



MainePERS ESG Task Force

Meeting Agenda, Minutes and Information

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ESG Task Force Foundation

Maine Public Employees Retirement System (MainePERS) began development of an Environmental, Social and Governance Policy in 2011. MainePERS engaged GMI Ratings to assist in the development of this policy and to provide an independent view of MainePERS existing ESG practices. The completion of this policy was delayed due to the complexity of the subject and need for staffing to support continued development.

Public interest in climate change during this period resulted in proposed legislation to require MainePERS to divest of certain fossil fuel holdings. This legislation was voted 'ought not to pass' in 2013. Following this vote and MainePERS testimony that an ESG policy was in development, with its concurrent challenges, Public Law 2013, Chapter 602, Part C "An Act to Implement the Recommendations Contained in the State Government Evaluation Act Review of the Maine Public Employees Retirement System" was passed to support completion and consideration by the MainePERS Trustees of an ESG policy. The text of the law is as follows:

Sec. C-1. Establishment of a task force. By September 1, 2014 the Executive Director of the Maine Public Employees Retirement System shall establish a task force, referred to in this section as "the task force," to further the system's work on corporate governance by completing an environmental, social and governance policy that includes, without limitation, securities and manager selections; monitoring and proxy voting; company engagement; and environmental, social and governance policies within investment policy for recommendation to, and consideration for approval by, the Board of Trustees of the Maine Public Employees Retirement System. The task force shall submit the recommended policy to the Board of Trustees of the Maine Public Employees Retirement System by December 1, 2014.

1. Task force membership. The task force must be composed of experts in the field of environmental, social and governance policy who do not have an actual, potential or apparent self-interest in the policy outcome. Members of the task force must collectively possess experience with creating investment policies that support the investment goals of public pension funds; an understanding of environmental, social and governance policy issues as they affect different components of the investment process, including, but not limited to, securities and manager selections, monitoring and proxy voting and company engagement; practical knowledge or experience implementing environmental, social and governance policies within investment policy; and an understanding of the fiduciary duties of public pension trustees. The task force must be composed of 7 members, with a majority of members residing in the State, and must include:

A. The Executive Director of the Maine Public Employees Retirement System, who serves as chair of the task force;

B. The chief investment officer of the Maine Public Employees Retirement System;

C. A member from the academic community with expertise in environmental, social and governance policies;

D. A member with a background in public pension, foundation or endowment administration and experience in implementing environmental, social and governance policies;

E. A member from a national organization representing institutional investors and pension funds; and

F. Two members chosen by the members of the task force named under paragraphs A to E.

2. Stakeholder involvement. The task force shall actively solicit stakeholder advisors to provide information relevant to environmental, social and governance policy issues and stakeholder interests and other technical information as required.

3. Staff assistance. The Maine Public Employees Retirement System within existing resources shall provide necessary staffing services to the task force.

4. Report. By January 15, 2015, the Executive Director of the Maine Public Employees Retirement System shall submit to the joint standing committee of the Legislature having jurisdiction over public employee retirement matters a report on the task force's recommendations to, and any resulting actions taken by, the Board of Trustees of the Maine Public Employees Retirement System.

Effective 90 days following adjournment of the 126th Legislature, Second Regular Session, unless otherwise indicated.

Task Force Members

MainePERS solicited suggestions for Task Force members from several interested stakeholders as well as individuals and organizations familiar with ESG policies and issues. Numerous highly qualified individuals that may have valuable input but simultaneously may have a potential or actual conflict of interest may be accessed by the Task Force as advisors. The following members were identified as consistent with the categories and with no or minimal actual, potential or apparent self-interest in the policy outcome. (Please see bios in Attachment A)

- ▲ Sandy Matheson, MainePERS Executive Director (Chair)
- ▲ Andrew Sawyer, MainePERS Chief Investment Officer
- ▲ Hon. John Brautigam, John R. Brautigam Esq. LLC, Falmouth, ME
- ▲ Hon. Richard A. Bennett, ValueEdge Advisors, Portland, ME
- ▲ Brian Rice, California State Teachers Retirement System
- ▲ Cynthia Simon, Independent ESG Integration Consultant
- ▲ Deborah Spalding, Deputy CIO, Connecticut Retirement System

Meeting 1- October 10, 2014

The first meeting of the Task Force consisted of the first five members listed identifying the remaining two at-large members without apparent actual, potential or apparent self-interest in the policy outcome.

Meeting 2 - October 31, 2014

Agenda:

- ▲ History of MainePERS, applicable law, and constructs of the investment program
- ▲ MainePERS current ESG practices
- ▲ MainePERS suggested approach to ESG policy
 - Task Force comments and recommendations
- ▲ MainePERS suggested principles for ESG policy
 - Task Force comments and recommendations
- ▲ Stakeholder interest in the Task Force

History of MainePERS

MainePERS was created in statute in 1942. Eight trustees are designated in statute to oversee the System. Trustees have the duty of prudent investors, the highest standard of fiduciary duty. They may fulfill this duty through their individual expertise or by hiring staff and consultants with fiduciary, actuarial, legal and accounting expertise.

Applicable Law

The Maine Constitution Article IX, Section 18, provides for the use of retirement trust funds:

Section 18. Limitation on use of funds of Maine State Retirement System. All of the assets, and proceeds or income therefrom, of the Maine State Retirement System or any successor system and all contributions and payments made to the system to provide for retirement and related benefits shall be held, invested or disbursed as in trust for the exclusive purpose of providing for such benefits and shall not be encumbered for, or diverted to, other purposes. Funds appropriated by the Legislature for the Maine State Retirement System are assets of the system and may not be diverted or de-appropriated by any subsequent action.

