

# INVESTMENT STEWARDSHIP EXECUTIVE SUMMARY

**2022**

*Data as of December 2021, except where noted.*



**COLORADO  
PERA®**

# Investing for the Future

Colorado PERA's overall approach to investment stewardship is straightforward: Seek out quality investments that are expected to provide the best risk-adjusted returns to PERA's portfolio over the long term. We break down this approach to financial sustainability into four parts.



## PROTECT

Protect members' interests by watching costs

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**\$90,000**

Savings by producing CAP fund fact sheets internally

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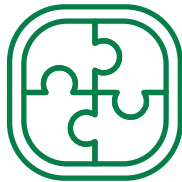
**0.31%**

Cost to manage the Total Fund, or about \$3 of cost for every \$1,000 managed

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**\$65 Million**

Savings by managing 62% of the Fund internally



## INTEGRATE

Integrate relevant factors into PERA's investment strategy

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**~69,000**

Proxy proposals voted in 2021

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**>220**

Proposals seeking ESG disclosures voted in 2021

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**6.1 Million**

Metric tonnes of carbon credits sold by PERA's timberland manager



## ADVOCATE

Advocate for robust markets

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**\$74 Trillion**

In assets under management by members of the primary advocacy groups in which PERA participates

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**~77%**

Of eligible private fund advisory boards on which PERA staff serve

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**>35**

Legislative and regulatory offices engaged on matters that can affect PERA and our members



## EVALUATE

Evaluate exposures and recognize limitations

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**\$86 Billion**

Generated by PERA's investments over the past 30 years

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**10.9%**

Annualized 10-year net return on PERA's investments

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**13.3%**

Annualized 5-year net return on PERA's investments

# INTRODUCTION

## Stewardship is the heart of Colorado PERA's mission.

Stewardship is the heart of PERA's mission. As stewards of pension plan assets, we manage approximately \$66 billion in assets on behalf of nearly 650,000 members.<sup>1</sup> That is a tremendous responsibility, and one we accept whole-heartedly. In fulfillment of our fiduciary duty, PERA's investment stewardship is founded on our commitment to the long-term financial stability of the Fund for its beneficiaries.

This report summarizes PERA's approach to seeking financial stability through investment stewardship. With increasing focus on ESG considerations within the investment industry, we uphold PERA's view of stewardship as an integrative framework for achieving financial stability. Under this approach, we have found opportunities to invest in firms and partnerships that integrate quality practices into their business models, while prioritizing long-term financial outcomes. PERA's stewardship approach adheres to [our investment policies](#) by maintaining our foundational focus on maximizing risk-adjusted returns across the Total Fund.



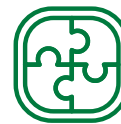
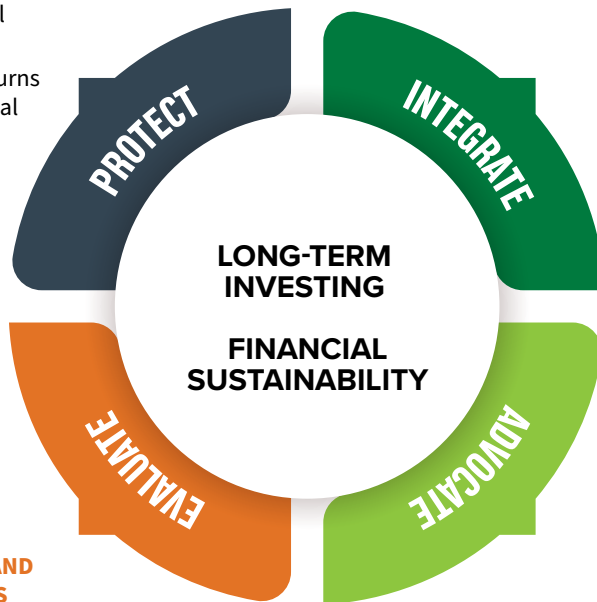
### PROTECT MEMBERS' INTERESTS BY WATCHING COSTS

- Lower costs in individual investment accounts
- Provide high-quality returns at low costs using internal management
- Work to unbundle equity trading and research costs



### EVALUATE EXPOSURES AND RECOGNIZE LIMITATIONS

- Use independent research
- Identify and measure exposures
- Recognize limitations of ESG data



