**California Debt and Investment Advisory Commission**

**Webinar Transcript**
***Socially Responsible Investing: Integration in the Local Agency Portfolio***
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**Title Slide – Socially Responsible Investing: Integration in the Local Agency Portfolio**

**ROBERT BERRY:** Good morning, everyone. Welcome to *Socially Responsible Investing: Integration in the Local Agency Investment Portfolio*, a webinar presented by the California Debt and Investment Advisory Commission. My name is Robert Berry, and I'm the deputy executive director here at CDIAC.

If you joined us for our webinar series on green bond issuance, you know that the market for municipal green bond issuance is rapidly growing. Retail investors in particular have become increasingly concerned about factoring social consciousness into their investment decisions. Aware of the growing market, elected leaders and their constituents across the country have begun to demand policy that matches the climate-friendly attributes of their infrastructure projects with complimentary financing structures. Well, the reverse is also true. Board members and constituents of local agencies are increasingly asking that the investment of public funds take into account the same social consciousness and incorporate socially responsible investing objectives, or SRI as it is known.

The aim of this webinar is to provide tools to you, local investment officials, to help in the exploration and potential adoption of SRI strategies into the investment policies and practices of your agencies. Our presenters will begin with the fundamentals, the terminology and screening methodology, the legal requirements for California agencies, and broad policy-level considerations, and then we'll get a practical view of how SRI objectives and the policy considerations are put into practice in an actual local agency. And then, finally, a tour of some of the tools, some of which are free, that can be used to integrate SRI into your credit analysis and investment decisions.

**Slide 2 – Housekeeping** **2:12**

**ROBERT BERRY:** So before we get started, the obligatory important topics I need to cover. If you're experiencing any technical problems, please contact GoToMeeting at 877-582-7011, or you can try the website at the address on the screen to troubleshoot your problems. The slides for today's presentation are available in PDF form in the Handouts section of your webinar control panel. They're also available on CDIAC's website. There is a link on the front page of our website in the left column under Education Highlights.

We also encourage you to submit questions during the broadcast using the box marked Questions near the bottom of your control panel. You may submit questions any time they come to your mind, and I encourage you to do that. Then, we'll take them up at the end of our session in the Q&A part of our program.

If you would like access to live captioning during the program, click on the link in the Chat section at the bottom of your control panel, or copy and paste the address on the screen into a second browser window.

CDIAC makes all of our webinars available on our website for replay. In about two weeks, a replay and a transcript of this webcast will be posted in our front page, again the left column under Education Highlights. It will be there for a few weeks, and then it will also be accessible in our Replays and Recordings section on the CDIAC Education page.

To be eligible to receive a certification of attendance for this webinar, you must have personally registered and stay logged in for 70% of the webinar. If you meet those two basic requirements, you'll receive a certificate of participation in a couple of weeks.

Then lastly, you may notice from time to time, that there is some embedded links within the presentation that are intended to provide additional in-depth information. It is important to note that the links are active in the PDF version of the presentation accessible in the control panel, as I mentioned, or on our webpage.

**Slide 3 – Resources** **4:36**

**ROBERT BERRY:** CDIAC also has a variety of different resources available on the topic of socially responsible investing. First, the CDIAC issue brief that inspired this webinar, *Socially Responsible Investing - What Does It Mean and What's the Risk?,* is linked here and available on CDIAC's front page on our website. Also, CDIAC's *Local Agency Investment Guidelines*, which will be referenced several times in the presentation, are permanently linked to the website front page and updated annually, and our new update is due here in a couple of months, probably by February. Then lastly, linked here on the website page for this webinar where you went to register is a library of links to socially responsible investing-related topics including organizations that have been responsible for establishing and promoting SRI principles and environmental, social, and governance factors; links to ESG information from the rating agencies; and other sources of free searchable data.

**Slide 4 – Speaker Introductions** **5:47**

**ROBERT BERRY:** So now, we'll get started and I'll introduce our presenters for today. We are fortunate to have a really great team, including David Carr, assistant treasurer with the City of Santa Monica. David manages the City's $750 million investment portfolio, while incorporating a variety of SRI objectives. He is responsible for forecasting major city revenue sources and preparation of the revenue portions of the $700 million budget. Mr. Carr also acts as the assistant finance director and manages the city's treasury unit, business license office, billing and collection function, and even the parking meter and transit collection and counting operations. For the last 30 years, Mr. Carr has held various positions within the City's finance department, including principal budget analyst, principal investment analyst, budget administrator and treasury administrator.

And then joining David is Kevin Webb, Chartered Financial Analyst with Piper Jaffray. Kevin joined Piper Jaffray in 2018. With over a decade experience, he has been a guest lecturer and speaker at numerous fixed income workshops and conferences, including many CDIAC programs. He holds dual degrees in computer science and finance and an MBA, and as I mentioned, also holds the CFA designation. Kevin is a member of the CFA Institute and the Global Association of Risk Professionals.

Our final introduction, but our first presenter, is Tara Dunn. Tara is a senior researcher at CDIAC and author of CDIAC's recent publication upon which this webinar is based, *Socially Responsible Investing - What Does It Mean and What's The Risk?* Tara currently conducts research and provides analysis and technical assistance on a variety of municipal debt issuance topics and investment-related topics, including K-14 voter approved bond authority, green bonds and securitized investments, to name a few. As a member of CDIAC's research team, she has participated on numerous projects, including our brand new *California Debt Financing Guide*; the annual update to the LAIG, or *Local Agency Investment Guidelines* as we call it; and prior to her time at CDIAC, she facilitated bond financing as a staff loan officer at the California Infrastructure and Economic Development Bank. So with that, Tara, we will hand it to you to start us off.

**TARA DUNN:** Thank you, Robert.

**Slide 5 – Fundamentals 8:20**

**TARA DUNN:** As Robert mentioned, my name is Tara Dunn, and I'm a research data specialist within the policy research unit here at CDIAC. As a member of the research unit, I follow developments and events in the municipal market to help determine areas of interest for research and analysis. We also receive technical assistance questions about municipal debt issuance or public agency investing that may become research topics as well. In this case, CDIAC had received a few questions about socially responsible investing, and we also noticed it become a frequent topic presented at various public agency conferences.

The issue brief we published provides an overview of socially responsible investing and how it relates to statutory requirements for investing surplus public funds by local agencies. In this first part of today's webinar, I will talk about our interpretation of what socially responsible investing is, provide a summary of the statutory framework local agencies in California must adhere to when considering socially responsible investing, provide an overview of the screening methods and other criteria that may be used, and describe other factors local agencies might consider when deciding how to incorporate socially responsible investing in their investment decision process. After that, David and Kevin will provide a local agency's perspective on how this concept has been implemented in policy and how the strategies are practiced.

**Slide 6 – Socially Responsible Investing 10:04**

**TARA DUNN:** And with that, what is socially responsible investing? In our issue brief, we describe socially responsible investing as strategies to promote concepts and ideals a local agency seeks to support while practicing prudent investment management.

There is a lot of buzz in the media about socially responsible investing, or the acronym SRI, and much of the information available provides different viewpoints and definitions about the practice. Some resources are geared towards institutional investors, some towards credit analysts, some towards financial advisors, while others focus on retail investors, especially younger generations.

Terminology related with socially responsible investing concepts include socially conscious, sustainable, green, ethical. It can also be synonymous with community investing, impact investing, mission-related investing or values based investing. All of these terms revolve around a practice of considering environmental, social, and governance factors when choosing investments for a portfolio. Environmental, social, and governance factors are also referred to as ESG.

