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STATE OF VERMONT
OFFICE OF THE STATE TREASURER

VERMONT PENSION INVESTMENT COMMITTEE
ENVIRONMENTAL, SOCIAL AND GOVERNANCE INITIATIVES
NOVEMBER 26, 2013

The Vermont Pension Investment Committee ("Committee") Investment Policy sets forth the Committee's investment purposes and objectives. This document sets forth the Committee's policy ("ESG Policy") for evaluating opportunities to either make or divest from investments for the purpose of achieving certain environmental, social or governance ("ESG") goals that do not appear to be primarily investment-related, including investments that are intended to have a direct and measurable benefit to economic or community development in the State of Vermont ("ESG Initiatives").

The Committee is responsible for the investment of the assets of the three State pension systems and the assets of municipal systems with which the Committee has an agreement ("the Portfolio"). The Committee is required by law to strive to maximize total return on investment, within acceptable levels of risk for public retirement systems, in accordance with the standards of care established by the prudent investor rule under 14A V.S.A. § 902 (the "prudent investor rule"). Further, the three State pension plans are qualified plans in accordance with Section 401(a) of the Internal Revenue Code. Federal and State law prohibit the use or diversion of any part of the corpus or income of the plans at any time prior to the satisfaction of all liabilities with respect to members and their beneficiaries for purposes other than the exclusive benefit of members and their beneficiaries.

The Committee may choose to consider ESG Initiatives, provided they are consistent with the Committee's obligations to the members and beneficiaries of the participating retirement systems and with the standard of care established by the prudent investor rule. In cases where investment characteristics, including return, risk, liquidity, and compliance with the allocation policy are appropriate for the Portfolio, the Committee may consider ESG Initiatives that have a substantial, direct and measurable benefit to the economic interests of the Portfolio.

ESG Initiatives will be evaluated according to the following factors:

1.) Any ESG Initiative must add to or complement and not dilute or compromise the overall Portfolio strategy. ESG Initiatives will be evaluated within the context of the

Portfolio as a whole and not in isolation. The Committee is a long-term investor that strives to maximize investment returns without undue risk of loss.

2.) The ESG Initiative must target risk-adjusted, market-rate returns and provide net returns equivalent to or higher than other available investments at commensurate levels of risk. Social benefits of the ESG Initiative will not justify lower risk adjusted returns or higher investment risk for the Portfolio or any asset class within the Portfolio.

3.) ESG Initiatives must not exceed a reasonable weighting in the Portfolio, or skew a reasonable weighting in the Portfolio as a result of investment in or divestment from any one investment strategy, sector or geographic location. ESG Initiatives should maintain the overall Portfolio's compliance with its asset allocation strategy. Social benefits of an ESG Initiative will not justify deviation from the Asset Allocation Plan adopted by the Committee.

4.) ESG Initiatives requiring an investment should be managed by qualified discretionary investment managers. The Committee will not make any direct investments. Similarly, any divestment of Portfolio assets should be accomplished by a qualified discretionary investment manager in a manner designed to minimize transactional costs and minimize losses to the Portfolio.

5.) Any benefits of ESG Initiatives should be able to be quantified, reviewed and monitored by the Committee, State Treasurer's staff and third-party consultants without inappropriate expenditure of time and resources. A review of both the investment performance and the collateral benefits will be undertaken for the purpose of determining whether the Committee will maintain an ESG Initiative. The collateral benefits of an ESG Initiative shall be measured, in terms of foregone return, transaction costs and monitoring costs, alongside the estimated return of the ESG Initiative.

All ESG Initiatives will be submitted to Treasurer's Office Staff and the Investment Consultant for review and recommendation to the VPIC. Evaluation of proposals for ESG Initiatives will be considered using the following criteria:

1.) Clarity of the proposed ESG Initiative and its parameters and goals.

2.) The extent to which the proposed ESG Initiative will produce the anticipated risk-adjusted return and collateral benefits.

3.) Ability to implement a proposed ESG Initiative without inappropriate expenditure of time and resources.

4.) Measurement of the opportunity cost created by the ESG Initiative, in the context of the overall Portfolio goals.

5.) The appropriateness of any terms and conditions which may be attached to the ESG Initiative.

The Committee supports and prefers the use of constructive engagement to further environmental, social and governance goals where possible and has adopted both Domestic and International Proxy Voting Policies for this purpose. As an institutional investor, we have standing and rights as a shareholder and have the ability as a shareowner to influence corporate and governmental entities to act responsibly through constructive engagement. This includes but is not limited to shareholder resolutions, shareholder sign-on letters, and supporting policy initiatives for transparency.