NLC NATIONAL LEAGUE OF CITIES

NLC-RISC RISK INFORMATION SHARING CONSORTIUM

40 YEARS OF LEADERSHIP & CONNECTION

Sustainability, ESG, and Socially Responsible Investing:

Examining Facts, Fictions, and Misconceptions to Promote Better Decision-Making

Friday, May 13th | 10:30 AM

Responsible/Sustainable Investing:

A Summary with Implementation Considerations

WHAT IS RESPONSIBLE/SUSTAINABLE INVESTING?

The strategy and practice to incorporate environmental, social and governance (ESG) factors along with traditional financial factors and analysis within the investment decision-making process.

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STRATEGIC ASSET ALLIANCE

THE INSURANCE INVESTMENT SPECIALIST

MIIA Nonprofit Locally based Member driven

Serving Massachusetts communities since 1982

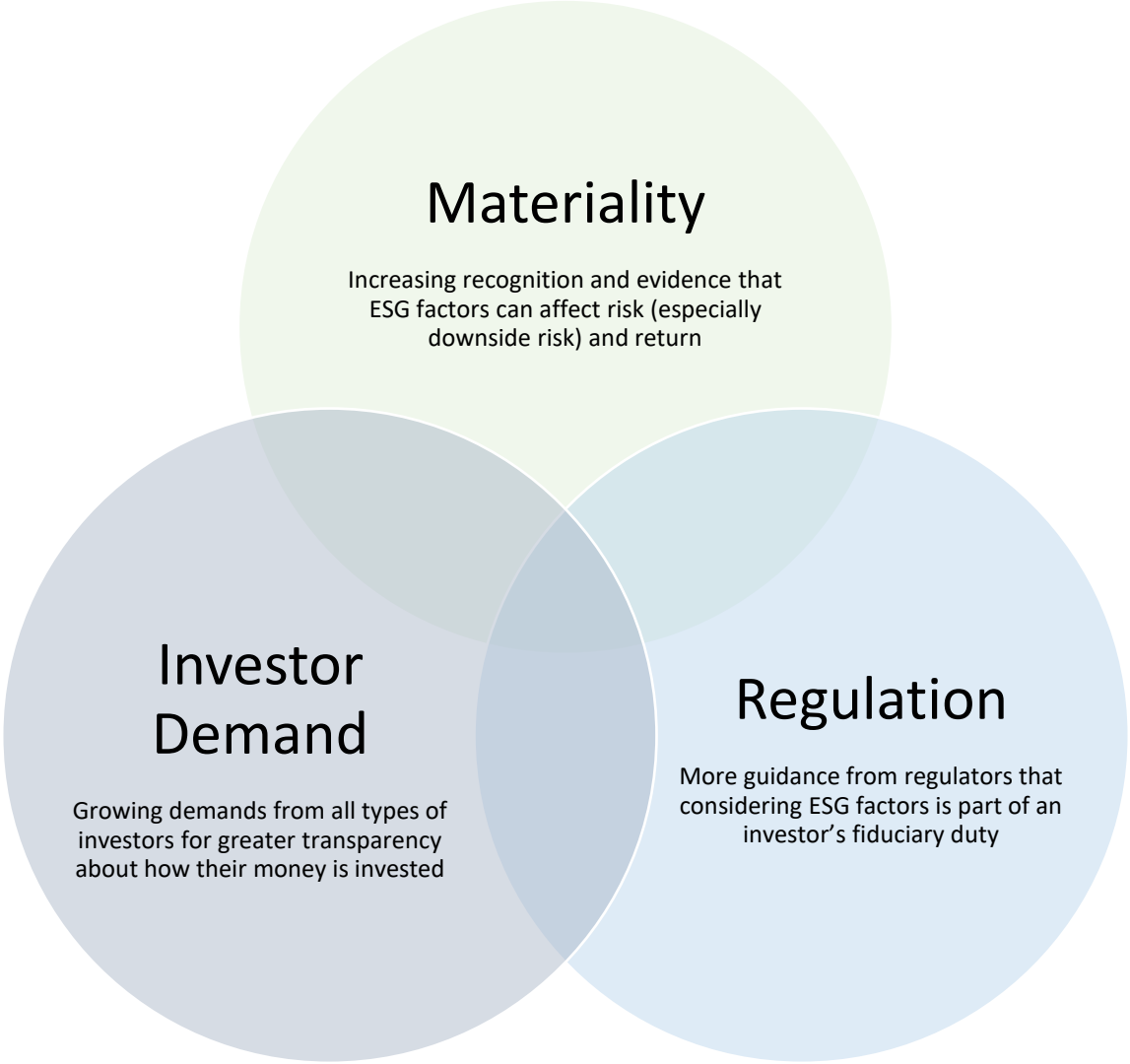
May 2022

The Three Key Factors of Responsible/Sustainable Investing

ENVIRONMENTAL (E)	SOCIAL (S)	GOVERNANCE (G)
Climate Change	Human Rights	Board Diversity
Energy Efficiency	Labor Standards	Board & Executive Compensation
Waste Management	Stakeholder Relations	Board Behavior

The Bottom Line: Responsible/Sustainability investing is not a separate asset class; rather, it refers generally to strategies that consider traditional financial analysis in combination with the three factors noted below, weighted by each organizations' goals, values, and/or priorities.

Why Consider Responsible/Sustainable Investing?



