MAPLES GROUP

ESG ROUNDTABLE

San Francisco | November 2019

ESG Roundtable

Responsible investing is widely understood as the integration of environmental, social and governance ("ESG") factors into investment processes and decision-making. The Maples Group recently hosted an ESG-focused roundtable which convened a panel of industry experts who discussed key trends and developments in this space, including ESG principles, portfolio management, monitoring and reporting.

The roundtable was moderated by:

David Kushner
Partner at Global Asset Management Consultants

Participants included:

Lara Banks
Managing Director, Natural Resources
Makena Capital Management

Ronald Falls, Jr.
Chief Operating Officer, Post Advisory Group

Tarrell Gamble
Vice-Chair of the Board of Retirement's Audit and CEO Succession Committees
Alameda County Employees' Retirement Association

Bob Kricheff
Senior VP Portfolio Manager and Global Strategist
Shenkman Capital

Justina Lai
Director of Impact Investing
Wetherby Asset Management

Michael Malchenko
Senior Client Specialist, NEPC

Breanna Stein
Senior Associate, Natural Resources & Portfolio Strategies
Makena Capital Management

Mark Wood
Senior Vice President, Global Manager Research
Callan LLC

Additional topics discussed include:

- Which factors or issues participants and their stakeholders prioritise and how they express these views;
- How ESG differs for traditional / liquid investments versus alternative investments;
- The differences between ESG and impact investing;
- What opportunities there are for institutional investors within ESG;
- How managers are implementing ESG within the investment process;
- The biggest challenges faced with respect to ESG and embarking on a sustainability journey;
- Which regulations are prompting the biggest changes in ESG; and
- Best practices for ensuring reporting and other disclosures are meeting investors' and other stakeholders' need for information.

Introduction

David Kushner
Moderator

I am David Kushner. By way of background, we'll start in the early years. I was an equity portfolio manager at the Florida State Board of Administration. I joined there in 1983 as the junior guy on the equity team where we ran all of the equities internally. And we were, I believe, the sixth or seventh largest pension fund in the US.

While there, I created a strategy that I took out on my own at the end of 1989, and two things happened. I was the first person under the then-nascent performance presentation standards to get a letter from then AIMR granting me full portability of that record.

But then I had problems with consultants because they didn't have a style box for me. So I had to spend three years convincing the consultants that there's a new style box called large-cap active core equity. Back then, all they had was core equity, large-cap and small-cap growth and value. So I'd say, "No. You've got to take this circle in the middle, there is an active strategy that's used there."

I ran my own firm for seven years and then sold it and moved up to Atlanta and set up the platform with ING to get into the institutional asset management and mutual fund business in the US. I was there for three and a half years. I had a friend who figured out wireless broadband in 2000. And for scale, back then, the fastest line we could get was 1.5 megabits per second on a T1. We were shooting 20 megabits per second, 30 miles point-to-point and covered 80% of metro Atlanta with three antennas.

The bubble burst. We couldn't get the funding. At the time, I was married with three little kids. I made the literal and figurative left turn out to San Francisco where I became the Chief Investment Officer at the San Francisco Retirement System.

I left there in 2011. The fund was about US$20 billion. I moved down to LACERA, the LA County Employees' Retirement Association, which at the time I left there was about US$50 billion. And I now consult to the asset manager industry in all aspects. My business partner is the former global COO from ING. So I cover the middle and front office and he covers the middle and back office. Anything that we don't know, we know the people who do, and we bring them in.

Ronald Falls, Jr.
Post Advisory Group

I'm Ronald Falls, Chief Operating Officer for the Post Advisory Group. My background historically was in legal and compliance. I joined Post in 2014 as Corporate Counsel and Chief Legal Officer and then moved into the Chief Compliance Officer role at Post. In 2016, I became Chief Operating Officer for the business, working in conjunction with Jeffrey Stroll to manage our sub investment-grade portfolios across a few different strategies.

Mark Wood
Callan LLC

My name is Mark Wood. I work at Callan as a Senior VP in our investment research arm called Global Manager Research. I cover primarily public US equities in addition to global listed infrastructure and options-based strategies, and a couple other niche areas.

Also, I spend a significant amount of my time on our ESG committee in developing our ESG manager assessment framework. I've been working with both clients and asset managers on how to report and communicate what they're doing. And on the client side, you need to create an implementation strategy and what that looks like.

Bob Kricheff
Shenkman Capital

I'm Bob Kricheff with Shenkman Capital. I'm officially our PM and our global strategist. I was part of the team that helped systematise our ESG and SRI approach a couple of years ago. Prior to that, I was at Credit Suisse for 20 plus years running various research groups, always in credit, everything from EM to CDS and loans. And my last job there was running sector strategy which is officially like research.

Justina Lai
Wetherby Asset Management

I'm Justina Lai and I'm the Director of Impact Investing at Wetherby Asset Management. I run our impact investing strategy. We use impact investing as an umbrella term that encompasses the full spectrum of approaches towards integrating impact into investment strategies.

I've been in the impact investing space for a dozen years or so before it was even called that. I started my career originally in private equity, doing leveraged buyouts and growth equity transactions in the US and Europe.

Michael Malchenko
NEPC

I'm Michael Malchenko with NEPC. I've sat on our impact investment committee since 2014 when 350.org contacted one of our clients – which was one of the clients that I worked on – to divest fossil fuels. That has since emerged into negative screening as the PC word rather than divestment.

Prior to that, I worked at State Street where I worked directly with some of the mega plans in California and the very well-known negative screeners. And within that role, I was involved with analysis on their negative screening campaigns. About 10 or 11 years ago, I was at an investment committee meeting where a teacher stood up and said, "How dare you divest tobacco." So that was my first introduction to the whole world of impact investing.

Breanna Stein
Makena Capital Management

I'm Breanna Stein and I joined Makena Capital a little over seven years ago. I have worked on a number of different teams there, first in risk management, asset allocation working, and on our public equity team, and more recently on our natural resources team with Lara. I also do a lot of work on our ESG efforts, which encompasses the entire portfolio and hits every asset class.

Lara Banks
Makena Capital Management

I'm Lara Banks. I'm a Managing Director and Partner at Makena Capital. We're an endowment-style fund managing US$20 billion in AUM for endowments, foundations, sovereign wealth funds and family offices. We have investments across all asset classes. I manage our natural resources portfolios, which are focused on natural resources and sustaining natural resources. I also manage our ESG and sustainable investing across the entire portfolio.

