

DISTRICT OF COLUMBIA RETIREMENT BOARD

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE POLICY STATEMENT

November 2013

I. Purpose

This document sets forth the District of Columbia Retirement Board's (the "DCRB") policy regarding evaluating opportunities for the purpose of achieving certain environmental (climate change, industrial waste, sustainability), social (diversity, human rights, animal rights), and governance (management structure, employee relations) ("ESG") goals that do not appear to be primarily investment-related ("ESG Initiatives").

The Board of Trustees may choose to consider ESG Initiatives, provided they are consistent with our obligations to the participants and beneficiaries of the District of Columbia Teachers' Retirement Plan and the District of Columbia Firefighters and Police Officers' Retirement Plan and with the standard of care established by the prudent investor rule. In cases where the investment characteristics, including return, risk, liquidity, and compliance with the Asset Allocation Policy are appropriate, the Board of Trustees may consider ESG Initiatives that have a substantial, direct and measurable benefit to the economic interests of the Retirement Fund.

II. Stakeholders

DCRB's stakeholders are its participants and beneficiaries as these stakeholders bear the economic consequences of the investment decisions of the Board of Trustees.

III. Qualification

From time-to-time, DCRB may be asked to make investment choices based on ESG Initiatives. DCRB's preferred means of responding to issues raised by employers, District of Columbia taxpayers or outside entities is engagement through proxy voting, provided the ESG Initiatives are consistent with our fiduciary duty.

In considering whether to engage on ESG Initiatives, the Board of Trustees will use the following prioritization framework:

- A. Principles and Policy – To what extent is the issue consistent with DCRB's fiduciary duty, Asset Allocation Policy and supported by the Investment Policy Statement?
- B. Materiality – Does the issue have the potential for a material impact on portfolio risk or return?
- C. Definition and Likelihood of Success – Is success likely, in that DCRB action will influence an outcome which can be measured? Can we partner with other plan sponsors to achieve success or would another plan sponsor be more suited to carry the issue?
- D. Capacity – Does DCRB have the expertise, resources and standing to influence an outcome?

IV. Evaluation Framework

The DCRB supports and prefers the use of constructive engagement to further ESG goals where possible and will be updating its Proxy Voting Policies for this purpose. DCRB, working collaboratively with other plan sponsors, can act responsibly through constructive engagement. This includes, but is not limited to, shareholder resolutions, shareholder sign-on letters, and supporting policy initiatives for transparency.

In weighing the merits of proposed ESG Initiatives, the Board of Trustees will use the following evaluation framework:

- A. Any ESG Initiative must add to or complement and not dilute or compromise the overall investment strategy. ESG Initiatives will be evaluated within the context of the Retirement Fund as a whole and not in isolation. The DCRB is a long-term investor that strives to maximize investment returns without undue risk of loss.
- B. The ESG Initiative must target risk-adjusted, market-rate returns and provide net returns equivalent to or higher than other available investments at commensurate levels of risk. Social benefits of the ESG Initiative will not justify lower risk adjusted returns or higher investment risk for the Retirement Fund or any asset class within the Retirement Fund portfolio.
- C. ESG Initiatives must not exceed a reasonable weighting in the Retirement Fund, or skew a reasonable weighting in the Retirement Fund as a result of investment in or divestment from any one investment strategy, sector or geographic location. ESG Initiatives should maintain the overall Retirement Fund's compliance with its asset allocation strategy. Social benefits of an ESG Initiative will not justify deviation from the Asset Allocation Policy adopted by the Board of Trustees.
- D. ESG Initiatives must be managed by qualified discretionary investment managers. The DCRB will not make any direct investments. Similarly, any divestment of Retirement Fund assets must be accomplished in a manner designed to minimize both transaction costs and realized losses.
- E. Any benefits of ESG Initiatives should be quantified, reviewed and monitored by the Board of Trustees, investment staff and consultants without inappropriate expenditure of time and resources. A review of both the investment performance and the collateral benefits will be undertaken for the purpose of determining whether the DCRB will maintain an ESG Initiative. The collateral benefits of an ESG Initiative shall be measured in terms of foregone return, transaction costs and monitoring costs, alongside the estimated return of the ESG Initiative.