# IMPACT INVESTING & ESG OVERVIEW

# OKLAHOMA STATE PENSION COMMISSION

**November 12, 2019**

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# THE IMPACT INVESTING LANDSCAPE

NEPC, LLC

# INTRODUCTION

- **Impact Investing is a term used to encompass investing approaches that seek to achieve both a financial return and a societal contribution.**

- **This presentation provides an educational overview of the Impact Investing landscape and an introduction to NEPC's approach to Impact Investing. It does not represent a specific recommendation to pursue any specific approach.**

- **We have also included information about our efforts around diversity in the workplace as well as some preliminary thoughts on Climate Change scenarios**

# TODAY'S IMPACT LANDSCAPE

| | Negative Screening | ESG Integration | Thematic | Shareholder Engagement |
|---|---|---|---|---|
| **Strategy Focus** | Screening out certain securities for non-financial reasons | ESG factors built-in as part of the investment process | Pro-actively seeking opportunities in targeted areas (e.g. Renewable Energy) | Actively engage in corporate voting process to push key agenda |
| **Investment Universe** | Varied across asset classes | Sizable and includes mainstream managers | Growing in size, but most funds are smaller and newer | Small but growing |
| **Performance** | May lag benchmarks due to restricted universe | Performance studies show neutral to positive impact | Varied and will have sizable tracking error due to sector focus | Values-oriented motivations, performance impacts tangential |
| **Level of Impact** | Low | Low/Medium | High | High |

***Note: All investments may include ESG integration in the investment process***

# DIFFERENTIATING THE FOUR APPROACHES

Example: Understanding investment implication for a coal company across these four approaches

| | Negative Screening | ESG Integration | Thematic | Shareholder Engagement |
|---|---|---|---|---|
| Approach | Fund's portfolio would exclude investments in that coal company (i.e. screened out name) | Fund's portfolio would weight in the risks like stranded assets, environment hazard, healthcare litigation, etc. before investing in that coal company | Fund's portfolio would be set up with an investment mandate for a corrective positive impact like renewable energy - solar or wind power | Fund or its investors would seek to engage with coal company's management to address key issues like emissions or risks of health hazards. |

# KEY TERMS

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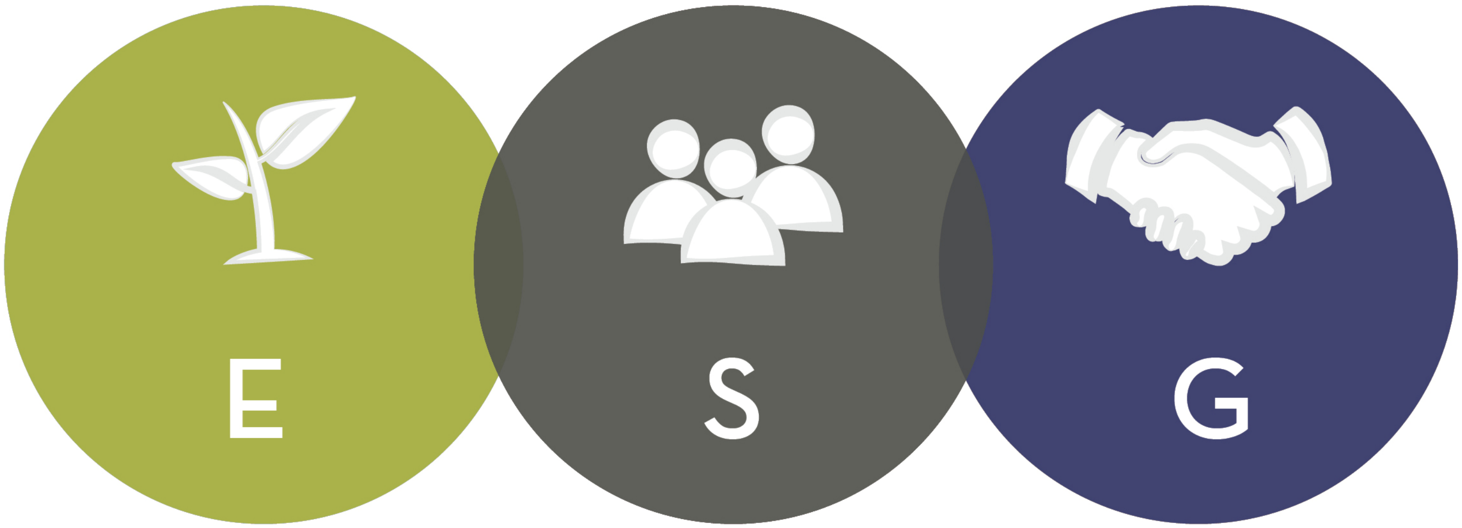
# WHAT'S BEHIND THE E, S, AND G?

## CORE FOCUS AREAS IN ESG INVESTING




**ENVIRONMENTAL**

Pollution
Carbon emissions and climate change
Resource utilization
Sustainability

**SOCIAL**

Employees
Customers
Suppliers
Community
Human rights

**GOVERNANCE**

Executive compensation
Management structure
Board accountability
Shareholder treatment

# ESG FACTORS CAN HAVE MATERIAL IMPACTS

## EXAMPLES OF THE MATERIALITY OF ESG FACTORS

| | | |
|---|---|---|
| ENVIRONMENTAL | Reliance on diminishing raw materials sources | Can create cost volatility should supply shortages occur |
| SOCIAL | Poor treatment of workers | Can create issues such as labor strikes and regulatory scrutiny |
| GOVERNANCE | Executive compensation | Compensation that fosters alignment between management and share- holders can improve performance |

# ESG INTEGRATION BY INVESTMENT TYPE

| STRATEGY TYPE | LEVEL OF ESG INTEGRATION | NOTES |
|---|---|---|
| PUBLIC EQUITY | HIGH | Highest level of adoption; European market generally ahead of US |
| FIXED INCOME | MODERATE | ESG ratings more applicable for corporate debt; sovereign debt and structured credit generally less compatible; growing adoption |
| PRIVATE EQUITY | MODERATE | Funds are often smaller in size, have shorter track records and are newer entities; ESG issues can present an opportunity to unlock value |
| REAL ESTATE | MODERATE | Value-add and opportunistic strategies are often more focused on ESG given their emphasis on property repositioning |
| REAL ASSETS | MODERATE | Sustainable real assets present a wide range of options from renewables to agriculture |
| HEDGE FUNDS | LOW | Limited but growing adoption of ESG amongst hedge funds; Will be strategy dependent |

