation and distribution. (Boston Common Asset Management)

HUMAN RIGHTS/WORKER RIGHTS AGREEMENTS

RACIAL JUSTICE/DEI AGREEMENTS

3M: Committed to use third-party facilitator to understand needs and concerns of local stakeholders and to broaden its current racial equity audit process. (Nia Impact Capital)

American Water Works: Agreed to conduct a third-party environmental justice assessment. (Trillium Asset Management)

Bank of Montreal: Agreed to conduct a racial equity audit. (SHARE)

Darling Ingredients, Jones Lang LaSalle, Wabtec: Agreed to greater disclosure of material corporate DEI and inclusion data. (Trillium Asset Management)

Herbalife, Sprouts Farmers Market: Agreed to greater disclosure of material corporate DEI and inclusion data. (Amalgamated Bank)

Manhattan Associates, NCR Voyix, Rollins Environmental Services, Take-Two Interactive Software: Agreed to greater disclosure of material corporate DEI and inclusion data. (As You Sow)

UnitedHealth: Committed to including racial and ethnic disparities among company’s Medicare Advantage customers. (Mercy Investment Services)

ENVIRONMENTAL AGREEMENTS

Becton Dickinson and Company: Committed to disclose efforts to identify and reduce heightened health and environmental impacts from U.S. operations on adjacent communities of color and low-income communities. (Parnassus Investments)

Hormel Foods: Agreed to set new packaging goals including plastic and overall packaging reduction and to publish a report detailing steps to support a circular economy for packaging. (As You Sow)

Yum! Brands: Agree to issue new report on how the company is reducing its plastics use by shifting from single-use packaging. (As You Sow)

International Paper Co: Agreed to conduct a science-based, context and geography-specific biodiversity impact and dependency assessment, as an early adopter of the Task Force on Nature-related Disclosures framework, and increased disclosure of its fiber supply chain. (Domini Impact Investments)

LOBBYING & POLITICAL SPENDING AGREEMENTS

Do’s and Don’ts of Responsible Investing

Do’s:

- Work with a provider that focuses on responsible investing and impact.

- Ensure compelling investment merit in the portfolio, evaluate balance and diversification across geographies, styles, and sectors.

- Document your investment goals and objectives, as well as your responsible investing criteria in a written Investment Policy Statement (IPS), a best practice for governance, oversight, and continuation as Committees roll over.

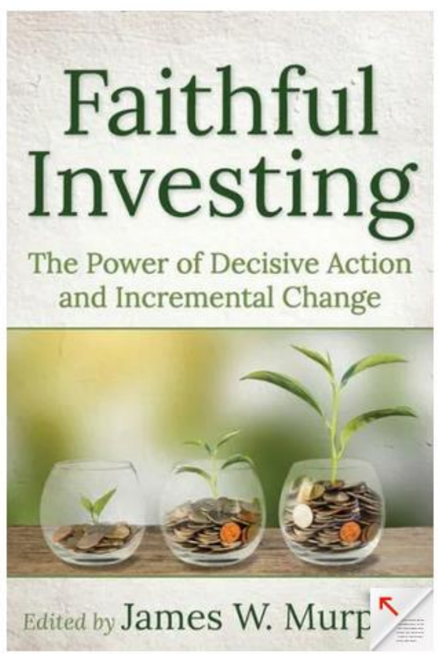
- Otherwise follow typical investment best practices: focus on an appropriate asset allocation, don’t try to out guess the market, ensure equity exposure matches time horizon, minimize fees and expenses, remain disciplined through market volatility.

Do's and Don'ts of Responsible Investing

Don'ts:

- End up over concentrated in certain relatively green sectors such as technology and software.
- Change your investment approach just to access a 'green' or 'responsible' fund: active vs. passive, concentrated vs. diversified, high cost vs. low cost, etc.
- Fail to ensure your fund managers vote proxies in accordance with your values.
- Ignore portfolio construction and performance. Responsible investing can and should be good investing.

