

General Session

The Story of ESG & Impact Investing



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Presentation to **TEXPERS**

The Story of ESG & Impact Investing

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About Sage

1996

Year Founded

2005

Began Responsible
Investing



Dedicated Risk
Management Team



Proprietary Research
and Risk Assessment

9 Responsible Investment Strategies

- Cash Management
- Taxable Fixed Income (3)
- Tactical ETF (4)
- Municipal Fixed Income

Responsible Investment Organization Affiliations



Signatory



Member



Member



Supporter



Signatory



Member

What is Responsible Investing?

A Complex with Multiple Orientations and Purposes



A Brief History of Responsible Investing



The EPA is established in December 1970.



Socially Responsible Investment (SRI) portfolios become standardized. The approach avoids companies that participate in certain activities.



Large institutional investors start analyzing the material impact of sustainability factors on their investments.



The number of UNPRI Signatories approaches nearly 3,000, and the assets under management by Signatories reaches over \$100 trillion.

1970s

1980s

1990s

2000s

2010s

Present

20 million Americans participate in the first Earth Day.

The idea of corporate social responsibility takes hold.

The United Nations Environmental Programme (UNEP) works with financial services companies to balance fiduciary responsibility and sustainability.



The United Nations-supported Principles for Responsible Investing (UNPRI) launches on the New York Stock Exchange in April 2006.



An increasing number of surveys shows that investors are seeking a double-bottom line, one that achieves their investment goals and beneficial social outcomes.

43% Incorporated ESG factors into the investment decision-making process—the highest in the history of our survey

A Brief History of Responsible Investing

The United Nations Sustainable Development Goals (SDGs)

- 1 We will incorporate ESG issues into investment analysis and decision-making processes.
- 2 We will be active owners and incorporate ESG issues into our ownership policies and practices.
- 3 We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- 4 We will promote acceptance and implementation of the Principles within the investment industry.
- 5 We will work together to enhance our effectiveness in implementing the Principles.
- 6 We will each report on our activities and progress towards implementing the Principles.



Why Invest Responsibly?

1



MATERIALITY

Increasing recognition within the financial community that ESG factors often play a material role in determining risk and return.

2



MARKET DEMAND

Growing demands from beneficiaries and investors for greater transparency about how and where their money is being invested.

3



REGULATION

Higher levels of regulatory guidance that incorporating ESG factors is part of an investor's fiduciary duty to their clients and beneficiaries.



ACADEMIC EVIDENCE

Growing academic evidence supports that ESG incorporation does not come at a cost.

Responsible Investing

There are many ways to invest responsibly. Approached are typically a combination of two overarching areas

CONSIDERING ESG ISSUES WHEN BUILDING A PORTFOLIO (known as: ESG incorporation)

ESG issues can be incorporated into existing investment practices using a combination of three approaches: integration, screening and thematic.

Integration	Screening	Thematic
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.

IMPROVING INVESTEEES' ESG PERFORMANCE (known as: active ownership or stewardship)

Investors can encourage the companies they are already invested in to improve their ESG risk management or develop more sustainable business practices

Engagement	Proxy voting
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.

