

The logo for K&L GATES is displayed in white, bold, sans-serif capital letters on a dark blue rectangular background. The background of the entire slide features a complex financial data visualization with a world map, various line and bar charts, and scattered numerical values in shades of blue and white.

K&L GATES

2019 SAN FRANCISCO INVESTMENT MANAGEMENT
CONFERENCE

Socially Responsible, ESG, and Impact Investing

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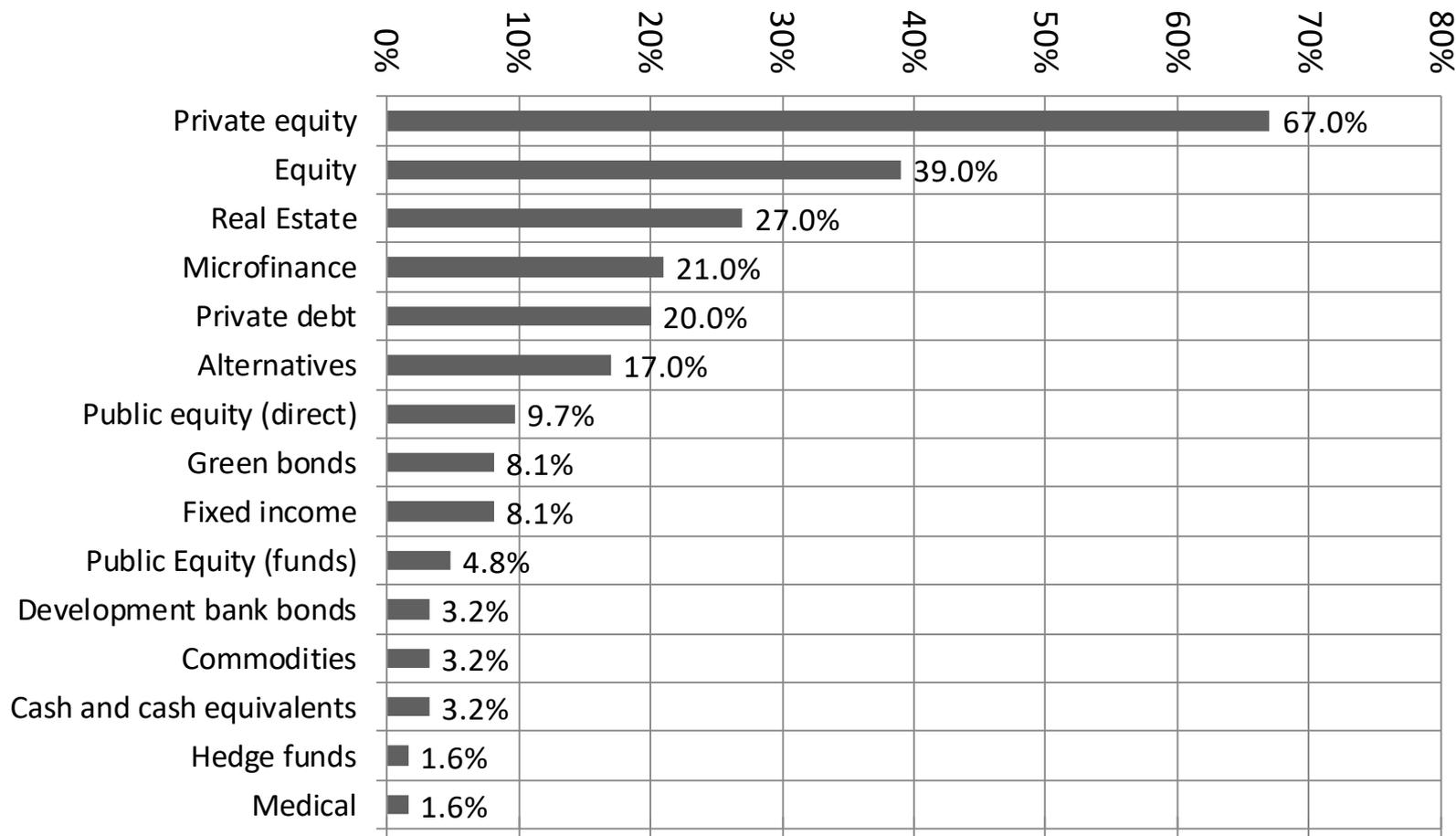
Teresa Wells, Managing Director – Tiedemann Advisors

