MONTGOMERY COUNTY EMPLOYEE RETIREMENT PLANS

CONSOLIDATED RETIREE HEALTH BENEFITS TRUST

November 20, 2017

FIRST REPORT TO THE COUNTY COUNCIL AND THE COUNTY EXECUTIVE PURSUANT TO COUNCIL RESOLUTION NO. 18-804

On May 16, 2017, the Montgomery County Council adopted Resolution No. 18-804, *Environmental, Social, and Governance Investment Policy Guidelines and Fossil Fuel Company Investments of the Employees' Retirement System and the Consolidated Retiree Health Benefits Trust.*[1] The resolution is Attachment 1. It requested the Boards for the ERS and the CRHBT to:

1. consistent with their fiduciary duties, explore all means possible to:

    a. minimize the Boards' investments in companies with the largest fossil fuel reserves as rapidly as possible; and

    b. apply environmentally and economically sound decision-making, both generally and specific to climate change, using ESG policy guidelines; and

2. report within 6 months after adoption of this resolution and annually thereafter to the Council and the Executive on implementation of these actions, detailing the research conducted on top fossil fuel holding companies and detailing the extent of divestment or the rationale for not pursuing divestment from individual holdings.

This first report is organized as follows: Part A reviews the Boards' fiduciary duty and the Environmental, Social, and Governance (ESG) policy guidelines employed by the Boards and their investment managers and consultants. Part B reviews the research undertaken by the Boards since the adoption of the resolution. Part C reviews the Boards' current holdings in fossil fuel companies.

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[1] The Employees' Retirement System (ERS), the defined benefit pension plan that includes employees of Montgomery County Government, participating agencies, and their beneficiaries, is overseen by the Board of Investment Trustees. The Consolidated Retiree Health Benefits Trust (CRHBT), the trust that includes employees of Montgomery County Government, Montgomery County Public Schools, Montgomery College, participating agencies, and their dependents, is overseen by the Board of Trustees. As of September 30, 2017, the ERS had assets of $3.9 billion. The CRHBT had assets of $885 million. The ERS, which started in 1965, currently has a funded level of 94 percent. Its 10-year investment return is near the top of its peer group of public pension funds. The CRHBT, which started in 2011, currently has a funded level of 22 percent.

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A. The Boards' fiduciary duty and the ESG policy guidelines employed by the Boards and their investment managers and consultants, both generally and specific to climate change.

Both Boards are required by law to act in accordance with their fiduciary duty. The Standard of Care for the ERS in Section 33-61C of the County Code requires a fiduciary to act "only in the best interest of the participants and their beneficiaries." The Duty of Care for the CRHBT in Section 33-163 requires a fiduciary to act "only in the interest of the participants in retiree benefit plans and eligible dependents."

The County Code also requires the Boards to use investment managers to select individual securities; we are not authorized to do so ourselves. We apply rigorous screens to determine the best investment managers for different asset classes.

The Boards have developed ESG policy guidelines that are embedded in our investment and governance processes. Our Governance Manuals state that our policy is:

> that the Executive Director and Investment Staff incorporate ESG considerations into all investments...and examine opportunities for ESG integration in existing investments. This policy also applies to investment consultants and investment managers hired...to provide guidance on investment due diligence matters. The Boards annually review engagement outcomes and update this policy as appropriate.

As our investment managers work to achieve the best risk-adjusted return in accordance with their fiduciary duty, they apply ESG factors to help determine which companies to include or exclude from consideration. For example:

- One manager was concerned with the low rank of an industrial machinery firm among its peers in reporting key toxic emissions metrics. The manager engaged the firm on this issue. Once the firm documented its plans to reduce carbon emissions, water and energy consumption, and waste, the manager decided to invest.

- Another manager that invests in a large energy firm meets regularly with management to ensure that the firm's carbon reduction and alternative energy initiatives are on track.

- Another manager, in reviewing an industrial firm that had passed the initial due diligence screening, decided not to invest because of lingering environmental and social concerns arising from asbestos-related issues.

- Another manager declined to invest in a mining firm because of environmental breaches at several of its mines.

Each Board's Governance Manual requires a comprehensive annual report detailing the implementation and outcomes of its ESG policy guidelines. The July 18, 2017 annual report for the Board of Investment Trustees for the ERS is Attachment 2. The report includes industry developments, new manager ESG policies, current manager ESG updates and corporate engagement, and consultant initiatives. There is a similar report for the Board of Trustees for the CRHBT.

