

UNTANGLING STAKEHOLDERS FOR BROADER IMPACT: ERISA PLANS AND ESG INCORPORATION



THE PROJECT

Fiduciary Duty in the 21st Century

The [Fiduciary Duty in the 21st Century](#) report concluded that failing to consider long-term investment value drivers, which include environmental, social, and governance (ESG) issues, in investment practice is a failure of fiduciary duty. Despite significant progress, many investors have yet to fully integrate ESG issues into their investment decision-making processes. We define ESG integration as the systematic and explicit inclusion of material ESG factors into investment analysis and investment decisions.

Following the publication of the initial report, the PRI, UNEP FI, and The Generation Foundation launched a three-year project in January 2016 to implement the report's recommendations, including the preparation of country roadmaps. The roadmaps enable the PRI and UNEP FI to support national investors and stakeholders, as well as policy makers, in developing and implementing clear and accountable policy and practice that embraces the modern interpretation of fiduciary duty.

The [US roadmap](#), published in October 2016, was developed through extensive consultations and sets out recommendations in seven categories: investor education, corporate reporting, investment consultants, legal advice, stewardship and engagement, organizational process and disclosure, and Employee Retirement Income Security Act (ERISA) plan governance.

It was followed by [US Regulation and Policy Making on Responsible Investment \(2017, revised 2018\)](#), the [Ohio State Roadmap \(2018\)](#), the [California State Roadmap \(Q4, 2018\)](#), and [Financial Performance of ESG Integration in US Investing \(2018\)](#).

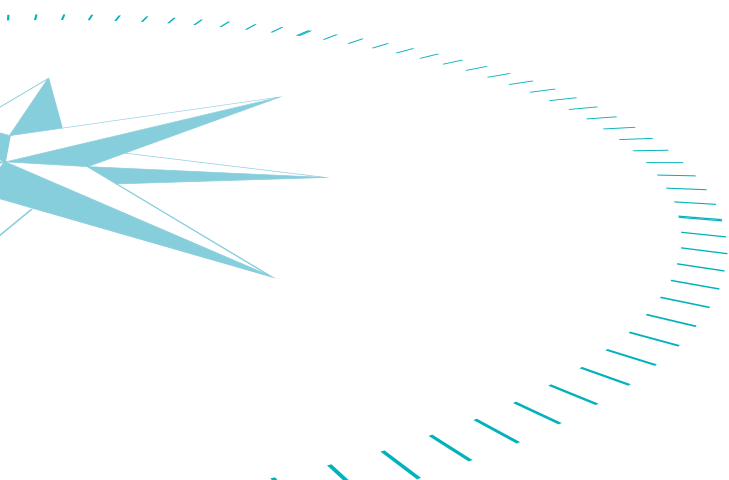
This report, which focuses on ESG incorporation in ERISA plans, has been prepared by Godeke Consulting on behalf of the Fiduciary Duty in the 21st Century project.

Through the project, the PRI, UNEP FI and The Generation Foundation will continue to work towards a modern interpretation of fiduciary duty in the US – one that requires full integration of ESG issues in investment process and practices.



CONTENTS

Executive summary	04
Introduction	06
From marginal to mandatory: The evolution of ERISA fiduciary duty and ESG incorporation	07
Trends in the US pension market	09
Shifting ERISA ESG policy: from collateral to integral	11
The ERISA stakeholder chain	13
Untangling the stakeholder chain: strategies and recommendations	20
Glossary	21
Bibliography	24
Acknowledgements	25



EXECUTIVE SUMMARY

The United States accounts for the largest share of pension assets globally. Increasingly, US investors are incorporating ESG factors into their investment decisions. However, the country lags its peers in private sector retirement assets managed with explicit regard for ESG factors. The case for ESG incorporation by US private sector retirement plans has evolved over the last 30 years; from articulating that ESG is not prohibited, to demonstrating that ESG incorporation creates clear benefits for investors, to now viewing ESG incorporation as a core element of fiduciary duty.

This report explores the US private sector retirement market that is regulated through the Employee Retirement Income Security Act of 1974 (ERISA) and the policy, governance and specific stakeholder factors that could drive the growth of ESG assets.

In the United States, private sector retirement plans are subject to the provisions of ERISA, which sets standards for fiduciaries of defined benefit (DB) and defined contribution (DC) plans based on the principle of a prudent person standard. In recent years, DC plans have replaced DB plans as the dominant structure for private pension plans. This shift has created an agency problem, with misaligned incentives as plan sponsors determine plan structures and investment options, but the beneficiaries bear the investment risk. While the path to driving ESG incorporation in DB plans is clearer, depending primarily on the actions of institutional players, decision making in DC plans is increasingly driven by individual beneficiaries.

This report follows the April 2018 Department of Labor (DOL) Field Assistance Bulletin¹ and the May 2018 US Government Accountability Office (GAO) publication,² both of which address the use of ESG factors in retirement investing. The former emphasizes the importance of prudent decision making and not sacrificing investment returns. The latter examines the use of ESG factors by US retirement plans and makes two specific recommendations to DOL: to “clarify whether the liability protection offered to qualifying default investment options allows use of ESG factors”³; and to “provide further information to assist fiduciaries in investment management involving ESG factors, including how to evaluate available options, such as questions to ask or items to consider”.⁴

However, recommendations in this report focus on stakeholder engagement, rather than policy. As policy makers debate whether or not ESG is a core component of the investment process, this report focuses on how to engage stakeholders – particularly plan sponsors and beneficiaries – to encourage ESG incorporation in the US pension market.

Growth in ESG assets will depend on untangling the roles, incentives and challenges of the key ERISA plan stakeholders (see Figure 1).

1 DOL Employee Benefits Security Administration, [DOL 2018 Field Assistance Bulletin No. 2018-01](#), [DOL 2018 FAB], April 23, 2018.

2 United States Government Accountability Office, [Retirement Plan Investing - Clearer Information on Consideration of Environmental, Social and Governance Factors Would Be Helpful](#) [GAO Report], May 2018.

3 [GAO Report](#), cover page.

4 [GAO Report](#), p. 44.

Figure 1: Key ERISA plan stakeholders

ERISA stakeholder	Key ESG role/challenge
Plan sponsors	Balancing business objectives and fiduciary duties
Consultants	Leading clients from behind
Investment managers	Providing the key to ESG product quality and authenticity
Independent advice providers	Emerging as important actors in ESG decision making
Beneficiaries	Requiring more transparency and well-defined investment options as ultimate drivers of ESG

As decision making becomes less centralized, the continued growth of ESG options in ERISA plans will depend upon grassroots engagement strategies and aligning the business objectives of plan sponsors with the preferences of plan beneficiaries.

Recommendations to untangle the stakeholder chain depend upon motivating plan sponsors to embrace change. The primary leverage point is the value of aligning plans with corporate values, which is increasingly recognized as a way to engage and increase participation by and contributions of millennial plan beneficiaries. This becomes the foundation for convincing ERISA plan sponsors that it is part of their fiduciary duty to incorporate ESG into plan investments.

Some tactical steps for plan sponsors include:

- Incorporating ESG into DB and DC investments as an expression of corporate social responsibility (CSR) and as part of efforts to attract and retain talent.
- Establishing best-practice ESG governance through:
 - Developing investment beliefs that address ESG incorporation;
 - Ensuring investment consultants have ESG expertise by including ESG selection criteria and questions in consultant requests for proposals (RFPs);
 - Updating Investment Policy Statements to require ESG analysis when selecting and monitoring investments;
- Requiring investment consultants to ask investment managers how they incorporate ESG;
- Selecting a recordkeeper with ESG products on its platform;
- Requiring investment consultants to include ESG analysis in all performance and monitoring reports; and
- Providing education to DC beneficiaries so they understand what it means to incorporate ESG into investments and whether options are included in the core line-up.
- Creating beneficiary-oriented ESG surveys – framed around alignment with corporate values – to assess demand for ESG options in DC plans and stimulate action by plan sponsors.
- Piloting the use of ESG-oriented preferences in independent advice provider/engines. This can address a key constraint limiting ESG fund use.
- Promoting the standardization of ESG disclosure requirements for investment managers and consultants, including a push for transparency of ESG products.
- Joining industry initiatives, to improve collaboration between plan sponsors and service providers and tap economies of scale.

INTRODUCTION

As part of the PRI, UNEP FI and The Generation Foundation's Fiduciary Duty in the 21st Century project on linking the incorporation of ESG factors and the fiduciary duty of investors⁵, the three organizations have developed recommendations to increase the incorporation of ESG factors on a country-by-country basis. This report explores the US private sector retirement market that is regulated through ERISA and the policy, governance and specific stakeholder factors that drive ESG incorporation.

