



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



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

Investment Philosophy

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 evaluate risk and value factors that may have a material and relevant financial impact on the safety and/or performance of our investments.

Consistent with achieving the investment objectives set forth herein, the Treasurer and its agents shall prudently integrate sustainability factors into its investment decision-making processes. As a complement to traditional financial analysis, the integration of sustainability factors provides an additional layer of decision-useful information by which the Treasurer and its agents can better assess the risk and return prospects of portfolio companies, investment funds, and other investment vehicles. Such sustainability factors are indicative of the overall performance of an investment and are strong indicators of its long-term value.

Sustainability factors shall be implemented within a framework predicated on the following:

- **Materiality** – The Treasurer considers whether and to what extent a sustainability risk or opportunity exists that is reasonably likely to have a material impact on the financial condition or operating performance of a company, investment fund, or other investment vehicle.
- **Industry-Specific Information** – The Treasurer considers whether and to what extent the financially material sustainability risk or opportunity in question is relevant and applicable to individual industries.
- **Integration of Material Sustainability Factors in Internally and Externally Managed Investment Programs** – The Treasurer prudently integrates material and relevant sustainability factors, including, but not limited to, (1) corporate governance, financial incentives and quality of leadership, (2) environmental factors, (3) social capital factors, (4) human capital factors, and (5) business model and innovation, as components of portfolio construction, investment decision-making, investment analysis and due diligence, prospective value proposition, risk management, and investment ownership in internally and externally managed investment programs.
- **Active Ownership** – The Treasurer attentively oversees investment holdings to address sustainability risks and opportunities through the exercise of proxy voting rights and direct engagement with entities, such as investment funds, portfolio companies, government bodies, and other organizations.
- **Regular Evaluation of Sustainability Factors** – The Treasurer performs a recurring annual evaluation, at a minimum, of sustainability factors to ensure the factors are relevant to the evolving marketplace.
- **Additional Relevant and Financially Material Factors** – The Treasurer considers other relevant factors such as legal, regulatory, and reputational risks that contribute to an optimal risk management framework and are necessary to protect and create long-term investment value.

Sustainability analysis adds an additional layer of rigor to the fundamental analytical approach and can be used to evaluate past performance and to plan future decision-making. As a complement to traditional financial analysis, an accounting of sustainability factors provides a more complete view of an investment fund or portfolio company's long-term value.

Frequently Asked Questions

1. What is the purpose of this document?

The goal of the 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 and relevant sustainability factors, including, but not limited to (1) environmental, (2) social capital, (3) human capital, (4) business model and innovation, and (5) corporate governance, financial incentives and quality of leadership 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 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, Investment Managers should provide a brief, one sentence statement explaining their rationale for not answering.

3. Will the Treasurer use an Investment Manager’s answers within this questionnaire as the sole criteria for their ultimate investment decision?

No, the questions within this questionnaire are intended to provide the Treasurer with a framework to highlight sustainability related issues that need further clarity. The Treasurer will review the answers and communicate any follow-up questions in future due diligence meetings as part of the investment decision-making process.

4. 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, it may be necessary to supplement this document with additional questions.

Definitions

1. Sustainable Investing or Sustainable Investment Policy:

The Office of the Illinois State Treasurer defines Sustainable Investing or a Sustainable Investment Policy as the policy and process of an organization that defines and describes how the organization integrates sustainability into its investment process in a systematic manner and what the priorities are for the organization in relation to the integration of sustainability.

2. Sustainability Factors:

Based on the Office of the Illinois State Treasurer’s Sustainability Investment Policy Statement, sustainability factors are classified within 5 major categories: (1) environmental, (2) social capital, (3) human capital, (4) business model and innovation, and (5) corporate governance, financial incentives, and quality of leadership.

For questions, contact Karen Kerschke at kkerschke@illinoistreasurer.gov.

CONFIDENTIAL



Fund Information

Firm: General Information

Date of Completion: MM/DD/YYYY

Firm Name or Business Unit (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:

1. Sustainable Investment Policy

- a) Does your firm have a sustainable investment policy in which it describes how sustainability factors are considered in the investment process? If so, please provide.
 - i) Does this policy apply to all clients across the firm? If not, please describe a scenario in which the firm deviates from its policy.
- b) Does the sustainable investing policy apply to all funds that the Illinois State Treasurer has invested? If not, please list all funds that the policy does not apply to and why.
- c) How frequently is the policy reviewed and updated?
- d) What team members are involved in the creation and update of the policy?
- e) How do you monitor compliance with the stated policy and what systems are utilized to monitor compliance? Please provide examples.
- f) Are portfolio managers evaluated on their compliance with the sustainable investment policy? If so, does this impact their compensation?
- g) Does your firm have staff dedicated to monitoring compliance with the policy? If so, please provide their biographies.
- h) What are the firm's sustainability and steward priorities and how often are these reassessed?

2. Sustainability Integration

- a) Do all the underlying funds in which the Office of the Illinois State Treasurer is invested through integrate material 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?
 - i) If yes to Question 2.a, what specific sustainability factors are consistently evaluated?
 - ii) If yes to Question 2.a, is there a focus on systemic or system-level risks (i.e., income inequality, biodiversity loss, resource scarcity, climate related issues, low carbon)?
 - iii) If yes to Question 2.a, 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.
 - iv) If no to Question 2.a, is there a unique version of this fund strategy that incorporates sustainability factors?
- b) Does your firm utilize materiality standards from the International Sustainability Standards Board (formerly known as SASB)? If so, explain the rationale and way they are incorporated. If not utilized, please explain why and list alternative frameworks utilized.
- c) What data or information is collected and used to assess sustainability factors?
- d) Does your firm utilize internal or external resources/partnerships (or both) to acquire data, information, and analyses on sustainability factors facing portfolio companies?
 - i) 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.
- e) 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/or traditional research analysts. If



not, how do other investment professionals/staff integrate sustainable investing factors into their responsibilities?

- i) If your firm has a dedicated sustainable investing research team, are portfolio managers/analysts required to integrate the related sustainable research within their traditional analysis and research? If so, how is this integrated?
- f) Does your firm provide regular training on sustainability integration to its employees? Is the training provided to all investment professionals?
- g) How does your firm measure and evaluate the effectiveness of sustainability integration within the portfolio?
- h) How are sustainability risks and opportunities reported to, considered, and documented by the ultimate decision-making body, such as the Investment Committee or portfolio managers?
- i) Is portfolio manager compensation tied to sustainability integration? If so, please describe.
- j) Please provide one emerging sustainability issue or trend that you believe will increasingly become material to the relevant underlying investments strategies over the next 3-4 years. How is your firm addressing this in your policies and practices?

3. Proxy Voting

- a) Does your firm have a proxy voting policy? If so, please provide.
- b) How frequently is the proxy voting policy reviewed/updated?
 - i) Who is responsible for the review and approval of the policy?
- c) How do you implement your voting guidelines and ensure that votes are executed as intended?
 - i) Describe the process undertaken for instances where a proxy vote decision may not align with the firm's stated proxy voting policy. If applicable, please provide an example of such an instance.
 - ii) Please provide a link to your firm's or fund's proxy voting record, if available. If not made publicly available, please provide an explanation as to why.
- d) Please provide your firm's view on shareholder proposals that seek to improve disclosure and/or practices regarding material sustainability factors.
- e) 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.
- f) Please provide your firm's view on integrating sustainability factors, including climate risk and board diversity, into votes cast for a company's board of directors.
- g) Please provide your firm's view on integrating sustainability factors into executive compensation.

4. Corporate Engagement

- a) Does your firm engage with the companies in which you invest and potential portfolio companies on sustainability risks and opportunities?
 - i) Please describe how and to what extent your firm engages companies on sustainability risks or opportunities.
 - ii) Please provide an example of when the Firm has engaged with a company.
 - iii) If you do not engage with companies, please explain why.



- b) Does your firm have staff dedicated to engagement with companies?
- c) Are portfolio managers or research analysts involved in engagement with companies?
- d) On what issues do you commonly engage with portfolio companies (ex: physical/transition risks of climate, diversity information, human capital management, etc.)?
- e) Do you have a method of evaluating the effectiveness of your engagement with companies? If so, please describe.
 - i) In the event that engagement is deemed ineffective, what tools or policies does the firm utilize in order to escalate an issue (ex: shareholder proposal, divestment/sale of security)? Please provide an example.
- f) Are engagements with companies memorialized? If so, who in the firm has access to or reviews the engagement memos?
- g) How do the results of engagement impact investment decisions?
- h) As a result of an engagement or vote on a shareholder resolution, do you communicate with a company why you cast your vote the way you did? Please provide an example.
- i) Do you participate in any collective action coalition of asset managers or investors related to engagements?

5. Firm Wide Policies and Practices

- a) Does your firm have a Diversity and Inclusion Policy? If so, please provide.
- b) Does your firm publicly disclose its EEO-1 report? If so, please provide.
- c) Does your firm have goals regarding the promotion and retention of diverse portfolio managers and investment team members? If so, please list your goals and relevant progress towards achieving them.
- d) How does your firm's talent pipeline and recruiting efforts ensure that the organization will maintain a diverse workforce in the face of intense labor market pressure and competition from your peers?
- e) Does your firm have a policy/commitment to achieving net-zero emissions? If so, please describe. Please include details on metrics and targets along with the relevant timeframes, governance process of approval and oversight, including the role of the board and senior management in overseeing the commitment.
 - i) If your firm has a net zero commitment, how does it apply to the funds that the Illinois State Treasurer's Office invests in? What are the consequences for investing in portfolio companies that fail to align with the GHG emissions targets of the firm?
 - ii) If your firm has a net zero commitment, what is the percentage of the portfolio, at the strategy level, that is covered by the commitment?
- f) Does your firm disclose its lobbying activities? If so, please provide relevant documentation.
 - i) If so, does the lobbying report include membership in trade associations?
- g) Do you engage public policymakers, regulatory bodies, or lawmakers on sustainable investing issues? If so, please describe those interactions, the concern addressed, and relevant outcomes.
 - i) Please provide any recent examples and comment letters submitted.



Supplemental Information Requested

Item	Request	Yes	No
1.	Sustainability Policy	<input type="checkbox"/>	<input type="checkbox"/>
2.	Proxy Voting Policy	<input type="checkbox"/>	<input type="checkbox"/>
3.	Proxy Voting Statistical Report with votes distinguished by issue category, and percentage supported/voted against management's recommendation.	<input type="checkbox"/>	<input type="checkbox"/>
4.	Is the Firm a signatory to the Principles for Responsible Investing (PRI) ?	<input type="checkbox"/>	<input type="checkbox"/>
5.	Net Zero Commitment <ul style="list-style-type: none">Please include annual progress reports.	<input type="checkbox"/>	<input type="checkbox"/>
6.	Diversity and Inclusion Policy	<input type="checkbox"/>	<input type="checkbox"/>
7.	Board Diversity Information	<input type="checkbox"/>	<input type="checkbox"/>
8.	EEO-1 Form	<input type="checkbox"/>	<input type="checkbox"/>