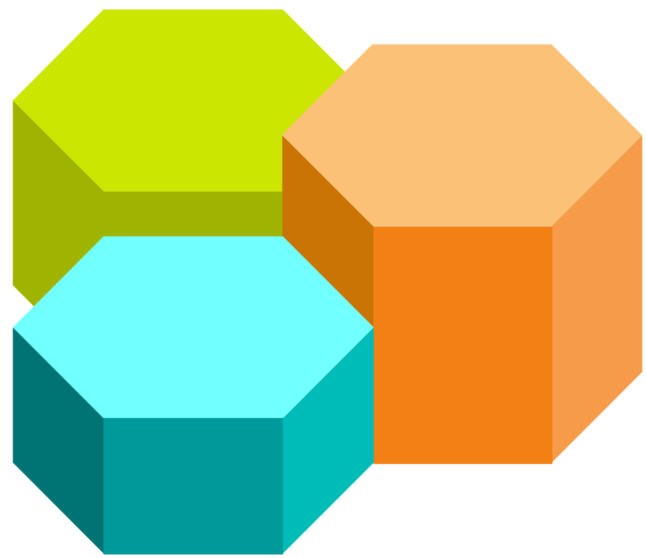
Callan Institute

Research

2022 ESG Survey



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Key Findings

Callan's 10th annual *ESG Survey* presents trends on environmental, social, and governance (ESG) adoption by U.S. institutional investors. The results reflect input from 109 unique organizations.

35% incorporated ESG factors into the investment decision-making process (lower than last year).

See page 5 for details

50% of respondents that incorporated ESG did so to meet their fiduciary responsibility.

See page 18 for details

47% of respondents not incorporating ESG indicated it was because the benefits were unproven or unclear.

See page 19 for details

53% foundation

47% endowment

26% corporate

24% public

See page 7 for details

IPS

73% of respondents incorporating ESG added language to the investment policy statement.

See page 13 for details

53% of investors in the Northeast region incorporated ESG factors into investment decisions.

See page 9 for details

Manager Implementation: Integration

75% of those that incorporated ESG considered ESG factors with every investment / manager selection.

See page 14 for details

Respondent Overview: Public Plans Represent the Largest Investor Type

109

institutional investors responded to the survey.

30%

of respondents were endowments or foundations, down from 38% in 2021's survey.

7%

of respondents were defined contribution (DC) or defined benefit (DB) plans associated with nonprofit organizations. These are distinct from endowment and foundation asset pools.

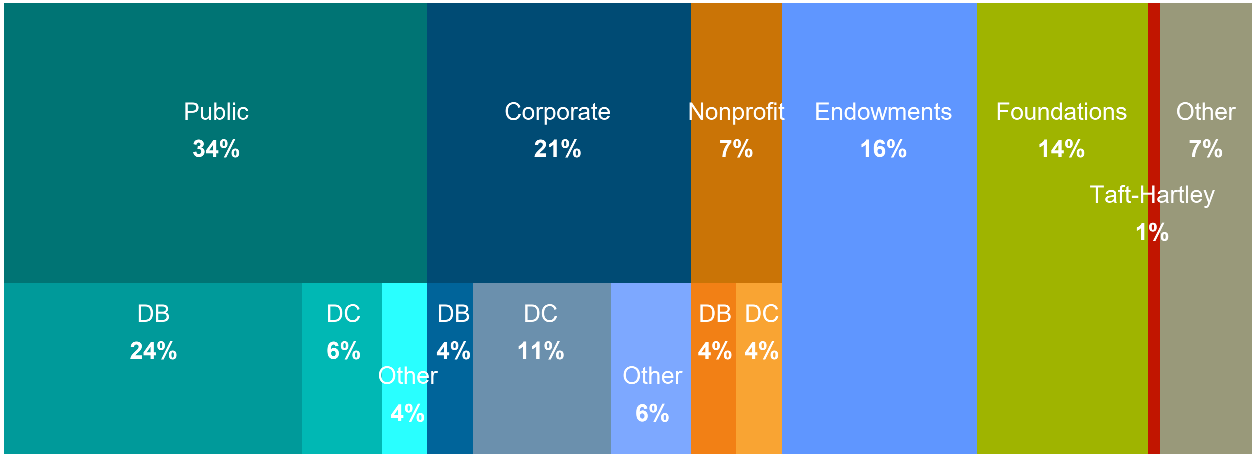
34%

of respondents were public plans, either DB or DC plans, down slightly from 35% in 2021.

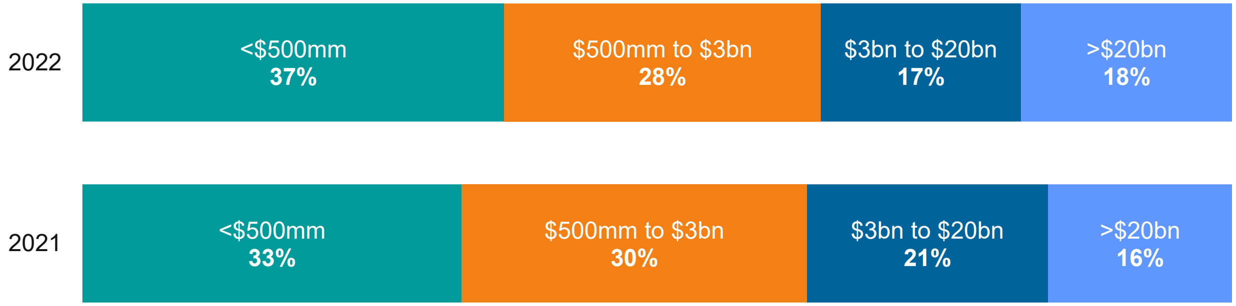
35%

of respondents had $3bn or more in assets. Medium-sized and smaller institutional investors were also well-represented.

Respondents by Type



Respondents by Size

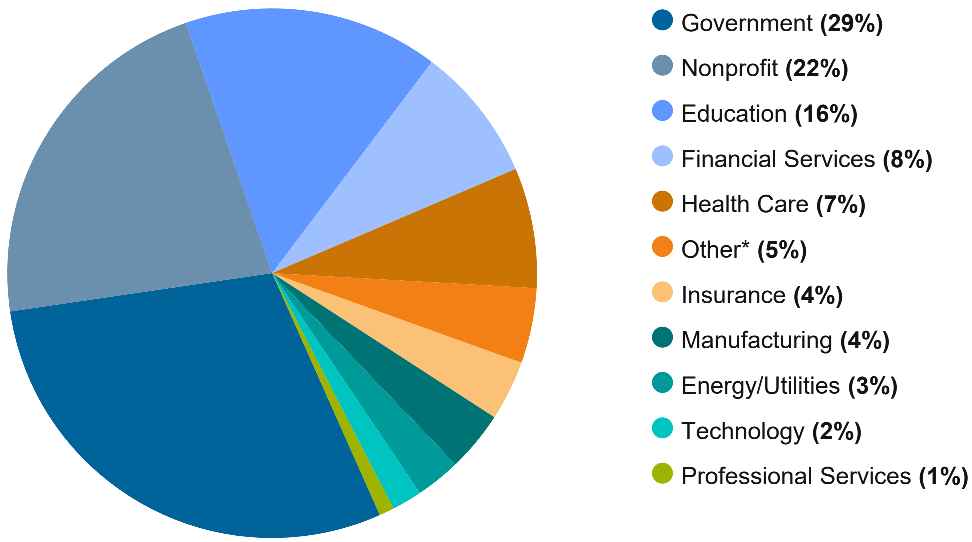


Note: Charts in this report may not sum to 100% due to rounding.

Respondents by Sector: Nonprofits Have Highest Rate of Incorporation

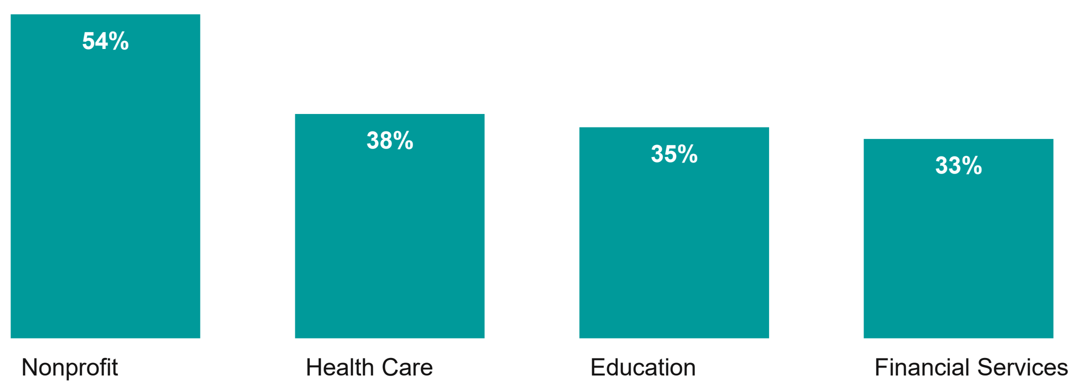
The largest share of respondents came from the government sector (29%), followed by the nonprofit (22%) and education (16%) sectors.

Respondents by Sector



Looking at ESG incorporation rates by sector, nonprofit respondents had the highest rates of adoption at 54%.

Sectors with Highest Rates of ESG Incorporation



*Other category includes: retail, entertainment, and faith-based organizations.

