

New Jersey State Investment Council

May 29, 2019 Regular Meeting

Minutes of the Regular Meeting

Held May 29, 2019 at the Trenton War Memorial, George Washington Ballroom, 1 Memorial Drive, Trenton, New Jersey.

Council Members in Attendance:

Adam Liebttag, Acting Chair

Theodore Aronson

Thomas Bruno

Michael Cleary

Vaughn Crowe

Michael Greaney

James Hanson

James Kompany

Timothy McGuckin

Deepak Raj

Eric Richard

Edward Yarusinsky

Samir Pandiri was not in attendance.

Roll Call and Meeting Notice

The meeting was called to order by Adam Liebttag, Acting Chair, at 10:05 a.m. Ernestine Jones-Booker, Council Secretary, performed roll call and reported that a quorum was present. Ms. Jones-Booker announced that notice of the regular meeting scheduled for May 29, 2019 was posted on the public website of the Division of Investment (Division); faxed to the Times of Trenton, the Bergen Record, and the Courier Post; and e-mailed to the Secretary of State on April 30, 2019. A copy of the notice was posted at the Division and is on file.

Opening Remarks by Acting Chair

Mr. Liebttag welcomed Edward Yarusinski as the new Council representative of the Teachers' Pension and Annuity Fund. Mr. Liebttag also welcomed Theodore Aronson and Deepak Raj as new members of the Council, and announced the reappointment to the Council of James Hanson.

Minutes of the Regular Meeting Held March 27, 2019

Mr. Liebttag made a motion to approve the minutes of the regular meeting held on March 27, 2019, with Mr. Hanson seconding the motion. All Council Members present voted in favor of the motion.

Report from the State Treasurer

Assistant Treasurer Dini Ajmani welcomed Mr. Aronson and Mr. Raj to the State Investment Council, describing each member's experience and expertise. Ms. Ajmani provided an update on the State's revenues.

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Audit Committee Verbal Report on Fiscal Year 2018 Audit

Timothy McGuckin reported that the Audit Committee, comprised of Mr. Hanson, Mr. Greaney, Mr. Cleary and himself, met with the KPMG audit team, who completed the audit of the financial statements of the Division of Pensions and Benefits and issued an unmodified report. There were no management letter comments with respect to the Division of Investment.

Director's Report/Updates

Director Corey Amon of the Division discussed pension fund performance, provided a capital markets update, described changes in sector allocation, and spoke about recent legislation.

Amendment to Environmental, Social and Governance (ESG) Policy - Exhibit C

Mr. Liebtag introduced for Council consideration a proposed amendment to the Council's Environmental, Social and Governance (ESG) Policy that would specifically reference fair wages and benefits as an ESG factor and require the Division to consider whether a fund manager has adopted a responsible contractor policy when reviewing certain real estate, real asset and infrastructure investments. Mr. Aronson made a motion to adopt the amendment as presented, with Mr. Raj seconding the motion. On a roll call vote, all members of the Council present voted in favor of the motion, except Eric Richard who abstained due to a potential conflict of interest.

Amendment to State Investment Council Bylaws - Exhibit B

Mr. Liebtag introduced for Council consideration a proposed amendment to the Council's bylaws that would set parameters regarding public attendance at committee meetings. Mr. Liebtag made a motion to adopt the amendment as presented, with Thomas Bruno seconding the motion. On a roll call vote, all members of the Council present voted in favor of the motion.

Adoption of State Investment Council Regulation Amendments to N.J.A.C. 17:16-1 - Exhibit A

Susan Sarnowski of the Division presented for adoption amendments to the Council's regulations that would implement the provisions of P.L. 2018, c. 55 and amend provisions governing investments in certificates of deposit. Ms. Sarnowski noted that the proposed amendments were published in the New Jersey Register for public comment, and no comments were received. Mr. Liebtag made a motion to adopt the attached resolution approving the amendments, which motion was seconded by Mr. Aronson. On a roll call vote, all members of the Council present voted in favor of the motion.

Asset Allocation Recommendation - Exhibit D

Mr. Amon presented the adoption the Division's asset allocation recommendation along with Jeff Warshauer of the Division and consultants Steve Nesbitt of Cliffwater, Raneen Jalajel of Aon Hewitt, Michelle Davidson of TorreyCove, and Sean Barber of Hamilton Lane. Mr. Amon summarized the process for developing the asset allocation plan, discussed capital market assumptions, and noted changes in the proposed plan. Kristen Doyle of Aon Hewitt provided an overview of Aon Hewitt's asset-liability study and its relation to the asset allocation recommendation.

