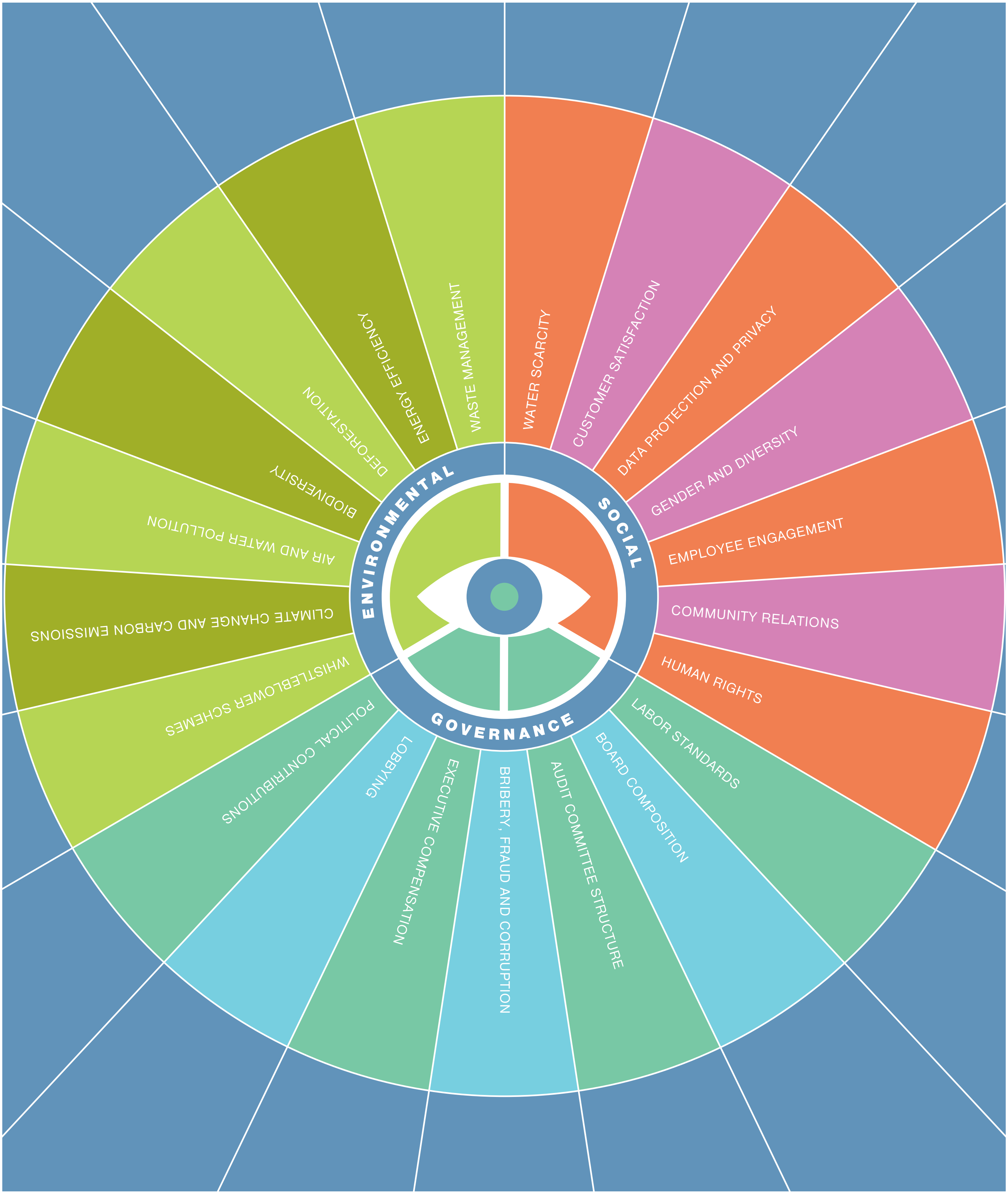

SOCIALLY RESPONSIBLE INVESTING – WHAT DOES IT MEAN AND WHAT'S THE RISK?

CALIFORNIA DEBT AND INVESTMENT ADVISORY COMMISSION | CDIAC NO. 19.14

CALIFORNIA DEBT AND INVESTMENT ADVISORY COMMISSION

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INTRODUCTION

A growing number of local agencies in California have received requests from their governing board members or constituents to invest public funds in "sustainable," "socially conscious," "green," or "ethical" investments. This practice is commonly referred to as socially responsible investing (SRI). In addition, the consideration of *environmental, social, and governance* (ESG) criteria when investing public funds is becoming more common among local agencies in California. SRI strategies promote concepts and ideals a local agency seeks to support while practicing prudent investment management. Incorporating SRI or ESG criteria as part of an investment decision requires local agencies to analyze the suitability of investments beyond traditional credit and financial risks.