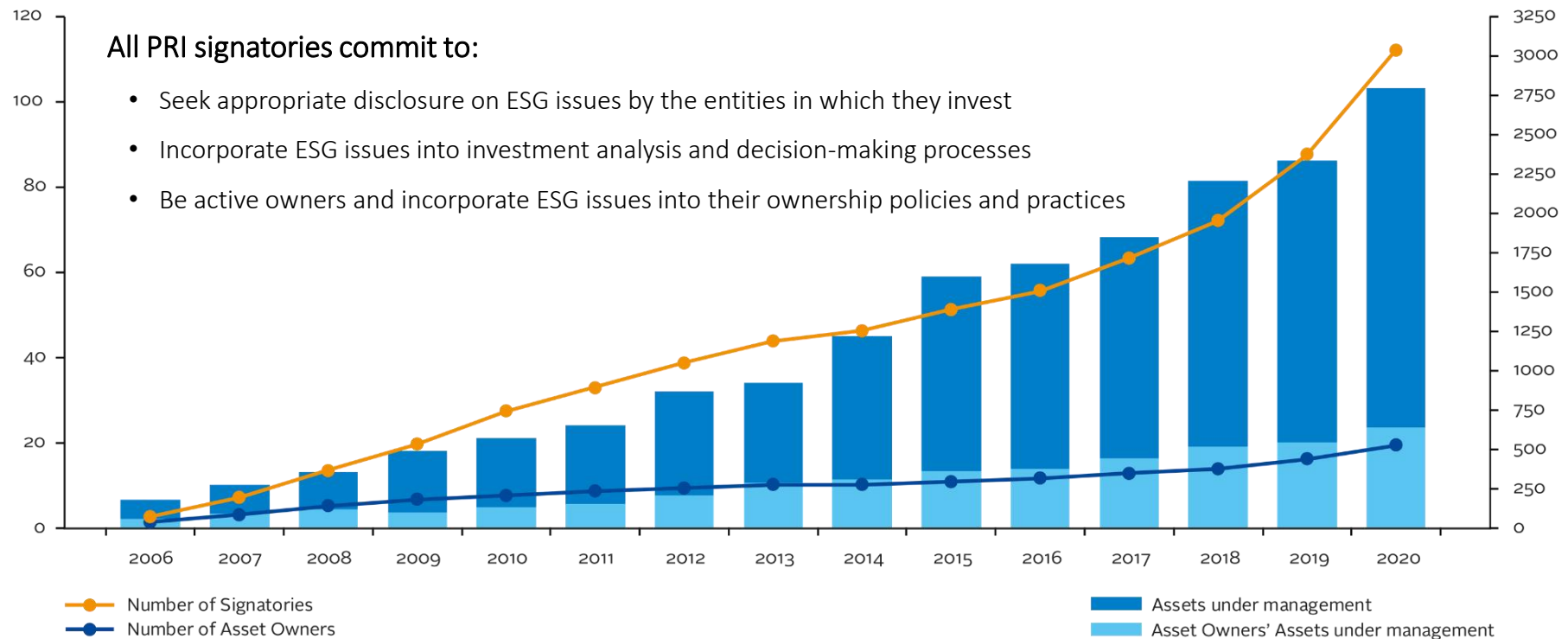
Growing Investor Focus on Sustainability

A rapidly increasing share of institutional assets are managed with ESG issues in mind

Principles for Responsible Investment (PRI) Signatory Growth

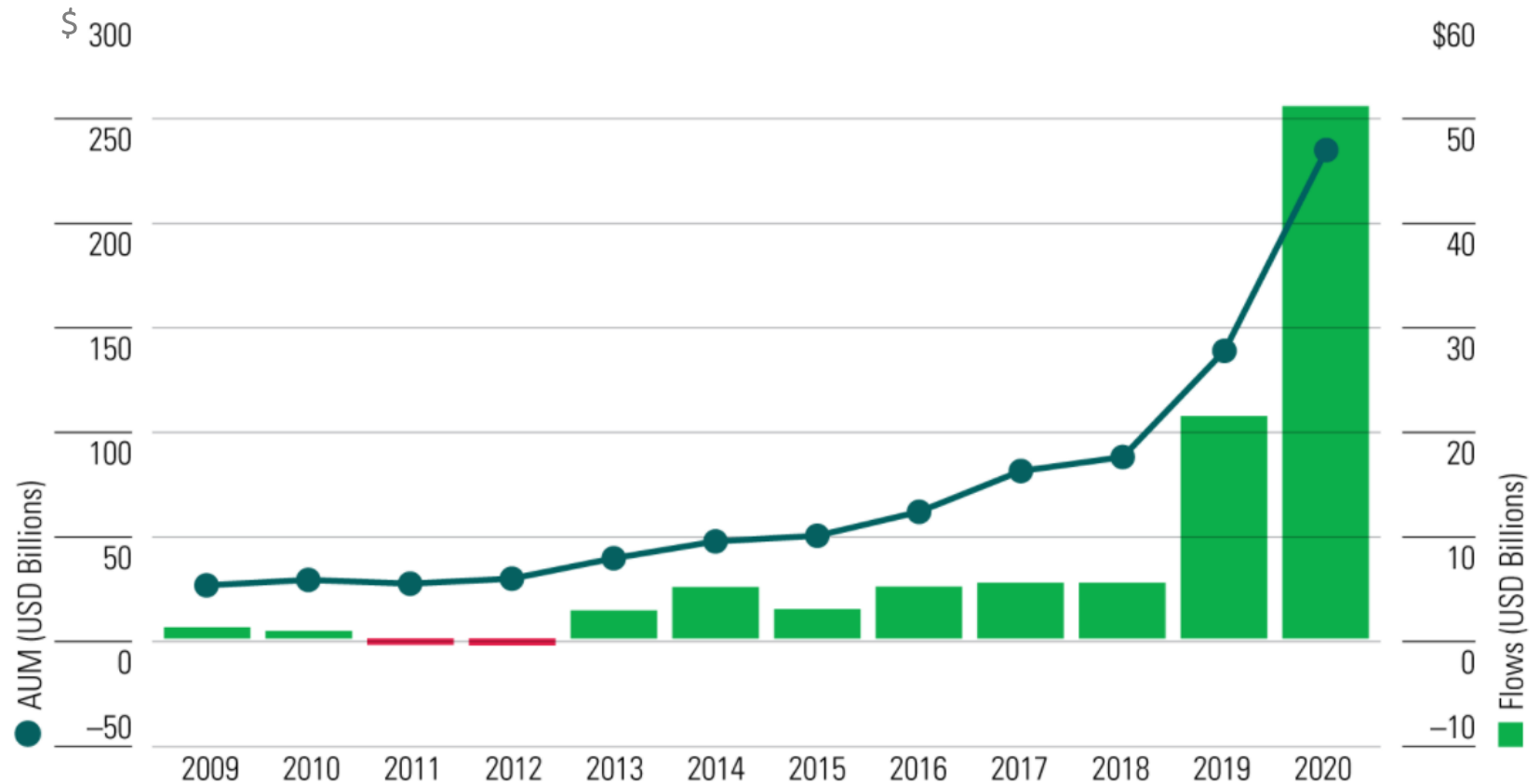
Assets under management (US\$ trillion)