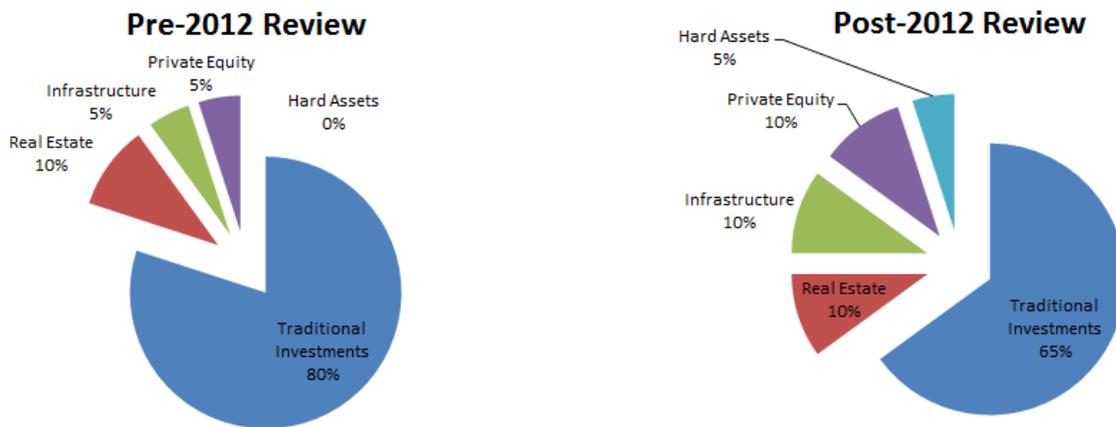
Investment Program Construction

MainePERS managed trust investments with a 2 person staff until 2009. Based on significant changes in asset allocation in 2008 to include alternative investments such as private equity and real estate, MainePERS hired 3 analysts to assist the Chief Investment Officer in moving toward the expanded

asset allocation. Simultaneously, a timeline for moving into new assets and a concurrent schedule for expanding the staff was created.

Consultants to the Board of Trustees for private markets and real estate were engaged in 2009 to assist in the transition and management of these asset classes. The Board also retained its general consultant for overall portfolio analysis and interface with the actuary.

Over the next five years, MainePERS continued to expand to the current staffing level of 11.5 FTEs. The asset allocation was reviewed in 2012, and modified to expand both the amount invested and the type of alternatives assets held in the portfolio.



MainePERS Investment Staff

Chief Investment Officer	1
Deputy Chief Investment Officer	1
Associate General Counsel	0.5
Managing Director, Alternatives	1
Deputy Managing Director, Alternatives	1
Senior Analyst, Alternatives	4
Investment Analyst, Alternatives	1
Investment Operations Analyst	2
Total	11.5

The Investment Team developed practices and procedures during these five formative years. Development of an ESG policy was initiated in 2012, but was not formalized. The role of Deputy CIO

was expanded in 2014 to include the documentation and maintenance of a formal set of investment policies and practices.

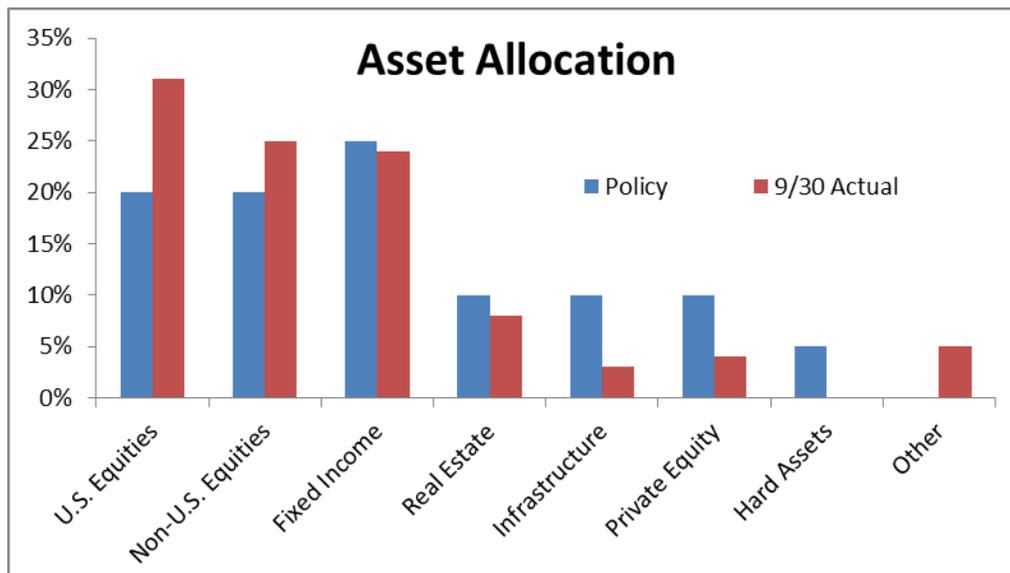
MainePERS uses a due diligence checklist for all private market investments. A sample template is in Attachment B.