### INTEGRATE RELEVANT FACTORS INTO PERA'S INVESTMENT STRATEGY

- Invest in firms with sustainable business models for long-term profitability
- Invest in natural resource and economic development
- Vote management and shareholder proposals to promote sound business practices



### ADVOCATE FOR ROBUST MARKETS

- Advocate for robust capital markets
- Develop and share best practices
- Advance standards and metrics for better disclosure

# PERA'S INVESTMENT STEWARDSHIP PHILOSOPHY

*PERA uses the term "stewardship" to describe our financially sustainable investing philosophy.*

PERA believes serving as good stewards of plan assets depends on diligent consideration of risk and opportunity factors that are relevant to our investment decisions as fiduciaries. Under our fiduciary duty we have the foremost obligation to invest in opportunities that provide the best risk-adjusted returns.

That means we may consider factors characterized within an environmental, social, and governance (ESG) framework, but we will not limit our investment decisions to only those factors. Instead, we recognize that such practices are pieces in the mosaic of information necessary to determine an investment's comprehensive value.

Companies that effectively manage risks and opportunities may demonstrate innovation, leadership, alignment with stakeholders, and financial success over the long run. These are qualities of companies that are built to last, and which present potential for increased financial value. Ultimately, we believe the best investments for long-term financial stability are found in quality companies and partnerships that exercise sound management of all aspects of business in order to generate profits and attractive investment returns.



# PERA'S INVESTMENT STEWARDSHIP APPROACH

*We actively serve as good stewards of plan assets for the benefit of PERA members.*

PERA's approach to pursuing financial stability is guided by four practices for sound investment stewardship:

- » We **protect** our members' interests through cost-conscious investment management.
- » We **integrate** financially relevant factors into our investment decisions.
- » We **advocate** for robust capital markets and business practices.
- » We **evaluate** various exposures within our portfolios on an ongoing basis.

## Building a Portfolio With Long-Term Sustainability

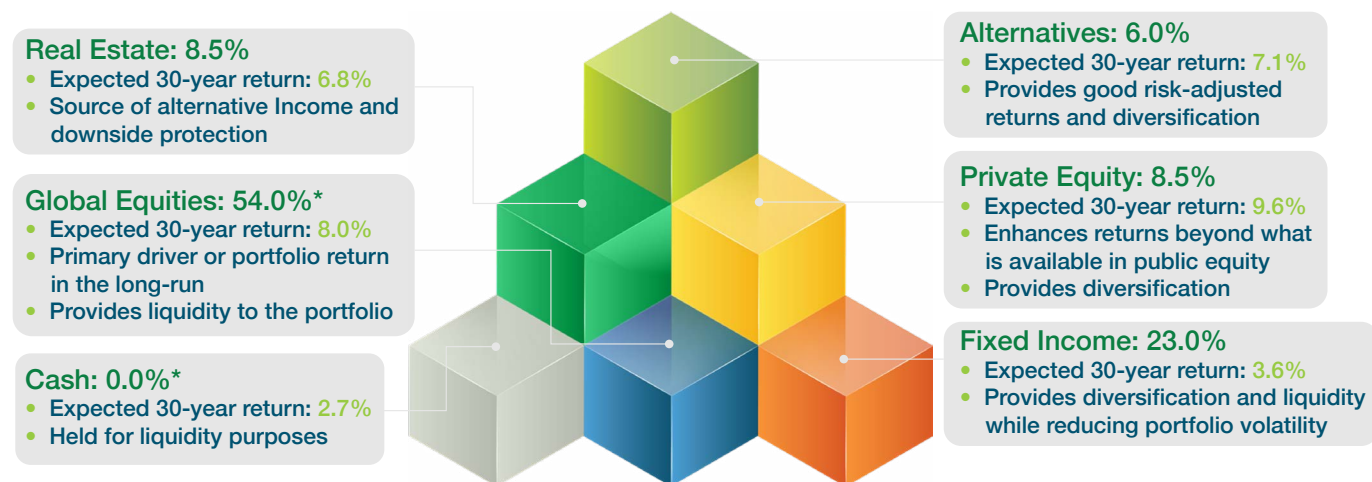
*Diversification is the foundation for constructing a portfolio built to last.*

As PERA's *Statement of Investment Policy* states, "The function of PERA is to provide present and future retirement or survivor benefits for its members. This objective requires the prudent assumption of investment risk in seeking to maximize long-term investment returns while incorporating the fund's liability requirements."<sup>2</sup> Meeting perpetual financial needs requires using PERA's breadth of resources to design a sustainable framework on which to build a long-term investment portfolio.

