

**WALLACE GLOBAL FUND II  
ESG INVESTMENT POLICY  
STATEMENT**

## I. Background

The Wallace Global Fund II (the “Fund”) is guided by its goals of improving society and leading positive social change in its mission areas. After extensive deliberations at the staff and Board levels, and with the advice of outside financial, legal and subject-matter experts, the Board of Trustees (the “Board”) has concluded that its fiduciary duties dictate that it align its investment and grant making strategies. The Board believes that the Fund will advance its mission not only through supporting its talented grantees, but also by leveraging its dollars in sustainable, mission-based investments. By making our investment policy publicly available, the Board hopes to encourage other foundations to use their own endowment dollars to align their investment policies with their grant making strategies.

As this ESG Investment Policy Statement shows, the Board has begun a long-term investment process that is in some ways unprecedented for a foundation of its size. Through its processes and policies, the Fund will try to demonstrate that foundations can achieve strong financial and social performance by granting dollars and considering Environment, Social and Governance (“ESG”) factors as part of its endowment investment strategy.

Below, the Board outlines the ESG investment policies it has adopted to accomplish these goals. The Board recognizes that its fiduciary duties dictate regular reviews of both its strategy and the policies implementing it. Of course, they will also require refinement and revision as experience and changing circumstances indicate.

## II. MISSION

The mission of the Fund is “to promote an informed and engaged citizenry, to fight injustice, and to protect the diversity of nature and the natural systems upon which all life depends.” The Fund supports initiatives related to:

- Environmental resources depletion and sustainable human populations,
- Corporate abuses and the concentration of corporate power,
- Women’s human rights and empowerment,
- Equal rights and justice,
- Civic engagement,
- Independent media and media policy.

## III. MISSION BASED INVESTING

The Fund seeks to strengthen the impact of its granting program by aligning its investment policy with its mission and core values. This objective will require the use of three techniques: A. ESG Screening; B. High Impact Investments and C. Shareholder Advocacy.

## **A. ESG Screening Guidelines**

The Fund hopes to execute mission based investing by applying environmental, social and governance (ESG) guidelines that are consistent with its mission across its entire endowment. Such guidelines will apply to publically traded equities and bonds.

### **Timeline for Implementing ESG Screening Guidelines**

The Fund wishes to implement the following guidelines as comprehensively and as quickly as possible. While some parameters will be implemented immediately, the Fossil Fuel screen will be phased in over time as policies and markets pertaining to a clean energy economy develop, and more opportunities to invest clean energy alternatives are available. At the outset, the Fossil Fuel screen will be implemented using a “Best of Sector” approach, and as rapidly as possible, will evolve towards a complete elimination of the sector. As the Fund moves toward implementing its criteria fully, it will consider the opportunities presented by shareholder engagement. Because investors are in a special position to make the business case for sustainability to company management, this may be an attractive step for the Fund.

#### **1. Environmental Performance**

The Fund wishes to invest in companies whose environmental policies and practices are determined to be “Best of Sector” when compared to their sector peers and in those who demonstrate a commitment to environmentally beneficial products, services and processes. The Fund wishes to avoid companies whose practices or products may pose significant threats to the environment and human health, and who are not leaders in addressing their environmental footprints.

The Fund will consider the following corporate practices when evaluating a company’s environmental performance:

##### **Strengths**

- Research and/or market renewable energy- technologies (Including, but not limited to wind, solar and hydrogen as well as sustainable electricity storage)
- Research and/or market technologies, products or services that make energy use significantly more efficient (Including, but not limited to, district or distributed energy, more efficient end-use devices, and smart grid technology to reduce transmission losses)
- Reduce significantly all waste streams through pollution prevention, design for environment, resource reduction, recycling or closed-loop technologies
- Develop innovative ways to reduce harmful emissions and energy consumption of operations, products or services throughout the lifecycle of its processes and products
- Demonstrate a long-term commitment to reducing negative environmental impacts by developing, and thereafter reporting on, waste, energy and resource reduction goals
- Produce and/or market organic products
- Participate publicly and actively in multi-stakeholder institutions that promote industry standards and best practices around sustainability issues (examples include the UN Global Compact, Carbon

Disclosure Project, the World Business Council on Sustainable Development, Electronic Industries Code of Conduct, CERES, GRI and Forest Footprint Disclosure.

