AGENDA

A SPECIAL MEETING OF THE CORPORATE GOVERNANCE

COMMITTEE AND THE BOARD OF INVESTMENTS*

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

300 N. LAKE AVENUE, SUITE 810, PASADENA, CALIFORNIA 91101

9:00 A.M., WEDNESDAY, JUNE 13, 2018**

The Committee may take action on any item on the agenda, and agenda items may be taken out of order.

I. CALL TO ORDER

II. APPROVAL OF MINUTES

A. Approval of the Minutes of the Regular Committee Meeting of April 11, 2018.

III. PUBLIC COMMENT

IV. NON-CONSENT ITEMS

A. Recommendation as submitted by Scott Zdrazil, Senior Investment Officer: That the Committee Affirm a Strategic Initiative Regarding Diversity on Corporate Boards.
(Memo dated May 17, 2018)

B. Recommendation as submitted by Scott Zdrazil, Senior Investment Officer: That the Committee recommend for Board of Investments approval that LACERA Formally Sign onto the Climate Action 100+ Initiative as a Supporter.
(Memo dated May 17, 2018)

C. Request for Direction as submitted by Jonathan Grabel, Chief Investment Officer, and Scott Zdrazil, Senior Investment Officer: That

the Committee provide direction regarding the Analysis and Exposure to Civilian Firearms and Ammunitions Investments.
(Memo dated May 30, 2018)

D. Request for Direction as submitted by Jonathan Grabel, Chief Investment Officer, and Scott Zdrazil, Senior Investment Officer: That the Committee provide direction regarding the Analysis and Exposure to Automobile Manufacturers.
(Memo dated May 30, 2018)

V. REPORTS

A. Status Update of Assessment of ESG Integration at LACERA Public Markets Managers
Scott Zdrazil, Senior Investment Officer
(Memo dated May 17, 2018)

B. Principles for Responsible Investment (PRI) Association Board Election Candidate Nominations
Scott Zdrazil, Senior Investment Officer
(For Information Only) (Memo dated May 30, 2018)

VI. REPORT ON STAFF ACTION ITEMS

VII. GOOD OF THE ORDER

(For Information Purposes Only)

VIII. ADJOURNMENT

*The Board of Investments has adopted a policy permitting any member of the Board to attend a standing committee meeting open to the public. Members of the Board of Investments who are not members of the Committee may attend and participate in a meeting of a Committee but may not vote, make a motion, or second on any matter discussed at the meeting. The only action the Committee may take at the meeting is approval of a recommendation to take further action at a subsequent meeting of the Board.

**Although the meeting is scheduled for 8:00 a.m., it can start anytime thereafter, depending on the length of the Board of Investment meeting preceding it. Please be on call.

Documents subject to public disclosure that relate to an agenda item for an open session of the Board of Investments that are distributed to members of the Board of Investments less than 72 hours prior to the meeting will be available for public inspection at the time they are distributed to a majority of the Board of Investments Members at LACERA's offices at 300 N. Lake Avenue, Suite 820, Pasadena, CA 91101, during normal business hours of 9:00 a.m. to 5:00 p.m. Monday through Friday.

Persons requiring an alternative format of this agenda pursuant to Section 202 of the Americans with Disabilities Act of 1990 may request one by calling Cynthia Guider at (626) 564-6000, from 8:30 a.m. to 5:00 p.m. Monday through Friday, but no later than 48 hours prior to the time the meeting is to commence. Assistive Listening Devices are available upon request. American Sign Language (ASL) Interpreters are available with at least three (3) business days notice before the meeting date.

MINUTES OF THE REGULAR MEETING OF THE CORPORATE GOVERNANCE

COMMITTEE AND THE BOARD OF INVESTMENTS

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

300 N. LAKE AVENUE, SUITE 810, PASADENA, CA 91101

8:00 A.M., WEDNESDAY, APRIL 11, 2018

PRESENT:	David Muir, Vice Chair
	Joseph Kelly
	Herman Santos
	Gina Sanchez, Alternate
ABSENT:	Shawn Kehoe, Chair
MEMBERS AT LARGE:	Michael Schneider
	Wayne Moore
	Ronald Okum
	David Green

STAFF, ADVISORS, PARTICIPANTS

Jonathan Grabel, Chief Investment Officer

Scott Zdrazil, Senior Investment Officer

Meketa Investment Group

Stephen McCourt, Managing Principal
Tim Filla, Vice President
Andrea Light, Investment Analyst

I. CALL TO ORDER

The Meeting was called to order by Vice Chair Muir at 8:00 a.m., in the Board Room of Gateway Plaza.

II. APPROVAL OF MINUTES

A. Approval of the Revised Minutes of the Regular Meeting of the Corporate Governance October 11, 2017.

Mr. Santos made a motion, seconded by Ms. Sanchez, to approve the Revised Minutes of the Regular Meeting of October 11, 2017. The motion carried by unanimous vote.

B. Approval of the Minutes of the Regular Meeting of the Corporate Governance Committee of February 14, 2018.

Mr. Santos made a motion, seconded by Ms. Sanchez, to approve the Minutes of the Regular Meeting of February 14, 2018. The motion carried by unanimous vote.

III. PUBLIC COMMENT

There were no requests from the public to speak.

IV. REPORT

A. Developing Engagement Priorities
Scott Zdrazil, Senior Investment Officer
(Report dated March 16, 2018)

Mr. Zdrazil provided a presentation and answered questions from the Committee.

B. Procedures for Evaluating Prospective ESG-Related Divestments
Scott Zdrazil, Senior Investment Officer
(Report dated march 27, 2018)

Mr. Zdrazil provided a presentation and answered questions from the Committee.

V. REPORT ON STAFF ACTION ITEMS

There were no items to report.

VI. GOOD OF THE ORDER
(For information purposes only)

There was nothing to report.

VII. ADJOURNMENT

There being no further business to come before the Committee, the meeting was adjourned at 9:05 a.m.

<u>Green Folder Information (Information distributed in each Board Members Green Folder at the beginning of the meeting)</u>

1. Letter from U.S. House of Representatives Member Representing California's 11th District Requesting Divestment from Certain Automobile Manufacturers. (Memo dated April 4, 2018)

May 17, 2018

TO: Each Member
Corporate Governance Committee

FROM: Scott Zdrazil
Senior Investment Officer – Corporate Governance

Dale Johnson
Investment Officer

FOR: June 13, 2018 Corporate Governance Committee Meeting

SUBJECT: **Strategic Initiative Regarding Diversity on Corporate Boards**

RECOMMENDATION

Affirm a strategic initiative regarding gender diversity on corporate boards.

EXECUTIVE SUMMARY

Staff is presenting the option for LACERA to collaborate with other public pension fund systems, namely the California State Teachers' Retirement System ("CalSTRS") and the Regents of the University of California ("the Regents"), in a joint initiative to encourage gender diversity on corporate boards of California public companies. The initiative is consistent with LACERA's *Corporate Governance Principles* (§I.B.2; p. 5) and is being presented for the Corporate Governance Committee's review in adherence to LACERA's *Corporate Governance Policy* which provides that the Committee review and ensure alignment of strategic initiatives with LACERA's *Corporate Governance Principles* (§V.B.[iv] and §V.C.[iv]; pp. 3-4).

The initiative would specifically entail LACERA joining an ongoing project, currently spearheaded by CalSTRS and the Regents, to send joint letters requesting dialogues with public companies headquartered in California that lack any female representation on their corporate boards. The collaborative initiative requests a dialogue regarding companies' policies and practices to promote that boards are casting wide nets to identify qualified board nominees, inclusive of prospective female candidates. If affirmed by the Committee, staff would work with participating funds to finalize updated research on companies that would receive the letters. Staff anticipates that joint letters would be sent later in 2018 and dialogues would take place afterwards. Following engagements, staff would report back to the Corporate Governance Committee on the status of the initiative in 2019.

BACKGROUND

In October 2017, the Corporate Governance Committee reviewed background material, research, and proposed policy language for incorporation into LACERA's *Corporate Governance Principles* regarding diversity on corporate boards.[1]

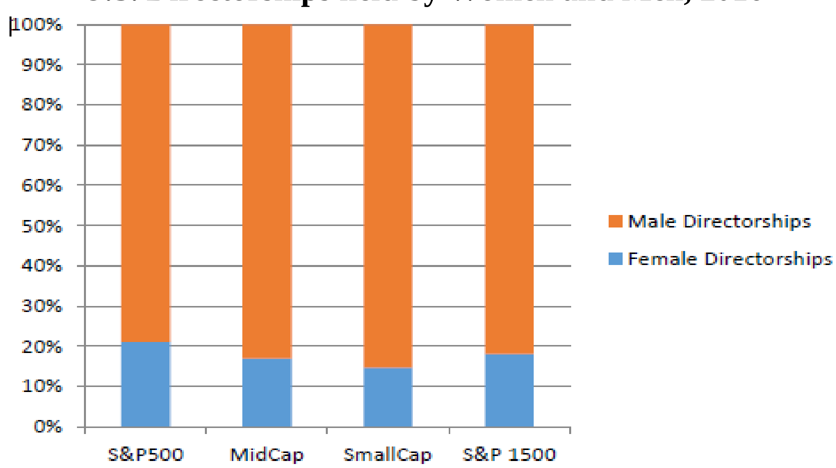
In February 2018, the Board adopted *Corporate Governance Principles* that state, in part:

> Diversity: The board should establish and disclose policies and processes for ensuring that it identifies and nominates suitable directors from a wide pool of candidates relevant to its business strategy, including, but not limited to, diverse gender, racial, and ethnic background. A diverse and inclusive board is better positioned to effectively deliberate and oversee business strategy in investors' interests" (§I.B.2; p. 5).

In April 2018, the Corporate Governance Committee reviewed prospective priorities for LACERA's engagement activities, including encouraging best practices in board diversity.

Gender diversity on corporate boards has increased in recent years. However, there remains a significant disparity across all company sizes. Additionally, lack of gender diversity is most acute at smaller firms.

U.S. Directorships held by Women and Men, 2016



Source: Institutional Shareholder Services[2]

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[1] Credit Suisse. *Gender Diversity and Corporate Performance.* August 2012. (https://www.morganstanley.com/ideas/gender-diversity-investment-framework.html); ISS. *2017 Board Study: United States.* (No link available.); MSCI. *The Tipping Point: Women on Boards and Financial Performance.* 2016 (https://www.msci.com/www/research-paper/the-tipping-point-women-on/0538947986); MSCI. *Women on Boards.* November 2015. (https://www.msci.com/www/research-paper/research-insight-women-on/0263428390); Spencer Stuart. *U.S Board Index 2017*. (https://www.spencerstuart.com/~/media/ssbi2017/ssbi_2017_final.pdf?la=en).

[2] Institutional Shareholder Services. "U.S. Board Practices Study: Directors and Boards at S&P 1500 Companies." March 17, 2017.(No link available.)

As noted in the chart above, 21% of S&P 500 directorships were held by women in 2016, whereas fewer than 15% of directorships at S&P 600 small cap firms were held by women. And whereas only 8 companies in the S&P 500 index had no female directors in 2016, 27% of small cap boards lack any female directors.

To encourage broader board diversity, institutional investors have developed numerous initiatives. Large asset managers, including State Street and BlackRock, have launched focused initiatives. Some public funds have collaborated on a regional basis to engage companies in their portfolios located in their states (e.g. a coalition of several Midwest state funds and other institutional investors). In California, CalSTRS and the Regents have recently engaged companies headquartered in California lacking any gender diversity regarding their board recruitment practices.

To date, LACERA has developed two approaches regarding board diversity:

1. LACERA has defined in its *Corporate Governance Principles* a stated position on board composition, inclusive of diversity (as stated above).

2. LACERA votes proxies for which it has proxy voting authority in a manner consistent with its *Corporate Governance Principle.* Accordingly, LACERA is generally supportive of reasonable shareholder resolutions that request companies report to shareholders on how their governing policies and recruitment practices ensure that the board is considering qualified board candidates from diverse backgrounds, inclusive of gender, race and ethnicity.

The proposed initiative would develop a third prong to LACERA's approach to diversity on corporate boards, whereby LACERA would actively engage portfolio holdings to encourage practices in line with LACERA's *Corporate Governance Principles.* The proposed initiative entails joining with CalSTRS and the Regents to send joint letters and engage in dialogue with companies that lack any gender diversity at all. The engagement would request a discussion regarding the company's board nominating policies and processes in order to enhance the prospects that the board might identify and nominate qualified diverse directors going forward. Specifically, the initiative requests that companies affirm in their governing documents and policies, such as the charter of their nominating committees, a commitment to identifying qualified candidates of diverse gender, race and ethnicity. The initiative also encourages "best practices" in director recruitment strategies. For example, companies that regularly assess their board composition and identify desirable skills to ensure effective oversight of the company's business strategy and risks are likely to be in a position to proactively seek qualified directors to fill skills gaps. Additionally, companies that cast a wide net in each director search (including incorporating candidates of diverse professional backgrounds, race and gender for consideration) may enhance prospects of incorporating qualified candidates into their search and nomination process.

Initial staff research has identified that LACERA has investment exposures in its global equities portfolio to approximately 75 companies headquartered in California lacking any female directors (including both companies with direct beneficial ownership and which are currently in commingled funds). If affirmed by the Committee, staff would collaborate with initiative partners to refine the research and develop joint letters requesting dialogue with companies later in 2018. Staff would track progress of the initiatives and provide the Committee with a status update in 2019.