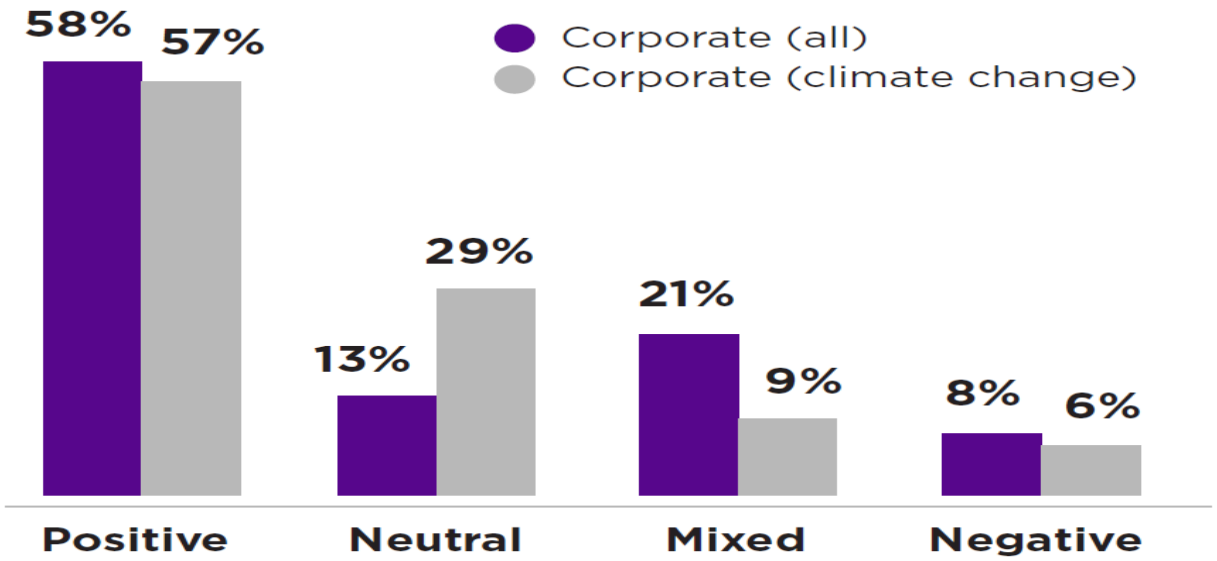
The Bottom Line: Although still evolving, the increasing academic evidence that ESG factors may help better manage risk and improve returns coupled with investor demand and regulatory pressures (either explicit or implicit) clearly support, at a minimum, ESG awareness and reference within the investment policy.

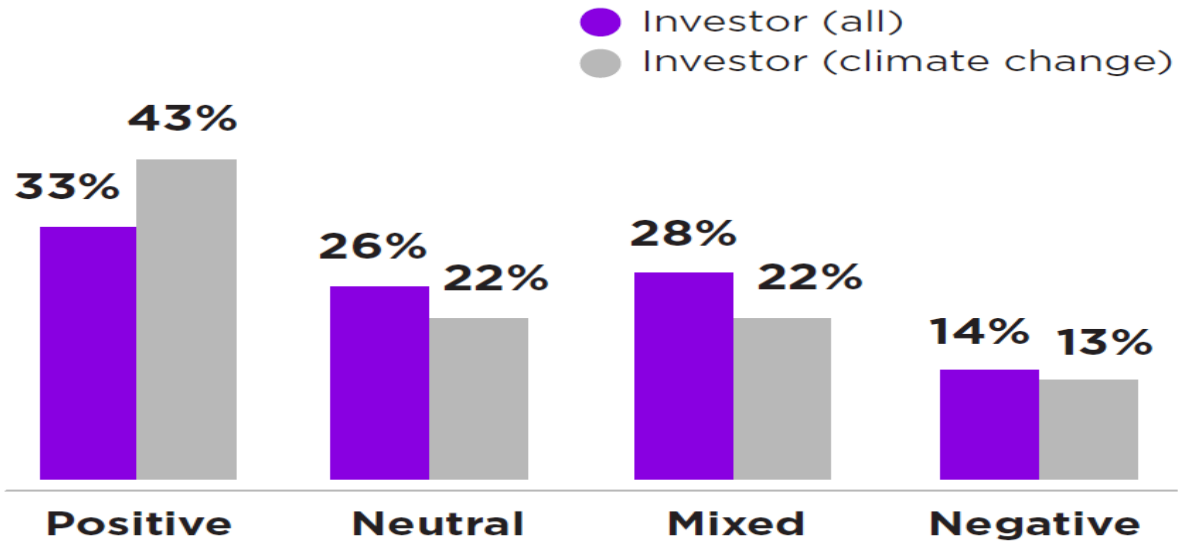
Source: PRI

The Biggest Myth About Responsible/Sustainable Investing: Underperformance

The NYU Stern Center for Sustainable Business and Rockefeller Asset Management, collaborated to examine the relationship between ESG and financial performance in more than 1,000 research papers from 2015 – 2020. Positive and/or neutral results for investing in sustainability dominate. Very few studies found a negative correlation between ESG and financial performance (based on 245 studies published between 2016 and 2020).

The meta-analyses found a positive relationship between ESG and financial performance for 58% of the "corporate" studies focused on operational metrics such as ROE, ROA, or stock price with 13% showing neutral impact, 21% mixed results (the same study finding a positive, neutral or negative results) and only 8% showing a negative relationship. For investment studies typically focused on risk-adjusted attributes such as alpha or the Sharpe ratio on a portfolio of stocks, 59% showed similar or better performance relative to conventional investment approaches while only 14% found negative results. We also found positive results when we reviewed 59 climate change, or low carbon, studies related to financial performance. On the corporate side, 57% arrived at a positive conclusion, 29% a neutral impact, 9% mixed and, 6% negative. Looking at investor studies, 65% showed positive or neutral performance compared to conventional investments with only 13% indicating negative findings.





