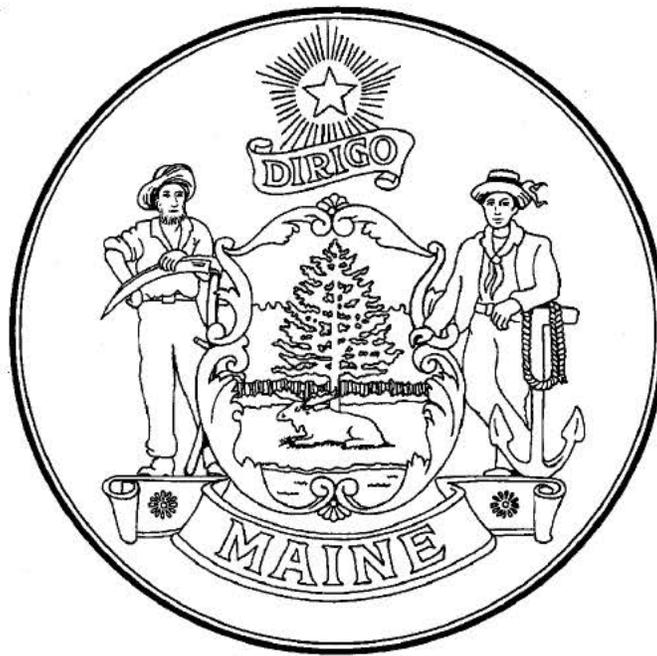


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# MainePERS ESG Task Force

Meeting Agenda, Minutes and Information

This Version: 12/23/2014

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# Part 1 – Task Force Report

Maine Public Employees Retirement System (MainePERS) began development of an Environmental, Social and Governance Policy in 2012. MainePERS engaged GMI Ratings to assist in the development of this policy and to provide an independent view of MainePERS existing ESG practices.

The MainePERS Investment Team started this effort with a strong belief that businesses with sound ESG practices demonstrate good judgment and may improve their attraction as an investment. MainePERS does not, consistent with its constitutional and fiduciary mandates, invest for purposes other than the best interest of the member. Best interest of the member is understood to be their best financial interests.

The completion of this policy was delayed due to the complexity of the subject and need for staffing to support continued development.

Public interest in climate change during this period resulted in proposed legislation to require MainePERS to divest of certain fossil fuel holdings. This legislation was voted 'ought not to pass' in 2013. Following this vote and MainePERS testimony that an ESG policy was in development, with its concurrent challenges, Public Law 2013, Chapter 602, Part C "An Act to Implement the Recommendations Contained in the State Government Evaluation Act Review of the Maine Public Employees Retirement System" was passed to support completion and consideration by the MainePERS Trustees of an ESG policy.

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## Public Law 2013, Chapter 602, Part C

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The text of the law is as follows:

**Sec. C-1. Establishment of a task force.** By September 1, 2014 the Executive Director of the Maine Public Employees Retirement System shall establish a task force, referred to in this section as "the task force," to further the system's work on corporate governance by completing an environmental, social and governance policy that includes, without limitation, securities and manager selections; monitoring and proxy voting; company engagement; and environmental, social and governance policies within investment policy for recommendation to, and consideration for approval by, the Board of Trustees of the Maine Public Employees Retirement System. The task force shall submit the recommended policy to the Board of Trustees of the Maine Public Employees Retirement System by December 1, 2014.

**1. Task force membership.** The task force must be composed of experts in the field of environmental, social and governance policy who do not have an actual, potential or apparent self-interest in the policy outcome. Members of the task force must collectively possess

experience with creating investment policies that support the investment goals of public pension funds; an understanding of environmental, social and governance policy issues as they affect different components of the investment process, including, but not limited to, securities and manager selections, monitoring and proxy voting and company engagement; practical knowledge or experience implementing environmental, social and governance policies within investment policy; and an understanding of the fiduciary duties of public pension trustees. The task force must be composed of 7 members, with a majority of members residing in the State, and must include:

A. The Executive Director of the Maine Public Employees Retirement System, who serves as chair of the task force;

B. The chief investment officer of the Maine Public Employees Retirement System;

C. A member from the academic community with expertise in environmental, social and governance policies;

D. A member with a background in public pension, foundation or endowment administration and experience in implementing environmental, social and governance policies;

E. A member from a national organization representing institutional investors and pension funds; and

F. Two members chosen by the members of the task force named under paragraphs A to E.

**2. Stakeholder involvement.** The task force shall actively solicit stakeholder advisors to provide information relevant to environmental, social and governance policy issues and stakeholder interests and other technical information as required.

**3. Staff assistance.** The Maine Public Employees Retirement System within existing resources shall provide necessary staffing services to the task force.

**4. Report.** By January 15, 2015, the Executive Director of the Maine Public Employees Retirement System shall submit to the joint standing committee of the Legislature having jurisdiction over public employee retirement matters a report on the task force's recommendations to, and any resulting actions taken by, the Board of Trustees of the Maine Public Employees Retirement System.

Effective 90 days following adjournment of the 126th Legislature, Second Regular Session, unless otherwise indicated.

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## Task Force Members and Stakeholder Engagement

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MainePERS solicited suggestions for task force members from several interested stakeholders as well as individuals and organizations familiar with ESG policies and issues. Numerous highly qualified individuals that may have valuable input but simultaneously may have a potential or actual conflict of interest may be accessed by the task force as advisors. The following members were identified as consistent with the categories and with no or minimal actual, potential or apparent self-interest in the policy outcome. (Please see bios in Attachment A)

- ▲ Sandy Matheson, MainePERS Executive Director (Chair)
- ▲ Andrew Sawyer, MainePERS Chief Investment Officer
- ▲ Hon. John Brautigam, John R. Brautigam Esq. LLC, Falmouth, ME
- ▲ Hon. Richard A. Bennett, ValueEdge Advisors, Portland, ME
- ▲ Brian Rice, California State Teachers Retirement System
- ▲ Cynthia Simon, Independent ESG Integration Consultant
- ▲ Deborah Spalding, Deputy CIO, Connecticut Retirement System

The MainePERS ESG task force met 6 times to collaborate and build an Environmental, Social, and Governance (ESG) Policy for consideration by the MainePERS Board of Trustees. The task force was formed with support from legislation encouraging MainePERS to complete this policy MainePERS had started working on in 2012.

MainePERS was fortunate to enlist the assistance of five task force members with deep backgrounds in ESG policy, investments, public pensions and government to assist in the development of the policy being submitted to the MainePERS Board of Trustees for consideration. This breadth of experience and knowledge has enabled a cost-effective development of a best practices policy. MainePERS appreciates the generosity of the ESG community in helping it to advance its knowledge in this area.

MainePERS was also fortunate to receive input from a variety of concerned stakeholders who contributed their time to this effort, providing comments and suggestions to the task force. These stakeholders included 350.org, CEI, a retired state worker and a retired schoolteacher. Their comments are included in the meeting documentation in Part 3 of this report.

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## Policy Principles

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Task force members agreed that a strong set of principles against which to test the final policy recommendation was a sound approach to govern the work of the group. The following principles were adopted for this purpose:

### **Principle #1: Fiduciary Duty**

MainePERS conduct in all situations must be consistent with its Constitutional Mandate:

*All of the assets, and proceeds or income therefrom, of the Maine State Retirement System or any successor system and all contributions and payments made to the system to provide for retirement and related benefits shall be held, invested or disbursed as in trust for the exclusive purpose of providing for such benefits and shall not be encumbered for, or diverted to, other purposes.*

### **Principle #2: Leading by Example**

MainePERS incorporates ESG practices into our own business model.

### **Principle #3: Transparency**

MainePERS believes transparency and communication is important in building a sound ESG policy and public trust. Information about the policy, the implementation, and on-going analysis will be shared publicly, in reports and/or information placed on our website, or by other means.

### **Principle #4: ESG Characteristics**

ESG factors will be updated based on continuous monitoring of the investment environment and incorporated into the investment process.

### **Principle #5: MainePERS Investment Decision-Making Process**

The MainePERS investment team will incorporate analysis of all relevant factors into its strategic asset allocation and investment decision-making process, including ESG factors.

### **Principle #6: ESG and Investment Managers**

MainePERS prefers to invest with managers that value and incorporate ESG factors into their investment decision-making process. MainePERS encourages all managers with whom it works to adopt ESG policies for themselves.

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## **Policy Development Approach**

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MainePERS obtained multiple ESG policies from varying organizations that were early adopters of this added due diligence in determining sound investments. These were obtained both from MainePERS outreach and from task force member recommendations.

MainePERS staff drafted an initial policy based on these examples, but specific to Maine. Task force members reviewed, discussed and modified the policy to incorporate best practices they have learned from their experience.

The philosophy under which policies are written varies widely between organizations. MainePERS uses a high-level policy approach with implementation details contained in supporting documentation. This policy was developed consistent with that philosophy. (See Part 2)

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## Implementation Recommendations

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In addition to the draft ESG policy, the task force held extended discussions concerning policy implementation. These covered a variety of areas and are summarized below. The task force recognized that proper implementation could require additional data resources and staff training.

