



Manager ESG Review

Santa Barbara County Employees'
Retirement System

July 26, 2023



Manager ESG Review

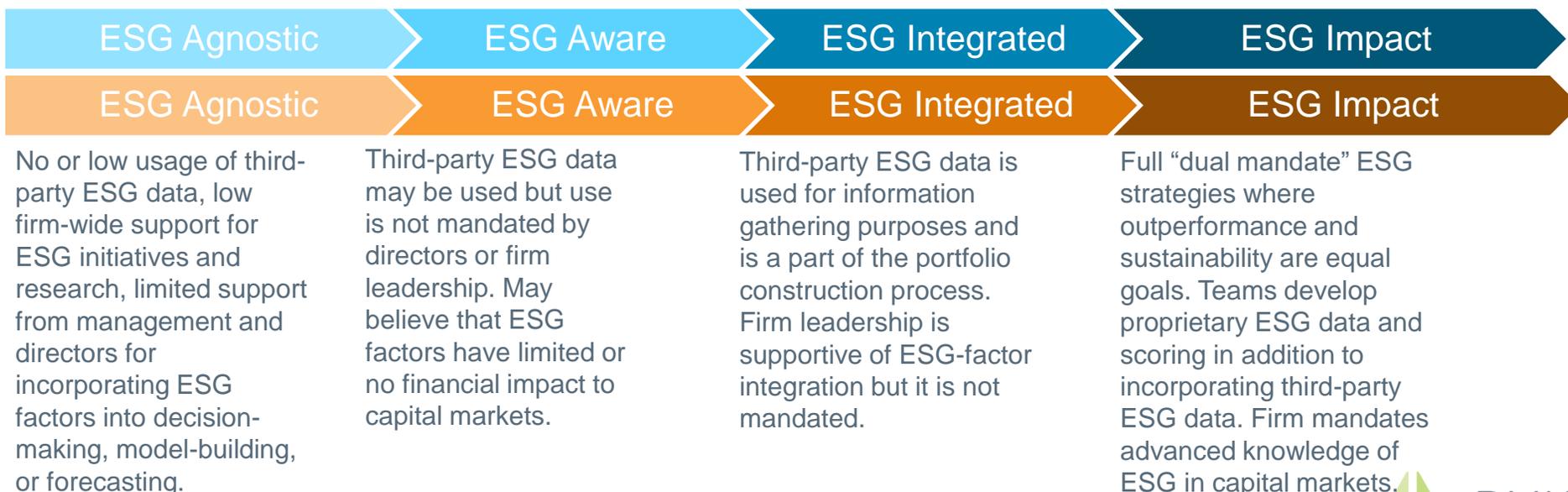


Introduction

- Asset managers are increasingly evaluating the potential merits of incorporating ESG factors into their research process and adapting to the evolving regulatory environment and investor expectations.
- Certain practices that may have been considered “best practices” for asset managers in 2020 are rapidly becoming standard practice, or potentially outdated, only a short period later.
- RVK conducted an Environmental, Social, and Governance (ESG) review of SBCERS’ managers to provide an initial summary of each managers’ ESG integration in their investment practices.
- Today’s presentation:
 - summarizes the ESG review for SBCERS’ managers, and
 - includes an overview of ESG-related regulatory updates and the impact of the latest ESG-related provisions on asset owners/plan sponsors.

RVK ESG Evaluation Framework

- RVK’s ESG rankings aim to convey the progress each manager’s integration of ESG factors into their investment framework, and relative to other asset managers around the globe.
- An asset manager’s rankings may fluctuate, depending on changes in the marketplace, competitors within their asset class, size and scale of operations, among other variables.
- Should the space continue to experience rapid growth in the coming years, RVK expects further shifting in the ESG space.
- **Through RVK’s review of our clients’ exposures, we have found most strategies fit or can be classified into one of four levels of ESG integration:**



RVK ESG Evaluation Framework

Firm-Specific Qualities			
<p>Robust ESG Investment Policy</p> <p>Firm has a detailed policy on ESG factor integration and use. The policy necessarily applies to all analysts and portfolio managers (PMs) and is highly specific.</p>	<p>Use of Diversified External ESG Data</p> <p>Firm invests in third-party ESG data and scoring systems from multiple sources and is required to review and incorporate the information into analysis or buy/sell recommendation.</p>	<p>Dedicated ESG Investment Professionals</p> <p>Firm has dedicated ESG professionals to advance ESG research and incorporation into the investment process. Professionals are wholly dedicated to ESG work and report to Chief Investment Officer (CIO) or similar leadership level.</p>	<p>Company Engagement</p> <p>Firm works with the management of corporations or sovereign entities to understand their ESG challenges and bring best practices in ESG to light with the objective of improving behavior and outcomes.</p>
Strategy-Specific Qualities			
<p>Internal ESG Scoring</p> <p>Firm either maintains an internal scoring system for holdings and incorporates the scores into its evaluation process or it has a predetermined framework for evaluating assets' ESG factors that can influence analysis for buy/sell decisions.</p>	<p>External ESG Data Integration</p> <p>Product incorporates ESG data from either third-party sources or from an internal database. ESG, and specifically climate data, is in use according to materiality in asset evaluation.</p>	<p>Transparent Proxy Voting Process</p> <p>Strategy clearly discloses its proxy voting methodology. Strategy PMs or analysts are involved and can direct proxy votes for companies in their portfolio. Votes are available to review and the explanations for votes are consistent and explainable.</p>	<p>Impact Reporting Available</p> <p>Firm releases regular reports detailing the strategy's ESG activities and processes.</p>

Summary of SBCERS' Manager ESG Evaluation

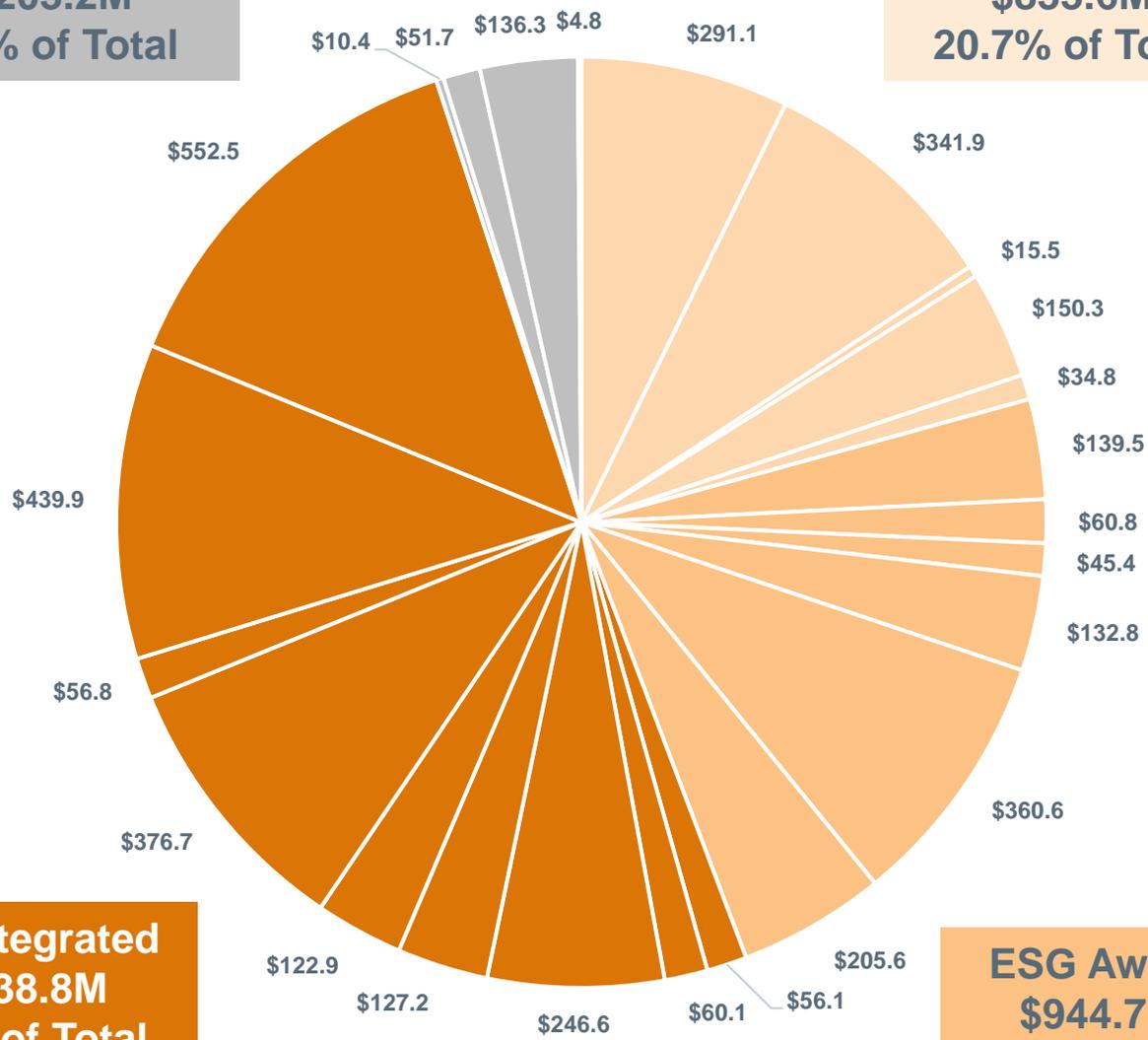


All Hamilton Lane rankings on this slide were provided by Hamilton Lane and do not represent RVK opinions. Private Credit has been excluded from this analysis.

Summary of SBCERS' ESG Evaluation – by Strategy

N/A
\$203.2M
5.1% of Total

ESG Agnostic
\$833.6M
20.7% of Total



- BNY Mellon: HEDI
- BNY Mellon: R 1000 Index
- BNY Mellon: TIPS
- Beach Point: Leveraged Loan
- Rice Hall James: Small Cap Opportunities
- Artisan: Non-US Growth
- Cohen & Steers: Real Assets Fund
- DFA: US Small Cap Value
- DFA: Emerging Markets Value
- Garcia Hamilton: Core Fixed Income
- PanAgora: Dynamic International Equity
- Acadian: Non-US SC Equity
- Nuveen: Real Asset Income Fund
- PGIM: Core Plus Fixed Income
- RBC: Emerging Markets Equity
- Wellington: Blended Opportunistic EMD
- Private Infrastructure
- Private Natural Resources
- Private Real Estate
- Private Equity
- 130 Robin Hill Road
- Cash Composite
- Private Credit
- Transition Account

ESG Integrated
\$2,038.8M
50.7% of Total

ESG Aware
\$944.7M
23.5% of Total

All data shown is as of March 31, 2023. Market values are shown in millions.
 All Hamilton Lane rankings on this slide were provided by Hamilton Lane and do not represent RVK opinions.
 Private Credit has been excluded from this analysis and thus assumes a rank of N/A. 130 Robin Hill Road and the Cash/Transition Accounts also assume N/A due to the operational nature of these accounts.