B. Research undertaken by the Boards since the adoption of the May 16, 2017 resolution.

Since the Council's adoption of the resolution on May 16, 2017, we have continued to expand our knowledge of divestment issues. Here is some of the information we have acquired in the past six months:

1. We have gained useful insights from contacts suggested by Council President Berliner, Councilmember Hucker, and others. At our July 28 meeting, we heard from a representative of the 350MoCo group. We invited two experts on divestment issues to our September 29 meeting. They were unable to attend, but our staff provided us with information from other experts. We will continue our efforts to evaluate the complete holdings of selected institutional investors that support divestment.

2. The Council resolution referred to divestment from "top fossil fuel holding companies." The 350.org group has referred to the "Carbon Underground 200," a list of 200 fossil fuel companies ranked by the carbon emissions embedded in their reserves. While the Council resolution did not mention this specific list, we have used it in our research.

   The focus is on divestment from **directly held** securities. Commingled, index, or otherwise passively managed funds, or other mutual or private equity funds, are not covered. These exemptions are significant.

   Consider, for example, S&P 500 index funds, which are held by millions of individual investors and thousands of institutional investors. Of the 200 companies on the Carbon 200 list, 20 are in the S&P 500, representing 4.5 percent of the index's value.[2] Other index and passively managed funds, and hundreds of actively managed mutual funds, also hold many companies on the Carbon 200 list.

   Individuals and institutions with directly held securities on the Carbon 200 list are criticized, fairly or unfairly, for "profiting off" these companies. It is important to understand that the same criticism, fairly or unfairly, can be leveled at individuals and institutions with indirectly held securities.

3. We have continued to examine how other retirement funds have addressed these issues. One example is the federal government's Thrift Savings Plan, with assets of $500 billion across five million participants. Despite the Obama administration's focus on climate change, Fund C fully replicates the S&P 500 and thus has large exposure to the Carbon 200 list. Unlike many retirement plans, the TSP does not offer a socially responsible fund option.

   Another example from a progressive jurisdiction is the San Francisco Employees' Retirement System, which currently invests about $470 million of its $23 billion fund in fossil fuel companies. In April 2013, the city's elected Board of Supervisors adopted a divestment resolution advanced by 350.org and has continued to press the issue in the 4½ years since. The retirement board majority, citing its fiduciary duty, has said it cannot comply.

4. Paragraph 7 of the Council resolution noted "several examples of public pension funds that have reduced or eliminated fossil fuel holdings using ESG factors." It cited the District of

[2] Anadarko Petroleum, Apache, Cabot Oil & Gas, Chesapeake Energy, Chevron, Cimarex Energy, Concho Resources, ConocoPhillips, Devon Energy, EOG Resources, EQT, Exxon Mobil, Freeport-McMoRan, Hess, Marathon Petroleum, Newfield Exploration, Noble Energy, Occidental Petroleum, Pioneer Natural Resource, Range Resources.

Columbia Retirement Board, which asserted that as of June 9, 2016 it no longer directly held any securities on the Carbon 200 list. We have requested but have not received a list of the DCRB's holdings and thus cannot independently validate this assertion. We do know that since the DCRB indexes nearly two-thirds of its assets, it may indirectly hold many securities on the Carbon 200 list, as outlined above.

Paragraph 7 also lists the Maine and Vermont pension funds as having made "considerable progress in reducing their fossil fuel holdings." We spoke with the top investment officers of the two funds. Both said that their funds have not divested and will not do so.

C. The Boards' current holdings in fossil fuel companies.

Two tables, on Attachments 3 and 4, show the fossil fuel holdings of the ERS and the CRHBT as of September 30, 2017. As noted above, the Council resolution referred to "top fossil fuel holding companies." We have used the Carbon 200 list proposed by 350.org.

As we indicated in part A, the County Code requires the Boards to use investment managers to select individual securities; we are not authorized to do so ourselves. The Boards apply rigorous screens to determine the best investment managers for different asset classes.

The Boards have developed ESG policy guidelines that are embedded in our investment and governance processes. As our investment managers work to achieve the best risk-adjusted return in accordance with their fiduciary duty, they consider ESG factors to help determine which companies to include or exclude from consideration.

Earlier this month, in preparation for this report and future annual reports, we asked our investment managers to confirm that their fossil fuel holdings, if any, reflect their best judgment as to their risk-return mix, their ESG policy, and their fiduciary duty. Seven of our actively managed separate account managers have such holdings. All have replied in the affirmative.

The table for the ERS on Attachment 3 lists fossil fuel holdings of $67.3 million. This represents 1.69 percent of our total fund's market value of $3.9 billion as of September 30, 2017. This compares to a $71.5 million or 1.98 percent exposure as of June 30, 2016.

The table for the CRHBT on Attachment 4 lists fossil fuel holdings of $16.5 million This represents 1.86 percent of the total fund's market value of $885 million. This compares to a $10.9 million or 1.61 percent exposure as of June 30, 2016.

