

NEPC ESG SURVEY

A PROFILE OF CORPORATE & HEALTHCARE PLAN DECISIONMAKERS' PERSPECTIVES

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BACKGROUND

- **Impact Investing is a term used to encompass investing approaches that seek to achieve both a **financial return** and a **societal contribution****
- **What is Impact Investing?**
 - Some would say there is a dual objective to both “do good” and “do well”
 - Early iterations avoided certain stocks and industries that many investors wouldn’t want to earn profits from, such as tobacco, gambling, guns, etc.
 - Newer approaches move away from negative screening to consideration of environmental, social and governance (“ESG”) factors in the investment process
- **Employer-sponsored retirement plans have been slower to adopt these practices**
 - The exclusive purpose doctrine under ERISA requires investments to be selected for the central purpose of saving for retirement
 - SRI, ESG and other types of impact investing can be pursued if they pass the “all things being equal” test
- **However interest in Environmental, Social and Governance factors (ESG) is a growing entrant in the responsible investing field**

BACKGROUND

- **NEPC believes ESG will continue to grow as a topic of interest**
 - Millennials are emerging as a generation that expresses interest in ESG and they are fast becoming decision-makers and retirement plan participants
 - Investment managers are including ESG as a complement to the traditional financial evaluation of assets
- **Due to growing interest in ESG, NEPC surveyed a broad pool of asset owners to assess their current and expected use of ESG**

2018 ESG TRENDS SURVEY

NEPC, LLC

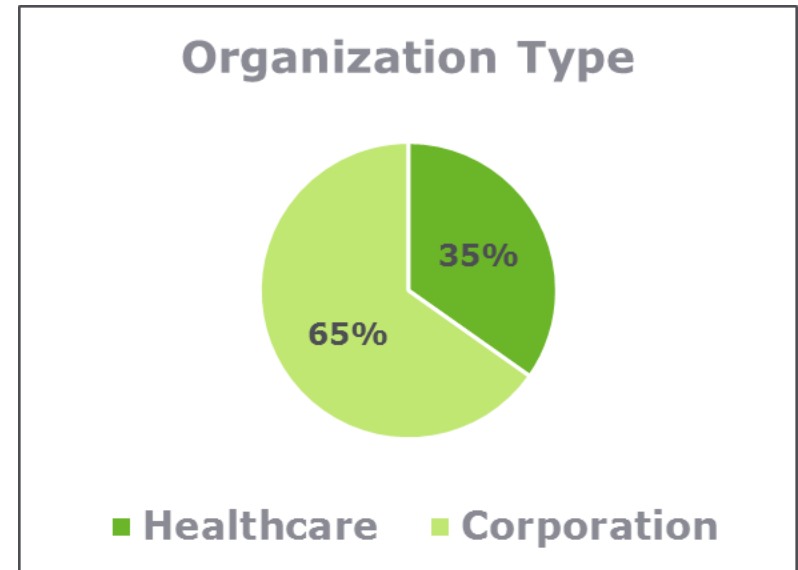
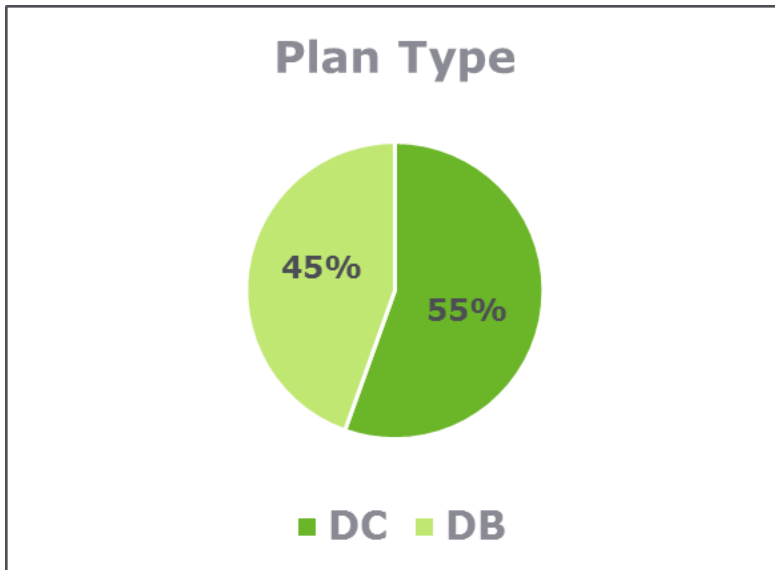
ROBUST AND DIVERSE SURVEY DEMOGRAPHICS

- **The 2018 survey includes:**

- 69 plan sponsors
- With oversight of 119 defined benefit & defined contribution plans

