

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. For our managers, ESG factors are relevant to assessing investment merits, business quality, and risks. ESG consideration is consistent with our (and our managers') 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 list a few brief examples of how our portfolio managers include ESG factors in how they conduct their business activities below:

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 another manager who took multiple ESG-related actions to enhance long-term value of a European Airline. They a) encouraged the airline to become more fuel-efficient and to outline its environmental policies and targets; and b) 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 substantially more fuel-efficient next generation aircraft – further widening the competitive gap. The airline has also worked with shareholders in order 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 buy-out manager focused in the industrials sector. This manager views workplace safety at their portfolio companies as a core tenet of the firm, a value that in turn helps to drive a 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 to foster and support 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 cost 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. This firm's attention to culture leads to close monitoring of 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.