ESG Adoption Rates: Down from 2021

35%

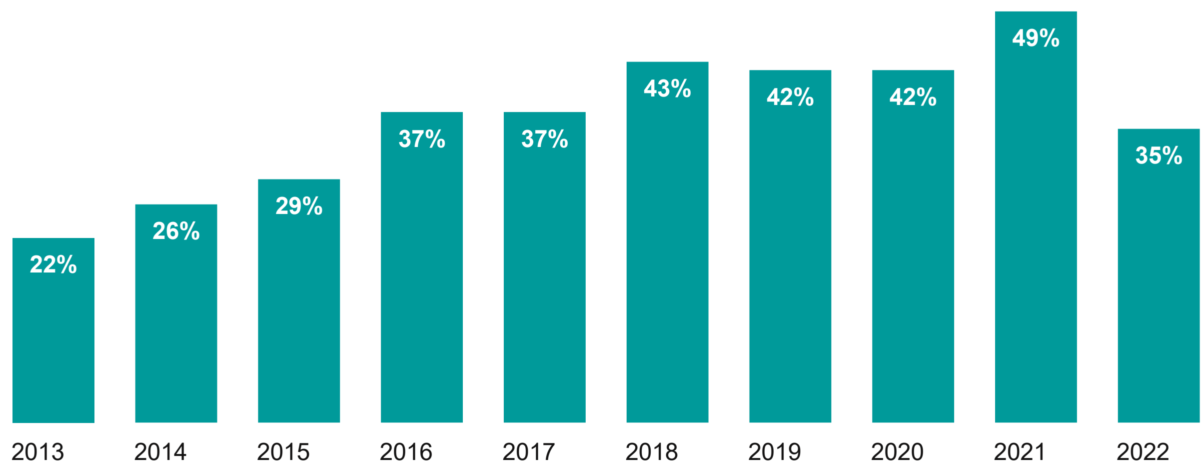
of respondents incorporated ESG factors into investment decisions, down from 49% in 2021.

6%

of respondents indicated they were unsure about their incorporation of ESG factors. This may be an indicator of ongoing discussions and debate about ESG, but decreased clarity on a categorical yes or no.

ESG Incorporation

ESG Adoption Over History of the Survey



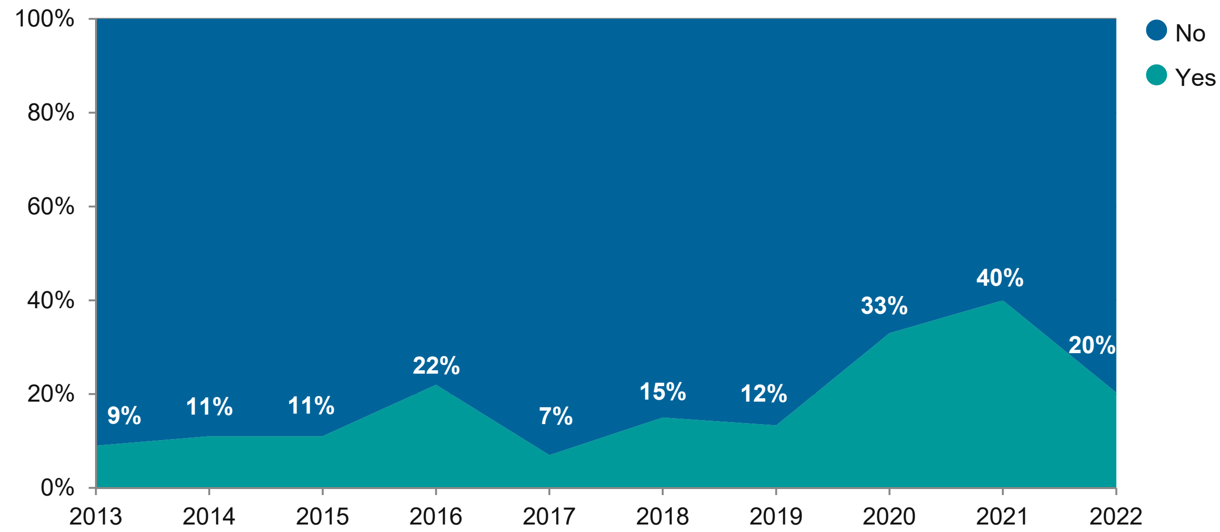
Considering ESG Incorporation: Decline From 2021

20%

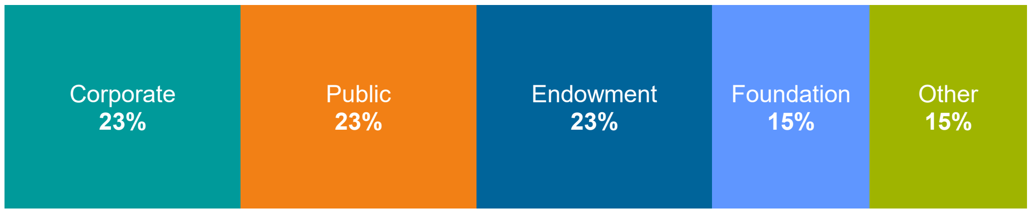
of respondents that had not yet incorporated ESG into investment decisions were considering doing so.

This figure has fluctuated prior to 2020, at which point we observed a spike, but that appears to have moderated this year. However, the percentage of plans considering ESG incorporation remains at a higher level than most years prior to 2020.

Share of Respondents Considering ESG Incorporation



Share of Respondents Considering ESG Incorporation by Investor Type



ESG Incorporation by Investor Type: Foundations in the Lead

53%

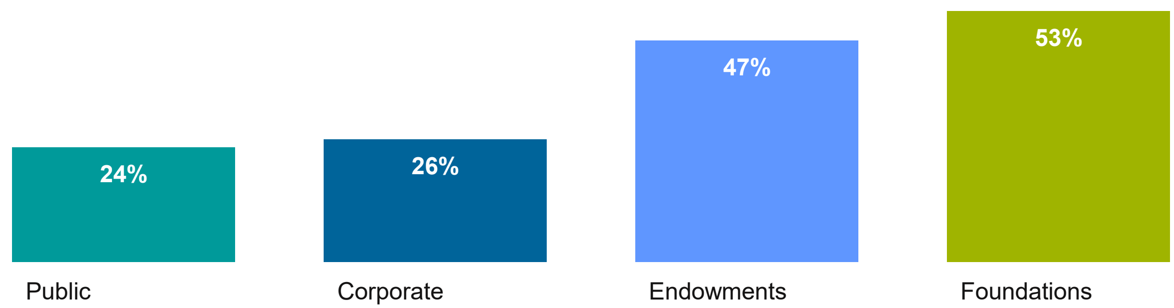
of foundations incorporated ESG factors into investment decisions. In 2022, this group had the highest adoption rate.

26%

of corporate plans incorporated ESG factors into investment decisions, an increase from 20% in 2021.

We also observe that while most plan types have had some consistency in adoption rates over the past few years, public plans have varied and had the most significant change from 2021 to 2022. The decline in ESG adoption for public plans from 63% to 24% was the biggest driver of the overall decline in 2022.*

ESG Incorporation by Investor Type



By Investor Type Over Last Seven Years

2016	2017	2018	2019	2020	2021	2022
Endowment **53%**	Foundation **56%**	Foundation **64%**	Endowment **58%**	Endowment **63%**	Public **63%**	Foundation **53%**
Foundation **48%**	Endowment **39%**	Endowment **56%**	Public **49%**	Foundation **57%**	Foundation **57%**	Endowment **47%**
Corporate **30%**	Public **35%**	Public **39%**	Foundation **44%**	Public **36%**	Endowment **50%**	Corporate **26%**
Public **25%**	Corporate **25%**	Corporate **20%**	Corporate **19%**	Corporate **32%**	Corporate **20%**	Public **24%**

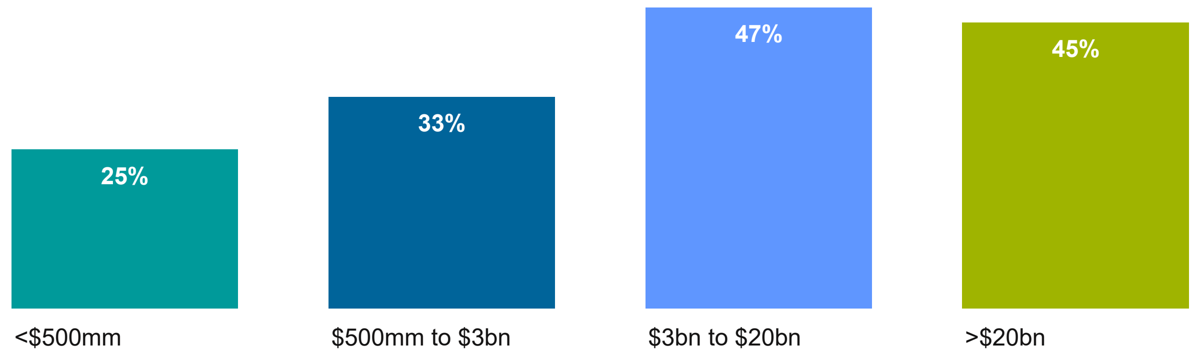
*Callan is not able to survey all the same plans year over year, potentially leading to variances in responses.