### **Engagement**

MainePERS current investment policy for public market investments specifies passive exposures to broad asset classes. As such, no specific consideration is given to ESG (or any other) issues when making investments in individual securities. However, MainePERS recognizes the need to maintain ongoing engagement with companies on ESG-related issues.

Such engagement is expected to occur in at least four areas: proxy voting, company communications, meeting attendance, and shareholder resolutions. Summaries of task force thoughts and recommendations in these areas are below.

#### *Proxy Voting*

Proxy voting is an effective method for engaging portfolio companies. MainePERS Investment Team resources can be leveraged for maximum effect by some or all of the following actions:

- identifying a narrow suite of key proxy issues on which to focus
- working with proxy advisor to ensure ESG issues addressed in vote mapping are consistent with MainePERS policy
- collaborating with other organizations (e.g., CERES) and investors (e.g., neighboring pension plans) to gather intelligence and share thoughts on these key proxy voting issues
  - collaboration can involve taking the lead on some issues and letting others take lead on others, to maximize resources

#### *Company Communications*

- MainePERS Investment Team could consider direct engagement in the form of letters and/or telephone calls when a portfolio company behavior materially diverges from MainePERS ESG policy on this divergence

### *Meeting Attendance*

- MainePERS could consider attending ESG-focused company meetings in order to engage management on key issues

### *Shareholder Resolutions*

- MainePERS could consider filing resolutions as a means of engaging management in addition to voting on resolutions. This could be done alone or in collaboration with other investors.

### **Reporting**

The MainePERS Investment Team will produce a report to the Trustees concerning the implementation of the ESG policy. The report will:

- document existing ESG activities
- be produced in-house and will be part of the process leading to other year-end reports
- be published in a time period that supports on-going ESG activities, most likely in late autumn for the report covering the prior fiscal year ended 6/30

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## Internal MainePERS ESG

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The draft ESG policy produced by the task force is an investment policy, covering investments made or contemplated by MainePERS, its managers, and consultants. Task force members suggested that a natural extension would be the creation of an internal ESG policy that applies to other areas, such as MainePERS internal administrative governance and environmental impact.

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## Stakeholder Participation

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Stakeholders active in environmental issues participated in the task force discussions during comment periods. Stakeholders participating expressed appreciation for the experience of task force members.

In general, stakeholder comments were focused on environmental concerns, and encouraged incorporating the option to divest from investments based on due diligence considerations.

Task force members discussed these requests. The consensus opinion was that institutional investors are better positioned to influence companies' ESG practices as an owner than as a non-owner. Therefore engagement with financially strong companies to encourage them to continually improve their ESG practices is a sound approach, while selling for the purpose of sending a message is less likely to provide an incentive to improve their ESG practices.

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# Part 2 - Recommended MainePERS ESG Policy and Practices

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## ESG Policy

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The MainePERS Board of Trustees considers material environmental, social, and governance (ESG) risks and value creation opportunities critical for inclusion in its due diligence and ongoing monitoring of investments subject to its fiduciary duties, constitutional requirements and in accordance with local laws and regulations. The MainePERS Board of Trustees directs the Executive Director and MainePERS Investment Team to incorporate ESG considerations into all investments considered or made by MainePERS following the adoption date of this policy, and to examine opportunities for ESG integration in existing investments.

MainePERS acknowledges that it will not always be feasible to ensure a particular investment's integration of ESG considerations, especially in cases where MainePERS is a minority owner and has limited ability to influence the organization. In these cases, the MainePERS Investment Team shall engage organizations with which it currently invests to strongly consider relevant ESG-related issues. In addition, MainePERS will consider its ability to influence ESG considerations when weighing prospective investments.

The MainePERS Board of Trustees shall annually review engagement outcomes and update this policy as appropriate.

This policy shall also apply to investment consultants hired by MainePERS to provide guidance on investment due diligence matters.

### Statutory/Legal Provisions

- Me. Const. art. IX § 18
- 5 M.R.S. §§ 17102 and 17103

### Roles and Responsibilities

The Executive Director shall ensure that the MainePERS Investment Team integrates this policy into the investment due diligence process. The MainePERS Chief Investment Officer and Deputy Chief Investment Officer shall ensure that material ESG issues are continually reviewed, revised and integrated by the investment team in the due diligence process. A comprehensive report describing the implementation and outcomes of this policy, including recommendations for updates or revisions to this policy, will be provided to the Trustees as part of the year-end reporting process.

## ESG Due Diligence

MainePERS believes that organizations that understand the benefit of and openly practice sound environmental, social and governance business practices create strong business models and investment opportunities. Consistent with its fiduciary duties, constitutional requirements and in accordance with local laws and regulations, MainePERS shall:

1. Maintain awareness of new and existing key ESG considerations and their impact on investment valuation, and update the due diligence process used to identify material ESG issues accordingly.
2. Examine and understand each potential or existing investment's material ESG risk exposure and use this knowledge when evaluating potential investments and during the duration of investment ownership.
3. Be accessible to, and engage with, relevant stakeholders.
4. Encourage and support the adoption and implementation of sound environmental, social, and governance practices by companies and managers in which MainePERS invests.
5. Encourage governance structures that provide appropriate levels of oversight in the areas of audit, risk management, and potential conflicts of interest.
6. Encourage MainePERS investments, and MainePERS business partners to commit to aligning their operations and strategies with the United Nations Global Compact's [principles](#) regarding human rights, labor, environment, and anti-corruption.
7. Provide timely and transparent information accessible by stakeholders on the matters addressed in this policy.

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## Practices for ESG Integration in Investments

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### *Public Market Investments*

#### **Passive Investments**

In many cases MainePERS holds investments in a specific company solely due to its inclusion in a benchmark, and not for any company-specific reasons. In these situations MainePERS will seek to achieve the goals of this policy via active engagement using existing governance structures such as the proxy voting process.

## **Active Investments**

MainePERS and its external investment managers will take material ESG factors into account throughout the investment decision making process when considering and evaluating an investment in publicly traded securities. MainePERS will include the consideration of a manager's ESG policies when selecting external active managers.

## ***Private Market Investments***

### **Direct Investment**

When making direct investments in non-listed assets, MainePERS will consider ESG factors in a manner consistent with its approach to actively investing in publicly traded securities.

### **Manager Selection**

Prior to making an investment in any private market fund, MainePERS will incorporate ESG considerations as part of its normal due diligence process. This will include, where possible, management interviews, site visits, and general internet background information searches as part of a formal process. MainePERS will use checklists and questionnaires to ensure consistency of implementation across both investments and investment team members.

Any issues that arise during the due diligence process will be brought to the attention of the investment team. The CIO has responsibility for determining the materiality of such issues and is able to engage outside advisors as needed for the resolution of any issues.

### **Ongoing Management of Private Market Investments**

MainePERS will remain engaged with the managers of its private market investments during the life of the investment and will monitor performance on ESG related issues. This monitoring will typically take the form of attending annual meetings and advisory committee meetings, and will include performance at the organization, portfolio, and project/investment levels, as appropriate and feasible.

## **Definitions**

- ▲ **Material ESG issues** – those environmental, social, and governance issues that MainePERS in its sole discretion determines have or have the potential to have a direct substantial impact on an organization's ability to create, preserve, or erode economic value for itself and its stakeholders.
- ▲ **Due diligence** – the analysis and management specific to each investment.
- ▲ **Engagement** – influencing company management through activities such as proxy voting, meeting attendance, and the sponsoring of shareholder resolutions. Engagement may occur via MainePERS acting alone, or in collaboration with other shareholders or organizations.

## Part 3 – Task Force Meeting Documentation

### Meeting 1- October 10, 2014

The first meeting of the task force consisted of the first five members listed identifying the remaining two at-large members without apparent actual, potential or apparent self-interest in the policy outcome.

# Meeting 2 - October 31, 2014

## Agenda:

- ▲ History of MainePERS, applicable law, and constructs of the investment program
- ▲ MainePERS current ESG practices
- ▲ MainePERS suggested approach to ESG policy
  - Task force comments and recommendations
- ▲ MainePERS suggested principles for ESG policy
  - Task force comments and recommendations
- ▲ Stakeholder interest in the task force

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## History of MainePERS

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MainePERS was created in statute in 1942. Eight trustees are designated in statute to oversee the System. Trustees have the duty of prudent investors, the highest standard of fiduciary duty. They may fulfill this duty through their individual expertise or by hiring staff and consultants with fiduciary, actuarial, legal and accounting expertise.