# THEMATIC INVESTING

- **What is Thematic investing?**
  - Strategies that are focused on investments that address issues related to natural resources or physical/tangible assets
  - Strategies come in the form of both public and private funds
    - More options in the private market
  - Positive impact is measurable and is typically reported by funds

- **Why is Thematic investing important?**
  - ESG factors becoming increasingly important to investors and fund managers as sustainability is seen as an important aspect of an investment philosophy
  - Provides enhanced return potential by optimizing asset values
  - Appealing long-term investments for investors with long-term horizon

- **What is NEPC doing in regards to Thematic investing?**
  - NEPC has vetted a preferred list of public equity strategies for clients looking to put proactive capital to work that is focused on a specific group of themes
  - NEPC maintains an open door policy with impact oriented private market managers and is consistently vetting these ideas
  - NEPC clients have increasingly allocated capital to a number of different investments across private real estate, renewable energy, private equity/venture capital, etc. with an impact focus

# THEMATIC STRATEGY EXAMPLES

| Real Assets | Private Equity | Private Credit |
| --- | --- | --- |
| Affordable Housing | Resource Efficiency | Consumer Lending |
| Sustainable Real Estate | Food, Health & Well Being | Small Business Lending |
| Clean Infrastructure | Education | Environmental Assets |
| Sustainable Timber & Ecosystem Services | Health IT & Services | **Thematic Equity (liquid, global equities)** |
| Sustainable Agriculture & Water | Financial Services | |

# INDUSTRY TRENDS

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# IMPACT INVESTING: A RISING TREND

- **Most investor types have become active in the space**
  - Endowments and Foundations are focused on linking mission and investments
  - Taft-Hartley has been active around labor and sustainability,
  - Public Funds have become more active around ESG, especially shareholder engagement
  - Millennials are demanding more conscientious investment options

- **Most investment firms are getting involved**
  - ~ $8.7 Trillion* in US and ~ $23 Trillion* globally
  - More than +20% increase in assets under impact strategies since 2014

- **Many regulatory bodies and agencies are recognizing it**
  - DOL clarification around ESG considerations for ERISA
  - Sustainability Accounting Standards Board attempting to create an industry standard for corporate disclosure
  - PRI signatory – increasing list

- **Most service providers are keeping pace**
  - Consulting firms, data vendors, custom reports, etc.

Source: US SIF, Data as of December 2016

# PRI MEMBERSHIP

- **Principles of Responsible Investing (PRI) began in 2006 as a network of investors working together to integrate the 'six principles' into common practice in an effort to create a more sustainable financial system**

| Signatory Directory | | |
|---|---|---|
| Asset Owners | 369 | (USA: 37) |
| Investment Managers | 1,314 | (USA: 274) |
| Service Providers | 243 | (USA: 48) |
| Total | 1,926 | |

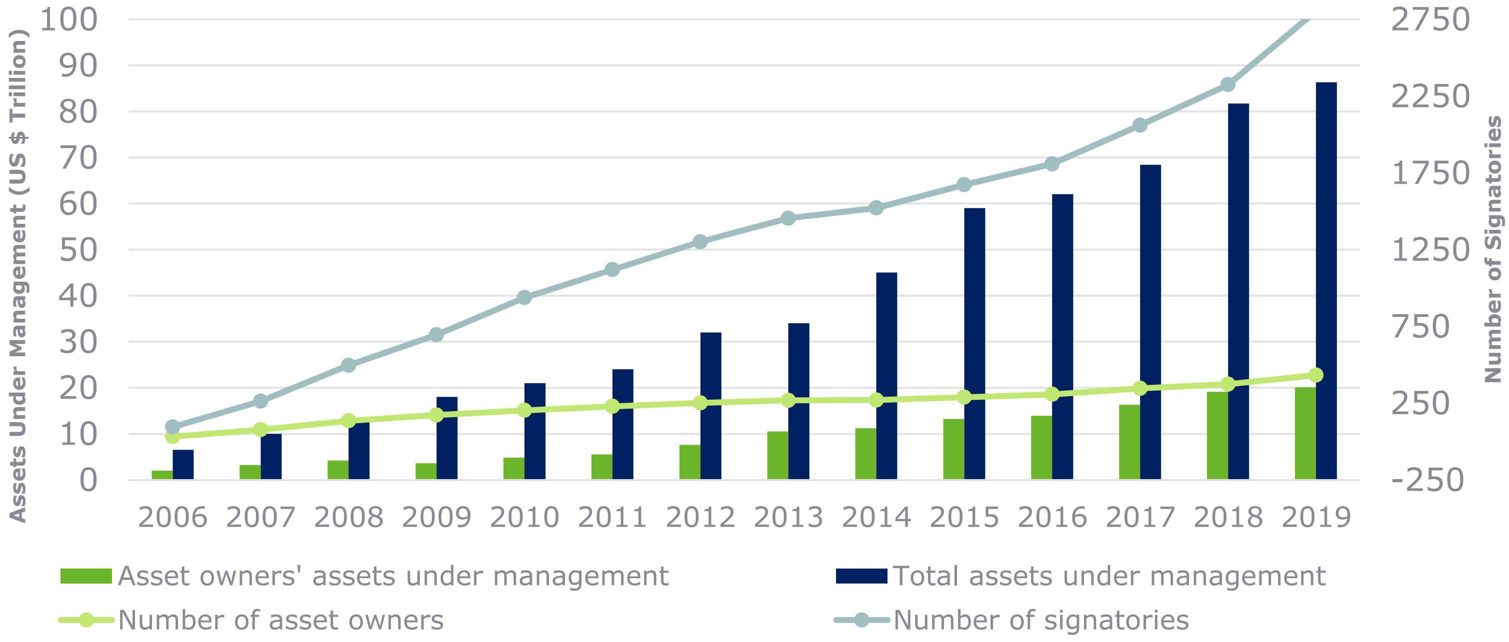
Source: PRI website

- **The 'six principles' that signatories pledge to implement:**
  1. We will **incorporate** ESG issues into investment analysis and decision-making processes
  2. We will **be active** owners and incorporate ESG issues into our ownership policies and practices
  3. We will **seek appropriate disclosure** on ESG issues by the entities in which we invest
  4. We will **promote** acceptance and implementation of the Principles within the investment industry
  5. We will **work together** to enhance our effectiveness in implementing the Principles
  6. We will each **report** on our activities and progress towards implementing the Principles