Despite the US holding the largest share of pension assets globally and the broad increase in US investors incorporating ESG factors into their investment decisions⁶, the US lags its peers in private sector retirement assets managed with regard to ESG factors. Following an overview of the US pension market trends and recent developments in ERISA policy, this report considers the specific roles, incentives and challenges of key ERISA stakeholders (plan sponsors, consultants, investment managers, independent advice providers and plan beneficiaries) regarding ESG integration, followed by key recommendations to accelerate ESG incorporation in ERISA plans.

⁵ Throughout the report, the term ESG incorporation is used in favor of ESG integration given that incorporation is a broader practice that also includes engagement and strategy. See the Glossary for the distinct definitions of these terms.

⁶ According to the US SIF: The Forum for Sustainable and Responsible Investment, institutional investors considered ESG factors in around US\$4.7 trillion of US-based assets under management in 2016 – an increase of about 14% compared with 2014.

FROM MARGINAL TO MANDATORY: THE EVOLUTION OF ERISA FIDUCIARY DUTY AND ESG INCORPORATION

The attitudes of ERISA plan sponsors toward the incorporation of ESG factors into their plans have followed stages that have reflected the PRI's approach to the US market. Each stage has required distinct approaches, arguments and strategies. The first stage involved clarifying to all stakeholders in the ERISA ecosystem that the incorporation of ESG and economically targeted investments (ETI) was not prohibited by US policy makers. This included broad education and articulation of the basic tenets of ESG incorporation.

The frame then shifted to demonstrating the clear economic benefits of ESG incorporation to plan participants and beneficiaries⁷, and to argue for plan sponsors and other stakeholders to act.⁸ Building on quantitative data and research into the benefits of ESG incorporation in risk management, the focus was on connecting ESG incorporation to investment performance. Finally, through the recent report, *Fiduciary Duty in the 21st Century*,⁹ the focus has broadened to make the point that fiduciaries now have an obligation to integrate ESG factors if they are to fulfill their fiduciary duties. ESG incorporation is now viewed as an essential tool to identify and address investment risks and opportunities, such as climate change mitigation and adaptation.

Figure 2: Evolution of the case for ESG incorporation into the investment process



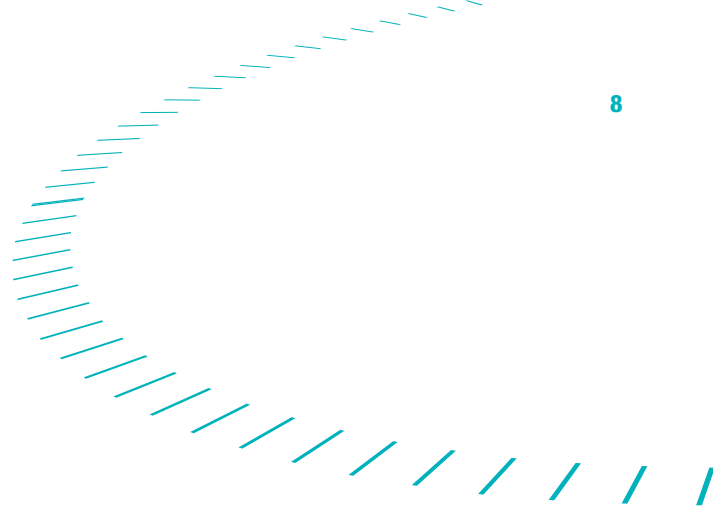
Yet, despite these compelling arguments, US plan sponsors are still not incorporating ESG factors to the same degree as their international peers. In the US, plan sponsors continue to see ESG incorporation as a voluntary action.

For many US companies, there is an ongoing need to continue to articulate that ESG incorporation is a permitted activity for a fiduciary.

⁷ In the report, the term beneficiary is used to describe both beneficiaries as well as active participants in pension plans.

⁸ PRI, UN Global Compact, [Aligning Values: Why Corporate Pension Plans Should Mirror Their Sponsors](#), April 2017.

⁹ PRI, [Fiduciary Duty in the 21st Century](#), 2015, and [Fiduciary Duty in the 21st Century: US Policy Roadmap](#), October 2016.



Stakeholders will drive ESG incorporation more than policy

Given that any clear policy directives supporting ESG incorporation remain highly unlikely in the US, the growth of ESG incorporation in the ERISA market will be driven less by policy and more by companies seeing ESG incorporation as a business imperative and source of competitive advantage as they seek to build corporate cultures and CSR initiatives that attract and retain the best talent. Members of the general public, and specifically beneficiaries, are expected to increasingly engage with plan sponsors on the environmental and societal impact of retirement assets. Given this increased awareness of ESG among stakeholders, a long-term increase in ESG incorporation in the US remains likely.

ERISA retirement plans in the US

In the United States, private sector retirement plans are subject to the provisions of ERISA¹⁰. The act sets standards for fiduciaries of defined benefit and defined contribution plans based on the principle of a prudent person standard. Under ERISA, plan sponsors and other fiduciaries generally must:

- (1) Act solely in the interest of the plan participants and beneficiaries;
- (2) Invest with the care, skill, and diligence of a prudent person with knowledge of such matters; and
- (3) Diversify plan investments to minimize the risk of large losses. Plan sponsors that breach any of these fiduciary duties can be held personally liable.

The Employee Benefits Security Administration (EBSA), part of the US Department of Labor (DOL), is responsible for enforcing the fiduciary responsibility provisions of ERISA and issuing related regulations and guidance. Although public sector and religious plans are exempt from the provisions of ERISA and the jurisdiction of the DOL, these plans often look to ERISA principles as a benchmark for best practice in meeting common law fiduciary standards in their governance.¹¹

Public sector plans are subject to federal and state laws other than ERISA, and their investment management is typically overseen by a board of trustees; however, their governance is also similar to the ERISA prudent person standard.

Defined benefit and contribution plans and qualified default investment alternatives

Private sector retirement plans in the US are typically either defined contribution (DC) or defined benefit (DB). Within a DB plan, the beneficiary is provided a monthly retirement benefit commencing at retirement based on factors such as years of service and salary, with the company obliged to provide the specified benefit. For decades, US companies have sought to reduce their corporate pension liabilities by closing DB plans and offering DC plans in their place.

In a DC plan, the employee has the option to participate and make tax-favored contributions during the period of employment. The company's direct costs are typically confined to plan administration. However, most firms now provide a modest contribution match of 1-3% of the employee's income as an incentive for employee participation. The employee chooses from a menu of investable options, making all investment decisions and assuming all investment performance risk. However, the menu of investable options is determined by the company. When employees change jobs, they maintain ownership of the funds accrued and are eligible to transfer their funds to another retirement plan.

In order to increase employee participation, plan sponsors may choose to automatically enroll eligible workers in a DC plan. When the employee does not select an investment option, the plan beneficiary may provide a default investment option. The DOL has specified criteria for these qualified default investment alternatives (QDIAs) that offer plan sponsors a "safe haven" from liability when they are included.

¹⁰ This section is based on the overview of US retirement plans in the [GAO Report](#).

¹¹ Patterson, Belknap Webb & Tyler, [Latest Department of Labor Guidance on Economically Targeted Investments and Shareholder Engagement: Requires Plan Fiduciaries to Step Carefully](#), May 2018.

TRENDS IN THE US PENSION MARKET

The overall trend in US private sector pension provision is one of risk transfer from corporate plan sponsors to the beneficiaries, with companies seeking to avoid the long-term pension liabilities inherent in the DB plan structure. Corporate DB plans are closing to new members and converting pension provision to defined contribution arrangements. DB plans are entering into de-risking arrangements when their funding position allows. DC plans are now the dominant form of private sector retirement plans in the US. Given the decentralized investment decision-making by individual beneficiaries within these plans and the broad menu of choices they face, plan sponsors can be challenged to align their incentives with beneficiary preferences.