**Slide 7 – California Investment Requirements 11:32**

**TARA DUNN:** Although there is a great deal of information available, there are no official standards defining SRI or ESG yet. So there are a variety of ways local agencies may approach practicing socially responsible investing. California Government Code establishes the authority local agencies must follow when investing surplus funds. I'll start with the green bubble in the top left-hand corner that references the prudent investor standard. The prudent investor standard requires that all those making investment decisions on behalf of local agencies shall act with care, skill, prudence, and diligence under prevailing economic conditions and the anticipated needs of the local agency, and to safeguard the principal and maintain the liquidity needs of that agency.

Moving clockwise, the second bubble refers to safety, liquidity and yield. The fiduciary role of the prudent investor is reinforced by this Government Code section, which states the primary objective of those making public investment decisions is to safeguard the principal of the funds under their control; the secondary objective is to meet the liquidity needs of the local agency; and finally, the third objective, yield, is to achieve a return on the funds.

It is concerning this third objective that we at CDIAC emphasize that while local agencies may be willing to accept the risk of reduced yield in pursuit of SRI goals, the statute provides no authority to sacrifice principal preservation and maintenance of necessary liquidity to any socially responsible investing goals.

The third bubble on this slide is actually not an investment requirement at all, but it is a recommended best practice. And that is a recommendation that a local agency have a board-approved investment policy that serves as the foundation of the local agency's investment goals and priorities. Having a board-approved investment policy shows that the governing body shares the fiduciary responsibility, it increases the authority and legitimacy of the investment policy, and it provides transparency and disclosure to its stakeholders and constituents.

The fourth bubble refers to permissible investments authorized by Government Code. California investment statute is prescriptive, meaning that local agencies may only invest in the securities and instruments under the restrictions and conditions specified as authorized in the Government Code. Not only are there limitations on the types of investment instruments, there are also other limits such as maturity length, credit quality, and portfolio concentration and composition to name a few.

The fifth bubble under permissible investments, again, provides links to a couple of CDIAC's other resources about local agency investments. The first link is to the 2019 *Local Agency Investment Guidelines*. CDIAC produces an update to these guidelines every January to summarize any legislative changes to California investment statutes. The guidelines also contain commonly asked questions, which are organized into chapters on investment policy, fund management, reporting requirements, and the treasury oversight committee.

In addition to the guidelines, CDIAC has also published an investment primer that describes commonly used public investment concepts, terms, and instruments to help public agencies understand and evaluate investment options.

The next few slides will provide a simplified visual example of a local agency's investment decision process beginning with authorized investments.

**Slide 8 – Permissible Investments: Mandatory 16:06**

**TARA DUNN:** The box on this slide represents the entire pool of investments available in the market. As I described, local agencies are required to only invest in instruments authorized under California Government Code.

This image is Figure 1 contained in our *Local Agency Investment Guidelines* and represents a snapshot all of the permissible investments allowed pursuant to Government Code.

As local agencies apply these restrictions, any other types of investments that are not specifically authorized should not be considered. For example, local agencies are not allowed to invest in equities or commodities.

**Slide 9 – Investment Policy: Best Practice 17:08**

**TARA DUNN:** If your local agency has an investment policy, there may be some existing self-imposed restrictions that are already in place. These restrictions could be for certain types of investments, a lower concentration limit, or possibly higher credit rating standards than required by Government Code. For this example, I'm using the blue star to represent an existing restriction contained in an investment policy. This leads the local agency remaining allowable investments after following their current investment policy considerations and restrictions.

**Slide 10 – Optional Screening Strategies 18:01**

**TARA DUNN:** Now that we have worked through a visual representation of authorized investments under the Government Code and existing restricts that may be in place under a local agency's current investment policy, we are left with a pool of remaining allowable investments that a local agency might apply optional screening strategies to.

The first type of socially responsible investment screening I'd like to cover is negative screening. This is because historically local agencies looking to employ a socially responsible goal have generally started with a negative screen. A negative screen is a directive to staff to not purchase securities of companies, other governments or entities that invest or engage in activities that the agency considers objectionable. Examples of negative screens include investment restrictions on entities involved with fossil fuel, guns, tobacco, or those that have been implicated in fraud, corruption, human rights abuses, or environmental degradation. In this case, I'm using the pink diamond-shape to represent a negatively screened investment. So although these pink diamond investments would be authorized under the Government Code as permissible, the local agency has chosen not to purchase them due to some type of objectionable activity the issuer of those investments has engaged in.

The second type of socially responsible investment screening is positive screening. Positive screening varies depending on the intent of the investor. We found it is usually implemented in a couple of ways by local agencies. The first way is by using environmental, social, and governance criteria in the investment decision process. An example of ESG factors would be deciding on a relative value basis to purchase one security over another because of the company's ESG scores, ranking or ratings that were higher.

Another way is by targeting investments that make an impact by directing investing in projects or endeavors that help solve social or environmental problems. An example of this could be bonds that carry a green label such as climate bonds certified by the Climate Bonds Initiative. For this example, I'm using a green egg shape to represent a positively screened investment. If a local agency has added some of these optional negative or positive screening strategies, the investments that remain have been analyzed for suitability beyond traditional credit and financial risk. The evaluation of material risks using ESG factors a local agency wants to promote builds that ESG risk analysis into the traditional risk-reward evaluation of an investment opportunity.

**Slide 11 – Determining 'Want' 21:36**

**TARA DUNN:** So, when determining want, local agencies may find their governing board, community members, and stakeholders have differing opinions on what socially responsible strategies to implement for investing taxpayer dollars. Therefore, careful planning and policy deliberation is necessary. Local agencies may use environmental, social and governance criteria to shape the SRI goals and objectives they want to use to direct negative or positive thresholds for suitable investments.

Number one shows a variety of examples for each of environmental, social, and governance categories. This table is from the CFA Institute and is also contained in our SRI issue brief. Number two refers to the use of available ESG data. The integration of ESG factors into the investment decision process includes analyzing this ESG data. Typically, the data is presented as scores or ratings of companies and other entities selling eligible investment securities that meet or exceed the local agency's investment policy and socially responsible investing objectives. David and Kevin will provide examples of this later in the webinar.

Impact investing is a positive screening method local agencies may use to target their investments to certain types of projects or securities that provide a specific public benefit. Shown are a few types of targeted investments local agencies may choose to buy, including Green Nonds, investing with local community banks, projects that promote economic development, infrastructure and affordable housing.

**Slide 12 – Factors to Consider** **23:43**

**TARA DUNN:** Using SRI strategies, local agencies can incorporate, promote and evaluate ideals that represent their community in their authorized investment decision process. Local agencies should be aware that adding SRI goals and objectives will add complexity to the investment process and require additional analysis. Negative screening strategies impact the number of investment choices causing investment staff to consider other investment alternatives and possibly the timing of a divestment from a negatively screened entity.

Available ESG data varies in cost and methodology. Local agencies should become familiar with the ESG data sources they obtain and rely on and decide whether those sources are cost-effective.

If a local agency experiences increasing stakeholder and community sentiment to add socially responsible ideals into their investment decision process, they may consider exercising an informal practice during the development phase of SRI strategy creation. This may help a local agency determine and understand how these strategies can affect their decision process, help the governing board frame SRI language to add to its investment policy, and help the local agency determine the level of expertise needed to evaluate the SRI goals and ESG criteria they implement. When adding SRI goals to an investment policy, local agencies should consider adding language that is flexible to accommodate the intent of the investment goals over time as markets change and as available ESG data improves.

Since not all investment instruments have ESG data tied to them, local agencies may consider narrowing the focus of ESG and SRI criteria. For example, only referencing ESG factors in connection with types of investments that have an established use of ESG scores or ratings in order to better evaluate authorized securities. Local agencies may consider targeting specific sectors such as local banks or affordable housing. And finally, local agencies may consider adding exemptions or policy exceptions from SRI or ESG investing objectives to certain investments. For example, allowing the purchase of securities offered by a restricted company engaged in a positive ESG project or venture such as green bonds. In these ways, a local agency may help retain broader authority in its investment decision process to promote its SRI goals. In addition, creating, amending and reauthorizing the investment policy allows for the convergence and reconciliation of conflicting investment objectives that may be presented to an agency pursuing SRI strategies.

