

San Mateo County Transportation Authority

ESG for Public Funds Update

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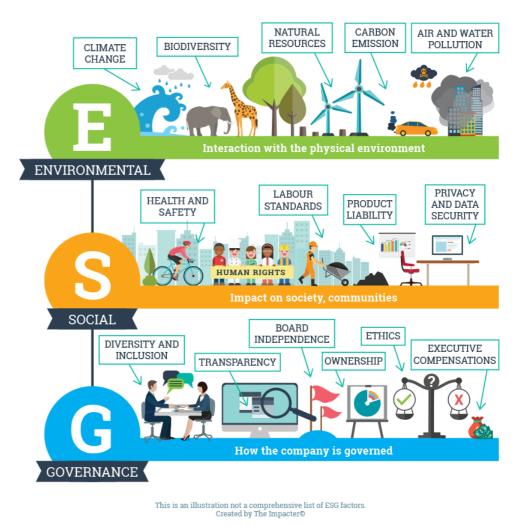


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What Exactly is ESG?

- ESG Investing is a form of sustainable investing that integrates a company'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 2022 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.





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 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

Reporting & Performance Evaluation

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

- ✓ Socially Responsible Investing (i.e., negative screening)
- ✓ Impact Investing (i.e., positive screening)
- ✓ ESG Integration (i.e., formal ESG evaluation)
- ✓ Define ESG risk rating constraints
 - > Minimum score requirements
 - > Peer comparisons (e.g., above median or 25th percentile

- ✓ CA State Code
- ✓ Authority Investment Policy
- ✓ PTA Approved Issuer List
- ✓ Filtered Based upon ESG Parameters (Corporate Bonds)



Sample ESG Investment Parameters – Apple Inc.

inancial Materiality Score	s ESG SCORE	»		Third Party Scores DSCO ESC	G »	
	Score	2Y Change	Vs Peers	MSCI Rating	BBB	
invironmental	5.65	+0.00	Leading	Sustainalytics		
Social	3.88	+0.02	Leading	Risk Score	16.68	
Governance	7.35	-0.46	Leading	Risk Category	Low	
				Controversy Level	3.00	
				S&P Global ESG Rank	34.00	
Revenue Breakdown CCB	»	Temperature Rise	ESG TR »	EU SFDR ESG SFDR »		
Communications Eq		Scope 1+2 Mid Term		Biodiversity Policy	Y	
Specialty Online Re	19.81%	Scope 3 Mid Term	.95	Human Rights Policy	Y	
Computer Hardware		Scope 1+2+3 Mid Ter	m .95	% Women on Board	33.33	
EU Taxo ESG EUTAXO » GHG Emissions ESG GHG »				Sustainable Debt SRCH »		
Est Eligibility Rev %	0.00	GHG Data Type Estimated		Amt Out(MM, USD)		
Est SC Mitigation Rev %		Total GHG	1,385.52	💋 Green Debt	4,669	
ONSH Avg Level 1	58.27	Total GHG/Sales	3.81	💙 Social Debt		
ONSH Avg Level 2		Total GHG/EVIC	0.53	* Sustainability		
Est MSS Mandatory	90.91	Net Zero Targets	Y	Sustainability-Linked		
Est MSS Optional	30.00	Science-Based Targe	ets Y	Transition		
)isclosure Scores FA ESC	i »	ESG Fund Exposure FSRC »				
SG Disclosure 57.45 E Di	sclosure 53.16	S Disclosure 25.30	G Disclosure 93.74	ESG Funds	1698	
- 100	100	-100	- 100 - - 50	EU SFDR Fund Exposure FSRC) »	
	- 50	- >50		Article 9 Funds	81	
> 50				Article 8 Funds	1377	
				Article 6 Funds	3187	

- ✓ Flexibility to establish customized ESG objectives
- ✓ May be rules based to remove ambiguity
- \checkmark No common standard as to what are appropriate parameters

Inputs FY 2021 • Peers Technology Hardwar	e, Equipment and Co	mponents (CCB BECS »	🔀 Mater	iality Framew	101
Metric	Score Level	Weight	Score	Upper Target V	's Peers	Q
Apple Inc's Environmental Score of 5.65 is Le	ading among its pee	rs.				
 Environmental 	Pillar	100.00%	5.65		eading	
 Sustainable Product 	Issue	100.00%	5.65	5.65 <mark>I</mark>	eading	a
Apple Inc's Social Score of 3.88 is Leading ar	nong its peers.					
• Social	Pillar	100.00%	3.88		eading	
 Social Supply Chain Management 	Issue	41.13%	3.00	3.00 L	eading	
Labor & Employment Practices	Issue	29.30%	4.68	6.95 L	eading	0
Product Quality Management	Issue	22.12%	3.00	3.00 /	Above Median	
 Data Security & Customer Privacy 	Issue	4.42%	10.00	L	eading	0
 Community Rights & Relations 	Issue	3.03%	10.00	L	eading	C
Apple Inc's Governance Score of 7.35 is Lead	ing among its peers.					
• Governance	Pillar	100.00%	7.35	1	eading	
 Board Composition 	Theme	35.00%	5.77	1	Above Median	
Director Roles	Issue	25.00%	7.18	10.00 E	Below Median	
 Board Roles 	Sub-issue		4.93			
CEO Roles	Sub-issue		7.00			
 Chairperson Roles 	Sub-issue		10.00			
▼ Diversity	Issue	25.00%	5.91	10.00	eading	C
 Age Diversity 	Sub-issue		3.49		2	
 Gender Diversity 	Sub-issue		7.31			
Independence	Issue	25.00%	10.00	10.00	eading	C
 Refreshment 	Issue	25.00%	1.58	10.00 L	agging	
 Executive Compensation 	Theme	24.94%	8.06	1	eading	C
 Incentive Structure 	Issue	33.33%	8.95	10.00	eading	
Pay Governance	Issue	33.33%	7.51	10.00	eading	
Pay for Performance	Issue	33.33%	7.76	10.00	eading	
 Shareholder Rights 	Theme	24.94%	8.26	1	eading	
 Director Voting 	Issue	50.00%	7.42	10.00 /	Above Median	
 Shareholder Policies 	Issue	50.00%	9.14	10.00	eading	
✓ Audit	Theme	15.12%	8.64		eading	
Audit Committee	Issue	40.00%	10.00	10.00	eading	
 External Auditor 	Issue	40.00%	6.77		Above Median	
Audit Outcome	Issue	20.00%	10.00	10 00	eading	



Impact of ESG on Investment Program

- Applicability to Public Funds: California government code and Authority's investment policy limit corporate bond allocations (the asset class for which ESG may be most applicable) to no greater than 30% of total portfolio market value resulting in limited applicability to non-pension public funds.
- Diversification: Universe of eligible and approved corporate issuers is reduced by a magnitude dependent upon parameters (i.e., more stringent restrictions may disqualify a greater number of issuers). Opportunity for diversification is provided by remaining qualifying issuers.
- Yield and Return: Indeterminant and depends upon a myriad of market and company-specific factors, including; interest rates, credit quality and credit spreads, market liquidity, and company financial policies (e.g., M&A appetite, dividend policy, shareholder buybacks, financing decisions, and other use of cash deployment preferences.
- > <u>Custody and Transaction Costs</u>: No impact on custody fees or trade activity.
- Investment Management Fee: Additional 1 2 basis point (0.01% 0.02%) on assets under management.
- How PTA Currently Incorporates ESG Considerations: PTA currently evaluates ESG risk as part of our credit evaluation process to more fully understand potential sources of credit risk for corporate bond issuers.



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