Tarrell Gamble
Alameda County Employees' Retirement Association

I'm Tarrell Gamble. I'm with the Alameda County Employees' Retirement Association and with respect to ESG and accounting, we're trying to develop a mission and policy statement as it relates to the fund and portfolio. We're probably a couple of miles ahead of any of the other '37 Act Counties. But as it relates to thinking about investing for 2030 or 2040, we're years behind, especially if you think about what Japan is doing or places like that.

We're an 11-person board with nine voting members. I think we still have a good portion of our board who believes that the idea of fiduciary duty that first came out in 1920 or thereabouts is still the standard of today. So our challenge is really pushing forward and moving the needle in a way that's positive for the fund, for the pensioners, for the environment, and socially within the community.

Roundtable

David Kushner

Let me start by thanking the Maples Group for having the foresight to put this group together to have a conversation about some of the issues relating to ESG.

It is an area that continues to grow. It becomes more complex every day. The issues on both sides of the equation are very difficult to solve or even to analyse. What I hope is that from this conversation today, we all spur ideas for each other but also now have other people we can speak with on some of these issues.

So, other people with different backgrounds, whether it's an asset manager, plan-sponsor, consultant – that network is very valuable as well as the ability to keep track of all of these different intricacies that we might get involved with, which is what the Maples Group does. So thank you all for joining us today.

We have a number of questions to go through but I am going to veer off-topic occasionally if the conversation takes us that way. The first question is: Which issues or factors do you understand companies prioritise and how do you express those views to those stakeholders?

Lara Banks

I need to start with our process. Since we have a diverse portfolio, we're looking at all of the different sectors and different ways of interacting with a company such as investing in a public equity versus a private equity class.

We put together a matrix. It's heavily based on SASB in terms of materiality. So, for a tech company, we're looking at privacy as one of the higher risk areas from an ESG perspective. In fossil fuels, we focus on carbon and environmental liability.

We are looking to boil this all down into one or two key ESG levers to manage across each investment that our stakeholders as well as our clients can understand. So the short answer is that we are taking a tailored approach based on the investment sector.

Bob Kricheff

You asked about stakeholders. We manage other people's money as they say. And one of the interesting issues that we've found is the clients that have been most strident about our ESG policy and are the most focused on it, at the end of the day, they're still hiring us to get economic returns. Even the ones who have the strongest views on it, they still say, "But I don't want this to affect my returns."

So it is a very interesting balance between that, at least in the way we're structured, to be able to do it. Going back to 2002 we've actually run portfolios on a separately-managed account basis for clients who say, "I want a negative screen." I don't think they called it a negative screen back then but it's, "I don't want to own this. I don't want to own that." But the people who want that broad ESG scope, they don't want it at the sacrifice of economic returns. At least, that's what we've found.

Ronald Falls, Jr.
I agree with that. I think that's how we kind of looked at it in the context of risk. And we're also credit investors. I think as such, we're in a different part of the investment cycle to articulate a thesis on ESG. The tools that are available in the credit space are also limited. The metrics and things that managers will actually look at portfolios with is limited.

Our investment universe has changed. We've gone to an index / benchmarks being majority 144A for life securities. You don't have the same sort of public disclosure information available or underwriting information that's available in the equity space to quantify and articulate it. So the conversation with clients about what we're trying to do or what they actually want to achieve, all of this will be capped by: "I want performance / returns. My consideration about ESG factors is limited."

So we live in a very similar environment of using restricted lists "I don't want emissions or these types of companies or these types of issuers." But now we've layered this in and are restricted by, "Go out and get me the best return you can or I'll terminate you in 12 to 18 months for performance."

It's disregarding the real ESG conversation of, "There will be opportunities to achieve performance on ESG factors. But there will be moments where you may lose performance opportunities from ESG factors," and allowing that to be a comfortable space. "We're going to take a little bit of this cream off the top in order to achieve this objective. You have to be okay with that and take the journey with us." But I don't know that we're there yet.

Tarrell Gamble
Maybe the issue is managing the client's expectations and being vocal enough or having greater conversations around it. We still want to have a return objective but this is what we believe in from a moralistic standpoint. And today, this is what these returns look like. And going forward, that may be a different objective.

I actually think that the investment world will move more towards ESG factors than away from them. So that's the conversation we should have: "You may suffer in the short-term, but in the long-term, the benefits will far outweigh what the short-term potential loss is."

Bob Kricheff
I think that can sometimes come down to how you are with your clients, to your point about managing expectations.

Most of our business is separately-managed accounts. In those situations, it's significantly easier to have that conversation and say, "What do you want? What do you not want?" I think it's some of the big commingled vehicles where it becomes tougher. You have someone in, and they're a big investor. They say, "Well, I don't want you to invest in munitions." And it's much harder to meet one person's objectives just because all of the legal restrictions when you're in a commingled vehicle. It becomes a lot tougher.

Justina Lai
If you're really looking at those considerations that are financially material for that particular company or that particular sector, then it doesn't matter what your personal values are or what your institutional mission or values are. It is about what is financially material and what is going to either reduce risk in your portfolio or enhance the return.

So if there's not a fundamental investment thesis behind it, then it's really, to me, about resource allocation. Well, then that is a situation or a challenge that we might want to solve with other forms of capital other than an investment portfolio that's designed to deliver risk-adjusted returns.

Bob Kricheff
Yeah. We use our ESG process in all of our investments, but when somebody wants a specific negative screen, it becomes more difficult.

Lara Banks
Yeah. That's why we don't generally offer that.

Justina Lai
Or you only do it in separate accounts.

Bob Kricheff
Right, exactly. We'll do it like that.

Lara Banks
They're not thinking, "Okay. In 12 months, we'll see if there's something that changes from an ESG growth perspective that makes a company do well." We're looking at the long-term. I think our point is that if you do that well, you're going to generate better returns, and the proof is hopefully in the pudding at some point.

And then the thing we are challenged with is how we show the progress and the improvement on the ESG factors. The other thing I think we probably talked about is we have private equity funds where we actually have a voice. And we can say, "Have you done this? How are you changing it?" And that's actually one of the reasons I think that institutional investors can do more, even in private investments, by using their voice to compel companies to change rather than just divesting. But it depends on sharing the right vision.

David Kushner
One of the keys to that is how you define ESG. After Sandy Hook, we actually had participants walk into a public meeting suggesting that we divest from the chemical company that provides chemicals to make gunpowder, the company that makes the gunpowder, the company that mines the copper for the metal jackets on the bullets, and all the way through that chain to the gun manufacturer.

As a CIO, one of the issues that I always had was finding a really good service provider that could provide us with information based on our ESG factors. I'd like to hear about everybody's experience with various service providers and how well you think their research capabilities are, how deep do they go, how good are they, and do you think they have a bias in the research that they do?

