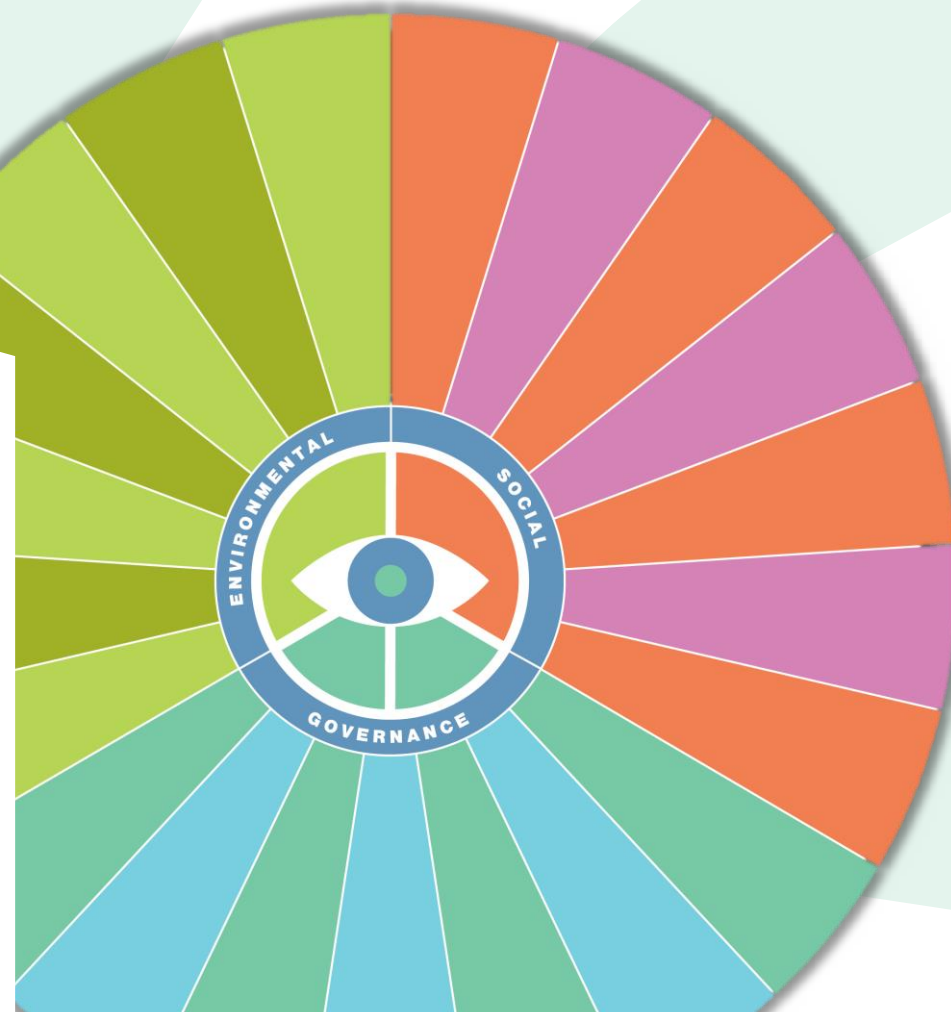


Socially Responsible Investing

Integration Into the
Local Agency Portfolio

December 10, 2019



David Carr, Assistant City Treasurer, City of Santa Monica

Tara Dunn, Research Data Specialist, CDIAC

Kevin Webb, CFA, Piper Jaffray



Housekeeping

Technical Issues

Contact GoToWebinar at (877) 582-7011 or <https://support.logmeininc.com/gotowebinar>

Handouts

Downloadable PDF of slides available in the Handouts section of the menu

Questions

Submit throughout the presentation using the menu, questions will be answered at the end

Live Captioning

Available at <https://www.streamtext.net/player?event=CDIAC>

Replay and Transcript

Available about 2 weeks after the initial webinar

Certificates of Attendance

Sent to attendees who are logged in for at least 70% of the webinar, about 1-2 weeks after the original airing date

Presentation Links

Provided for additional research, links accessible in PDF version of the slides

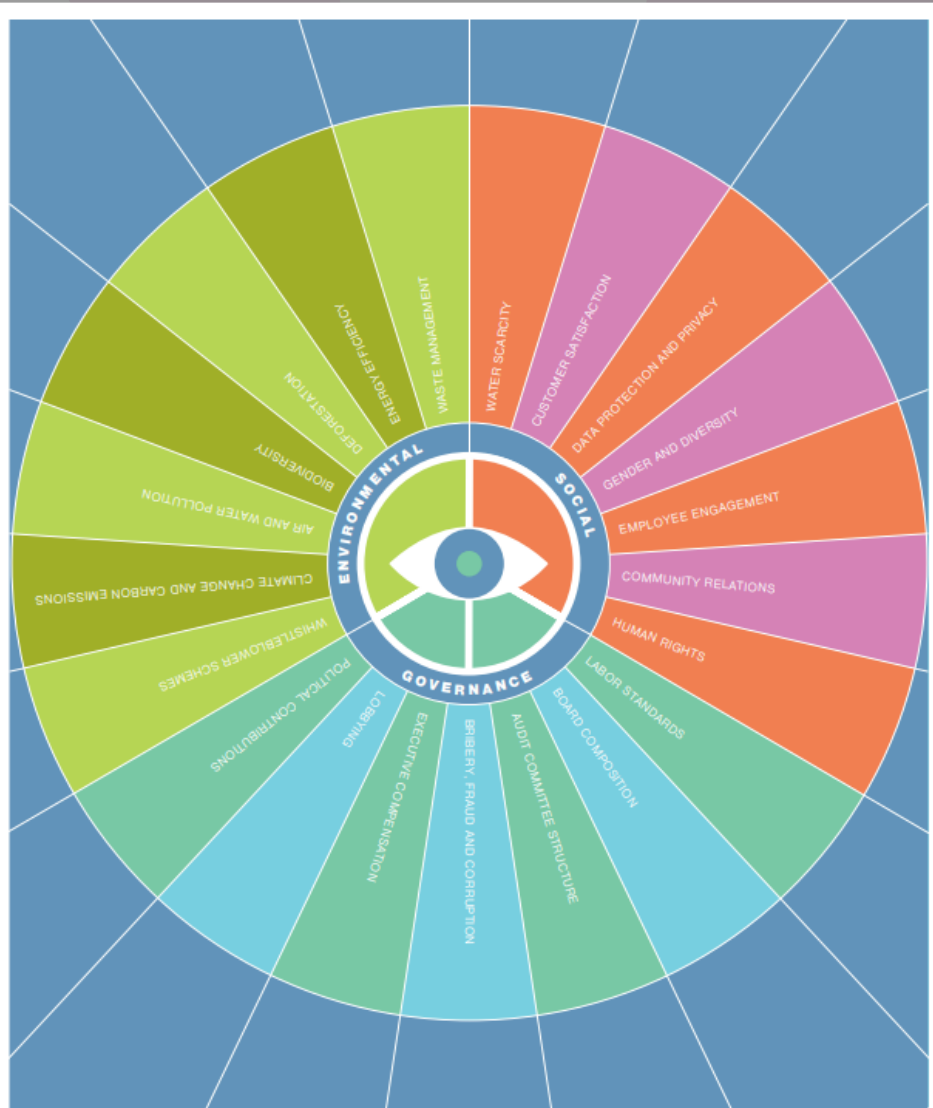
Resources

CDIAC Publications:

- [Socially Responsible Investing – What Does it Mean and What's the Risk?](#)
- [Local Agency Investment Guidelines \(LAIG\)](#)

Other Resources

A list of ESG and SRI resources can be found at the back of Socially Responsible Investing publication and on the [webinar page](#).



SOCIALLY RESPONSIBLE INVESTING – WHAT DOES IT MEAN AND WHAT'S THE RISK?
CALIFORNIA DEBT AND INVESTMENT ADVISORY COMMISSION | CDIAC NO. 19.14

