

# Environmental, Social and Governance (ESG) strategy

## Q&A with Erica Bergsland

August 2022

**Q: It's the one-year anniversary of Securian Financial and Securian Asset Management signing the UN Principles for Responsible Investment (PRI), and the first anniversary of you being named head of ESG for Securian Asset Management. What has the year been like?**

**A:** Intense! We've spent a lot of time this year thinking about how we can work with strategy owners to define their ESG toolkit in a way that they can ultimately act on it, and how we as a firm can be helpful in setting goals both for ourselves and in partnership with Securian Financial.

**Q: How do the six principles in the PRI (see sidebar) align with the investment process?**

**A:** It's not necessarily a sequential process, where you work on one principle, cross it off the list, and move to the next one. The commitment requires a holistic approach, integrating ESG into our mindset and aligning it with our investment process.

PRI Signers are asked for proof statements, and a demonstration that they're actively incorporating ESG into what they do. We've been very active in thinking about how to handle disclosures, for example. We've also been participating in educational activities, both as a listener and a presenter on panels that are relevant to an asset class. Even though we are in the early stages, I think our experience is really useful to other companies contemplating getting into new ESG commitments.



**Erica Bergsland, CFA,** is Senior Vice President and Chief Risk Officer at Securian AM. She joined the firm in 1993 as an investment officer in structured finance, and has since held a variety of positions before moving into her current role in 2021. She leads the Environmental, Social and Governance (ESG) approach, a challenge that maximizes her deep management and investment experience. We asked her about how she approaches her task, and found that her interest in the topic doesn't exactly end when her workday does.

**Q: Have you turned to any particular role model to help develop your ESG strategy?**

**A:** Not really, and here's why: Every investment firm worth its salt has a unique investment process. The important thing is that your ESG integration actually leverages existing decision-making frameworks. For example, industry-specific ESG considerations will be folded into our existing sector reviews within the corporate bond investment process.

We do want to think about how we weave ESG into the relevant parts of what we're already doing. That means we're not going to be making ESG-driven investment decisions that are scaled through the portfolio immediately, because we need to complete level setting and other work. We want to build a framework that ultimately plugs into a decision-making process.

**Q: How do you gauge progress when this is such a complex, multifaceted process?**

**A:** We're going to get a pretty good idea early next year when we submit our annual PRI assessment. Right now we're working on foundation building and some individual strategies and work products. Given that we're in the middle of the year we are taking a harder look at that assessment, identifying where there are gaps and determining if we can push a few things to enhance our responses.

**Q: How interested are clients, partners and potential partners & clients in these ESG initiatives?**

**A:** I think everyone is interested on some level. Even the skeptics have a board of directors or stakeholders who want to know how they're integrating ESG into their own processes.

Our most important client, Securian Financial, is very interested. ESG is one tool in their broader corporate responsibility toolkit, and because they also are a signer of the PRI their needs are informing much of our work. They have made a big commitment around ESG and CSR (corporate social responsibility), but they want to do the implementation in a way that makes sense for the portfolio, which in turn is dictated by the needs of our product lines and regulatory framework.

**Q: One of the early criticisms of ESG investing is that it isn't fair to ask private investors to create public policy. Is that how you see it?**

**A:** ESG practices are not a substitute for sound public policy, but I don't think public policy will move in the right direction without people normalizing these conversations.

Signing the PRI, sharing win/wins that work within our investment framework, and endorsing the idea that climate change is real and that collective action is necessary to drive solutions are all things that we can do to normalize the conversation with policymakers. What gives me hope is that this is not only what we need to be thinking about, but it's also necessary to grow the economy in a sustainable way and for us to produce the returns that we need to run our business. Securian Financial by itself isn't going to move the dial; you have to work collectively. That's a great reason for participating in the PRI.

As a final note, I think even as a PRI signer, that's it's OK for us not to be perfect, and for us to reveal and create transparency about what we are and aren't doing, and let the market give us feedback.

**Q: What do you tell people who are impatient for results?**

**A:** I tell them that this is a process rather than an event. E S & G are three very different things. There are going to be a lot of false starts as the market tries to sort out what the most important underlying factors are, and those are going to be different for every investor given their investment mandates and what the real risks and opportunities are within the securities set they are facing.

It's progress when you can have a fact-based conversation about tradeoffs. Just because it's painstakingly slow doesn't mean that this progress isn't important to us as a company and as an accountable investor.

Ultimately, we will create a roadmap for taking action. And I'm really excited to see where the road goes.

**Q: What has been your biggest challenge so far?**

**A:** There's no question that it's systems and data. We don't have ESG data, holdings data and portfolio analytical tools all in one place that allows for a comprehensive look at our entire portfolio.

Technology aside, ESG data is the Wild Wild West right now. It's very immature. It's not consistent, it's not timely, in some cases it's not properly vetted, and in some cases it's inferred. By that I mean it's not data representing an observable fact, it's an estimate provided either by the company or by the model for what that data should look like. Looking at greenhouse gas emissions is a better way for us to simulate ESG decisions within the portfolio rather than using common measures like ESG ratings.