Mr. Amon and Ms. Jalajel discussed the Division's recommendation regarding the allocation to public equity. In response to questions from Mr. Aronson, Mr. Raj and Mr. Bruno, Mr. Amon described the relative earnings expectations for emerging and developed non-U.S. markets relative to the U.S. market and addressed concerns regarding automation and income inequality. Ms. Jalajel further discussed the factors considered in determining the recommended allocation

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between U.S. and non-U.S. public equity. Mr. Amon and Ms. Davidson discussed the Division's recommendation regarding the allocation to private equity. In response to questions from Mr. Raj, Mr. Liebttag and Vaughn Crowe, Mr. Amon and Ms. Davidson spoke about relative valuations of public and private equity, subsector allocation, and the use of emerging managers. Mr. Amon, Mr. Barber and Mr. Nesbitt described the Division's recommendation regarding the allocation to real estate and real assets, including opportunities in infrastructure, and risk mitigation strategies. In response to a question from Ms. Ajmani, Mr. Nesbitt discussed the use of futures as a risk mitigation strategy.

Mr. Amon and Mr. Warshauer discussed fossil fuel investments and actions that could be taken to mitigate climate-related business risk, including engagement initiatives. In response to questions from Mr. Aronson and Mr. Liebttag, Mr. Warshauer described the Division's process for engagement and advocacy.

Mr. Amon and Ms. Doyle summarized the Division's asset allocation recommendations and changes to the policy benchmark effective October 1, 2019. In response to a question from Mr. Raj regarding the Division's risk analysis, Mr. Amon briefly described Aon Hewitt's asset modeling process and further informed the Council of the Division's plans to procure a fully-integrated risk system. Mr. Richard and Mr. Bruno thanked the Division and Chair for their work on the asset allocation plan and positively noted the proposed reduction in the allocation to hedge funds.

Mr. Liebttag made a motion to adopt the asset allocation investment plan as presented to the Council, which motion was seconded by Mr. Aronson. On a roll call vote, all members of the Council present voted in favor of the motion. Mr. Liebttag made a motion to adopt the recommended policy benchmark as presented to the Council, which motion was seconded by Mr. Aronson. On a roll call vote, all members of the Council present voted in favor of the motion.

Renewable Energy Overview

Ms. Davidson and Matthew Coyne of TorreyCove presented an analysis on investment opportunities in renewable energy. In response to questions from Mr. Liebttag and Mr. Raj, Ms. Davidson discussed the historical performance of funds focused on renewable energy and the effect of public subsidies on this performance.

Public Comment

Tina Weishaus and Barbara Pal of the Divest New Jersey Coalition, and Gregory Gorman, Conservation Chair of the NJ Sierra Club, spoke about the risk of investing in fossil fuels.

Mr. Aronson departed the meeting at the time.

Private Equity Investment

Warburg Pincus China-Southeast Asia II, L.P.

Robin Clifford of the Division and Ms. Davidson presented an investment of up to \$100 million in Warburg Pincus China-Southeast Asia II, L.P., a growth equity fund focusing on companies in China and Southeast Asia. Ms. Clifford described the fund manager's performance and track record, its team of investment professionals, and its ESG policy. Ms. Clifford also summarized the fund's investment strategy and key economic terms. Mr. Liebttag reported that the IPC had extensively reviewed the investment and recommended presentation to the Council.

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Executive Session

Mr. Liebtag made a motion to adopt the following resolution:

RESOLUTION TO GO INTO CLOSED SESSION TO DISCUSS MATTER INVOLVING THE INVESTMENT OF PUBLIC FUNDS WHERE DISCLOSURE OF DISCUSSION OF THE MATTER COULD ADVERSLEY AFFECT THE PUBLIC INTEREST

BE IT RESOLVED THAT the State Investment Council go into closed (executive) session under the Open Public Meetings Act to discuss a matter involving investments of public funds where disclosure of the discussion could adversely affect the public interest.

The minutes of such closed (executive) session shall remain confidential until after such time as the Council determines that the need for confidentiality no longer exists and the matters discussed can be disclosed.

The motion was seconded by Mr. Greaney, and all Council members in attendance voted in favor.

Vaughn Crowe, Deepak Raj, and Eric Richard departed the meeting at this time.

The Council then entered into closed (executive) session.