Summary of SBCERS' ESG Evaluation – by Strategy

Manager	Strategy ESG Rank	Inception Date	AUM (\$M)	% of Total Fund	Since Inception Net Return	Since Inception Index Return
Acadian: Non-US SC Equity	Integrated	Dec. 2020	56.1	1.4%	4.3%	-1.3%
Artisan: Non-US Growth	Aware	Feb. 2014	139.5	3.5%	4.2%	4.2%
BNY Mellon: HEDI	Agnostic	May 2019	291.1	7.2%	11.0%	10.4%
BNY Mellon: R 1000 Index	Agnostic	May 2019	341.9	8.5%	10.5%	10.4%
BNY Mellon: TIPS	Agnostic	May 2019	15.5	0.4%	2.8%	3.0%
Beach Point: Leveraged Loan	Agnostic	Oct. 2012	150.3	3.7%	3.7%	4.1%
Cohen & Steers: Real Assets Fund	Aware	Sep. 2017	60.8	1.5%	5.5%	4.5%
DFA: US Small Cap Value	Aware	Apr. 2005	45.4	1.1%	8.5%	7.6%
DFA: Emerging Markets Value	Aware	May 2013	132.8	3.3%	2.2%	1.9%
Garcia Hamilton: Core Fixed Income	Aware	Sep. 2017	360.6	9.0%	1.0%	0.5%
Hamilton Lane: PE*	Integrated	June 2006	560.1	13.7%	14.2%	12.4%
Hamilton Lane: PRR*	Integrated	Sep. 2013	444.1	10.8%	12.7%	6.7%
Hamilton Lane: RE*	Integrated	Jan. 2006	426.5	10.9%	7.9%	7.2%
Nuveen: Real Asset Income Fund	Integrated	Sep. 2017	60.1	1.5%	2.5%	2.2%
PGIM: Core Plus Fixed Income	Integrated	June 2018	246.6	6.1%	1.6%	0.9%
PanAgora: Dynamic International Equity	Aware	May 2009	205.6	5.1%	7.8%	7.1%
RBC: Emerging Markets Equity	Integrated	Sep. 2016	127.2	3.2%	5.0%	4.0%
Rice Hall James: Small Cap Opportunities	Agnostic	June 2016	34.8	0.9%	8.9%	8.2%
Wellington: Blended Opportunistic EMD	Integrated	Mar. 2020	122.9	3.1%	-3.0%	-3.8%

All data shown is as of March 31, 2023.

AUM shown for Hamilton Lane represents invested capital. Returns shown for Hamilton Lane represent IRRs.

All Hamilton Lane rankings on this slide were provided by Hamilton Lane and do not represent RVK opinions.

Private Credit has been excluded from this analysis.



Manager ESG Review

Acadian: Non-US Small Cap Equity

Signatory of:



Since
2009

RVK Analysis

RVK views Acadian’s ESG factor integration as low compared to its peers. Acadian is doing a good job of incorporating different quantitative and qualitative ESG factors into its investing process outside of dedicated ESG funds and is conducting ESG research through its Responsible Investing team. However, its ESG investment policy is industry standard and there is very little that differentiates it from its peers.

Acadian’s proxy voting and engagement practices appear to be adequate. Acadian is effectively voting its proxies and provides clients with the opportunity retain their proxy voting authority if they desire. Their engagement practices are focused on working with companies over long periods of time to help them develop robust climate transition plans.



	Robust ESG Investment Policy	Use of Diversified External ESG Data	Dedicated ESG Investment Professionals	Company Engagement
	✗	✗	✓	✓
	Internal ESG Scoring	External ESG Data Integration	Transparent Proxy Voting Process	Impact Reporting Available
	✗	✗	✗	✗

SBCERS Manager Facts as of 3/31/2023

Inception Date:	Dec. 2020
AUM (\$M):	56.1
% of Total Fund:	1.4%
Since Inception Net Return:	4.3%
Since Inception Index Return:	-1.3%



Manager ESG Review

Artisan: Non-U.S. Growth

Signatory of:



Since
2018

RVK Analysis

RVK views Artisan’s ability to generate their own ESG research and integrate third-party ESG data into portfolios as low. Our research team views the firm as having a comparable level of ESG integration into their overall research process compared to peers.

The firm is also an active proxy voting firm and has committed, through the UNPRI principals, to provide transparent reporting to clients who wish to track and understand firm proxy votes.

In addition to actively voting proxies both in the best interest of the investor, but also with respect to long-term company value, the teams engage to express views on ESG-related topics.

However, the firm gives a large amount of autonomy to each portfolio team. Teams are in position to govern their own processes and considerations when managing the portfolio. While ESG data is available, and becoming an UNPRI Signatory places some active responsibility on using and promoting sustainable investing factors, the firm is primarily focused on providing sufficient risk and return characteristics as appropriate for this strategy.



SBCERS Manager Facts as of 3/31/2023

Inception Date:	Feb. 2014
AUM (\$M):	139.5
% of Total Fund:	3.5%
Since Inception Net Return:	4.2%
Since Inception Index Return:	4.2%



Manager ESG Review

BNY Mellon: HEDI, Russell 1000 Index & TIPS

Signatory of:



Since
2013*

RVK Analysis

RVK views the capabilities and experience of BNYM and portfolio managers from The Boston Company as low to medium compared to other asset management firms of a similar size and scope.

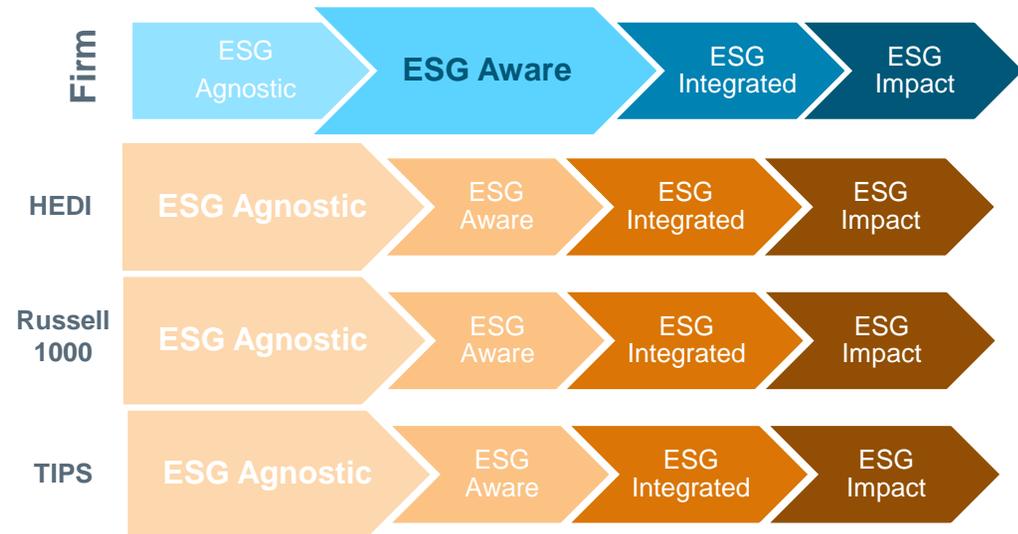
At the firm level, BNYM has undergone several affiliate transitions, sales and consolidations. This transition period makes it difficult for teams within affiliate companies, such as the previously known “Boston Company” to initiate and develop their own approach to ESG-integrated investing.

Over the next few years RVK will be monitoring developments within the portfolio teams to determine the level of dedication to integrating ESG factors.

**Mellon Corporation is the signatory*

SBCERS Manager Facts as of 3/31/2023

	HEDI	R 1000	TIPS
Inception Date:	May 2019	May 2019	May 2019
AUM (\$M)	291.1	341.9	15.5
% of Total Fund	7.2%	8.5%	0.4%
Since Inc. Net Return	11.0%	10.5%	2.8%
Since Inc. Index Return	10.4%	10.4%	3.0%



	Robust ESG Investment Policy	Use of Diversified External ESG Data	Dedicated ESG Investment Professionals	Company Engagement
	✗	✓	✓	✗
	Internal ESG Scoring	External ESG Data Integration	Transparent Proxy Voting Process	Impact Reporting Available
HEDI	✗	✗	✗	✗
Russell 1000	✗	✗	✗	✗
TIPS	✗	✗	✗	✗



Manager ESG Review

Beach Point: Leveraged Loan

Signatory of:



Since
2021

RVK Analysis

RVK views Beach Point's integration of ESG factors to be medium when compared to managers of similar size and scope. The firm does not yet have PRI scores on ESG promotion and integration.

There are multiple different C-Suite personnel involved on the committee which is an indicator of company dedication to ESG due to their ability to quickly enact top-down enhancements.

As a primarily fixed income investor, Beach rarely has the ability to participate in proxy voting. Beach Point has been developing their engagement practices for more structured and focused engagements that may incorporate ESG issues and risk mitigation topics.



SBCERS Manager Facts as of 3/31/2023

Inception Date:	Oct. 2012
AUM (\$M):	150.4
% of Total Fund:	3.7%
Since Inception Net Return:	3.7%
Since Inception Index Return:	4.1%



Manager ESG Review

Cohen & Steers: Real Assets Fund

Signatory of:



Since
2013

RVK Analysis

Cohen & Steers believes that ESG integration supports their fiduciary obligation to help clients achieve their long-term investment objectives. In their view, incorporating ESG factors into the investment process helps to identify opportunities and mitigate risk. Overall, the firm believes that companies can enhance value and long-term profitability by incorporating these factors into their strategic plans and operations and therefore is a standard part of the research and investment process.

Analysts conduct extensive proprietary research for companies under their coverage, incorporating relevant ESG factors. The team considers MSCI ESG ratings as well as ESG scores from other third-party providers for all companies within the preferred universe. Cohen & Steers conducts their own research on some ESG factors relevant to specific securities.

In 2021 Cohen & Steers hired a dedicated Global Head of ESG and created two ESG-related committees. The Steering Committee is dedicated to establishing firm level ESG initiatives and the Investment Committee is dedicated to implementation of policy on the product level.