TRENDS IN ESG, SRI AND IMPACT INVESTING

- Investors are increasingly focused on Environmental, Social and Governance Issues (ESG), Socially Responsible Investing (SRI) and Impact Investing
- Global Sustainable Investing Alliance reports that \$23 trillion in assets around the world have been committed to socially responsible investing strategies
- The 2018 GIIN Annual Impact Investor Survey estimates that 229 of the world's leading impact investor organizations collectively manage over USD \$228 billion in impact assets across the globe



Figure 1.28 Most common asset classes for impact investing

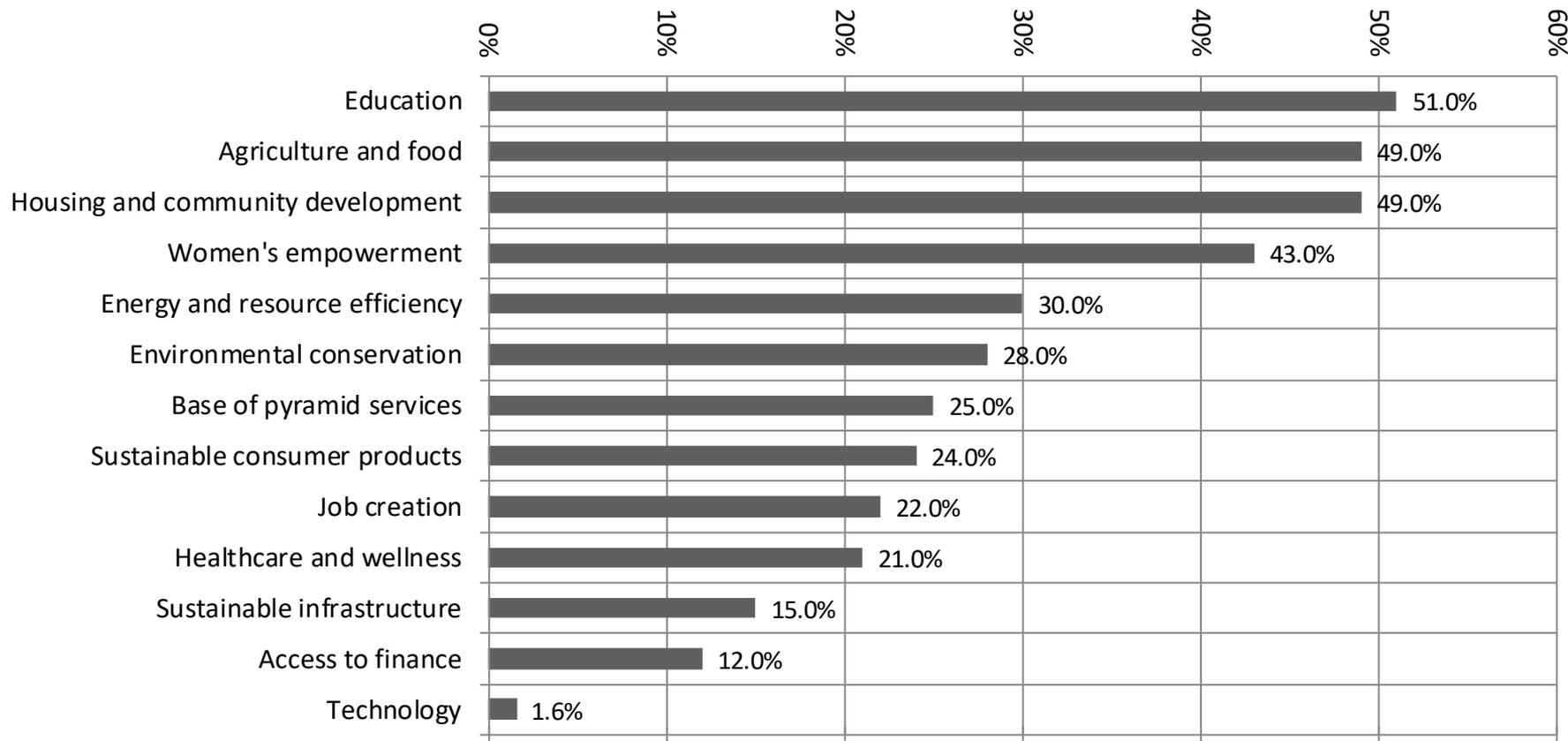


Source: The UBS / Campden Wealth Global Family Office Report 2018

Note: Respondents were able to select multiple options



Figure 1.29 Most common areas of impact investments



