

## Attachment C



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# **An Institutional Approach to Climate Transition**

**Prepared for SFERS**

**Goldman Sachs Asset Management**

January 2018

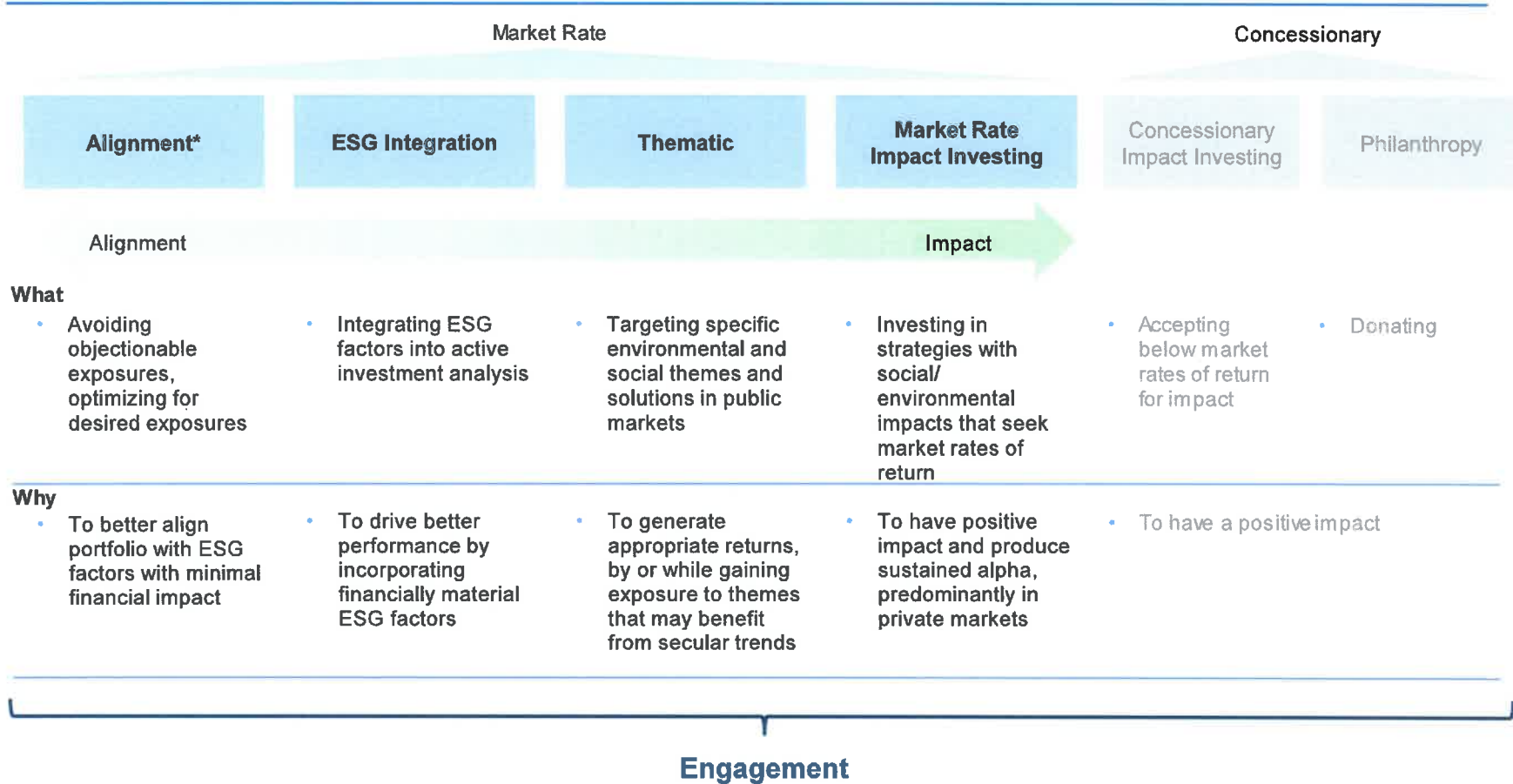
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# ESG and impact investing is a spectrum of approaches that can potentially help investors to position their portfolios for the climate transition



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\* Historically Socially Responsible Investing "SRI"  
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# This spectrum can be applied across a framework that outlines an institutional approach to the climate transition