MainePERS Current ESG Practices

MainePERS currently has no written ESG policy. The MainePERS Investment Team maintains an ESG awareness while completing due diligence on potential private market investments. Consistency and documentation of due diligence are provided via use of a detailed due diligence checklist. Roughly a dozen of the hundred plus checklist items are ESG-related. (See Attachment B) These range from ensuring that director fees are appropriate, to confirming existence of equal opportunity policies, and include identification of the GP’s own ESG policy (or lack thereof). Due diligence is conducted via both on-site visits and broad internet searches. In addition, MainePERS consultants consider ESG issues as part of their parallel due diligence process.

MainePERS is a passive index investor in public markets, which is currently 85% of the total portfolio. MainePERS votes its proxies through Glass Lewis.

The following chart contains the policy and actual portfolio allocations as of September 30, 2014.



MainePERS Suggested Approach to ESG Policy

MainePERS believes that the embracing of strong environmental, social, and governance principles is the first step of an approach to management that will lead to a healthy, sustainable business model. Therefore, MainePERS considers the employment of such practices when performing due diligence on prospective investment opportunities.

MainePERS ESG policy is intended to create an extra layer of considerations regarding the ESG practices of opportunities in which MainePERS is considering investing. The policy is also intended to create a constant environmental awareness of ESG issues so that not only are our individual investment decisions strengthened, but the total investment program is as well. A constant ESG awareness will involve investment activities such as proxy voting, engagement with consultants and businesses with which we invest, and strategic decisions such as asset allocation.

MainePERS recognizes that other organizations have invested extensive time in the development of ESG expertise, and that these organizations are generally willing to share their lessons and outcomes. Combined with MainePERS demonstrated ESG policy interest over the last two years, we believe an approach that appropriately incorporates the best practices of other organizations' ESG policies fits our sense of urgency and limited resources with which to develop our own policy.

MainePERS Suggested Principles for ESG Policy

In any project we initiate, we adopt Guiding Principles against which to test our decisions or outcomes. This approach allows us to start all projects with an interest-based approach and avoid the pitfalls of starting with solutions or positions. The end result is an outcome that fits the problem.

Following are the guiding principles against which to measure our recommended ESG policy. These principles are not in any rank order. These may be modified based on Task Force discussions:

PRINCIPLE #1: FIDUCIARY DUTY

MainePERS conduct in all situations must be consistent with its Constitutional Mandate:

All of the assets, and proceeds or income therefrom, of the Maine State Retirement System or any successor system and all contributions and payments made to the system to provide for retirement and related benefits shall be held, invested or disbursed as in trust for the exclusive purpose of providing for such benefits and shall not be encumbered for, or diverted to, other purposes.

PRINCIPLE #2: LEADING BY EXAMPLE

MainePERS incorporates ESG practices into our own business model.

PRINCIPLE #3: TRANSPARENCY

MainePERS believes transparency and communication is important in building a sound ESG policy and public trust. Information about the policy, the implementation, and on-going analysis will be shared publicly, in reports and/or information placed on our website, or by other means.

PRINCIPLE #4: ESG CHARACTERISTICS

ESG factors will be updated based on continuous monitoring of the investment environment and incorporated into the investment process.

PRINCIPLE #5: MAINEPERS INVESTMENT DECISION-MAKING PROCESS

The MainePERS investment team will incorporate analysis of all relevant factors into its strategic asset allocation and investment decision-making process, including ESG factors.

PRINCIPLE #6: ESG AND INVESTMENT MANAGERS

MainePERS prefers to invest with managers that value and incorporate ESG factors into their investment decision-making process. MainePERS encourages all managers with whom it works to adopt ESG policies for themselves.

Proposed ESG Policy Template

Discussion

Stakeholders/Advisors Expressing Interest in the Task Force Outcomes

Stakeholders expressing continuing interest in the work of the Task Force are:

350.org

CEI, Wiscasset, ME

Representative Brian Jones, District 54, ME

MainePERS ESG Task Force 10-31-14 Minutes

Attendees: Rick Bennett, John Brautigam, Sandy Matheson (Chair) and Andrew Sawyer attended the meeting in Portland. Cynthia Simon and Deborah Spalding attended by conference call. Brian Rice was unable to attend the meeting.

Jim Bennett from MainePERS attended the meeting and took notes. One member of the public phoned into the meeting.

MINUTES

Following member introductions, Sandy Matheson provided the task force with an overview of the legislative events that created the task force, and summarized the Task Force goal to produce an ESG policy for consideration by the Board of Trustees. Andrew Sawyer noted that Russell Read has expressed willingness to advise the task force if his support would be helpful. Sandy mentioned that MainePERS has been fortunate to receive support not only from an outstanding Task Force, but also from a wide range of ESG experts.

Sandy briefly reviewed the history of MainePERS, the composition of the Board of Trustees, and the Constitutional language governing the organization.

Andrew discussed the MainePERS investment program, with emphasis on the passive approach taken with public securities and the increased allocations to alternative investments over the last five years. In response to Task Force member questions concerning targeted in-state investments, Andrew noted that MainePERS does not nor is required to make such investments. John Brautigam inquired about MainePERS decision to pursue active management in private market investments but not in public markets, and whether or not this difference in investment policy would extend to ESG issues.

Sandy reaffirmed that the goal of the task force is to develop a recommended ESG policy for MainePERS as a whole, and not only for private market investments.

