

# FIRMA 2022

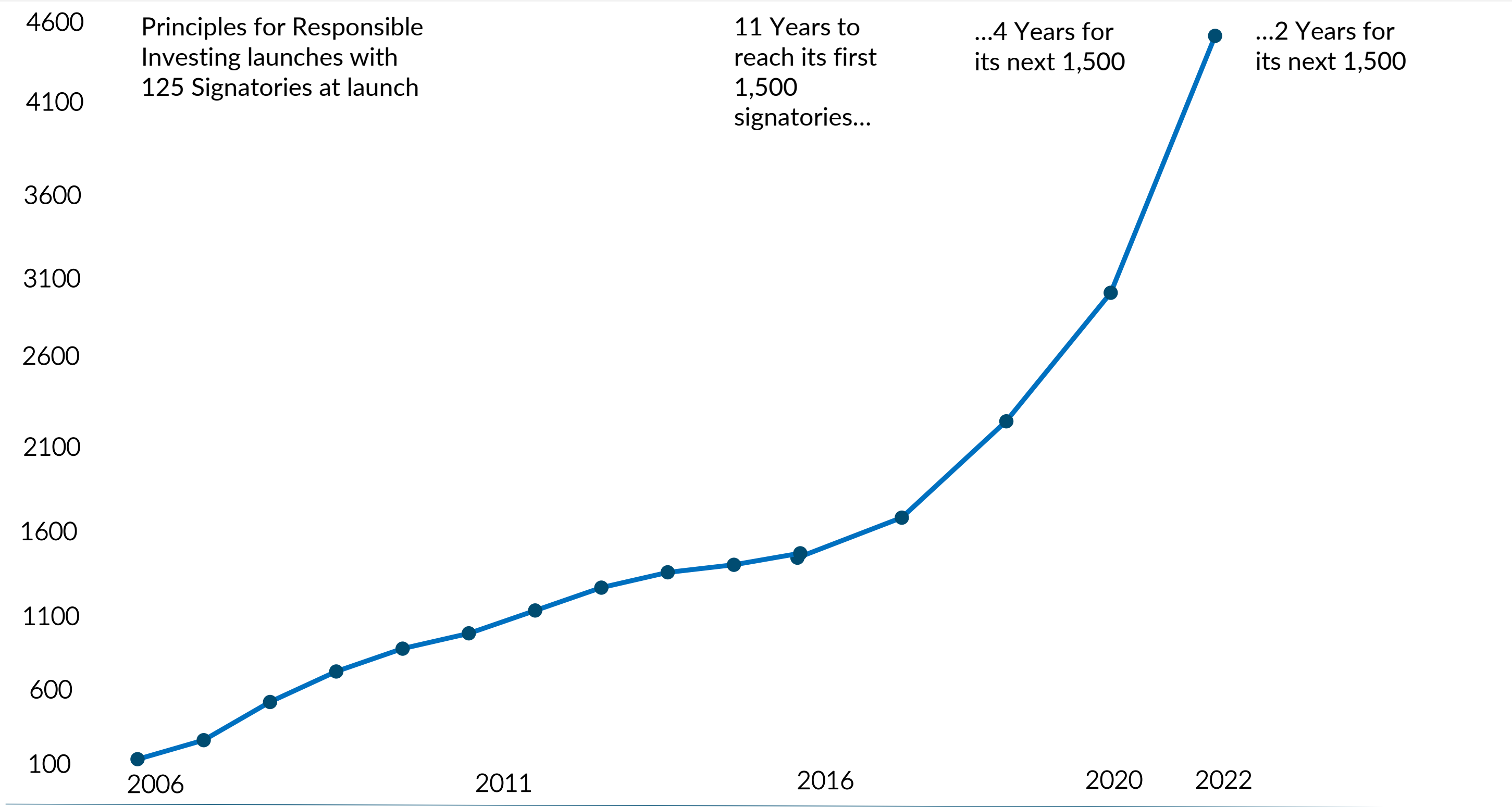
*The ESG Regulators are Coming:  
Greenwashing, Standardization, & Reporting*



