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SEPTEMBER 13, 2021

AGENDA ITEM 4  
ACTION ITEM

CALSAVERS RETIREMENT SAVINGS BOARD

*Discussion of ESG (Environmental, Social, and Governance) Investment Option and Resolution No. 2021-06 to Exercise One-Year Contract Extension for Newton Investment Management Limited As Manager of the Sustainable Balanced Fund Investment Option*

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***Summary***

The CalSavers Retirement Savings Board (“Board”) will consider approving a one-year extension of its contract (No. CSCRSIB06-18) with Newton Investment Management Limited (“Newton”), manager of the Sustainable Balanced Fund investment option, which focuses on environmental, social, and governance (“ESG”) factors. The Board will hear an update from staff, its investment consultants, and Newton representatives on the status of the fund.

***Background***

The Board initially solicited proposals for an ESG investment option in May 2018 as part of the first request for proposals (“RFP”) for investment managers for the full five-option investment lineup set by the Board in its Investment Policy Statement. During that search, the evaluation committee did not find a suitable ESG fund to recommend to the Board for inclusion in the investment options. The Board directed staff to conduct a second search process for an ESG option and subsequently on November 19, 2018, the Board approved the release of a second RFP for an investment option focused on ESG factors.

Following the evaluation of bids on January 28, 2019, the Board approved a three-year contract for investment management services with Newton, plus three one-year options to extend the contract at the Board’s discretion. The contract term is February 8, 2019, through February 7, 2022. The contract is a zero-dollar contract, requiring no payments from the Board to Newton because Newton is compensated by fees levied on participants (more information on fees is provided below).

**The ESG Fund & Scope of Work**

The Sustainable Balanced Fund (ticker: DRAKX) is a balanced fund, composed of 60 percent active ESG equity, managed by Newton as a Sustainable Global Equity strategy, and 40 percent passive ESG bond strategy, managed by Mellon Investments Corporation (the parent company). Performance is measured against a custom benchmark described below. In addition to providing an ESG investment option to CalSavers participants, Newton also works in concert with the Board’s staff, program administrator, and investment consultant to provide the Board all the necessary data for evaluating the performance of the ESG fund on a quarterly basis. Newton

provides the necessary investment descriptions and disclosures and responds to requests from staff as necessary.

**Participation in the ESG Fund**

The ESG fund was first made available to participants on July 1, 2019, in conjunction with the statewide launch of the Program. In the first two years of the Program’s three-year rollout, participation in the ESG fund has represented a small portion of funded accounts and assets, exhibiting similar activity level as the Global Equity and Core Bond funds, neither of which are part of the default investment option. Lower participation in non-default options was expected by the Board based on well-established research and industry trends on the uptake of non-default options. As shown in the tables below, participation in the ESG fund represents 0.4 percent of all funded accounts and 0.3 percent of all assets.

**Assets by Fund as of June 30, 2021**

Fund Group	Accounts	Account Percentage	Assets	Asset Percentage
CalSavers Target Retirement Funds (Default after 30 days)	148,290	90.60%	\$86,036,464	95.5%
CalSavers Money Market Fund (Default first 30 days)	13,180	8.10%	\$2,883,395	3.2%
CalSavers Global Equity Fund	1,009	0.60%	\$788,294	0.9%
CalSavers Sustainable Balanced Fund (Environmental, Social, Governance)	575	0.40%	\$246,988	0.3%
CalSavers Core Bond Fund	480	0.30%	\$159,489	0.2%
TOTAL	163,534	100.00%	\$90,114,631	100.0%

**Trailing 4-Quarter History of ESG Fund**

	Q3 2020	Q4 2020	Q1 2021	Q2 2021
Funded Accounts with ESG Assets	113	262	423	575
Percent of All Funded Accounts	0.4%	0.3%	0.3%	0.4%
ESG Assets	\$ 29,618	\$ 67,815	\$134,867	\$246,988
Percent of All Assets	0.3%	0.2%	0.3%	0.3%

As of August 31, 2021, the Program had 720 accounts with ESG assets, totaling \$334,778.

The availability of the ESG fund option enables the implementation of the Board’s Investment Policy Statement, including its investment beliefs, and remains valuable as a potential marketing strategy for individuals who may not otherwise participate.

Newton Contract Term and Cost

If the Board chooses to exercise its option to extend the Newton contract by one year, the new end date of the contract would be February 7, 2023. The Board would have two remaining options to extend the Newton contract by one year each.

The Newton contract extension would carry no cost for the Board because Newton, as with all the Board’s investment managers, is compensated by fees levied on participants. The ESG fund carries a cost of 0.15 percent of assets per year. This is in addition to the program administrator’s fee of 0.75 percent and the State administrative fee of 0.05 percent. For example, a participant with a balance of \$1,000 would be charged \$1.50 for Newton’s investment management fee and a total of \$9.50 for that year including all fees.

Performance

The ESG fund’s performance is measured against a custom benchmark composed of 60 percent MSCI All Country World Index and 40 percent Bloomberg Barclays MSCI US Aggregate ESG-Weighted Select Sector Neutral Index. Performance in the first two years of the Program has generally kept pace with or exceeded its index. The fund held up particularly well during the market drawdown in the first quarter of 2020 such that since inception performance exceeds its benchmark. The table below summarizes quarter-to-date (QTD), year-to-date (YTD), trailing one-year, and since-inception performance compared to the index as of June 30, 2021.

**ESG Fund Performance Summary as of June 30, 2021**

	QTD	YTD	1 Year	Inception	Inception Date
ESG Fund	5.1%	6.4%	21.4%	15.2%	April 2019
Index	5.1%	6.5%	22.0%	13.6%	April 2019

ESG fund performance would continue to be monitored against the benchmark described in the Investment Policy Statement, subject to change based on the advice of the Board’s investment consultants and at the discretion of the Board. Performance metrics would continue to be provided to the Board on a quarterly basis consistent with the Investment Policy Statement.

Status of the ESG Fund

Newton created the ESG fund in response to the Board’s search for an ESG option in 2018, and CalSavers participants were the first investors in the product. Representatives from Newton will report on the status of the ESG fund and the firm’s efforts to attract additional investors into the ESG fund and provide an update on regulatory compliance.

***Recommendation***

Staff recommend the Board approve Resolution 2021-06 to authorize the executive director to exercise a one-year extension of its contract (No. CSCRSIB06-18) with Newton Investment Management Limited.

***Attachment:***

Resolution 2021-06 to Exercise Contract Extension for Newton Investment Management Limited