The Bottom Line: For ESG and non-ESG investors alike, if investment returns are enhanced by ESG factors relative to other factors, then ESG investing, respectful of an organizations' unique constraints, has a place in all investors' portfolios.

Definition: Meta-analyses is the examination of data from a number of independent studies of the same subject, in order to determine overall trends.

***Source*: NYU Stern Center for Sustainable Business and Rockefeller Asset Management, *ESG and Financial Performance,* By Tensie Whelan, Ulrich Atz, Tracy Van Holt and Casey Clark, CFA, Oct 2020.**

Return on Sustainability Investment (ROSI™) Framework

Sustainability Drivers of Financial Performance & Competitive Advantage

Embed:

When companies include ESG risks and opportunities in their strategy and decision-making processes, they…

Improve:

- Risk Management
- Stakeholder Engagement
- Operational Efficiency
- Talent Management
- Supplier Relations
- Media Coverage
- Customer Loyalty
- Sales & Marketing
- Innovation

Drive:

- Revenue Growth
- Greater Profitability
- Higher Corporate Valuation

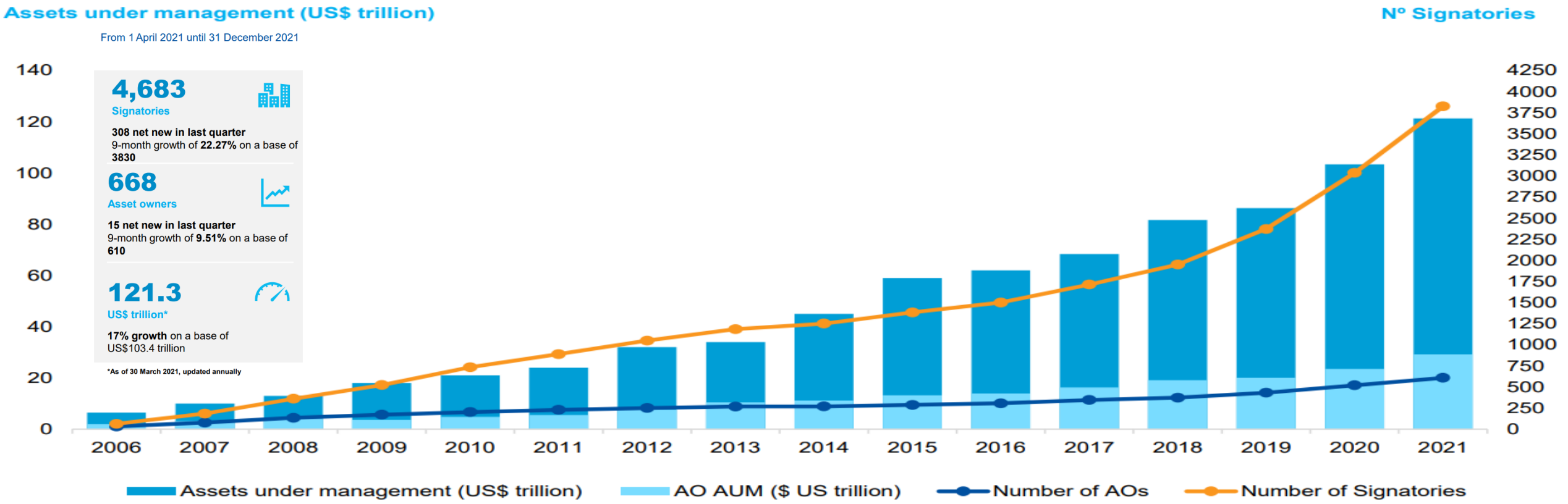
Deliver:

- Quantifiable Business Value & Positive Societal Impact

NYU STERN
Center for Sustainable Business

Source: NYU Stern Center for Sustainable Business

Responsible/Sustainable Investing Trends By Asset Managers/Owners



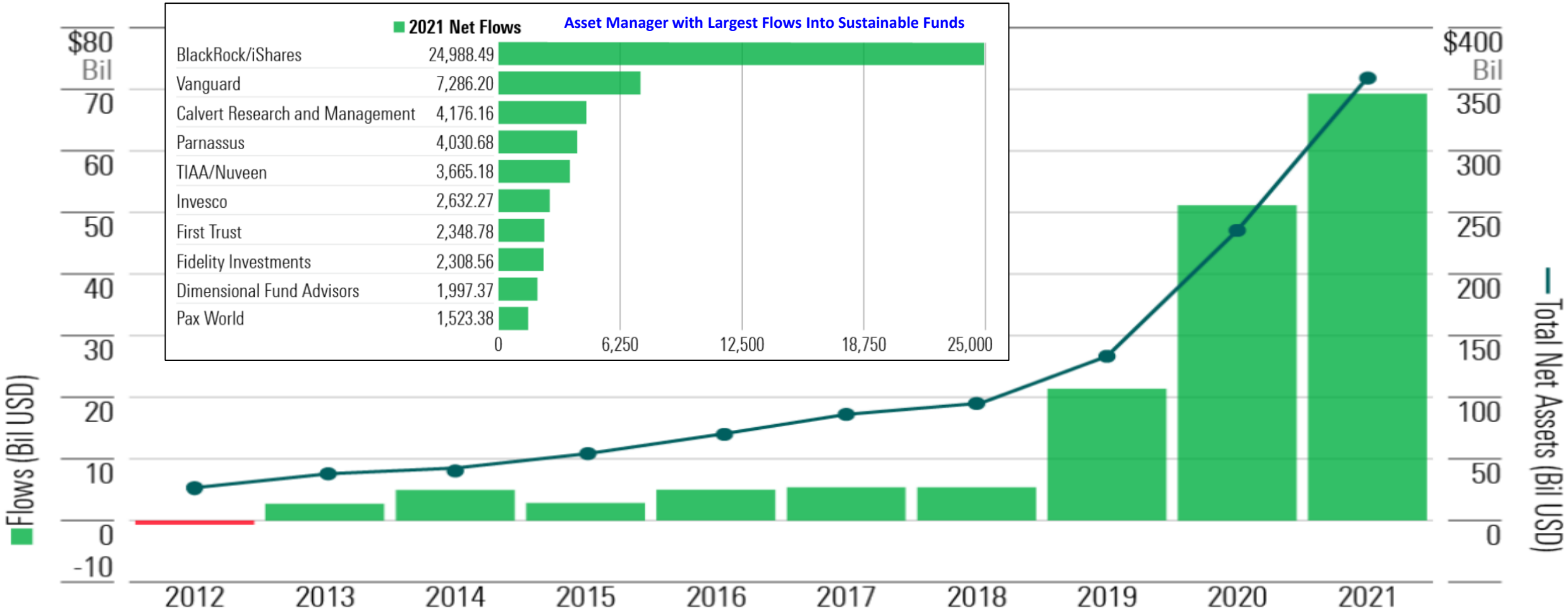
*Total AUM include reported AUM and AUM of new signatories provided in sign-up sheet that signed up by end of March of that year.

- The Principles for Responsible Investment were developed by an international group of institutional investors reflecting the increasing relevance of environmental, social and corporate governance issues to investment practices.
- Former United Nations Secretary-General Kofi Annan, in early 2005, invited a group of the world's largest institutional investors to join a process to develop the Principles for Responsible Investment. A 20-person investor group drawn from institutions in 12 countries was supported by a 70-person group of experts from the investment industry, intergovernmental organizations and civil society.
- The value of global assets applying environmental, social and governance data to drive investment decisions has almost doubled over four years, and more than tripled over eight years, to $40.5 trillion in 2020.

The Bottom Line: ESG is a hard trend with long-term impact that continues to gain momentum and acceptance across the global investment landscape.

Source: PRI, Pension & Investments

Sustainable Funds in the US - Annual Flows & Assets Under Management (AUM)



The Bottom Line: Wall Street has heard the ESG clarion call and the exponential growth of ESG assets will continue and evolve to support investor preferences.

Source: Morningstar as of 12/31/2021

ESG Implementation Step #1 – Understanding The Data & Governance Approach

CONSIDERING ESG ISSUES WHEN BUILDING A PORTFOLIO (known as: ESG integration)			IMPROVING INVESTEES' ESG PERFORMANCE (known as: active ownership or stewardship)	
Integration	**Screening**	**Thematic**	**Engagement**	**Proxy Voting**
Explicitly and systematically including ESG issues in investment analysis and decisions, to better manage risks and improve returns.	Applying filters to lists of potential investments to rule companies in or out of contention for investment, based on an investor's preferences, values or ethics.	Seeking to combine attractive risk/return profiles with an intention to contribute to a specific environmental or social outcome. Includes impact investing.	Discussing ESG issues with companies to improve their handling, including disclosure, of such issues. Can be done individually, or in collaboration with other investors.	Formally expressing approval or disapproval through voting on resolutions and proposing shareholder resolutions on specific ESG issues.

The Bottom Line: One challenge of ESG is the absence of a universally-adopted framework for measurement and reporting, though many third parties are working to address this. Even so, the majority of SAA clients, who pursue responsible/sustainable investing will focus on ESG integration (see below) via the use of mutual funds, exchange-traded funds, and their core fixed income managers' internal ESG integration approaches.

Source: PRI

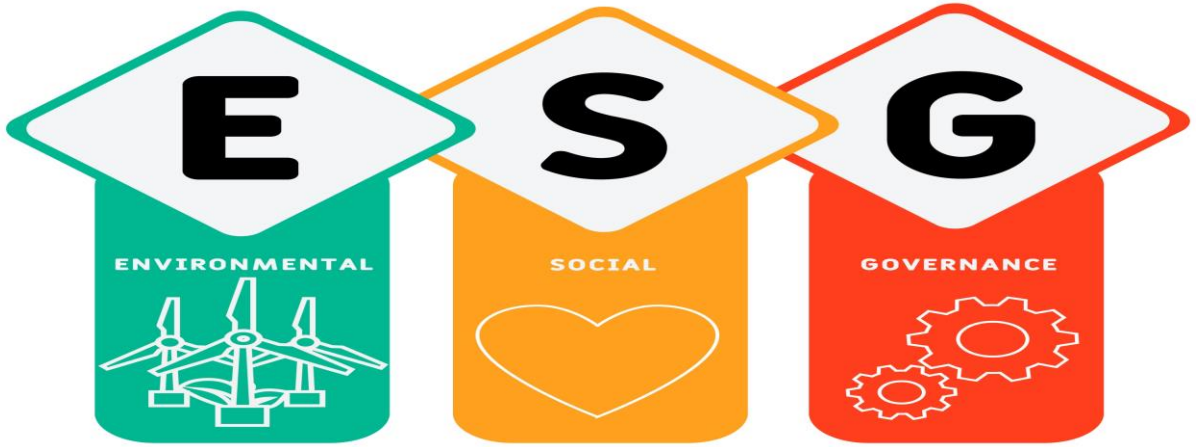
ESG Implementation Step #2 – Investment Policy Awareness & Acknowledgement

