



TITLE: Consideration of Environmental, Social, and Governance Policy and Procedure

BOARD ADOPTION: September 12, 2013

EFFECTIVE DATE: September 12, 2013

POLICY

The Board of Administration (Board) adopts this policy regarding consideration of environmental, social and governance (ESG) issues for Retirement System investments. The Board's fiduciary obligations to the members of the System are its top priority. Investment actions which promote an ESG goal such as rewarding nondiscrimination or promoting local industry will be considered if the proposed action does not adversely affect investment risk and/or return for the System and if the resulting expected return on investment and related risk for the proposed action are comparable to other available investments in the same category. While the Board will give serious consideration to environmental, social and governance issues, investments will not be selected, rejected, or divested from based solely on those considerations.

PROCEDURE FOR CONSIDERATION OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE INVESTING PROPOSALS

A proposal for consideration of an ESG investment action may take the form of a proposal to make a particular investment, to refrain from doing so, or to take any other action related to the handling of the System's assets or the rights associated with those assets. Any and all such proposals are to be considered in the manner outlined in this policy.

- A. To receive consideration, an ESG investment proposed action must meet the following requirements:
1. It must be specific and presented in writing to the Executive Director of the Retirement System, or at a meeting of the Board or of the Investment Committee;
 2. It must include objective, reasoned analysis indicating how the proposal meets the fiduciary obligations of the Retirement System, and that the return on investment to the System and related risk of the proposal are comparable to other available investments in the same category;
 3. It must appear to be reasonably feasible for the Retirement System to accommodate within SCERS' portfolio of investments or in a reasonable modification of them; and
 4. It must not, in the discretion of the Board or Investment Committee, be considered duplicative of a recently-considered proposal.

This determination shall be made by the Investment Committee unless the Board elects to address the matter.

- B. If an ESG investment proposal meets all of the requirements of Section A as determined by the Board or the Investment Committee, it shall be forwarded to the Investment Consultant for review and written analysis of whether the proposal would be expected to provide a return on investment and related risk comparable to other available investments in the same category and meet all other requirements of the System's investment policies. The written analysis shall provide:
- 1) identification of the potentially available ESG investment options, if any, that meet the requirements of the System's investment policies;
 - 2) a survey of comparable investment funds'

approaches to this type of proposal, or similar proposals; and 3) assessment of the projected impact of the proposal on the returns and risks of the System's investment portfolio compared to other available investments in the same category.

- C. If the Investment Consultant reports that the ESG proposal meets the requirements of the System's investment policy outlined above, the Board shall consider the proposal, after receiving such additional information as it may deem necessary or appropriate from the Investment, Consultant, Investment Committee and any other professionals.
- D. The Investment Consultant will be requested to provide an annual overview of the ESG issues and industry responses to the Board or Investment Committee. The purpose of this work is to inform future policy and practices with respect to ESG proposals.

POLICY REVIEW

The Board shall review this policy at least once every three (3) years to ensure that it remains relevant and appropriate.