To place the current percentage of our funds' direct fossil fuel holdings in perspective, almost all our holdings are actively managed. Two-thirds of the fossil fuel holdings are in bonds, not stocks. Funds whose assets are partly or largely passively managed may not show much in the way of direct fossil fuel holdings, but as outlined above, their indirect holdings, in percentage terms, may be considerably larger than our direct holdings.

The Boards will continue to assess and refine our ESG policy guidelines and those of our investment managers and consultants. This analysis will be included in the future annual reports requested by the Council resolution.

Attachment - 1

Resolution No.: 18-804
Introduced: May 2, 2017
Adopted: May 16, 2017

COUNTY COUNCIL
FOR MONTGOMERY COUNTY, MARYLAND

Lead Sponsor: Council President Berliner
Co-Sponsors: Council Vice President Hans Riemer, Councilmember Tom Hucker

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SUBJECT: Environmental, Social, and Governance Investment Policy Guidelines and Fossil Fuel Company Investments of the Employees' Retirement System and the Consolidated Retiree Health Benefits Trust

Background

1. In 2016, President Obama noted that "Climate Change is a potential existential threat to the entire world if we don't do something about it." The substantial global risks of climate change are without question and are an immediate and increasing threat to our own generation and those that follow.

2. Climate change is a global issue, but with profoundly local aspects as well. Known environmental impacts of climate change include the loss of ice at the poles, rising seas and increased coastal flooding, longer and more damaging wildfires, more destructive hurricanes, more frequent and intense heat waves, and increased droughts. Health impacts of climate change include increased air pollution, a longer and more intense allergy season, the spread of insect-borne diseases, the disruption of our food supply, and more frequent and dangerous medical issues due to heat waves. These will have a profound impact upon the quality of life for current and future Montgomery County residents. Other impacts include the continued acidification of the oceans, destruction of coral reefs, the loss of marine life and shrinking habitats.

3. The extraction, transport and burning of fossil fuels results in the release of greenhouse gases, such as carbon dioxide and methane, which directly contribute to climate change. The 2015 Paris Agreement on goals for reducing emissions is a major step forward, and market forces are moving strongly in the direction of clean energy. However, the challenge remains grave, especially given the gross disregard for the threat of climate change displayed by President Trump and members of his administration. It is more important than ever that local governments confront climate change and the companies that contribute to it. Montgomery County is a national leader among local governments in addressing climate change by taking direct action locally to support clean energy, energy efficiency, and sustainability.

4. Retirement funds and other institutional investors have focused increasing attention on environmental, social, and governance (ESG) factors in the selection of professional investment managers and in the process followed by those managers when selecting companies for investment. Investments in the securities of fossil fuel companies must draw particular scrutiny. The burning of fossil fuels results in the release of greenhouse gases, such as carbon dioxide and methane, which directly contribute to climate change. Many fossil fuel companies have refused to acknowledge climate science, have rejected business plans that accurately account for the carbon emissions created by their identified reserves, and have lobbied against urgently needed climate policies. For these reasons, a growing global movement believes that it is morally reprehensible to invest in and seek to profit from the catastrophe-inducing actions of these companies. Since 2012, investments worldwide with a total value of over $5 trillion have been fully or partially divested of fossil fuel holdings. Minimizing the amount of County public employee pension funds invested in these companies will tell the world that we can no longer support policies and business practices that endanger our climate and our health.

5. The Employees' Retirement System (ERS), the defined benefit pension plan that includes employees of Montgomery County Government, participating agencies, and their beneficiaries, is overseen by the Board of Investment Trustees. The Consolidated Retiree Health Benefits Trust (CRHBT), the trust that includes employees of Montgomery County Government, Montgomery County Public Schools, Montgomery College, participating agencies, and their dependents, is overseen by the CRHBT Board of Trustees. The ERS currently has assets of about $3.8 billion. The CRHBT currently has assets of about $700 million.

6. Both Boards have adopted ESG guidelines for a socially responsible investment policy that applies ESG factors to the selection of investment managers and the managers' selection of securities. As the managers work to achieve the best risk-adjusted return in accordance with their fiduciary duty, they apply ESG screens to help determine which investment options to include or exclude from consideration.

7. There are several examples of public pension funds that have reduced or eliminated fossil fuel holdings using ESG factors. Notably, The District of Columbia Retirement Board has sold all of its directly held Carbon Underground 200 stocks via ESG screening as of June 9, 2016, in response to a DC Council resolution passed in 2014. The states of Maine and Vermont have also made considerable progress in reducing the fossil fuel holdings of their public employee pension funds using ESG policies.