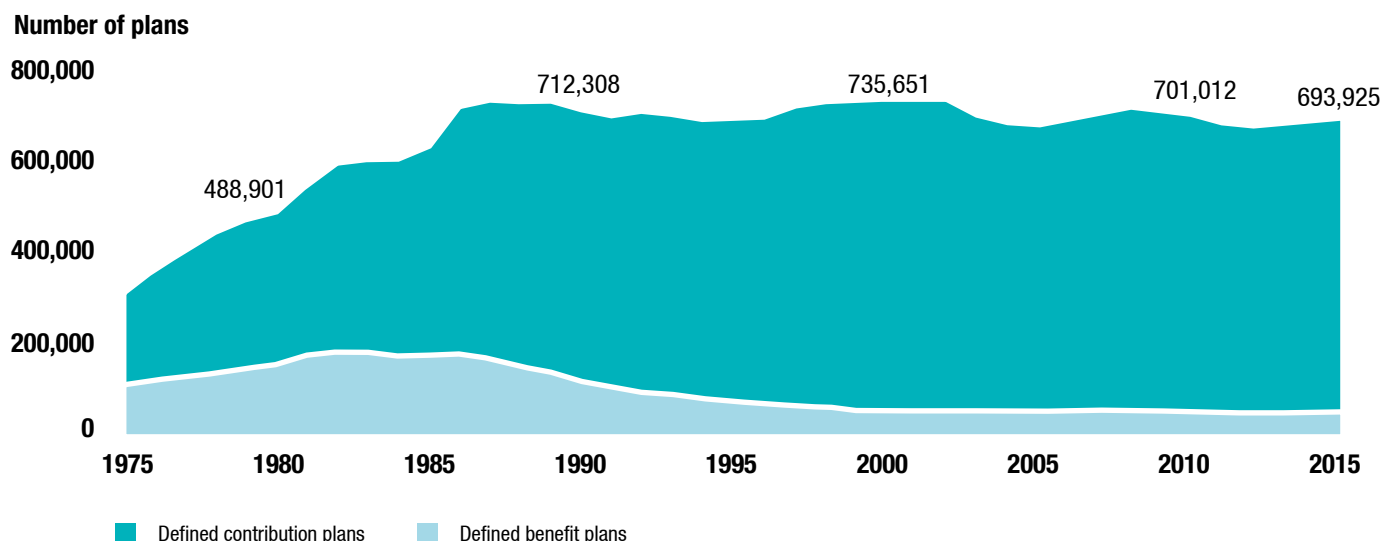
Even though investment risk has been shifted to the beneficiaries, those same beneficiaries can be hamstrung in their ability to make sound investment decisions given the need for the corporate plan sponsors to limit the options in their plans to manage costs, complexity and legal liability.

This classic economic agency problem creates a misalignment of plan sponsor and beneficiary incentives despite the widespread assumption that DC plans maximize and empower the individual worker. The proliferation of QDIAs has only increased this challenge.

ESG incorporation: expanding from a low base

The growth of ESG incorporation in US private sector pension plans reflects decisions made by various stakeholders at distinct levels. For DC plans, a plan sponsor may provide ESG options on its fund menu, but that offering may not translate into clear increases in ESG assets given that beneficiaries must actively seek out and select these options. Although there is no nationally representative data on how many retirement plans incorporate ESG factors, two large annual surveys report that only between 2 and 8% of DC plans offer their beneficiaries at least one ESG investment option, while only 3% of plan beneficiaries have selected an ESG option.¹²

Figure 3: Total number of private sector defined benefit and defined contribution retirement plans in the United States, 1975-2015. Source: Graphic from [GAO Report – Mix of DC and DB plans from 1975 to 2015](#), pg. 12.



For DB plans, the reporting is somewhat clearer, as DB plans manage pension assets in aggregate pools. The Callan Institute's 2017 ESG survey reported that 25% of corporate DB plans and 18% of corporate DC plans incorporated ESG factors.¹³ This compares with 35% of public sector plans. While the path to driving ESG incorporation for DB plans is clearer and depends primarily on the actions of institutional players, the future growth of ESG incorporation will largely depend on the individual choices of DC plan beneficiaries. This will require a shift to more grassroots-focused strategies.

ESG approaches and strategies not unique to private plans

The ESG investment strategies utilized in private retirement investing portfolios reflect the same approaches as the broad ESG industry. Based on the recent GAO Report [Table 1 below], plans primarily use ESG integration, screening, and engagement. The literature on ESG investing and retirement savings focuses on the suitability of ESG investments for public pension funds and the permissibility of including ESG investments in private-sector plans. A few companies, including general investment firms (such as Vanguard and TIAA) and more specialized investment platforms (including Calvert and Social(k)), offer ESG investments for private-sector plans. Rather than use specific investment strategies for private retirement plans, these companies use standard ESG investment strategies, such as positive or negative screening methods, to select retirement plan investments.¹⁴

Table 1: Strategies Used by U.S. Retirement Plans to Incorporate Environmental, Social, and Governance (ESG) Factors into Investment Management. Source: [GAO Report](#), p. 20

Strategy	Definition	Example
Integration	Information on ESG factors is considered along with other financial data as a core part of the investment analysis.	Investment manager considers information on employee health and safety, greenhouse gas emissions, and water and wastewater management, among other information when assessing the valuation, risk, and potential growth for companies in industries where this is material (e.g., oil and gas exploration and production, mining).
Screening	Positive or negative screening to select investments based on established criteria. This strategy may be designed to maintain diversification across industries.	<p>Positive screening: Select companies with higher or improving ESG ratings relative to their peers.</p> <p>Negative screening: Exclude companies with low ESG ratings relative to their peers, while not excluding a whole industry. Exclude certain industries or products, such as tobacco or controversial weapons.</p>
Engagement	Information on ESG factors is used for activities to monitor or influence the management of companies in which a plan owns stock, such as meeting with corporate boards and filing or voting on shareholder resolutions.	<p>Investment manager meets with board of directors or other representatives to assess how a company is managing material ESG factors. Examples may include the following, among others:</p> <ul style="list-style-type: none"> • board composition and executive compensation; • policies and practices to address environmental or social factors that have an impact on shareholder value; and • long-term business plans, including plans on climate change preparedness and sustainability.

¹² As reported in the [GAO Report](#), the [Plan Sponsor Council of America's annual survey](#) of about 600 DC plans report that in 2016 only 2% of DC plans offered an ESG investment option. Additionally, a [Vanguard Group report](#) indicates that in 2016 about 8% of the 1,900 DC plans served by the firm made available ESG (socially responsible) options. The Vanguard Group report also found that, among DC plans that offered a socially responsible fund option, few beneficiaries chose to invest in one in 2016. Specifically, out of the total number of beneficiaries covered by Vanguard's data, 18% were offered at least one of these options but just 3% chose to invest.

¹³ Callan Institute, [2017 ESG Interest and Implementation Survey](#).

¹⁴ Summit Consulting, LLC, [Environmental, Social, and Governance \(ESG\) Investment Tools: A Review of the Current Field](#), December 2017.

SHIFTING ERISA ESG POLICY: FROM COLLATERAL TO INTEGRAL

Unlike public pension plans, private-sector retirement plans (including both DC and DB plans) must maintain compliance with ERISA regulations, specifically the fiduciary requirements, when selecting investment options. At the core of the DOL pension policy is that “ERISA fiduciaries must always put first the economic interests of the plan in providing retirement benefits.”¹⁵

Arguments used against incorporating ESG factors into ERISA plans include the belief that ESG incorporation risks sacrificing investment returns or involves taking on additional investment risk as a means of using plan investments to promote collateral social policy goals. The counter view is that ESG issues can be economically relevant and therefore should be integral to investment decisions. This debate between collateral and integral has played out against the alternating positions of US administrations and their respective investment industry advocates.

History of ESG and ERISA policies

Since the 1980s, DOL has periodically released guidance on the applicability of the fiduciary standard to ESG investing for private retirement plan sponsors. The guidance has clarified and refined the Department’s stance on ESG investing in ERISA-regulated retirement plans and has prompted various reactions from the investment industry. The earliest guidance specified that ESG factors could only be included as a tiebreaker among equally suitable investment options. This guidance kept many private retirement plan sponsors from including ESG investment options.

However, the 1998 Calvert Letter clarified that sponsors could include ESG factors if they do not negatively affect the fiduciary requirements of diversification, liquidity, or risk and return, among other things. Some investment industry practitioners, such as

Vanguard, TIAA, Social(k), and Calvert, took the guidance in this letter as permission to offer ESG investments as private retirement plan options.

Guidance from the DOL in 2015 acknowledged that ESG factors might have a direct relationship to the economic value of an investment.¹⁶ In these cases, DOL advised that these ESG factors can be formal components when the fiduciary analyzes competing investment options.

