

CITY AND COUNTY OF SAN FRANCISCO
EMPLOYEES' RETIREMENT SYSTEM
RETIREMENT BOARD POLICY

THE SOCIAL INVESTMENT PROCEDURES

The Retirement Board adopted the attached list of Social Investment Policies at the Retirement Board Meeting of September 27, 1988.

CITY AND COUNTY OF SAN FRANCISCO
EMPLOYEES' RETIREMENT SYSTEM

THE SOCIAL INVESTMENT PROCEDURES

Since it is necessary for adequate recognition to be given to the social consequences of corporate actions and security and portfolio investment decisions to achieve maximum long term investment returns from System assets, and since the individual decisions of Staff, Managers, Consultants, and other System fiduciaries have to be made within a framework that reflects the particular social situation and concerns of the participants and the System, the following policies shall be followed when investing, managing, or reviewing System assets. Social concerns to be addressed through investment policy shall follow the order of action as outlined in I, II, and III except where the Board has determined that action contemplated in an earlier step has been initiated prior to the adoption of these policies and found to be ineffective or non-relevant. In no event shall these policies take precedent over the fiduciary responsibility of producing investment returns for the exclusive benefit of the participants.

I. Shareholder Voting

The ownership of equity interests in many corporations as an investment of System assets includes the right to vote on the initiation, approval, or denial of major company policies and actions. These voting rights shall be exercised only by specific Board considerations and directions or by authorization under procedures which reflect Board decisions on popular issues.

- A. Issues likely to come before shareholders in a proxy "season" will be reviewed prior to the "season" to allow the sense of the Board to be obtained on generic issues to be voted by Staff when received.
- B. Issues of non-generic nature will be specifically reviewed by Staff and recommended to the Board for action. Counsel of the external managers shall be sought on issues of immediate investment concern for securities held in the manager's portfolio; i.e., mergers, acquisitions, buy-outs, etc.
- C. Determination of the social concerns that should be addressed through exercise of voting rights and subsequent implementation of the balance of these procedures will be made by the Board in full consideration of their responsibilities as fiduciaries of the System and only after Staff review of the

investment and social implications. Additional information from external managers and other outside sources will be sought when necessary.

II. Promoting Social Rights and Interests

The ownership of equity interests, and to some extent of fixed income interests, in many corporations provides an opportunity to act individually or in concert with other shareholders to assure proper recognition of social interests. Social interests shall be promoted only if in the interest of the participants, the community and the corporation as expressed in the preceding section on shareholder voting.

- A. Shareholder resolutions will be initiated upon review of previous shareholder votes, discussion with the corporation, and Board determination that the proposed resolution is a reasonable vehicle to influence corporate activities.
- B. Other interested shareholders may be actively sought to express common concerns, join in resolutions, and solicit proxy votes.
- C. Specific investment programs that benefit the Participants while aiding other persons or entities may be considered provided that expected investment returns are at least equivalent to available alternatives of similar risk.

III. Investment Restrictions

When social concerns have not been or cannot be addressed adequately through discussion, exercising shareholder voting rights, promotion of shareholder initiatives, or participation in active investment programs, it may be necessary to restrict System investment activities in specific areas to promote the interests of the participants. In general, restrictions will be adopted in the following manner:

- A. Restrictions will not take precedent over investment considerations but will be used to set standards when dealing with essentially equivalent investment choices.
- B. Recognizing that substantial investment flexibility is necessary to maximize returns at an acceptable level of risk, restrictions will be adopted only when exercising voting rights and promoting investment initiatives have not been or would not be successful and alternatives to the restricted securities are available which do not compromise potential investment return.

- C. Restrictions will be applied at the lowest possible investment level, either specific issuers or securities, to protect against adverse investment effects and facilitate amendment in response to corporate action or changes in investment or social climate.
- D. Restrictions will be analyzed periodically for social and financial consequences and amended or repealed as appropriate.
- E. Restrictions will be applied only upon specific decision of the Board based on available information as evaluated by Staff, and after full consideration of the investment ramifications.

