Peninsula Clean Energy

Environmental, Social, and Governance Investment Solutions

June 8, 2020

PFM Asset Management LLC

50 California Street
Suite 2300
San Francisco, CA 94111

415.982.5544
pfm.com

Agenda

- Introduction to ESG Investing
- PFM's Fixed Income ESG Investment Approach
- ESG Investment Criteria Options
- Appendix: Measuring & Monitoring ESG Risk Exposure

Introduction to ESG Investing

Approaches to Sustainable Investing

SRI

Avoid socially adverse industries like fossil fuels, tobacco, alcohol, and weapons

Impact

Seek companies that have a direct impact on positive social change like clean energy

ESG Integration

Systematically consider environmental, social, and governance performance

Negative Screening — Positive Screening — Risk Mitigation

What is ESG Investing?

- ESG investing is a sustainable investment approach
  - More inclusive than Socially Responsible Investing (exclusionary approach)
  - Broader in scope than thematic and impact investing
- Incorporates **measurable non-financial ESG factors** into an investment analysis

ENVIRONMENTAL

How a company limits its environmental impact and carbon footprint

SOCIAL

How a company treats its employees, customers, community, and other companies with which it interacts

GOVERNANCE

How a company is led, including executive pay and any internal controls

PFM’s Fixed Income ESG Investment Approach

PFM's Fixed Income ESG Investment Solution

- Our approach provides our clients with the tools and methodology to implement a customized ESG fixed income investment solution for their Separately Managed Accounts

Evaluate

- Determine objectives of each fund
- Analyze cash flow requirements
- Review IPS and bond resolutions
- Understand ESG investment objectives

Strategize

Construct custom portfolios

- Establish duration targets
- Develop strategic asset allocation
- Select benchmarks

Define ESG investment parameters

- Set ESG risk ratings
- Screening
- Identify approved issuers

Criteria Applied to Identify Permitted Investments

1st: State Law

2nd: Investment Policy

3rd: PFM's Approved Credit List

4th : ESG Investment Parameters (Applied to Corporate Obligations)

Implement & Manage

- Evaluate market conditions
- Implement strategy
- Actively manage and monitor

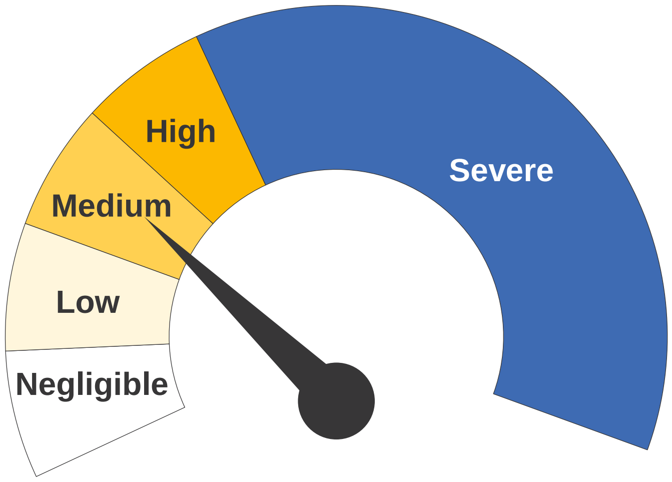
Measure & Report

- Provide comprehensive reporting
- Measure quarterly performance

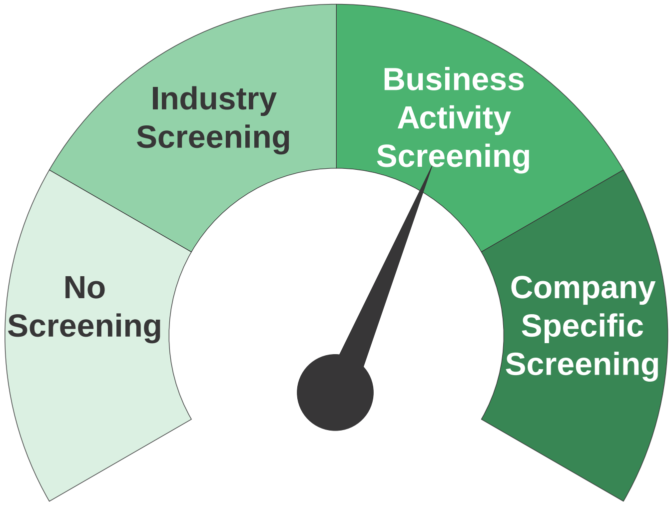
Our ESG Solution Offers Many Advantages

- Flexibility to implement customized ESG strategies (based on Sustainalytics framework)
- Transparent, practical, not overly complicated
- “Rules-based” approach eliminates ambiguity by setting defined ESG parameters (based on Sustainalytics framework)

