



# San Mateo County Transportation Authority

Introduction to ESG for Public Funds

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# What Exactly is ESG?

- ESG Investing is a form of sustainable investing that integrates a company's or investment's performance in certain Environmental, Social, and Governance factors with traditional financial analysis as part of the investment decision-making process.
- While ESG can mean different things to different people, it generally represents the desire of investors to consider and align their ethical beliefs and values with their investment portfolio and generally takes one of the following forms:
  - Socially Responsible Investing "SRI"
  - Impact Investing
  - ESG Integration
- According to Bloomberg Intelligence's latest ESG 2021 Midyear Outlook report, ESG assets are on track to exceed \$50 trillion by 2025, representing more than a third of the projected \$140.5 trillion in total global assets under management.



# Most Common ESG Implementations

## Socially Responsible Investing “SRI”

Negative screening is used to avoid investment in socially adverse industries such as fossil fuels, tobacco, alcohol, and weapons

## Positive Impact Investing

Positive screening to direct investment capital toward companies that provide solutions to environmental or social challenges

## ESG Integration

Systematically and formally consider a company’s Environmental, Social, and Governance performance alongside traditional financial analysis

# Socially Responsible Investing

- Socially Responsible Investing “SRI” is based upon an exclusionary or negative screening approach whereby the investor identifies certain industries or companies it wishes to avoid.
- SRI is not necessarily an all-or-nothing approach and may be tailored to reflect customized investor tolerances; e.g., 50% revenue limit or top 25% industry performer.



Oil & gas



Armaments



Gambling



Tobacco  
& alcohol



Rain forest & old  
growth logging



Coal & Uranium  
Mining



Intensive animal  
farming & aquaculture



# Positive Impact Investing

- Positive Impact Investing utilizes positive screening to direct investment toward companies that provide solutions to environmental or social challenges
  - Companies may be selected based upon investor-specific preferences or as part of a formal framework such as the UN Sustainable Development Goals (SDGs).

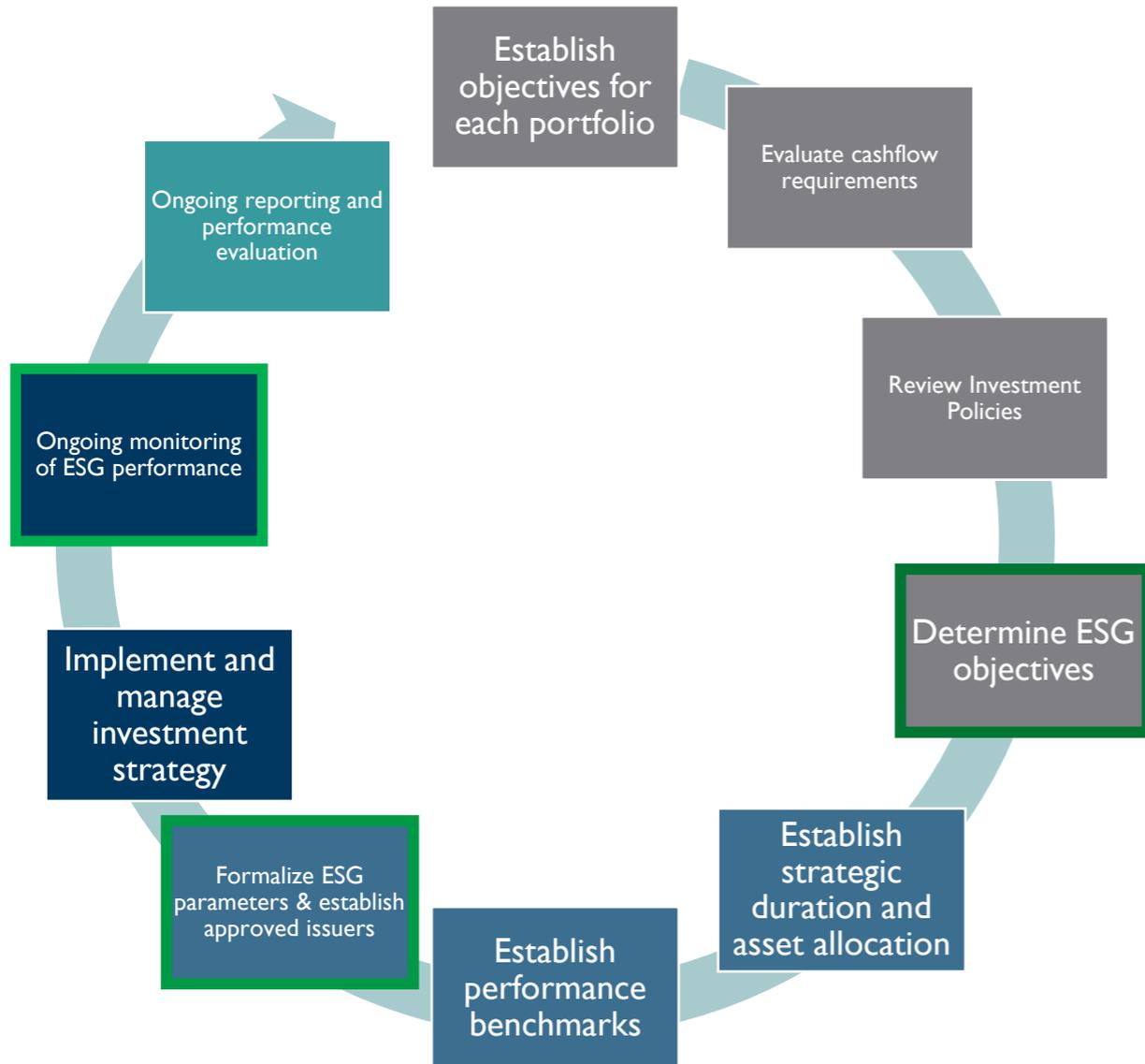


# ESG Integration

- ESG Integration involves the systematic and formalized consideration of a company's Environmental, Social, and Governance performance alongside traditional financial analysis in the decision-making process
  - Often utilizes independent or third-party ESG ratings or scores to differentiate and rank corporate ESG performance across a range of factors and may be tailored to individual investor preferences.



# How is ESG Integrated into the Investment Strategy



## Evaluate Investment Program

- ✓ Establish investment objectives for each fund and portfolio
- ✓ Evaluate cashflow and Liquidity requirements
- ✓ Review Investment Policy Statement and bond documents
- ✓ **Determine ESG Objectives**

## Determine Appropriate Investment Strategy

- ✓ Establish strategic duration and asset allocation targets
- ✓ Select appropriate performance benchmarks
- ✓ **Formalize ESG investment parameters**
- ✓ **Establish approved issuers based upon ESG preferences**

## Implementation and Ongoing Management of Strategy

- ✓ Ongoing evaluation of market conditions
- ✓ Actively manage strategic and tactical portfolio positioning
- ✓ Ongoing portfolio evaluation and monitoring
- ✓ **Monitoring of ESG performance**

## Reporting

- ✓ Monthly investment reporting
- ✓ Ongoing performance measurement and evaluation

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