

ESG from the Life Insurance Perspective

Perspectives, Experiences, and Expectations

March 22, 2019

Financial & Investment Roundtable

Warren Zaccaro

**Executive Vice President and Chief Financial Officer
Securian Financial Group**



The Prince's
Accounting for
Sustainability (A4S)



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Bruce West, FCPA, FCA

**Former Executive Vice President Finance and Chief
Financial Officer
The Co-operators Group**



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Chris Hanlon, CFA
Head of Insurance Strategy & ALM
Macquarie Investment Management



Corporate Social Responsibility Principles for Responsible Investing (PRI)

Business and Sustainable Development
Commission

Principles for Sustainable Insurance

UN Sustainable Development Goals (SDGs)

Chief Sustainability Officer (CSO)

Accounting For Sustainability (A4S)

Environmental, Social and Governance Investing

Principles for Sustainable
Investing (PSI)

E.S.G. Indices

Green Bonds

Paris Agreement

**Global Sustainable Investment
Alliance (GSIA)**

State of California Climate Risk
Scenario Analysis

Task force on Climate-related Financial Disclosures (TCFD)

Rating Agencies

Chief Responsible Investment Officer

Sustainable and Responsible Investing (SRI)

Financial Stability Board

Current State of ESG

Chris Hanlon

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1970

- First Earth Day
- Interfaith Center on Corporate Responsibility founded

1971

- Pax World Fund launched

1977

- Sullivan Principles introduced

1978

- SRI investment by pension funds spurred by Rifkin and Barber

1982

- Calvert Social Investment Funds launched
- Trillium Asset Management founded
- New Alternative Fund

1984

- MacBride Principles introduced
- Parnassus Fund launched

1985

- US SIF: the Forum for Sustainable and Responsible Investing founded

1988

- First Affirmative Financial Network founded

1990

- SRI in the Rockies first conference
- Domini Social Index created
- TIAA-CREFF Social Choice Account launched

1991

- End of Apartheid

1995

- US SIF Trends Report: \$639 Billion in AUM

1999

- SRI In the Rockies meets in Canada

2005

- Green Century Balanced Fund went fossil fuel free

2006

- **UN Principles for Responsible Investment** launched
- Parnassus Fund launched

2007

- SRI in the Rockies exceeds 500 attendees

2008

- Calvert Global Water Fund launched

2011

- SEC adopted "say on pay" rules
- Over 50% of S&P 500 companies issuing sustainability reports

2012

- US SIF Trends Report: \$3.4 Trillion in AUM
- Bill McKibben's "Do the Math" article on fossil fuel free investing

2015

- Pope Francis' Climate Change Encyclical
- **DOL interpretive bulletin**

2016

- US SIF Trends Report: over \$8 Trillion in AUM

1970s

1980s

1990s

2000s

2010s

SRI

ESG

Source: The Conference on Sustainable, Responsible, Impact Investing



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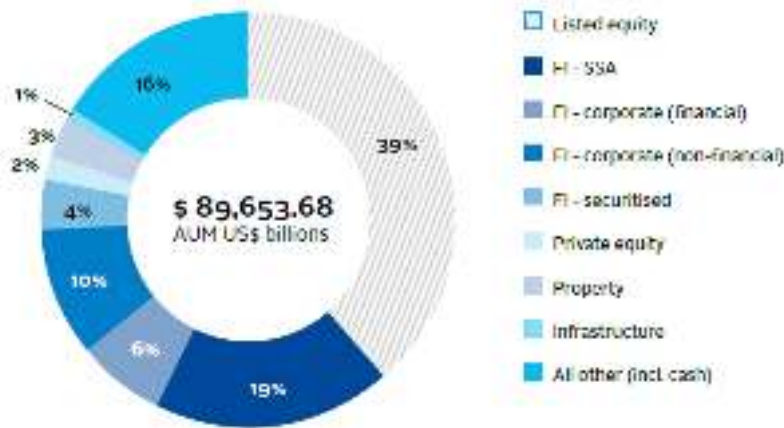
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Signatory breakdown by asset and AUM*



*includes double counting

Source: www.unpri.org

Principle 1

We will incorporate ESG issues into investment analysis and decision-making processes.

