



ESG and Sustainable Investment

Wellesley Banana Blast

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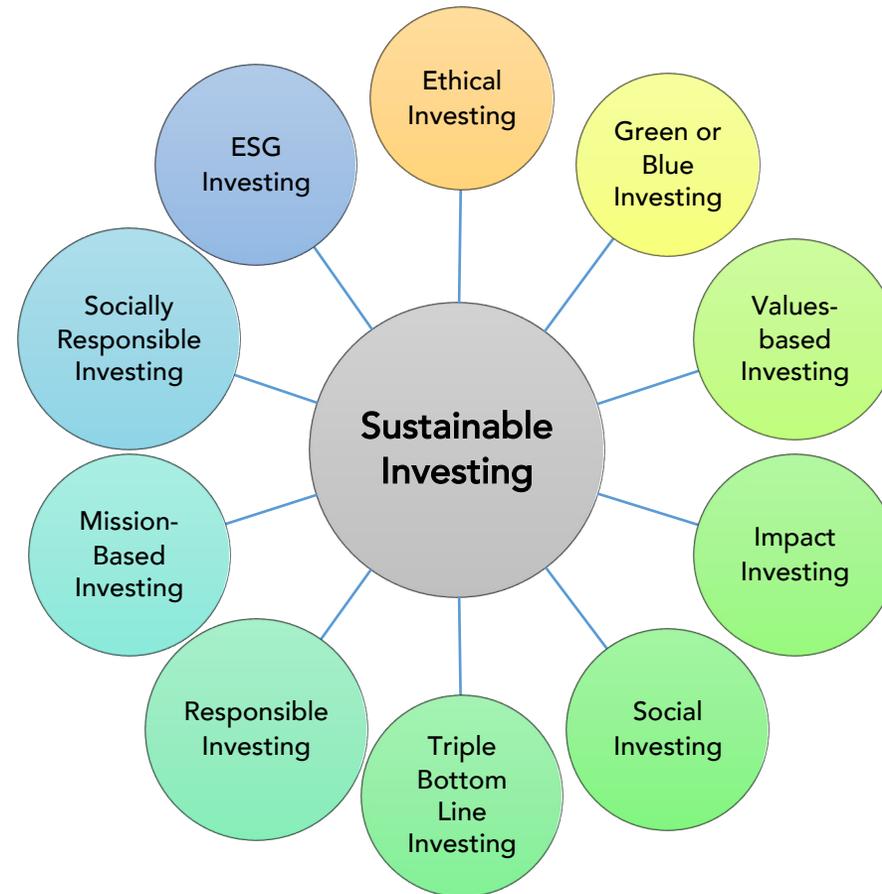
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- Evolution
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Terminology

What is Sustainable Investing?

There is no single term to describe sustainable investing and terms are often used interchangeably.