### **Concerns**

- History of significant environmental fines, penalties, lawsuits or major controversies relating to air, water or land pollution
- Established patterns of violating federal, state or local environmental regulations
- Failure to significantly or repeatedly address the risks related to climate change
- Production or significant usage of substances known to be particularly damaging to the environment and/or human health as outlined by national toxic substances registries including, but not limited to the U.S. EPA's Toxic Release Inventory ("TRI") Program and the European Commission's Pollutant Release and Transfer Register (E-PRTR)
- Reliance on unsustainable environmental practices that exploit or extract natural resources and disclosing no publicly disclosed and measurable system to reduce or eliminate such practices

## **2. Fossil Fuels**

The Fund will avoid investments in companies that play key roles in the exploration, production, and retailing of fossil fuels, especially coal. In the **Immediate Term**, this will entail excluding from the fund's portfolio the following:

- Companies that mine or directly own coal properties
- Utilities that generate more than the national average of their base load power from burning coal
- Oil & Gas Services or Natural Gas companies with significant involvement in or controversies related to hydraulic fracturing
- Key producers of petrochemicals

The Fund may approve for investment in the **Immediate Term**, Integrated Oil, Oil & Gas Services, Natural Gas and Utilities companies determined to be "Best of Sector" based on, for example, demonstrating leadership in managing their environmental risks or promoting renewable and cleaner energy.

In the **Medium Term**, the Fund seeks to avoid all investments in Integrated Oil companies. In the Longer Term, but as quickly as possible, the Fund intends to move towards eliminating all fossil fuel related companies, including Oil & Gas Services, Natural Gas and fossil fuel-dependent Utility companies, from the portfolio.

The Fund will implement its Fossil Fuels screen in tandem with the pace and scale at which policies and markets pertaining to a clean energy economy develop. Variables, such as the following, may advance or delay the criterion's implementation:

- Policy, legislative and regulatory developments including, but not limited to, a climate bill, carbon pricing, PACE bonds (Property Assessment Clean Energy), government subsidies, and renewable portfolio standards

- Price of renewable energy and continued technological developments in renewable electricity generation and storage
- Continued availability of credit for renewable energy projects
- Litigation, regulation or remediation costs that make fossil fuel energy more expensive
- Student, shareholder and NGO campaigns concerning companies or practices that are incompatible with long-term sustainability

In summary, the Fossil Fuel screen will evolve from a “Best of Sector” screen to one completely excluding companies that play key roles in the exploration, production, and retailing of fossil fuels as time, technological, regulatory, and economic events permit. Factors outside the Fund’s control will affect the pace of the screen’s implementation.

### **3. Nuclear Power**

The Fund seeks to avoid companies that derive 5% or more of their base load power from nuclear power or 5% or more of their revenues from products and services key to the production of nuclear fuel. Companies that produce key parts used in nuclear power facilities and utilities that sell purchased nuclear power will be approved.

### **4. Mining and Metals**

In the Immediate Term, the Fund will avoid investing in most mineral extraction companies.

The Fund will consider exceptions to this policy on a case-by-case basis.

The Fund may consider companies that demonstrate path-breaking, innovative methods and policies aimed at reducing the environmental and social impacts of mining. The Fund may approve diversified Metals & Materials companies that are “Best of Sector” due to their leadership in promoting recycling, measuring, reporting and reducing emissions, or for making products that have environmental benefits.

The Fund will make no exceptions for gold mining companies.

