



# **ESG Framework for Investment Managers**

Final Presentation

# Process



UNIVERSITY  
CASE STUDIES

Set context of work  
amongst peer institutions



FRAMEWORK  
RESEARCH

Evaluate best practices from  
existing frameworks



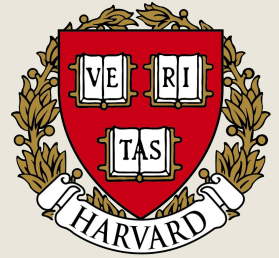
FRAMEWORK  
CREATION

Create framework matrix to  
evaluate managers

# University Case Studies

## PROCESS

- Researched universities with top endowments
- Do universities evaluate their managers for ESG?
- Do universities publish the framework that they use?



# Overview

139 Universities

85 Private Universities  
54 Public Universities



34 mention ESG

23 Private Universities  
11 Public Universities



21 consider ESG in regards  
to external fund managers

13 Private Universities  
8 Public Universities



8 have manager ESG  
frameworks

5 Private Universities  
3 Public Universities



- ✓ Signatory of PRI
- ✓ Allocated \$1B to climate solutions
- ✓ Participant in collaborative initiatives including Ceres's Investor Network on Climate Risk and CDP
- ✓ Actively collaborate with UC community to deepen understanding of ESG issues

## **“Ongoing dialogue” w/ managers**

- Encourages managers to become PRI signatories
- Plans to implement ESG asset class-specific manager selection and monitoring guidelines that will
  - Integrate ESG criteria into manager due diligence
  - Incorporate ESG criteria into manager agreements
  - Review manager performance against a set of key ESG performance indicators

## Framework for Sustainable Investment

1. Climate change
2. Food and water scarcity
3. Inequality
4. Ageing population
5. Diversity
6. Human rights
7. Circular economy
8. Ethics and government

# ESG Integration Dashboard:

March – June, 2021

## What We Do

Guided by our "Framework for Sustainable Investing," we systematically integrate risk evaluation of environmental sustainability, social responsibility and prudent governance factors into our investment process.

Doing so provides us with a better risk-reward calculation.

We are committed to continuously improving our integration of ESG over time.



## Diversified Returns: Team

Expanded DEI learning resources available to UC Investments team on our bespoke Diversified Returns app.



## Climate Change: Reducing Risk

Managed climate change risk through active engagement with 18 investee companies in multiple sectors, including financials and utilities.



## Active ownership

Completed inaugural third party review of proxy voting execution vs. proxy voting guidelines. No material discrepancies found.

Engaged with 271 investee companies on material ESG risks.



## Diversified Returns: Partners

100% of new manager searches in FY20-21 used the "diverse slate rule," to expand access to talent.

Met with New America Alliance board, staff & membership.



## Climate Change: Advancing Solutions

As of 6/30/21, our investments in clean energy have resulted in 2.6 gigawatts of new renewable energy – a 54% increase since 6/30/20.



## Reporting & Communications

Updated & expanded Diversified Returns webpages.

Initiated research & writing of inaugural TCFD (climate change) Report.



## Environmental Goal:

Private investments in fossil fuels will go to zero by the end of 2035

## Manager Due Diligence Questionnaire

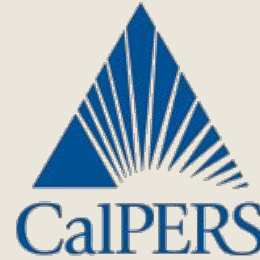
- Used to evaluate all current and potential investment managers on ESG policies
- Utilizes questions suggested by Institutional Limited Partners Association
- Uses the Sustainability Accounting Standards Board Materiality Map for risk factors

\*Monitoring formation of Sustainability Standards Board announced at COP26

# Framework Research

## PROCESS

- Researched other institutional investors and external organizations with frameworks
- Helpful to draw inspiration on their questions, formatting and scoring
- Most useful: UNPRI, ILPA, Vermont Pension Plan