Ronald Falls, Jr.
My articulation of Post's position is as the COO, not an investment professional. The tools that we see from the service providers are a little bit, again, limited to the credit space. I think one of the things that we would like to see happen is the standardisation of ESG metrics and data. Often, we get questions from clients around displaying metrics. Some of the tools that we have available, like the Bloomberg Portfolio Carbon Footprint help analyse a portfolio but are limited in effectiveness.

Part of what we manage is public securities, but there are also a lot of private securities. And we've trended, because of other factors, into a space where that's more prevalent. Half of our index, half of our benchmarks are 144A for live securities that don't have disclosure requirements. So you need to rely on the transparency of management to get in on the underwriting process to draw out some of these elements.

The analysts are trying to make some determinations about it. But this is not information that's readily available. So I can put together appropriate collateral to communicate what's happening to my clients. But it's limited in its effectiveness because of the depth of that information into the actual holdings of the portfolio.

My hope would be that some of the rating agencies start to take the initiative to create more information available to us in a standardised format. Then we can communicate between the service provider and the client based on who those issuers are in the marketplace. That's not there yet, but I believe that will happen.

Mark Wood
Yeah, I would echo that standardisation is a big component of what we talk about when we evaluate the different ratings providers. We, as a firm, subscribe to MSCI because of the existing track record and coverage. But there are inherent biases within it. For instance, MSCI, we know, is very biased towards voluntary disclosures, which means large public companies have a corporate social responsibility office to take the time and resources to disclose things. Small-cap and micro-cap are almost non-existent. They just don't have the resources or even know they can disclose it even if they are a good ESG company.

So the way I view it right now is when I'm evaluating managers, I'm asking how they look up their data on ESG. And I think the best processes we have seen are a combination of different inputs and putting their own judgment on that and looking at it through the lens of, "Okay. MSCI is going to provide us this, but they're bad with that. But it's sustainable in this aspect, and it's good. And then Bloomberg gets this."

And they can dig in deeper like RepRisk, Carbon Delta, whatever they're specialising for, and building that into their own analysis and not necessarily using something off-the-shelf. I think that's the practice of good ESG managers. If they can build it in-house, it's even better.

It's interesting because I think we're kind of at a transitional point on the data front where there will be standardisation. I think SASB and some of those organisations are really pushing that forward. But until there is a gap of sustainability or verified statements, it's going to be hard.

And there is an opportunity, I think, for active management in that regard. Finding that information that's not captured elsewhere and using that to their advantage be it for risk mitigation, finding some unfunded liability that's not on the financial balance sheet, or an alpha opportunity that hasn't been recognised.

And I think that's where we see the most advantage potentially going forward. But there are huge biases in the data, and it's actually very frustrating.

Bob Kricheff
Yeah. I should probably start by saying we don't even like the credit rating agencies. We think we do a better job of measuring credit. So we think they're massively flawed, particularly in the below investment grade debt space. So we're probably biased against these ESG rating systems. And to echo what both of you said, the fact that they have a huge bias towards large public companies makes them almost meaningless to the below-investment-grade debt space.

A slight nuance, and I'll tweak what Ronald said about 144A. Almost all of them have reporting requirements, but not necessarily public reporting requirements. You can get the data, but you just have to do more work to do it. And the agencies don't do that. They are focused on the big-cap companies, and it creates this huge bias. So we don't use them. That's the quick answer to your question. But we've looked extensively at them. There are big gaps and overlapping coverage.

The other thing is we've really dug into a lot of how they do it. There's a huge bias towards the publicly available information and a huge bias focused, in our view, on just carbon footprint data and specifically on carbon issues because that data is available, and it's a measurable issue.

I don't know if we ever will get standardisation with a lot of the other aspects. I don't know if standardisation is good either, quite frankly because some of these social issues and some of the environmental issues are very, very nuanced. And if you try to get it too much into a numeric score, it gives you a false level of implied precision when it's not really there.

When we looked at all of this, we decided we had to do it ourselves. We review all of our own credits. We have the scoring system for our credits. We've created ESG scoring and ESG tiering. We created an SRI checklist. We've now started to quantify some of the data and find some really interesting things on relative values.

So I think you do have to really do it yourself. I find the agencies, so far, almost misleading with the level of precision they have. I think one of the biases that you see between them is they're in such a race to capture market share that they're creating things that I think are very unhealthy for the industry. And then they're saying, "Oh, now we're going to rate funds based on how well they score on our MSCI scores. But, oh, by the way, our MSCI scores are usually biased towards large-cap companies." So I think there's a lot of bias and it's kind of how they've built their business. We're not really big in the public funds space, so it doesn't bother us that much.

Breanna Stein
Do you get pushback though for having the in-house scores? Something that you're evaluating yourselves on, versus having an outside-party objectively taking that view?

Bob Kricheff
We get a lot of questions and a lot of due diligence on it. We have not gotten pushback. We built a whole matrix on how the questions are answered and suggested data sources. For clients, we obviously open it up and show them.

We recognise it's not perfect. We review it every year. So we get asked about it a lot, but when people do the work, they haven't had any problems. Now, of course, we're also in fixed income. And I think, from what I hear from people in business, there's much more pressure in equities to do it through an outside party.

Justina Lai
Yeah. I agree with everything that's been said so far. I think data is useful. It's an interesting input into your analysis but it is not the endpoint of your analysis. In the same way, if we were to just take Morningstar's stars, I hope no one in this room invests based on the number of stars in Morningstar's fund reviews.

I think setting private equity aside and setting alternatives aside, what we're talking about here is really more public equities and fixed income.

To me, I do think standardisation is helpful in the sense of standardisation of definitions of what you're reporting and standardisation in terms of frameworks like SASB's materiality map within a particular sector and a particular industry. These are the kinds of data points that are useful to investors because they are the most material. So in the same way that guidance is provided by SASB in terms of what different kinds of companies and different kinds of industries should be disclosing, it's a similar concept here.

From my perspective, whenever we have this conversation about ESG data and the lack thereof and the challenges that exist, that's no different than the challenges that exist in terms of financial disclosures. So I get a little bit frustrated when people use that as an excuse not to pursue this approach.

I feel like if you're an active manager, it is your job to find that information. In the same way that you're not relying solely on a company's financial statements in order to conduct your financial analysis, you shouldn't be relying solely on MSCI data or Sustainalytics data or whatever your source is to figure out what the material ESG consideration should be for a company that you're looking to hold.

