

Environmental, Social, and Governance Procedures (ESG) for the San Francisco City and County Employees' Retirement System

Mission Statement

San Francisco City and County Employees' Retirement System is dedicated to securing, protecting and prudently investing the pension Trust assets, administering mandated benefit programs, and providing promised benefits.



November 13, 2019



San Francisco City & County Employees' Retirement System ESG Procedures – November 13, 2019

Introduction

SFERS believes that certain environmental, social, and governance (ESG) factors can have a material impact on the value of companies and securities, as well as affect the macroeconomic environment more broadly. Consideration of material environmental, social, and governance (ESG) factors alongside traditional financial factors should therefore provide a better understanding of the risk and return characteristics of investments.

SFERS is committed to incorporating 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.

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, the SFERS Environmental, Social, and Governance Procedures reflect SFERS' current approach; this approach may evolve over time to reflect changes in business practices, business structures, technology, and the law.

The core tenets of SFERS' ESG policies and procedures include:

I. Active Ownership

The ownership of equity interests in many corporations as an investment of Retirement System assets includes the right to vote on the initiation, approval, or denial of major company policies and actions. SFERS acknowledges that such voting rights are a tangible asset of the System. Retirement Staff will vote shareholder proxy ballots that SFERS receives according to its established Proxy Voting Guidelines, and endeavor to do so with the same care, skill, diligence and prudence as is exercised in managing its other assets.

Retirement Staff, with support from the appointed Proxy Research Provider, will continually review new topics and issues likely to come before shareholders to ensure that the Retirement Board's policies, including this policy, address all issues that may be put to a shareholder vote. At least annually, Retirement Staff will recommend appropriate revisions to the Proxy Voting Guidelines to reflect any changes in voting policy and/or established voting policies for new topics and issues. Such changes will be subject to Retirement Board approval. Annually, Retirement Staff, with support from the appointed Proxy Research Provider, will provide a summary of proxy votes cast, key vote results, and other notable information to the Retirement Board.

Retirement Staff may initiate shareholder proposals upon review of previous shareholder votes, discussion with the issuer in question, and determination that the proposed resolution is a reasonable vehicle to influence corporate activities. Other interested shareholders may be actively sought to express common concerns, join in resolutions, and solicit proxy votes.

Where ESG-related risks and opportunities have been identified at issuers where SFERS has equity ownership (and in certain cases fixed income interests), SFERS will directly engage with these issuers to ensure that risk and opportunities are being adequately managed. Such engagement may occur individually and/or in collaboration with other shareholders and may include:

- Written correspondence to Directors, Management, and/or Investor Relations of entities in which SFERS invests that outline SFERS' concerns around material ESG risks and opportunities;
- Engaging in direct dialogue with Directors, Management, and/or Investor Relations of entities in which SFERS invests to discuss the entities' management of material ESG risks and opportunities;
- Commenting at an annual general meeting (AGM) of an entity in which SFERS invests to outline SFERS' concerns around the entity's management of material ESG risks and opportunities.



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2. ESG Integration into Investment Management

Retirement Staff will seek to incorporate relevant and material ESG considerations in SFERS' investment due diligence, decision-making, and monitoring processes for its external managers. Investment recommendations in all asset classes will include consideration of the manager's ESG policies and practices, focusing on the risks, opportunities, and standards relevant to the investment under consideration. SFERS' Investment Consultants will be encouraged to include relevant ESG commentaries in their independent diligence documentation.

In addition, Retirement Staff will seek to understand managers' ESG policies and practices as they relate to the operation of managers' own firms, including, but not limited to, firm governance, recruitment and retention of talent, and ethics.

Where investment opportunities meet or exceed SFERS' expectations in terms of risk, return, and other suitability characteristics for the Fund, and they deliver positive environmental or social impact or are aligned with prominent ESG themes, Retirement Staff will seek to identify this information in recommendations to the Retirement Board.

SFERS will endeavor to use data to measure ESG risk and performance alongside financial performance. Where relevant, SFERS will seek appropriate disclosure on the incorporation of ESG factors, ESG-related performance measures, and positive ESG-related impacts by the entities in which it invests.

When environmental, social and governance risks have not been or cannot be addressed adequately through exercise of shareholder voting rights, direct engagement of the companies facing these risks, direct engagement of the investment manager, promotion of shareholder initiatives, or other means, it may be necessary to restrict Retirement System investment activities in specific areas to promote the interests of the members, retirees and beneficiaries.

In general, investment restrictions will be adopted in accordance with the following considerations:

- Investment restrictions will be consistent with the Retirement Board's fiduciary duties and responsibilities, including the Department of Labor's requirements with respect to consideration of ESG factors when making investment decisions.
- Recognizing that substantial investment flexibility is necessary to maximize returns at an acceptable level of risk, investment restrictions will be adopted only when active ownership has not been or would not be successful (as determined by the Retirement Board) and there exist alternatives to the restricted securities which do not compromise potential long-term investment returns.
- Investment restrictions will be applied at the lowest possible investment level, either specific issuers or securities, to protect against adverse investment effects, implementation risks and facilitate amendment in response to corporate action or changes in investment, environmental, social or governance climate.
- Investment restrictions will be analyzed periodically for environmental, social, governance and financial consequences and amended or repealed as appropriate.
- Investment restrictions will be applied only upon specific decision of the Retirement Board based on available information as evaluated by Retirement Staff and consultants, and after full consideration of its fiduciary duty, as well as the investment risks and ramifications.



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3. Collaboration & Communication on ESG Issues

Individually and in collaboration with other investors and thought-leadership organizations, SFERS will promote acceptance and implementation of relevant and material ESG issues within the investment industry. This may include, but is not limited to,

- Publicly communicating SFERS' progress and activities related to implementation of these Procedures including on active ownership activities and ESG integration;
- Supporting federal, state, and local legislation that promotes a sustainable financial services industry;
- Participating in membership organizations and partnering with other institutional investors to share information and pursue ESG priorities of mutual concern;
- Participating in, and contributing to, ESG-related seminars, conferences, forums, and events that create awareness and promote education around ESG topics;
- Engaging with beneficiaries, non-governmental organizations, and other interested parties to have productive dialogue on ESG topics material to the health and sustainability of the Plan.

Since 2017, SFERS has been a signatory to the Principles for Responsible Investment (PRI) thereby committing to the six principles:

- Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.
- Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.
- Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.
- Principle 5: We will work together to enhance our effectiveness in implementing the Principles.
- Principle 6: We will each report on our activities and progress towards implementing the Principles.