Principle 2

We will be active owners and incorporate ESG issues into our ownership policies and practices.

Principle 3

We will seek appropriate disclosure on ESG issues by the entities in which we invest.

Principle 4

We will promote acceptance and implementation of the Principles within the investment industry.

Principle 5

We will work together to enhance our effectiveness in implementing the Principles.

Principle 6

We will each report on our activities and progress towards implementing the Principles.



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Confirmation of ESG benefit

In 2015, U.S. Department of Labor (DOL) published an interpretive bulletin that provided updated guidance to fiduciaries' duties under ERISA when making decisions on investing in ESG funds.



- ✓ This guidance clarifies the DOL's position that ESG funds should not be viewed differently than traditional investment funds, the "all things being equal" test.
- ✓ No special documentation is required to demonstrate that an ESG fund complies with ERISA.
- ✓ Fiduciaries may invest in ESG funds so long as the investment is economically equivalent, with respect to return and risk, to traditional investment funds.

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SRI issues



ESG issues



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ESG evolutions: Focus shifts from values to risk

- More recently, many socially aware investors have transitioned to ESG.
- ESG investors believe that companies with positive (ESG) practices better control a variety of business risks and have more sustainable futures.
- Fully evolved ESG managers incorporate ESG factors into all aspects of investment management, bottom up and top down.

Environment

- Carbon emissions
- Climate change
- Ecosystem change
- Pollution and waste
- Renewable energy
- Resource depletion



Social

- Animal welfare
- Child labor
- Community relations
- Living wage disputes
- Political contributions
- Slave labor



Governance

- Executive pay
- Majority voting
- Separation of power
- Shareowner rights
- Staggered boards
- Takeover defenses



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Insurance Constituents

- Investor inquiries of public companies
- Industry
 - ACLI official position
 - State & NAIC Requirement
- Rating Agency

Current Implications

- Understand utilization of ESG by internal and external investors
- No published position on ACLI site or a recent “Perspectives” topic
- No NAIC reporting requirement (perhaps ORSA, but not specified), sporadic state reporting requests (e.g., CA data inquiry and coal divestment call)
- Understand implications

Future Implications

- Senator Warren’s *Climate Risk Disclosure Act* – September 14, 2018*
- “Investors petition the SEC” (including CalPERS, NY Comptroller, UNPRI) – October 4, 2018*
- “European Commission drafts rules on ESG integration on investment advice” 07 January 2019^

Source: *DavisPolk Briefing: Governance, ^ Insurance ERM



If regulatory requirements are in the future, what should insurance companies be doing now?

Asset Owners (AO)

- Do I have the data to inform my investment decision making?
- Do I the data to respond to future regulatory requests?
- Do internal and external investment teams utilize ESG and if so how?
- How is ESG implemented?

Platform Owners /Asset Managers

- Do you have offerings that appeal to investors desiring SRI and ESG strategies?
- Do investment teams (including sub-advisors) utilize ESG?
- What is your investment approach? Is it more than a negative screen?
- Has your ESG process added value?
- How do you report ESG to clients?

Asset Manager Considerations

Perception / Questions

- Are you a signatory to the UN supported Principles for Responsibility Investing (PRI)?
- Do you have an ESG Policy?
- What are your ESG resources and how long have they been in place?
- Can you incorporate ESG considerations to proxy voting?
- What tools do you use to support your process?

Investment Considerations

- Can incorporating ESG improve performance?
- Negative screens reduce the opportunity set, without asset owner direction, is it ethical for a manager to use them?

Case Study – Impact Investing

Bruce West

Who is The Co-operators?

- Canada's 2nd largest financial services co-operative
- Property & casualty (4th largest), life & wealth management (9th largest), institutional asset management, brokerage operations
- \$48.5 billion AUA / AUM
- \$4.1 billion revenue
- \$15 billion total assets; \$9.1 billion invested assets
- www.cooperators.ca

Note: all \$ amounts are CAD. You do the math!

