Security Analysis

Due Diligence Questionnaire

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Investment Philosophy

The PUBLIC FUND 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 PUBLIC FUND 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. In addition to the considerations and objectives as set forth in the Investment Policy Statement, the PUBLIC FUND complies with all Illinois state laws and regulations including the Illinois Sustainable Investing Act (30 ILCS 238/1 et seq.)

Thus, consistent with achieving the investment objectives set forth herein, the PUBLIC FUND 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 PUBLIC FUND'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 can be used to evaluate past performance and be used for future planning and decision-making. 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.

Frequently Asked Questions

1. What is the purpose of this document?

The goal of the PUBLIC FUND is to assess 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.

The PUBLIC FUND complies with all Illinois state laws and regulations including the Illinois Sustainable Investing Act (30 ILCS 238/1 et seq

2. Who should use this document?

An analyst from the PUBLIC FUND seeking to integrate sustainability factors into the financial analysis of a Public Company. Sustainability factors are just one of many factors when assessing the risk profile and valuation of an investment security. The factors complement traditional financial analyses to better identify investment risks and opportunities. The document provides a general outline of factors to consider based on the impact of industry-specific topics for the Public Company.

3. Are Public Companies expected to disclose information considered material to the reasonable investor?

Materiality is a fundamental principle of financial reporting in the United States. Federal regulation prescribed under the Securities Act requires U.S. publicly listed companies to provide investors and other users with material information that is necessary to form an understanding of the company's financial condition and operating performance, as well as its prospects for the future. Per the U.S. Supreme Court, information is material "if there is a substantial likelihood that the omitted fact would have significantly altered the total mix of information available to the reasonable investor."

4. How should Public Companies report on sustainability factors?

As mentioned in the previous question, Public Companies should disclose information that may be material to the reasonable investor. Regulation S-K provides the reporting structure for Public Companies that is relevant to the disclosure of sustainability information. In the Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) Public Companies are required to disclose any known trends, events, risks or uncertainties that can impact the performance of the Public Company. If the information is not available in regulatory filings, the Public Company may disclose in sustainability related reports prepared and available for stakeholders. Disclosure of sustainability topics should be reasonably likely to have a material impact on the financial condition or operating performance of the company. The information reported should be decision-useful to the reasonable investor. The sustainability reporting should be cost-effective for the Public Company to implement. The data should be industry-specific to enable the PUBLIC FUND to make better informed decisions on the management of the portfolio.

5. Should the PUBLIC FUND only use this document for the sustainability valuation of a Public Company?

No. This document should supplement the financial review of a Public Company and serve as a general template to help identify issues and topics relevant and material to the PUBLIC FUND'S investment decision-making process. This document should serve as a reference to understand what type of sustainability related questions to ask and topics to consider when reviewing a Public Company. While the PUBLIC FUND believes that this is a comprehensive document which covers the central questions institutional investors should consider pertaining to the incorporation of sustainability factors, it may be necessary to supplement this document with additional questions.

6. Are there additional resources/information to assist the PUBLIC FUND in learning more about sustainability integration?

Yes. Due to investor demand, Public Companies are beginning to provide more sustainability related information that is material, reliable, comparable, decision useful and industry-specific. Below are several locations to find additional information.

- Public Company reports such as: Audited 10-Ks, Sustainability Reports, Environmental Reports and Corporate Social Responsibility Reports;
- SASB Materiality Map: Identifies sustainability issues that are likely to affect the financial condition or operation performance of companies within an industry;
- SASB Engagement Guide: Facilitates more focused, meaningful discussion between investors and Public Companies about financially material sustainability risks and opportunities;
- Carbon Disclosure Project: A not-for-profit charity that runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts; and
- The United Nations-supported Principles for Responsible Investment provides resources, including A Guide to ESG Integration for Equity Investing and An Introduction to Responsible Investment: Fixed Income.
- Third-Party sustainability data providers (e.g. Sustainalytics, ISS, MSCI, etc.).

Analysis Questions

The questions below apply to a Public Company with an exposure that may result in impacts to the company's financial condition or operating performance. A Public Company may have exposure to one, multiple, or all the sections. The analyst from the PUBLIC FUND must identify the industry which the Public Company operates and whether the topics are likely to be material.

1. Environment

This section provides environmental impacts, either using nonrenewable, natural resources as inputs to the factors of production or through harmful releases into the environment. Answers should be evaluated against historical trends, industry peers, and other third-party ratings.

1.1. How is the company managing energy consumption and related price and supply risks?

1.2. What strategies are in place to increase energy efficiency and manage the company's energy mix?

1.3. How is the company increasing water efficiency and managing water use?

1.4. What is the company's strategy for managing the environmental and biodiversity impacts of its operations?

1.5. What is the company's exposure to emissions-limiting regulations? How does the geography of the company's operations factor into this analysis?

1.6. What are the potential costs, risks, and opportunities associated with achieving renewable energy targets?

2. Social Capital

This section relates to the expectation that a business will contribute to society in return for a social license to operate. Answers should be evaluated against historical trends, industry peers, and other third-party ratings.

2.1. What are the company's policies related to the collection, use, and retention of customer data and how does it minimize legal or reputational risks?

2.2. How does the company identify and address vulnerabilities and threats as well as prevent data security breaches?

2.3. What safety issues or regulations present the most significant risks and opportunities?

2.4. What is the company's process for managing risks and opportunities associated with its relations with the community in which it operates?

2.5. How does the company ensure that communication to customers about its products and services is clear and transparent?

3. Human Capital

This section addresses the management of a company's human and workforce resources as key assets to delivering long-term value. Answers should be evaluated against historical trends, industry peers, and other third-party ratings.

3.1. What is the company's strategy to engage employees and reduce turnover?

3.2. What actions does the company take to ensure gender and racial/ethnic diversity throughout the organization, particularly in management, professional and technical roles? How does this vary by geographic region?

3.3. How has the company performed in addressing employee health and safety, and how does it promote a strong safety culture?

3.4. How does the company assess, monitor, and reduce exposure to health and safety risks in its workforce?

3.5. What is the company's strategy to ensure compliance with labor and employment discrimination laws?

4. Business Model & Innovation

This section addresses the integration of environmental, human and social issues in a company's value creation process. Answers should be evaluated against historical trends, industry peers, and other third-party ratings.

4.1. How is the company positioning itself to capture the growing market for sustainable products?

4.2. How do the company's policies promote the adoption of energy efficient and low carbon technology?

4.3. What actions are the company taking to increase transparency into environmental impacts in its supply chain? What is the company's progress?

4.4. What is the company's approach to the incorporation of environmental, social and governance (ESG) factors into its investment analysis, strategies and decision-making process?

4.5. What is the company's credit exposure to different industries and what is the company's exposure to sustainability-related risks and opportunities?

5. Leadership and Governance

This section involves the management of issues that are inherent to the business model or common practice in the industry.

5.1. What are the company's strategies for preventing corruption and bribery? Does this strategy differ for areas with a relatively high risk of corruption or bribery?

5.2. How has the company performed on preventing fraud, insider trading, anti-trust, anti-competitive behavior, market manipulation, malpractice, or other illegal activities?

5.3. How does the company engage in the legal and regulatory process regarding policy proposals that address environmental and social factors affecting the industry?

5.4. How is the company positioned to meet regulatory requirements and respond to changes in regulation? How does this vary geographically?

5.5. What systems does the company have in place to manage safety risks and ensure a strong safety culture, including emergency preparedness?

6. Corporate Governance

This section covers the essential component of responsible investment stewardship and risk management by supporting good governance practices.

6.1. Is the Board balanced by skills and experience to provide appropriate oversight of the company's management?

6.2. What is the diversity background of the Board? Does the company have women serving on the Board? Does it have a diversity policy?

6.3. How does the company's remuneration plan incentivize Board member performance? What is the industry best practice?

6.4. Does your firm have an independent board chair? If no, why not?

6.5. Does the company have a sustainability or ESG committee? Is ESG performance tied to executive compensation?

Quantitative and Qualitative Data to Consider

Quantitative data can be used for fundamental and comparative analysis to track the performance of a Public Company over the years and to measure against the industry competitors. Qualitative data is used to identify the Public Company's description of approach to identifying risks and opportunities. Answers should be evaluated against historical trends, industry peers, and other third-party ratings.

- GHG Scope 1 Intensity per Sales
- GHG Intensity per EBITDA
- Water Intensity per Sales
- Water Use/Withdrawal Intensity per Sales
- Energy Use per Revenue
- Waste Recycled to Total Waste
- Change in Facilities Audited YoY
- Contingencies to Total Assets
- Litigation Expenses to Total Expenses
- R&D Expenses per Cashflow
- Total Recordable Incident Rate
- Lost Time Incident Rate
- Employee Turnover %
- Number of Data Breaches
- Other Commercial Loans to Total Loans
- Community Spending
- % of Women in the Workforce
- % of Women on the Board
- Women in Management to Total Employee Ratio
- % of Employees Represented by Gender, Racial/Ethnic Groups
- Business Ethics Policy
- Consumer Protection Policy
- Employee Protection/Whistle Blower Policy
- Anti-Bribery Ethics Policy
- Quality Assurance and Recall Policy