### Applicable Law

The Maine Constitution Article IX, Section 18, provides for the use of retirement trust funds:

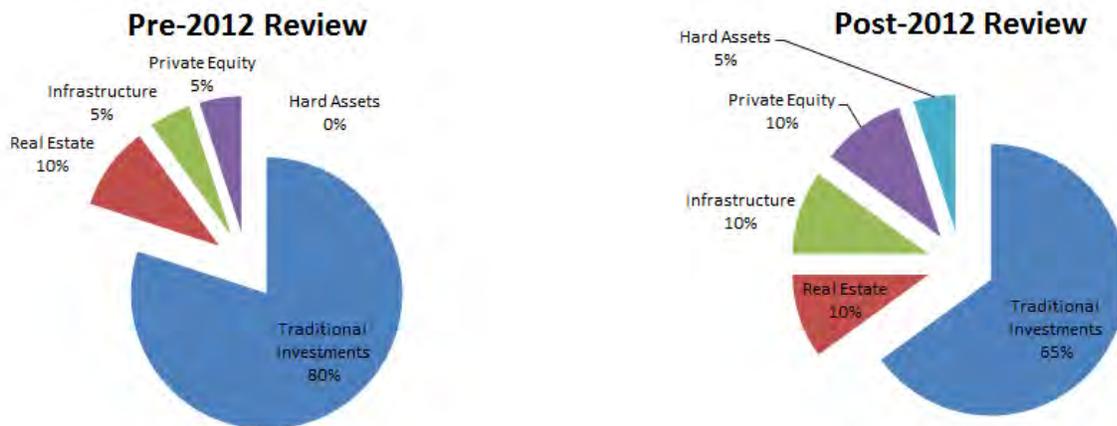
**Section 18. Limitation on use of funds of Maine State Retirement System.** All of the assets, and proceeds or income therefrom, of the Maine State Retirement System or any successor system and all contributions and payments made to the system to provide for retirement and related benefits shall be held, invested or disbursed as in trust for the exclusive purpose of providing for such benefits and shall not be encumbered for, or diverted to, other purposes. Funds appropriated by the Legislature for the Maine State Retirement System are assets of the system and may not be diverted or de-appropriated by any subsequent action.

### Investment Program Construction

MainePERS managed trust investments with a 2 person staff until 2009. Based on significant changes in asset allocation in 2008 to include alternative investments such as private equity and real estate, MainePERS hired 3 analysts to assist the Chief Investment Officer in moving toward the expanded asset allocation. Simultaneously, a timeline for moving into new assets and a concurrent schedule for expanding the staff was created.

Consultants to the Board of Trustees for private markets and real estate were engaged in 2009 to assist in the transition and management of these asset classes. The Board also retained its general consultant for overall portfolio analysis and interface with the actuary.

Over the next five years, MainePERS continued to expand to the current staffing level of 11.5 FTEs. The asset allocation was reviewed in 2012, and modified to expand both the amount invested and the type of alternatives assets held in the portfolio.



**MainePERS Investment Staff**

Chief Investment Officer	1
Deputy Chief Investment Officer	1
Associate General Counsel	0.5
Managing Director, Alternatives	1
Deputy Managing Director, Alternatives	1
Senior Analyst, Alternatives	4
Investment Analyst, Alternatives	1
Investment Operations Analyst	2
<b>Total</b>	<b>11.5</b>

The Investment Team developed practices and procedures during these five formative years. Development of an ESG policy was initiated in 2012, but was not formalized. The role of Deputy CIO was expanded in 2014 to include the documentation and maintenance of a formal set of investment policies and practices.

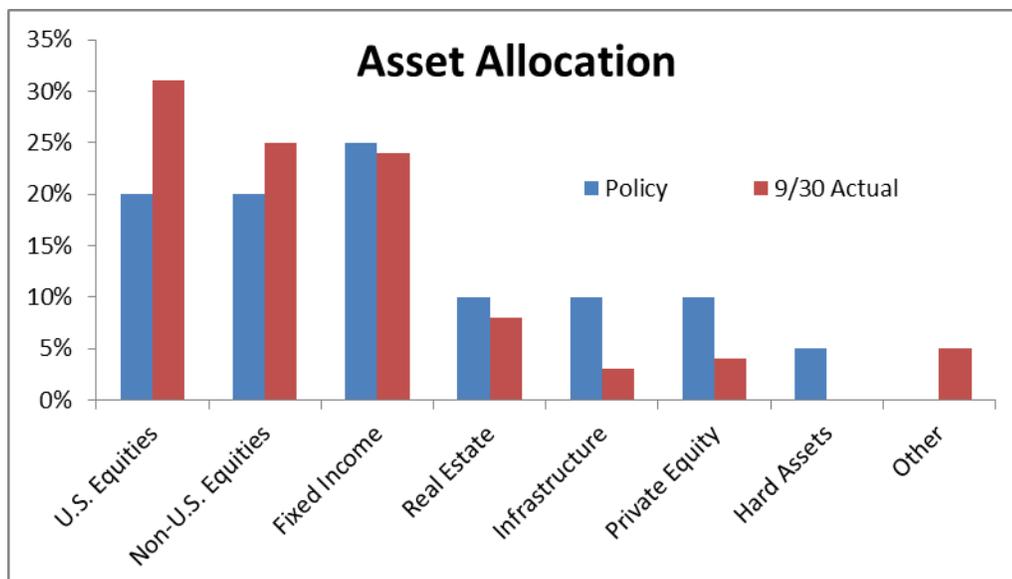
MainePERS uses a due diligence checklist for all private market investments. A sample template is in Attachment B.

## MainePERS Current ESG Practices

MainePERS currently has no written ESG policy. The MainePERS Investment Team maintains an ESG awareness while completing due diligence on potential private market investments. Consistency and documentation of due diligence are provided via use of a detailed due diligence checklist. Roughly a dozen of the hundred plus checklist items are ESG-related. (See Attachment B) These range from ensuring that director fees are appropriate, to confirming existence of equal opportunity policies, and include identification of the GP’s own ESG policy (or lack thereof). Due diligence is conducted via both on-site visits and broad internet searches. In addition, MainePERS consultants consider ESG issues as part of their parallel due diligence process.

MainePERS is a passive index investor in public markets, which is currently 85% of the total portfolio. MainePERS votes its proxies through Glass Lewis.

The following chart contains the policy and actual portfolio allocations as of September 30, 2014.



## MainePERS Suggested Approach to ESG Policy

MainePERS believes that the embracing of strong environmental, social, and governance principles is the first step of an approach to management that will lead to a healthy, sustainable business model. Therefore, MainePERS considers the employment of such practices when performing due diligence on prospective investment opportunities.

MainePERS ESG policy is intended to create an extra layer of considerations regarding the ESG practices of opportunities in which MainePERS is considering investing. The policy is also intended to create a constant environmental awareness of ESG issues so that not only are our individual investment decisions strengthened, but the total investment program is as well. A constant ESG awareness will involve investment activities such as proxy voting, engagement with consultants and businesses with which we invest, and strategic decisions such as asset allocation.

MainePERS recognizes that other organizations have invested extensive time in the development of ESG expertise, and that these organizations are generally willing to share their lessons and outcomes. Combined with MainePERS demonstrated ESG policy interest over the last two years, we believe an approach that appropriately incorporates the best practices of other organizations' ESG policies fits our sense of urgency and limited resources with which to develop our own policy.

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## MainePERS Suggested Principles for ESG Policy

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In any project we initiate, we adopt Guiding Principles against which to test our decisions or outcomes. This approach allows us to start all projects with an interest-based approach and avoid the pitfalls of starting with solutions or positions. The end result is an outcome that fits the problem.

Following are the guiding principles against which to measure our recommended ESG policy. These principles are not in any rank order. These were adopted based on task force discussions:

### **Principle #1: Fiduciary Duty**

MainePERS conduct in all situations must be consistent with its Constitutional Mandate:

*All of the assets, and proceeds or income therefrom, of the Maine State Retirement System or any successor system and all contributions and payments made to the system to provide for retirement and related benefits shall be held, invested or disbursed as in trust for the exclusive purpose of providing for such benefits and shall not be encumbered for, or diverted to, other purposes.*

### **Principle #2: Leading by Example**

MainePERS incorporates ESG practices into our own business model.

**Principle #3: Transparency**

MainePERS believes transparency and communication is important in building a sound ESG policy and public trust. Information about the policy, the implementation, and on-going analysis will be shared publicly, in reports and/or information placed on our website, or by other means.

**Principle #4: ESG Characteristics**

ESG factors will be updated based on continuous monitoring of the investment environment and incorporated into the investment process.

**Principle #5: MainePERS Investment Decision-Making Process**

The MainePERS investment team will incorporate analysis of all relevant factors into its strategic asset allocation and investment decision-making process, including ESG factors.

**Principle #6: ESG and Investment Managers**

MainePERS prefers to invest with managers that value and incorporate ESG factors into their investment decision-making process. MainePERS encourages all managers with whom it works to adopt ESG policies for themselves.

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## Proposed ESG Policy Template

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Discussion

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## Stakeholders/Advisors Expressing Interest in the Task Force Outcomes

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Stakeholders expressing continuing interest in the work of the task force are:

350.org

CEI, Wiscasset, ME

Representative Brian Jones, District 54, ME

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## MainePERS ESG Task Force 10-31-14 Minutes

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Attendees: Rick Bennett, John Brautigam, Sandy Matheson (Chair) and Andrew Sawyer attended the meeting in Portland. Cynthia Simon and Deborah Spalding attended by conference call. Brian Rice was unable to attend the meeting.

Jim Bennett from MainePERS attended the meeting and took notes. One member of the public phoned into the meeting.