SBCERS Manager Facts as of 3/31/2023

Inception Date:	Sep. 2017
AUM (\$M):	60.8
% of Total Fund:	1.5%
Since Inception Net Return:	5.5%
Since Inception Index Return:	4.5%



Manager ESG Review

DFA: U.S. Small Cap Value & Emerging Markets Value

Signatory of:



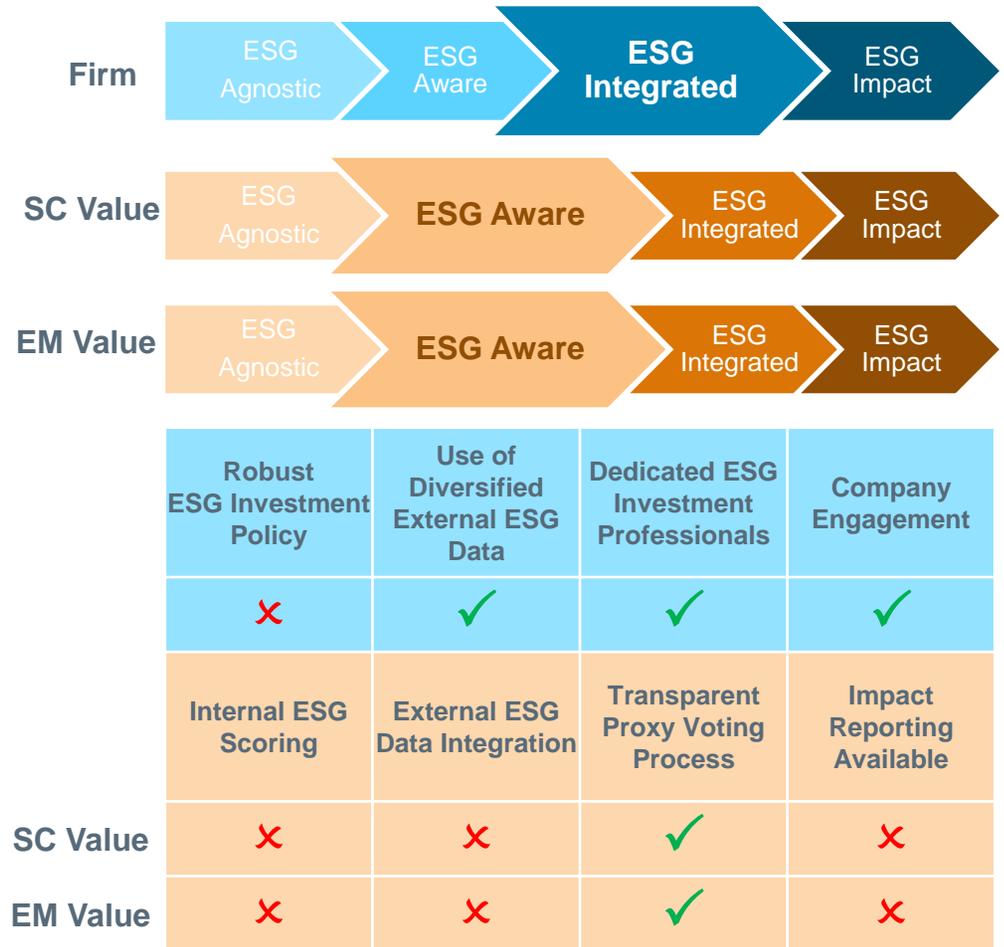
Since
2012

RVK Analysis

RVK views DFA's ESG integration methodology and effectiveness to be low when compared to firms of similar size and scope. DFA strongly believes in efficient markets and the immediate incorporation of all available information into stock prices including factors related to environmental, social and governance.

DFA's believes that a majority of ESG factors will have already been priced into current valuations and incorporates this view in their investment philosophy. The firm looks for alpha advantages elsewhere. Using metrics such as carbon intensity or potential emissions from reserves, the strategies will under-allocate or over-allocate based on these metrics compared to peers. Those with improving metrics will be systematically overweighted in the portfolio.

Proxy voting and the level of engagement a firm decides to implement has become a large factor in a firm's efforts to increase ESG incorporation.



SBCERS Manager Facts as of 3/31/2023

	SC Value	EM Value
Inception Date:	Apr. 2005	May 2013
AUM (\$M)	45.4	132.8
% of Total Fund	1.5%	3.3%
Since Inc. Net Return	5.5%	2.2%
Since Inc. Index Return	4.5%	1.9%



Manager ESG Review

Garcia Hamilton: Core Fixed Income

Signatory of:

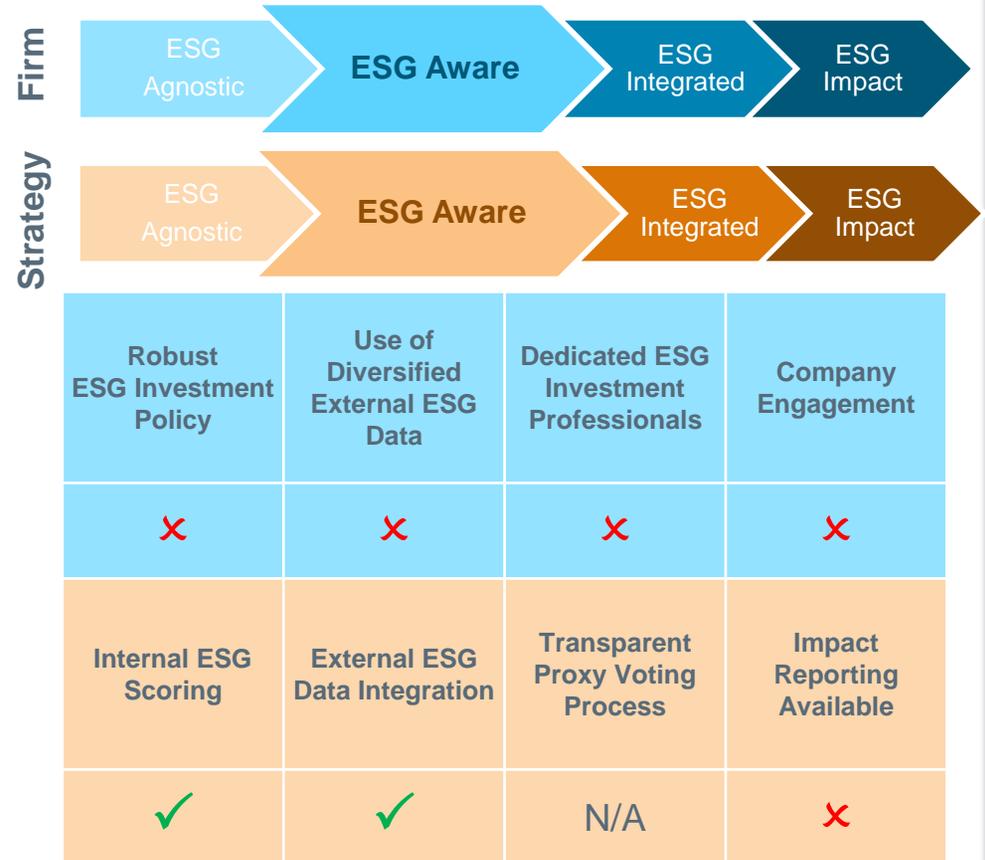


Since
2019

RVK Analysis

RVK views Garcia Hamilton’s incorporation of ESG factors into its investment processes as low when compared to managers of similar size and investment scope. While Garcia Hamilton has taken steps to integrate ESG into its investment processes, their current process lacks structure and does not seem to be well-defined with a large reliance on third party data. Garcia Hamilton’s ESG processes seem to lack oversight. There does not appear to be a formal oversight committee tasked with monitoring ESG integration or reviewing company practices.

Garcia Hamilton’s engagement practices are low. Garcia Hamilton does not directly engage with any companies, seeing it as unnecessary since all news is instantaneously available in the markets. Instead, the senior leadership of the company engages with PRI and policy makers to engage at a high level across the industry.



SBCERS Manager Facts as of 3/31/2023

Inception Date:	Sep. 2017
AUM (\$M):	360.6
% of Total Fund:	9.0%
Since Inception Net Return:	1.0%
Since Inception Index Return:	0.5%



Manager ESG Review

Hamilton Lane: Private Equity

Hamilton Lane Analysis

Responsible investing and risk management have been core to our practices since our inception in 1991. We firmly believe that managing ESG risks is good business and also “The Right Thing to Do”, which is our first corporate value. Hamilton Lane has been and continues to be a strong proponent of Environmental, Social and Governance practices across our investment portfolios. We believe that it is our corporate responsibility to monitor and ensure implementation of ESG considerations and compliance with ESG-related policies within our own organization, within the management companies of the general partners with which we invest and also within our client portfolios. 100% of Hamilton Lane’s AUM is subject to our corporate ESG policy. Every investment we make has undergone rigorous ESG diligence, and we have determined that the manager is adequately mitigating the risk in their strategy.

Given our philosophy around the importance of ESG risk-management, we have built a fully integrated approach, incorporating ESG into each underwriting process. We strongly believe that ESG should not sit in isolation from the core decision-making group, and thus, all members of our investment team are trained to analyze ESG-specific risks and identify ESG risk-mitigants. ESG risks vary and are often unique to the strategy, sector or specific deal. Proactive due diligence and monitoring is important to understanding the manager’s approach in assessing and tracking ESG risks. We fundamentally believe that if ESG factors are not properly managed, investments can be exposed to the potential for material value erosion.



Robust ESG Investment Policy	Use of Diversified External ESG Data	Dedicated ESG Investment Professionals	Company Engagement
✓	✓	✓	✗
Internal ESG Scoring	External ESG Data Integration	Transparent Proxy Voting Process	Impact Reporting Available
✓	✓	N/A	✗

SBCERS Manager Facts as of 3/31/2023

Inception Date:	June 2006
AUM (\$M):	560.1
% of Total Fund:	13.7%
Since Inception Net Return:	14.2%
Since Inception Index Return:	12.4%

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Manager ESG Review

Hamilton Lane: Private Real Return

Hamilton Lane Analysis

Responsible investing and risk management have been core to our practices since our inception in 1991. We firmly believe that managing ESG risks is good business and also “The Right Thing to Do”, which is our first corporate value. Hamilton Lane has been and continues to be a strong proponent of Environmental, Social and Governance practices across our investment portfolios. We believe that it is our corporate responsibility to monitor and ensure implementation of ESG considerations and compliance with ESG-related policies within our own organization, within the management companies of the general partners with which we invest and also within our client portfolios. 100% of Hamilton Lane’s AUM is subject to our corporate ESG policy. Every investment we make has undergone rigorous ESG diligence, and we have determined that the manager is adequately mitigating the risk in their strategy.

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Robust ESG Investment Policy	Use of Diversified External ESG Data	Dedicated ESG Investment Professionals	Company Engagement
✓	✓	✓	✗
Internal ESG Scoring	External ESG Data Integration	Transparent Proxy Voting Process	Impact Reporting Available
✓	✓	N/A	✗

SBCERS Manager Facts as of 3/31/2023

Inception Date:	Sep. 2013
AUM (\$M):	444.1
% of Total Fund:	10.8%
Since Inception Net Return:	12.7%
Since Inception Index Return:	6.7%

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Manager ESG Review

Hamilton Lane: Real Estate

Hamilton Lane Analysis

Responsible investing and risk management have been core to our practices since our inception in 1991. We firmly believe that managing ESG risks is good business and also “The Right Thing to Do”, which is our first corporate value. Hamilton Lane has been and continues to be a strong proponent of Environmental, Social and Governance practices across our investment portfolios. We believe that it is our corporate responsibility to monitor and ensure implementation of ESG considerations and compliance with ESG-related policies within our own organization, within the management companies of the general partners with which we invest and also within our client portfolios. 100% of Hamilton Lane’s AUM is subject to our corporate ESG policy. Every investment we make has undergone rigorous ESG diligence, and we have determined that the manager is adequately mitigating the risk in their strategy.

