




The Socially Responsible Investing and ESG Landscape

- Jessica J. Huang, CFA, Director, BlackRock
- Chris Breckon, Vice President, MSCI

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- What is ESG? What is SRI? How are they different?
 - What are the performance implications for integrating these concepts into an investment process?
 - What are some differences between deploying ESG in equity and fixed income portfolios? Are there unique opportunities within a given asset class?
 - How do you address shareholder activism and proxy access?
 - What are some of the challenges of ESG integration and how have you seen them solved?
 - What ESG/SRI data is available to me and what are some of its distinguishing characteristics?
 - What existing investing solutions or products are available for immediate implementation?
 - What about my duty as a fiduciary? Can I invest in ESG and still meet my obligations?

What does ESG and SRI look like in Practice?

- David Carr, Assistant City Treasurer, City of Santa Monica
- Damien Charl y, Investment Administrator, EBMUD

Why ESG?

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE ISSUES IN INVESTING

A Guide for Investment Professionals

CFA Institute

A critical factor in the financial performance of investments is the investor's ability to identify drivers of the expected risk and return of investments. (...) However, issues that are difficult to measure in monetary terms and that do not form part of traditional financial metrics also affect the risk and return of investments—at times, decisively. In general, they are referred to as environmental, social, and governance (ESG) issues.”

What is ESG?

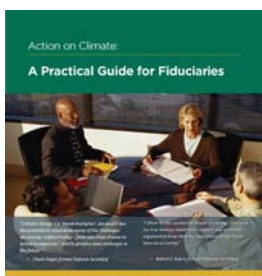
Environmental Issues	Social Issues	Governance Issues
<ul style="list-style-type: none"> ■ Climate change and carbon emissions ■ Air and water pollution ■ Biodiversity ■ Deforestation ■ Energy efficiency ■ Waste management ■ Water scarcity 	<ul style="list-style-type: none"> ■ Customer satisfaction ■ Data protection and privacy ■ Gender and diversity ■ Employee engagement ■ Community relations ■ Human rights ■ Labor standards 	<ul style="list-style-type: none"> ■ Board composition ■ Audit committee structure ■ Bribery and corruption ■ Executive compensation ■ Lobbying ■ Political contributions ■ Whistleblower schemes

What is Responsible Investment?



“an approach to investing that aims to incorporate ESG factors into investment decisions, to better manage risk and generate sustainable, long-term returns”

What about Fiduciary Responsibility?



ESG
 IFC
 IE
 CROFTON INSTITUTE

“an approach to climate change grounded in an assessment of financial risk and opportunity, with a clear focus on the financial interests of beneficiaries and the economic interests of the plan, is, we believe, entirely consistent with fiduciary duty”

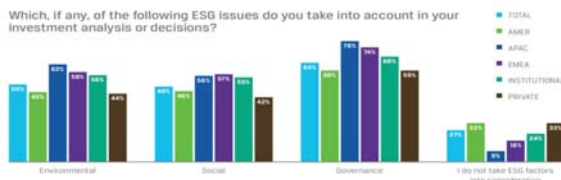
You're probably already doing ESG!



ESG ISSUES IN INVESTING: INVESTORS DEBUNK THE MYTHS

This survey explains how investors view environmental, social, and governance (ESG) issues and data and the role ESG issues play in their investing process.

Which, if any, of the following ESG issues do you take into account in your investment analysis or decisions?



Getting into ESG vs. Living with ESG

- Two case studies
 - East Bay Municipal Utility District Employees Retirement System (EBMUDERS) recently adopted ESG considerations into its policy
 - Santa Monica has had ESG considerations into its policy for ?? years.