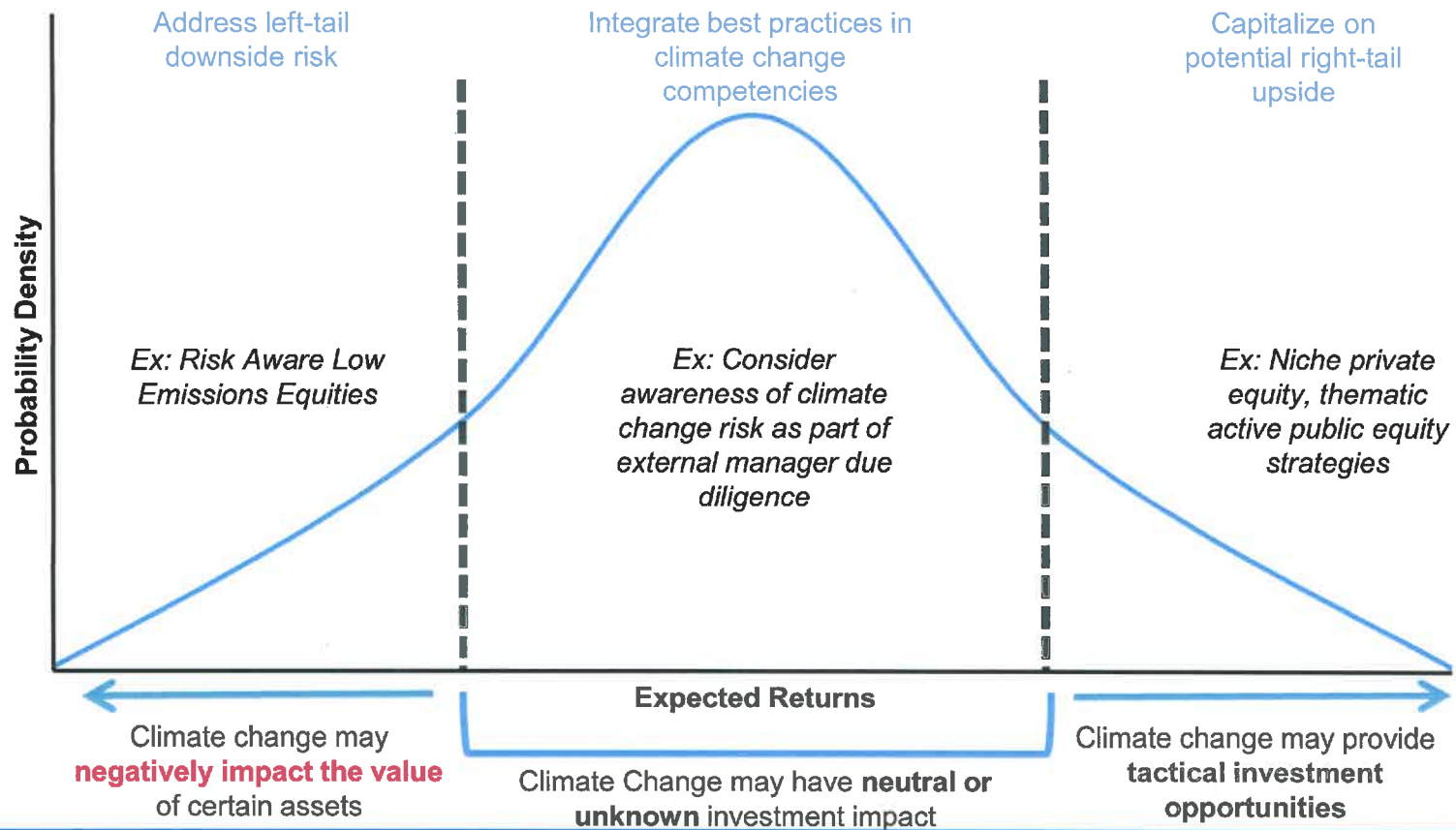


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**Situation:** The climate transition will likely result in physical, market, and policy changes

**Complication:** It will be difficult to identify the timing, magnitude, and precise outcomes of the climate transition

**Approach:** Manage climate risk and reward through the distribution of investable assets



Source: GSAM as of October 2017. For illustrative purposes only and should not be construed as research, investment advice or a recommendation. Certain markets or sectors that an ESG strategy targets may not develop as expected or may develop more slowly than anticipated.



