

DEC 2022 | ISSUE ONE

ENVIRONMENTAL SOCIAL & GOVERNANCE questionnaire results



**PUBLIC AND
PRIVATE MARKETS
RESEARCH TEAMS**

INTRODUCTION

Meketa Investment Group developed an Environmental, Social, & Governance (“ESG”) Firm Reporting Questionnaire for Investment Managers to complete as part of their annual reporting responsibilities. It includes questions about ESG considerations at the organizational (firm) level. Answers to these questions help us understand how ESG filters down from organizational policies to everyday investment decision-making.

In this analysis, we discuss the results of our inaugural ESG questionnaire from the responses we received.

Out of 828 firms who received the questionnaire, 494 responded¹. The questionnaire was constructed in three sections: (1) Policy and Internal Resources, (2) Active Ownership, and (3) Governance. In this report, we will summarize our findings from the questionnaire and conclude with recommendations for asset managers that could serve as differentiators in the future.

Methodology: The questionnaire was distributed to all asset managers in our proprietary database. Surveys were distributed via email in May 2022. Asset managers completed the questionnaire with best available data. Responses were collected from May 11th, 2022 through June 17th, 2022. Please note, not every firm responded to every question.

**Note that size bias and respondent bias likely impact these results, with firms more focused on ESG initiatives opting to respond to the questionnaire.

Overview of Respondents

- Our survey stretched across five continents with the majority of the responses coming from North America, followed by Europe.
- Of the 494 firms that responded, 412 were privately-owned, 79 were publicly owned and three firms identified as both.
- While there were five times more privately-owned firms accounted for in the survey, the assets under management (AUM) is nearly an even split between private and public.

Public or Private Firm?	Sum of Firm AUM \$B	Number of Firms
Private	44,162	412
Asia	341	7
Australia	144	3
Europe	10,834	38
North America	32,841	363
South America	1	1
Public	39,494	79
Europe	4,634	12
North America	34,860	67
Public and Private	525	3
North America	525	3
Grand Total	84,182	494

FIGURE 1
FIRM COMPOSITION

Source: Meketa Investment Group 2022 Questionnaire.



SECTION I POLICY AND INTERNAL RESOURCES

KEY TAKEAWAYS

- 84% of all firms responded that they had a documented sustainable/responsible/ ESG investment policy. However, only 75% of that subset provided documentation for their policy.
- 75% of public firms issue reports regarding their firms ESG activities, exposure and/or impact, while private firms trail in reporting, at only 61%.
- By AUM, 83% of assets participate as Principles for Responsible Investment (“PRI”) signatories, 70% follow Task Force on Climate-Related Financial Disclosures (“TCFD”) guidelines, and 54% use the Sustainable Accounting Standards Board (“SASB”) standards framework.
- Asset managers see regulatory and litigation risk as the biggest risks to implementing ESG investment strategies for their clients.