EBMUDERS' ESG Journey

- 2015 Board and union express interest in exploring ESG
- 2016 Training sessions and discussions, development of a roadmap
- 2017 Investment policy changes, first implementation steps

Deciding on an ESG Roadmap

- Step 1 Be clear about your mission as a organization and an investor
- Step 2 Specify your objectives and your investment beliefs
- Step 3 Understand your climate change exposure
- Step 4 Analyze options and decide on the mix that best meets your objectives
- Step 5 Implement your plan
- Step 6 Monitor and evaluate outcomes

Walking through an ESG Roadmap

- Training
 - Passive investments and ESG
 - ESG methods for responding to climate change
 - Third party presentations from UC, SASB, INCR
- Analysis
 - Proxy voting
 - Climate Change Exposure

Policy Changes on ESG

- New Mission Statement
- New Investment Beliefs
- Additional Investment Goal

Future ESG Items

- ESG is part of the toolkit to maintain a sustainable system
- Already some steps taken:
 - Joined CERES
 - Proxy voting manager selection
- Other near term areas that could be influenced by ESG policy:
 - Passive allocation to ESG manager
 - New manager selection in Asset Allocation

Santa Monica IP

17. SOCIALLY RESPONSIBLE INVESTING

RESTRICTIONS – The direct investment of City funds are restricted as follows:

- a. Investments are to be made in entities that support clean and healthy environment, including following safe and environmentally sound practices.
- b. No investments will be made in fossil fuel companies as defined by the organization 350.org or in banking institutions that provide financing to said companies.
- c. No investments are to be made in tobacco or tobacco-related products.
- d. No investments are to be made to support the production of weapons, military systems, or nuclear power.
- e. Investments are to be made in entities that support equality of rights regardless of sex, race, age, disability or sexual orientation.
- f. Investments are to be made in entities that promote community economic development.

Funds invested with trustee and/or outside investment managers such as the Cemetery and Mausoleum Perpetual Care Funds will comply with this section of the policy.

SRI/ESG Metrics

IBH US \$ C 162.49 +0.79 1162.45 / 162.46W 25x26
 On 05 Jan d Vol 5,195,764 0 162.44P H 162.90K L 161.101D Val 842.096W

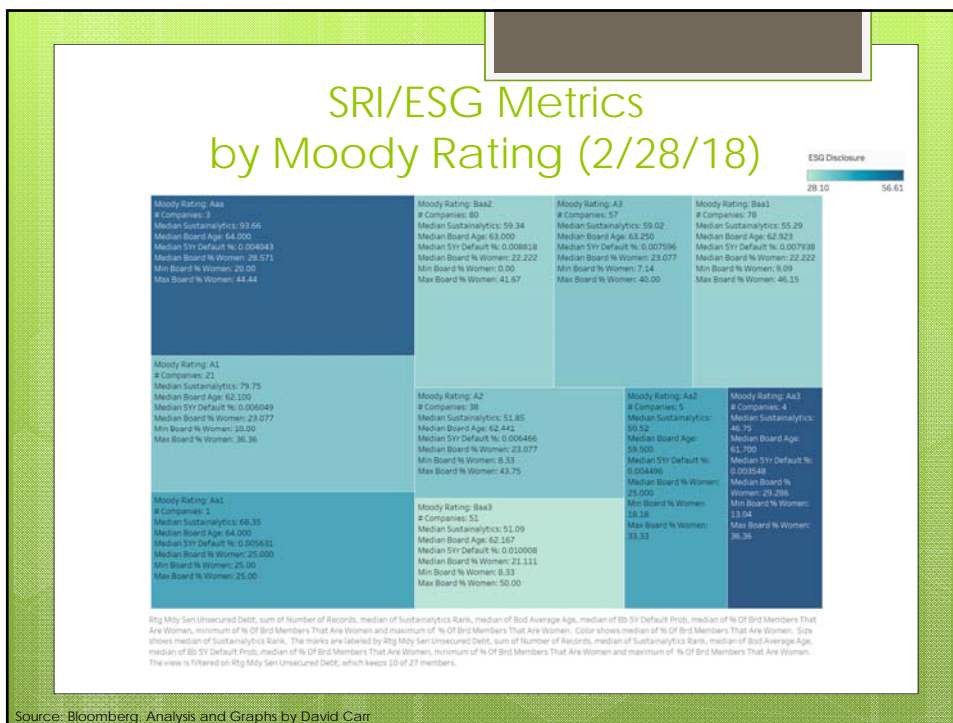
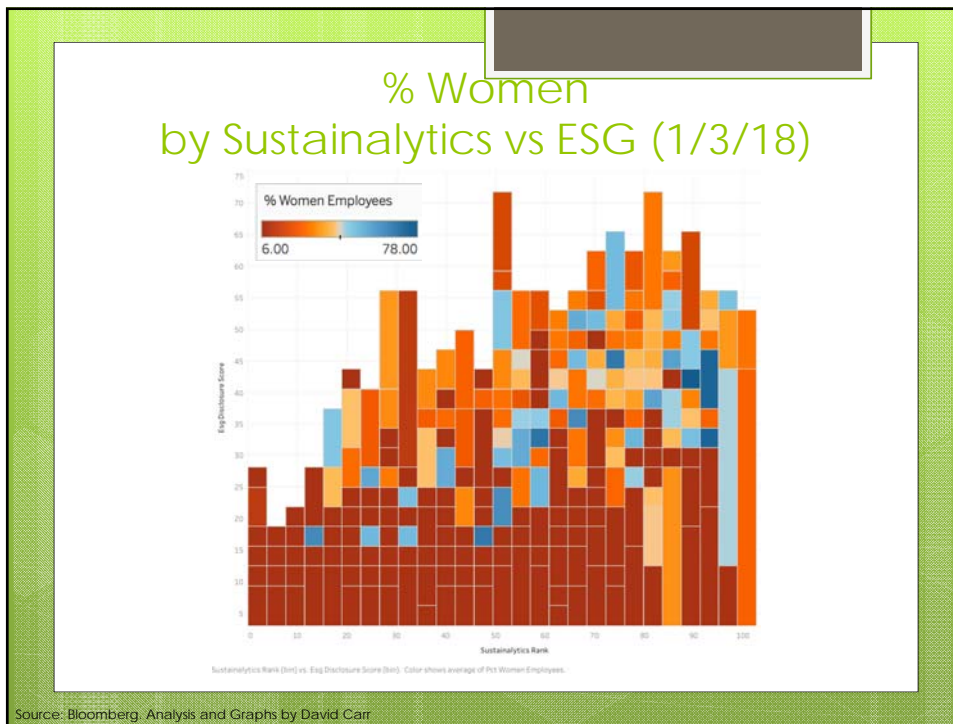
IBM US Equity Environmental, Social & Governance Analysis
 International Business Machines Corp History 5 Years Currency [USD]