This issue brief provides an overview of SRI for local agencies, in the context of the statutory requirements for the investment of public funds. Next, this brief will address the various forms of SRI policies currently implemented by California's local agencies. Lastly, this brief will provide some guidance as well as identify available resources and data tools for local agencies considering incorporating SRI strategies into an investment policy.

OVERVIEW OF SOCIALLY RESPONSIBLE INVESTING

SRI integrates investment strategies that consider environmental, social and governance criteria to generate long-term competitive financial returns and positive societal impact.[1] Currently, there are no "official" standards defining SRI or ESG criteria. Therefore, there is no single approach to SRI and no single term to describe it - depending on the emphasis, investors use terms such as: "sustainable investing," "community investing," "ethical investing," "green investing," "impact investing," "mission-related investing," "responsible investing," "socially responsible investing" and "values-based investing."[2]

While SRI strategies have been commonly employed by institutional investors, especially endowments and pension funds, their broad use among local agency investors has been a more recent trend. One of the earliest and simplest methods of SRI is negative screening. When using negative screening as a strategy, investors restrict the purchase of securities issued by companies or government entities that the investor believes have business practices, products, or services that do not meet the board-directed SRI goals. Local agency boards practicing this strategy may formally prohibit local agency investments in tobacco, fossil fuel or gun manufacturing businesses, for example. Another SRI strategy is the use of positive screening to choose investments. Positive screening causes investors to actively seek investment products they believe promote beneficial behaviors and endeavors such as environmental stewardship, consumer protection, human rights, and diversity, among others. ESG criteria are frequently used to aid the screening process, see Figure 1. The integration of ESG criteria within its investment decision process allows a local agency to evaluate "material" risks under the ESG factors it deems important, and build that risk analysis into the traditional risk-reward evaluation of an investment opportunity. With climate change continuing to be a hot topic, a request to add SRI policy goals may be initiated by more local agency governing bodies.

STATUTORY INVESTMENT REQUIREMENTS

California local agencies interested in SRI strategies must be able to balance achieving the desired SRI objectives with a local agency's fidu-

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1 US SIF The Forum for Sustainable and Responsible Investment, *SRI Basics*. Accessed 6/20/2019. www.ussif.org/sribasics

2 Ibid.

Figure 1

EXAMPLES OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE FACTORS[3]

ENVIRONMENTAL	SOCIAL	GOVERNANCE
• Climate change and carbon emissions	• Customer satisfaction	• Board composition
• Air and water pollution	• Data protection and privacy	• Audit committee structure
• Biodiversity	• Gender and diversity	• Bribery, fraud and corruption
• Deforestation	• Employee engagement	• Executive compensation
• Energy efficiency	• Communzity relations	• Lobbying
• Waste management	• Human rights	• Political contributions
• Water scarcity	• Labor standards	• Whistleblower schemes

Source: CFA Institute

ciary responsibility and statutory investment limitations. Whether members of an agency's governing body or the staff authorized to invest public funds, all are trustees and therefore fiduciaries subject to the "prudent investor standard." The standard requires that investment management decisions be made with the care, skill and prudence of a person with similar capacity and familiarity, given the character of funds, prevailing economic conditions and agency circumstances, to safeguard the principal and meet the liquidity needs of the depositor.[4] California statute reinforces the prioritization of principal preservation and liquidity within the "prudent investor standard" by specifically stating that achieving a return on invested funds is the third objective of trustees. It is important to note that while local agencies may be willing to accept the risk of a reduced yield in pursuit of the their SRI objectives and still comply with statute, the statute provides no authority to agencies to sacrifice principal preservation and maintenance of necessary liquidity to SRI objectives. Even the authority to sacrifice return is not boundless. Statute prohibits investments in securities, with some exceptions, that could result in a zero interest accrual if held to maturity.[6]

Investment statute is "prescriptive," meaning that local agencies may only invest in the securities and instruments under the restrictions and conditions authorized in the Government Code.[7] The statute not only establishes limitations on the types of investments, but also on maturity length, credit quality, security, and portfolio composition, among others. Local agencies must take precautions to not allow SRI objectives to direct decisions that will cause individual investments or the investment portfolio to be out of compliance with the California Government Code.

The process of creating, amending, and reauthorizing the investment policy allows for the convergence and reconciliation of the conflicting investment objectives that may be presented to an agency pursuing SRI strategies. Like the invest-

3 CFA Institute - E*nvironmental, Social and Governance Issues in Investing, A Guide for Investment Professionals*. Accessed 05/22/2019. www.cfainstitute.org/-/media/documents/article/position-paper/esg-issues-in-investing-a-guide-for-investment-professionals.ashx

4 California Government Code sections 27000.3 and 27000.5 and 53600.3 and 53600.5.

5 Government Code section 53600.5.

6 Government Code section 53601.6(b).

7 California Government Code section 53601 et. seq. and 53635 et. seq.

ment portfolio limitations SRI objectives may impose, agencies frequently self-impose risk limitations on their investment decisions that are more restrictive than the Government Code and as a result, sacrifice yield when compared to legal alternatives. Statutory requirements do not preclude agencies from pursuing SRI strategies as long as the resulting investment decisions are within the boundaries firmly established by the statutory prescriptions and the "prudent investor standard."

