MONTGOMERY COUNTY EMPLOYEE RETIREMENT PLANS

CONSOLIDATED RETIREE HEALTH BENEFITS TRUST

October 27, 2023

SEVENTH 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 is the Board's seventh report to Council. It 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 Boards' current holdings in fossil fuel companies. Part C reviews the research and actions undertaken by the Boards and Staff since the adoption of the resolution.

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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 June 30, 2023, the ERS had assets of \$4.7 billion. The CRHBT had assets of \$1.6 billion. The ERS, which started in 1965, currently has a funded level of 99% percent on an actuarial basis. Its 10-year investment return is in the top quartile of its peer group (better than 75% of peers) of public pension funds. The CRHBT, which started in 2008, currently has a funded level of 51 percent on an actuarial basis.

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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. Shown below are actions taken by our investment managers since our last report:

- **Emerging Markets Manager** – In 2023, this manager avoided investing in a company that is exposed to water risk due to high flood vulnerability along the Yangtze River Basin. Limited evidence on the company's environmental and stakeholder engagement policies prevented the manager from fully assessing the company's risk management capabilities.

- **Global Equity Manager –** This quantitative manager chose to overweight a German semiconductor company due to the company scoring very highly on social and governance factors, which the manager viewed to be a risk reducer. While these weren't the only factors that led to the investment, they played a material role in improving the security's overall rating within their quantitative system.

- **International Equity Manager –** Staff recently hired an international small cap manager that utilizes a proprietary scoring methodology within their ESG framework. Specifically, they have an internal template of key ESG company data used to calculate an ESG score for an individual company. The investment team contributes to the template by collecting raw ESG company data on activities and products through company websites, reports, and meetings with management teams. This template is systematically integrated into various aspects of the investment analysis, including industry analysis, analysis of a company's strategy, quality of management, and valuation.

- **Emerging Markets Debt Manager** – During the last year, this manager met with the finance minister and other representatives from the Colombian Finance Ministry to hear about their views on ESG, fossil fuel reserve risk, and their plans for future decarbonization.. On the governance side, the manager has also encouraged the country to prioritize tax reforms, as well as changes to their healthcare and pension systems. Engagement from large investment managers can help to drive government policy, particularly in emerging markets.

- **Emerging Markets Equity Manager** – In late 2022, the manager avoided a fast-growing coffee chain based in Asia, in part due to ESG concerns. One of the manager's analysts took a deep dive into the company and found multiple governance red flags with its shareholding structure that seemed to disproportionately favor a tight group of insiders centered around the founder and his family members. Despite this stock being very popular with much of the investment community, the manager passed on the investment due to these concerns.

- **International Equity Manager** – During the year, this small cap manager was considering a Swiss machinery producer as a contrarian recovery opportunity. However, they passed on the investment due to concerns over corporate governance, particularly the firm's poor capital allocation decisions around acquisitions. Additionally, the company paid out a special dividend immediately prior to Russia's invasion of Ukraine in response to concerns from one of the company's largest shareholder's, a Russian, about his ability to recover his investment after the invasion.

- **Fixed Income Manager –** This manager passed on a pharmaceutical investment as the company is involved in several ongoing litigations related to its involvement in the opioid epidemic and conspiring with other drug manufacturers to fix prices. While the security is very underpriced, these social and governance issues are too material for the manager to make an investment in the debt of the company. The potential for large litigation losses calls into question the ability for the debtor to be repaid by the company.

- **International Equity Manager** – During the year, the manager made an investment in a company specializing in multichannel distribution for the energy sector and connecting organizations with electrical products and solutions. The purchase was made, in part, due to the likelihood that the company will be heavily involved in the energy transition. The company has benefitted from recent electrification trends, helped by both an increasing global focus on sustainability and higher energy prices. In addition, excess demand in the market for electrical products is likely to continue as digitalization and ESG considerations accelerate.

- **Public Real Assets Manager –** During the year, this manager engaged with one of their railroad holdings to reduce their emissions targets, ensure line of sight to a net-zero approach in the coming decades, and to invest heavily in hydrogen-based propulsion technology. The firm also began to develop a new Climate Strategy Assessment Framework that provides additional insight into client approaches to climate.

- **Emerging Markets Equity Manager** – This manager held a position in a UK mining company and the manager heavily engaged with the company to improve carbon reporting transparency, coal reduction plans, and future capital expenditure plans. However, during the hold period, the security increased to the manager's measure of fair value, so the position was sold.