Speaker Introductions

David Carr

Assistant City
Treasurer
City of Santa Monica

Tara Dunn

Research Data
Specialist
*California Debt and
Investment Advisory
(CDIAC)*

Kevin Webb

CFA
Piper Jaffray



Fundamentals

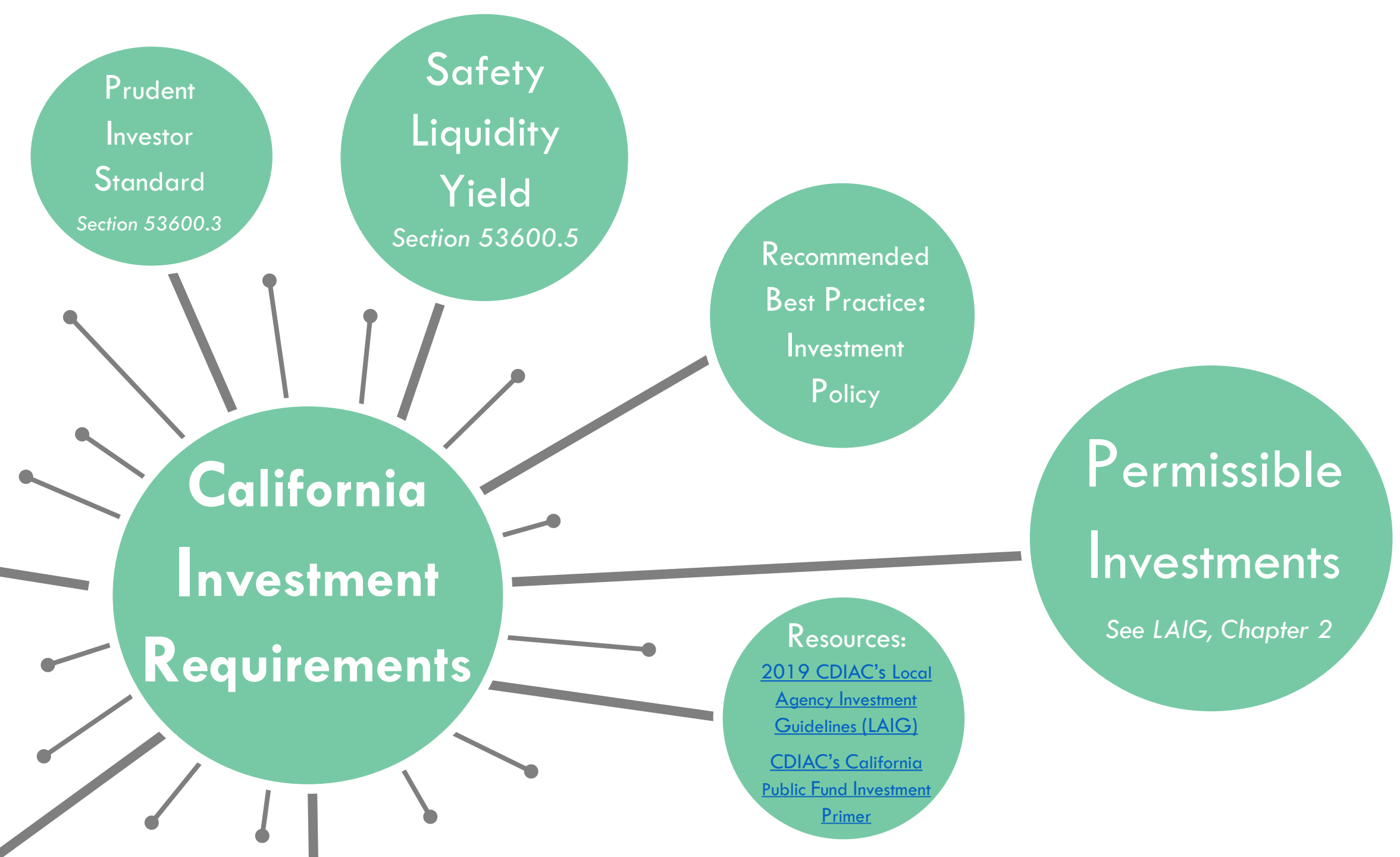
Tara Dunn, Research Data Specialist, CDIAC

Socially
Responsible
Investing
Defined

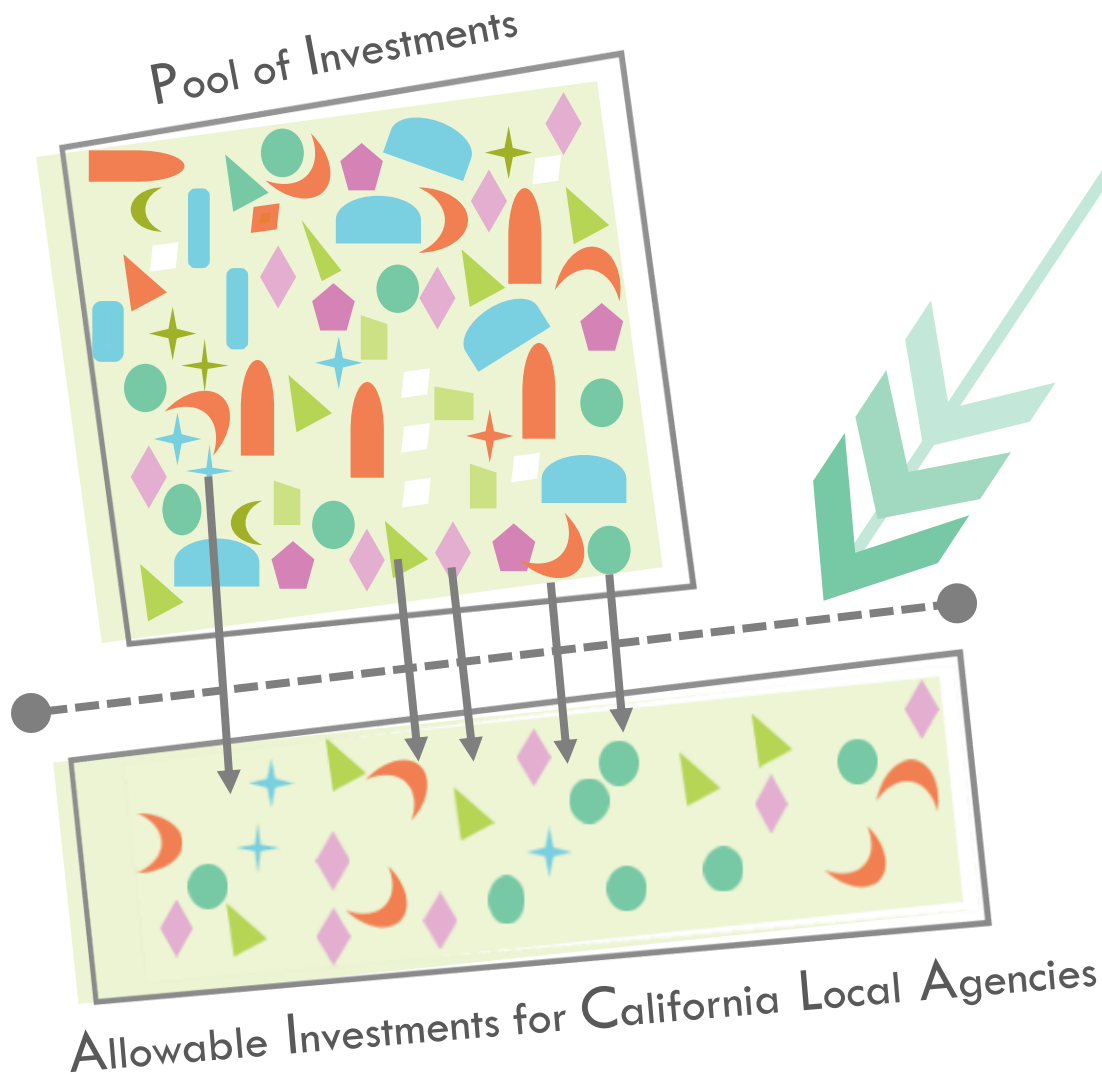
Allowable
Investments Per
Investment Code
and Investment
Policy

