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Councilmember District 6

CONSENT CALENDAR  
November 27, 2018

To: Honorable Mayor and Members of the City Council  
 From: Councilmembers Wengraf, Worthington, Droste and Mayor Arreguin  
 Subject: Comprehensive Investment Policy based on ESG Principles

RECOMMENDATION

Refer to the City Manager to consider the integration of ESG (environmental, social and governance) principles into the current City of Berkeley Investment Policy framework and return to Council with a recommendation.

FINANCIAL IMPLICATIONS

Staff time.

BACKGROUND

Responsible investing is widely understood as the integration of environmental, social and governance (ESG) factors into investment processes and decision-making. ESG factors cover a wide spectrum of issues that traditionally are not part of financial analysis, yet may have financial relevance. This might include how corporations respond to climate change, how good they are with water management, how effective their health and safety policies are in the protection against accidents, how they manage their supply chains, how they treat their workers and whether they have a corporate culture that builds trust and fosters innovation.

The term ESG was first coined in 2005 in a landmark study entitled “Who Cares Wins.” The report made the case that embedding environmental, social and governance factors in capital markets makes good business sense and leads to more sustainable markets and better outcomes for societies. At the same time [UNEP/Fi](#) produced the so-called “[Freshfield Report](#)” which showed that ESG issues are relevant for financial valuation. These two reports formed the backbone for the launch of the [Principles for Responsible Investment \(PRI\)](#) at the New York Stock Exchange in 2006 and the launch of the [Sustainable Stock Exchange Initiative \(SSEI\)](#) the following year.

What are environmental, social and governance (ESG) factors?

**Environmental:**

- Climate change – including physical risk and transition risk; resource depletion, including water; and waste and pollution

- Deforestation

Social:

- Working conditions, including slavery and child labor
- Local communities, including indigenous communities
- Conflict
- Health and safety
- Employee relations and diversity

Governance:

- Executive pay
- Bribery and corruption
- Political lobbying and donations
- Board diversity and structure
- Tax strategy

By combining environmental, social, and governance issues with traditional financial factors in the investment decision-making process, ESG investing helps municipalities reap both impact driven and financially prudent results. ESG principles would put Berkeley's values into our investment dollars. ESG principles would include labor standards, greenhouse gas emissions, business ethics, energy usage, gender and racial diversity, executive compensation, etc.

Interestingly, ESG investing drives better risk-adjusted returns. Companies that score higher on ESG factors tend to have stronger principles, which mitigate financial risk, and put those companies in a better position for long-run profitability and stability.

“Through promoting investments in companies that prioritize conservation and sustainable business practices, it helps protect our environment for future generations. Through promoting investments in companies that promote a better quality of life for all of us, it helps create a more equitable, just corporate eco-system and world. And through promoting investments in companies with strong corporate governance, it helps promote sound and representative management practices.” (*Chicago's ESG Investing Initiative, Feb 2018*)

In the past the Council has made changes to the City's Investment Policy to make our investments more socially responsible, such as the oppressive states resolution, divesting from private prisons and publicly traded fossil fuel companies. The ESG based Investment Policy initiative would be coordinated into the City's next Investment Policy

update in 2019 and would provide a broad, and comprehensive framework for our investment strategies.

The City of Chicago has recently adopted an [ESG Investing Initiative](#) and other cities are following.

ENVIRONMENTAL SUSTAINABILITY

Investments made with ESG principles would support Berkeley's environmental sustainability goals.

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