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ESG Update

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Today's Agenda

- **Industry Trends**
- **University of Maine System (MIP) Portfolio**
- **Questions and Next Steps**

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Recent Headlines

Seattle City Employees puts BlackRock on watch over ESG concerns

EU Workplace Pensions Now Required to Incorporate ESG Issues

CalPERS Adopts Environmental, Social, and Governance Strategic Plan

NYS Common Further Integrates ESG Within Manager Selection, Risk Frameworks

ESG factors can indicate overall stock risk, says AQR

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Morningstar Launches Sustainability Ratings for Investment Managers

Natixis launching 401(k) market's first ESG-focused target-date mutual funds

BlueBay expands ESG fixed income investment offering

PIMCO, Lombard Odier, Northern Trust unveil ESG, climate change funds

The CFA Exam Is Going Green

CalPERS outlines ESG policy for PE manager selection

MSCI Launches ESG Index Series



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US SIF Survey on Sustainable Investing

- US SIF: The Forum for Sustainable and Responsible Investment is the leading voice advancing sustainable, responsible and impact investing across all asset classes**
 - Its mission is to rapidly shift investment practices towards sustainability, focusing on long-term investment and the generation of positive social and environmental impacts

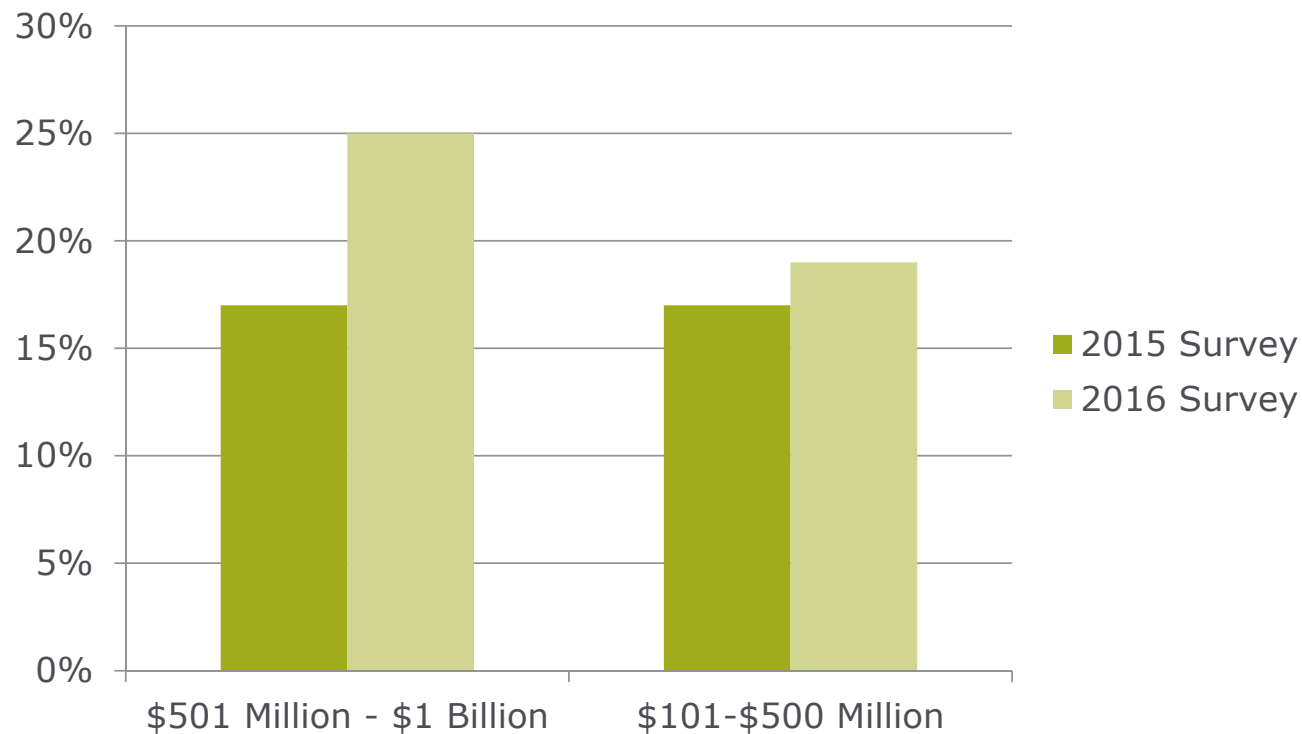


Source: US SIF Foundation's 2016 Report on US Sustainable, Responsible and Impact Investing Trends.