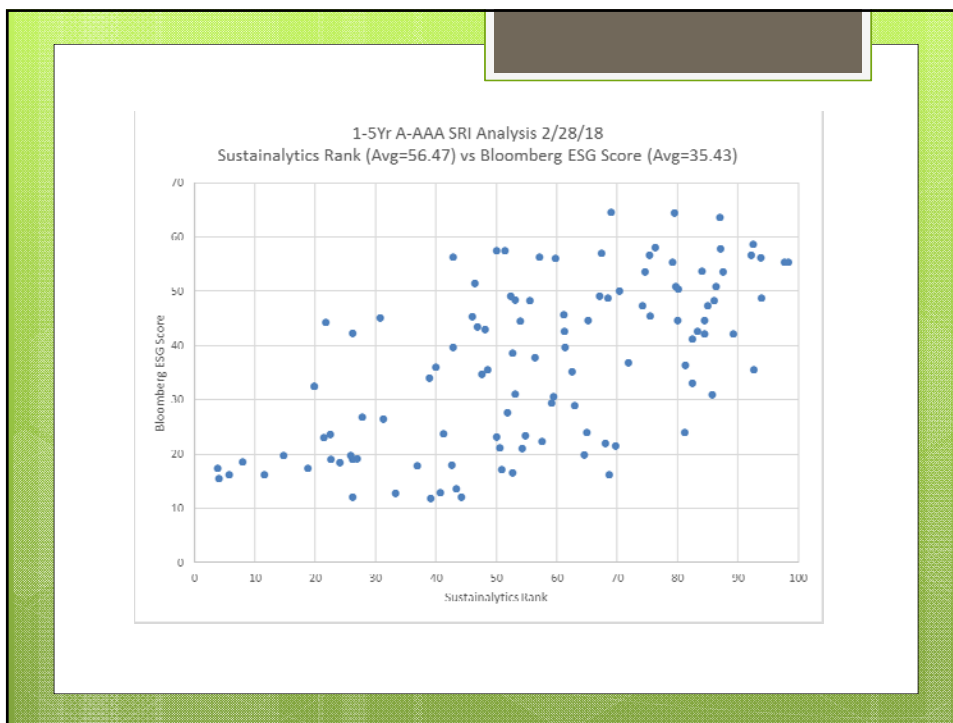
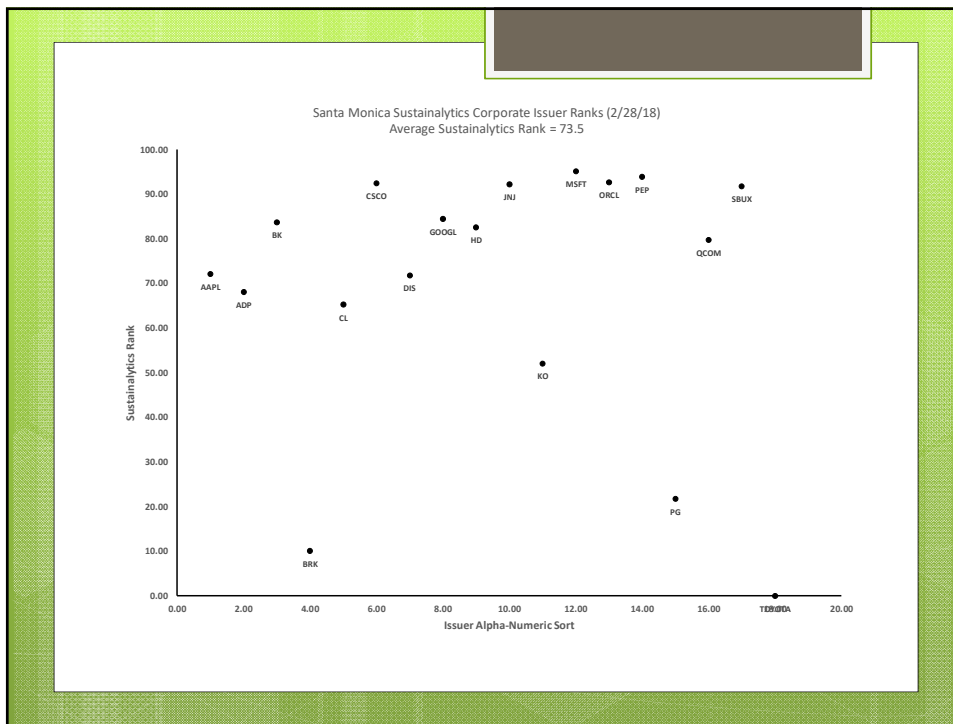
Summary	vs History	vs Peers	ESG Scores RV ESG
Environmental	Better	Worse	RobecoSAM Rank 69 ISS QualityScore 10
Social	Neutral	Better	Sustainalytics Rank 98.4 CDP Climate Score 6
Governance	Worse	Worse	Bloomberg ESG Disclosure 55.4