Additional Resources



Along the Road Podcast: https://oga.pcusa.org/section/mid-council-ministries/mid-council-ministries/podcast-along-the-road/

Faithful Investing: Includes chapters by PC(USA) Authors! ChurchPublishing.org: Faithful Investing

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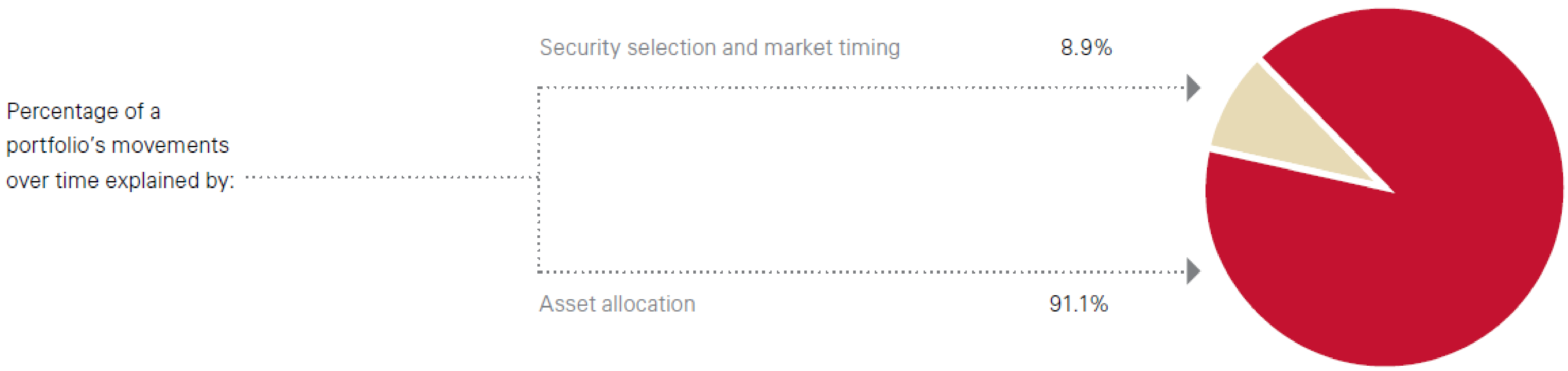
Asset Allocation Driver of Returns

Figure 4. Investment outcomes are largely determined by the long-term mixture of assets in a portfolio



Note: Calculations are based on monthly returns for 709 American funds from January 1990 to September 2015. For details of the methodology, see the Vanguard research paper *The Global Case for Strategic Asset Allocation and an Examination of Home Bias* (Scott et al., 2016).

Sources: Vanguard calculations, using data from Morningstar, Inc.

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Duration Matching Your Assets

Immediate:	**Soon:**	**Later:**	**Much Later:**
Monthly liquidity	1-3 Yrs.	3-7 Yrs.	7-10+ Yrs.
Bank Checking/Savings	Conservative Income (MMKT, CDs, Bonds)	Balanced (20%-50% stocks)	Balanced Growth (50%-80% stocks)
Payroll Bills	Project Funding Reserves	Capital Projects Specific Savings	Endowments Long Term Savings

Long Term Expected Return Estimates

0.0%-0.40%	1-3%	3-5%	5-8%

Worst 12-Month Drawdown Risk Estimates

Stable Value	-1% -5%	-10%-22%	-20%- 35%

**Risk return estimates are wide-range estimates based on historical data. They are not an indication or a guarantee of any actual outcome. They should be used for illustrative purposes only. Past performance is not an indication or a guarantee of any actual future result.*

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Immediate Needs

Time Horizon: 0-1 Years

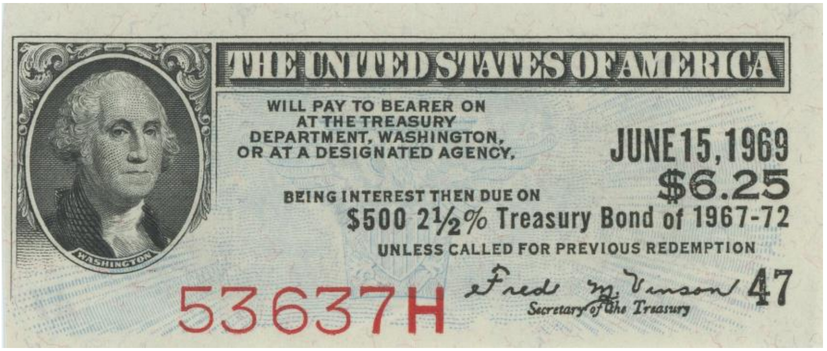
Examples:
- Monthly payroll
- Bills
- Immediate spending

Investment Types:
- Bank Checking/ Savings
- Money Markets

Benefits:
- Liquidity
- Safety
- Stable Value

Risks:
- Inflation Risk
- Business Risk

Short-Term Needs



Time Horizon: 6 Mos-3 Years

Examples:
- Operating Reserves
- Near-term projects

Investment Types:
- Certificates of Deposit (CD's)
- Money Markets
- Short Term Bonds

Risks:
- Inflation Risk
- Duration Risk
- Credit Risk

Benefits:
- Safety
- Liquidity
- Stable Value

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Medium-Term Needs

Time Horizon: 3-7Years

Examples:
- Capital Projects
- Savings for specific future needs

Investment Types:
- Conservative to Balanced(20-50% stocks)
  - Global stocks/ stock mutual funds
  - Bonds/ bond mutual funds
  - Short Term Bonds
  - CD's

Benefits:
- More growth seeking to keep place with inflation
- Some reduced volatility with still relatively conservative allocations

Historically, higher-return assets have brought increased risk

Best, worst, and average returns for various stock/bond allocations, 1926–2021

Past performance is no guarantee of future returns. The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index.