8. Gino Renne, President of UFCW Local 1994, in an April 16 letter to Council President Berliner, expressed support for using ESG factors to reduce fossil fuel holdings in the ERS, noting that "Employee unions across the country have played a critical role in taking action to fight climate change by leveraging employee funds to make investment decisions that take the impact on our climate into consideration." And the Board of Investment Trustees noted in its April 10 statement on the issue that it will "focus particular attention on decisions by our managers to retain or invest in securities of fossil fuel companies."

Action

The County Council for Montgomery County, Maryland approves the following resolution:

The Council requests the Board of Investment Trustees of the Employees' Retirement System and the Board of Trustees of the Consolidated Retiree Health Benefits Trust to:

1. consistent with their fiduciary duties, explore all means possible to:

    a. minimize the Board's investments in companies with the largest fossil fuel reserves as rapidly as possible; and

    b. apply environmentally and economically-sound decision-making, both generally and specific to climate change, using ESG policy guidelines; and

2. report within 6 months after adoption of this Resolution and annually thereafter to the Council and the Executive on implementation of these actions, detailing the research conducted on top fossil fuel holding companies and detailing the extent of divestment or the rationale for not pursuing divestment from individual holdings.

This is a correct copy of Council action.

Linda M. Lauer

Linda M. Lauer, Clerk of the Council

Attachment - 2

BOARD OF INVESTMENT TRUSTEES

MEMORANDUM

July 18, 2017

TO: Board of Investment Trustees

FROM: Linda Herman, Executive Director

SUBJECT: Environmental, Social, Governance – Required Annual Update – June 30, 2017

As detailed in the Board's Governance Manual, the Boards are required to annually provide a comprehensive report describing the implementation and outcomes of the Board's ESG policy, including recommendations for updates or revisions to this policy, as part of the year-end reporting process.

This report includes the following:

I. Industry Developments
II. New Manager ESG Policies
III. Current Manager ESG Updates and Corporate Engagement
IV. Consultant Initiatives

I. Industry Developments

- **CalSTRS** launched a search for up to 10 firms to provide ESG-focused and corporate governance services for public equities. Six of the ten will be awarded contracts for ESG focused public equity investment management services, while four will be awarded contracts for corporate governance public equity investment management services. CalSTRS is using the process to establish a "pool" of qualified managers, which will be used to replace firms that "might be terminated in the future."

- **North Carolina Department of the State Treasurer** released a report based on a survey of institutional investors, including 61 U.S. public pensions. They found that only 15% of US public pensions were active regarding ESG issues. Of those that were active, engagement was viewed as being more impactful than divestment.

II. New Manager ESG Policies

- **WCM Investment Management (Global Equities)** - WCM believes that a company's choices regarding overall risk management have consequences with respect to long-term business success. Therefore, WCM organically integrates all risk management considerations, including ESG, into their research process. Factors such as corporate governance, culture and treatment of the employees, strength of the management and its attitude towards the environment are included in the evaluation of the company.

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WCM has a unique focus on corporate culture. They believe that effective governance and responsible corporate strategy are enhancers of investment value. Therefore, they conduct a thorough analysis to understand the corporate culture of a company. WCM's research indicates that factors such as integrity of the management, wellness of the employees, etc. impact the sustainability of the culture, thus, the long-term growth of a company.

WCM's portfolio shows an above average ESG score (by Morningstar), which reflects the average ESG score of the companies in the portfolio, versus its peer group. The ESG score for each company is provided by Sustainalytics, which is a global responsible investment research firm that specializes in ESG research and analysis.

WCM's Code of Ethics details the firm's standards of conduct and compliance with laws. Staff's discussions with WCM employees indicated that the firm has a strong culture that awards the individual's contribution to the firm (employees after three years of tenure are eligible for ownership), promotes equal employment opportunity for any employee who is willing to move to the next level (three analysts were promoted to PM), and emphasizes work/life balance (e.g., free health club membership).

- **New Energy Capital Infrastructure Credit Fund (Private Debt)** – The New Energy Infrastructure Credit Fund (NECICF) focuses solely on clean energy infrastructure; the fund focus and strategy is aligned with environmental sustainability, specifically reducing carbon emissions. NECICF publishes an annual report each year estimating the total amount of carbon emissions reduction as a result of portfolio investments. New Energy Capital's investment thesis and business practices exclude any investments in projects which do not have a material beneficial impact on carbon emissions or other measurable environmental factors. From its beginning in 2004 through 2017, New Energy Capital has made 26 investments and all have been thoroughly screened to ensure they have a material carbon or other environmental impact.