Maximum ESG Risk Rating Level



Screening Preferences



ESG Investment Criteria Options

Potential ESG Approaches

ESG Approaches	ESG Evaluation Focus

Approach #1
 	
Limit Environmental Risk Exposure
	• Issuers with significant exposure to material environmental risks, such as:
	    • Emissions, Effluents, and Waste
	    • Carbon Output & Impact
	    • Land Use & Biodiversity
	    • Resource Use

Approach #2
 	
Limit Fossil Fuel Exposure
 	
Limit ESG Risk Exposure
	• Limit exposure to fossil fuel industries.
	• Limit exposure to issuers with significant exposure to material social risks, such as:
	    • Community Relations
	    • Data Privacy & Security
	    • Human Rights & Human Capital Management
	    • Occupational Health & Safety
	• Evaluate corporate governance practices

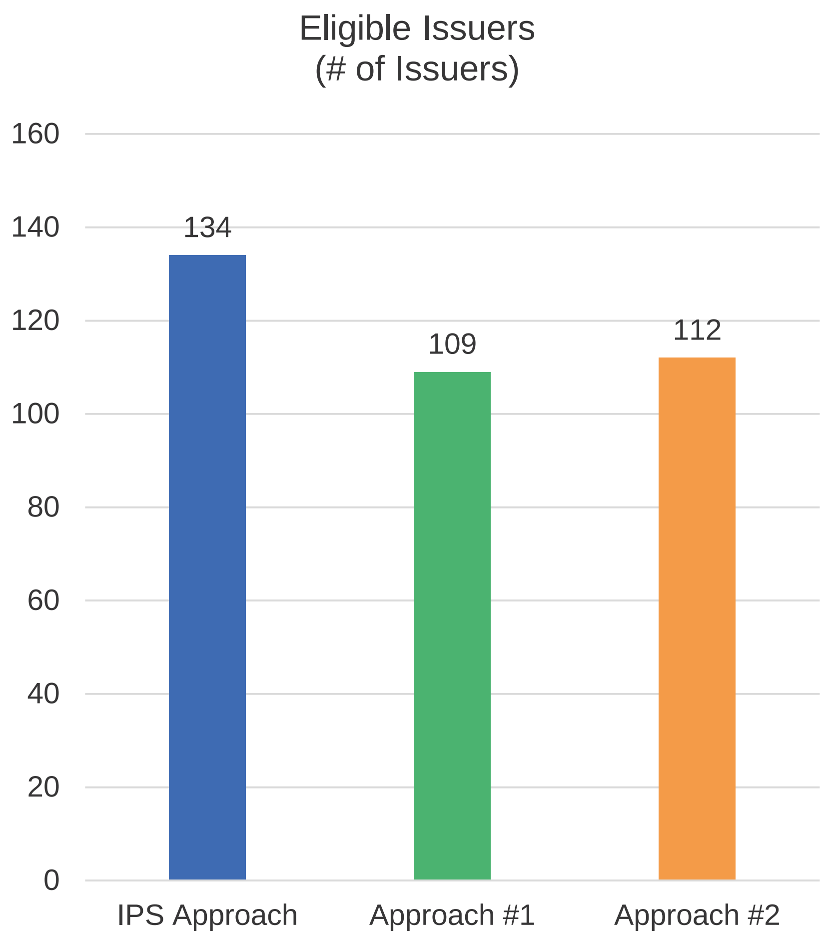
ESG Approach #1

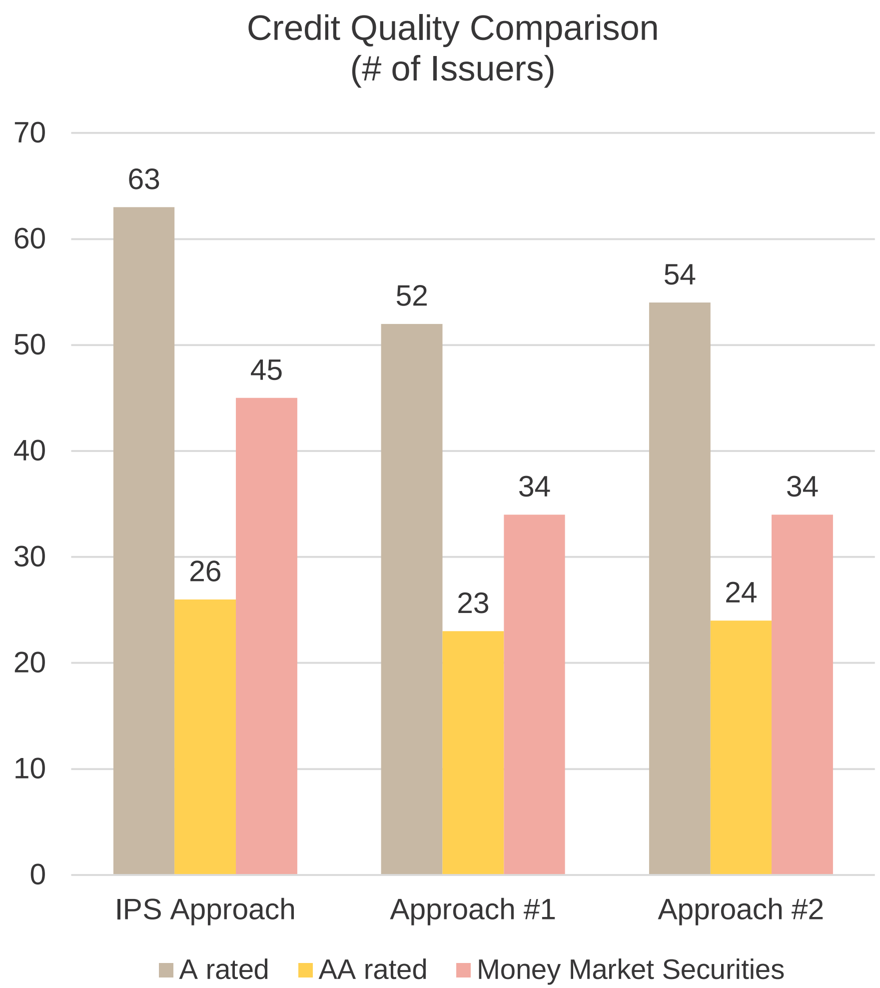
ESG Approach #2

ESG Investment Approach Summary

ESG Approach	ESG Criteria	Strategy Considerations
<u>ESG Approach #1</u> **Limit Environmental Risk Exposure**	An eligible issuer's environmental risk exposure can be no greater than 7.5 points of its ESG risk score	• Broader based environmental risk management approach. • Would significantly reduce exposure to issuers and industries with materially higher environmental factors.
<u>ESG Approach #2</u> **Limit Fossil Fuel Exposure** **Limit ESG Risk Exposure**	**<u>Exclusions</u>** – Exclude issuers in the Energy Services, Oil & Gas Producers, Refiners & Pipelines Industries	• Reduces environmental risk exposure by excluding issuers involved in the exploration, direct production, refinement, and transportation of fossil fuels.
	<u>Issuer ESG Risk Category</u> - Medium or lower **<u>Top ESG Performers Exception</u>** – Issuers in the "High" ESG risk category that are also in the top quartile (25%) of their subindustry may be included in the portfolio	• Incorporates broader ESG assessments, including socially related risk exposure. • Top ESG Performers exclusion rewards top performers in industries with higher ESG risk exposure.