ESG Incorporation by Size: Larger Funds Have Higher Implementation Rates

47%

of mid- to large-sized institutional investors ($3bn to $20bn) incorporated ESG factors into investment decisions, the highest by investor size.

ESG Incorporation by Investor Size



Larger investors had ESG incorporation rates above 40%, while smaller ones were under 35%. This may be attributed to larger investors typically having the most resources to dedicate to ESG incorporation and being under high levels of stakeholder scrutiny.

By Investor Size Over Last Seven Years

2016	2017	2018	2019	2020	2021	2022
>$20bn **71%**	>$20bn **78%**	>$20bn **72%**	>$20bn **50%**	$500mm to $3bn **55%**	>$20bn **72%**	$3bn to $20bn **47%**
<$500mm **39%**	$500mm to $3bn **42%**	<$500mm **47%**	$500mm to $3bn **50%**	>$20bn **47%**	$3bn to $20bn **50%**	>$20bn **45%**
$3bn to $20bn **33%**	<$500mm **30%**	$3bn to $20bn **33%**	<$500mm **38%**	$3bn to $20bn **43%**	$500mm to $3bn **47%**	$500mm to $3bn **33%**
$500mm to $3bn **29%**	$3bn to $20bn **22%**	$500mm to $3bn **28%**	$3bn to $20bn **35%**	<$500mm **26%**	<$500mm **41%**	<$500mm **25%**

ESG Adoption Rates by Region: Northeast the Top Area

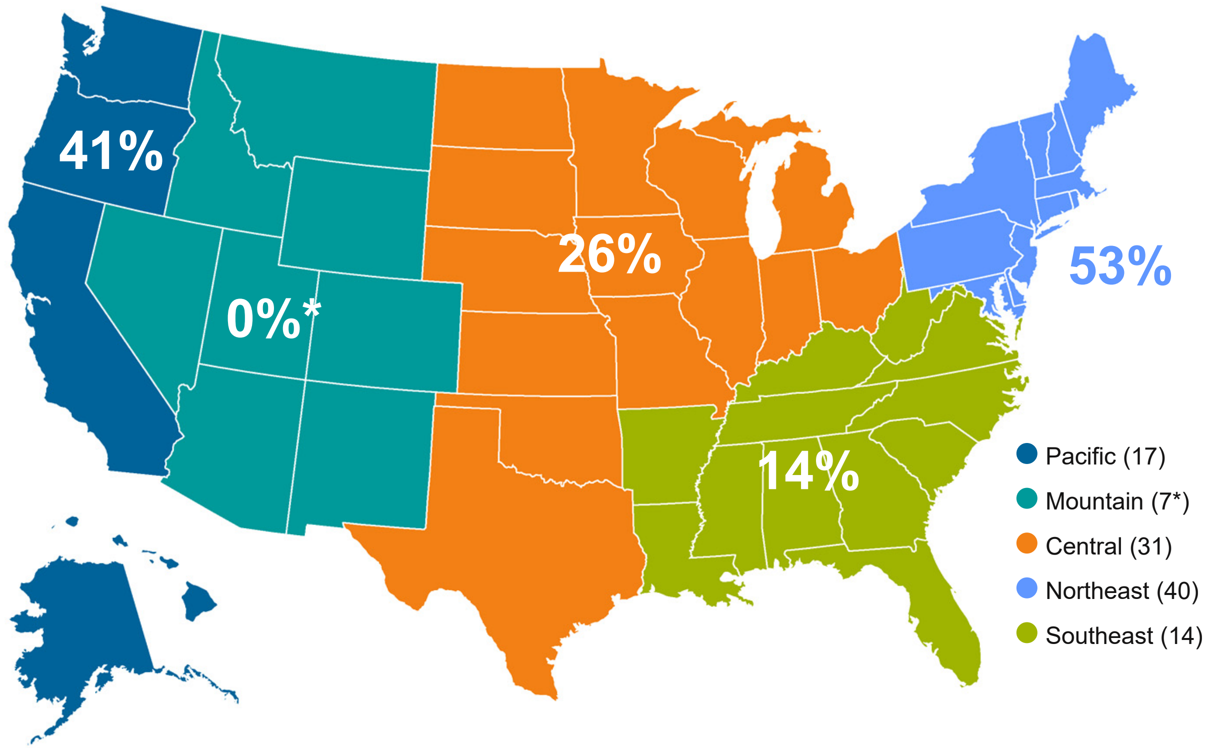
53%

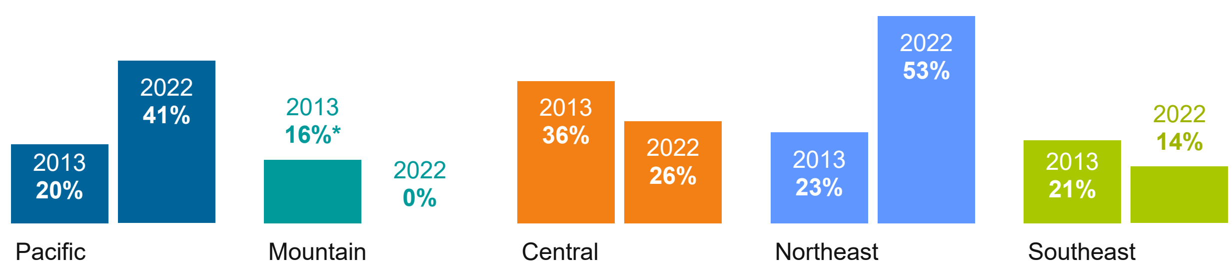
of investors in the Northeast region surveyed in 2022 incorporated ESG into investment decisions. Pacific region investors had the second highest rate at 41%.

We observe increasingly polarized ESG policies at the state and municipal levels. There are both states requiring ESG incorporation by public plans and states banning ESG incorporation in various forms.

Since 2013, the Pacific and Northeast regions have also seen the largest increase in ESG adoption, with adoption rates more than doubling for both.

Regional Breakdown of ESG Incorporation





*Note the small sample size

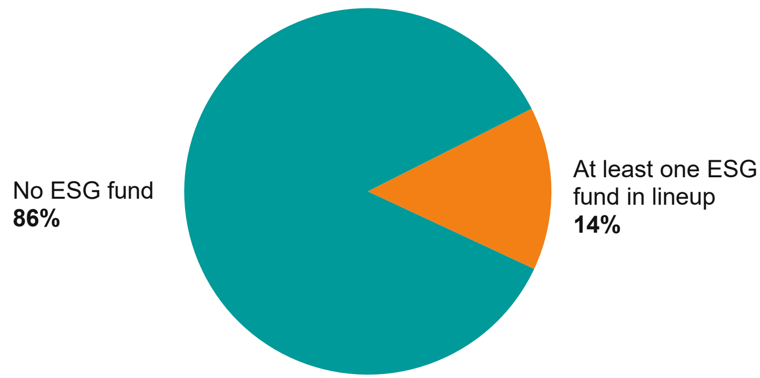
ESG and DC Assets: Adoption Relatively Low

Despite increases in ESG interest within the institutional investing community, data from the Callan DC Index™ signal that defined contribution (DC) plan adoption of dedicated ESG options is still relatively low. However, this lack of dedicated ESG fund adoption masks the increasing interest in assessing all DC plan managers' ESG integration.

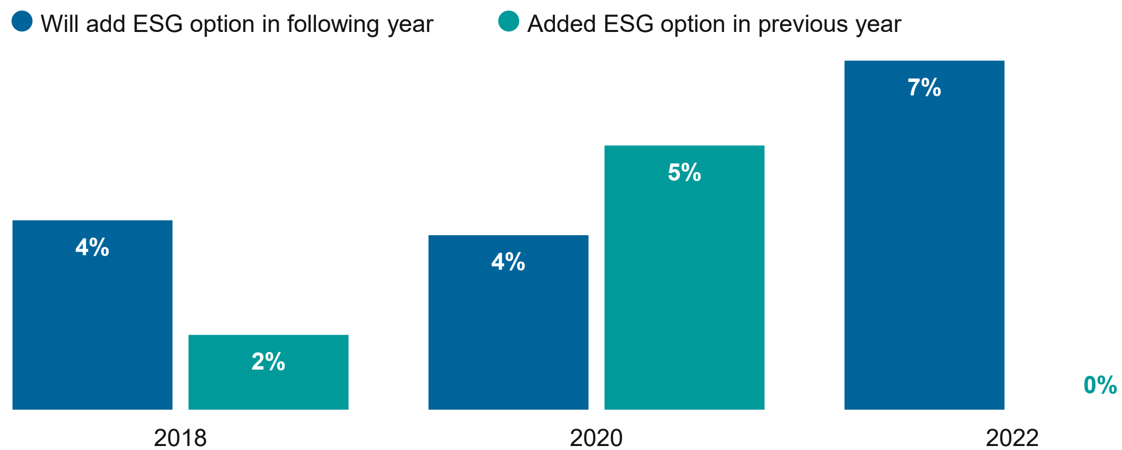
According to Callan's DC Index, around 14% of DC plans offered a dedicated ESG option. While 25% of non-corporate DC plans offered a standalone option, only 4% of corporate DC plans did. In addition, utilization for all sponsor types remained low. Allocations ranged from 0.3% to 8.6% of total plan assets, with an average allocation of 2.7%.

According to Callan's *2022 DC Trends Survey,* 7% of plan sponsors expect to add an ESG option next year, up from 4% in 2020. In addition, 31% of DC plans will consider adding an ESG fund to their plan.