- **Approximately 100 of NEPC's preferred managers are PRI signatories**
  – Across both traditional and alternative asset classes
  – NEPC has encouraged the investment management community to consider the materiality of ESG factors to their respective investment processes

# THE PRI HAS GROWN CONSISTENTLY

- **The number of PRI signatories has increased from ~150 to ~1,700 in the last 10 years**
  - European signatories outweigh other areas, however the US has experienced sizable gains of late
- **Assets under management increased from about $US 6 trillion in 2006 to $US 65 trillion in 2017**



# EVOLVING TREND TOWARDS SDGS

- **An organizations mission or strategic initiatives may lead to clear impact investment goals.**
  - Common goals mobilize stakeholder interests, investment options, and standardize reporting

- **UN Sustainable Development Goals (SDGs) help allocators identify, define, and align goals**
  - Client interests are increasingly being mapped to 17 SDGs


*Source: United Nations Sustainable Development Goals*

# NEPC’S APPROACH TO IMPACT INVESTING

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# HIGHLIGHTS IN IMPACT INVESTING

*Impact views fully integrated across research process*

**PRI Signatory**
since 2014

**50+**
clients pursuing impact investing across pillars

**Focus on Four Pillars**
Negative Screening, ESG Integration, Thematic Investing and Corporate Active Engagement

**Dedicated Committee**
representative of Research and Practice teams

**Proprietary ESG Ratings System**
launched in 2018

**Research Content**

White papers and blog posts on a range of topics (divestment, ESG integration, green bonds, investing in healthcare, etc.)

**Customization**
reporting on PRIs, ESG holdings and carbon footprint analysis

**Partnerships**
with White House on Clean Energy, Rural Investment and ESG Roundtables

# OUR APPROACH: AN INTEGRATED GROUP

## Research Teams

**Dulari Pancholi**, CFA, CAIA, Principal
Co-Head - Impact Committee
**Reino Ecklord**, CFA, CAIA, Research Consultant
***Hedge Funds***

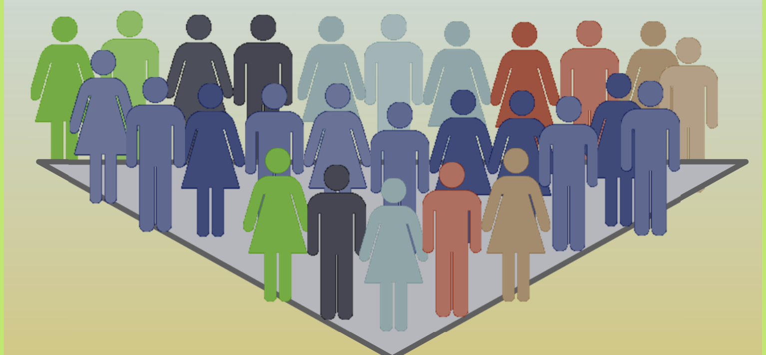
**Melissa Mendenhall,** Director of Private Equity
**Oliver Fadly**, Research Consultant
***Private Equity/Credit***

**Jed Drake**, Sr. Research Analyst
***Real Estate/Assets***

**John Lutz,** Research Analyst
**Emma Twitchell,** Research Coordinator
***Traditional***

**Sarah Bloom,** Coordinator
***Marketing***

## Impact Investing Committee



## Practice Teams

**Krissy Pelletier**, Partner
Co-Head – Impact Committee
**Scott Perry,** CAIA, Partner
**Rick Ciccione,** Sr. Consultant
**Lily Fayerweather,** Analyst
***Endowment & Foundation***

**KC Connors**, CFA, CAIA, Partner
***Healthcare***

**Kelly Regan,** Sr. Consultant
**Elizabeth Turpin,** Analyst
***Corporate***

**Sam Austin**, Partner
**Margaret Belmondo**, CIMA®
Sr. Consultant
**Michael Malchenko,** Sr. Client Specialist
***Public***

**Stacey Flier**, Principal
***Private Wealth***

As of 1/1/2019

# IMPACT INVESTING RESEARCH PROCESS

**Step 1: Idea Sourcing**

**Step 2: Impact Committee Review**

**Step 3: Research Team Review**

**Step 4: NEPC Due Diligence Committee Approval**

# ESG INTEGRATION AND RATING

- **What is ESG Integration?**
  - A fundamental valuation process that considers the E, S, and G factors
  - A risk management process that considers the E, S, and G factors

- **What is ESG Rating?**
  - NEPC's proprietary rating system – *allows us to provide our opinion on practices of investment managers*
  - Reviews a Firm and Strategy's efforts in integrating ESG factors
  - Ratings range from 1 (best) to 5 (worst)

- **Why do we think its important?**
  - Facebook: MSCI ESG Rating B, issued in 2012
  - Company's privacy practice was mentioned as the biggest risk
  - "Vulnerable to lawsuits and regulatory action" quoted

  - Equifax: MSCI Rating CCC, downgraded from B in 2016
  - "Vulnerable to data theft and security breach" quoted as main reason

# HOW DOES NEPC ASSESS ESG WITH INVESTMENT MANAGERS?

**Quantitatively** + **Qualitatively** = **Comprehensively**

### Quantitatively

- **Proprietary system**
- **Scored on a scale 1 through 5**

### Qualitatively

- **Firm level information**
- **Strategy level information**
- **Analyst opinion**

### Comprehensively

- **Firm level calls and meetings**
- **Strategy/fund specific calls and meetings**
- **Combined quantitative scores and qualitative analyst opinion**

# ESG INTEGRATION EVALUATION

| General Fund Information | |
|---|---|
| **Firm** | JP Morgan Asset Management |
| **Fund** | JP Morgan Strategic Property Fund |
| **Strategy-Type** | Core Real Estate |
| **Firm AUM** | $1.71 trillion (as of 12/31/17) |
| **Strategy AUM** | $31.8 billion (as of 12/31/17) |
| **Portfolio Managers** | Ann Cole |