*May 2<sup>nd</sup>, 2022*

**GLENMEDE**

# Growth in Sustainable & Impact Investing is accelerating



Source: Principles for Responsible Investing

# Secular Drivers to first leg of growth (2015-2020)

**Shifting Asset  
Owner Dynamics**

28% ➔ 84%

% of millennials interested  
in Sustainable Investing,  
2015 vs. 2020

Intrinsically Linked

Research linking ESG and  
financial materiality  
encourages asset managers

63% | 29% | 8%

Positive / neutral / negative  
effect of incorporating ESG  
into financial analysis

# Three key trends have led 2021 & 2022's further acceleration of growth in this space

1



## Climate Change – from the Boardroom to the Kitchen Table

Urgency of embedding climate change considerations and action into board leadership, C-suites, and our lifestyles

2



## The Future of Work in the “New Normal”

Increased focus on how corporations are redesigning the workplace and quality jobs to ensure resilient, innovative, secure, and inclusive companies

3



## Collision of ESG Interests and fiduciary standards

Growing role of regulators in defining sustainable funds, fiduciary boundaries, and corporate climate change & human capital disclosure

# What is still holding some investors back?

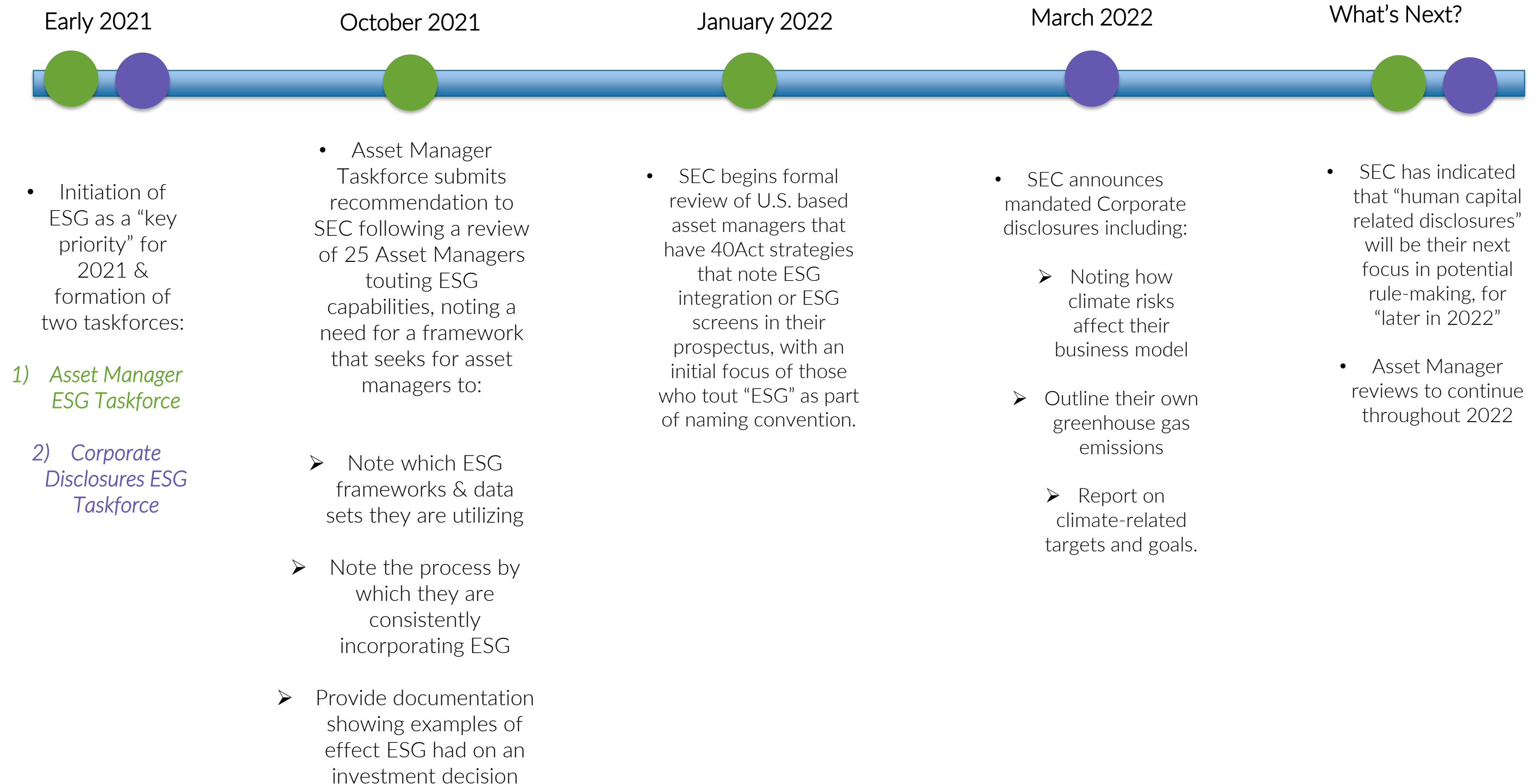
Asset owners' biggest challenges (CFA Institute 2021 Survey)

