



**OFFICE OF THE ILLINOIS STATE TREASURER  
SUSTAINABILITY DUE DILIGENCE QUESTIONNAIRE**



**OFFICE OF THE ILLINOIS STATE TREASURER  
MICHAEL W. FRERICHS**



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## Investment Philosophy

The Office of the Illinois State Treasurer (“the Treasurer”) seeks to invest all funds under its control in a manner that provides the highest risk-adjusted investment return for beneficiaries using authorized instruments. To achieve this objective, the Treasurer has a responsibility to recognize and evaluate risk and opportunity factors that may have a material and relevant financial impact on the safety and/or performance of our investments.

Thus, consistent with achieving the investment objectives set forth herein, the Treasurer and its agents shall prudently integrate sustainability factors into its investment decision-making, investment analysis, portfolio construction, due diligence and investment ownership in furtherance of the Treasurer’s investment goals to fulfill its fiduciary duty, to maximize anticipated financial returns, and minimize projected risk.

Sustainability factors shall be implemented within a framework predicated on the prudent integration of material sustainability factors, including, but not limited to (1) environmental, (2) social capital, (3) human capital, (4) business model and innovation, and (5) leadership and governance factors, as components of portfolio construction, investment decision-making, investment analysis and due diligence, prospective value proposition, risk management, and investment ownership, given that these tangible and intangible factors may have material and relevant financial impacts. Other relevant factors such as legal, regulatory, and reputational risks that contribute to an optimal risk management framework and are necessary to create long-term investment value should also be considered.

The sustainability analysis adds an additional layer of rigor to the fundamental analytical approach and helps assess the reliability of future cash flows and debt repayments. Similar to financial accounting, sustainability accounting has both confirmatory and predictive value, thus, it can be used to evaluate past performance and be used for future planning and decision-making. As a complement to financial accounting, it provides a more complete view of an investment fund or portfolio company’s performance on material factors likely to impact its long-term value.

Included in this package are many of the frequently asked questions previously received. For further questions regarding this Questionnaire, please contact Jubril Durojaiye directly at 312-814-5234 or via email at [jdurojaiye@illinoistreasurer.gov](mailto:jdurojaiye@illinoistreasurer.gov).



## Frequently Asked Questions

### 1. What is the purpose of this document?

The goal of the Treasurer's Office of the Illinois State Treasurer ("Treasurer") is to assess how investment managers integrate sustainability factors within a framework predicated on the prudent integration of material sustainability factors, including, but not limited to (1) environmental, (2) social capital, (3) human capital, (4) business model and innovation, and (5) leadership and governance factors, as components of portfolio construction, investment decision-making, investment analysis and due diligence, prospective value proposition, risk management, and investment ownership, given that these tangible and intangible factors may have material and relevant financial impacts. The sustainability analysis adds an additional layer of rigor to the fundamental analytical approach and can be used to evaluate past performance and be used for future planning and decision-making.

### 2. Are Investment Managers expected to provide answers to any "sensitive" questions in this document?

Investment managers are not required to divulge sensitive information, especially if it violates a non-disclosure agreements with other parties. It is also understood that investment managers may need to use caution in providing information to organizations they feel are not genuinely interested in committing to their fund. However, as fiduciaries, the Treasurer does not feel restricted from asking sensitive questions. The Investment Managers' right to protect confidential information is no greater than the Treasurer's right to inquire about information they feel is relevant to the transparency and alignment of their potential/current partnership. If Investment Managers are more comfortable providing certain answers in person, in a redacted format, or at a later stage in the diligence process, they are encouraged to do so. However, Investment Managers should provide an explanation in these instances, using this document to that end, as well as seeking further direction from the Treasurer.

### 3. Are Investment Managers expected to answer questions that are not applicable to their specific fund?

This questionnaire seeks to address questions specific to incorporation of sustainability factors as components of portfolio construction, investment decision-making, investment analysis and due diligence, prospective value proposition, risk management, and investment ownership, given that these tangible and intangible factors may have material and relevant financial impacts on portfolio companies. Investment Managers should use their best judgment to answer questions that are relevant to their organization. For skipped questions in the Detailed Questions section, Investment Managers should provide a brief, one sentence statement explaining their rationale for not answering. For the skipped questions in the Basic Questions section, "N/A" should be populated in the "Reference" field.

### 4. Will the Treasurer use an Investment Manager's answers in the Basic Questions section (yes/no questions) as the sole criteria for their ultimate investment decision?

No, the basic questions are intended to provide the Treasurer with a top-level checklist, and a framework to highlight issues that need further clarity. The Treasurer will review the expanded answers in the Detailed Questions section, as well as their own follow-up questions, before making any investment decisions.

### 5. Will the Treasurer only use this document? In what format should additional questions be sent to the Investment Manager?