Optional
Positive and/or
Negative
Screening

Factors to
Consider



Permissible Investments: Mandatory

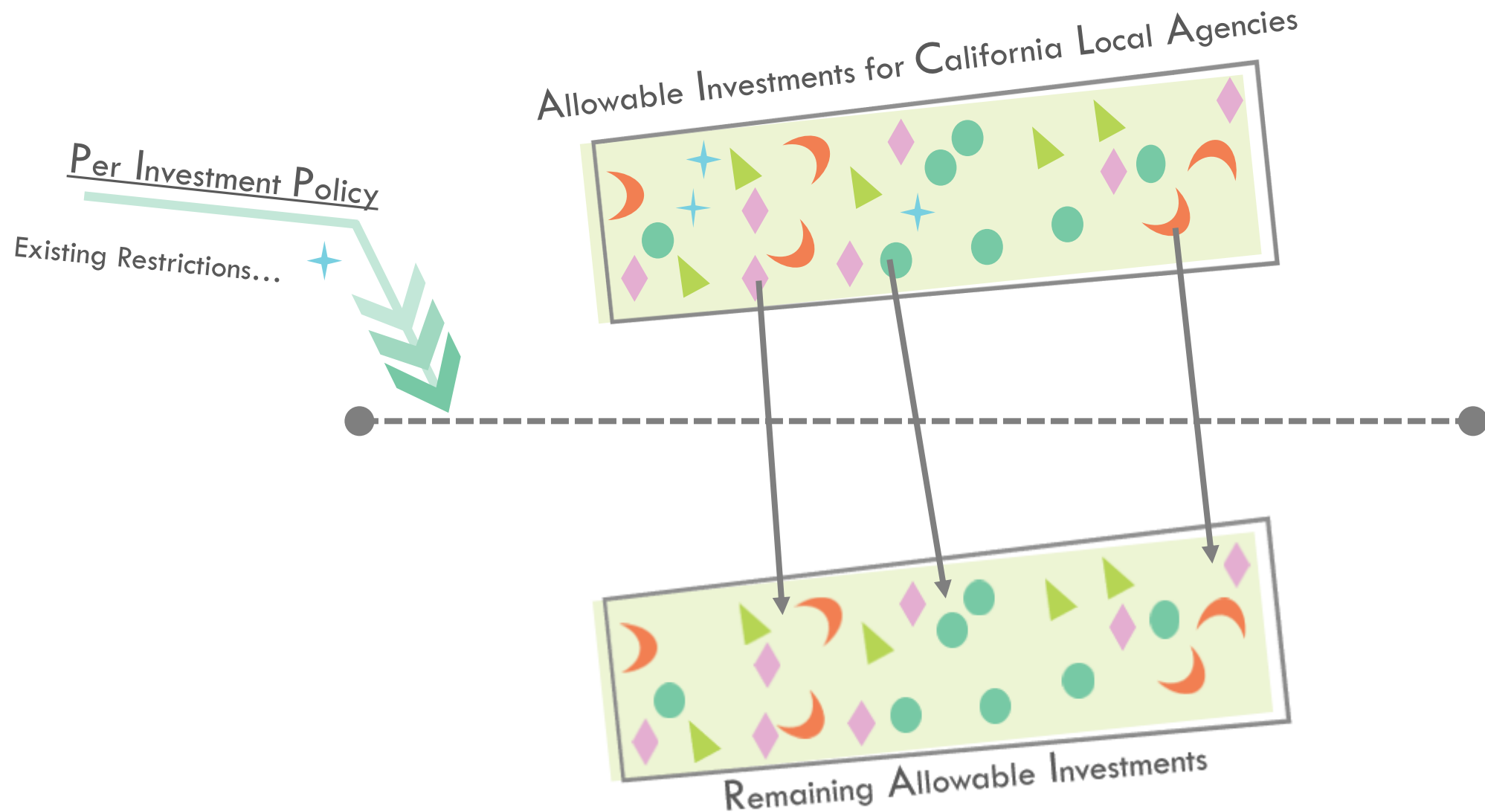


Allowable Investments Per Government Code

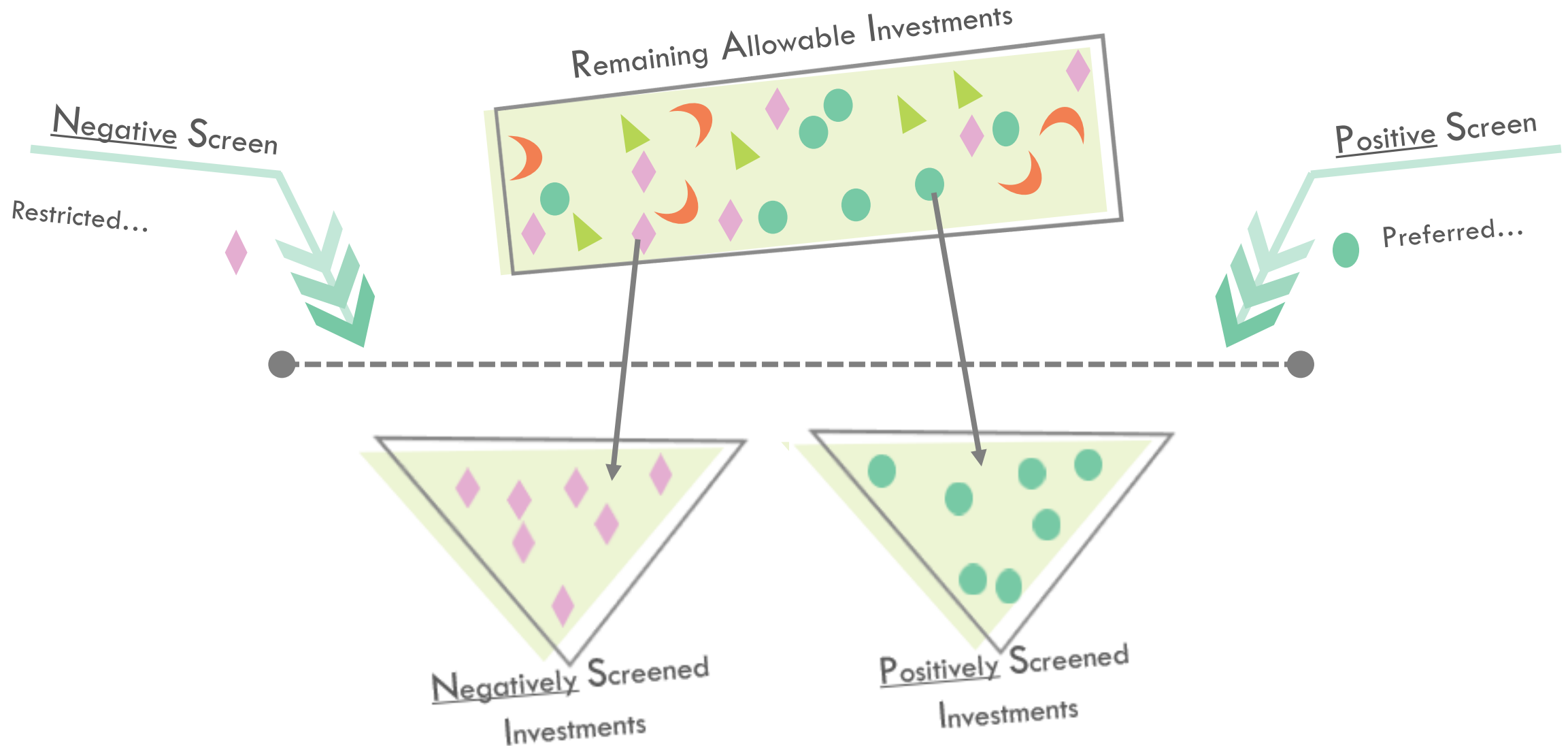
FIGURE 1
ALLOWABLE INVESTMENT INSTRUMENTS PER STATE GOVERNMENT CODE
(AS OF JANUARY 1, 2019)^a APPLICABLE TO ALL LOCAL AGENCIES^b
See "Table of Notes for Figure 1" on the next page for footnotes related to this figure.

INVESTMENT TYPE	MAXIMUM REMAINING MATURITY ^c	MAXIMUM SPECIFIED % OF PORTFOLIO ^d	MINIMUM QUALITY REQUIREMENTS	GOVERNMENT CODE SECTIONS
Local Agency Bonds	5 years	None	None	53601(a)
U.S. Treasury Obligations	5 years	None	None	53601(b)
State Obligations: CA and Others	5 years	None	None	53601(d)
CA Local Agency Obligations	5 years	None	None	53601(e)
U.S. Agency Obligations	5 years	None	None	53601(f)
Bankers' Acceptances	180 days	40% ^e	None	53601(g)
Commercial Paper: Non-pooled Funds ^f	270 days or less	25% of the agency's money ^g	Highest letter and number rating by an NRSRO ^h	53601(h)(2)(C)
Commercial Paper: Pooled Funds ⁱ	270 days or less	40% of the agency's money ^j	Highest letter and number rating by an NRSRO ^k	53601(h)(1)
Negotiable Certificates of Deposit	5 years	30% ^l	None	53601(i)
Non-negotiable Certificates of Deposit	5 years	None	None	53601.8 and 53635.8
Placement Service Deposits	5 years	30% ^m	None	53601.8 and 53635.8
Placement Service Certificates of Deposit	5 years	30% ⁿ	None	53601(i)
Repurchase Agreements	1 year	None	None ^o	53601(i)
Reverse Repurchase Agreements and Securities Lending Agreements	92 days ^p	20% of the base value of the portfolio	None ^q	53601(k)
Medium-term Notes ^r	5 years or less	30%	"A" rating category or its equivalent or better	53601(i) and 53601.6(d)
Mutual Funds and Money Market Mutual Funds	N/A	20% ^s	Multiple ^t	53630 et seq. and 53601(n)
Collateralized Bank Deposits ^u	5 years	None	None	53601(o)
Mortgage Pass-through and Asset Backed Securities	5 years or less	20%	"AA" rating category or its equivalent or better	53601(o)
County Pooled Investment Funds	N/A	None	None	27133
Joint Powers Authority Pool	N/A	None	Multiple ^v	53601(p)
Local Agency Investment Fund (LAIF)	N/A	None	None	16429.1
Voluntary Investment Program Fund ^w	N/A	None	None	16340
Supranational Obligations ^x	5 years or less	30%	"AA" rating category or its equivalent or better	53601(q)

Investment Policy: Best Practice



Optional Screening Strategies



Determining 'Want'

Whether an agency uses positive or negative screening, they still must build their 'screen' by determining what they do or do not want in their investments.

Environmental, Social, and Governance Criteria

1. Examples of ESG Categories

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

2. Company/Investment Scores/Ratings

Source: [CFA Institute](#)

Impact Investing
Green Bonds
Local Community Banks
Economic Development
Infrastructure, Affordable
Housing

Factors to Consider

Complexity

- Process
- Analysis
- Alternatives
- Available Data

Flexibility

- Adapt to Market Changes
- Improved ESG Metrics

Informal Practice

- Stakeholder Sentiment
- Board Direction
- Developing Expertise

Narrow Focus of Criteria

- Investment Type
- Investment Sector
- Exceptions



Audience Poll

Do you currently use ESG/SRI in
your investment process?



Santa Monica's Perspective

David Carr, Assistant City Treasurer, City of Santa Monica

ESG/SRI
Definition
Principles

Fiduciary
and Political
Considerations

Implementing
ESG/SRI Into
Investment
Decision
Making

Measuring /
Benchmarking
ESG-Related
Performance

Next
Steps

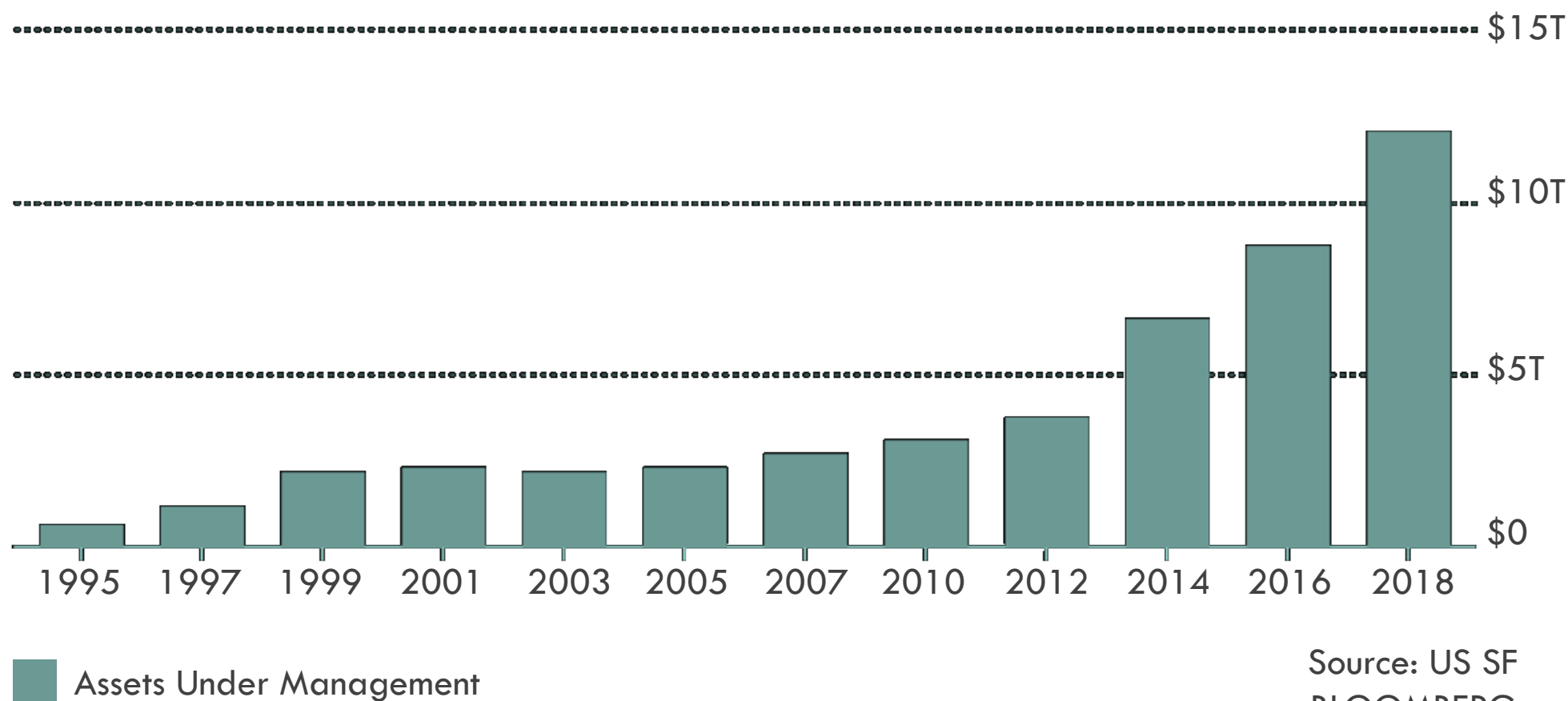
What is ESG/SRI?

