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STATE OF VERMONT
OFFICE OF THE STATE TREASURER

TO: Vermont Pension Investment Committee

FROM: Beth Pearce, State Treasurer

RE: ESG Focus Area Recommendations to VPIC

DATE: October 23, 2018

The Treasurer's Office is requesting from the VPIC approval of the actions listed below. These recommendations are consistent with the VPIC's Proxy Policies, the ESG five-point plan adopted by the VPIC in February 2017, and the Carbon Asset Risk Project resolution adopted by VPIC on September 24, 2013.

ACTION ITEM #1

Request that VPIC become a signatory of the Principles for Responsible Investing (PRI). As a signatory the VPIC will gain access to a sophisticated, global network of institutional investors working toward increasing shareholder value by engaging companies on Environmental, Social, and Governance (ESG) topic areas. PRI is a leader in corporate engagement and research in all three ESG issue areas, having the support of the United Nations Environment Programme Finance Initiative and United Nations Global Compact. The VPIC would be joining 70% (14 out of 20) of its investment managers, as well as several vendors, as an active member of PRI. Signatory status of PRI requires an annual membership fee based on assets under management. Prorated the 2019 fee will be approximately \$1,922 with an April payment cycle and an ongoing annual fee of approximately \$3,844. Please see attachments to this report for information on PRI's six principles and cost structure.

ACTION ITEM #2

That VPIC adopt the following categories of shareholder engagement activities for the upcoming proxy season and direct staff to pursue activities consistent with the guidelines outlined below, the existing VPIC proxy policies, and incorporating changing industry standards and best practices. Activities include coordinating with our proxy vendor on votes, filing on proxy resolutions, and writing letters of support for the various activities, again consistent with the VPIC proxy policy guidelines. Given that VPIC only meets monthly, if we sought individual approvals on each specific proxy activity, we would likely miss most opportunities to participate. Staff will prepare a summary report for the VPIC of all shareholder activities for their review at the end of the 2019 proxy season.

1. Political Activities, Memberships and Expenditures

Request:

Resolutions generally request the review and disclosure of political activities, memberships, and expenditures – both direct and indirect. Resolutions generally request the disclosure of company political and lobbying activities, memberships in organizations that engage in political activities, and all related expenditures. Resolutions may request disclosure of company strategy driving political activities, and internal controls in place to manage political activities and expenditures.

Outcome:

Disclosure of companies' participation and influence in public policymaking and the intended outcomes of such activities and expenditures. Disclosure of company's internal management and controls of political activities and expenditures. Encourage lawful, responsible, and transparent engagement in policymaking.

2. Ethical Labor Practices

Request:

The Treasurer's office requests permission to participate in shareholder engagement on ethical labor practices through co-filing resolutions and sign-on letters addressing the following issues:

- Companies monitor and report on legal and regulatory compliance related to non-discrimination/equal employment opportunity, workplace health and safety, environmental issues, and labor policies and practices that affect long-term corporate performance.
- Adoption of industry recognized standards ensuring sustainable wages and safe working conditions for employees and employees of suppliers.
- Oversight and monitoring of supply chains to ensure suppliers do not use forced labor, child labor, or sweatshop labor, and otherwise comply with legal and regulatory guidance pertaining to non-discrimination, workplace health and safety, environmental issues, and labor policies and practices that affect long-term corporate performance.

Outcome:

Companies monitor and report annually on compliance with relevant labor laws and regulation. Companies detail oversight of operations and supply chains to ensure compliance with relevant law and regulation.

3. Defend Shareholder Rights

Request:

The Treasurer's office requests the VPIC's permission to work with institutional investor advocacy groups and peers to fight legislation, rulemaking, or SEC legal bulletins that would weaken shareholder rights and the independence of proxy advisory firms.

The shareholder proposal process is structured and administered under SEC Rule 14a-8. Legislation and proposals of amendment are often introduced in Congress with the intention of restricting shareholder rights and access to public companies' proxies through amendments to Rule 14a-8. Currently in front of Congress, the Financial CHOICE Act proposes an increase in the ownership requirement for filing to 1% of shares for a three-year period to limit access to the proxy card. The current standard is \$2,000 of shares or 1% of the company's stock for 1 year. Under a 1% shareholder ownership requirement, at Wells Fargo one would need to own \$2.6 billion in equity before filing a proposal.

Another piece of legislation currently in front of Congress, H.R. 4015, proposes to tighten regulations on proxy advisory firms, giving companies the ability to preview firm reports and influence recommendations, resulting in a substantial disadvantage to investors and weaker public company corporate governance. Likely actions will include letters opposing the legislation to be sent to Congressional subcommittees and the SEC.

Outcome:

Stop legislation, rulemaking, or SEC staff legal bulletins that would weaken shareholder rights and lend undue influence of corporations over proxy advisory firm recommendations.

4. Sustainability

Request:

The Treasurer's office would like to engage companies on the following sustainability issues:

- Measurement, tracking, and quantifying sustainability-related metrics which may include, but are not limited to, 1st, 2nd, and 3rd degree greenhouse gas emissions, energy efficiency, conservation of natural resources such as water, and other environmental and social impacts deemed relevant to company business by the board of directors.