And that concludes my part of the webinar. And I believe we have a poll question.

**Slide 13 – Audience Poll** **27:40**

**TARA DUNN:** And we're launching the poll question, which is…

**Polling Question Opens** **27:47**

**TARA DUNN:** Do you currently use ESG or SRI in your investment process? We'll leave it open for a few minutes, or I few seconds, I should say. And we're collecting the responses. And we'll go ahead and close it.

**Polling Question Results** **28:22**

**TARA DUNN:** Okay. So it shows about 42% have not implemented ESG or SRI, but 19% have. That's great. So hopefully, this webinar helps, and with that, next you're going to hear from David Carr, the assistant city treasurer of the City of Santa Monica. David will provide a practical perspective of working with SRI and ESG. And with that, we hand it over to you, David.

David, are you there?

**DAVID CARR:** Yes, but…yeah. The slides haven't come over yet. We're still on the poll results slide.

**TARA DUNN:** Oh. One moment.

**DAVID CARR:** Okay.

**Slide 14 – Santa Monica's Perspective 29:31**

**TARA DUNN:** Got it?

**DAVID CARR:** We got it now, I think. Okay. Okay. So yeah. Thanks to Tara for that great overview of ESG and SRI. And so now I'm going to, with some help from Kevin here, go into a practical example of how we implement this in the City of Santa Monica. And just a little bit about our organizational structure. We do have a portfolio size that was mentioned, about $700-$750 million – it varies. We have a very small staff that is involved in the investment process. Limited resources. I mean, I do most of the investment work, and in theory, probably about 15% of my time is supposed to be dedicated to investments. I have an analyst that works with me that does some of the paperwork, reporting, following up on things. But the same with her, she probably spends about 25% of her time. So the perspective we're giving is how to integrate and implement ESG and SRI with these limited staff resources.

So first, I'm going to focus on a couple of things that Tara mentioned about the definitions, the principles about ESG/SRI, and how we see them in Santa Monica. I'm going to talk about some of the fiduciary political considerations I meet. Tara mentioned this when we talked about this topic before, one of the areas where we see some reluctance from public agencies to engage in ESG and SRI investing is that there's some belief that possibly they give up returns so it breaches their fiduciary responsibility. We'll talk about that.

We'll get into how we implemented ESG and SRI into our investment decision-making. Then, we'll talk about how we measure and benchmark our ESG-related performance. Then, we see this still as kind of a fluid area, and we're going to then talk next about the next steps.

**Slide 15 – What is ESG/SRI 31:59**

**DAVID CARR:** So Tara gave a great definition of ESG and SRI. I wanted to bring one more up. It is from the U.N. Principles of Responsible Investment that defines responsible investment as "an approach the investing that aims to incorporate environmental, social, and governance factors into investment decisions, to better manage risk and generate sustainable, long-term returns." So I wanted to focus on the last part there. The purpose of ESG not simply political in nature, but like any other type of investment decision, it’s a way to help manage your risk and generate the returns for the portfolio, which is certainly in line with our legal responsibilities.

**Slide 16 – Sustainable Growth 32:47**

**DAVID CARR:** Just wanted also to point out the next slide about how the use of ESG factors is growing in investment decisions. This chart shows that at the end of 2018, over $12 trillion was invested by investors using socially responsible criteria. This has more than doubled in the last four years and continues to increase.

**Slide 17 – Fiduciary and Political Considerations 33:16**

**DAVID CARR:** So I mentioned a minute ago about the fiduciary and political considerations. There's no doubt that some of the ESG and SRI is a political decision. When we talk about negative screens and in some cases the positive screens about what you can and can't invest in is partially a political consideration. The way we look at it in Santa Monica, the governing board, which is our city council, is representative of the citizens of Santa Monica. They set the policy, and we implement that policy. And our job is, as I said, to implement the policy. It's also to, though, inform the council of the impacts of their decisions in setting this policy.

In a few minutes, I'm going to go over this in a little more detail, but Santa Monica has used socially responsible investing factors in their investment processes for well over, well nearly 30 years. So we're not someone that's starting to implement it. We have implemented it. We are just trying to evolve it.

The three areas, when we look at ESG and SRI in Santa Monica or just a different way of looking at it from what Tara said is three areas: integration, screening and thematic. Integration is how you integrate the ESG factors into your investment policy and practices. So an example of that might be you look at your corporate investments and you look at the ESG ratings and you determine what kind of ratings you want these corporations or other investments to have. Screening – Tara gave a great explanation of screening. We have negative screens. You'll see when we look at our investment policy in a few minutes, we have a number of negative screens, but we also have some positive screens. And then, thematic is almost a new area in the last few years when you tailor your investments to certain areas where you want to make an impact. Green bonds, social impact bonds, things like that would fall into this area.

Then we'll talk a little bit, too, about the ESG impact on credit ratings. When we make investments as a prudent investor, we are always looking at the risk versus reward. And the credit rating agencies, which we talk about in a few minutes, have started to take ESG factors into account when they make their ratings decisions.

I'm going to ask Kevin now, that's from a broker perspective, if he has some input on this also.

**KEVIN WEBB:** I do. The only comment I would like to add is on the first green dot that Dave has here under Fiduciary and Political Considerations, and that is, on being part of panels at conferences from Florida to California, one of the objectives that is often raised – I know Dave Carr has encountered that in several of his presentations – is that somehow using ESG and having an SRI strategy, it harms the citizens of the entity, the stakeholders. You know, as Tara mentioned in one of her slides, one of things in the state code and most investment policies is that you focus on safety, liquidity and yield or return or income. Just as those factors – you know, what constitutes safety, what constitutes a responsible amount of liquidity and constitutes as market rate of return that would allow a public funder to earn an income over budgetary and economic cycles – those should be determined by the risk-reward preferences of that entity. The same thing, I think, applies here.

This is not, for example – and Dave, correct me – but I don't think what Dave or Santa Monica is advocating is that their portion of their investment policy and SRI strategy, whether it is integration, screening or thematic strategy that they're taking, is something that should be for every other entity. It's what works for them, and it's part of their risk-reward preferences. And it's who they're deciding, and the fiduciaries, the city council for Santa Monica, who they choose to loan money to, what represents that socially responsible investing strategy.

So often one of the objections that happens is: well, you're doing this and by doing it, you're harming the return. And I think Tara phrased it so well in saying that you do want to pursue income, but not at the extent or cost of violating the safety and liquidity portions of your investment policy. But that same thing could be added – do you want to pursue return but not at the cost of loaning people money, which is what the City of Santa Monica or any entity is doing when they buy bonds, that aren't reflective of their social responsible investment philosophy. So we will have examples, I think, of some empirical information that actually debunks this idea that even when you consider that you are harming them, but even if you were, you wouldn't want to have yield, which is the last one, and safety and liquidity portion of your investment policy, override them. I think the same thing applies here with ESG and SRI. Anyway.

**DAVID CARR:** Okay. Thanks, Kevin. I will just reemphasize one point that Kevin made, in that we're not saying that the way Santa Monica does it is the right way for every agency. Every agency has to determine their own way they want to implement and integrate ESG and SRI into their investment practices. Kevin said it is a policy issue for each individual agency.