Throughout the years, and over multiple rounds of guidance, retirement advisors have grappled with how to square their fiduciary responsibility with investors’ growing demand for ESG investments.¹⁷

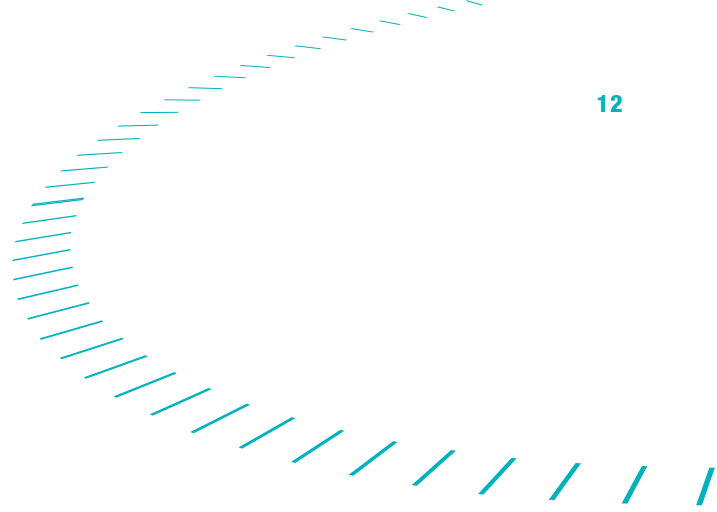
“The DOL’s 2015 and 2016 interpretive bulletins identified material ESG factors as proper components of a retirement plan’s investment analysis and appropriate issues for shareholder engagement activities. The bulletins stated DOL’s stance that fiduciaries may not accept lower expected returns in pursuit of collateral benefits, which are benefits outside of investment returns. The preamble to the 2015 bulletin further explained that ESG factors can have a direct relationship to the economic value of a plan and in such a case the ESG factors are not collateral but are considered as part of the primary analysis of an investment, and the use of material ESG factors should not inherently be subject to special scrutiny. The 2016 bulletin went on to clarify that ESG factors can be appropriate topics for proxy voting policies and engagement with corporations. Both the preamble to the 2015 bulletin and the 2016 bulletin referred to the use of ESG factors by retirement plans generally and did not distinguish between how such factors may be used by defined benefit and defined contribution plans.”¹⁸

¹⁵ [DOL 2018 FAB](#), p. 2.

¹⁶ [DOL 2015 FAB](#)

¹⁷ Summit Consulting, LLC, December 2017, pg. 16.

¹⁸ [GAO Report](#)



2018 DOL Field Assistance

In April 2018, DOL issued Field Assistance Bulletin 2018-01, which addresses retirement plans' use of ESG factors.¹⁹ The DOL again emphasized that plan fiduciaries are required to act prudently and in the best interests of beneficiaries when making investment decisions. The new field assistance bulletin generally reiterates that, in considering the use of ESG factors, plan fiduciaries are not permitted to sacrifice investment returns or take on additional investment risk in the pursuit of collateral social policy goals – a position that is consistent with DOL's earlier guidance.

The new field assistance bulletin states that fiduciaries must not too readily treat ESG factors as economically relevant, and includes information about the use of ESG factors in engagement activities, such as proxy voting. To be consistent with ERISA and the evaluation of investment options generally, fiduciaries are required to conduct due diligence in evaluating ESG investment options in order to understand how they operate, and to assess whether such options are in the best interest of plan beneficiaries. The call for due diligence may indeed increase ESG incorporation, as it could help plans assess risks relevant to a plan's performance that may otherwise not be assessed.²⁰

¹⁹ [DOL 2018 FAB](#).

²⁰ [GAO Report](#)

THE ERISA STAKEHOLDER CHAIN

The ERISA retirement system brings together distinct stakeholders with diverse incentives and objectives. These range from the plan sponsors to pension consultants to the investment managers, independent advice providers and, ultimately, the plan beneficiaries. The plan sponsors, with the assistance of pension consultants, structure the plans and make decisions about investment options, although, in the case of DC plans, the plan beneficiaries are required to make investment selection decisions and bear the investment performance risk.

The agency problems and misaligned incentives built into this structure remain significant hindrances to the retirement system in general as well as to the ability of plan beneficiaries to exercise their options to integrate ESG into their retirement portfolios. By exploring the role of each of the stakeholders along with the specific incentives and challenges they face in the incorporation of ESG factors, a series of recommendations for action emerge.

Table 2: ERISA plan stakeholders

Factors	Plan sponsors (PS) / Fiduciaries	Consultants	Investment managers	Independent advice providers	Beneficiaries
Role	<ul style="list-style-type: none"> Fulfill fiduciary duties Manage costs 	<ul style="list-style-type: none"> Assist PS to carry out fiduciary duty <ul style="list-style-type: none"> DB: meet liabilities DC: structure plan and investments 	<ul style="list-style-type: none"> DB and DC: Provide investment products to meet PS needs DC only: May also provide record keeping and advice to beneficiaries 	<ul style="list-style-type: none"> DB: Not applicable DC: Provide advice on asset allocation and fund selection to beneficiaries that is independent of PS or investment managers 	<ul style="list-style-type: none"> DB and DC: Receive benefits under plans DC only: Make investment decisions based on personal needs and preferences
ESG incentives	<ul style="list-style-type: none"> Increase plan participation Address participant preferences Manage risk Attract and retain talent Align corporate values 	<ul style="list-style-type: none"> Attract and retain clients Develop expertise in growing investment sectors 	<ul style="list-style-type: none"> Respond to ESG fund or strategy demand from plan sponsors or beneficiaries. Manage risk Reduce volatility Enhance long-term performance 	<ul style="list-style-type: none"> Respond to ESG fund or strategy demand from plan sponsors or beneficiaries 	<ul style="list-style-type: none"> Align personal preferences with retirement assets Differentiate employers with retirement plans aligned with corporate culture

Factors	Plan sponsors (PS) / Fiduciaries	Consultants	Investment managers	Independent advice providers	Beneficiaries
ESG Challenges	<ul style="list-style-type: none"> Control added costs DC: Perceived as more complex when simplicity is needed DB: Perceived as lesser priority as focused on closing funding gaps Access consistent data for selection and monitoring Navigate ambiguous policy guidance, e.g., DOL Access options for small plans Manage legal risk 	<ul style="list-style-type: none"> Must follow not lead clients May lack ESG awareness and expertise May see ESG incorporation as introducing complexity Need to provide education for clients 	<ul style="list-style-type: none"> DB and DC: <ul style="list-style-type: none"> Identify and access consistent and/or material ESG factors Address continued performance questions about evidence of impact from ESG factors DC Only: Attract participant investment as ESG funds “compete” for attention 	<ul style="list-style-type: none"> DC: Must be instructed to include ESG preferences in advice software by investment manager or plan sponsor 	<ul style="list-style-type: none"> DB: Develop strategies for helping beneficiaries understand the role of ESG considerations DC: <ul style="list-style-type: none"> Be confident ESG options are authentic (e.g., greenwashing) Align preferences across asset classes when ESG-specific options are limited
ESG stakeholder Recommendations	<ul style="list-style-type: none"> Expand corporate values and CSR initiatives to include plan assets and stakeholders Develop investment beliefs Update IPS Survey beneficiaries to identify preferences Standardize manager selection and monitoring reports to include ESG analysis Share best practices through trade groups and initiatives Ensure independent advice providers have ESG expertise 	<ul style="list-style-type: none"> Be proactive and discuss with clients Provide education as needed Codify objectives in IPS Integrate ESG analysis for all managers and all asset classes Include ESG analysis in quarterly reporting Assist clients to survey beneficiaries to identify preferences 	<ul style="list-style-type: none"> DB and DC: <ul style="list-style-type: none"> Standardize ESG disclosure requirements, e.g. SEC, SASB Sponsor and publicize independent reviews of ESG-related investment performance Build diversified, low cost ESG options with competitive risk/return profiles DC: <ul style="list-style-type: none"> Work with advice engine and algorithm providers to reflect beneficiaries’ ESG preferences Market ESG investment research directly to beneficiaries to stimulate demand and dispel return concerns 	<ul style="list-style-type: none"> Work with plan sponsors and investment managers to include ESG criteria under beneficiary preferences in advice software 	<ul style="list-style-type: none"> DB and DC: <ul style="list-style-type: none"> Request ESG investments and incorporation Illustrate ESG demand through industry group surveys DC: Request plan sponsors work with advice engine and algorithm providers to reflect beneficiaries’ ESG preferences
ESG Policy Recommendations	<ul style="list-style-type: none"> Clarify DOL guidance to be more receptive to ESG Promote standards for defining and promoting ESG options. 				