Our sustainability journey

- 2008 – Sustainability strategy & policy
Sustainability – Meeting the needs of the present without compromising the ability of future generations to meet their needs.
- 2008 – 10 – Establish baseline; Get our house in order
- 2011 – 14 – Be a catalyst for a sustainable society: Planning → Action
 - UN Principles for Responsible Investing (PRI) (2014)
 - Montreal Carbon Pledge (2014)
 - Sustainable purchasing policy & claims integration
 - Build sustainability features into product suite
 - Became a Living Wage employer

Our sustainability journey

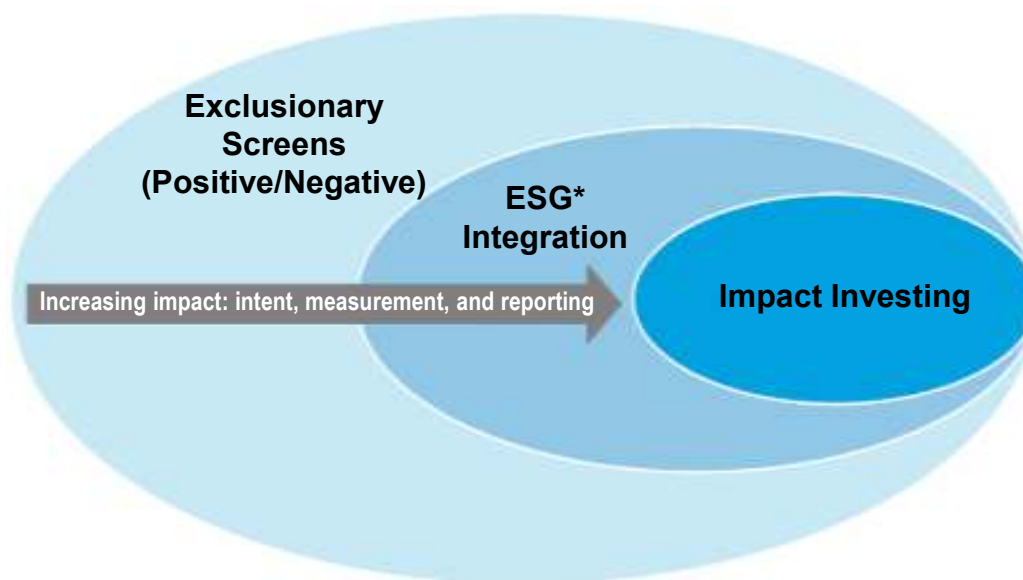
- 2015 – 18 – Fully integrated into corporate strategy
 - Comprehensive Water product (2015)
 - Impact Investing Strategy (2016)
 - Integrated Annual Report (2017)
 - Commenced work on TCFD recommendations (2018)
- 2019 – 22 – Strategic Plan
 - Carbon neutral (2020)
 - Complete work on TCFD recommendations (2020)
 - 2 degree scenario
 - Metrics & targets
 - Governance & Risk Management
 - External disclosures (IAR, MD&A)

What is impact investing?

Characteristics of impact investing

- ✓ Financial return
- ✓ Investment approach, not an asset class
- ✓ Positive social and/or environmental impact
- ✓ **Intentionality** matters
- ✓ **Measurement** and **reporting** of impact are required

What is impact investing?



Source: World Economic Forum

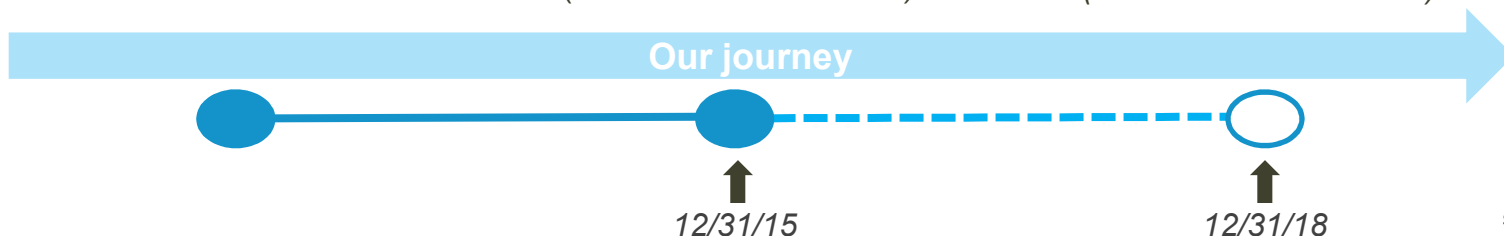
* Environmental, Social and Governance ("ESG")

Seeks to create both financial return and positive ESG impact that is actively measured

What is impact investing?