Callan DC Index: Prevalence of at Least One ESG Fund in Plan Lineup



Callan DC Trends Survey: ESG Option



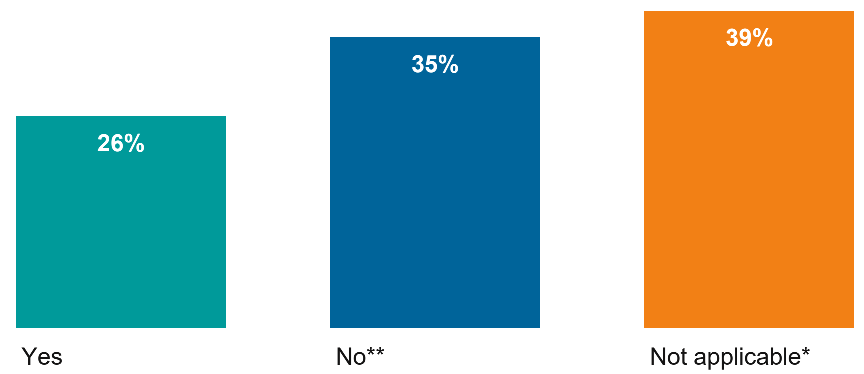
Sources: Callan *2022 DC Trends Survey,* Callan DC Index, 2Q22.

Separate ESG Allocation: Not a Common Approach

26%

of investors that have incorporated ESG factors into the investment decision-making process made a distinct allocation to ESG investing. It was more common for investors to not maintain a separate allocation and incorporate ESG into every manager selection.

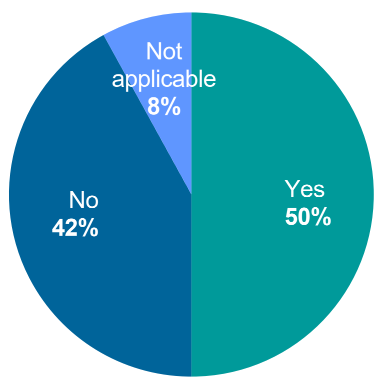
Separate From the Main Portfolio



50%

of E&F respondents incorporating ESG maintained a separate portfolio that is 100% dedicated to ESG / impact investing for donors who desire this strategy.

Endowment / foundation respondents that maintained a separate, 100% dedicated ESG / impact portfolio for donors



*Do not currently have a distinct ESG allocation/sleeve but ESG is incorporated into investment decision-making and/or manager selection

** ESG allocation/assets are not separate from the total portfolio

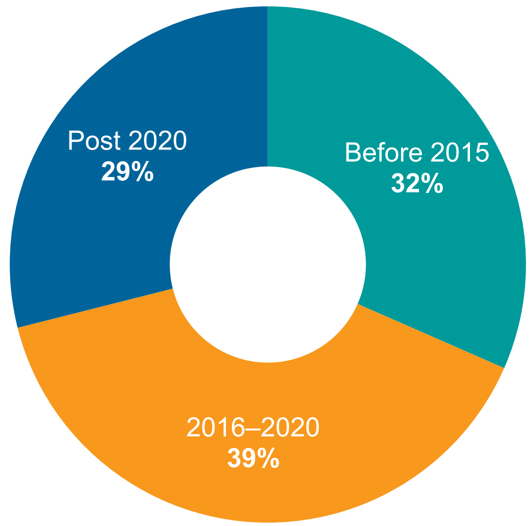
ESG Adoption Over Time: Two-Thirds Started in Last Seven Years

When Respondents First Incorporated ESG Factors

Incorporating ESG factors was a relatively new phenomenon for many survey respondents.

Over 2/3

of investors that incorporated ESG began doing so in the past seven years (2016-present). Additionally, 29% of respondents began incorporating ESG in just the last two years.



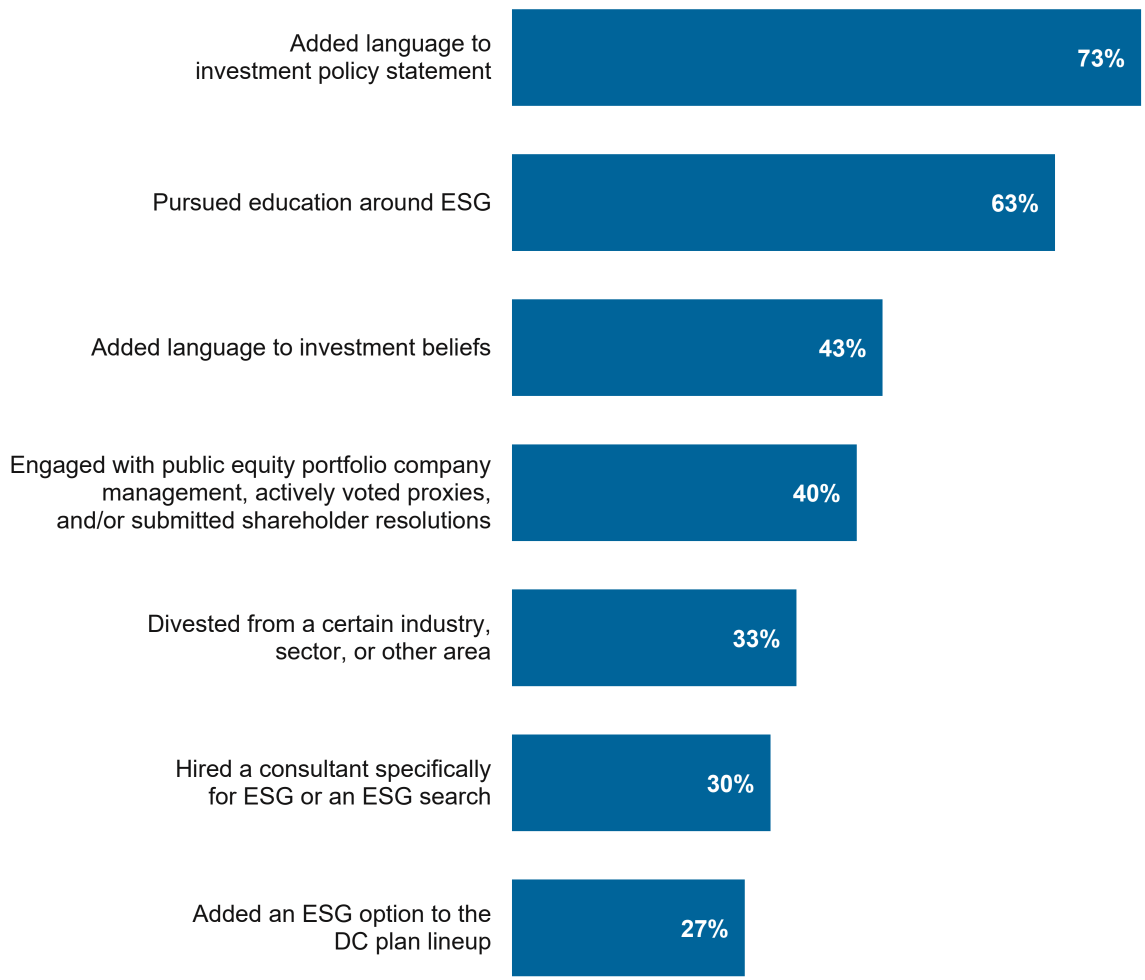
ESG Implementation: Adding IPS Language the Most Common Approach

In our survey, we delineate two different methods of ESG implementation:

1. ESG inclusion in the investment decision-making process
2. ESG adoption into the manager selection process

In the overall fiduciary decision-making process, the most common form of ESG integration was incorporating language in the investment policy statement (IPS) at 73% of respondents, which is the first governance step to ESG integration that Callan recommends after education (63% of respondents) and prior to pursuing implementation. Some investors also maintained separate investment belief statements, and including an ESG belief statement or belief statements was also a relatively common approach (43%).

