



Santa Barbara County Employees' Retirement System

DATE: July 26, 2023

Agenda Item #3

TO: SBCERS BOARD OF RETIREMENT

FROM: SBCERS Investment Staff

RE: **SBCERS Investment Manager Approaches to ESG**

Recommendation

That the Board of Retirement receive and accept the educational material on Environmental, Social and Governance Investing (ESG) presented by presented by Principal and Co-Lead Consultant Matthias Bauer, CFA of RVK, Inc. and Investment Officer Rebecca M. Valdez of SBCERS.

Summary

The presentation will summarize the ESG review conducted by RVK on SBCERS' managers. The review includes an initial summary of each manager's ESG integration in their investment practices at both the firm and strategy level. RVK has developed a framework to rank each manager's integration of ESG factors into their investment framework relative to other asset managers around the globe. Due to lack of standardization of ESG integration and application, this presentation relies on RVK's interpretation of the current environment around ESG.

Each manager in the SBCERS portfolio will be ranked into one of four definitions for ESG integration at both the firm and portfolio level. The 4 definitions of ESG integration, according to RVK, are ESG Agnostic, ESG Aware, ESG Integrated and ESG Impact:

ESG Agnostic – No or low usage of third-party data, low firm-wide support for ESG initiatives and research, limited support management and directors for incorporating ESG factors into decision-making, modeling-building and forecasting.

ESG Aware – Third-party ESG data may be used but the use is not mandated by directors or firm leadership. May believe that ESG factors have limited or no financial impact to capital markets.

ESG Integrated – Third-party ESG data is used for information gathering purposes and is a part of the portfolio construction process. Firm leadership is supportive of ESG-factor integration, but it is not mandated.

ESG Impact – Full “dual mandate” ESG strategies where outperformance and sustainability are equal goals. Teams develop proprietary ESG data and scoring in addition to incorporating third-party ESG data. Firm mandates advance knowledge of ESG in capital markets.

The presentation will conclude with staff recommendation of ESG as it relates to the Investment Policy Statement. This recommendation will take into account all data provided to the Board of Trustees and the current ESG environment.

Attachments

- Manager ESG Review