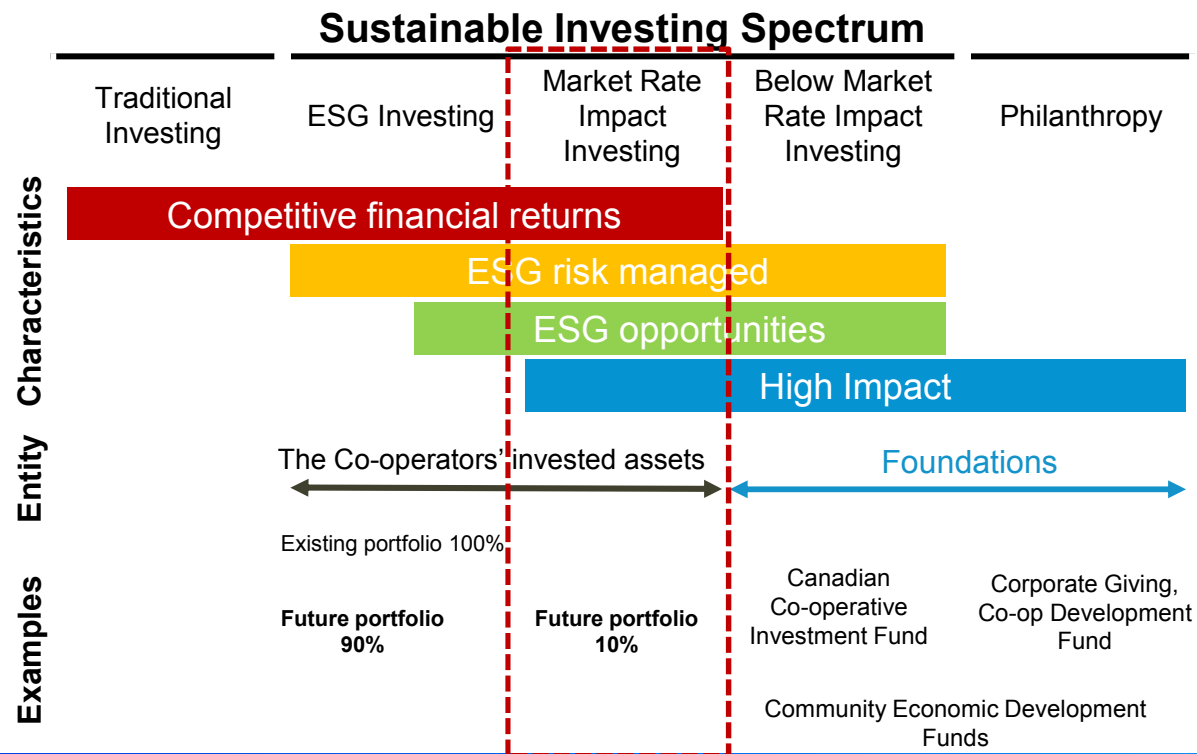
Investment Approaches

Traditional Investing	Sustainable Investing	Impact Investing
<ul style="list-style-type: none"> The use of money to make more money (<i>Financial Times</i>) 	<ul style="list-style-type: none"> Integrates long-term ESG criteria into decision-making Objective of generating superior risk-adjusted financial returns (<i>World Economic Forum</i>) 	<ul style="list-style-type: none"> Intentional Seeks to create both financial return and positive ESG impact Actively measured (<i>World Economic Forum</i>)



Source: The Co-operators

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Source: The Co-operators

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What is the need?