COMMONLY USED LOCAL AGENCY SRI STRATEGIES

No two SRI strategies are exactly the same. An SRI strategy that one local agency employs may not suit a neighboring local agency. The governing body of a local agency is the elected or appointed group that has the primary policy setting role. Therefore, a local agency should go through a process to establish the goals of their SRI investment strategy. For example, does an agency want to only support companies that support environmental stewardship or does the agency want to avoid investing in certain types of businesses? With this in mind, SRI strategies can be developed to incorporate, promote and evaluate those ideals in a local agency's investment decision process. The investment policy is the vehicle for incorporating and formalizing a local agency's SRI strategy, including investment objectives, risk preferences, authorized investments, and other investment related priorities.

Regardless of the SRI strategy used, the goal for a local agency is to achieve not only a monetary return on its investment, but also influence social or environmental good. Below are examples of SRI strategies used by local agencies. Each strategy described below has different objectives and therefore requires different levels of analysis.

Negative Screening

Under this type of SRI strategy, local agencies exclude buying securities of companies, other governments or entities that invest or engage in activities that the agency considers objectionable.[8] Frequently cited examples of negative or exclusionary screening include exclusion of investments in the debt of companies that profit from or are associated with fossil fuel, weapons manufacture and distribution, tobacco products, alcoholic beverages, or may have been implicated in fraud, corruption, human rights abuses or environmental degradation. Divestment from companies that, subsequent to investment, have fallen into one of these negative categories is also an example of the application of a negative screening strategy. Negative screening effectively reduces the number of statutorily permitted investment choices available to a local agency and affects the way investment staff review and analyze appropriate investments. In the case of a divestment strategy element, agencies may be required to consider divestment timing and circumstances to avoid the sale of an investment at a loss, an action that may conflict with the "prudent investor standard."

Local agencies that use a negative screening strategy have investment policies which frequently reference formally approved board resolutions or locally adopted ordinances. The City of Oakland's investment policy identifies a list of "Applicable Ordinances" that directs staff to restrict city investments in tobacco products, fossil fuel, and firearms and ammunition manufacturers, in addition to prohibiting the city from doing business with any entities that engage in nuclear weapons work.[9] Under the nuclear free ordinance, Oakland is restricted from investing in U.S. Treasuries unless a waiver is adopted. These ordinances

[8] CDIAC - *California Public Fund Investment Primer,* - "SOCIAL RESPONSIBILITY" AND THE INVESTMENT OF PUBLIC FUNDS, pg. 222. www.treasurer.ca.gov/cdiac/invest/primer.pdf

[9] City of Oakland - Investment Policy, Fiscal Year 2018-2019. https://cao-94612.s3.amazonaws.com/documents/OAK071288.pdf

collectively represent the restrictions or "negative screening" strategy imposed on city investment staff by the city council and must be followed when selecting additions to the portfolio.

The "Socially Responsible Investing" section of the City of Santa Monica's investment policy contains restrictions on investments in fossil fuel companies, tobacco or tobacco-related products, production of weapons, military systems, or nuclear power.[10] Although in practice, this negative screening strategy applies to its decision process for purchasing corporate bonds, Santa Monica also tends to not invest in U.S. Treasuries.

As an alternative to purchasing U.S. Treasuries, Oakland and Santa Monica have invested in Federal Agency or U.S. government-sponsored enterprise obligations under Government Code section 53601(f). Both cities also purchase corporate medium-term notes under Government Code section 53601(k), the selection of which is narrowed by their respective investment policies and SRI strategies.

Positive Screening

Positive screening may vary depending on the investment sector of the security, but usually involves integrating ESG factors into the decision process or targeting investments through impact investing. Typically, an investor would rate a security (project/issuer) using criteria, including ESG criteria, that are aligned with the investors goals. Positive screening is also used in impact investing by choosing to direct the investment to a certain community or project.

INTEGRATION OF ESG FACTORS: This form of positive screening involves systematic and explicit inclusion by investment managers of ESG factors into financial analysis. Figure 1 contains a variety of examples that may address one or more ESG factors. Local agencies may choose to consider whether the investment of their dollars should be in companies or entities that also actively seek to address and manage the effects of climate change, for instance, or other ESG factors that could increase benefits for all local stakeholders.

ESG factor integration includes analyzing ESG data (ratings/scores) of companies and organizations selling eligible investment securities that meet or exceed the local agency's investment policy and SRI criteria. Pursuant to the local agency's investment policy and applicable SRI strategy, company ESG scores can be compared to determine the best investment security that meets the agency's goals. Local agencies may also measure the overall ESG scores of their portfolio to assess how holdings are performing over time in relation to their stated SRI objectives. Some individual company and governmental entity ESG data is available online for free through search features. ESG data may also be purchased directly from credit rating agencies or other third party providers (see ESG Data Resources and Tools later in this brief).