Source: The UBS / Campden Wealth Global Family Office Report 2018

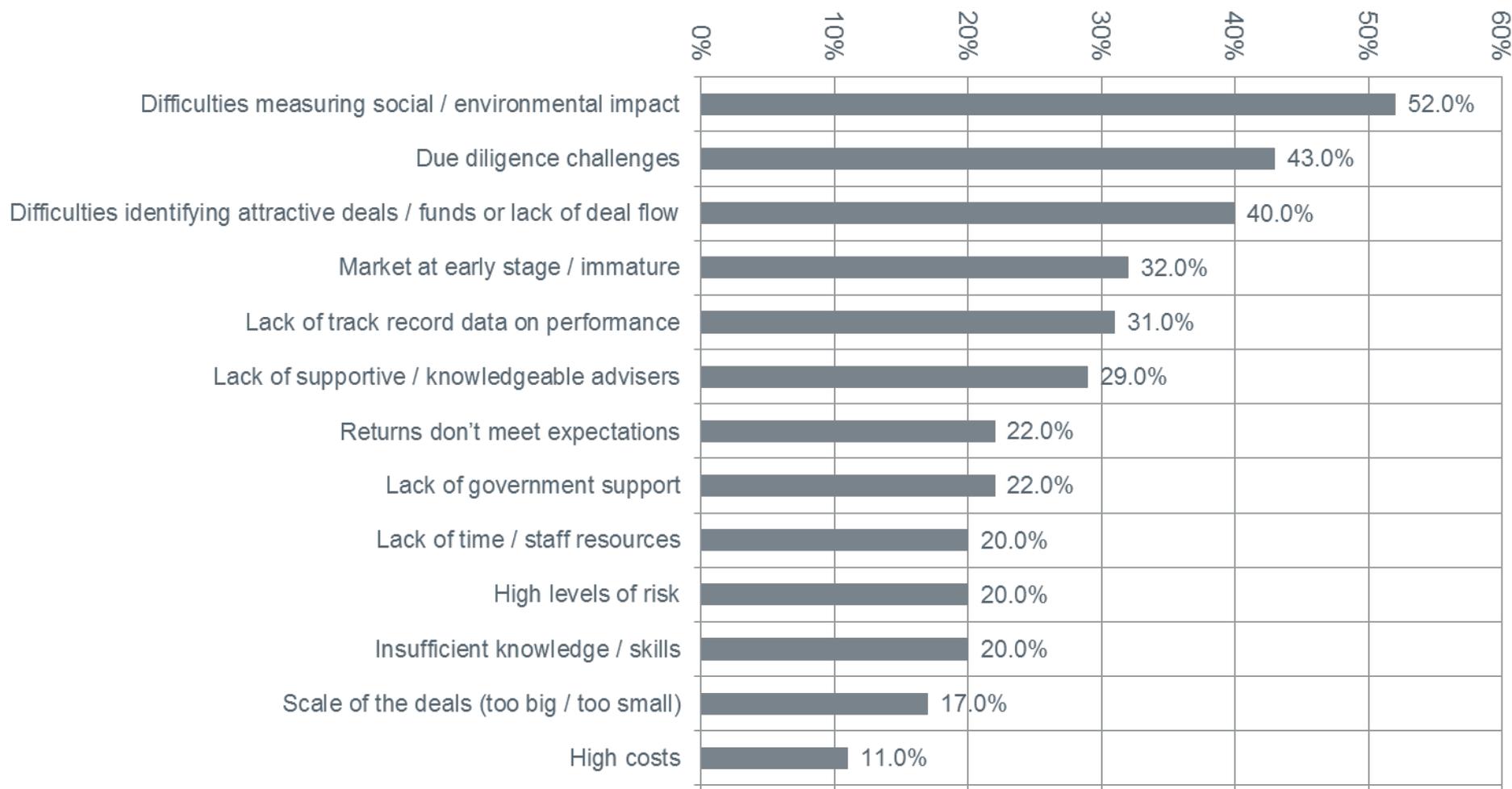
Note: Respondents were able to select multiple options

*McCress, Michael. 'Toward the Efficient Impact Frontier', Stanford Social Innovation Review.

Winter 2017, Volume 15, Number 1.



Figure 1.30 Most common challenges faced in impact investing



Source: The UBS / Campden Wealth Global Family Office Report 2018

Note: Respondents were able to select multiple options



GREENWASHING

- **Greenwashing** is the practice of making an **unsubstantiated** or **misleading** claim about the environmental benefits of a product, service, technology or company practice.
- **Greenwashing** can make a company (or an investment strategy) appear to be more environmentally friendly than it really is.