IBM PENSIONS TRUST



# United Nations Private Equity Responsible Investment

1. POLICY - UNDERSTANDING YOUR ESG-RELATED POLICIES, GOVERNANCE, AND OVERSIGHT
2. FUNDRAISING - ESTABLISHING YOUR ESG
3. PRE-INVESTMENT - UNDERSTANDING HOW YOU IDENTIFY MATERIAL ESG RISKS AND OPPORTUNITIES IN YOUR INVESTMENTS.
4. POST-INVESTMENT - UNDERSTANDING HOW YOU CONTRIBUTE TO YOUR PORTFOLIO COMPANIES' ESG RISK MITIGATION AND VALUE CREATION EFFORTS.
5. REPORTING & DISCLOSURE - UNDERSTANDING HOW LPs CAN MONITOR YOUR ESG PERFORMANCE AND ENSURE THE FUND IS OPERATING WITHIN AGREED-UPON POLICIES AND PRACTICES, INCLUDING DISCLOSING MATERIAL ESG INCIDENTS.
6. CLIMATE CHANGE
7. ADDITIONAL INFORMATION

## 1.1 **[ISP 1, PE 1]** Do you have a responsible investment policy?

*If so, provide a copy or a link if publicly available, state when it was implemented, whether it has been fully implemented, what the process for reviewing and updating it is, and describe any changes you have recently made or plan to make. If you do not have a responsible investment policy, explain why not.*

## 6.2 Describe any climate commitments or targets your firm has made, or actions your firm employs, to assess and address climate-related risks and opportunities not otherwise covered in this document.

*Describe any climate-/emissions-related KPIs and targets you have set with your portfolio companies or committed to as a firm.*

*Ensure that, if relevant, you have responded to the guidance on climate-related risks and opportunities above in questions 1.2, 1.3, 3.1, 3.2, 4.3, 4.4, 4.5, 4.6 and 5.1, and add any further discussion that might be relevant here. If you have not disclosed any climate-related information, please explain why not.*

**ESG Assessment Framework:** a resource for limited partners who want to create a tool to evaluate the various stages of ESG integration common among general partners in today’s market

Created with private equity as the asset class in mind, but a useful starting point

COMPONENT	NOT PRESENT	DEVELOPING	INTERMEDIATE	ADVANCED
<b>Status of Current Policy</b>	ESG policy is lacking or limited; there is no mention of governance and ESG ownership considerations or examples which illustrate a policy in action	Policy details the GP’s approach to identifying and managing ESG factors; reference to basic governance and ownership considerations  <i>*Note, pertaining to ESG Policies - LPs should keep in mind that firm level policies may not always apply to specific funds and should ask for clarification where needed</i>	Policy is tailored to the GP’s strategy and investable sectors; there is a clear governance structure detailing ESG oversight responsibilities and processes and an approach to identifying material risks and discussing them with portfolio companies  GP is able to provide examples illustrating policy integration efforts in prior fund investments	Building upon “Intermediate,” policy is shared publicly and references materiality and how ESG considerations drive value creation, including look-forward assessments and commentary tailored to industry segments in which the GP invests  GP is able to speak to historical policy revisions, including what changed and why



# Vermont Pension Fund

Vermont Pension Investment Committee | \$4.6 billion

- Survey of investment managers on issues of ESG integration
- Matrix to establish metrics based on ESG policies and their implementation

Example of Questions	Responses – Graded from Poor to Excellent			
	Poor	Fair	Good	Excellent
Do you incorporate climate-related risks into your valuation and portfolio construction processes? If so, please provide examples to illustrate this.	No formal process of examples exists.	Integration of some climate-related risks in an ad-hoc manner, with limited evidence.	Integration of some climate-related risks (transition risks only) in a systematic way, with some evidence.	Integration of all climate-related risks (transition and physical) in a systematic way, with strong evidence.
Do you measure the carbon footprint of your portfolio, and if so, can you include this as part of your reporting on an annual basis?	No, and no intention to pursue this.	No, not measured at the portfolio level but willing to consider and discuss this further.	No, not measured at the portfolio level but is considered for some stocks assets, willing to discuss this further.	Yes, measured and reported at the portfolio level on an annual basis.
Do you know the exposure of your fund to fossil fuel assets, and are you willing to disclose them?	No, not relevant or meaningful.	No, too costly to pursue, case-by-case potential.	No, don't specifically measure the fossil fuel exposure but are willing to explore this and disclose.	Yes, the fossil fuel exposure is assessed and reported.