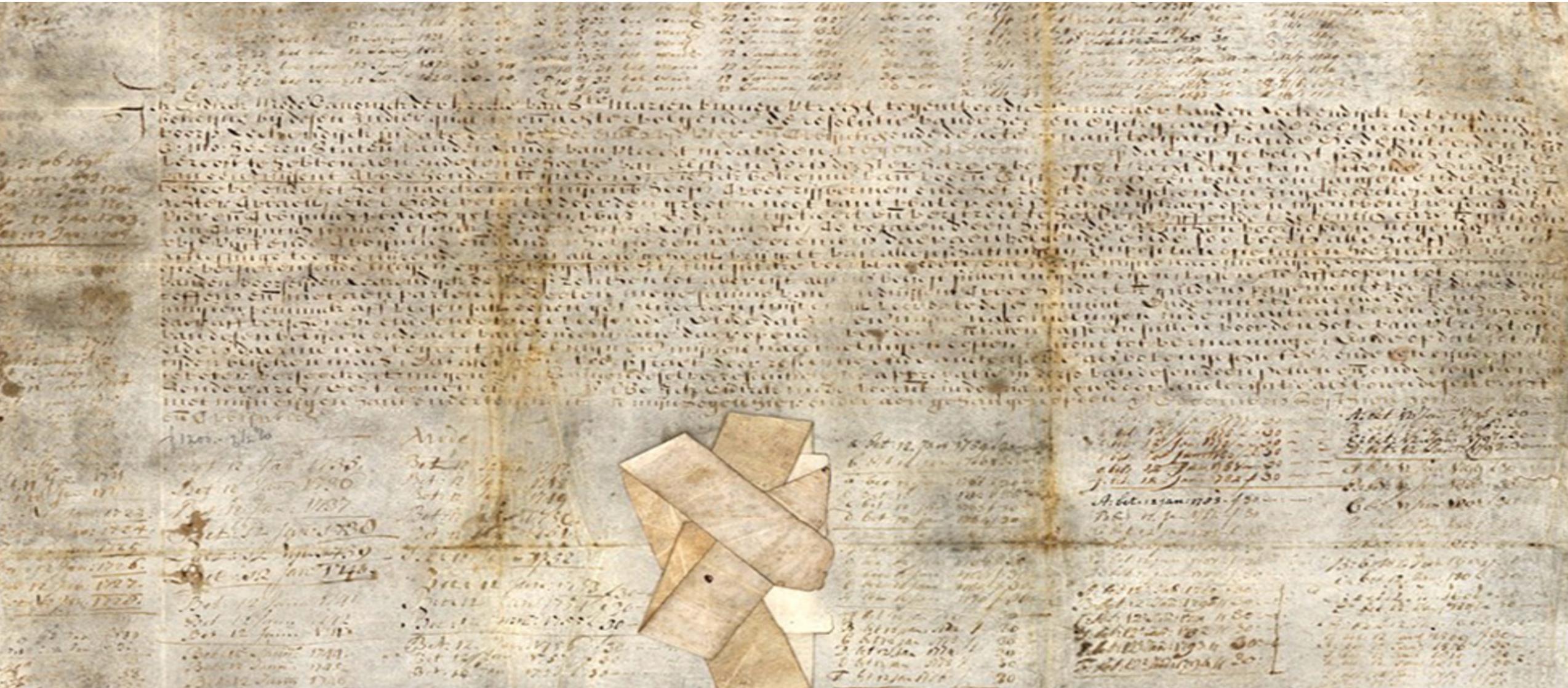


Key Definitions

<p>SRI (Socially Responsible Investing) "Know Why You Own It"</p>	<p>Historically SRI used <i>exclusionary</i> criteria--screening out investments based on moral or ethical considerations--Now it is evolving into a <i>more positive process</i>—<i>Screening IN investments to support values.</i></p>	<p>ESG (Environmental, Social and Governance) "Know What You Own"</p>	<p>The <i>systematic</i> and <i>explicit inclusion</i> of <i>ESG risks</i> in investment <i>screening</i>. This is now becoming a mainstream investment practice</p>
<p>Impact Investing "Know What It Does"</p>	<p>Investing to to generate <i>specific, measurable and positive social and/or environmental outcomes.</i> This IS the new horizon.</p>	<p>Stewardship or Engagement "Know How to Change It"</p>	<p>Investors committing to interact with corporations or issuers to <i>positively influence their behaviour.</i></p>

