

FIRMA 2022

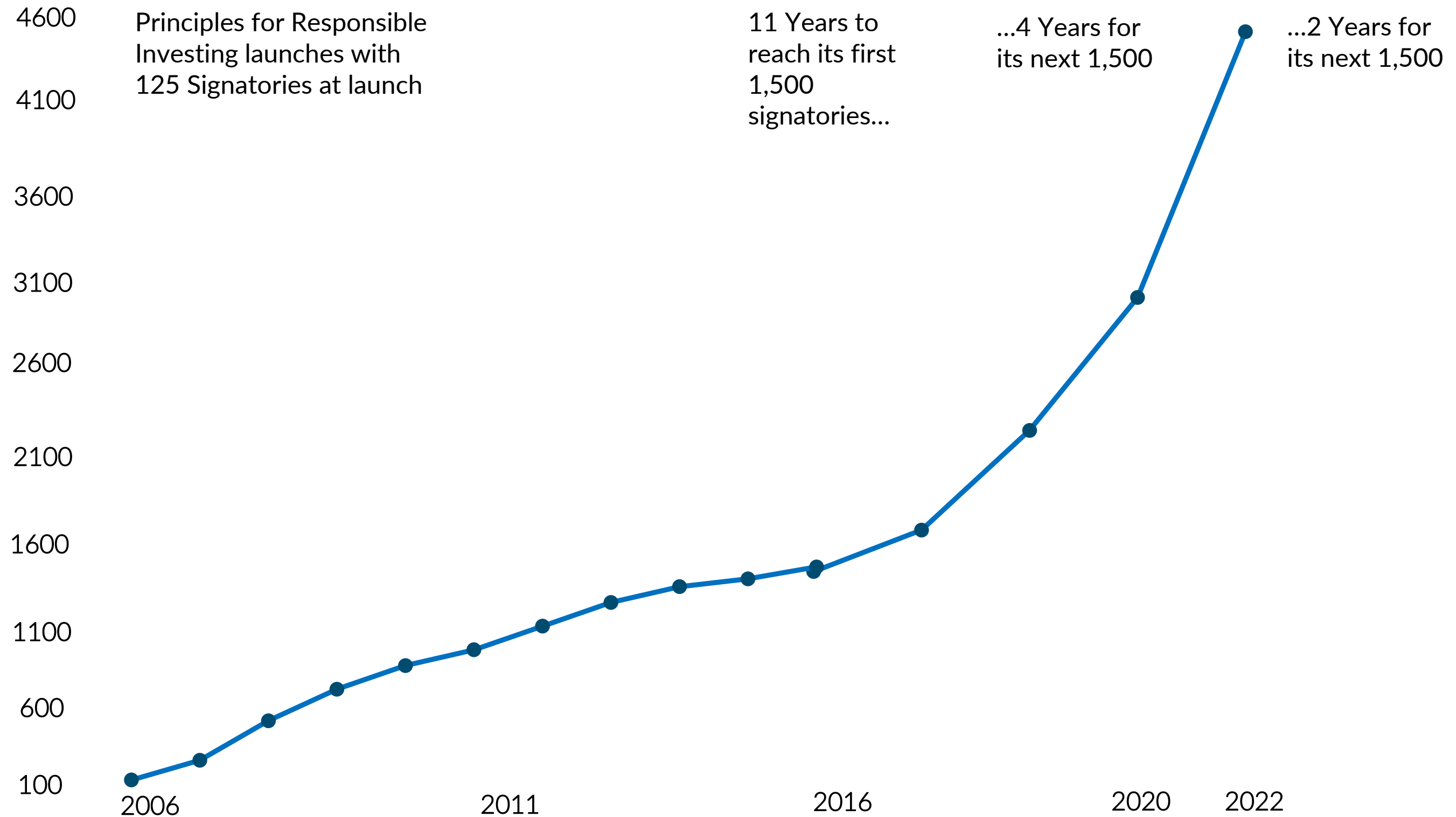
*The ESG Regulators are Coming:
Greenwashing, Standardization, & Reporting*



