



# Board of Retirement Regular Meeting

## Sacramento County Employees' Retirement System

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### Agenda Item 18

**MEETING DATE:** January 17, 2024

**SUBJECT:** Master Investment Policy Statement

**SUBMITTED FOR:**  Consent  **Deliberation** and Action  **Receive** and File

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### **RECOMMENDATION**

Amend SCERS' Master Investment Policy Statement regarding investment considerations involving environmental, social, and governance factors.

### **PURPOSE**

This agenda item contributes to the effective management and oversight of investment activities.

### **BACKGROUND**

During 2023, Staff and Verus facilitated multiple discussions with the Board on values-based investment considerations such as Environmental, Social, Governance (ESG) factors. This included an education session in March 2023 and a survey with Board members over the summer.

At the October 2023 Board meeting, SCERS' fiduciary counsel, Ashley Dunning of Nossaman LLP, reviewed how ESG considerations can be balanced with the fiduciary standards applicable to public pension plan boards. Also at the October 2023 meeting, Verus presented the results from the ESG survey, which found that most Board members expressed a nuanced and balanced philosophy in which SCERS can take ESG factors into account but should not rely on non-financial factors when making investment decisions. The survey found that most Board members also favored incorporating a policy statement regarding this issue into [SCERS' existing Master Investment Policy Statement \(Master IPS\)](#).

### **DISCUSSION**

At the October 2023 meeting, the Board instructed Staff to draft an amendment to the Master IPS for the Board to consider at a future meeting. Board members preferred creating language that takes a moderate approach by recognizing that SCERS is exposed to ESG factors and that

these factors are considered within the process of evaluating investments within the mosaic of a broader range of factors.

Staff drafted language using examples provided by Ms. Dunning during her presentation, largely modeled on the “Material Risk/Opportunity Approach.” Staff also drafted language as requested by the Board that protects against divestiture risk, acknowledging that there could be legislative action to require divestment from a country or investment strategy that may conflict with SCERS’ fiduciary duties.

Staff has drafted the following proposed amendment to the Master IPS, to be included under a new subsection, “Other Investment Considerations”:

**Option 1:**

*SCERS recognizes that environmental, social, and corporate governance factors (ESG) may potentially present financial risks and opportunities for the System. SCERS will identify, evaluate, and manage financially relevant ESG factors in its investment process to safeguard and enhance System performance.*

*If the Legislature, by statute, prohibits any investments by boards operating under the County Employees Retirement Law of 1937 (CERL) under the authority of section (g) of article XVI, section 17 of the California Constitution, then the SCERS Board will undertake an independent investment analysis to determine whether such a prohibition satisfies the standards of fiduciary care and loyalty required of the SCERS Board pursuant to the California Constitution and Government Code sections 31594 and 31595 of CERL.*

**Option 2 (avoids the “ESG” acronym):**

*SCERS recognizes that corporate business practices associated with an underlying investment or investment firm, including approaches to environmental or ethically responsible strategies, may present financial risks or opportunities for the System. SCERS will identify, evaluate, and manage financially relevant factors in its investment process to safeguard and enhance System performance.*

*If the Legislature, by statute, prohibits any investments by boards operating under the County Employees Retirement Law of 1937 (CERL) under the authority of section (g) of article XVI, section 17 of the California Constitution, then the SCERS Board will undertake an independent investment analysis to determine whether such a prohibition satisfies the standards of fiduciary care and loyalty required of the SCERS Board pursuant to the California Constitution and Government Code sections 31594 and 31595 of CERL.*

**ATTACHMENT**

- Board Order

Prepared by:

Reviewed by:

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Steve Davis  
Chief Investment Officer

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Eric Stern  
Chief Executive Officer



# Retirement Board Order

## Sacramento County Employees' Retirement System

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Before the Board of Retirement  
January 17, 2024

AGENDA ITEM:

### Master Investment Policy Statement

THE BOARD OF RETIREMENT hereby accepts the recommendation to amend SCERS' Master Investment Policy Statement regarding investment considerations involving environmental, social, and governance factors.

I HEREBY CERTIFY that the above order was passed and adopted on January 17, 2024 by the following vote of the Board of Retirement, to wit:

AYES:

NOES:

ABSENT:

ABSTAIN:

ALTERNATES:

(Present but not voting)

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James Diepenbrock  
Board President

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Eric Stern  
Chief Executive Officer and  
Board Secretary