N° Signatories



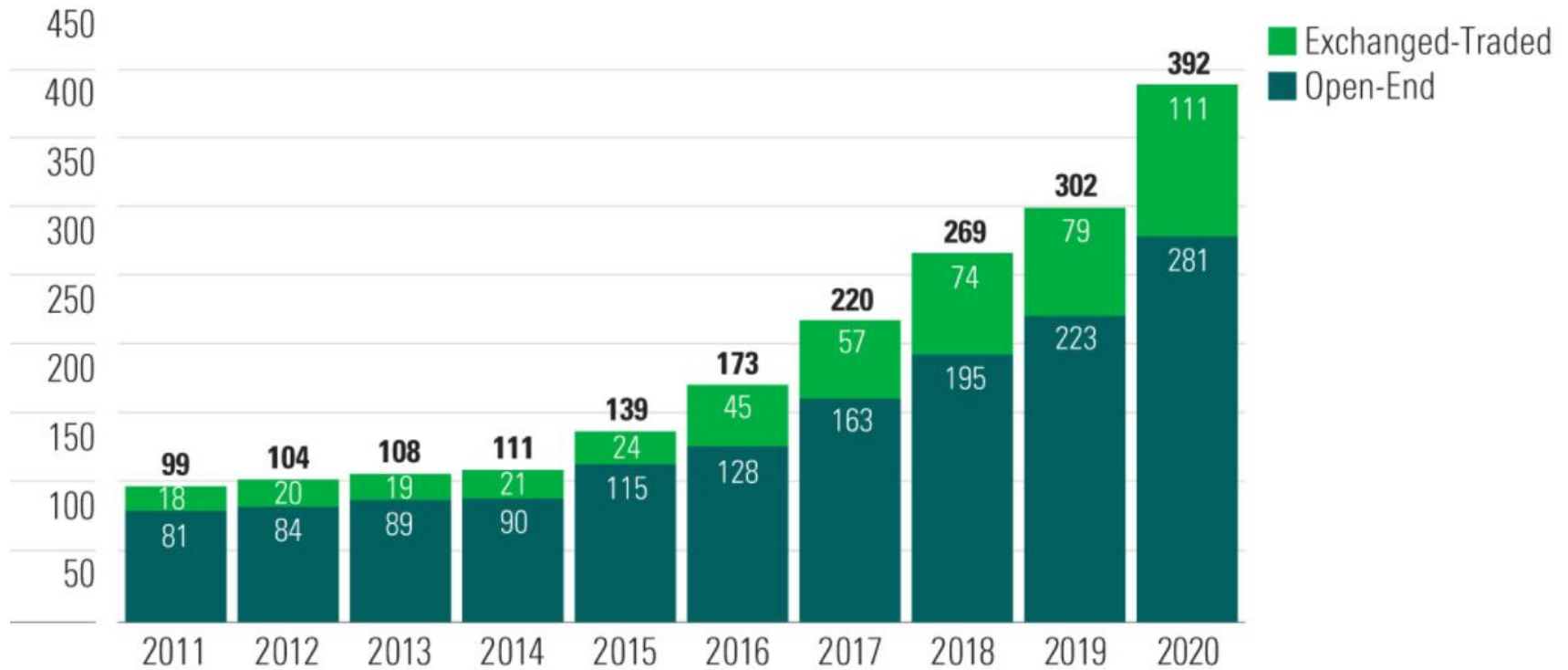
* Reflects only three of six PRI Principles, to which all signatories commit.