- **EMR Capital Resources Fund II (Private Real Assets)** - EMR is conscious of ESG factors and is committed to responsible investing by considering ESG as a component of all due diligence activities. EMR evaluates projects for compliance with applicable laws and any impact upon the quality of life of local residents. Environmental performance and social awareness are important, as even the highest quality assets will not be successful if organizational ESG practices are substandard. Staff reviewed EMR's ESG Policy which detailed the ESG considerations analyzed at each stage of the investment process. Through discussions with the EMR investment professionals and reference calls with management teams, staff believe that EMR is appropriately prioritizing and evaluating ESG considerations before undertaking an investment in a new mining project.

  As an example of how EMR practically deals with social issues, the local Indonesian communities located next to the Martabe asset were initially very concerned about outsiders coming into their territory and potentially disrupting and changing their way of life. As a result, Martabe employs over 70-people in its environmental and community relations team who are out in the villages every day to listen to concerns of the residents. Over 70% of the Martabe workers are from the local communities, in addition to 397 women employed in various levels to help promote gender equality in the region. EMR is also supporting various health, education, agriculture, and community relationship projects such as the opening of additional medical clinics. a mosque and classrooms to promote education.

- **Whitehorse Liquidity Partners I (Private Debt)** - Most investments made by WLP are indirectly in portfolio companies that are actively managed by sophisticated private equity GPs that, in most cases, have very robust ESG policies and procedures. Importantly, the Firm also recognizes the importance of ESG factors.

  Whitehorse has an equal employment opportunity (EEO) policy for all employees and applicants. Whitehorse intends to promote individuals from within based on their contribution to the success of the firm. Whitehorse has policies related to social considerations such as it frequently supports charitable events and causes. For example, in 2017 the Whitehorse team participated in a WaterAid event in Canada (WaterAid works with communities to help people access to clean water and safe toilets), Wellspring Cancer Centers fundraising run (network of community based programs and services for those directly and indirectly affected by cancer) and The Ride to Conquer Cancer (a cycling based fundraising event supporting cancer research). Whitehorse also matches all charitable fundraising initiatives by employees. From a firm governance perspective, Whitehorse is a flat organization where collaboration and input on firm decisions is encouraged. In certain circumstances as governed by the Limited Partnership Agreement, Whitehorse will consult with the LPAC (which will consist of 7 LPs).

- **Kimmeridge Minerals Fund LP (Private Real Assets)** – Staff reviewed Kimmeridge's environmental, health and safety (EHS) manual which was revised in January 2017. Kimmeridge's EHS is a comprehensive 220-page document that includes both general and office safety rules and standards as well as encompassing environmental information and protocols. Kimmeridge is committed to the protection of the environment and strives to operate without doing harm to the environment. This is more relevant for the water business than the minerals business because as a passive mineral owner, Kimmeridge is indemnified from any potential liability (including environmental liabilities). Consequentially, the drilling and completions that will occur on Kimmeridge's land is solely the responsibility of the energy operator. It should be noted that the water business is currently relegated to supplying freshwater for operators to use in their completions, so that Kimmeridge assumes no risk associated with the transport, disposal or injection of salt water/frack fluid.

  The operators' Environmental, Health & Safety (EHS) record is a key consideration for Kimmeridge as they understand that responsible EHS is an integral factor for successful energy development. As part of Kimmeridge's due diligence process on any mineral acreage, they will evaluate the EHS record of energy companies that own the leases. Kimmeridge is able to assess these operators' EHS track records through working together as well as monitoring their incidence reports, awards, recognitions and compliance with all relevant laws and regulations. Staff reviewed the EHS and corporate governance policies for six publicly traded E&P companies (PDC, Energen, Anadarko, BHP, Cimarex, Concho) that operate on KMF's acreage with a summary of how these operators engage in environmental stewardship described below.

  These operators are committed to responsible environmental stewardship with robust processes and procedures in place to meet and exceed all current laws, regulations and standards. Business practices and technology employed to minimize the overall environmental impacts of their activities include: using infrared technology to detect ineffective piping, installing plunger lifts to reduce methane emissions, replacing gas-fired pumps with solar-powered pumps, using natural gas and low-emission diesel to power well pads, using natural gas vehicles for transporting equipment, utilizing more efficient compressors, favoring pipeline over trucking for transportation, and utilizing water-management programs such as the usage of water recycling. Consequentially, many of these operators have been recognized by the U.S. Environmental Protection Agency and other agencies at the state and local levels for their ongoing dedication to environmental and operational excellence.

The energy companies that currently have leases on KMF's acreage place a high value on corporate governance and have established controls and produces to ensure maintaining the highest standards with respect to independence and corporate responsibility.

Both Kimmeridge and the energy operators consider health and safety issues as an integral part of daily operations and incorporate these factors into their daily decision making process. All operators noted that safety for employees, contractors and the public is of paramount importance with the goal of avoiding injuries through continual monitoring, evaluating, reporting and training on the latest best practices.