Sandy and Andrew led a discussion on MainePERS current ESG policies, including the role of investment consultants. MainePERS has worked on ESG issues off and on for the past few years, and views the Task Force's assistance as a way of formalizing its awareness. Andrew noted that MainePERS consultants take ESG issues into consideration when performing due diligence, and gave an example of LEED certification as an item of interest in Real Estate due diligence. It was also noted that MainePERS spends substantial time and resources on issues of governance for both public and private market investments. Rick Bennett noted that Blackrock, which currently manages public investments for MainePERS, has a deep Responsible Investing group that could provide assistance in this area. Cynthia Simon inquired as to the extent that MainePERS considers the needs of future retirees in its investment decision making. Sandy noted that this was the case, and that MainePERS takes a very long term outlook when formulating investment policy.

Sandy provided additional background on how MainePERS operates. The principles of honesty and transparency guide all actions. Andrew stated that adherence to ESG concepts in our day-to-day lives may be as important as incorporating ESG principles into our investment program. Sandy noted that, especially with public market investments, MainePERS is willing to become more engaged and to become more active, as appropriate, and that MainePERS is willing to consider adding staff for this purpose as it ultimately benefits the overall value of our investments. Andrew answered several questions on ESG in the context of due diligence of private market investment managers.

Sandy provided Task Force members with the approach MainePERS is suggesting for developing an ESG policy. She noted that several organizations have adopted ESG policies. MainePERS as a result believes basing its initial policy on the excellent work of others would not only be efficient but wise. This concept was seconded by Task Force members.

Further discussion supported this approach. MainePERS views this initial policy as a starting point, and expects to continuously refine and improve it over time. Further, MainePERS views policies as higher level documents supported by more detailed practices that implement the policy.

Deborah Spalding observed that public funds are typically less flexible than endowments and foundations with respect to fiduciary duty and fund goals. She suggested that Task Force members remain mindful of implementation of follow-on practices as these could ultimately be more difficult than creating the policy itself. Sandy agreed, and expressed the hope that the task force outcome would include resource and implementation recommendations for practices that implement the policy. Some of the Task Force members are employed at organizations that are leaders in ESG, and their existing knowledge will be invaluable in creating a comprehensive policy and advice on developing practices that support the policy once the policy work is complete.

The task force next considered MainePERS suggested principles for an ESG policy. Sandy stressed how the organization is committed to taking the approach of first determining principles and then using these to guide subsequent actions, and how this has been successful at MainePERS. The five suggested principles were discussed, and there was broad support from the task force to the idea of using this approach. Rick suggested the adding the principle of transparency, in the sense that MainePERS would produce reports on ESG efforts on a regular basis, and the group agreed.

The group discussed the use of the word “prefers” in Principle #3 (MainePERS prefers to invest with managers that value and incorporate ESG...). The question of whether or not “prefers” was strong enough was raised. If MainePERS believes it has a duty to consider ESG factors, then it seems it should then “require” its hired managers to do the same. Andrew explained that in practice MainePERS policy is more along the lines of “we prefer managers to incorporate ESG...but *require* them to be moving in that direction if they are not there already”. He noted that most managers are aware of this and have either developed their own ESG policies or are in the process of doing so.

The group discussed the ranking of the principles, and decided to include a statement that they were in no particular order. Overall, the members expressed satisfaction with the set of principles.

Sandy concluded the meeting by asking members to send in via email any good examples of existing ESG policies of which they are aware.

The meeting concluded 2:35.

Sandy Matheson briefed Brian Rice on the meeting. He submitted the following comments based on reading the document and the briefing:

“Thank you sending me the minutes from the October 31 task force call. I have had a chance to review the materials, including meeting minutes, and would like to provide a few comments.

Active vs. Passive investment: I think it is important to note that passive public equity investment does not allow for buy/sell decisions, outside of rebalancing index constituency, so considering ESG issues when making investment decisions doesn’t apply. Therefore it is important to consider ESG risks inherent in the index and to consider active engagement with index constituents on how these ESG-related risks are being managed. At CalSTRS we take the position that we “own the market”, selling is not an option, and therefore we need to be engaging market participants on how markets risks are being addressed.

External manager integration of ESG considerations: Based on what you provided, I think MainePERS is doing quite a bit to incorporate ESG considerations into private market manager evaluation. Certainly when new relationships are being considered, ESG analysis can be part of the diligence process. But what about existing relationships? At CalSTRS, we recognized that we had *many* existing relationships with external managers and suddenly asking them to be “ESG” managers wasn’t reasonable. And certainly we couldn’t end these relationships and look for “ESG” managers. We took the position that we would work with them to make ESG risk consideration a greater part of their investment process, understanding that this would be a long-term effort.

Principle # 6: I would suggest that this principle read, “MainePERS prefers to invest with managers that value and incorporate ESG factors into their investment decision-making process.” I think that also stating that ESG be part of their business model might imply you are seeking an SRI type of manager. The bottom line is you want people making investment decisions on your behalf to consider all possible risks – including ESG-related risks. Plus, adding that you encourage managers to have internal ESG policies implies this preference.

Please let me know if you have any questions. I look forward to talking with you, and the balance of the task force, next Monday.”

Meeting 3 - November 10, 2014

Agenda:

- ▲ Stakeholder Comments
- ▲ Task Force Member Direction

Stakeholder Comments

Interested stakeholder to whom MainePERS has been able to reach out may wish to provide the Task Force with ideas, concepts or other considerations for the MainePERS ESG policy.

Task Force Direction

Task Force Members will provide thoughts, comments, and considering of stakeholder comments, provide direction to MainePERS for the first ESG policy draft.

