



# ESG Education

## Colorado Secure Savings Program

December 9, 2022

# Contents

- **ESG Overview**
- **ESG Data Reporting**
- **ESG Implementation**
  - **Segal Marco Advisors Corporate Governance Services**
    - **Proxy Voting**
    - **Shareholder Advocacy**
  - **Segal Marco Advisors ESG Research**

# ESG Overview

# What is ESG?

- While there is no consensus on the exact list of ESG issues, investors increasingly assess investments in their portfolios based on nonfinancial data on environmental impact (e.g. carbon emissions), social impact (e.g. employee satisfaction), and governance (e.g. board structure)



# Theory of Change

Investors decline to respond at the portfolio level	Investors as change agents	Investors speak in dollars
<b>Corresponding Action:</b>		
<ul style="list-style-type: none"><li>• Focus on traditional financial measures<ul style="list-style-type: none"><li>– Do not track/mitigate or report on climate impact on portfolio</li></ul></li></ul>	<ul style="list-style-type: none"><li>• Engagement<ul style="list-style-type: none"><li>– Define scope of issues</li><li>– Decide on achievable outcomes</li><li>– Take action towards outcomes</li></ul></li></ul>	<ul style="list-style-type: none"><li>• Divestment<ul style="list-style-type: none"><li>– Define scope of issues</li><li>– Track contributing factors</li><li>– Sell assets viewed as contributors</li></ul></li></ul>

# Five ways that ESG can create value

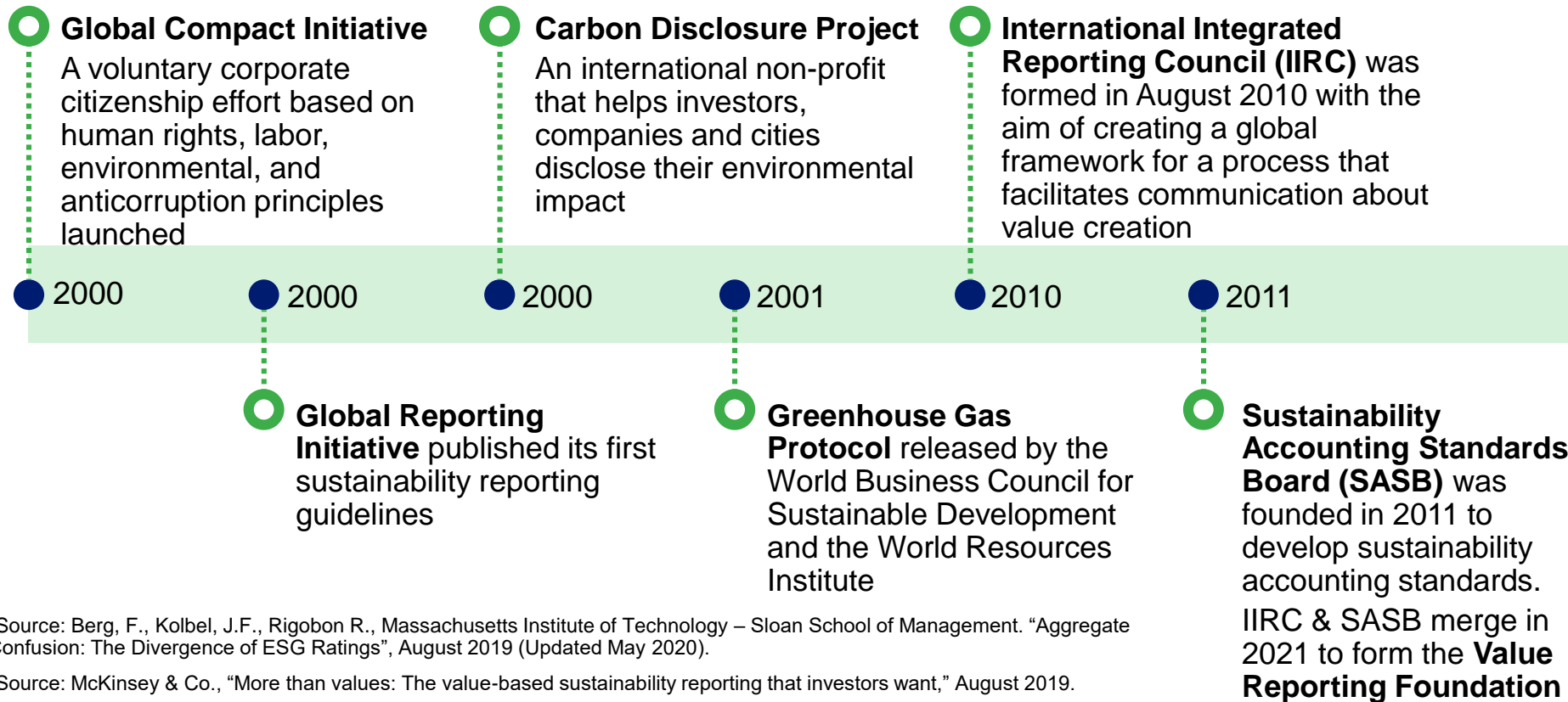
	Strong ESG proposition	Weak ESG proposition
Top-line growth	<p>Attract B2B and B2C customers with more sustainable products</p> <p>Achieve better access to resources through stronger community and government relations</p>	<p>Lose customers through poor sustainability practices (e.g. human rights, supply chain) or a perception of unsustainable/ unsafe products</p> <p>Lose access to resources (including from operational shutdowns) as a result of poor community and labor relations</p>
Cost reductions	<p>Lower energy consumption</p> <p>Reduce water intake</p>	<p>Generate unnecessary waste and pay correspondingly higher waste-disposal costs</p> <p>Expend more in packaging costs</p>
Regulatory and legal interventions	<p>Achieve greater strategic freedom through deregulation</p> <p>Earn subsidies and government support</p>	<p>Suffer restrictions on advertising and point of sale</p> <p>Incur fines, penalties, and enforcement actions</p>
Productivity uplift	<p>Boost employee motivation</p> <p>Attract talent through greater social credibility</p>	<p>Deal with “social stigma” of weak ESG practices, which restricts talent pool</p> <p>Loss of talent as a result of weak ESG practices</p>
Investment and asset optimization	<p>Made additional tabular adjustments</p> <p>Demographic, reimbursement, claim flow, population health, etc.</p>	<p>Suffer stranded assets as a result of premature write-downs</p> <p>Fall behind competitors that have invested in more energy efficient assets</p>