# Matrix Framework

	1-5 Employees	5-10 Employees	10+ Employees
Under \$500M	Framework 3	Framework 3	Framework 2
\$500M-\$2B	Framework 3	Framework 2	Framework 1
>\$2B	Framework 2	Framework 1	Framework 1

Questions	Bad (-2)	Poor (-1)	Fair (0)	Good (1)	Great (2)	<b>Weighting</b>	<b>SCORE</b>
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# ESG: General

- Does your organization have a formal ESG policy?
- Does your organization incorporate ESG consideration into your due diligence process?
- Does your organization use any third party tool to measure the ESG profiles of portfolio companies?
- What international disclosure standards or reporting frameworks that promote responsible investment practices does your organization abide by?
- Has your organization committed to any initiatives that promote responsible investment practices?
- Have you had ESG issues with one of your portfolio companies in the past year?
  - If yes, do you engage with the management of the portfolio company with an incident to solve that issue?

	Questions	Bad (-2)	Poor (-1)	Fair (0)	Good (1)	Great (2)	Weighting	SCORE
General	Does your organization have a formal ESG policy?	No formal ESG policy	ESG policy is limited or lacking		ESG policy with specific goals and plans for meeting them	Publicly shared ESG policy with specific goals in all three pillars and plans for meeting them		

# ESG: Environment

- Do you invest in any of the following: oil, gas, coal, mining?
- Do you invest in any of the following: renewable energy (wind, solar, hydro), climate research, green initiatives?
- Does your organization incorporate climate related risks into your valuation and portfolio construction processes?
- Has your organization committed or taken steps to reaching net-zero emissions?
- Has your organization measured the carbon footprint of your portfolio?
- Have you taken any steps to reduce your portfolio's carbon footprint?

	Questions	Bad (-2)	Poor (-1)	Fair (0)	Good (1)	Great (2)	Weighting	SCORE
Environmental	Do you invest in any of the following: renewable energy (wind, solar, hydro), climate research, green initiatives, ?			Invest in none of these industries	Invest in 1 of these industries	Invest in more than one of these industries		
Environmental	Does your organization incorporate climate related risks into your valuation and portfolio construction processes?		No formal process exists.	Integration of some climate related risks.		Integration of all climate related risks in a systematic way.		

# ESG: Social

- Do you invest in any of the following: prison operations, tobacco, nuclear weapons, biological/chemical weapons?
- Does your organization have a DEI policy or strategy?
- What percentage of your employees identify as a gender other than male?
- What is the percentage of non-white racial/ethnic representation among your employees?
- Does your organization offer DEI training?
- Does your organization offer employee engagement programs?
- Do you invest in any of the following: education, healthcare, affordable housing?

	Questions	Bad (-2)	Poor (-1)	Fair (0)	Good (1)	Great (2)	Weighting	SCORE
Social	Do you invest in any of the following: prison operations, tobacco, nuclear weapons, biological/chemical weapons?	Invest in more than one of these industries.	Invest in one of these industries	Invest in none of these industries				
Social	Does your organization have a DEI policy or strategy?		No policy or strategy.	No policy or strategy, but in the process of creating one.	Yes, has a defined policy			

# ESG: Governance

- Does your organization have proxy voting guidelines?
- Does your organization have whistleblower guidelines?
- Does your organization have exposure to companies that do business with countries economically sanctioned by the U.S. government?
- Does your organization monitor ESG considerations of portfolio companies after initial investment?
- How do you approach ESG oversight within your organization?

	Questions	Bad (-2)	Poor (-1)	Fair (0)	Good (1)	Great (2)	Weighting	SCORE
Governance	Does your organization have a personal trading policy?	No personal trading policy		Has a personal trading policy updated in accordance with regulations				
Governance	Does your organization run routine background checks on employees?	No background checks conducted	Background checks are not routine.	Runs routine background checks on employees.				



# Next Steps

Weighting

*Should certain questions be weighted more or less than others?*

**Fill out weighting column**

Industry Specific Questions

*How can we create questions that are applicable for different industries?*

**Create separate rubrics for certain industries**

Scoring

*How can we compare managers when scored across different frameworks?*

**Formula to compare scores across frameworks**

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# Appendix

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[Link to Full Matrix](#)

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Link to University  
Research

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## ESG factors in manager selection process

1. Manager's hiring practices and policies
  2. Ethics and integrity
  3. Partnership structure
  4. Governance
5. Philosophy and process on ESG investing
6. Review of manager's holdings from ESG perspective

Included in the manager selection memos presented to the Investment Committee before hiring a manager, and in ongoing reviews of managers



Will assess whether investment managers have plans to create portfolios with net zero emissions by 2050



Considering the possibility of using Columbia University resources to help managers make these plans

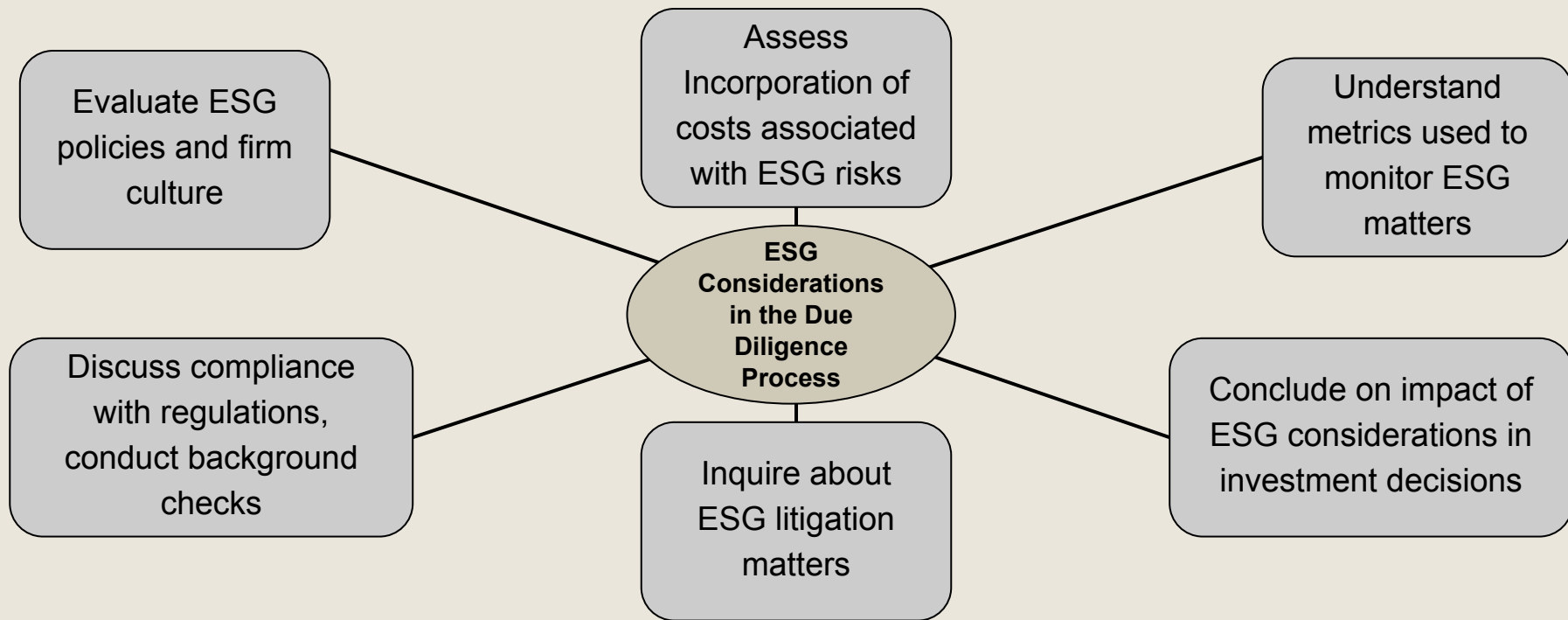
## Divestment and non-investment

*\*Relevant ESG policy, not manager related*

Companies whose business is the direct manufacture of tobacco products

Companies whose primary business is in oil, gas, and thermal coal

Companies engaged in the operation of prisons





Principles for  
Responsible  
Investment  
Signatory

Net Zero Carbon  
Goal by 2050

**ESG  
Investing**

No sustainable  
Investment  
philosophy

## Manager Evaluation

1. Harvard Management Company
2. PRI Limited Partners Responsible Investment Due Diligence Questionnaire Framework
3. Actively engage with manager portfolios
4. Sustainability reporting
5. Environmental factors
6. Social factors
7. Governance factors
8. Sustainable investing team





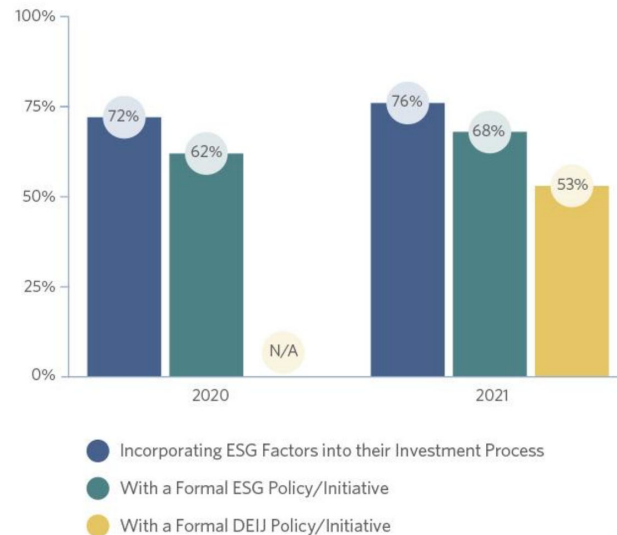
Commitment to divest all direct holding in coal and tar sands companies

Will invest a minimum of \$10 million over the next five years in positive impact funds

## Evaluating Managers:

Annual survey of investment partners to assess whether ESG and DEI/J are incorporated into their investment processes. Will track progress over time and discuss how to further improve.

## Percentage of External Managers...





## ESG Investment

- Net-zero by 2050
- No direct investments in thermal coal or tar/oil sands
- Less than 0.05% of its Long Term Pool directly invested in fossil fuels
- Proxy voting on direct investments
- Engage with external managers, participating in established sustainable investing initiatives

## Manager Evaluation for ESG

- Committed to aligning with a net-zero future by 2050
- Over \$1.3 billion currently invested with activist managers across industries
- Assess each external manager's approach to ESG integration and promote best practices through initial and ongoing manager due diligence (annual basis)

### RESOURCES MANAGERS

**100%**  
have ESG  
policies

**75%**  
base their ESG policies on United Nations Principles  
for Responsible Investment (UNPRI)

# Other Relevant US University Case Studies:

## Proxy Voting Policies

Rochester Institute of Technology:

“Each manager is requested to vote in favor of proxy proposals and board of director candidates that protect human health and the environment within the constraints of their investment policy,” (RIT Investment Policy)

## Divestment Policies

Massachusetts Institute of Technology:

MITIMCo - MIT investment management company

Line of defense: choosing ethical managers

Manager Divestment: Control Behavior

Respond to Individual Circumstances

## UN Due Diligence Questionnaire

<https://www.unpri.org/download?ac=15124>

- Harvard University

### DOCUMENT CHECKLIST

A suggested checklist of documents that investors can request from investment managers during the due diligence process.

- Responsible investment policy
- Exclusion policy & exclusion list
- PRI transparency report
- Stewardship policy
- (Proxy) voting policy
- (Proxy) voting records
- Code of conduct
- Sustainability report
- TCFD report

## ESG factors in Global Equity manager selection/monitoring process

1. Process for identifying and acting on ESG-related opportunities and risks
  2. Litigation issues related to ESG
  3. Material ESG issues
  4. Managers' ESG reports
5. Exclusion of companies with specified business activities in Iran and Sudan, and of tobacco and certain gun manufacturers
6. Proxy voting by CalPERS, based on Governance and Sustainability Principles

## ESG factors in Real Assets manager selection/monitoring process

1. ESG questions in DDQ used to evaluate prospective managers
2. Compliance with ESG obligations in operating agreements, engage on deficiencies
3. Request that managers respond to 3rd party monitoring surveys
  4. Managers' ESG/PRI reports
  5. Status of identified ESG risks
  6. Material ESG issues
7. Encourage submission of Energy Optimization projects for real estate assets
8. Identify and learn from manager best practices

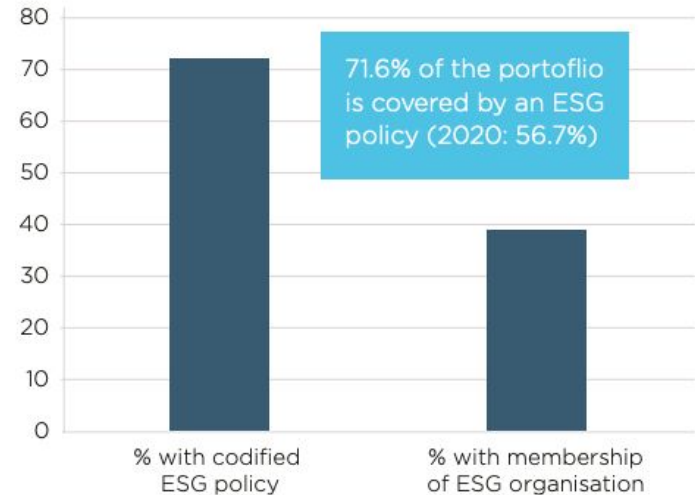
\*CalPERS also has mentions how they use ESG to assess external Global Fixed Income and Private Equity managers. The factors they consider overlap with those listed for Global Equity managers.



## Manager Due Diligence Process: ESG

- Codified ESG policies
- ESG Risk Analysis
  - Evaluate Environmental, Social and Governance risks and opportunities
- Plans for Net-zero
  - 54.0% of the Oxford Endowment Fund is invested with managers taking steps towards net zero
- Voting
  - OUem will enact any voting rights ascribed under the ownership structure.

Figure 6: Summary of codified ESG policies and memberships



## ESG Integration



Signatory of PRI



Appointed Stewardship

Manager to ensure that compliance with the UK Stewardship Code and the PRI are met



Adopted TCFD framework recommendations and report against them on an annual basis



Set target to ↓ carbon emissions within the Plan's investment portfolio by 20% over the next 3 years

Figure 11. Comparison of Climate-Related Metrics for the DB Section

Asset Class	Manager/ Mandate	Value (£m)	Proportion of Total DB Section Assets (excl. buy-in) (%)	Coverage (number / weight)	Total Carbon Emissions (Scope 1 & 2) (tons CO2e)	Total Carbon Emissions (Scope 1, 2 & 3) (tons CO2e)	WACI (Scope 1 & 2) (tons CO2e / \$M revenue)	WACI (Scope 1, 2 & 3) (tons CO2e / \$M revenue)
Global Bonds	Northern Trust	273.3	5.3	86.6% / 90.9%	13,192	128,839	167.4	1,157.9
Global Credit	PIMCO	145.2	2.8	87.1% / 90.9%	19,301	121,695	306.6	1,472.1
	Wellington Management	141.9	2.8	93.1% / 93.7%	11,270	107,471	154.6	1,067.2
Long-term UK Core Credit	PIMCO	439.5	8.5	67.6% / 70.5%	38,033	272,870	169.3	963.4
	Western Asset Management	418.3	8.1	67.0% / 74.2%	53,148	345,688	220.3	1,042.8
	Goldman Sachs Asset Management	410.9	8.0	67.2% / 66.4%	40,547	285,746	173.2	1,061.6
<b>Total Portfolio</b>		<b>1,829.1</b>	<b>35.5</b>	<b>78.7% / 75.9%</b>	<b>175,492</b>	<b>1,262,309</b>	<b>195.6</b>	<b>1,087.2</b>

## Manager consideration methods

1. Expects its investment managers to be signatories of the PRI (where applicable) and implement these principles → Requires its investment managers to report on their commitment and how these principles have been implemented.
2. Works with their Investment Advisor, Mercer, to ensure that the investment managers adopt a consistent approach.

## University Investment Committee

1. Responsible for decision making on investment matters
2. Selects investment managers
3. Selects assets
4. Takes a full review of the endowment fund every 3 years

## Manager Selection

1. Aims to work with asset managers who comply with PRI
2. Hold managers to an expectation to integrate ESG considerations into investment process
3. Managers expected to continuously improve sustainability credentials
4. Performance reporting must include ESG integration metrics

## Ethical Investment Policy

1. Committed to investing responsibly
2. Looks at portfolio resiliency
3. Broad ESG principle adherence
4. Sustainability is a key pillar of the university and the fund

### Monitoring Process for External Managers in **Public Markets**

Rated in following areas:

1. Responsible investment policies
2. ESG integration
3. Stewardship
4. Voting
5. Collaboration
6. Market wide / public policy activities
7. Reporting

### Monitoring Process for External Managers in **Private Markets**

Assessed in following areas:

1. USS RI GP Due Diligence Questionnaire
2. Alignment with the PRI's Limited Partner Questionnaire
3. How ESG risks and opportunities are assessed and managed
4. Provision of case studies and fund history



Extract from  
Private  
Equity  
Framework

Rating/ KPIs	RI Policy & Process	Capacity/Governance	ESG Due Diligence	Stewardship & portfolio management
<p><b>3 - Outstanding, exemplary</b></p> <p><b>USS likely to note &amp; commend some aspect of RI practices</b></p>	<ul style="list-style-type: none"> <li>Comprehensive ESG and RI related Policies and statements- no gaps</li> <li>Applicability to USS assets clearly defined</li> <li>Accountabilities within the firm clearly articulated</li> <li>Policy(ies) updated within last 24 months</li> <li>Evidence and references to ESG included in fund DDQs and data rooms and LP communications – offered as core to GP proposition.</li> </ul>	<ul style="list-style-type: none"> <li>Evidence of commitments to capacity building for market e.g.               <ul style="list-style-type: none"> <li>- Commitment to TCFD</li> <li>- Leadership role in diversity &amp; inclusion</li> </ul> </li> <li>Material references to ESG in LP reporting and deal documentation</li> <li>ESG KPIs for firm and/ or portfolio companies set by GP &amp; reflecting materiality</li> <li>Use of climate change scenario tools &amp; ESG research providers</li> <li>GP sustainability/ CSR/ ESG policies / reporting public on web</li> <li>Candid detailed PRI report</li> <li>Public profile, leadership on ESG shared at events</li> </ul>	<ul style="list-style-type: none"> <li>Evidence via case studies of ESG considerations in due diligence.</li> <li>Detailed disclosures in response to RI questioning</li> <li>Likely use of expert consultants</li> <li>Comfortable talking off-cuff, open and confident answers.</li> <li>PMs involved in ESG discussions</li> <li>Possible sharing of information from PMIC packs</li> <li>Evidence that DD findings link to inclusion of ESG in value creation plans and valuations.</li> </ul>	<ul style="list-style-type: none"> <li>Evidence that ESG is systemically included in portfolio reviews and monitoring processes.</li> <li>Material information obtained / used by fund managers</li> <li>ESG shortfalls addressed at portfolio companies/progress tracked by GP</li> <li>Asset managers involved- often alongside ESG expertise. Clear governance processes in place (links to policy above) and record keeping.</li> <li>Ability to identify- and share with LPs- awareness of key ESG risks within fund portfolios.</li> <li>Processes in place to prioritise engagement/stewardship activities.</li> <li>Firm and/or investee asset / KPIs identified /targets set.</li> <li>Likely systems in place to evidence and track ESG performance data.</li> </ul>

- ✓ Signatory of PRI
- ✓ Climate Action 100+, Intentional Endowment Network, member
- ✓ Commitment to transition the portfolio to net-zero GHG emissions by 2050

## 3 part framework for ESG integration

1.) Reduce exposure to ESG risks through passive strategies

2.) Drive value creation through active managers with strong competency for ESG integration

3.) Allocate capital to solutions and capture growth opportunities through private market investments with measurable positive impacts

## Manager Selection Framework:

1. **Firm Ethos:** commitment to ESG and sustainable practices in its business management
2. **ESG Philosophy:** commitment to sustainability as core to the firm's investment philosophy
3. **Process:** formal incorporation of ESG factors into the investment process, with the objective of enhancing risk-adjusted returns.
4. **Team & Resources:** presence and quality of dedicated team and resources for integrating ESG into the investment process.
5. **Engagement:** record of active engagement with portfolio companies on ESG themes.



## ESG factors in Global Equity manager selection/monitoring process

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