U.S. Sustainable Fund Annual Flows and Assets



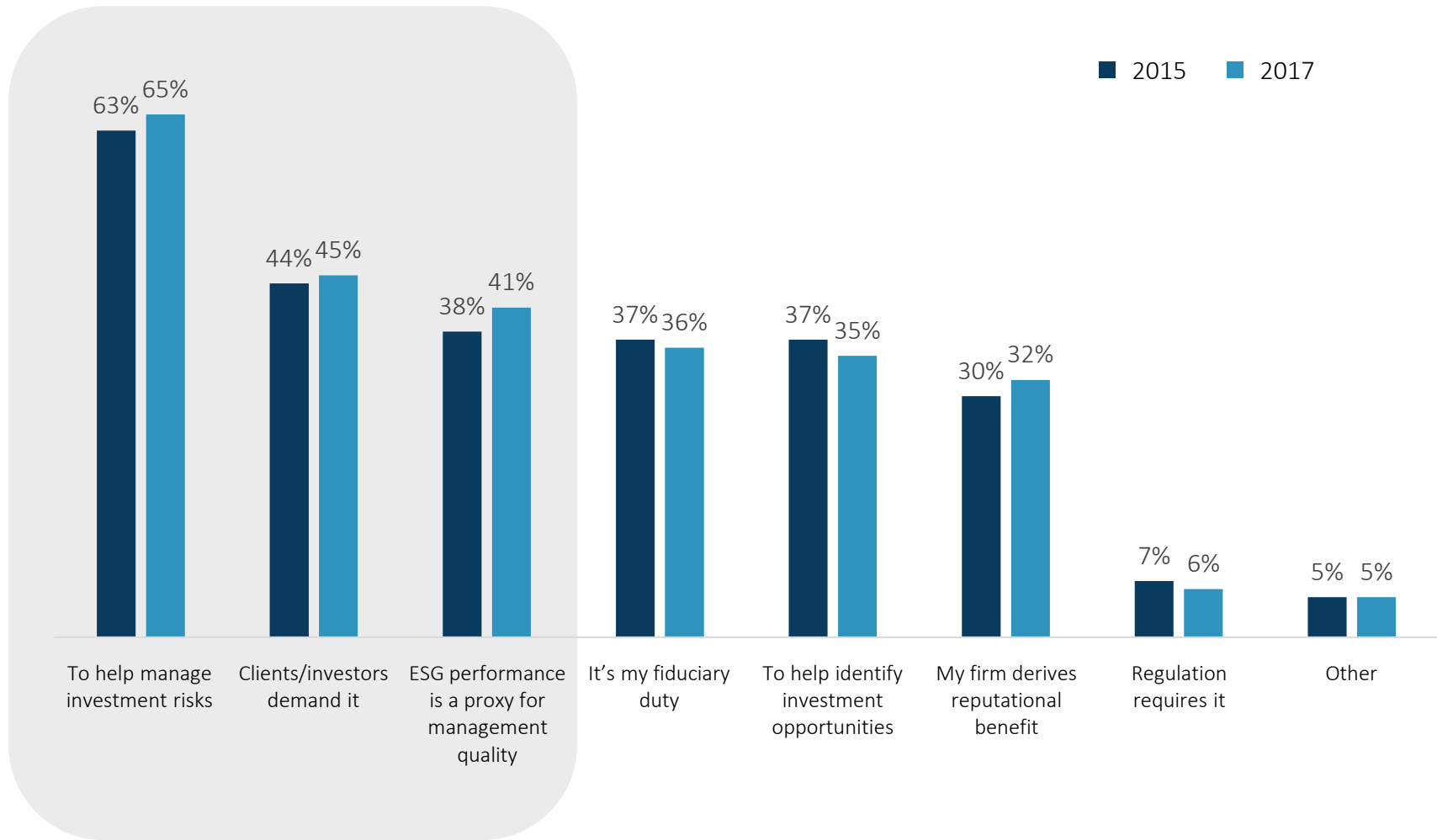
U.S. Sustainable Fund Universe

Nearly a Fourfold Increase in the Past Decade



Why Institutional Investors Consider ESG

Why do you take ESG issues into consideration in your investment analysis/decisions?



Gaining Clarity on the Financial Impact of ESG

Changing nature of valuations requires broader information set to understand risk

The best signal for fundamental risk

Prior to our work on ESG, we found scant evidence of fundamental measures reliably predicting earnings quality. If anything, high quality stocks based on measures like ROE or earnings volatility tended to deteriorate in quality, and low-quality stocks tended to improve just on the principle of mean reversion.

“I’ve never seen anything as effective as ESG characteristics when it comes to anticipating future earnings and volatility of U.S corporations.”