Adjournment

Upon the Council's return from closed (executive) session, Mr. Liebtag made a motion to adjourn the meeting, with Mr. Cleary seconding the motion. All Council members present voted in favor. The meeting was adjourned at 1:52 p.m.

**Resolution Adopting Amendments
to N.J.A.C. 17:16-1 (General Provisions), 3 (Classification of Funds), 5
(Securities Lending Transactions), 23 (Global Diversified Credit
Investments), 32 (Certificates of Deposit), 48 (Global Equity Investments
(Pension and Annuity Funds)), 61 (State of New Jersey Cash Management
Fund), 69 (Common Pension Funds), 71 (Real Assets), 81 (Foreign
Currency Transactions), 90 (Private Equity), 95 (Opportunistic Investments)
and 100 (Absolute Return Strategy Investments)**

BE IT RESOLVED THAT:

The State Investment Council (the "Council") hereby adopts amendments to N.J.A.C. 17:16-1 (General Provisions), 3 (Classification of Funds), 5 (Securities Lending Transactions), 23 (Global Diversified Credit Investments), 32 (Certificates of Deposit), 48 (Global Equity Investments (Pension and Annuity Funds)), 61 (State of New Jersey Cash Management Fund), 69 (Common Pension Funds), 71 (Real Assets), 81 (Foreign Currency Transactions), 90 (Private Equity), 95 (Opportunistic Investments) and 100 (Absolute Return Strategy Investments) as attached hereto.

The Council hereby authorizes the Director of the Division of Investment to submit the attached notices of adoption to the Office of Administrative Law for publication, and hereby delegates to staff of the Council and the Division of Investment the authority to make revisions to the notices of adoption as required and as shall be made upon the advice of the Attorney General.

This resolution shall take effect immediately.

DATED: May 29, 2019



State of New Jersey

PHILIP D. MURPHY
Governor

SHEILA Y. OLIVER
Lt. Governor

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ELIZABETH MAHER MUOIO
State Treasurer

COREY AMON
Director

May 24, 2019

MEMORANDUM TO: State Investment Council

FROM: Corey Amon
Director

SUBJECT: **Proposed Amendment to State Investment Council Bylaws**

The Division of Investment (the "Division") is proposing an amendment to the State Investment Council bylaws in order to set forth parameters regarding public attendance at committee meetings. Committee meetings are not subject to the Open Public Meetings Act and are generally a forum for internal discussion with staff, consultants and Council members. Recently, matters have arisen before the Investment Policy Committee and ESG Committee where the input of certain members of the public was deemed necessary to inform the recommendations of the respective committees. Such attendance is neither authorized nor prohibited under the current bylaws.

The proposed new Section 7 of Article V of the bylaws would expressly authorize members of the public to attend and provide input or information at committee meetings at the invitation of the committee or its chair. The Section provides that such member of the public shall not have access to non-public information or documents and shall not be present during committee deliberations. Any attendance by a member of the public would be reported to the Council at its next meeting.

We look forward to discussing the proposed amendment at the State Investment Council May 29, 2019 meeting.

Attachment

STATE OF NEW JERSEY
STATE INVESTMENT COUNCIL

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Preamble

We, the members of the State Investment Council, created pursuant to Chapter 270 of the Session Laws of 1950, do hereby adopt the following:

Article I

General

Section 1. Name of Council. The name of the Council shall be the “State Investment Council” (the “Council”).

Section 2. Purpose. The Council is established in the Division of Investment and shall exercise the powers and duties set forth by statute, including the formulation and establishment of policies governing the methods, practices or procedures for investment, reinvestment, purchase, sale or exchange transactions to be followed by the Director of the Division of Investment consistent with his fiduciary duties as set forth by statute.

Section 3. Principal Office. The principal office of the Council shall be located at 50 West State Street, 9th Floor, in the City of Trenton, State of New Jersey. All communication to the Council should be addressed to its principal office except as may be otherwise specified.

Article II

Council members

Section 1. Members and Composition. The membership of the Council is as prescribed in Section 5 of Chapter 270 of the Session Laws of 1950, as amended. The Council shall consist of 16 members.

Section 2. Appointment.

(a) Each of the following agencies, namely, the Board of Trustees of the Public Employees’ Retirement System, the Board of Trustees of the Teachers’ Pension and Annuity Fund, and the Board of Trustees of the Police and Firemen’s Retirement System of New Jersey, shall designate one board member elected to serve on the board to serve as a member of the Council.