OBSERVATIONS

Expectations of Impact: Staff notes that most companies in the initiative are small and that board recruitment processes may be lengthy. Smaller firms are less likely to use external board search firms and may have fewer internal resources. Accordingly, efforts to engage in dialogue may prompt modifications to company policies, procedures, and an awareness of institutional investor views. Staff anticipates that board composition changes may not be immediate. However, small firms are also often entry points for promising directors to serve investors. Accordingly, a focus on smaller firms may contribute to broader reform in the market on corporate board gender diversity.

Resources: Implementing the proposed initiative would require dedicating staff time and access to ESG research sources. Staff anticipates that current budgeted staff can dedicate time to research, communicate, and engage with portfolio companies. In line with previous presentations to the Committee, staff also continues to evaluate prospective ESG data services to expedite quality corporate research in order to monitor portfolio companies' governance profiles and risks, facilitate expeditious corporate research on portfolio companies, and support LACERA's governance initiatives.

CONCLUSION

Staff considers that a collaborative and focused effort to engage "outlier" companies lacking any gender diversity on their boards in the state of California would be aligned with LACERA's *Corporate Governance Principles* and a prudent and efficient use of resources to support broader market initiatives to encourage greater board diversity. Staff therefore recommends that the Committee affirm that the proposed initiative described above aligns with LACERA's *Corporate Governance Principles.*

Noted and Reviewed:

Jonathan Grabel
Chief Investment Officer

May 17, 2018

TO: Each Member
Corporate Governance Committee

FROM: Scott Zdrazil
Senior Investment Officer – Corporate Governance

Dale Johnson
Investment Officer

FOR: June 13, 2018 Corporate Governance Committee Meeting

SUBJECT: **Climate Action 100+ Initiative**

RECOMMENDATION

Recommend for Board of Investment approval that LACERA formally sign onto the Climate Action 100+ initiative as a supporter.

EXECUTIVE SUMMARY

Staff is presenting the option for LACERA to sign on as an investor signatory to the Climate Action 100+ initiative, consistent with LACERA's *Corporate Governance Principles* (§V[B]3, p. 20) and in adherence to LACERA's *Corporate Governance Policy* (§V.B.[i], p.3). In order to participate, LACERA would be required to sign onto the "Climate Action 100+ Sign-on Statement" (See slide 13 of the **ATTACHMENT**). Climate Action 100+ (https://climateaction100.wordpress.com/) is a collaborative five-year initiative launched in late 2017 and coordinated by global institutional investors and investor networks, including the Principles for Responsible Investment. The initiative encourages the most carbon-intensive global companies (initially starting with the most carbon intensive 100 companies) to assess investment-relevant risks and opportunities to their business models and provide investors with enhanced corporate disclosures in line with the final recommendations of the Financial Stability Board's Taskforce on Climate-related Financial Disclosures (https://www.fsb-tcfd.org/wp-content/uploads/2017/06/FINAL-TCFD-Annex-062817.pdf). To date, 279 investors with nearly USD $30 trillion in assets under management have signed onto the initiative.

BACKGROUND

The Financial Stability Board (established by finance ministers and central bank officials of G20 member countries in the wake of the global financial crisis in 2009 in order to promote stability in global financial markets) announced the formation of the Taskforce on Climate-related Financial Disclosures (TCFD) in December 2015, to be chaired by Michael R. Bloomberg, founder of Bloomberg LP. The TCFD released a report of its final recommendations in June 2017.

The Corporate Governance Committee has referenced the TCFD at several points during the past year as the Committee has further developed LACERA's corporate governance policy and program. In August 2017, the Corporate Governance Committee heard a presentation regarding climate risk, which included discussion of the final TCFD Recommendations report. In October 2017, the Corporate Governance Committee reviewed background materials regarding climate risk and prospective language to incorporate into LACERA's *Corporate Governance Principles*. In February 2018, the Board of Investments approved *Corporate Governance Principles* that state, in part:

> *Climate Risk:* Climate change may present financial, operational, and regulatory risks to a firm's ability to generate sustainable value, as well as to the broader economy. Firms should assess and disclose material climate-related risks and sufficient, non-proprietary information to enable investors to prudently and adequately evaluate the prospective impact of climate risk on firm value.
>
> *Corporate Governance Principles*, §V(B)3, p. 20

At its April 2018 meeting, the Corporate Governance Committee reviewed prospective priorities for engagement, including opportunities to enhance reliable, comparable, and timely disclosures of ESG factors in the marketplace, such as climate-related risks.

The TCFD Final Recommendations encourage financial disclosures applicable across sectors and jurisdictions, addressing core themes of how organizations operate and specifically promoting disclosure in company reports to investors in four areas of how climate risk may impact a business, so that markets may better price climate risk into their investment decision-making:

TCFD Four Core Recommendations for Corporate Disclosures

Governance
The organization's governance around climate-related risks and opportunities

Strategy
The actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning

Risk Management
The processes used by the organization to identify, assess, and manage climate-related risks

Metrics and Targets
The metrics and targets used to assess and manage relevant climate-related risks and opportunities

The TCFD encourages forward-looking information through scenario analysis to understand how resilient business strategies are to climate-related risks. (A summary presentation is available here: https://www.fsb-tcfd.org/wp-content/uploads/2017/06/TCFD-Recommendations-Overview-062717.pdf.)

To date, over 250 companies and investors have expressed their support for the TCFD's disclosure framework. Companies and other institutions supporting the TCFD framework can be viewed here: https://www.fsb-tcfd.org/tcfd-supporters-may-2018/.

In the wake of the TCFD's Final Recommendations report, the Climate Action 100+ initiative was launched in late 2017. The Climate Action 100+ is a five year "partnership of partnerships" initiative among leading investor associations across numerous continents to encourage the largest carbon emitters to provide investor disclosures aligned with the TCFD reporting framework. The partner organizations include the Principles for Responsible Investment, the Asia Investor Group on Climate Change (Asia), the Institutional Investor Group on Climate Change (Europe), the Investor Group on Climate Change (Australia/New Zealand), and Ceres Network on Climate Risk and Sustainability (North America). Ceres is an organization comprised of companies and institutional investors focused on climate risk and sustainable business practices. The initiative is governed by the CEO's of each regional network plus one investor representative from each group.

Working in conjunction with the regional organizations, institutional investors will lead engagement with select companies, starting with the 100 largest carbon emitters, to encourage market reporting consistent with the TCFD framework. The initial focus list of 100 companies was developed using reporting and modelled data from the Carbon Disclosure Project on the companies' combined direct and indirect (scope 1, 2, and 3) emissions, including use of their products.

To date, 279 international institutional investors with nearly USD $30 trillion in assets under management have signed onto the Climate Action 100+. Signatories include West Coast public fund systems such as the Washington State Investment Board, San Francisco Employees' Retirement System, Oregon Treasurer's Office, City of Seattle Employees' Retirement System, and the British Columbia Investment Management Corporation, as well as CalPERS and CalSTRS. The full list of investor signatories is available at https://climateaction100.wordpress.com/investors/.

Several global corporations have conducted and started to disclose forward-looking scenario-analyses, which incorporate aspects of the TCFD recommendations, including Chevron and Exxon.[1]

If approved by the Committee and the Board, staff would seek to monitor progress of the initiative and report status updates. The Climate Action 100+ initiative anticipates providing updates on the initiative biannually. In addition, the initiative will be engaging a third party vendor to provide an assessment of the initiative's progress.

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[1] Chevron, *Managing Climate Change Risks* (https://www.chevron.com/corporate-responsibility/climate-change/managing-climate-risk); ExxonMobil, *2018 Energy & Carbon Summary, Positioning for a Lower-Carbon Energy Future* (http://corporate.exxonmobil.com/~/media/global/files/energy-and-environment/2018-energy-and-carbon-summary.pdf).

OBSERVATIONS

Expectations of Impact: Staff notes a wide number of global corporations and investors have endorsed the TCFD as a means for consistent and investment-useful corporate reporting regarding climate risk. In the last two years, shareholder proposal requests to companies to assess and disclose to investors the prospective impact of climate risks have received strong shareowner support, including majority support at ExxonMobil, Royal Dutch Shell, and BP. Numerous companies have started to disclose climate related risks and scenario analyses. The TCFD may be a mechanism by which such reporting may be provided to the marketplace in a consistent and useful framework.

Resources: LACERA's participation in the Climate Action 100+ is scalable. LACERA may sign on as a "supporter" with minimal resources. LACERA may also opt to resource the initiative by participating in the North American regional investor network in order to be apprised of developments, monitor progress, and periodically report on the initiative's status.

CONCLUSION

Staff considers that the Climate Action 100+, as a collaborative, globally coordinated initiative, would enhance market analysis and corporate disclosures that would enable investors, including LACERAs external managers, to assess and price climate risk. As such, it would be a resource-efficient means by which LACERA might promote its *Corporate Governance Principles* related to climate and environmental risk. Staff therefore recommends that the Committee recommend for Board of Investment approval LACERA's affiliation as a supporter of the Climate Action 100+ initiative.

Attachment

Noted and Reviewed:

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Jonathan Grabel
Chief Investment Officer

Attachment

Climate Action 100+

Asia Investor Group on Climate Change

Ceres

Investor Group on Climate Change

IIGCC Institutional Investors Group on Climate Change

PRI Principles for Responsible Investment

Overview

Overview

Global investors driving business transition
The Climate Action 100+ is a new five-year investor-led initiative to engage more than 100 of the world's largest corporate greenhouse gas emitters* to curb emissions, strengthen climate-related financial disclosures and improve governance on climate change risks.

The initiative has been developed to build on the commitments laid out in the 2014/2015 Global Investor Statement on Climate Change, supported by 409 investors representing more than US $24 trillion, which stated:

"As institutional investors and consistent with our fiduciary duty to our beneficiaries, we will: […] work with the companies in which we invest to ensure that they are minimising and disclosing the risks and maximising the opportunities presented by climate change and climate policy."

* Taking into account emissions across the value chain (scope 1 to 3)

Overview

How does the Climate Action 100+ aim to support investors and implementation of the Paris Agreement?

Global network behind regional leadership – connects investors from around the world behind investors leading engagement in different regions

A clear engagement agenda – makes sure company boards and senior management receive a consistent message from investors

Amplifying the investor voice – ensures wider society is made aware of the position of investors on climate-related risks and opportunities

Performance tracked – provides an assessment on the progress companies are making towards delivering FSB Taskforce on Climate-Related Disclosures (TCFD) aligned disclosure and meeting the goal of the Paris Agreement

Who is involved?

Initially proposed by CalPERS in 2016, the initiative builds on the investor engagement pioneered since 2012 by the regional investor networks who together form the Global Investor Coalition on Climate Change. It is coordinated by these networks and the Principles for Responsible Investment (PRI):

Asia Investor Group on Climate Change (Asia)	Ceres Investor Network on Climate Risk and Sustainability (North America)	Investor Group on Climate Change (Australia/New Zealand)	Institutional Investor Group on Climate Change (Europe)	Principles for Responsible Investment (Global)

Building on existing engagement work

This new initiative aims to bring together, connect and align engagement work taking place through the five networks.

Which companies will we be focusing on?

Which companies will we be focusing on?

The objective of the Climate Action 100+ is to focus investor action on the most substantial greenhouse gas emitters (considering emissions across the value chain), as well as those companies that investors believe present the greatest climate-related risk to their portfolios.

These companies present risk to investors in two ways:

1. Failure to adapt their operations and activities to policy, physical or technological changes related to climate change could impact revenues, expenditures, assets and liabilities or financing activities (see figure 1)
2. By creating systemic economy-wide impacts that may harm the financial markets (e.g. rapid repricing as a consequence of a sudden and prolonged extreme weather event)

Groups and Industries		Revenues	Expenditures	Assets and Liabilities	Capital and Financing
Energy	Oil and Gas	■	■	■	■
	Coal		■	■	■
	Electric Utilities	■	■		■
Transportation	Air Freight		■		■
	Passenger Air Transportation		■		■
	Maritime Transportation		■		■
	Rail Transportation		■		■
	Trucking Services		■		■
	Automobiles and Components	■	■		■
Materials and Buildings	Metals and Mining		■		■
	Chemicals	■	■		■
	Construction Materials	■	■		■
	Capital Goods	■	■		
	Real Estate Management and Development	■	■	■	■
Ag, Food, and Forest	Beverages		■		■
	Agriculture	■	■	■	■
	Packaged Foods and Meats		■	■	■
	Paper and Forest Products	■	■	■	■

Figure 1: TCFD Supplemental Guidance sector analysis of exposures to climate-related financial risk or opportunity by financial impact area. The Climate Action 100+ will focus on the 100 largest emitters from across these sectors plus those that participating investors view as riskiest.
https://www.fsb-tcfd.org/wp-content/uploads/2017/06/FINAL-TCFD-Annex-062817.pdf , page 6

Climate Action 100+ Focus List Companies

Companies featuring in the top 100 as are listed below. Additional companies will be voted into the focus list by investors that have signed on to the initiative.

