MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION (MCERA)
STATEMENT OF INVESTMENT POLICY REGARDING DIVESTMENT

ADOPTED: July 10, 2013
REVIEWED: May 4, 2016
REVIEWED: May 1, 2019
REVIEWED: May 4, 2022

I. PURPOSE

The MCERA Investment Policy Statement sets forth MCERA's overarching investment purposes and objectives with regard to all of its investment programs.

This document sets forth MCERA's policy ("Policy") for responding to external or internal initiatives that urge MCERA to sell investments or refrain from making additional investments ("Divesting") for the purpose of achieving certain goals that do not appear to be primarily investment-related ("Divestment Initiatives"). Typically, Divestment Initiatives focus on companies that do business in a specified country, or engaged in a specified industry, or in specific practices deemed undesirable by federal and state law ("Targeted Companies").

II. BACKGROUND

MCERA wants companies in which it invests to meet high corporate governance and ethical standards of conduct. The MCERA Board of Retirement and Investment Committee believe that such standards generally will promote superior long-term investment performance. The MCERA Board of Retirement and Investment Committee concur with the California Public Employees' Retirement System's determination in its Policy Regarding Divestment dated February 17, 2009, however, that "prefers constructive engagement to Divesting as a means of affecting the conduct of entities in which it invests" (the "CalPERS Policy"). To the extent possible MCERA will seek to collaborate with other public retirement systems such as CalPERS and organizations such as the State Association of County Retirement Systems (SACRS) to seek good governance and conduct from the companies hired to invest trust fund assets.

MCERA's Board of Retirement and its staff have fiduciary duties of loyalty and prudence under the California Constitution, article XVI, section 17, and California Government Code section 31588, and are required to discharge their duties regarding investments and otherwise "with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims." (Cal. Const., art. XVI, sec. 17 (c).)

These fiduciary duties generally forbid MCERA from compromising investment performance for the purpose of achieving goals that do not directly relate to the MCERA operations or benefits. As stated in the CalPERS Policy:

> Divesting appears to almost invariably harm investment performance, such as by causing transaction costs (e.g., the cost of selling assets and reinvesting the proceeds) and

compromising investment strategies. In addition, there appears to be considerable evidence that Divesting is an ineffective strategy for achieving ethical or political goals, since the unusual consequence is often a mere transfer of ownership of divested assets from one investor to another. Investors that divest lose their ability as shareowners to influence the company to act responsibly.

This Policy, therefore, generally discourages Divesting in response to Divestment initiatives, but encourages MCERA to use constructive engagement, where consistent with fiduciary duties, to help Divestment Initiatives achieve their goals.

III. <u>POLICY</u>

Consistent with MCERA's Investment Policy Statement, which describes the utilization of external investment managers to invest and manage plan assets, investment managers shall have designated discretion to direct and manage the investment and reinvestment of assets provided by MCERA unless otherwise provided in their contract. Because these managers have been provided certain discretion over investment management, MCERA will not undertake discussions of Divestment Initiatives with external managers if investments in the Targeted Companies align with the style and methodology for which the manager was hired. This approach is consistent with that taken by other public retirement systems including CalPERS.

If MCERA were to undertake the internal management of specific trust fund assets, the Board may exercise its discretion to establish parameters to limit how trust fund dollars are to be deployed in different asset classes, subject to fiduciary diligence regarding the risk/return expectations prior to taking such action.

MCERA may undertake constructive engagement, and/or collaborate with fellow public pension systems, in support of Divestment Initiatives to the extent the MCERA Investment Committee determines to be appropriate or as required by law. MCERA will only sell Targeted Companies or refrain from making additional investments if the following conditions apply:

A. Investment in the Targeted Company is imprudent and inconsistent with fiduciary duties. MCERA recognizes that the prudence of an investment may depend on its purposes. For example, it may be imprudent to retain an investment in an actively managed portfolio, but prudent to retain it in an indexed portfolio.

B. The investment is in violation of constitutional federal or California state laws that require Divesting, if any.

When evaluating whether to undertake constructive engagement in support of Divestment Initiatives, and/or to support other public pension systems in such efforts, the Investment Committee will use the following criteria as a general evaluation guideline:

1. Principles: To what extent is the issue clearly aligned with principle/policy language already developed by MCERA?

2. Capacity: Does MCERA, with or without other public retirement system partners, have the expertise and resources to influence a meaningful outcome?

3. Risk/Return: Has sufficient analysis been performed for MCERA to be reasonably confident that pursuing the initiative will have a positive or neutral impact on MCERA's risk-adjusted returns?

4. Timeliness: Is the issue time sensitive with a clearly defined deadline?

5. Definition and Likelihood of Success: Is there a likelihood of success that MCERA action will influence an outcome that can be measured? Can we partner with others to achieve success?

IV. POLICY REVIEW

The Board shall review this Policy at least every three years to ensure that it remains relevant and appropriate. The Policy may be amended at any time by majority vote.

V. RETIREMENT ADMINISTRATOR'S CERTIFICATE

I, Jeff Wickman, the duly appointed Retirement Administrator of the Marin County Employees' Retirement Association, hereby certify the review of this Policy on May 4, 2022.

Jeff Wickman

Retirement Administrator