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## I. Alignment: Mitigating left-tail risk

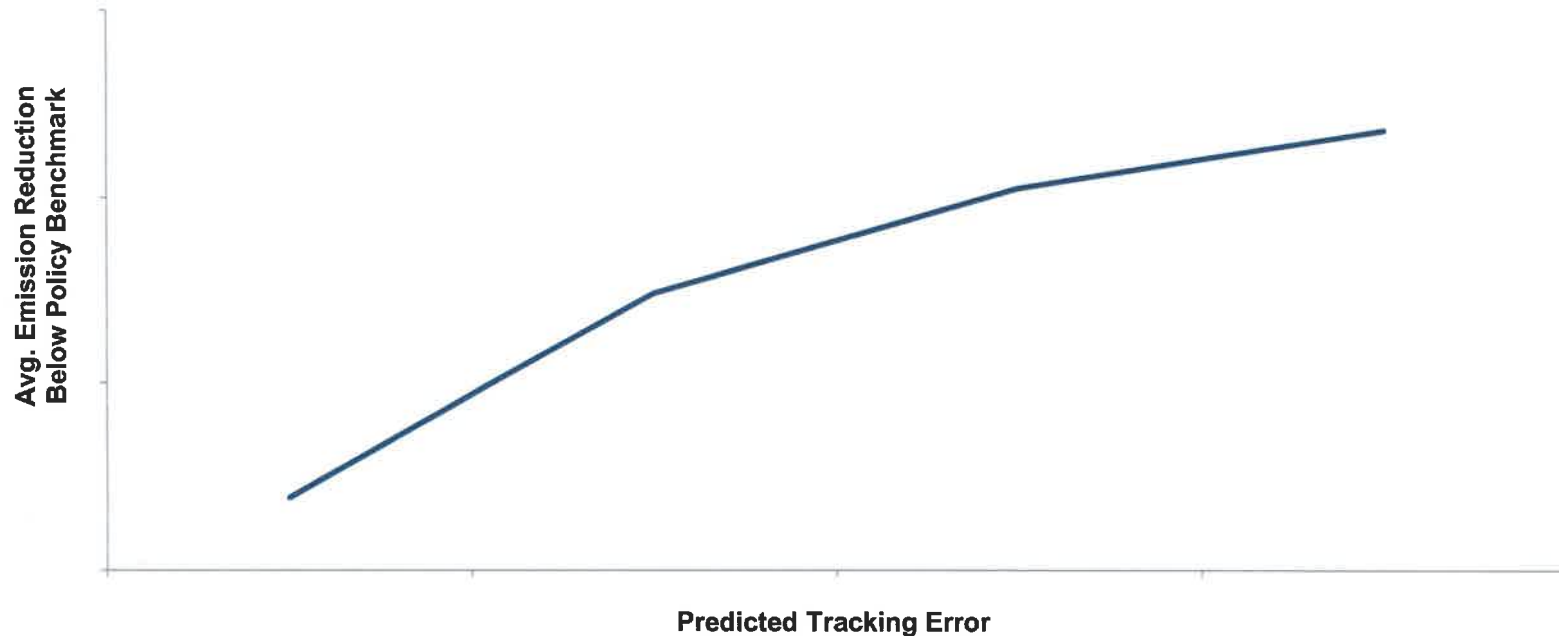
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# Alignment portfolios can enable investors to reduce emissions while maintaining similar benchmark exposure



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## Illustrative Passive Low Emissions Strategy