Organisation	ISIN	Organisation	ISIN	Organisation	ISIN	Organisation	ISIN
A.P. Moller - Maersk	DK0010244425	Ecopetrol Sa	COC04PA00016	Lukoil OAO	RU0009024277	Rosneft Oil Company	RU000A0J2Q06
Airbus Group	NL0000235190	EDF	FR0010242511	LyondellBasell Industries Cl A	NL0009434992	Royal Dutch Shell	GB00B03MLX29
American Electric Power Company, Inc.	US0255371017	ENEL SpA	IT0003128367	Marathon Petroleum	US56585A1025	Saic Motor Corporation	CNE000000TY6
Anglo American	GB00B1XZS820	ENGIE	FR0010208488	Martin Marietta Materials, Inc.	US5732841060	Sasol Limited	ZAE000006896
Anhui Conch Cement	CNE1000001W2	Eni SpA	IT0003132476	MMC Norilsk Nickel OSJC	RU0007288411	Siemens AG	DE0007236101
ArcelorMittal	LU0323134006	Exelon Corporation	US30161N1019	Nestlé	CH0038863350	SK Innovation Co Ltd	KR7096770003
BASF SE	DE000BASF111	Exxon Mobil Corporation	US30231G1022	Nippon Steel & Sumitomo Metal Corporation	JP3381000003	Southern Copper Corporation	US84265V1052
Bayer AG	DE000BAY0017	Fiat Chrysler Automobiles NV	NL0010877643	Nissan Motor Co., Ltd.	JP3672400003	Statoil ASA	NO0010096985
Berkshire Hathaway	US0846707026	Ford Motor Company	US3453708600	NTPC Ltd	INE733E01010	Suncor Energy Inc.	CA8672241079
BHP Billiton	AU000000BHP4	Formosa Petrochemical	TW0006505001	Oil & Natural Gas	INE213A01029	Suzuki Motor Corporation	JP3397200001
Boeing Company	US0970231058	Gas Natural SDG SA	ES0116870314	OMV AG	AT0000743059	Teck Resources Limited	CA8787422044
BP	GB0007980591	General Electric Company	US3696041033	PACCAR Inc	US6937181088	Tesoro Corporation	US8816091016
Canadian Natural Resources Limited	CA1363851017	General Motors Company	US37045V1008	Panasonic Corporation	JP3866800000	The Dow Chemical Company	US2605431038
Caterpillar Inc.	US1491231015	Glencore plc	JE00B4T3BW64	PepsiCo, Inc.	US7134481081	The Southern Company	US8425871071
Centrica	GB00B033F229	Hitachi, Ltd.	JP3788600009	PETROCHINA Company Limited	CNE1000003W8	thyssenkrupp AG	DE0007500001
Chevron Corporation	US1667641005	Hon Hai Precision Industry	TW0002317005	Petróleo Brasileiro SA - Petrobras	BRPETRACNPR6	Toray Industries, Inc.	JP3621000003
China Petroleum & Chemical Corporation	CNE1000002Q2	Honda Motor Company	JP3854600008	Phillips 66	US7185461040	Total	FR0000120271
China Shenhua Energy	CNE1000002R0	Imperial Oil	CA4530384086	PJSC Gazprom	RU0007661625	Toyota Motor Corporation	JP3633400001
CNOOC	HK0883013259	Ingersoll-Rand Co. Ltd.	IE00B6330302	POSCO	KR7005490008	United Technologies Corporation	US9130171096
Coal India	INE522F01014	International Paper Company	US4601461035	Procter & Gamble Company	US7427181091	Vale	BRVALEACNOR0
ConocoPhillips	US20825C1045	JX Holdings, Inc	JP3386450005	PTT	TH0646010007	Valero Energy Corporation	US91913Y1001
Cummins Inc.	US2310211063	Koninklijke Philips NV	NL0000009538	Reliance Industries	INE002A01018	Vedanta Ltd	INE205A01025
Daikin Industries, Ltd.	JP3481800005	Korea Electric Power Corp	KR7015760002	Repsol	ES0173516115	Volkswagen AG	DE0007664039
Duke Energy Corporation	US26441C2044	LafargeHolcim Ltd	CH0012214059	Rio Tinto	GB0007188757	Volvo	SE0000115446
E.ON SE	DE000ENAG999	Lockheed Martin Corporation	US5398301094	Rolls-Royce	GB00B63H8491	Wesfarmers	AU000000WES1

POWERED BY CDP DATA

What are we looking to achieve?

What are we looking to achieve?

Climate Action 100+ Engagement Agenda

The initiative aims to secure commitments from the **boards and senior management** to:

1. **Implement a strong governance framework** which clearly articulates the board's accountability and oversight of climate change risk

2. **Take action to reduce greenhouse gas emissions across their value chain,** consistent with the Paris Agreement's goal of limiting global average temperature increase to well below 2 degrees above pre-industrial levels.

3. **Provide enhanced corporate disclosure** in line with the final recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and sector-specific GIC Investor Expectations on Climate Change (when applicable) to enable investors to assess the robustness of companies' business plans against a range of climate scenarios, including well below 2 degrees and improve investment decision-making.*

Investors signing on to the initiative are requested to support a public statement outlining these goals. We will collectively track the progress of companies subject to the initiative in delivering the high level goals.

*GIC stands for Global Investor Coalition on Climate Change. See here for more information on the GIC. The existing GIC Investor Expectations sector guides cover oil and gas, mining, utilities and auto manufacturers which provide additional sector specific disclosure recommendations, particularly regarding the oversight of public policy positions and activity. The series will cover steel, chemicals and cement by Q3 2018.

Goal three: what do mean by enhanced disclosure?

The Climate Action 100+ seeks enhanced disclosures in line with the FSB Task Force on Climate-Related Disclosure. The TCFD has sets out four core recommendations, which each have a number of supporting recommendations. The supplemental guidance annex sets out further disclosure recommendations for key financial and non-financial sectors. Recommendations are also made on the location of disclosure. The core disclosure recommendations and supporting recommendations are:

1. **Governance**: Disclose the organization's governance around climate-related risks and opportunities.
    a) Describe the board's oversight of climate-related risks and opportunities.
    b) Describe management's role in assessing and managing climate-related risks and opportunities.
2. **Strategy**: Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material.
    a) Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.
    b) Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning
    c) Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.
3. **Risk Management**: Disclose how the organization identifies, assesses, and manages climate-related risks.
    a) Describe the organization's processes for identifying and assessing climate-related risks
    b) Describe the organization's processes for managing climate-related risks.
    c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.
4. **Metrics and Targets**: Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.
    a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.
    b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.
    c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.

Appendix A: Investor Sign-On Statement

Climate Action 100+ Sign-on Statement

The Climate Action 100+ is a collaborative five-year initiative that ***requires participating investors to sign-on to a public statement of action****. This public statement (below) sets out the commitment from investor signatories and expectations of the companies on the focus list.*

INVESTOR SIGN ON STATEMENT:

Background

We, the institutional investors that are signatories to this statement, are aware of the risks climate change presents to our portfolios and asset values in the short, medium and long term. We therefore support the Paris Agreement and the need for the world to transition to a lower carbon economy consistent with a goal of keeping the increase in global average temperature to well below 2°Celsius above pre-industrial levels.

Through this initiative, we aim to fulfil the commitment made by 409 investors representing more than US $24 trillion under management set out in the "2014/15 Global Investor Statement on Climate Change" which stated that "…as institutional investors and consistent with our fiduciary duty to our beneficiaries, we will work with the companies in which we invest to ensure that they are minimising and disclosing the risks and maximising the opportunities presented by climate change."

Commitment

We believe that engaging and working with the companies in which we invest – to communicate the need for greater disclosure around climate change risk and company strategies aligned with the Paris Agreement – is consistent with our fiduciary duty and will contribute to achieving the goals of the Paris Agreement.

The initiative aims to secure commitments from the **boards and senior management** to:

1. **Implement a strong governance framework** which clearly articulates the board's accountability and oversight of climate change risk and opportunities.
2. **Take action to reduce greenhouse gas emissions across their value chain,** consistent with the Paris Agreement's goal of limiting global average temperature increase to well below 2 degrees above pre-industrial levels.
3. **Provide enhanced corporate disclosure** in line with the final recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and sector-specific GIC Investor Expectations* on Climate Change (when applicable) to enable investors to assess the robustness of companies' business plans against a range of climate scenarios, including well below 2 degrees and improve investment decision-making.

Working through AIGCC, Ceres, IGCC, IIGCC and PRI, we will together monitor the progress that companies make towards these towards these goals. We are committed to working collaboratively through this initiative, using a range of engagement approaches to ensure fulfilment of the above mentioned goals.

*GIC stands for Global Investor Coalition on Climate Change. The Global Investor Coalition on Climate Change (GIC) is a joint initiative of four regional groups that represent investors on climate change and the transition to a low carbon economy: AIGCC (Asia), Ceres (North America), IGCC (Australia/NZ) and IIGCC (Europe). See here for more information on the GIC. The existing GIC Investor Expectations sector guides cover oil and gas, mining, utilities and auto manufacturers and provide additional sector specific disclosure recommendations, particularly regarding the oversight of public policy positions. The series will cover steel, chemicals and cement by Q2 2018.

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May 30, 2018

TO: Each Member
Corporate Governance Committee

FROM: Jonathan Grabel
Chief Investment Officer

Scott Zdrazil
Senior Investment Officer – Corporate Governance

FOR: June 13, 2018 Corporate Governance Committee Meeting

SUBJECT: **ANALYSIS AND EXPOSURE TO CIVILIAN FIREARMS AND AMMUNITIONS INVESTMENTS**

REQUESTED COMMITTEE DIRECTION

Provide staff direction regarding civilian firearms investment exposure and analysis.

BACKGROUND

At the March 2018 Board of Investments ("Board") meeting, staff presented a brief overview of LACERA's exposures to civilian firearms and ammunitions manufacturers.

At the April 2018 Corporate Governance Committee ("Committee") meeting, staff provided the Committee with an overview of LACERA's policy and procedures to assess investment exclusions, as defined in LACERA's *Corporate Governance Policy* (See "Appendix A: Procedures for Evaluating Prospective ESG-Related Divestments," pp. 6-7). The Committee requested further information regarding analysis of civilian firearms investments in order to determine further action.

For the Committee's June 13, 2018 meeting, staff is providing further information in order to inform the Committee's discussion and assist the Committee in determining further action. Deliberating LACERA's course of action requires careful consideration, dispassionate analysis, and strict adherence to fiduciary duty. Should the Committee and Board seek to consider investment guidelines or restrictions related to civilian firearms, the following presents several contemplations and further background information for consideration. Staff identifies several possible options at the conclusion of this memo for the Committee's consideration.

I. Defining Applicable Investments

Defining the universe of investments that would be subject to an exclusion, divestment, or economic substitution ("Applicable Investments") entails three areas for consideration:

- Type of product or service that is the focus of the investment restriction
- Nature of involvement of a business to the targeted product or service
- Nature of LACERA's investment in the targeted product or service

The section below breaks down each of the above as they pertain to the topic of civilian firearms and ammunitions.

A. *What type of product or service is the focus of prospective investment exposure analysis and exclusion guidelines?*

The weapons and defense industry covers a broad array of business activities that could include defense contractors, conventional weaponry, manufacturers of specific controversial weapons (such as cluster bombs, nuclear, etc.), support services for related defense industries, and civilian firearms.

For the purposes of the Committee's discussion, this memo focuses on civilian firearms. The category of "Civilian Firearms" also can be broken down into specific subcategories, including:[1]

- Long guns (semi-automatic, pump action, break action, lever action, bolt action)
- Handguns (revolver, break action, semi-automatic, etc.)
- Components manufacturers (bump stocks, cases, other peripherals)

Semi-automatic long guns have received particular recent media and investor focus, including AR-15 rifles and "AR-15 variants." Research services, such as MSCI, define their own criteria to define which product lines might be considered "AR-15 variants."

B. *What is the extent of a company's involvement in the targeted product or service?*

The extent of a company's involvement might hinge on two questions.

First, what is the nature of the company's involvement with the targeted product or service, in this case, civilian firearms? Involvement with civilian firearms might include a narrow scope of involvement (manufacturers of civilian firearms) or more broad. A broad definition could encompass:

- Manufacture
- Retail and sales
- Finance
- Distribution
- Hospitality/convention services
- Other related business services (legal, etc.)

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[1] MSCI. "Firearms in the U.S.: A Framework for Investor Action." MSCI ESG Research. May 10, 2018. (No link available.)

Second, what is the threshold by which a company's involvement in civilian firearms would be defined as an Applicable Investment? LACERA might consider:

- Absolute: An absolute definition might consider any type of activity or relationship to civilian arms to be considered an Applicable Investment (manufacture, retail, finance, contractors and suppliers, etc.).

- Threshold: An investor might define a minimum threshold, such as percentage of revenues (e.g. 5% or greater of retail sales generated from civilian firearms) or a minimum amount of revenues (e.g. annual revenues of USD $1 million or greater generated from civilian firearms).

Third, to what LACERA investments would investment guidelines or restrictions pertaining to civilian firearms be applied?

- All investments across all asset classes and investment strategies
- Public markets only (or more liquid) investments versus private markets
- Active versus passive strategies
- Commingled funds versus separate accounts

II. Considerations for Defining Applicable Investments

In considering the above components for defining Applicable Investments, the Committee and Board might keep in mind the following considerations.

A. What's the objective for the investment restriction?

If LACERA's primary focus is on economic risk and exposure to civilian firearms, LACERA might consider limiting a definition of Applicable Investments to where core business activities pertaining to civilian firearms is concentrated, such as the manufacture of civilian firearms and ammunitions.

If LACERA's primary focus is on the reputational risks to LACERA of its investment exposure, LACERA might focus on specific product lines, such as semi-automatic rifles, that have generated particular public scrutiny.

B. Availability of reliable, timely data to implement, monitor, and enforce investment guidelines

In determining the scope of targeted investments, LACERA should be mindful that its ability to implement any prospective investment guideline or exclusion is reliant on its access to reliable data (such as through third party vendors) to apply LACERA's definition. For example, some data vendors assess the nature of companies' specific product lines of civilian firearms to discern whether a product might qualify as a 'semi-automatic" or might constitute above a defined threshold of company revenues, such as 5%. If companies do not disclose the specific revenue volume of defined product lines, LACERA may be impeded from implementing an investment restriction.