That's the kind of diligence that we're doing on our managers. It's to understand that process. How they're thinking about it, how they approach it. We just use Morningstar, Bloomberg, MSCI and Sustainalytics data to ask better questions of our managers.

Michael Malchenko
I agree with everything that's been said. Something interesting was said about bias. It's not only bias in the data providers, it's potentially bias in the size of managers that can take on the resource-suck of selling the concept that they have integrated ESG into their process.

Or it could be a two-person shop that's running a small-cap portfolio, a micro-cap portfolio. And integrated into that is a lot of meetings on the "G" potentially and the "S" and understanding how management interacts with the value chain of all the companies that they're investing. So there's even that potential bias towards manager size and how that relates to ESG integration.

Lara Banks
The one thing I like about smaller managers though is they are so willing to talk to us about what they should be doing and like learning from others. Because you're right, they can't do as much in terms of reporting. But, I work alongside our GPs, and they can sit across the table from a CEO and say, "Hey, I want these metrics in our quarterly board books." And these are impactful to the health of the business, both from an ESG but also a financial KPI perspective.

So I can see your point. I think the KKRs of the world do a better job of putting out reports and numbers which show metrics.

Justina Lai
But, to your point, from my perspective, impact KPIs are no different than financial KPIs. If you were doing your job right, you should be selecting KPIs that are meaningful to the business and where, if you're broadening and deepening your impact over time, it actually results in better financial returns if you're doing your selection appropriately in the first place.

Michael Malchenko
So there's a gap between knowing all of this information to the extent that it is there and actually acting on it. And, from where I sit, it's the investment manager's fiduciary duty on the part of the plan to find the materiality, find in the public space the infinite time horizon that we have and take the best risk-reward exposures that we can.

David Kushner
Tarrell, do you have anything to add from Alameda County?

Tarrell Gamble
We're a plan with 20,000 stakeholders, and nine people are making decisions for those 20,000 stakeholders. If you asked each one of us individually what the ESG standards are, you're going to get nine different answers.

And what we've done is broadly taken what our managers consider important in ESG, particularly our private equity managers. Because they're the ones who are at least sitting down and saying that they're trying to integrate it in the portfolio in a way that's supposed to have a positive effect.

But I'd say it's a target that keeps moving. I don't necessarily know if and when it's going to stop and where it will stop in terms of saying, "Here's what makes companies great and these are the standards that should be applied broadly across the industry." Some people will look at that and say, "These things are correct and it's a positive benefit beyond just the financial return."

Bob Kricheff
In the public pensions, do you ever get pushback in some of the union pensions? Public is not necessarily a union pension, but the leadership has maybe taken active roles in social issues and how they want to invest and made a stance for it.

But there's been pushback from some of the pensioners saying, "That's not your job. Your job isn't to decide what I want to invest in socially. Your job is to give me my best retirement."

Tarrell Gamble
We had a board meeting today, and I got a letter from an active retired person, and it's all about investing in fossil fuels.

Ronald Falls, Jr.
Are they objecting to it or in favour of?

Tarrell Gamble
It's objecting to investing in fossil fuels. But I think in Alameda County, you're going to have people who have different opinions than people who are in Imperial County or people who are in Sacramento County or people in Marin County. So that's just the reality of it.

Interestingly enough, we were in a real estate investment which had all of these hotels in San Francisco where the people were on strike. We owned somewhere between 10 and 20% or 30% of a fund that owned a hotel. And half the people on the board were union members or even union leaders in their respective union. And some people had empathy for the people who were trying to organise, and other people didn't, which was really interesting to me.

A long time ago, I was a union employee. But, in essence, it's each persons' individual mind. So I don't know how to answer that.

Bob Kricheff
Yeah. It makes your job tough though.

Tarrell Gamble
I don't know if it makes it tough, but I think it allows you to really understand a person. There aren't a whole lot of tough decisions. It's really about understanding who a person is and what they really care about and what they don't care about.

David Kushner
So let's move onto the next topic. We've already heard about some of the differences between liquid and illiquid. And I'll add in traditional versus what everybody now calls alternatives, which is basically everything that isn't public markets.

I would love to hear some perspectives on whether your analysis of ESG differs between liquid / illiquid and traditional / alternative or if there are differences in the way that you might approach the analysis in the reporting.

Mark Wood
As a consulting firm, we're actually building out the differences in that analysis right now. With the public equity side, we think we have a pretty good handle on just getting the data available and our experience there. Fixed income is another area that we're trying to build out more given, to your point, the challenges of what is available and refining that.

Alternatives have been tough for us. Private equity really is an area that we're looking a lot at. How do you get into the "E" and "S"? Because the governance is baked in, to your point, if you have that control or a board seat or whatever the case may be, so you can sort of mandate more control. But is a better way to express an ESG view in the portfolio through private equity?

And then, the hardest of all, how do you quantify that impact even on the buy side? How do you measure the success of an engagement if you're talking to the board and trying to move some things forward? How do you measure the social success of your "S" or "E"?

"E" is a little easier, more efficient. It goes to the bottom line, double bottom line, all of that. The "S" part is way up in the air. We're having trouble measuring that, and that's filtering through into how we're trying to build out our alternatives framework. That's slightly different than what we have in the public equity side. It's very difficult though.

Lara Banks
But I think it goes back to your point of KPIs. My gold standard will be that every fund has their KPIs for ESG. Or for each company, so it's not at the fund level, it's at the company level.

You work with your CEO and the COO to figure out, "What am I going to report on? What's going to affect the value of this company over the hold period?" And then we report on that quarterly like we do on financials. And, hopefully, that improves so I can see some metrics over time. And then they can bubble those metrics up to me as an investor or they just show me the metrics in each portfolio.

To me, that's what I want. I don't know if it's going to be possible because some people just won't have that.

Justina Lai
I think in the private space, our approach is really more thematic. We're looking at the products and services of a company and looking to make sure that they're solving fundamental social and environmental challenges. And I think, in that case, the KPIs that we're selecting, we're first trying to adhere to industry standards as much as possible, so we're using IRIS, the Impact Reporting and Investment Standards of the GIIN.

We also try to encourage — if they've got the resources — the fund manager to go through the B Corp Certification process for each of their underlying companies. So B Lab has gotten rid of its Global Impact Investing Rating System, the actual score. But you can still have each company go through the B Corp assessment process, which provides you with a series of scores.

Now having said this, I already made the point that scores alone are insufficient, but they are a useful data point. And with B Corp Certification, there are 200-something metrics underneath that or data points underneath that.