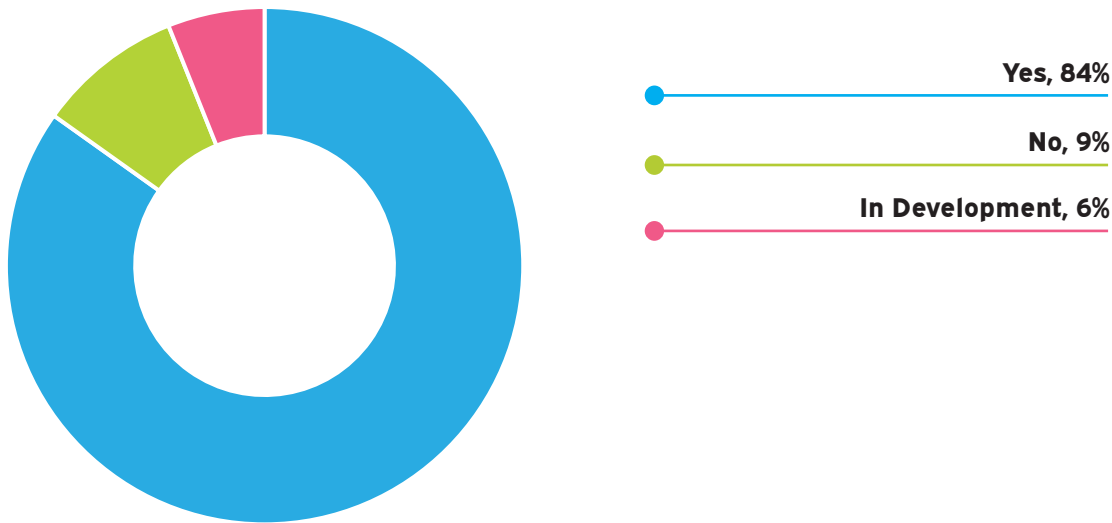


FIGURE 2
DOES THE FIRM HAVE A DOCUMENTED SUSTAINABLE/ RESPONSIBLE/ ESG INVESTMENT POLICY?

Source: Meketa Investment Group 2022 Questionnaire.

Note: Due to rounding, numbers presented throughout this document may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures.

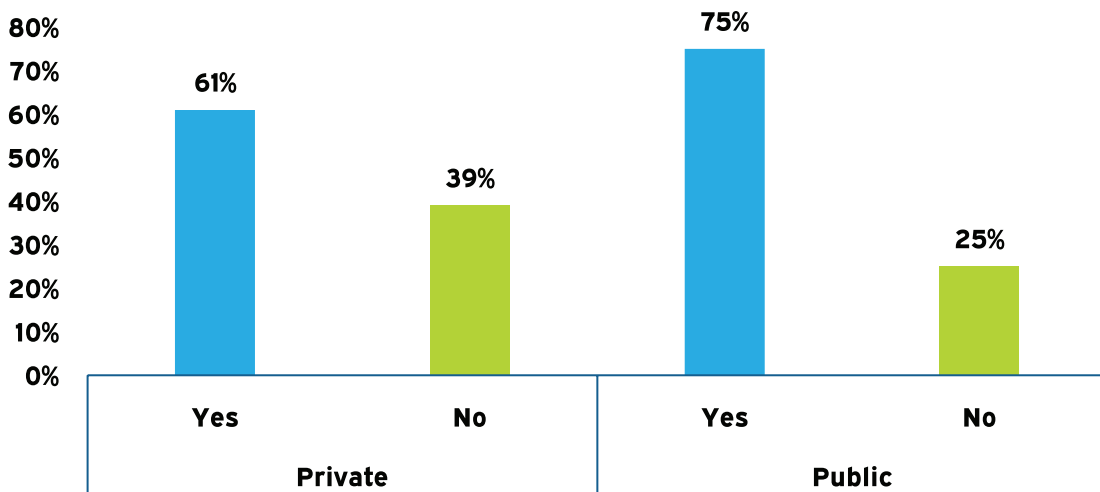


FIGURE 3
DOES THE FIRM PROVIDE CLIENTS AND/OR EXTERNAL PARTIES REPORTS REGARDING YOUR FIRM’S ESG ACTIVITIES, EXPOSURE AND/OR IMPACT?

Source: Meketa Investment Group 2022 Questionnaire.

SUSTAINABLE INVESTMENT INITIATIVES

When analyzing participation or collaboration with various sustainable investment initiatives the following was found:

- By AUM, 83% of assets participate as PRI signatories and 54% use the SASB framework.
- By firm count, 67% are PRI signatories, 37% selected "Other", and 25% use the SASB framework.
- Also, by AUM, 70% of company assets follow TCFF guidelines and 48% follow Climate Action 100+, compared to 33% and 15% by firm count, respectively. This finding highlights the differences in resources based by company size.