**ESG Rating**

**ESG 1**

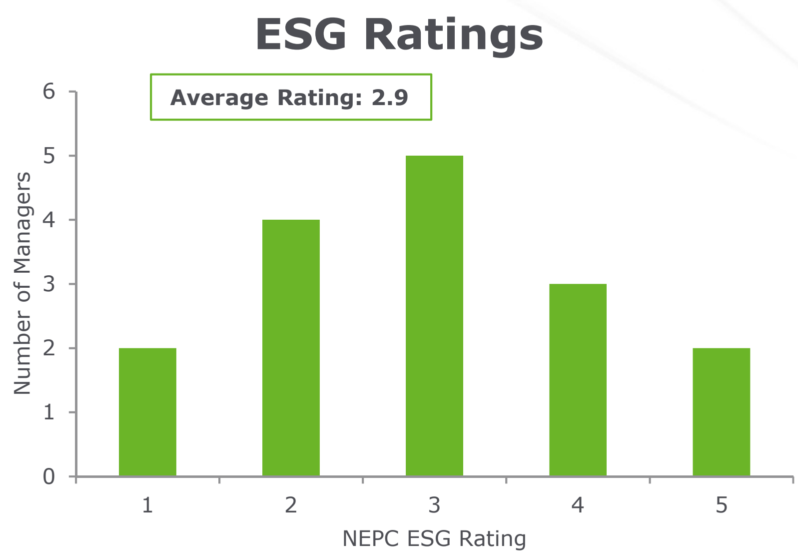
**Analyst Opinion**

ESG factors heavily into JP Morgan Asset Management's investment process. The Firm defines ESG integration as the systematic and explicit consideration of ESG factors in the investment decision making process. The Firm, in addition to dedicated ESG employees, has over 40 investment professionals across the world that participate with its Sustainable Investment Leadership Team, to help all investment teams improve their ESG integration processes.

The real estate team continues to enhance its ESG capabilities, working with local operators to ensure that buildings are managed to the highest set of standards. The team believes that real estate assets have the ability to enhance the working and living environments for its tenants as well as their surrounding areas. ESG is not thought of just as a risk mitigation tool, but as a way to create value for investors and communities.

| Evaluation Criteria and Commentary | |
|---|---|
| **Firm-Level** | |
| **Firm-Level Commitment** | JPM has been active regarding ESG issues since the establishment of its Proxy Committee and Governance teams in the 1990s. They became a UN PRI signatory in 2007, and they publicly report the scores for each of their investment units. They are also participants in the Global Real Estate Sustainability Benchmark, CDP, Ceres, and the Global Impact Investing Network, among others. JPM was a leading author on the Green Bond Principles. |
| **Resources** | JPM's SILT (Sustainable Investment Leadership Team) was formed in 2016 and has over 40 professional across investments, client management, product management, and business management teams that work to implement and share best practices. SILT is tasked with working with each investment group to implement an ESG process that is customized to its specific needs. SILT designates investment teams as "ESG Integrated" once they have demonstrated that they have dedicated resources and set goals, with measurable metrics, developed a plan and begun to execute on specific initiatives. |
| **Engagement Policies** | JPM has a team of corporate governance analysts that engage with portfolio companies. Historically, engagement has focused on governance, but engagements have begun to incorporate environmental and social factors as well. There is no explicit ESG voting policy, but proxy voting policies are set for each region, and may include ESG factors. |
| **Strategy-Level** | |
| **Overview** | JP Morgan Strategic Property Fund integrates ESG principles into its investment process. The real estate team has gained "ESG Integrated" status from the SILT team. The property team was given an "A" rating vs. a 2017 peer median score of "B" on their module by the UN PRI. |
| **Integration Process** | The team employs ESG evaluation during initial diligence, acquisition, and asset management of each property. The team works with its local operators to manage the properties to enhance the environment for its tenants. While risk mitigation is important, value creation is the goal of this process. |
| **Resources** | The Fund utilizes JPM's SILT committee as well as the Firm's dedicated ESG professionals. |

# SAMPLE MEASUREMENT DASHBOARD


## Key Terms

- **PRI Signatory:** A PRI signatory is a firm that has committed to integrating ESG into their investment process according to the six principles in the UN supported Principles for Responsible Investment.
- **ESG Integration:** An investment strategy rated as a 3 or higher according to the NEPC ESG Ratings Framework (1-5 with 1 being the best) is considered to have some level of ESG integration.
- **ESG Ratings:** NEPC's proprietary ESG Ratings Framework scores investment strategies based on their ESG integration at the firm and strategy level. A 5 has no integration, a 4 has limited integration, a 3 has average integration, a 2 has above average integration, and a 1 is best in class.
- **Women and Minority Owned:** Any firm owned or strategy managed by a majority of women and/or minority parties

# CLIMATE CHANGE SCENARIO ANALYSIS

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# POTENTIAL PATHS OF CLIMATE CHANGE

Increasing Greenhouse Gas Levels → Rising Temperature Globally → Frequent Weather Extremes → Climate Change Responses → Investment Implications

**Climate change risk factors categorize systematic exposures to long-term impacts of climate change**

**Vulnerability to these risk factors and each economy's ability to adapt will ultimately determine the winners and losers across geographies and industries**