Given our philosophy around the importance of ESG risk-management, we have built a fully integrated approach, incorporating ESG into each underwriting process. We strongly believe that ESG should not sit in isolation from the core decision-making group, and thus, all members of our investment team are trained to analyze ESG-specific risks and identify ESG risk-mitigants. ESG risks vary and are often unique to the strategy, sector or specific deal. Proactive due diligence and monitoring is important to understanding the manager’s approach in assessing and tracking ESG risks. We fundamentally believe that if ESG factors are not properly managed, investments can be exposed to the potential for material value erosion.



Robust ESG Investment Policy	Use of Diversified External ESG Data	Dedicated ESG Investment Professionals	Company Engagement
✓	✓	✓	✗
Internal ESG Scoring	External ESG Data Integration	Transparent Proxy Voting Process	Impact Reporting Available
✓	✓	N/A	✗

SBCERS Manager Facts as of 3/31/2023

Inception Date:	Jan. 2006
AUM (\$M):	426.5
% of Total Fund:	10.9%
Since Inception Net Return:	7.9%
Since Inception Index Return:	7.2%

All text, data and rankings on this slide were provided by Hamilton Lane and do not represent RVK opinions. AUM shown for Hamilton Lane represents invested capital. Returns shown represent IRRs and were provided by Hamilton Lane. Inception date shown represents the SBCERS’ Real Estate program. ORG was the sole consultant to the SBCERS’ Real Estate program through 12/31/2022. ORG and Hamilton Lane jointly managed the program from 1/1/2023 through 3/31/2023 before Hamilton Lane became the sole consultant on 4/1/2023.



Manager ESG Review

Nuveen: Real Asset Income Fund

Signatory of:



Since
2009

RVK Analysis

RVK views Nuveen’s ESG integration as high. Nuveen has robust ESG investment processes with a long history of sustainable investing. Unlike many other managers in the ESG sphere, Nuveen utilizes a top-down approach to ESG investing as opposed to a fundamental bottom-up approach.

Due to Nuveen’s long-time involvement in ESG investing, it has been able to build out a large ESG investment team with extensive experience as well as establish comprehensive proxy voting guidelines and engagement policies. Nuveen utilizes an individualized proxy voting and engagement approach to ensure that they are working with companies in the most effective manner possible.

Nuveen pursues excellence in the field of responsible investing because it believes that it has the opportunity to achieve lasting change for its clients, communities, and the planet.



Robust ESG Investment Policy	Use of Diversified External ESG Data	Dedicated ESG Investment Professionals	Company Engagement
✓	✓	✓	✓
Internal ESG Scoring	External ESG Data Integration	Transparent Proxy Voting Process	Impact Reporting Available
✓	✓	✓	✗*

*Impact reporting available for select sustainable products.

SBCERS Manager Facts as of 3/31/2023

Inception Date:	Sep. 2017
AUM (\$M):	60.1
% of Total Fund:	1.5%
Since Inception Net Return:	2.5%
Since Inception Index Return:	2.2%



Manager ESG Review

PGIM: Core Plus Fixed Income

Signatory of:



Since
2015

RVK Analysis

RVK views PGIM’s capabilities and experience as an ESG-Integrated asset manager as low compared to firms of similar size and scope.

Given PGIM’s insurance roots, the firm takes a risk-mitigating approach to ESG incorporation and views ESG information as helping to discern where unforeseen risks may be in long term investing.

PGIM is particularly focused on the effects of a changing climate and how the impact can cause revaluations for many assets. Given the broad scope of PGIM and affiliate lines of insurance and global asset management, climate impacts assets in different ways and as an insurance provider, PGIM has a good understanding of these risks and subsequently has a better understanding of future values of assets.



	Robust ESG Investment Policy	Use of Diversified External ESG Data	Dedicated ESG Investment Professionals	Company Engagement
	X	✓	✓	✓
	Internal ESG Scoring	External ESG Data Integration	Transparent Proxy Voting Process	Impact Reporting Available
	✓	✓	✓	X

SBCERS Manager Facts as of 3/31/2023

Inception Date:	June 2018
AUM (\$M):	246.6
% of Total Fund:	6.1%
Since Inception Net Return:	1.6%
Since Inception Index Return:	0.9%



Manager ESG Review

PanAgora: Dynamic International Equity

Signatory of:



Since
2011

RVK Analysis

RVK views PanAgora’s ESG integration as low to medium. While PanAgora has established a Sustainability Committee to oversee ESG and Sustainability practices at PanAgora, they have taken limited steps beyond that. Furthermore, the Sustainability Committee is largely focused on governance and diversity efforts as opposed to a more holistic approach involving environmental and social aspects.

PanAgora votes proxies through ISS for clients when requested, but beyond that, it is largely uninvolved in any form of engagement.



	Robust ESG Investment Policy	Use of Diversified External ESG Data	Dedicated ESG Investment Professionals	Company Engagement
	X	✓	X	X
	Internal ESG Scoring	External ESG Data Integration	Transparent Proxy Voting Process	Impact Reporting Available
	X	X	X	X

SBCERS Manager Facts as of 3/31/2023

Inception Date:	May 2009
AUM (\$M):	205.6
% of Total Fund:	5.1%
Since Inception Net Return:	7.8%
Since Inception Index Return:	7.1%



Manager ESG Review

RBC: Emerging Markets Equity

Signatory of:



Since
2015

RVK Analysis

RVK views RBC's ESG practices as low. RBC seems to have dedicated the necessary resources and time into developing robust ESG integration processes. RBC has multiple different ESG Oversight Committees in place to monitor various aspects of its sustainability investing programs. It currently has a Global Diversity Leadership Council and a Corporate Responsibility Committee.

RBC utilizes a fundamental ESG process coupled with a systematic approach that pursues long term returns. RBC has found that the best source for data in the research process is direct engagement with a company due to 3rd party data providers often lacking details on smaller companies.

RBC also has comprehensive voting guidelines, which are reviewed on an annual basis. Its proxy voting practices, coupled with strong engagement to achieve stable long-term returns.



Robust ESG Investment Policy	Use of Diversified External ESG Data	Dedicated ESG Investment Professionals	Company Engagement
✓	✓	✓	✓
Internal ESG Scoring	External ESG Data Integration	Transparent Proxy Voting Process	Impact Reporting Available
✗	✗	✓	✗

SBCERS Manager Facts as of 3/31/2023

Inception Date:	Sep. 2016
AUM (\$M):	127.2
% of Total Fund:	3.2%
Since Inception Net Return:	5.0%
Since Inception Index Return:	4.0%



Manager ESG Review

Rice Hall James: Small Cap Opportunities

Signatory of:



Since
2020

RVK Analysis

RVK views Rice Hall James’s ESG integration capacity as low. Rice Hall James believes that their fundamentals-driven investing process adequately captures relevant risk. Because of this, they do not see a need to actively incorporate ESG factors.

Rice James Hall has begun voting proxies and has started utilizing a third-party proxy voting service for client proxies but is not involved in active stewardship efforts.



Robust ESG Investment Policy	Use of Diversified External ESG Data	Dedicated ESG Investment Professionals	Company Engagement
x	x	x	x
Internal ESG Scoring	External ESG Data Integration	Transparent Proxy Voting Process	Impact Reporting Available
x	x	x	x

SBCERS Manager Facts as of 3/31/2023

Inception Date:	June 2016
AUM (\$M):	34.8
% of Total Fund:	0.9%
Since Inception Net Return:	8.9%
Since Inception Index Return:	8.2%



Manager ESG Review

Wellington: Blended Opportunistic EMD

Signatory of:



Since
2020

RVK Analysis

RVK views Wellington’s ESG integration capabilities as high due to its fundamental ESG research processes and comprehensive engagement practices. Wellington’s previous work building a strong fundamental research framework helped to advance the expansion to ESG factor inclusion more rapidly than other large asset managers.

Part of the research process includes more effective engagements with companies. Wellington has partnered with groups like the ESG Data Convergence Project and the Glasgow Financial Alliance to bring uniformity and clarity to the sustainable investment field. Wellington has also partnered with the Woodwell Climate Research Center to research quantitative models that help understand the impacts of climate change on global assets and markets.

Wellington has well established proxy voting guidelines, which works in tandem with direct company engagements to express value-increasing opportunities. This stewardship process is conducted with the goal of ensuring long-term value for clients.



	Robust ESG Investment Policy	Use of Diversified External ESG Data	Dedicated ESG Investment Professionals	Company Engagement
	✓	✓	✓	✓
	Internal ESG Scoring	External ESG Data Integration	Transparent Proxy Voting Process	Impact Reporting Available
	✗	✓	✓	✗

SBCERS Manager Facts as of 3/31/2023

Inception Date:	Mar. 2020
AUM (\$M):	122.9
% of Total Fund:	3.1%
Since Inception Net Return:	-3.0%
Since Inception Index Return:	-3.8%



ESG Regulatory Update



ESG Regulatory Update

Department of Labor (DOL) ESG Guidance

Timeline

1994 *Introduced “All Things Equal Test”*

Lower returns could not be accepted, but ESG could be a tie-breaker.

2008 *Withdrew 1994 guidance*

Non-economic factors should be rare. Compliance with ERISA should be demonstrated.

2015 *Withdrew 2008 language, reinstated 1994 guidance*

ESG factors may directly affect economic returns and may be considered in assessing an investment.

2018 *Revised its 2015 guidance*

While ESG factors can be a tie-breaker, fiduciaries should not overweight these factors.

2020 *Issued Final Rules in line with 2018 guidance*

Plan sponsor’s duty of loyalty and prudence is to only take pecuniary (i.e., monetary) factors into account in the selection and monitoring of investments. Proxy voting should serve financial interests of participants. Additional documentation requirements added.

2021 *Announced it will not enforce the 2020 Final Regulation*

The DOL announced that the 2020 Final Rules would not be enforced while stating its intention to issue a modified rule, which was proposed in October 2021.

2022 *Current Status: DOL Issued Final Regulation*

Fiduciaries should focus on the risk/return of potential investments, though the economic effects of climate change and other ESG factors may be material to risk/return and considered as part of an investment decision-making process.

ESG Regulatory Update

DOL 2022 ESG and Proxy Voting Rule

- On November 22, 2022, the DOL released a Final Rule entitled “Prudence and Loyalty in Selecting Plan Investments and Exercising Shareholder Rights,” colloquially known as the “ESG & Proxy Voting Rule.”
 - The Final Rule generally reverses regulatory changes made by the prior administration in two 2020 Rules, which the current DOL had declined to enforce.
 - The Final Rule took effect on January 30, 2023 (except for some proxy provisions effective December 1, 2023).
- The Final Rule provides guidance to plan fiduciaries regarding the consideration of climate change and other environmental, social, and governance (ESG) factors when making investment decisions and exercising shareholder rights.

Key Provisions of the Final Rule

- **Consideration of ESG Factors:** The Rule reasserts that ERISA requires plan fiduciaries to focus on the risk/return of potential investments as the primary factor when making investment decisions.
 - However, the DOL states in the Final Rule that economic effects of climate change and other ESG factors may be material to risk/return and considered as part of an investment decision-making process.
 - The Rule does not mandate that a plan fiduciary take any particular action with regards to consideration of ESG factors in the decision-making process.
- **Approach to QDIAs in DC Plans:** The standards related to ESG applied to QDIAs are the same as other investment menu options, as long as the investment meets other DOL regulations related to QDIAs.