- \$14 trillion needs to be invested to improve energy efficiency globally by 2035



- Mental health problems and illnesses cost the Canadian economy at least \$50 billion per year



- 25% of land has a high degradation trend or is highly degraded

Presents an opportunity to align need for capital with ESG and financial returns

Note: 2015 data from IEA, UN, WEF

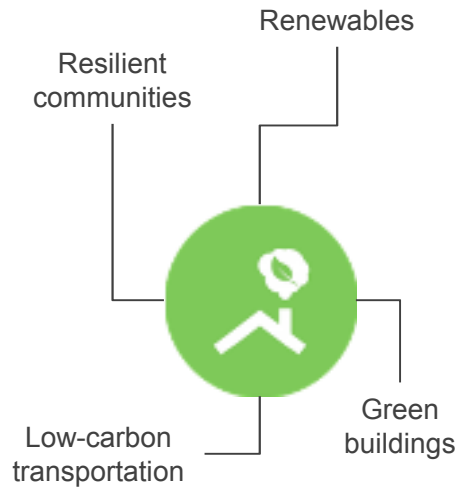


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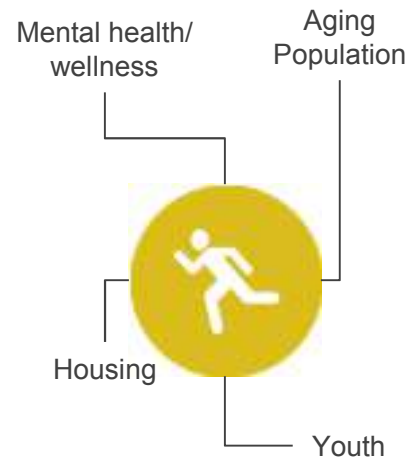
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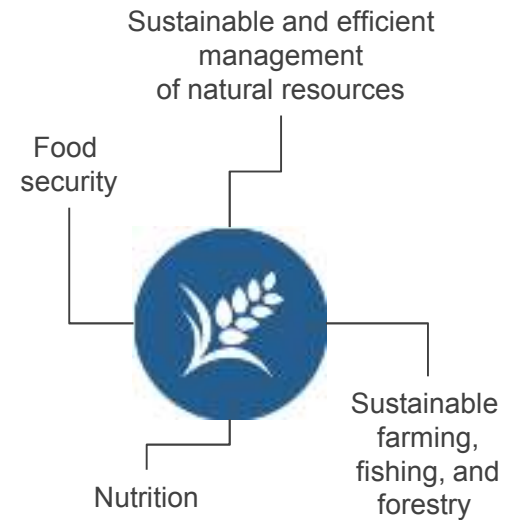
Climate change mitigation and adaptation



Health and wellness



Food, agriculture and natural resources



Investment focus will allow impact to be maximized through deeper expertise

Why pursue impact investing?

- To help The Co-operators *meet its business objectives*
 - ✓ Maintain or enhance the risk/return characteristics of our invested assets
 - ✓ Corporate value to “carefully temper our economic goals with consideration for the environment and the well-being of society at large”
 - ✓ Address trust and reputation risks and capitalize on trust and reputation opportunities
- To have a *positive social and/or environmental impact*
 - ✓ Vision of being “a catalyst for a sustainable society”
 - ✓ Sustainability vision of “leveraging assets to contribute to a more sustainable future”

Our commitment

- 6%-10% of invested assets by the end of 2018 (~\$1B)
- Market rate financial return and avoid undue risk of loss
- At least one positive impact measured for each investment
- Look for authoritative guidance on environmental or social impact
- Focus areas aligned with Mission, Vision and Statement of Values
- Globally focused with preference for investment in Canada

Lessons learned

- Senior executive and board support
- Strategy development
- Strong communication plan/narrative
- Clear connection to Mission, Vision and Values
- Integration into business strategy
- CFO support

Achieved 13.1% of Invested Assets, \$1.2 billion of Impact Investments

Thanks, eh!