**Slide 18 – Santa Monica's SRI Evolution 39:24**

**DAVID CARR:** Next, I'm going to just kind of give a brief overview of how SRI has evolved in Santa Monica. As I said earlier, the City has had a long commitment to socially responsible investment and procurement practices. One of the earliest ones started way back in 1985, nearly 35 years ago, when South Africa, there was the divestment from South Africa and because of the apartheid government in South Africa that was repealed in 1993 when the government there, the apartheid was ended. Another example, Myanmar, 1995. That was put in in response to the military government's human rights violations. That, again, was repealed in 2010. So part of that is, we're constantly reviewing this. Our council is constantly reviewing this and updating the policy as necessary.

During this time, there also was some informal standards added. Tara mentioned that that's a good way to transition into an ESG/SRI-type investment practices. And the City, the same thing, we had some informal practices. In 1999, we actually integrated those formally into our investment policy.

The next area where our council decided to make a policy decision was in Arizona in response to Arizona's immigration policies at the time. This involved more probably procurement than investments. And I should say, up until probably the early 2000s, to be honest, Santa Monica didn't really invest in corporates, so it wasn't difficult to implement these policies. Recently, it has become more of a challenge. We did have a separate portfolio for an investment for a cemetery and mausoleum trust fund, perpetual care funds, so these policies were applied there, but they didn't really come into effect into our pooled investment portfolio probably until the early 2000s.

The next area where the policy was added is in the area of fossil fuels. This is, again, where it becomes challenging. What does fossil fuels mean? So we tried to help our council by putting in a policy that was reasonable that we can comply with that still met their objectives. So there's a definition of what these fossil fuel companies is. There is an organization that tracks the top 200 fossil fuel companies, and that is explicit as you're going to see in our policy in a minute. That's how we use this to at least make a reasonable attempt to comply with it.

The next area was 2017, when there was some issue, of course, with Wells Fargo Bank and also some might remember the Dakota Access Pipeline. So our council decided to add another divestment or negative screen area into specifically Wells Fargo Bank as well as banks lending to fossil fuel companies.

In our current practices, we're trying to move more towards what I would call the more positive areas and the thematic areas of investments in looking at green bonds, again looking at the ESG ratings of companies and things like social impact bonds.

**Slide 19 – Santa Monica's Investment Policy 43:19**

**DAVID CARR:** So this is our current policy that's involved over the years. And when you look at it, you can see that it includes both the negative screens and some of these ESG factors. For example, item A, investments are to be made in entities that support clean and healthy environment, including safe and environmentally sound practices that clearly, of course, fits into the "E" in ESG. The next three guidelines talk about some of the items I just discussed: divestment from fossil fuel companies and banking institutions that provide financing to said companies. No investments are to be made in tobacco or tobacco-related products or investments be made to support companies that support the production of weapons, military systems or nuclear power.

And then, item E is another one which probably, I think, it goes more towards the positive screens or the thematic areas: investments are to be made in entities that promote community economic development. So I think that goes more towards the social factor of ESG.

**Slide 20 – ESG Implementation 44:34**

**DAVID CARR:** Now, we're going to get into how we implement this in our city. This has been stressed both in Tara's and I think Kevin mentioned this, too, when he was talking a minute ago. This is just one component of our investment analysis and decision-making. We're not going to sacrifice or go against the principles and the legal principles of our prudent investor standards, and also the safety and liquidity requirements in our decision-making. This is just an added component of our investment analysis and decision-making. ESG has traditionally in the past applied to corporate issues, but in the recent years, there's more type of bonds being issued in these social or sustainable areas such as green bonds, social impact bonds and some of the other items, and Tara also mentioned this in her presentation. And we're also going to talk a little bit later in detail – Kevin's going to talk about – but there is a variety of ESG data tools, and each organization, again, has to decide which tool is the best for them. Some of these are free. Some of them do cost money. Bloomberg has ESG information. Yahoo! Finance has one. Brokers can be a resource for this, too. And then, there's private firms that rate companies and provide ESG rating data. Kevin, as a broker, do you want to add something on this?

**KEVIN WEBB:** Yeah. The one thing I would say as a broker or money managers or advisors even, one of the goals is to know your client and provide options to them that are suitable. And when there is a set of ESG criteria like Santa Monica has in their socially responsible investing portion of their investment policy, it makes it easier on my end and more applicable and better information to the end user account when we're able to filter out those things, in this case, that don't provide them with sleep-adjusted returns. You know, they are also focused on safety, liquidity, and then income and yield, but when you add in this factor of ESG or impact investing or SRI that's been delineated by Tara and Dave, it helps accomplish that goal of know your account, and information from my side of the street is more valuable and more relevant to what the account is looking at for the portfolio, which ultimately benefits all of their internal and external stakeholders.

**Slide 21 – Implementation in Santa Monica 47:16**

**DAVID CARR:** Okay. Then, just to kind of reemphasize these points that we talked about, incorporating ESG and SRI into our investment processes does not really change or alter our other daily investment processes. We're still going to look at our liquidity needs, at the safety of the portfolio. We look at if we are plans for duration, maturity needs. Those are all still the factors that are considered. We don't, you know, buy a bond simply because it's a positive ESG factor. It's just one more component of our credit analysis just like market risk, duration risk, interest rate risk, other things that we look at when we decide which investments to make. We do check the ESG score of corporates now as an added component of our credit analysis. As I said, it is an added component, not the only component. We will get into this little bit later, but we don't set a minimum score. We try and look at the overall portfolio and the ESG performance of the overall portfolio when we look at things.

We just talked about how you partner with your broker to look for suitable investments. Now that the brokers that I work with understand Santa Monica's commitment to socially responsible investing, they know now to show some investments that do have these components such as green bonds, impact bonds – something which they would not have done in the past. They are also aware of our negative screens and which bonds we can't invest in. And you know, the other thing is I had one of my brokers call me within the last couple of weeks mentioning that one of his clients was interested in implementing an ESG program in their investment portfolio and asked for some help, and of course, I mentioned this webinar was coming up. So I think it's, again, becoming more and more looked at and common. I think the public sector probably has been a little bit slower than the private sector to adapt to the ESG and SRI investing, but I think that's starting to change now. And also I'll point out again that corporates are not the only sector where socially responsible investing applies. We focus a lot on the corporates, but there are other areas where you can do socially responsible investing, even if your agency doesn't invest in corporates.

**Slide 22 – Santa Monica Portfolio 49:53**

**DAVID CARR:** So I wanted to show a view of our portfolio, and, as I said, it's somewhere around $700 million right now. And the three areas where we apply our socially responsible investment practices are in the areas of corporates, and a lot of that is, as we said, we look at the ESG scores, and again, we will look at that's a little bit more later on. Supranationals – they issue green bonds, impact bonds, and again, to talk again about the issue about fiduciary responsibility, prudent investments, supranationals are all rated AAA. Their returns are generally the same as government agencies. And then, also, more and more municipalities are starting to issue bonds that have an SRI or thematic kind of nature such as green bonds and social impact bonds. So we have some of those in our portfolio also.

**Slide 23 – Santa Monica Sustainable Investments 50:59**

**DAVID CARR:** The next slide I just want to break out some of the non-corporate sustainable investments. So as you can see, we have about three percent of our portfolio in the supranational impact bonds or green bonds. These are specific bonds issued by the International Finance Corporation and the Inter-American Development Bank, which I said are thematic in nature. Green bonds, we know the proceeds go to improve the environment. Social impact bonds might go to improve living conditions in certain underdeveloped counties. In the municipal bond area, we have some bonds issued by Santa Monica Bay Area Transit District, green bonds that they issued. The State of California – an agency of the state recently issued some social impact bonds where the proceeds are going to be used for homeless services. And even when some of these bonds maybe are not officially designated as impact bonds, in our mind they do apply for socially responsible investments. The City and County of San Francisco recently issued some affordable housing bonds, and while I said they weren't officially designated as an impact bond, we still consider those as part of our socially responsible investment portfolio.