RVK's interpretation of ERISA fiduciary guidelines are based on a business review and do not constitute a legal review or advice.

U.S. Department of Labor, *Final Rule on Prudence and Loyalty in Selecting Plan Investments and Exercising Shareholder Rights*. Fact Sheet. November 22, 2022.

Cole, Jim, et. al. Groom Law Group. DOL Finalizes ESG, Proxy Voting Regulation. November 30, 2022.



ESG Regulatory Update

DOL 2022 ESG and Proxy Voting Rule

Key Provisions of the Final Rule (cont.)

- **“Tie-breaker” Standard:** When selecting among competing investments, Plan fiduciaries may consider “collateral benefits” as a tie-breaker as long as they can prudently conclude that the investments will serve the plan’s financial interests equally over time—the fiduciary cannot accept lower returns or more risk. There are no special documentation requirements regarding the use of a tie-breaker beyond what would generally be prudent documentation of decision-making.
- **Consideration of Participant Preferences:** Plan fiduciaries can consider participants’ “non-financial preferences” when developing a menu of prudent investment options, based on commenter suggestions that doing so could increase plan participation or savings rates.
- **Shareholder Rights/Proxy Voting:** A plan fiduciary’s duty to manage plan assets includes prudent management of shareholder rights, including the right to vote on proxies. There are no specific documentation requirements related to a plan’s approach to proxy voting beyond what general fiduciary prudence would dictate.

Impact to DC Plan Sponsors

The Final Rule provides helpful clarity to plan sponsors interested in incorporating ESG into a DC plan’s investment lineup. However, plan sponsors should be aware that the DOL was recently sued over the Final Rule, and it could conceivably be overturned. There is also a possibility that a future administration could revert to a less ESG-friendly stance, though doing so would likely require a change to formal regulatory text. As with any other fiduciary action, plan sponsors should continue to follow a prudent and well documented process when making an investment decision.

RVK’s interpretation of ERISA fiduciary guidelines are based on a business review and do not constitute a legal review or advice.

U.S. Department of Labor, *Final Rule on Prudence and Loyalty in Selecting Plan Investments and Exercising Shareholder Rights*. Fact Sheet. November 22, 2022.



Selection of State Boycott Initiatives

Utah

03/2023: *State Bill 96 – Fiduciary Duty Modifications – passed*

Requires funds managed by public funds to act in accordance with updated fiduciary responsibilities prohibiting them from making investments based on anything other than the maximization of risk-adjusted returns for the sole benefit of beneficiaries.

03/2023: *State Bill 97 – Public Contract Requirements – passed*

State Bill 97 prohibits public entities from entering into contracts with companies that engage in certain boycott actions. Prohibited boycott actions include the production, manufacturing, utilization, or production of any fossil fuel-based energy, timber, mining, agriculture, or firearms. Furthermore, public entities are prohibited from investing in companies that commit to any environmental standards beyond those applicable to state and federal law requirements or are involved in the facilitation of abortion or sex based surgical procedures.

Kentucky

03/2023: *House Bill 236 – Relating to the fiduciary duties owed to the state-administered retirement systems – passed*

Prohibits any investments based on non-pecuniary factors, which are defined as relating to environmental, social, political or ideological interests that do not have a direct and material connection to an investment.

West Virginia

02/2023: *House Bill 2862 – Relating generally to requirements for shareholder voting – passed*

Prohibits any boards or boards' fiduciaries from casting any shareholder votes with the aims of furthering non-pecuniary interests. Pecuniary interests are defined as factors having a direct and material impact on financial risk and return within a reasonable time horizon. Non-pecuniary factors are explicitly stated to be environmental, social, or corporate governance factors

Arkansas

03/2023: *House Bill 1307 concerning the regulation of environmental, social justice, or governance scores - passed*

Any financial service provider found to be involved in the discrimination fossil fuel, energy, firearms, or ammunition is to be placed on a list, which the Treasurer of State shall divest from in all direct or indirect holdings. Prior to placement on the divestment list, the financial service provider shall be sent a written notice informing them of the determination of Arkansas' ESG Oversight Committee and will receive forty-five days to respond with evidence that they are not involved in the discrimination of fossil fuel, energy, firearms, or ammunition.

Indiana

05/2023: *House Bill 1008 Pension Investments – passed*

Prohibits the board from making any investment decisions with the purpose of influencing ESG policies, attempting to influence governance of any corporation for non-financial reasons, or from making any ESG commitments with system assets.

02/2023: *House Bill 1008 expected to result in \$6.7 billion in losses for Pensions funds*

According to a Forbes article citing an analysis performed by the Indiana Legislative Services Agency, House Bill 1008 is expected to reduce total annual returns of the Indiana Public Retirement System by approximately 1.20% leading to \$6.7 billion in losses over the next decade.

Selection of State Boycott Initiatives Cont'd

Montana

03/2023: *House Bill 228 Prohibiting the Consideration of Non-Pecuniary Factors – passed*

Requires investment to be based purely on pecuniary factors. Prohibits the inclusion of non-pecuniary factors defined as relating to environmental, social, governance, or other related factors.

04/2023: *House Bill 356 Regarding Firearm Investments – passed*

Prohibits government entities from contracting with any company that has a policy discriminating against firearm entities or trade associations

Florida

05/2023: *Florida State Board of Administration Currently Holding Blackstone Green Fund*

Florida released its 1st Quarter Investment Report showing that as of Q1 2023, the State Board of Administration holds \$150 million in the Blackstone Green Private Credit Fund, which is focused on lending to renewable energy companies.

04/2023: *House Bill 3 Relating to Government and Corporate Activism – passed*

Requires the Chief Financial Officer or authorized party to invest solely based on pecuniary factors defined as having material effect on risk and return within an appropriate investment horizon. Pecuniary is explicitly stated to not include the consideration of social, political, or ideological factors and interests.

Kansas

05/2023: *House Bill 2100 Concerning ESG Criteria - passed*

Prohibits state entities discriminating against companies on an ESG basis. Requires KPERS fiduciaries to act solely in the financial interest of the participants.

North Carolina

05/2023: *House Bill 750 Addressing the Use of ESG – passed*

Prohibits any state entity from enforcing, providing data for, participating in, or using any ESG criteria in employment decisions.

Oklahoma

05/2023: *Oklahoma ESG Investment Blacklist Inconsistent*

According to FundFire, of the 13 firms on Oklahoma's published blacklist, over half do not meet the criteria laid out in Oklahoma's 2022 anti-ESG legislation. The State Treasurer's office appears to be applying the criteria for blacklisting unevenly leading to an outcry from companies claiming that they were unjustly banned. Alongside these complaints from companies, are claims that the Oklahoma Treasurer's Office is ignoring complaints from state pension funds who could face financial penalties for divesting from some of the listed firms.

Appendix

– ESG Education



ESG Education

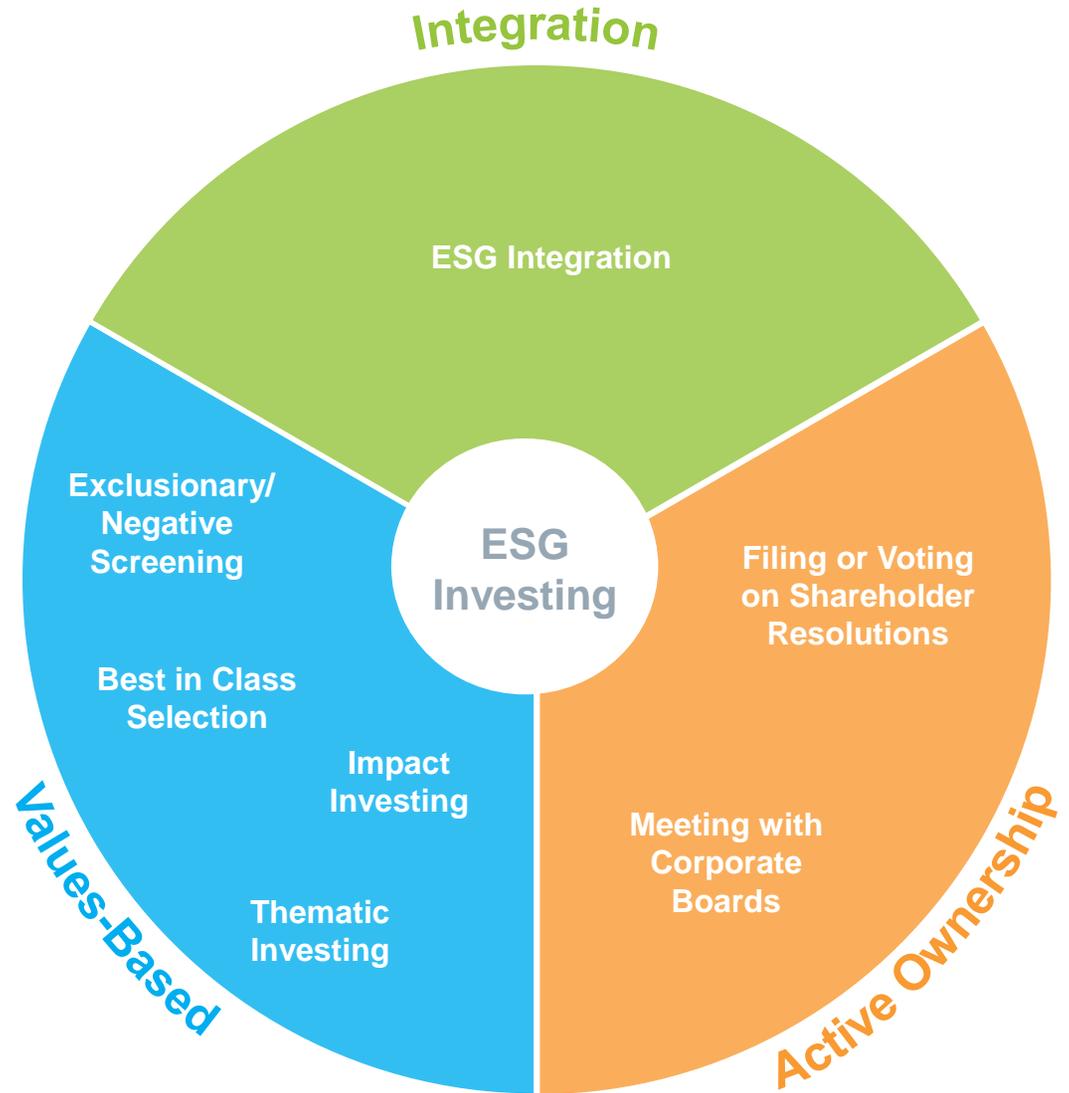
Spectrum of ESG Strategies

Approaches to ESG investing can be broadly grouped into three different approaches:

Values-Based Investing: Investing in alignment with an organization or individual's values, with the intention to generate measurable positive social benefit in addition to financial return.