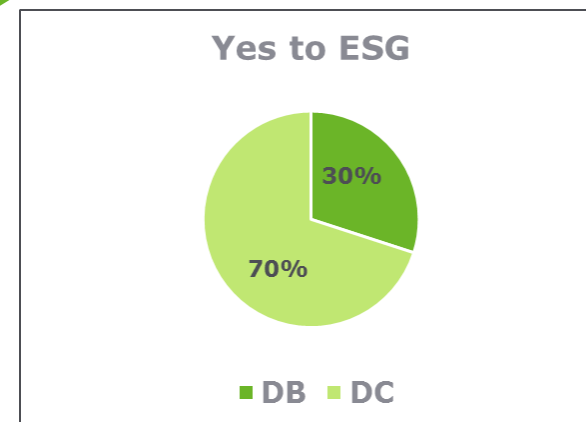
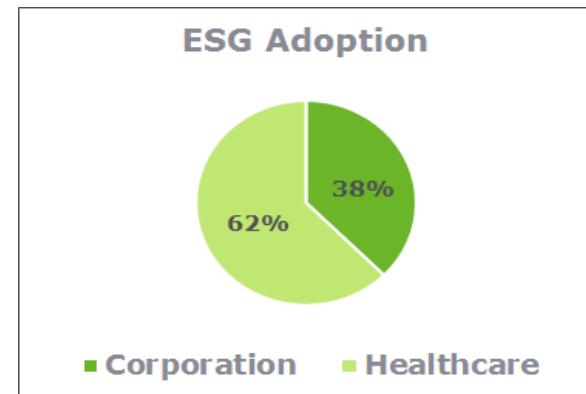
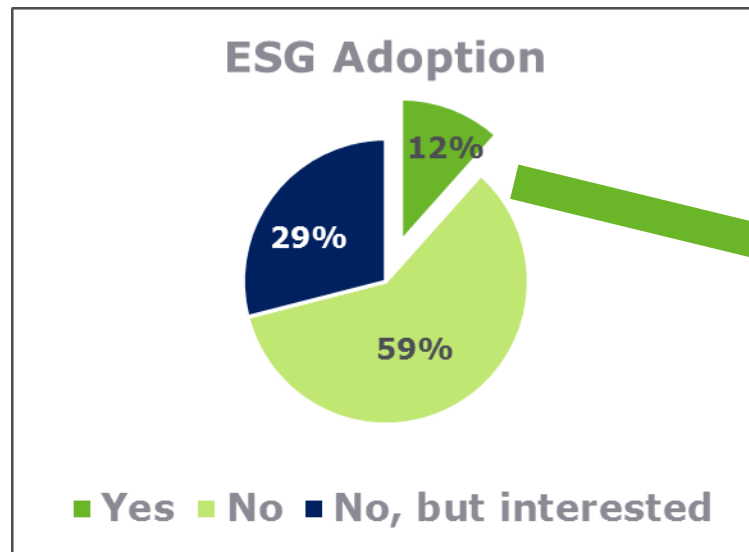
- **Diverse organization types**

- Corporate
- Healthcare



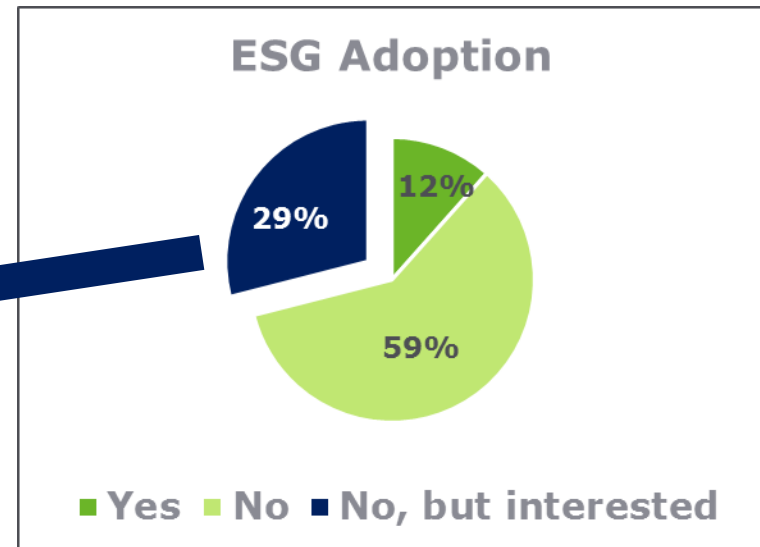
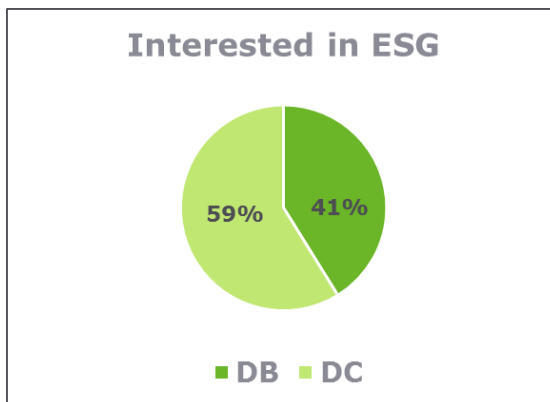
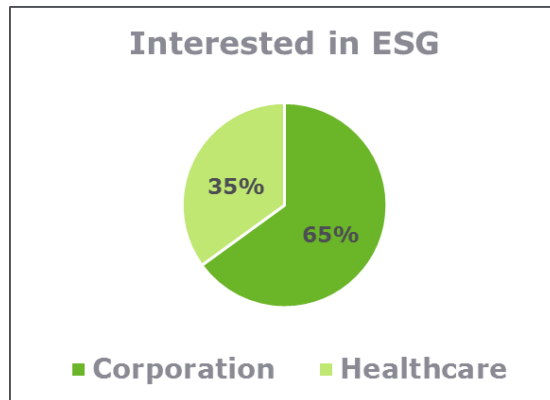
LIMITED ESG ADOPTION