Kimmeridge has an equal employment opportunity (EEO) policy for all employees and applicants in all company facilities. Kimmeridge also has a track record of promoting from within based on individual's contribution to success of the firm. For example, Noam Lockshin was promoted to MD in January 2017 due to his contribution to the Delaware Basin assets. Additional employees have been identified for the partner track. For example, Alex Inkster is in-line for a promotion contingent on his success with projects in Fund IV.

Kimmeridge has both a Limited Partner Advisory Committee comprised of five limited partners as well as an Energy Advisory Board. Aberdeen was on the Advisory Board of previous Kimmeridge funds and Staff held an observer seat in Kimmeridge Energy Fund III. Conflicts of interest need to be approved by the Advisory Board.

- **Federal Capital Partners (Private Real Assets)** - FCP is committed to sustainability projects that enhance the environmental performance of its assets. Environmental issues such as water usage and energy efficiency also make economic sense and help keep costs down on asset budgets. FCP has installed 25,000 energy efficient lights and 4,300 water efficient fixtures. In addition, FCP has participated in the Global Real Estate Sustainability Benchmark (GRESB) since 2012 and is ranked in the top-half of US residential fund managers. GRESB is an industry-driven organization committed to assessing the sustainability performance of real assets around the global. GRESB has assessed almost 1,100 property companies and funds globally. Social aspects include providing safe environments for residents and supporting local community-based programs. Health standards around issues such as asbestos, lead and mold are covered by law and are central to the firm's process and selection of property management firm. FCP employees are also given 8 hours of paid annual leave to volunteer their time and are encouraged to partner with local organizations that support children and families. FCP volunteer events include painting and renovating schools within the community and distributing over 1,000 backpacks.

- **Greyrock Capital Group Investors IV (Private Debt)** - Greyrock embarks on significant due diligence which encompasses researching suppliers, customers and all stakeholders surrounding a variety of factors, including ESG considerations. Greyrock is sensitive to potential ESG risks and has often decided not to invest in companies that have elevated ESG risks such as hunting accessory and/or fire arm related businesses.
  Importantly, when conducting due diligence on companies, Greyrock along with the private equity sponsor, will engage with a third party consultant to ensure that the company is adhering to all regulations and standards. For example, if Greyrock is evaluating a company that may have environmental considerations, such as a specialty chemical company, a third party environmental

consultant will be hired to ensure that the company is adhering to all regulations and that proper safeguards and procedures are in place to mitigate potential environmental risks.

Furthermore, Greyrock will validate that a prospective company is in compliance with various regulations such as ERISA and Equal Employment Opportunity laws, and that the company has the proper licenses and permits to conduct business prior to making an investment. After the transaction is completed, Greyrock, along with the private equity sponsor, have Board representation and controlling interest in the company, which helps ensure that good governance practices are being followed (e.g., segregation of duties, transparency).

- **BV Investment Partners IX (Private Equity)** - BV investment partners recognizes the important role that ESG factors play as part of a sound investment strategy focused on maximizing portfolio value. As part of the investment process, BV will consider how ESG factors could impact the financial performance or value of portfolio assets. BV sees the safeguard of ethical standards, consideration of an investment's environmental and social impact, and a commitment to transparency as central to its duty as a fiduciary to its investors. During the due diligence process, BV seeks to understand the ESG policies of the companies in which it invests. If an ESG factor is deemed to have a potentially detrimental impact on performance or attractiveness of a company, BV will evaluate these and explore potential mitigants, if applicable. For the portfolio companies, BV engages with company management to ensure proper oversight, foster transparency and encourage disclosure on ESG issues. Further, BV seeks to hold its portfolio companies accountable to comply with applicable local, national and international lows and demands their compliance with the U.S Foreign Corrupt Practices Act and similar laws in other countries.

  As part of their investment policy, BV will not knowingly invest with any portfolio company which directly engages in the following activities:

  - Production/trade of any product or activity deemed illegal under applicable local or national laws or regulations;
  - Production/trade of arms primarily designed for military purposes;
  - Production/trade of unbonded asbestos fibers;
  - Radioactive materials;
  - Prostitution;
  - Employment of forced or child labor;
  - Disrespect of equal rights regardless of sex, race or religion;
  - Use of or trade in sovereign bonds of countries subject to UN Security Council Arms Embargo.