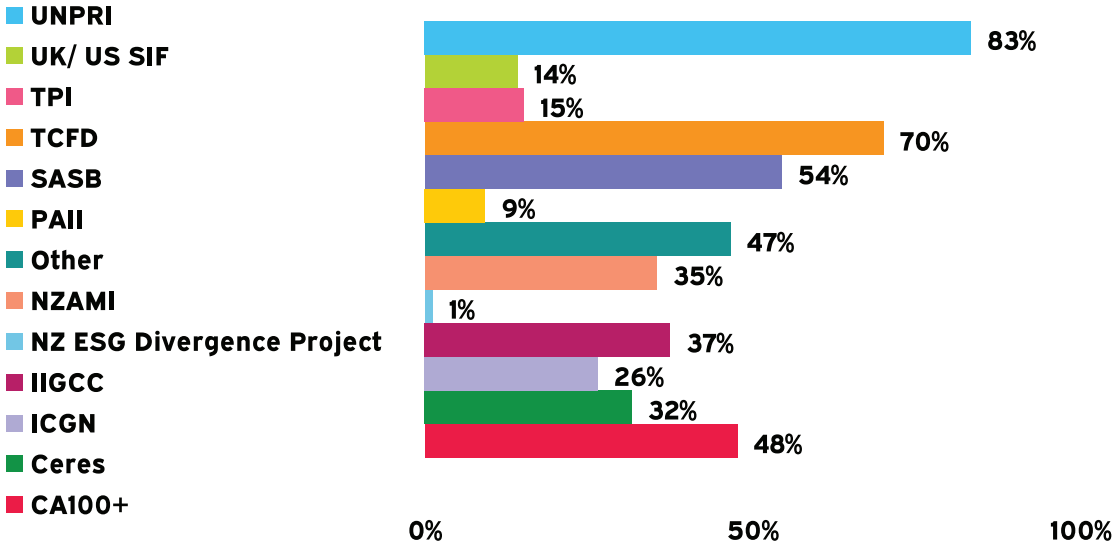


FIGURE 4
PERCENTAGE BY FIRM AUM

Source: Meketa Investment Group 2022 Questionnaire.

Note: Check your participation or collaboration with any of the below sustainable investment initiatives.

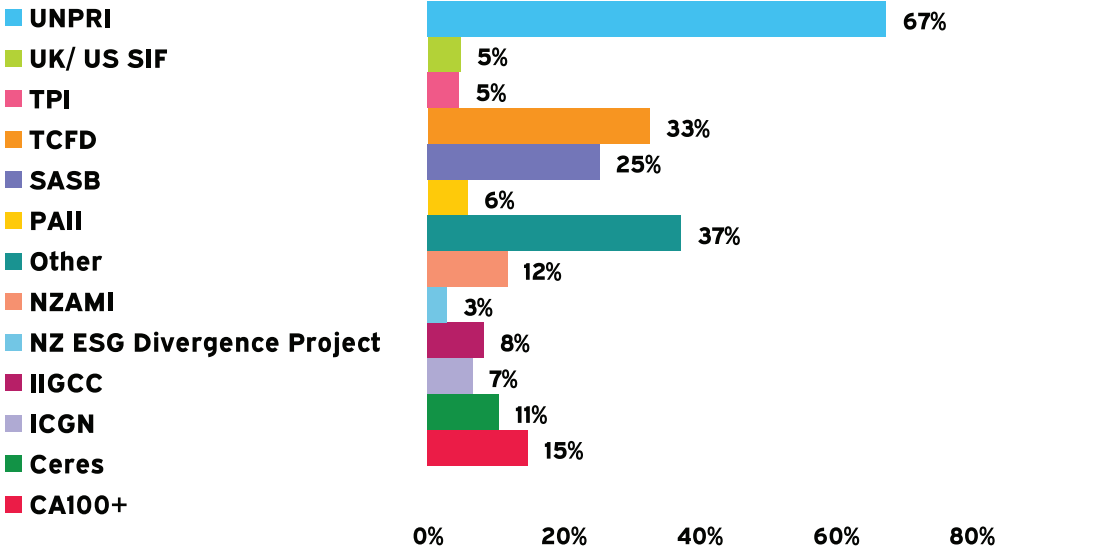


FIGURE 5
PERCENTAGE BY FIRM COUNT

Source: Meketa Investment Group 2022 Questionnaire.

Note: Check your participation or collaboration with any of the below sustainable investment initiatives.

PRINCIPLES OF RESPONSIBLE INVESTMENT RATINGS

While nearly 66% of firms confirmed participation under PRI, 46% did not provide their rating. This is likely due to many managers becoming recent signatories who have yet to undergo a full reporting cycle and so have not yet received their rating. In addition, according to the PRI, reporting framework changes have caused the next reporting cycle to be delayed until 2023.