-- Savita Subramanian, BofA
Merrill Lynch Global Research

Subsequent five-year median change in EPS
volatility by overall ESG percentile ranks

Overall ESG Rank (worst to best)	Median Change in EPS volatility over the next 5 years (%)
1 st to 20 th percentile (worst)	92%
21 st to 40 th percentile	64%
41 st to 60 th percentile	65%
61 st to 80 th percentile	37%
81 st to 100 th percentile (best)	32%

Financial Materiality & the Sage ESG Leaf Score®

ESG Factor Risk Assessment Process



Examples of Corporate ESG Risk

Environmental Risk



Social Risk

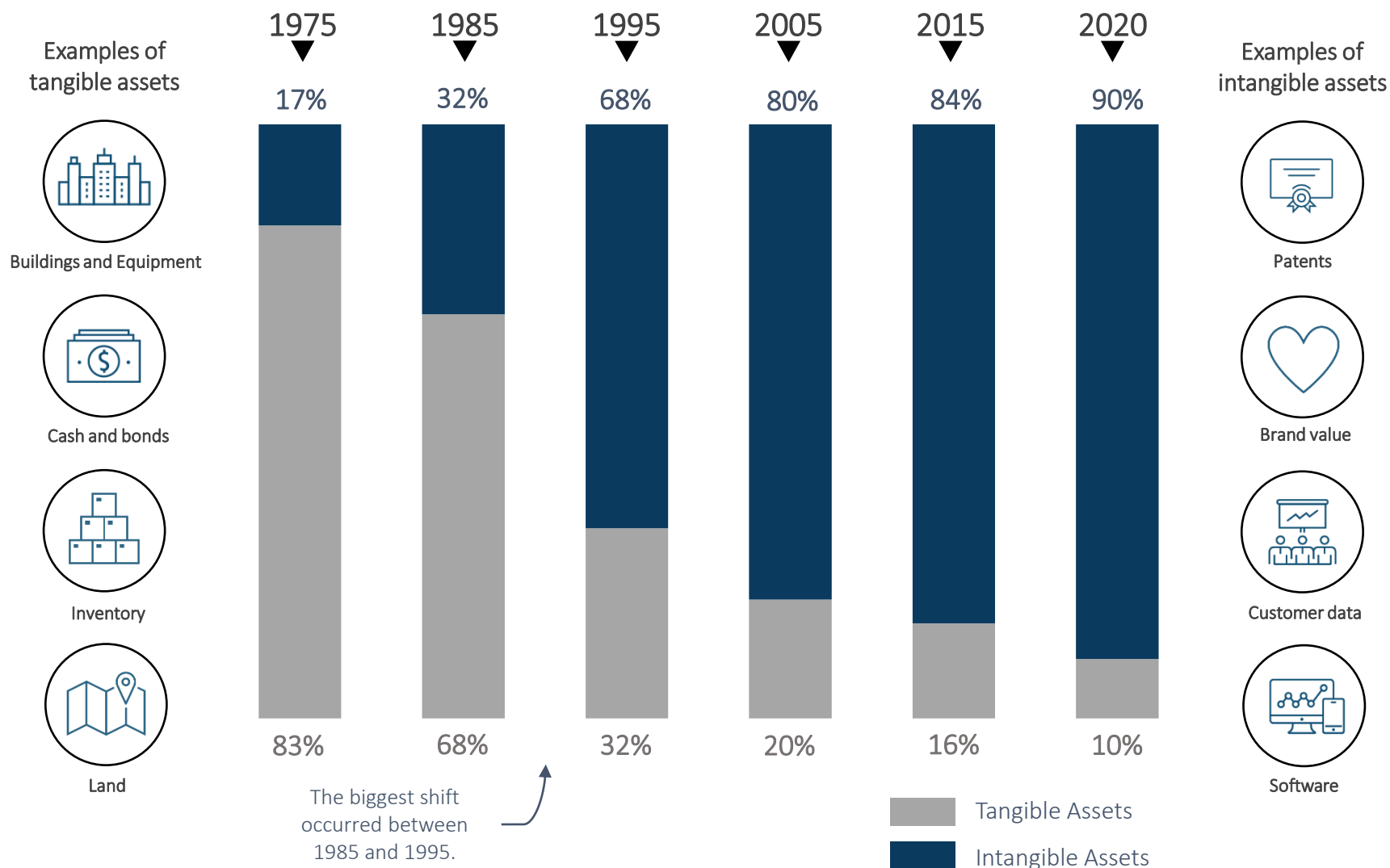


Governance Risk



The Soaring Value of Intangible Assets in the S&P 500

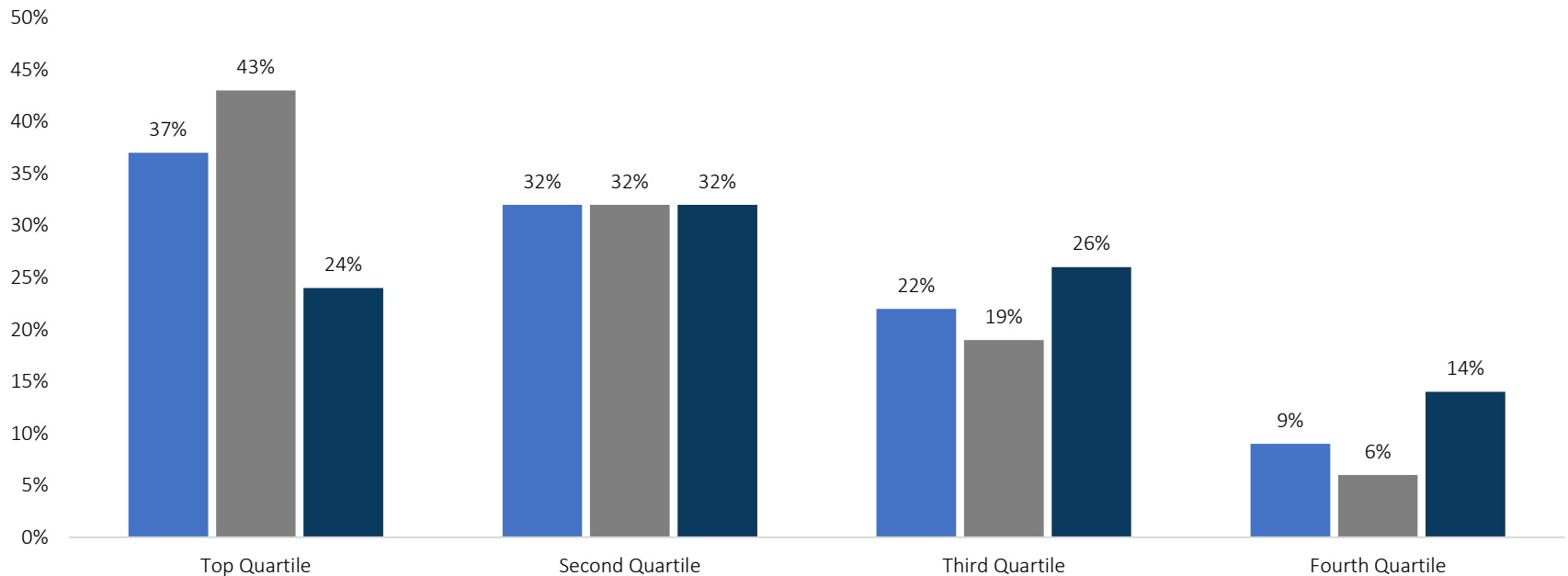
Intangible assets currently account for 90% of the S&P 500's total assets



Sustainable Fund vs. Conventional Fund Returns

Positive Performance Outcomes

2020 Relative Performance Ranking



	All Funds		Equity Funds		Fixed Income / Allocation / Other	
	#	%	#	%	#	%