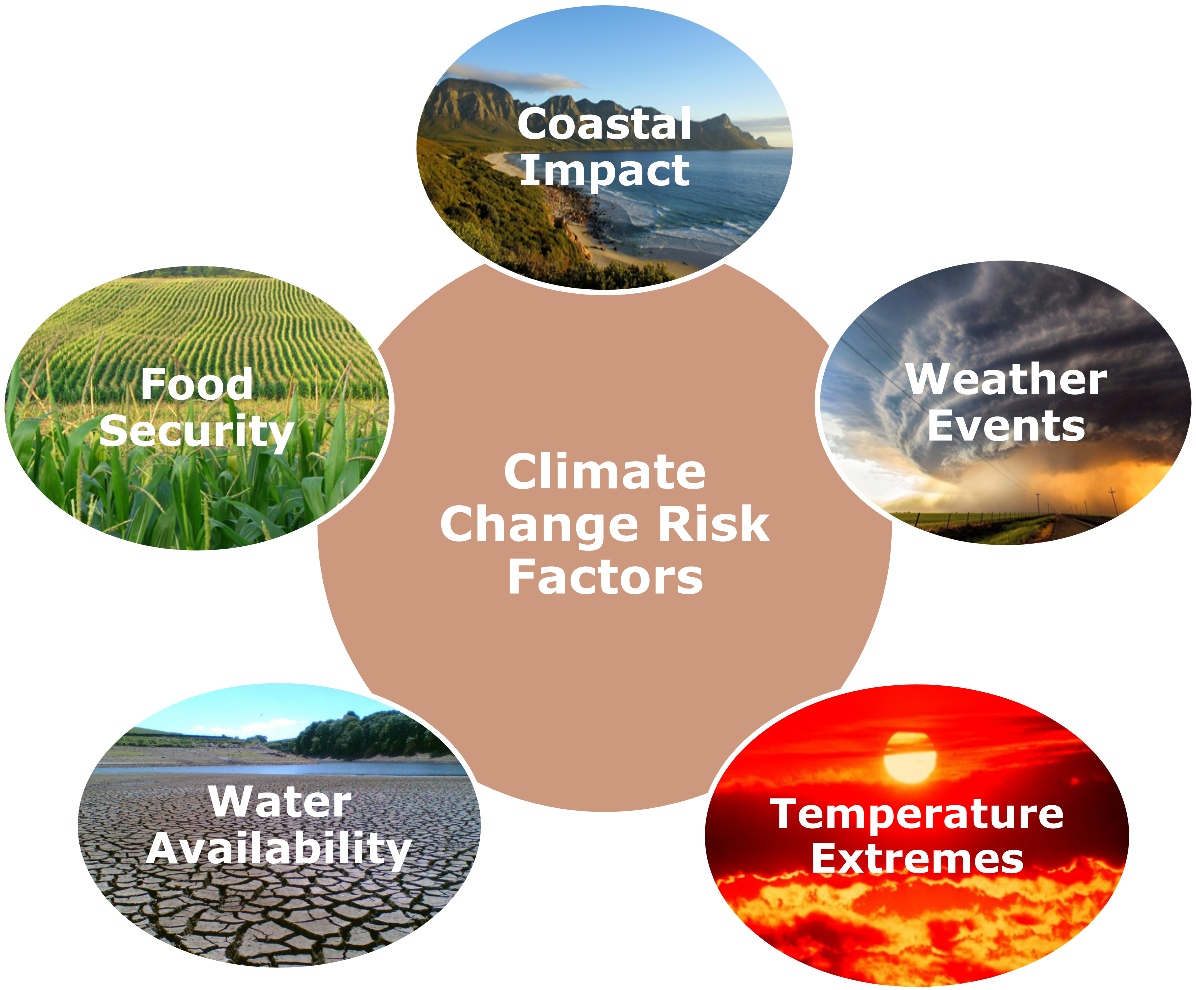
**Our climate change "policy scenarios" are defined by the actions of global nations in terms of mitigation policies**

**The scenarios highlight the severity and economic implications of an economy's risk factors and adaptability to climate change**

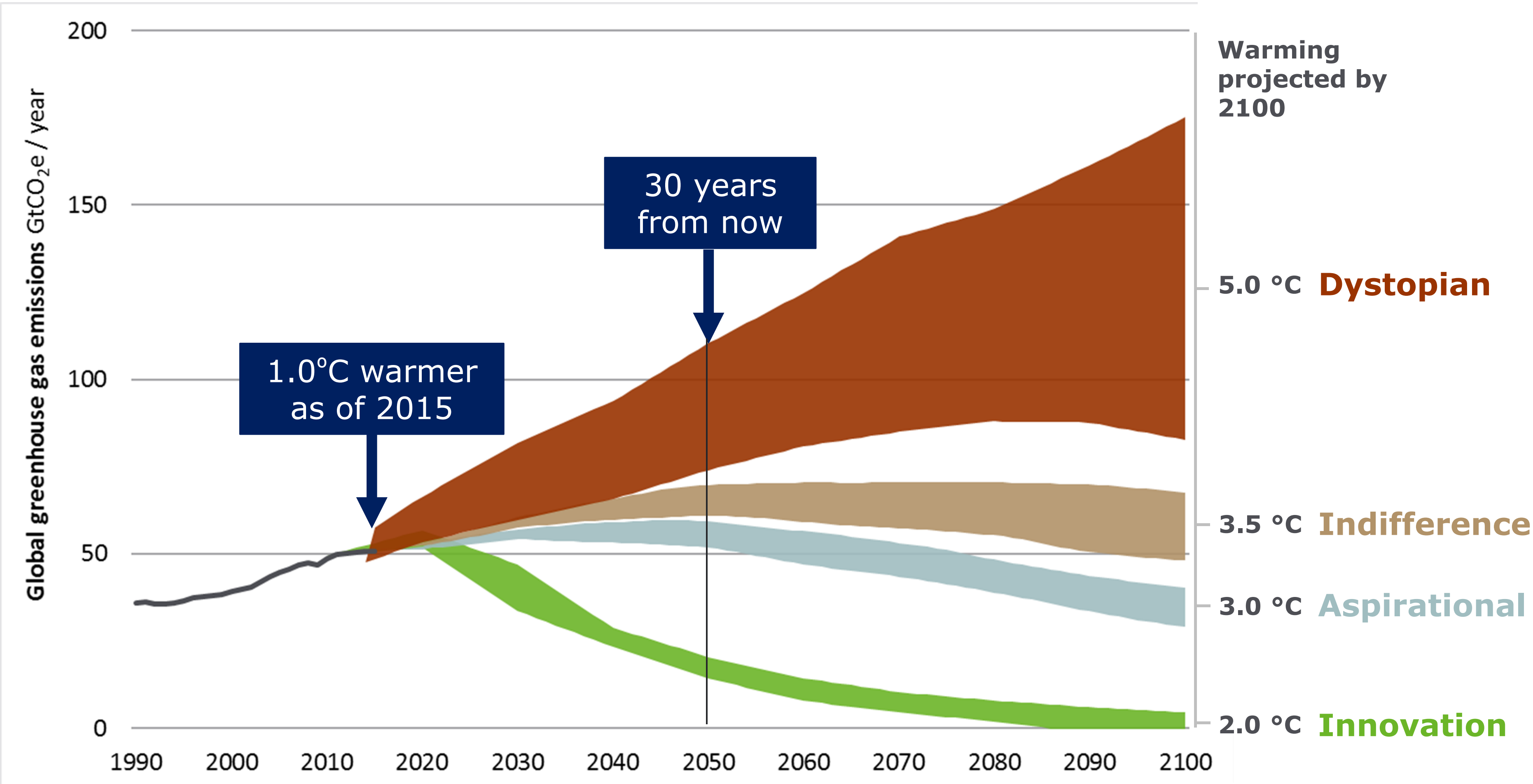
**The policy scenarios impact the core building blocks of capital markets and are used to define potential investment effects**