Responsible investment is an approach to investing that aims to incorporate environmental, social, and governance (ESG) factors into investment decisions, to better manage risk and generate sustainable, long-term returns.

[UN Principles of Responsible Investment](#)

Sustainable Growth

Investors using socially responsible criteria hit \$12 trillion in US assets.



Source: US SF
BLOOMBERG



Fiduciary and Political Considerations



Political Considerations

Governing Board Sets Policy

History in Santa Monica



ESG vs SRI in Santa Monica

Integration

Screening

Thematic



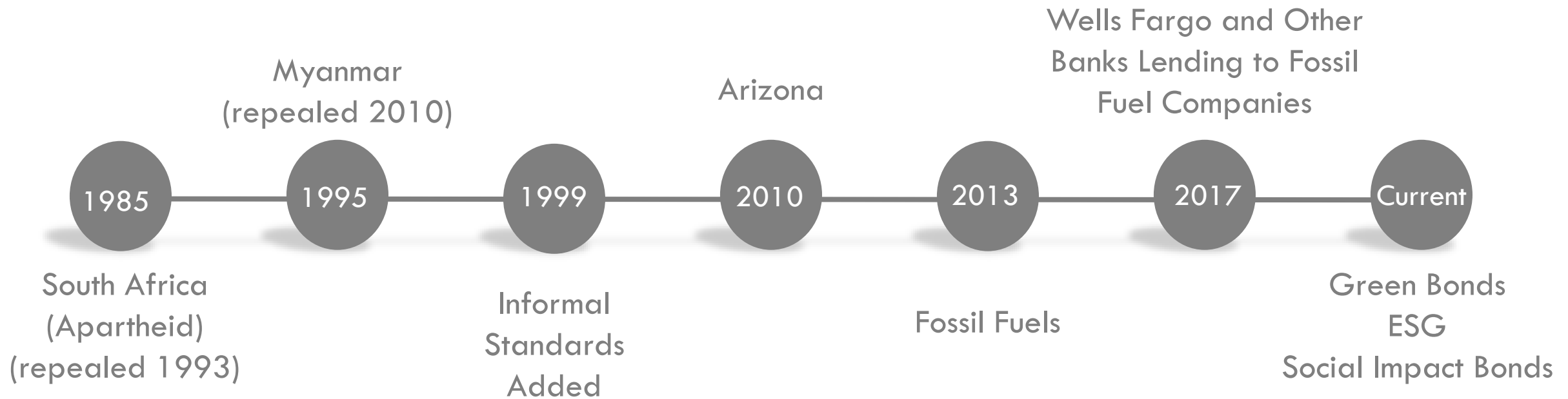
ESG Impact on Credit Ratings

Risk vs Reward





Santa Monica's SRI Evolution



Santa Monica's Investment Policy

17. Socially Responsible Investing

RESTRICTIONS – The direct investment of City funds are restricted as follows:

- a. Investments are to be made in entities that support clean and healthy environment, including following safe and environmentally sound practices.
- b. No investments will be made in fossil fuel companies as defined by the organization 350.org or in banking institutions that provide financing to said companies.
- c. No investments are to be made in tobacco or tobacco-related products.
- d. No investments are to be made to support the production of weapons, military systems, or nuclear power.
- e. Investments are to be made in entities that promote community economic development.

Funds invested with trustee and/or outside investment managers such as the Cemetery and Mausoleum Perpetual Care Funds will comply with this section of the policy.



ESG Implementation

- ★ One component of investment analysis and decision making.
- ★ Typically applicable to corporates, but can be applied to other asset classes.
- ★ Variety of ESG data tools:
 - Bloomberg
 - Yahoo!
 - Brokers
 - Private ESG Analytical Firms (Sustainalytics, MSCI, RobecoSAM, etc.)



Implementation in Santa Monica

ESG does not alter other daily investment processes.

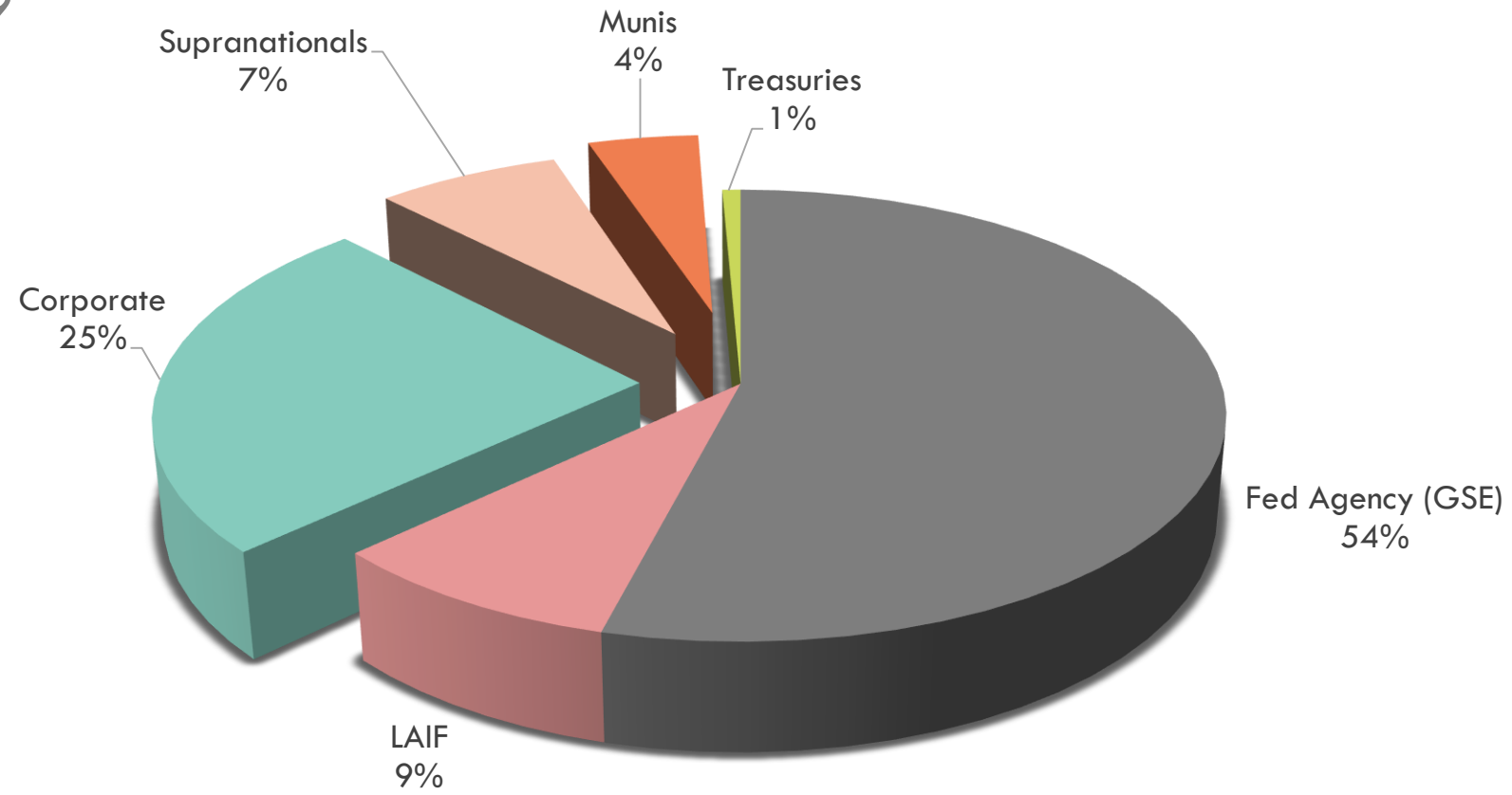
Check ESG score of corporates as an added component of credit analysis.

