



**RETIREMENT BOARD CALENDAR SHEET**  
**Retirement Board Meeting of April 20, 2023**

Date: April 20, 2023

To: The Retirement Board

Through: Alison Romano  
CEO & CIO

From: Tanya Kemp, CFA, CAIA  
Managing Director, Private Markets

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Director, Real Assets

Andrew Collins  
Director, ESG Investing

Christopher Terrazzano, CFA  
Associate PM, Real Assets

Subject: ESG Practices and CIM Group

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**Agenda Item:**

ESG Practices and CIM Group

**Background:**

The Board requested staff provide information relating to the CIM Group and its practices.

**Recommendation:**

This item is for discussion only.

**Attachments:**

Staff Memorandum

## **EXECUTIVE SUMMARY**

SFERS is committed to incorporating environmental, social, and governance (ESG) factors into its management of the Plan in a manner that is consistent with the Retirement Board and Staff's fiduciary responsibilities to act in the best interests of the members, retirees, and beneficiaries of the Retirement System and consistent with SFERS' role as a prudent, long-term investor.

When ESG-related issues arise over the course of an investment, SFERS considers them seriously and seeks to understand their nature and potential impact.

Since first committing capital to CIM Group (CIM) in 2006, SFERS has been in regular dialogue with the investment manager. Multiple SFERS individuals have met and/or spoken with the manager including over 20 times in the past two years. Several of these discussions have related to CIM's ESG-related business practices.

In summary, SFERS has a comprehensive approach to ESG, has conducted ESG due diligence on CIM, and believes that the firm implements appropriate policies, processes, and reporting mechanisms related to ESG risks and opportunities.

## **ESG AT SFERS**

Fundamentally, SFERS believes that ESG factors can have a material impact on the value of companies and securities, as well as affect the macroeconomic environment more broadly. The consideration of these factors alongside traditional financial factors should, therefore, provide a better understanding of the risk and return characteristics of investments.

SFERS acknowledges that the relevance of particular ESG issues may differ and vary in degree across companies, sectors, regions, asset classes, and over time. As a result, SFERS takes a differentiated and materiality-based approach to integrating ESG considerations into its investment process.

Each time SFERS commits capital to an investment manager, Staff conducts due diligence on the manager's ESG investing practices. This process includes the manager completing an asset class-specific due diligence questionnaire (DDQ), a meeting between Staff and the manager, inclusion of an ESG section in the investment recommendation memorandum that is presented to the SFERS Board, and further documentation of the manager's practices logged into SFERS' ESG diligence platform.

ESG due diligence is broad and tailored to asset classes, geographies, sectors, and investment strategies. Specific to residential real estate investments, diligence may include review of such areas as property management, relationships with organized labor, tenant relations, and community engagement.

As part of SFERS' monitoring process, there are also periodic, rotating reviews of existing manager's ESG practices and ad hoc reviews as matters arise.

## **SFERS AND CIM**

SFERS' CIM exposure stands at \$1.09 billion in NAV as of September 30, 2022. The investments are diversified across the investment firm's real estate and infrastructure strategies. SFERS is a Limited Partner (LP) in CIM's funds, meaning that SFERS does not direct decision-making around the management of specific assets.

SFERS conducted due diligence on CIM ESG practices through a detailed conversation in February 2021 and review of the firm's policies, ESG reports, and other documents. SFERS and CIM communicate in the regular course of business and have had frequent dialogue as both part of ongoing diligence and monitoring and at the direction of the Board. Highlights include the following:

- CIM is a signatory to the Principles for Responsible Investment (PRI) and a participant in GRESB (the global ESG benchmark for real assets), indicating organizational ESG leadership.
- The firm considers stakeholders when investing in communities and understands concerns voiced by different stakeholder groups. It seeks alignment with these groups, which CIM considers to include residents, the surrounding community, non-profits groups, local politicians, and others. SFERS believes that CIM's approach does well to balance considerations of financial obligations, fiduciary responsibilities, and ESG factors.
- CIM's investment approach, which involves due diligence over multiple years, includes detailed ESG due diligence addressing risks and opportunities across the environmental, social, and governance pillars.
- The firm's ESG practices are overseen by an ESG Committee comprised of executive team members and representatives across functional areas at CIM. The firm has separate environmental, social, and governance task forces, indicating attention to each ESG pillar. The co-head of CIM's development and construction team sits on the ESG Committee, bringing a perspective and awareness of labor-related topics.
- CIM's ESG Policy pertains to directly managed assets over which it has complete operational control. SFERS' ESG review was specific to CIM's ESG practices for its asset management business and strategies with which SFERS is invested.

SFERS has evaluated CIM's ESG practices for real estate investing across eight ESG categories: Philosophy Alignment, Policies, Data and Reporting, Oversight and Responsibilities, Due Diligence, Ownership and Sale, Culture, and Diversity & Inclusion.

Staff did not identify any material risks associated with CIM's practices in any category.

## **NEXT STEPS**

As with all investment managers, SFERS will continue to engage with CIM on ESG matters during its business relationship with the firm.

If any material ESG or other risks arise, Staff will determine the appropriate course of action based on the nature and severity of the risk.