In constructing the Defined Benefit (DB) portfolio, PERA allocates assets across diverse public and private markets. We manage investments in public equity and debt instruments in both developed and emerging markets, commercial real estate properties, private equity partnerships, and alternative interests. Allocating capital to diverse asset classes allows PERA to maintain a broad investable universe, which is imperative for long-term financial success. The advantages of diversification include the ability to seize opportunities in different markets, unlock complementary performance attributes, and manage downside risk to the portfolio.

The allocation to each class in the DB portfolio is the result of periodic asset and liability studies undertaken by the PERA Board in consultation with investment and actuarial experts to ensure the portfolio is well-diversified to withstand volatility and provide returns that enable us to pay retirement benefits to our members in perpetuity. In pursuing diverse opportunity sets over a long time horizon, PERA expects to enhance performance of the Total Fund while effectively managing financial risks. By diversifying the portfolio, each asset class becomes a building block for modeling risk and return expectations in line with PERA's mission to provide retirement security for our members over the long run.

Regardless of which asset class an opportunity falls under, PERA is committed to protecting members' interests through cost-conscious investing, integrating financially relevant considerations, advocating for healthy markets, and evaluating appropriate exposures to inform our decisions on an ongoing basis.



\*Long-Term target allocation

Note: Expected 30-year returns were as of Q1 2019, were provided by the Board's external consultant (Aon), and were used in the 2019 asset/liability study.



PROTECT



# PROTECT

**Higher quality, low cost services create real value in the retirement funds we administer for PERA members.**

PERA aims to earn risk-adjusted returns in an efficient, cost-effective manner without sacrificing our focus on quality investments. We acknowledge there are inherent monetary costs to investing. These costs may be explicit or implicit and may vary depending on factors such as market structures, investment needs, and availability, relationship agreements, regulatory fees, operational efficiencies, and management expertise.

We protect members' interests through cost-conscious investing by:

- » Reducing fees for PERA members to participate in the 401(k), 457 Deferred Compensation Plan, and the Defined Contribution Plan (collectively referred to as Capital Accumulation Plans).
- » Managing the majority of fund assets internally, at a significant cost-savings relative to the estimated costs for outsourcing the management of those assets.
- » Utilizing external management where it adds value, such as in private markets where specialized expertise is necessary to transform underlying assets in order to generate expected returns higher than those of public market investments.
- » Making public equity research and transaction costs more transparent through negotiations with our external managers and broker-dealers.

PERA's cost stewardship is about protecting our members' interests by obtaining high-quality investments at lower costs. We advocate for cost transparency where we can, and seek the lowest possible costs to preserve risk-adjusted returns in both our defined contribution and defined benefit plans.



## PROTECT



See the "Protect" video for a snapshot of PERA's investment cost stewardship at [copera.org/stewardship](http://copera.org/stewardship).

*“Internal management supports our ability to be agile in responding to market conditions while also saving PERA significant costs.”*

—KEITH TAYMAN  
PERA Director of Fixed Income

## Lower Fees = More Savings



2011  
0.66%



2021  
0.15%<sup>3</sup>



**77%**  
All-in  
Fee Decrease in  
PERA's 401(k) Plan



**PERA considers relevant economic and business factors in our investment decisions with a focus on long-term financial outcomes in order to pay retirement benefits to our members.**

PERA invests to provide retirement income for our members. This objective requires us to factor financially relevant information into our investment and proxy voting decisions. Where environmental, social, or governance (ESG) matters are expected to materially affect a firm's financial performance, we may integrate them into our decisions as pieces of the mosaic of information we consider. This integrative approach to investing has always been PERA's approach to seeking long-term financial sustainability of the Fund for the ultimate benefit of our members.



**INTEGRATE**

See the "Integrate" video for a snapshot of how PERA integrates material factors in our decisions at [copera.org/stewardship](https://copera.org/stewardship).