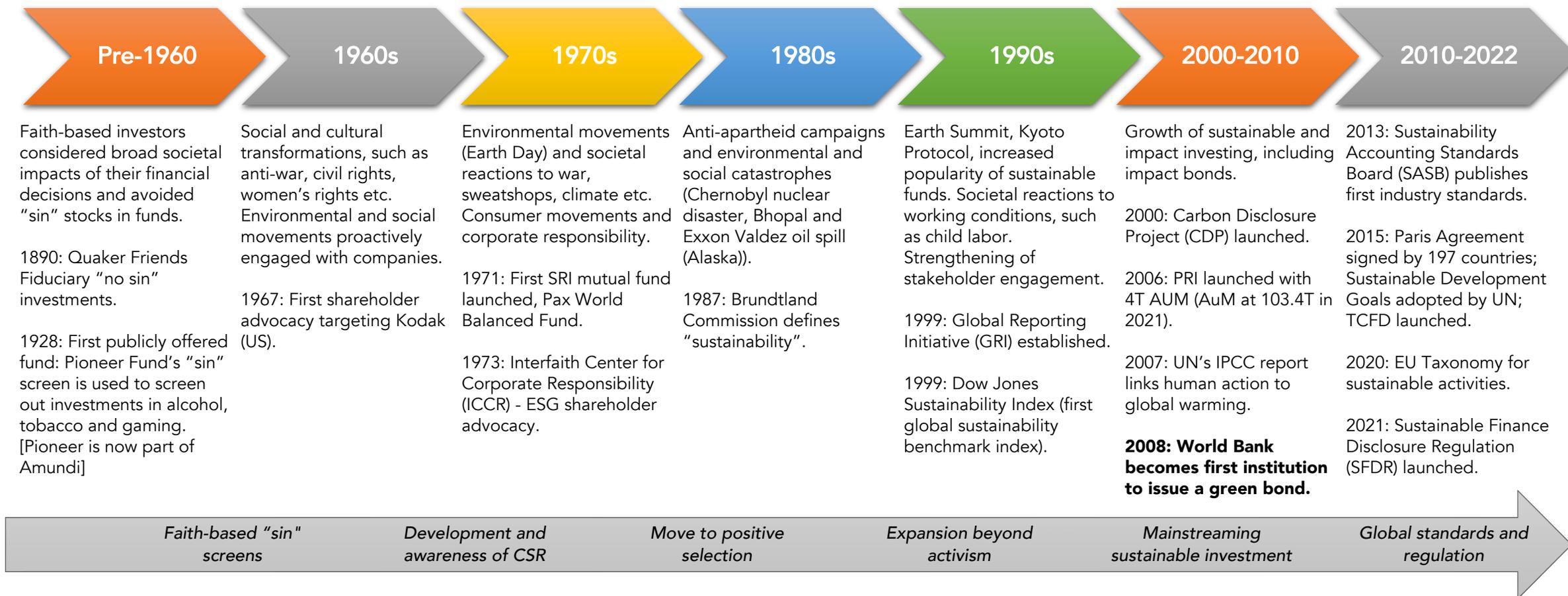
Evolution

Lekdijk Bovendams Water Board bond, 1624



Sustainable Investing: Evolution

Modern origins of investing for impact stretches over centuries. This is a representative list only.



Who is driving Sustainable Investment?

- WE ARE. Boomers, Millennials, and GenXs
- Institutional investors, such as our Banks, Insurance Companies and Pension funds
- Mission-driven institutions: foundations and endowments
- Family offices
- Faith-based organizations
- Retirement plan sponsors/participants
- Some companies (B Corporations, etc.)

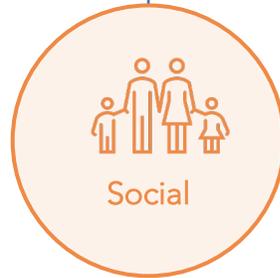
Examples of ESG Criteria and Engagement in Investing

ESG Concerns

ESG criteria



Climate change
Air and water pollution
Energy efficiency
Sustainable procurement (supply chain)
Water management
Land and marine management
Deforestation and Biodiversity
Raw materials sourcing
Clean technology



Worker Diversity, equity and inclusion
Workplace health and safety
Labor relations
Product integrity
Human rights/community relations
Indigenous people's rights
Health and access to medicine/COVID response
Privacy and data security



Board composition, diversity and independence
Shareholder rights and voting structure
Executive compensation
Lobbying and Political contributions
Transparency and disclosure
(including reporting)
Business ethics and policies
Anti-corruption policies
Audit committee structure
Whistleblower schemes

The Goal of ESG is to Identify Risks and Opportunities, support Quality Businesses, and to push for Positive Change

Examples of Engagement Approaches

Voting Proxies

- Vote on proposals brought forth by the company or other shareholders
- In the US, it is an essential measure of good corporate governance and required of mutual funds.
- Not binding but sends a signal and puts pressure on the company.
- Majority votes are rare; 30% is often viewed as "successful."