And even corporates are getting involved in some of these thematic areas. We do have in our portfolio a bond issued by Apple that was a green bond. Bank of America has issued a green bond. There's been some and energy company in the South that issued a green bond. That's sometimes where the difficulty comes in, and we'll talk about this a little bit. For example, we'll talk about an energy company that issues as green bond. We would be prohibited from our negative screen because they might be involved in nuclear power for buying these bonds. But the issue of a green bond that goes for positive environmental uses which ties into our investment policy, trying to promote a healthy environment. That's one of the issues we'll be looking at in the future of how to kind of reconcile those two issues.

**Slide 24 – ESG Impact on Returns 53:26**

**DAVID CARR:** So Kevin mentioned, it came up in Tara's, about what is the ESG impact on returns? Because one of the reluctances, as I mentioned earlier, of government and public agencies to engage in ESG practices is because the feeling was it is simply political in nature and it might have a negative impact on returns. There's been some recent studies done that have kind of come up with different results. Barclays and Sustainalytics, which is one of the ESG rating companies, did a study back in 2018 where they checked the returns of high-rated – this is for fixed income – high-rated companies with higher ESG scores versus lower ESG scores. And the companies with the higher ESG scores actually tended to have higher returns. They didn't make the correlation that that's why they had higher returns, but they're definitely was no evidence that you sacrifice return for this ESG investing.

Government scores are the most highly coordinated of the ESG principles. Of the environmental, social, and governance, governance scores are the most highly correlated as I said, which makes some sense because, you know, companies with poor governance tend to have poorer results. And additionally, Morgan Stanley did a study in 2018 also where they looked at mutual funds, both equity funds and bond funds, and they found similar results. There wasn't a significance difference between the returns on a long-term basis of funds that invested in traditional investments versus funds that invested in ESG-type investments. One interesting thing they did find was that the traditional funds tended to have more volatility than the ESG funds in times of economic stress.

**Slide 25 – ESG in Credit Analysis 55:43**

**DAVID CARR:** So you know, with the poll earlier, talked about the percentage of people that used ESG in their investment practices. And I wanted to point out that if you're using credit ratings as part of your investment analysis, you're at least indirectly using ESG components into your investment practices.

This is a listing of major credit agencies across the world who have all signed onto the U.N. Principles of Responsible Investment. And you'll see that Moody's, S&P and Fitch, the three major rating agencies in the U.S., have all signed onto this. We have seen that, especially in Moody's and S&P, more and more started incorporating ESG factors into their ratings decisions, and a lot of times, as we said earlier, this might involve governments, but it has also started to involve climate risk and things of that nature.

**Slide 26 – ESG in Credit Analysis Example 56:50**

**DAVID CARR:** The next slide I wanted to give kind of a real world example of this. This is a rating downgrade that S&P did of a major financial institution. It's probably clear who it is. But you can see that the reasons that they gave for the rating decrease was social and governance factors. Poor governance as well as predatory retail sales practices in some of their products. So again, I just wanted to show this to emphasize the fact that ESG is becoming more and more involved in your credit decisions, whether or not you're explicitly have an ESG practice.

**Slide 27 – Santa Monica ESG Analysis Graph 57:43**

**DAVID CARR:** Now, I want to go into a little bit about how we measure and benchmark our ESG practices. This is a chart of our corporate investments. The vertical screen, the vertical axis is a rank 1 to 100 of our corporate issues done by Sustainalytics, which as I mentioned earlier is an ESG rating company. We use Sustainalytics. There are many other companies out there. In fact, I'll talk in a minute, there are other companies on this chart. We track using Sustainalytics. They have been around a long time. There's access to their information. But there are other ways to do it.

So our median score, 1 to 100, of our corporate investments is 82. Now, a couple of things I want to point out about this chart also is that you'll see not every investment, corporate investment, has a rating score of 82. So for our measurement, we try to set a goal based more on the median, again to emphasize the ESG factor is not the only factor or the overriding factor when we make investment decisions. But we have set a goal to try to have the median score of our corporate investments somewhere in the neighborhood of 80. As you can see, we're a little bit ahead of that.

The other interesting thing about this chart is it actually shows three different ESG rating agencies, and you can see, and this is one of the challenges, that the different companies rate things differently. So the horizontal axis is another major ESG rating company, RobecoSAM. And as you can see, some of the organizations or corporations who have on the lower side ratings as far as for Sustainalytics are actually rated higher from RobecoSAM. And then the third agency that's on here, or rating agency or rating company, is ISS, which is another one that measures risk. Blue is better. Red produces more risk. And you can see, again, the same thing. There's some kind of inconsistent results. So I think moving forward this is one of the challenges is to determine some appropriate ways to measure ESG in your portfolio.

**Slide 28 – Santa Monica vs. 1-5 Year A-AAA ESG Analysis 1:00:27**

**DAVID CARR:** Now, the next chart we're going to look at how we benchmark this. The first chart was measuring. Now, this is more benchmarking. So we plot our investments against the corporate one to five, A to AAA, corporate index which is basically the universe of corporations we invest in. We don't as of yet have a specific, again, goal of the benchmark, but we definitely want to be ahead of the index. And as you can see, you know, from the earlier slide and this slide, our median ESG score from Sustainalytics is 82. The median score for the index is 58. So we feel that we're, you know, meeting our goals in this area.

And then the final chart we're going to look at, again, examine a little bit about this issue about return, again, because that is one of the reluctances that public agencies have about ESG that it is purely a political decision and not a return decision.

**Slide 29 – Risk-Adjusted Return vs ESG 1:01:28**

**DAVID CARR:** So this chart – I'm going to let Kevin talk a little bit more about this chart – but this chart ranks our corporate issues in terms of risk-adjusted rate of return. Lower ranking is obviously better. Number one is the best. Higher ranking is worse. So the median rating of the corporations in our portfolio is about 35. The median rating of the A to AAA, one to five index is 53. So even with investing in companies with high ESG scores, the return is still beating the median of the index. Kevin, do you want to talk a little bit more about this?

**KEVIN WEBB:** Yeah. What we tried to answer in doing this is a couple of things. Our primary goal is not to address the issue of risk-adjusted returns being qualified by ESG rankings, so that vertical axis when we're looking at the risk-adjusted return ranks. What we did is we took all the issues in that index Dave mentioned – the one to five year, A to AAA corporate index – which is representative of the space that California municipalities just by state code would be allow to invest in for the most part as long as it had an A2 rating by a nationally-recognized statistical rating organizations. And we took those issues from December 2000 all of the way to the end of last month on a monthly basis, and we calculated by issue, by ticker, the risk-adjusted return. Just for the bonds that are in that index. So if they were not included in the one to five year index, they didn't get considered, and all these companies that have issues that are longer than five years or shorter than the one year that don't meet the rule of the index. But for those issues that are in the index, we calculated their returns over that time period on a monthly basis and then divided those annual returns by the annualized standard deviation. And then we came up with a number. It's almost akin to a miles per gallon. What kind of bang for the buck are we getting, where the buck is the return, the bang is the volatility, the market value fluctuation, if you will, in the market value of the bonds in the index by ticker.

What we did is we just ranked them. We didn't care about the numbers so much. Who had the highest one – that's number one, that's the best; who had the lowest – that would be somewhere in the 200s. So what we did is we ranked them and we ranked them what was it over time, over this long time period and so that's what that vertical axis is. Then what we took is, we said let's look at the current Sustainalytics rank and let's plot this. As Dave pointed out earlier, we're not talking about causation. There is no claim here that if you focus on higher ESG scores, you will in fact get a higher risk-adjusted return. We're not saying that. We're just saying correlation. It just seems to be the case when we plot it out here visually that when we look at this space – and the space being the vertical axis risk-adjusted return and the horizontal axis being the Sustainalytics rank – and then you can see by the color there that we have the ISS rank, where the blue, the lower number, the better number by ISS, and the red is the worse number, it seems to be that Santa Monica's, in this case, focus on ESG criteria in their socially responsible investing strategy has had a nice by-product, side effect, or highly correlated with having better risk-adjusted returns when compared with the issuers as a whole that are represented in this one to five year, A to AAA index.