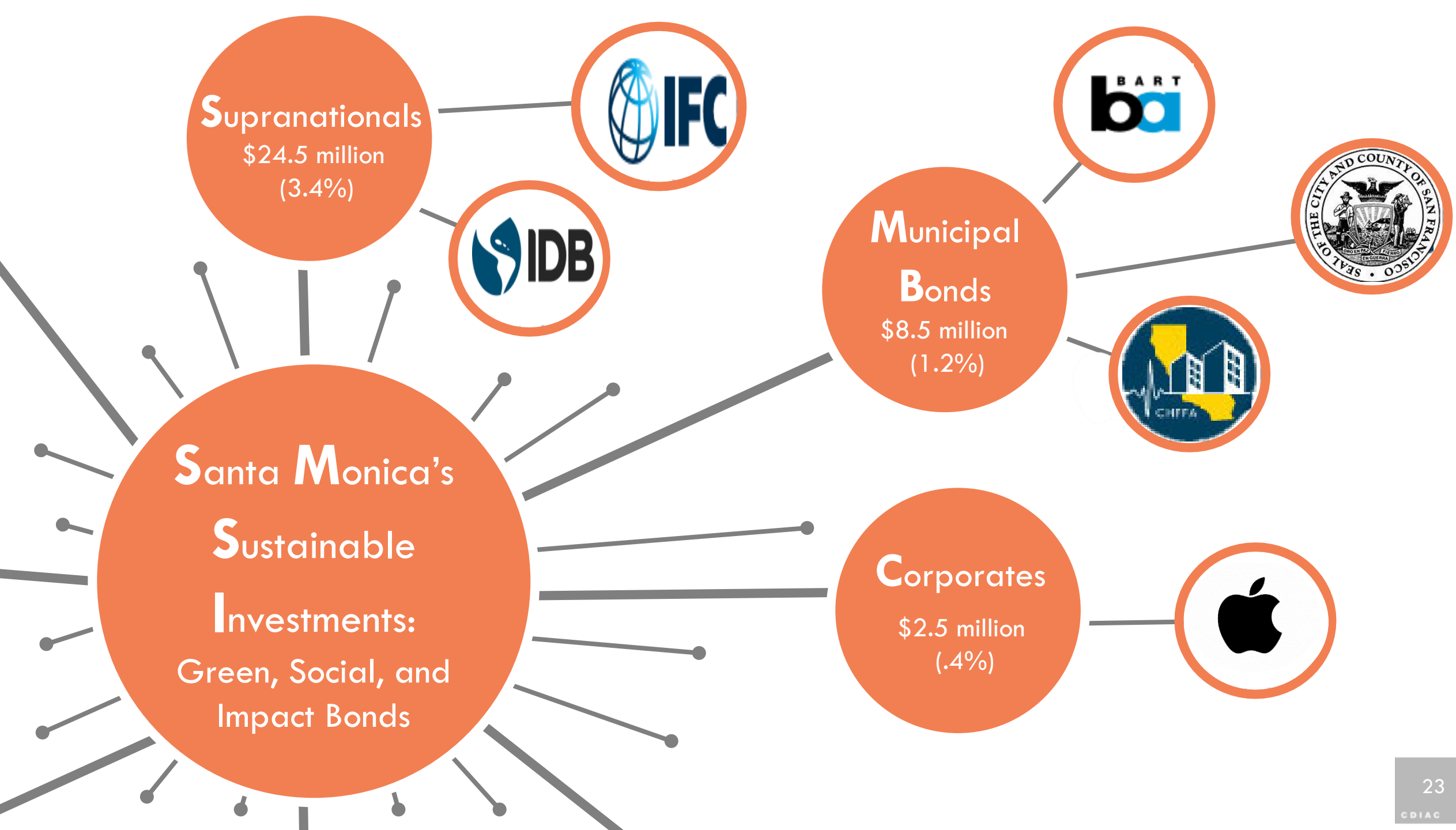
Partner with broker to look for suitable investments.

Corporates are not the only sector where SRI applies.

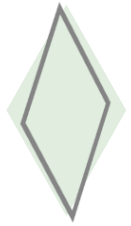
Santa Monica Portfolio

As of 11/25/19

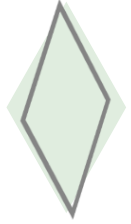




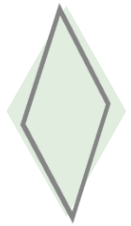
ESG Impact on Returns



Companies with higher ESG scores tend to have slightly higher returns.



Governance scores are the most highly correlated.



Increase of 0.3% to 0.4% annually.

ESG in Credit Analysis

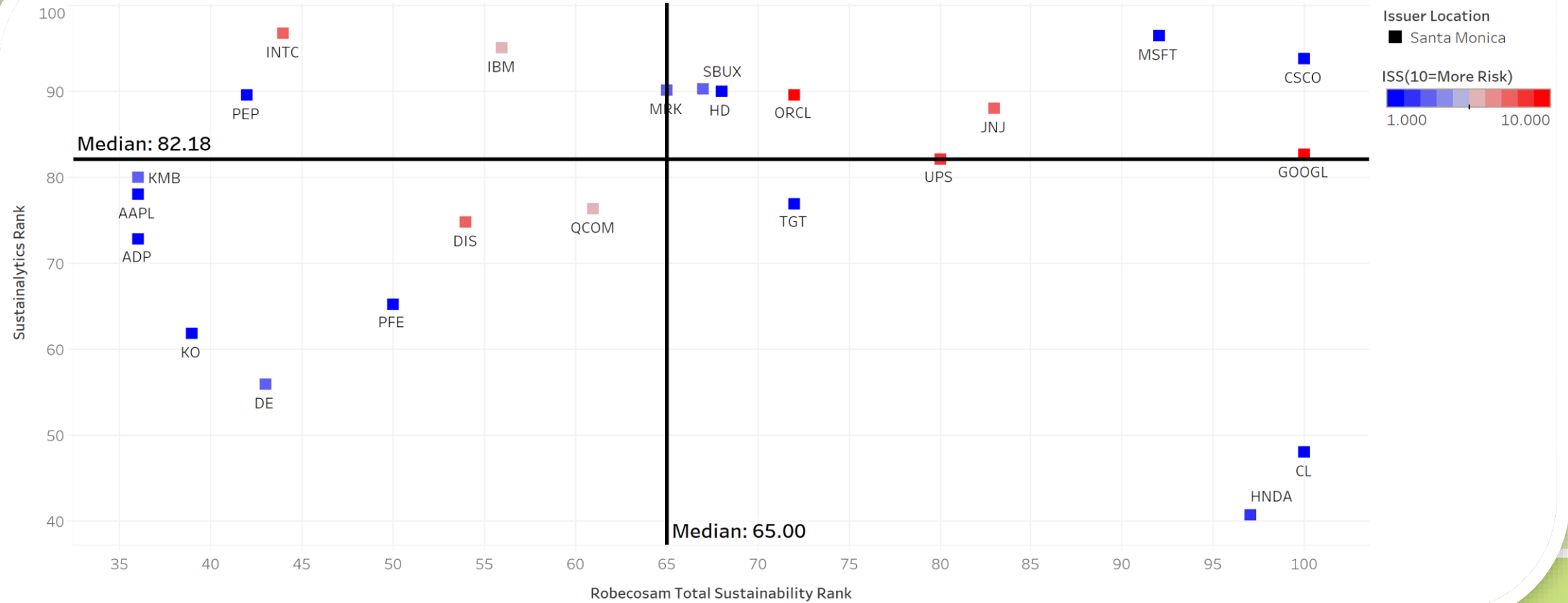
Credit Rating Agency Signatories

Axesior Rating	Liberum Ratings
Beyond Ratings	Microfinanza Rating
China Chengxin International Credit Rating Co., Ltd	Moody's Corporation
Dagong Global Credit Ratings Group	RAM Ratings
Fedafin AG	Rating-Agentur Expert RA GmbH
Fitch Group, Inc	Rating and Investment Information, Inc.
Golden Credit Rating International Co., Ltd	Scope Ratings
Japan Credit Rating Agency	Spread Ratings
JCR Eurasia Rating	S&P Global Ratings

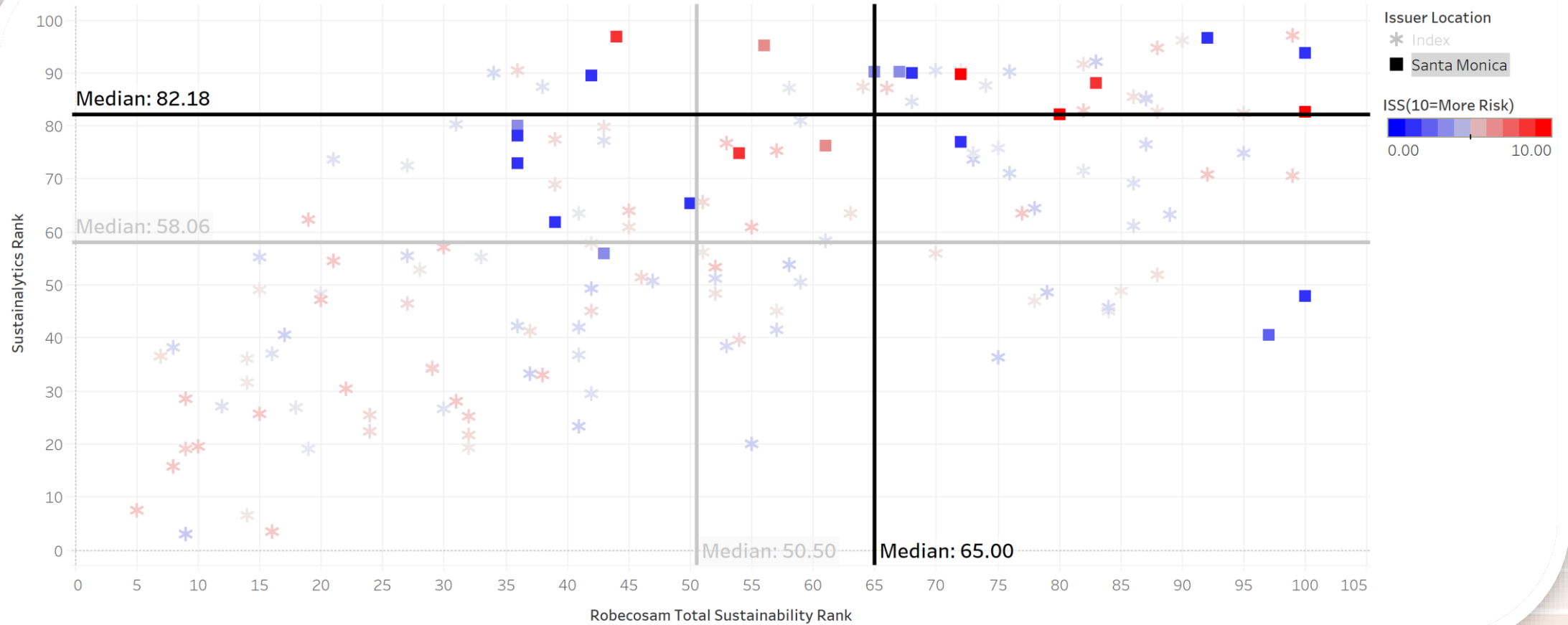
ESG in Credit Analysis Example

Country	US
Sector	Banking
Bank	7 February 2019
ESG Factor	Social and Governance
Action	<u>Credit rating downgraded from A to A-; outlook stable</u>
Key Rationale	Asset growth capped until the company further enhances its governance and compliance and risk management to the standards required by the regulator; the downgrade also reflects ongoing ramifications of its retail sales practices issues.
Source	S&P Global Ratings