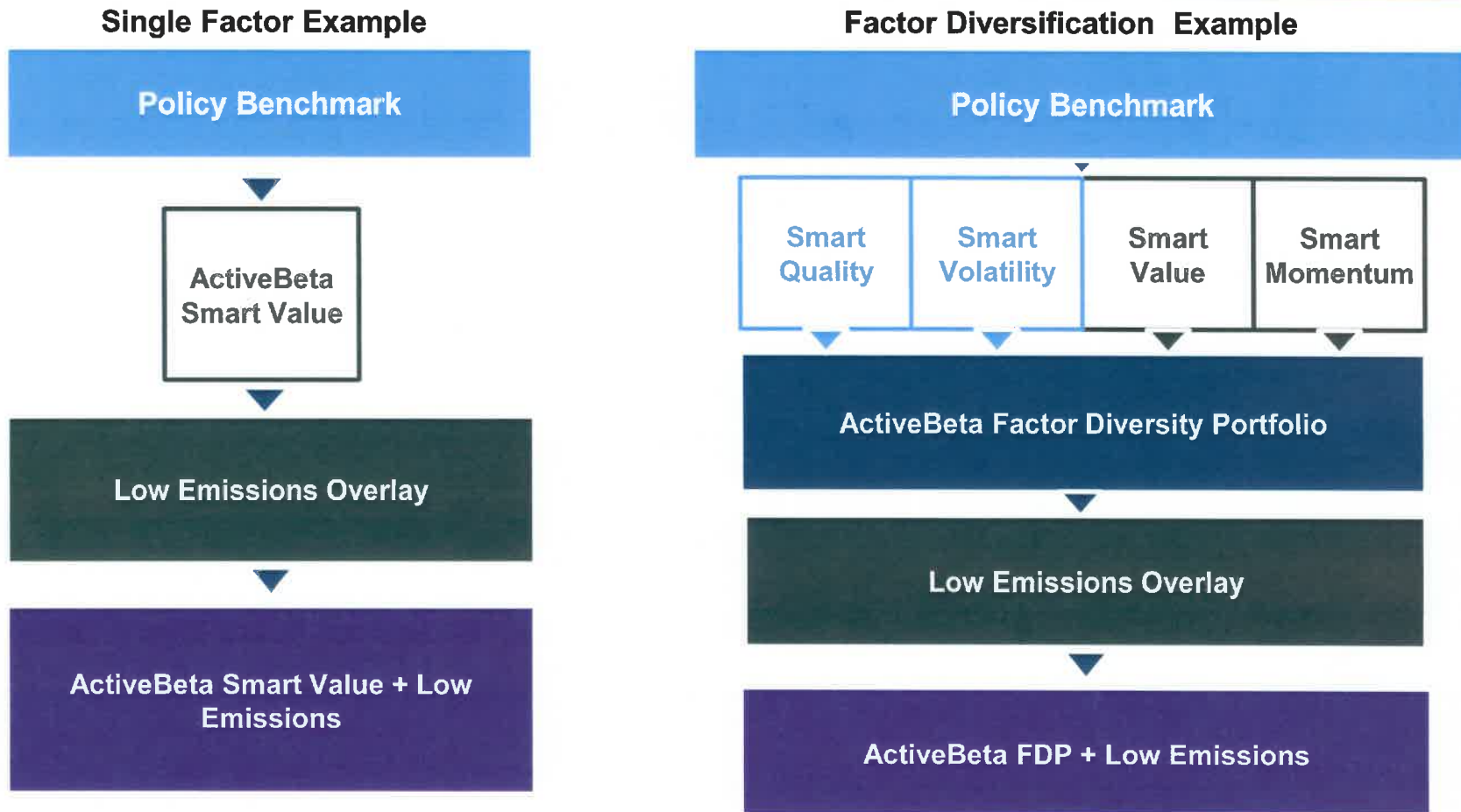
Source: GSAM Quantitative Investment Strategies as of November 2017. For illustrative purposes only. The information shown herein is intended to demonstrate the potential effects on tracking error of applying a carbon reduction energy approach to an illustrative portfolio comprising companies in the illustrative benchmark. The information shown herein should not be relied upon as representative of actual or future information for any Goldman Sachs products.

