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MAY 24, 2022

AGENDA ITEM 5  
ACTION ITEM

CALSAVERS RETIREMENT SAVINGS BOARD

*Resolution No. 2022-03: Approval to Execute a Contract for Environmental, Social, and Governance (ESG) Investment Option*

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***Summary***

The CalSavers Retirement Savings Board (“Board”) will consider approving a contract with Calvert Research and Management for an investment option focused on environmental, social, and governance (ESG) factors.

***Background***

In January 2019, consistent with its Investment Policy Statement (IPS) for the CalSavers Retirement Savings Program (“CalSavers” or “Program”), the Board awarded contract No. CSCRSIB06-18 to Newton Investment Management Limited (“Newton”) for ESG fund management services. Newton, a subsidiary of BNY Mellon, manages the BNY Mellon Sustainable Balanced Fund (ticker: DRAKX). The fund provides balanced exposure to equity and fixed income at a fee level of 15 basis points.

As of May 9, 2022, 1,185 CalSavers accounts held ESG assets totaling \$662,256, representing 0.5% and 0.3% of all funded account and assets, respectively. As discussed frequently during board meetings, the relatively low participation in the ESG fund reflects the dominance of default investment option in any automatic enrollment structure and not necessarily the quality or desirability of the alternative option that requires participants to take action to select it. The Board has consistently stated the importance of making an ESG option available to participants.

The Board remained satisfied with the performance of the fund and in 2021 exercised its option to extend the contract with Newton by one year. However, Newton informed the Board that the fund may cease to exist by the end of 2022 due to circumstances outside the Board’s control. On January 24, 2022, the Board authorized the executive director to release a request for proposals (RFP) for an ESG investment option to replace the Newton fund. On February 14, 2022, the executive director issued RFP No. CRSB01-22 (Attachment 5A).

***Evaluation Committee Process***

The executive director established an evaluation committee composed of three staff (Angela Duvane, Eric Lawyer, and Katie Selenski) and two Board member volunteers (Heather Hooper and William Sokol). The Board’s investment consultants from Meketa Investment Group provided written analysis, expertise, and active support during the review of the proposals.

Seven proposals were submitted by the deadline on March 25, 2022, and four were complete and met all the requirements to be considered by the evaluation committee. Qualified proposals were evaluated based upon the cost to participants (proposed fees), the quality of their firm and personnel; fund management; and performance, per the scoring rubric below.

Scored Category	Points Possible
Cost (fees)	39
Qualifications and Experience of the Firm/Personnel	35
Fund Management	20
Performance	15
<b>Total Possible Points First Phase</b>	<b>109</b>
Interview	20
<b>Total Possible Points</b>	<b>129</b>

The fees of the four qualified bids were 0.19%, 0.69%, 0.78%, and 0.90% and the options represented a range of structures and strategies. As a result of the Department of General Services (DGS) requirement that cost carry a minimum of 30% of the total score and the formula for distributing cost points among bidders, the low-cost bidder, Calvert Research and Management (Calvert) held a dominant position even before other categories were evaluated.

Based on the first phase scoring, the committee identified Calvert as the sole finalist for the interview phase. Following the interview, the committee finalized the scoring of qualified proposals (Attachment 5B) and selected Calvert to recommend to the Board for approval.

***Firm Background***

Calvert Research and Management (“Calvert”) traces its roots to Calvert Investment Management (CIM), which was founded in 1976. The Calvert Funds are one of the largest and most diversified families of responsibly invested mutual funds, encompassing actively and passively managed strategies, U.S. and international equity strategies, fixed-income strategies, and asset allocation funds.

On December 30, 2016, Calvert was formed as a wholly owned subsidiary of EVM and indirect subsidiary of Eaton Vance Corp (Eaton Vance). Calvert reports that at that time, substantially all the business assets of CIM were purchased by Calvert. The assets of CIM included all technology, know-how, intellectual property and the Calvert Research System and processes. After approval of the Boards of Directors or Trustees and shareholders of the Calvert Funds, Calvert also became the successor investment adviser to the registered investment management companies that CIM had been manager of prior to the transaction. In addition, Calvert hired the majority of the employees that were part of CIM's sustainability research department. On March 1, 2021, Morgan Stanley completed its acquisition of Eaton Vance and Calvert became part of MSIM, the asset management division of Morgan Stanley.

***Product Structure and Cost to Participants***

The proposed investment option is the Calvert U.S. Large-Cap Core Responsible Index Fund (R6 shares, ticker: CSXRX), an all equity, passively managed index fund.

The proposed Calvert fund carries a cost of 0.19% which is 0.04% higher than the cost of the current Newton option. When combined with the Board's administrative fee of 0.05% and Ascensus' administrative fee of 0.75%, the total all-in fee of the Calvert fund would be 0.99%.

### ***Conversion Experience for Participants***

The proposed equity-only Calvert option differs structurally from the current Newton option, which is a balanced fund, composed of 60% active ESG equity and 40% passive ESG bond strategy. Because of these differences, the replacement product is not considered a like enough product to allow for an automatic direct conversion of participant assets from the Newton fund to the Calvert fund.

Participants wishing to remain invested in an ESG option will need to act to communicate their preference. The Board will send participants holding Newton assets at least two notices informing them of the change in funds, their options, and steps required to convert to the new fund if they desire. Contingent on the Board's approval of resolution No. 2022-04 in item 6 of this meeting, if participants do not act to communicate their preference, then the Program will invest any remaining Newton ESG assets into the Program's default investment, the target date fund assigned based on the participant's age.

### ***Scope of Work***

In addition to investment management services for the ESG investment option for CalSavers participants, Calvert would be required to work in concert with the program administrator and investment consultant to provide the Board all necessary data for evaluation of the fund on a quarterly basis. Calvert would provide updates to the Board on the current ESG landscape and trends as requested, but no less than annually. Calvert would also provide necessary investment descriptions in both English and Spanish. Calvert would collaborate with staff, the program administrator, and other entities however necessary to execute the transition.

### ***Performance Monitoring***

Fund performance will be primarily monitored against the passive benchmark it is designed to track, the Calvert US Large Cap Responsible Index, and, secondarily, the Russell 1000 Index. Performance and analysis metrics will be provided to the Board by the Board's investment consultant on a quarterly basis consistent with the IPS.

### ***Contract Term and Cost to Board***

The agreement would become effective upon approval by DGS or September 1, 2022, whichever is later. The term of the agreement(s) would be three (3) years with three (3) one-year extension options the Board may choose to exercise, for a possible total term not to exceed six (6) years. This would be a zero-dollar contract for the Board because the firm would be compensated by fees levied on participants.

### ***Expected Timeline***

If the Board approves selection of Calvert at the May 24, 2022, meeting, staff expect to work with Calvert, the program administrator, and others to distribute participant disclosures in the summer and early fall and execute the conversion by November 1, 2022.

***Staff recommendation***

Staff recommend the Board approve resolution No. 2022-03 (Attachment 5C), to authorize the executive director to execute a contract, in substantially the same form as Attachment 5D, with Calvert Research and Management to provide an ESG investment option for CalSavers participants.

***Attachments***

- Attachment 5A: RFP No. CRSB01-22
- Attachment 5B: Scoring Summary
- Attachment 5C: Resolution No. 2022-03
- Attachment 5D: Draft Contract