Top Quartile	106	37%	85	43%	21	24%
Second Quartile	91	32%	63	32%	28	32%
Third Quartile	62	22%	39	19%	23	26%
Fourth Quartile	27	9%	12	6%	15	14%

Relative Performance: ESG vs. Conventional ETF's

Competitive Returns Over Time

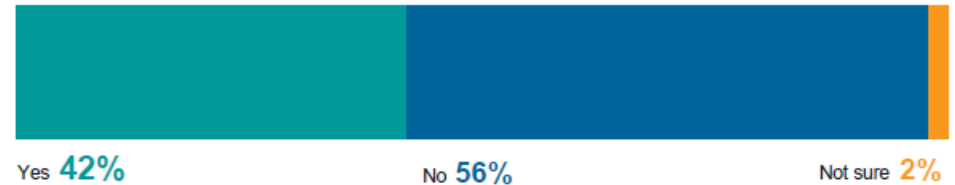
		YTD	1Y	3Y
U.S. Equities				
ESGU	iShares ESG Aware MSCI USA ETF	5.95%	60.30%	18.56%
IVV	iShares Core S&P 500 ETF	6.33%	56.52%	17.25%
	Excess Return	-0.38%	3.78%	1.31%
International Developed Equities				
ESGD	iShares Trust iShares ESG Aware MSCI EAFE ETF	3.92%	45.40%	6.80%
EFA	iShares MSCI EAFE ETF	3.99%	45.30%	6.19%
	Excess Return	-0.07%	0.06%	0.61%
Emerging Market Equities				
ESGE	iShares Inc iShares ESG Aware MSCI EM ETF	3.17%	60.64%	7.37%
EEM	iShares MSCI Emerging Markets ETF	3.23%	58.83%	6.39%
	Excess Return	-0.06%	1.81%	0.98%
Aggregate Bonds				
NUBD	Nuveen ESG U.S. Aggregate Bond ETF	-3.62%	-0.49%	4.60%
ACG	iShares Core U.S. Aggregate Bond ETF	-3.69%	0.73%	4.68%
	Excess Return	0.07%	-1.22%	-0.08%