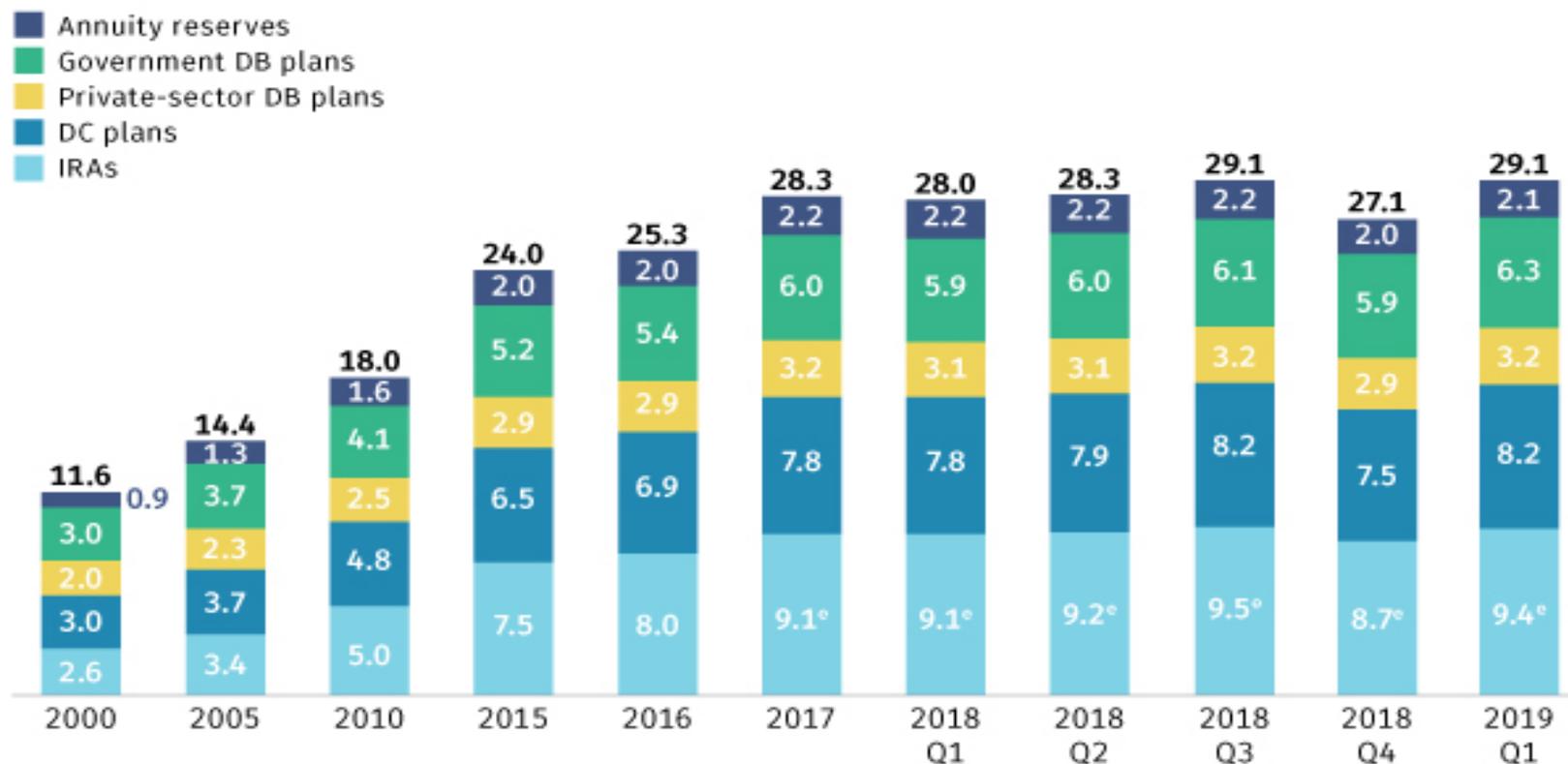
GREENWASHING

- Advisers Act Rule 206(4)-1(a)(2):

“It shall constitute a fraudulent, deceptive, or manipulative act, practice, or course of business within the meaning of section 206(4) of the Act for any investment adviser ... to publish, circulate, or distribute any advertisement ... which contains any untrue statement of a material fact, or which is otherwise false or **misleading**.”