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THE SOCIAL INVESTMENT POLICIES

The Retirement Board adopted the attached list of Social Investment Policies at the Retirement Board Meeting of September 27, 1988. As new policies are developed and adopted, they will be added to this document.

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| 1. Corporate activities of companies whose securities are owned by the System shall be conducted in compliance with all applicable laws and regulations. | Level I | 9/27/88 |
| 2. <u>Employment Standards</u>
Active measures shall be taken to assure that the corporation meets fair employment standards including non-discrimination in hiring, transfer, pay and promotion, decent working facilities and conditions, and the recognition of all legal employee rights of organization and political expression. | Level I | 9/27/88 |
| 3. <u>Community Relations</u>
The relationship of the corporation to the communities in which it operates shall be maintained as a good corporate citizen through observing proper environmental standards, supporting the local economic, social and cultural climate, conducting acquisitions and reorganizations to minimize adverse effects and not discriminate in making loans or writing insurance. | Level I | 9/27/88 |
| 4. <u>Corporate Governance and Internal Affairs</u>
The Bylaws of the corporation shall be maintained to permit full expression of shareholder voting rights in corporate affairs and to prevent entrenchment of management. Executive compensation shall be fair and reasonable. Reports and data shall be made available to shareholders concerning social issues to the extent possible without jeopardizing business interests. | Level I | 9/27/88 |

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| 5. <u>MacBride Principles</u> | Level I | 2/25/92 |
| <p>The corporation shall affirm and adhere to the MacBride Principles concerning operations in Northern Ireland.</p> | | |
| 6. <u>Tobacco Divestment</u> | Level III | 10/13/98 |
| <p>Due to the existing litigation, proposed legislation and probable governmental restrictions relating to the Tobacco industry, the System will not invest in the equity and fixed income securities of companies manufacturing tobacco products. (See list)</p> | | |
| 7. <u>Sudan Investments</u> | Level II | 6/13/06 |
| <p>The Retirement Board directed staff to engage in constructive dialogue with companies doing business in Sudan because US Congress and the State Department have found the Sudanese Government to be complicit in genocide in Darfur region.</p> | | |
| 8. <u>Sudan Investments</u> | Level III | 11/14/06 |
| <p>The Retirement Board directed staff to inform companies meeting specified criteria of intention to divest. Companies will have 90 days to respond. Managers will be informed of companies meeting specified criteria and be given an opportunity to explain why they cannot achieve their mandate if required to divest. Reference Sudan – Level 3 Procedures dated 12/26/06.</p> | | |

Key: Level I – Shareholder Voting
 Level II – Promoting Social Rights and Interests
 Level III – Investment Restrictions

**South Africa Policy restriction at Level III was repealed on July 14, 1994.

List of Companies Involved in the Production or Wholesale Distribution of Tobacco Products:

US COMPANIES

800 –JR Cigar, Inc.
Advanced Tobacco Products
Amer Group Ltd.
American Filtrona
American Maize-Products Co.
Brooke Group Ltd.
Brown & Williamson Tobacco Corp.
Caribbean Cigar Co.
Consolidated Cigar Holdings Inc.
Dibrell Bros. Inc.
Dimon Inc.
DNAP Holding Corporation
Fortune Brand, Inc.
Future Brands Inc.
Gallaher Group PLC
General Cigar Holdings, Inc.
Holt's Cigar Holdings, Inc.
Lowes Corp
MacAndrews & Forbes Holdings, Inc.
Mafco Consolidated Group
Monk-Austin Inc.
Philip Morris Inc.
Playboy Enterprises, Inc.
Premium Cigars International, Ltd.
RJR Nabisco Holdings Corp.
Standard Commercial Corp
Swisher International Group
Tamboril Cigar Co.
Universal Corp.
UST Inc.