



ESG in Action

Examples from the Portfolio

Berkeley Endowment Management Company

BEMCO's investment philosophy is rooted in long-term investing, and incorporates environmental sustainability, social responsibility, and governance (ESG) factors into our investment evaluation, decision-making, and monitoring processes. We often partner, pairing BEMCO capital with investment managers who help us to achieve our investment goals. As such, their activities, and approaches to environmental, social, and governance (ESG) are of great importance.

For our managers, ESG factors are relevant to assessing investment merits, business quality, and risks. ESG consideration is consistent with the primary objective to maximize long-term, risk-adjusted returns. BEMCO is dedicated to engaging with managers to advance and monitor their approach to ESG, including investment and management practices.

We have a dynamic portfolio, and ESG is a broad and dynamic area. Below are examples of how our portfolio managers include ESG factors in their business activities:

REPRESENTATIVE EXAMPLES

Global Equities: *public equity managers integrate ESG analysis in their investment underwriting, which is a key factor in understanding risk management and investment returns.*

BEMCO is invested with a manager that recently became a Certified B Corp. As such, the firm is required to meet stringent standards of social and environmental performance, transparency, and accountability, with an aim to balance profit and purpose. A few initiatives include: 1) offsetting carbon emissions to become carbon neutral; 2) incorporating targets and initiatives to reduce environmental footprint across energy, waste and water; and 3) working to become more diverse and inclusive across the organization through intentional recruiting, mentoring, and training.

A manager in the portfolio hired a dedicated Director of Engagement with the goal of more significantly engaging companies on diversity & inclusion and climate. The manager is working with companies to achieve science-based emission reduction targets, and reports on critical metrics to plan around climate change. The firm advocates for diversity engagement plans at the company level, and is being more deliberate to demand results and change. The manager sees a difference through work and engagement with its portfolio companies, which is deeply motivating for the team.



An India Equity manager in the portfolio initiated an inaugural ESG report to share progress towards responsible investing and share ESG information on top holdings. The firm is striving to be a leader in building ESG sustainability into business practices in India. They are the first public market fund in India to become a UN PRI signatory and have enlisted IiAS (Institutional Investor Advisory Services) to help assess shareholder resolutions.

Private Equity: *private equity managers incorporate ESG factors in underwriting and/or business plan development and may have a greater ability to affect change at portfolio companies.*

BEMCO is invested with a European manager that hired a Head of ESG/Impact who focuses on helping the team allocate capital in the long-term ESG thematic. The role is pushing the organization and its portfolio companies to achieve carbon neutrality no later than the Paris Accord demands. The organization is a signatory to the UN PRI and UK Sustainable Investment and Finance Association. The manager also recently sponsored the following organizations: 1) Level 20, an organization with the mission to encourage greater female representation in investment roles across the PE industry; and 2) Out Investors, a global organization with the mission to make direct investing an industry that is more welcoming to LGBT+ individuals.

A technology-focused control buyout firm has had significant firm-wide engagement to progress DEI initiatives, including the creation of internal sub-councils. The firm's recent initiatives include: 1) targeted sourcing of minority-owned businesses; 2) an intentional hiring process focused on diversity (including hiring 5 diverse interns in 2021); 3) creation of a more inclusive environment across the firm and portfolio; 4) increasing the percentage of minority and women owned businesses that comprise discretionary spend; 5) providing DEI awards to portfolio companies to showcase their efforts; and 6) holding firm-wide unconscious bias trainings.

A growth equity firm BEMCO invested with is led by a diverse leadership team and strongly focuses on collaborative and open culture, diversity & inclusion, and climate change initiatives. The firm prioritized BEMCO as a partner, given its strong resonance with Berkeley's overarching mission to provide equal educational opportunity to all Californians, and the University's academic research in this area.

Venture: *venture capital relationships are forward thinking around Diversity, Equity, & Inclusion.*

One of the early-stage venture firms BEMCO is invested with has approached DEI with significant intentionality. The firm is highly focused on hiring a diverse internal team and investing with diverse entrepreneurs and management teams. The manager launched and published the first diversity representation report and began a program to provide mentorship to underrepresented groups and entrepreneurs to teach the craft of venture. The firm also started a foundation with the purpose of



providing capital to founders that focus on social returns over financial returns (education, grants to underrepresented scientists, etc.).