III. Preliminary Analysis

The table below presents LACERA's exposure to three scenarios of Applicable Investments, ranging from more narrow in scope to more expansive. Research is based on available in-house research.

Table 1: LACERA Exposures to Firearms and Ammunitions

	Applicable Investments[2]	Exposure as of April 30, 2018[3]
Scenario 1	Manufacturers of Civilian Firearms and Ammunitions	$5,772,395.38
Scenario 2	Manufacturers *Plus* Retailers With 5% or Greater Revenues Generated from Civilian Firearms and Ammunitions	$6,909,584.51
Scenario 3	Manufacturers *Plus* All Retailers of Civilian Firearms	$76,895,133.50

The table above pertains to all LACERA investments, both public markets and private markets. To date, LACERA has not identified any related investments in its private markets asset classes.

Table 2 below presents the total returns over 1-, 3-, and 5-year performance periods for the combined holdings that comprise each scenario.

Table 2: Performance Analysis of Scenarios of Applicable Investments, as of May 31, 2018[4]

	1 Year Total Return	3 Year Total Return	5 Year Total Return
Scenario 1	-12.4%	-17.8%	-1.2%
Scenario 2	-17.3%	-23.4%	-14.9%
Scenario 3	-9.5%	-12.0%	9.9%
Russell 3000 Benchmark	15.8%	36.6%	81.8%

IV. Engagement Options

Institutional investors have engaged both firearms manufacturers and retailers to promote practices that protect firm value in light of the risks of their product lines and prospective regulatory and legal liabilities:

- BlackRock has publicly announced that it is engaged in dialogue with manufacturers regarding their strategies and processes to mitigate reputational, financial, and litigation

[2] For each scenario, LACERA's exposures reflects public equities and fixed income exposures after assessing LACERA's portfolio for identified U.S. and non-U.S. companies. For each scenario, LACERA was found to only have exposure to U.S. companies. No companies have been identified in LACERA's private equity portfolio.
[3] State Street TruView holdings as of April 30, 2018.
[4] Scenario analyses providing cumulative returns assuming equal-weighted portfolios of each security within each scenario for performance periods as of May 31, 2018.

risk associated with the manufacture and sale of civilian firearms, the firms' approach to design safety in firearms, and internal controls in the sale and distribution of gun products.[5]

- Investors approved a shareholder resolution sponsored by religious organizations this year at Sturm Ruger & Company, prompting the company to announce its intent to implement the request that it monitor violence associated with guns that the company manufactures and develop safer products.[6]

- The California Teachers Retirement System (CalSTRS) has announced its intent to urge retailers to cease sales of firearms that the California Department of Justice has considered to be "assault-type weapons," as part of an initiative for which the fund will hire two additional staff members.[7]

Investment restrictions and divestments deny an investor the opportunity to engage a company regarding business practices of concern.

V. Prospective Actions for Committee

Prospective actions for the Committee to take include, but are not limited to:

1. Conduct Refined Analysis

Upon direction from the Committee, staff could further focus, expand, and/or refine the above analysis of exposures. Depending on the Committee's feedback, staff would need to allocate staff resources to further research and analysis. At a minimum, staff would seek to purchase data from an external data vendor in order to ensure precision in which portfolio holdings a prospective investment guideline and restriction would apply to. One-off external research costs to further develop research analysis could range from $5,000 to $15,000, depending on the scope and nature of the data being sought, following the Committee's discussion. Research and defining the criteria for identification of investments subject to an investment restriction would be in adherence to LACERA's *Corporate Governance Policy* regarding procedures for evaluating prospective divestments (see policy at p. 6-7).

[5] BlackRock. March 2, 2018. "BlackRock's Approach to Companies that Manufacture and Distribute Civilian Firearms." https://www.blackrock.com/corporate/newsroom/press-releases/article/corporate-one/press-releases/blackrock-approach-to-companies-manufacturing-distributing-firearms.
[6] Tiffany Hsu. May 9, 2018. "Sturm Ruger Shareholders Adopt Measure Backed by Gun Safety Activists." New York Times. https://www.nytimes.com/2018/05/09/business/sturm-ruger-shareholders-activists.html.
[7] Adam Ashton. May 9, 2018. "California Teachers' Pension Fund to Pressure Gun Retailers." Sacramento Bee. http://www.sacbee.com/news/politics-government/the-state-worker/article210803839.html.

Staff would also further engage the Legal Office and the Board's fiduciary counsel for guidance, including a thorough legal analysis on the Board's fiduciary duty, particularly the duty of prudence.

2. Consider Options for Engagement

Upon direction from the Committee, staff might consider prospects for engaging companies affiliated with civilian firearms production and retail regarding their oversight of associated compliance risks, litigation concerns, and internal controls to ensure retail sales channels abide by legal and regulatory requirements. Staff notes that gun retailers have recently announced numerous steps to enhance their risk mitigation and internal controls. Consequently, further engagement would need to carefully define achievable objectives and be considered in the context of available resources and program priorities.

3. Monitor

Staff notes that there have been numerous developments among civilian firearm manufacturers and retailers during 2018. For example, Vista Outdoors recently announced it is exploring strategic options to divest its division that manufacturers civilian firearms.[8] Dick's Sporting Goods announced its intent to discontinue assault-style rifle sales.[9] Walmart and Kroger announced they were raising the minimum age for customers to purchase firearms from 18 to 21.[10] Upon direction from the Committee, LACERA might opt to monitor the topic and LACERA's exposures and report back to the Committee in 2019. To precisely monitor exposures to both manufacturers and retailers, LACERA might consider enlisting an external data vendor to define pertinent companies to monitor and be able to report back to the Committee.

4. Receive and File Report

Based on the above background information and material, the Committee may opt to receive and file this report.

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[8] Smith, Aaron. May 1, 2018. "Vista Outdoor May Dump Its Gun Brands." CNN. http://money.cnn.com/2018/05/01/news/companies/vista-outdoor-savage-guns/index.html.

[9] Isidore, Chris. February 28, 2018. "Dick's Sporting Goods Will Stop Selling Assault-Style Rifles." CNN. http://money.cnn.com/2018/02/28/news/companies/dicks-weapon-ban/index.html

[10] Baertlein. March 1, 2018. "Kroger Joins Walmart, Dick's, Raises Minimum Age for Gun Buyers to 21." Reuters. https://www.reuters.com/article/us-usa-gun-kroger/kroger-raises-minimum-age-for-buying-firearms-to-21-idUSKCN1GD5E5.

L//CERA

May 30, 2018

TO: Each Member
Corporate Governance Committee

FROM: Jonathan Grabel
Chief Investment Officer

Scott Zdrazil
Senior Investment Officer – Corporate Governance

FOR: June 13, 2018 Corporate Governance Committee Meeting

SUBJECT: **ANALYSIS AND EXPOSURE TO AUTOMOBILE MANUFACTURERS**

REQUESTED COMMITTEE DIRECTION

Provide staff direction regarding automobile manufacturers investment exposure and analysis.

BACKGROUND

On April 2, 2018, the United States Environmental Protection Agency ("EPA") issued a Notice that previously-adopted fuel emissions standards for light-duty vehicles with the model years 2022-2025 are too stringent and should be revised.[1] The Notice withdrew the previous Final Determination issued by the agency on January 12, 2017. Concurrently, the EPA announced its intent to initiate rulemaking to consider new standards. The EPA, in conjunction with the National Highway Safety Administration, is also reportedly considering rescinding a waiver granted to the State of California which enables California to establish its own fuel emissions standards. A dozen states have adopted emissions standards established by the State of California, collectively representing about one third of the domestic auto market.[2]

On April 3, 2018, Congressman Mark DeSaulnier, Member of the U.S. House of Representatives representing California's 11th District ("Congressman"), sent LACERA a letter requesting that

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[1] The Notice was published in the Federal Register on April 13, 2018: Environmental Protection Agency (EPA). "Mid-term Evaluation of Greenhouse Gas Emissions Standards for Model Year 2022-2025 Light-Duty Vehicles." Federal Register; Vol. 83, No. 72. https://www.federalregister.gov/documents/2018/04/13/2018-07364/mid-term-evaluation-of-greenhouse-gas-emissions-standards-for-model-year-2022-2025-light-duty.

[2] Beene, Ryan, John Lippert, and Jennifer A. Dlouhy. June 1, 2018. "EPA Seeks End of California's Authority Over Auto Emissions, Report Says." Automotive News. http://www.autonews.com/article/20180601/OEM11/180609977/trump-california-epa-revoke-emissions-regulation. ; Reed Smith LLP. April 11, 2018. "Trump Administration and What to Expect Under the Clean Air Act 2018." http://www.pbi.org/docs/default-source/default-document-library/10084_clean-air-act-under-trump-administration-smokelin.pdf?sfvrsn=0; Reck, Belynda. April 5, 2018. "EPA Switches Gears on Emissions Standards." https://www.law.com/therecorder/2018/04/05/epa-switches-gears-on-emission-standards/?slreturn=20180505131601.

LACERA divest of all investments in automobile manufacturers that fail to meet certain conditions regarding fuel emissions (**Attachment**). Specifically, Congressman DeSaulnier's letter requested that LACERA divest from "any automobile manufacturer that produces cars that fail to meet emission standards adopted first by California and then adopted by a dozen other states that have followed California's lead."

At the April 2018 Corporate Governance Committee ("Committee") meeting, staff provided the Committee with the Congressman's letter and an overview of LACERA's policy and procedures to assess investment exclusions, as defined in LACERA's *Corporate Governance Policy* (See "Appendix A: Procedures for Evaluating Prospective ESG-Related Divestments," pp. 6-7). The Committee requested further information regarding analysis of LACERA's investments in automobile manufacturers in order to determine further action. LACERA subsequently formally acknowledged receipt of the Congressman's letter and stated that the matter is under review.

For the Committee's June 13, 2018 meeting, staff is providing further information in order to inform the Committee's discussion and assist the Committee in determining further action. Deliberating LACERA's course of action requires careful consideration, dispassionate analysis, and strict adherence to fiduciary duty. Should the Committee and Board of Investments ("Board") seek to consider investment guidelines or restrictions related to automobile manufacturers, the following presents several contemplations and further background information for consideration. Staff identifies several possible options at the conclusion of this memo for the Committee's consideration.

I. Defining Applicable Investments

Defining the universe of investments that would be subject to an exclusion, divestment, or economic substitution ("Applicable Investments") entails three areas for consideration:

- Type of product or service that is the focus of the investment restriction
- Nature of involvement of a business to the targeted product or service
- Nature of LACERA's investment in the targeted product or service

The section below breaks down each of the above as they pertain to the topic of automobile manufacturers.

A. *What type of product or service is the focus of prospective investment exposure analysis and exclusion guidelines?*

The automobile industry encompasses a wide range of companies involved in the design, development, manufacturing, sale, and servicing of automobiles.

The Congressman's request specifically references automobile manufactures, and more specifically, requests that LACERA divest from manufacturers who fail to meet fuel emissions standards that are "first adopted by California and then adopted by a dozen other states."

As the regulatory debate has not yet been settled, there is not yet information regarding which automobile manufacturers might fail to meet California's emissions standards for model years 2022-2025. Accordingly, for the purposes of the Committee's discussion, this memo focuses on all companies that might prospectively become subject to the Congressman's requested investment restriction regarding emissions standards, both for light-duty vehicles and more broadly in the automobile sector.

B. What is the extent of a company's involvement in the targeted product or service?

Although the Congressman's letter specifically references automobile manufacturers, staff notes that other companies might be associated with automobiles that fail to meet the defined emissions standards. A broad definition could encompass:

- Manufacture (light, medium, and heavy duty vehicles and trucks)
- Retail, sales, and marketing
- Finance
- Insurance
- Distribution
- Automotive fuels retail
- Aftermarket servicing
- Hospitality/convention services
- Other related business services (legal, etc.)

For the related industries above, an investor might assess the threshold by which a company's involvement with the targeted auto manufacturers would be defined as an Applicable Investment. For example:

- Absolute: An absolute definition might consider any type of activity or relationship to auto manufacturers that fail to meet the specified emissions standards to be considered an Applicable Investment (manufacture, retail, finance, contractors and suppliers, etc.).

- Threshold: An investor might define a minimum threshold, such as percentage of revenues (e.g. 5% or greater of retail sales generated from automobiles failing to meet defined emissions standards) or a minimum amount of revenues (e.g. annual revenues of USD $1 million or greater generated from the targeted automobile manufacturers).

Third, to what LACERA investments would investment guidelines or restrictions pertaining to the targeted auto manufacturers be applied?

- All investments across all asset classes and investment strategies
- Public markets only (or more liquid) investments versus private markets
- Active versus passive strategies
- Commingled funds versus separate accounts

II. Considerations for Defining Applicable Investments

In considering the above components for defining Applicable Investments, the Committee and Board might keep in mind the following considerations.

A. What's the objective for the investment restriction?

If LACERA's primary focus is on long-term economic risks presented by climate change to portfolio holdings, LACERA might consider that companies across a wide range of industries face risks and opportunities related to climate. Divesting from expansive and ubiquitous risks – such as climate, geopolitical, or others – may present challenges for LACERA to maintain a diversified portfolio, in adherence to its fiduciary duty to prudently diversify risk. Moreover, divestment removes an investor's ability to engage companies regarding how they are mitigating certain risks, such as climate risk, through focused initiatives (see, for example, the Climate Action 100+ Initiative presented separately for Committee consideration at the June 13, 2018 meeting).