**62%** noted confusion over terminology and definitions

**50%** noted uncertainty as to whether ESG investments are consistent with fiduciary duties

- Regulators are seeking to establish clarity on both of these questions in 2022
- We have designed frameworks to enable asset owners to get ahead of these changes

# Regulation: SEC Activity



# Framework: Clearly defining the ESG approach strategies

Confusion over terminology and definitions



## Integrated

Explicit **consideration of material ESG factors**  
In the traditional investment decision making process



## Mandated

Using ESG screens to **avoid companies** with poor ESG criteria **and/or tilt toward companies** with strong ESG characteristics



## Thematic

**Dual goal** to achieve measurable environmental or social **impact and market-rate returns**



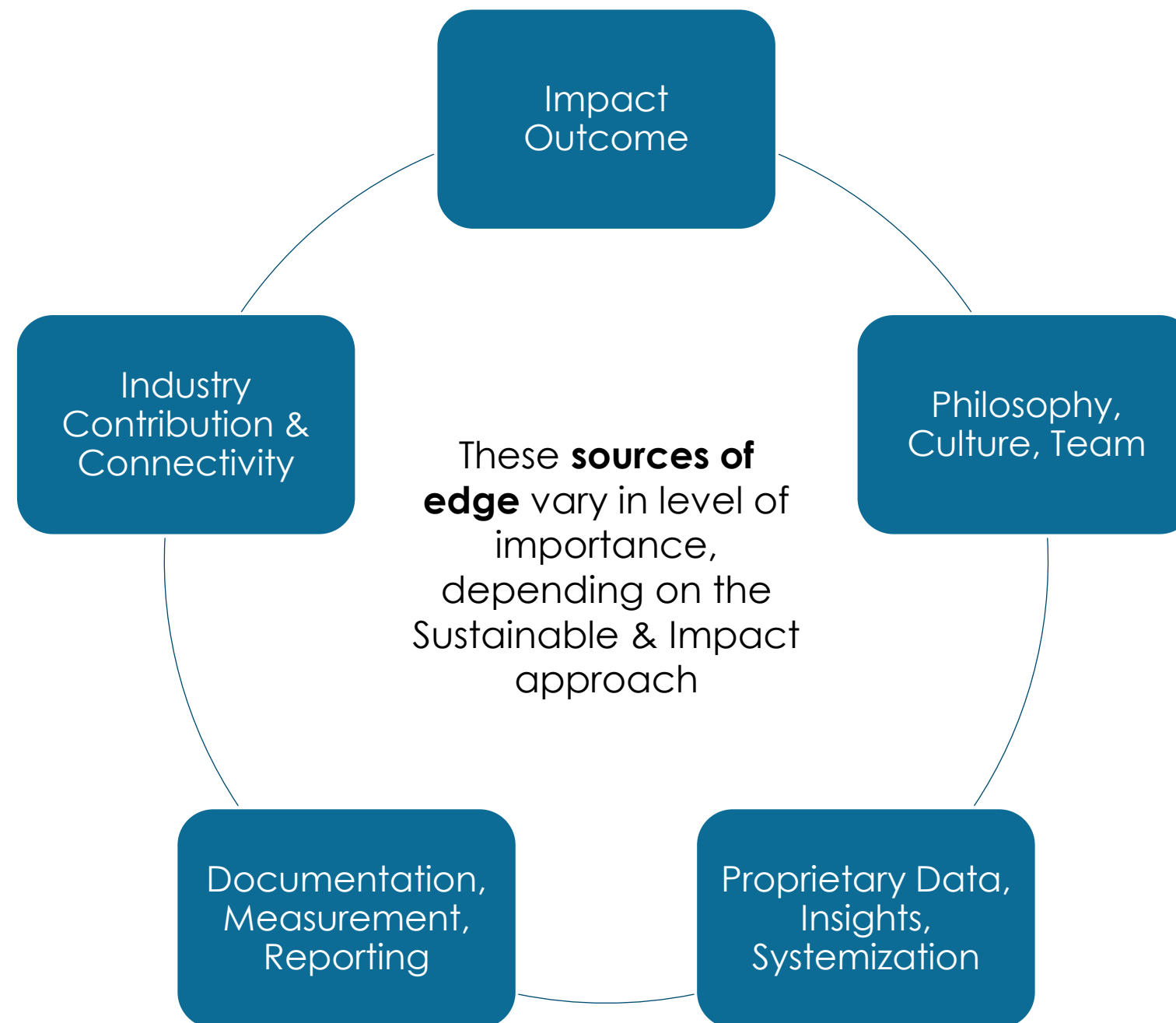
## Concessionary High Impact

**Primary goal** to achieve measurable environmental or social **impact**, while **willing to sacrifice returns** to do so

Moving from risk mitigation to growth opportunities to measurable impact

# Framework: Evaluating ESG managers

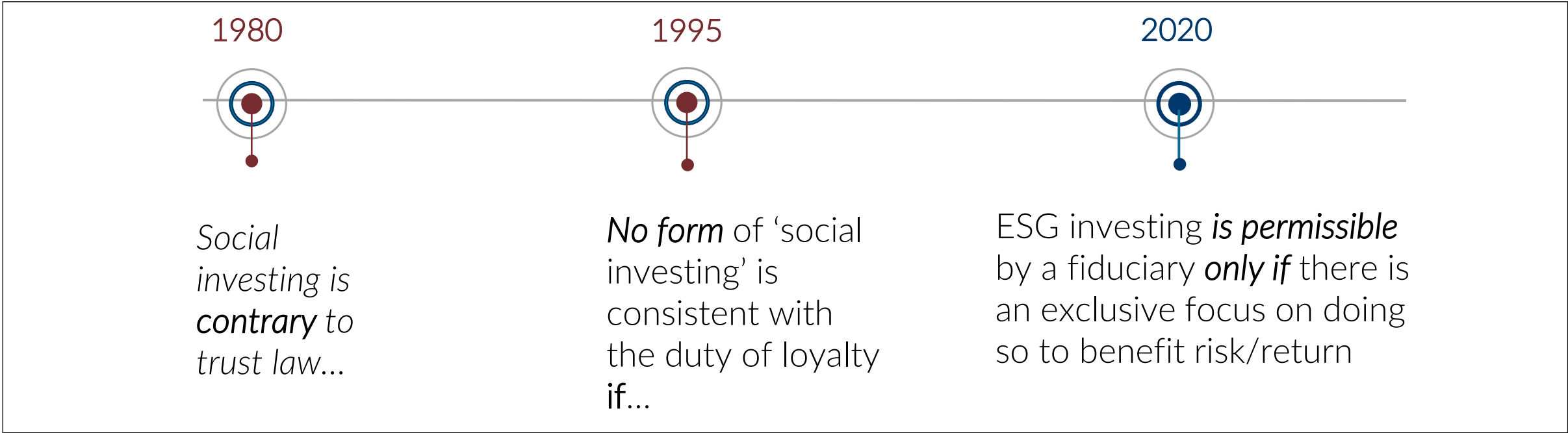
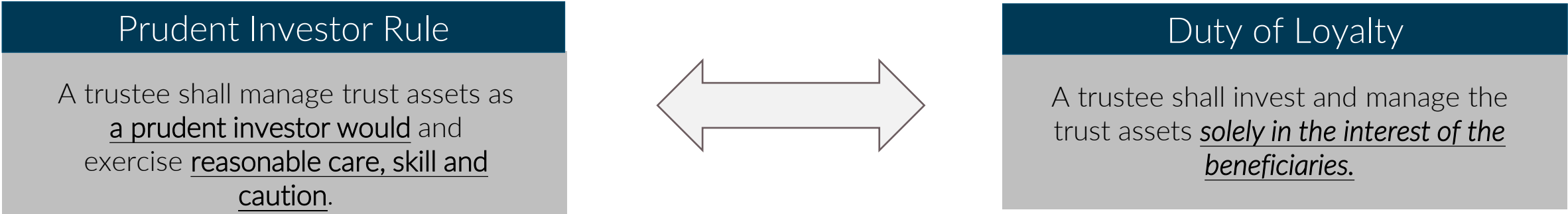
Confusion over terminology and definitions