### **Minutes**

Following member introductions, Sandy Matheson provided the task force with an overview of the legislative events that created the task force, and summarized the Task Force goal to produce an ESG policy for consideration by the Board of Trustees. Andrew Sawyer noted that Russell Read has expressed willingness to advise the task force if his support would be helpful. Sandy mentioned that MainePERS has been fortunate to receive support not only from an outstanding Task Force, but also from a wide range of ESG experts.

Sandy briefly reviewed the history of MainePERS, the composition of the Board of Trustees, and the Constitutional language governing the organization.

Andrew discussed the MainePERS investment program, with emphasis on the passive approach taken with public securities and the increased allocations to alternative investments over the last five years. In response to Task Force member questions concerning targeted in-state investments, Andrew noted that MainePERS does not nor is required to make such investments. John Brautigam inquired about MainePERS decision to pursue active management in private market investments but not in public markets, and whether or not this difference in investment policy would extend to ESG issues.

Sandy reaffirmed that the goal of the task force is to develop a recommended ESG policy for MainePERS as a whole, and not only for private market investments.

Sandy and Andrew led a discussion on MainePERS current ESG policies, including the role of investment consultants. MainePERS has worked on ESG issues off and on for the past few years, and views the Task Force's assistance as a way of formalizing its awareness. Andrew noted that MainePERS consultants take ESG issues into consideration when performing due diligence, and gave an example of LEED certification as an item of interest in Real Estate due diligence. It was also noted that MainePERS spends substantial time and resources on issues of governance for both public and private market investments. Rick Bennett noted that Blackrock, which currently manages public investments for MainePERS, has a deep Responsible Investing group that could provide assistance in this area. Cynthia Simon inquired as to the extent that MainePERS considers the needs of future

retirees in its investment decision making. Sandy noted that this was the case, and that MainePERS takes a very long term outlook when formulating investment policy.

Sandy provided additional background on how MainePERS operates. The principles of honesty and transparency guide all actions. Andrew stated that adherence to ESG concepts in our day-to-day lives may be as important as incorporating ESG principles into our investment program. Sandy noted that, especially with public market investments, MainePERS is willing to become more engaged and to become more active, as appropriate, and that MainePERS is willing to consider adding staff for this purpose as it ultimately benefits the overall value of our investments. Andrew answered several questions on ESG in the context of due diligence of private market investment managers.

Sandy provided Task Force members with the approach MainePERS is suggesting for developing an ESG policy. She noted that several organizations have adopted ESG policies. MainePERS as a result believes basing its initial policy on the excellent work of others would not only be efficient but wise. This concept was seconded by Task Force members.

Further discussion supported this approach. MainePERS views this initial policy as a starting point, and expects to continuously refine and improve it over time. Further, MainePERS views policies as higher level documents supported by more detailed practices that implement the policy.

Deborah Spalding observed that public funds are typically less flexible than endowments and foundations with respect to fiduciary duty and fund goals. She suggested that Task Force members remain mindful of implementation of follow-on practices as these could ultimately be more difficult than creating the policy itself. Sandy agreed, and expressed the hope that the task force outcome would include resource and implementation recommendations for practices that implement the policy. Some of the Task Force members are employed at organizations that are leaders in ESG, and their existing knowledge will be invaluable in creating a comprehensive policy and advice on developing practices that support the policy once the policy work is complete.

The task force next considered MainePERS suggested principles for an ESG policy. Sandy stressed how the organization is committed to taking the approach of first determining principles and then using these to guide subsequent actions, and how this has been successful at MainePERS. The five suggested principles were discussed, and there was broad support from the task force to the idea of using this approach. Rick suggested the adding the principle of transparency, in the sense that MainePERS would produce reports on ESG efforts on a regular basis, and the group agreed.

The group discussed the use of the word “prefers” in Principle #3 (MainePERS prefers to invest with managers that value and incorporate ESG...). The question of whether or not “prefers” was strong enough was raised. If MainePERS believes it has a duty to consider ESG factors, then it seems it should then “require” its hired managers to do the same. Andrew explained that in practice MainePERS policy is more along the lines of “we prefer managers to incorporate ESG...but *require*

them to be moving in that direction if they are not there already". He noted that most managers are aware of this and have either developed their own ESG policies or are in the process of doing so.

The group discussed the ranking of the principles, and decided to include a statement that they were in no particular order. Overall, the members expressed satisfaction with the set of principles.

Sandy concluded the meeting by asking members to send in via email any good examples of existing ESG policies of which they are aware.

The meeting concluded 2:35.

Sandy Matheson briefed Brian Rice on the meeting. He submitted the following comments based on reading the document and the briefing:

"Thank you sending me the minutes from the October 31 task force call. I have had a chance to review the materials, including meeting minutes, and would like to provide a few comments.

Active vs. Passive investment: I think it is important to note that passive public equity investment does not allow for buy/sell decisions, outside of rebalancing index constituency, so considering ESG issues when making investment decisions doesn't apply. Therefore it is important to consider ESG risks inherent in the index and to consider active engagement with index constituents on how these ESG-related risks are being managed. At CalSTRS we take the position that we "own the market", selling is not an option, and therefore we need to be engaging market participants on how markets risks are being addressed.

External manager integration of ESG considerations: Based on what you provided, I think MainePERS is doing quite a bit to incorporate ESG considerations into private market manager evaluation. Certainly when new relationships are being considered, ESG analysis can be part of the diligence process. But what about existing relationships? At CalSTRS, we recognized that we had *many* existing relationships with external managers and suddenly asking them to be "ESG" managers wasn't reasonable. And certainly we couldn't end these relationships and look for "ESG" managers. We took the position that we would work with them to make ESG risk consideration a greater part of their investment process, understanding that this would be a long-term effort.

Principle # 6: I would suggest that this principle read, "MainePERS prefers to invest with managers that value and incorporate ESG factors into their investment decision-making process." I think that also stating that ESG be part of their business model might imply you are seeking an SRI type of manager. The bottom line is you want people making investment decisions on your behalf to consider all possible risks – including ESG-related risks. Plus, adding that you encourage managers to have internal ESG policies implies this preference.

Please let me know if you have any questions. I look forward to talking with you, and the balance of the task force, next Monday.”

## Meeting 3 – November 10, 2014

Agenda:

- ▲ Stakeholder Comments
- ▲ Task Force Member Direction

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### Stakeholder Comments

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Interested stakeholder to whom MainePERS has been able to reach out may wish to provide the Task Force with ideas, concepts or other considerations for the MainePERS ESG policy.

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### Task Force Direction

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Task Force Members will provide thoughts, comments, and considering of stakeholder comments, provide direction to MainePERS for the first ESG policy draft.

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### MainePERS ESG Task Force 11-10-14 Minutes

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Attendees: Rick Bennett, Sandy Matheson (Chair) and Andrew Sawyer attended the meeting in Portland. John Brautigam, Brian Rice, Cynthia Simon and Deborah Spalding attended by conference call.

Jim Bennett from MainePERS attended the meeting and took notes. Four members of the public phoned into the meeting and made comments.

### **Minutes**

The meeting started at 1pm with the review and approval of the minutes from the 10/31/14 meeting.

Andrew Sawyer requested a version identifier be placed on the cover of the ESG Task Force document to avoid mix ups.

Sandy Matheson then brought up the topic of incorporating comments from task force members who are unable to attend a meeting. She noted that she had contacted Brian Rice after the initial meeting, had incorporated his feedback into the document, and would continue this policy if the group thought it appropriate. The group concurred that this approach made sense.

The task force then discussed changes suggested by Brian to the wording of Guiding Principle #6.

Brian described CALSTRS experience in developing an ESG policy and integrating it with existing managers. CALSTRS approach was two-pronged. In the case of new managers, they began requiring managers to have ESG policies. However, they realized it would be impractical / unfair to suddenly drop existing managers who had not yet developed ESG policies. CALSTRS instead worked with these managers over time to assist them in developing ESG policies. In the case of passive investments, CALSTRS took the approach of developing engagement with management on ESG issues rather than avoidance of companies.

Sandy discussed her plans to update the ESG Task Force document after each meeting to include the minutes and any other changes suggested by the task force, and that the updated document would be made available online once the minutes and updates had been approved at the subsequent meeting.

Sandy invited stakeholders attending the meeting by telephone to comment. She began by reviewing the legislative history leading up to the creation of the task force and its request to complete the ESG policy started two years ago for review by MainePERS Trustees.

The four stakeholders who had called in were identified and provided their comments in turn:

- Karen Marysdaughter
- Jane Edwards
- David Smith
- Read Brugger

Comments from the public concluded at 2pm. Sandy provided her email address to the group and encouraged the submission of written versions of the comments. The appendix to these minutes includes these written submissions (when available) and summaries of the verbal comments (for those who did not submit written versions).

The task force then discussed examples of other organization's ESG policies. Sandy noted that Cynthia Simon had provided samples of policies with an emphasis on climate change, and Rick Bennett again mentioned ICGN as a source. Rick noted that these might be only available to members and offered to provide copies for the group. John Brautigam brought up the value of finding policies written by organizations with fiduciary duties as similar to MainePERS as possible. Sandy

noted that it was unlikely other states had identical language, but that they were likely very similar examples.