May 2nd, 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



**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?

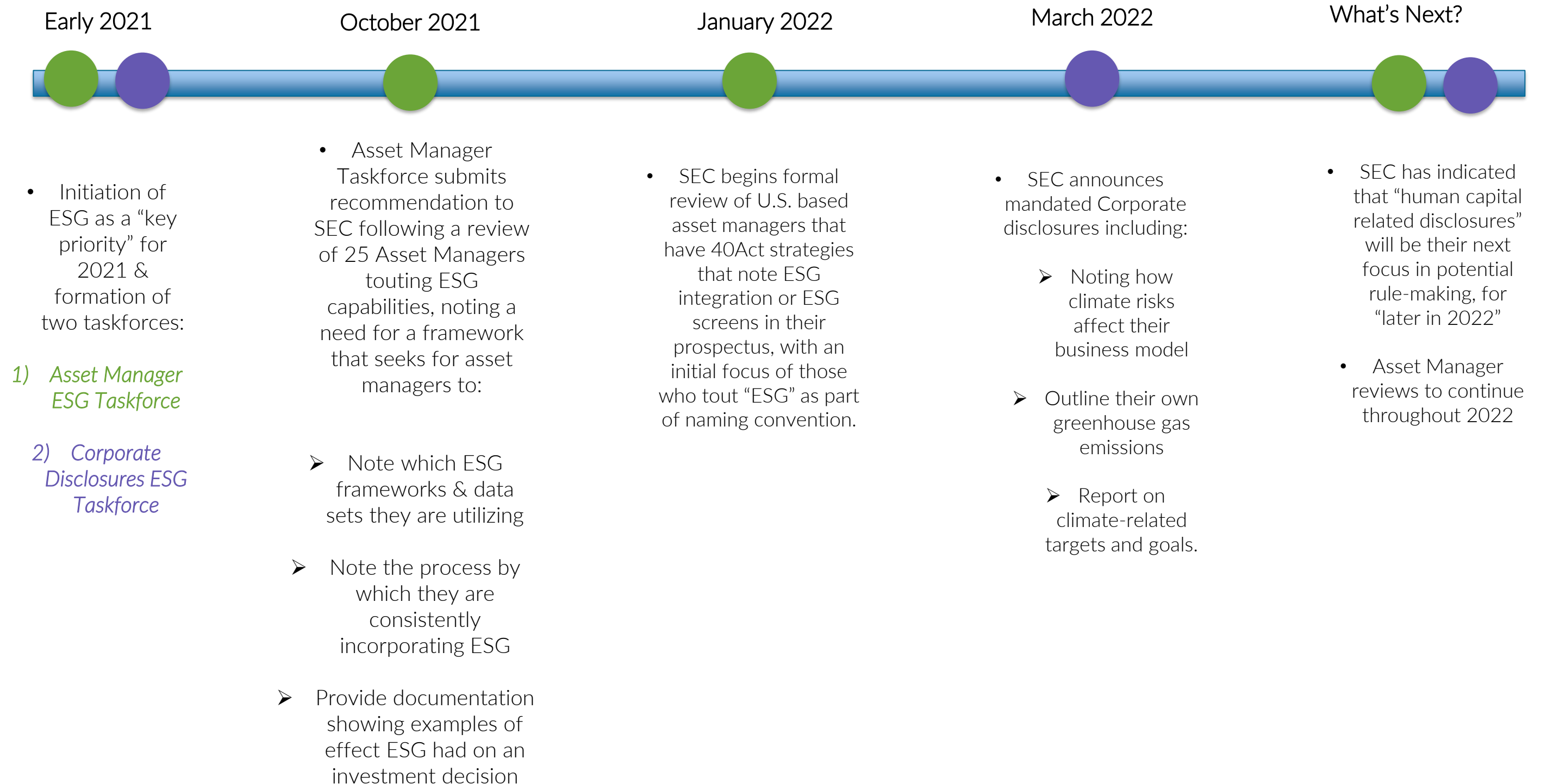
Asset owners' biggest challenges (CFA Institute 2021 Survey)