Impact on Eligible Issuers





Evaluating & Comparing Direct Costs and Potential Opportunity Costs

Direct Costs & Opportunity Costs	Approach #1 (Environmental Approach)	Approach #2 (Environmental Exclusions & ESG Approach)
PFM Fee Impact	1.0 additional basis points (+0.01%) on AUM	1.5 additional basis points (+0.015%) on AUM
Custody & Trading Costs	N/a – Change in approach would not change custody fees or significantly impact trading activity	
Diversification Opportunities	Reduction in approved issuers. Remaining approved issuers provide diversification opportunities	
Yield & Investment Return Impact	Undetermined. Dependent on a number of factors, including: • Portfolio composition • Liquidity • Credit quality • Change in yield spreads • Direction of interest rates	

Next Steps

- Work with the PCE to determine ESG investment objectives & parameters and incorporate any changes to the Investment Policy Statement
- Execute an amended investment advisory agreement
- Identify ESG eligible permitted investments based on ESG investment parameters
- Monitor the ESG risk ratings of the investments in the PCE's portfolio
- Review, discuss, and refine the investment approach as needed

Appendix: Measuring & Monitoring ESG Risk Exposure

Who is Sustainalytics & What is the ESG Risk Rating?

- A firm dedicated to independent ESG and corporate governance research, ratings, and analysis
  - Supports investors around the world with the development and implementation of responsible investment strategies, as it has done for over 25 years
  - Continuously conducts in-depth research and analysis on over 16,000 public and private companies
- Sustainalytics' **ESG Risk Ratings** enable investors to evaluate different organizations, using a consistent methodology, by quantitatively defining a company's material ESG exposure on a scale of 0-100

ESG Risk Rating Scale

Negligible	Low	Medium	High	Severe
0-9.99	10-19.99	20-29.99	30-39.99	40-100

Lower scores = lower ESG risk

How is ESG Risk Exposure Determined?

- The **ESG Risk Rating** measures **economic value** at risk based on exposure to **unmanaged ESG Risks**
- An organization's ESG risk assessment is based on two primary factors:
  - **ESG Risk Exposure** – Determined at the subindustry level with adjustments for company-specific risk exposure levels
  - **Management of ESG Risk Exposure** – Based on policies, programs, quantitative performance, controversies, and corporate governance

Unmanageable Industry-specific risks (carbon for oil companies)

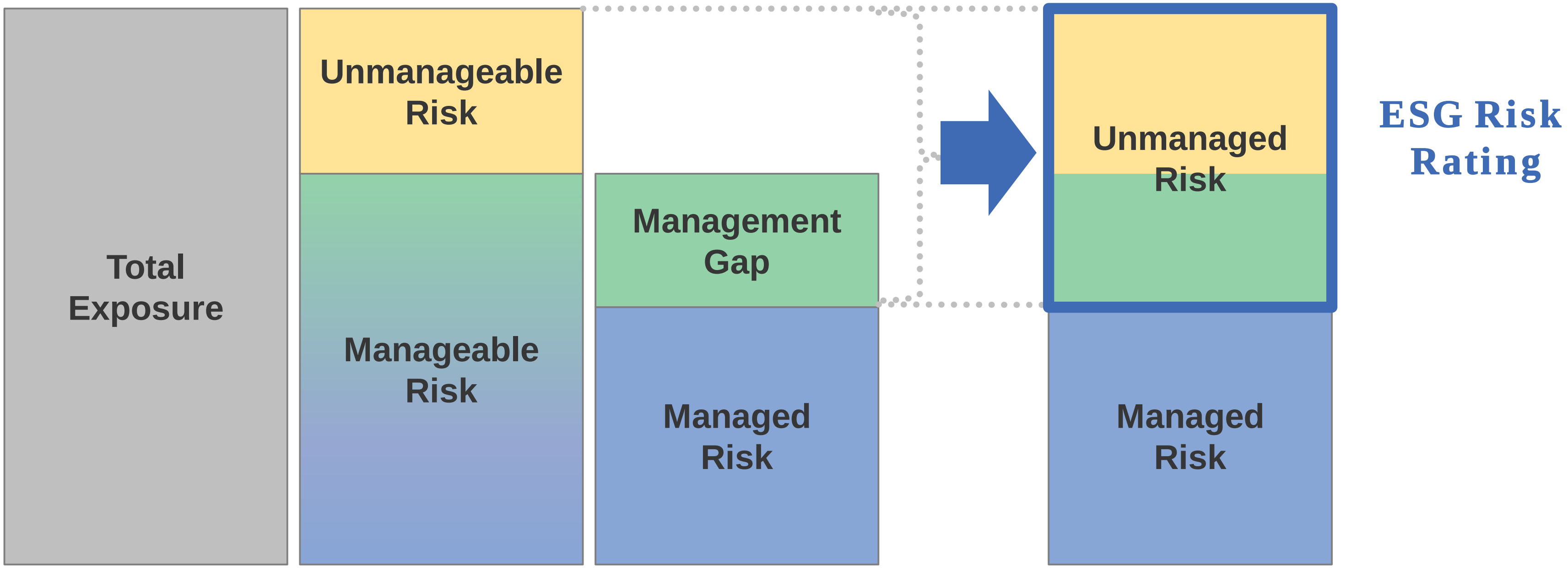
Manageable ESG Risk that is not being managed

