MEKETA
INVESTMENT GROUP

CalSavers

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ESG Discussion

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Background

- In 2018, Staff, in conjunction with its consultants, conducted a full review of the ESG investment landscape, including types of strategies and associated fee ranges.
- Discussions centered on:
  - **Overview of Environmental, Social and Governance considerations**. For example, climate change the "E"), or child labor laws (the "S"), or board structure (the "G"). Given that ESG strategies can tackle a variety of issues deemed important to stakeholders, selection of an option likely to appeal to the widest audience was paramount.
  - **The Opportunity Set**. A total of 370 products were identified within eVestment. After eliminating very narrowly defined strategies, roughly 85% of the products were considered to be equity strategies, 12% fixed oncome strategies, and 3% considered to be balanced products (source: eVestment). *Important to note, is that this is one data source and while extensive and representative, it is not all encompassing.*
  - **Active versus Passive** to allow for a more expansive list of options to consider. Offsetting this desire, were the fee constraints of the Program limiting the investment universe available to Participants.
  - **Offering a "balanced" option**; either as a standalone or single option. Studies have shown that participants who choose to express their ESG principles tend to want to do so across all their investments, not just one asset class (equity or fixed income).

Background (continued)

- After education, and electing to add an ESG option to the investment lineup, the Board authorized a full RFP and search for partner to offer this option to participants. The process was robust and public.
- The Board ultimately approved hiring Newton Investment Management to run a custom ESG option that was packaged as a new mutual fund. The option is comprised of Newton's (active) Global Equity strategy (60%) and BNY Mellon's index replication (passive) of Bloomberg Barclays MSCI US Agg ESG Select Index (40%).
- As of June 30, assets in the BNY Mellon Sustainable Balanced Fund stood at **$246,988**, representing less than 1% of total plan assets.

This presentation is intended to provide the Board with a refresher on what ESG investing is (defining ESG), the various approaches investors take in ESG implementation, and finally, an update on today's ESG investment landscape given the growth of assets and interest in this area.

Common ESG Considerations or Issues

- The institutional investor market has become increasingly attentive to the potential material impact of environmental, social and governance ("ESG") on investment performance.

ENVIRONMENTAL (E)

Climate Change | Energy Transition | Sustainability Best Practices | Environment Policy | Water Supply | Sustainable Transport | Waste Management

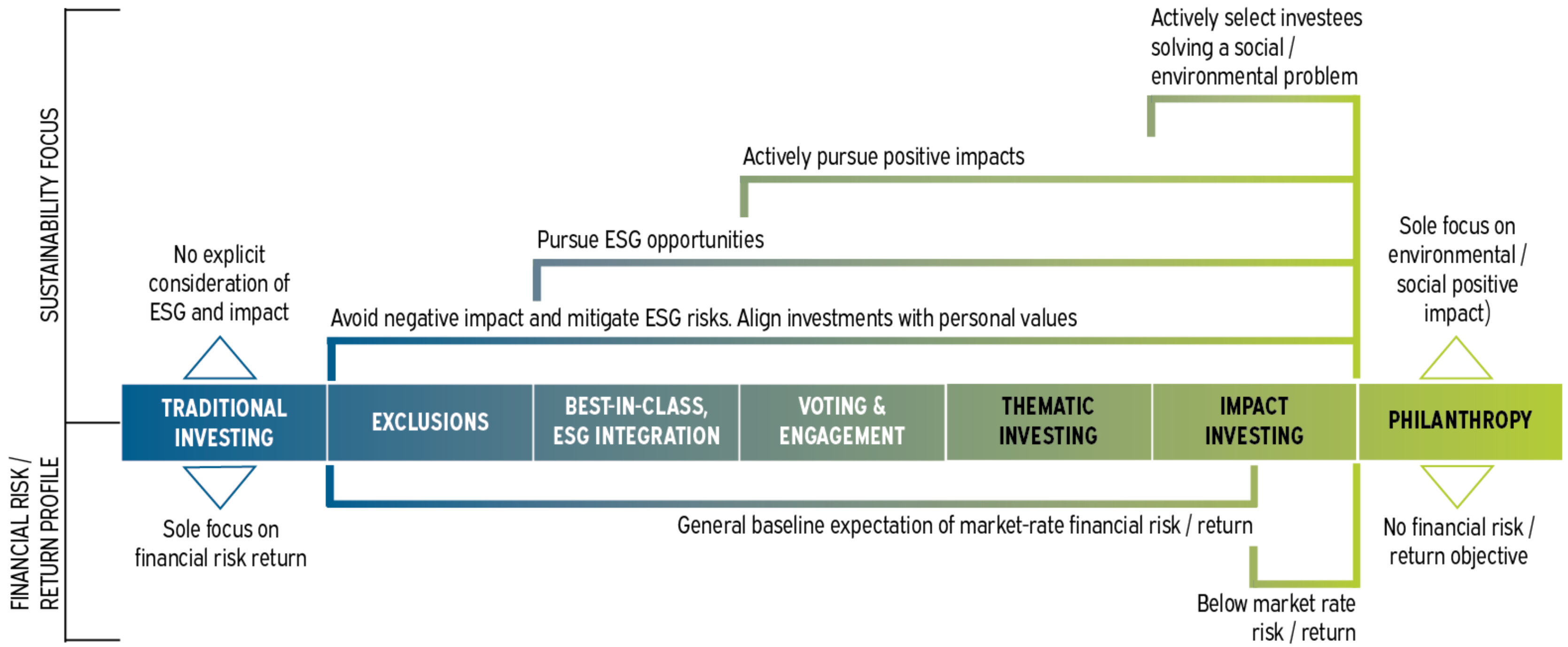
SOCIAL (S)

