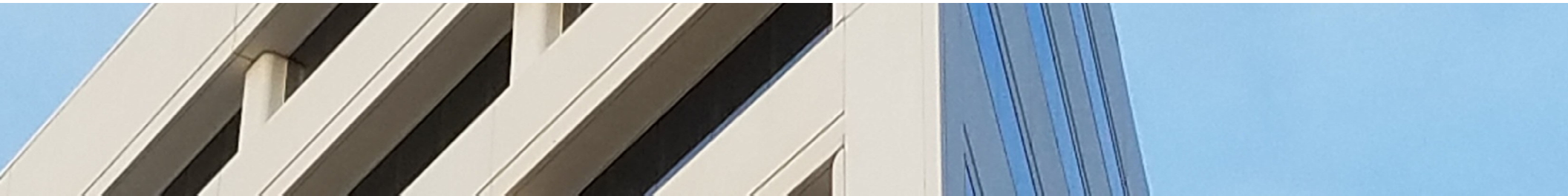




State of Rhode Island
Office of the General Treasurer

ERSRI PRIVATE MARKETS ESG INTEGRATION PLAN

Wilshire Consulting



Presentation to State of Rhode Island

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PRINCIPLES UNDERPINNING OUR RECOMMENDED APPROACH

- **Don't overwhelm GPs** – Phase-in level of detail by asking GPs ESG different questions at different stages of due diligence. Begin with initial round of core “gating” questions at both firm-level and portfolio company level, relevant to all PE asset classes & sectors.
- **Build trust with GPs-** Signal from the outset why ESG matters to ERSRI; recognize GPs are at different stages of the ESG “maturity curve”; caution against a check-box approach; provide feedback and seek greater ESG transparency over time.
- **Encourage candid dialogue-** Ask detailed questions and seek relevant examples during on-site meetings. Gain insights into accountability by asking questions in-person (e.g. does IR or the deal team answer the question?).
- **Don't reinvent the wheel** – Ask questions already asked by other LPs (ILPA & UN PRI) and share notes with other asset owners about emerging ESG best practices.
- **Seek to “stretch” GPs-** Differentiate ERSRI's approach, and mitigate against boilerplate responses, by asking sector-specific questions. Ask detailed questions about material ESG issues by using the Sustainable Accounting Standards Board (SASB) framework.

RECOMMENDED IMPLEMENTATION PLAN



Gate 1- Initial DD

Set the tone & ask key questions that apply across private markets firms: people; policy; & process.

Gate 2- Ongoing DD

Ask questions about ESG integration at portfolio companies across sectors.

Gate 3- Towards underwriting

Ask handful of material & sector-specific questions.

[See Appendix A for IT example]

- Review GP responses & materials provided e.g. ESG policy; Sample reporting/ research notes/ portfolio analysis; UN PRI /GRESB response (if applicable)
- Assess if GPs “walk the walk” by grouping them into 3 categories: Leaders; Integrators; and Neutral
- Consider giving feedback to GPs at this stage

- Include ESG section in underwriting documents for decisions by Investment Committee
- If feasible, include ERSRI exclusions in LPA / Side letter
- Add ESG to annual fund review meeting agenda
- Provide guidance to managers on specific ESG metrics & reporting (i.e. SASB) **[see Appendix B for IT example]**



STEP 1: DUE DILIGENCE QUESTIONS

MANAGE ESG EXPECTATIONS TO GPs FROM THE START

- Include introductory statement at the start of a new ESG section in due diligence questionnaire template.
- To help build trust with the GP, make clear the following points: why ERSRI is asking ESG questions in the first place; who ERSRI is directing questions to; and how ERSRI will use responses.
- Suggested preamble language:

As stated in our Investment Policy Statement, ERSRI believes good governance, efficient use of environmental resources and thoughtful management of social impact can help drive long-term risk-adjusted returns. ESG factors present risks to ERSRI and other investors that should be evaluated and thoughtfully addressed. We incorporate ESG questions into our private markets due diligence to help inform our investment decisions. We recognize that many GPs are at different stages of integrating ESG in their process and greatly appreciate your deal team's efforts in answering these questions. The questions are strategic in nature and we encourage you to provide extra color and examples where appropriate. [Your responses will be kept confidential]. If further due diligence is undertaken we expect to engage in more detailed and sector specific ESG issues with your deal team. [Should you have any questions please contact x].