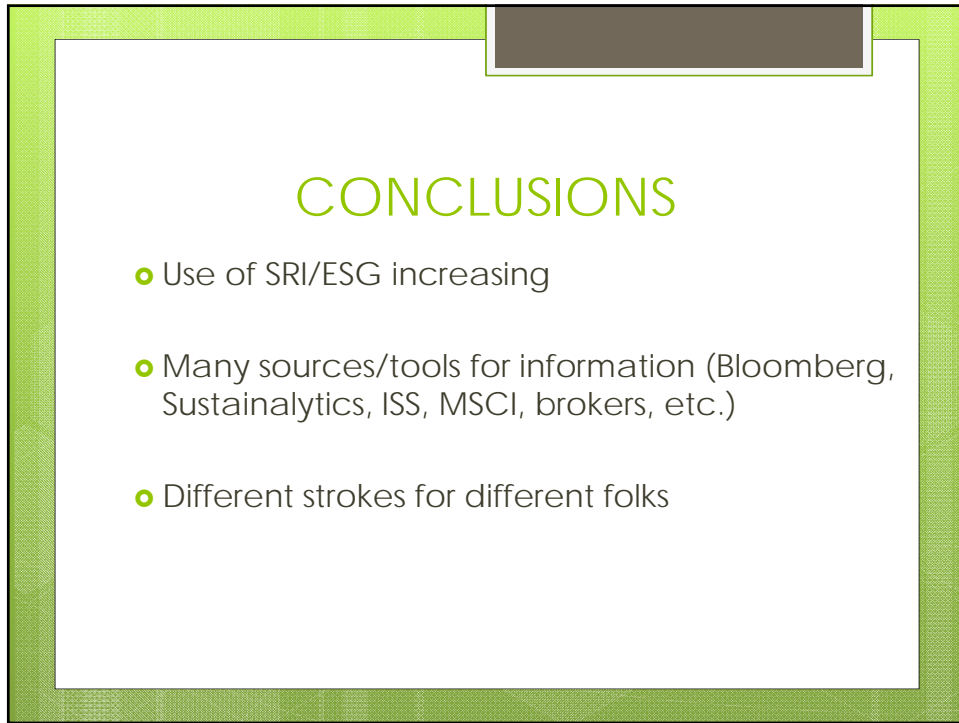
Metrics	vs History			vs Peers					
	Current	History	Change	Low	Range	High	Median	Difference	History
1) Environmental									
11) GHG/Revenue	20.3		-5.1 B	10.1	10.1 - 93.1	93.1	13.6	6.6 W	
2) Social									
21) Women Empls Mgmt Ratio	0.84		-0.02 W	0.42	0.42 - 1.01	1.01	0.72	0.12 B	
22) Women Employees %	31.8		1.7 B	25.8	25.8 - 36	36	26.7	5.1 B	
23) Employee Turnover %	--		--	17.9	17.9 - 21.5	21.5	19.2	--	
24) Employees Unionized %	--		--	0.7	0.7 - 54	54	23.8	--	
25) Lost Time Incident Rate	0.17		0	0.04	0.04 - 0.04	0.04	0.04	0.13 W	
3) Governance									
31) Independent Directors %	92.9		8.2 B	16.7	16.7 - 91.7	91.7	72.7	20.1 B	
32) Percent of Board Members	20		-3.1 W	0	0 - 45.5	45.5	18.1	1.9 B	
33) Director Avg Age	64		0 B	55	55 - 68	68	61	3 W	
34) Director Meeting Attd %	96		21 B	75	75 - 94.8	94.8	87	9 B	
35) Board Size	15		2 W	6	6 - 12	12	11	4 W	

