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ILLINOIS STATE TREASURER

Sustainable Investing Act

The [Sustainable Investing Act \(PA 101-473\)](#) was spearheaded by Illinois Treasurer Frerichs and signed into law by Illinois Governor Pritzker in 2019 with an effective date of January 1, 2020. It provides that all state and local government entities that hold and manage public funds should integrate material, relevant, and useful sustainability factors into their policies, processes, and decision-making.

WHAT IS SUSTAINABLE INVESTING? WHY IS IT IMPORTANT?

Sustainability or ESG (environment, social and governance) factors are used to more comprehensively analyze an investment based on its risk profile and return potential. This complements traditional financial and technical analysis. The use of sustainability factors has been shown to minimize risk and maximize returns and is considered a best practice in the investment industry. Integrating these factors helps public funds better fulfill their fiduciary duty.

The Act defines sustainability factors to include data and indicators related to (1) corporate governance and leadership, (2) environmental, (3) social capital, (4) human capital (including responsible contractor and responsible bidder policies), and (5) business model and innovation. Collectively, these are also commonly referred to as ESG (environmental, social, and governance) factors.

Sustainability factors provide a more complete view of an investment, its past performance, and its future potential. Sustainability factors have a material impact on business performance and long-term shareholder value, and as such, investors have an interest in integrating these factors into investment decision-making processes.



WIN-WIN STRATEGY

Investment Benefits

- Lower Risk
- Better Long-Term Performance
- Enhanced Legal Protection

Community Benefits

- More Responsible Corporations
- More Inclusion and Diversity
- More Efficient, Sustainable Global Financial System

HOW DO I IMPLEMENT & COMPLY WITH THE ACT?

- 1. Update your investment policy to include the consideration of sustainability factors.** Adapting your policy could be as simple as inserting a few new sentences, or as complex as developing a stand-alone policy on sustainability. The Illinois State Board of Investment (ISBI) added a short new section to its policy, while the State Treasurer has published a more comprehensive document available at bit.ly/treasurerpolicies.

You should work with your investment management team to decide on the most appropriate changes for your organization.

ILLINOIS STATE BOARD OF INVESTMENT IMPLEMENTATION SPOTLIGHT

Pursuant to 40 ILCS 5/1-113.6 and 1-113.17, ISBI shall include material, relevant, and decision-useful sustainability factors that will be considered by the Board, within the bounds of financial and fiduciary prudence, in evaluating investment decisions. These factors consist of but are not limited to:

- a. Corporate governance and leadership factors
- b. Environmental factors
- c. Social capital factors
- d. Human capital factors
- e. Business model and innovation factors

In addition, ISBI's efforts will include the following:

- i. Periodic evaluation of sustainability factors to ensure the factors are relevant to the ISBI's investment portfolio and the evolving marketplace;
- ii. Periodic monitoring of investment managers to encourage implementation of the aforementioned factors.

- 2. Talk to your fund managers.** Your asset management firms can work with you to consider appropriate investments for your agency with sustainability factors in mind. Many fund managers already integrate sustainability factors into their investment practice and no changes will be required, as it is common among asset managers such as BlackRock, Vanguard, State Street, Fidelity, UBS, and others.
 - **The Illinois Funds**, a local government investment pool managed by the State Treasurer's Office, currently employs sustainability factors in its fund management. If you are a participant in The Illinois Funds, your investments are already aligned with the Sustainable Investing Act.
- 3. Other requirements.** Nothing else is required for compliance with the Sustainable Investing Act. However, considering sustainability factors might lead your team to adjust the roles and responsibilities of staff or contractors, which you should pursue at your agency's discretion.

RESOURCES

The State Treasurer's Office is a leader in Sustainable Investment, with resources for public funds available on its website at IllinoisRaisingTheBar.com or by contacting RVaitla@illinoistreasurer.gov.

The Illinois Funds is a local government investment pool managed by the State Treasurer in compliance with the Sustainable Investing Act. It is open to local governments including cities and towns, counties, special taxing districts, municipal corporations, housing authorities, community and technical colleges, and four-year universities. More information can be found at bit.ly/illinoisfunds.

In addition, there are a number of resources available on sustainable investing generally, including the Sustainability Accounting Standards Board [sasb.org], UN PRI [unpri.org] and US SIF: The Forum for Sustainable and Responsible Investment [ussif.org].



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IN you