NOV 2019

Illinois Sustainable Investing Legislative Update

As sustainability factors are increasingly being incorporated into the underlying investment processes at the corporate, manager, and investor levels, it's not surprising that the Illinois General Assembly has taken up the issue in recently passed legislation. The Illinois Sustainable Investing Act (the "Act"), formally cited as Public Act 101-0473, was signed into law by Governor Pritzker with an effective date of January 1st, 2020. The goal of the Act is to recognize that sustainability factors[1] play an important role in an investment's overall performance and the creation of long-term value. The Act further defines a duty for public agencies and governments to recognize and evaluate these factors. It is important to note that the Act specifically states that its purpose is to prudently integrate sustainability factors to maximize anticipated financial returns, minimize projected risks, more effectively execute fiduciary duties, and contribute to a more just, accountable, and sustainable State of Illinois. The stated goals and purposes are distinct from socially-responsible/mission-aligned investing and are instead returns-focused, incorporating environmental, social and governance factors into an investment's risk analysis.

In terms of implementation, the Act is straightforward; public agencies[2] should develop, publish and implement sustainable investment policies to govern the management of public funds.[3] The Act further amends the Deposit of State Moneys Act, the Public Funds Investment Act, and the Illinois Pension Code to require the Treasurer, public agencies, retirement systems, pension funds, and investment boards (as defined under and governed by those respective pieces of legislation) to include the sustainable factors when making investment decisions. According to the Act, such factors include, but are not limited to: (i) corporate governance and leadership factors; (ii) environmental factors; (iii) social capital factors; (iv) human capital factors; and (v) business model and innovation factors. Examples and additional guidance for each underlying factor can be found in the Act and on the State Treasurer's website.

NEXT STEPS: For impacted clients, Marquette recommends adding the following language to your investment policy statement: **"Material, relevant, and decision-useful sustainability factors have been or are regularly considered by the [name of governing board of governmental agency], within the bounds of financial and fiduciary prudence, in evaluating investment decisions."** As previously noted, many investment managers already incorporate these factors into their risk analysis and underlying investment process; your consultant will work with your investment managers to fully incorporate these investment policy changes.

[1] **Sustainability factors** means factors that may have a material and relevant financial impact on the safety or performance of an investment and which are complementary to financial factors and financial accounting.

[2] **Public agency** means the State of Illinois, the various counties, townships, cities, towns, villages, school districts, educational service regions, special road districts, public water supply districts, levee districts, sewer districts, housing authorities, the Illinois Bank Examiners' Education Foundation, the Chicago Park District, and all other political corporations or subdivisions of the State of Illinois, now or hereafter created, whether herein specifically mentioned or not.

[3] **Public funds** means current operating funds, specialty funds, interest and sinking funds, and funds of any kind or character belonging to or in the custody of any public agency.

PREPARED BY MARQUETTE ASSOCIATES

180 North LaSalle St, Ste 3500, Chicago, Illinois 60601
CHICAGO BALTIMORE MILWAUKEE PHILADELPHIA ST. LOUIS

PHONE 312-527-5500
WEB MarquetteAssociates.com

About Marquette Associates

Marquette Associates is an independent investment consulting firm that guides institutional investment programs with a focused client service approach and careful research. Marquette has served a single mission since 1986 – enable institutions to become more effective investment stewards. Marquette is a completely independent and 100% employee-owned consultancy founded with the sole purpose of advising institutions.

For more information, please visit www.marquetteassociates.com.