## Integrating Financially Relevant Factors Into PERA's Investment Decisions

The integration of relevant financial factors in our investment decisions can result in exposures to various non-financial themes in the portfolio. Such themes are often classified as environmental, social, or governance related. PERA does not invest to meet any ESG objectives but we recognize that both financial and non-financial exposures may be presented by these in the portfolio as a result of our integrative decision-making as economies and markets change.

Following are examples of these types of exposures, where they are material to the business of the underlying investment within the PERA portfolio.

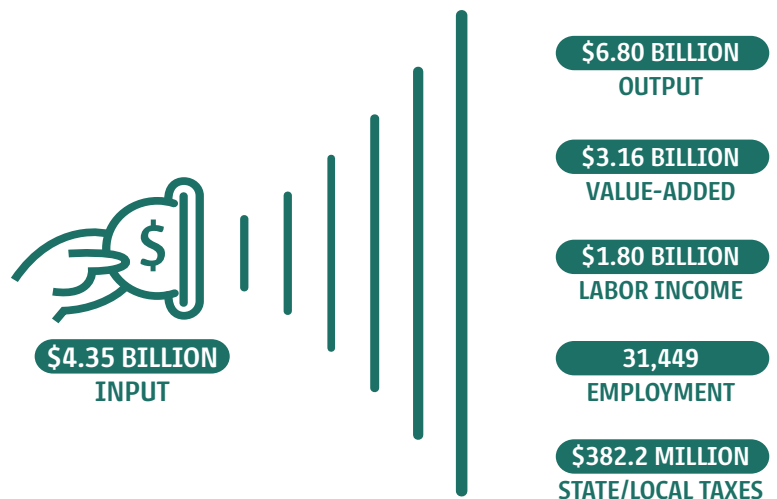
- » Investments in timberland through a manager that is committed to responsible natural resource management, transparency into its management of physical and transition risks, and opportunities associated with climate change.
- » Green real estate, including a controlling interest in a multi-family residential property covering 15 communities and more than 6,000 units that provides ecologically-friendly buildings, amenities, and property management services in partnership with the municipality's environmentally sustainable program.
- » Public and private market investments in companies that utilize renewable resources, including solar, wind, and biofuels, to produce and distribute energy to consumers.
- » More than \$898 million invested in Colorado companies and properties, which meet the rigorous requirements for inclusion in the PERA portfolio.

As consumer demands shift and technologies in energy production change, opportunities for company profitability evolve and present unique risks to investors. PERA will continue to manage investment risks and opportunities and construct our portfolios around companies and assets that are expected to provide the most attractive long-term return-to-risk profile.

## Positively Impacting Colorado's Economy

In addition to investing in Colorado, PERA benefit payments to retirees and benefit recipients have a positive impact on the state's economy. In 2021, over 110,000 Colorado residents received more than \$4.3 billion in distributions from PERA. These stable and valuable contributions to Coloradans resulted in the following:

- » \$6.80 billion in output (all goods and services transactions)
- » \$3.16 billion in value-added (state gross domestic product)
- » \$1.80 billion in labor income (which measures worker impact in wages)
- » 31,449 jobs
- » \$382.2 million in state and local tax revenues



Source: Colorado PERA's Economic and Fiscal Impacts 2022, prepared by Pacey Economics, Inc.



INTEGRATE



## What is Proxy Voting?

Proxy voting is a formal mechanism through which corporations and their shareholders communicate about a broad range of issues and practices that can affect a company's long-term sustainability and investment returns. It is one of the ways shareholders exercise engaged ownership. Voting matters can be put to ballot by the company's board or its shareholders, and cover important decisions such as approving the members of the board of directors, mergers, acquisitions, and types of disclosures made to shareholders. Shareholders can vote in person at a corporation's annual general meeting (AGM), or cast their votes electronically in advance of the AGM, which is called voting by proxy, or proxy voting.

Curious how PERA voted at a particular company meeting? You can search and explore PERA's votes on our [website](#), which is updated with our vote following each meeting.

