

New York State
Common Retirement Fund

**ENVIRONMENTAL, SOCIAL & GOVERNANCE (ESG)
STRATEGY**



New York State Comptroller
THOMAS P. DiNAPOLI

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New York Common Retirement Fund Investment Philosophy

We consider environmental, social and governance (ESG) factors in our investment process because they can influence both risks and returns.



Thomas P. DiNapoli
New York State Comptroller and
Trustee of the New York State
Common Retirement Fund



Anastasia Titarchuk
Chief Investment Officer
of the New York State
Common Retirement Fund

- Our mission is to provide our beneficiaries with a secure pension through prudent asset management.
- We aim for the best risk-adjusted returns needed to achieve and maintain fully funded status.
- We believe that asset allocation is the single largest driver of our performance and risk profile. Our asset allocation is updated at defined intervals through a rigorous process to reflect changing market conditions and long-term views.
- Manager selection is a key determinant of returns on actively managed assets. We monitor our managers on an ongoing basis to ensure they remain consistent with the strategy they promise and the returns we expect.
- We take risk to generate stronger long-term performance and only do so where we are compensated by expected return.
- We seek to diversify our investments to manage risk. We diversify among asset classes, sectors, geographies, time horizons, and other factors. We believe that risk should be managed first at the fund level and then within each asset class to reflect their differing risk/return profiles. We believe that risk is multi-dimensional and cannot be reduced to a single measure.
- We believe that in highly efficient markets, we should gain exposure through low-cost, passive strategies. In less efficient markets, we consider active strategies where:
 - We understand the drivers of the inefficiency
 - We believe the inefficiency is likely to persist
 - We are able to identify managers capable of consistently exploiting the inefficiency



The Fund believes that taking ESG factors into account contributes to complete, integrated management of the full scope of investment risks and opportunities.”

New York Common Retirement Fund Beliefs and Practices

- We believe some of the key ESG factors for the Fund include:
 - Environment (E): climate risks and opportunities; natural resource and raw material usage; and pollution and waste management.
 - Social (S): workforce management; labor relations; human rights; health and safety; supply chain labor standards; diversity, equity and inclusion; and stakeholder impact.
 - Governance (G): risk oversight; board governance practices; corporate strategy and capital allocation; compensation; privacy and information security; product safety and quality; and lobbying and political spending.
- The Fund defines ESG Integration as the process of assessing the effects of ESG factors on investment risks and returns.
- The Fund believes that taking ESG factors into account contributes to complete, integrated management of the full scope of investment risks and opportunities.
- ESG factors are often overlooked sources of financial risk.
- ESG factors are a key component of the Fund’s analysis of both short- and long-term financial risks and opportunities.
- ESG integration is applicable to all asset classes and styles of portfolio management, including public and private markets, as well as active stock selection and index strategies.
- We integrate material ESG factors into our analysis of investment risk and manager performance, as well as our active ownership and monitoring program, to improve the risk profiles of our investments. This involves encouraging our external asset managers, investment consultants, and portfolio companies to adopt and employ resilient business models and ESG best practices to try to achieve more sustainable long-term financial performance.
- Investment analysis of ESG factors is not static and advances over time. Assessment of the Fund’s risks and opportunities will change as ESG best practices evolve.

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- ESG Integration means consciously assessing and monitoring ESG factors throughout the investment life-cycle and across all asset classes.
 - The primary mission of the Fund's ESG Integration program is to mitigate risks and identify opportunities to enhance the long-term value of its investments.
 - We integrate ESG factors into our investment principles, our investment processes and our long-term active ownership strategies.
 - The Fund's Bureau of Corporate Governance supports and facilitates the integration of ESG factors into its due diligence process, investment decisions, and performance monitoring program.
 - Where relevant and appropriate, the Fund develops more detailed guidelines for the implementation of ESG integration in a specific investment, strategy, and sub-asset class categories.
 - The Fund continually explores ways to innovate and be at the forefront of global ESG Integration best practices.

Asset Manager Principles and Practices

- Demonstrating our commitment to ESG Integration by clearly communicating the Fund's expectations for asset managers is critical to our efforts to enhance the long-term value of the Fund's investments.
- By incorporating an analysis of ESG factors alongside the analysis of other financial factors during manager selection and investment analysis, the Fund is able to generate richer insight and data for investment decisions.
- The Fund flexibly applies ESG due diligence when assessing investments by considering a variety of factors such as a manager's strategy, underlying investments, holding periods and geographies.
- In reviewing proposed investments and when monitoring existing asset managers, the Fund evaluates ESG policies, processes, resources, disclosure, and, where relevant, active ownership activities in order to assess the managers' approach and commitment to ESG Integration as it relates to achieving the best risk adjusted returns.
- The Bureau of Corporate Governance, as part of its support role for asset class investment officers, conducts in-depth research on asset managers, companies, industries and assets in which ESG factors are material to the value of the Fund's externally managed investments.



At the center of our ESG investment philosophy is our belief that high performing diverse boards of directors, good governance, and prudent management of environmental and social factors provide the foundation for sustainable long-term company success.”

- The Fund assesses how our asset managers address ESG factors prior to the Fund’s allocation and then monitors their progress on an ongoing basis.
- As part of that external asset manager analysis and engagement, some of the key principles and practices that we evaluate and expect to see improvement on over time include, but are not limited to:
 - Tone-at-the-top set by leadership of the firm;
 - The manager’s ESG policies and procedures;
 - How the manager integrates ESG into their own due diligence process;
 - ESG integration as part of the manager’s investment committee reviews;
 - How the manager monitors and enhances ESG performance of their investments once they are made; and
 - How the manager reports on ESG performance to clients.
- Assessing the Fund’s asset managers does not end once an investment is made. We will regularly monitor managers to see if there have been any changes to their ESG programs, policies, or resourcing and whether they are delivering on any commitments made during the due diligence process. The Fund expects asset managers to make every reasonable effort to keep the commitments made in this context. The type and frequency of asset manager engagement is tailored specifically to the strategy and asset class.
- When asked or when otherwise warranted, the Fund is committed to providing advice, feedback and guidance to asset managers on expanding capacity and improving ESG programs, practices, and portfolio company monitoring processes.

Public Equity Portfolio Company Principles and Practices

- As a long-term owner that invests across all sectors of the economy, the Fund works to promote sound ESG practices at the companies in its public equity portfolio through active ownership.
- At the center of our ESG investment philosophy is our belief that high performing diverse boards of directors, good governance, and prudent management of environmental and social factors provide the foundation for sustainable long-term company success.
- Underlying all of the Fund's engagement activities is a commitment to active ownership. Using the Fund's voice and votes to mitigate risks can help ensure the long-term success of our portfolio investments.
- We believe public company engagement activities can take various forms, including shareholder proposals, written correspondence, investor statements, press strategies and private dialogue. It is the Fund's experience that this work has resulted in many important company actions, commitments and disclosures, which can enhance and protect the long-term value of the Fund's investments.
- We believe proxy voting at company meetings is an effective means of engaging and communicating with boards of directors and management about the Fund's ESG priorities, and can also be a powerful tool for enhancing long-term value.
- We fully embrace our commitment to communicate the Fund's ESG priorities and expectations to the market in an accountable and transparent manner.
- We expect companies to identify ESG-related risks and opportunities and integrate ESG considerations into their long-term business strategies. Companies should have strong internal leaders and support from senior management to drive ESG performance improvements.
- We expect the boards of directors of companies to provide oversight of the management of ESG issues, policies and strategies.
- We expect companies to disclose their approach to addressing ESG risks and opportunities. This could include how they determine ESG materiality and ESG-related data utilizing widely accepted frameworks such as the Sustainable Accounting Standards Board and the Task Force on Climate-Related Financial Disclosures.
- Companies should also consider communicating their ESG efforts in mainstream financial filings or by releasing a yearly ESG-related report (Corporate Sustainability Report) that includes, among other things, the company's efforts to address ESG risk and opportunities and decision-useful data that is comparable over multiple years.
- We expect companies to regularly engage with shareholders on ESG-related issues and to respect all rights afforded to shareholders.

Contact

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