Call to Action

Chris Hanlon

Call to action

How to get started

- Public perception: Own your firm's narrative
- Data: Develop reporting and disclosure capabilities
- Determine philosophy:
 - How does the organization want to incorporate ESG or impact investing?
 - Are there behaviors (biases) that you want to be represented on the balance sheet?
- Improve governance: Investment Policy and ESG statements

Tools & Resources

- UN Principles for Responsibility Investing (PRI) website (www.unpri.org)
- Familiarize your SASB (Sustainability Accounting Standards Board – www.sasb.org)
- Read the proposed ***Climate Risk Disclosure Act*** and the petition by investors to the SEC
- Evaluate ESG tools from MSCI ESG Research LLC and Sustainalytics

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MSCI ESG Rating Methodology as supplemental to fundamental credit work

- MSCI has 3 pillars that contain 10 themes
- Inside the themes there are 37 ESG Key Issues that are scored individually.
- The key issues scores are weighted and companies scores are then normalized for the industry they are in. Each companies final industry-adjusted score will correspond to the ratings scale of AAA to CCC (best to worst).

Letter Rating	Final Industry-Adjusted Company Score
AAA	8.6* - 10.0
AA	7.1 - 8.6
A	5.7 - 7.1
BBB	4.3 - 5.7
BB	2.9 - 4.3
B	1.4 - 2.9
CCC	0.0 - 1.4

Figure 1 MSCI ESG Key Issue Hierarchy

3 Pillars	10 Themes	37 ESG Key Issues
Environment	Climate Change	carbon emissions product carbon footprint climate change vulnerability
	Natural Resources	Water Stress Biodiversity & Land Use Raw Material Sourcing
	Pollution & Waste	Toxic Emissions & Waste Packaging Material & Waste Electronic Waste
	Environmental Opportunities	opportunities in clean tech opportunities in green building opp'ts in renewable energy
Social	Human Capital	labor management health & safety human capital development supply chain labor standards
	Product Liability	Product Safety & Quality Chemical Safety Financial Product Safety Privacy & Data Security Responsible Investment Health & Demographic Risk
	Stakeholder Opposition	Controversial Sourcing
	Social Opportunities	Access to Communications Access to Finance Access to Health Care Opp'ts in Nutrition & Health
Governance	Corporate Governance*	Board* Pay* Ownership* Accounting*
	Corporate Behavior	business ethics anti-competitive practices tax transparency corruption & instability financial system instability

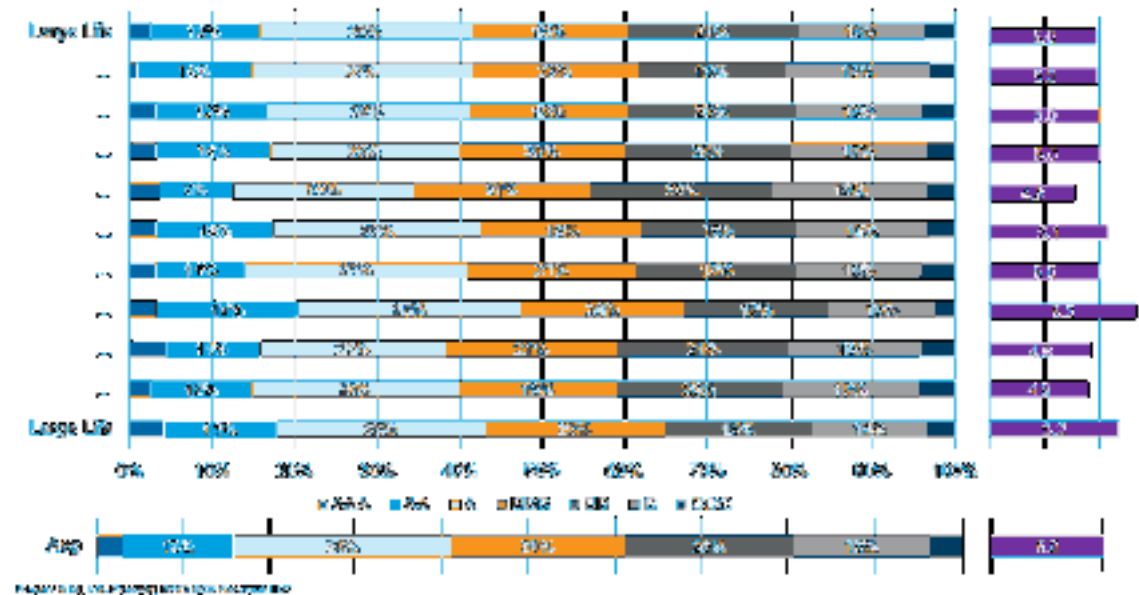
* Corporate Governance Theme carries weight in the ESG rating model for all companies. In 2018, we introduce sub-scores for each of the four underlying issues: Board, Pay, Ownership, and Accounting.

