PLAN SPONSOR ACADEMY

Environmental, Social and Governmental (ESG) Fund Best Practices for Plan Sponsors

Socially responsible investing has grown in popularity as investors become more aware of how organizations operate from an environmental, social and governance perspective.

Environmental factors may include a company's carbon output, overall resource consumption and impact to air and water quality.

Social factors include the types of business relationships the company maintains and how the organization treats people overall.

Structural or governance factors include the level of transparency, conflicts of interest and Board composition.

As a result, plan sponsors are considering Environmental, Social and Governmental (ESG) fund options as employee's interest in ensuring their money has a positive impact on society continues to grow.

Rules Surrounding ESG Funds:

In December of 2020, the DOL released a rule for plan sponsors when considering Environmental, Social and Governmental (ESG) focused investments as options in their retirement plans. The rule required that plan sponsors must select investments for their plan based on financial factors that are in the best interests of plan participants, such as fees, returns and fund composition. However, in March of 2021, the Biden Administration announced it will not enforce the recent DOL rule related to ESG investments, creating added uncertainty for plan sponsors.

Best Practices:

Considering the change in direction, what are the best practices for plan sponsors when considering ESG funds? As fiduciaries, plan sponsors have a duty of loyalty to make decisions in the best interest of the plan participants. When considering the inclusion of ESG investments, plan sponsors should:

1. Review their Investment Policy Statement for any language or direction involving ESG investments. It is advised that plan investments, including ESG funds, meet the Investment Policy Statement criteria to remain in the plan or to be considered for the plan, regardless of non-pecuniary factors such as societal impact.

2. Consider offering an ESG fund in an asset class along with a non ESG fund as well, provided that both meet the performance criteria outlined in the investment policy statement.

3. It is important for plan sponsors to note that the March 10th ruling applies to DOL enforcement actions only and does not address other risks plan sponsors face when selecting investments for their participant directed retirement plans. Plan sponsors must still follow ERISA rules for all investment lineup decisions.

As the popularity of ESG investing continues to grow, we can expect additional guidance in the future. As a CEFEX certified advisor, Innovative is well qualified to assist plan fiduciaries with their investment decisions. For more information on socially responsible investing and an analysis of ESG funds for your plan, please feel free to contact us at **resources@iifria.com.**