ESG Integration: Investing with a systematic and explicit inclusion of ESG risks and opportunities along with other financial data in investment analysis.

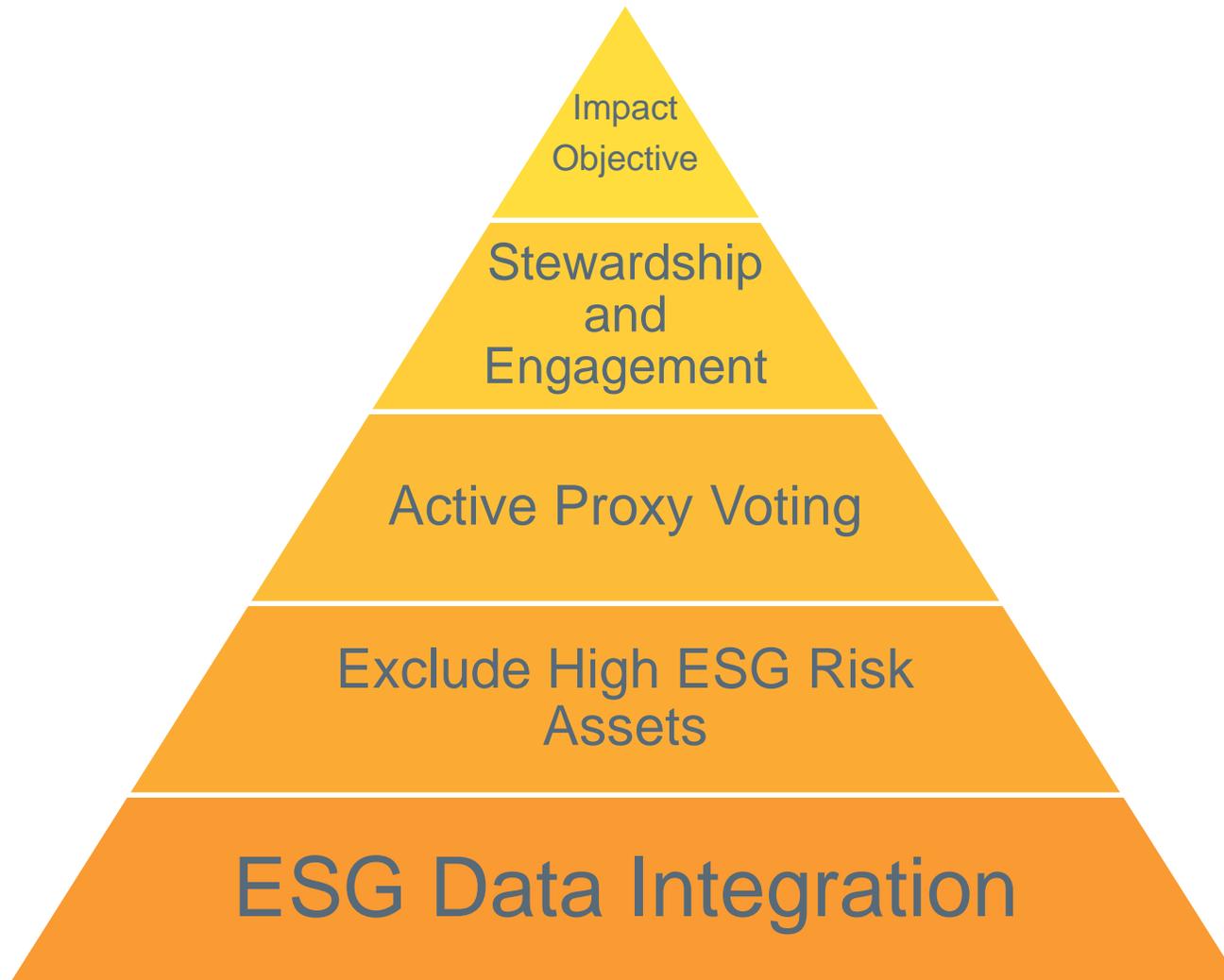
Active Ownership: Using information on ESG factors to monitor or influence the management of companies in a positive direction.



ESG Education

A Little Integration? Or a Lot?

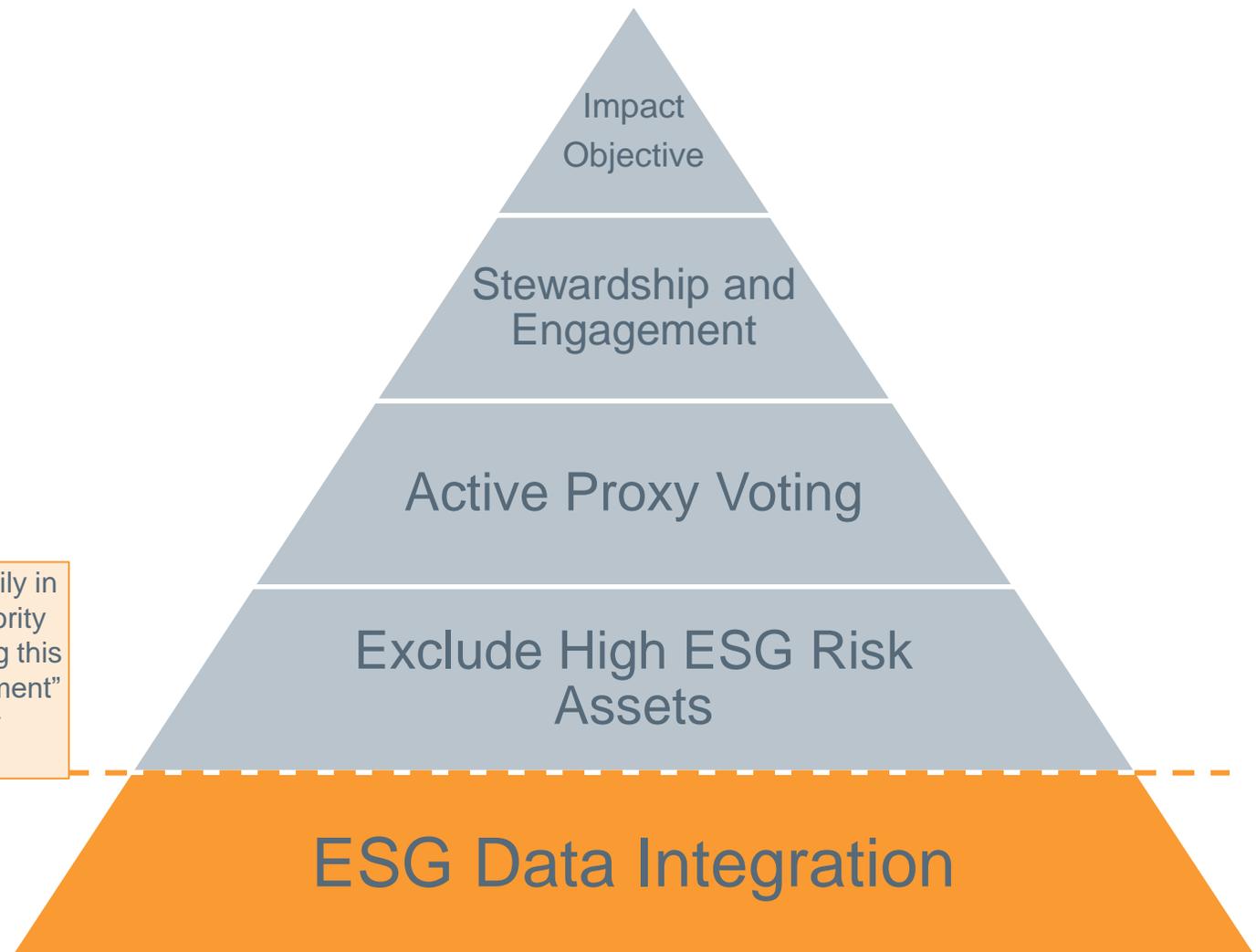
Because there are various ways that ESG data can be integrated, or sustainable objectives met, it's important to evaluate all avenues where a manager could express an ESG view.



ESG Education

Broad and Deep Use of ESG Data in Research

ESG Data Integration is heavily in use by an overwhelming majority of asset managers. Removing this from general “asset management” practices would be practically impossible.



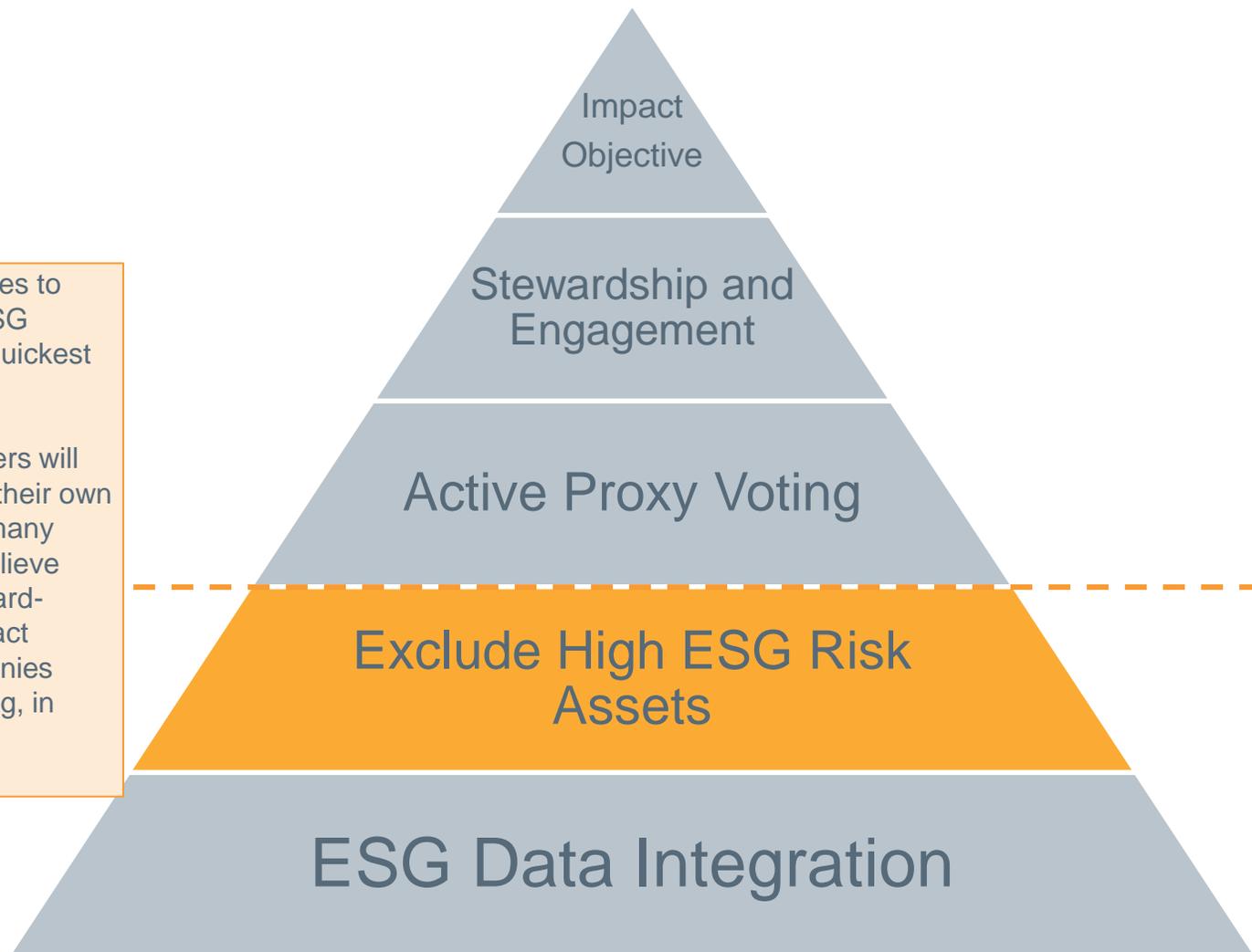
ESG Data Integration

ESG Education

Broad and Deep Use of ESG Data in Research

Using third-party ESG data scores to identify and avoid low-quality ESG companies is the simplest and quickest way to create an ESG strategy.

