**THOMAS GOLONKA**
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VPIC VICE-CHAIR

# STATE OF VERMONT
## VERMONT PENSION INVESTMENT COMMISSION

## VPIC Carbon Reduction and Mitigation Policy
***Adopted April 26, 2022***

The VPIC recognizes the significance of the global climate crisis. The transition to a low carbon economy will present opportunities and risks across all market sectors and geographies. The Commission employs a multidimensional approach to climate change considerations within the portfolio to maximize the total return on investments, within acceptable levels of risk for a public retirement system per Section 523 of the Vermont Pension Investment Commission's enabling statute.

This policy guides VPIC's response to external or internal initiatives to achieve carbon reduction goals. VPIC opposes any investment or divestment effort that would either implicitly or explicitly attempt to direct or influence the Commission to engage in investment activities that violate and breach the Commissioners' fiduciary responsibility. Consistent with its fiduciary responsibility and the concepts of diversification and passive index investment, the Commission does not and will not systemically exclude or include any investments in companies, industries, countries or geographic areas, except in cases where it creates an economic risk to the fund or a potential for materials loss of revenue in line with the Commission's fiduciary duty.

VPIC firmly believes that active and direct engagement is the best way to address risks in the portfolio. Meetings with regulators, shareowners, and company leadership are essential to bring about change in a corporation or industry. Divestment is an option of last resort that can be employed as appropriate. Efforts at engagement include, but are not limited to, shareholder proposals and proxy votes against board members, regulatory outreach, media campaigns and other efforts.

VPIC's commitment to engaging companies rather than divesting is based on several considerations:

- divestment would eliminate VPIC's standing and rights as a shareowner and foreclose further engagement;
- divestment would be likely to have negligible impact on the portfolio or the market;
- divestment could result in increased costs and short-term losses;
- divestment could compromise VPIC's investment strategies and negatively impact investment performance, further increasing unfunded liabilities and funding requirements.

If engagement fails to resolve the risk factor sufficiently, the CIO will bring the issue before the Commission for consideration of divestment from the applicable securities, or other prudent action. The Commission will receive input from its investment staff, investment managers, investment consultants, and other experts in the particular field or issue. If the Commission determines that the making or holding of an investment or continuing to hold a security is

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imprudent and inconsistent with its fiduciary duty, it will instruct investment staff to eliminate the unacceptable level of risk.