(b) Eight members of the Council shall be appointed by the Governor with the advice and consent of the Senate.

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(c) One member of the Council shall be appointed by the Governor from among three persons nominated jointly by the President of the Senate and the Speaker of the General Assembly.

(d) Two members of the Council shall be appointed by the Governor from among six persons nominated by the Public Employee Committee of the New Jersey State AFL-CIO.

(e) One member of the Council shall be appointed by the Governor from among three persons nominated by the New Jersey Education Association.

(f) One member of the Council shall be appointed by the Governor from among three persons nominated by the State Troopers Fraternal Association.

Section 3. Qualifications.

(a) The four members appointed pursuant to Sections 2(d), 2(e) and 2(f) above shall be qualified by training and experience in the direct management, analysis, supervision or investment of assets, and this training, experience or long-term interest shall have been supplemented by academic training in the fields of economics, business, law, finance or actuarial science or by actual employment in those fields.

(b) At least seven of the nine members appointed pursuant to Sections 2(b) and 2(c) above shall be qualified by training and experience in the direct management, analysis, supervision or investment of assets, which training and experience shall have been acquired through academic training or through actual employment in those fields.

(c) At least one of the two members appointed pursuant to Section 2(d) above shall be a member of a union representing police officers or firefighters.

(d) No member of the Council shall hold any office, position or employment in any political party.

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Section 4. Terms of Office.

(a) The three members designated pursuant to Section 2(a) above shall serve as members for a period of three years from the date of their designation and until their respective successors are in like manner designated.

(b) The eleven members appointed pursuant to Sections 2(b), 2(c) and 2(d) above shall serve as members for a term of five years and until their respective successors are appointed and have qualified. Of the two initial members appointed pursuant to Section 2(b) above following the effective date of P.L. 2011, c.78, one shall serve for an initial period of three years and one shall serve for an initial period of two years.

(c) The two members appointed pursuant to Sections 2(e) and 2(f) above shall serve as members for a term of three years and until their respective successors are appointed and have qualified.

Section 5. Compensation; Financial Interests.

(a) Members shall serve without compensation but shall be reimbursed for necessary expenses incurred in the performance of their duties as approved by the Chair of the Council.

(b) No member shall benefit directly or indirectly from any transaction made by the Director of the Division of Investment.

(c) Members shall be required to file the same annual financial disclosure statements as those required to be filed by members of other State boards and commissions who are not compensated for their services, as such statements shall be required by law or executive order of the Governor.

Section 6. Removal; Vacancies

(a) Each member, except the member appointed pursuant to Section 2(c) above, may be removed from office by the Governor, for cause, upon notice and opportunity to be heard at a public hearing.

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(b) Any vacancy in the membership of the Council occurring other than by expiration of term shall be filled in the same manner as the original appointment, but for the unexpired term only.

Article III

Meetings

Section 1. Regular Meetings. No less than six (6) regular meetings per calendar year shall be held by the Council, on the dates and at the times and places so designated by the Chair of the Council. All members of the Council shall be notified by the Secretary of the Council of the date, time and place of the meeting. The proposed schedule will be provided to all members on or before the commencement of the calendar year. The Chair may postpone or cancel any regular meeting when the same shall seem unnecessary or when there would be a lack of a quorum.

Section 2. Special Meetings. Special or emergency meetings may be called by resolution of the Council, or by the Chair or five or more Council members.

Section 3. Annual Meeting. The Council shall hold an annual meeting each year that shall be open to the public and shall accept comments from the public at such meeting. The annual meeting shall be held on the same day as the first regular meeting of the calendar year. The matters that shall be open to discussion and public comment during this annual meeting shall include the investment policies and strategies of the Council, the investment activities of the Council, the financial disclosure statements filed by Council members, as well as other appropriate matters concerning the operations, activities and reports of the Council.

Section 4. Open Public Meetings Act. All meetings of the Council shall be scheduled, noticed and conducted in accordance with the Open Public Meetings Act, N.J.S.A. 10:4-6 et seq.

Section 5. Quorum. The presence of a majority of the members of the Council serving on the Council at the time of the meeting will be necessary to constitute a quorum for the purpose of conducting Council business.

Article IV

Officers

Section 1. Chair. The members of the Council shall elect annually from their number a Chair of the Council. The Chair shall serve for a term of one year and until his or her successor is, in like manner, elected. Among the duties of the Chair is to preside at all meetings of the Council and

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exercise general supervision over the affairs of the Council. In the absence of the Chair from any meeting, the Vice Chair shall serve as Chair.