### **5. Employee and Labor Relations**

The Fund wishes to avoid companies that have a poor labor relations records and will consult International Trade Union Confederation (ITUC), AFL-CIO, SEIU and other union materials for guidance on company performance and boycotts. The Fund seeks to invest in companies that are working to improve their employee relations record, are considered to be more responsible than the worst performers in the same sector and/or have demonstrated a commitment to creating a high-performance workplace. The following will be considered when evaluating a company’s Employee and Labor Relations performance.

#### **Strengths**

- Addresses employee violations both domestically and internationally by developing and implementing improved policies and programs.

- Has a publicly available Code of Conduct that covers all company employees as well as significant suppliers.
- Offers employee benefits such as profit-sharing, domestic partner benefits, paid maternity and paternity leave, 401(k)-matching, etc.
- Maintains policies and programs to support the recruitment, retention and professional development of women and minorities.
- Have women and minority executive and board representation.
- Discloses regularly policies, programs and performance related to workplace practices pertaining to diversity, safety, and labor-management relations.

### **Concerns**

- Significant incidents or patterns of discriminatory hiring practices
- Significant incidents or patterns of discrimination against existing employees on the basis of race, age, gender, religion, disability, sexual orientation or gender identity
- Significant incidents or patterns of unsafe labor practices
- Significant incidents or patterns of failure to comply with minimum wage laws
- A history of poor union relations, including aggressive efforts to prevent the formation of unions
- Failure to promote safe and fair labor standards throughout the supply chain

## **6. Community Impact**

The Fund seeks to avoid companies whose practices have negative social, environmental, economic or health impacts on the communities in which they operate. The Fund seeks to invest in companies that are positive contributors to the communities in which they operate.

## **7. Human Rights**

The Fund seeks to invest in companies that promote and protect international human rights in their internal operations and in their host communities. It seeks to avoid those companies with repeated violations of and significant impacts upon human rights and lack robust policies, programs, and disclosures related to those impacts. (Examples of direct violations include but are not limited to; use of forced labor and discrimination in the workplace and other violations of labor rights, detailed above. Additional human rights impacts of concern are companies who will not reveal their revenue sharing and security arrangements with a host country that is engaged in serious conflict and gross human rights violations.) The Fund also seeks to avoid investments in companies operating in violation of international sanctions.

## **8. Social Justice Movements**

The Fund seeks to demonstrate solidarity with social advocacy campaigns and boycotts based on values shared by the Fund. Companies that are targeted by such campaigns and boycotts will be considered for shareholder engagement, divestment and/or restriction from the portfolio on a case-by-case basis.

## **9. Political Contributions**

The Fund seeks to avoid companies that give disproportionately to causes or candidates that run counter to the Fund's mission and values. Due to the lack of consistency and transparency in political contribution data, it

may not always be possible to identify all instances of political contributions of concern to the Fund. However, the Fund is committed to implementing this screen when data is sufficient.

## **10. Water Privatization**

The Fund seeks to avoid companies involved primarily in the privatization of water.

## **11. Industrial Agriculture**

The Fund seeks to avoid companies that produce pesticides and other agricultural toxics, or contribute to deforestation, mono-cropping and/or forced or unfair labor practices. Companies involved in crop genetic modification may be allowed into the portfolio. This criterion will be implemented on a case by case basis, considering all factors related to the effects of genetic modification, such as social impact and environmental health.

## **12. Military and Weapons**

The Fund wishes to avoid companies whose products and services are uniquely military in nature, or that are significantly involved in the production and distribution of armaments. The Fund will avoid all companies for which a majority of revenue comes from the production and sale of weapons, as well as the list of the largest manufacturers of armaments. Currently, such a list is available from the Stockholm International Peace Research Institute (SIPRI).

## **13. Prisons**

The Fund will not invest in companies who specialize in building or operating private prisons.

## **14. Product Safety and Integrity**

The Fund wishes to avoid companies deemed to have a poor record of product safety or integrity. The following will be considered when evaluating a company's Product Safety and Integrity performance.