Dialogue Participation

- Opportunity for investors to learn how a company is addressing ESG issue and to gather more information.
- Opportunity for the company to learn about shareholder concerns.
- Agreements can be reached to strengthen company's policies or practices.
- Shareholders may file resolutions if dialogue unsuccessful.

Shareholder Resolutions

- Various regulatory requirements depending on country.
- US Example: Filer must hold \$2,000 in stock; proposals no longer than 500 words and proof of ownership document confirming shares held over a year; shareholder (or designated representative) must be present in person at the Shareholder Meeting to read the proposal aloud; etc. All shareholders can vote "in favor," "against" or "abstain."*

VOTE YOUR PROXIES !

If you are a shareholder of a corporation, you have a say through your vote.

It may seem like your share of the vote is too small to matter BUT it is essential that company boards hear shareholders concerns:

- Binding resolutions can concretely reshape the course of a company.
- Corporate board elections can change a board from crony boards to those with a longer-term and wider impact focus.
 - Investors have been organizing efforts to vote in women and vote out board members who deny climate change.
- Even the nonbinding proposals such as advisory votes on compensation practices can help change the incentives of company executives.
- The range of items up for vote on a proxy ballot is an opportunity for YOU to weigh in on the governance and direction of a company you own a piece of.

Wellesley's Responsible Investment Policy



- Consistency with its social mission and values
- Screen managers for their ethical, investment, operational and performance standards.
- Divesting over time from its fossil fuel Investments. No new investments are being made.
- Wellesley believes in active engagement and votes their proxies.
- As a member of the college community, we can request that the Subcommittee on Investment Responsibility of the Board of Trustees invest endowment assets according to our specific social values.

<https://www.wellesley.edu/investmentoffice/initiatives>

Reporting

Institutional Investors/Big Corporations are being asked to report ON their contribution to the UNSDGs.

End poverty, protect the planet, and ensure peace and prosperity.

It is estimated that there is a USD 2.5 trillion annual gap in investments to achieve the SDGs by 2030¹.

The UN Sustainable Development Goals (SDGs) were adopted in 2015 by all UN Member States.

- 17 goals with 169 targets designed to achieve a better and more sustainable future for everyone by 2030.
- We won't make it. But that doesn't mean we don't all need to do our part.



The scale of the global sustainability challenge is beyond the capacity of the public sector alone.

It is essential that private money be channeled into sustainable finance to fund the transition to a low-carbon and inclusive economy.

SDG Relationships



Graphics by Søren Lohmannsdahl

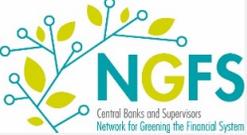
- On a macro level, all investors affect the SDGs through their own choices and lending.
- Reporters are expected to tag SDGs that are material to the entity's type*. For Banks they could be:
- **1: Reduction in Poverty**
- **3: Health and Wellbeing**
- **4: Quality Education**
- **5: Gender Equality**
- **7: Affordable Energy**
- **8: Decent Work and Economic Growth**
- **9: Industry, Innovation and Infrastructure**
- **10: Reduced Inequality**
- **11: Sustainable Cities**
- **12: Responsible Consumption and Production**
- **13: Climate Action**

Some SDGs will be more material for some investments than others.

Example: SDGs 1, 4, 5, 7 and 10 are material for community banks etc.

BUT it is IMPORTANT to remember that all SDGs influence each other.