# These low emissions portfolios can also be engineered with targeted factor exposure

ActiveBeta + Low Emissions



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## II. ESG Integration: Considering best practices in climate change competencies

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# We believe ESG factors can be financially material

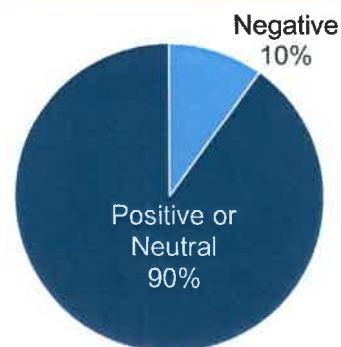


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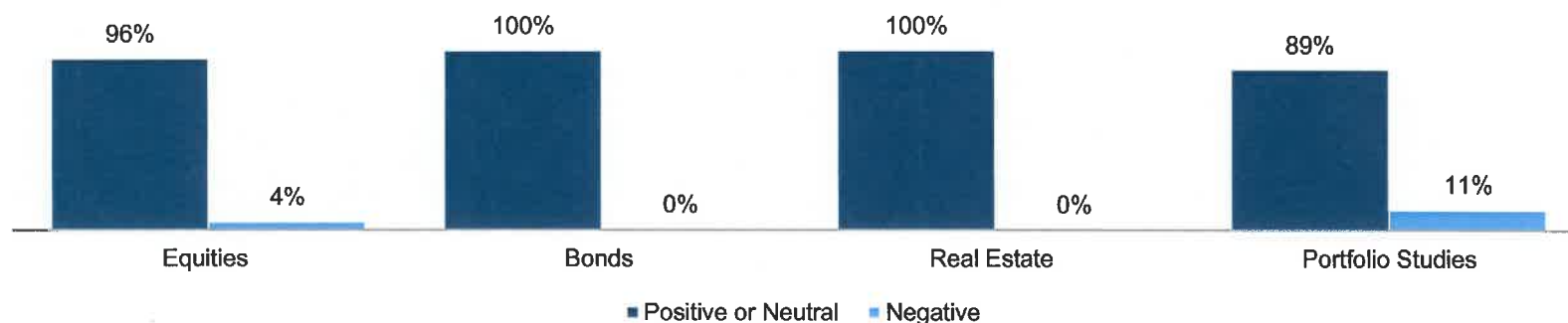
## Sample Meta Study: Findings from more than 2,200 Unique Empirical Studies

### Key Observations

- We believe that the business case for ESG investing is empirically well founded
- The positive ESG impact on corporate financial performance has remained stable over time



## ESG & Financial Performance (Percentage of Studies with Positive, Neutral, or Negative Findings)

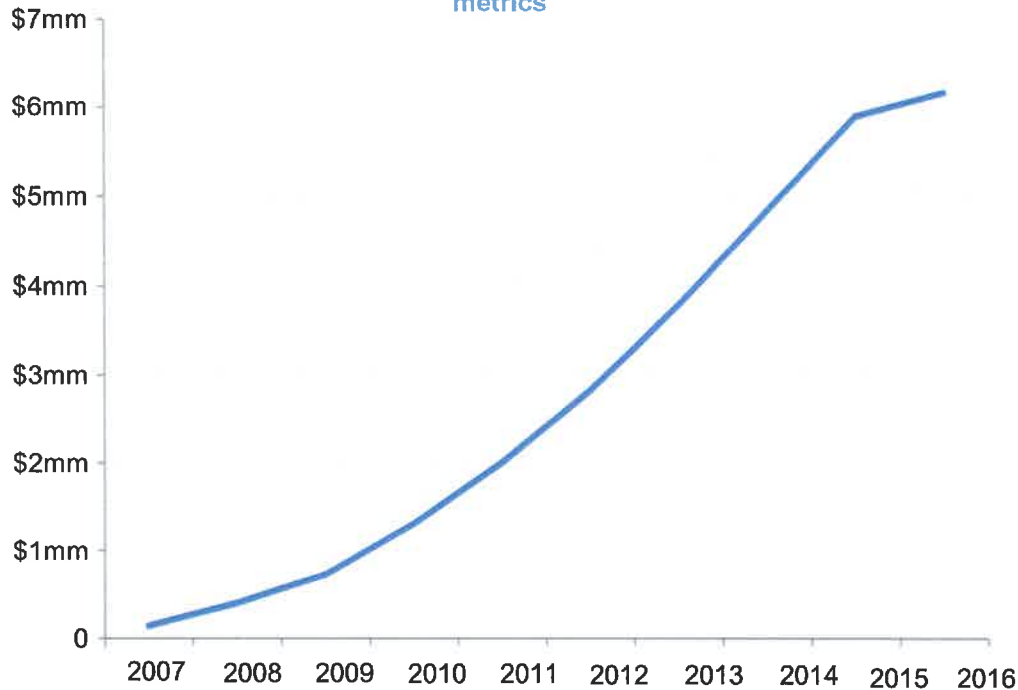


Source: Friede, Busch, Bassen (December 2015). Past performance does not guarantee future results, which may vary. Views and opinions are current as of the date of this presentation and may be subject to change, they should not be construed as investment advice.