- A handful of plans have incorporated ESG into their manager selection process
- Healthcare sponsors express the strongest interest



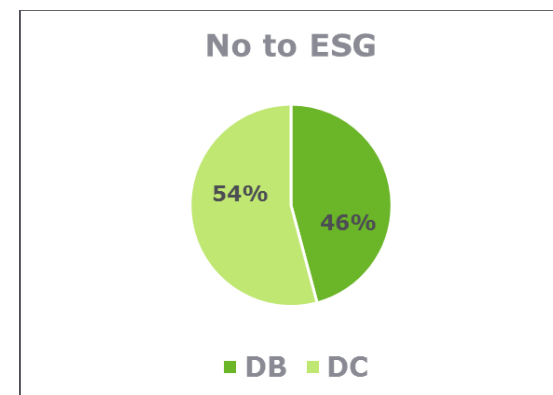
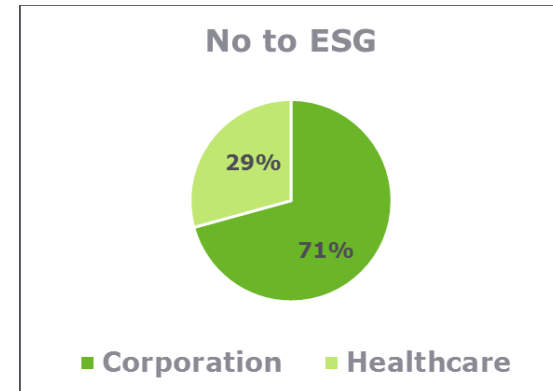
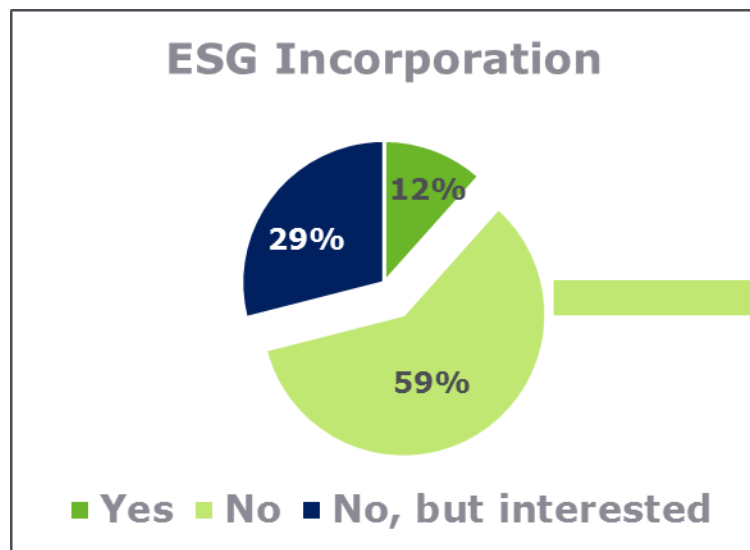
BUT, INTEREST IN ESG IS MATERIALIZING

- Almost a third of plan sponsors are interested in exploring ESG
- Main reasons cited on why these plans have not incorporated ESG to date - more education (37%) and data on ESG's impact to performance required (32%)
 - Over 15% of respondents cited clearer Department of Labor (DOL) guidance is needed



