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