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**

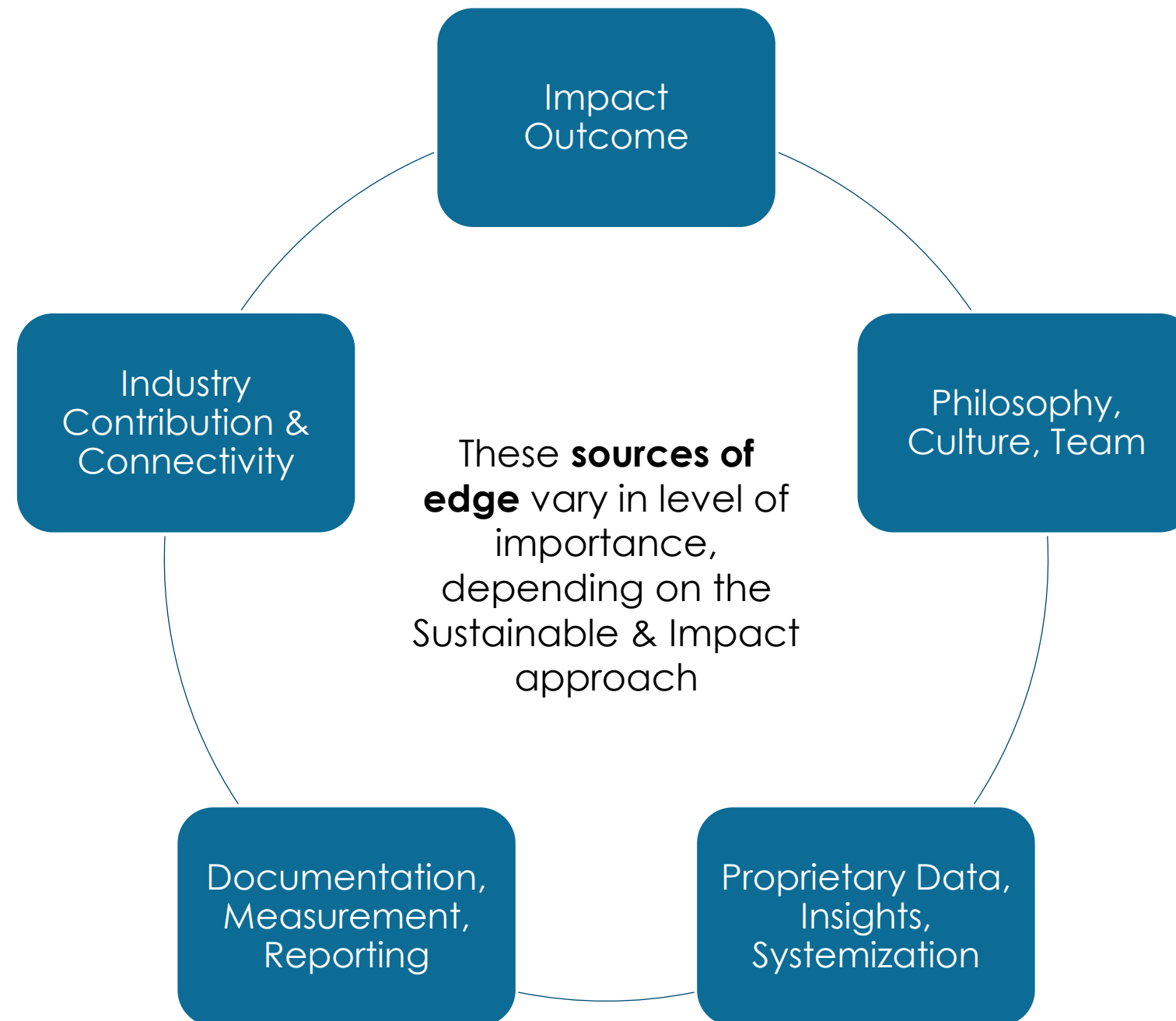


Concessionary High Impact

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



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 solely in the interest of the beneficiaries.

1980



*Social investing is **contrary** to trust law...*

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

1995



*No form of 'social investing' is consistent with the duty of loyalty **if...***

Comments to Uniform Prudent Investor Act, 1994

2020



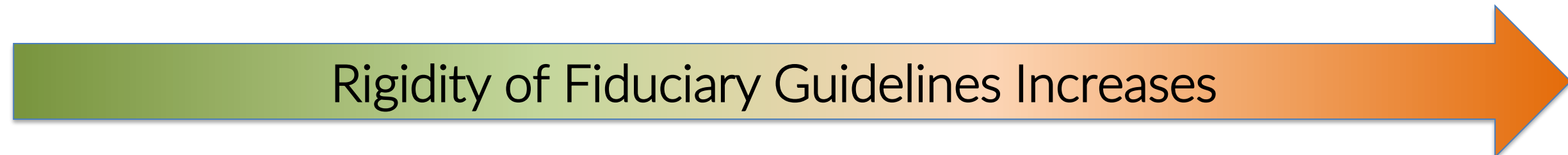
ESG investing *is permissible* by a fiduciary **only if** there is an exclusive focus on doing so to benefit risk/return

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*	Trusts	ERISA
<ul style="list-style-type: none">• Non-Discretionary• Discretionary	<ul style="list-style-type: none">• Revocable**• Irrevocable	<ul style="list-style-type: none">• 401ks & Pensions



*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
- DOL notes more 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

