

Environmental, Social, and Governance Policy (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.



Revised December 11, 2024



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Introduction

SFERS's Investment Policy Statement ("IPS") provides the framework for the management of the assets of the San Francisco City and County Employees' Retirement System ("SFERS" or the "System") and enables the Retirement Board ("Board") to effectively supervise and monitor the assets of SFERS ("Plan").

The IPS discusses that SFERS incorporates Environmental, Social and Governance ("ESG") factors into its management of the Plan in a manner that is consistent with the Retirement Board and Investment 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.

Eleven Investment Beliefs inform the management of SFERS' investment portfolio, one of which relates to ESG factors:

Material environmental, social, and governance (ESG) factors can affect the risk and return characteristics of investments.

The IPS incorporates, by reference, this policy.

Scope

This policy describes the framework for incorporating ESG factors into the investment management of the Plan.

The application of this framework with respect to any investment takes into account multiple practical considerations, including but not limited to:

- the characteristics of the asset class or investment,
- the materiality of the ESG topic,
- the nature of our ownership stake, and
- whether the investments are through public or private markets.

Governance

SFERS Investment Staff are responsible for implementing this policy. As needed, Investment Staff may work with the Board's general consultant and other investment consultants. The SFERS Retirement Board approves this policy and provides oversight of Investment Staff's implementation.

Consideration of ESG Factors

Certain 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 ESG factors alongside traditional financial factors provides a better understanding of the risk and return characteristics of



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investments. The materiality of particular ESG factors may differ and vary in degree across companies, sectors, regions, asset classes and over time.

Examples of ESG factors include the following:

Material environmental factors could include, but are not limited to, biodiversity and land use, air emissions, waste management, water usage and impacts, greenhouse gas emissions, and climate-related risks and opportunities (including the transition to a net zero economy and physical impacts from climate change).

Material social factors could include, but are not limited to, human capital management, community relations, labor standards, and human rights.

Material governance factors could include, but are not limited to, board composition, shareholder rights, executive compensation, data privacy and security, and anti-corruption practices.

SFERS considers material ESG factors in the investment of the Plan in a manner that is consistent with the Retirement Board and Investment 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.

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

SFERS' ESG Policy is anchored by three pillars:

1. Integration into Investment Management
2. Active Ownership
3. Collaboration & Communication for a Sustainable Economy



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1. Integration into Investment Management

Investment Staff will seek to incorporate material ESG considerations – both risks and opportunities – into 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, Investment Staff will seek to understand investment managers' ESG policies and practices as they relate to the operation of managers' own firms, including, but not limited to, firm governance and the recruitment and retention of talent.

SFERS' goal is to build long-term partnerships with external investment managers; alignment on the materiality of ESG considerations is one aspect that influences and informs our relationship management. ESG considerations fit within the overall mosaic of information that influences SFERS' decision to invest and remain invested in a particular fund or investment strategy.

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.

2. Active Ownership

SFERS recognizes the rights and responsibilities of being a large, long-term asset owner.

Where ESG-related risks and opportunities have been identified at public companies 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 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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The ownership of equity interests in many public corporations as an investment of Plan assets includes the right to vote on the initiation, approval, or denial of major company policies and actions. SFERS acknowledges that such voting rights have value. Investment 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.

Investment 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, Investment 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, Investment 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.

Investment 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.

SFERS' first preference is to address ESG risks 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.

In certain circumstances, the Retirement Board may determine that these avenues cannot adequately mitigate material ESG risks and direct Investment Staff to restrict Retirement System investments in specific areas. Such actions are taken cognizant of SFERS' fiduciary duties in order to protect the interests of the members, retirees and beneficiaries.

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 the investment, environmental, social or governance climate. Investment restrictions will be analyzed periodically for ESG 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.

Where SFERS has private markets investments through a limited partnership (LP) structure, SFERS expects General Partners (GPs) to manage ESG risks and opportunities through active



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ownership in a manner that is consistent with their investment approach and philosophy. SFERS integrates consideration of such practices by GPs into its ESG Integration into Investment Management pillar.

3. Collaboration & Communication for a Sustainable Economy

Individually and in collaboration with other investors and thought-leadership organizations, SFERS will promote acceptance and implementation of relevant and material ESG issues across capital markets. These may include, but is not limited to,

- Publicly communicating SFERS' progress and activities related to implementation of this including on active ownership activities and ESG integration;
- Supporting federal, state, and local policy or legislation that promotes sustainable capital markets;
- Participating in membership organizations and partnering with other institutional investors to share information and pursue ESG priorities of mutual concern, although any actions SFERS takes are based on its exercise of its sole discretion and are unilaterally developed, consistent with its fiduciary duties;
- Participating in, and contributing to, ESG-related seminars, conferences, forums, and events that create awareness and promote education around ESG topics;
- Engaging with stakeholders to have productive dialogue on ESG topics material to the health and sustainability of the Plan.