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NACUBO-Commonfund Study of Endowments

- **Annual survey of U.S. educational institutions**
 - 805 respondents for the 2016 fiscal year study
- **Percentage of respondents that seek to include investments ranking high on ESG criteria has increased, as shown in the chart below:**



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Source: 2016 NACUBO-Commonfund Study of Endowments



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PRI Membership

- **Principles of Responsible Investing (PRI) began in 2006 as a network of investors working together to integrate the 'six principles' into common practice in an effort to create a more sustainable financial system**

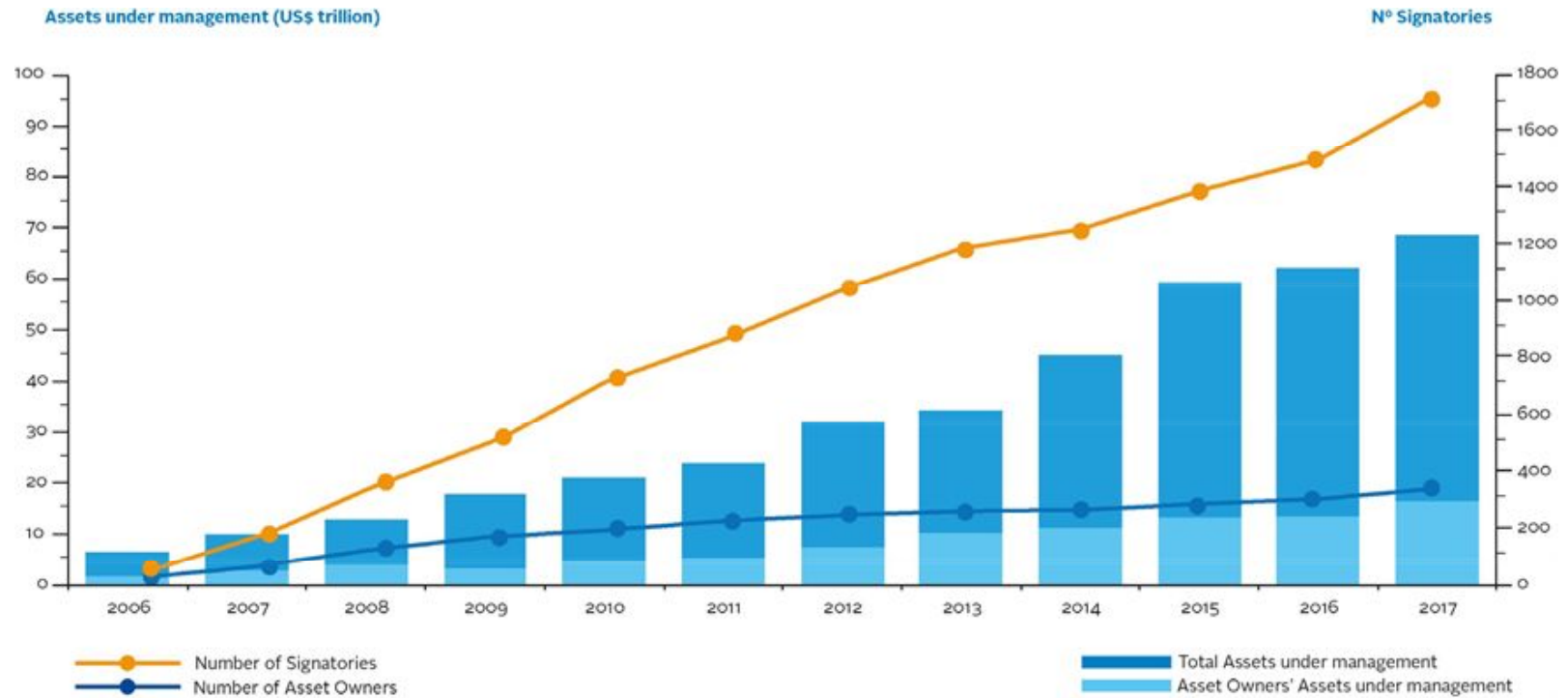
Signatory Directory		
Asset Owners	354	(USA: 33)
Investment Managers	1,195	(USA: 251)
Service Providers	224	(USA: 46)
Total	1,773	