MainePERS ESG Task Force 11-10-14 Minutes

Attendees: Rick Bennett, Sandy Matheson (Chair) and Andrew Sawyer attended the meeting in Portland. John Brautigam, Brian Rice, Cynthia Simon and Deborah Spalding attended by conference call.

Jim Bennett from MainePERS attended the meeting and took notes. Four members of the public phoned into the meeting and made comments.

MINUTES

The meeting started at 1pm with the review and approval of the minutes from the 10/31/14 meeting.

Andrew Sawyer requested a version identifier be placed on the cover of the ESG Task Force document to avoid mix ups.

Sandy Matheson then brought up the topic of incorporating comments from task force members who are unable to attend a meeting. She noted that she had contacted Brian Rice after the initial meeting,

had incorporated his feedback into the document, and would continue this policy if the group thought it appropriate. The group concurred that this approach made sense.

The task force then discussed changes suggested by Brian to the wording of Guiding Principle #6.

Brian described CALSTRS experience in developing an ESG policy and integrating it with existing managers. CALSTRS approach was two-pronged. In the case of new managers, they began requiring managers to have ESG policies. However, they realized it would be impractical / unfair to suddenly drop existing managers who had not yet developed ESG policies. CALSTRS instead worked with these managers over time to assist them in developing ESG policies. In the case of passive investments, CALSTRS took the approach of developing engagement with management on ESG issues rather than avoidance of companies.

Sandy discussed her plans to update the ESG Task Force document after each meeting to include the minutes and any other changes suggested by the task force, and that the updated document would be made available online once the minutes and updates had been approved at the subsequent meeting.

Sandy invited stakeholders attending the meeting by telephone to comment. She began by reviewing the legislative history leading up to the creation of the task force and its request to complete the ESG policy started two years ago for review by MainePERS Trustees.

The four stakeholders who had called in were identified and provided their comments in turn:

- Karen Marysdaughter
- Jane Edwards
- David Smith
- Read Brugger

Comments from the public concluded at 2pm. Sandy provided her email address to the group and encouraged the submission of written versions of the comments. The appendix to these minutes includes these written submissions (when available) and summaries of the verbal comments (for those who did not submit written versions).

The task force then discussed examples of other organization's ESG policies. Sandy noted that Cynthia Simon had provided samples of policies with an emphasis on climate change, and Rick Bennett again mentioned ICGN as a source. Rick noted that these might be only available to members and offered to provide copies for the group. John Brautigam brought up the value of finding policies written by organizations with fiduciary duties as similar to MainePERS as possible. Sandy

noted that it was unlikely other states had identical language, but that they were likely very similar examples.

The task force decided that MainePERS would develop a draft ESG policy and distribute it to the group within a week, to be discussed at the next task force meeting on 11/21. The meeting concluded at 2:15pm.

Appendix: Stakeholder Comments

A. Karen Marysdaughter (submitted text)

Thank you Sandy and other members of the Task Force, for allowing time for stakeholder input. I am a citizen and taxpayer with grave concerns about the current and future impacts of climate change on Maine's people, resources, and economy, with a sincere wish to explore all possible avenues for ameliorating climate risks. I am also the daughter of two public employees my father worked for many years in Maine's Department of Agriculture and my mother was a public school teacher. My father is now deceased, but the bulk of my 84-year-old mother's income is pension money from MainePERS, and I have a sincere wish for her to live out her remaining years in comfort and safety.

After reviewing the backgrounds of the Task Force members, it is clear that you are all deeply committed to public service and the responsibilities of being a fiduciary. It is also clear that you have a strong collective background in issues related to sustainability and the environment, including the risk of climate disruption to investors. I commend the MainePERS leadership for putting together such an impressive group!

I have read the legislative mandate for MainePERS many times, which states that the contributions of its members shall be "held, invested or disbursed as in trust for the exclusive purpose of providing for benefits." In a strict definition, it appears that what MainePERS is required to do is simple: make sure that beneficiaries, such as my mother, can depend on receiving their pension checks each month. Period.

But nothing is ever that simple. Any prudent person, when making financial decisions, tries to find out the hidden costs, the exceptions in the fine print. And investment decisions can come with many hidden costs.

Take the fossil fuel industry. Maine doesn't have fossil fuels, so the industry is not providing us with much in the way of jobs. However, our taxpayers contribute huge amounts in the form of subsidies to coal, oil, and gas companies. We're downwind of coal fired plants in the midwest and have been paying the resulting environmental and public health costs for decades. As a rural state with aging housing stock, we have a major

dependence, especially on oil, for heat and transportation, so large sums of money regularly flow from our citizens to fossil fuel companies.

And considering the accumulating effects of climate change on our economy and health the warming and acidification of the Gulf of Maine, the increase in diseases such as Lyme, the invasive species and pests moving north, a faster rise in average temperature than most of the country, and more frequent extreme weather events, such as the early blizzard we experienced a week ago that knocked out power for days to a good part of the state Maine's citizens are paying a high price for the fossil fuel industry.

When we invest without taking into account such externalities, we are, in essence, canceling out the return on those investments by supporting systems that cost us much more in other areas of our life. I have an image in my mind of a MainePERS worker coming to my mother's door and handing her a check, sincerely wishing to do well by her, and then turning around and, without intending to, handing a check to someone on a bulldozer about to knock down her house.

So I ask you to consider what the word "benefits" means, and whether MainePERS investments can truly "benefit" the recipients if the hidden costs of doing business are significantly hurting them in other ways. As I understand it, that's what ESG investing is all about realizing that we cannot separate financial investments from the consequences of the business plans of the companies we are invested in.