ERISA INVESTORS ARE LARGE ASSET OWNERS



Source: Investment Company Institute, "Retirement Assets Total \$29.1 Trillion in First Quarter 2019".
https://www.ici.org/research/stats/retirement/ret_19_q1



DEPARTMENT OF LABOR GUIDANCE

- The Department of Labor (“DOL”) has a longstanding position that ERISA fiduciaries may not sacrifice investment returns or assume greater risks as a means of promoting collateral social policy goals
- Series of DOL guidance.
- Most recent guidance issued in April (Field Assistance Bulletin 2018-01).
 - Clarification?
 - Warning bell?
 - ERISA fiduciaries must not too readily treat ESG factors as economically relevant; rather, an evaluation of an investment opportunity should be focused on financial factors that have a material effect on return and risk.



ERISA CONSIDERATIONS

- Can ESG-themed investments be included in a 401(k) investment lineup?
- Can ESG-themed investments be a default investment option?
- Can a target date fund allocate to ESG-themed investments?
- What should an investment policy statement say about ESG factors?
- What process should a fiduciary follow in considering ESG factors?
- Does the DOL's guidance apply to IRAs? Public plans?
- Are there any specific considerations for defined benefit plans?



ERISA AND THE POLITICAL CLIMATE

- “Are these shares being voted to drive productivity in our economy and increase investors' return on their hard-earned investments, or are intermediaries using other people's money unbeknownst to them in order to advance environmental, social and other political policies?”

-Sen. Mike Crapo, chairman of the Senate Banking Committee



SIGNIFICANT SHAREHOLDER REPORTING

- Section 13 of the Securities Exchange Act of 1934 requires reporting of efforts to influence or control a public issuer
 - Schedule 13D filings are cumbersome and require disclosure of the investor's intent
 - Filing obligations can also be imposed when acting as a “group” with others
- Impact and engagement investing for environmental and social goals
- Advocating for specific actions
- Advocating for governance goals



IMPACT INVESTING DEFINED

- Impact investments are investments made into companies, organizations, and funds with the intention to **generate social and environmental impact *alongside* a financial return.**
- Impact investments can be made in both emerging and developed markets, and target a range of returns from below market to market rate, depending on investors' strategic goals.

- *Global Impact Investing Network*



DIFFERENT APPROACHES TO IMPACT INVESTING

VALUES ALIGNED STRATEGIES

Passive public equity and fixed income strategies that use negative and positive screens

EXAMPLE:

Account that invests in stocks to replicate the S&P 500 Index, but client chooses to screen out coal stocks, gun manufacturers, and tobacco companies, and positively shift the portfolio towards companies with female representation in board and firm leadership.

INTEGRATED ESG (ENVIRONMENTAL, SOCIAL & GOVERNANCE)

Active public equity and fixed income strategies that integrate impact evaluation into investment process

EXAMPLE:

Taxable bond strategy offering broad market exposure but seeks to invest proactively in bonds benefitting affordable housing or green initiatives but evaluates the use of proceeds on every bond in the portfolio to ascertain both the credit worthiness of the borrower and their impact on the community.

THEMATIC STRATEGIES

Private equity, venture capital, and private debt strategies within specific impact themes

EXAMPLE:

Regionally focused private timber strategy focused exclusively on sustainable practices. Offers ancillary benefits via wetland mitigation banking, ecosystem services and conservation, and also works in partnership with indigenous communities to restore tribal lands.



SHAREHOLDER ENGAGEMENT

For those seeking to advance environmental, social, or governance outcomes through active shareholder engagement, we offer a robust shareholder engagement solution – including proxy voting and co-filing resolutions in partnership with leading advocacy organization, *As You Sow*. We believe effective impact investing is not just about what you own, but also your role as an investor/ owner. We help clients develop strategies to elevate your voice to enhance corporate transparency, drive environmental outcomes, and advance corporate social responsibility.

QUESTIONS FOR Shareholders

Do you have stocks in your portfolio that are available for proxy voting. Do these stocks represent companies that are negligent or lack transparency in their business practices?

If you are not voting your proxy vote, who is? What are the guidelines by which they are voting and are these guidelines in line with your values?

Do you wish to participate in co-filing resolutions and co-resolutions?

Do you wish to directly engage with corporations by filing your own resolutions.

HOW Shareholders CAN ENGAGE

LEVEL 1: Vote

- Client drives proxy voting
- No restriction on \$ value, # shares, or time owned
- Anonymous

LEVEL 2: Proxy Vote

- Impact Manager votes proxies
- No restriction on \$ value, # shares or time owned.
- Anonymous

LEVEL 3: Co-file

- Utilize company such as *As You Sow* to co-sign resolutions
- Must own \$2,000 of the stock for 1 year+

LEVEL 4: File

- Utilize company such as *As You Sow* to file a resolution.
- Must own \$2,000 of the stock for 1 year+



WHAT'S DRIVING DEMAND?