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Large Life Co. ESG Ratings

- 11 large life companies have similar ESG Ratings distributions
- Average quality in the BBB range

Public Credit ESG Ratings Distribution for Large Life Companies



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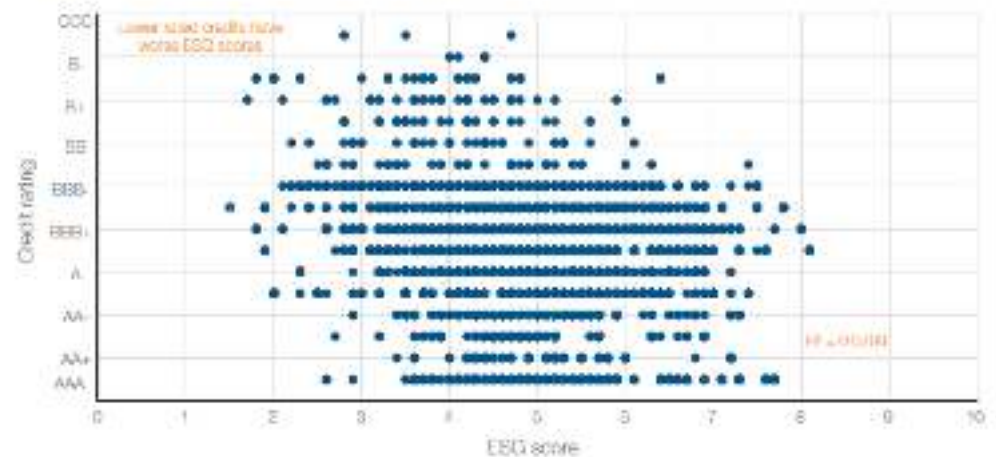
Credit Considerations

- Does ESG add value?
- Do Negative Screens add value?
- Are ESG scores predictive or coincident?

ESG scores are correlated to credit ratings

Chart 1 plots the credit ratings of securities in the Bloomberg Barclays Global Aggregate* and Bloomberg Barclays Global High Yield* indices against their ESG scores. Securities with better credit ratings have higher ESG scores on average, with a correlation of approximately 30%. This means that a portfolio with higher credit ratings will typically have higher ESG scores and vice versa.