The task force decided that MainePERS would develop a draft ESG policy and distribute it to the group within a week, to be discussed at the next task force meeting on 11/21. The meeting concluded at 2:15pm.

## **Appendix: Stakeholder Comments**

### **A. Karen Marysdaughter (submitted text)**

Thank you Sandy and other members of the Task Force, for allowing time for stakeholder input. I am a citizen and taxpayer with grave concerns about the current and future impacts of climate change on Maine's people, resources, and economy, with a sincere wish to explore all possible avenues for ameliorating climate risks. I am also the daughter of two public employees my father worked for many years in Maine's Department of Agriculture and my mother was a public school teacher. My father is now deceased, but the bulk of my 84yearold mother's income is pension money from MainePERS, and I have a sincere wish for her to live out her remaining years in comfort and safety.

After reviewing the backgrounds of the Task Force members, it is clear that you are all deeply committed to public service and the responsibilities of being a fiduciary. It is also clear that you have a strong collective background in issues related to sustainability and the environment, including the risk of climate disruption to investors. I commend the MainePERS leadership for putting together such an impressive group!

I have read the legislative mandate for MainePERS many times, which states that the contributions of its members shall be "held, invested or disbursed as in trust for the exclusive purpose of providing for benefits." In a strict definition, it appears that what MainePERS is required to do is simple: make sure that beneficiaries, such as my mother, can depend on receiving their pension checks each month. Period.

But nothing is ever that simple. Any prudent person, when making financial decisions, tries to find out the hidden costs, the exceptions in the fine print. And investment decisions can come with many hidden costs.

Take the fossil fuel industry. Maine doesn't have fossil fuels, so the industry is not providing us with much in the way of jobs. However, our taxpayers contribute huge amounts in the form of subsidies to coal, oil, and gas companies. We're downwind of coal fired plants in the midwest and have been paying the resulting environmental and public health costs for decades. As a rural state with aging housing stock, we have a major

dependence, especially on oil, for heat and transportation, so large sums of money regularly flow from our citizens to fossil fuel companies.

And considering the accumulating effects of climate change on our economy and health the warming and acidification of the Gulf of Maine, the increase in diseases such as Lyme, the invasive species and pests moving north, a faster rise in average temperature than most of the country, and more frequent extreme weather events, such as the early blizzard we experienced a week ago that knocked out power for days to a good part of the state Maine's citizens are paying a high price for the fossil fuel industry.

When we invest without taking into account such externalities, we are, in essence, canceling out the return on those investments by supporting systems that cost us much more in other areas of our life. I have an image in my mind of a MainePERS worker coming to my mother's door and handing her a check, sincerely wishing to do well by her, and then turning around and, without intending to, handing a check to someone on a bulldozer about to knock down her house.

So I ask you to consider what the word "benefits" means, and whether MainePERS investments can truly "benefit" the recipients if the hidden costs of doing business are significantly hurting them in other ways. As I understand it, that's what ESG investing is all about realizing that we cannot separate financial investments from the consequences of the business plans of the companies we are invested in.

I especially ask you to consider the power of the retirement system's billions of dollars in assets. Perhaps I am wrong, but I expect that the MainePERS fund is the largest publicly controlled pool of assets in Maine. Perhaps the largest pool, period. That money could go much further in providing "benefits" to not only its recipients, but the people of Maine as a whole. Here we are, in a state with all sorts of renewable energy potential, energy sources that could provide jobs, keep energy dollars in Maine, and considerably reduce the negative consequences of a fossil fuel economy. How could that not be a good investment?

I urge you to draft and promote to the MainePERS board a strong environmental, social and governance policy, one that, by definition, would exclude investments in companies whose business plans are antithetical to the welfare of the state of Maine. Let's have the hardearned dollars of the public employees of Maine support policies and practices that are, in fact, real benefits.

### B. Jane Edwards (summary of verbal)

Jane began by noting that she is a retired state worker and that she testified at the legislative hearings leading to this task force. She recommended that the task force review the testimony of Stephen Mulkey, President of Unity College.

Jane described how she had some retirement savings at TIAA-CREF as a result of working for a time as a librarian at Bates College. She noted that TIAA-CREFF provides her with a choice of investments for her funds and that one of these is a fund that explicitly takes certain social criteria into account. She noted that this fund has performed very well over the long time horizon she has owned it and that her fairly small original investment provides her with nearly the same income as she receives from her state pension, and that this income rose more last year than did her pension due to the COLA. She noted that social investing has paid off in the past and that she believed that this was even more likely to be the case in the future as considerations such as climate change moved to the fore.

### C. David Smith (Mr. Smith read to the task force a letter originally submitted to the City of Belfast)

As a recently retired elementary school teacher, I am asking the City of Belfast to pass a resolution asking the Maine State Retirement System to divest from all it's fossil fuel holdings.

With a deep sense of caring and concern I think of my two grandchildren and the hundreds of my former students. Over the years my students and I followed the terrible environmental tragedies brought on by the fossil fuel industry beginning with the Exxon Valdez and more recently the BP, Gulf of Mexico disaster. My students took the threat posed by the fossil fuel industry very seriously but really it is our responsibility as adult leaders to do all we can to protect our fragile earth from future degradation.

The extraction, transportation and finally the burning of fossil fuels is warming our planet at an alarming rate. Not only do we have to deal with the horrible effects of oil spills, fracking, pipeline ruptures, tar sands removal etc.... but now we must confront the consequences of burning fossil fuels, as CO<sub>2</sub> levels in our atmosphere rise at an alarming rate warming our planet.

Divestment from fossil fuels sends a clear message to the fossil fuel industry that we care about our children's future. Now is the time to divest. Divest because it's the right thing to do. Divest because we need to take responsibility as leaders to help our communities transition to a cleaner, livable world.

### D. Read Brugger (submitted text)

I want to begin by thanking Sandy and the members of the MainePERS ESG Task Force for providing 350 Maine with today's opportunity to make comments on ESG. My name is Read Brugger and I live in Freedom, Maine.

The work you are doing is tremendously important to the future of the people of Maine.

It is often said that one key to understanding ESG is understanding that all businesses have three forms of capital: financial, human and physical. As a retired postal worker I have a personal appreciation for the value of a sound retirement system and how the knowledge that your work is providing for a secure financial future for you and your family, even beyond the grave, can sustain you through some really negative workplace situations. As a grunt and then as a manager I learned the importance of a stable workforce. When the importance of human capital was ignored or downplayed was when the system was most apt to break. I also saw some really bad management decisions that negatively impacted the system's financial and physical capital. One particularly bad decision that stands out was in the early 1980's when the postal service converted to the current fleet of gas powered Long Life Vehicles. Continued gas price shocks have meant that adequate financial capital has never been available and modernization of facilities is often put on hold. Imagine if they had chosen the electric vehicles that were also under consideration.

Decisions like that one have brought us to a point where our over-reliance on fossil fuels jeopardizes the future of human civilization. World governments have agreed that it is essential to limit global warming to 2 degrees Celsius to maintain a civilization like the one we now enjoy. Energy use decisions are the driver of global warming. Ending fossil fuel use will control global warming. This is the lens with through which we should be making financial investments that will provide for the secure retirement of Maine's state, county and municipal employees.

The minutes of your last meeting recorded this following exchange:

"Cynthia Simon inquired as to the extent that MainePERS considers the needs of future retirees in its investment decision making. Sandy noted that this was the case, and that MainePERS takes a very long term outlook when formulating investment policy."

When I read that I wondered why this wasn't explicitly stated as a guiding principle. I was pleased to see that CalPERS does include it. "Taking a long-term view of the needs of beneficiaries and system participants" (<http://www.calpers.ca.gov/eip-docs/about/pubs/esg-report-2012.pdf>, page 2) is that system's 5th guiding principle. CalPERS has also developed guiding beliefs. One particularly struck me: CalPERS "investment decisions may reflect wider stakeholder views, provided they are consistent with its fiduciary duty to members and beneficiaries." (<http://www.calpers.ca.gov/eip-docs/about/pubs/esg-report-2014.pdf>, page 10.)

Quoting from CalPERS once again:

“Environmental issues, and climate change in particular, pose a set of enormous risks and opportunities for CalPERS. Climate change has an increasingly large influence on the energy and water strategies used by our portfolio companies, making it an important fiduciary consideration in our investment process. Climate change is a major strategic issue. CalPERS must consider the long-term horizon, as well as meeting today’s liabilities and climate change is expected to have a significant economic impact over this time period.” (CalPERS 2012 ESG Report, page 22.)

350 Maine believes the biggest financial risk to MainePERS is continued investment in the Carbon Tracker top 200 oil, gas, and coal companies. These corporations continue to spend billions finding fossil fuel reserves that must never be brought to production. Carbon Tracker has determined the amount of carbon that can be burned and still limit global warming to 2 degrees. They found that this is only 20 % of the amount of oil, gas and coal reserves already listed as proven reserves. We already have five times the amount of carbon reserves we can safely utilize. CAPEX and other wasteful government subsidies encourage a “drill baby drill” business-as-usual attitude that will lead to 4 or even 6 degrees of global warming and a decidedly unsecure future for Maine’s retirees. Overproduction is a recipe for financial disaster. We only need to look at today’s price of Exxon’s stock compared to late July to see the truth of this. It has lost 10% of its value. Looking at tar sands extraction startups, we see that they are no longer profitable. The carbon bubble hasn’t burst, but the likelihood of it happening is becoming increasingly obvious.