Plan sponsors: Balancing business objectives and fiduciary duties

While ESG incorporation has grown tremendously over the years, as shown by the US SIF Trends data, plan sponsor surveys report that ERISA plans have lagged in interest and adoption. However, conversations with leading investment consultants indicate that companies are starting to address ESG in their DC plans, driven by a desire to have their company values reflected in the retirement benefits they offer their employees.²¹ This is consistent with research signaling that a majority of employees care about their retirement plans being aligned with their company's social and environmental commitments.²²

Nevertheless, plan sponsors' low adoption is reflected in New England Pension Consultants' 2018 ESG survey of its corporate and healthcare retirement clients, showing that just 12% incorporated ESG factors into their manager selection and monitoring.²³ Of the plans that did incorporate ESG, 70% were DC. Of the DB and DC plans that did not, nearly a third (29%) stated they are interested in exploring ESG incorporation, signaling that plan sponsor interest is increasing.

Plan sponsor snapshot: Bloomberg LP

Bloomberg is a global information and technology company that provides business and financial news, data and analytics. Sustainability and stewardship are central to the company's culture and are well integrated in its products and services. ESG data for almost 9,500 companies in 83 countries is available on the Bloomberg Terminal. Founded in 1981, Bloomberg has over 19,000 employees in 176 countries.

Role of ESG

In 2015, Bloomberg added the Parnassus Core Equity Fund (US large-cap equity) as an ESG-themed option in its US\$2.5 billion DC plan. Around the same time, Bloomberg updated its investment policy statement to include incorporating ESG factors into fund monitoring and selection. This meant including at least one ESG-oriented fund in every fund search. Cathy Bolz, Global Head of Benefits, commented: "Bloomberg decided to integrate ESG into its 401(k) plan because the company determined it was in the best interest of the plan and participants to provide them with this type of diversity in (their) fund lineup."²⁴

In October 2017, Bloomberg became the first US-domiciled corporate retirement plan to become a signatory to the PRI. Bloomberg is in the business of providing ESG data and insights to its customers, and it recognizes that companies that manage ESG factors well often have better returns. Providing its employees – who are long-term investors – the opportunity to incorporate ESG into their retirement planning strategy was "a logical next step", according to Dom Maida, Investment Committee Chair and Global Head of Global Data.²⁵

²¹ For example, company values alignment was the driver for an ESG option to be added to several large DC plans, ranging in size from US\$2 billion-11 billion, according to a conversation with a leading investment consultant, on May 22, 2018.

²² Povadto, [POV: A Povadto Survey Examining Corporate Activism and Employee Engagement Inside FORTUNE® 1000 Companies](#), June 2017, and [Natixis Global Asset Management, Running on Empty: Attitudes and Actions of Defined Contribution Plan Participants](#), 2016.

²³ [New England Pension Consultants, NEPC ESG Survey: A Profile of Corporate & Healthcare Plan Decisionmakers' Perspectives](#), July 11, 2018.

²⁴ Pensions & Investments, [DC Participants Seen as Next Advocates of ESG Mantra](#), February 5, 2018.

²⁵ Bloomberg LP, Press Release, [Bloomberg Becomes First U.S.-Domiciled Corporate Retirement Plan Sponsor to Sign the PRI](#), October 12, 2017.

Investment consultants: leading clients from behind

For ERISA plans, investment consultants have not typically been proactive in discussing with plan sponsors the potential for including funds that consider ESG factors in the investment process.²⁶ However, as mentioned above, plan sponsors are beginning to push their consultants and question whether their corporate values are reflected in their firm's retirement plan. Consequently, some corporate plans are considering adding a global sustainability fund and/or including ESG analysis in their quarterly performance reports.²⁷ In addition, nearly half (47%) of the 77 DC investment consultants responding to PIMCO's 12th annual Defined Contribution Consulting Support and Trends Survey say they recommend ESG as an additional stand-alone strategy within the core line-up.²⁸ Even though these 77 consulting firms advise roughly 60% of US DC assets (over US\$4.4 trillion), this recommendation does not yet show up in the equivalent percentage of DC plans.

Consultants are recognizing the growing interest in ESG incorporation throughout their client base, and some are conducting client surveys and producing white papers. For the last five years, Callan Institute has polled its client base and found that consideration of ESG options leveled off in 2016 and 2017 at 37% across client types, and slightly dipped among corporates (with both DB and DC plans) from 30% to 25%.²⁹ New England Pension Consultants issued its first ESG survey this year, noting that both DB and DC plan sponsors are in the early stages of incorporating ESG investing.³⁰ In Top Priorities for DC Plan Sponsors for 2018, Mercer includes "Consider ESG Options" as one of the top 10 priorities for sponsors to consider.³¹

Meanwhile, Marquette Associates' 2017 white paper, *Bracing for impact: How to Prepare for the Next Generation of Defined Contribution Plans*, lays out the rationale for ESG incorporation and proposes a checklist for those plan sponsors beginning to consider ESG issues. Given that the millennial generation is the most ethnically diverse demographic in the US and will make up the majority (75%) of the global workforce by 2025,³² Marquette states "ESG strategies seem like an inevitable trend for this generation."³³

Marquette's suggestion, shown in the checklist below (Figure 4), is for plan sponsors to educate their clients, ensure they know their beneficiaries, and start to incorporate ESG data.

Figure 4: Checklist for DC Plan Sponsors: Getting Started with ESG. Source: Marquette Associates, *Bracing for Impact: How to Prepare for the Next Generation of Defined Contribution Plans*, March 2017, p. 8.

1	Review the fund's investment policy and current fund line-up Does the policy need to be adjusted? Where would an ESG option fit into the current line-up?
2	Educate the decision-makers Seek education from consultants and recordkeepers and address all questions and concerns.
3	Survey plan participants Determine level of interest in ESG options, as well as areas of importance (i.e. climate change or labor relations).
4	Outline criteria for search and selection Define whether you seek ESG integration, a thematic fund (such as water or carbon reduction), or other alternatives.
5	Make selection and add to line-up Discuss options, select best candidate, and initiate transition.
6	Educate plan participants Prepare communications to explain the new line-up and rationale behind it.

26 PRI, UNEP FI, UN Global Compact, [Investment Consultant Services Review](#), December 2017.

27 Interview with Sabrina Bailey, Global Head of Retirement Solutions, Northern Trust Asset Management, May 14, 2018.

28 PIMCO, [12th Annual Survey Report 2018: Defined Contribution Consulting Support and Trends Survey](#), 2018.

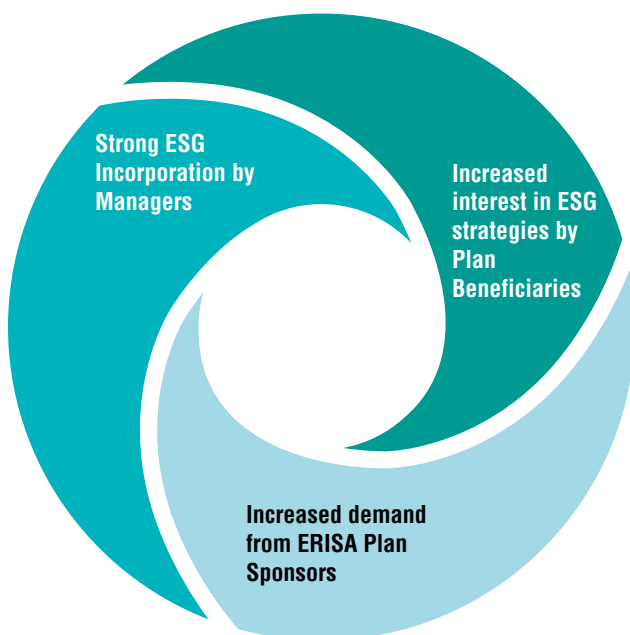
29 Callan Institute, [2017 ESG Interest and Implementation Survey](#).

30 New England Pension Consultants, [NEPC 2018 ESG Flash Poll Results and Infographic](#), 23 July 2018.

31 Mercer, [Top Priorities for DC Plan Sponsors for 2018: From a Foundation of Sound Plan Management to Powering Participant Success](#), December 7, 2017.

32 Council of Economic Advisors, 15 Economic Facts About Millennials, October 2014 as cited in Marquette Associates, [Bracing for Impact: How to Prepare for the Next Generation of Defined Contribution Plans](#), March 2017, p. 7.

33 Marquette Associates, 2017, p. 7.

Figure 5: ESG incorporation positive feedback loop

Investment managers: Key to ESG product quality and authenticity

While investment managers of both DC and DB ERISA plans clearly play an important role in pension fund management, they generally respond to the product requirements of plan sponsors and their consultants. Investment managers are therefore unlikely to drive future adoption of the intentional use of ESG fund options in retirement plans but are rather the creators of the ESG products, and thus can strongly influence the quality and approaches of ESG products and strategies.