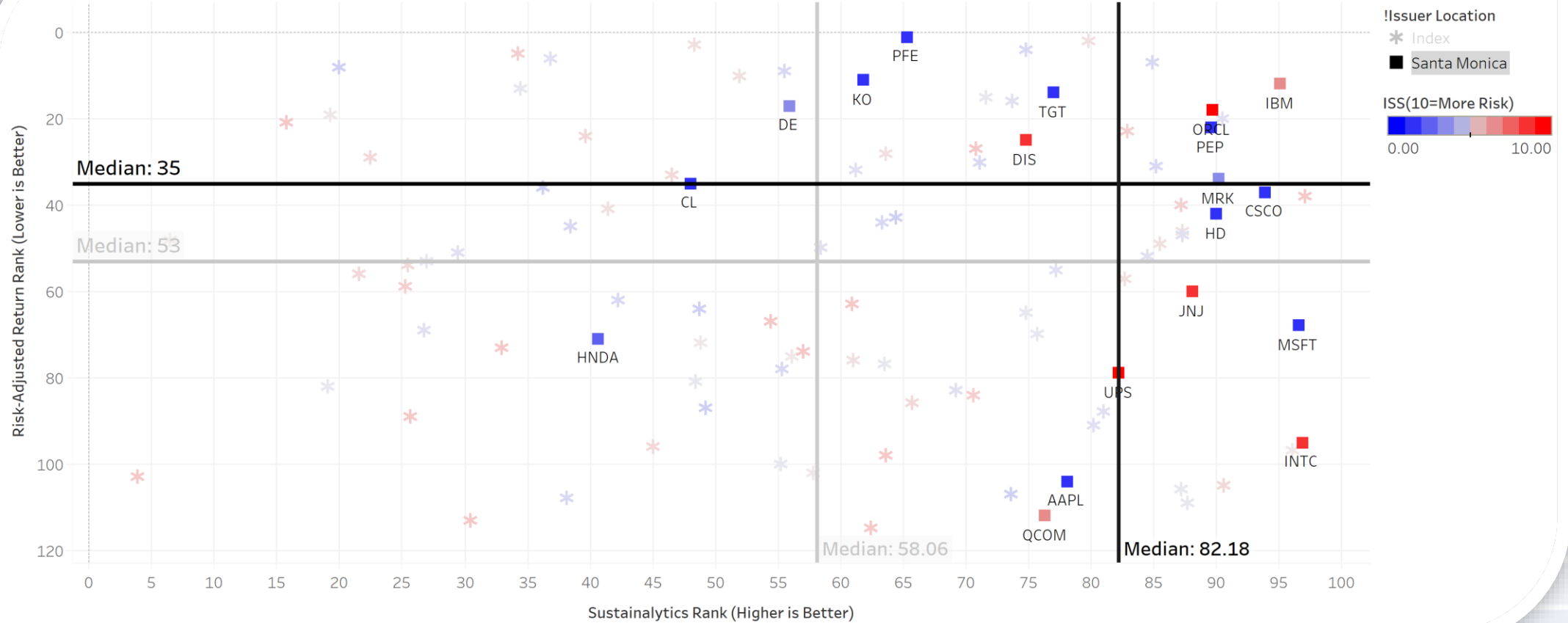
Santa Monica ESG Analysis



Santa Monica vs 1-5Yr A-AAA ESG Analysis



Risk-Adjusted Return vs ESG



Next Steps

Increasing interest in
public sector.

There is a need for education.

GIOA Committee

Workshops and Conferences

Consistency needed in:
Standards in measuring
Benchmarking

Summary

ESG/SRI is expected to continue increasing in the public sector.

ESG/SRI is not just for corporates.

There are different approaches for each organization.

No evidence of decreased returns.

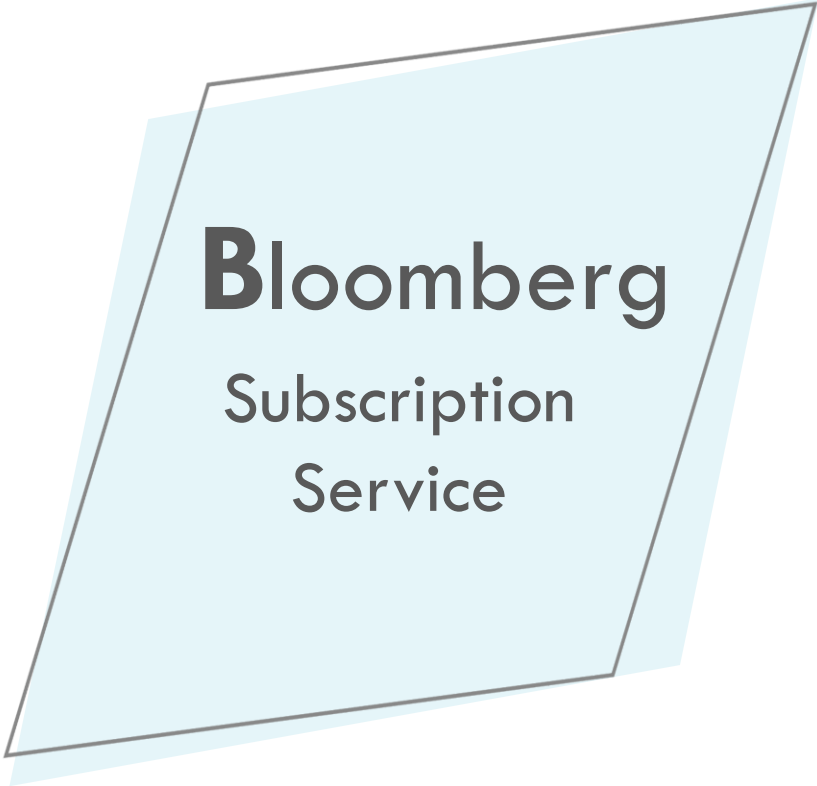
There are tools available!





Tools for ESG Analysis

Kevin Webb, CFA, Piper Jaffray



Bloomberg
Subscription
Service



Yahoo!
Finance
Sustainalytics
Data for
All Users

Bloomberg

ESG<GO>

HELP Help Page for ESG

< > A A

Generate PDF

Using the Bloomberg

Live Help

Getting Started with the Bloomberg > Help Page for ESG

Search ESG Help

About ESG <GO>

Quick Start

Workflows

ESG Metrics

Historical Charts

Peer Analysis

Better, Worse, Neutral

News and Research

Exporting Data

Reference

Calculations

Brochures & Videos

Definitions

FAQ

Environmental, Social & Governance Analysis | ESG <GO>

ESG <GO> provides an overview of a company's environmental, social, and governance (ESG) performance, both over time and versus its peers, so you can assess risks and opportunities that may impact a potential investment.

XOM US Equity

Export to Excel

Environmental, Social & Governance Analysis

Exxon Mobil Corp

Summary

vs History

vs Peers

History 5 Years

Currency USD

ESG Scores | RV ESG

RobecoSAM Rank 47

ISS QualityScore 8

Sustainalytics Rank 64.2

CDP Climate Score 4

Bloomberg ESG Disclosure 56

Analyze Peers

vs History

vs Peers

Metrics

Current

History

Change

Low

Range

High

Median

Difference

History

Environmental

GHG/Revenue 638

GHG/HBOE 86.3

Carbon Reserves 8759.8

Oil in Total Prod % 50.9

Energy/HBOE 280.9

Social

Women Empls Hgmt Ratio 0.64

Women Employees % 38

271.6 W

-7.6 B

-1562 B

4.4 W

7.5 W

0.07 B

0

470.6

60.3

558.4

63.2

238.2

935.4

113.7

4809.3

100

366.5

804.3

79.5

2342.8

72.8

335.4

-166.3 B

6.8 W

6616.9 W

-23.9 B

-54.5 B

Quick Start

1. Specify the company you want to analyze, then update the historical timeframe and currency for the ESG profile:

Company

Timeframe

Currency

XOM US Equity

Export to Excel

Environmental, Social & Governance Analysis

Exxon Mobil Corp

Summary

vs History

vs Peers

History 5 Years

Currency USD

ESG Scores | RV ESG

RobecoSAM Rank 60

ISS QualityScore 7

Sustainalytics Rank 62.9

CDP Climate Score 4

Bloomberg ESG Disclosure 56

Bloomberg

Example

CSCO Equity <GO>

ESG<GO>



Bloomberg

ESG Relative Comparison to Peers



Bloomberg

Can automate
using
Bloomberg
Excel
functionality.