- **Domestic Equity Manager –** During the year, this manager sold their position in a U.S. software company due to governance concerns as the company's board of directors amended the management incentive plan to be more focused on growth at the expense of return on invested capital, which the manager thinks will distort the economic incentives of the management team.

- **Domestic Equity Manager-** In 2023, the manager purchased a pure-play, fully integrated producer of performance lithium compounds. Long-term, the global lithium market remains tight, and this company plays a critical role in the battery value chain and remains uniquely positioned for the continued adoption of electric vehicles.

Each Board's Governance Manual requires a comprehensive annual report detailing the implementation and outcomes of its ESG policy guidelines. The October 27, 2023 annual report for the Board of Investment Trustees for the ERS is Attachment 2. The report includes industry developments, current manager ESG updates and corporate engagement, consultant initiatives, recent board actions, and Staff research. There is a similar report for the Board of Trustees for the CRHBT.

B. 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 June 30, 2023. As noted above, the Council resolution referred to "top fossil fuel holding companies." We have used the Carbon 200 list proposed by 350.org. These figures may fluctuate year by year due to market movements, asset allocation changes, or investment vehicle restructuring (i.e., moving from a commingled fund to a separately managed account).

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 last 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. Nine 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 $41.4 million. This represents 0.87 percent of our total fund's market value of $4.5 billion as of June 30, 2023. This compares to a $43.9 million or 0.97 percent exposure as of September 30, 2022.

The table for the CRHBT on Attachment 4 lists fossil fuel holdings of $17.8 million. This represents 1.09 percent of the total fund's market value of $1.5 billion. This compares to a $15.0 million or 1.03 percent exposure as of September 30, 2022.

To place the current percentage of our funds' direct fossil fuel holdings in perspective, the majority of our holdings are actively managed. Roughly 45% of the fossil fuel holdings in the Trust funds are in bonds, not stocks.

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 required by the Council resolution.

C. Research and actions undertaken by the Boards and Staff since the fifth report to the Council

Since the sixth report to the Council on November 18, 2022 we have continued to expand our knowledge of ESG issues. Shown below is a summary of the activities taken:

- **CERES Conference at the 2023 United Nations Climate Change Conference** – In November 2023, Staff will attend the United Nations Climate Change Conference (COP 28) via video conference.

- **CERES** – The Boards joined the CERES Investor Network in 2018 to gain a better understanding of climate risk within the portfolios, explore opportunities embedded in the clean energy economy, and develop a dialogue with other institutional investors on ESG-related matters. Since joining, Staff has been an active participant in the Disclosure Working Group, which seeks to push companies to disclose all relevant sustainability information using the Global Reporting Initiative (GRI) guidelines as well as additional sector-relevant indicators. The goal of this working group is for more companies to disclose material sustainability risks and opportunities within their financial filings.

- **CFA Institute ESG Expert Network** – Investment Staff continues to actively participate in the CFA ESG Expert Network, a diverse working group to share knowledge and resources focused on integrating ESG best practices. The CFA Institute is a leading global association for investment professionals.

- **Portfolio DEI Analysis** – Staff completed a second annual diversity and inclusion analysis of the underlying funds within the portfolio to understand the level of diverse ownership across the portfolio and within various asset classes. This analysis revealed that the portfolio has roughly 24% invested in women- or minority-owned investment organizations with exposure across public markets, private equity, private debt, and private real assets, a slight increase from last year. Staff will continue to track this metric on an annual basis and will explore ways to further enhance our approach to DEI. Albourne, NEPC, and Curcio Webb have significant levels of diverse ownership and management. For example, Curcio Webb, our defined contribution plan consultant, is a women-owned business.

  Staff has also been collecting DEI data across multiple levels (board, executive, and mid-level investment staff) in the organizations of the public funds we invest in. Staff collects this data to gain more granular insights and to analyze managers at a level that more accurately reflects diversity across their organizations. By collecting this data across multiple years, Staff can also better monitor and report on the impact that our managers' diversity initiatives are having. After analyzing data collected through the questionnaire for all managers that provided statistics for 2021, 2022, and 2023, we found that:

  - The largest improvements were in our equity managers, which had year-over-year increases in every category. Ethnic diversity across board-, executive-, and mid-levels saw the most significant increases.
  - On average, increases in gender diversity were observed in every category except mid-level, while ethnic diversity at the board-level saw the largest percentage increase.
  - Over the past two years, gender diversity at the board-level and ethnic diversity at the board- and executive-levels have seen the largest increases, with all three categories increasing by 4% or more.

