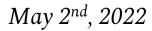
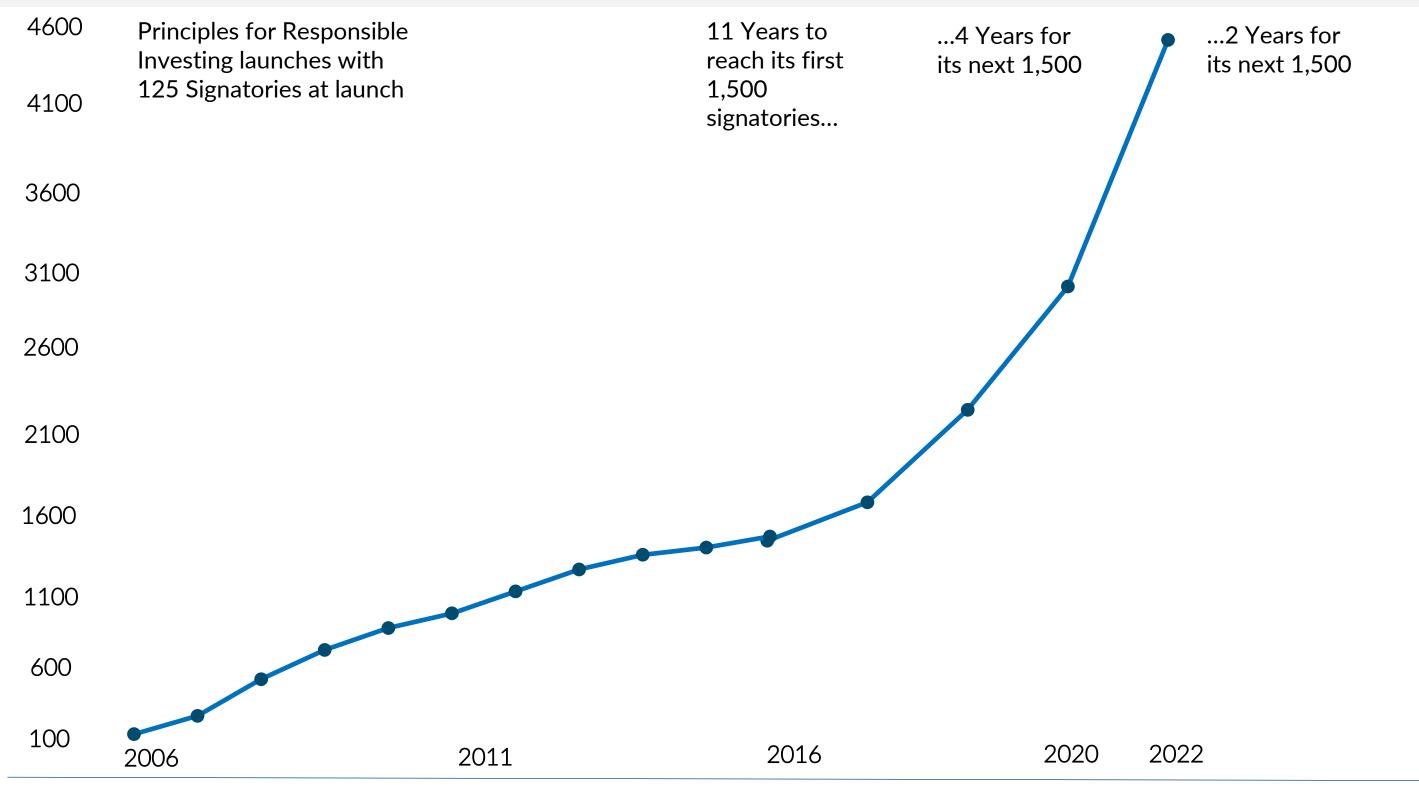
FIRMA 2022

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





Growth in Sustainable & Impact Investing is accelerating



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

Shifting Asset Owner Dynamics



Research linking ESG and financial materiality encourages asset managers



28% - 84%

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

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











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

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

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

Confusion over terminology and definitions

Early 2021

October 2021

January 2022

March 2022

What's Next?



- Initiation of ESG as a "key priority" for 2021 & formation of two taskforces:
- 1) Asset Manager ESG Taskforce
 - 2) Corporate Disclosures ESG Taskforce

- Asset Manager
 Taskforce submits
 recommendation to
 SEC following a review
 of 25 Asset Managers
 touting ESG
 capabilities, noting a
 need for a framework
 that seeks for asset
 managers to:
- ➤ Note which ESG frameworks & data sets they are utilizing
- Note the process by which they are consistently incorporating ESG
- Provide documentation showing examples of effect ESG had on an investment decision

• SEC begins formal review of U.S. based asset managers that have 40Act strategies that note ESG integration or ESG screens in their prospectus, with an initial focus of those who tout "ESG" as part of naming convention.