MainePERS needs to exclude these stocks from its portfolio. Investing in corporations that continue spending capital on continued exploration for fossil fuels needs to stop.

Looking at the world as we would like it to be in 40 years can provide us with good ideas about what other things a climate sensitive ESG policy should include. We see a world that has reduced its greenhouse gas emissions by 80%. Abundant, affordable, carbon free energy will be the norm and any continuing use of carbon energy will have mandated associated CO<sub>2</sub> sequestration. To do this we see a society that has embraced public transportation and electric vehicles. We see a fully realized local agricultural economy that will have a much lower carbon footprint. Energy efficient housing and businesses and appropriate carbon-free heating and cooling will have ended the use of fossil fuels to do those tasks. We will live in a society that fully recognizes the natural limits of the earth’s resources. Ceres has estimated that it will take \$1 trillion a year to accomplish the just transition to a livable future. This is the opportunity that MainePERS must grasp,

I have been quoting from various CalPERS ESG reports. Your minutes stated that “MainePERS . . . believes basing its initial policy on the excellent work of others would not only be efficient but wise.” I completely agree.

CalPERS like MainePERS puts a great deal of emphasis on achieving the correct strategic allocation of assets. CalPERS partners with large investors to identify the relevant climate change factors to consider when making asset allocation decisions. I hope MainePERS does the same. I see a great opportunity in the bar graph on MainePERS asset allocations. The infrastructure portion is underfunded. Looking at current investments in that portion I see traditional fossil fuel based infrastructure investments. A forward thinking ESG policy would change that. I am sure that our friends at CEI have a number of investment ideas that will fit with this.

MainePERS must be an agent of positive change. Solving the climate crisis is not someone else’s job. It is everyone’s. To turn your back on that truth condemns the world to a very dark future. It would mean renegeing on your duty to provide for the needs of your future retirees.

I thank you for providing this opportunity to begin a conversation with 350 Maine and the Maine people on investing in a secure future. I look forward to further conversations.

## Meeting 4 - November 21, 2014

### Agenda:

- ▲ Task Force Member Review and Comments on Draft Policy
  - Recommendations of additional advisors for the task force

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### Task Force Member Review and Comments - in Augusta

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### MainePERS ESG Task Force 11-21-14 Minutes

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Attendees: Rick Bennett, Sandy Matheson (Chair) and Andrew Sawyer attended the meeting in Augusta. John Brautigam, Brian Rice, Cynthia Simon and Deborah Spalding attended by conference call.

Jim Bennett from MainePERS attended the meeting and took notes. Members of the public listened to the meeting via phone.

### **Minutes**

The meeting started at 1 pm with the review and approval of the minutes from the 11/10/14 meeting. Sandy Matheson noted that the ESG task force document on the website would be updated to include these accepted minutes.

The group had a brief discussion of the choice of logo / picture for the cover page of the task force document and Sandy invited the members to submit suggestions.

Sandy began the discussion of the draft ESG policy by stating that it should be thought of as a rough draft needing task force member ideas and editing. The completed policy is intended to be high level supplemented by separate practices and sub-policies. She hopes the task force can assist in that aspect as well – i.e., would both help to create the ESG policy as well as implementation practices.

Sandy asked the group if the task force seemed to be on target and stated that she wanted the group's output to be a strong document, and asked for feedback.

The group then provided feedback and brainstorming ideas in a number of areas:

### Proxy Voting

Rick Bennett expressed his belief that the policy should be more explicit in linking ESG issues to MainePERS proxy voting policy. Deborah Spalding agreed, and thought that treatment of proxies should be made explicit in the “passive investments” section of the policy, and that the section should refer to “benchmark” rather than “asset class”. Andrew Sawyer described MainePERS existing proxy policy and noted that MainePERS is currently in discussions with its agent (Glass-Lewis) concerning updates to its proxy voting guidelines.

Reporting - Rick Bennett suggested the ESG policy should make explicit how and when MainePERS does its ESG reporting.

Staffing - Brian Rice described the resources CALSTRS uses for its ESG purposes. ESG responsibility is spread throughout the investment team, with each asset class having one or more individuals responsible for ESG issues as well as other duties. He noted that dealing with proxies is nearly full time work for 1-2 persons during proxy season, and roughly 1/3 of an FTE the rest of the year.

Sandy noted that she has been open that some additional MainePERS resources may be needed depending on the level of ESG activities that are implemented and how and when that implementation occurs.

Deborah described Connecticut’s approach. Their staffing model features a single individual per asset class. Over time ESG awareness has become part of the investment staff’s DNA and consideration of ESG issues has become a normal part of investment decision making. They use resources to purchase data to facilitate consideration of ESG issues. Brian agreed and gave examples such as proxy voting data from ISS and Glass-Lewis, or ratings from GMI/MSCI. Andrew notes that Bloomberg is also starting to provide ESG related data.

The group then discussed implementation issues, and the appropriate level of detail to be included in the policy. Sandy noted that MainePERS is a policy-driven organization, where the Trustees set policy and staff is responsible for implementation and reporting back to the Board.

Deborah agreed with Brian’s edits to the original policy concerning the need to expand on how MainePERS will engage on ESG issues at different levels – with companies that are invested in, as well as with hired investment managers. She suggested we be more explicit about engagement and that the policy should specify that active managers have ESG policies covering their own business practices.

Brian recommended that the policy be made more specific concerning how items should be accomplished, such as “maintain constant awareness of ESG issues” and again recognized the need to strike a balance between making the policy proscriptive and being overly detailed. Deborah and John

Brautigam concurred with the goal of creating a policy that was sufficiently robust, but without being overly detailed.

Sandy described MainePERS governance structure and discussed the issue of where in MainePERS the ESG policy would reside. It could be at the Board level, or an Investments policy. John noted the importance of allowing the policy to evolve over time.

Brian informed the group that he will be traveling to Maine for the next meeting, and Deborah and Cynthia each noted that they expected to as well.

Rick requested that the group be given more time to review the draft policy prior to the next meeting.

The meeting concluded around 2:30.

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# Meeting 5 - December 4, 2014

## Agenda:

- ▲ Review of 11/21 Minutes
- ▲ Draft ESG Policy Review After Incorporation Task Force Recommendations
- ▲ Stakeholder/Advisor Comments

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## Review of ESG Policy Incorporating Task Force Recommendations

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### Discussion

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## Stakeholder/Advisor Comments

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### Discussion

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## MainePERS ESG Task Force 12-4-14 Minutes

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Attendees: Rick Bennett, John Brautigam, Sandy Matheson (Chair), Brian Rice and Andrew Sawyer attended the meeting in Portland. Cynthia Simon and Deborah Spalding attended by conference call.

Jim Bennett from MainePERS attended the meeting and took notes. Members of the public listened to the meeting via phone.

### **Minutes**

The meeting started at 1pm with the review and approval of the minutes from the 11/21/14 meeting. Sandy Matheson then asked the group for feedback on the draft ESG policy which included task force member suggestions from the previous meeting.

Cynthia Simon raised the question of whether the ESG policy proposal would include specifics on items such as staffing and reporting. Sandy responded that MainePERS Board policies are high-level, but that specifics should and will be documented in other types of System documentation such as practices carrying out the policy. She then proposed adding a specific item to the meeting's agenda to create an inventory of such items.

Cynthia noted that she feels it important to strike a balance between the policy remaining high level and being clear about specific deliverables in order to demonstrate to various stakeholders that their concerns have been taken into account.

Sandy reviewed the history leading up to the task force creation, and noted that most stakeholders had been focused on divestment outcomes, but that divestment *per se* had specifically not been part of the task force's assignment.

Brian Rice stated that he was comfortable with the draft policy and recognized that it was meant to be a high level policy. He noted that it might be time for the group to move into follow-on areas such as implementation practices and reporting expectations.

Sandy responded that it would be very helpful to MainePERS if the group were willing to assist with these specifics. She noted that the work of the task force is to recommend policy to the Board for consideration, who may or may not choose to adopt it after they deliberate. However, the policy will be presented with a strong recommendation for approval from MainePERS staff.

John Brautigam suggested that it might be advantageous to add specificity to the section of the policy concerned with reporting so that outcomes would be clear to all. He added that it might make sense to add language concerning periodic updates and revisions to the policy.

Andrew Sawyer suggested adding language concerning the Trustees to the Roles and Responsibilities section of the draft policy, to clarify their role in any ongoing policy updates.

Rick Bennett questioned whether there was a best time of year for publishing the ESG report, taking into account workloads and other issues. Brian responded that CALSTRS has a June 30 year-end and typically releases their ESG report in November, along with their proxy voting reports. Deborah Spalding reported that Connecticut also has a June 30 year-end and that their reports also come out in the autumn. Cynthia noted that NY's ESG reporting tended to be minimal. Andrew suggested adding language that the report would be released after the end of the fiscal year in line with other year-end reports.