Our framework

Uncertainty as to whether ESG investments are consistent with fiduciary duties

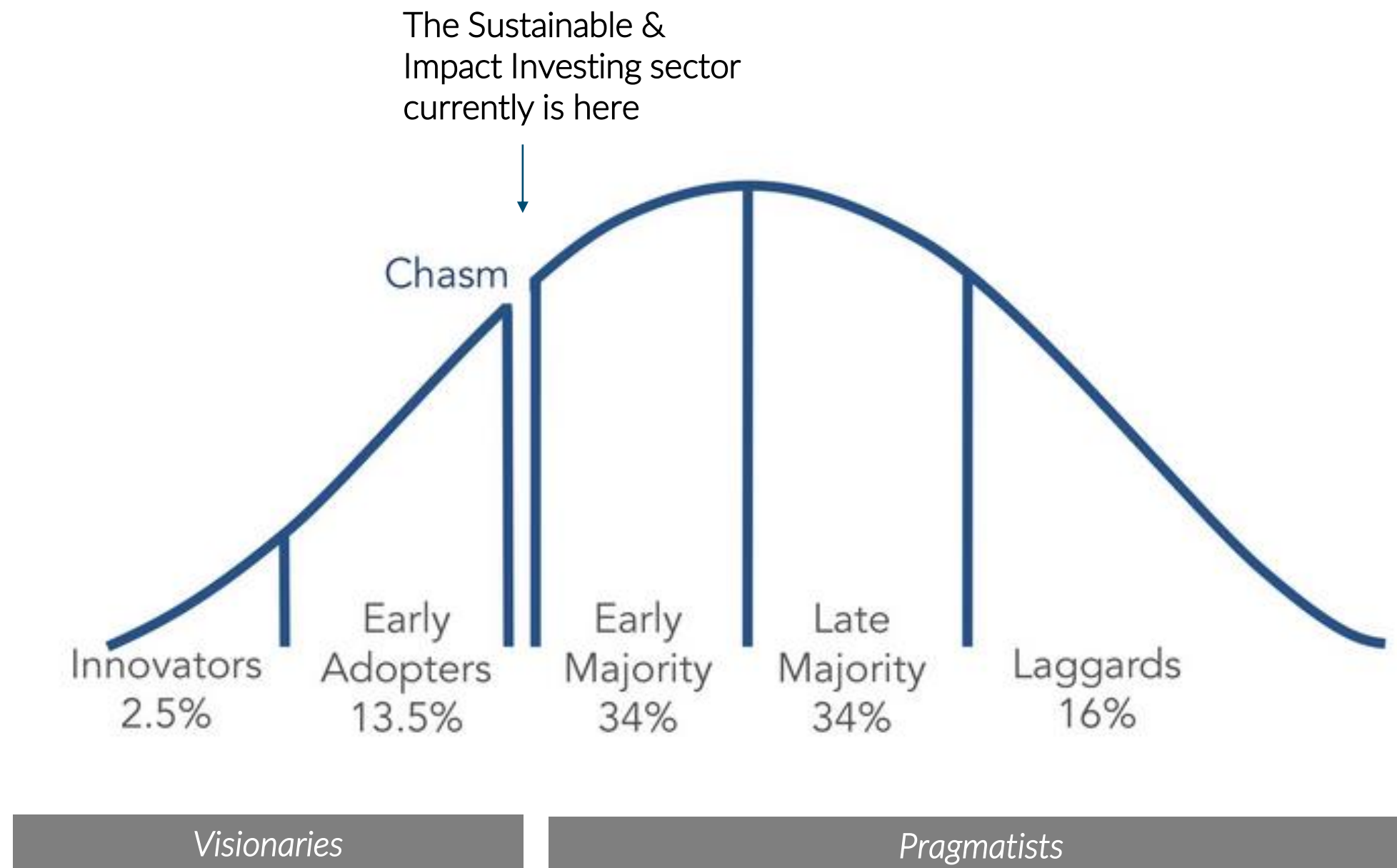
	ESG Integrated	ESG Mandated	Thematic	Concessionary High Impact
Agency: Non-Discretionary*	✓	✓ +	✓ +	✓ +++
Agency: Discretionary*	✓	✓ +	✓ +	✓ +++
Trust: Revocable**	✓	✓ ++	✓ ++	✓ +++
Trust: Irrevocable	✓	✓ +++	✓ +++	✗
ERISA Accounts	✓	✓ +++	✓ +++	✗

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

*Includes Endowments & Foundations

**Includes IRAs

What's Next?



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