Chart 1: Credit ratings and ESG scores are correlated



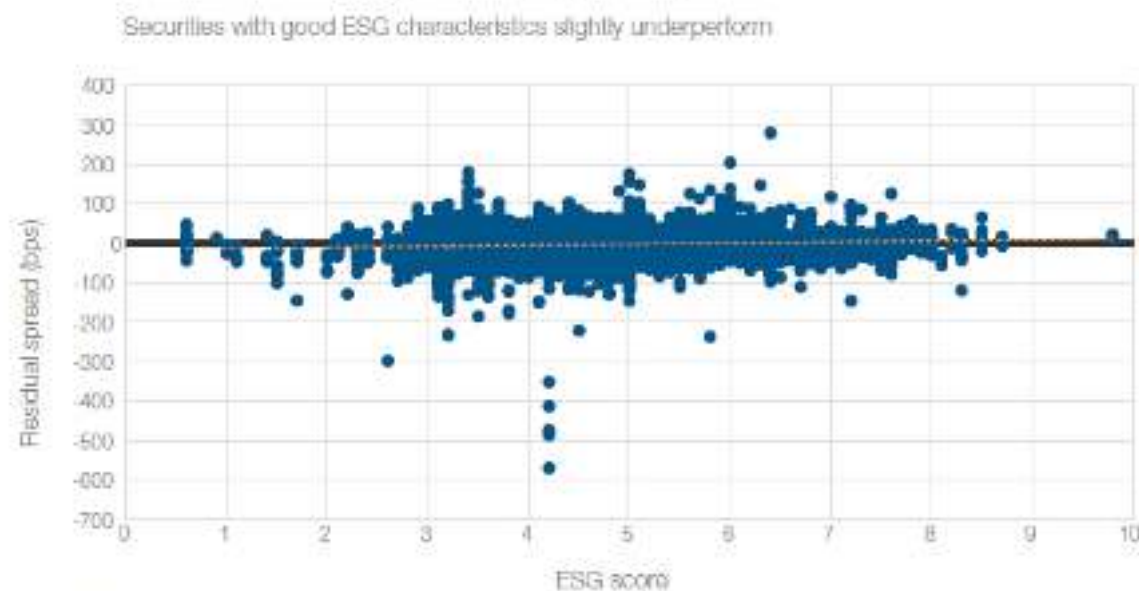
Source: MSCI, Bloomberg Barclays, SAP, December 2016

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Predicative power?

- Do good ESG scores lead to good performance?

Chart 11: Previous ESG score and subsequent OAS change (2014-2016).



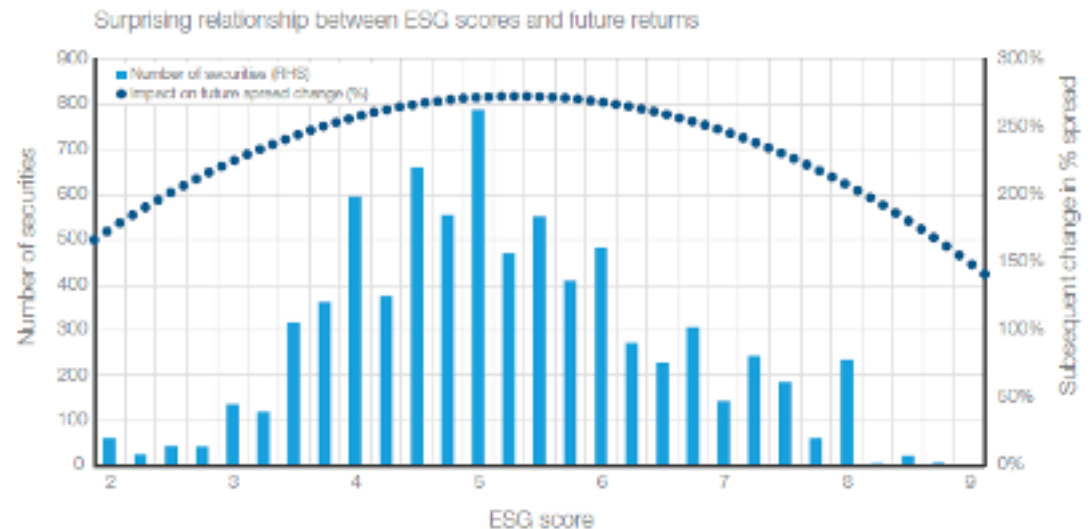
Source: MSCI, Bloomberg Barclays, December 2016

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Chart 17: ESG scores and subsequent spread percentage change (multi-variate regression removes rating impact)

Predicative power?

- Companies who are ESG leaders are rewarded with tighter issuance spreads
- Companies with low ESG scores, with the opportunity for improvement, can experience tighter spreads and improved future returns



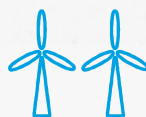
Source: MSCI, Bloomberg Barclays, December 2016

Always mindful of our impact



~100 million people

use Macquarie-managed
essential services daily



12GW+

renewable
energy assets



Carbon neutral

since 2010



\$US254 million

community commitment
since 1985



120,000+ people

employed by
Macquarie-managed assets



**60+ green
energy projects**

under development or
construction



**6-Star Green
Star rating**

Global headquarters



Ethical supply chain
management

**16,000 service
providers**

Questions