# Spotlight on trust law: evolution over time

Uncertainty as to whether ESG investments are consistent with fiduciary duties



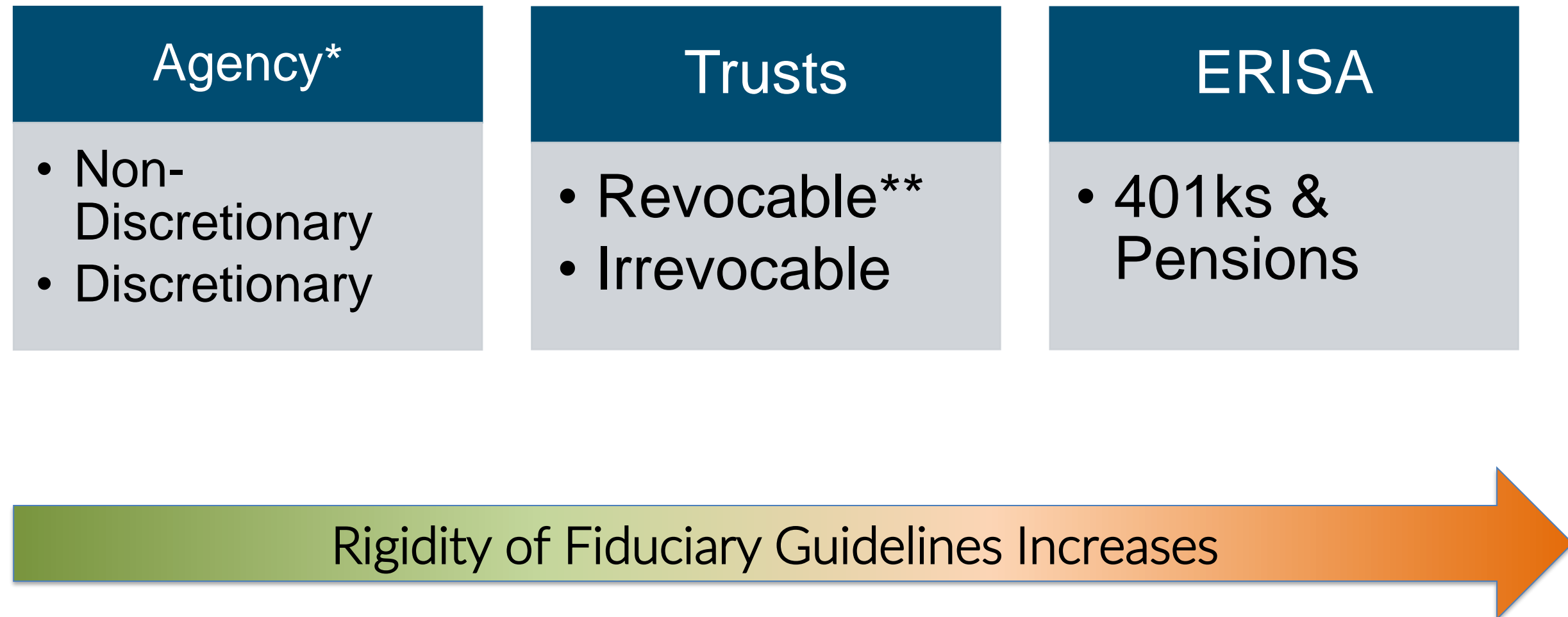
John H. Langbein & Richard A. Posner, "Social Investing and the Law of Trusts," 79 Mich. L. Rev. 72 (1980))

Comments to Uniform Prudent Investor Act, 1994

Max M. Schanzenbach & Robert H. Sitkoff, "Reconciling Fiduciary Duty and Social Conscience: The Law and Economics of ESG Investing by a Trustee," 72 Stan. L. Rev. 381 (2020))