- Disclosure of financially-relevant sustainability metrics using industry recognized guidelines such as the Task-Force on Climate-related Financial Disclosures' (TCFD) Sector Specific Disclosure Recommendations or the Sustainability Accounting Standards Board sector specific guidelines.
- Analysis and reporting on sustainability metrics, which may include conducting scenario analysis, energy expense assessment, and evaluation of business opportunity and resilience in changing market environments.

Outcome:

Annual reporting on sustainability-related metrics, risks, and opportunities, which may include scenario analysis and planning, using financially-relevant and industry recognized metrics and guidelines.

5. Proxy Access Bylaws

Request:

The Proxy Access Bylaw Amendments campaign launched in 2014 received considerable support from institutional investors and had great success over the last several proxy seasons. Today more than 425 companies have proxy access bylaws in place, including over 60% of the S&P 500. This access enables eligible long-term shareholders to nominate their own director candidates in a company's proxy statement.

The Treasurer's office requests the VPIC to allow Staff to engage through sign-on letters, co-filing resolutions, and company direct engagement to encourage the adoption of proxy access bylaws, Board diversity, independence, and climate-competence.

Outcome:

Adoption of proxy access bylaws and reporting by companies on their Boards' race, gender and expertise, released as a board matrix to ensure standardization of the information that is easy to analyze.

6. Mutual Fund Proxy Voting

Request:

Allow the Treasurer's office staff to promote responsible proxy voting policies by mutual fund companies.

Outcome:

Mutual Fund companies will allow investors to review their proxy voting record on specific resolutions and will explain any incongruence on the company's voting record and their public positions. The Board of Directors will issue a report on proxy voting to shareholders.

7. Opioid Accountability

Request:

The Treasurer's office requests to engage on the issue of opioid accountability through membership with the Investors for Opioid Accountability (IOA). There is no cost associated with membership in IOA. Engagements on opioid accountability may include co-filing resolutions and signing on to letters requesting that manufacturers, distributors, and retailers of opioids and goods and services related to the treatment of opioid addiction address financial, legal, and/or reputational risks related to the opioid crisis. This may include disclosure of activities that might mitigate or exacerbate the opioid crisis or otherwise result in reputational risk or benefit to the company. Please see the attached list of current members of the IOA, including CalSTRS, Connecticut State Treasurer's Office, and the NYS Common Retirement Fund.

Outcome:

Opioid manufacturers, distributors, and retailers, and companies providing goods and services related to the treatment of opioid addiction, address the financial, legal, and/or reputational risks presented by the opioid crisis.

Attachment A: Principles for Responsible Investment

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice.

The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system.

Signatories' commitment:

“As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time).

We also recognise that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

- 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.

The Principles for Responsible Investment were developed by an international group of institutional investors reflecting the increasing relevance of environmental, social and corporate governance issues to investment practices. The process was convened by the United Nations Secretary-General.

In signing the Principles, we as investors publicly commit to adopt and implement them, where consistent with our fiduciary responsibilities. We also commit to evaluate the effectiveness and improve the content of the Principles over time. We believe this will improve our ability to meet commitments to beneficiaries as well as better align our investment activities with the broader interests of society.

We encourage other investors to adopt the Principles.”

What does it cost to be a signatory?

The annual signatory fee is payable each April and is scaled according to each signatory's category, type and assets under management.

Fees

Asset owners

AUM (US\$ bln) 2018/19 fee (£) 2018/19 Fee (\$)*

>50	8,440	10,998
30 - 50	8,440	10,998
10 - 29.99	8,440	10,998
5 - 9.99	6,400	8,340
1 - 4.99	2,950	3,844
0.1 - 0.99	840	1,095
0 - 0.09	460	599

*Using exchange rate as of October 19, 2018

Attachment B: Members of Investors for Opioid Accountability (IOA)

- 1919 Investment Counsel
- Aberdeen Standard
- Aegon Asset Management
- American Federation of Teachers Pension Plan
- Bailard, Inc.
- Benedictine Coalition for Responsible Investment
- Boston Common Asset Management
- Bricklayers & Trowel Trades International Pension Funds
- **California State Teachers' Retirement System**
- **California State Treasurer's Office**
- Calvert Research and Management
- Catholic Health Initiatives
- CTW Investment Group
- **City of Philadelphia Public Employees' Retirement System**
- Congregation of St. Joseph
- **Connecticut State Treasurer's Office**
- Daughters of Charity, Province of St. Louise
- Dignity Health
- Diocese of Springfield, IL
- Domini Impact Investments
- Dominican Sisters of Springfield, IL
- Hermes Equity Ownership Services
- **Illinois State Treasurer's Office**
- Interfaith Center on Corporate Responsibility
- International Brotherhood of Teamsters
- JLens Investor Network
- Mercy Health
- Mercy Investment Services
- NEI Investments
- Neuberger Berman
- **New York State Common Retirement Fund**
- Northwest Coalition for Responsible Investment
- **Office of the New York City Comptroller**
- **Pennsylvania Treasurer's Office**
- **Rhode Island Treasurer's Office**
- **School Employees Retirement System of Ohio**
- Segal Marco Advisors
- Seventh Generation Interfaith Coalition for Responsible Investment
- Sisters of St. Francis of Philadelphia
- Socially Responsible Investment Coalition
- Trinity Health
- UAW Retiree Medical Benefits Trust
- United Church Funds
- Walden Asset Management
- **West Virginia State Treasurer's Office**
- Zevin Asset Management, LLC