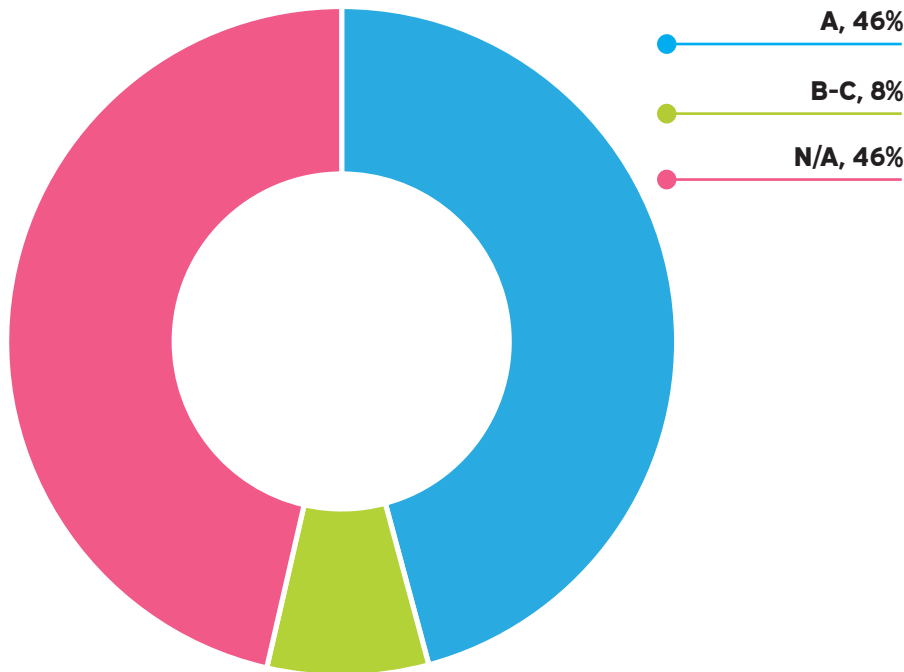


FIGURE 6
WHAT RATING DID YOU RECEIVE ON YOUR LATEST PRINCIPLES FOR RESPONSIBLE INVESTMENT (PRI) REPORT?

Source: Meketa Investment Group 2022 Questionnaire.

CLIMATE CHANGE RISKS

Asset managers view regulatory risks as the highest threat to implementing climate change strategies for clients at 68%, this is followed by litigation risks at 61%. Transition risk to a Low Carbon Economy is considered by 51% of firms, while 59% of firms assess physical risks. Additional commentary highlighted that managers use TCFD-aligned analysis and science-based targets to monitor and track progress across their client portfolios. However, while firms may pay attention to these factors, this may not apply to all strategies, such as passive equity strategies.