GATE 1: ASK ESG QUESTIONS FOCUSED AT THE FIRM-LEVEL

ISSUE	APPLY ACROSS PRIVATE MARKETS FIRMS FOR WRITTEN RESPONSE
<p>Strategic Management</p>	<ol style="list-style-type: none"> 1. Does your organization have a policy that covers your approach to ESG issues? If so, please provide a copy. 2. Do you commit to any international standards, industry (association) guidelines, reporting frameworks or initiatives that promote ESG best practices? If applicable, provide scores/further details. 3. When requested, does your organization make formal commitments relating to ESG in agreements with clients, fund formation contracts or side letters? 4. Who is responsible for overseeing ESG at your organization? Does the function ultimately report to the CEO/Board? 5. Do your organization’s performance management, reward and/or formal staff training processes incorporate ESG? 6. Who is responsible for your firm’s diversity & inclusion initiatives? What efforts/progress have you made to improve diversity throughout your firm?
<p>Investment Process</p>	<ol style="list-style-type: none"> 7. How do you incorporate ESG risks and opportunities in your investment process (either directly or through the selection, appointment and monitoring of third-party managers/operators)? Please provide examples. 8. How do you engage deal/investment teams on driving ESG integration into the investment process?
<p>Reporting</p>	<ol style="list-style-type: none"> 9. Describe how you identify, manage and report to investors any material incidents that occur at portfolio companies/assets? If applicable, please provide examples of material incident reporting 10. Do you have any other ESG initiatives or reporting KPIs you would like to highlight?

GATE 2A: ASK PRIVATE EQUITY GPs ABOUT ESG EXPECTATIONS FOR PORTFOLIO COMPANIES

ITEMS	APPLY ACROSS PORTFOLIO COMPANIES FOR WRITTEN RESPONSE
<p>General</p>	<p>1. Do you expect companies to put ESG on the Board agenda and consider developing policies as applicable?</p>
	<p>2. Do you expect companies to track their ESG initiatives with specific KPIs? What ESG KPIs do you track across portfolio companies? Why do you track that data and how do you use it?</p>
	<p>3. Do you expect companies to report ESG-related incidents & litigation i.e. product recall, HR-related?</p>
<p>Governance</p>	<p>4. Do you expect portfolio companies to have at least one independent board member?</p>
	<p>5. Do you take into account & track diversity metrics (i.e. gender, race, skills etc) in portfolio company hiring and talent retention programs?</p>
	<p>6. Do you expect portfolio companies to have minimum quarterly board meetings? Do you track attendance?</p>
	<p>7. Do you expect portfolio companies to have a corporate code of ethics? How do you oversee whether ethical behaviors are being implemented?</p>
<p>8. How do you take into account board-level accountability, independence & structure, and diversity? How do you help build or strengthen the capacity of specific board committees i.e management, audit, remuneration, etc.?</p>	
<p>Social</p>	<p>9. Do you assess how portfolio companies invest, train and retain talent?</p>
	<p>10. Do you assess potential for labor issues i.e. % employee turnover & track adjustments to employee benefits & working practices?</p>
<p>Environment</p>	<p>11. Where material, do you track CO2 / water/ waste/ energy consumption and work with management to improve environmental metrics?</p>

GATE 2B: ASK PRIVATE REAL ASSET GPs ABOUT ASSETS

ITEMS	APPLY ACROSS PORTFOLIO ASSETS
General	<ol style="list-style-type: none"> 1. Do you expect operators/ third parties to have a Responsible Contractor Policy? Do you know/request your vendors have an Responsible Contractor Policy? 2. What kind of tenant engagement programs do you use? 3. Do you seek and obtain LEEDs and other similar certifications for individual assets? 4. Do you try and quantify additional return and/or reduced risk attributable to offering tenants this level of space?
Governance	<ol style="list-style-type: none"> 5. Do you assess and/or track diversity among your vendors (contractors, third party property management firms, janitorial, etc.)
Environment	<ol style="list-style-type: none"> 6. Do you track H2O, energy, waste consumption at the assets? 7. Do you embark on specific H2O, energy optimization, waste reduction initiatives at the asset level? If you spend dollars on specific projects, do you calculate a ROI on these capital expenditures? 8. Do you assess individual assets (during due diligence and/or on an ongoing basis) for physical climate risk (rising sea level, tsunami/hurricane, extreme heat, water scarcity, etc.)?