How Investors Incorporate ESG in the Investment Decision-Making Process*



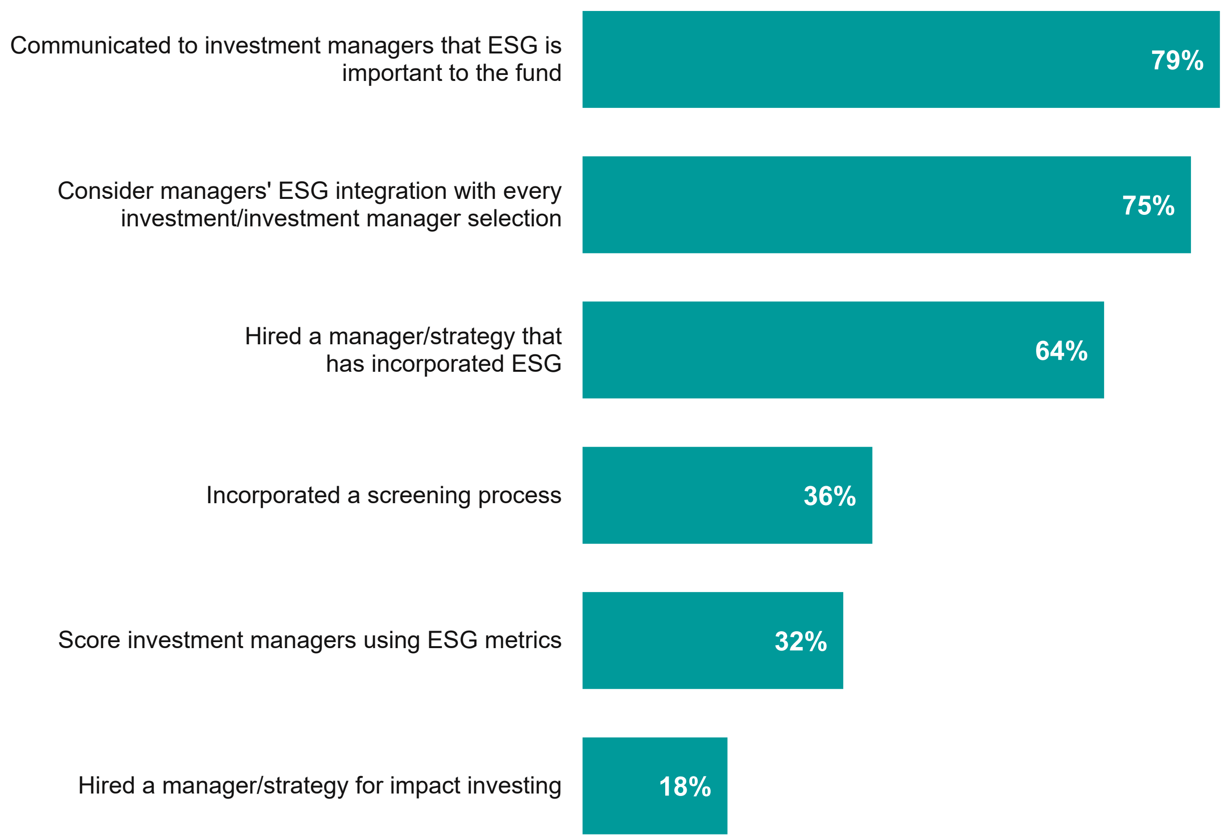
*Multiple responses allowed

ESG Implementation: Manager Selection Process

75%

of investors that integrate ESG considered those factors with every investment manager selection they make. Moreover, 79% communicated to investment managers the importance of ESG to their fund. It is increasingly common for asset managers to be expected to discuss how ESG is incorporated at the firm and strategy levels in portfolio review and new business presentations. Indeed, standard practice is for Callan manager search evaluation books to include ESG firm- and product-level information.

How Investors Incorporate ESG in the Manager Selection Process*



*Multiple responses allowed

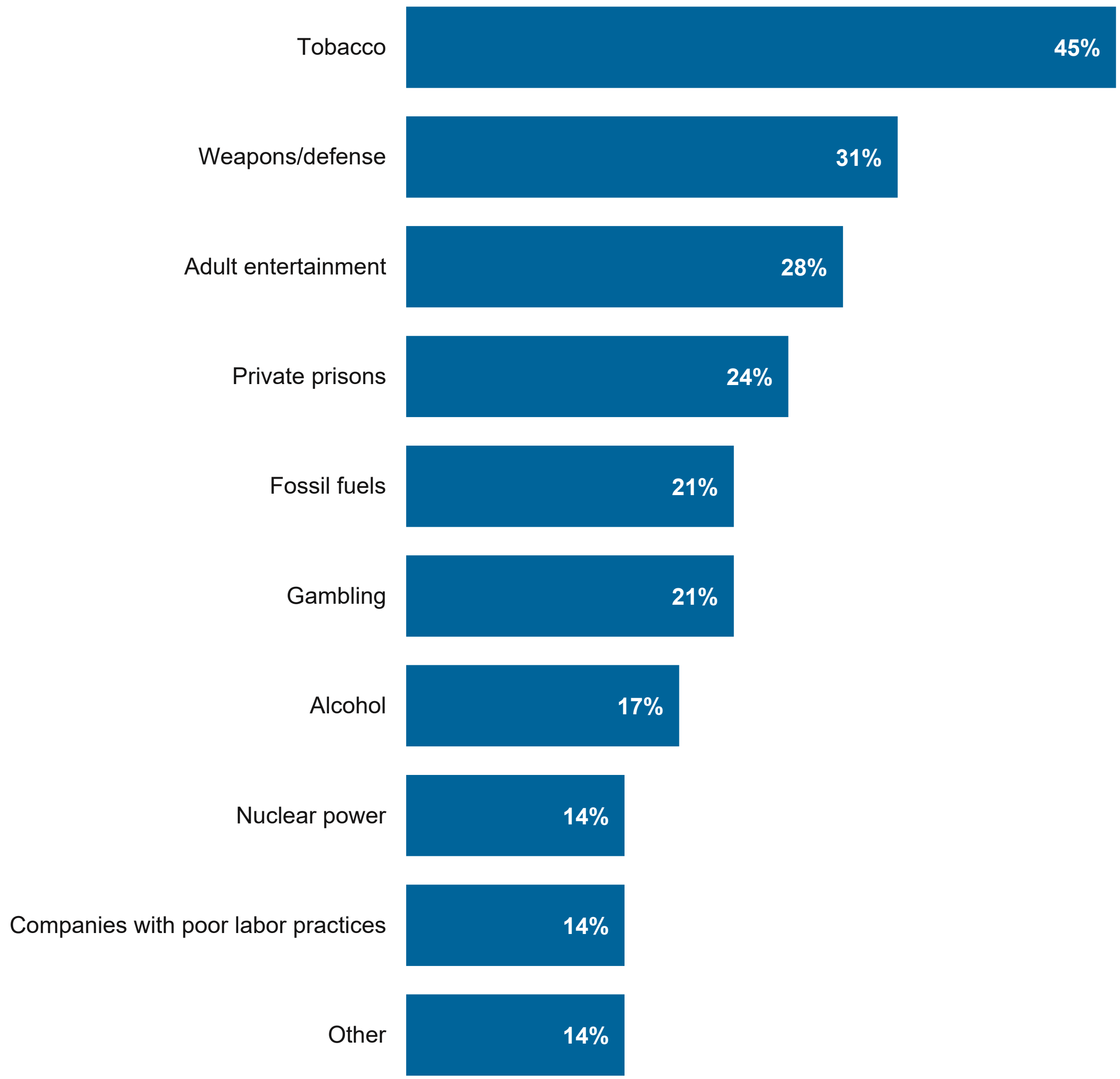
ESG Implementation: Targeted Area of Divestment

Negative screening is traditionally associated with ESG or socially responsible investing; 36% of all ESG adopters surveyed incorporated a screening process and 33% of adopters have divested from an issue. Negative screening or divestment can be done for reasons ranging from aligning investments with an organization's mission or values to the desire to mitigate investment risk.

The tobacco sector was the most common area to avoid followed by weapons/defense. Fossil fuels were also an area of divestment focus as the impacts of climate change become increasingly concerning.

Note: 45% of those incorporating ESG reported that divestments were not applicable to their fund.

Common Areas of Divestment*



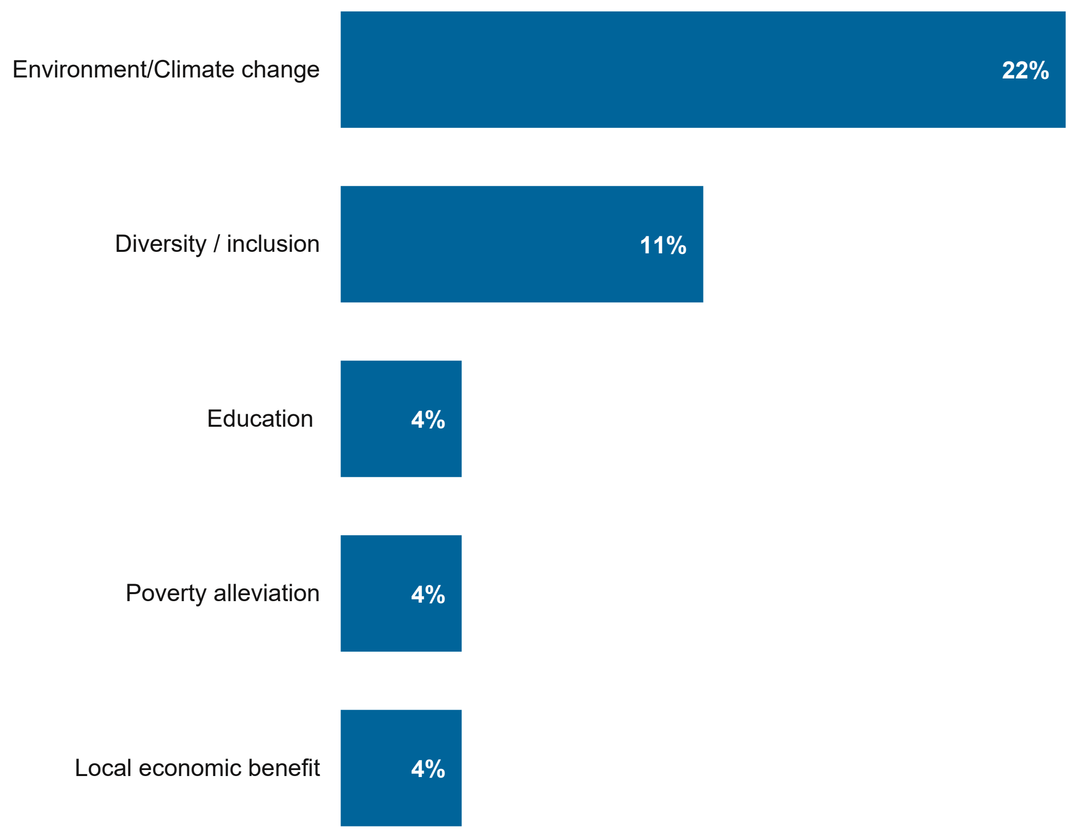
*Multiple responses allowed. "Other" includes water pollution, biotech/pharmaceuticals, and certain geopolitical issues.