Section 2. Vice Chair. The members of the Council shall elect annually from their number a Vice Chair of the Council. The Vice Chair shall serve for a term of one year and until his or her successor is, in like manner, elected. The duty of the Vice Chair is to assume all of the duties of the Chair at such time as the Chair has resigned, is absent or is incapacitated. In the absence of the Chair and Vice Chair from any meeting, the Council shall elect from their number a Chair *pro tempore*.

Section 3. Secretary. The Council shall appoint a Secretary who will serve at the pleasure of the Council in a permanent capacity until replacement or resignation. The Secretary will keep the minutes of the meetings of the Council; keep a record of the name, residence and business address of each member; advise members of all filing requirements and necessary certifications; keep a record of the terms of office of each member; attend to the service of all meetings and perform such other duties as may be required of the office including assisting the Director of the Division of Investment in the preparation of reports to the Council members.

Article V

Committees

Section 1. Executive Committee. The Executive Committee shall consist of the Chair, Vice Chair and three other members of the Council appointed by the Chair. The Executive Committee shall be authorized to study, investigate, report and make recommendations in respect of any matter within the jurisdiction of the Council, including any specific matter referred to such committee by the Council. A quorum of the Executive Committee shall consist of three members of the committee and must include either the Chair or Vice Chair. The Executive Committee shall report its findings to the Council.

Section 2. Nominating Committee. The Nominating Committee shall consist of three members elected by the Council on or around July of each year, except that neither the Chair nor the Vice Chair shall serve on the Nominating Committee. The Nominating Committee shall confer and agree upon nominations for the Chair and Vice Chair to be recommended to the full Council. The election of the Chair and Vice Chair shall occur at the first regular meeting after the Nominating Committee is elected. Nothing herein shall preclude any Council member from submitting additional nominations for such positions to the Council at such meeting.

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Section 3. Audit Committee. The Audit Committee shall be authorized to oversee the financial reporting and audit of the Division. The Chair shall select the members of the Audit Committee in accordance with all applicable statutes and regulations, which include, but are not limited to, the applicable requirements of Governor McGreevey's Executive Order #122.

Section 4. Investment Policy Committee. The Investment Policy Committee shall be authorized to study, investigate, report, make recommendations and provide oversight with respect to matters of investment policy. The Committee shall be chosen by the Chair and shall consist of the Chair and up to five additional members of the Council.

Section 5. Environmental, Social and Governance Policy Committee. The Environmental, Social and Governance Policy Committee shall be authorized to study, investigate, report and make recommendations with respect to matters of environmental, social and governance policy. The Committee shall be chosen by the Chair and shall consist of the Chair and up to five additional members of the Council.

Section 6. Other Committees. The Chair may create additional committees as deemed appropriate. Members of these ad hoc committees shall be selected by the Chair.

Section 7. Committee Meetings. Committee meetings are not required to be scheduled, noticed or conducted in accordance with the Open Public Meetings Act, N.J.S.A. 10:4-6 et seq. absent the presence of a majority of the members of the Council serving on the Council at the time of the committee meeting. Members of the public (other than Division employees, attorneys, advisers, auditors and consultants) may attend and provide input or information at committee meetings solely at the invitation of the committee chair or a majority of the committee, shall not be present during committee deliberations and shall not have access to non-public information or documents. The Council shall be notified at the next Council meeting of any such attendance by a member of the public.

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Article VI

Amendments and Conflicts

Section 1. Amendment of Bylaws. These bylaws may be amended by majority vote of the Council at any regular or special meeting, provided that notice of the proposed alterations or amendments has been given to the members of the Council at least five days prior to the meeting.

Section 2. Inconsistency with Statute. To the extent that any provision of these bylaws is inconsistent with the requirements of any applicable statute governing the Council, the requirements of the statute shall prevail.

Revised 5/23/18



Exhibit C

State of New Jersey

PHILIP D. MURPHY
Governor

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ELIZABETH MAHER MUOIO
State Treasurer

SHEILA Y. OLIVER
Lt. Governor

COREY AMON
Director

May 24, 2019

MEMORANDUM TO: State Investment Council

FROM: Corey Amon
Director

SUBJECT: **Proposed Amendments to Environmental, Social and Governance (ESG) Policy**

At its meeting on April 17, 2019, the Environmental, Social and Governance (ESG) Committee proposed amendments to the ESG Policy adopted by the State Investment Council (the "Council") in September 2018. A draft of the ESG Policy showing the committee's proposed changes is attached.