Australia 61 2 9777 8600 Brazil 5511 2395 9000 Europe 44 20 7330 7500 Germany 49 69 5204 4210 Hong Kong 852 2977 6000
 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2018 Bloomberg Finance L.P.
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Source: Bloomberg.

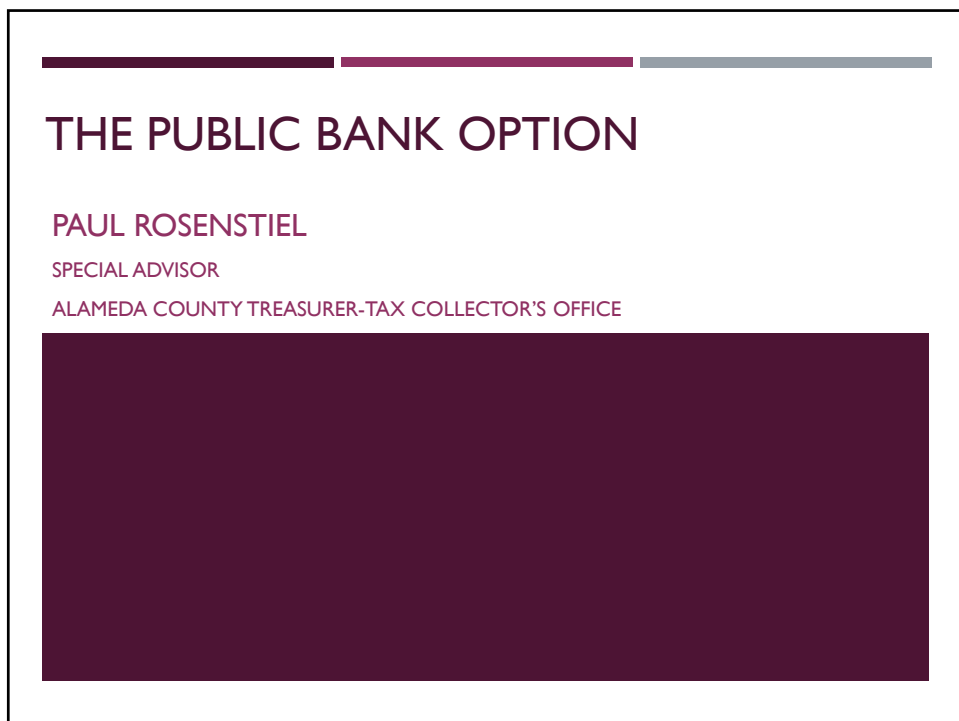






CONCLUSIONS

- Use of SRI/ESG increasing
- Many sources/tools for information (Bloomberg, Sustainalytics, ISS, MSCI, brokers, etc.)
- Different strokes for different folks



THE PUBLIC BANK OPTION

PAUL ROSENSTIEL
SPECIAL ADVISOR
ALAMEDA COUNTY TREASURER-TAX COLLECTOR'S OFFICE

WHAT SHORTCOMINGS DO SOME MUNICIPALITIES SEE IN TRADITIONAL BANKS?

- Poor corporate citizenship
 - Lending for purposes inconsistent with a community's values (e.g., fossil fuels)
 - Predatory lending practices (e.g., Wells Fargo)
- Not meeting community needs
 - Lending for housing, jobs, infrastructure and student loans
 - New evidence of discrimination in mortgage lending nationwide
- Banks won't do business with the cannabis industry
 - Federal laws impose risks on banks that they haven't been comfortable assuming

CAN A PUBLIC BANK ADDRESS THESE PROBLEMS?

- Several communities are researching this, including:
 - State of California
 - Alameda County together with Oakland, Berkeley and Richmond
 - San Francisco, Los Angeles, New Jersey, Philadelphia, Seattle, Portland, etc.
 - Santa Fe, NM just decided not to pursue a public bank by itself
- Some want to replace the big banks for banking services the municipalities receive
- Others want to address insufficient lending in their communities
- Cannabis banking is a separate issue since it can't be done through the existing banking system

CHALLENGES TO CREATING A BANK (PRIMARILY TO INCREASE COMMUNITY LENDING)

- Who will control the bank?
- Where will the capital come from?
- Who will assume the risk from loan losses?
- How can the bank attract depositors?

HOW CAN THE BANK MAKE A \$10 MILLION LOAN?

- The bank must raise the \$10 million before it can lend it
 - Generally, banks must maintain equity of at least 8% of risk-weighted assets
 - So assume it would need \$800,000 of equity and \$9.2 million of deposits
- Would the sponsoring municipality provide the equity?
 - Is that a permissible investment (buying stock in a bank)?
 - Would it make a contribution from the general fund or other fund?
- Would the sponsoring municipality make deposits to the bank?
 - The deposit would have to meet the requirements of state law
 - Would the bank have FDIC insurance or assets to secure the deposit?

OPTIONS IF THE SPONSORING AGENCY DOESN'T PROVIDE THE FUNDING

- Possible sources of equity capital
 - Private investors
 - Foundations
 - Public pension funds
- Possible substitutes for deposits
 - Borrow from investors, other banks or the banking system
 - Raise the money with which to make loans by issuing securities backed by those loans
- Questions
 - Would the “public” still retain control of the “public bank” if there are outside investors?
 - Would the public bank be able to generate a sufficient return and provide sufficient safety to investors, lenders and depositors while making loans that traditional banks won't?

COMMUNITY BANKS MAY BE AN ALTERNATIVE

- Community banks focus on lending to local communities
- Their constraint is often insufficient deposits
 - If they get deposits, they're able to guarantee them with FDIC insurance, collateral or FHLB LOCs
- Can local governments increase their time deposit investments with community banks, in return for increased lending to underserved borrowers?
 - Alameda County is exploring this
 - Happy to have other local governments partner with us