Frameworks and Standards for Reporting

				
<p>9,946 companies across 162 countries have pledged to adopt sustainable and socially responsible policies and publicly report on them.</p>	<p>TCFD seeks to capture carbon intensity and risk in corporate operations. Nearly 800 organisations accounting for USD 188tn AUM are official supporters. Many more investment houses are struggling to report according to their framework.</p>	<p>Network of Central Banks and Supervisors for Greening the Financial System. 116 Central Banks, Regulators, and other key agencies who are developing environmental and climate risk management in the financial sector. US Federal Reserve is a member</p>	<p>Launched in 1997, it is the first and most adopted global standard for sustainability reporting.</p>	<p>Launched in 2006, now has about 7,000 signatories pledging to incorporate ESG into their corporate decisions and strategies. Many—but not all— company reports are public.</p>
				
<p>Founded in 2009, an Investor-focused organization working on mobilizing the \$100 trillion bond market for climate change solutions through the Climate Bonds Standard and Certification Scheme, Policy Engagement and Market Intelligence work.</p>	<p>Founded in 2000 and working with more than 590 investors with over \$110 trillion in assets on environmental disclosure. Over 10,000 organizations disclosed data through CDP in 2020, including more than 9,600 companies and over 940 cities, states and regions.</p>	<p>Formed in 2021 by the merger of The International Integrated Reporting Council and the Sustainability Accounting Standards Board offering resources to help businesses and investors develop a shared understanding of enterprise value, including Integrated Thinking Principles, Integrated Reporting Framework and SASB Standards – adopted in over 70 countries.</p>	<p>Launched with 130 banks from 49 countries, representing USD 47tn in assets in September 2019.</p>	<p>The Institutional Investors Group on Climate Change is a European group for investor collaboration on climate change and progress towards a net zero and resilient future by 2030. This is made up mainly of pension funds and they are in close partnership with US Investor Networks such as Ceres' INCR</p>

The EU Taxonomy

https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/eu-taxonomy-sustainable-activities_en

“Taxonomy-aligned” investments must meet three conditions:

1 Make a substantial contribution to at least one of six environmental objectives:

1. Climate change mitigation
2. Climate change adaptation
3. The sustainable use and protection of water and marine resources
4. The transition to a circular economy
5. Pollution prevention and control
6. The protection and restoration of biodiversity and ecosystems

2 Do no significant harm to any other EU environmental objective:

- Sustainable use and protection of water and marine resources
- Transition to a circular economy
- Pollution prevention and control
- Protection and restoration of biodiversity and ecosystems

3 Meet minimum social safeguards

Defined in reference to the:

- UN Guiding Principles on Human Rights
- OECD guidelines
- ILO core labour conventions



NOTE: Some jurisdictions are now developing their own taxonomies (i.e., Bangladesh, Canada, China, Malaysia, Mexico, Mongolia, South Africa, UK etc.). **We need to ask the US to do so, as well.**

Questions to ask yourself and your advisors

Know where you and your advisors/banks stand

- Knowing where you stand in terms of your personal values and ethics helps in charting out your portfolio
- Be patient. You CAN transition to a portfolio that is more focused on sustainability principles gradually. It may seem like a slow shift, but with more and more companies becoming articulate about sustainability, it is becoming easier and easier for you to find advisors and good investments.
- KNOW your personal priorities. And DEMAND transparency on the part of the institutions where you put your money.

Questions to ask yourself

<https://www.ussif.org/education>

- **Are there issues you particularly care about?**
 - **In your community?** (in particular you can ask your banks)
 - Affordable Housing
 - Community services
 - Microenterprises
 - Small and Medium-sized businesses
 - Place-based lending
 - Etc.
 - **In your Environment?**
 - Climate Change
 - Mitigating climate change
 - Adapting to Climate Change
 - Fossil fuel divestment
 - Green Building
 - Water conservation
 - Etc.

US | SIF FOUNDATION | THE CENTER FOR SUSTAINABLE INVESTMENT EDUCATION

Sample ESG Issues Questionnaire

This sample questionnaire is intended to provoke thought about personal priorities in your investment portfolios. If you have a financial advisor, consider using this to start a conversation on how they can help you address the issues most important to you.

To get started, do you contribute to any not-for-profit or community-based organizations? If yes, please list here and indicate if contributions are financial (donations), time (volunteering), or goods (non-financial contributions):

Would you like corporate environmental, social and/or governance (ESG) concerns to be addressed through your investments?