ESG Risk Rating* = *Unmanageable ESG Risk* + *Management Gap

Source: Sustainalytics

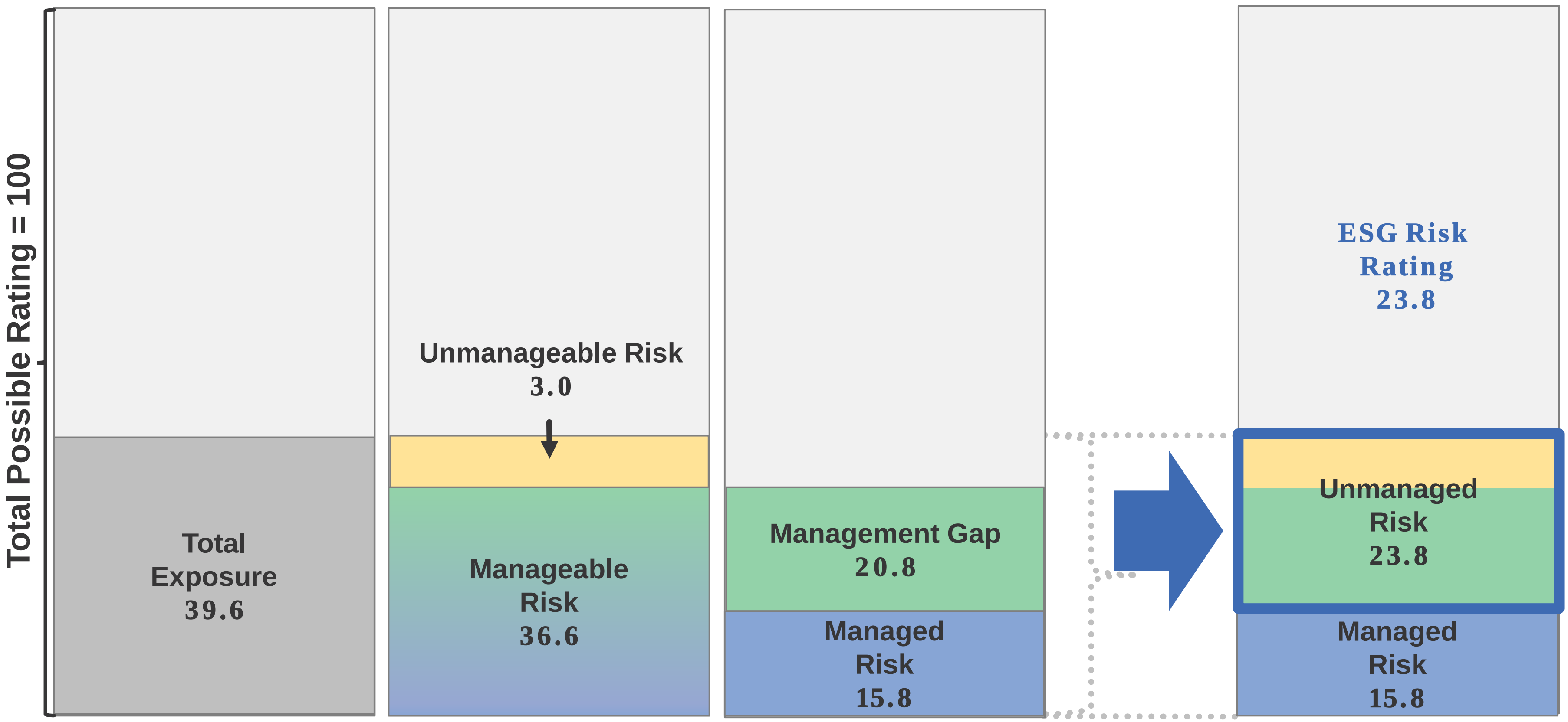
ESG Risk Rating Decomposition

- **Total Exposure** is the starting point for a company's exposure to material ESG issues
- Some companies have **Unmanageable Risks**, e.g. an oil company will always face risks related to carbon until it changes its business model