ESG Implementation: Impact Investing

Environmental or climate impact was the most commonly targeted area for positive impact investments (22%). In areas such as fixed income, public and private equity, and real assets, impact strategies allow investors to target both strong financial returns and positive societal or environmental changes. We observe both strong investor interest and manager response with fundraising for impact strategies. There remains a lack of impact measurement standards; one approach is for investment strategies to align both their impact thesis and reporting framework with the United Nations' 17 Sustainable Development Goals.

Note: 70% of those incorporating ESG reported that positive impact investments were not applicable to their fund.

Positive Impact Investments Intentionally Included per ESG Policies*



*Multiple responses allowed.

Environmental Actions: Myriad Steps Taken Specific to 'E'

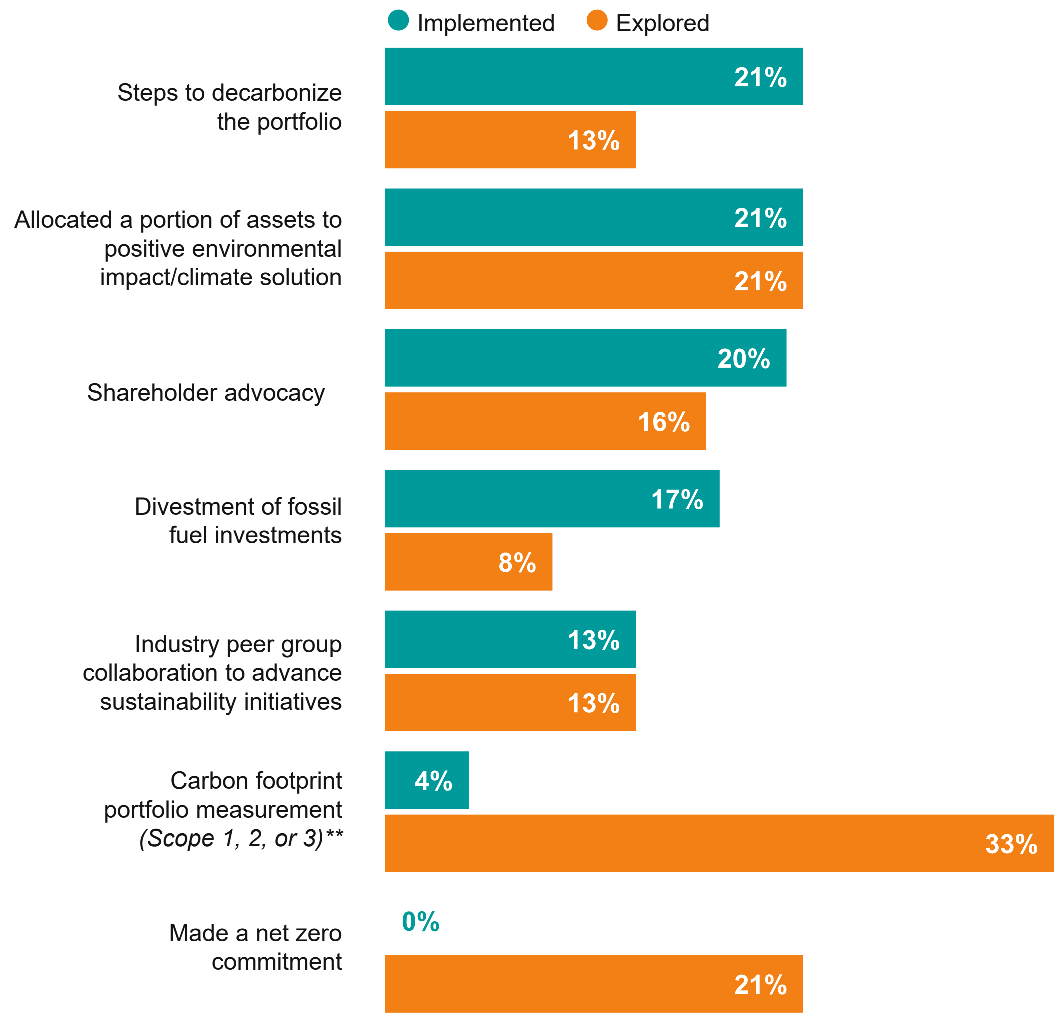
21%

of respondents were taking steps to reduce the carbon emissions of their portfolio and/or allocating a portion of assets to positive environmental impact/climate solutions strategies.

The steps taken specific to "E" were myriad, with no one clear leader, and also included shareholder advocacy, fossil fuel divestment, and peer collaboration on sustainability initiatives. We find that these survey responses are consistent with client interactions—investors are taking multi-pronged approaches to their environmental investment strategies and see both investment risks and opportunities from climate change.

Specific to carbon footprint portfolio measurement, there are multiple implementation considerations and those factors may contribute to the divergence of those implementing (4%) vs. exploring (33%).

Actions Taken Specific to 'E' for Those Incorporating ESG*



*Multiple responses allowed.

** Scope 1 - direct pollution, Scope 2 - electricity, Scope 3 - supply chain & use/disposal

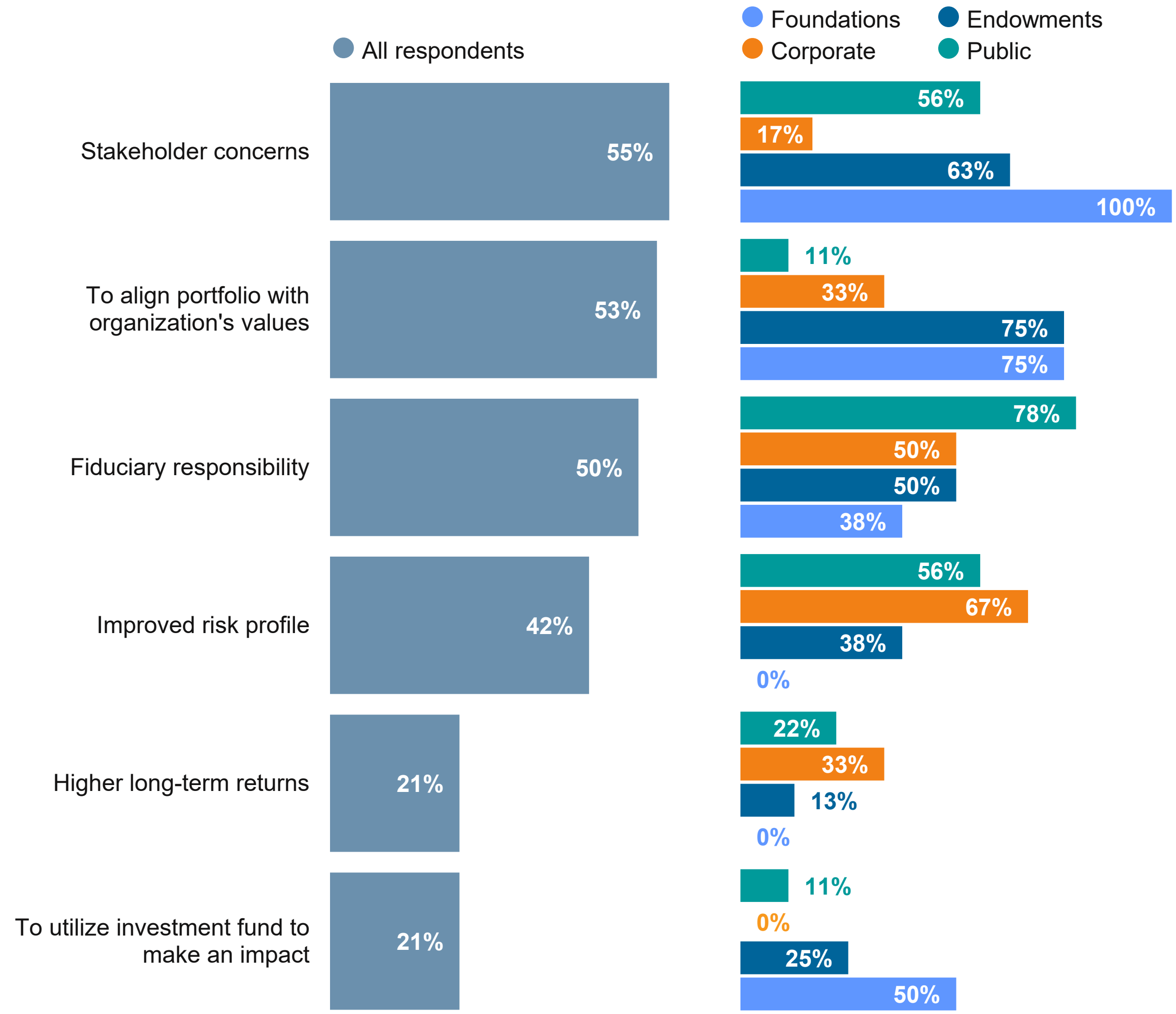
Reasons for Incorporating ESG: Stakeholder Concerns Top the List

≥50%

of respondents that incorporate ESG looked to either address stakeholder concerns (55%), align their portfolio with the organization's values (53%), or meet their fiduciary responsibility (50%).