In the "Socially Responsible Investing" section of the City of Santa Monica's investment policy, the city is directed to invest city funds in "entities that support clean and healthy environment, including following safe and environmentally sound practices," "entities that support equality of rights regardless of sex, race, age, disability or sexual orientation," and "in entities that promote community economic development."[11] These directives are considered positive screening strategies and work in concert with the negative screening strategies within the city's investment policy. To screen for the positive investments, the City of Santa Monica uses ESG scores from third party data providers to help analyze and compare

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[10] City of Santa Monica - Investment Policy, February 2018, pg. 9. https://finance.smgov.net/Media/Default/home/Investment_Policy.pdf

[11] Ibid.

potential investments and ESG rankings to evaluate companies and any other entities within the city's investment portfolio.

In some cases, local agency investment staff informally consider ESG factors in investment decisions instead of having those objectives contained in a written policy directive.[12] In a recent update to its investment policy, the City of Palo Alto added both negative and positive screening objectives to their policy - some of which had been practiced by staff informally for years. The "ESG Responsibilities" section formalized policy restating the city's primary investment objectives as safety, liquidity and yield, and to encourage investments that support sound environmental, social and governance (ESG) investing. Specifically Palo Alto's investment policy encourages investment in entities that support community well-being through safe and environmentally sound practices and fair labor practices; and equality of rights regardless of sex, race, age, disability, or sexual orientation. As in the case of Santa Monica, Palo Alto's policy also uses negative screening by discouraging direct investments in entities that manufacture tobacco products, firearms, and engage in direct production or drilling of fossil fuels.[13]

IMPACT INVESTING: Another form of positive screening is through targeting investments to help solve social or environmental problems. For example, local agencies may choose investments that help bolster and revitalize a local community. This type of investment contributes to capital within a local area and ultimately, provides the investor with opportunities that help promote job creation, improved access to community services, public infrastructure, and other improvements to the quality of life.

The City of Palo Alto invests in local or community banks through the purchase of negotiable certificates of deposit, targeting banks with ten or less branches for amounts of $250,000 or less so they are fully insured by the Federal Deposit Insurance Corporation (FDIC). The County of Alameda also uses collateralized certificates of deposit as investments with small and medium-sized local banks as a way to direct its investment and subsequent impact to a specific local community.

Purchasing eligible securities that are considered "green," such as green bonds, is another example of impact investing. Green bonds have been issued as medium-term notes, federal agency mortgage-backed securities, supranationals, asset-backed securities, and municipal bonds.[14] The level of impact an agency's investment may create may be a function of the level and type of certification the green bond carries. Some green bonds have been self-certified as "green" by the issuer whereas others have been certified by third-party verifiers under Climate Bonds Standard, for example.[15] Some green bonds may be issued by companies a local agency has restricted using negative screening SRI strategies. Looking ahead, local agencies may consider including certain exceptions from negative screening strategies to allow the purchase of securities offered by restricted companies engaged in positive ESG projects or ventures. In this way, a local agency may retain broader flexibility in its investment decision process to promote its SRI goals.

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[12] City of Palo Alto - Investment Policy Update, Adoption of Fiscal Year 2019 Investment Policy. www.cityofpaloalto.org/civicax/filebank/documents/66466

[13] Ibid.

[14] Figure 1 of CDIAC's *Local Agency Investment Guidelines* provides a summary of permitted investment instruments and limitations on each in which all local agencies may invest, pg. 14, (2019). www.treasurer.ca.gov/cdiac/LAIG/guideline.pdf

[15] Additional information, CDIAC's *Green Bonds in the Golden State: A Practical Path for Issuers*, webinar series. www.treasurer.ca.gov/cdiac/webinars/2019/greenbonds/description.asp

IS SRI RIGHT FOR YOUR COMMUNITY?

Using SRI strategies local agencies can incorporate, promote and evaluate ideals that represent their community in their authorized investment decision process. For example, some local agencies adopted investment policies in the 1970s and 1980s, restricting investment of public funds in companies doing business in South Africa, which supported apartheid at the time.[16] As other controversial issues emerge, evolve and change affecting political, budgetary, economic and market conditions over time, local agencies should be mindful of how those issues may affect their stakeholders and whether their public fund investment strategies could influence the controversy one way or another. As a result, governing bodies of local agencies may request to establish or change policies to include SRI.