The purpose of the amendments are to clarify that ESG factors include fair wages and benefits (Section 1 of the ESG Policy) and to require the Division of Investment (the "Division") to include in its analysis of alternative investments in real estate, real assets or infrastructure whether the fund manager has adopted a responsible contractor policy governing the selection of contractors and subcontractors (Section 4 of the ESG Policy). The amendments are intended to address concerns raised in Senate Bill SB 2663, which was vetoed by Governor Murphy in February 2019. In his veto message, Governor Murphy encouraged the Division and the Council to amend the ESG Policy to more specifically address responsible contractor policies. Brandon Rees, Acting Director of the AFL-CIO Office of Investment, attended the ESG Committee meeting at the invitation of the Chair and provided an overview of responsible contractor legislation that has been adopted in various jurisdictions.

We look forward to discussing the proposed amendments at the Council's May 29, 2019 meeting.

Attachment

STATE OF NEW JERSEY
DEPARTMENT OF THE TREASURY
DIVISION OF INVESTMENT

Common Pension Funds
**ENVIRONMENTAL, SOCIAL, AND
GOVERNANCE POLICY**

Adopted by the State Investment Council: September 27, 2018

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1. Introduction and Statement of Purpose

The State Investment Council (the “Council”), as part of its oversight of the Division of Investment (the “DOI”), has adopted this *Environmental, Social and Governance Policy* (“ESG Policy”) to establish policies and procedures for the incorporation of environmental, social and governance (“ESG”) analysis into the process applied by the Director of the DOI (the “Director”), the DOI staff, and the Council in connection with the investment and evaluation of the Pension Funds’ assets.

ESG considerations may encompass a wide range of factors including, but not limited to, carbon gas emissions; fossil fuel dependence; climate change; water issues; clean and renewable energy; workforce diversity; fair trade; human rights; **fair wages and benefits**; working conditions; reporting transparency; executive compensation; equitability of compensation; board accountability and composition; director independence; shareholder rights; auditor independence; voting practices; and accounting practices and policies.

2. Economic Materiality of ESG Considerations; Consistency with Fiduciary Duties

In investing and managing the assets of the Pension Funds, the Director and the DOI should undertake an ESG analysis to identify and consider ESG factors that present material business risks or opportunities to companies in which the DOI has invested or may invest Pension Fund assets, giving weight to such factors as is appropriate to the relative level of risk and return involved compared to other relevant economic factors.

This ESG Policy and its implementation shall be subject at all times to applicable law and to the fiduciary duties of the Council, the DOI and the Director, including without limitation the duty to manage and invest the portfolio solely in the interest of beneficiaries and for the exclusive benefit of providing financial benefits to the beneficiaries of the portfolio.

3. ESG Principles

In adopting this ESG Policy, the Council recognizes that ESG considerations may have important implications in investment decision-making. The Council believes that the identification and analysis of the economic materiality of ESG factors (e.g., business, financial, and legal risks and opportunities identified through ESG analysis) may improve investment returns and reduce risk. The Council recognizes that investments that can demonstrate measurable positive ESG-related outcomes may also provide for improved investment returns with reduced risk. Therefore, consistent with the DOI’s fiduciary responsibility, this ESG Policy is intended to enhance long-term risk-adjusted returns.

4. Incorporation of ESG Policy into Investment Decision-Making

ESG considerations should be integrated into all asset classes, with the ESG approach undertaken for any given investment determined by the relevant investment strategy of the DOI. In general, different ESG approaches are undertaken for actively versus passively managed strategies, for the Alternative Investment Program (“AIP”), and for external investment advisers.

Active versus Passive

For actively managed investments, ESG issues may be considered in the evaluation of the economic risk and return characteristics impacting the valuation of an investment. As part of its ongoing research efforts, the DOI should evaluate the commercial and financial implications of ESG issues to both identify and, once identified, mitigate ESG factors that present material risks to the portfolio and to identify material ESG-related value added opportunities. Accordingly, ESG issues that are identified as having material economic impact may be considered along with other factors in determinations regarding purchases, sales, and retention of actively managed securities.

The DOI should undertake to utilize a wide array of sources in its identification and analyses of ESG issues for actively managed holdings including, but not limited to, public filings, industry conferences, third party research reports, and third party ESG data providers.