Unfortunately, most investment managers of ERISA plan assets have not, to date, embraced the need for or value of ESG incorporation. Offsetting this is the increased use or discussion of ESG incorporation in standard investment processes. While increased use of ESG factors is a positive development for the investment management industry, these factors are rarely at the heart of the investment process and are frequently ignored if they do not clearly impact immediate financial considerations.

Investment managers in the DC space face added challenges to ESG incorporation because providing ESG-based funds does not ensure their adoption by plans or selection by individual beneficiaries. In addition, pressure to provide low-cost options has made some investment managers reluctant to invest in ESG resources, such as services from data providers or dedicated analysts. That said, the cost of ESG incorporation is falling and data is becoming more readily available, as noted in a recent report on ESG integration in US investing.³⁴

As beneficiaries make the ultimate investment decisions, the entire chain of advisors and advice engines must be educated or adapted to reflect beneficiary preferences for ESG factors in the funds available to them. Investment managers must also compete with shrinking “shelf space” as plan sponsors seek to make their DC plans easier to navigate by reducing the number of fund options available to beneficiaries. This trend is directly pitting ESG-oriented funds against other investment options.

³⁴ PRI, UNEP FI, UN Global Compact, [Financial Performance of ESG Integration in US Investing](#), 2018, p. 3: “On the cost side, financial data providers such as MSCI, FTSE Russell and Bloomberg, as well as sell-side research firms and proxy advisory services, are providing high-quality ESG data at scale. As industry knowledge and expertise has grown, so too has the number of investors with the skills and tools necessary to extract investment insights and value from third-party ESG data and analytics.”

Investment manager snapshot – Nuveen Asset Management

Nuveen Asset Management is the investment management affiliate of TIAA, a financial services company headquartered in New York. Nuveen has US\$970 billion in assets under management, which includes the management of assets within the DC retirement plans of 15,000 employers who use TIAA to provide recordkeeping and/or investment funds. The bulk of these 15,000 employer-sponsored plans are with academic and research institutions, and some of these plans are governed by ERISA. TIAA was founded in 1918 by Andrew Carnegie and the Carnegie Foundation for the Advancement of Teaching to provide a fully-funded pension system for professors and employees of academic institutions in the US. TIAA is now a diversified financial services company with banking and other subsidiaries. It acquired Nuveen Investments in 2014.

Role of ESG

Through its TIAA funds, Nuveen has a longstanding history of ESG-related strategies. The firm's client base of employees and employers in higher education has yielded a consistent interest in and demand for ESG-related strategies. The firm's CREF Social Choice Account (SCA) was launched in 1990 and remains one of the largest funds for individual investors – accessed mostly through their retirement plans – with US\$14 billion in assets under management. As a balanced fund, SCA includes ESG screening of domestic and international equity segments as well as ESG screening of its domestic fixed income component. Within the last 15 years, TIAA has launched specialized funds for ESG-screened domestic equity (TIAA Social Choice Equity), international equity (TIAA International Equity), and domestic fixed income (TIAA Social Choice Fixed Income), based on its experience managing the CREF Social Choice Account. In 2016, following the Nuveen acquisition, the mutual fund and annuity line-up was supplemented with five ESG ETFs (exchange-traded funds). ESG funds and ETFs can be available in ERISA and non-ERISA plans with ETFs requiring a brokerage “window” option.

ERISA and ESG

Nuveen and TIAA funds are used in a wide range of non-ERISA and ERISA-governed plans. The firm's ESG offerings benefit from the long-term (i.e., 20 plus years), competitive investment track record of ESG funds such as CREF Social Choice and TIAA Social Choice Equity. These track records illustrate that competitive performance with comprehensive ESG screening is possible. And, with close to US\$20 billion in total ESG screened assets, beneficiary and plan sponsor demand is clearly a driver.³⁵

Independent advice providers: Emerging actors in ESG decision making

ERISA DC plans increasingly rely on independent advice providers to help beneficiaries develop an asset allocation and select funds. This advice is usually delivered through some combination of software (“engines” or “algorithms”) and professional advisors, with the goal of providing unbiased advice that is independent of the investment manager. Independent advice providers, such as Financial Engines, are typically hired by the investment manager or plan record keeper.³⁶

These independent advice providers' work with beneficiaries often begins with an automated questionnaire that solicits responses from plan beneficiaries on their goals, timeframes, and risk preferences. Other beneficiary preferences might, for example, include the willingness or not of the plan beneficiary to include international funds in their asset allocation.

Even if available under a DC plan as an investment option, ESG funds are typically excluded from the independent advice provider's recommendations, simply due to the lack of an ESG question in the advice software that would influence the final fund selection advice. Independent advice providers therefore represent new stakeholders in the DC world that must be convinced of the rationale for ESG inclusion in ERISA and non-ERISA DC plans.

Plan beneficiaries: Lacking transparency and clear options ERISA plan beneficiaries are the primary and ultimate drivers of the increased use of ESG factors in DB investments and DC fund options. However, they typically lack awareness of their ability to effect change through plan sponsors. In the DB market, this is also complicated by a lack of transparency around the investment strategies employed and even a lack of understanding of the plan's structure and stakeholders.

Rigorous financial analysis, including all financial and ESG factors, benefits the end investor, in this case the plan beneficiary. It is incumbent upon the plan sponsor to require all of its service providers (e.g., investment consultants and investment managers) to account for their due diligence and investment processes, as well as their results.

35 More on Nuveen's ESG-related methodology can be found at: www.tiaa.org/public/pdf/CREF_Social_Choice_Account.pdf

36 See [Financial Engines](#)

In the DC market, plan beneficiaries face additional challenges including:

- Lack of awareness: many beneficiaries are unsure whether their plan even offers an ESG option,³⁷ and most beneficiaries are not asking for ESG incorporation;
- Fund overload: too many fund options (perhaps squeezing out ESG options) lead to beneficiary paralysis and defusing of interest in ESG funds;
- Fund “greenwashing”: investment manager or fund marketing materials may claim ESG incorporation as a marketing device, while the reality is fund managers pay only lip service to ESG factors; and
- Inadequate advice or algorithm engines: these tools often help beneficiaries in areas such as asset allocation and/or fund selection. Typically they do not ask beneficiaries about their ESG preferences, so beneficiaries cannot incorporate those preferences into their portfolios.

Another project underway is the ESG Subcommittee of the [Defined Contribution Institutional Investment Association \(DCIIA\)](#), a non-profit membership organization with the mission to “enable America’s workers to retire with financial security.”³⁸ The membership includes corporations, consultants, asset managers, law firms and record keepers. The ESG Subcommittee is open to all members and its objective is to “encourage best practice for the incorporation of environmental, social, and governance factors in defined contribution plans.”³⁹ It provides a forum for promoting and conducting research, sharing best practice, producing thought leadership, and influencing policy makers.

Industry initiatives and collaborations: Opportunities to accelerate ESG adoption

ESG adoption will be significantly accelerated by intentional and focused collaboration between plan sponsors and service providers (e.g., investment consultants, investment managers, ESG data providers, and independent advice providers). Current initiatives seek to provide thought leadership, best practice and support for plan sponsors. For example, the [World Business Council for Sustainable Development](#) launched its “[Aligning Retirement Assets](#)” project in June 2018. Its goal is to shift 1% of members’ retirement assets (amounting to some US\$10 billion) into ESG-oriented investments by 2020. The task force will produce two toolkits for plan sponsors addressing questions such as: ‘what is sustainable retirement?’ and ‘how to develop a sustainable retirement plan’.

³⁷ In the 2018 Povaddo Survey, as presented in US SIF Conference Panel “Aligning Corporate Retirement Plans with Sustainability Commitments”, on 1 June, 2018, 76% of employees surveyed were unsure whether their company currently offers socially responsible funds as investment options through its 401(k) plan.

³⁸ [DCIIA Mission](#) as noted on website.

³⁹ See [DCIIA ESG Subcommittee](#).