Addressing stakeholder concerns was most common with foundations (100%) and endowments (63%), and was not often cited by corporate plans (17%). Aligning with the organization's values was also most frequently given as a reason by endowments and foundations (75%). Fiduciary responsibility was most often cited by public plans (78%). Corporate plans believed improving their risk profile was the main reason to integrate ESG factors (67%).

Reasons for Incorporating ESG Factors—by Investor Type*



*Multiple responses allowed

Reasons Against ESG Incorporation: Benefits Are Unclear

47%

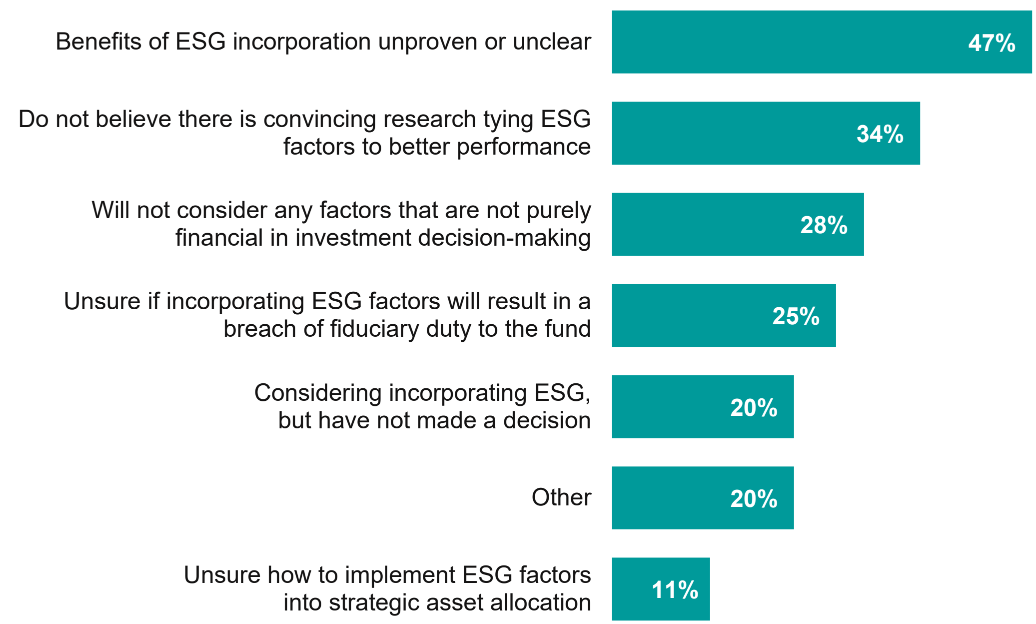
of investors indicated they did not incorporate ESG because the benefits were unproven or unclear. Similarly, 34% of respondents said they were not convinced of ESG incorporation being accretive to performance, even though there is a growing amount of research supporting the thesis that ESG factors have a material financial impact in certain investment situations.

Lack of regulatory clarity was cited by 27% of those not incorporating ESG; Callan client interaction, particularly with ERISA plans, is consistent with this finding.

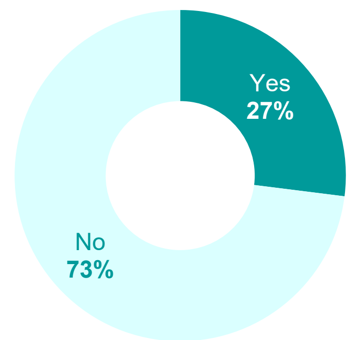
Other reasons for not implementing ESG included:

- Limited or no participant interest/demand
- Lack of benchmarking tools
- Perceived political activism/unintended political consequences
- Concerns of breach of fiduciary duty
- View that ESG is pushing a subjective value-based agenda
- Haven't yet considered

Reasons for NOT Incorporating ESG Factors*



Lack of regulatory guidance or inconsistent enforcement messaging from the Department of Labor was a reason not to incorporate ESG factors



*Multiple responses allowed

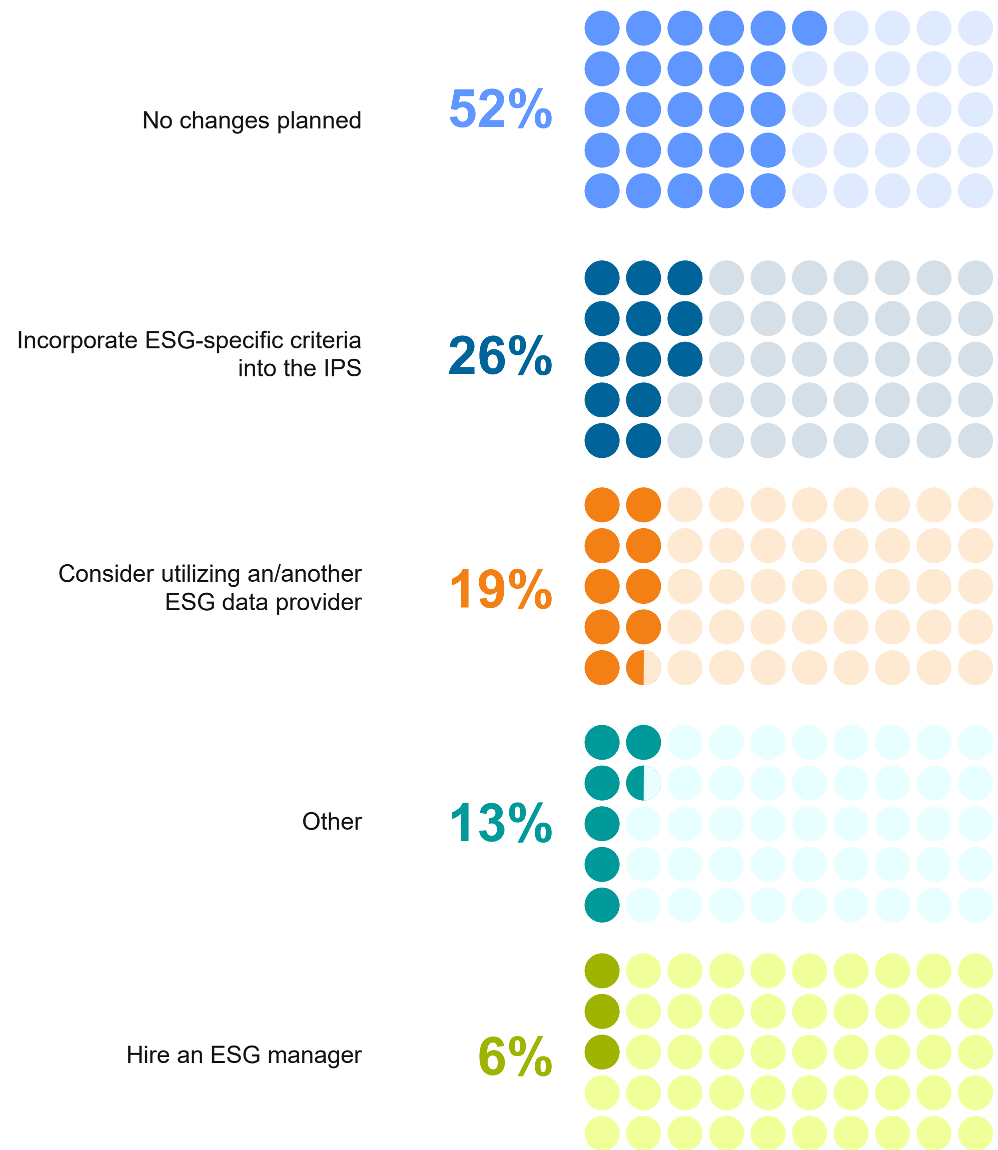
Looking Forward: Responses Indicate Progress on ESG Implementation

52%

of respondents that had incorporated ESG factors in investment decision-making did not plan to make any changes to their usage of ESG factors in the coming years. This indicates that many of those adopting ESG have already made sufficient strides and will need to make fewer changes. This continues to be supported by smaller figures in the other responses as inclusion of ESG factors has made its way into investment policy statements, and data providers and managers have been hired.

Only 6% of respondents indicated they plan to hire an ESG manager, a slight increase from 2021 (3%) but down from 14% in 2020. This may be a continuing indication that ESG integration is becoming more prevalent with traditional managers and the need for specialization is waning in some cases.

Planned Changes to Use of ESG Factors Over the Next 1 to 3 Years*



*Multiple responses allowed. “Other” includes incorporate DEI into manager selection, hire managers with high ESG scores, continuing education, and creating a sample portfolio of impact investments.