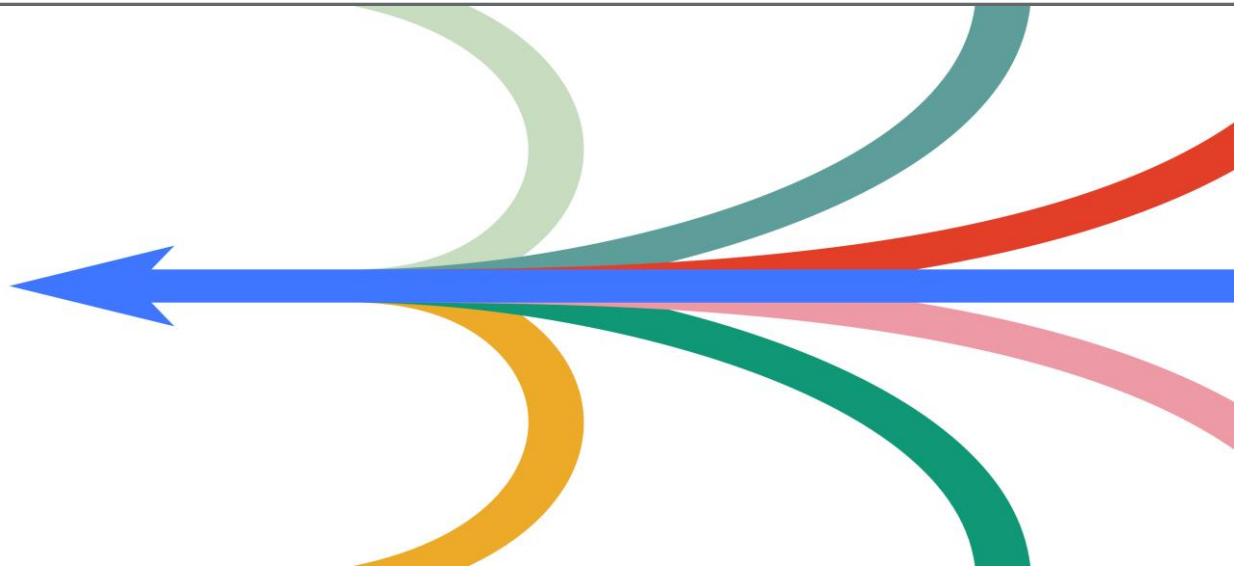
The Bottom Line: While an organization's ESG approach is being evaluated, there are a couple of examples of straight-forward investment policy language (see below) that could be immediately inserted merely to acknowledge that ESG factors are incorporated into the overall investment decision-making process:

Example #1 – The company/organization recognizes the importance of considering environmental, social and governance (ESG) factors in its investments. Our investment professionals, both internal and external, integrate ESG considerations as well as a range of other relevant factors into due diligence, monitoring, and investment-decision making.

Example #2 - The primary objective of the company's/organization's investment approach is to achieve the highest and most stable investment returns over the long term for an acceptable level of risk. In this respect, it is becoming increasingly important to consider environmental, social and governance risks within the investment decision-making process.

ESG Implementation Step #3 – ESG Integration





ENVIRONMENTAL (E)	SOCIAL (S)	GOVERNANCE (G)
Climate Change	Human Rights	Board Diversity
Energy Efficiency	Labor Standards	Board & Executive Compensation
Waste Management	Stakeholder Relations	Board Behavior

The Bottom Line: ESG investing, as defined, is NOT a political concept or construct. However, any organization contemplating responsible/sustainable investing will need to be respectful and fully consider unique constraints that may be related to its constituents. Furthermore, an organization should openly discuss and prioritize ESG factors (see below) pursuant to its enterprise values, goals and objectives and then develop an implementation timeline for policy and/or portfolio changes.

Given the magnitude and persistence of the ESG trend, it is worthwhile to observe that if the world's issuers of debt and equity continue to utilize ESG factors within their organizational decision-making and management processes, the world's capital markets will, by definition, become more ESG-oriented and, perhaps, sooner than people may think.

Summary

1) **Responsible/Sustainable investing is not a separate asset class; rather, it refers generally to strategies that consider traditional financial analysis in combination with ESG factors weighted by each organizations' goals, values, and/or priorities.**

2) One significant challenge of ESG is the absence of a universally-adopted framework for measurement and reporting, though many third parties are working to address this.

3) The value of global assets applying ESG data to drive investment decisions has almost doubled over four years, and more than tripled over eight years, to $40.5 trillion in 2020. ESG is a hard trend with long-term impact that continues to gain momentum and acceptance across the global investment landscape.

4) ESG investing, as defined, is **NOT** a political concept or construct.

   - *However, any organization contemplating responsible/sustainable investing will need to be respectful and fully consider unique constraints that may be related to its constituents.*

5) Although still evolving, the academic evidence that ESG factors may help better manage risk and improve returns, coupled with investor demand and regulatory pressures, supports ESG awareness and investment policy inclusion.