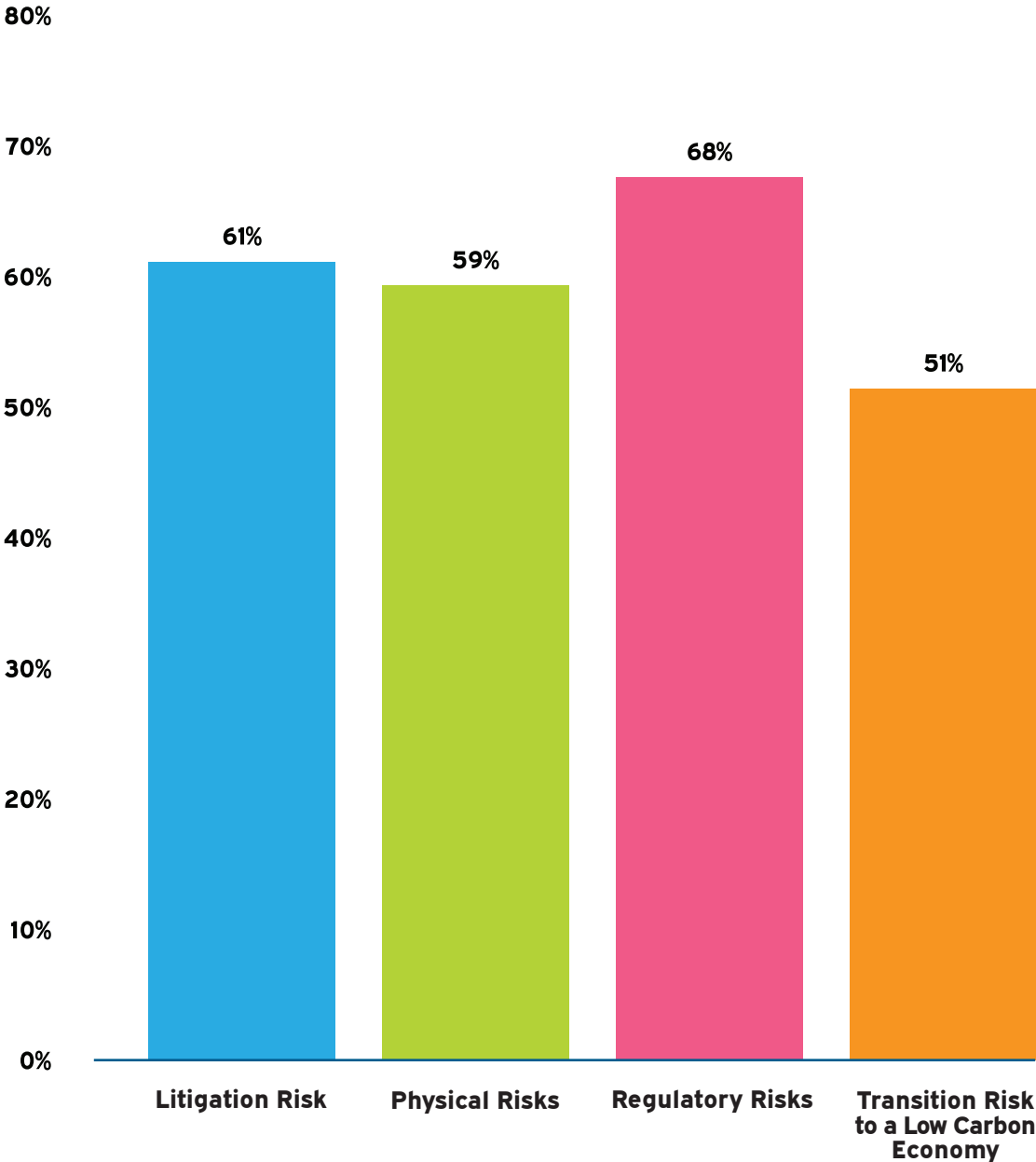


FIGURE 7
WHICH OF THE FOLLOWING DOES THE FIRM CONSIDER REGARDING ALL NEW AND EXISTING INVESTMENTS?
Source: Meketa Investment Group 2022 Questionnaire.



SECTION II ACTIVE OWNERSHIP

KEY TAKEAWAYS

- The preferred escalation strategy asset managers use to influence or engage with a company's ESG strategy is private engagement, followed by exclusion from the portfolio. The least utilized method is naming and shaming, with strategic litigation closely following.
- In terms of shareholder proposals, asset managers responded 75% in support of management decisions.
- Shareholder resolutions filed in 2021 centered on diversity reporting, such as publishing an Equal Employment Opportunity-1 report annually, reports on assessing human rights within the supply chain, and reports on business with conflict-complicit governments and corporate political activities since the January 6th, 2021 insurrection in the United States.
- Additional resolutions focused on ESG topics included, asset manager filed climate resolutions requesting improved data on the role of carbon emission offsets, setting credible emissions reduction targets, and disclosing plans to achieve those targets.
- 34% of firms disclose their proxy voting results to the public.
- 61% of asset managers have internally developed proxy voting guidelines, 9% develop unique adjustments to external providers' guidelines, 11% delegate voting decisions to a service provider, and 19% have no guidelines or utilize a third-party service.

