

**Alameda County Employees'  
Retirement Association**

**ACERA**

**Environmental, Social, and Governance (“ESG”) Investment  
Policy**

**March 18, 2021**

# ACERA ESG INVESTMENT POLICY

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## I. SCOPE

The Environmental, Social and Governance Investment Policy (“ESG Policy”) reflects the values of Alameda County Employees’ Retirement Association’s (“ACERA’s”) Board in conjunction with long term, material risk considerations that may impact the financial returns of the Plan. It shall apply to all asset classes of ACERA’s Pension Fund (“Fund”) and may be incorporated within investment management guidelines or through active ownership, including proxy voting. The ESG Policy is subject to all provisions of applicable law and the applicable limitations and requirements of ACERA’s General Investment Guidelines, Policies and Procedures. The ACERA Board (“Board”) reserves the right to amend, supplement, or rescind this ESG Policy at any time.

## II. PURPOSE

The purpose of this ESG Policy is to establish a framework for the ongoing development, ongoing monitoring, and administration for the Plan’s ESG stated values, consistent with the Board’s fiduciary responsibilities in investment of the Fund. This ESG Policy embraces an integrated approach to the assessment of long-term risk considerations and disclosures, as opposed to a divestment approach.

At its outset, this ESG Policy will focus primarily on understanding the existing ESG policies that exist within the Fund and how they interact and affect overall portfolio risk and performance. Over time, it is expected that ACERA’s ESG Policy will evolve along with the Board’s knowledge and understanding of ESG integration and risk reduction at the Fund level.

## III. LEGAL AUTHORITY

As with all other aspects of ACERA’s Fund, this ESG framework requires that ACERA’s Trustees act solely in the interest of plan beneficiaries, in good faith, avoiding conflicts of interest and acting with prudence. This ESG Policy adheres to the California Constitution, article XVI, section 17 and is designed to be consistent with guidance found in DOL publications which define the prudent consideration of ESG factors, allow for ESG factors in investment policy statements and in evaluation and risk metrics, and define prudent ESG proxy voting guidelines. ACERA’s ESG Policy shall not sacrifice investment returns or assume greater risks to promote social policy goals.

## IV. ESG MISSION STATEMENT

ACERA’s Board members are fiduciaries and their legal duty remains, at all times, to promote the growth and sustainability of the Fund to timely provide retirement and related benefits to ACERA members and their beneficiaries. The Board’s fiduciary duties require loyalty and care to ACERA’s members and beneficiaries and prudence in all decisions made regarding ACERA’s investments and administration. Within this context, the Board recognizes the need to mitigate risks that may have a negative impact on the Fund’s long-term financial results

while adhering to a diversified investment strategy designed to meet ACERA's desired return and risk objectives.

Risk mitigation includes the prudent consideration of Environmental, Social, and/or Governance (ESG) risk factors that may materially impact the Fund's long-term financial returns. ESG considerations will be evaluated, where applicable, with the goal of mitigating risk while maintaining or improving Plan returns over the long term. The Board shall analyze and consider ESG factors in its decision to approve investments when those factors are reasonably deemed by the Board, in consultation with its internal and external professional investment advisors, to be material to its financial returns.

ACERA's Board will develop and adopt an ESG policy statement which codifies its values, policies and procedures and will revisit and update this policy periodically.

## V. ACERA ESG RISK FACTORS

ACERA will consider risk factors that span environmental, social and governance factors. ACERA will use various procedures and implementation methods which are specific to the E, S or G factors in their due diligence and monitoring and disclosures, if applicable. These procedures and methods are subject to periodic review.

- Environmental - ACERA's Board believes that there are substantial risks associated with climate change that may be materially detrimental to long-term financial returns. ACERA will seek to advance its interests in mitigating climate change risk through available tools, including proxy voting.
- Social - While harder to quantify, ACERA holds that certain social risk factors may also be detrimental to long-term financial returns. The Fund will monitor and report on social risk factors identified by ACERA's Board, including diversity & inclusion, and human capital risk issues, for ACERA's investment managers and service providers. The Plan may also augment material social risk mitigation through proxy voting.
- Governance- ACERA will consider various governance risk criteria that the Board has determined may have a material effect on long-term financial returns. Governance risk factors will be incorporated through available tools which also may include proxy voting.

Common to ESG risk factors identified by ACERA's Board is a belief that the implementation of ACERA's ESG Policy will result in long-term value creation for the Plan's members and beneficiaries. Risk factors identified by ACERA's Board will be periodically reviewed along with broader policy review.

## VI. MANAGER SEARCHES

When conducting manager searches, ACERA's consultant(s) and Staff will incorporate an ESG section into its due diligence that examines ESG-related criteria within the organization and in the manager's investment process. A description of the managers' ESG approach will

be included, along with an investment assessment, in final due diligence materials when hiring new managers. Manager searches will be conducted in accordance with the general parameters and processes established by ACERA and adhering to all Federal and State statutes.