# KEY CLIMATE CHANGE RISK FACTORS

**We identified five risk factors of climate change along with a key variable: The ability of nations to adapt to changing economic, governance, and social conditions**



# POTENTIAL GLOBAL POLICY SCENARIOS




*Source: Climate Action Tracker, December 2018 Update*

**Temperature increases are projected over a 100 year time horizon but we will look to the impact of each scenario over the next 30 years**

# CLIMATE CHANGE POLICY SCENARIOS

**Dystopian**

**Industrialized nations reverse current policies in place to mitigate greenhouse gas emissions. Potential global temperature change of 5 °C or greater**

**Indifference**

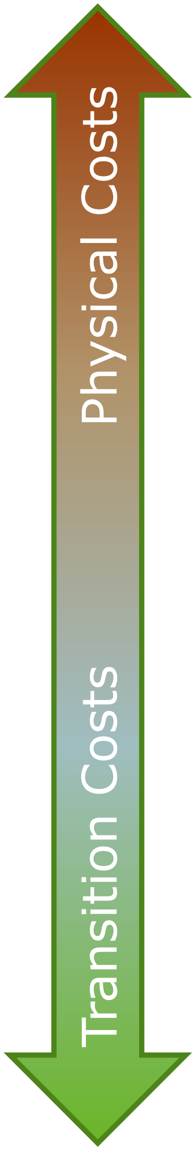
**Current mitigation policies in place continue with potential global temperate change of 3 °C to 3.5 °C**

**Aspirational**

**Current pledges of industrialized nations are implemented along with current policies (e.g. Paris Accord) with potential global temperate change of 3 °C or less**

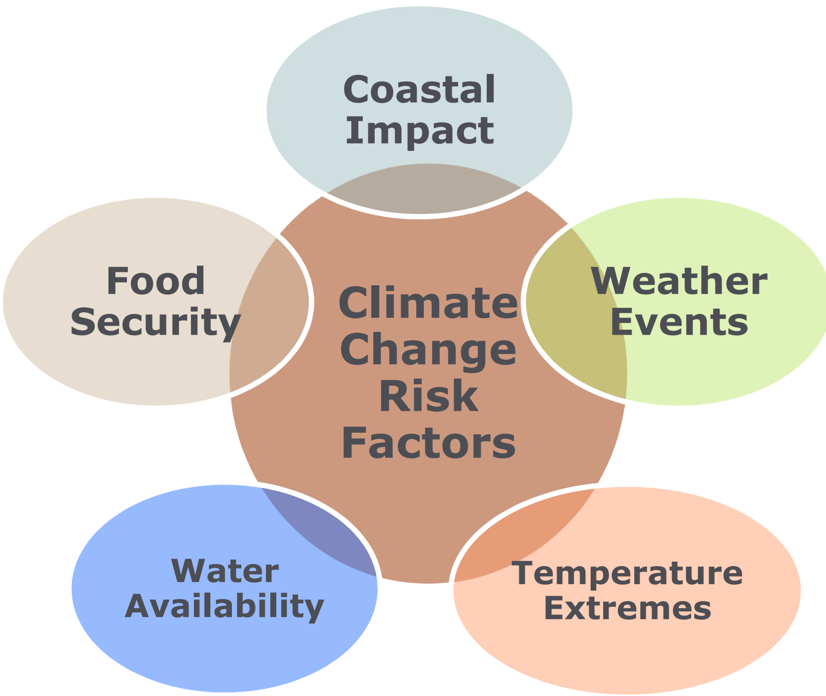
**Innovation**

**Revolutionary technological change reduces greenhouse gas emissions to 20th century levels. Potential global temperature change of 2 °C or less**



# CLIMATE CHANGE MODEL

Risk Factors → Scenarios → Investment Implications




Adaption Capacity Index

**Dystopian**

**Indifference**

**Aspirational**

**Innovation**

| Long-term Investment Implications |
|---|
| Commodities |
| Infrastructure |
| EM Markets |
| Developed Markets |
| Credit Markets |
| Real Estate |

# INVESTMENT IMPLICATIONS

| Positive |
|---|
| Slightly positive |
| Neutral |
| Slightly negative |
| Negative |

**Dystopian**

**Industrialized nations reverse policies currently in place to mitigate greenhouse gas emissions. Potential global temperature change of 5°C or more**

**Physical costs of climate change contribute to increasing share of GDP going towards maintaining instead of improving standards of living**

**Emerging markets are most at risk due to lower ability to adapt to climate change and exposure to climate change risk factors**

**Developed markets are exposed but more insulated**

**Potential for major reductions in crop yields that create food shortages, increasing inflation and human migration**

**Higher frequency of extreme weather events that can devastate coastal infrastructure and property**

**Represents the greatest political risk to investors**

| Long-term Investment Implications |
|---|
| Commodities |
| Infrastructure |
| EM Markets |
| Developed Markets |
| Credit Markets |
| Real Estate |

# INVESTMENT IMPLICATIONS

| |
|---|
| Positive |
| Slightly positive |
| Neutral |
| Slightly negative |
| Negative |

**Indifference**

**Current mitigation policies in place continue with potential global temperate change of 3°C to 3.5°C**

**Adaption capabilities will decide winners and losers in terms of industries and countries**

**Wealthier countries are better positioned to adapt to climate change, increasing global wealth inequality**

**Industries will have transition costs to comply with emissions regulations; ability to pass costs to consumer will affect profit margins**

**Crop production shifts to more temperate areas creating disruption and inflation**

**Sea level rise creates increased risks for coastal real estate and energy infrastructure**

**Health and human costs drive migration to resource rich developed markets**

| Long-term Investment Implications |
|---|
| Commodities |
| Infrastructure |
| EM Markets |
| Developed Markets |
| Credit Markets |
| Real Estate |

# INVESTMENT IMPLICATIONS

| Positive |
|---|
| Slightly positive |
| Neutral |
| Slightly negative |
| Negative |

**Aspirational**

**Current pledges of industrialized nations are implemented along with current policies (e.g. Paris Accord) with potential global temperate change of 3°C or less**