If LACERA's primary focus is on public policy impacting certain portfolio sectors and holdings, LACERA might deliberate the most effective means to engage policymakers. In light of ongoing policy debates and developments regarding emissions standards specifically or climate regulation more broadly, LACERA might deliberate whether to directly express its views to policymakers in conjunction with investor associations, in line with LACERA's economic interests and adopted *Corporate Governance Principles.*

B. Availability of reliable, timely data to implement, monitor, and enforce investment guidelines

In determining the scope of targeted investments, LACERA should be mindful that its ability to implement any prospective investment guideline or exclusion is reliant on its access to reliable data (such as through third party vendors) to apply LACERA's definition. For example, LACERA would need access to adequate information regarding which auto manufacturers fail to meet the specified emissions standards. Similarly, if LACERA were to adopt a broad definition of both automobile manufacturers and related companies, LACERA would need reliable information regarding which companies (retail, finance, etc) are associated with the targeted automobile manufacturers. If companies do not disclose vendor or client relationships, specific revenue volume of defined product lines, or other details pertinent to LACERA's definition, LACERA may be impeded from implementing an investment restriction.

III. Preliminary Analysis

The table below presents LACERA's exposure to two scenarios of Applicable Investments, one more narrow in scope and the other more expansive. Research is based on available in-house research.

Table 1: Preliminary LACERA Public Markets Exposures to Automobile Manufacturers

	Applicable Investments	Exposure as of April 30, 2018[3]
Scenario 1	Automobile Manufacturers of Light-Duty Vehicles	$508,807,792.68
Scenario 2	All Automobile Manufacturers, including Light, Medium, and Heavy Vehicles as well as Parts and Equipment	$916,185,467.04

Scenario 1 is intended to address the subject of the Congressman's letter, which specifically references regulatory debates regarding light-duty vehicle emissions. Scenario 2 is more expansive, and includes other automobile and parts manufacturers which could be subject to other emissions standards.

Both scenarios include all U.S. and non-U.S. LACERA investments in public markets asset classes. Depending on the Committee's input, LACERA could extend the analysis to private markets.

Table 2 below presents the total returns over 1-, 3-, and 5-year performance periods for the combined holdings that comprise each scenario. The MSCI ACWI IMI is presented for comparison purposes.

Table 2: Performance Analysis of Scenarios of Applicable Investments, as of May 31, 2018[4]

	1 Year Total Return	3 Year Total Return	5 Year Total Return
Scenario 1: Automobile Manufacturers Subgroup of MSCI ACWI IMI	13.1%	5.4%	24.7%
Scenario 2: Industry Group (All Automobiles and Components) of MSCI ACWI IMI	11.9%	9.1%	36.8%
MSCI ACWI IMI	13.0%	26.5%	55.5%

IV. Engagement Options

Institutional investors have regularly sought to engage portfolio companies across numerous industries to protect their investments from long-term economic exposures to climate risk and to seek clear information regarding how companies are positioned to generate sustainable financial returns in the face of evolving environmental regulations and associated liabilities:

- The Climate Action 100+ Initiative, as presented in other Committee materials, is a collaborative five-year initiative launched in late 2017 to encourage the most carbon-intensive global companies to assess investment-relevant risks and opportunities to their business models and provide investors with enhanced corporate disclosures in line with the

[3] State Street TruView holdings as of April 30, 2018.
[4] Cumulative returns by scenario for performance periods as of May 31, 2018.

final recommendations of the Financial Stability Board's Taskforce on Climate-related Financial Disclosures.[5]

- Regional and global investor associations also engage public policymakers and regulators in various global markets to encourage consistent and predictable policies in the interests of long-term investors. For example, the Principles for Responsible Investment, in conjunction with North American association Ceres and other regional networks, launched the Investor Agenda on June 4, 2018. The Investor Agenda is an umbrella group of institutional investor associations that includes a focus on public policy advocacy regarding climate risk, low-carbon economic transitions, and improving climate-related financial disclosures by companies.[6]

Investment restrictions and divestments deny an investor the opportunity to engage a company regarding business practices of concern.

V. Prospective Actions for Committee

Prospective actions for the Committee to take include, but are not limited to:

1. Conduct Refined Analysis

Upon direction from the Committee, staff could further focus, expand, and/or refine the above analysis of exposures. Depending on the Committee's feedback, staff would need to allocate staff resources to further research and analysis. Research and defining the criteria for identification of investments subject to an investment restriction would be in adherence to LACERA's *Corporate Governance Policy* regarding procedures for evaluating prospective divestments (see policy at p. 6-7).

Staff would also further engage the Legal Office and the Board's fiduciary counsel for guidance, including a thorough legal analysis on the Board's fiduciary duty, particularly the duty of prudence.

2. Consider Options for Engagement

The Committee is being presented with an option in Agenda Item IV.B to recommend to the Board that LACERA join the Climate Action 100+ Initiative as a supporter. Upon feedback from the Committee, staff might consider additional prospects for engaging companies regarding economic risks presented by climate change. Additional engagement

[5] See Committee Agenda Item IV.B. for further information, as well as https://climateaction100.wordpress.com/.
[6] For further information, see https://theinvestoragenda.org/wp-content/uploads/2018/06/FINAL_-PRESS-NOTICE_-GLOBAL-INVESTOR-STATEMENT-update-4-June-.pdf.

would need to carefully define achievable objectives and be considered in the context of available resources and program priorities.

3. Monitor

Staff notes there remains significant regulatory uncertainty and unpredictability regarding the regulatory debate that prompted the Congressman's letter. To date, the EPA has not yet issued a notice of rulemaking regarding light duty vehicle emissions standards. Also, California's waiver enabling the state to establish its own emissions standards has not been rescinded. Upon direction from the Committee, LACERA might opt to monitor related legal and regulatory developments and consider prudent options, as appropriate.

4. Receive and File Report

Based on the above background information and material, the Committee may opt to receive and file this report.

ATTACHMENT

MARK DESAULNIER
11TH DISTRICT, CALIFORNIA

COMMITTEE ON EDUCATION AND THE WORKFORCE

COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

Congress of the United States
House of Representatives
Washington, DC 20515

115 CANNON HOUSE OFFICE BUILDING
PHONE: (202) 225-2095
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3100 OAK ROAD, SUITE 110
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April 3, 2018

Robert Hill
Chief Executive Officer
Los Angeles County Employees Retirement Association
P.O. Box 7060
Pasadena, CA 91109-7060

Dear Mr. Hill:

As you are aware, the Trump Administration has recently announced its intention to roll back federal fuel economy standards, a decision that is misguided and runs counter to the clear benefits that high fuel economy standards have provided. This shortsighted move undermines the progress that California has made while leading in vehicle technology innovation, economic competitiveness, air quality, and public health. I write to you today to urge the Los Angeles County Employees Retirement Association (LACERA) to divest from any automobile manufacturer that produces cars that fail to meet the emissions standards adopted first by California and then adopted by a dozen other states that have followed California's lead.

Rather than maintain stringent, but reasonable standards for fuel economy and greenhouse gas emissions from motor vehicles, the Trump Administration has taken a stance that punishes innovators—the automakers who have answered the global call for standards that promote clean air and public health, drive down our consumption of oil, reduce costs for American consumers, and keep us competitive in the global marketplace. We have seen the consequences of allowing automakers to fulfill their impulses for temporary, short-term profits, and American taxpayers and those in pension funds deserve better than another, multi-billion-dollar bailout of an industry that refuses to learn the lesson of the last financial crisis.

I submit that the Trump Administration's planned rollback of fuel economy and emissions standards is completely contrary to California's aspirations for continued innovation and protection from the harmful impacts of climate change. Should auto manufacturers in California begin to decrease their commitment to fuel economy standards in response to the Trump Administration rollbacks, these companies will no longer be operating in the best interest of Californians.

Thank you for your attention to this important matter.

Sincerely,

Mark DeSaulnier

Mark DeSaulnier
Member of Congress

May 17, 2018

TO: Each Member
Corporate Governance Committee

FROM: Scott Zdrazil
Senior Investment Officer – Corporate Governance

Dale Johnson
Investment Officer

FOR: June 13, 2018 Corporate Governance Committee Meeting

SUBJECT: **Status Update of Assessment of ESG Integration at LACERA Public Markets Managers**

Please find attached a presentation providing an update regarding analysis and assessment of LACERA's public markets managers' processes and capacity to identify, evaluate, and integrate investment-relevant ESG (environmental, social, and governance) factors into investment analysis.

BACKGROUND

In 2016, the Board of Investments adopted *Investment Beliefs* stating that ESG factors are relevant to the investment process. The Investment Division developed a survey of each of LACERA's public markets managers in the summer of 2017 in order to identify current practices, discern best practices, and further integrate ESG into Total Fund portfolio analysis and management. The Corporate Governance Committee was provided a report summarizing preliminary analyses and takeaways from the survey at its January 2018 meeting. The attached presentation provides an additional update and anticipated next steps for the Committee's review and feedback at the June 13, 2018 Committee meeting.

Noted and Reviewed:

Jonathan Grabel
Chief Investment Officer

Attachment

Status Report:
Assessment of ESG Integration at LACERA's Public Markets Managers

Corporate Governance Committee

June 13, 2018

Jude Perez
Principal Investment Officer – Portfolio Analytics

Scott Zdrazil
Senior Investment Officer – Corporate Governance

Dale Johnson
Investment Officer

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

Discussion Outline

I. **Recap of Approach to Total Fund ESG Integration**

as discussed at January 2018 Committee meeting

II. **Status Report on Assessing Public Market Managers**

III. **Next Steps**

I. Recap: Approach to Total Fund ESG Integration

At its January 2018 meeting, the Committee reviewed and provided feedback of incorporating ESG into manager assessment and monitoring as part of LACERA's efforts to deepen ESG integration across the Total Fund.

Optimizing Asset Allocation Through Multivariate Total Fund Analytics and Manager Monitoring

Total Fund View

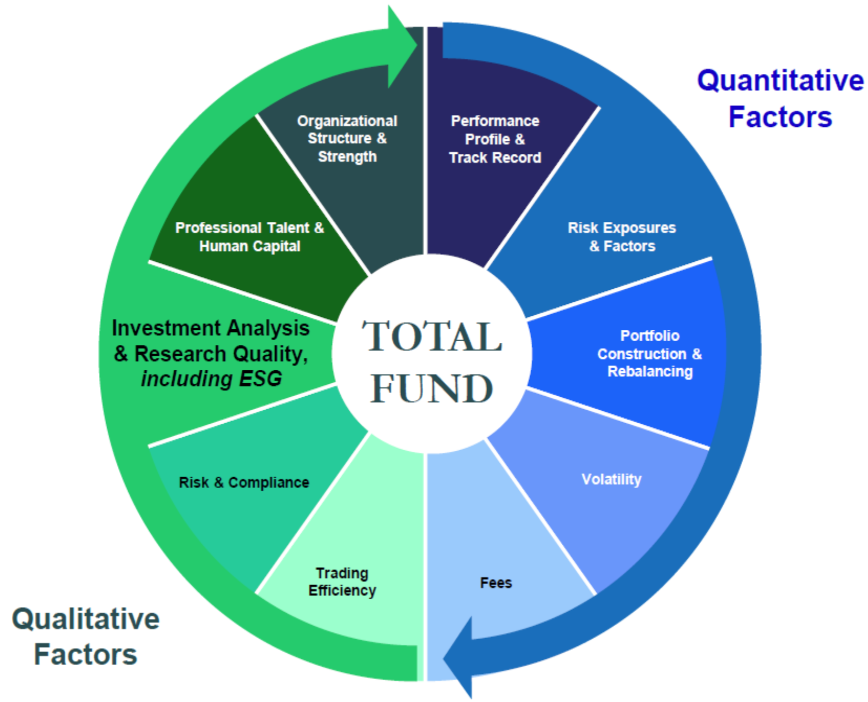
Source ESG data to assess portfolio-wide analytics, inclusive of absolute and relative ESG risk profiles

Asset Class-Specific

Develop assessment methods and tools specific to the ESG risks and opportunities relevant to the investment style, structure, and exposures of each asset class

Manager Selection and Monitoring

Assess and monitor managers' capability and process to identify, evaluate, and integrate investment-relevant ESG factors relevant to the mandate



Note that some factors may be applicable to assessment and analysis at multiple levels, including Total Fund, asset class, or individual managers.