UNTANGLING THE STAKEHOLDER CHAIN: STRATEGIES AND RECOMMENDATIONS

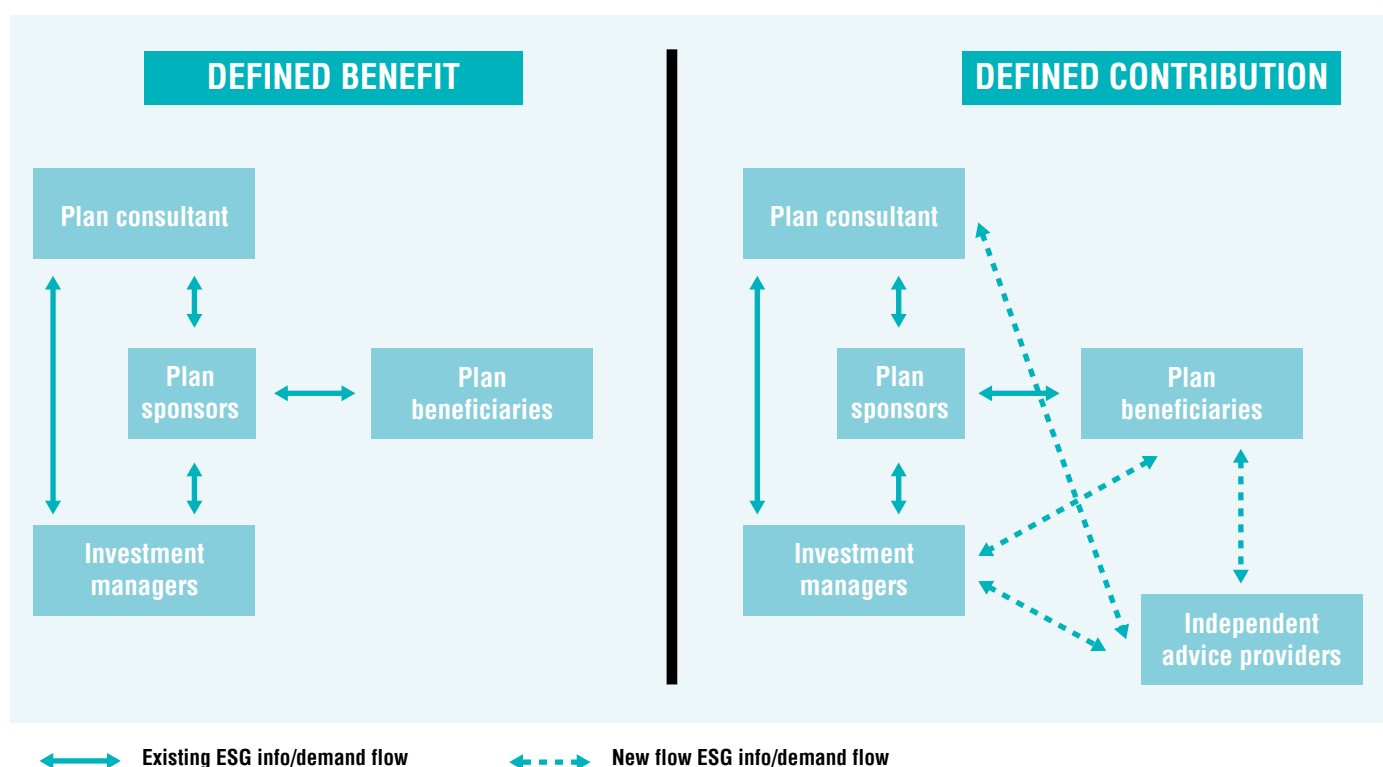
Untangling the chain of stakeholder interests and incentives requires connecting the business objectives of plan sponsors with the growing demand for ESG incorporation by plan beneficiaries, while working within the fiduciary duty requirements of ERISA. The primary touchpoint is aligning the plan with corporate values, a growing necessity for engaging and increasing the participation and contributions of millennial plan beneficiaries. This becomes the foundation for convincing ERISA plan sponsors that it is part of their fiduciary duty to incorporate ESG into plan investments.

Complexity of defined contribution plans

As shown below, ERISA stakeholder interrelationships – particularly in DC plans – are complex and often have competing goals. The shift in the US retirement market from DB to DC has increased both the intricacies of stakeholder relationships and the associated agency problems.

ESG information flows in DB and DC plans

Figure 6: ESG information flows in DB and DC plans



In a DC plan, the plan sponsor remains the key decision maker within the stakeholder chain. It defines the plan structure and features, selects and monitors investments, and tracks beneficiaries' use. Consultants and investment managers act as service providers and influencers, responding most directly to plan sponsor requests. However, decision making – including many of those related to ESG – has shifted to plan beneficiaries who now have more power to drive change in the behavior of the plan sponsors, consultants, and managers.

Given the headwinds regarding US policy and regulation around ESG issues, successful strategies for increasing ESG incorporation within ERISA plans are more likely to stem from stakeholder and collaborative initiatives. Given also the shift to DC plans, progress on expanding the incorporation of ESG factors in the immediate future needs to shift to DC-based strategies and stakeholders, including specific beneficiary-oriented recommendations.

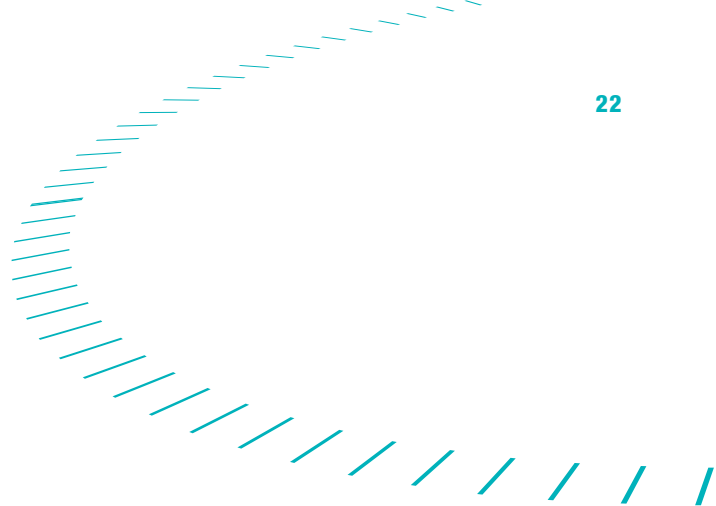
Some tactical steps for plan sponsors include:

- Making explicit links between corporate values, CSR, and talent management on the one hand, and retirement benefit provision on the other, by incorporating ESG options into DB and DC investments. Corporate plan sponsors that are signatories of the UN Global Compact, for example, should find it easy to make this connection.
- Establishing best-practice ESG governance through:
 - Developing investment beliefs that address ESG incorporation;
 - Ensuring that investment consultants have ESG expertise by including selection criteria and questions in consultant RFPs;
 - Updating Investment Policy Statements to require ESG analysis when selecting and monitoring investments;
 - Requiring investment consultants to ask investment managers how they incorporate ESG;
 - Selecting a recordkeeper with ESG products on its platform;
 - Requiring investment consultants to include ESG analysis in all performance and monitoring reports; and

- Providing education to DC beneficiaries so they understand what it means to incorporate ESG factors into investments and whether options are included in the core line-up.
- Creating beneficiary-oriented ESG surveys – framed around alignment with corporate values – to assess demand for ESG options in DC plans and to stimulate action by plan sponsors. Survey results would likely lay the groundwork for advice providers/engines, investment managers and consultants to facilitate ESG fund inclusion and actual use.
- Piloting the use of ESG-oriented preferences in independent advice provider/engines to address a key constraint limiting ESG fund use. Plan beneficiaries need advice providers and algorithms that ask about ESG preferences, and which then can lead to asset allocations that include ESG funds.
- Promoting the standardization of ESG disclosure requirements for investment managers and consultants, including a push for transparency of ESG products. These types of initiatives need to avoid ESG industry jargon and focus on the ultimate user: plan beneficiaries.
- Joining industry initiatives, such as the World Business Council for Sustainable Development's Aligning Retirement Assets project and the Defined Contribution Institutional Investment Association ESG Subcommittee, to improve collaboration between plan sponsors and service providers and tap economies of scale.

Policy to clarify, not drive, ESG incorporation

Despite the secondary role that policy directives are expected to play in driving ESG incorporation in the US, the provision by the DOL of some clarity for fiduciaries on the definitions and taxonomy of ESG factors would create a firmer basis for plan sponsors to continue incorporating ESG into their plans. Given the increased dominance of DC plans in the market, policies that would better inform the plan beneficiaries and protect the interests of individual US workers are also needed. These could include clarity on default investment alternatives and clearer guidance on how fiduciaries can best further the interests of plan beneficiaries.