GATE 3: ASK IN-PERSON ABOUT MATERIAL & SECTOR-SPECIFIC ISSUES

- **Getting into the ESG weeds:** At this stage of due diligence a Fund is in serious consideration for an SIC commitment. More detailed questions will be asked about specific material issues relevant for the industry.
- **Focus on materiality-** Does the GP have a framework in place to analyze material ESG issues? For example, in real estate, material ESG issues include: energy; water' and land-use management. In I.T., material ESG issues include: data privacy & security & freedom of expression; and recruiting & managing a global, diverse skilled workforce.
- **Asking the right questions-** In real estate, for example, the GP might be asked:
 - How are energy management considerations incorporated into property investment analysis and operational strategy?
 - How do you take into account environmental impacts and sustainability considerations into location decisions i.e. incorporating features like access to public transportation, walkable neighborhoods, and other community services and impacts?
 - How does resource efficiency feature into new building design?
 - How do you take into account employee health and safety and anti-harassment policies at different levels i.e. operator / property manager (corporate /on-site), contractors and sub-contractors?
- **Engage the deal partner** – It's important to ask the deal team directly ESG questions

Appendix A contains detailed example questions to ask GPs investing in I.T.



STEP 2: ANALYZE RESPONSES

HOW TO TELL IF A MANAGER “WALKS THE WALK”

GROUP CATEGORY	GROUP DESCRIPTION
NEUTRAL	Firm lacks policies, resources and process to integrate ESG. Some “neutral” firms will have intentions to integrate ESG over time, others will not.
INTEGRATOR	Firm already demonstrates some ESG integration practices/ reporting and has a clearly stated intention to integrate further over the next 3-5 years.
LEADER	Firm sets a high best practice standard of ESG integration, e.g. ESG risks & opportunities quantified and included in deal memos & review.

What does a neutral, integrator and leader response look like?

WHAT DOES A “NEUTRAL” RESPONSE LOOK LIKE?

GATE #	EXAMPLE NEUTRAL GP
<p>Gate 1</p>	<p>Strategic Management</p> <ul style="list-style-type: none"> • The GP has no ESG policy in place or if there is one, it is vague / has no clear link to financial materiality. • They have no dedicated ESG resource or no obvious governance oversight of ESG integration by senior deal team. • No ESG or diversity initiatives are underway, any under consideration are likely going to be siloed from the deal team & process. <p>Investment Process</p> <ul style="list-style-type: none"> • Deal team are at best ESG “aware”- there is no explicit process to integrate ESG analysis into investment decisions. • Deal team rarely raise ESG issues with company management or operators. • Limited access to ESG data and little evidence of it being utilized. <p>Reporting</p> <ul style="list-style-type: none"> • No, or limited, ESG portfolio or incident reporting is made available to clients
<p>Gate 2</p>	<ul style="list-style-type: none"> • There are no formal ESG expectations for portfolio companies. • There is no portfolio-wide ESG analysis being conducted. • Any limited ESG information supplied is done so on an ad-hoc, case-by-case basis, where material issues arise.
<p>Gate 3</p>	<ul style="list-style-type: none"> • In response to these questions, the deal team may demonstrate a cursory grasp of the material ESG issues at the sector level i.e. they are unlikely to offer many specific examples or go into significant detail. • The deal team may point us to the external consultant/law firm/auditor, etc. during diligence findings but demonstrate minimal knowledge /accountability for the findings.

WHAT DOES AN “INTEGRATOR’S” RESPONSE LOOK LIKE?

GATE #	EXAMPLE INTEGRATOR GP
<p>Gate 1</p>	<p>Strategic Management</p> <ul style="list-style-type: none"> • ESG policy clearly outlines the steps being taken towards integration over the next 3-5 years. • GP likely commits to some best practice codes or reporting frameworks such as PRI / GRESB / ILPA • Firm intends to, or has already, designated senior ESG champions either within deal team or planning to hire dedicated ESG resource that works closely with the deal team. • Some good evidence of deal team’s involvement in ESG activities. <p>Investment Process</p> <ul style="list-style-type: none"> • There is a process in place or in development to track the financial materiality of ESG issues for different portfolio companies. • Deal team identifies ESG risks or areas that could be improved upon • The GP is starting to include ESG assessment in investment memos for new deals and quarterly reviews. <p>Reporting</p> <ul style="list-style-type: none"> • Starting to develop ESG KPIs to track & report • Some level of regular ESG reporting provided to all clients
<p>Gate 2</p>	<ul style="list-style-type: none"> • While recognizing companies are at different stages of maturity, the GP is beginning to formalize the process of setting ESG expectations to portfolio companies in a more systematic way • Post acquisition, the GP works with the companies to address identified ESG improvement areas or to ensure minimum standards.
<p>Gate 3</p>	<ul style="list-style-type: none"> • The deal team provides some recent and relevant deal examples for the sector being discussed • The deal team references, tracks and takes accountability for the material ESG due diligence findings • Examples are more ad-hoc than systematic

WHAT DOES A “LEADER’S” RESPONSE LOOK LIKE?