Recap Objectives and Approach to Assessing Integration at Public Markets Managers

Objectives of 2017 Survey and Subsequent Manager Interviews

- Assess and monitor managers' process and resource capacity to identify material ESG factors relevant to their investment strategy and report how ESG relates to economic performance
- Inform next steps of ESG integration and implement *Investment Beliefs*
- Further align LACERA operations with commitment to the Principles for Responsible Investment (PRI)

Survey and Interviews Addressed Three Core Components

1. **Defined policy** explaining how the firm identifies, evaluates, and incorporates material ESG factors into its investment process
2. **Process** for identifying and integrating material ESG factors, including:
   - methodology for incorporating ESG into the investment process
   - resource capacity to implement its ESG approach
   - role of corporate research, engagement, and proxy voting in integration
   - ability to compellingly link ESG integration to financial performance, and
   - overall transparency and quality of information provided by the manager
3. **Principles for Responsible Investment (PRI) signatory status** and other investor collaboration regarding responsible investment

II. Status Report of Manager Assessments

Since January 2018 Committee meeting:

1. Interviewed global equities managers to refine initial assessment
2. Incorporated ESG assessment into global equities manager searches
   - Recent small capitalization active manager search
   - Current emerging managers searches
3. Completed initial assessment of fixed income managers

10 of 20 managers

Half of current fixed income managers* have intermediate or better ESG integration practices

Preliminary **Dashboard of Fixed Income Manager ESG Practices**

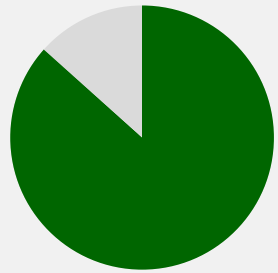
	Policy	Approach	Resources	Engagement	PRI and Investor Collaboration	Thoroughness and Quality of Submission	Overall
Manager 1	4	4	4	4	4	4	4
Manager 2	4	4	4	4	4	4	4
Manager 3	3	3	2	2	2	2	2
Manager 4	1	1	1	1	1	1	1
Manager 5	3	3	4	4	4	4	4
Manager 6	1	2	2	1	1	1	1
Manager 7	2	2	2	2	1	2	2
Manager 8	2	4	3	3	3	3	3
Manager 9	1	1	1	1	1	1	1
Manager 10	1	1	1	1	1	1	1
Manager 11	4	4	4	4	3	4	4
Manager 12	3	3	3	2	1	2	3
Manager 13	1	2	2	1	1	1	2
Manager 14	4	4	4	3	4	4	4
Manager 15	3	3	3	3	3	3	3
Manager 16	1	1	1	1	1	1	1
Manager 17	1	1	1	1	1	1	1
Manager 18	2	2	2	2	1	2	2
Manager 19	4	4	4	4	4	4	4
Manager 20	4	4	3	3	3	3	4

LEGEND: None, Transitional, Intermediate, Advanced, Leading

*Excludes cash managers and commodities managers

Overview of ESG at Public Markets Managers

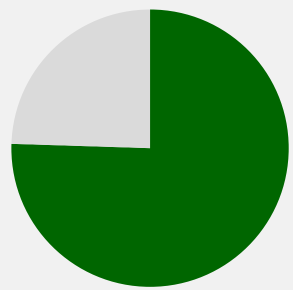
Principles for Responsible Investment



87%

of assets ($35B) managed by signatories to the Principles for Responsible Investment
(17 of 34 managers)

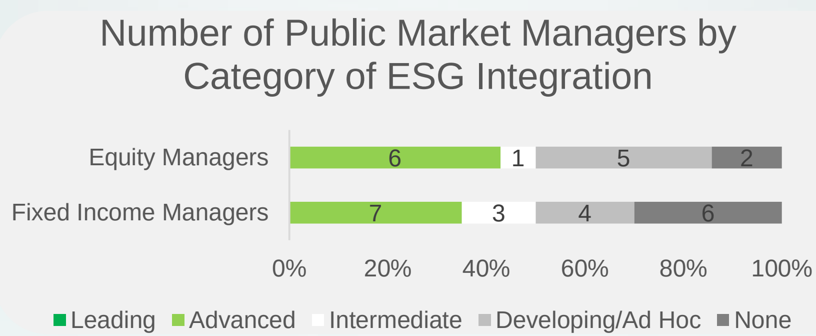
Defined ESG Policy



75%

of assets ($30B) managed by firms with defined ESG policies
(17 of 34 managers)

ESG Integration Practices



50%

of managers have intermediate or better ESG practices integrated into the mandate managed on behalf of LACERA

III. Next Steps for Public Markets

1. **Integrate ESG into Ongoing Monitoring of Public Markets Managers**
   - Comprehensive, ongoing manager monitoring and due diligence (e.g. annual compliance report)
   - Integrated assessment of LACERA's conviction of manager quality

2. **Standardize Basic ESG Assessment in Manager Recommendations**

   Include three core components in each manager recommendation as part of overall review:

   ✓ **ESG Policy:** Does manager have a defined ESG policy (YES or NO)

   ✓ **ESG Integration Rating:** Characterize manager's ESG integration on 5-point scale (from none to advanced)

   ✓ **UN PRI:** Is the manager a signatory to the Principles for Responsible Investment (YES or NO)

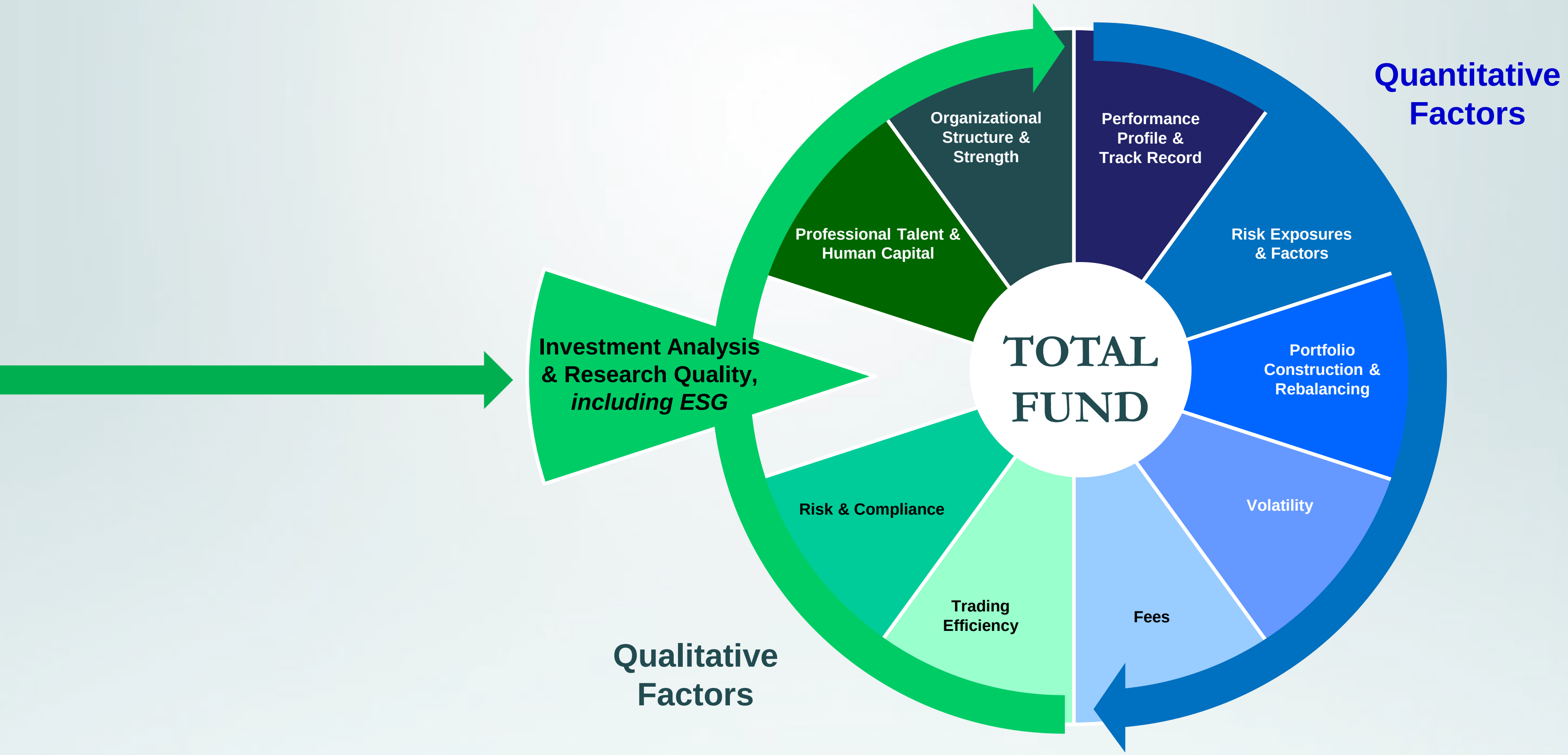
   ESG inputs would be part of holistic evaluation of manager quality; ***NOT*** determinative of manager selection

3. **Monitor and periodically report aggregate status of managers' integration**

4. **Consider pragmatic objectives for ESG integration**
   - In line with evolving market practice
   - Emphasis on compelling economic case

Vision: Insert ESG Into Holistic Analysis

Optimizing Asset Allocation
Through Multivariate
Total Fund Analytics and Manager Monitoring

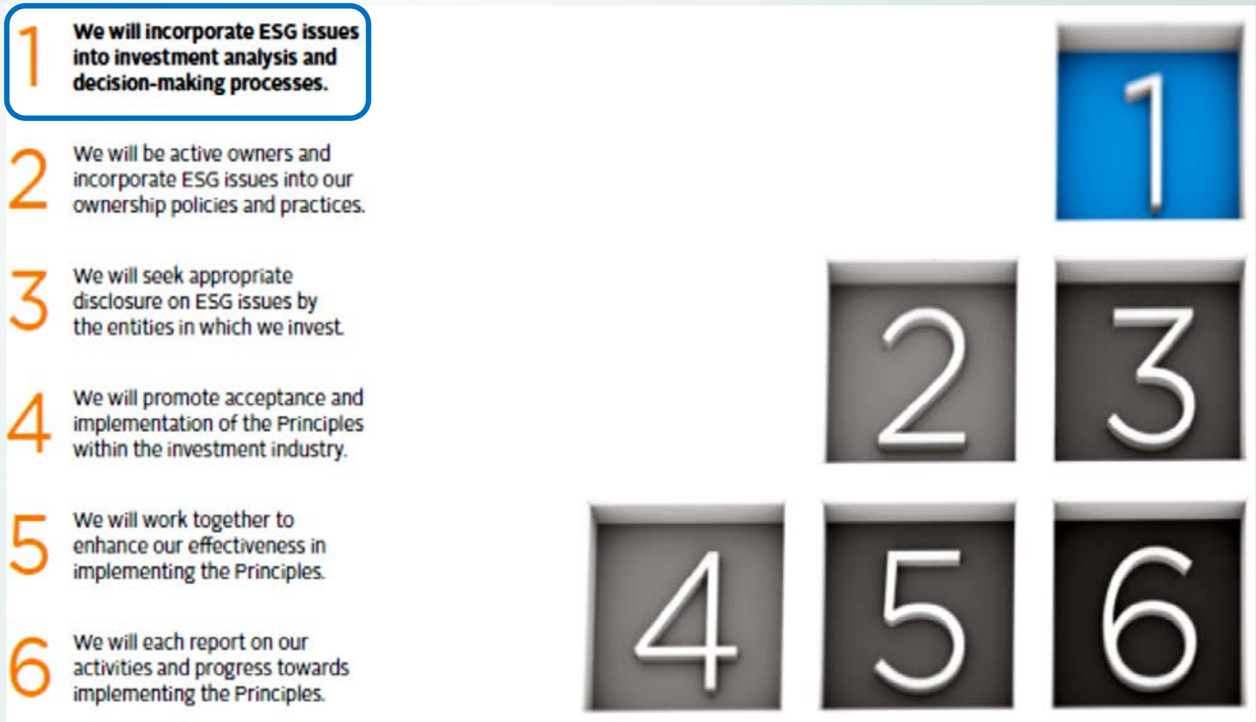


Appendix

Prospective Steps Further Align LACERA to PRI

Outlined Steps Would Further LACERA's Alignment with PRI Principle 1

Principles for Responsible Investment



LACERA is a signatory to the UN-affiliated Principles for Responsible Investment (www.unpri.org).

FOR INFORMATION ONLY

May 30, 2018

TO: Each Member
Corporate Governance Committee

FROM: Scott Zdrazil
Senior Investment Officer – Corporate Governance

FOR: June 13, 2018 Corporate Governance Committee Meeting

SUBJECT: **PRINCIPLES FOR RESPONSIBLE INVESTMENT (PRI) ASSOCIATION BOARD ELECTION CANDIDATE NOMINATIONS**

The Principles for Responsible Investment (PRI), to which LACERA is a signatory, has announced that 2018 PRI Board elections will take place later this year to elect two asset owner positions and one investment manager position. The deadline for nominations is July 27, 2018.

The PRI board is comprised of eleven directors, seven of whom are directors from asset owners who have been elected asset owner PRI signatories. Directors serve full three-year terms and are eligible for re-election to two additional consecutive terms.

Please find attached the announcement regarding PRI board elections (**ATTACHMENT 1**), which includes information regarding the eligibility requirements, expectations and duties, and election timetable. Also attached are the PRI Association's Board Election Rules (**ATTACHMENT 2**) which include in Article 10 information regarding requirements for nomination and seconding by another asset owner.

Staff does not have a recommendation regarding a nomination from LACERA at this point. Should the Board wish to consider a nomination, LACERA's *Corporate Governance Policy* provides that the Corporate Governance Committee recommend a nomination to the Board, time-permitting, absent which the Committee Chair may recommend for the full Board a nomination from LACERA (Policy at §V.B.[vii.]; p. 3).

Attachments

Noted and Reviewed:

Jonathan Grabel
Chief Investment Officer

https://www.unpri.org/pri/pri-governance/board-elections

Board elections

2018 PRI Board election

The 2018 PRI Board election is for two asset owner positions and one investment manager position.

The board is encouraging:

- Candidates with leadership and governance experience; and
- Female candidates.

Candidates will also be asked in their candidate statement to elaborate on their demonstrated leadership within responsible investment, ESG expertise and other experience relevant to the long-term success of the PRI.

Nomination deadline: 27 July 2018

Signatory rights and the PRI Board

Nominating candidates for the annual elections and electing PRI Board directors are important signatory rights and responsibilities. The PRI encourages signatories to participate in our annual board nomination and election process to maintain a vibrant and representative PRI Board.