D					
Cisco Systems Inc			cusip 17275R102 (101711 1000) Networking Products		
CSCO US Equity		Source Calcrt	98) Save	99) Options	Page 1/57 Field Search
91) Search for Fields		92) Selected Fields (0)			
ESG		View Ranked	Filter Equity	Field Type All	
	ID	Mnemonic	Description	Ovrd	Value
1) <input type="checkbox"/>	RX317	ESG_DISCLOSURE_SCORE	ESG Disclosure Score		N.A.
2) <input type="checkbox"/>	ES110	ESG_LINKED_BONUS	Executive Compensation Linked to ESG		N
3) <input type="checkbox"/>	ES195	ESG_LINKED_COMPENSATIO...	ESG Linked Compensation for Board		N
4) <input type="checkbox"/>	ES198	SUS_SUP_GDL_ENC_ESG_AR...	Sustain Sup Guidelines Encomp ESG Are...		N.A.
5) <input type="checkbox"/>	ES063	PCT_INDEPENDENT_DIRECT...	% Independent Directors		90.000
6) <input type="checkbox"/>	X6344	SUSTAINALYTICS_ESG_MOM...	Sustainalytics ESG Momentum		
7) <input type="checkbox"/>	RX376	GOVNCE_DISCLOSURE_SCORE	Governance Disclosure Score		N.A.
8) <input type="checkbox"/>	RX374	ENVIRON_DISCLOSURE_SCO...	Environmental Disclosure Score		N.A.
9) <input type="checkbox"/>	RX375	SOCIAL_DISCLOSURE_SCORE	Social Disclosure Score		N.A.
10) <input type="checkbox"/>	CG041	TOT_COMPENSATION_AW_T...	Total Compensation Paid to Executives		79,712,087
11) <input type="checkbox"/>	CG001	TOT_COMP_AW_TO_CEO_&...	Total Compensation Paid to CEO and Eq...		25,829,833
12) <input type="checkbox"/>	ES005	TOTAL_GHG_EMISSIONS	Total GHG Emissions (Th Tonnes)		N.A.
13) <input type="checkbox"/>	ES061	BOARD_SIZE	Size of the Board		10
14) <input type="checkbox"/>	ES020	TOTAL_WASTE	Total Waste (Th Tonnes)		N.A.
15) <input type="checkbox"/>	ES066	BOARD_MEETING_ATTENDAN...	Board Meeting Attendance %		75.000
16) <input type="checkbox"/>	ES016	TOTAL_WATER_USE	Total Water Use		N.A.
17) <input type="checkbox"/>	ES065	BOARD_MEETINGS_PER_YR	Number of Board Meetings for the Year		5
*Fields that appear in white provide streaming data.					
Australia 61 2 9777 8600 Brazil 5511 2395 9000 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000 Japan 81 3 4565 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2019 Bloomberg Finance L.P. SN 116337 F3T GMT-8:00 H443-5968-0 26-Nov-2019 11:51:58					

Yahoo!

February 2018: Announces it is only free provider of Sustainability scores.

[Source](#)



SUSTAINALYTICS

Yahoo Finance Expands Offerings as Only Free Provider of Sustainability Scores, across Desktop and Mobile Web

Posted on February 1, 2018



February 1, 2018 – Current research shows that investors — particularly women and millennials — increasingly seek impact with their investments, and believe they can achieve competitive returns with companies that reflect their values. Starting today, these conscientious investors will be able to track the Environment, Social and Governance (ESG) scores of more than 2,000 publicly traded companies, *only on Yahoo Finance*.

Available globally, the new Sustainability quote pages will provide a company's numerical score for each of the three ESG categories, from 1-100, as well as their overall score. Powered by Sustainalytics — the leading independent global provider of ESG and corporate governance research and ratings — there will also be graphical representations of the same information, tracked against the category average and plotted over time, so users can see how they are trending and rank against industry peers.

Media Contact

Sarah Cohn, Executive Director of Marketing
Phone: +1 646 963 6944
Cell: +1 646 234 7287
Email: sarah.cohn@sustainalytics.com

Environment, Social and Governance (ESG) Ratings

Total ESG score

63 53rd percentile

Average Performer

Environment

68 65th percentile

Social

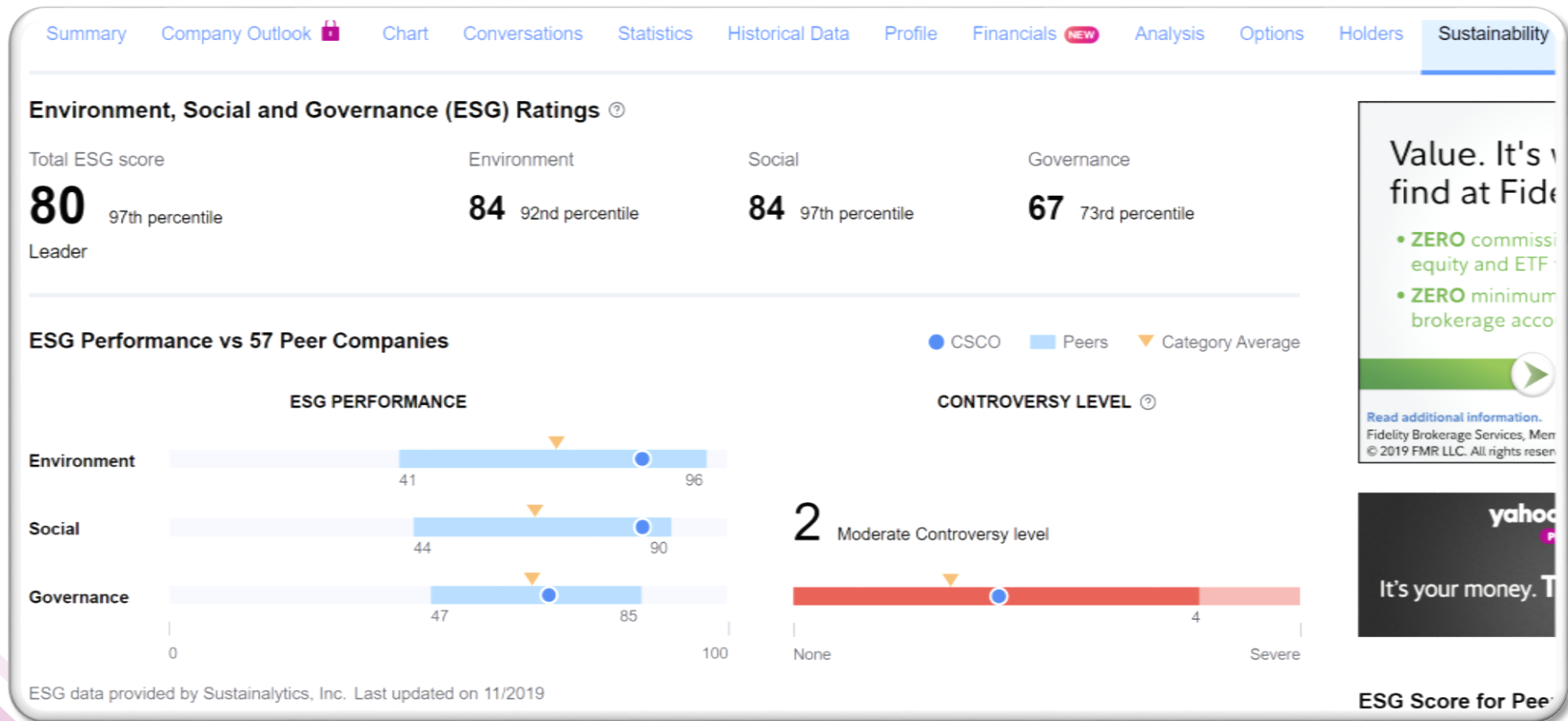
60 60th percentile

Governance

59 21st percentile

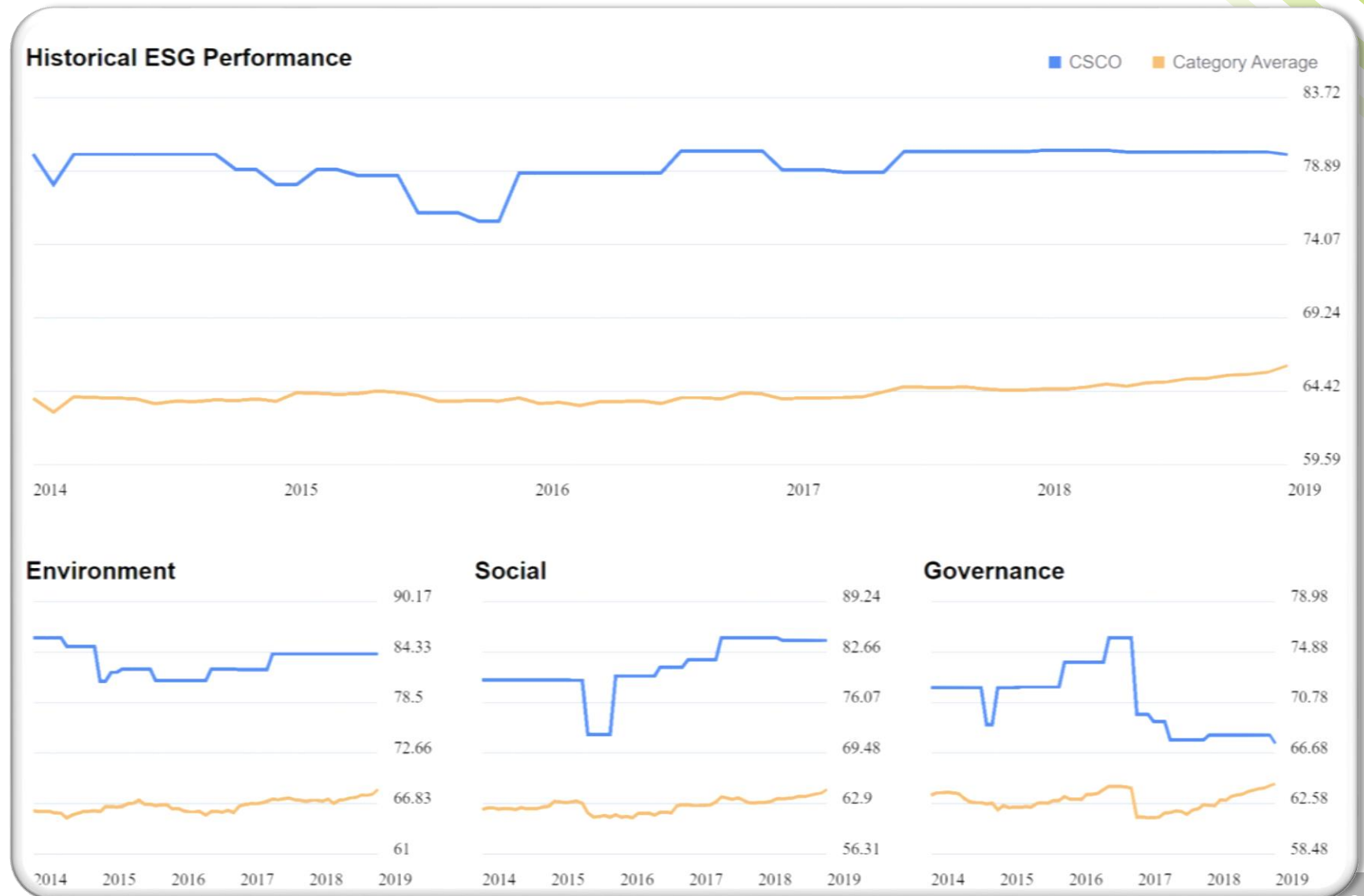
Yahoo!