GATE #	EXAMPLE LEADER GP
<p>Gate 1</p>	<p>Strategic Management</p> <ul style="list-style-type: none"> • ESG forms part of firm’s brand / culture / investment philosophy / vision. • Deal team provided with formal ESG training opportunities • ESG may be included in deal team’s objectives and/or incentive packages. • Deal team leads directly, or works in tandem with dedicated ESG team, on day-to-day ESG activities <p>Investment Process</p> <ul style="list-style-type: none"> • Deal team demonstrate a high degree of leadership, integrity and authenticity on ESG issues. • Clear framework in place to determine financial materiality for different portfolio companies. • Deal team has clear process to account for ESG factors as value drivers & to monitor and track the value-add of ESG changes introduced at portfolio companies. • ESG risks quantified and included in deal memo and quarterly reviews • Lessons learned are recorded as part of the continuous improvement. <p>Reporting</p> <ul style="list-style-type: none"> • ESG incident reports provided at the portfolio-level. • There are efforts underway to attribute ESG integration activities to risk management and investment performance over time. • Detailed KPIs reported in line with best practice guidance.
<p>Gate 2</p>	<ul style="list-style-type: none"> • GP is tracking all of the KPIs outlined in Gate 2 in accordance with their ESG materiality framework. • Where gaps exist, GP sets a specific date when they would expect the portfolio to start tracking and putting in place related procedures.
<p>Gate 3</p>	<ul style="list-style-type: none"> • Deal team has a sound grasp of the ESG issues most material for their sector (from both a risk and an opportunity perspective) • Deal team provides examples of how sector ESG analysis impacts deal sourcing, investment due diligence, and value creation • Deal team candidly, without prompting, provides examples of deals where ESG has been materially accretive, and deals for which there have been negative ESG implications

LEADER EXAMPLE

The following are excerpts from a response we received from one of our GPS to the data security questions outlined in Gate 3

IT Security

- “We require all organizations to hold policies covering appropriate management of IT and Information Security and monitor changes through the company boards.”
- “Post investment, companies will typically undertake activities such as penetration testing, business continuity testing, scalability planning and other measures of IT resilience and quality.”
- “All group company CTOs are invited to a bi-annual Group wide CTO forum where wider points are discussed, and XYZ may conduct more in-depth reviews or interventions where issues, vulnerabilities and risks are identified.”

Intellectual Property protection

“Portfolio companies will typically seek to protect intellectual property rights through a number of standard mechanisms including:

- Registration of brands, websites, software and other IP with appropriate authorities in target markets
- Robust contracts with both suppliers and staff to ensure all IP rights are retained by the appropriate companies
- Contractual protection is typically sought from suppliers for their infringement of third party IP
- Warranty protection is typically achieved upon deal entry for historical issues”

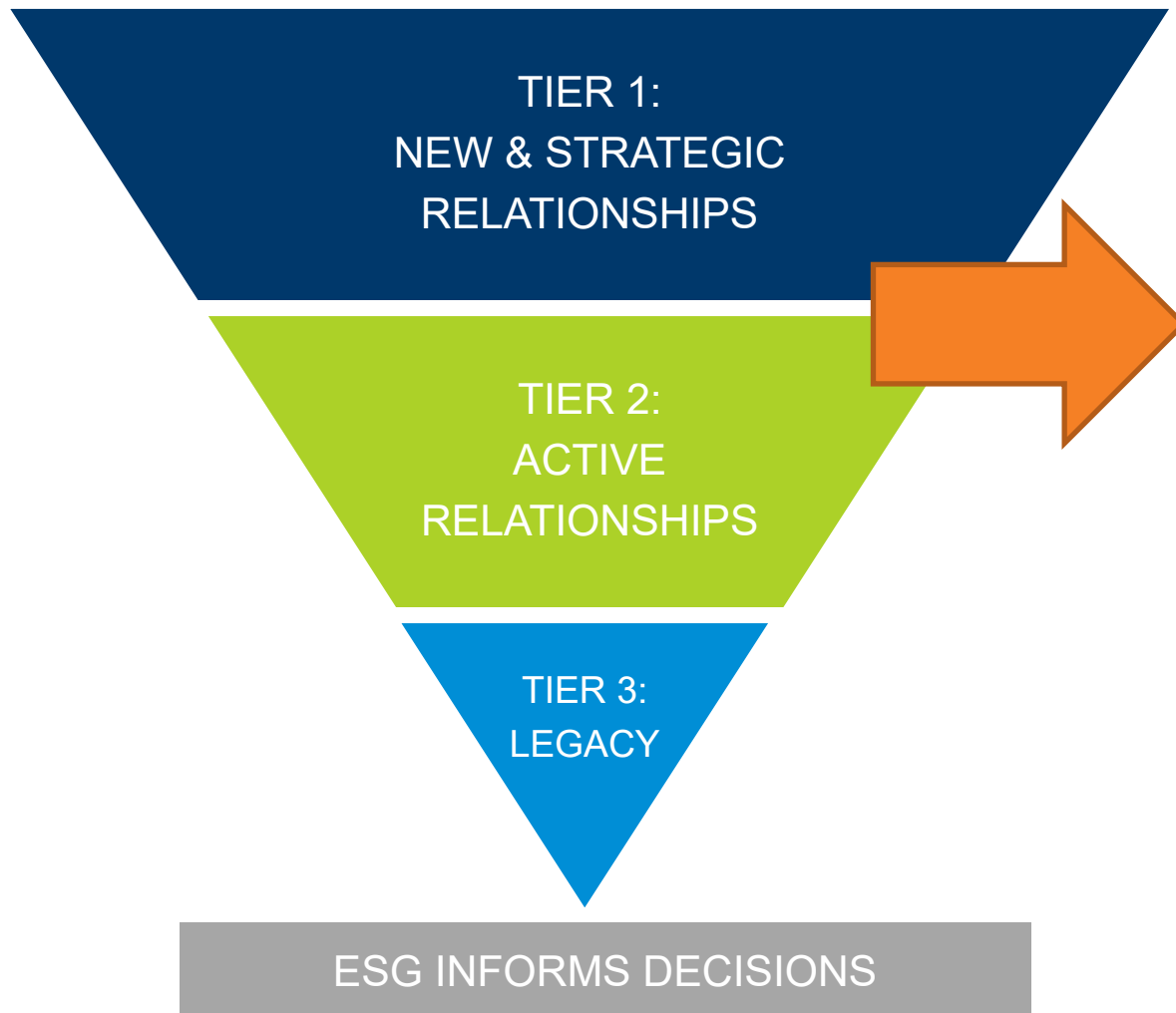
Data protection

- “Portfolio companies are required to maintain compliance with the data protection principles set out in the GDPR and the Data Protection Act 2018”.
- “When identifying potentially new methods to use personal data for revenue opportunities, portfolio companies should undertake a Privacy Impact Assessment to establish what privacy risks may arise from the new data processing, and how they may affect both the customer, and their own compliance with data protection law.”
- “The Privacy Impact Assessment should identify the risks and any mitigating circumstances or controls, in order to determine whether the new processing will result in an acceptable level of data protection risk.”
- “In the event that the Privacy Impact Assessment concludes that the processing is high risk, then the portfolio company must engage with the data protection Competent Authority (usually the information regulator) before proceeding to implement the new processing.”



STEP 3: INFORM DECISIONS

PRIORITIZE WORKFLOW BY TIER OF RELATIONSHIP



Integrating ESG in GP Selection & Monitoring

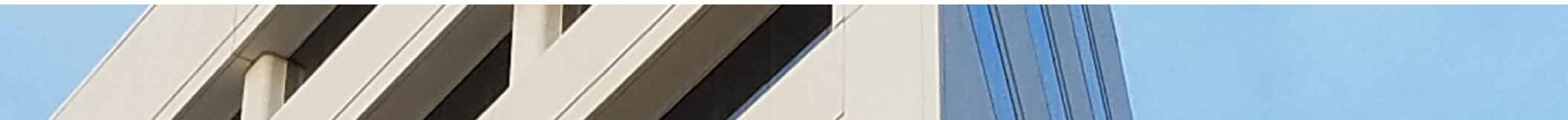
- ESG due diligence is an iterative process.
- Given the resource intensive nature of ESG due diligence, reviewing all existing partnerships will take time.
- All new commitments to go through ESG due diligence & an ESG section will be included in underwriting documents for decisions by Investment Committee.
- If feasible, include ERSRI exclusions in LPA / Side letter.
- For Tier 1 and 2 GPs, ESG will be an agenda item for the annual fund review & we will provide guidance on specific ESG metrics & reporting (i.e. SASB)
[see Appendix B for I.T. example]



APPENDIX A: I.T. MATERIAL ESG ISSUES & QUESTIONS

I.T. ESG QUESTIONS TO ASK DEAL TEAM IN PERSON

MATERIAL ESG RISKS & OPPORTUNITIES	EXAMPLE QUESTIONS
<ul style="list-style-type: none"> • Environmental Footprint of Hardware Infrastructure • Product End-of-life Management • Data Privacy, Security & Freedom of Expression • Recruiting & Managing a Global, Diverse Skilled Workforce • Managing Systemic Risks from Technology Disruptions • Intellectual Property Protection & Competitive Behavior & Open Internet 	<ul style="list-style-type: none"> • Do you analyze/ seek to improve a company’s ability to optimize energy and water use (especially in water-stressed regions)? Do you assess environmental considerations factor into strategic planning for data centers? • How do you identify areas for improving materials efficiency and reducing waste, including through recycling? • How do you assess a portfolio company’s ability to balance the use of customer personal data for revenue opportunities with legal risks and maintaining customer trust? Do you analyze exposure to government-required monitoring, blocking, content filtering, and censoring of data? How do you assess the approach to collecting and using customer data for secondary purposes? What efforts are investee companies expected to take to identify and address vulnerabilities and threats as well as prevent data security breaches? Do you expect companies to integrate third-party cybersecurity standards into its data security practices? • Do you assess if portfolio companies have sufficient access to labor, including qualified technical STEM candidates? How do you assess a company’s ability to attract, recruit, and retain qualified technical candidates? Do you track diversity programs throughout the organization, specifically at management levels and in technical positions? • How are portfolio companies expected to prevent and respond to performance issues and service disruption? • Do you assess compliance with applicable regulations related to anti-competitive behavior? Do you assess the risks and opportunities associated with net neutrality, paid peering, zero rating, and related practices?



APPENDIX B: I.T. ESG GUIDANCE FOR GPs

I.T. SOFTWARE & SERVICES GUIDANCE

TOPIC	ACCOUNTING METRIC	UNIT
Environmental Footprint of Hardware Infrastructure	Total energy consumed, percentage grid electricity, percentage renewable energy	Gigajoules, percentage (%)
	Description of the integration of environmental considerations to strategic planning for data center needs	n/a
Data Privacy, Security & Freedom of Expression	Discussion of policies and practices relating to collection, usage, and retention of customers' information and personally identifiable information	n/a
	Percentage of users whose customer information is collected for secondary purpose, percentage who have opted-in	percentage (%)
	Amount of legal and regulatory fines and settlements associated with customer privacy	U.S. dollars (\$)
	Number of government or law enforcement requests for customer information, percentage resulting in disclosure	Number, percentage (%)
	List of countries where core products or services are subject to government-required monitoring, blocking, content filtering, or censoring	n/a
	Number of data security breaches and percentage involving customers' personally identifiable information	Number, percentage (%)
Recruiting & Managing a Global, Diverse Skilled Workforce	Discussion of management approach to identifying and addressing data security risks	n/a
	Percentage of employees that are (1) foreign nationals and (2) located offshore	percentage (%)
	Employee engagement as a percentage	percentage (%)
Managing Systemic Risks from Technology Disruptions	Percentage of gender and racial/ethnic group representation for: (1) executives and (2) all others	percentage (%)
	Number of (1) performance issues and (2) service disruptions; total customer downtime	Number, Days
Intellectual Property Protection & Competitive Behavior	Discussion of business continuity risks related to disruptions of operations	n/a
	Number of patent litigation cases, number successful, and number as patent holder	Number
	Amount of legal and regulatory fines and settlements associated with anti-competitive practices	U.S. dollars (\$)

Source: Sample from Sustainable Accounting Standards Board

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