ELIZABETH A. PEARCE
STATE TREASURER

RETIREMENT DIVISION
TEL: (802) 828-2305
FAX: (802) 828-5182

UNCLAIMED PROPERTY DIVISION
TEL: (802) 828-2407

ACCOUNTING DIVISION
TEL: (802) 828-2301
FAX: (802) 828-2884

STATE OF VERMONT
OFFICE OF THE STATE TREASURER

VERMONT PENSION INVESTMENT COMMITTEE
ENVIRONMENTAL, SOCIAL AND GOVERNANCE INITIATIVES
REVISED AND RESTATED JUNE 27, 2017

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 applying environmental, social and governance considerations to the management of VPIC assets and to the VPIC's shareholder engagement initiatives.

The VPIC recognizes that environmental, social and governance issues are among core factors when assessing the risks and opportunities of an asset and should be fully integrated into the investment process by VPIC and its managers[1]. ESG should be weighed with all other risks and opportunities and not considered in isolation. Engagement on ESG issues can result in more informed decision-making and VPIC recognizes the importance of shareholder engagement.

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") (see 3 V.S.A. §523(a)). 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.

[1] ESG factors are an important part of the assessment of a manager's contribution to the overall VPIC portfolio.

Consideration of ESG Initiatives

While ESG is a core process, VPIC may also consider specific ESG investment strategies. The Committee may choose to consider these strategies, 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 based solely on economic merit.

When evaluating a specific ESG Initiative, the Committee may consider such of the following as are relevant to the Portfolio and its beneficiaries:

1.) General economic conditions.
2.) The possible effect of inflation or deflation.
3.) The role the proposed ESG Initiative would play 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.
4.) The expected risk-adjusted, market-rate returns and the appreciation of capital. ESG Initiatives must be expected to provide a net return at least equivalent to other available investments at commensurate levels of risk or provide a level of risk at least equivalent to other available investments at commensurate levels of return. Collateral 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.
5.) The ESG Initiative must not exceed 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. Collateral benefits of an ESG Initiative will not justify deviation from the Asset Allocation Plan adopted by the Committee.
6.) Needs for liquidity, regularity of income and preservation or appreciation of capital.
7.) 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.

Of importance to note is that ownership or rejection of a security or interest by the VPIC portfolio does not constitute a judgement on all of the underlying entity's practices, products or services.

All ESG Initiatives will be submitted to Treasurer's Office Staff and the Investment Consultant for review and recommendation to the VPIC.

Voting the Vermont Pension Investment Committee Proxy

The Committee supports and prefers the use of constructive engagement to further environmental, social and governance goals where possible and has adopted 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.

Procurement and Review of Investment Managers

When conducting a Manager search, the Investment Consultant shall require each prospective Investment Manager to disclose, in addition to its proposed investment guidelines and practices for investment selection, its ESG policies, processes and systems for identifying ESG-related value drivers and managing material ESG-related risks, to the extent the same may be applicable.