**Additional transition costs across broad economy will impact agriculture and infrastructure**

**Global GDP remains stable with wealthier countries better positioned to absorb adaptation costs**

**Potential inflationary impact due to imbedded costs of climate change mitigation policies**

**Physical risks to coastal infrastructure and real estate remain meaningful**

**Technology and energy sectors benefit from increase in clean energy and carbon capture technology**

**Developed markets positioned to take advantage of advances in technology and energy sectors**

| Long-term Investment Implications |
|---|
| Commodities |
| Infrastructure |
| EM Markets |
| Developed Markets |
| Credit Markets |
| Real Estate |

# INVESTMENT IMPLICATIONS

| Positive |
| --- |
| Slightly positive |
| Neutral |
| Slightly negative |
| Negative |

**Innovation**

**Revolutionary technological change reduces greenhouse gas emissions to 20th century levels. Potential global temperature change of 2°C or less**

**Technological leaps transform energy, transportation, and industrial sectors of economy**

**Creative destruction has positive impact on capital markets as society enters a new era**

**Global GDP remains strong with greater shift towards emerging markets due to positive demographic outlook**

**Creative disruption has negative impact on developed markets as institutions may be slower to react than emerging markets**

**Profound deflationary impact along with increased productivity levels across most economic sectors**

**Venture capital is at the epicenter of the technological advances**

| Long-term Investment Implications |
| --- |
| Commodities |
| Infrastructure |
| EM Markets |
| Developed Markets |
| Credit Markets |
| Real Estate |

# POTENTIAL CLIMATE CHANGE ASSET RISKS

**Climate change will impact the core building blocks of capital markets; Inflation, Real Growth, Profit Margins, Credit Default**

**Wealthier countries are most able to adapt to climate change, exacerbating global wealth inequality**

- Emerging markets are most vulnerable with higher sensitivity to climate change risk factors, specifically nations with fragile socio-economic profiles

**Climate change transition costs are likely to pressure profit margins across industries with physical costs of climate change having a potentially inflationary effect**

- Credit markets may be most exposed with higher defaults associated with climate events and large disruptions to business models

**The capital market risks of climate change can be seen today but it is an unknown when the market may fully discount the range of outcomes associated with climate change costs**

**Potential actions over time may include identifying private equity opportunities in new technologies and analyzing geographical diversification for real estate**

# CLIMATE CHANGE SCENARIO ANALYSIS

**This is NEPC's inaugural effort to highlight the potential range of outcomes associated with climate change risks**

- This is a long-term project and the first step of an evolving process to assess risk factors at the asset class, country, and sector/industry level

**Engagement is the word for institutional investors**

- Look to engage with investment managers to understand how climate change risks are incorporated into the overall investment process

**Governance may be the most important factor to help mitigate the costs of climate change risks factors**

**However, do not overlook the prospects for technological change revolutionizing the energy and transportation sectors with a transformative impact on the global economy**

# WHAT IS NEPC DOING TO PROMOTE DIVERSITY & INCLUSION?

# VISION STATEMENT

"NEPC values the proactive inclusion of extraordinary human talent from a broad diversity of backgrounds.  We believe this is a meaningful driver of long-term success in our own business as well as the investment organizations with which we collaborate.  NEPC and our clients' investment programs benefit from the different perspectives and ideas that come from a diverse and inclusive workforce. As such, NEPC aspires to attract and retain a diverse and inclusive workforce to achieve superior business results.  Our goal is to employ and develop the best and brightest from all walks of life and to create a culture of inclusion where all individuals have an opportunity to excel in their career, be respected, be treated fairly, enjoy working at NEPC and experience work-life balance. "

# HOW WE THINK ABOUT DIVERSITY

"I think diversification works and we are working to increase the diversity of our employee base. This diversification of thought and approach helps us be a better firm and helps us come up with better solutions for our clients."
*-Michael P. Manning, Managing Partner*

## Our Leadership

- 10 of our 37 partners are minorities and/or women
- 7 out of our 19 Consultant and Research Team leads are minority and/or women
- 2 of our 9 Management Group Members are minority and/or women

## Our Employees

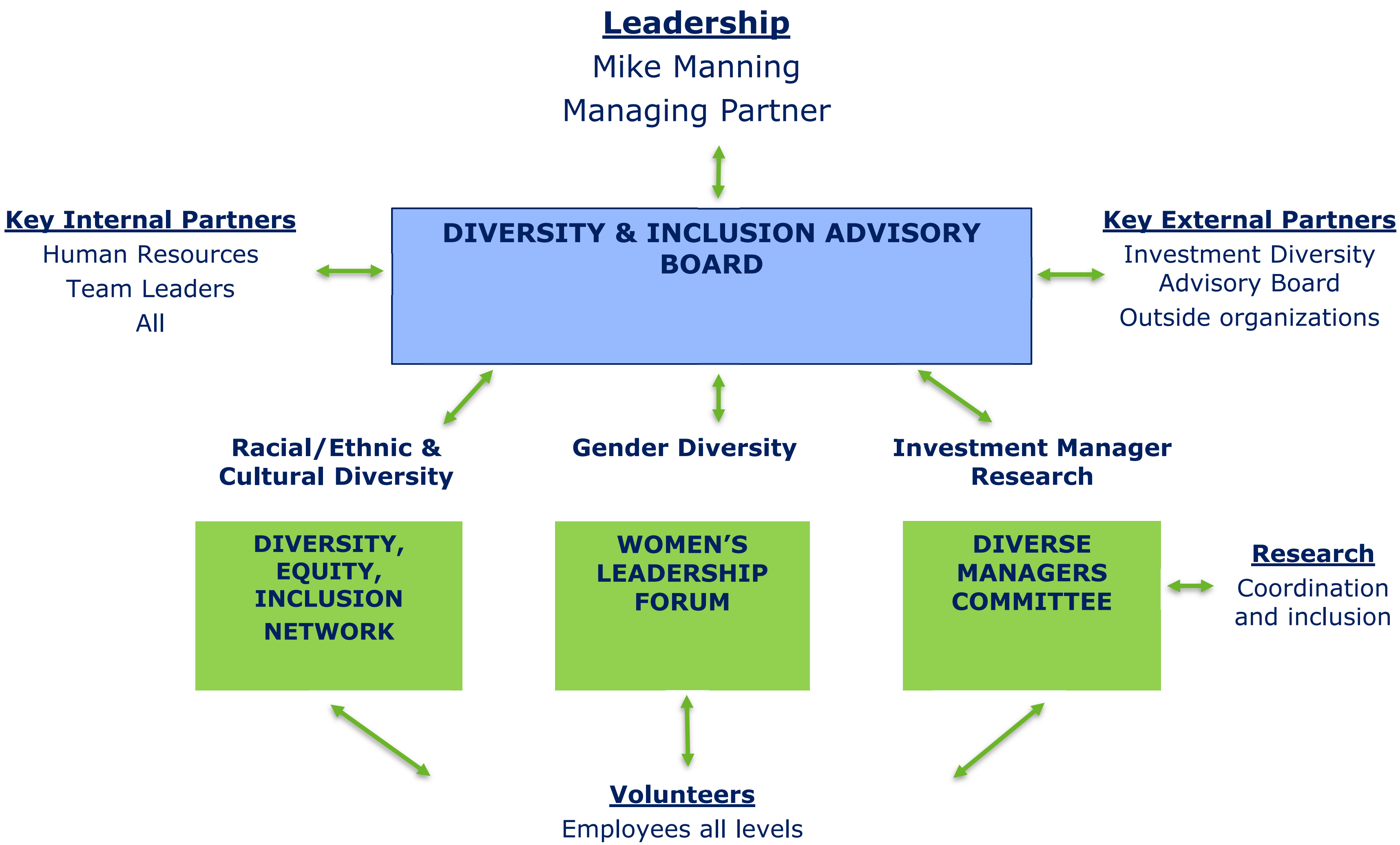
- 50% of our 291 employees are minority and/or women
- 3 of the 9 participants in our LEAD-I-N-G program are minority and/or women
- This program provides mentoring and coaching to the next generation of NEPC's leaders