ESG Adoption Rates: Almost Doubled Since 2013

8th Annual Callan Institutional ESG Survey

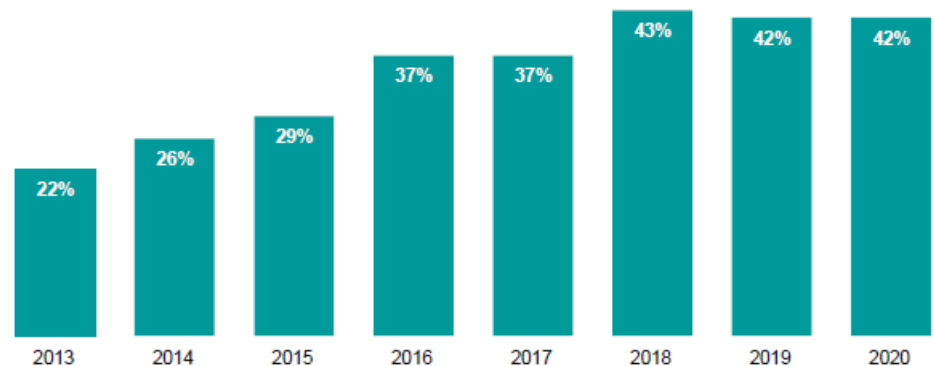
- **42%** of respondents incorporated ESG factors into investment decisions in 2020, roughly consistent with the past two years. Although adoption rates have leveled off over the past few years, the rate of respondents considering adoption is higher than ever.

ESG Incorporation



- **91%** increase in respondents that have incorporated ESG factors into investment decisions from 2013, when Callan first conducted its survey, to 2020.