- **Portfolio PRI Signatory Portfolio Analysis –** Both Boards became signatories of the Principles for Responsible Investment (PRI) in October 2019. The Boards believe this is the premier organization for asset owners and investment managers in terms of ESG integration. While it is not required that investment managers be signatories, it is highly encouraged. Staff recently conducted an analysis to see the proportion of investment managers within the portfolio that are signatories. As of June 30th, 2023, 52% of the managers within the portfolio are signatories, while 74% of the portfolio by market value is invested with signatories. Whereas most of the public market managers within our portfolio are signatories, the adoption level on the private market side remains somewhat low. Additionally, all three of the Boards' core investment consultants – Franklin Park, NEPC, and Albourne are signatories.

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

BOARD OF TRUSTEES

MEMORANDUM

October 27, 2023

TO: Board of Investment Trustees and Board of Trustees

FROM: Eli Martinez, Executive Director
Kevin Killeavy, Chief Investment Officer

SUBJECT: Environmental, Social, Governance – Required Annual Update – 2023

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 Boards' 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. Current Manager ESG Updates and Corporate Engagement
III. Consultant Initiatives
IV. Recent Board Actions
V. Staff Research

I. Industry Developments

- **NYC Pension Funds Sued Over Fossil Fuel Divestment –** Three New York City pension funds are being sued for allegedly breaching their fiduciary duty by selling billions in fossil fuel assets at depressed prices. The complaint is being made as the plans divested from roughly $4 billion in fossil fuel related securities in 2021, before energy rallied significantly. The complaint stated that "the defendants' actions in selling off high-performing securities, and prioritizing lower-yield investments, is especially troubling given the plans' chronic and severe underfunding".

- **Government Curbs U.S. Investments in Chinese Technology –** In August 2023, President Biden signed an Executive Order that will limit or ban private fund managers from investing in certain technologies like computer chips or semiconductors in China. The U.S. Department of Treasury will develop a list of investments that are prohibited as well as some that are allowable. The three main areas of concern for U.S. investment are semiconductors, micro-electronics, and artificial intelligence. As this restriction will not be retroactive, it will not apply to current holdings of investment managers but there will be limits on future investments.

- **Harvard Endowment CEO Cites Divestment Costs –** The CEO of Harvard University's endowment, Narv Narvekar, said that the University's commitment to climate goals has negatively impacted returns since the pandemic as the endowment was not able to take advantage of cheap valuations in the oil and gas sector like some of their peers. He noted that "a number of institutional investors leaned into the conventional energy sector, through either equities or commodity futures, adding materially to their total return."

- **Asset Managers Cite ESG Backlash in Filings –** Some large asset managers have warned that a backlash against ESG investing represents a material risk to their businesses. Examples of publicly listed asset managers that have cited this risk in their filings include Blackstone, BlackRock, KKR, and T. Rowe Price. For example, T. Rowe Price noted that pressures such as divergent views or competing demands on ESG investing could hurt their financial performance.

- **Republican-Led States Continue Push Back on ESG –** This trend, which began in 2021, has continued in earnest over the last year as states governed by Republican governors and legislatures continue to pass laws in opposition to ESG. The most notable was the state of Florida, which recently passed a law prohibiting the use of ESG factors in state and local investment decisions. Another example was the Indiana Public Retirement System awarding a contract to Strive Advisory, a firm focused on corporate governance and proxy voting in opposition to mainstream ESG positions.

- **PRI Signatory Growth –** The number of signatories to the Principles for Responsible Investment reached 5,384 by the end of June 2023. Over the last year, this group has grown by 4% with the current roster including 4,104 investment managers, 737 asset owners, and 543 service providers. Montgomery County became a signatory in October 2019.

II. Current Manager ESG Updates and Corporate Engagement

In 2021, Staff and our investment consultants began reporting to the Boards on impact/sustainable investments within the private market portfolio. The portfolio currently contains several funds with impact investment strategies. Some examples include strategies focused on renewable power development, sustainable forestry, water infrastructure, and real estate. The segment of our portfolio with the highest concentration of impact investments is private real assets, where 34% of the ERS portfolio is allocated to impact/sustainable investments.

- **Emerging Markets Manager** – In 2023, this manager avoided investing in a company that is exposed to water risk due to high flood vulnerability along the Yangtze River Basin. Limited evidence on the company's environmental and stakeholder engagement policies prevented the manager from fully assessing the company's risk management capabilities.