### **Strengths**

- Products and services have socially and/or environmentally beneficial attributes
- Quality management system such as ISO 9001
- Commitment to responsible marketing policies and practices

### **Concerns**

- Convictions for major product liability or product safety violations
- Pattern of consumer fraud or demeaning or unfair marketing
- Manufactures products or uses advertising that are violent, racist or sexist, or that can be linked to societal conflict

## **15. Corporate Governance**

All of the criteria in this investment policy are, in the end, about corporate governance. Well-governed corporations are attentive to the needs of all their stakeholders, as problems with environmental and social

statutes and regulations can harm companies financially, which includes reputational damage and impairment of companies' social license to operate. In addition, however, the measures by which many investors judge corporate governance are also useful, as the Fund wishes to avoid companies whose governance may result in a loss of shareholder value.

### **Strengths**

- Political accountability disclosure, including guidelines or policies on lobbying, bribery, whistleblower protection, trade association memberships and political donations
- Moderate executive compensation tied to performance metrics
- Majority independent board members and independent audit committees
- Regular and robust reporting on ESG data

### **Concerns**

- Fined for significant price fixing, options backdating, antitrust or corruption violations
- Excessive executive compensation not tied to ESG and financial performance metrics
- High executive turnover and/or incidence of ethics or legal violations, lawsuits and fines
- Failure to report or disclose information related to ESG performance
- Active lobbying in favor of public policies that run contrary to the Fund's mission

## **16. Tobacco Production**

The Fund will not invest in companies that produce tobacco or tobacco products.

### ***B. High Impact Investments***

Through high impact investments, the Fund seeks to direct capital to areas that address its core mission while also generating some financial profit. While high impact investments may provide a return of capital, such returns may range from market-rate to below-market-rate returns. Below-market-rate returns are defined to be returns that are lower than what the market would dictate an investor should receive, given the commensurate level of risk.

The Fund will make investments in businesses/projects whereby its capital can be leveraged for positive results within the investee organization and wider goals of the organization.

The Fund seeks to make high impact investments in companies and projects that support social justice, environmental sustainability, human and labor rights, healthy communities, and civic engagement. The Fund may also consider Program Related Investments, though the IRS classifies PRI's as counting towards a foundation's 5% charitable distribution. The Fund grants out in excess of 5% already so the Fund may not need to classify an identified PRI as such on its tax return.

Examples of such investments may include, but are not limited to:

- Community investment notes,



- Loans to sustainable enterprises,
- Guarantees on loans to organizations,
- Microfinance,
- Private, public, private or quasi equity investments in high impact areas,
- Social venture funds,
- Community banking,
- Real estate (redevelopment projects, urban revitalization, green buildings)

The Fund seeks to invest [5%] of its endowment into such high impact areas.

Many of these investments will not be publically traded securities. The Fund is comfortable with investing in such vehicles that may have longer investment time horizons, below-market financial returns, stricter liquidity restrictions, and require higher minimums to participate.

### ***C. Shareholder Engagement***

To further align its investments with its mission, the Fund will consider shareholder engagement for its endowment. This may include company dialogue, shareholder resolutions or participating in investor/stakeholder coalitions. While the Fund is committed to investing in companies that are ESG leaders, there may be opportunities to leverage our shareholder status to encourage the companies in the portfolio to strengthen their policies and practices. Additionally, the Fund may decide to hold companies that would otherwise violate the ESG criteria for strategic engagement purposes. Due to the potentially lengthy time commitment, this may require the Fund to hold equity positions in such companies for an extended period of time (potentially three to five years). The Fund is interested in engaging companies on issues related to our mission, including the following:

- Environment and Human Health
- Climate Change
- Human, Women’s and Civil Rights
- Corporate Reporting and Transparency
- Social Justice
- Political Contributions
- Sustainable Agriculture
- Media Policy

The Fund may use various third party entities to assist it execute a shareholder advocacy campaign. Such a decision will be based on the specific strengths of any third party entities and the particular company/issue at hand.