For passively managed investments, a holding may be owned due to its inclusion in a particular index. Accordingly, a formal evaluation of ESG factors and the related risks and opportunities need not be undertaken for passively managed investments, but ESG factors may be considered in a manner consistent with this ESG Policy.

It is important to note that investment in a security of a company (whether or not the security is held in a passively or actively managed portfolio) does not signify endorsement of the company’s practices or its products.

Alternative Investment Program

For the Alternative Investment Program, the DOI should incorporate a comprehensive analysis of the underlying fund manager’s overall ESG approach as part of the DOI’s due diligence and monitoring processes, including an evaluation of the fund manager’s ESG policy. To the extent appropriate, the DOI should utilize the Institutional Limited Partners Association (ILPA) due diligence questionnaire template for ESG or another substantially similar ESG due diligence template as part of its own due diligence process.

The DOI should include an analysis of ESG factors in all Due Diligence Memoranda presented to the Investment Policy Committee and a summary report on the ESG analysis in all memoranda presented to the Council in connection with proposed alternative investments.

With respect to alternative investments in real estate, real assets and infrastructure, DOI shall include in its analysis whether the fund manager has adopted a responsible contractor policy governing the selection of contractors and subcontractors that pay fair wages and fair benefits to their workers based on relevant market factors that include the nature and location of the project, comparable job or trade classifications, and the scope and complexity of the services provided.

Investment Advisers

The DOI engages investment advisers in accordance with the Council's *Investment Procurement Procedures for Investment Advisers, Investment Consultants, and Securities Lending Agents*. The Request for Proposals process outlined in those procedures to procure investment advisers should incorporate a comprehensive analysis of the advisers' approach to ESG.

5. Engagement as an Approach to ESG Issues

Pension Fund investments have a long-term horizon. The Council believes that effective ESG policies may enhance the value of a company over the long term. Conversely, failure to account for ESG issues may detract from a company's value over the long term.

Under certain circumstances, and as part of the investment analysis process, the DOI may recognize the benefits of long-term value creation via an engagement process with companies in which the Pension Fund retains beneficial interest to encourage more effective ESG policies. The DOI's Corporate Governance Officer (the "CGO"), in consultation with the Council's ESG Committee ("ESG Committee"), is responsible for the identification, evaluation, and, if appropriate, recommendation of engagement activities for the Director's consideration. Engagement activities may include, but are not limited to, written correspondence, conference calls, in-person meetings, proxy voting, shareholder initiatives, and initiatives in coordination with other investors. Engagement activities may be undertaken where it is determined by the Director, independently or in consultation with the Council, that such activities are likely to enhance the value of the investment in the company, after taking into account the costs involved.

The Council recognizes that the Director's determination as to the actions to be taken during, and as a result of, an engagement process will be based upon prevailing and changing circumstances and, therefore, will be both iterative and indeterminate in advance. In all cases, and at any point during an engagement process, investment decisions, including without limitation decisions regarding the purchases, sales, retention and divestment of actively managed securities, shall be subject to the fiduciary duties of the Council, the Director and the DOI.

Engagement activities shall not be undertaken merely to impact a standard of social behavior, to the extent such behavior has no material impact on the financial performance or stability of an investment. Similarly, engagement activities shall not be undertaken merely to establish an environmental standard if such a standard has no material impact on the financial performance of an investment. Instead, engagement activities should be undertaken solely with the purpose of enhancing financial value for the beneficiaries of the Pension Funds. Under all circumstances, any engagement activity undertaken by the DOI must be consistent with the fiduciary duties of the Director and the DOI.

From time to time, various third parties may express opinions regarding engagement actions that should be taken by the DOI or the Council. The Council recognizes that ESG issues are complex and cover a wide range of subject matter and, therefore, information provided by third parties can be beneficial. In order to facilitate such communication, the DOI should establish an electronic process to allow third parties to bring ESG concerns to the attention of the Council and the DOI.

6. Incorporation of ESG Issues Into Proxy Voting Policy

For all publicly traded investments, the DOI exercises its proxy voting rights in accordance with the Council's *Proxy Voting Policy*. The DOI should incorporate ESG considerations into its proxy voting process for both actively and passively managed publicly traded investments.