Source: Vanguard, as of December 31, 2021.

Notes: Stocks are represented by the Standard & Poor's 90 Index from 1926 – March 3, 1957, the Standard & Poor's 500 Index from March 4, 1957 through 1974, the Wilshire 5000 Index from 1975 through April 22, 2005, the MSCI US Broad Market Index from April 23, 2005 through June 2, 2013, and the CRSP US Total Market Index thereafter. Bonds are represented by the Standard & Poor's High Grade Corporate Index from 1926 to 1968, the Citigroup High Grade Index from 1969 to 1972, the Lehman Brothers U.S. Long Credit AA Index from 1973 to 1975 the Barclays Capital U.S. Aggregate Bond Index from 1976 to 2009 and the Bloomberg U.S. Aggregate Float Adjusted Bond Index thereafter. Data are through December 31, 2021. The average annual returns are subject to rounding.

Risks:
- Market Risk
- Duration Risk
- Credit Risk

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Long-Term Needs

Time Horizon: 7-10+ Years

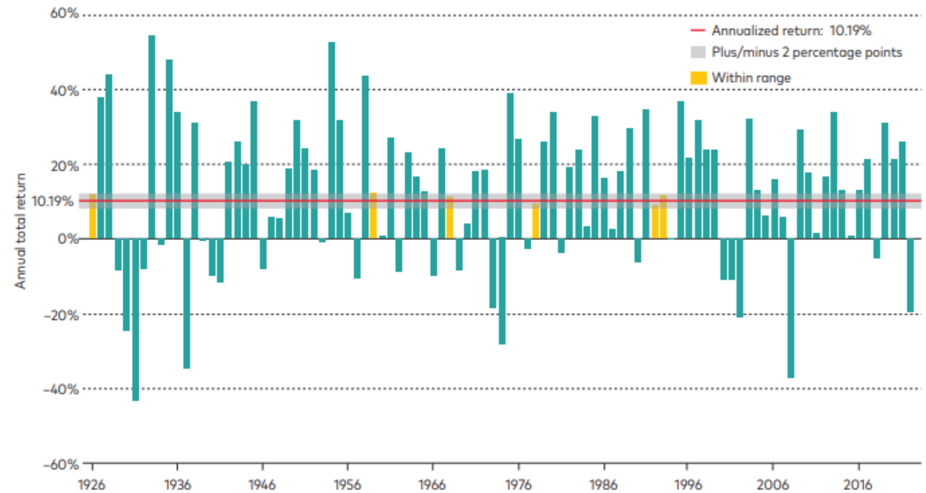
Examples:
- Endowments (restricted and unrestricted)
- Long term savings

Investment Types:
- Balanced Growth (50-80% stocks)
  - Global stocks/ stock mutual funds
  - Bonds/ bond mutual funds
  - Cash management for endowment spending or cash needs

Benefits:
- Growth greater than inflation
- Growth supporting spending rates
- Growth for future generations

U.S. stock market 1926–2022

Returns fell within 2 percentage points of the annualized return of 10.19% in only 6 out of 97 years.



U.S. stock market returns based on Standard & Poor's 90 Index from 1926 to March 3, 1957; S&P 500 Index from March 4, 1957, through 1974; Dow Jones Wilshire 5000 Index from 1975 to April 22, 2005; MSCI US Broad Market Index from April 23, 2005, to June 2, 2013; and CRSP US Total Market Index thereafter. Assumes all distributions were reinvested. Past performance is not a guarantee of future results. The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index.

Source: Vanguard.

Risks:
- Market Risk
- Investor Risk
- Sequence of Return Risk

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Asset Management Best Practices

1. Start with your goals and objectives, define timelines

2. Match each asset's return goals and timelines with the appropriate investing approach

3. Document each account's purpose, goal, and timeline in a written Investment Policy Statement (IPS)

4. Seek broadly diversified and balanced investment approaches

5. Remain conscious of fees and expenses

6. Remain disciplined in your investment plan through market volatility

7. Seek professional expertise as appropriate or needed

Asset Allocation & Spending

Demonstration of investment strategy & spending tool

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