One of the goals of this document is to minimize, not eliminate, the variations in the diligence processes administered by the Treasurer. While the Treasurer believes that this is a comprehensive document that covers the central questions institutional investors should ask Investment Managers pertaining to the incorporation of sustainability factors, as well as equity diversity and inclusion, it may be necessary to supplement this document with additional questions.



## Fund Information

**Firm: General Information** **Date of Completion:** MM/DD/YYYY

**Firm Name or Business Unit that is Fundraising (the "Firm"):** \_\_\_\_\_

**Address:** **Street:** \_\_\_\_\_

**City:** \_\_\_\_\_

**State/Country:** \_\_\_\_\_

**Postal Code:** \_\_\_\_\_

**Phone Number:** \_\_\_\_\_

**Fund Name(s):** \_\_\_\_\_

**Regulatory Body(s) that Supervises Firm:** \_\_\_\_\_

**Firm Contact (for requesting additional information):** \_\_\_\_\_

**Name:** \_\_\_\_\_

**Title:** \_\_\_\_\_

**Phone Number:** \_\_\_\_\_

**Email Address:** \_\_\_\_\_



## Basic Questions

1.0	Sustainability Integration	Yes	No	Reference*
2.1	Does the Firm have a Sustainability Policy (or equivalent ESG/SRI policy)?	<input type="checkbox"/>	<input type="checkbox"/>	
2.2	Does the Firm have a Corporate Social Responsibility Policy?	<input type="checkbox"/>	<input type="checkbox"/>	_____
2.3	Does the Firm have a Proxy Voting Policy?	<input type="checkbox"/>	<input type="checkbox"/>	_____
2.4	Is the Firm a signatory to the <a href="#">United Nations Principles for Responsible Investing (UNPRI)</a> ?	<input type="checkbox"/>	<input type="checkbox"/>	_____
2.5	Does the Firm have policies that encourage portfolio companies to adopt external standards and codes (such as the United Nations Global Compact)?	<input type="checkbox"/>	<input type="checkbox"/>	_____
2.6	Does the Firm make formal commitments relating to sustainability integration in fund formation contracts when requested by investors?	<input type="checkbox"/>	<input type="checkbox"/>	_____



## Detailed Questions

### 1.0 Sustainability Integration

- 1.1. Does the product being reviewed integrate material sustainability factors, including, but not limited to, (1) environmental factors, (2) social capital factors, (3) human capital factors, (4) business model and innovation factors, and (5) leadership and governance factors, as components of portfolio construction, investment decision-making, investment analysis and due diligence, prospective value proposition, risk management, and investment ownership given that these tangible and intangible factors may have material and relevant financial impacts? If not, is there a version of this strategy that incorporates sustainability factors?
  - 1.1.1. If yes to Question 1.1, what sustainability factors are consistently evaluated? (i.e. Is there a focus on megatrends impacting the global economy, like resource scarcity or low carbon, for example, or does your firm apply an expanded sustainability framework that recognizes, for example, environmental, social, and governance factors?)
  - 1.1.2. If yes to Question 1.1, for the sustainable investing factors evaluated, how is materiality determined, prioritized, and addressed at the security, sector, or country level? Please describe this process using specific examples.
- 1.2. How does the Firm define the materiality of sustainability factors? Give 2-3 examples of sustainability factors that have been identified as material to portfolio companies in the most recent fund.
- 1.3. How does your firm measure and evaluate the effectiveness of sustainability integration within the portfolio?
- 1.4. Once identified, how might (i) potentially material sustainability risks, and (ii) sustainability-related opportunities impact the investment decision?
- 1.5. How are sustainability risks and opportunities reported to, considered, and documented by the ultimate decision-making body, such as the Investment Committee?
- 1.6. Please provide one emerging ESG issue or trend that you believe will increasingly become material to the proposed investments over the next 3-4 years, and how is your firm addressing it in your policies and practices.

### 2.0 Investment Policy

- 2.1. Please describe your firm's sustainable investing policy for this strategy. If possible, please attach relevant documents.
- 2.2. How frequently is the policy reviewed and updated?
- 2.3. How do you monitor compliance with the stated policy?
- 2.4. Does your firm have staff dedicated to monitoring compliance with the policy? If so, please provide their biographies.
- 2.5. Does your firm have a dedicated sustainable investing research team? If so, please provide (1) their bios and (2) detail the process by which they work with the portfolio managers and, if applicable, traditional research analysts. If not, how do other investment professionals/staff integrate sustainable investing factors into their responsibilities?
- 2.6. If your firm has a dedicated sustainable investing research team, are portfolio managers/analysts required to integrate the sustainable research within their traditional analysis and research?
- 2.7. What data or information is collected and used to assess sustainability factors? Does your firm utilize internal or external resources (or both) to acquire data, information, and analyses on sustainability factors facing portfolio companies? If third-party research providers are utilized (e.g. Sustainalytics, MSCI, SASB, ISS, etc.), please list those providers and detail how their reports/analyses/scores are utilized to assess sustainability risks and opportunities.