Consumer Rights | Health and Safety | Product Safety | Labor Relations | Community Relations | Stakeholder Relations

GOVERNANCE (G)

Board Structure | Board Diversity | Independent Directors | Chairman/CEO Split | Executive Pay | Audit/Accounting | Shareholder Rights

Spectrum of Sustainable Investment Approaches[1]



[1] Source: Swiss Sustainable Finance – CFA Society Switzerland.

ESG Investing Landscape: Where are we Today?

ESG assets are growing, as are Plan Sponsors' desire to evaluate, monitor, and align investments

- ESG investing in the United States continues to expand at a healthy pace.
- Assets expanded to $17.1 trillion at the start of 2020 in the United States, up from $8.7 trillion in 2016 (US SIF 2020 report). Of that $17.1 trillion, $4.6 trillion are in individual/ retail investors assets.
- The opportunity set within the eVestment universe: To date in 2021, total mutual fund offerings total 560 products compared to 370 products in 2018 and reflective of the overall growth in ESG assets. Of these, roughly 76% were considered to be equity strategies, roughly 18% fixed income strategies, and roughly 7% considered to be balanced products.
- While the growth in available balanced products has seen in increase, offerings remain limited.
- The median fee for ESG offerings, according to eVestment and based off an asset base of $250K, stood at 60 basis points across both active and passive strategies. We highlight the challenges faced by investment options utilized on a platform at CalSavers, which is designed to be lost cost, and currently is still ramping up assets.
- While ESG interest is increasing, sponsor-selected default investments continues to be of most importance, in response to concerns about participants' lack of investment knowledge and the growing use of automatic enrollment. About 86% of plans in 2019 had specifically designated a qualified default investment under the DOL's regulations. Additionally, roughly 80% of participants were invested in target date funds when offered (Vanguard 2020).

ESG Investing Landscape: Where are we Today? (continued)

- The majority of plan sponsors did not change the number of funds in their DC plan in 2019. For those that did, that number was roughly 14%, with roughly 5% adding ESG type funds (Callan 2020 DC Trends Survey).
- Currently the landscape remains very limited for ESG target date fund options. Meketa is aware of two ESG TDF offerings: BlackRock LifePath ESG Index funds and Natixis Sustainable Future Funds, both passive offerings.
- With so many billions of dollars flowing into ESG over the last few years, there are certainly some securities considered to be overvalued. Thes best active managers are building into their products by integrating E,S, and G into their overall approach thereby better identifying overvaluation.

DOL Ruling on ESG

- On January 12th, the Financial Factors in Selecting Plan Investments (formerly the "ESG Rule") went in to effect, and on January 15th, the Fiduciary Duties Regarding Proxy Voting and Shareholder Rights rule took effect.
  - The Financial Factors rule would generally require plan fiduciaries to select investments and investment courses of action based solely on consideration of "pecuniary factors." The Proxy Voting rule addressed obligations of plan fiduciaries under ERISA when voting proxies and exercising other shareholder rights.
- On March 10th, the DOL issued a statement that, until they publish further guidance, they will not enforce or pursue enforcement actions relating to the published final ESG (Financial Factors in Selecting Plan Investments) and Proxy Voting rules that went in to effect in January. This includes actions against plan fiduciaries with respect to an investment option.
- On May 20th, President Biden signed an executive order that included a directive to the Labor secretary to consider suspending, revising or rescinding the Financial Factors in Selecting Plan Investments rule.
- On August 10th, the US Department of Labor ("DOL") submitted a new proposed regulation to the Office of Management and Budget titled "Prudence and Loyalty in Selecting Plan Investments and Exercising Shareholder Rights."
  - The language of the proposed regulation has not yet been made public but is said to address the ESG and Proxy Voting Rules (Plansponsor.com).

While legislators and the DOL will continue to evolve their views and sustainable investing regulations, plan sponsors currently have guidance to support integrating sustainable investing strategies into DC plan design.

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