Shifting the focus to individual investors from institutional players

The US pension system needs to be viewed more holistically, broadening from a policy-centric focus to include a stakeholder approach to the ERISA market. The primary emphasis shifts from institutional actors to looking at how individual beneficiaries structure their retirement investment decisions. This will include bottom-up approaches centered on plan beneficiaries, as well as top-down initiatives with plan sponsors. While the path to driving ESG incorporation for DB plans is clearer and depends primarily on the actions of institutional players, the future growth of ESG incorporation will largely depend on the individual choices of DC plan beneficiaries. Continued growth of ESG in the US will require ESG to be embedded throughout the stakeholder chain.

GLOSSARY

- **Agency problem:** A conflict of interest inherent in any relationship where one party (the agent) is expected to act in the best interests of another (the principal). An agency problem can exist between plan sponsors as fiduciaries and plan beneficiaries.
- **Beneficiary:** The designated recipient of a retirement benefit from a pension plan. Beneficiaries can also be known as plan participants.
- **Defined benefit plan:** In a defined benefit plan, assets are managed collectively by the plan and a participant is typically provided a monthly benefit upon retirement based on a formula that takes into account factors such as an employee's salary, years of service, and age at retirement.
- **Defined contribution plan:** A defined contribution plan, such as a 401(k), is a retirement plan in which beneficiaries accumulate savings in an individual account based on employee and/or employer contributions, and receives over retirement the investment returns earned on the account.
- **Employee Retirement Income Security Act of 1974 (ERISA):** ERISA protects retirement assets in the US by setting rules that qualified plans must follow to ensure plan fiduciaries do not misuse plan assets. Under ERISA, plans must provide participants with information about plan features and funding, and regularly furnish information free of charge. ERISA also sets minimum standards for participation, vesting, benefit accrual and funding. The law defines how long a person may be required to work before becoming eligible to participate in a plan, to accumulate benefits, and to have a nonforfeitable right to those benefits. It also establishes detailed funding rules that require plan sponsors to provide adequate funding for the plan.
- **Engagement:** Information on ESG factors used for activities to monitor or influence the management of companies in which a plan owns stock such as meeting with corporate boards and filing or voting on shareholder resolutions.
- **ESG integration:** The systematic and explicit inclusion of material ESG factors into investment analysis and investment decisions. It is an approach to investment analysis applicable across asset classes, including equities, fixed income and private equity.
- **ESG incorporation:** Information on ESG factors is considered along with other financial data as a core part of the investment analysis. This practice can also include strategies such as engagement and screening.
- **Fiduciary:** A person or organization that acts on behalf of another person or persons to manage assets. Essentially, a fiduciary is a person or organization that owes to another the duties of good faith and trust. The highest legal duty of one party to another, it also involves being bound ethically to act in the other's best interests.
- **Independent advice provider:** An automated or in-person service designed to help plan beneficiaries determine an appropriate asset allocation and select individual investment funds. The provider is typically independent of the investment manager and plan sponsor to help ensure the advice is unbiased.
- **Investment consultant:** Provides investors with investment products, advice and/or planning. Investment consultants do in-depth work on formulating clients' investment strategies, helping them fulfill their needs and reach their financial goals.
- **Investment manager:** A person or organization that makes investments in portfolios of securities on behalf of clients in accordance with the investment objectives and parameters defined by the client.
- **Plan sponsor:** A designated party, usually a company or employer, which sets up a healthcare or retirement plan, such as a 401(k), for the benefit of the organization's employees.
- **Screening:** Positive or negative screening to select investments based on established criteria. This strategy may be designed to maintain diversification across industries.

BIBLIOGRAPHY

- Callan Institute, [2017 ESG Interest and Implementation Survey](#).
- Bloomberg LP, Press Release, “[Bloomberg Becomes First U.S.-Domiciled Corporate Retirement Plan Sponsor to Sign the PRI](#)”, 12 October, 2017.
- [Defined Contribution Institutional Investment Association \(DCIIA\)](#).
- DOL Employee Benefits Security Administration, [DOL 2018 Field Assistance Bulletin No. 2018-01](#), 23 April, 2018.
- Marquette Associates, [Bracing for Impact: How to Prepare for the Next Generation of Defined Contribution Plans](#), March 2017.
- Mercer, [Top Priorities for DC Plan Sponsors for 2018: From a Foundation of Sound Plan Management to Powering Participant Success](#), 7 December, 2017.
- Natixis Global Asset Management, [Running on Empty: Attitudes and Actions of Defined Contribution Plan Participants](#), 2016.
- New England Pension Consultants (NEPC), [NEPC ESG Survey: A Profile of Corporate & Healthcare Plan Decisionmakers’ Perspectives](#), 11 July, 2018.
- Patterson, Belknap Webb & Tyler, [Latest Department of Labor Guidance on Economically Targeted Investments and Shareholder Engagement: Requires Plan Fiduciaries to Step Carefully](#), May 2018.
- Pensions & Investments, “[DC Participants Seen as Next Advocates of ESG Mantra](#)”, 5 February, 2018.
- PIMCO, [12th Annual Survey Report 2018: Defined Contribution Consulting Support and Trends Survey](#), 2018.
- Povaddo, [POV: A Povaddo Survey Examining Corporate Activism and Employee Engagement Inside FORTUNE® 1000 Companies](#), June 2017.
- Povaddo 2018 Survey, as presented in US SIF Conference Panel “Aligning Corporate Retirement Plans with Sustainability Commitments”, 1 June, 2018.
- PRI, UNEP FI, UN Global Compact, [Aligning Values: Why Corporate Pension Plans Should Mirror Their Sponsors](#), April 2017.
- PRI, UNEP FI, UNEP Inquiry, UN Global Compact, [Fiduciary Duty in the 21st Century](#), 2015.
- PRI, UNEP FI, UN Global Compact, [Financial Performance of ESG Integration in US Investing](#), 2018.
- PRI, UNEP FI, UN Global Compact, [Investment Consultant Services Review](#), December 2017.
- PRI, UNEP FI, The Generation Foundation, [Fiduciary Duty in the 21st Century: US Policy Roadmap](#), October 2016.
- Summit Consulting, LLC, [Environmental, Social, and Governance \(ESG\) Investment Tools: A Review of the Current Field](#), December 2017.
- United States Government Accountability Office, [Retirement Plan Investing - Clearer Information on Consideration of Environmental, Social and Governance Factors Would Be Helpful](#) [GAO Report], May 2018.
- US SIF: The Forum for Sustainable and Responsible Investment (US SIF) Foundation, [Report on US Sustainable, Responsible and Impact Investing Trends](#), 2016.
- [World Business Council for Sustainable Development \(WBCSD\)](#), “[Aligning Retirement Assets](#)” project, launched in June 2018.

ACKNOWLEDGEMENTS

About the PRI

The PRI works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance issues and to support signatories in integrating these issues into investment and ownership decisions. The six Principles were developed by investors and are supported by the UN. They have more than 2,000 signatories from over 50 countries representing US\$80 trillion of assets. They are voluntary and aspirational, offering a menu of possible actions for incorporating ESG issues into investment practices. In implementing the Principles, signatories contribute to developing a more sustainable global financial system. For more information, see www.unpri.org.

About The Generation Foundation

The Generation Foundation ('The Foundation') is the advocacy initiative of Generation Investment Management ('Generation'), a boutique investment manager founded in 2004. The Foundation was established alongside Generation in order to strengthen the case for Sustainable Capitalism. Its strategy in pursuit of this vision is to mobilize asset owners, asset managers, companies and other key participants in financial markets in support of the business case for Sustainable Capitalism, and to persuade them to allocate capital accordingly. For more information, see www.genfound.org.

About UNEP FI

United Nations Environment Programme Finance Initiative (UNEP FI) is a unique partnership between the United Nations Environment Programme (UNEP) and the global financial sector. UNEP FI works closely with over 200 financial institutions that are signatories to the UNEP FI Statement on Sustainable Development, and a range of partner organisations, to develop and promote linkages between sustainability and financial performance. Through peer-to-peer networks, research and training, UNEP FI carries out its mission to identify, promote, and realise the adoption of best environmental and sustainability practice at all levels of financial institution operations. For more information, see www.unepfi.org.

About Godeke Consulting

Godeke Consulting helps capital drive positive change. Its mission is to further our clients' goals with strategies, services and expertise that enhance investment returns and meet impact objectives. It maintains an independent and conflict-free practice at the intersection of asset owners, advisors, investment products, markets, and academia. In addition to customized strategy, search, and evaluation engagements, it leads independent field-building projects and develops and execute research agendas for clients. For more information, see www.godekeconsulting.com.

CREDITS

Authors: Steven Godeke, Sarah Cleveland and Scott Budde (Godeke Consulting)
PRI: Will Martindale (Head of Policy) and Colleen Orr (US Policy Analyst)