**Slide 30 – Next Steps** **1:05:26**

**DAVID CARR:** Okay. So now, I'm going to talk a little bit about what I see as the next steps in this area. I mean, as we've talked about a little bit earlier, this is an evolving area. It's more and more public agencies are becoming interested in integrating ESG or socially responsible investing in their investment practices. So with this, we think comes a need for education and you know, we have spoken at some workshops on this and conferences. We think this webinar is a great step. There also is the Government Investment Officer's Association, GIOA, which as many of you are aware, is a nationwide organization of government investment officers. They've formed a committee on ESG and SRI investing, which Kevin and I are members of the committee, and the major goal of that is to try to come up with standards or some best practices in these areas taking into account, again, there is no one answer for every agency. Every agency's needs and goals are going to be different. But as we said, there needs to be, we think, some consistency and standards and measuring and benchmarking. As we saw from those charts we just looked at, you can have two different agencies that are looking at ESG factors and because of the way they looked at them, they had some significantly different ratings in terms of the company. So I think to make, we need some sort of consistency to make these standards meaningful.

**KEVIN WEBB:** Can I add one thing, Dave? I would like to point out that part of that committee for the GIOA, Tara is also on there, and so when all of you look at our best practices and the standards we came up with – I'd like to give a shout-out to CDIAC and Tara – that if it looks like we plagiarized her heavily, in fact we did.

**DAVID CARR:** Plagiarism is the best form of flattery sometimes.

**Slide 31 – Summary 1:07:46**

**DAVID CARR:** But anyway, finally to wrap up my part of the presentation, just to summarize what was talked about, ESG and SRI has become more an issue and continuing to increase use in the public sector. It involves more than just corporates. I mean, I've had one investment officer say to me a while ago, "Well, I don't really care about ESG because I don't invest in corporates." So we're trying to also get the message out there are other areas that this effects other than corporates – municipal bonds, supranationals we discussed earlier, and there even are some of the government, you know, the GSEs that are looking at possibly issuing some sort of socially responsible investing bonds. Again, to emphasize the point we made several times that there are different approaches for each organization. Each organization is going to have different policy needs, different risk-return tolerance preferences. So there is just no one answer for everybody.

But, again, emphasize the fact that there is no evidence that integrating an ESG or socially responsible investment practices into your investment portfolio decreases returns. And there are a number of tools available, both free and not free. And again, it depends upon the organization and the time and the resources that you want dedicated.

Now, Kevin is going to go into what some of those tools are.

**KEVIN WEBB:** Thank you. Dave.

**Slide 32 – Tools for ESG Analysis 1:09:24**

**KEVIN WEBB:** So what I want to say on the outset – both for CDIAC and for Dave in Santa Monica and myself and the organization I'm with, Piper – we're not endorsing any particular data provider or any particular ESG metric. What I wanted to do is, when you get into the ESG space, there are a lot of providers out there that Dave and Tara mentioned, and it's not always clear as you saw from the graph that David produced in his portfolio that you're getting a clear answer. It depends on who you're asking. And one of the difficulties is, where do I get, you know, some of this data to help me get started on this? Without data, without any metrics I can't really make an informed decision about any of these environmental, social, and governance metrics if you can incorporate that as part of your socially responsible investing program.

So we're going to take two here and look at two of them. One, Bloomberg, which is a subscription service. If you're a public fund and you don't have a Bloomberg, well it's likely that the brokers or the money managers or the advisors that cover you do. And we will either go through and what I will show are some of the screens, if you are wanting to start incorporating this and putting this information with the companies that you're buying bonds from, the screens that you can ask the brokers and money managers and advisors to supply you with from Bloomberg.

Then, I want to show you the only free service that I could find, that Dave and I and Tara looked endlessly for, and we will go through Yahoo! and what they are doing and how really it's a shout-out to them for providing that to the general public. The way they have laid it out is really quite good – in some sense, better than the screenshots I get on Bloomberg. But let's get more in detail to that.

**Slide 33 – Bloomberg: ESG <GO> 1:11:28**

**KEVIN WEBB:** First off, Bloomberg. If you have a Bloomberg terminal and you want to pull up the environmental, social, and governance metrics that are supplied on Bloomberg, the command is ESG and then you hit the enter key. Now, what that will do is you usually have to have the company pulled up. It is fine whether you have the bond or the equity, and then when you pull it up, it will take you to an ESG screen.

**Slide 34 – Bloomberg: Example CSCO Equity <GO>; ESG<GO> 1:11:59**

**KEVIN WEBB:** This ESG screen will look a lot like this. I'm going to take an example from Santa Monica's portfolio, in this case, Cisco. It could have been any, but we choose this one, and I'm going to move my cursor around and try to do it slowly where you can see it, but if you look, the screen is really divided into kind of four areas. The top left kind of gives a summary of this particular company versus its own history, the recent history, and then versus its peers. So you can see when we did this, this was around I think the middle of November that we did this and pulled this up for Cisco. You can see that on the environmental, social, and governance in general, Cisco right now is better than its recent history. Versus its peers on the environmental and social, you can see it is neutral on both of those and then slightly worse on the governance. Where did they get that information?

Well, Bloomberg has about five metrics that they supply on their ESG screen. You can see them on the top right pane there. It's a RobecoSAM rank, a Sustainalytics rank, Bloomberg has their own ESG disclosure ranking that they do. There's ISS and then CDP that deals with climate. So you can see those all right in here. And if you have the Bloomberg terminal or if you want to get it, you can click on any of these and it will give you the definitions and the scales and how to think about it. You can file that some place away. But you can see what is has there, it has the history, what I like about it, versus where does this issuer stand historically versus its peers, and then what are the rankings from the five sources, with Bloomberg being one.

But it's not the only thing. There are other subtopics and that's the bottom pane here. You can see there's environmental, and under social, there is more than just these that are listed. You can see here there is dashes and a lot of that missing. So what you will find as you try to dive deeper into this, it is either not reported or not something that is tracked by this company. It doesn't mean it is good. It doesn't mean it's bad. It just means we don't know, and Bloomberg doesn't have it there. But if you wanted to dive a little deeper, you could look at women employees as a ratio in management, as a percent of the entire employees, what is the turnover, the percent that is unionized, what's the lost time incident rate. All kind of things like that. And then on the government side, same thing – the number of independent directors, percent of board members that are women, director average age. I would like to say something about that as someone who is closer, that is further away from the beginning of his career and a little past the middle of his career, I'm not sure what the metric – Dave and I have argued about this incessantly and, you know, while I'm sure it gives a sense of how this is still the Wild West, I'm not sure what the optimal age is for the average age of the director or board member. I'm sure, you don't want it to be 85, 90, but I'm not sure that I want it to be 18 to 20 either. So that describes a lot of the problems with defining some of these things. But a lot of these metric like this, it is really great. Bloomberg has it here. If it is available, you can get it on this page, and when you're looking at potential offering or you're looking at issuers to tell your money manager or advisor what you like to focus on, this is a good place to go. You can give them a list of the companies and ask them to send you these pages. You can look through them it and get maybe a more complete picture of where they might stand within your own ESG metrics and SRI investment program.

**Slide 35 – Bloomberg: ESG Relative Comparison to Peers 1:15:52**

**KEVIN WEBB:** When you click on that previous screen and you do the relative comparison. This is at the top right-hand corner of the screen. I'll back up real quick to show that.