Most ESG Impact asset managers will avoid third-party scores and do their own in-house evaluation. Likewise, many ESG Impact asset managers believe these scores are heavily backward-looking and where instead, Impact managers aim to identify companies where ESG factors are improving, in order to gain impact and price appreciation.



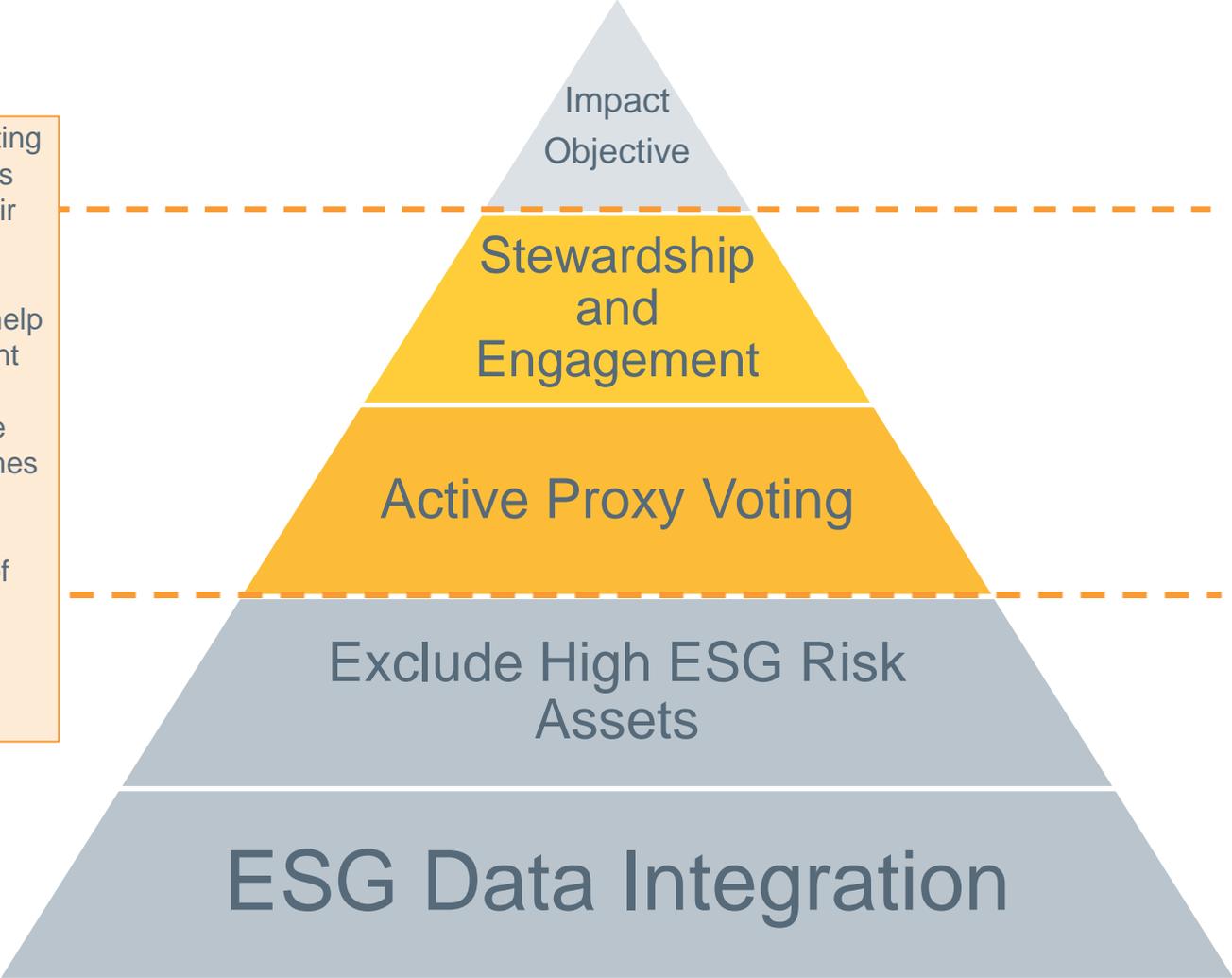
ESG Education

Broad and Deep Use of ESG Data in Research

In addition to a portfolio team integrating ESG factors, asset management firms have begun to formalize, or grow, their stewardship teams.

Stewardship teams (or committees) help guide the engagement with investment companies. Stewardship teams build relationships with companies to share information and improve ESG outcomes and company valuations.

Active Proxy Voting is a component of stewardship and can be used to help determine the level of commitment to ESG improvement campaigns at the company level.

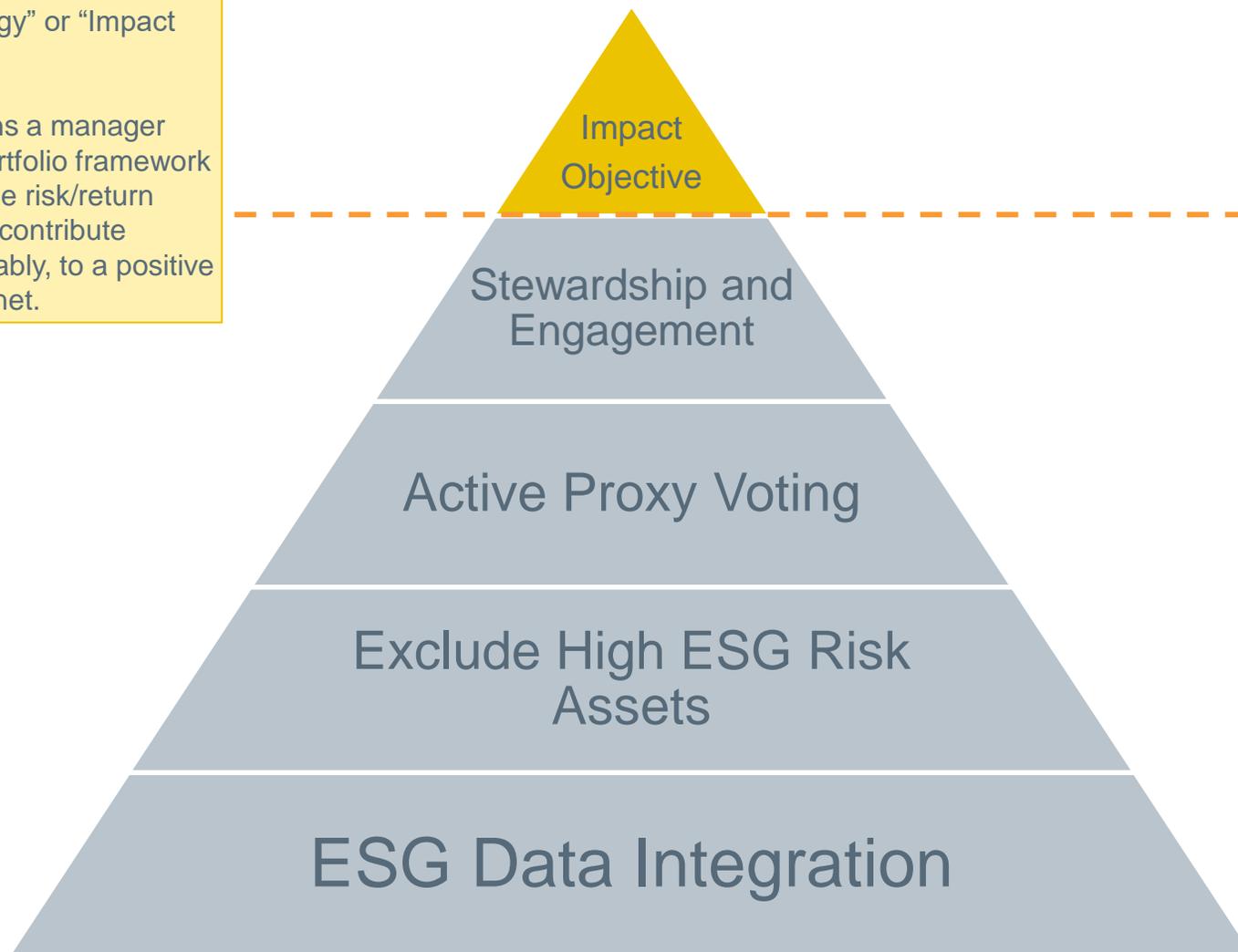


ESG Education

Broad and Deep Use of ESG Data in Research

An “Impact Objective” is in use when a strategy is an “ESG strategy” or “Impact strategy.”

An Impact Objective means a manager has intentionally built a portfolio framework to choose assets that fit the risk/return profile of the strategy and contribute meaningfully, and measurably, to a positive outcome for people or planet.



ESG Education

ESG Standards

- **The Principles for Responsible Investment (PRI)**
 - The PRI is currently the industry standard for a firm to publicly commit to staying informed of, and engaging with, ESG issues and risks.
 - The PRI is made up of six pillars (more details provided in the following slides).
- **Sustainable Development Goals (SDGs)**
 - SDGs are 17 global goals put forward by the United Nations and approved by 193 countries that act as a blueprint for ESG investing to achieve a better and more sustainable future for all.
 - SDGs have been highlighted by companies and investors as an opportunity to use a different lens to filter future investment decisions and measure ESG impact.
- **Sustainability Accounting Standards Board (SASB Standards)**
 - The standards aim to identify ESG risks within industries and make measuring and comparing across companies easier. Widely used standards are necessary to understand the scope and magnitude of risk that resides in a company who fails adequately address ESG risks.
 - Founded in 2011 to provide an expanded accounting language for ESG monitoring, this standard continues to gain widespread acceptance among global investment professionals.

ESG Education

PRI Overview

Investment managers can become a signatory of PRI.