I especially ask you to consider the power of the retirement system's billions of dollars in assets. Perhaps I am wrong, but I expect that the MainePERS fund is the largest publicly controlled pool of assets in Maine. Perhaps the largest pool, period. That money could go much further in providing "benefits" to not only its recipients, but the people of Maine as a whole. Here we are, in a state with all sorts of renewable energy potential, energy sources that could provide jobs, keep energy dollars in Maine, and considerably reduce the negative consequences of a fossil fuel economy. How could that not be a good investment?

I urge you to draft and promote to the MainePERS board a strong environmental, social and governance policy, one that, by definition, would exclude investments in companies whose business plans are antithetical to the welfare of the state of Maine. Let's have the hardearned dollars of the public employees of Maine support policies and practices that are, in fact, real benefits.

B. Jane Edwards (summary of verbal)

Jane began by noting that she is a retired state worker and that she testified at the legislative hearings leading to this task force. She recommended that the task force review the testimony of Stephen Mulkey, President of Unity College.

Jane described how she had some retirement savings at TIAA-CREF as a result of working for a time as a librarian at Bates College. She noted that TIAA-CREFF provides her with a choice of investments for her funds and that one of these is a fund that explicitly takes certain social criteria into account. She noted that this fund has performed very well over the long time horizon she has owned it and that her fairly small original investment provides her with nearly the same income as she receives from her state pension, and that this income rose more last year than did her pension due to the COLA. She noted that social investing has paid off in the past and that she believed that this was even more likely to be the case in the future as considerations such as climate change moved to the fore.

C. David Smith (summary of verbal)

David began by noting that he is a recently retired teacher with over 30 years in the Belfast schools and that he testified before both the state legislature and the city of Belfast on the issue of climate change. He told the task force that Belfast had sent MainePERS a letter requesting divestment and described his belief that divestment is a necessary part of an ESG policy.

He described his belief in the importance of teaching students about disasters related to the fossil fuel industry (e.g., Valdez) and how he included this topic in his classes for year. He believes it is important to look at the big picture when considering business practices and not simply the financial side. He stated his belief that divestment makes sense and is good investment practice, and that he would like to see MainePERS make invests in renewables close to home.

D. Read Brugger (submitted text)

I want to begin by thanking Sandy and the members of the MainePERS ESG Task Force for providing 350 Maine with today's opportunity to make comments on ESG. My name is Read Brugger and I live in Freedom, Maine.

The work you are doing is tremendously important to the future of the people of Maine.

It is often said that one key to understanding ESG is understanding that all businesses have three forms of capital: financial, human and physical. As a retired postal worker I have a personal appreciation for the value of a sound retirement system and how the knowledge that your work is providing for a secure financial future for you and your family, even beyond the grave, can sustain you through some really negative workplace situations. As a grunt and then as a manager I learned the importance of a stable workforce. When the importance of human capital was ignored or downplayed was when the system was most apt to break. I also saw some really bad management decisions that negatively impacted the system's financial and physical capital. One particularly bad decision that stands out was in the early 1980's when the postal service converted to the current fleet of gas powered Long Life Vehicles. Continued gas price shocks have meant that adequate financial capital has never been available and modernization of facilities is often put on hold. Imagine if they had chosen the electric vehicles that were also under consideration.

Decisions like that one have brought us to a point where our over-reliance on fossil fuels jeopardizes the future of human civilization. World governments have agreed that it is essential to limit global warming to 2 degrees Celsius to maintain a civilization like the one we now enjoy. Energy use decisions are the driver of global warming. Ending fossil fuel use will control global warming. This is the lens with through which we should be making financial investments that will provide for the secure retirement of Maine's state, county and municipal employees.

The minutes of your last meeting recorded this following exchange:

"Cynthia Simon inquired as to the extent that MainePERS considers the needs of future retirees in its investment decision making. Sandy noted that this was the case, and that MainePERS takes a very long term outlook when formulating investment policy."

When I read that I wondered why this wasn't explicitly stated as a guiding principle. I was pleased to see that CalPERS does include it. "Taking a long-term view of the needs of beneficiaries and system participants" (<http://www.calpers.ca.gov/eip-docs/about/pubs/esg-report-2012.pdf>, page 2) is that system's 5th guiding principle. CalPERS has also developed guiding beliefs. One particularly struck me: CalPERS "investment decisions may reflect wider stakeholder views, provided they are consistent with its fiduciary duty to members and beneficiaries." (<http://www.calpers.ca.gov/eip-docs/about/pubs/esg-report-2014.pdf>, page 10.)

Quoting from CalPERS once again:

“Environmental issues, and climate change in particular, pose a set of enormous risks and opportunities for CalPERS. Climate change has an increasingly large influence on the energy and water strategies used by our portfolio companies, making it an important fiduciary consideration in our investment process. Climate change is a major strategic issue. CalPERS must consider the long-term horizon, as well as meeting today’s liabilities and climate change is expected to have a significant economic impact over this time period.” (CalPERS 2012 ESG Report, page 22.)