- SEC announces mandated Corporate disclosures including:
 - Noting how climate risks affect their business model
- Outline their own greenhouse gas emissions
 - Report on climate-related targets and goals.

- SEC has indicated that "human capital related disclosures" will be their next focus in potential rule-making, for "later in 2022"
- Asset Manager reviews to continue throughout 2022

Source: SEC

Framework: Clearly defining the ESG approach strategies



Integrated

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

Confusion over terminology and definitions

Framework: Evaluating ESG managers



Source: Glenmede

Spotlight on trust law: evolution over time

Uncertainty as to whether ESG investments are consistent with fiduciary duties

Prudent Investor Rule

A trustee shall manage trust assets as a prudent investor would and exercise reasonable care, skill and caution.



Duty of Loyalty

A trustee shall invest and manage the trust assets <u>solely in the interest of the</u> <u>beneficiaries</u>.



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

Agency*

- Non-Discretionary
- Discretionary

Trusts

- Revocable**
- Irrevocable

ERISA

401ks & Pensions

Rigidity of Fiduciary Guidelines Increases

Source: Glenmede

^{*}Includes Endowments & Foundations

^{**}Includes IRAs

Spotlight on ERISA Law: Department of Labor Activity

Uncertainty as to whether ESG investments are consistent with fiduciary duties

October 2020 March 2021 November 2021 March 2022 What's Next?

- New rule announced by Department of Labor to go into effect January 2021 as it relates to inclusion of ESG strategies in ERISA-Plans.
- Rule notes ESG as
 "non-pecuniary set of
 factors"(e.g. not
 financially material) and
 places additional
 burden on ERISA plan
 administrators to prove
 positive contribution of
 ESG factors on
 risk/return
- Department of Labor announces it will not be enforcing the new rule until a further review of the language
- Department of Labor releases new proposal, noting that "Climate Change & ESG Factors" are no different than traditional financially material risk/return factors
- Removal of specific additional documentation burden for those administrators who include ESG strategies in ERISA plan
- than 22,000 comments have been submitted thus far for new proposal, with "vast majority" noting support.
- Ask for additional comments on climate related disclosures via new 22 page set of information supporting rule
- Comment period to close in May 2022, following which enactment process would proceed

Source: Glenmede

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

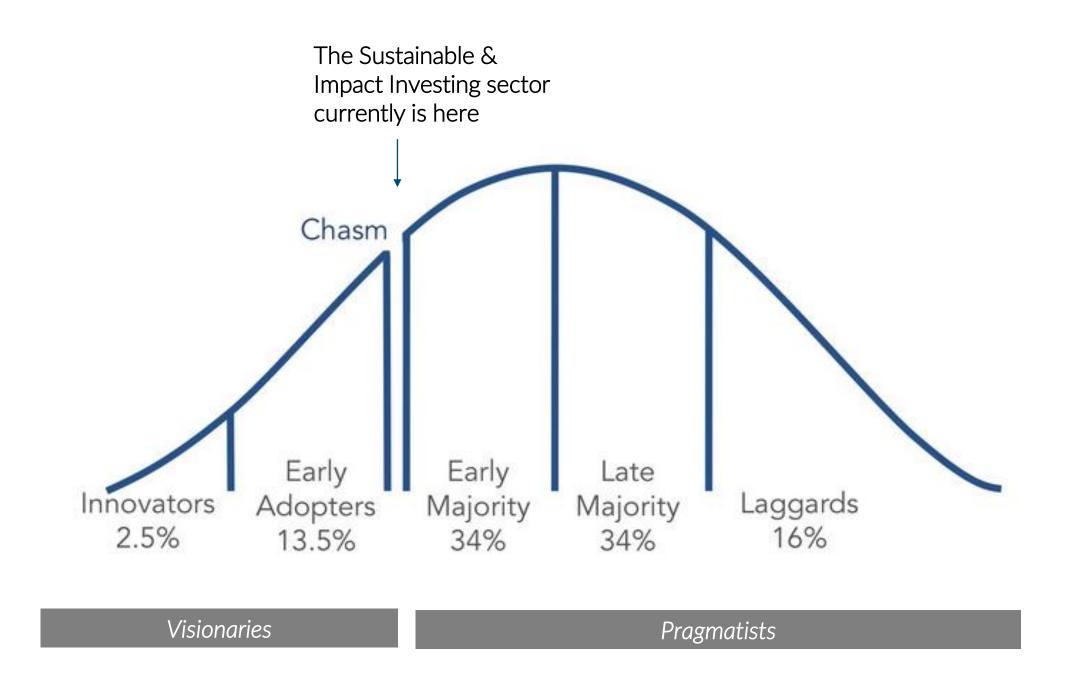
+ / ++ / +++= Can be acceptable with stringent procedures, good documentation & thoughtful allocation

X = Additional considerations required before any investment may be made

^{*}Includes Endowments & Foundations

^{**}Includes IRAs

What's Next?



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