**Return to Slide 34 – Bloomberg: Example CSCO Equity <GO>; ESG<GO> 1:16:01**

**KEVIN WEBB:** So if you have Bloomberg, you click on this relative value ESG. It is right here. It's 97. Or you want that additional information from your broker, money manager, or your advisor, you can tell them to click on that, print that out, and what it is going to do is give you even more in-depth information.

**Slide 35 – Bloomberg: ESG Relative Comparison to Peers 1:16:18**

**KEVIN WEBB:** What I really like about this here is it shows the comps, that means the comparison that Bloomberg would define as peers. These other companies here. You can divide it up between the whole firm, the percent of revenue, and then you can get a lot more information. It's a really, just a nice additional piece of information to have along with the overall metrics from the previous screen.

**Slide 36 – Bloomberg: Can Automate Using Bloomberg Excel Functionality 1:16:51**

**KEVIN WEBB:** Now, if you have a Bloomberg terminal, as a public fund or if you're a broker dealer, money manager, investment advisor on this call, and you're going, "Wow. That's a lot of screen that I'm going to have to be printing there." It could be. Well, there's an easier way to do it. Bloomberg has a facility that works with Excel where you can pull in some of this data and sort it, and it is beyond the scope of this call to go into the technicalities of it, but CDIAC has a template of it. And if you're interested in seeing how that would work in the field that you could pull in Excel that would give you all the different environmental, social, and governance metrics that Bloomberg had and you happen to have a Bloomberg terminal, we would be more than happy to send it to you. But there is a way to automate that if you do subscribe to the service so you're not printing out a bunch of screens, and you could maybe make it a more efficient process.

**Slide 37 – Yahoo! – February 2018: Announces it is only free provider of Sustainalytics scores 1:17:50**

**KEVIN WEBB:** So that's a subscription service, Bloomberg. Either you have it yourself or have access to it secondarily through your broker, money manager, investment advisor. But you're not limited to that. In fact, what Yahoo! has set up here, and they made this available starting in February 2018. They announced they're the only provider of Sustainalytics scores. As far as we can determine, they're the only provider of any free ESG scores I could find, period. If there is anyone listening on this call and you're aware of something else, we would really appreciate if you shared with us and the rest of the group. It would be a very good value-added piece of information to have. What Yahoo! has done, and the source of this article is right here in this link.

**Slide 38 – Yahoo! – Can access Sustainalytics directly online 1:18:42**

**KEVIN WEBB:** I'm going to take, again, someone like Cisco and look at the ESG sustainability portion of it. So if you do the Finance Yahoo! and the link is right here in the slide, you can click on it, and it will open that up in your web browser. Then, what you get is, they have a summary of all kinds of stuff. They provide all kinds of analytics. All we're going to talk about here is the sustainability portion. And for Yahoo!, the only sustainability metrics they're providing are from Sustainalytics, so kudos for them for making this available to the general public via Yahoo!. And what I like about this layout, I think is actually just visually a little more informative besides the fact that anybody can get to it and you don't need a subscription to Bloomberg. It is laid out a little bit better. Just for me, I enjoy the visual.

So you have the overall score along with the percentile rank, and then you have the raw environmental, the raw social, and the raw governance score that went into giving you this score. And then, you can see where they are on this versus 57 of their peers. So this range here shows the entire spectrum of how Yahoo! has defined the peers for this company. Here is the median for that and here is where the company is at for both the social and the governance. And then, the moderate controversy level. Now, I really like that. That's something that I couldn't find strictly on Bloomberg. And Yahoo! provides a little more information on that. I want to show you a few screens of that here in a second.

**Slide 39 – Yahoo! – Shows historical performance of company vs the category… 1:20:20**

**KEVIN WEBB:** But down below when you click on that link, it also provides you a nice graph of the history of, for example, Cisco versus the category average. And so both for the entire Sustainalytics score and then for each of the components for environmental, social, and governance. And it's a really nice visual layout. It gives me a sense of almost, you know, a confirmation on this individual issuer of what we saw on the other issuers on that one graph that Dave had – on several of the graphs Dave had on his portfolio – and that is, on average, Cisco seems to be better in these categories than their peers in this category. It's just nice.

**Slide 40 – Yahoo! – Shows ESG vs peers and product involvement areas 1:21:09**

**KEVIN WEBB:** Now, I mentioned that they had another breakdown. And I think both Dave and Tara mentioned, you know, there's controversy. What are they doing? And I like it. They have a product involvement area and then ESG scores, a breakdown by some of the top peers. So in the product involvement areas, they have things like alcoholic beverages, adult entertainment, gambling, all the way down to palm oil, and there are others here. I couldn't fit all of them on the screen. But is there a significant involvement in each of these? And it either has a "yes" or a "no," and then you could go do some more research. So if some of those areas that might not be represented by a particular metric are of a concern to you, there's a chance that what Yahoo! has broken down here might definitely meet some of the information that you're looking for.

**Slide 41 – Comparison 1:22:04**

**KEVIN WEBB:** Now, when I compared them – I've already kind of gone over this a little bit. I'm of the general philosophy, I want to try to achieve sleep-adjusted returns and I want all of the data everywhere all of the time. That's not possible and so the dilemma that we're faced here with is the dilemma that most public funds managers are faced with. I love the quote from Arthur Rudolph's obituary in *The New York Times*. He was a Saturn V rocket scientist, literally, and he said, "You want a valve that doesn't leak, but the real world provides you with a leaky valve. You have to decide how much leaking you can tolerate." So that goes with the general idea of trying to figure out that mix of safety, liquidity and income from the investment policy under the guise of the prudent investor principle, with the goal of principal preservation and what the mix looks like that provides the public fund with sleep-adjusted returns. And when you add in the ESG component, the same thing. It was evident in the slides on the issuers that Santa Monica is exposed to. It isn't clear whether Dave had Sustainalytics, RobecoSAM, and ISS, and you could tell by the way they were laid out in the horizontal and vertical space, where the vertical was Sustainalytics and where the horizontal was RobecoSAM, and then the color was either blue to red for ISS. There wasn't a clear sometimes understanding of where that was at. And that's the problem here.

So if you don't have a Bloomberg terminal, you're going to be limited to Yahoo!, for example, and that is just going to be the Sustainalytics measure. If you have a Bloomberg terminal, then you have access to some of these others, but you may not still be able to derive a clear understanding, and the guidance that is provided by CDIAC in their excellent SRI brief that they have written can provide that framework. I like the example of the pragmatic approach they laid out here in this webinar, where Dave detailed how they are doing it at Santa Monica.

**Slide 42 – Q&A 1:24:22**

**KEVIN WEBB:** So that is the end of my data portion of this. And Robert, I believe we're turning it back over to you.

**ROBERT BERRY:** All right. Thank you. So I would invite anyone to send in some questions using the Question box in the control panel on the right of the screen. We do have a few questions. Also, I want to invite you to send us any information relative to ESG or SRI resources that you are using in your analysis, your agency, and we will respond to those who are participating in the webinar today with some of that information so you can help your peers out there to know what you're doing as well by sending us that information via the Question box.

So we do have a couple of questions and some specific and some general here, but since we were just talking about the different ESG ratings sources, one of the questions that came in is: What factors lead the ESG ratings to vary so much across the different sources, and are they using different criteria to come up with their ratings?

**DAVID CARR:** Go ahead.

**KEVIN WEBB:** I wish I had…. This is Kevin, and as you were reading the question, Robert, Dave and I we're looking at each other, and we were thinking, you know, that's an excellent question. And we have top people researching that answer right now. I honestly don't know. It seems to vary so widely across these. Dave, I don't know, what conclusions have you come to?