- Of the **Manageable Risk**, a portion is managed through a company's policies, programs, management services, etc.; the remainder is considered unmanaged (**Management Gap**)
- The **ESG Risk Rating** evaluates unmanaged ESG risk



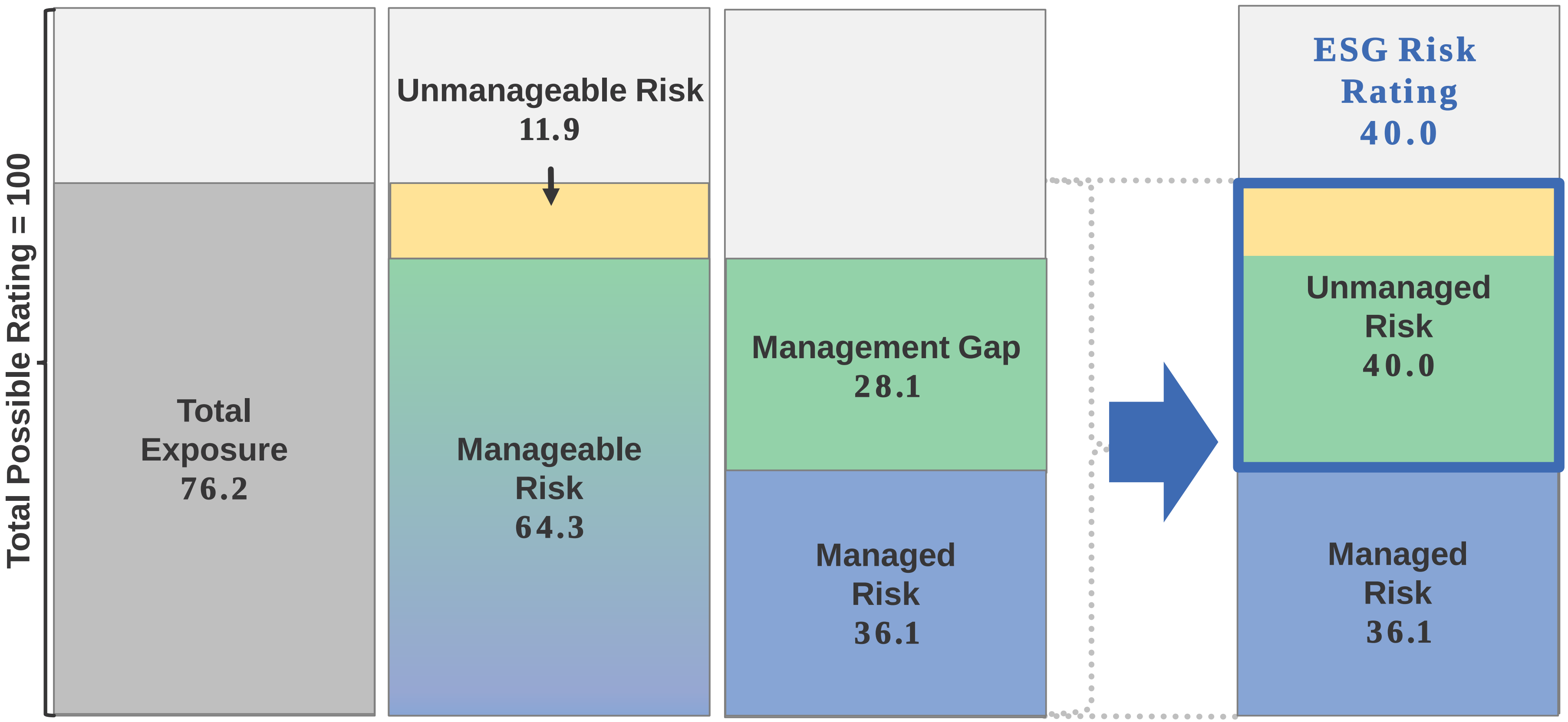
Source: Sustainalytics

ESG Risk Rating Example Calculation – Apple Inc.