So, within the private space, to me, it's all about making sure it goes back to materiality: "What is your original investment thesis for investing in this particular business? And what is the impact strategy that drives that investment thesis? And then let's make sure we select metrics that are material to that particular impact strategy and investment thesis."

I don't need superfluous data points. That's not useful for anyone. And I want to touch on the theory of change. What is the logic model of how you're creating impact? And every single metric that you report back to me needs to relate to that original theory of change and how that is going to ultimately drive impact.

And that's how you tell the story. I hear the points about like, "What am I supposed to do with these data points?" Without any kind of context, absolutely, they're useless. I don't need data points that are a one-way flow of information. I need data points that help me understand how you can broaden and deepen impact over time and how you're executing upon your fundamental original theory of change for why that fund manager made that investment in the first place.

So, to me, the private space is actually a lot easier because you do have a lot more control because you can negotiate these. We negotiate them sometimes in our LPAs, in our term sheets, that sort of thing, to make sure we understand they're being held accountable in some way, shape or form.

Bob Kricheff
When we set up our philosophy a couple of years back, we said, "Before we come up with a policy, we have to figure out what our philosophy and approach is. Because the checklist is nice, but it doesn't encompass everything."

But one of the things we decided on was that it was going to be part of the process, and it was going to be engaged in everything. So there's no difference between a private loan investment and what we do in our opportunistic fund, which is our version of a hedge fund that's not really a hedge fund. But it's the more alternative kind of investment.

Our credit approval process involves our ESG tiering. We track it just like the analysts have to update all of the other stuff, they've got to update that. All of our SRI stuff is integrated into it. So we don't make a difference between private and public on that. We spend the time to do it.

Now, a lot of companies, just from our financial reporting requirements, don't meet our standards so we don't invest in them. We limit our universe a lot just by our own credit standards. If we have to limit it because of our ESG standards, so be it. Fortunately, it's a large enough universe to invest in.

It's not part of the question, but you brought it up, Justina, about the impact. It was another thing we struggled with – from the fixed income side, how do you engage? How do you address things? Because we don't control the board and if you are on the board, that means something has gone wrong with your fixed-income investments.

Justina Lai
You don't want to be on it.

Bob Kricheff
But one thing we found somewhat surprising is when we've engaged, we actually found better response in engagement sometimes from private equity firms and privately-owned companies than we have from the public companies.

As a matter of fact, one of our Vice Chairmen sent out a note to the CEO of a private equity company that we have a relationship with, congratulating him on an investment in something. And he wrote, "We have a Hall of Shame for companies, which we can go into another time." And the CEO's response was, "Thank you very much. What about Company X getting off the Hall of Shame?" So it actually mattered to him.

So in that engagement, we've actually found a better response from some of the private companies than from the big public companies.

Breanna Stein
And I guess my question off of that, and I think what we struggle with, is we do go down and review every firm. Every company under that seems so specific, and there are certain KPIs that you want to measure. But then there's also a desire to aggregate it and have a simple way of conveying how you're doing to other people. And they want to see those scores.

So how do you bubble that up and come up with the key pieces that are actually applicable? Maybe it's on an asset class level. But even with that, there's so much difference within asset classes. How do you standardise without losing all of the detail and the importance of that specificity?

Justina Lai
We just recognised that it's imperfect. The space has developed significantly over the past 12 years that I've already been in it. So I do think that more and more tools will become available. More and more people are thinking about this and trying it. It does not exist right now.

Our approach is we build custom portfolios for each of our clients, so we provide custom reporting to our clients as well. And there's some standardisation. Like in the same way in which you can talk about asset allocation, we can also talk about impact allocation.

We have a framework where we classify every single one of our investments by multiple impact dimensions: approach, objectives, sector and geography. We can show that upfront in terms of how each client's portfolio is allocated at least according to these impact classifications.

On the backend, to your point about metrics, we aggregate as much as possible at the sector level. So there are a very small handful of metrics that we choose for each sector or industry. And we can aggregate it up there.

And then there are just a few metrics that we do aggregate across all of our managers. And these are things like, the percentage of women on your board and percentage of minorities and previously excluded populations on your board. We also do it at the GP or PM level. And then we also do it at the investment team level.

So those are the sorts of metrics that we're able to show on a portfolio-wide level. But you're absolutely right, we don't have a great way of doing that. We do a combination of quantitative and qualitative. We do a combination of how you look vis-a-vis a benchmark.

Breanna Stein
That's the benchmark.

Justina Lai
Yes, it's absolutely a huge limitation, and we still have a long way to go.

Lara Banks
We do a rating per manager. But it's subjective.

Mark Wood
Have you made a decision based on something like: "Everything's great, but they have zero women on the board or zero women VP and above. But everything else is a great strategy."

Justina Lai
To be fair, we have a whole traditional side of our business. We have integrated ESG considerations across all of our investment processes for risk management. But it does not automatically disqualify a manager for investment. It just determines whether or not a manager is qualified as impact, which has implications for how it's used in client portfolios.

Lara Banks
The other thing is we use it to engage with a manager. We actually have a reference document that we send them on, "How you can recruit and retain more women." We have the ability with our capital and engagement to change outcomes.

David Kushner

You brought up a good point: impact versus ESG. Does anybody separate the two as different strategies or do you put impact under the "E" and "S" component of ESG?

Justina Lai
That's our dimension of impact approach. That's the classification. So, to us, ESG integration is about your business practices and processes. We use impact investing as an umbrella term. We call it thematic investing. So it's environmental- or communities-based themes.

And the reality is, even when we choose to pursue a thematic approach in private equity, for example, it doesn't absolve us from paying attention to the ESG considerations about how they actually run their business as well.

But, yeah, we do separate it. We call it all under this umbrella of impact investing. But we do classify the specific approach that we're taking, so what is the way in which this investment is creating impact?

Mark Wood
We built a taxonomy. On the far end, you have purely economic output as your goal, no consideration for the values part. As you move along, you have a values bucket or a negative screen, you don't want it, you want to avoid something, you don't want to invest. Then you go into integration or consideration.

When we're looking at ESG factors, it's not driving decisions. ESG is part of a full analysis. We baked it in. We can show you how it has driven decisions to impact, where you have kind of an equal desire for some sort of social output, but also economic returns. And then on the farthest end of the spectrum, it's just pure philanthropy. You just want that social return.

So that's the taxonomy we've taken on internally and categorised and classified it to help communicate to both asset managers and our clients, "This is what you get when you get this type of strategy." Thematic and sustainable is kind of in-between that consideration and implementation.

Right now, for us at least, the climate change strategy is a huge hot dot of new capital that people are considering or they want to look at it and have some sort of angle on that without just a pure divestment.