# Does application of these approaches differ by account type?

Uncertainty as to whether ESG investments are consistent with fiduciary duties

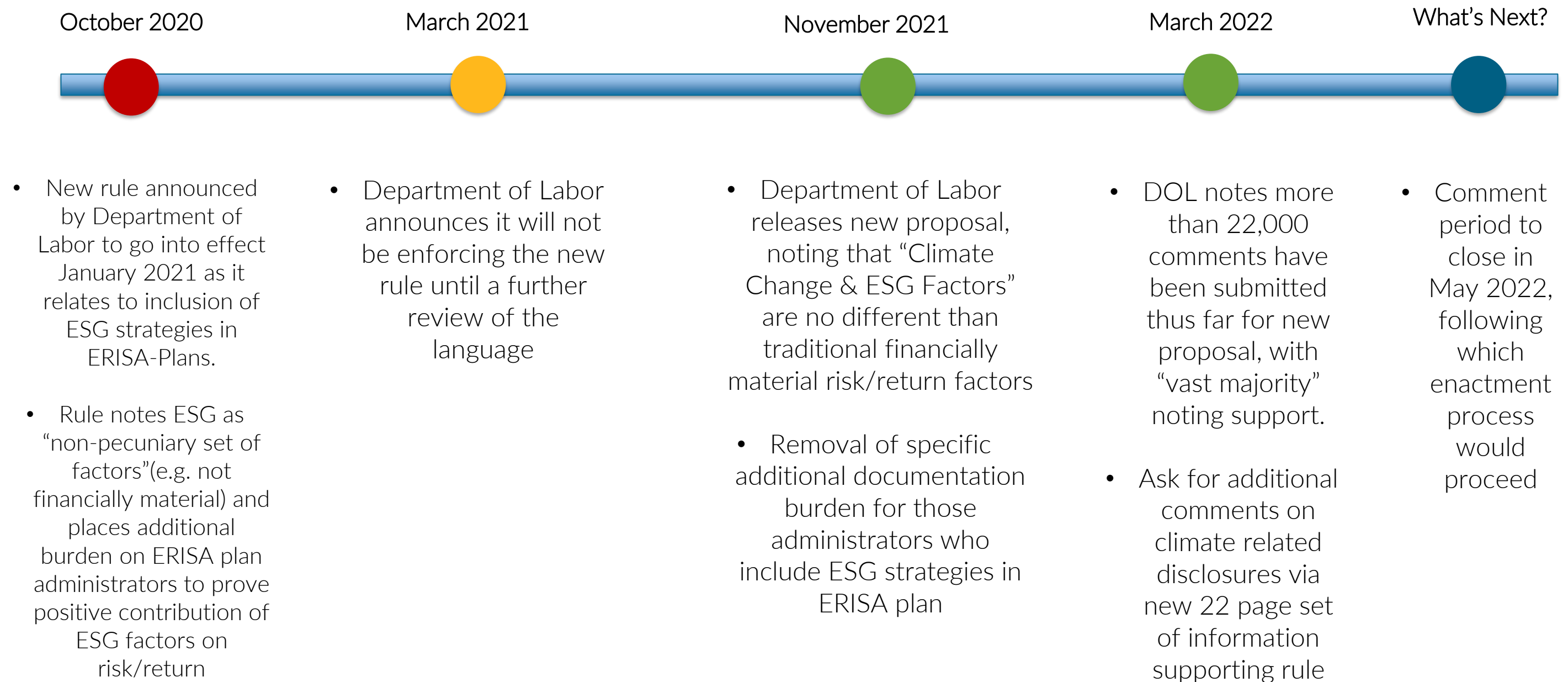


\*Includes Endowments & Foundations

\*\*Includes IRAs

# Spotlight on ERISA Law: Department of Labor Activity

**Uncertainty as to whether ESG investments are consistent with fiduciary duties**



# Our framework

Uncertainty as to whether ESG investments are consistent with fiduciary duties

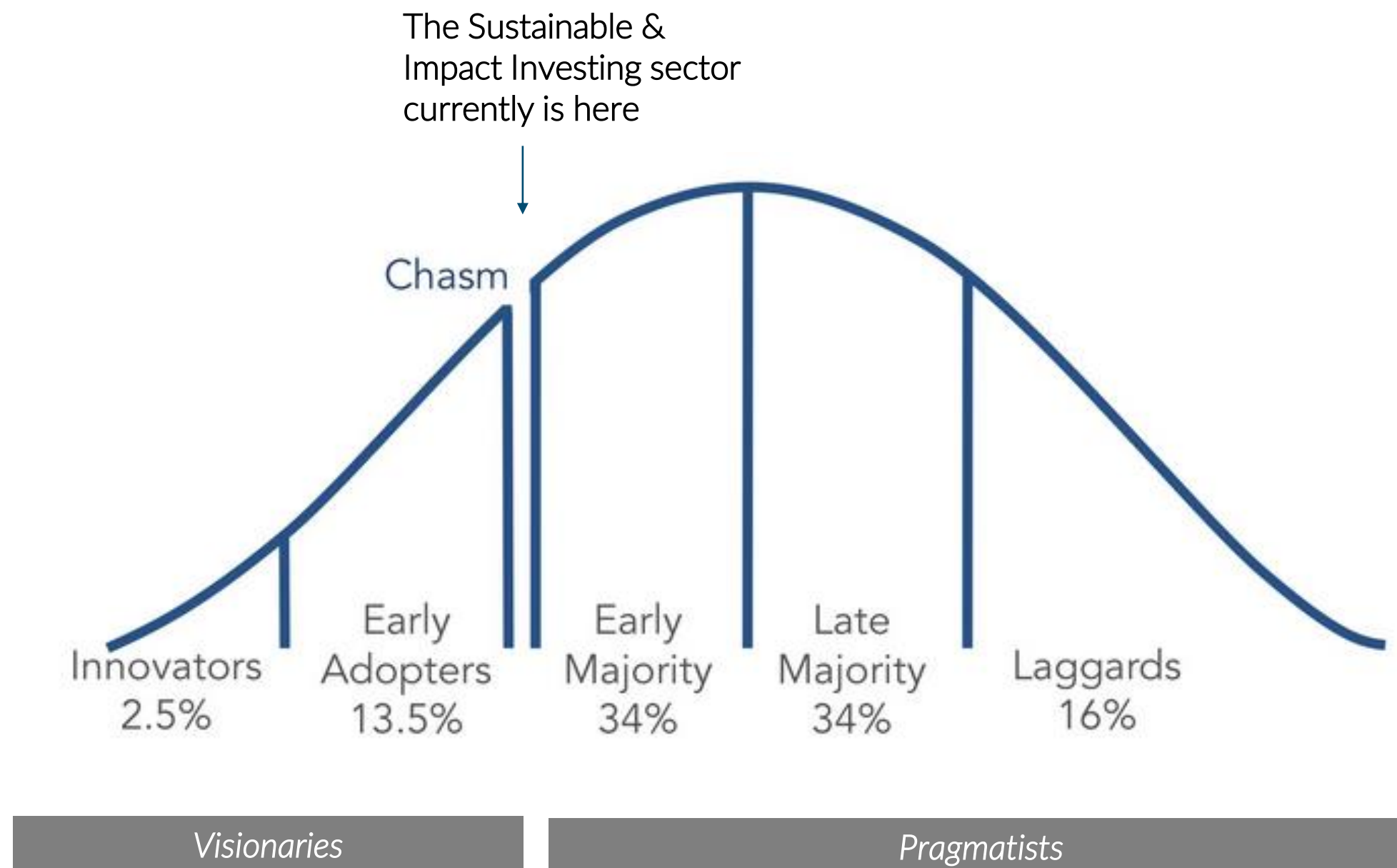
|                            | ESG Integrated | ESG Mandated | Thematic | Concessionary High Impact |
|----------------------------|----------------|--------------|----------|---------------------------|
| Agency: Non-Discretionary* | ✓              | ✓ +          | ✓ +      | ✓ +++                     |
| Agency: Discretionary*     | ✓              | ✓ +          | ✓ +      | ✓ +++                     |
| Trust: Revocable**         | ✓              | ✓ ++         | ✓ ++     | ✓ +++                     |
| Trust: Irrevocable         | ✓              | ✓ +++        | ✓ +++    | X                         |
| ERISA Accounts             | ✓              | ✓ +++        | ✓ +++    | X                         |

✓ = Acceptable in line with traditional strategy policies  
+ / ++ / +++ = Can be acceptable with stringent procedures, good documentation & thoughtful allocation  
X = Additional considerations required before any investment may be made

\*Includes Endowments & Foundations

\*\*Includes IRAs

# What's Next?



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