

Environmental, Social and Governance Investing: A Framework for Plan Fiduciaries



A growing number of participants are not only looking for attractive performance from their investments, but also want their investments to incorporate sustainability criteria.

If you are considering incorporating environmental, social and governance (ESG) strategies into your retirement plan’s investment objectives, you may want to begin by discussing some of the following questions with your financial advisor or consultant and your plan committee (or other investment fiduciaries):

PLAN OBJECTIVES	<ul style="list-style-type: none"> • Is sustainability a part of your corporate culture? • Are your employees asking for investment options that will have both a positive impact on society and generate strong financial returns?
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INVESTMENT OBJECTIVES	<ul style="list-style-type: none"> • Does your Investment Policy Statement (IPS) currently allow for ESG considerations when evaluating investment options? If not, how would you adjust your IPS to integrate ESG objectives and expectations? • Does your financial advisor or consultant have the skills and experience to help you launch an ESG strategy for your plan? • What benchmarks would you use to evaluate ESG variables among investment options? • Are any investments available through your current recordkeeping platform that are considered ESG funds or for which ESG ratings are available?
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PLAN DOCUMENT	<ul style="list-style-type: none"> • Does your plan document contain any provisions that would restrict the use of ESG strategies? • If the plan requires an amendment, what are the costs associated with that service?
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EXISTING PLAN INVESTMENT MENU	<ul style="list-style-type: none"> • How would adding an ESG strategy impact your existing fund lineup (e.g., number of fund options, diversification strategy)? • Would you need to replace or eliminate certain existing investment options, or would new funds be added to the existing fund line-up? • What is your timeline for changing the investment menu?
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EMPLOYEE COMMUNICATIONS	<ul style="list-style-type: none"> • How and when would you communicate the addition of these types of investment options to your participants? • Would you need to offer additional investment education or advice services to help employees understand the impact of ESG strategies on their investment portfolios? • Can your plan’s existing financial advisor or consultant provide enhanced participant education or advice services or would you need to tap into additional service providers?
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ESG Implementation Checklist

If your discussions around the questions listed in the previous section lead you toward adopting an ESG strategy, your financial advisor or consultant will play a critical role in helping you define your objectives and develop a due diligence process for selecting and monitoring these investments. Following is a list of some of the tasks you can build into your project plan:

✓ Checklist

- Determine the timeline for adjusting your investment menu to incorporate options that integrate or screen for ESG considerations.

- Review the plan document to ensure ESG investments are permissible for the plan. Contact your plan document provider to discuss amendments if restrictions exist.

- Work with your financial advisor or consultant to review and update IPS as necessary to allow the use of ESG factors and metrics in the investment evaluation process.

- Define your ESG investment objectives, and set rules and metrics for evaluating ESG return and risk equivalencies.

- Work with your financial advisor or consultant to identify and evaluate ESG investments that meet your investment criteria and objectives.

- Compare the ESG investments being considered with other alternatives that have similar risk and return characteristics.

- Evaluate the ESG investments being considered using the same metrics as used for other plan investments (e.g., expenses, past performance, quality of management).

- Document your decision-making process related to adding ESG investments.

ADMINISTERING & MONITORING YOUR ESG STRATEGY

- Work with your recordkeeper or other service provider to add the new investment options to your plan.

- Tap into the expertise of your recordkeeper and financial advisor or consultant to develop and distribute to participants an announcement and any required disclosures regarding the availability of the new investment options.

- Provide investment education to participants regarding the principles of the underlying ESG strategies and the importance of evaluating financial performance and fees as compared to other investment options in the plan.

- Monitor the ESG investments, along with all plan investments, in accordance with the terms of the IPS.

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