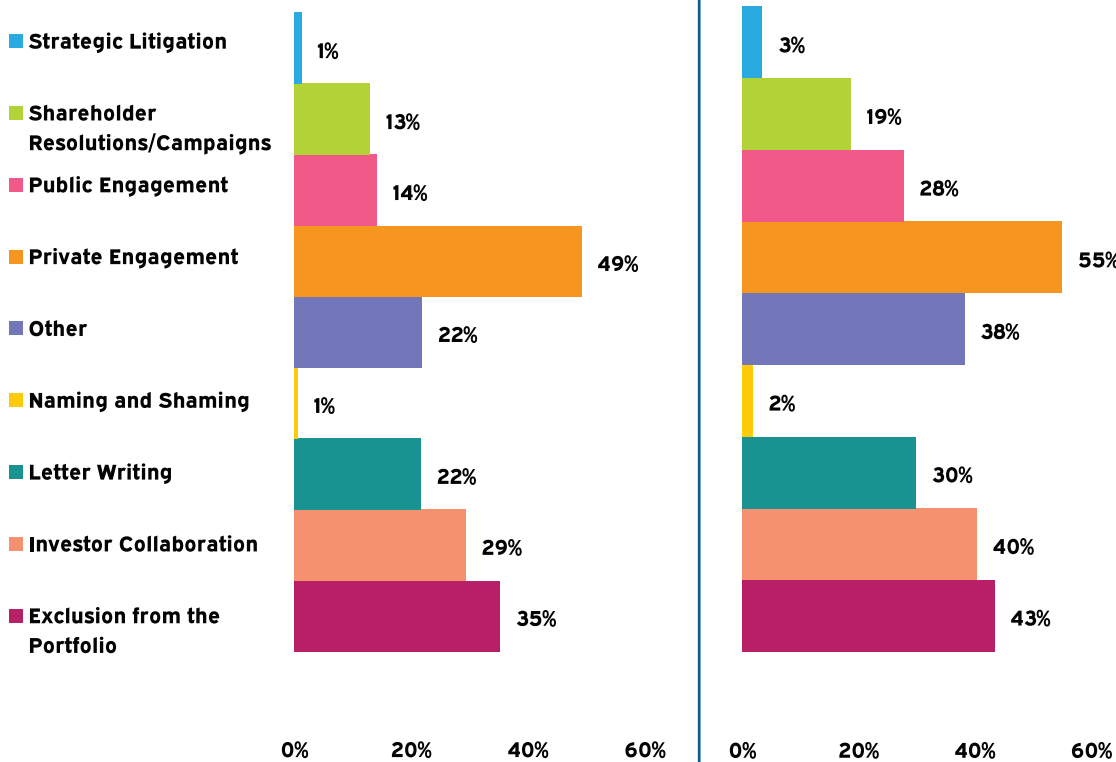


FIGURE 8 (LEFT)
WHICH STEWARDSHIP ESCALATION STRATEGIES DOES THE FIRM HAVE IN PLACE TO FURTHER INFLUENCE/ENGAGE WITH COMPANIES? (BY NUMBER OF FIRMS)

Source: Meketa Investment Group 2022 Questionnaire.

FIGURE 9 (RIGHT)
WHICH STEWARDSHIP ESCALATION STRATEGIES DOES THE FIRM HAVE IN PLACE TO FURTHER INFLUENCE/ENGAGE WITH COMPANIES? (BY FIRM AUM)

Source: Meketa Investment Group 2022 Questionnaire.

SHAREHOLDER RESOLUTIONS

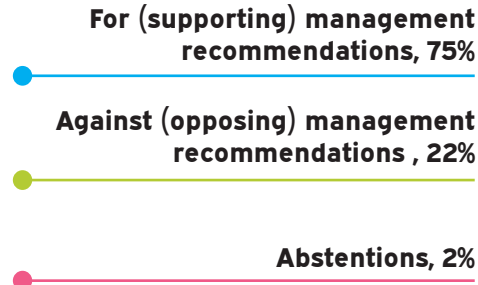
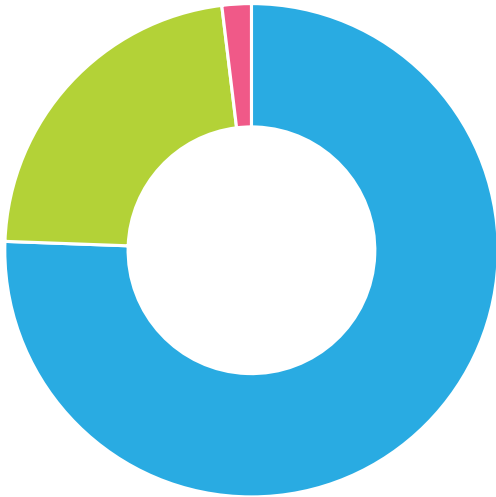