Another early-stage venture partner in the portfolio is led by a diverse leadership and senior team. The firm recognizes the value in diverse executive and entrepreneurial networks and raised a fund that explicitly helps place diverse executives onto later-stage company boards. In exchange, founders embrace the firm's participation in highly competitive investment rounds, which are difficult to access.

Credit: *credit managers integrate ESG analysis in their investment underwriting, which is a key factor in understanding risk management and investment returns.*

BEMCO encouraged a credit manager in the portfolio to incorporate an ESG policy last summer and sent examples of best practice ESG guiding principles. Less than one year later, the manager adopted a responsible investment policy that outlines best practices for investment diligence as well as day-to-day operations of the firm.

HISTORICAL EXAMPLES

Global Equities: *public equity managers integrate ESG analysis in their investment underwriting, which is a key factor in understanding risk management and investment returns.*

BEMCO's largest investment is with a manager that explicitly integrates sustainability factors into their investment approach and actively promotes sustainability best practices to corporate management. Additionally, this manager dedicates a portion of profits to a charitable foundation that aims to accelerate the transition to a more sustainable economic system. The foundation's work on fiduciary duty, stranded assets, carbon pricing, and business as a force for social good has resulted in tangible advances in regulatory, investor, and corporate behavior. For example, research commissioned by the foundation was a key factor in the adoption of legislation on sustainable finance in Europe. The foundation's research also informed the Carbon Disclosure Project's standard disclosures and assisted companies in reducing carbon emissions in their operations and supply chains.

BEMCO invested with a manager who took multiple ESG-related actions to enhance the long-term value of a European Airline. They 1) encouraged the airline to become more fuel-efficient and to outline its environmental policies and targets; and 2) voted to encourage better social policies, board composition, and incentive structures. This airline now generates 23% lower Co2 per passenger



kilometer than the average of the other four major European airlines and is investing in a substantially more fuel-efficient next generation aircraft – further widening the competitive gap. The airline has also worked with shareholders to improve governance and incentive structures.

Private Equity: *private equity managers incorporate ESG factors in underwriting and/or business plan development and may have a greater ability to affect change at portfolio companies.*

BEMCO invested with a buyout manager focused in the industrials sector. The manager views workplace safety at their portfolio companies as a core tenet of the firm – a value that in turn helps to drive performance culture. Stringent processes, procedures, and accountability metrics are instituted in all investments and have resulted in a long track record of safety improvements and low incident rates. This manager has established a foundation to support the home communities of its portfolio companies. Through the Foundation Partner Program, the foundation provides human and financial capital to social entrepreneurs and local not-for-profits and serves as a model for sustainable social engagement for other for-profit enterprises.

Venture: *venture capital relationships are forward thinking around Diversity, Equity, & Inclusion.*

BEMCO invested with a venture manager highly focused on diversity and inclusion within its own organization and within its portfolio companies. The firm is intentional in developing resources to guide portfolio companies in this area. Further, the firm is a co-creator and co-sponsor of OnBoarding Women, a program that fosters and supports female participation on private, public, or non-profit company boards. A cohort of approximately thirty women are invited each year for education and information sessions and to introduce participants to board opportunities. The program has been successful in placing many of its past participants in board roles.

Real Estate: *real estate managers focus on reducing carbon and promoting other environmentally friendly practices in order to lower operating costs and enhance tenant renewal rates.*

BEMCO is invested with a multi-family real estate manager. ESG factors are actively tracked in their investments and are a key focus in the investment and ongoing asset management process. The firm believes environmental consciousness leads to cost savings, social governance reduces tenant turnover (which is the largest expense), and diversity leads to performance success. The firm's attention to culture allows them to closely monitor team satisfaction, level of engagement, and employee turnover. Asset management team turnover has been consistently lower than national averages in a high turnover industry – the firm believe this is important to their long-term performance success.