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

**INTEGRATE**
Integrate relevant factors into PERA’s investment strategy

**ADVOCATE**
Advocate for stronger markets

**EVALUATE**
Evaluate exposures and recognize limitations

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**$90,000**
Savings by producing CAP fund fact sheets internally

**~63,000**
Proxy proposals voted in 2020

**$4 Trillion**
In assets under management by members of the primary advocacy group in which PERA participates

**$69 Billion**
Generated by PERA’s investments since 1980

**0.32%**
Cost to manage the Total Fund

**>220**
Proposals seeking ESG disclosures voted in 2020

**~78%**
Of eligible private fund advisory boards on which PERA staff serve

**9.4%**
Annualized 10-year return on PERA’s investments

**$60 Million**
Savings by managing 63% of the Fund internally

**6.1 Million**
Metric tonnes of carbon credits sold by PERA’s timberland manager

**>35**
Legislative and regulatory offices engaged on matters that can affect PERA and our members

**11.6%**
Annualized 5-year return on PERA’s investments

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As of December 31, 2020, except where noted.
INTRODUCTION

Stewardship is the heart of Colorado PERA’s mission. As stewards of pension plan assets, we manage approximately $59 billion in assets on behalf of more than 630,000 members. 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 sustainability of the Total Fund for its beneficiaries.

This report explores PERA’s approach to seeking financial sustainability through investment stewardship. With increasing focus on environmental, social, and governance (ESG) considerations within the investment industry, we uphold PERA’s view of stewardship as a more integrative framework for achieving financial sustainability. 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 sustainability.
PERA’S INVESTMENT STEWARDSHIP PHILOSOPHY

PERA uses the term “stewardship” to describe our financially sustainable investing philosophy. We believe stewardship encompasses 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. We evaluate appropriate investments that fall within the parameters set forth by the PERA Board.

That means we may consider factors characterized within an ESG framework, but we will not limit our investment decisions to only those factors. Instead, we recognize that these practices are pieces in the mosaic of information necessary to determine an investment’s comprehensive value.

Companies that effectively manage stewardship risks and opportunities may demonstrate innovation, leadership, alignment with stakeholders, and financial success. 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 sustainability are found in quality companies and partnerships that practice strong stewardship over all aspects of business in order to generate profits and attractive investment returns.

PERA’S INVESTMENT STEWARDSHIP APPROACH

PERA’s approach to financial sustainability is guided by four principles for sound investment stewardship.

» We protect our members’ interests through cost-conscious investment management.

» We integrate relevant and financially material factors into our investment decisions.

» We advocate for stronger capital markets and business practices.

» We evaluate various exposures within our portfolios on an ongoing basis to cultivate a deeper understanding of their real and potential financial impacts.

Target Asset Allocation (as of December 31, 2020)
Stewardship

Fiduciary responsibility • Long-term • Fair markets
- High-quality
- Ethical practices • Trust • Professionalism • Customer service
- Opportunity • Risk management • Disclosure • Awareness • Advocacy
- Cost savings
- Op p o rt u n i t y • Engagement • Partnerships • Financial success • Sustainability • Voice

Environmental factors • Societal factors • Governance factors

ENVIRONMENTAL
Activities or products that may affect the natural environment
- Energy efficiency
- Air pollution
- Water scarcity
- Carbon emissions

SOCIAL
Activities or products that may affect society
- Equality
- Political influence
- Community
- Health and safety

GOVERNANCE
Activities that may affect the success of the firm
- Board independence
- Stakeholder alignment
- Executive compensation
- Management oversight
COST-CONSCIOUS INVESTING

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 externally.

» 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.

» Implementing new strategies in asset- and mortgage-backed securities to obtain higher yields, enhance diversification, and improve benchmark tracking within fixed income.

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.

—KEITH TAYMAN
PERA Director of Fixed Income

Lower Fees = More Savings

<table>
<thead>
<tr>
<th>Year</th>
<th>Fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>0.66%</td>
</tr>
<tr>
<td>2020</td>
<td>0.16%</td>
</tr>
</tbody>
</table>

76% All-in Fee Decrease in PERA’s 401(k) Plan

See the "Protect" video for a snapshot of PERA's investment cost stewardship at www.copera.org/stewardship.
PERA integrates financially material factors into our investment decisions. These may include ESG factors, which may be considered in the mosaic of information taken into account if they are deemed financially material. Materiality is dynamic and the financial relevance of any risk or opportunity may change over time and within the context of changing businesses, markets, regulations, and the overall asset mix of PERA’s portfolio. By focusing on materiality in our investment decisions, we believe we can direct PERA’s resources toward issues that are most pertinent to the expected risk-adjusted returns of our investments, in line with our fiduciary duty. This integrative framework for stewardship has always been PERA’s approach to making investment decisions.

ENVIRONMENTAL STEWARDSHIP: INVESTMENTS IN RENEWABLE RESOURCES AND A LOWER-CARBON FUTURE

As standards of practice and technologies advance, we recognize there are investment risks and opportunities in all forms of resource production and utilization—including both traditional and alternative resources. PERA’s investors may consider relevant and material factors of environmental stewardship in their fundamental analysis when evaluating investments in public securities, or through due diligence when evaluating private investment assets and managers. Through our long-term, high-quality investment focus, PERA has found material financial value in companies and partnerships that also integrate environmentally sustainable practices in their business models.

Highlights of PERA’s investments in companies and assets that demonstrate environmental stewardship include:

» 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.