- **Global Equity Manager –** This quantitative manager chose to overweight a German semiconductor company due to the company scoring very highly on social and governance factors, which the manager viewed to be a risk reducer. While these weren't the only factors that led to the investment, they played a material role in improving the security's overall rating within their quantitative system.

- **International Equity Manager** – Staff recently hired an international small cap manager that utilizes a proprietary scoring methodology within their ESG framework. Specifically, they have an internal template of key ESG company data used to calculate an ESG score for an individual company. The investment team contributes to the template by collecting raw ESG company data on activities and products through company websites, reports, and meetings with management teams. This template is systematically integrated into various aspects of the investment analysis, including industry analysis, analysis of a company's strategy, quality of management, and valuation.

- **Emerging Markets Debt Manager** – During the last year, this manager met with the finance minister and other representatives from the Colombian Finance Ministry to hear about their views on ESG, fossil fuel reserve risk, and their plans for future decarbonization.. On the governance side, the manager has also encouraged the country to prioritize tax reforms, as well as changes to their healthcare and pension systems. Engagement from large investment managers can help to drive government policy, particularly in emerging markets.

- **Emerging Markets Equity Manager** – In late 2022, the manager avoided a fast-growing coffee chain based in Asia, in part due to ESG concerns. One of the manager's analysts took a deep dive into the company and found multiple governance red flags with its shareholding structure that seemed to disproportionately favor a tight group of insiders centered around the founder and his family members. Despite this stock being very popular with much of the investment community, the manager passed on the investment due to these concerns.

- **International Equity Manager** – During the year, this small cap manager was considering a Swiss machinery producer as a contrarian recovery opportunity. However, they passed on the investment due to concerns over corporate governance, particularly the firm's poor capital allocation decisions around acquisitions. Additionally, the company paid out a special dividend immediately prior to Russia's invasion of Ukraine in response to concerns from one of the company's largest shareholder's, a Russian, about his ability to recover his investment after the invasion.

- **Fixed Income Manager –** This manager passed on a pharmaceutical investment as the company is involved in several ongoing litigations related to its involvement in the opioid epidemic and conspiring with other drug manufacturers to fix prices. While the security is very underpriced, these social and governance issues are too material for the manager to make an investment in the debt of the company. The potential for large litigation losses calls into question the ability for the debtor to be repaid by the company.

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- **Public Real Assets Manager** – During the year, this manager engaged with one of their railroad holdings to reduce their emissions targets, ensure line of sight to a net-zero approach in the coming decades, and to invest heavily in hydrogen-based propulsion technology. The firm also began to develop a new Climate Strategy Assessment Framework that provides additional insight into client approaches to climate.

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- **Domestic Equity Manager –** During the year, this manager sold their position in a U.S. software company due to governance concerns as the company's board of directors amended the management incentive plan to be more focused on growth at the expense of return on invested capital, which the manager thinks will distort the economic incentives of the management team.

- **Domestic Equity Manager-** In 2023, the manager purchased a pure-play, fully integrated producer of performance lithium compounds. Long-term, the global lithium market remains tight, and this company plays a critical role in the battery value chain and remains uniquely positioned for the continued adoption of electric vehicles.

III. Consultant Initiatives and Approach to ESG

- **NEPC (General Consultant) –** During the last year, NEPC met regularly with impact-oriented investment managers across asset classes as they continue to source preferred strategies and options for their clients. They have also sourced several preferred strategies that target attractive risk-adjusted returns and align with the respective missions and values of their client base. In the last year, NEPC participated in national conversations about the evolution of ESG investing, such as the Department of Labor and the White House Office of Social Innovation's stakeholder roundtable.

- **Franklin Park Associates (Private Equity & Debt Consultant) –** During the last year, Franklin Park continued to refine their ESG Policy Statement and their ESG due diligence process. Over the last year, they also refined their Corporate Citizenship Statement, continued to refine their DEI reporting efforts, and conducted corporate citizenship training for all employees. Additionally, Franklin Park completed their annual reporting that is required for their membership as a PRI signatory.

- **Albourne (Private Real Assets Consultant) –** Over the last year, Albourne has created the Albourne Sustainability Integration Score (SiQ Score), which is a survey-based evaluation of the extent to which environmental, social, and governance considerations are incorporated into a fund's risk management and investment decision making process. Funds are scored between 1-100. This year, Albourne has engaged with more than 1,000 funds via this survey and has provided commentary on sustainability factors in over 700 investment due diligence (IDD) reports. Additionally, they have also engaged with more than 700 investment managers on DEI via their DEI Questionnaire.