Sandy suggested moving the discussion away from the policy itself and into the area of collecting recommendations concerning follow-on practices. She asked if the public callers wanted to make comments on the draft policy, and noted that the next task force meeting would provide another opportunity for policy comments.

Karen Marysdaughter suggested the policy mention divestment as an option if engagement with a company were deemed impossible or non-productive. Brian noted that CALSTRS has a policy excluding tobacco and some firearms, but that it would also consider removing a company from the portfolio for risk reasons – if the asset contained substantial risks that could not be mitigated. Andrew

recommended strengthening the draft policy wording on engagement, and gave examples of writing letters to management and proxy voting.

Brian stated that some companies are more resistant to engagement than others but noted that institutions do have significant leverage. Rick pointed out that divestment by ESG-aware investors could be counterproductive because divestment likely implied that remaining shareholders would be far less likely to engage with companies on ESG issues. He stated his belief that responsible long term investors asking the right questions would generate better outcomes.

Andrew stated that MainePERS investment policy is to consider all factors, including ESG issues, and that a decision to avoid any particular asset for investment reasons was possible.

Brian noted that while the sentence “...MainePERS will consider its ability to influence ESG considerations when weighing prospective investments” does not specifically mention “divestment”, divestment is not precluded.

Overall the group agreed that the draft policy wording concerning engagement should be strengthened.

Sandy pointed out that the current MainePERS policy is for passive investment in public market investments. Cynthia noted that an issue with passive indexes is that they do not appropriately reflect the ongoing transition to a low carbon economy. She agreed that engagement should be emphasized, given the current policy on passive investing. Sandy noted that the board could change this policy at any time, and that by being engaged with management MainePERS would be well-prepared if the System Investment Policy were expanded to include active management.

The group then moved on to the task of identifying and describing follow-on items concerned with policy implementation. Sandy told the group that the final task force report would include the draft policy as well as lists and discussions of these issues.

### Proxy Voting

Andrew began by describing MainePERS use of Glass-Lewis. MainePERS provides a broad outline of its voting philosophy, which Glass-Lewis then maps to common proxy questions on their system. Glass-Lewis uses the System’s guidelines to vote proxies. MainePERS is contacted when issues arise that are not easily voted based on the guidelines, and always has the ability to override Glass-Lewis’ mapping. In general, MainePERS policy is to vote in order to increase shareholder wealth.

Brian noted that there tends to be a common suite of proxy issues that arise over time. He recommended focusing on these and developing a policy for voting on these types of issues as a way of getting the best value for resources.

Deborah concurred. Connecticut maximizes the use of resources by collaborating with other investors in the New England / NY area. They partner with these other investors and meet to discuss and prioritize issues, and to co-file resolutions. She noted that organizations such as CERES facilitate aggregating information and allow resources to be leveraged.

Brian agreed with this and noted that they also partner and use organizations such as CERES. He suggested identifying the top 3 issues of interest, identifying other investors to collaborate with, and working together to get leverage on engagement. He noted that collaboration can range from leading engagement on an issue to simply lending the use of name.

Rick noted that organization such as ICGN and CII exist and are great collaboratives for creating best practices for institutional investors. He also pointed out that scarce resources mean a need to pick battles.

Cynthia recommended CDP as another useful resource for collaborating and gathering information. Brian noted that PRI gives global access, but does require time and action to belong, although the time demands have decreased under new standards. Rick pointed out the PRI is also expensive in dollar terms.

Sandy stated that collaboration sounded great and that an initial focus on New England partners would probably make the most sense.

### Annual Reporting

Sandy noted that there are many existing models and that we should consider borrowing formats to avoid reinventing the wheel. Brian suggested it would make sense for MainePERS to first decide on the report's framework and issues to be addressed and that if this were done well the report would be easier to write. CALSTRS produces their report in-house.

Rick suggested that subscribing to items such as RI (Responsible Investor) and Global Proxy Watch could provide large amounts of important information at reasonable costs, and would allow MainePERS to keep up with global trends.

Deborah pointed out that an existing general consultant might be able to provide information on peer data.

Sandy and Andrew agreed that MainePERS should be able to produce a report in-house, although additional resources might be required. The first task will be to document existing MainePERS ESG activities.

Sandy again provided the public with the opportunity for comments.

Karen Marysdaughter reiterated her belief that divesting from companies for which engagement is not productive would be effective. She stated that if enough investors divested, management would respond. She would prefer the draft policy wording reflected this.

Sandy told the group that the meeting's comments and discussion would be incorporated into the next draft of the policy, and that this would be distributed prior to the next meeting. She noted that the task force could set up an additional future meeting if needed.

The meeting concluded at 2:40.

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# Meeting 6 - December 12, 2014

## Agenda:

- ▲ Review of 12/4 Minutes
- ▲ Review and modify/approve ESG Policy Content

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## Review and Approve Task Force Policy Content

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### MainePERS ESG Task Force 12-12-14 Minutes

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Attendees: Rick Bennett, John Brautigam, and Sandy Matheson (Chair) attended the meeting in Portland. Andrew Sawyer, Cynthia Simon, Deborah Spalding and Brian Rice attended by conference call.

Jim Bennett from MainePERS attended the meeting and took notes. Members of the public listened to the meeting via phone.

### **Minutes**

The meeting started at 1pm with the review and approval of the minutes from the 12/4/14 meeting. Sandy Matheson then reviewed the changes that had been made to the draft ESG policy based on the comments from the prior meeting and requested feedback. Brian Rice suggested that the description of engagement be moved from the 2<sup>nd</sup> paragraph to the Definitions section of the policy. The group concurred with this change, and no other changes were proposed.

The group then moved to a discussion of the format and wording of the report that would be presented to the Trustees. Sandy began by explaining her concept of a document beginning with the proposed ESG policy followed by a streamlined report describing the process followed by the task force, and then followed by the full documentation of the process, including meeting minutes and stakeholder comments. John Brautigam responded that this approach made sense to him, and that streamlining was both appropriate as long as the documentation was available, and made it more likely the report would receive appropriate attention.

The group then considered various items in the proposed report.

John suggested including wording concerning stakeholder input near the start of the report also.

John asked for clarification on the current proxy voting process followed by MainePERS. Andrew Sawyer described the process and noted that the large majority of proxy questions were fairly standard and well-covered by our policy as implemented by the proxy advisor. On non-standard questions, the proxy advisor notifies MainePERS of the question and its recommendation, and MainePERS makes the voting decision. Brian Rice and Deborah Spalding stated that their organizations follow essentially the same procedures.

Deborah Spalding suggested using general terms rather than specifying the current vendors in the policy. Brian Rice suggested making “Proxy Voting” a separate category under implementation recommendations and recommended adding wording concerning resources. The group agreed to each of these suggestions, and had no further comments.

Karen Marysdaughter provided the group with a recently-written critique of shareholder engagement.

Sandy expressed her gratitude to the task force for their contributions. She suggested that the group proceed in finalizing the report via email, but noted that a meeting was scheduled for 12/18 if needed. She suggested that once comments from the meeting were incorporated into the report and distributed, group members could respond with comments and suggestions via email. If this process led to a report that the group was satisfied with prior to 12/18, then the final meeting would not be needed and members would be notified.

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## Attachment A - Task Force Member Biographies

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### **Hon. Richard A. Bennett**

Richard A. Bennett founded ValueEdge Advisors LLC in summer 2014 to provide engagement services to global institutional investors.

From 2010 to 2014 Mr. Bennett served as Chairman or Vice Chairman of GMI Ratings, the leading global corporate governance and ESG research firm serving institutional investors. From 2006 to 2010, Richard A. Bennett served as President and CEO of The Corporate Library, one of the three businesses that merged to form GMI Ratings in 2010. Mr. Bennett has an extensive background in politics and government service as well as a wide range of private sector experience. He worked as Director of Corporate Governance for Lens Investment Management from 1997 to 2002.

He is an independent director of Biddeford Internet Corporation and a non-executive director of Trucost, Plc, a U.K.-based firm offering products and services that allow companies, governments and fund managers to better understand their environmental performance. A former president of the Maine State Senate, Mr. Bennett served four terms in the Maine Senate and two terms in the state's House of Representatives. He is currently Chairman of the Maine Republican Party and a member of the Republican National Committee. From 2009 to 2014, he served on the Board of Governors of the International Corporate Governance Network.

In each year since 2008, he has been recognized by Directorship magazine in its list of the 100 "most influential people in corporate governance and the boardroom." In December 2010 he was named by Global Proxy Watch as one of the "10 people around the world who had the most impact on corporate governance in the previous year". He serves on the Advisory Board of the John L. Weinberg Center for Corporate Governance at the University of Delaware. He is a member of the board of trustees of Hebron Academy. He was a member of the President's Commission on White House Fellowships from 2005 to 2009. He graduated with honors from Harvard College in 1986 and received his M.B.A. from the University of Southern Maine in 2000.