FIGURE 10
BREAKDOWN OF SHAREHOLDER PROPOSALS

Source: Meketa Investment Group 2022 Questionnaire.

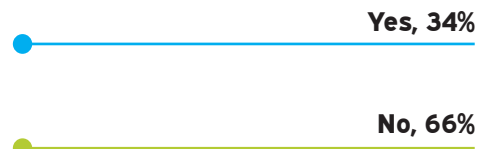


FIGURE 11
DOES THE FIRM DISCLOSE PROXY-VOTING RESULTS TO THE PUBLIC?

Source: Meketa Investment Group 2022 Questionnaire.

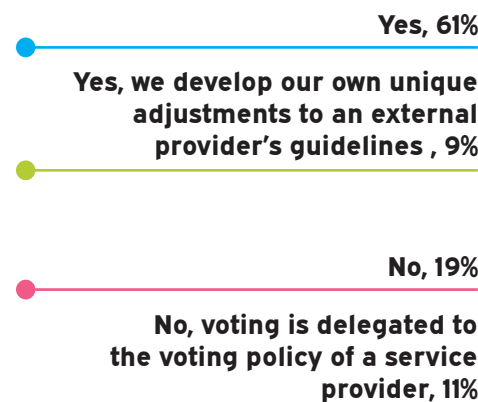
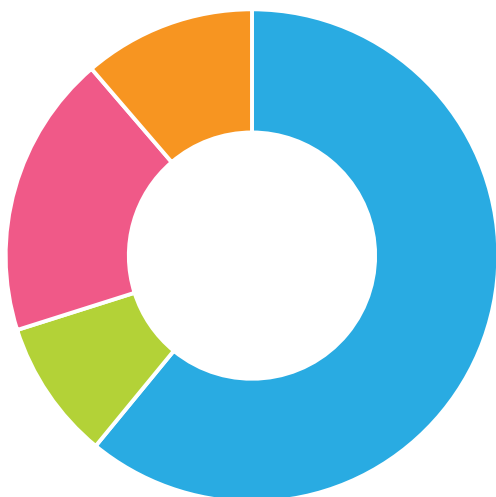


FIGURE 12
DOES THE FIRM HAVE INTERNALLY DEVELOPED PROXY-VOTING GUIDELINES?

Source: Meketa Investment Group 2022 Questionnaire.



SECTION III GOVERNANCE

KEY TAKEAWAYS

Asset managers must navigate an increasing number of elaborate cybersecurity threats stemming from the pandemic and geopolitical tensions as these threats pose brand, financial, and regulatory risks. Our survey found that over 90% of firms require annual information security and compliance training.

A critical element of the asset management industry is its ability to issue accurate financial statements and effective internal controls are essential to provide conviction regarding the reliability of financial reporting. On a positive note, 97% of firms have not experienced a material weakness in internal controls in the past two years.