  Furthermore, BV will not knowingly invest in any company with respect to any of the following activities that generates a material portion of its earnings:

  - Direct ties to Sudan, with the exception for companies providing humanitarian services;
  - Production/trade in animal welfare;
  - Pornography

III. Current Manager ESG Updates and Corporate Engagement

- **Schroders (Long Duration Fixed Income)** - Schroders believes successful investment incorporates the effects of ESG trends in their investment decisions. The fixed income research team views ESG analysis as an important way of identifying downside risk to a company's future earnings and its ability to fulfil its outstanding debt obligations. The research team analyzes ESG risks as part of the issuer selection process. Additionally, it is integrated during portfolio construction as a complement to traditional financial indicators. ESG factors are analyzed to impact position sizing reflecting the material risks or opportunities. The incorporation of ESG issues enables Schroders to reduce risk and volatility in their portfolios.

- **Loomis Sayles (High Yield Fixed Income)** – Loomis analyzes risks by modeling long-term business opportunities and challenges, by identifying risks inherent in industries and sectors, and by using a variety of methods to evaluate ESG issues, including engagement with the management of companies and the use of third-party analytical tools. Loomis believes that the goals incorporated in its own Principles can best be met by allowing the investment teams to determine how much weight to attribute to ESG factors in investment decision making, while remaining accountable for investment results. The ESG Committee is well positioned to oversee the progress in implementation. One of its goals is to continually identify additional superior tools for the research analysts and the investment teams, and make them easily accessible. At this time, Loomis believes that these teams are fully capable of using the information available to them to make recommendations and decisions that will support the goals of seeking superior investment results and continually enhancing their understanding and incorporation of ESG principles into the investment process.

- **BHMS (US Large Cap Value)** - Barrow, Hanley, Mewhinney and Strauss, LLC (BHMS) seeks to identify and focus on the key ESG issues that currently, or at some point in the future, may materially impact the long-term value of a company. BHMS has engaged with a number of publicly-traded companies on multiple issues. Recently, the firm was concerned with a company's low ranking among industrial machinery peers on reporting key toxic emissions metrics. Another issue was the criticism that the company received regarding labor management issues. BHMS engaged with management on both issues. The firm was satisfied following a meeting at which management provided a plan outlining the company's goals to reduce their environmental impact (through waste minimization, reductions in carbon emissions, and reductions in water and energy consumption) by approximately 20% by the year 2020. At the time, BHMS was a top 20 shareholder of the company, as they are with more than 100 other companies. BHMS is engaged in active ownership on behalf of its clients, and managements have generally been very open to their ideas regarding ESG issues. (Comments dated 8/9/2017.)

- **Gryphon International (International Large Cap)** – All issues considered material regarding an investment are reviewed and monitored, including ESG and sustainability concerns. In particular, Gryphon International endeavors to invest in companies which exhibit strong corporate governance and management sustainability over time. Good corporate governance is expected to be transparent and add value for shareholders, taking into consideration views of employees, customers, all investors, and affected communities wherever possible and appropriate. Gryphon International considers corporate governance and management quality to be of vital importance when considering securities for potential investment. These and other factors provide the basis of our investment criteria and we routinely meet with the management of companies in which our clients are invested in effort to ensure management's stated goals are being met. Any matter, ESG or otherwise, considered to be potentially material is evaluated.

III. Consultant Initiatives and Approach to ESG

- **Aberdeen Asset Management (Private Real Assets Consultant)** – Aberdeen incorporates ESG considerations into their investment analysis and decision making processes. This involves engaging with companies and managers of potential and held investments to identify the risks they are exposed to and how these are monitored, managed, and mitigated. For example, confirmation is sought that an investee company has all the necessary licenses required to operate with a particular focus on environmental health and safety issues through both site visits and, if necessary, hiring third party consultants.

  Aberdeen also integrates ESG considerations into portfolio management activities and ongoing monitoring of the underlying investment. Aberdeen encourages managers and investee companies to monitor and manage ESG related items in their portfolios on an ongoing basis to ensure appropriate steps are taken to evaluate these elements continuously. In addition, they are in constant dialogue with the underlying GPs and management teams to ensure they are executing their business plans.

  Aberdeen promotes acceptance of ESG principles within the investment industry and underlying target sectors. They seek to take a leadership role in acceptance and adoption of best practices' as it relates to incorporating ESG considerations across the real assets continuum. Aberdeen believes that they have the ability to promote the acceptance of these areas in order to appropriately mitigate risk and increase the adaptability of ESG related considerations into the overall investment process.

- **Wilshire Associates (General Consultant)** – Wilshire Associates recently hired Daniel Ingram to serve as a vice president of responsible investment research and consulting. In his role, Mr. Ingram will assist in expanding Wilshire Consulting's ESG and SRI capabilities. He will be responsible for supporting Wilshire Consulting's traditional advisory clients in addition to its clients in the Wilshire OCIO solutions practice. He will report to Andrew Junkin, President of Wilshire Consulting and Steve Foresti, CIO of Wilshire Consulting. This hire is part of Wilshire's commitment to providing clients with ESG/SRI-driven solutions.