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 provide the most attractive long-term return-to-risk profile.
SOCIAL STEWARDSHIP: INVESTING IN LOCAL ECONOMIES

PERA contributes to economic health in communities across Colorado and the U.S. through our investments and our role in providing retirement benefits to our members. We invest in Colorado companies and properties, and provide retirement and other benefits to thousands of retirees, many of whom live in the state. Through a partnership vehicle, PERA also invests in affordable housing, which generates returns to the portfolio while enhancing the quality of life for low- and middle-income residents across the U.S.

PERA’s investments in communities include:

» More than $808 million invested in Colorado companies and properties, which meet the rigorous requirements for inclusion in the PERA portfolio.

» Private equity investment in a fund that transforms underlying portfolio companies through six key focus areas of sustainable business development: human capital, customer focus, simplification, environment, governance, and communities.

» Partnership investments that generate strong returns to the portfolio while providing access to renovated homes with attractive amenities and proximity to employment and quality schools for lower income-families.

GOVERNANCE STEWARDSHIP: EXERCISING SHAREHOLDER RESPONSIBILITY TO STRENGTHEN CORPORATE PRACTICES

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.

In March 2020, the PERA Board began work on their strategic initiative to update this Policy by 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.
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 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.

Advocacy Groups in Which PERA Participated in 2020

<table>
<thead>
<tr>
<th>Organization</th>
<th>Group</th>
<th>Focus</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chartered Financial Analyst Institute (CFA)</td>
<td>Diversity and Inclusion Steering Committee</td>
<td>Inclusive Human Capital</td>
</tr>
<tr>
<td>Council of Institutional Investors (CII)</td>
<td>Board of Directors, Policies Committee</td>
<td>Advocacy Policy</td>
</tr>
<tr>
<td>Harvard Institutional Investor Forum</td>
<td>Advisory Council</td>
<td>Institutional Investment</td>
</tr>
<tr>
<td>Healthy Markets Association</td>
<td>Board of Directors</td>
<td>Market Structure Reform</td>
</tr>
<tr>
<td>Institutional Limited Partners Association (ILPA)</td>
<td>Membership</td>
<td>Private Market Partnership Practices</td>
</tr>
<tr>
<td>International Corporate Governance Network (ICGN)</td>
<td>Membership</td>
<td>International Corporate Governance Policies</td>
</tr>
<tr>
<td>National Council of Real Estate Fiduciaries (NCREF)</td>
<td>Membership</td>
<td>Real Estate Performance and Standards Metrics</td>
</tr>
<tr>
<td>Pension Real Estate Association (PREA)</td>
<td>Membership</td>
<td>Institutional Investor Education</td>
</tr>
<tr>
<td>Stanford Institutional Investors’ Forum</td>
<td>Membership</td>
<td>Institutional Investment</td>
</tr>
<tr>
<td>Sustainable Accounting Standards Board (SASB)</td>
<td>Standards Advisory Group</td>
<td>Sustainable Disclosure</td>
</tr>
<tr>
<td>University of Colorado Burridge Center for Finance</td>
<td>Advisory Committee</td>
<td>Professional Investor Education</td>
</tr>
</tbody>
</table>

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

» Private Equity: 76%

» Alternatives: 84%

» Real Estate: 75%

See the "Advocate" video for a snapshot of how PERA advocates for stronger markets on behalf of our members at www.copera.org/stewardship.
PERA continues to examine the ways in which stewardship can have a financial impact. While we recognize there are limitations to the quality of sustainability data currently available to investors, we also recognize the importance of assessing non-financial exposures within our portfolios on a continual basis with available tools. Our ESG evaluations give us a snapshot of the sustainability exposures in our portfolios. We do not manage PERA’s investments to these factors solely; rather they are an additional lens through which we can view our portfolios.

Types of sustainability data PERA may access in monitoring our portfolios include:

» Sustainability 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.

As PERA actively manages assets with consideration to financially material factors, the composition of our portfolios may change over time, resulting in sustainable attribution fluctuations relative to each appropriate portfolio benchmark. As such, the sustainability profile of PERA’s portfolios are expected to vary on both absolute and relative bases.

**MSCI Carbon Risk of PERA's Portfolios vs. Benchmarks (As of December 31, 2020)**

ESG PERFORMANCE REPORTS DO NOT INFORM OUR PORTFOLIO MANAGEMENT DECISIONS; RATHER, THEY GIVE US A DIFFERENT PERSPECTIVE ON EXISTING INVESTMENTS.
**ONGOING STEWARDSHIP FOR A FINANCIALLY SUSTAINABLE FUTURE**

PERA believes the path of stewardship is actively created, rather than achieved. As sustainable technologies evolve, they shape the way market participants develop sound business practices, and in turn, these practices inform new technologies. Evolving technologies and practices raise awareness of the impact of stewardship 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. That accountability translates into transparency and publicly available information. In turn, these yield knowledgeable investors, stronger competition, healthier markets, and profitable stakeholder gains.

As conversations around global stewardship evolve, PERA continues to focus on our investment stewardship. In fulfilling our fiduciary duty to our members, we remain committed to seeking the best risk-adjusted returns in diverse asset classes for long-term financial sustainability. We continue to weigh the risks and opportunities for reward presented by global stewardship.

We remain vigilant in first-hand engagement with our investment partners to advocate for stronger practices that lead to stronger returns. In doing so, we uphold financial sustainability as our top priority in our investment stewardship. The financial sustainability of the Fund will ultimately support the retirement success of all our members.

“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

**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.
DISCLOSURES

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ENDNOTES
1 PERA data as of December 31, 2020, unless otherwise noted.