# In quantitative approaches, it's important to identify the specific metrics that can potentially generate alpha, given the growth of ESG data

## Growth of ESG data availability<sup>1</sup>

Cumulative ESG data points available from Bloomberg for 453 select metrics



## Importance of material ESG metrics<sup>2</sup>

Stock Returns (in annualized alpha) by type of sustainability performance

Performance on Material factors	Performance on Sustainability Performance	
	Low	High
High	6.01%	1.96%
Low	-2.90%	0.60%

Low High  
Performance on Immaterial factors

<sup>1</sup> Bloomberg data cited in The GS Sustain Report, "The PM's Guide to the ESG Revolution" (April 18, 2017) <sup>2</sup> "Corporate Sustainability: First Evidence of Materiality", HBS, 2015, Mozaffar Khan, George Serafeim & Aaron Yoon. Charted cited in The GS Sustain Report, "The PM's Guide to the ESG Revolution" <sup>3</sup> GS Sustain Report, "The PM's Guide to the ESG Revolution" (April 18, 2017). Past performance does not guarantee future results, which may vary.

# ESG integration can also help to drive value in other asset classes, such as real estate

## Case Study: GSAM Private Real Estate



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	Seeking to Increase Margins	Improving the Brand of the Property
Goals	<ul style="list-style-type: none"> <li>– Increase Rental Rates</li> <li>– Reduce Utility Expenses</li> <li>– Reduce Frequency and Cost of Capital Expenditures</li> </ul>	<ul style="list-style-type: none"> <li>– Align Business Plan with Tenant (Opex, Capex, Amenities)</li> <li>– Increase Desirability of Asset from a Capital Markets Perspective</li> <li>– Implement Discreet Projects to Integrate the Property’s Brand with the Community’s Identity</li> </ul>
Implementation Strategy	<ul style="list-style-type: none"> <li>– Lighting Retrofit Programs</li> <li>– Higher-Quality / Higher-Efficiency Mechanicals</li> <li>– Recycled Materials Use in Capital Investment Programs</li> <li>– Asset Specific Retro-Commissioning Measures</li> </ul>	<ul style="list-style-type: none"> <li>– Local Artist Engagement or Property Focal Pieces (LED Sunroof / Live Walls)</li> <li>– Effective Opex / Capex Management may Attract Tenants and/or Buyers</li> <li>– Increase Operating and Capital Expense Transparency to Attract Tenant</li> </ul>
Positive Externalities	<ul style="list-style-type: none"> <li>– Reduce Carbon Footprint</li> <li>– Reduce Materials Waste</li> <li>– Employ Minority and Veteran Owned Businesses</li> </ul>	<ul style="list-style-type: none"> <li>– Job Creation for Local Artists and Businesses</li> <li>– Support Local Culture</li> <li>– Support Local Quality of Life</li> </ul>

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#### IV. Impact Investing: Capitalize on potential right-tail upside

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# Impact investments are primarily in private markets and cover a broad range of themes



Private Equity	Private Credit	Real Assets
RESOURCE EFFICIENCY	CONSUMER LENDING	SUSTAINABLE TIMBER & ECOSYSTEMS SERVICES
FOOD, HEALTH & WELL BEING	SMALL BUSINESS LENDING	SUSTAINABLE AGRICULTURE & WATER
EDUCATION	ENVIRONMENTAL ASSETS	SUSTAINABLE REAL ESTATE
HEALTH IT & SERVICES		CLEAN INFRASTRUCTURE
FINANCIAL SERVICES		

# Impact assessment should be integrated into the investment and portfolio management processes



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## Private Market Metrics Snapshot - Example

### Portfolio Impact Highlights

Environment

Communities

METRIC

PORTFOLIO COMPANY DESCRIPTION

145,000 households reached with solar home lighting systems



Company A's SIM-card based payment system helped African households finance solar home lighting systems and displace on average 50 cents per day spending on a half-liter of kerosene, phone charging, or battery purchases. Two-thirds of households had per capital income below \$2 per day.