The DOI, in consultation with the ESG Committee, shall propose changes to the Council's *Proxy Voting Policy* with respect to ESG considerations, as deemed appropriate. As noted above, adoption of this *ESG Policy* recognizes that ESG considerations that present material business risks or opportunities have important implications on investment decision-making. ESG-related proxy voting guidelines shall at all times be subject to the fiduciary duties of the Council, the Director and the DOI and aligned with the best long-term financial interests of the Pension Fund's beneficiaries.

The ESG Committee and the Council shall review the Council's *Proxy Voting Policy* with respect to ESG considerations at least every three years and the Council may make such changes recommended by the ESG Committee as the Council deems necessary or appropriate.

7. Roles and Responsibilities

Director of the Division of Investment

In implementing this *ESG Policy*, the Director may take any and all of the following actions, to the extent applicable and deemed appropriate by the Director, subject to his or her fiduciary duties:

- consult with the Council, the ESG Committee and the CGO with respect to ESG issues
- receive and review reports and recommendations of, and oversee the work of, the CGO
- recommend policies and strategies to the Council and the ESG Committee as needed
- oversee the retention of third-party proxy voting and ESG scoring service(s) to support the DOI's efforts regarding ESG issues
- oversee the implementation of ESG-related proxy voting guidelines
- review ESG-related engagement activities recommended by the CGO and determine whether and how such engagement activities will be implemented
- keep the Council informed of the DOI's ESG-related engagement activities

Corporate Governance Officer

The primary responsibilities of the CGO in implementing this *ESG Policy* may include the following, to the extent applicable and subject to the DOI's fiduciary duties:

- consult with the Director, the Council and the ESG Committee with respect to ESG issues
- monitor and report to the Director regarding the incorporation of this ESG Policy into the DOI's investment decision making process
- monitor and report to the Director regarding implementation of the DOI's ESG due diligence process for the Alternative Investment Program and monitor fund managers' application of their respective ESG policies
- monitor and report to the Director regarding ESG-related proxy voting issues
- identify, evaluate, and recommend ESG-related engagement activities for the Director's consideration
- identify, evaluate and recommend ESG-related proxy voting guidelines for the Director's consideration

ESG Committee

The ESG Committee acts in an advisory capacity in providing recommendations to the Council regarding ESG-related issues consistent with its fiduciary duties. Primary responsibilities of the ESG Committee include the following:

- consult with the Director, the CGO, and the Council with respect to ESG-related issues and implementation of this *ESG Policy*
- provide consultation to the DOI regarding ESG-related engagement activities
- evaluate ESG-related strategy and policy recommendations for the Council's consideration
- review the Council's *Proxy Voting Policy* and this *ESG Policy* after one year of the approval date of this policy and at least every three years, and recommend changes to the Council as deemed necessary

STATE INVESTMENT COUNCIL MEETING

Asset Allocation Recommendation

May 29, 2019

Asset Allocation Recommendation

Asset Class	Current Targeted Asset Allocation	Asset Allocation Recommendation	Benchmark Recommendation
GLOBAL GROWTH	58.25%	59.00%	
U.S. Equity	30.00%	28.00%	S&P 1500
Non-U.S. DM Equity	11.50%	12.50%	MSCI EAFE + Canada (ex-prohibited)
Emerging Market Equity	6.50%	6.50%	MSCI Emerging Markets (ex-prohibited)
Private Equity	10.25%	12.00%	Cambridge Associates Buyouts, Growth, Distressed for Control, Subordinated Debt and Credit (one-quarter lag)
REAL RETURN	9.75%	10.00%	
Real Estate	7.25%	7.50%	NCREIF ODCE (one-quarter lag)
Real Assets	2.50%	2.50%	Cambridge Private Equity Energy, Upstream Energy & Royalties & Infrastructure, Timber (one-quarter lag)
INCOME	18.50%	18.00%	
High Yield	2.50%	2.00%	Bloomberg Barclays U.S. High Yield 2% Issuer Cap Index
Private Credit	6.00%	6.00%	Bloomberg Barclays U.S. Corp High Yield Index (one-month lag) + 100 bps
Investment Grade Credit	10.00%	10.00%	Bloomberg Barclays U.S. Credit Index, A or better
DEFENSIVE	13.50%	13.00%	
Cash Equivalents	5.50%	5.00%	91-day T-Bills
US Treasuries	3.00%	5.00%	Bloomberg Barclays U.S. Treasury Index
Risk Mitigation Strategies	5.00%	3.00%	91-day T-Bills +300 bps
Expected Return	6.72%	6.78%	
Risk	11.78%	11.89%	
Sharpe	0.401	0.402	