Source: McKinsey and Company, “Five ways that ESG creates value,” November 2019.

# ESG Data Reporting Frameworks

# Sustainability Reporting Standards – Process & Challenges

- There are no uniform requirements for reporting ESG information
- Many environmental and social impacts are hard to measure
- Research showed that the correlation among agencies' ratings varied widely, creating challenges for investors trying to achieve both financial and social return<sup>1</sup>



<sup>1</sup>Source: Berg, F., Kolbel, J.F., Rigobon R., Massachusetts Institute of Technology – Sloan School of Management. “Aggregate Confusion: The Divergence of ESG Ratings”, August 2019 (Updated May 2020).

<sup>2</sup>Source: McKinsey & Co., “More than values: The value-based sustainability reporting that investors want,” August 2019.



# ESG Implementation

# Scope of ESG Implementation by Investors

## HOW INVESTORS IMPLEMENT ESG

### ESG Integration

Track and monitor performance on ESG factors prior to and/or post investment

*Action steps following the collection of ESG information:*

<b>1. Investment Policy Statement</b>	<b>2. Active Ownership</b>	<b>3. Asset Allocation</b>	<b>4. Partner and Report on ESG at Portfolio Level</b>
Includes language in the IPS that addresses ESG.	Sets expectations and tracks progress on ESG performance through proxy voting, shareholder proposals and/or in direct conversation with corporate decision-makers.	Consider ESG factors of managers including internally at the firm and within the securities selected.	Participate in coalitions aimed at mitigating systemic risk; report ESG data to third parties; report internally or publicly on carbon foot printing.

**Mitigates ESG risks**

# Takeaway Questions

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- What is the availability of funds that meet the program's fee cap requirements?
- How will the inclusion of ESG integrated products impacts Board fiduciary obligations?
- Are there any forthcoming regulatory issues or changes?
- Might this lead to any updates for the IPS?