- The Principles for Responsible Investment, or PRI, includes six pillars:
 1. Incorporate ESG issues into investment analysis and decision-making processes
 2. Be active owners and incorporate ESG issues into ownership policies and practices
 3. Seek appropriate disclosure on ESG issues by the entities invested in
 4. Promote acceptance and implementation of the Principles within the industry
 5. Work to enhance effectiveness in implementing the Principles
 6. Report on activities and progress toward implementation
- The PRI is currently the industry standard for a firm to publicly commit to staying informed of, and engaging with, ESG issues and risks.
 - Signatories are required to fill out extensive reporting on an annual basis on their responsible investment activities.
 - Signatories can be a range of entities, from investment managers to asset owners.

Signatory of:

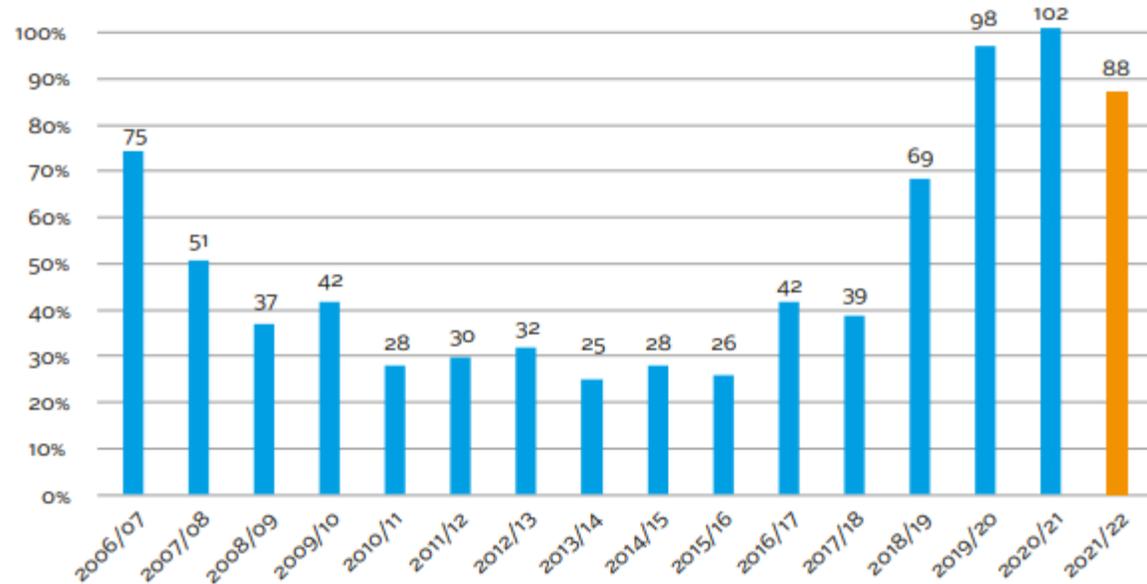


ESG Education

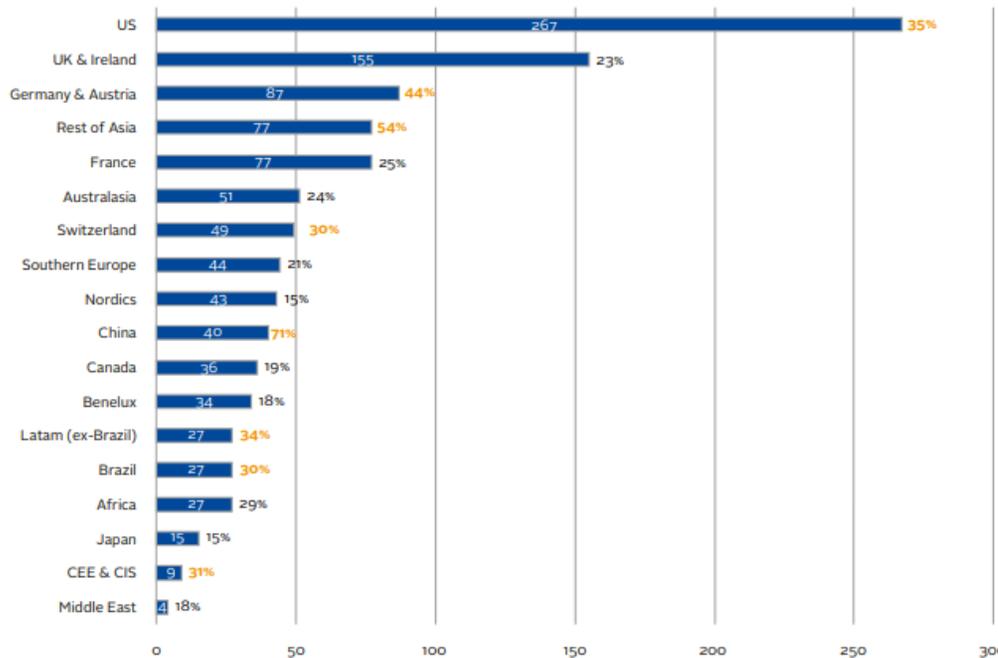
PRI Overview

- The number of PRI Signatories has steadily increased over time.
- 2021/22 was the third-largest year for asset owner growth, with 88 new PRI signatories, bringing the total to 681.

New asset owner signatories, by year



New signatories, by region



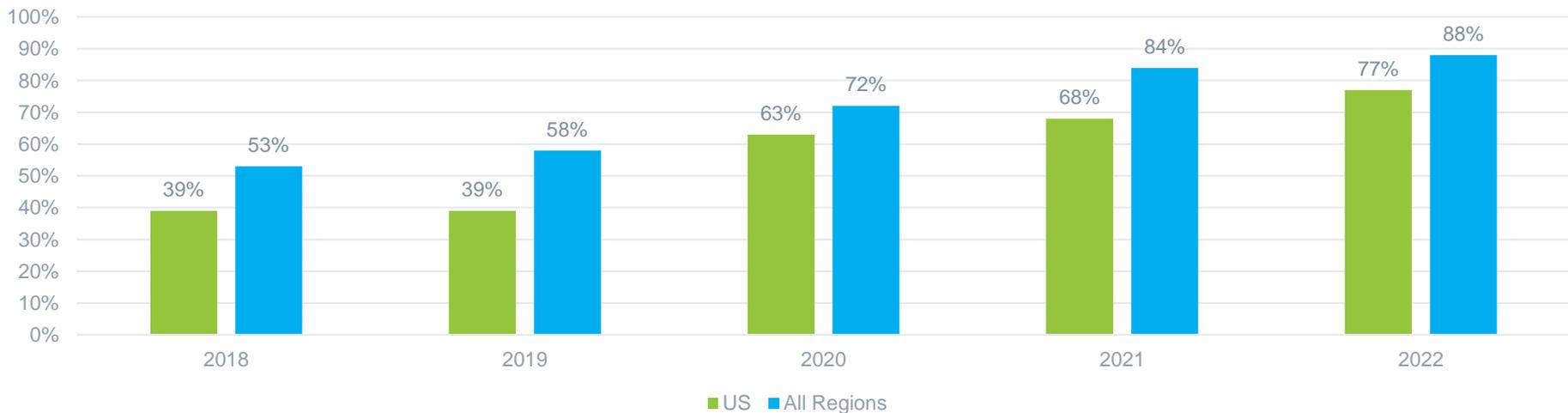
- The United States (US), the United Kingdom (UK), and Ireland make up 39% of new signatories.
- The rest of Europe accounts for another 31%.

ESG Education

Who Is Participating?

- Requests for ESG incorporation from large asset owners, primarily public pensions and corporate retirement plans, continued to rise in 2022 across US and global spheres.
- Large plans are often considered “universal owners” due to asset size and thus are exposed to most of the market. With long-term liabilities to consider, ESG and the emphasis on long-term sustainability suit the fiduciary duty to mitigate risks.
- As shown below, the ESG implementation and evaluation discrepancy between US and global asset owners decreased significantly during 2022.

% of Organizations Implementing or Evaluating ESG Considerations



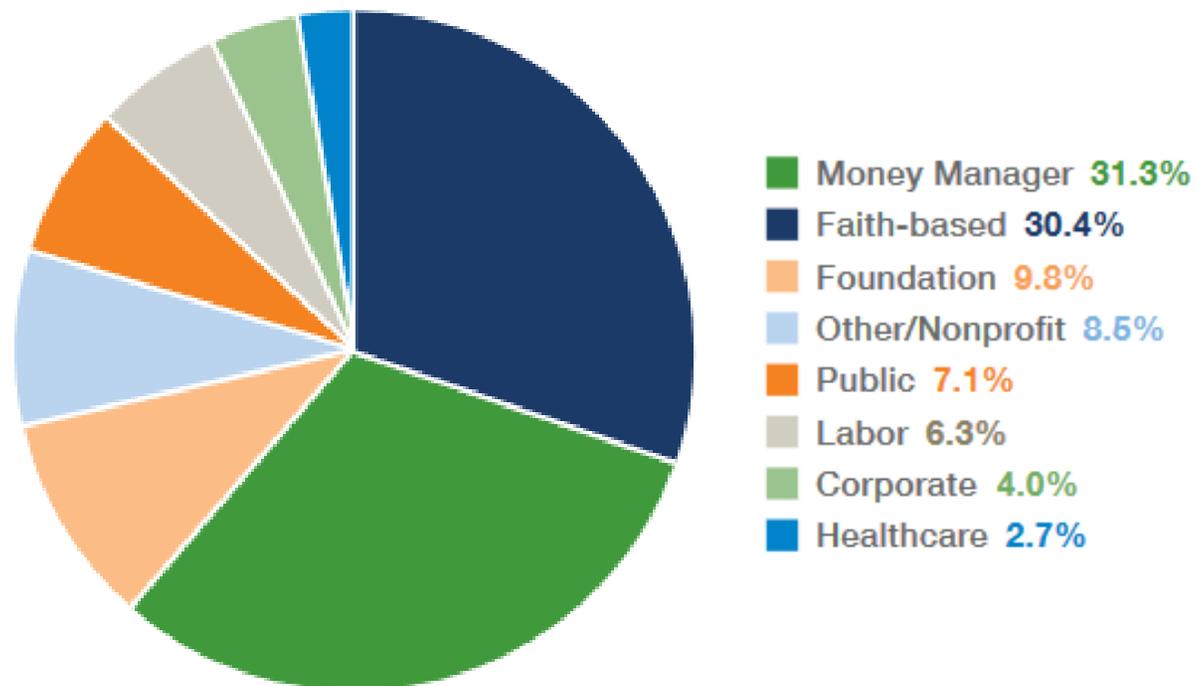
Data sourced from the FTSE Russell 2022 global survey findings from asset owners. 184 asset owners participated in the survey, primarily consisting of government organizations (21%), insurance companies (24%), pension funds/plan sponsors (29%), healthcare organizations or hospitals (8%), and endowments/foundations (7%). The remaining respondents represent sovereign wealth funds, family offices, non-profits, banks, and unions.

ESG Education

Institutional Client Support for ESG Incorporation

- Money managers and faith-based organizations make up the majority of ESG-related investments made over the past 2 years.

Types of Institutional Investors Incorporating ESG Criteria 2020–2022



PORTLAND

BOISE

CHICAGO

NEW YORK

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