   - *If investment returns are enhanced by ESG factors relative to other factors, then ESG investing, respectful of an organization's constituents, has a place in all investors' portfolios.*

6) Given the magnitude and persistence of the ESG trend, it is worthwhile to observe that if the world's issuers of debt and equity continue to utilize ESG factors within their organizational decision-making and management processes, the world's capital markets will, by definition, become more ESG-oriented and, perhaps, sooner than people may think.

Additional Resources

The Forum for Sustainable and Responsible Investing (US|SIF): (www.ussif.org)

Principles for Responsible Investment (PRI): (www.unpri.org)

NYU Stern Center for Sustainable Business and Rockefeller Asset Management, ESG and Financial Performance, By Tensie Whelan, Ulrich Atz, Tracy Van Holt and Casey Clark, CFA, Oct 2020: (https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3708495)

The NYU Stern Center for Sustainable Business (CSB): (https://www.stern.nyu.edu/sustainability)

A Sampling of Sustainable Development Goals

- No Poverty
- Zero Hunger
- Good Health and Well-Being
- Quality Education
- Gender and Racial Equality
- Clean Water
- Waste Management and Recycling
- Affordable and Clean Energy Alternatives
- Decent Work and Economic Growth
- Sustainable Cities and Communities
- Responsible Consumption and Production of Resources
- Climate-Friendly Business Practices

MIIA

RESPONSIBLE SUSTAINABLE INVESTING

THE MIIA EXPERIENCE

Stanley Corcoran

Executive Vice President

May 13, 2022

ABOUT MIIA

- MIIA was created in 1982 with the mission to promote safety and loss prevention for municipal employees during a period of significant revenue reductions (Proposition 2 1/2)

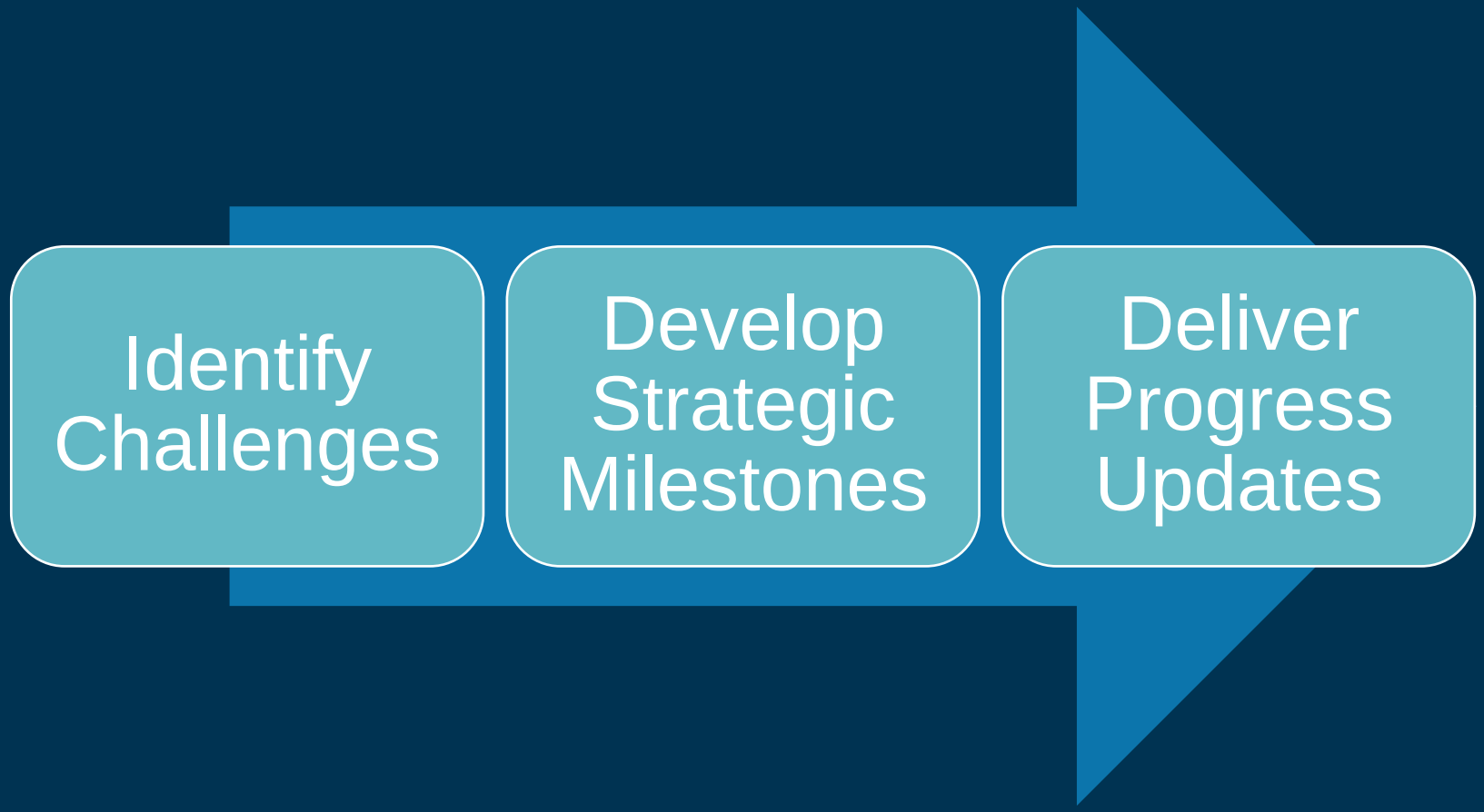
- Today coverages have expanded to five entities servicing over 440 cities, towns and other local government municipalities:

  - MIIA, Inc.
  - MIIA P&C
  - MIIA HBT
  - MIIA RE
  - MIIA HBT RE

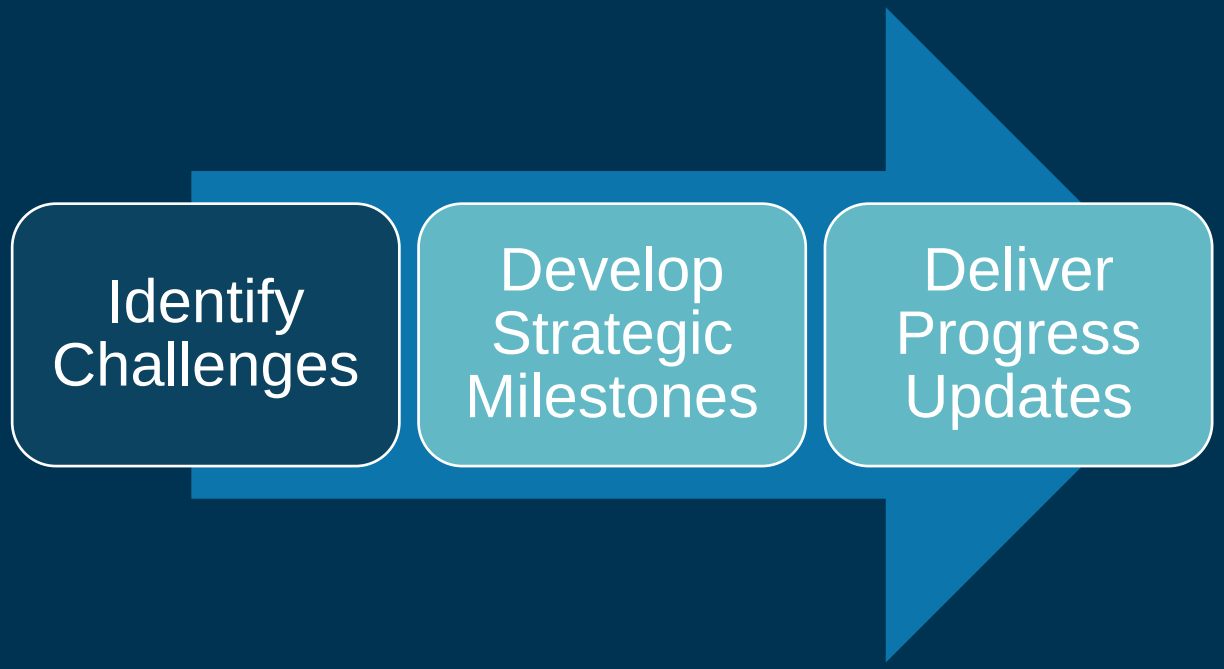
Our ESG Journey

- 17 years in the making
- Watching the commercial market engage
- 18 month project (August 2020 – March 2022)
- Ah ha moments along the way
- Here’s our ESG Story

Engaging the Board



Generating Board Discussion



- Reinsurance Marketplace
- Technology and Cyber Considerations
- Overarching Social Issues
- Police Reform
- Climate and Environmental Concerns
- Schools vs. General Municipal Operations
- Impact of COVID-19

Generating Board Discussion

ANNUAL STRATEGY MEETING

MIIA | Nonprofit Locally based Member driven

Serving Massachusetts communities since 1982

Overarching Social Issues

Social equity, diversity, and inclusion are themes that are at the forefront of government leaders throughout the country. The recent events put forth a challenge to all of us to rethink and reframe how our approach has disadvantaged people of color. From one perspective, MIIA can view the overarching social issues as something separate from the operations of a Health Trust. From another perspective, avoiding the discussion makes us complicit in the ongoing institution and practices that have had a negative impact on segments of our society for far too long.

Questions to consider:

- How is MIIA and the MMA addressing the issues of racial equity, diversity, and inclusion?
- How have MIIA partners, specifically Blue Cross, addressed the issue?
- Are there any specific health-related organizations that MIIA can support or address that would improve these issues?
- Does MIIA's investment portfolio provide an opportunity for addressing overarching social issues?
- How can the selection of MIIA Board members be modified to address diversity?
- What is the role of the MIIA Board in supporting racial equity?