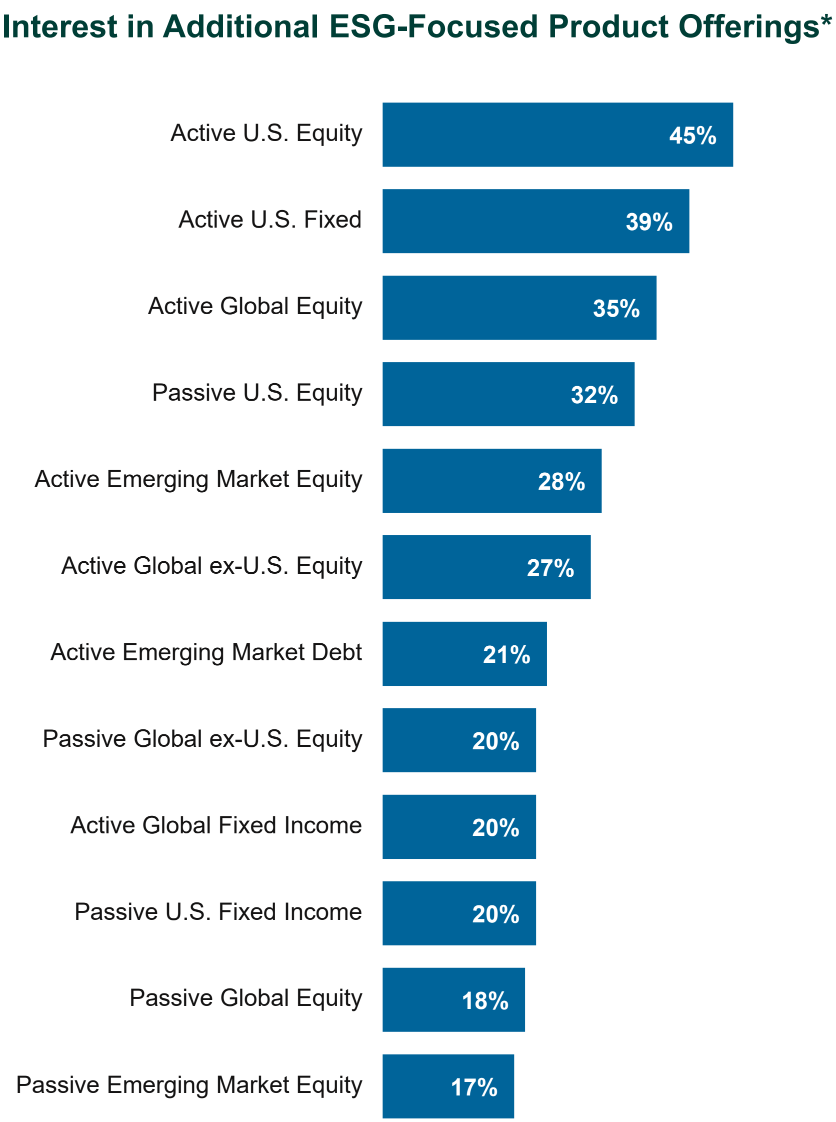
Each circle represents 2%.

Public Markets Product Offerings: More Interest in Active Than Passive Strategies

Within the public markets space, respondents highlighted several asset classes for more product offerings:

- Active U.S. equity topped the list (45%) followed by active U.S. fixed income (39%).
- In public markets, there was more interest in equity than fixed income strategies.

We also observed that there was greater interest in active strategies than passive.



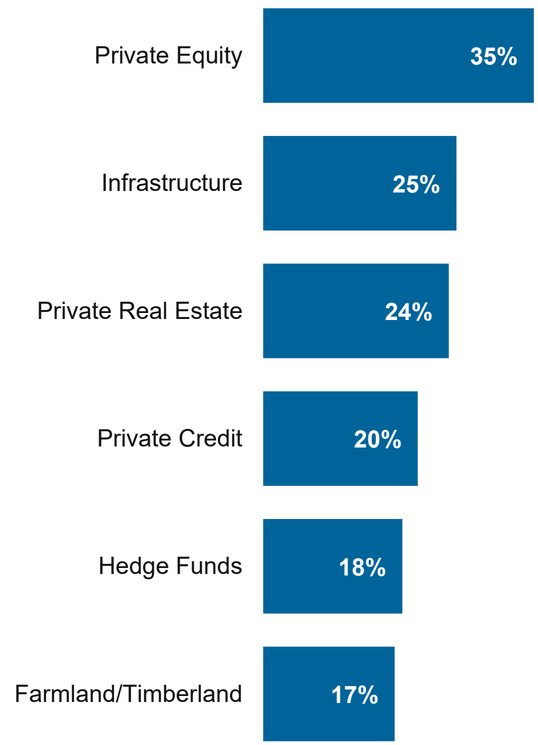
*Multiple responses allowed

Private Markets Product Offerings: Private Equity Tops the List

Private markets followed the public markets trend of more interest in equity-focused ESG products. Investors were most interested in:

- Private equity, which topped the list at 35%
- Infrastructure (25%) and private real estate (24%), at numbers 2 and 3, respectively

Interest in Additional ESG-Focused Product Offerings*



*Multiple responses allowed

About the Survey

Survey Methodology

Callan's *2022 ESG Survey* is the 10th edition highlighting current practices and opinions surrounding environmental, social, and governance (ESG) factors among various types of U.S. institutional investors. Respondents provided input via an online questionnaire. Callan has conducted this survey annually since 2013; not all respondents to this year's survey have participated each year, which may contribute to some variance in data trends.

We broke respondents into two primary groups for analysis: those that had and had not incorporated ESG factors into the investment decision-making process. Organizations incorporating ESG factors answered different questions than those not incorporating ESG factors. In most instances, statistics were calculated using this subset of respondents as the denominator. In a few cases, the denominator was smaller, as a subset of the primary group (e.g., only the defined contribution plans implementing ESG). In these situations, we describe the specific respondent group upon which statistics are calculated in the text that accompanies the particular exhibit. Multiple responses were allowed for many questions, as described in relevant footnotes.

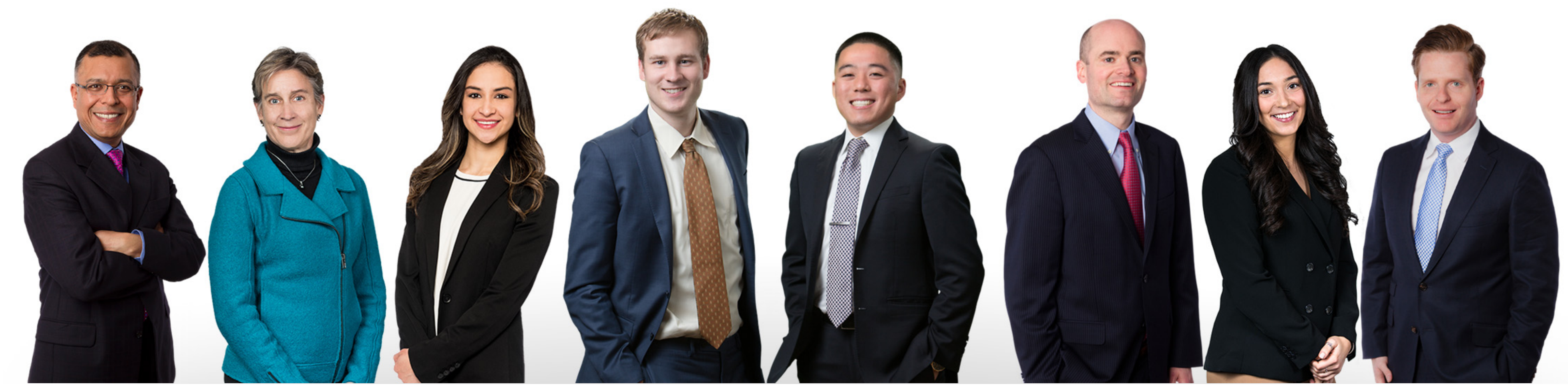
About the Authors

Thomas H. Shingler is a senior vice president and Callan's ESG practice leader. Based in Callan's New Jersey consulting office, Tom leads our ESG research and education efforts, providing ESG support to Callan consultants, and creating solutions for Callan's clients. He also collaborates with our team of ESG subject matter experts to develop research and insights into trends for the benefit of clients and the industry. Tom works with a variety of clients, including public and corporate defined benefit and defined contribution plans, as well as endowments and foundations. Tom is a member of Callan's Management and Manager Search committees, and is a shareholder of the firm.

Hannah Vieira is an assistant vice president on Callan's West Coast consulting team. Based in the San Francisco office, she provides support to clients and consultants in the areas of performance evaluation, strategic planning and implementation, investment manager review, and the coordination of special client proposals and requests. She is also a member of Callan's ESG team.

Environmental, Social, and Governance (ESG) Team

The ESG team leads our research and education efforts to create solutions for clients exploring and implementing ESG into their investment framework. Their expertise and leadership brings transparency and important insights to the rapidly changing ESG landscape.



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About Callan

Callan was founded as an employee-owned investment consulting firm in 1973. Ever since, we have empowered institutional clients with creative, customized investment solutions that are backed by proprietary research, exclusive data, and ongoing education. Today, Callan advises on more than $3 trillion in total fund sponsor assets, which makes it among the largest independently owned investment consulting firms in the U.S. Callan uses a client-focused consulting model to serve pension and defined contribution plan sponsors, endowments, foundations, independent investment advisors, investment managers, and other asset owners. Callan has six offices throughout the U.S. For more information, please visit callan.com.

About the Callan Institute

The Callan Institute, established in 1980, is a source of continuing education for those in the institutional investment community. The Institute conducts conferences and workshops and provides published research, surveys and newsletters. The Institute strives to present the most timely and relevant research and education available so our clients and our associates stay abreast of important trends in the investments industry.

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