**DAVID CARR:** I would agree with that. I think I even mentioned when I was talking earlier and showing our charts, that's one of the challenges is to find the appropriate measure. I think that's something where there needs to be more work. I heard somebody refer to it as kind of the Wild West out there. There are so many different agencies that do this. There was a study I saw recently about rating the raters by certain investors, and it rated a couple of the ones that we mentioned here were in that rating. I think that RobecoSAM might have been the highest rated one. But that's kind of like I said, in the next steps, that's one of one of the things we're looking at.

**TARA DUNN:** Right, Dave. This is Tara. We definitely have rate the raters in the SRI issue brief. And I think when I was doing my research, one of the interesting things I noticed was that it just depends on the company that's created the metric. And so in some cases, it might be their analysis or it could be an algorithm. And so it really just depends on who the provider is, but I thought that the rate the raters survey was an interesting piece of information that we could look at to get a sense of how those folks that actually use the different ones would rate those different ESG metrics. I think I also heard it likened to how the different rating agencies have their own methodology for creating their ratings. So it's a similar concept.

**DAVID CARR:** Right.

**ROBERT BERRY:** All right. Here's just kind of a general question going back to the very first part of the program. You were commenting, David, on the public agencies being essentially slow adopters. What factors do you think have caused public agencies to be slow adopters of SRI? And what do you think has changed to cause the shift and interest by public agencies more recently?

**DAVID CARR:** Well, I guess I'll start off with that by saying as a 30-year public employee, I think public agencies often are slow to change. I think a lot of it's tradition, but I think one of the major things is, I think because the socially responsible investing, you know, you can tell from our history, it started off as more just like what you can't invest in, the negative screens. And I think a lot of people, you know, investment officers in the public sector, found that as almost a breach of fiduciary responsibility. You're politically telling us what we can and can't invest in, and it shouldn't be a political decision. It should be purely a financial decision or fiduciary decision. I think what's happened in the last few years is, as it's become more prevalent, you know, overall in the investment industry and investment practices, but you're seeing more and more of the focus on the positive impacts of it versus just the total…when it used to be like I said, you can't invest in this. I think that's what a lot of probably public investment officers, and even I think some of the questions we've gotten at some of the conferences, I think that's where it is coming from.

**ROBERT BERRY:** Do you think that the ability to show essentially the positive benefits of using ESG factors with respect to a risk-adjusted return has the availability of that data and that evidence from our peers in the investment community has helped to kind of cause that shift?

**DAVID CARR:** I think that's helping. I think it's still – Kevin, you can comment on this, too – I think it's still a little bit still in the early stages of that, of shifting that over, but I'm sure that's going to be a big help.

**KEVIN WEBB:** Yeah. Just one comment, Robert. I would say from the private industry side that, that one chart that you kind of conversed with Dave mentioned from both Barclays and Morgan Stanley and those different studies, and I would add the CFA Institute has a lot research of this on their own portion of their website, deals with ESG and that is, in some sense, really it does make sense that a company that thinks of the governance, that Dave mentioned, if they focus on the governance issues, there are fewer lawsuits and fewer problems. And it doesn't seem to be an accident that they have better risk-adjusted returns because they are focused on those very issues. So the same thing on the environmental and social side. It just seems to make sense to me. It's not causation, but it does seem to make some sense. But I like the idea that the data has borne out what David said in his portion, that is, there doesn't seem to be any evidence to the counterclaim that it has costs, for example, to the stakeholders of Santa Monica or whoever is implementing this as part of their SRI strategy.

**ROBERT BERRY:** A question relative to how your governing body calls for the adoption of SRI strategies. Dave, maybe you can comment. You talked about the history that you have been using it for many years in Santa Monica, but how has that changed over time? Is it continuing to evolve? Is your policy continuing to change to adapt to this kind of new movement using ESG factors, or is it really just kind of the evolution of your practice, your internal credit analysis, that's really evolving?

**DAVID CARR:** I think it's a little bit of both. I think that the policymakers still…. I mean, we do go have our investment policy approved by the city council every year, and so that's the opportunity for the council members to make suggestions. And a lot of times, again, it is, if you look at our history, what we went over talking about fossil fuel companies and the lenders to fossil fuel companies and things like that, it is things going on in the landscape that's happening. In terms of the more positive ESG and the green bonds, I think that's, as I said again, that's the next step. One thing I would like to do is kind of evolve our investment policy and socially responsible guidelines to sort of take this into effect. In other words, I think I used the example, but I mean, if a company that's involved in nuclear power has been in the past, but if they issue a green bond, should that be something we shouldn't look at? I think Tara mentioned that there could be some exceptions. We don't really have any exceptions. So I think the next evolution that I'd like to see in our policy is to kind of focus more on these positive ESG and SRI factors.

**ROBERT BERRY:** So that brings me to another question. It's very related. With respect to application of your negative screening in your investment policy that you showed us this morning, there are broad and negative screening parameters. So in particular, you mentioned how you were dealing with it on the fossil fuel requirements, but in particular, how are you dealing with that with respect to, you know, choosing corporates in particular that are so diversified? And have you ever had to go back to the governing board and adjust the policy for essentially unintended consequences?

**DAVID CARR:** So yeah, that is a difficulty, but we try to err right now on the side of conservatism. So, for example, the screen about banks that lend to fossil fuel companies. There's no real way we have a good way of measuring of every bank that has lended to one of these companies. So to be honest, we tend just not to invest in financials. We have, in the past, found things that sort of unintentionally violated one of these screens. For example, a number of years ago, we used to invest in GE until we realized that they were involved in the nuclear power industry. But at that time we didn't feel, you know – the way we handled that was, we just let the bond mature and roll off, and then we didn't invest in it anymore. We didn't really go back and ask for any kind of policy decision. So we try and maintain some flexibility. If we have a major kind of something that's out of compliance, we just kind of, I guess, deal with it on an ad hoc basis.

**ROBERT BERRY:** All right. Well, I want to thank everyone for their questions. That wraps up the questions that we received from the audience.

**Slide 43 – Evaluation and Replay 1:36:21**

**ROBERT BERRY:** Okay. So I just wanted to follow-up here. We'll follow-up with everyone registered for this webinar with an evaluation survey. This will be your opportunity to give us some feedback and some of your ideas for improvement or future programming on this or other topics. The feedback is very helpful to us at CDIAC, so please take a couple of minutes to complete the short survey. If you know of someone who couldn't make today's webcast, or if you would like to view it at a later time, as I mentioned a replay and a transcript will be linked to CDIAC's front page in about two weeks' time.

**Slide 44 – Upcoming CDIAC Seminars 1:37:03**

**ROBERT BERRY:** Lastly, a reminder about upcoming CDIAC programming. Probably of interest to many of you investment officials out there, we're teaming up again with CMTA for an Advanced Public Funds Investing program coming up next month in Claremont. Then, on the debt administration side, we have our Municipal Market Disclosure program March 3 in Irvine. Registration for all of that programing is open, so please visit our website for detailed information, agendas, the topics, speakers, etc., and to register for the program if you're interested in attending. Also, you can say abreast of our educational programs by subscribing for our ListServ on the CDIAC website or by following CDIAC on Twitter and LinkedIn.

In closing, on behalf of CDIAC, I'd like to thank all of our expert presenters today – David Carr from the City of Santa Monica, Kevin Webb from Piper Jaffray, and CDIAC's own Tara Dunn. Their generous contributions of time and expertise have created a very valuable resource for the California public finance community. And a big thank you to our CDIAC education team, especially Karen McMillen, Angela Ayala, and Sandra Kent, for their hard and very creative work in producing this webinar. Of course, thank you to all of you for joining us this morning, and we look forward to you joining us for future CDIAC programming. Happy holidays, so long, and have a great day.

**Slide 45 – Disclaimer 1:38:40**