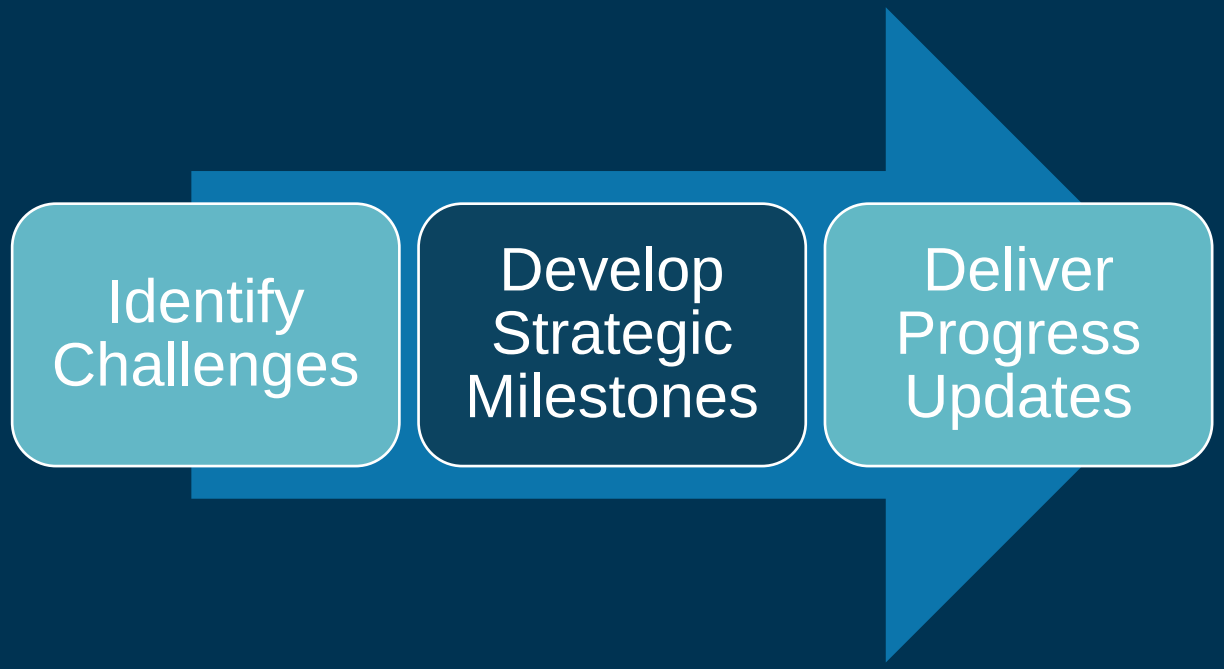
Police Reform

The issue of police reform is front and center of most municipal officials. The recently passed legislation has already had an impact on how police go about their duties. With any new law, is a period of sorting out the full extent of how police departments will be affected. The issue meaningful consequences to MIIA as the insurer and to the municipalities that provide the poli Many questions remain as it is still undecided on whether qualified immunity will be amended extent. As the law becomes adopted, MIIA is in a critical position to assist its members with b and training. The panel discussion planned for this year's strategic session will provide additi into what is working and what may need amending going forward.

Questions to Consider?

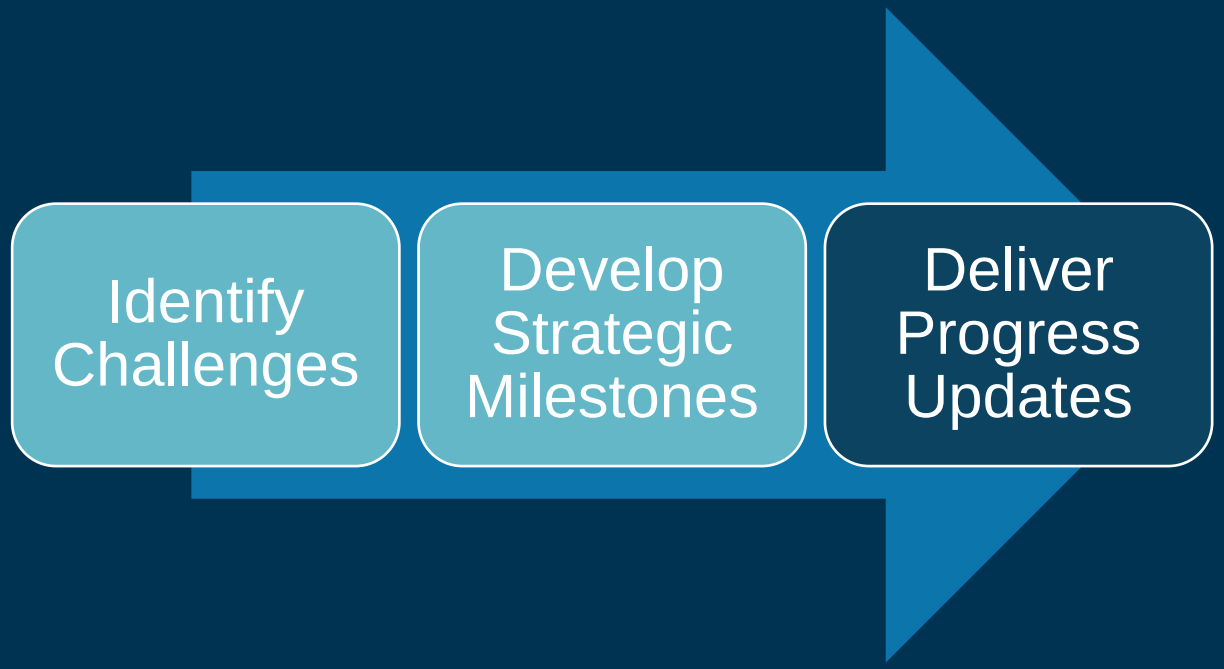
- What are some of the best features of the newly passed police reform legislation?
- What are some of the concerns about the legislation?
- What impact will the bill have on insurance costs?
- Will the legislation result in increased litigation?
- What suggestions are there for amendments to the law?
- What were some of the unintended consequences of the new legislation?
- What role can MIIA play to help police departments adopt the provisions of the new reduce the likelihood of litigation?

Educating the Board



- Understand ESG
- Identify:
  - What is important to the pool
  - Risk tolerance
  - Investment policy changes
  - Key milestones

Reporting on Milestones



- Milestones
  - ✓ Investment policy changes
  - ✓ Performed a review of the current portfolio to include ESG ratings
  - ✓ Investment advisors analyzed “what if” ESG scenarios for MIIA portfolio
  - ✓ MIIA Board voted to act on ESG portfolio

Where do we go from here?