Source: Sustainalytics. Last updated March 31, 2020. Illustration not drawn to scale.

ESG Risk Rating Example Calculation – Chevron Corp.



Source: Sustainalytics. Last updated March 31, 2020. Illustration not drawn to scale.

ESG Risk Rating Decomposition Example Calculation

Apple Inc.
ESG Risk Rating 23.8

ESG Breakdown / **Material ESG Issue Scores**

ESG Breakdown	Material ESG Issue	Score
Environment 1.3 (5%)	Carbon - Own Operations	0.5
	Product Governance (E)	0.8
Social 11.8 (50%)	Data Privacy and Security	5.2
	Human Rights - Supply Chain	1.1
	Human Capital	5.3
	Product Governance (S)	0.2
Governance 10.7 (45%)	Corporate Governance	3.6
	Business Ethics	7.1

Chevron Corp.
ESG Risk Rating 40.0

ESG Breakdown / **Material ESG Issue Scores**

ESG Breakdown	Material ESG Issue	Score
Environment 18.3 (45%)	Emissions, Effluents and Waste	5.0
	Carbon - Own Operations	5.2
	Carbon - Products and Services	5.4
	Land Use and Biodiversity	1.0
	Resource Use	1.1
	Occupational Health and Safety	0.7
Social 11.4 (29%)	Community Relations	4.8
	Human Capital	1.7
	Occupational Health and Safety	4.9
Governance 10.3 (26%)	Corporate Governance	4.0
	Bribery and Corruption	3.9
	Business Ethics	2.4

Source: Sustainalytics. Last updated March 31, 2020. Illustration not drawn to scale. MEI scores might not add up to ESG breakdown scores due to rounding.

Sustainalytics Industry Categories

- Sustainalytics has categorized each rated organization into 42 different industries and 137 subindustries
- ESG criteria may include an exclusionary component with exclusions based on specific industries and subindustries

Aerospace & Defense	Construction & Engineering	Electrical Equipment	Industrial Conglomerates	Precious Metals	Technology Hardware
Auto Components	Construction Materials	Energy Services	Insurance	Real Estate	Telecommunication Services
Automobiles	Consumer Durables	Food Products	Machinery	Refiners & Pipelines	Textiles & Apparel
Banks	Consumer Services	Food Retailers	Media	Retailing	Traders & Distributors
Building Products	Containers & Packaging	Healthcare	Oil & Gas Producers	Semiconductors	Transportation
Chemicals	Diversified Financials	Homebuilders	Paper & Forestry	Software & Services	Transportation Infrastructure
Commercial Services	Diversified Metals	Household Products	Pharmaceuticals	Steel	Utilities

Source: Sustainalytics

Disclosures

This material is based on information obtained from sources generally believed to be reliable and available to the public, however PFM Asset Management LLC cannot guarantee its accuracy, completeness or suitability. This material is for general information purposes only and is not intended to provide specific advice or a specific recommendation. All statements as to what will or may happen under certain circumstances are based on assumptions, some but not all of which are noted in the presentation. Assumptions may or may not be proven correct as actual events occur, and results may depend on events outside of your or our control. Changes in assumptions may have a material effect on results. Past performance does not necessarily reflect and is not a guaranty of future results. The information contained in this presentation is not an offer to purchase or sell any securities.

Sample portfolio is provided for illustrative purposes only and is not a recommendation.

As economic and market conditions may change in the future, so may PFM's recommendations as to the sale and purchase of securities in the portfolio.

There is no guarantee the investment objectives will be achieved as the investment portfolio will only include holdings consistent with the applicable Environmental, Social, and Governance (ESG) guidelines. As a result, the universe of investments available will be more limited. ESG criteria risk is the risk that because the investment portfolio ESG criteria excludes securities of certain issuers for nonfinancial reasons, the investment portfolio may forgo some market opportunities that would be available to investment portfolios that do not apply ESG criteria.