## Integrating Relevant Factors into PERA's Proxy Voting Decisions

The goal of PERA's proxy voting activities is to exercise shareholder rights to encourage the alignment of corporate interests with long-term investor interests. This is governed by the PERA Board through its *Proxy Voting Policy (Policy)*, which acts as a public statement on why and how we make voting decisions, and can guide conversations with companies, peers, and stakeholders around PERA's stance on a variety of issues that can affect financial value. The Policy upholds long-held tenets of sound corporate governance including:

- » Independence and appropriate refreshment of Board nominees.
- » Shareholder access to proxy ballots to nominate directors of their choice.
- » Simple majority (50%+) approval by shareholders to enact ballot initiatives.
- » Preservation of audit integrity.
- » Compensation packages that incentivize long-term shareholder value creation.

The PERA Board updated its *Policy* in 2021. The *Policy* enhancements achieve the Board's strategic plan objective to update the voting guidelines and solidify a position on ESG issues that can affect our financial success over the long term.

Updates to the Board's *Policy* focus on matters relevant to PERA's investment objectives and theses, including:

- » Increasing transparency into PERA's proxy voting activities.
- » Complementing PERA's advocacy against mandatory arbitration provisions that can limit company shareholder and employee rights.
- » Expanding existing language pertaining to the disclosure of financially material risks and opportunities in climate change, human capital management, diversity, and political spending.

By voting on corporate matters that can impact profitability and returns over the long run, PERA will continue to uphold our fiduciary duty by engaging company management, signaling best practices, and influencing corporate behavior to promote financially sustainable practices for the ultimate benefit of PERA members and their beneficiaries.





# ADVOCATE

***We promote fair and transparent markets by contributing our expertise to regulators and financial industry advisory boards in advocacy of best practices that serve long-term investor interests.***

PERA's advocacy philosophy is centered on three principles: fair markets, alignment, and disclosure.

- » We believe markets that treat participants in a fair and equitable manner are beneficial to all long-term investors.
- » We believe aligned interests of companies and investors are paramount to company success in the long-run.
- » We believe that as owners and creditors of a business, investors deserve robust and accurate information on relevant and material financial and operational results.

Given PERA's size and influence as a large institutional investor, we have the opportunity to use our voice to strengthen markets, hold companies and partnerships in which we invest accountable to investor interests, and advocate for disclosures that are decision-useful to investors and increase transparency on material issues. While PERA may advocate publicly and as an individual entity, we have also valued the opportunity to join with other institutional investors and market participants to raise a collective voice on matters that can affect the sustainability of companies, partnerships, and global markets in which we invest on behalf of PERA's members.



## ADVOCATE



See the "Advocate" video for a snapshot of how PERA advocates for stronger markets on behalf of our members at [copera.org/stewardship](http://copera.org/stewardship).

## PERA staff serve on the advisory boards of the majority of eligible private investment funds:

» *Private Equity:*

**73%**

» *Real Estate:*

**79%**

» *Alternatives:*

**80%**



ADVOCATE





## Amplifying PERA’s Voice in the Market

PERA participates in advocacy groups to amplify our voice in support of investor rights, sound business practices, and market integrity. The two primary advocacy organizations we work with have more than \$74 trillion in assets under management by their members, which include institutional investors worldwide. These groups focus on domestic and international market reforms that protect long-term investor interests, and we are proud to engage alongside them to advance healthier markets on behalf of PERA members.

### ADVISORY GROUP

#### Council of Institutional Investors (CII)

Board of Directors, Policies Committee

### WHO REPRESENTS PERA

*“I’m honored to have been elected to serve on CII’s Board of Directors and chair CII’s Policies Committee as we continue PERA’s long-standing focus on investor advocacy. The work of CII is all about advancing the business and regulatory oversight necessary to drive profitability for companies and their long-term investors. Together we can influence market changes that ultimately benefit the members of pension plans like PERA.”*

–Ron Baker,  
Executive Director

CII’s current advocacy is focused on investor rights and protections, corporate disclosure, and market systems and structures, including:\*

- » PCAOB governance structure
- » SEC climate disclosure proposal
- » European Commission consultation on listing for dual-class stock companies
- » SEC pay-for-performance disclosure
- » SEC large private funds’ confidential reporting to SEC
- » SEC insider trading rules
- » SEC disclosure on buybacks
- » SEC cyber disclosure and reporting requirements for investment funds and advisors
- » SEC cost transparency in private markets
- » SEC universal proxies for contested elections