  In August 2016, Wilshire Associates became a signatory to the UN PRI, joining a global network

  In May 2016, the company announced the launch of Wilshire ClimateLens as a four-part program designed to help clients understand and make decisions about the riska and opportunities associated with climate change.

Attachment - 3

ERS - Carbon 200 Exposure - As of 9/30/17

Coal or Oil	Company	Market Value
C	Alliance Resources	$236,531
O	Anadarko	$83,652
C	Anglo American	$913,400
O	Antero Resources	$1,170,083
O	Apache Corp	$1,006,883
C	ArcelorMittal	$2,882,090
O	BASF	$1,553,692
C/O	BHP Billiton	$1,548,678
O	BP	$1,783,578
O	Cabot Oil & Gas	$37,871
O	California Resources	$1,234,920
O	CENTRICA	$60,121
O	Chesapeake Energy	$3,407,025
O	Chevron Corp	$2,411,379
O	Cimarex	$29,143
C	Cloud Peak	$490,438
O	Concho Resources	$491,034
O	ConocoPhillips	$3,473,007
O	Consol Energy	$801,819
O	Continental Resources	$9,376
O	Denbury Resources	$369,657
O	Devon Energy	$937,312
O	Encana	$608,414
O	Energen	$15,798
O	ENI	$371,834
O	EOG Resources	$174,885
O	EP Energy	$377,713
C	FirstEnergy Corp	$43,157
O	Freeport-McMoran	$2,245,623
C	Glencore	$865,764
O	Great Eastetrn	$301,409
O	Gulfport Energy	$325,313
O	Hess Corp	$2,056,778
C	Itochu Corp	$188,646
O	Linn Energy	$385,524
O	Marathon Petroleum	$1,843,323
O	MEG Energy	$1,360,288
C	Mitsubishi	$369,042
O	Murphy Oil	$742,858
O	Newfield Exploration	$447,105
O	Noble Energy	$2,134,619
O	Occidental Petroleum	$1,643,611
O	PDC Energy	$477,463
C	Peabody Energy	$387,774
O	Petrobras	$3,241,560
O	Pioneer Natural Resources	$89,844
O	QEP Resources	$938,279
O	Range Resources	$646,813
C	Rio Tinto	$940,462
O	Royal Dutch Shell	$1,487,146
O	Sandridge Energy	$1,524
O	Santos	$63,196
O	SM Energy	$1,737,923
O	Southwestern Energy	$1,092,690
O	Statoil	$1,922,501
O	Suncor Energy	$1,220,151
C	Teck Resources	$1,494,063
O	TOTAL	$6,736,459
C	Vale	$306,138
O	Whiting Petroleum	$1,864,356
O	WPX Energy	$639,434
O	YPF	$609,000
	Total ERS CU 200 Exposure	$67,330,169

Attachment - 4

CRHBT - Carbon 200 Exposure - As of 9/30/17

Coal or Oil	Company	Market Value
C	Alliance Resources	$51,875
C	Anglo American	$212,035
O	Antero Resources	$272,428
O	Apache Corp	$260,276
C	ArcelorMittal	$396,900
C/O	BHP Billiton	$188,751
O	BP	$473,957
O	California Resources	$223,820
O	Chesapeake Energy	$817,150
O	Chevron Corp	$491,620
C	Cloud Peak	$146,875
O	ConocoPhillips	$1,042,614
O	Consol Energy	$236,340
O	Continental Resources	$533,001
O	Denbury Resources	$155,469
O	Devon Energy	$226,563
O	EP Energy	$30,750
O	Freeport-McMoran	$1,151,409
O	Gulfport Energy	$222,500
O	Hess Corp	$561,643
O	Linn Energy	$4,169
O	Marathon Petroleum	$490,106
O	MEG Energy	$364,126
O	Murphy Oil	$300,000
O	Newfield Exploration	$49,335
O	Noble Energy	$485,092
O	Occidental Petroleum	$418,842
O	PDC Energy	$205,081
C	Peabody Energy	$34,255
O	Petrobras	$716,156
O	QEP Resources	$116,918
O	Range Resources	$223,469
C	Rio Tinto	$57,324
O	Royal Dutch Shell	$1,125,763
O	SM Energy	$656,715
O	Southwestern Energy	$457,578
O	Statoil	$263,594
O	Suncor Energy	$299,775
C	Teck Resources	$185,076
O	TOTAL	$1,814,941
C	Vale	$119,499
O	Whiting Petroleum	$403,024
	Total CRHBT CU 200 Exposure	$16,486,811