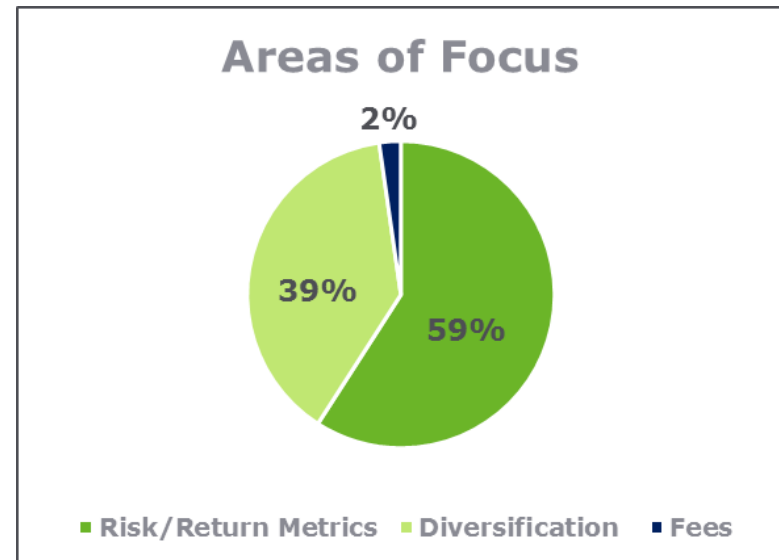
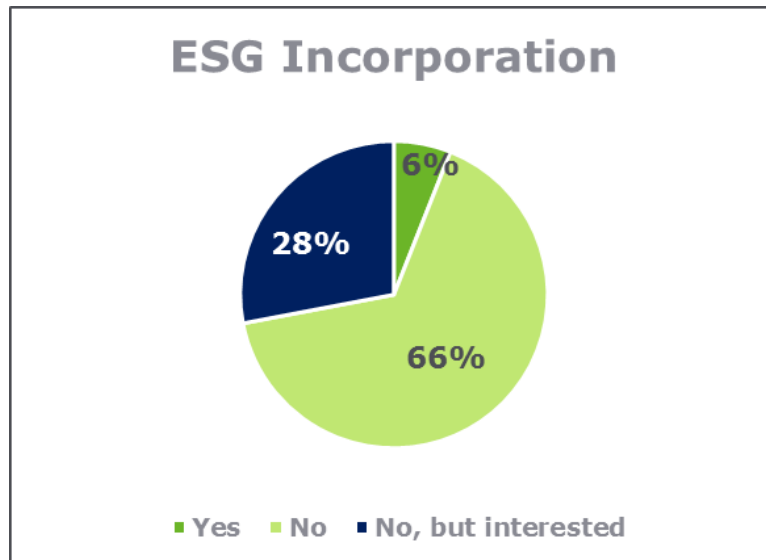
THOSE NOT FOCUSED ON ESG CITE FINANCIAL REASONS

- **Well over a half of plan sponsors are not focused on ESG**
 - Corporate Plans are overwhelmingly not interested in ESG with a roughly even split between DB and DC
- **Over a third indicate they only focus on financial factors (38%)**
 - The next highly cited reason (27%) was that more data is required on ESG's impact to performance



DB PLANS ARE NOT FOCUSED ON ESG

- **The majority of DB plans have not incorporated ESG into their manager selection process (94%)**
 - However, almost a third (28%) have indicated there may be interest in the future
- **Of those DB respondents who have not incorporated ESG today**
 - The majority are focused on risk/return metrics (59%) and diversification (39%) when selecting investment managers
- **Why are DB plans not incorporating ESG?**
 - Over a third indicate more data is required on ESG's impact to performance (34%) and the next highly cited reason (27%) was they only focus on financial factors



SUMMARY

- **ESG has grown four-fold in institutional portfolios over the last 10 years to a total of \$4.7 trillion¹**
- **While there has been industry growth, the large majority of the survey's respondents are not incorporating ESG**
 - These respondents are focused on risk/return factors (55%) and diversification (38%)
- **However, there is potential for continued growth as over a third of respondents indicate they are interested in ESG**
- **Future growth in ESG will continue to be linked to a number of factors including:**
 - Clear and concise research on ESG's impact to performance
 - DOL Field Assistance Bulletin 2018–01, released in April 2018, reiterated that ERISA fiduciaries may not sacrifice investment returns or assume greater risk in an effort to promote collateral social or environmental policy goals
 - Effective education on the topic
 - Future changes or clarifications with regards to ERISA guidance

DISCLAIMERS

- **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.**
- **From time to time, NEPC may provide background information on fund structures or the impact of taxes, but you should contact your legal counsel or tax professional for specific advice on such matters.**