6,000,000 MWh of energy conserved



As of the end of 2014, multiple utilities across 9 countries used Company B's solution to save 6 terawatt-hours of energy; equivalent to taking all homes in Alaska and Hawaii off the grid for a year.

300,000 healthy school meals per day



Company C provided healthy school lunches to students for \$3 per meal. The food is free of preservatives, artificial flavors, high fructose corn syrup, processed or imitation cheese and artificial trans fats. Over 70% of the students came from low income families.

2.3 million students



Company D's platform has courses which teach, assess, and certify students in critical social wellness and life skills. The company has an integrated network of 23,000 public schools across the U.S.

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# First Principles for a Climate Transition Investment Portfolio

Begin with key climate transition drivers and implement based on the universe of investable opportunities for which we have positive market views and strong managers



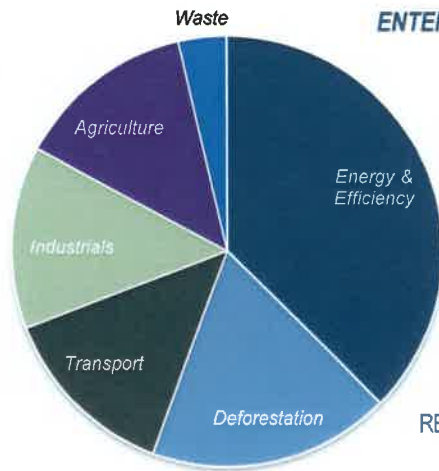
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1 GROUND PORTFOLIO IN FUNDAMENTAL THESIS / MARKET SIZING

2 ADJUST THEMES TO INVESTMENT VIEWS

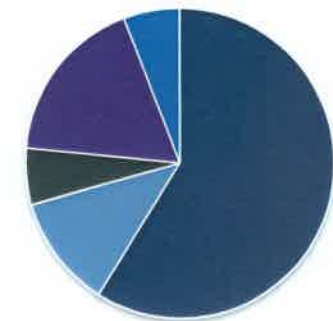
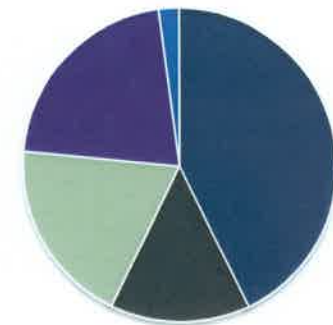
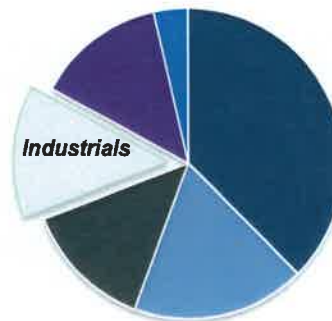
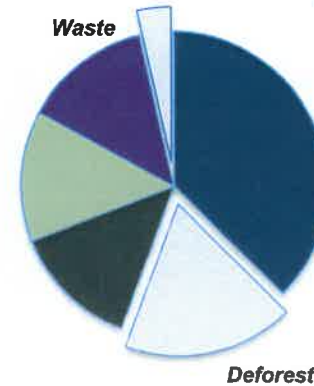
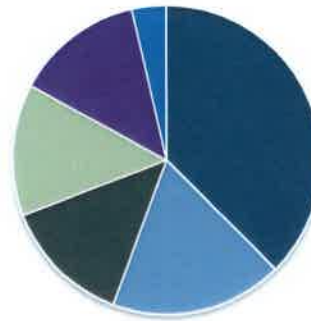
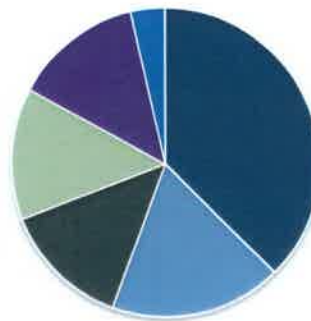
3 RESIZE TO OPTIMIZE PORTFOLIO CONSTRUCTION

## DRIVERS OF CLIMATE TRANSITION<sup>1</sup>



**ENTERPRISE INNOVATION**  
VC & PE

**DEPLOYMENT**  
REAL ASSETS & CREDIT



Begin by looking to diversify the portfolio across the drivers of the climate transition