### **Hon. John Brautigam**

John Brautigam is an attorney and consultant with over 20 years of experience in public policy, advocacy and legal representation. From 2004 to 2008 he served in the Maine legislature and was House Chairman of the Insurance and Financial Services Committee. Prior to his tenure in the legislature Mr. Brautigam served as Assistant Attorney General of Maine, litigating issues relating to state prescription drug benefit programs and prescription drug pricing. He was co-counsel for the state in the successful defense of the Maine Rx program before the United States Supreme Court. He

previously served as legal counsel successfully defending the constitutionality of the 1996 reforms to Maine campaign finance laws, including the Maine Clean Election Act.

Mr. Brautigam holds a law degree from Stanford Law School where he was appointed Executive Editor of the Stanford Law Review.

Mr. Brautigam's other policy interests include energy and environmental law. He previously served as Director of Efficiency Maine and Director of the Sustainability Center at Southern Maine Community College. He has consulted on several energy policy matters including work on the Regional Greenhouse Gas Initiative for the Public Utilities Commission.

### **Sandy Matheson**

Sandy Matheson is the Executive Director of the Maine Public Employees Retirement System. Joining MainePERS in April, 2009, she oversees the state's six public retirement and other plans. Ms. Matheson was previously the Director of the Washington State Department of Retirement Systems, a member of the Washington State Investment Board, a member of the International Centre for Pension Management, and served on the boards of the Employee Benefits Research Institute and the Washington State Society of CPAs.

Ms. Matheson's career has been in management, healthcare and financial services. She served as the President and CEO of Hanford Environmental Health Foundation, the Board Chair of Kennewick General Hospital, consulted and acted as interim CEO for various organizations, and taught as an adjunct instructor for the Washington State University business program. She has also been involved with a broad range of civic, healthcare, and charitable activities. She currently serves on the MaineHealth Board of Trustees.

Ms. Matheson graduated with a Bachelor of Arts in economics from Northwestern University in Evanston, Illinois and a Masters in Business Administration from Washington State University.

### **Brian Rice**

Mr. Rice is a Portfolio Manager in the CalSTRS Corporate Governance Department and has been working in the governance group at CalSTRS for nearly 12 years. His main areas of focus are environmental risk management, the CalSTRS activist manager equity portfolio, and CalSTRS' corporate governance efforts in Asia. His environmental risk management duties include analyzing potential risks to the CalSTRS investment portfolio, identifying appropriate portfolio investments to engage, and developing and implementing engagement strategies. Mr. Rice is also the staff lead for the CalSTRS Green Initiative task force, a multi asset class effort charged with identifying, implementing and reporting on environmental investment opportunities and risk management strategies. Mr. Rice received an MBA from the U.C. Davis Graduate School of Management and a bachelor's degree in Economics-Business from U.C.L.A.

### **Andrew Sawyer, CFA, CAIA**

Andrew Sawyer is the Chief Investment Officer of the Maine Public Employees Retirement System. Prior to working at MainePERS, Andrew served as the Vice President and Portfolio Manager at TD Banknorth, Pension and Investment Manager at Raytheon, Investment Analyst at Prime Buchholz & Associates, and the Trust Department Head at Fuji Bank. Andrew is a CFA Charterholder and a CAIA Charterholder. Andrew attended the University of Maine where he received a BA in Business Administration and Finance and raced with the Varsity Ski Team. In 1993, Andrew earned an MBA from Pace University. He has also been involved with a broad range of civic, healthcare, and charitable activities. He currently serves on the Holderness School Board of Trustees, Chairs the MaineHealth Investment Committee, and is a Trustee and Investment Committee Chair for the Mitchell Institute.

### **Cynthia Simon**

Cynthia Simon is Senior Manager, Investor Initiatives, at CDP since September, 2014. CDP (formerly Carbon Disclosure Project) is an international non-profit that holds the largest collection globally of self-reported data by companies and cities concerning climate change, water, and forest impact.

Cynthia also currently consults part-time on ESG Integration for the New York State Common Retirement Fund, a position she held full time for 18 months before joining CDP. Prior to that, Cynthia spent two years as a research analyst working on projects for USAID on Climate Change Adaptation for the West Africa Region, and on agricultural value chain development in Haiti for Columbia University's Earth Institute and UNEPFI.

Before receiving a Masters Degree in Sustainable Development from Columbia University in 2011, Cynthia worked for six years in business development and marketing for two asset management firms in Paris, one a joint venture between BNP and Neuberger Berman, and the other a hedge fund of funds. Before moving to Europe, she spent six years at investment bank The First Boston Corporation, working in structured finance and private placements. Cynthia began her career as a Professional Staff Member of the US House of Representatives Committee on Banking, Finance and Urban Affairs, Subcommittee on Housing and Community Development where she worked for four years, and then in the Mortgage Backed Securities Program of FNMA, where she spent one year managing investor relations.

Cynthia holds a JD from The Catholic University of America in Washington, D.C., and is a Member of the New York State Bar. She received a BA in Political Economy and an MA in Geography from the Johns Hopkins University.

### **Deborah Spalding, CFA**

Deborah Spalding is the Deputy Chief Investment Officer of Pension Fund Management at the Connecticut Office of the State Treasurer, which oversees the \$29 billion Connecticut Retirement Plans and Trust Funds. Prior to that, she was a Managing Partner at Working Lands Investment Partners, LLC, an independent investment management firm specializing in rapidly growing markets for environmental credits.

Previously, she was Executive Director and Head of International Investments for Schroder Investment Management NA. Before this, she worked at Scudder Kemper Investments as Managing Director/Head of International Institutional Investments. She began her career as a financial analyst at SKB & Associates, responsible for the electric utilities, food, and building materials industries.

Spalding is a former trustee of the Robert & Patricia Switzer Foundation and the Green Century Funds. She has also served as Board Chair of the National Wildlife Federation. Currently, she is a Lecturer in Forest & Ecosystem Finance at the Yale School of Forestry & Environmental Studies.

Spalding earned a B.A. from Tufts University and has a Master's degree in East Asian Religion from Harvard University, an MBA from the University of California at Berkeley, and a Master of Forestry from Yale University.

## Attachment B: MainePERS Due Diligence Checklist Items 10-31-14

<b><i>Due Diligence Materials</i></b>
Private Placement Memorandum
Diligence Questionnaire
Target Fund Size
Size Limit
Closing Schedule
Site Visit
Interview
Interview
Interview
<b><i>Legal</i></b>
Limited Partnership Agreement
Management Agreement
PPM & Supplements
Side Letter Agreement
Fund Legal Opinions
Fund Domicile
Legal Form of Fund
Legal Form of GP/Manager
Litigation Report
Internet Search
GC Review
Outside Counsel Review
Fund Counsel
<b><i>Fees &amp; Terms</i></b>
Fee Structure
Gross Target Return
Management Fee Comparison

Preferred Return
Catch-Up Provision
Clawback Provision
Monitoring & Director Fees
Cash flow Waterfall
Carry Distribution
Compensation Structure
GP Commitment (Cash/Non-Cash)
Prior Fund Commitment
Key-Man Provision
No Fault Termination
Investment Restrictions
Investment Period
Partnership Term
Cap on Organizational Expenses
Placement Agent Fees
Advisory Board
<b><i>Valuation Policy</i></b>
Frequency: Internal
Frequency: External/Independent
Accounting standard used
Overall Reasonableness
Auditor
Clean Audit Opinions
<b><i>GP Overview</i></b>
Experience
Ownership structure
Succession Planning
Depth of Team /Bench-Strength
Key Lender Relationships
Composition of Investor Base

Capacity
Turnover/Notable Departures
Change in Control
Growth of Business
Affiliated Businesses
Potential Conflicts
Inter-Fund transactions
Responsible Contractor Policy
Equal Opportunity Employer
Union Relations/Issues
ESG Policy
Character Assessment
Ability to build long-term relationship
Registered with SEC or other Regulatory body?
Acts as a Fiduciary
<i>Fund Overview</i>
Strategy
Investment Process
Risk Controls
Sell Discipline
Use of Leverage (Fund & Portfolio Company levels)
Fit with MEPERS program
Impact on MEPERS Portfolio
Overlap with existing investments
Capacity Constraints
Team Structure
Deal Originators also Portfolio managers?
Competitive Advantage

Source of Deal Flow
Potential Competitors
Sustainable Business Model
Co-Investment Opportunities
Warehoused or Seed Investments
<i>Data Analysis (Consultant)</i>
Gross Cash Flow Verification
Net Cash Flow Verification
Attribution Analysis:
Above/At/Below
Auction
Board Seat
Industry
Lead Investor
Partner Responsible
Realized/Public/Private
Geography
Source
Investment Year
Exit Strategy
Holding Period Analysis
Portfolio Summary
Step up in deal size?
Step up in fund size?
Realized Performance
Removed Top Winners, by Fund
Reviewed Valuations of Unrealized Companies
Sensitivity Analysis of Unrealized Portfolio
Benchmark Comparison

Public Index Comparison
Team Capacity Analysis
Public Holdings Analysis
<b>Reference Checks</b>
Limited Partners
Portfolio Company Management

3 <sup>rd</sup> Parties