Tarrell Gamble
I look at it this way. Every investment is impact. It only comes down to the thought of being impact depending on who the beneficiary is.

Justina Lai
Or if it's a positive or negative impact, frankly.

Bob Kricheff
Well, one of the things we decided was that it's impact if we communicate from the fixed income side. One of our analyst's jobs is that they need to talk to every company on our approved list every quarter. Nothing comes to committee without them talking to the management. We have lots of management in our office.

If you invest or don't invest or even size your investment differently because of some of these concerns, if you let the management know, I think you get more of an impact. We told transportation companies, "We're getting pressure from lots of investors and lots of concerns about how you're treating unions." And they asked to come in and literally, the CEO wanted to address it with us. At least in the fixed income world, you've got to communicate how you're investing.

We really believe that we have had impact I will say primarily on governance. But I think from the bond side, we've been able to have that.

Typically in our business, when you call a bond, it's 30 days' notice. We had a situation where this one bond actually had written in it, I think it was five days' notice. Now, that can affect your returns, especially in a short-duration strategy. And we called up the management and said, "This is not standard. If you plan on coming back to the bond markets and you're a regular issuer, people will remember this. You shouldn't do it."

We originally called the underwriter. The underwriter said, "Oh, the company doesn't care." We then called the company directly, and the CFO said, "I don't think we care." And then we got a call back with the CFO and the CEO on the line and said, "Well, walk me through this." And they didn't change the covenant, but they did move that call to 30 days. So it actually had an impact.

Ronald Falls, Jr.
Yeah. I think that goes to the economics of it because even what you're saying there, you're making buy, sell, hold or avoidance decisions. And you're communicating that to those market participants and if they continue to want to come to the marketplace, there are a certain set of frameworks that they'll have to abide by or agree to. If you're articulating that to them, it changes.

I guess that goes back to what we were saying too in regard to thinking of the rating agencies as well. There are going to be economic impacts to some of these decisions being made. And I don't know if we're always in the best position to articulate the consequences of those. In that situation, I would hope the underwriter would have been a little bit more helpful in making this communication to the client.

For Post, it's similar to what we just said here. It's part of that underwriting process. There are points in the value scoring model for Post that will respond to ESG factors probably more in a negative sense. And maybe not enough is given to positive ESG factors in order to increase the score in the value scoring model.

But the component that it serves is part of a mix. It's not a determinant. So even in communicating, we may pass or take a position on something. It may not remove us from investing in that credit, but it may place some weight on the conversation. And I don't know, absent consequences, that it will change or that it would be more expensive to participate – if that's going to make a difference.

David Kushner

I'm going to shift the topic here a little bit. I'd like to start with the asset managers first, and then we're going to shift over to the institutional investors and consultants. Would you be willing to share with us your top three KPIs in this space, because we've had several people mention that? And more importantly, how do you track at the company, the portfolio, and then for the allocators in the room, at the asset class and fund level for the KPIs and other metrics that we look at to see if we are in fact achieving objectives for ESG-type investors?

Ronald Falls, Jr.

I guess starting from there, one of the things that I think came out of this was about the qualitative nature of the articulation of the ESG goals. I would say Post focuses only in the credit space, so it is more qualitative. And I think that there's less analytics around the long-term impact. I think you're looking at each of the credits, the sectors, and you're making decisions about where you will participate and where you won't, especially if you're primarily long-only.

The articulation of what we're doing is probably very credit-specific, issuer-specific, and maybe not in the comprehensive story of, "These are the industries that we're trying to make changes through continual investment or continual avoidance."

As I said, we're continuing to evolve our ESG process as more information and more processes become available to us. I would say when we started this ESG conversation, it was driven from a client conversation of, "This is what we want to see. This is how we're starting to rank managers. This is how we're thinking about it."

The question to us was, "How do you think about ESG in your underwriting process?" And then articulating that on an example basis, I think we still have more work to do on getting to a point where we are able to provide metrics over time of, "This is what we're doing," or, "This what we want to see," or, "This is what we expect the outcome to be."

I think at this point in time, we are honestly in a place of credit-by-credit, issuer-by-issuer. "This is why we've made this decision. This is why we're making this move." And there's probably a more comprehensive story that could be told about that.

Bob Kricheff
I can't pick three KPIs that are our favourites because we really do weight them the most. I will say when we did set up our ESG checklist that goes in every credit, we debated this a lot. We are slightly overweighted in governance issues, but we are credit people too. And we felt that it was legitimate to slightly overweight governance and how they treat debtholders and how they treat their board and everything more than any other factors given the asset classes that we deal in.

I keep calling it a score, and then I also said, "The scores are misleading." We don't put it into a score. We actually put it into a checklist. And depending on how many positive or negative checks, each credit goes into a tier.

So, it may look at how they handle the number of environmental issues that they've had, the number of efforts they've made to improve their overall environmental footprint and their overall environmental impact, those factors along with several others get put into the environmental.

For social, we really focus on everything from situations with both the community, employees, as well as how they handle social issues, and what kind of social risks they may operate in including both with customers and the general public. This can include everything from opioids to privacy issues that can be factors depending on the industry. And each industry analyst works up their list of factors that they think are the riskiest.

So we do try to have a formalised checklist that then feeds into our ESG tiers. We really don't overweight one more than the other. And I can't say these are the most critical ones. But I will say – and this was a highly-debated position in the firm – we do slightly overweight governance in the overall scoring because we are credit people.

The other thing, which has really become an interesting tool when you look at it, is we have looked at it portfolio-wide and firm-wide and approval-wise by tier. We're going to start tracking performance depending on what tiers you have. We already can show the portfolio, what your weightings are and what your yields and everything.

But I think one of the interesting things is for more customisation because we do have mainly SMAs. Our legal team went back over the last 20 years and looked at what the most common exclusions were over time. We actually came up with a list of 15 of them whether it's tobacco or nuclear arms. We came up with the 15 most common.

We then had our analysts code every company whether they had zero exposure to it, zero to 50 in their revenue or above 50. We call it our SRI flags. We then put it into our system, and there's a material difference where the bonds are yielding if you have an SRI flag or you don't have an SRI flag. And we're going to track it over time and see if it's interesting.

I know that's not exactly your question about KPIs, but we have taken this stuff and put it in to try to at least track to see if they're making quantitative differences. But it's hard to weight one more than another.