350 Maine believes the biggest financial risk to MainePERS is continued investment in the Carbon Tracker top 200 oil, gas, and coal companies. These corporations continue to spend billions finding fossil fuel reserves that must never be brought to production. Carbon Tracker has determined the amount of carbon that can be burned and still limit global warming to 2 degrees. They found that this is only 20 % of the amount of oil, gas and coal reserves already listed as proven reserves. We already have five times the amount of carbon reserves we can safely utilize. CAPEX and other wasteful government subsidies encourage a “drill baby drill” business-as-usual attitude that will lead to 4 or even 6 degrees of global warming and a decidedly unsecure future for Maine’s retirees. Overproduction is a recipe for financial disaster. We only need to look at today’s price of Exxon’s stock compared to late July to see the truth of this. It has lost 10% of its value. Looking at tar sands extraction startups, we see that they are no longer profitable. The carbon bubble hasn’t burst, but the likelihood of it happening is becoming increasingly obvious.

MainePERS needs to exclude these stocks from its portfolio. Investing in corporations that continue spending capital on continued exploration for fossil fuels needs to stop.

Looking at the world as we would like it to be in 40 years can provide us with good ideas about what other things a climate sensitive ESG policy should include. We see a world that has reduced its greenhouse gas emissions by 80%. Abundant, affordable, carbon free energy will be the norm and any continuing use of carbon energy will have mandated associated CO₂ sequestration. To do this we see a society that has embraced public transportation and electric vehicles. We see a fully realized local agricultural economy that will have a much lower carbon footprint. Energy efficient housing and businesses and appropriate carbon-free heating and cooling will have ended the use of fossil fuels to do those tasks. We will live in a society that fully recognizes the natural limits of the earth’s resources. Ceres has estimated that it will take \$1 trillion a year to accomplish the just transition to a livable future. This is the opportunity that MainePERS must grasp,

I have been quoting from various CalPERS ESG reports. Your minutes stated that “MainePERS . . . believes basing its initial policy on the excellent work of others would not only be efficient but wise.” I completely agree.

CalPERS like MainePERS puts a great deal of emphasis on achieving the correct strategic allocation of assets. CalPERS partners with large investors to identify the relevant climate change factors to consider when making asset allocation decisions. I hope MainePERS does the same. I see a great opportunity in the bar graph on MainePERS asset allocations. The infrastructure portion is underfunded. Looking at current investments in that portion I see traditional fossil fuel based infrastructure investments. A forward thinking ESG policy would change that. I am sure that our friends at CEI have a number of investment ideas that will fit with this.

MainePERS must be an agent of positive change. Solving the climate crisis is not someone else’s job. It is everyone’s. To turn your back on that truth condemns the world to a very dark future. It would mean renegeing on your duty to provide for the needs of your future retirees.

I thank you for providing this opportunity to begin a conversation with 350 Maine and the Maine people on investing in a secure future. I look forward to further conversations.

Meeting 4 - November 21, 2014

Agenda:

- ▲ Task Force Member Review and Comments on Draft Policy
 - Recommendations of additional advisors for the Task Force

Task Force Member Review and Comments - in Augusta

Meeting 5 - December 4, 2014

Agenda:

- ▲ Review of 11/21 Minutes
- ▲ Draft ESG Policy Review After Incorporation Task Force Recommendations
- ▲ Stakeholder/Advisor Comments

Review of ESG Policy Incorporating Task Force Recommendations

Discussion

Stakeholder/Advisor Comments

Discussion

Meeting 6 - December 12, 2014

Agenda:

- ▲ Review and modify/approve ESG Policy Content

Review and Approve Task Force Policy Content

Meeting 7 (If needed) - December 18, 2014

Attachment A - Task Force Member Biographies

HON. RICHARD A. BENNETT

Richard A. Bennett founded ValueEdge Advisors LLC in summer 2014 to provide engagement services to global institutional investors.

From 2010 to 2014 Mr. Bennett served as Chairman or Vice Chairman of GMI Ratings, the leading global corporate governance and ESG research firm serving institutional investors. From 2006 to 2010, Richard A. Bennett served as President and CEO of The Corporate Library, one of the three businesses that merged to form GMI Ratings in 2010. Mr. Bennett has an extensive background in politics and government service as well as a wide range of private sector experience. He worked as Director of Corporate Governance for Lens Investment Management from 1997 to 2002.

He is an independent director of Biddeford Internet Corporation and a non-executive director of Trucost, Plc, a U.K.-based firm offering products and services that allow companies, governments and fund managers to better understand their environmental performance. A former president of the Maine State Senate, Mr. Bennett served four terms in the Maine Senate and two terms in the state's House of Representatives. He is currently Chairman of the Maine Republican Party and a member of the Republican National Committee. From 2009 to 2014, he served on the Board of Governors of the International Corporate Governance Network.

In each year since 2008, he has been recognized by Directorship magazine in its list of the 100 "most influential people in corporate governance and the boardroom." In December 2010 he was named by Global Proxy Watch as one of the "10 people around the world who had the most impact on corporate governance in the previous year". He serves on the Advisory Board of the John L. Weinberg Center for Corporate Governance at the University of Delaware. He is a member of the board of trustees of Hebron Academy. He was a member of the President's Commission on White House Fellowships from 2005 to 2009. He graduated with honors from Harvard College in 1986 and received his M.B.A. from the University of Southern Maine in 2000.

HON. JOHN BRAUTIGAM

John Brautigam is an attorney and consultant with over 20 years of experience in public policy, advocacy and legal representation. From 2004 to 2008 he served in the Maine legislature and was House Chairman of the Insurance and Financial Services Committee. Prior to his tenure in the legislature Mr. Brautigam served as Assistant Attorney General of Maine, litigating issues relating to state prescription drug benefit programs and prescription drug pricing. He was co-counsel for the state in the successful defense of the Maine Rx program before the United States Supreme Court. He previously served as legal counsel successfully defending the constitutionality of the 1996 reforms to Maine campaign finance laws, including the Maine Clean Election Act.