The board is collectively responsible for the long-term success of the PRI and in particular for: establishing the PRI's mission, vision and values; setting the strategy, risk appetite and structure; delegating the implementation of the strategy to the PRI Association Executive (the Executive); monitoring the Executive's performance against the strategy; exercising accountability to signatories and being responsible to relevant stakeholders.

The board is composed of: one independent chair (confirmed by a signatory vote) and ten directors (seven elected by asset owner signatories, two by investment manager signatories and one by service provider signatories). The chair and all elected directors are the Statutory Members of the Company. There are two permanent UN advisors to the board, representatives from the PRI's founding UN partners: UN Global Compact and UNEP Finance Initiative.

Current board directors are all CEOs, CIOs, board members, or 'relevant officers' of signatory organisations. Part of the role of the board is to be ambassadors for the PRI and for responsible investment. The PRI considers it important to have high-level C-suite engagement and champions to help bring responsible investment into the mainstream. For information on the current board directors, including directors at the end of their three-year terms (in bold) see below.

Current board directors

Role / elected by	Director	Signatory	Signatory HQ country	Term
Chair	Martin Skancke	Independent	N/A	2018-2020
Directors elected by asset owner signatories	*Angela Emslie*	*HESTA*	*Australia*	*2016-2018*
	Eva Halvarsson	Second Swedish National Pension Fund (AP2)	Sweden	2017-2019
	Marcus Madureira	PREVI	Brazil	2018-2020
	Priya Mathur	CalPERS	US	2018-2020
	Hiro Mizuno	Government Pension Investment Fund (GPIF)	Japan	2017-2019
	Renosi Mokate	Government Employees Pension Fund (GEPF)	South Africa	2018-2020
	Xander den Uyl	*ABP*	*Netherlands*	*2016-2018*
Directors elected by investment manager signatories	*Sandra Carlisle*	*HSBC Asset Management*	*UK*	*2016-2018*
	Tycho Sneyers	LGT Capital Partners	Switzerland	2018-2020
Director elected by service provider signatories	Peter Webster	Vigeo Eiris	France	2017-2019

2018 election open positions

The 2018 PRI Board election is for:

- two asset owner positions; and
- one investment manager position.

Asset owner signatories vote for asset owner candidates. Each asset owner signatory will have two votes. The two candidates who receive the highest number of votes are elected.

Investment manager signatories vote for investment manager candidates. Each investment manager signatory will have one vote. The candidate who receives the highest number of votes is elected.

Skills, experience and diversity

As part of its commitment to strengthen the rigour and accountability of the election process, the PRI is providing more guidance and information to candidates and signatories in advance of their votes.

The board should have the appropriate balance of skills, diversity, experience, independence and knowledge of the organisation to enable it to discharge its duties and responsibilities effectively. This necessary diversity encompasses a sufficient mix of relevant skills, competence, and diversity of perspectives. It may include but is not limited to: geographical diversity of signatory representation to bring regional knowledge and perspectives to the board; diversity of geographical origin, ethnicity, language and culture, and also gender diversity.

The board needs to be appropriately representative of the diversity of PRI signatories in order to generate effective debate and discussion around the key issues that the Board considers, and to deliver the broadly-founded leadership that the initiative requires. The PRI is a global organisation, and aims for global representation on its board, particularly within the asset owner positions.

The board is encouraging candidates with leadership and governance experience. Candidates will also be asked to elaborate in their statements on their demonstrated leadership within responsible investment, ESG expertise and other experience relevant to the long-term success of the PRI. This information – as well as information on the nominating signatory, the candidate biography and statement – will enable the signatory electorate to more easily compare the skills, experience and diversity of the respective candidates.

The current gender balance amongst the elected directors is fairly evenly balanced (six males; five females). However two female directors are coming to the end of their terms in 2018. The board is therefore also encouraging female candidates.

Eligibility

To be eligible to stand for the election, candidates must be a ‘relevant officer’, a person who is employed or otherwise serving as:

- the CEO of a signatory;
- the CIO of a signatory;
- in the case of a signatory that does not have the offices of CEO or CIO, the most senior investment professional of that signatory;
- a director serving on the main governing board (and not merely any subsidiary boards, subordinate boards or committees) of a signatory;
- a trustee of a signatory;
- an executive employee of a signatory in a role where his or her immediate line manager is a relevant officer; or
- a former relevant officer.

Candidates must be nominated by their signatory organisation and seconded by another signatory within the same signatory category. An asset owner candidate for example needs to be nominated by their signatory organisation and seconded by another asset owner.

The signatory putting a candidate forward must have contributed the invoiced financial contribution in the current financial year, and must have participated in the PRI reporting and assessment process.

2018 election timetable

Week	Date	Event
1	21 May	Formal publication of the election notice and invitation for signatories to nominate candidates
10	27 July	Final day for nominations
15	12 September	Announcement of the election candidates at the Signatory General Meeting, PRI in Person, San Francisco
18	w/c 1 October	Election voting opens
25	w/c 19 November	Election voting closes
26	w/c 26 November	Board announcement of the election results

Expectations

Directors are nominated by a signatory organisation and elected by signatories, from a signatory category, but have a responsibility to fulfil their duties as an individual and in the best interests of the PRI as a whole.

Term

The directors elected in this election will commence their terms on 1 January 2019. Each director who is elected in an annual election is elected for a term of three calendar years.

Time allocation

The board has three planned in-person two day meetings per year and one conference call, typically:

- One meeting in London (February/March);
- One meeting in a location decided by the Board (June/July).
- One meeting immediately before the annual PRI in Person conference (September); and
- One conference call (December).

The expectation is that directors will participate in every in-person meeting and planned conference calls. Signatory events are usually organised around board meetings as they are an opportunity for directors to meet signatories in the local markets and share expertise.

Board members are typically appointed to one or two board committees. The committees (Ethics; Finance, Audit and Risk; Human Resources and Remuneration; Policy; Signatory and Stakeholder Engagement; and Skills, Diversity and Elections) facilitate the discussions and workings of the board and are critical to the effectiveness of the board. The workload of each committee is varied, but on average a committee will have three one hour conference call meetings per year. The expectation is that each committee member will participate in every respective committee meeting, with a requirement to participate in a majority of meetings of that board committee in a calendar year.

The time commitment for board and committee meetings together with PRI in Person conference and allied signatory events is typically 10-12 days per year excluding travel. Directors are also expected to dedicate additional reading and preparation time leading up to meetings.

Attendance at planned and ad hoc board meetings and conference calls, and committee meetings and conference calls will be recorded in the annual Signatory General Meeting papers and on the PRI website.

Expenses

The PRI will offer to make a contribution towards the travel expenses of directors that attend in person meetings.

For more information on the role and responsibilities of directors see the Directors' Terms of Reference (https://www.unpri.org/Uploads/i/j/m/2016-09-22-PRI-Association-Board-Directors-Terms-of-Reference.pdf).

Further information

For more information on the role of the board, expectations of directors and the application process:

Email Christopher Sperling to arrange a 1-1 call about the role, organise a call with a current board director in your local market, and/or register your interest

Read the Articles of Association of PRI Association (https://www.unpri.org/Uploads/g/e/r/2016-11-14-Articles-of-Association-of-PRI-Association-.pdf) and the underlying Rules and Policies, on the PRI governance page (https://www.unpri.org/pri/pri-governance), including the election rules (https://www.unpri.org/Uploads/f/q/c/2016-09-22-PRI-Association-Board-Election-Rules-.pdf).

PRI ASSOCIATION BOARD ELECTION RULES

Approved by the PRI Board in September 2016.

INTRODUCTION

All directors of the PRI Association Board (the Board) are elected by categories of signatories. The election of Board directors is an important PRI signatory right and responsibility. The Articles of Association of PRI Association (the **Articles**) require that the Directors must devise and publish on the Company's website certain rules and policies, including the rules regulating the procedures for: the nomination and election of Directors (including an Extraordinary Election); and the confirmation of the appointment of the Chair by Signatories (the **Election Rules**).

The Directors may, from time to time, make such other rules as they may deem necessary or convenient for the proper conduct and management of the Company, including the election process, provided that no rule will be inconsistent with anything contained in the Articles, but in the event of any inconsistency, the Articles will prevail.

RELEVANT ARTICLES

Article 9: Membership of the Board

Composition

9.1 The Board is constituted of:

- 9.1.1 seven Directors from Asset Owner organisations who have been elected by Asset Owner Signatories in accordance with Article 10;
- 9.1.2 two Directors from Investment manager organisations who have been elected by non-Asset Owner Signatories in accordance with Article 10;
- 9.1.3 one Director from a Service Provider organisation who has been elected by non-Asset Owner Signatories; and
- 9.1.4 one Director, who has been nominated by the Directors to serve as the Chair and has had such nomination confirmed by the Signatories in accordance with Article 10.

Article 10: Election of Directors, appointment of Chair and term of office

Election of Directors

10.1 The Directors will, in each calendar year, organise an election of Directors to fill vacancies on the Board that will arise on the termination of office of one or more Directors at the end of that calendar year (an Annual Election).

10.2 To be eligible to stand for election as a Director by a category of Signatories (a **Relevant Category**), a person must:

- 10.2.1 be a Relevant Officer or Former Relevant Officer of a Signatory of the Relevant Category; and
- 10.2.2 be:
  - 10.2.2.1 nominated by a Signatory of the Relevant Category and seconded by another Signatory of the Relevant Category; or
  - 10.2.2.2 in the case of a Mid-Term Election, nominated: (a) by a Signatory of the Relevant Category and seconded by another Signatory of the Relevant Category, OR (b) by the Board; and

10.2.3 satisfy any additional eligibility requirements prescribed by the Board in accordance with Article 10.10 in respect of the vacancy for which he or she is standing; and

10.2.4 be a natural person (not a company or other organisation) who confirms in writing his or her willingness to be a Director and a Statutory Member.

10.3 In any election under this Article 10:

10.3.1 a Signatory may only nominate any one person for election and second any one person for election (and having nominated a person may not also second that person in the same election); and

10.3.2 each nomination or seconding of a person by a Signatory must be in writing.

Term of Office of Elected Directors

10.4 Each Director who is elected in an Annual Election is elected for a term of three (3) calendar years, commencing on 1 January of the year next following the announcement of his or her election.

10.5 Each Director who is elected in a Mid-Term Election is elected for a term commencing on the date of his or her election and ending on 31 December of the second calendar year immediately following the end of the calendar year in which the Director is elected.

10.6 No person elected as a Director may serve more than three (3) consecutive terms as an elected Director. In the case of a person deemed elected as set out in Article 9.5, the number of consecutive terms served by that person as a PRI Advisory Council Representative immediately prior to the date of the adoption of these Articles (as set out in the last column in the table in Article 9.5) will be deemed to be consecutive terms that such person has served as a Director for the purpose of these Articles.

10.7 A Director who has served for three (3) consecutive terms as an elected Director will be eligible to stand for election as a Director (subject to satisfying the other eligibility requirements of these Articles) provided that the office for which he or she seeks election commences no sooner than twelve (12) months after the end of those three (3) consecutive terms.

Mid-Term Elections

10.8 If, during a calendar year, there is a vacancy or there are vacancies on the Board for any of the positions referred to in Articles 9.1.1 to 9.1.3 (inclusive), the Directors may organise an election by Signatories of the Relevant Category or Relevant Categories to fill such vacancy or vacancies (a **Mid-Term Election**).

Diversity

10.9 The Directors will seek to promote diversity of the Board through engagement with Signatories, the UN Global Compact and the UNEP Finance Initiative (or their respective successor agencies within the United Nations) and the Company's executives, by adoption of the Diversity Policy and appropriate Election Rules and by such other means as they deem appropriate.

10.10 In the case of any Annual Election or Mid-Term Election, the Board may, in respect of one or more of the vacancies to be filled, prescribe eligibility requirements for candidates wishing to stand for election as Directors additional to the other eligibility requirements of Article 10.2 with a view to setting high leadership standards and enhancing the collective skills and/or experience and/or diversity of the Board. Such additional eligibility requirements will be prescribed in accordance with the guidelines provided in the Election Rules.

10.11 If, in the case of any Annual Election or Mid-Term Election, the Board prescribes additional eligibility requirements in accordance with Article 10.10, the Board will notify the Signatories of such requirements and the reason(s) for them before the relevant period for nomination opens.

Election Rules

10.12 Only Asset Owner Signatories may vote in an election to fill a vacancy arising on the termination of the office of a Director who was elected by Asset Owner Signatories

10.13 Only Investment Manager Signatories may vote in an election to fill a vacancy arising on the termination of the office of a Director who was elected by Investment Manager Signatories.

10.14 Only Professional Service Partner Signatories may vote in an election to fill a vacancy arising on the termination of the office of a Director who was elected by Professional Service Partner Signatories.

10.15 In each election:

10.15.1 each Signatory will have as many votes as there are vacancies on the Board to be filled by election by its category of Signatories; and

10.15.2 no Signatory may vote more than once for the same candidate.

10.16 In any election by a category of Signatories to fill a vacancy or vacancies on the Board (not being subject to additional eligibility requirements specified by the Board in accordance with Article 10.10), the candidates, equal in number to the number of vacancies to be filled, who receive the highest number of votes from Signatories of the relevant category voting in an Electronic Poll will be deemed to be elected. When determining those candidates who have received the highest number of votes from Signatories of the relevant category for the purpose of this Article, any candidate who is elected under Article 10.17 at that election by the relevant category of Signatories will not be included as part of such determination.