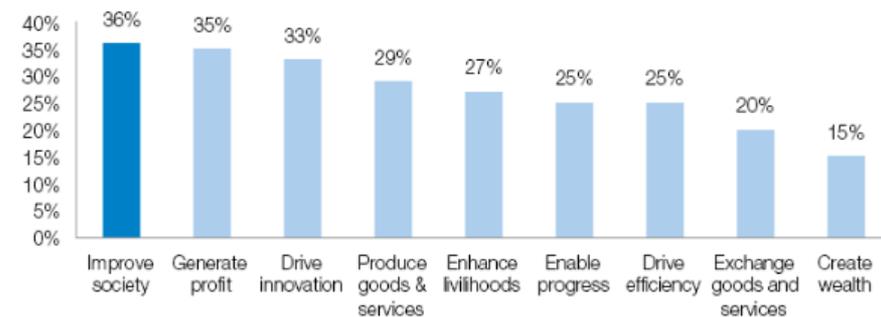
1. **Changing Demographics** – 65% of women and 85% of millennials are interested in impact investing
 - **A generational shift in social attitudes** is driving the adoption of impact strategies generally.
 - A 2013 survey of 5,000 investors found that 40% of Millennial respondents felt “improved society” is the foremost business imperative.
2. **Climate Change is** almost universally acknowledged as **a reality**
3. **Increasing corporate transparency** – greater access to ESG data has enabled rapid integration of ESG factors into investment decisions

Source: PIMCO, June 26, 2017: “10 Reasons Impact Investing is Growing”
4. **Growing evidence that ESG factors are material to financial performance**



Source: World Economic Forum

Primary Purpose of Business According to the Millennial Generation, % of Survey



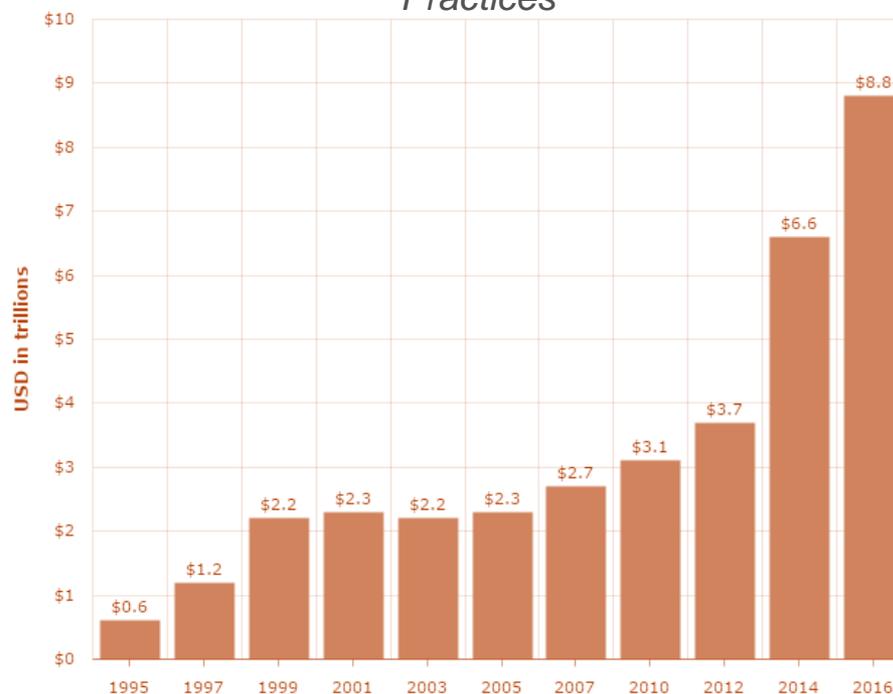
Source: Deloitte, 2018



U.S. IMPACT ASSETS UNDER MANAGEMENT GROWING

Impact investing is growing rapidly. In 2016, ~\$8.8 trillion is subject to SRI versus \$19.2 trillion in US domiciled assets in total. (USSIF, ICI, 2016)

US Professionally Managed Assets That Incorporate ESG, SRI, Impact Or Shareholder Engagement Practices



Source: USSIF, ICI, 2016

ESG: Environmental, Social, Governance
SRI: Socially Responsible Investment



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