Local agencies should be aware that adding SRI criteria will add complexity to the investment process and require additional analysis. SRI criteria may limit available investment options which will require contingencies, in light of changing market conditions, to identify alternatives that meet principal safety and liquidity requirements and the agency's return needs or expectations. Incorporating any SRI policy changes must include a review of current investment practices to identify the type of expertise needed to manage SRI objectives and evaluate ESG factors including the availability and cost of ESG data and resources. With careful planning and preparation, SRI and the incorporation of ESG factors into the investment selection process can lead to more complete investment analysis, better-informed investment decisions and higher quality risk-adjusted returns on a portfolio. Local agency governing boards should consider the following when implementing an SRI strategy:

1. Adopt a comprehensive investment policy to provide a level of accountability for investment officials and promote public trust in investment decisions. Serving as a guide for setting and achieving program objectives, the investment policy should define rules and establish benchmarks, and reduce the exposure to liability of both the investment staff and the governing body. (See Appendix A)

2. Consider adding SRI negative/positive screening strategies as an appendix to the investment policy or directing staff to start practicing them informally before officially adopting new goals and objectives.

3. Endeavor to use language that is flexible enough to accommodate the intent of the investment goals over time as markets change.

4. Consider narrowing investment types or sectors to which ESG factors apply to those that have an established use of ESG criteria in order to better evaluate authorized securities. Consider targeting investments that provide positive societal impact such as local banks or affordable housing. Exempt or provide policy exceptions from SRI or ESG investing objectives to certain investments such as certificates of deposit and negotiable certificates of deposit.

RESOURCES

Despite the lack of a definitive national or international authority for SRI standards, there are a number of organizations actively promoting these concepts including the Principles for Responsible Investment (PRI), United Nations Global Compact Principles, Chartered Financial Analysts (CFA) Institute, Forum for Sustainable and Responsible Investing (US SIF), Sustainability Accounting Standards Board (SASB) and the Coalition for Environmentally Responsible Economies (Ceres). A description of these entities are contained in Appendix B.

[16] Silverstein, Ken. "Sullivan Principles: Corporations Must Contribute to the Culture of Peace and Help End Gun Violence." *Forbes*, December, 25, 2012. Accessed 5/22/2019. www.forbes.com/sites/kensilverstein/2012/12/25/sullivan-principles-corporations-must-contribute-to-the-culture-of-peace-and-help-end-gun-violence/#46d4f6953fa6

Local agencies may find the resources provided by these organizations helpful when drafting or revising a SRI framework for investment policy and practices. For example, California's two largest public pension funds integrate SRI strategies for their investments and engage with these organizations to promote SRI. The California Public Employees' Retirement System (CalPERS) cites PRI's six principles in its Total Fund Investment Policy.[17] CalPERS utilizes a Sustainable Investments Program to guide its sustainable investment practices, identify and address risks and opportunities on sustainable investment topics and maintains a Sustainable Investment Research Initiative (SIRI) Library.[18]

Similarly, the California State Teacher's Retirement System (CalSTRS) incorporates sustainability concepts and ESG factors within its Investment Beliefs, Investment Policy and Corporate Governance Principles.[19] CalSTRS administers a Sustainable Investment and Stewardship Strategies program in addition to leading a Green Initiative Task Force (Green Team) to manage and assess sustainability risks and opportunities.[20] The Green Team's annual report for Fiscal Year 2017-2018, states "CalSTRS believes that the use of industry-specific ESG accounting standards, such as those developed by SASB, will help public corporations simplify their ESG disclosures…."[21] Local agencies looking to introduce or expand SRI in their investment policies and procedures must decide which types of SRI strategies are manageable for their staff to administer.

ESG DATA RESOURCES AND TOOLS

The Securities and Exchange Commission (SEC) does not require companies to file specific standardized environmental, social or governance disclosure data unless it is material to the reasonable investor.[22] Without any specific ESG disclosure requirements in place, ESG data voluntarily reported by companies may not be comparable due to the fact there is no standard process in place. Therefore in the absence of an ESG standard for reporting, local agencies that choose to use ESG factors for socially responsible investing strategies do so as a good faith effort.

Local agencies using ESG in their investment decision process need to find this non-financial data to help them evaluate their investment options. Local agencies should obtain ESG data in the most cost-effective and efficient manner to meet their investment needs. Options for obtaining ESG data include using existing market data platforms, requesting ESG data from their investment or municipal advisors, searching online for free ESG data or purchasing it from a data provider. Just as each credit rating agency uses their own methodology, ESG data providers develop their methodology for rating and scoring the ESG factors of corporate and governmental entities. Local agencies should become familiar and comfortable with the credibility of ESG data sources they obtain and rely on.