A theoretical portfolio seeks to capture innovation in both enterprises (PE and VC) and in deployment (real assets and credit)

The theoretical portfolio is constrained by the investable universe

Portfolio is then further weighted toward client objectives

(1) World Resources Institute, as of 2010. Views and opinions expressed are for informational purposes only and do not constitute a recommendation by GSAM to buy, sell, or hold any security. Views and opinions are current as of the date of this presentation and may be subject to change, they should not be construed as investment advice. Diversification does not protect an investor from market risk and does not ensure a profit.

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## Appendix & Important Disclosures

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# Appendix: Theme Definitions



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**Alignment:** Strategies that seek to eliminate or mitigate portfolio exposure to holdings that investors may regard as objectionable such as coal, tobacco or weapons companies. Alternatively, values-aligned strategies may also seek to provide clients with enhanced exposure to holdings that positively reflect their social or environmental values such as companies with low carbon emissions profiles or high levels of executive diversity.

**ESG Integration:** Strategies that formally incorporate environmental, social and governance-related factors into an investment process with the objective of enhancing risk-adjusted returns.

**Thematic Strategies:** Strategies that seek to identify alpha associated with a secular ESG theme. An example is “resource efficiency,” wherein investors seek to identify companies that provide solutions to challenges associated with scarce resources or resource-related externalities.

**Resource Efficiency:** Companies developing technologies and/or business models that use resources in a sustainable manner while minimizing environmental impact. Examples include alternative energy technologies such as wind and solar, energy efficiency technologies such as LED lighting, etc.

**Food, Health & Well Being:** Consumer-oriented companies offering a broad range of products and services that improve health and/or minimize environmental impact. Examples include healthy and organic foods, green packaging solutions, fitness and wellness services, and mental health solutions.

**Education:** Companies whose primary purpose is to improve outcomes for all learners, regardless of age. Examples include infrastructure software, content generation and distribution, mobile and social applications, technologies that improve teaching and learning processes and methodologies, credentialing, curricular innovation, as well as schools, universities, and service providers.

**Health IT & Services:** Companies providing healthcare delivery and life science solutions that increase access, improve care, and lower costs to underserved populations. Examples include single and multi-specialty clinics and hospitals, telemedicine and healthcare IT solutions, medical technology devices, and diagnostic solutions.

**Financial Services:** Companies that provide beneficial financial services to underserved populations. Examples include technologies and services in the areas of payments, credit, savings, and insurance.

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**Sustainable Timber & Ecosystem Services:** Timberland that has been preserved from future development and/or harvested responsibly using sustainable management practices. Ecosystem services capitalize on environmental offset markets by deriving revenue from carbon or the restoration of wetlands, streams, or endangered species.

**Sustainable Agriculture & Water:** Production of food and fiber through farmland management practices and/or agricultural technologies that have the potential to enhance yields and reduce inputs while limiting negative environmental impacts.

**Sustainable Real Estate:** Residential and non-residential buildings that are energy efficient and environmentally friendly and/or provide access to low income populations or create jobs and economic activity in low wealth communities. Examples include LEED certified office buildings that are energy efficient and affordable housing projects for low income tenants.

**Clean Infrastructure:** Asset-backed assets that have minimal environmental impacts related to power generation and distribution or transit. Examples include clean and low carbon power generation from solar and wind projects as well as transit investments in electric vehicle charging infrastructure and electrified mass transit.

**Consumer Lending:** Providing appropriately structured and/or lower cost credit to consumers directly or through online platforms. Examples include micro loans to underserved consumers in emerging markets and lower cost loans to prime and sub-prime borrowers in developed markets via online platforms.

**Small Business Lending:** Providing appropriately structured credit to small businesses directly or through online platforms. Examples include working capital financing, receivables financing, factoring, supply chain financing, and credit insurance and guarantees to underserved small businesses and/or businesses with social/environmental attributes.

**Environmental Assets:** Loanable assets with tangible environmental attributes. Examples include renewable energy infrastructure projects and energy efficiency solutions in areas such as lighting, HVAC systems, and water heating that improve efficiencies while decreasing natural resource use.

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