David Kushner
I'll go back to the second part of the question, which is, how do you track it? Because, as a CIO, when I had a board that asked me for that information, my manager, said, "Oh, we can provide that for you." But the only thing they had was the MSCI screen and rankings. And, as we all know, there are issues with those. So I think a key question is: one, how do you track it? And, two, if you have a different point of view, are you able to then customise your reporting for the asset managers to your clients' re-allocators? Where are you getting that and how are you aggregating and being able to do it?

Ronald Falls, Jr.
I guess this goes back to the reporting information, and a lot of it being specific to the credit space. Our method of reporting is on a quarterly basis. We provide examples of buy, sell, hold or avoidance decisions that were made within the quarter and that turns into a qualitative reporting metric. But there's not a quantitative element to that in the articulation of what we've been doing.

So these clients who are interested in our ESG approach or discussion in the underwriting process, outside of the specific credits where we have value scoring models where the metrics have been assigned or you can pull on a credit-specific basis, you have a qualitative report on what's been happening over time. And that's more of a narrative than it is a quantitative metric of what's been going on.

David Kushner

Do you track the negative decision? Do you track the companies that say, "We will not invest in certain companies unless they meet these criteria" and how they perform through time?

Ronald Falls, Jr.
Yes. I think you track the decisions you pass. I don't think we've been tracking the performance of those companies that we passed on, but we definitely do track where we've taken an opportunity to pass on a credit.

Mark Wood
We, as mentioned, use MSCI data. We've been able to map that scoring for each individual company into the portfolio holdings that we have in our database. And then that rolls up into a total portfolio score for each pillar of ESG and then a total portfolio score.

What we found is that we can show reporting for that to clients who are asking for it. But it's hard because the score comes out as a six. And it's like, "Okay, what does that mean?"

We have it peer-relative. And the peer group is so compressed that there will be similar "S" scores and then the manager will rate 5.5. And that's in the top quartile. Another manager will rate 5.6, and that's the bottom quartile. So it's such a narrow range; it's not very decision-useful at all.

Going forward, we've been building this out this year. It's a much more qualitative-oriented process where we've built out a customised-scoring framework that we use. We send out a questionnaire. We're trying to make this more scalable in a database format, but there's a lot of text.

Bob Kricheff
Most of the times when we've had clients come in and do due diligence on our ESG process, either existing clients or new clients, they've always been much more interested in the process. They want to see that it's truly integrated into our process and our risk mitigation techniques in risk management, than they actually are about the numbers.

They always want to see the system, and they're interested in it and how we do it. We kind of tell them it's evolving, and we're open to ideas. We've only had very few clients who have said, "Hey, can you go tell me how it has shifted in my ESG? I need to go to my board and show what your ESG tier is saying and how it's changed over the last year."

People, at least from our experience, are much more interested in just seeing that you're really doing it and that it's really there and every credit is done and all of that type of stuff than the actual scores.

What we do get sometimes that's interesting is somebody gets a complaint about a company. Pick any company that's unionised or something else like that. And they say, "Hey, we're really worried about this. Do you guys own it?" And we go, "Yeah. This is how many basis points, and this is in the portfolio."

And they said, "Well, what about this factor?" So we go back and we look. And so far, every time, whatever they were concerned about has been caught in our ESG factors. And we send them the report, and they go, "Okay. So you're considering that."

So it's nice that it's worked out and that we get questions periodically about a specific company from specific clients. So far, we have not had that big ask for the quantitative data. They want to know that we're signatories to the PRI. They want to know how we scored. But it's much more the due diligence of process.

David Kushner

So it's not so much as creating a report for a client that says, "Here's how your portfolio scores," as much as being able to respond to the inquiry of, "Why do you have X?"

Bob Kricheff

Yes.

Breanna Stein

We have a scorecard that we use to try and standardise things. It's tough. And then every asset class has an "E," "S," and a "G" element, but the specific pieces that we look at are different depending on the asset class. And the factors are weighted differently. So in natural resources, the "E" is weighted a lot more heavily than in other areas. And then in public equities, the governance factor might be weighted more highly.

So that's our way of trying to keep track. We have been doing this over a number of years and are seeing which managers are improving. So that's the nice part – seeing from year to year what managers improve on their score and what managers actually move down.

And then those inform the conversations that our asset class heads have with their fund managers throughout the rest of the year. They're trying to get managers to improve and hopefully increase their score the next year. It's crude, but it's directionally helpful.

David Kushner

So I'm going to take this a step further. Of the demands you see from your clients with that type of information, how are you making sure you're staying up to date in keeping that information current? And how are you reporting it back to your clients?

Michael Malchenko

For us, it's completely client-driven, again, in public funds. There are a few of our clients that are highly engaged in the climate risk debate. Reporting on it is a function of knowing your managers, even the passive ones. So, for example, in public equities, every one of my clients has an S&P 500 index fund or an MSCI ACWI index fund.

Although in a commingled vehicle, let's say, not everyone is in a commingled fund. So to the extent that your manager has a policy on ESG, how they're voting their proxy votes if they're putting out resolutions, that even matters.

So, essentially, it's education across asset classes and across your manager line-up to understand, for example, the climate risk. And a level up from that, we have an approach to scenario test climate change versus different asset mixes across a multi-asset portfolio. So that can give trustees a sense of how impactful their asset allocation is and if there is anything they can do to change it.

Bob Kricheff
Michael, do you see a type of client asking more questions on ESG factors than other types? Because you guys have a pretty broad spectrum.

Michael Malchenko
Right. I work in public funds and, honestly, every public fund is asking about it. But in other practices, E&F, mission-oriented investors, their goals are different. Their investments are more thematic like what was mentioned. I didn't have a lot to say after you and Justina and Mark spoke because I agree with pretty much all of it. But, for us, it's understanding what the integration is and measuring it. So, for example, climate is big.

Lara Banks
Do you consult on the proxy voting?

Michael Malchenko
We do not consult on that. The usual cases are that there's a third party proxy rather than consultants.

Tarrell Gamble
It's a waste of time, a waste of money.

Bob Kricheff
Do you have to use that?

David Kushner
We stopped that.

Tarrell Gamble
I don't know if we have to use it. Ever since I've been on the board, it's what's always been there. We also have a large position in BlackRock. I think given the nature of public equities and the governance of it, where you have I'd say 60% of all stocks tied up under seven names, to me, that's the risk.

And that's where you're getting those seven names aligned and saying, "So this is how you change things going forward." It's not only who the board of directors are, the CEO conversation, and how you pay your employees and what benefits they should receive. That's how the needle has moved. I don't know if the world would ever align in that way to make what I would consider a positive change.

Justina Lai
To be honest with you, we're probably pushing more than our clients are. We really are educating our clients, introducing them to the concept, introducing them to the reporting.