17 CalPERS - Policies. www.calpers.ca.gov/page/investments/about-investment-office/policies

18 CalPERS - Sustainable Investments Program. www.calpers.ca.gov/page/investments/governance/sustainable-investments-program

19 CalSTRS - Investment Policies. www.calstrs.com/investment-policies

20 CalSTRS - Sustainable Investment Overview. www.calstrs.com/sustainable-investment-overview

21 CalSTRS - Green Initiative Task Force. www.calstrs.com/report/green-initiative-task-force

22 SEC, Concept Release, Business and Financial Disclosure Required by Regulation S-K, pg. 209-10. Acessed 5/22/2019. www.sec.gov/rules/concept/2016/33-10064.pdf

ESG Considerations by Credit Rating Agencies

Many of the allowable investment instruments authorized in the Government Code have minimum credit quality requirements. Some require the highest letter and number rating by a nationally recognized statistical rating organization (NRSRO), others require a rating category of "A" or its equivalent or better, and there are some that have no minimum requirements at all. As stated previously, a local agency's investment goals and priorities can be more restrictive than what is permissible in the Government Code. Investment types requiring minimum credit ratings that are also more likely to have ESG data include medium-term notes, asset-backed securities and supranational obligations.[23]

The top three national credit rating agencies have all begun to analyze, incorporate and provide various forms of ESG information including cross-sector, relative analysis on how ESG could lead to material impacts (Moody's and S&P Global Ratings) as well as an integrated scoring system (Fitch). In addition, other NRSROs are also beginning to include ESG analysis as a component of their credit rating processes (Morningstar, Kroll). See Appendix C for descriptions and links to ESG information by credit rating agencies.

Given these minimum threshold require-ments and the fact that investment policies can be more restrictive, local agencies can review ESG considerations published by an NRSRO to assist with their analysis of how ESG factors could affect different investment sectors and issuers.

Types of ESG Data Providers

Recently the *Journal of Environmental Investing* published a guide to the growing number of ESG data providers which they categorized as market data providers, ESG-exclusive data providers and specialized data providers.[24]

Market data providers collect broad market data on equities, fixed income, foreign exchange, and commodities to characterize market trends and offer ESG research, ratings and indices as a subset of their product and service offerings. Examples of market data providers include Yahoo! Finance, Bloomberg L.P., FTSE Russell, MSCI Inc., and Thomson Reuters.

ESG-exclusive data providers focus on ESG research, ratings and analysis instead of providing ESG data as a subset of products and services as the market data providers do. Examples of ESG-exclusive data providers include Arabesque, Covalence, Ethos, Inrate, Oekom, RobecoSAM and Sustainalytics.

Finally, specialized data providers focus on one or more aspects of ESG, but not all three. For example, The Carbon Disclosure Project (CDP) offers extensive information and ratings on company performance and risks related to climate change and water while the company, RepRisk, analyzes reputational risk of companies.

Some ESG data is available for free online by searching for specific companies or entities on Yahoo! Finance, CRSHub or RobecoSAM. The data available through Yahoo! Finance is provided by Sustainalytics, whereas the other two are proprietary products. See Appendix C for descriptions and links under Free Searchable ESG Data.

As more investors apply SRI strategies and incorporate ESG factors, data providers are being reviewed by industry users which may help local agencies compare the different data providers. Not surprisingly, the rating models used by each unique data provider vary from computer driv-

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[23] CDIAC - *Local Agency Investment Guidelines*, pg. 14, (2019). www.treasurer.ca.gov/cdiac/LAIG/guideline.pdf

[24] "Responsible Investing: Guide to ESG Data Providers and Relevant Trends," *Journal of Environmental Investing* 8, no 1 (2017). Accessed 5/22/2019. https://cbey.yale.edu/sites/default/files/Responsible%20Investing%20-%20Guide%20to%20ESG%20Data%20Providers%20and%20Relevant%20Trends.pdf

en models or algorithms, to analyst based evaluations, to a hybrid of the two.[25] One example of an effort to influence and improve the quality and transparency of corporate sustainability ratings is the program called Rate the Raters, by SustainAbility. The latest report provides the results of a global survey in which several thousand sustainability professionals were polled to assess their views on what makes a good sustainability rating and which ratings they see as being of the highest value and usefulness, concluding that RobecoSAM, CDP, MSCI and Sustainalytics, were the leaders across all categories evaluated in this study.[26]

As an example, the City of Santa Monica has used S&P Global Rating information to identify ESG factors affecting investment sectors, and ESG scores provided by RobecoSAM and Sustainalytics to construct ESG rankings of the companies within its investment portfolio.[27]

CONCLUSION

Socially responsible investment objectives are becoming increasingly popular and may be advocated for by the stakeholders of California local agencies to discourage or encourage corporate business practices or government activities seen as negative or positive under certain environmental, social and governance factors to the public at large. While SRI strategies to screen authorized investments may provide stakeholders and constituents with good feelings or even resolve that they are doing the right thing with taxpayer dollars, careful planning and policy deliberation is necessary. Regardless of the societal benefits of SRI, CDIAC reminds California local agencies that the primary objectives of surplus funds investing are safety of principal and maintenance of necessary liquidity. Further, it must be noted that using divestment, depending on timing and circumstances, as a negative screening strategy requires careful consideration given that it may directly conflict with the objective of principal preservation. The costs of staff time and SRI/ESG evaluation tools needed to implement and manage additional authorized investment screening processes must be determined to be appropriate and cost effective. Local agencies that incorporate Socially responsible investment goals and objectives into their investment policies will provide transparency, establish portfolio performance expectations, and create a framework for evaluating and communicating the effectiveness of SRI and ESG factors as these markets expand.