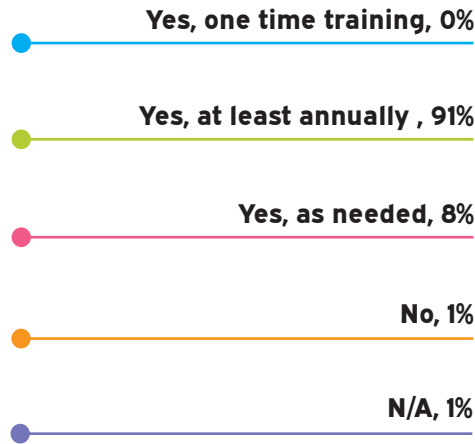
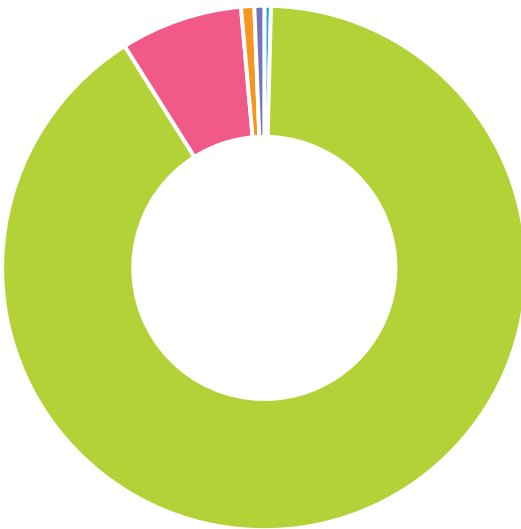


FIGURE 13
DOES THE FIRM HAVE AN INFORMATION SECURITY TRAINING AND COMPLIANCE PROGRAM?
 Source: Meketa Investment Group 2022 Questionnaire.

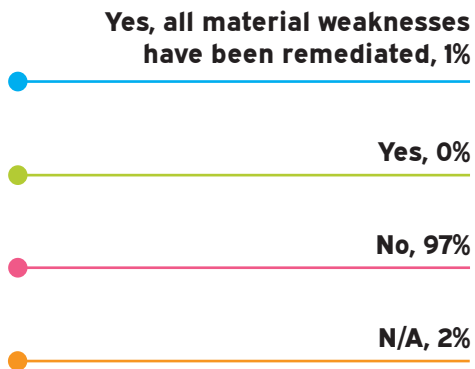
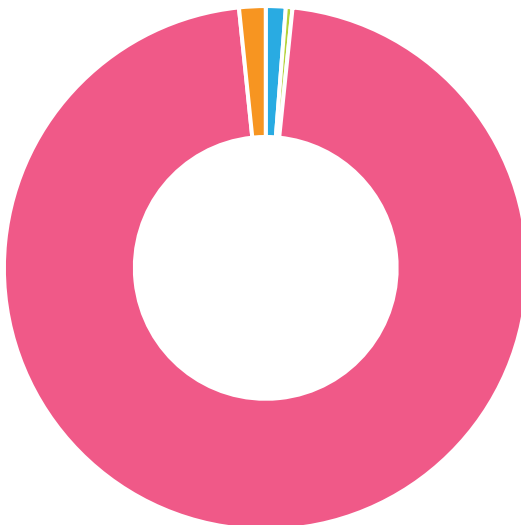


FIGURE 14
HAS THE FIRM EXPERIENCED ANY MATERIAL WEAKNESSES IN ITS INTERNAL CONTROLS IN THE PAST TWO YEARS?
 Source: Meketa Investment Group 2022 Questionnaire.



SUMMARY CONCLUSIONS

Meketa recognizes ESG as a long-term, integrated component of our due-diligence process and understands that size can affect a firm's ability to dedicate time and resources.

With 2022 marking our first ESG Firm Questionnaire, we expect to see progress in reporting and greater participation in the questionnaire over time. Meketa anticipates evolving the survey by continually refining questions in future iterations.

Asset managers may continue to differentiate themselves by focusing on the following areas:

- ESG starts from the top down. Successful managers will have ESG principles engrained in the firm's culture and philosophy.
- Utilize metrics or key performance indicators (KPIs) to make your methodology measurable, particularly on climate issues or DEI.
- Incorporate forward-looking metrics when assessing the firm's material factors.
- Publish proxy voting results to showcase transparency and consistency across decision-making.
- Collaborate across the industry to improve standards on critical ESG issues.

In 2023, Meketa plans to release a strategy-level ESG questionnaire. The questionnaire will provide additional insight into each strategy's impact and methodology as well as to establish more precise client alignment.

CONTACT US

If you want to learn more, or access Meketa's library of white papers and economic research, please contact us or visit <https://meketa.com/thought-leadership/>.

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