10.17 If, in any election:

10.17.1 a single vacancy is the subject of particular additional eligibility requirements specified by the Board in accordance with Article 10.10, the eligible candidate who: (a) satisfies those additional eligibility requirements, and (b) receives the highest number of votes amongst eligible candidates who also satisfy those particular additional eligibility requirements, from Signatories of the relevant category voting in an Electronic Poll, will be deemed to be elected to fill such vacancy; or

10.17.2 any two or more vacancies are the subject of the same particular additional eligibility requirements specified by the Board in accordance with Article 10.10, the eligible candidates who: (a) satisfy those particular additional eligibility requirements; (b) are equal in number to the number of vacancies to be filled; and (c) receive the highest number of votes amongst eligible candidates who also satisfy those additional eligibility requirements, from Signatories of the relevant category voting in an Electronic Poll, will be deemed to be elected to fill such vacancies.

10.18 If, in any election, there is only one eligible candidate nominated for election to fill a particular vacancy, that candidate will not be deemed automatically appointed as a Director. His or her appointment as a Director will require the approval of a simple majority of those Signatories of the relevant category voting in an Electronic Poll.

10.19 If, in any election, the number of eligible candidates nominated for election to fill particular vacancies is equal to or less than the number of such vacancies, those candidates will not automatically be deemed appointed as Directors. The appointment of any of those candidates as a Director to fill any of those particular vacancies will require the approval of a simple majority of those Signatories of the relevant category voting in an Electronic Poll.

10.20 Except as otherwise provided in these Articles, the procedures for the nomination and election of Directors will be determined by the Election Rules.

Appointment of Chair

10.21 To be eligible to be nominated by the Directors to be the Chair a person must be a natural person (not a company or other organisation) who confirms in writing his or her willingness to be a Director and a Statutory Member.

10.22 A person nominated by the Directors to be the Chair must, before taking office, have his or her appointment as Chair, and term of office (including commencement date), confirmed by the approval of:

10.22.1 a simple majority of Signatories, including

10.22.2 a simple majority of Asset Owner Signatories,

voting in an Electronic Poll.

10.23 Except as otherwise provided in these Articles, the method of the confirmation of the Chair will be determined by the Signatory Rules.

Term of Office of Chair

10.24 The Chair may be appointed for a term of up to three (3) years, following the expiry of which period he or she will cease to serve as the Chair unless re-appointed in accordance with the provisions of these Articles.

10.25 A person who has served as the Chair for three (3) consecutive terms will be eligible for appointment as Chair (subject to satisfying the other eligibility requirements of these Articles) provided that the appointment commences no sooner than twelve (12) months after the end of those three (3) consecutive terms.

Article 11: Termination of Office

11.1 The office of Director (including the Chair) is immediately vacated on the expiry of the Director's term of office or if:

11.1.8 the Director did not satisfy the criteria set out in Article 10.2 at the time of his or her election and the Directors resolve by simple majority of those voting on the resolution that the office be vacated;

Article 18: Signatory Rights

18.10 Signatories may, in accordance with the following provisions, require the Company to arrange an election for all ten (10) elected seats on the Board (an **Extraordinary Election**):

18.10.1 If Signatories representing at least three (3) per cent of all the Signatories serve written notice on the Company requiring the Company to hold an Extraordinary Election, then the Directors must as soon as reasonably practicable arrange an Electronic Poll. The sole resolution on the poll will be "*The Signatories require an Extraordinary Election to be arranged as soon as reasonably practicable*".

18.10.2 If Signatories representing a simple majority of all Signatories voting in the Electronic Poll held in accordance with Article 18.10.1, including a simple majority of Asset Owner Signatories voting in the Electronic Poll, vote in favour of the resolution, then the Directors must arrange an Extraordinary Election as soon as reasonably practicable in accordance with the rules for such elections set out in the Election Rules.

18.10.3 In the event of an Extraordinary Election, the Directors, including the Chair, will remain in post until the formal announcement to the Company by the Chair of the results of the Extraordinary Election, whereupon each Director (including the Chair) will automatically vacate his or her office unless he or she has been duly elected as Director in the Extraordinary Election. The election of a Director who was a serving Director immediately prior to such election will be disregarded for the purpose of calculating his or her maximum period of office under Article 10. The Directors elected in an Extraordinary Election must nominate a person to be Chair for confirmation by the Signatories in accordance with Article 10.

Article 19: Rules and Policies

19.1 The Directors must devise and publish on the Company's website:

19.1.2 rules regulating the procedures for: the nomination and election of Directors (including an Extraordinary Election); and the confirmation of the appointment of the Chair by Signatories (the **Election Rules**);

Article 20: Statutory Members

20.3 Statutory Membership is open only to the Directors. In standing for election as a Director, a person will be deemed to have applied for Statutory Membership, and, on his or her election as a Director, such person must be entered by the Directors in the register of Statutory Membership. A person's Statutory Membership will terminate automatically when he or she ceases to be a Director.

ELECTION RULES

Relevant Officer

1. A Relevant Officer means a person who is employed or otherwise serving as:

(i) the Chief Executive Officer of a Signatory; or

(ii) the Chief Investment Officer of a Signatory; or

(iii) in the case of a Signatory that does not have the offices of Chief Executive Officer or Chief Investment Officer: the most senior investment professional of that Signatory; or

(iv) a director serving on the main governing board (and not merely any subsidiary boards, subordinate boards or committees) of a Signatory; or

(v) a trustee of a Signatory; or

(vi) an executive employee of a Signatory in a role where his or her immediate line manager is one of the persons described in sub-paragraphs (i), (ii) or (iii) of this definition of Relevant Officer.

Former Relevant Officer

2. A Former Relevant Officer means a person who is a former Relevant Officer of a Signatory.

Candidates

3. Potential candidates are to read and understand the PRI Association Articles, the PRI Code of Ethics and the Directors Terms of Reference before being nominated by their signatory organisation.
4. Candidates are not eligible if they are aware that their affiliation or role will change in the foreseeable future and they would not be eligible with that forthcoming affiliation or role.
5. Election candidates are required to:

5.1.1 provide a candidate statement, biography and signatory organisation information in accordance with the parameters established by the Board;

5.1.2 and provide other relevant information set by the Board, with the purpose of giving voting signatories enough information to show how candidates compare with regards to specific skills, experience, diversity gaps or any additional eligibility requirements that the Board has identified from time to time;

5.1.3 sign a statement to the effect that:

5.1.3.1 the candidate is eligible to be a UK Company Director;

5.1.3.2 the information provided in the candidate statement is true and correct and the candidate is eligible to stand for the PRI Board;

5.1.3.3 the candidate can an commit the appropriate time and resources to the Director role; and

5.1.3.4 their election to the Board will not bring the Board or the PRI Association into disrepute.

6. Candidates must have the approval of their organisation to nominate, to be confirmed in writing with the signature of the CEO or Board Chair or person of equivalent seniority within the signatory organisation.
7. The signatory putting a candidate forward must have contributed the invoiced financial contribution in the current financial year, and must have participated in the PRI Reporting and Assessment process. The requirement around the Reporting and Assessment process does not apply to signatories that are not required to do the Reporting and Assessment process because it is a 'grace' year.

Appeal process

8. Candidates will be notified as soon as possible if they are deemed ineligible or if clarification is required about any aspect of their candidature. Ineligible candidates have an opportunity to respond to any determinations, and the Board may accept or reject additional arguments put forward. There is a three step appeal process and the Board has the final authority:
   1. *Initial application refused, with specific reasoning included in the feedback.* Applicant given the option to provide more information for consideration by a by a relevant committee of the Board.
   2. *Application refused, with the specific reasoning included in the feedback.* Applicant given the option to represent themselves, with further information, on a specially convened conference call with a relevant committee of the Board.
   3. *Application refused and the applicant disagrees with the decision*. The decision is escalated to the Board for the final ruling.
9. At all points in the appeal process the decisions will be recorded and after the process the Board will consider the need for a review of the election rules and / or process. Signatories' of candidates ruled ineligible have one week to put forward another candidate from their organisation who meets the eligibility criteria.

Costs

10. The PRI will offer to make a contribution towards the travel expenses of Directors that attend in person meetings. The contribution per in person meeting will be agreed by the Board at the start of every financial year and declared in the annual report.
11. Aside from the offered contribution towards travel expenses, the signatory organisation that nominates the candidate is responsible for all of the individual's costs, if elected, associated with PRI Association Board meetings and PRI events.

Skills, experience and diversity

12. The Board (and Board committees) should have the appropriate balance of skills, diversity, experience, independence and knowledge of the organisation to enable it to discharge their respective duties and responsibilities effectively.
13. The Chair is responsible for the leadership of the Board and for ensuring its effectiveness on all aspects of its role. In this role the Chair is responsible for measures to promote a Board with the appropriate skills, experience and diversity to carry out its duties effectively.
14. The Board needs to be appropriately representative of the diversity of PRI signatories in order to generate effective debate and discussion around the key issues that the Board considers, and to deliver the broadly-founded leadership that the initiative deserves. This necessary

diversity encompasses a sufficient mix of relevant skills, competence, and diversity of perspectives; it may include:

a. geographical diversity of signatory representation to bring regional knowledge and perspectives to the Board;
b. diversity of geographical origin, ethnicity, language and culture, and also gender diversity.

This broadly-understood diversity should deliver a breadth of views and vision leading to appropriate challenge and discussion of the issues brought before the Board, and should limit the danger of so-called groupthink.

15. The Directors will seek to promote diversity of the Board through engagement with Signatories, the UN Global Compact and the UNEP Finance Initiative (or their respective successor agencies within the United Nations) and the Company's executives, by adoption of the Diversity Policy and the Election Rules and by other means as they think appropriate, such as additional eligibility requirements for election candidates.
16. It is the responsibility of the Board to communicate the skills, experience and diversity required on the Board, both for the decision making of potential election candidates and the voting signatories.
17. The election ballot will state, if required, how the candidates for the additional eligibility requirement position(s) are eligible for that specific position.
18. Other measures to promote the relevant skills, experience and diversity may include:
    a. Utilising the annual Board assessment results to identify key skills or experience gaps to request for in potential candidates and / or ask signatories to reflect upon the identified key skills or experience gaps when considering the election candidates.
    b. Identifying diversity gaps on the Board and highlighting to signatories at the formal publication of the election process;
    c. Asking signatories to consider diversity when voting for candidates;
    d. Maintaining a 'registry of interest' of potential candidates that have declared an interest to the PRI in serving on the PRI Board;
    e. Proactive outreach to the signatory base, through local and regional networks, to familiarise potential candidates with the Board role and requirements.

Election timetables

19. The Annual Election process will be conducted according to the following timetable within reason:

Week 1:	Formal publication of the election notice and invitation for signatories to nominate candidates;
Week 10:	Final day for nominations;
Week 13:	Finalisation of nominations, confirmation of organisation support; statements, seniority and preparation of election;
Week 15:	Announcement of the election candidates at the Signatory General Meeting;
Week 18:	Launch of the election;
Week 24:	Election closes;
Week 25:	Board announcement of the election results;
Week 26:	Start of the Board induction process before the Director term commences at the start of the next calendar year.

20. The Mid-Term Election process will be conducted according to the following timetable within reason:

Week 1:	Formal publication of the election notice and invitation for signatories to nominate candidates;
Week 4:	Final day for nominations;
Week 5:	Finalisation of nominations, confirmation of organisation support, statements, seniority and preparation of election;
Week 6:	Announcement of the election candidates and launch of the election;
Week 9:	Election closes;
Week 10:	Board announcement of the election results;
Week 11:	Start of the new Director(s).

21. The Extraordinary Election process will be conducted according to the following timetable within reason:

Week 1:	Signatory vote requiring an Extraordinary Election;
Week 2:	Formal publication of the election notice and invitation for signatories to nominate candidates;
Week 5:	Final day for nominations;
Week 6:	Finalisation of nominations, confirmation of organisation support, statements, seniority and preparation of election;
Week 7:	Announcement of the election candidates and launch of the election;
Week 10:	Election closes;
Week 11:	Board announcement of the election results;
Week 12:	Start of the new Board.

Election campaigning

22. Campaigning should be carried out in a respectful manner and in a way which does not bring the PRI Initiative into disrepute. It should avoid commercial considerations of the organisations that nominated candidates. Candidates must comply with any reasonable directions which may be issued by the Executive on behalf of the Board.
23. For data security reasons, candidates are not able to have access to the PRI's database of contacts but are free to contact other signatories to ask for their support.
24. If the Board determines a candidate has acted inappropriately, it may remove the candidate from the process.
25. The Board will oversee the communication of the election process, including signatory awareness and the provision of candidate information to the electorate.

Voting procedures

26. All elections will be conducted through an independent online electoral poll and all votes are anonymous.
27. Candidates will be identified by name and institution on the ballot. Candidates will also have the opportunity to include a biography and a statement in the materials provided to Signatories in advance of the vote in a form defined by the Board. The content of supporting biography and statement is the responsibility of candidates. The Board may request revisions if any content is deemed inappropriate.
28. Signatory voting will be undertaken in accordance with the election rules set out in the Articles.

Board responsibility

29. The Board is responsible for the oversight of the election rules and processes. The Directors may constitute committees to facilitate the workings of the Board; and may, if they choose, delegate any of their powers to those committees. The Directors must devise and publish on the Company's website Committee Terms of Reference for each committee constituted by the Board.
30. The Board has to sign off that the election policies have been followed and the election results are true, before the formal Board announcement of the election results and the new Directors are formally appointed.

Review

31. At least once every two years the Board will review and revise as necessary the PRI Association Board Election rules.