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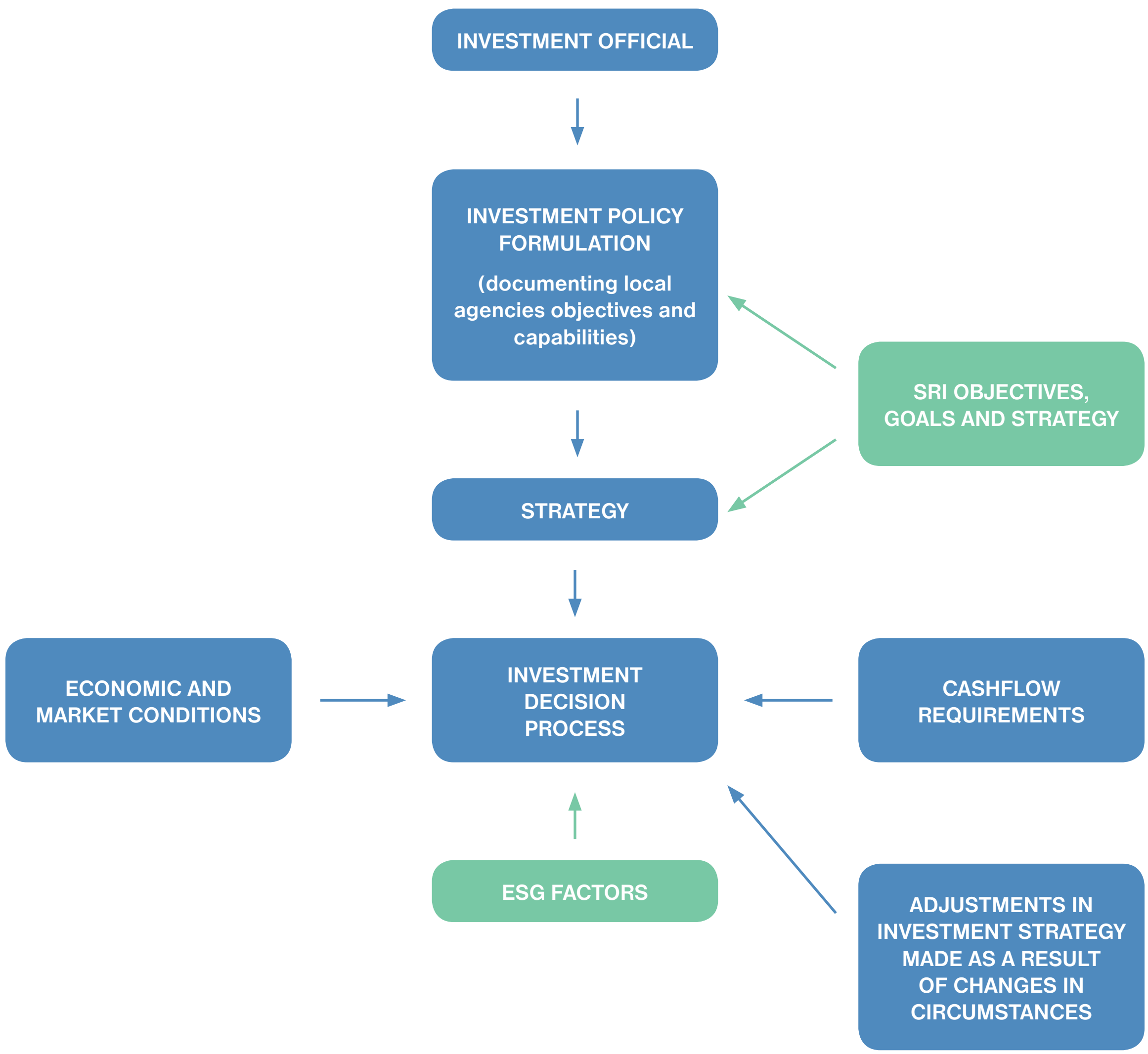
[25] Ibid, pg. 14.

[26] SustainAbility - *Rate the Raters 2019: Expert Views on ESG Ratings.* Accessed 5/22/2019. https://sustainability.com/wp-content/uploads/2019/02/sustainability-rate-the-raters-2019.pdf

[27] GIOA - 2019 Conference, *Dealing With ESG*, pg. 12-19. Accessed 7/10/2019. www.gioa.us/presentations/2019/Thursday/Thu-Carr_Jones_ESG_Investing.pdf

Appendix A

PRUDENT INVESTMENT
CONSIDERATIONS



Appendix B

ORGANIZATIONS PROMOTING SOCIALLY RESPONSIBLE INVESTMENT AND ENVIRONMENTAL, SOCIAL AND GOVERNANCE FACTORS

United Nations Global Compact

The ten principles of the United Nations Global Compact involve human rights, labor, environment, anti-corruption. By incorporating the ten principles companies are not only upholding their basic responsibilities to people and planet, but setting the stage for long-term success.