Source: PRI website

- **The 'six principles' that signatories pledge to implement:**
 1. We will **incorporate** ESG issues into investment analysis and decision-making processes
 2. We will **be active** owners and incorporate ESG issues into our ownership policies and practices
 3. We will **seek appropriate disclosure** on ESG issues by the entities in which we invest
 4. We will **promote** acceptance and implementation of the Principles within the investment industry
 5. We will **work together** to enhance our effectiveness in implementing the Principles
 6. We will each **report** on our activities and progress towards implementing the Principles
- **Approximately 100 of NEPC's preferred managers are PRI signatories**
 - Across both traditional and alternative asset classes
 - NEPC has encouraged the investment management community to consider the materiality of ESG factors to their respective investment processes

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PRI Growth



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- **The number of PRI signatories has increased from ~150 to ~1,700 in the last 10 years**
 - European signatories outweigh other areas, however the US has experienced sizable gains of late
- **Assets under management increased from about \$US 6 trillion in 2006 to \$US 65 trillion in 2017**

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University of Maine System (MIP) – Current PRI Signatories

Investment Managers	
State Street Global Advisors (SSgA)	Commonfund
Dimensional Fund Advisors	The Vanguard Group
Westfield Capital Management	Grantham, Mayo, Van Otterloo & Co. LLC
Morgan Stanley Investment Management	Wellington Management Company LLP
Globeflex Capital, L.P.	Newton Investment Management
Aberdeen Asset Management	Entrust Permal LLC
Mondrian Investment Partners Limited	Landmark Partners

- **As of November 2017:**
 - 14 managers were noted as PRI signatories
 - These 14 managers account for \$270.6 million across the portfolio, or approximately 88% of assets (as of 9/30/17)
- **The ESG approach varies across these managers**
 - Newton is a good example of having a dedicated ESG team that resides within the global research team to analyze these issues, which can influence the bottom-up stock selection process

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University of Maine System (MIP) - ESG Progress and Next Steps

- **Past Items**

- Divested from coal securities in all separate account mandates in 2015
- Approved an ESG policy for the MIP in September 2016
- Contracted with MSCI in December 2016 and reviewed first ESG report in March 2017
- Included ESG managers when reviewing new mandates for the MIP
 - Bank loan and international small cap equity searches both included managers that incorporate ESG into their investment process

- **Next Steps**

Q1 2018

- Complete annual asset allocation review
- Incorporate ESG considerations into the review

Q1/Q2 2018

- Annual MSCI report to assess MIP ESG ratings

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Information Disclaimer and Reporting Methodology

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- The client's custodian bank is NEPC's preferred data source unless otherwise directed. NEPC reconciles custodian data to manager data. If the custodian cannot provide accurate data, manager data may be used.
- Trailing time period returns are determined by geometrically linking the holding period returns, from the first full month after inception to the report date. Rates of Return are annualized when the time period is longer than a year. Performance is presented gross and/or net of manager fees as indicated on each page.
- For managers funded in the middle of a month, the "since inception" return will start with the first full month, although actual inception dates and cash flows are taken into account in all Composite calculations.
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