**Q: What has been your greatest source of satisfaction this year?**

**A:** I'm not saying we're going to be perfect when we do the assessment, but I believe that most of the steps we've taken are sensible and constructive. I'm also really pleased with the cooperation and support we've been getting from various strategy groups. We're working with the Commercial Mortgage Lending team right now, and they've done a great job helping us define risk narratives, benchmarking the exposures we have to those risks, and trying to understand the materiality of those risks.

Also, part of the commitment we're making under the PRI is to make sure the board is aware of how we're making decisions that relate to ESG. That's another level-setting baseline exercise that we're going through. What does that reporting look like? How do we create a scalable framework that connects with our investment processes and systems so we can produce this oversight reporting on a regular basis?

**Q: As ESG investing is gaining traction, where do you see potential problems?**

**A:** There are a range of implementations in the industry, some superficial. There's the check the box strategy, where people just want the thing to go away, and they say, "Look, we did x number of green bonds, more than we did last year." I don't think approach is sustainable. Being serious about ESG doesn't mean you're suddenly a social justice warrior, but it does mean that you're accountable, and that you

create transparency around how you're serving various stakeholders. The market will tell us whether that's good enough, and we will keep going from there.

Another area of concern is risk. Securitan Financial has signed a net zero statement of support which acknowledges the reality of climate change and explains what we're going to do about it. We need to be able to tell people what risks we think are most important and what we're doing to manage those risks. We also need to be able to define the costs and benefits of taking more action. That's very much on my mind, making sure that we have a disciplined framework that not only identifies opportunities but also is able to help our clients understand what the impact on their portfolio is going to be, both from a risk and income perspective.

**Q: Turning to a more personal angle, is this the career you set out to have?**

**A:** (Laughs). I'm old enough so that when I started my career I didn't have that many role models, especially on the investment side, and I joke that my college goals included carrying a briefcase and wearing pantyhose to work—two things I haven't done now for decades. I can't say it was a plan—I kind of fell into it and it turned out to be something I found really interesting and that I was happiest at.

**Q: What would you tell people just starting out with their careers?**

**A:** I hope people don't get so caught up in goal setting that they don't take the chance to marinate and mature and understand what they like and don't like, what they're good and not so good at. In any career it's more valuable to fail and start over and pivot than stay on a straight trajectory doing something you don't find particularly satisfying.

We could talk for hours about the value of a liberal arts education. How do we solve problems when people can't understand science? Or don't have a sense of history, or who don't understand the political process? We need people who are citizen participants in all of this. We have to figure out a way to balance the need for technical skills with the need for being a well-rounded human being. We need creative thinkers, not just people who can spit out a spreadsheet.

**Q: What's an underappreciated corporate skill?**

**A:** Creating thoughtful narratives. Having a narrative helps you deal with the unknown; it helps you set priorities when you get new data and new capital treatment. You can also empower a lot more people with a strong narrative. If you're simply prescribing do this and do that, you get this and that. But if you describe the bigger picture, you suddenly get idea generation. Frankly, our team could not have made the progress we have without so many people contributing, especially since this ESG work relies on shared staff.

**Q: How do you manage work-life balance?**

**A:** I like to get exercise. And I genuinely enjoy thinking about ESG. My kids—I have two adult children—always laugh at my Twitter feed. I'm not following Kim Kardashian—I'm following the World Bank and economists and other investment firms that are leaders in ESG. Those 240-character tweets are a distillation of some very valuable information, and you also get links to source documents that you wouldn't have been able to find before. I use channels that curate around different areas too, such as quantitative investing or economics. I'm always on the lookout for things that challenge my thinking.

**Q: What do you do for fun, besides keeping up with quantitative investing?**

**A:** I love being outside—in the E. One thing I discovered during COVID-19 was skate ski lessons at Wirth Park, an urban Nordic ski facility that's top notch. We're really lucky in the Twin Cities to have access to things like that. Also, my dad lives outside of Bozeman, so I get out to Montana regularly, where I do a lot of hiking and skiing. It's my favorite way to unwind.

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## WHAT IS THE UNPRI?

Principles for Responsible Investment is a United Nations-supported international network of investors working together to implement its six aspirational principles:

- We will incorporate ESG issues into investment analysis and decision-making processes.
- We will be active owners and incorporate ESG issues into our ownership policies and practices.
- We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- We will promote acceptance and implementation of the Principles within the investment industry.
- We will work together to enhance our effectiveness in implementing the Principles.
- We will each report on our activities and progress towards implementing the Principles.

The PRI is the world's leading proponent of responsible investment. It works:

- to understand the investment implications of environmental, social and governance (ESG) factors;
- to support its international network of investor signatories in incorporating these factors into their investment and ownership decisions.

The PRI acts in the long-term interests:

- of its signatories;
- of the financial markets and economies in which they operate;
- and ultimately of the environment and society as a whole.

The PRI encourages investors to use responsible investment to enhance returns and better manage risks, but does not operate for its own profit; it engages with global policymakers but is not associated with any government; it is supported by, but not part of, the United Nations.

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