- 2.8. Does your firm maintain watchlists for securities, sectors, or countries with high sustainability risks or opportunities?
- 2.9. Does your firm conduct portfolio scenario analysis or value-at-risk analysis to assess the impact of sustainability factors on overall portfolio risk and return?
- 2.10. Explain how risks and opportunities associated with sustainability factors are identified, weighed, and integrated to influence investment decisions.
  - 2.10.1. Provide a detailed recent example of an investment decision that incorporated sustainable investing factors (risk or opportunity/security level/etc.) and describe how those factors influenced the outcome.
- 2.11. Does your firm utilize materiality standards from the Sustainability Accounting Standards Board (SASB)? If so, explain the rationale and way they are incorporated. If not utilized, please explain why.
- 2.12. How is analysis of sustainability factors integrated with traditional financial analysis for securities, sectors, and countries? Are the results of the sustainable investing factor analysis implemented in a qualitative manner (i.e. to inform a buy/sell/hold decisions) or quantitative manner (i.e. to adjust forecasted variables), or both? Please provide an example to illustrate your approach to blending sustainable and traditional analysis.
- 2.13. How can the Treasurer's Office of the Illinois State Treasurer monitor and, where necessary, ensure that the Fund is operating consistently with agreed-upon sustainability-related policies and practices, including disclosure of sustainability-related incidents?
  - 2.13.1. What channels does the Firm use to communicate sustainability-related information to investors? Can the Firm provide samples of sustainability disclosures? If not, indicate whether the Firm would consider introducing sustainability disclosures.
  - 2.13.2. Describe the Firm's approach to disclosing and following up on material sustainability incidents to investors.

### 3.0 Proxy Voting and Engagement

- 3.1. Does your firm engage with the companies in which you invest on sustainability risks and opportunities?
  - 3.1.1. Please describe how and to what extent your firm engages companies on sustainability risks or opportunities.
  - 3.1.2. What are the reasons behind such engagement and on what issues do you typically engage?
  - 3.1.3. Do you have a method of evaluating your engagement with companies? If so, please describe.
  - 3.1.4. If you do not engage with companies, please explain why.
- 3.2. Do you engage public policymakers or lawmakers on sustainable investing issues? If so, please describe those interactions, the concern addressed, and relevant outcomes. Please provide any recent examples.
- 3.3. Please describe your firm's proxy voting policy. If possible, please attach the proxy voting policy and guidelines that govern your voting decisions.
  - 3.3.1. If unavailable, please explain why.
- 3.4. Is a third-party provider utilized for proxy voting? If so, please list the firm.
- 3.5. How do you implement your voting guidelines and ensure that votes are executed as intended?
- 3.6. Does your firm's proxy voting policy (or that of the third-party provider) incorporate sustainability factors? If not, are you able to incorporate those issues upon client request?
- 3.7. Please provide your firm's view on proposals that seek to improve disclosure on sustainability or environmental, social, and governance (ESG) topics.





- 3.8. Please provide your firm's view on board independence and your firm's voting stance on proposals that seek to establish an independent board chair.
- 3.9. Please provide your firm's view on executive compensation at U.S. publicly traded companies.

#### **4.0 Firm Participation and Reporting**

- 4.1. How, if at all, are sustainability issues incorporated into the general operation of your firm? Are there specific sustainability issues or trends that are a primary for your firm from a near-term (three to five years) goal perspective? Please provide details about those objectives and the strategy for addressing them.
- 4.2. Does your firm publish an annual sustainability report? Please provide an electronic copy of the most recent annual sustainability report.
- 4.3. Does your firm publish an annual sustainability report? Please provide an electronic copy of the most recent annual sustainability report.
- 4.4. If you are a United Nation's Principles for Responsible Investment signatory, please explain how the six principles have been incorporated into the firm? Also, please provide the most recent PRI assessment scores (overall and modules). If applicable, please provide an electronic copy of your assessment report.
- 4.5. If you are not a United Nation's Principles for Responsible Investment signatory, what are your reasons for not signing?
- 4.6. Are there other sustainable investing initiatives or organizations that your firm is a member of or participates in? If so, please detail.
- 4.7. If applicable, please describe the nature and type of sustainable investing performance data that you collect, how you utilize this information, and provide an example (redacted if necessary) of an investor or stakeholder communication detailing those performance trends.
- 4.8. For real estate investments only, please provide a summary of GRESB scores for your fund(s) for 2017 and 2018, and briefly explain what factors drove year over year changes.

## **Appendix A - Requested Documents (if applicable) \***

1. Sustainability/ESG Policy
2. Proxy Voting Policy
3. Proxy Voting Statistical Report with votes distinguished by issue category, and percentage supported/voted against management's recommendation



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January 2021

For questions, contact Jubril Durojaiye, 312-814-5234 or [jdurojaiye@illinoistreasurer.gov](mailto:jdurojaiye@illinoistreasurer.gov)

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