Principles for Responsible Investment (PRI)

The six Principles of Responsible Investment acknowledge that ESG factors can have a material impact on returns and can affect the investment performance of bonds, both negatively and positively, at the issuer, sector, geographic and system levels.

Chartered Financial Analysts (CFA) Institute

The CFA Institute's mission is to lead the investment profession globally by promoting the highest standards of ethics, education, and professional excellence for the ultimate benefit of society. The incorporation of ESG data into the investment process is encouraged so that investors can be more informed about the decisions they are making.

Government Investment Officers Association (GIOA)

The mission of the GIOA is the education and training of government investment officers to assist them in their responsibilities: to ensure safety of principal through suitable investments; maintain sufficient portfolio liquidity; optimize and measure investment performance; and communicate portfolio policy and plan to the governing board and public.

Green Initiative Task Force

The Green Initiative Task Force was established to identify, analyze and propose investment opportunities and risk-control strategies addressing climate change. Since then, the focus has pushed beyond carbon emissions to consider risks and opportunities related to issues such as land use, water sourcing, mineral extraction and waste disposal.

US SIF: The Forum for Sustainable and Responsible Investment

The mission of US SIF Forum for Sustainable and Responsible Investment is to rapidly shift investment practices toward sustainability, focusing on long-term investment and the generation of positive social and environmental impacts.

Sustainability Accounting Standards Board (SASB)

The Sustainability Accounting Standards Board is an independent, non-profit standard-setting organization established in 2011 to set, interpret, and maintain industry-specific sustainability standards.

Coalition for Environmentally Responsible Economies (Ceres)

Ceres is a sustainability nonprofit organization working with influential investors and companies to build leadership and drive solutions throughout the economy. Ceres tackles the world's biggest sustainability challenges, including climate change, water scarcity and pollution, and inequitable workplaces in its mission to transform the economy to build a sustainable future for people and the planet.

SustainAbility

SustainAbility is a think tank and advisory firm founded in 1987 that works to inspire and enable business to lead the way to a sustainable economy.

Appendix C

ESG INFORMATION BY CREDIT RATING AGENCIES

Moody's

Moody's is developing analytical tools to help improve the market's understanding of how ESG factors affect credit risk; be more transparent about how ESG risks are identified and assessed; and to ensure that Moody's analysts consider ESG factors in a consistent manner across sectors and geographies, with the aim of identifying which sectors and issuers are most exposed to these risks. Moody's will also continue to publish sector-specific reports that provide more transparency into how ESG risks are incorporated into its ratings.

S&P Global Ratings

S&P Global Ratings ESG Evaluation is a cross-sector, relative analysis of an entity's capacity to operate successfully in the future and is grounded in how ESG factors could affect stakeholders and potentially lead to a material direct or indirect financial impact on the entity.

Fitch

Fitch Ratings has launched a new integrated scoring system which shows how environmental, social and governance (ESG) factors impact individual credit rating decisions. Fitch is the only credit rating agency that currently offers this level of granularity or transparency about the impact of ESG on fundamental credit.

Kroll

Kroll assesses the relevance of ESG risks to key credit metrics as well as the possible effect of ESG factors on the credit risk of an issuer, which may vary based on the time horizon of the debt issuance being evaluated.

Japan Credit Rating Agency, Ltd

JCR focuses its efforts on providing evaluations to green, social and sustainable finance (including both bonds or loans and other debt instruments) to contribute to the market players.

FREE SEARCHABLE ESG DATA

CSRHub

CSRHub provides access to its corporate social responsibility and sustainability ratings created by aggregating more than 500 sources of data and information on 17,268+ companies from 134 industries in 141 countries. Ratings are aggregated using ESG datasets from Institutional Shareholder Services (ISS), MSCI (ESG Intangible Value Assessment, ESG Impact Monitor, and ESG Carbon Metrics), Trucost and Vigeo EIRIS as well as other data inputs.

Yahoo! Finance

Yahoo! Finance provides access to ESG data from Sustainalytics for companies and some governmental entities (i.e. Fannie Mae) including ESG ratings and comparisons of ESG performance for each ESG category to other peer companies' ESG scores as well as a daily list of the top 30 most sustainable and ethically responsible companies. Specific entities can be found through the website's search feature.

RobecoSAM

RobecoSAM provides rankings for 2,686 companies evaluated in 2018 as part of their annual Corporate Sustainability Assessment. Rankings include over 600 U.S. companies.

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