### ADVISORY GROUP

#### International Corporate Governance Network (ICGN)

Board of Directors, Financial Capital Committee

### WHO REPRESENTS PERA

*“It’s an honor to join the ICGN Board and support their work in promoting effective standards of corporate governance and investment stewardship. ICGN plays a crucial role in advocating for comprehensive improvements to shareholder rights and influencing policy and reforms that foster trust in the integrity of the global capital markets.”*

–Luz Rodriguez,  
Sr. Investment Stewardship Analyst

ICGN’s current advocacy is focused on corporate reporting, investor rights, and improving governance and stewardship standards, including:\*\*

- » European Commission corporate reporting quality
- » Canadian Securities Administrators climate related disclosures
- » European Commission access to capital for small to medium size enterprises
- » German Commission consultation on the revisions to the German Corporate Governance Code
- » Netherlands proposal to update the Dutch Corporate Governance Code
- » Japan’s FSA Council of Experts corporate governance code review

\*For more information about CII and their advocacy, please visit their website: <https://www.cii.org/advocacy>

\*\*For more information about ICGN and their advocacy, please visit their website: <https://www.icgn.org/>




# EVALUATE

**Evaluating our portfolios through different lenses helps us see underlying exposures from diverse perspectives.**

PERA Board and staff monitor the investment portfolio on an ongoing basis. Returns, performance attribution, and risk are among the common metrics investors use to track their portfolios and compare the performance of their investments against benchmarks. In addition to these traditional financial metrics for portfolio evaluation, PERA can evaluate non-financial indicators through various lenses to get a better sense of exposures underlying our portfolios. These can include metrics pertaining to environmental, social, or governance themes. We do not manage PERA's investments solely to these factors; rather, they are an additional lens through which we can view our portfolios. Such insights are often of interest to PERA's members and partners, and we present them here in response to those interests. Types of data PERA may access in evaluating our portfolios include:

- » ESG disclosures from companies and partnerships that are business-specific and financially relevant.
- » Environmental, social, and governance scores and data from independent providers.
- » Research and analysis on sustainable opportunities and risks faced by companies or industries.
- » Comparisons of the sustainability profiles of our public portfolios relative to their respective benchmarks.

This information is supplementary to our fundamental analysis of material factors pertaining to a company's sustainability throughout the holding period. We do not manage portfolios to target any specific ESG metric or outcome. As PERA actively manages assets with consideration to financially material factors, the composition of our portfolios may change over time, resulting in score fluctuations relative to each appropriate benchmark.



**EVALUATE**

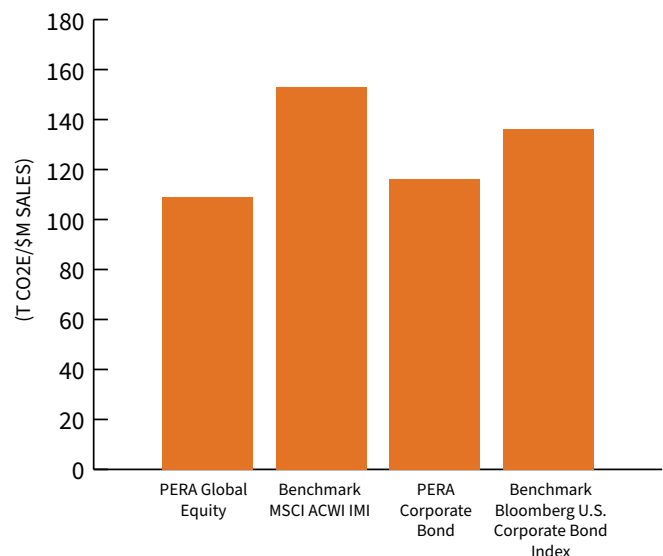
See the "Evaluate" video for a snapshot of how PERA evaluates our investments on an ongoing basis [coper.org/stewardship](https://coper.org/stewardship).



EVALUATE

## ESG performance reports do not inform our portfolio management decisions; rather, they give us a different perspective on existing investments.

**MCSI Carbon Risk of PERA's Portfolios vs. Benchmarks (As of December 31, 2021)**



# ONGOING STEWARDSHIP FOR A FINANCIALLY SUSTAINABLE FUTURE

***Under fiduciary duty owed to our members, PERA remains committed to sensible investment practices that advance our members' financial security in retirement.***

PERA believes the path of stewardship is actively created, rather than achieved. As PERA pursues financial stability of the pension fund over the long-term, we will continue to assess investment risks and opportunities across three primary market drivers: supply and demand shifts, technological innovation, and regulatory and legislative policy changes. The dynamics among and between these impetuses will continue to evolve over time, presenting new investment risks and opportunities to consider.

As social and environmental changes affect consumer preferences, companies will need to respond with competitive offerings while maintaining financial integrity and profitability. Such products and services will necessitate innovation to meet the demands of a changing world.

Evolving technologies will shape the way market participants develop competitive businesses, and in turn these practices inform new technologies. These may simultaneously raise awareness of external impacts of business on the environment, society, and the economy.

With that awareness, financial and regulatory boards may continue to develop standards that integrate the intangible values of stewardship, while holding firms accountable to their roles in natural resource management and social wellness. That accountability translates into transparency and publicly available information. In turn, these yield knowledgeable investors, stronger competition, healthier markets, and profitable stakeholder gains.

Throughout the evolution of these dynamics, we remain committed to serving as good stewards of plan assets by protecting members' interests through cost-conscious investing, integrating financially relevant factors in our decisions, advocating for competitive markets, and evaluating portfolio characteristics on an ongoing basis. These guiding practices of PERA's investment stewardship are firmly rooted in our fiduciary duty to maximize risk-adjusted returns to the portfolio, which will ultimately fulfill PERA's mission to ensure the retirement security of our members while ensuring the financial sustainability of the fund.

## LEARN MORE ABOUT PERA'S INVESTMENT STEWARDSHIP

We invite you to visit our website at [www.copera.org/stewardship](http://www.copera.org/stewardship) to learn more about how we practice sound stewardship over fund assets for the ultimate benefit of plan participants.

On the Investment Stewardship page of PERA's website, you can find:

- » The full version of PERA's *Investment Stewardship Report*.
- » The PERA Board of Trustees' *Statement on Divestment*.
- » PERA's *Proxy Voting Policy*.
- » Videos about PERA's investment stewardship initiatives.

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*“We don't look one or two years down the road; we look out 15 or 20 years, and concentrate on the long-term viability of a company's business model.”*

—JARED GOODMAN  
PERA Senior Equity Portfolio Manager

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# Disclosures

## LEED®

The United States Green Building Council's LEED® green building program is the preeminent program for the design, construction, maintenance, and operations of high-performance green buildings. Learn more at [www.usgbc.org/LEED](http://www.usgbc.org/LEED).

## MSCI ESG Research LLC

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# Endnotes

- 1 PERA data as of December 31, 2021, unless otherwise noted.
- 2 <https://www.copera.org/files/cde467d81/Investment+Policy+1-22.pdf>
- 3 Costs are calculated as a weighted average of investment management fees and administration fees across all funds offered in the PERA 401(k) Plan. 2011 costs are represented as a percentage of average investments at fair value between January 1, 2011, and September 30, 2011, prior to the inception of the white label fund structure. Costs for 2021 are represented as a percentage of average investments at fair value between January 1, 2021–December 31, 2021.

# Commonly Used Acronyms

AGM: Annual General Meeting

CAPs: Capital Accumulation Plans (Collectively PERA's 401(k) Plan, 457 Deferred Compensation Plan, and Defined Contribution Plan)

CII: Council of Institutional Investors

CSP: Certified Sustainable Property

DB: Defined Benefit

DC: Defined Contribution

ESG: Environmental, Social, and Governance

IAQ: Indoor Air Quality

ICGN: International Corporate Governance Network

ILPA: Institutional Limited Partner Association

IFRS: International Financial Reporting Standards

ISS: Institutional Shareholder Services

ISSB: International Sustainability Standards Board

LEED: Leadership in Energy and Environmental Design

MiFID II: Markets in Financial Instruments Directive II

MSCI: MSCI, Inc. (formerly known as Morgan Stanley Capital International)

SASB: The Value Reporting Foundation (formerly known as Sustainability Accounting Standards Board)

SEC: U.S. Securities and Exchange Commission

TCFD: Taskforce on Climate-related Financial Disclosures



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