IV. Recent Board Actions

- **CERES Conference at the 2023 United Nations Climate Change Conference** – In November 2023, Staff will attend the United Nations Climate Change Conference (COP 28) via video conference.

- **CERES** – The Boards joined the CERES Investor Network in 2018 to gain a better understanding of climate risk within the portfolios, explore opportunities embedded in the clean energy economy, and develop a dialogue with other institutional investors on ESG-related matters. Since joining, Staff has been an active participant in the Disclosure Working Group, which seeks to push companies to disclose all relevant sustainability information using the Global Reporting Initiative (GRI) guidelines as well as additional sector-relevant indicators. The goal of this working group is for more companies to disclose material sustainability risks and opportunities within their financial filings.

- **CFA Institute ESG Expert Network** – Investment Staff continues to actively participate in the CFA ESG Expert Network, a diverse working group to share knowledge and resources focused on integrating ESG best practices. The CFA Institute is a leading global association for investment professionals.

V. Staff Research

- **Portfolio DEI Analysis** – Staff completed a second annual diversity and inclusion analysis of the underlying funds within the portfolio to understand the level of diverse ownership across the portfolio and within various asset classes. This analysis revealed that the portfolio has roughly 24% invested in women- or minority-owned investment organizations with exposure across public markets, private equity, private debt, and private real assets, a slight increase from last year. Staff will continue to track this metric on an annual basis and will explore ways to further enhance our approach to DEI. Albourne, NEPC, and Curcio Webb have significant levels of diverse ownership and management. For example, Curcio Webb, our defined contribution plan consultant, is a women-owned business.

  Staff has also been collecting DEI data across multiple levels (board, executive, and mid-level investment staff) in the organizations of the public funds we invest in. Staff collects this data to gain more granular insights and to analyze managers at a level that more accurately reflects diversity across their organizations. By collecting this data across multiple years, Staff can also better monitor and report on the impact that our managers' diversity initiatives are having. After analyzing data collected through the questionnaire for all managers that provided statistics for 2021, 2022, and 2023, we found that:

  - The largest improvements were in our equity managers, which had year-over-year increases in every category. Ethnic diversity across board-, executive-, and mid-levels saw the most significant increases.
  - On average, increases in gender diversity were observed in every category except mid-level, while ethnic diversity at the board-level saw the largest percentage increase.
  - Over the past two years, gender diversity at the board-level and ethnic diversity at the board- and executive-levels have seen the largest increases, with all three categories increasing by 4% or more.

- **Portfolio PRI Signatory Portfolio Analysis** – Both Boards became signatories of the Principles for Responsible Investment (PRI) in October 2019. The Boards believe this is the premier organization for asset owners and investment managers in terms of ESG integration. While it is not required that investment managers be signatories, it is highly encouraged. Staff recently conducted an analysis to see the proportion of investment managers within the portfolio that are signatories. As of June 30th, 2023, 52% of the managers within the portfolio are signatories, while 74% of the portfolio by market value is invested with signatories. Whereas most of the public market managers within our portfolio are signatories, the adoption level on the private market side remains somewhat low. Additionally, all three of the Boards' core investment consultants – Franklin Park, NEPC, and Albourne are signatories.

ERS Carbon 200 Exposure - June 2023

Coal or Oil	Company	Market Value
C	African Rainbow Minerals	$ 37,176.27
C	Allete	$ 582,134.74
O	Antero Resources	$ 1,337,850.57
O	Apache	$ 783,639.56
C	ArcelorMittal	$ 344,577.96
O	Baytex	$ 702,390.77
C/O	BHP Billiton	$ 255,602.73
O	BP	$ 1,008,600.82
O	California Resources	$ 1,577.38
O	Callon Petroleum	$ 326,833.79
O	Cenovus Energy	$ 278,833.39
O	Centennial Resource Developm	$ 580,375.12
O	Chesapeake Energy	$ 497,537.63
O	Chevron	$ 2,464,887.75
O	CNX Resources	$ 369,355.34
O	Comstock Resources	$ 472,161.21
O	ConocoPhillips	$ 2,022,981.60
O	Continental Resources	$ 764,919.14
O	Coterra	$ 173,406.20
O	Denbury Resources	$ 92,885.24
O	Devon Energy	$ 280,517.02
O	Diamondback Energy	$ 215,430.40
O	Energean	$ 226,596.13
O	EOG Resources	$ 609,164.12
O	EQT	$ 950,075.81
O	Equinor	$ 390,913.37
O	ExxonMobil	$ 3,946,692.75
C	FirstEnergy	$ 191,678.40
C	Glencore	$ 512,774.16
O	Great Eastern Energy	$ 35,232.57
O	Gulfport Energy	$ 464,134.10
O	Hess	$ 1,340,571.10
O	Inpex	$ 161,419.73
C	ITOCHU	$ 177,060.92
O	Laredo Petroleum	$ 61,875.00
O	Marathon Oil	$ 777,941.09
O	Matador Resources	$ 626,724.49
O	MEG Energy	$ 37,616.62
C/O	Mitsui	$ 5,109,317.90
O	Murphy Oil	$ 1,259,293.49