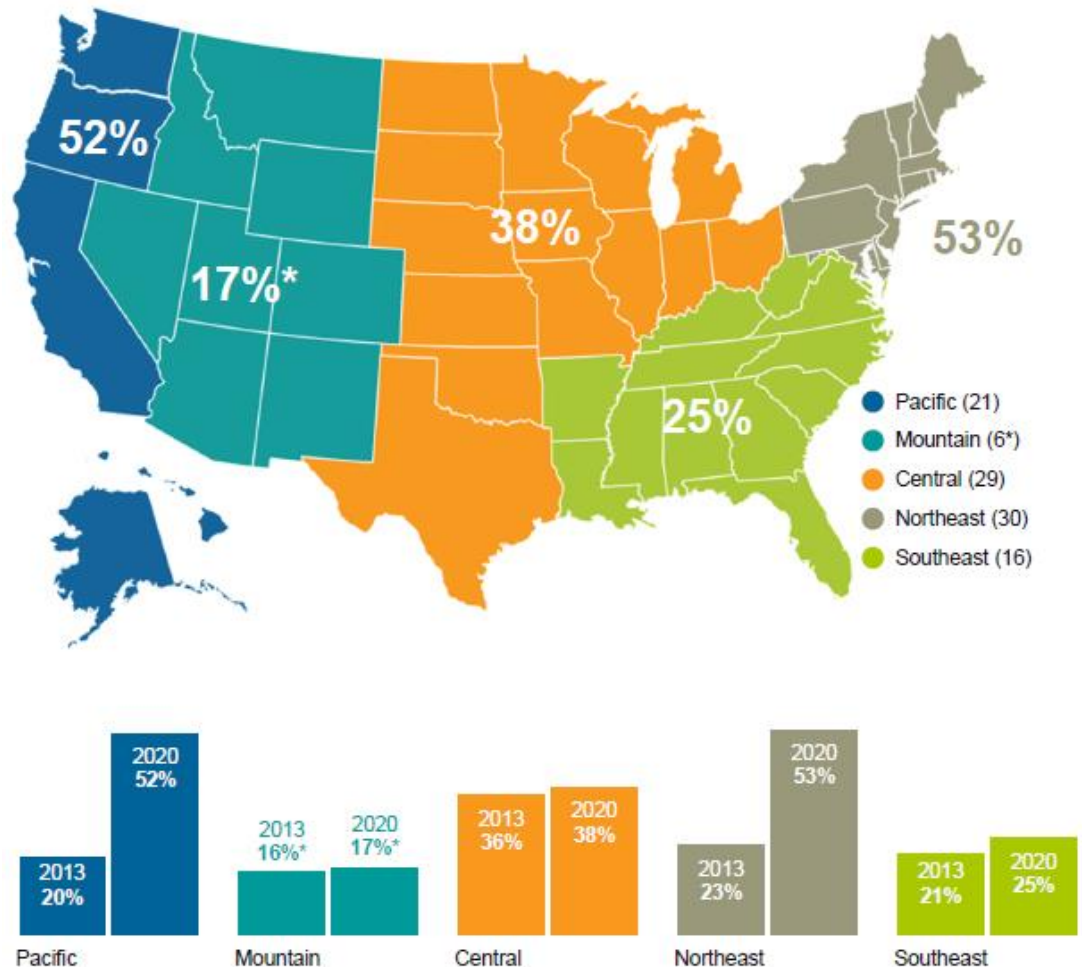
ESG Adoption Shows Steady Increase



Regional Breakdown of ESG Incorporation

Survey Results Show Positive Progression

- 56% of respondents consider ESG factors across all investment managers
- 47% of large funds (>\$20bn) incorporate ESG factors into the investment process
- 36% of public fund respondents have adopted an ESG integrated investment process



Public Retirement Systems & Responsible Investing

A Synergistic Alignment

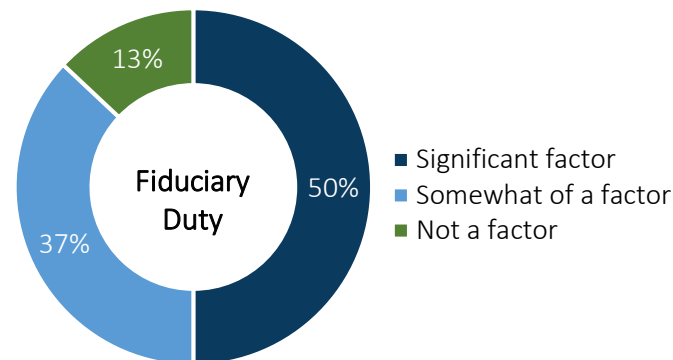
Public Retirement System Goals

- Provide for the **long-term financial security** of participants in retirement.
- Establish and maintain **good governance policies to ensure the System's long-term viability** and thereby support the ongoing public service interests of the communities represented.
- Act in a manner that **considers the wider social, environmental, and economic implications and outcomes** that will **result from the System's policies and activities**.

Responsible Investment Goals

- Implement the Principles for Responsible Investment to **foster good governance, integrity, and accountability** by addressing obstacles to a sustainable financial system that lie within market practices, structures, and regulation.
- Act with the belief that **an economically efficient sustainable global financial system is a necessity for long term value creation** and that such a system **will reward long-term, responsible investment** as well as **benefit the environment and society**.

Asset Owners: Factors Driving Decision to Start Using ESG Criteria in Investment Analysis, 2019



Public Fund PRI Signatories/Funds Integrating ESG Principles & Factors

Alabama Retirement

California Public Employees

California State Teachers

California University System

Alameda County

Los Angeles County Employee Retirement System

Los Angeles City Employees Retirement System

San Francisco Employees Retirement System

Colorado Public Employees Retirement System

Connecticut Retirement Plans & Trust Funds

Hawaii Employees Retirement System

Illinois State Board of Investment

Illinois State Universities

City of Chicago

Maryland State Retirement & Pension System

Montgomery County Employees Retirement System

Minnesota State Board of Investment

New Jersey Public Employees Retirement System

New York State Common Retirement Fund

New York City Employees Retirement System

Teachers Retirement System of the City of New York

Ohio Public Employees Retirement System

Vermont Pension Investment Committee

Washington State Investment Board

Seattle City Employees Retirement Plans

Wisconsin Investment Board

Next Steps

Building a Responsible Investment Action Plan

General Recommendations

- Adopt responsible investment policies in retirement system design and identify sustainability goals and objectives.
- Seek to have retirement plans incorporate sustainability issues in their respective investment strategies and remove barriers for such.
- Mandate through System governance and administration policies that the notion of sustainability is a fulfillment of the duty to act in the best interests of participants.

Action Plan Checklist

- Develop a vision and mission statement identifying the System's responsible investment posture.
- Create or update the System wide Investment Policy:
 - Integrated Responsible Investment Policy
 - Separate Responsible Investment Policy
- Create and maintain a Strategic Asset Allocation profile.
- Implement an Investment Strategy that reflects the Responsible Investment Policy.
- Mandate the development of responsible investment guidelines per asset class.
- Identify policy applications for in-house versus external investment management:
 - In-house: portfolio construction and investment selection
 - External: selection, appointment, and monitoring
- Ensure direct and indirect active ownership oversight (voting, engagement, and litigation).
- Create and maintain responsible investment reporting with impact and outcome analysis.

Texas Energy: An Evolving Complex

The Old, The New, The Challenge

- 187,401; 41%; 25%; 1st
- 13,000; 5 of 10; 21.5%; 28%
- 13 Million; 13.8%; 26-53 per day



Everything is bigger in Texas!

Disclosures

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Questions?