Mr. Brautigam holds a law degree from Stanford Law School where he was appointed Executive Editor of the Stanford Law Review.

Mr. Brautigam's other policy interests include energy and environmental law. He previously served as Director of Efficiency Maine and Director of the Sustainability Center at Southern Maine Community College. He has consulted on several energy policy matters including work on the Regional Greenhouse Gas Initiative for the Public Utilities Commission.

ANDREW SAWYER, CFA, CAIA

Andrew Sawyer is the Chief Investment Officer of the Maine Public Employees Retirement System. Prior to working at MainePERS, Andrew served as the Vice President and Portfolio Manager at TD Banknorth, Pension and Investment Manager at Raytheon, Investment Analyst at Prime Buchholz & Associates, and the Trust Department Head at Fuji Bank. Andrew is a CFA Charterholder and a CAIA Charterholder. Andrew attended the University of Maine where he received a BA in Business Administration and Finance and raced with the Varsity Ski Team. In 1993, Andrew earned an MBA from Pace University. He has also been involved with a broad range of civic, healthcare, and charitable activities. He currently serves on the Holderness School Board of Trustees, Chairs the MaineHealth Investment Committee, and is a Trustee and Investment Committee Chair for the Mitchell Institute.

SANDY MATHESON

Sandy Matheson is the Executive Director of the Maine Public Employees Retirement System. Joining MainePERS in April, 2009, she oversees the state's six public retirement and other plans. Ms. Matheson was previously the Director of the Washington State Department of Retirement Systems, a member of the Washington State Investment Board, a member of the International Centre for Pension Management, and served on the boards of the Employee Benefits Research Institute and the Washington State Society of CPAs.

Ms. Matheson's career has been in management, healthcare and financial services. She served as the President and CEO of Hanford Environmental Health Foundation, the Board Chair of Kennewick General Hospital, consulted and acted as interim CEO for various organizations, and taught as an adjunct instructor for the Washington State University business program. She has also been involved with a broad range of civic, healthcare, and charitable activities. She currently serves on the MaineHealth Board of Trustees.

Ms. Matheson graduated with a Bachelor of Arts in economics from Northwestern University in Evanston, Illinois and a Masters in Business Administration from Washington State University.

Attachment B: MainePERS Due Diligence Checklist Items 10-31-14

<i>Due Diligence Materials</i>
Private Placement Memorandum
Diligence Questionnaire
Target Fund Size
Size Limit
Closing Schedule
Site Visit
Interview
Interview
Interview
<i>Legal</i>
Limited Partnership Agreement
Management Agreement
PPM & Supplements
Side Letter Agreement
Fund Legal Opinions
Fund Domicile
Legal Form of Fund
Legal Form of GP/Manager
Litigation Report
Internet Search
GC Review
Outside Counsel Review
Fund Counsel
<i>Fees & Terms</i>
Fee Structure
Gross Target Return
Management Fee Comparison

Preferred Return
Catch-Up Provision
Clawback Provision
Monitoring & Director Fees
Cash flow Waterfall
Carry Distribution
Compensation Structure
GP Commitment (Cash/Non-Cash)
Prior Fund Commitment
Key-Man Provision
No Fault Termination
Investment Restrictions
Investment Period
Partnership Term
Cap on Organizational Expenses
Placement Agent Fees
Advisory Board
<i>Valuation Policy</i>
Frequency: Internal
Frequency: External/Independent
Accounting standard used
Overall Reasonableness
Auditor
Clean Audit Opinions
<i>GP Overview</i>
Experience
Ownership structure
Succession Planning
Depth of Team /Bench-Strength
Key Lender Relationships
Composition of Investor Base

Capacity
Turnover/Notable Departures
Change in Control
Growth of Business
Affiliated Businesses
Potential Conflicts
Inter-Fund transactions
Responsible Contractor Policy
Equal Opportunity Employer
Union Relations/Issues
ESG Policy
Character Assessment
Ability to build long-term relationship
Registered with SEC or other Regulatory body?
Acts as a Fiduciary
Fund Overview
Strategy
Investment Process
Risk Controls
Sell Discipline
Use of Leverage (Fund & Portfolio Company levels)
Fit with MEPERS program
Impact on MEPERS Portfolio
Overlap with existing investments
Capacity Constraints
Team Structure
Deal Originators also Portfolio managers?
Competitive Advantage

Source of Deal Flow
Potential Competitors
Sustainable Business Model
Co-Investment Opportunities
Warehoused or Seed Investments
Data Analysis (Consultant)
Gross Cash Flow Verification
Net Cash Flow Verification
Attribution Analysis:
Above/At/Below
Auction
Board Seat
Industry
Lead Investor
Partner Responsible
Realized/Public/Private
Geography
Source
Investment Year
Exit Strategy
Holding Period Analysis
Portfolio Summary
Step up in deal size?
Step up in fund size?
Realized Performance
Removed Top Winners, by Fund
Reviewed Valuations of Unrealized Companies
Sensitivity Analysis of Unrealized Portfolio
Benchmark Comparison

Public Index Comparison
Team Capacity Analysis
Public Holdings Analysis
<i>Reference Checks</i>
Limited Partners
Portfolio Company Management

3 rd Parties

ATTACHMENT C - TBD