Yes
 No

If yes, please select your motivation(s) for considering ESG criteria in investment selection:

To minimize risk over time
 To improve returns over time
 To comply with my values
 To pursue social or environmental impact
 Other, please specify:

Your investment portfolio can address multiple issues. Please indicate where you would like your investments to make a difference:

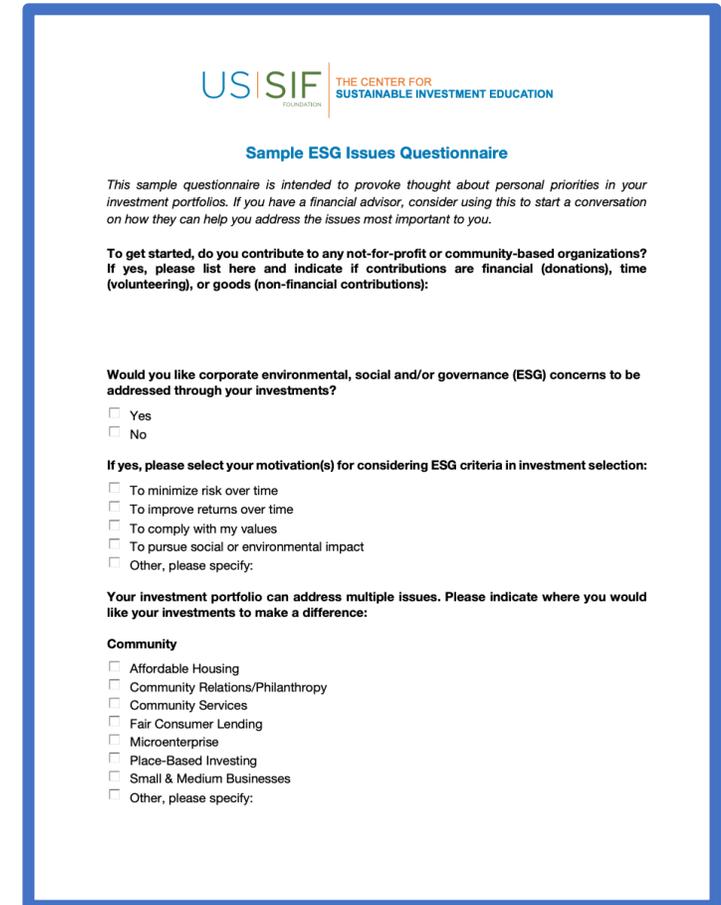
Community

Affordable Housing
 Community Relations/Philanthropy
 Community Services
 Fair Consumer Lending
 Microenterprise
 Place-Based Investing
 Small & Medium Businesses
 Other, please specify:

Questions to ask yourself (Cont.)

<https://www.ussif.org/education>

- **In your society?**
 - Diversity and Equality incl. Racial Justice
 - Health and Safety
 - Labor Relations
 - Human Rights
 - Gender-lens
 - Avoiding repressive or terrorist regimes. Etc.
- **Regarding Corporate Governance?**
 - Executive pay
 - Political Contributions and lobbying
 - Transparency and anti-corruption, etc.
- **Products you want to Avoid?**
 - Alcohol and Tobacco
 - Animal Testing
 - Gambling
 - Nuclear or fossil fuels
 - Weapons and Fire-arms



The image shows a sample ESG Issues Questionnaire from USSIF (The Center for Sustainable Investment Education). The document is titled "Sample ESG Issues Questionnaire" and includes an introductory paragraph explaining its purpose: "This sample questionnaire is intended to provoke thought about personal priorities in your investment portfolios. If you have a financial advisor, consider using this to start a conversation on how they can help you address the issues most important to you." It then asks the respondent to list any not-for-profit or community-based organizations they contribute to, specifying the type of contribution (financial, time, or goods). The questionnaire includes several sections with checkboxes for responses:

- Would you like corporate environmental, social and/or governance (ESG) concerns to be addressed through your investments?**
 - Yes
 - No
- If yes, please select your motivation(s) for considering ESG criteria in investment selection:**
 - To minimize risk over time
 - To improve returns over time
 - To comply with my values
 - To pursue social or environmental impact
 - Other, please specify:
- Your investment portfolio can address multiple issues. Please indicate where you would like your investments to make a difference:**
 - Community**
 - Affordable Housing
 - Community Relations/Philanthropy
 - Community Services
 - Fair Consumer Lending
 - Microenterprise
 - Place-Based Investing
 - Small & Medium Businesses
 - Other, please specify:

Questions to ask your advisors, bank, or pension fund representatives

- Do you offer “sustainable,” “ESG”, or “impact” investment portfolios or choices?
 - (What are they?)
- Does your company have a sustainable investment or “ESG” policy?
 - (May I see it?)
- What exclusion policies does your company have? (Arms? Tobacco? Prostitution?)
 - (May I see them?)
- How can I create a sustainable investing portfolio according to my values?
 - (Can I make selective substitutions?)
- How can I know that my money is going where I want– do you have sustainability or impact reports for your funds—and for MY investment portfolios?
- Do you have reports on your company’s corporate Sustainability Performance?
 - (Are they aligned to particular standards like GRI or TCFD?)

A few Resources

The logo for USSIF (The Forum for Sustainable and Responsible Investment) features the letters 'USSIF' in a sans-serif font. The 'U' and 'S' are blue, the 'I' is orange, and the 'SIF' is green.

- **US SIF: The Forum for Sustainable and Responsible Investment**
 - The leading group working on advancing sustainable investing across all asset classes. Their **mission** is to rapidly shift investment practices toward sustainability, focusing on long-term investment and the generation of positive social and environmental impacts. They have an extensive financial directory of advisors, banks and credit unions, and other practitioners. [USSIF.org](https://ussif.org)

The logo for First Affirmative Financial Network features a stylized graphic of three overlapping shapes (a blue triangle, a yellow triangle, and a green triangle) to the left of the text 'First Affirmative' in green and 'FINANCIAL NETWORK' in blue below it.

- **First Affirmative Financial Network**
 - A network of independent investment advisors committed to making sustainable choices available for individual investors and can help you find an advisor. <https://www.firstaffirmative.com/>

The logo for UN PRI (The UN Principles for Responsible Investment) features a stylized graphic of four blue squares of increasing size to the left of the text 'PRI' in large blue letters, with 'Principles for Responsible Investment' in smaller blue text to the right.

- **UN PRI: The UN Principles for Responsible Investment (PRI)**
 - An international organization that works to promote the incorporation of environmental, social, and corporate governance factors (ESG) into investment decision-making. Members must report annually. Many permit their reports to be public. <https://www.Unpri.org>

A few Resources (2)

- **As You Sow** is a non-profit foundation that promotes corporate social responsibility through shareholder advocacy and legal strategies. www.asyousow.org



- As You Sow's [Invest Your Values](#) helps you screen mutual funds and ETFs against specific environmental, social, and governance issues.
- The [Fossil Free Funds](#) website, in partnership with Morningstar, looks at the climate impact of funds. There are five other "Invest Your Values" online tools:
- [Deforestation Free Funds](#), which may be of interest if you are concerned about rainforest destruction and the palm oil exposure of funds.
- [Gun Free Funds](#), which shows how your money might be invested in gun manufacturers and gun retailers.
- [Gender Equality Funds](#), which screens funds using company performance on 12 key gender equality indicators.
- [Weapon Free Funds](#), which shows how your money might be invested in weapons of war.
- [Tobacco Free Funds](#), which shows if your fund has tobacco companies, and if they are promoting tobacco to kids.



- **CDP** runs a global environmental disclosure system. Each year CDP helps thousands of companies, cities, states and regions to measure and manage their risks and opportunities on climate change, water security and deforestation. Much (but not all) of their information is public. www.cdp.net



- **Carbon Tracker** is a non-profit tank dedicated helping institutions and individuals understand the climate risks. They provide in-depth analysis on the impact of the energy transition on capital markets. You can register on their site for free and access their research, including company assessments and research on the energy transition. <https://carbontracker.org>

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