That classification system I mentioned is built directly into our financial reporting systems. So every single one of our clients, when they log in to their online portal, they see side by side what their asset allocation and their various impact allocations are. That is available to them on a real-time, ongoing basis. We also provide regular quarterly reporting, which includes their impact classifications and breakdowns along with their regular quarterly financial packets.

Then on an annual basis, we provide a customised annual impact report, which is customised to their specific portfolio. We try to provide portfolio-level information as much as possible. We'll then break it down into asset-class-level data. We'll do your public equities portion of your portfolio on how it compares to benchmarks, for example. We'll also show trends. And then we aggregate metrics as much as possible at the metric or sector level.

And then at that level, we'll also do attribution, although this is not the right word because we are not claiming that this is attributable to our clients' dollars. But it gives them a sense of orders of magnitude. So we say, "Okay, fund-level metric, your percentage of that fund." It's just to give them a sense. But, again, not attribution.

David Kushner

And this is your internal systems pulling this data from various databases?

Justina Lai
No. Unfortunately, it's almost entirely manual. It's Excel spreadsheets. I've been looking at a lot of different software tools that just aren't quite right for our use case. We track it year over year. We also do quarterly fund-level reporting that's a combination of very few quantitative metrics and then qualitative metrics. And at the fund level, again, it goes back to what the actual impact investment strategy is and the theory of change.

I should also mention that the customised annual impact report that we provide to our clients is, as much as possible, aligned with their specific theory of change. So for those clients that want to engage at this level, we'll actually help them develop an individual- or family-level theory of change, and we'll report against that.

Lara Banks
So are you reporting EBITDA, like the EBITDA growth of the company?

Justina Lai
No, I'm talking entirely about impact here. We do provide quarterly financial reporting, but more performance-level for financials. Everything I just said was for impact.

Mark Wood
The pockets of interest have been really interesting for us certainly on an educational basis. One of our clients is just looking at doing a climate change strategy search. It's very broad-based. We're trying to figure out the scope of that, which is difficult.

We've also seen interest a lot from corporate defined-contribution plans looking to add an option or have something in their menu available to participants. Sometimes it's a check-the-box measure, and sometimes it's grassroots participants who are interested in that type of exposure.

Within that E&F bucket, there are different foundations that say, "You know what? We just want to get as much return as possible, and then we'll use that to put the mission forward," as opposed to expressing our view with that endowment.

Michael Malchenko
If there's a crutch to stand on, it's fiduciary duty. That's something that we advocate for our clients to understand. We're not lawyers. In the usual cases, in the board meetings, there is counsel there to put board members on track with respect to what they can talk about and not talk about. But it's fiduciary duty that kind of drives the boat in terms of what types of ESG related strategies can be pursued.

Tarrell Gamble
That's not what I got from this conversation at all. As soon as you said, "It's tough for us to take a stance," I just thought, "Well, you're just not willing to make less money because of the stance." I mean, that's what it comes down to. It's a business. Your business priority is to maximise whatever potential profit there is.

Mark Wood
We've had clients that have chosen big swaths of the world not to invest in, not just fossil fuel. We have one client that chose not to invest in any healthcare company for various reasons. Then you've got to say, "Okay. Just so you know, these are your returns. There isn't a benchmark that does that. So we've got to show you what this sector has returned over the years just so you understand." It's a little bit like you said, communication and expectations.

Tarrell Gamble
Yeah. That's client-directed. He started with the company taking a stance. And at the company level, you decide to take a stance or not. I mean, you decide who your clients are or not. That's the top-down approach.

David Kushner
To your defence, different clients have different objectives. And clients have to understand that because I advise this client this way, it doesn't mean I'm going to advise you the same way. I might give you different advice because you have a different situation. It might be 180 degrees from what I told these guys. So that's managing your client expectations.

So let's go back to the comment about fiduciary duty. And, Tarrell, you get this. The board itself is the fiduciary to a public plan. The problem is that the board consists of elected and appointed members, all of whom have political constituencies to answer to. And in many cases, those board members like being on the board for whatever reason it might be. The staff takes their direction from the board. It kind of gets caught in between. The politicians, the board trying to do the right thing but knowing that if they do the right thing, they're going to take heat in the press or from the politicians or the beneficiaries and the managers. So it's a circular argument. There is no answer to it. But you hit it spot on with alternately, you have to look at it from a fiduciary perspective.

Are there any other questions or comments that anybody here would like to put onto the table that you'd like a perspective from this group?

Bob Kricheff
I was going to say that one thing that affects us a lot that we didn't talk about a lot here was the different views internationally. I don't know how many of you guys have international. But about 40% of our assets come internationally. So it goes a little bit back to different answers for different people.

We get massively different views of what ESG is and what's important to people. I think the customisation answer and the understanding that you can do different things for different people is actually critical in ESG. And if you can't do that, you're going to have trouble doing anything in ESG.

One of the biggest things where we saw that was in the different views of international clients in ESG. We were talking about it before where Australians, in general, take ESG very, very seriously, but they address it very differently than people in the Nordic countries.

So I think it puts us, as a firm, at risk sometimes because you really do have to understand what the client's objective is to be able to give different advice to different clients. I don't know how many other people here at the table deal with that international aspect or if anybody finds it to be difficult.

Ronald Falls, Jr.
We do, as well. Northern European clients are extremely hypersensitive on the ESG issues and very assertive about their views on them and drive their portfolios in that direction.

I will say we're starting to see more of that conversation from the domestic clients that have started to catch up. But the original heat and the intensity of the conversation for us started in Northern Europe and the rest of the world is starting to pick up.

David Kushner
Well, when you see the Norwegian sovereign wealth fund of over a trillion dollars say, "We're getting out of fossil fuels now that we've made all of our money in the North Sea, and it's going down anyway," it kind of sends a message in the market.

Any other comments on Europe versus the US or other parts of world on this or any other questions?

Michael Malchenko
My only experience with that is all of our clients ask us what their peers are doing. It's about US pension funds, for example, on the divestment issues. Not one has done it in the way that is proposed like getting out of broad fossil fuel. And depending on what sector in public markets, it could mean 5% or it could mean 10% or 15%.

Not so for other places. People have divested, but it's always with the caveat with our clients who are US-based pension funds that none of their peers have really taken this on.

David Kushner
I think that concludes our discussion. I want to say thank you again to the Maples Group for putting this all together. I found the conversation very intriguing and interesting. I hope all of you did as well. And now you have other people you can talk to about some of these issues. So thank you again for joining us today.

MAPLES
GROUP