Coal or Oil	Company	Market Value
O	National Fuel Gas	$ 41,242.08
O	Northern Oil & Gas	$ 1,069,012.50
O	Ovintiv	$ 630,154.78
O	Oxy	$ 2,070,205.05
O	PDC Energy	$ 515,055.43
O	Petrobras	$ 141,882.50
C	PGE	$ 3,920,695.24
O	Pioneer Natural Resources	$ 436,735.44
O	Range Resources	$ 745,858.00
O	Santos	$ 111,226.39
O	SM Energy	$ 395,496.57
C	Southern Copper	$ 132,073.34
O	Southwestern Energy	$ 453,979.36
O	Vermilion Energy	$ 138,253.48
O	Woodside	$ 89,453.30
	Total ERS Carbon 200	**$41,364,080**

Total Oil	$30,100,988	72.77%
Total Coal	$5,898,171	14.26%
Total Coal/Oil	$5,364,921	12.97%
Total	**$41,364,080**	**100.00%**

Increase from 9/30/2022	**-$2,492,837**

ERS Portfolio Size	**$4,739,044,305**
Carbon 200 % of Portfolio	**0.87%**

Total Fixed Income	$15,722,952	38.0%
Total Equity	$25,641,128	62.0%
Total	**$41,364,080**	**100.0%**

CRHBT Carbon 200 Exposure - June 2023

Coal or Oil	Company	Market Value
C	Allete	$298,835
O	Antero Resources	$506,790
O	Apache	$326,384
O	Baytex	$362,405
O	California Resources	$783
O	Callon Petroleum	$121,812
O	Cenovus Energy	$118,186
O	Centennial Resource Development Inc	$331,130
O	Chesapeake Energy	$298,907
O	Chevron	$1,292,316
O	CNX Resources	$140,529
O	Comstock Resources	$165,757
O	ConocoPhillips	$971,918
O	Continental Resources	$488,649
O	Coterra	$90,903
O	Denbury Resources	$27,916
O	Devon Energy	$147,050
O	Diamondback Energy	$112,970
O	Energean	$150,481
O	EOG Resources	$319,402
O	EQT	$414,352
O	ExxonMobil	$2,069,174
C	FirstEnergy	$100,505
O	Gulfport Energy	$163,452
O	Hess	$801,634
O	Laredo Petroleum	$20,625
O	Marathon Oil	$343,850
O	Matador Resources	$313,622
O	MEG Energy	$32,915
C/O	Mitsui	$1,676,302
O	Murphy Oil	$547,751
O	National Fuel Gas	$21,623
O	Northern Oil & Gas	$627,123
O	Ovintiv	$275,425
O	Oxy	$1,301,723
O	PDC Energy	$264,428
O	Petrobras	$92,958
C	PGE	$1,426,010
O	Pioneer Natural Resources	$228,934
O	Range Resources	$364,410
O	SM Energy	$219,613
C	Southern Copper	$28,983
O	Southwestern Energy	$161,402
O	Vermilion Energy	$46,084
	Total CRHBT Carbon 200	**$17,816,020**

Total Oil	$14,285,385	80.18%
Total Coal	$1,854,333	10.41%
Total Coal/Oil	$1,676,302	9.41%
Total	**$17,816,020**	**100.00%**

Increase from 9/30/2022	**$2,805,678**

CRHBT Portfolio Size	**$1,635,388,462**
Carbon 200 % of Portfolio	**1.09%**

Total Fixed Income	$7,683,652	43.13%
Total Equity	$10,132,369	56.87%
Total	**$17,816,020**	**100.00%**