Should ACERA conduct a consultant search, a similar ESG assessment will be included in the due diligence process.

## VII. MONITORING AND REPORTING

ACERA's investment managers and service providers will be asked by ACERA to complete an annual questionnaire that discloses ESG initiatives and factors incorporated at the organization and within the investment approach. ACERA expects that all potentially material risks and opportunities will be identified by the provider. For GPs, ACERA will request best efforts in the disclosure of ESG-related criteria at their underlying portfolio companies. Disclosure will be implemented in the preferred format of ACERA's Board which will be reviewed periodically and revisited as necessary.

ACERA's Board will review the ESG disclosure reporting annually.

## VIII. ROLES AND RESPONSIBILITIES

The delineation of roles and responsibilities is important for effective administration of ACERA's ESG Policy. The duties and responsibilities of the Board, Investment Committee, Staff, Consultants, and Chief Counsel are stated below. Roles and responsibilities of ACERA's ESG Policy are further governed by those outlined in ACERA's overarching General Investment Guidelines, Policies, and Procedures.

### A. Board

The Board shall be responsible for approving the ESG Policy. The Board, with input from the Investment Committee, shall review this ESG Policy periodically to determine whether modifications are necessary. The Board shall also be responsible for reviewing an annual disclosure report describing ESG policy implementation for the Fund's investment managers and its service providers.

### B. Investment Committee

The Investment Committee shall monitor implementation of ACERA's ESG Policy. It shall evaluate proposals for ESG Policy modifications annually or as needed and make recommendations for consideration by the Board. The Investment Committee shall review the ESG annual disclosure report and consider material ESG risk considerations as defined in this ESG Policy in the hiring and/or retention of ACERA's investment managers and service providers.

### C. Staff

Staff shall be responsible for implementation of the ESG Policy. Staff's responsibilities shall include the following:

1. Incorporating ESG information along with investment due diligence materials in manager searches;
2. Monitoring ESG-related factors of ACERA's investment managers and service providers on an annual basis and preparing a disclosure report;
3. Coordinating with ISS as needed to assist with ACERA's ESG-related proxy voting; and
4. Developing and recommending changes to the ESG Policy over time if warranted.

### D. Consultants

#### 1. Investment Consultants (General and Specialty Asset Class Consultants)

General and Specialty Asset Class Investment Consultants hired by the Board are fiduciaries to ACERA and its Board. These Investment Consultants shall independently monitor adherence to ACERA's ESG Policy and make related recommendations to serve the best interests of the plan participants. Investment Consultants shall also assist Staff in crafting the ESG Policy and in its implementation. The Investment Consultants responsibilities shall include the following:

- a. Incorporating ESG information into manager search due diligence materials;
- b. Assisting ACERA Staff in ESG monitoring of ACERA's investment managers as needed;
- c. Recommending changes or improvements to the ESG Policy over time if warranted;
- d. Presenting on ESG topics of interest to ACERA; and
- e. Performing other duties in accordance with the terms of its contract and applicable State and Federal law.

#### 2. Specialty Asset Class Consultant

Specialty Asset Class Consultant(s) are subject to the same expectations and bear the same responsibilities stated in Section VIII (D) (1) above.

### E. Chief Counsel

ACERA's Chief Counsel shall provide legal advice to ACERA's Board, Investment Committee and Staff regarding all aspects of ACERA's ESG Policy, as requested by ACERA's Board, Investment Committee, Chief Executive Officer or Chief Investment Officer. ACERA's Board, Investment Committee or Chief Counsel may seek legal advice from outside Fiduciary Counsel. Documents that implement this policy for the purpose of Manager Searches, Monitoring and Reporting and Proxy Voting must be reviewed by ACERA's Chief Counsel before they are used.

## IX. PROXY VOTING

ACERA's proxy voting provider is hired by the Board and is responsible for voting on shareholder issues as directed by ACERA. The provider will vote its proxies as outlined in ACERA's Proxy Voting Guidelines and Procedures. These guidelines may include specific, customized ESG factors identified by the Board that will be tracked by the said provider.

ACERA's ESG proxy voting direction is subject to periodic review and amendment. Pursuant to the policy, the Board will provide general guidance on ACERA's proxy voting policies and review risk assessments with regard to ESG matters of interest to ACERA.

For accounts that are not separately managed, ACERA's managers will disclose their proxy voting methodology and any ESG risk considerations to ACERA at least once a year.

## X. EFFECTIVE DATE

This Policy became effective upon its initial adoption by the Board on March 18, 2021. Any amended Policy shall become effective upon its adoption by the Board.