## Recommended Managers

- Our Diverse Manager Committee is tasked with identifying diverse managers
- 30 MWDBE investment products are on our Focused Placement List ("FPL")
- Our clients have $22.3 billion invested with MWBE firms

Notes:
Human resource data provided is as of 9/30/2018
Investment manager data is as of 6/30/18

# NEPC Diversity and Inclusion Organizational Structure



# DIVERSITY, EQUITY & INCLUSION NETWORK

NEPC values the proactive inclusion of extraordinary human talent from a broad diversity of backgrounds. *– DIAB Values Statement*

1. **Identify key diversity and inclusion challenges at the firm through the review of existing data and new data obtained via individual interviews and focus groups.**

2. **Establish partnerships with diversity and inclusion focused organizations to benefit our internal efforts and demonstrate our commitment to D&I internally and externally**

3. **Educate and train managers throughout the firm about best practices to create an inclusive work environment**

# WOMEN’S LEADERSHIP FORUM

## Mission Statement

***The mission of NEPC’s Women’s Leadership Forum is to enhance awareness of gender diversity through training; attract, retain and develop women at all stages of their career; and improve NEPC’s gender composition to become an industry leader.***

## 2019 WLF Goals

- **Bring awareness of gender diversity through *training* and *education***
- **Facilitate mentoring relationships and career development through *mentoring* and *development***
- **Engage and partner with other women organizations and female focused events through *networking***
- **Improve policies and practices to improve gender statistics to *attract* and *retain* talent**
- **Conduct periodic evaluations to *evaluate* and *modify***

## Members: 29 NEPC women, Sr. Consultant level or above

# DIVERSE MANAGERS COMMITTEE

- **Leverage engagement events**
- **Articulate thought leadership**
- **Develop a Diversity Score for evaluating all managers**
- **Optimize triage and vetting process**
- **Define and track metrics of manager participation**

# MANAGERS FUNDED BY NEPC CLIENTS

## DIVERSE MANAGER EXPOSURE

**Some of the investment firms our clients work with include:**

| Traditional Assets* | Alternative Assets* |
|---|---|
| • EARNEST Partners<br>• Adelante<br>• Hardman Johnston<br>• Channing Capital<br>• Brown Capital<br>• FIS Group<br>• Ativo Capital<br>• ARGE Investment Management<br>• Strategic Global Advisors<br>• Matarian Capital<br>• Pugh Capital<br>• Progress Investment Management<br>• Garcia Hamilton & Co. | • Vista Equity Partners<br>• Newport Capital<br>• BASIS Investments<br>• Brightwood Capital<br>• Alyeska Investment Group<br>• Pacific Alternative Asset Management Company<br>• American Realty Advisors<br>• Systematica Investments Limited<br>• Ironwood Capital<br>• Muller and Monroe<br>• Kabouter Management<br>• SoundMark Partners |

**38.5% of NEPC clients utilize Diverse Managers**

### Diverse Manager Inclusion by the Numbers

**142**

- Number of our clients who have mandates with diverse investment firms

**$22.3 billion**

- Amount of client assets invested with diverse firms

**151**

- Number of investment strategies managed by diverse firms our clients currently have in their portfolios

**30**

- Number of products managed by diverse firms currently on our Focused Placement List ("FPL")

*List does not include all MWDBE firms NEPC works with.
Data provided is as of 6/30/2018

# AT WORK ON DIVERSE MANAGER POLICY 2.0

- **With a launch target of January 2020, NEPC is considering policy enhancements that may include:**
  - A target of diverse managers representing 10% of 1-rated FPL strategies
  - A target of increasing NEPC meetings with diverse managers by 10%
  - “Multiple Pathways for Talented Firms” to work with NEPC clients
    - Standard due diligence process, leading to a 1-rating
    - Expedited Discovery Platform process, leading to a 2-rating
    - Netting and Vetting of the best Emerging Manager-of-Manager platforms and Emerging Fund-of-Fund platforms for our clients that wish to utilize smaller and less-experienced managers

# APPENDIX

NEPC, LLC

# DISCLAIMER

- **Past performance is no guarantee of future results.**
- **The opinions presented herein represent the good faith views of NEPC as of the date of this report and are subject to change at any time.**
- **Data used to prepare this report was obtained directly from various sources. While NEPC has exercised reasonable professional care in preparing this report, we cannot guarantee the accuracy of all source information contained within.**
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- **Sources:**

  - Khan, Mozaffar N., George Serafeim, and Aaron Yoon. "Corporate Sustainability: First Evidence on Materiality." Harvard Business School Working Paper, No. 15-073, March 2015.
  - Gunnar Friede, Timo Busch & Alexander Bassen (2015) ESG and financial performance: aggregated evidence from more than 2000 empirical studies, Journal of Sustainable Finance & Investment, 5:4, 210-233, DOI: 10.1080/20430795.2015.1118917