Can access Sustainalytics information directly [online](#).



Yahoo!

Shows historical performance of company versus the category average with breakdowns.



Yahoo!

Shows ESG versus peers and product involvement areas.

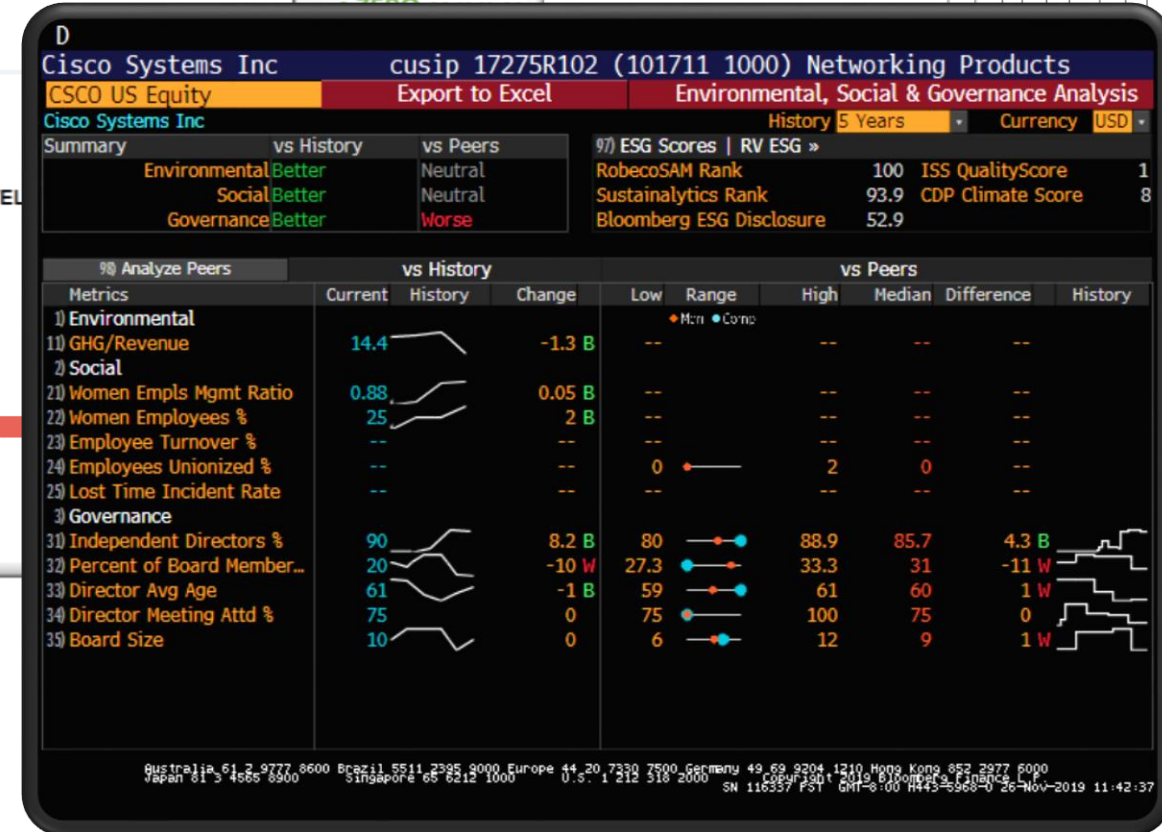
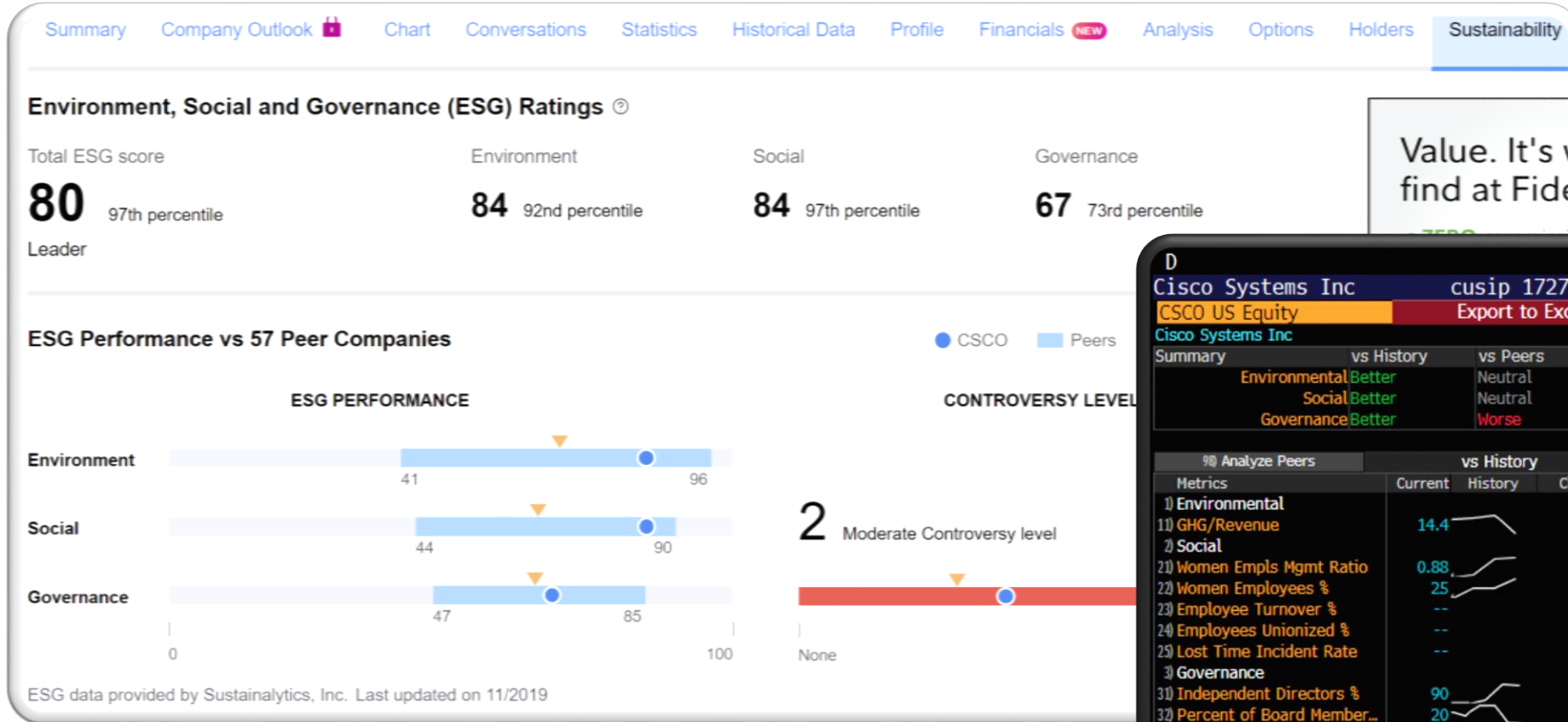
ESG Score for Peers

Name	Total ESG score	E	S	G
ERIXF ERICSSON	84	88	90	69
NOKBF NOKIA OYJ	84	90	82	76
CSCO (this company) Cisco Systems, Inc.	80	84	84	67
DELL Dell Technologies Inc.	80	85	89	59
STX Seagate Technology PLC	80	82	82	72

Product Involvement Areas [?]

Products and Activities	Significant Involvement
Alcoholic Beverages	No
Adult Entertainment	No
Gambling	No
Tobacco Products	No
Animal Testing	No
Fur and Specialty Leather	No
Controversial Weapons	No
Small Arms	No
Catholic Values [?]	No
GMO	No
Military Contracting	No
Pesticides	No
Thermal Coal	No
Palm Oil	No

Comparison



Q&A

Please use the Question Box to submit:

Questions to the panelists

ESG/SRI resources used by your agency

Evaluation and Replay

Evaluation

Please help CDIAC improve our educational content by participating in the evaluation that will be emailed within 24 hours after the webinar.

Replay

The webinar replay and transcript will be posted on the [webinar page](#) within 2 weeks of the original air date.

Upcoming CDIAC Seminars

CMTA/CDIAC Advanced Public Funds Investing:
The Analytics of Portfolio Selection and Decision-Making
January 15-16, 2020 | Claremont, CA

Municipal Market Disclosure
March 3, 2020 | Irvine, CA

For more information and registration, go to:
Treasurer.ca.gov/CDIAC/seminars

Disclaimer

The material contained herein is not a product of any research department of Piper Jaffray & Co. or any of its affiliates. Nothing herein constitutes a recommendation of any security or regarding any issuer; nor is it intended to provide information sufficient to make an investment decision. The information provided is herein not intended to be and should not be construed as a recommendation or "advice" within the meaning of Section 15B of the Securities Exchange Act of 1934.

The information contained in this communication has been compiled by Piper Jaffray & Co. from sources believed to be reliable, but no representation or warranty, express or implied, is made by Piper Jaffray & Co., its affiliates or any other person as to its accuracy, completeness or correctness. All opinions and estimates contained in this communication constitute Piper Jaffray & Co.'s judgment as of the date of this communication, are subject to change without notice and are provided in good faith but without legal responsibility. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur.