



RETIREMENT BOARD CALENDAR SHEET
Retirement Board Meeting of October 14, 2020

To: Retirement Board

Through: Jay Huish 
Executive Director

William J. Coaker Jr., CFA, MBA
Chief Investment Officer

Kurt Braitberg, CFA, CAIA
Managing Director, Public Markets

From: Andrew Collins
Director of ESG Investing

Adrienne von Schulthess
Security Analyst, ESG Investing

Date: October 14, 2020

Agenda Item:

Targeted/Investment of Firearms and Ammunition Manufacturing Companies and Retailers: Level III of SFERS Social Investment Procedures

Background:

On June 28, 2016 the San Francisco Board of Supervisors passed a resolution urging SFERS to divest its holdings from firearms and ammunition manufacturing companies. At the October 12, 2016 meeting Staff recommended divestment from a list of six firearms and/or ammunition manufacturers and three firearms and/or ammunition retailers. The Board approved this recommendation. At the September 12, 2018 meeting the Board approved a set of Criteria for Divestment to be applied to companies engaged in firearms and ammunition manufacturing and/or retailing.

This report describes recommended updates to the list of restricted firearms and ammunition manufacturing companies and retailers, details the performance impact of not owning these companies in the SFERS' investment portfolio over the past year and since the inception of the restriction, and provides an update on gun violence in the U.S. over the past 12 months.

Recommendation:

Staff recommends the Board reaffirm the intent to remain divested from firearms and ammunition manufacturing and retail companies and adopt the list of restricted companies identified in Appendix B.

If the Board agrees then the following motion is recommended:

Move that the San Francisco Employees' Retirement System maintain its policy with respect to divestment from firearms and ammunition manufacturing companies and retailers and adopt

the List of Restricted Firearms and Ammunition Manufacturers and Retailers presented in Attachment B.

Attachment:

Staff Memorandum



SFERS

San Francisco Employees' Retirement System

City and County of San Francisco Employees' Retirement System

To: Retirement Board

Through: Jay Huish *JH*
Executive Director

William J. Coaker Jr., CFA, MBA
Chief Investment Officer

Kurt Braitberg, CFA, CAIA
Managing Director, Public Markets

From: Andrew Collins
Director of ESG Investing

Adrienne von Schulthess
Security Analyst, ESG Investing

Date: October 14, 2020

Agenda Item:

Targeted/Investment of Firearms and Ammunition Manufacturing Companies and Retailers: Level III of SFERS Social Investment Procedures

Background:

On June 28, 2016 the San Francisco Board of Supervisors passed a resolution urging SFERS to divest its holdings from firearms and ammunition manufacturing companies. At its July 13, 2016 meeting the Retirement Board continued this item to the September 14, 2016 meeting. At this meeting Staff presented a memo outlining the business and investment risks associated with firearms companies, a comparison to actions taken by peer funds, and a recommendation that the Board direct Staff to develop a plan for engaging with or divesting from firearms manufacturing and retailers.

At the October 12, 2016 meeting Staff recommended divestment from a list of six firearms and/or ammunition manufacturers and three firearms and/or ammunition retailers. The Board approved this recommendation.

At September 12, 2018 meeting the Board approved a set of Criteria for Divestment to be applied to companies engaged in firearms and ammunition manufacturing and/or retailing. In addition, the Board approved Staff recommendation for updates to the list of Restricted Firearms and Ammunition Manufacturers and Retailers.

Criteria for Investment Restriction

As approved at the September 12, 2018 meeting, SFERS restricts its public markets managers from investing in civilian firearms and/or ammunition manufacturers and retailers according to the following criteria¹:

- Global manufacturers of civilian firearms and/or ammunition (including so-called dual-use ammunition) that received greater than 10% of revenue from such business segments.
- US-domiciled retailers of civilian firearms and/or ammunition that received greater than 10% of revenue from such product segments.
- US-domiciled retailers of civilian firearms that sell weapons illegal for sale in California, including “assault weapons” (i.e., any semi-automatic, centerfire rifle or semi-automatic pistol that lacks a fixed magazine and has one of a number of features that include a protruding pistol grip or a folding or telescoping stock), regardless of revenue from this product segment.

A 10% revenue threshold is used as it generally aligns with the quantitative threshold for a reportable business segment.

A focus on US-domiciled retail companies is used due to the public health crisis due to gun violence that exists specifically in the US.

A global focus on firearm and ammunition manufacturers is used due to the potential availability of these products in the US market.

Update on Peer Funds

Firearm manufacturing and retailer divestment remain an ongoing topic for several of SFERS' public fund peers:

- Since 2013, CalPERS maintains a policy of divestment from certain gun manufacturers. In March of 2018 the CalPERS Board voted against scheduling a vote on divestment from firearm retailers, instead recommending engagement with those companies. In May of 2019, the plan hired a full-time “public engagement manager” to coordinate its efforts to engage with civilian firearms manufacturers and retailers. This effort is part of a joint initiative announced in November 2018 along with 13 other investors (including SFERS).
- Since 2013, CalSTRS maintains a policy of divestment from certain firearm manufacturers. In 2015 it exited its economic interest in Remington Outdoors, where it had exposure through Cerberus Capital Management. In May 2018, CalSTRS announced a plan to make firearm-related engagement activities a top priority and stated that it would consider recommending that the board consider divestment if engagement efforts fail.
- Since 2013, New York City Teachers Pension Fund Board of Trustees has been divested from gun manufacturers.

¹ Staff notes that restriction applies to investments in which SFERS has direct ownership through a separately managed account structure. As with all Level III restriction, these do not apply to investments through commingled vehicles over which SFERS does not have control to restrict investment in certain securities.

- Since 2013, New York City Employees' Retirement System (NYCERS) has been divested from gun manufacturers, and since 2016 from certain gun and ammunition retailers. It did not vote to divest from retailers Walmart or Kroger.
- In 2016, the New York City Police Pension Fund and Board of Education Retirement System's trustees have approved plans to study the possibility of divesting their holdings in gunmakers. The Fire Department pension system voted against doing so.

Review of List of Restricted Companies

In August 2018, SFERS expanded its relationship MSCI ESG Research LLC to obtain additional data and information on companies involved in the manufacture and/or retail of civilian firearms and/or ammunition.

Staff has used this information as well as additional resources to contemplate updates to the firearms and ammunition manufacturing companies and retailers subject to SFERS divestment.

The following recommendations are based on these resources using the abovementioned criteria for divestment from firearms and ammunition manufacturing companies and retailers:

- Add Smith & Wesson Brands, Inc. to the list of restricted companies. In August 2020, Smith & Wesson Brands was spun out of American Outdoor Brands, a company currently on the SFERS restricted list. Staff recommends removing American Outdoor Brands from the list of restricted companies going forward, as its remaining business activities after spinning off its firearms segment are related to outdoor products and accessories. This includes those for hunting, fishing, camping, shooting, and personal security and defense.
- Add Taurus Armas, SA to the list of restricted companies in addition to Forjas Taurus, SA to reflect the more common trade name for the entity.
- Add Firstcash or Ezcorp, two pawn shop operators that are firearms dealers, to the list of restricted companies. Staff has found no evidence that Firstcash or Ezcorp have policies in place to restrict the sale of sell firearms illegal for sale in California, including "assault weapons". Therefore, these companies warrant restriction based on part C of SFERS' criteria.

As of 6/30/20, SFERS had no direct exposure to any of the four companies.

Update on Gun Retailer Actions

Mass shootings continue to occur with regularity through the US. According to the Gun Violence Archive there were 464 mass shootings in 2020 in the US through September 23, 2020, already topping the 2019 annual total of 418². In the absence of federal regulation, several national retailers of civilian firearms have taken steps to tighten their policies and practices around sales of guns and ammunition.

Following the February 14, 2018 Parkland, Florida mass shooting, Walmart announced it would raise the age limit for guns sales to 21. Previously, in 2015, Walmart had announced that it would stop selling assault style weapons. In the wake of the August 3, 2019 shooting at an El Paso Walmart, the company announced it would stop sales of ammunition for assault-style rifles and all handgun ammunition. In

² <https://www.gunviolencearchive.org/>, accessed September 23, 2020.

addition, the retailer said it will no longer allow shoppers to carry firearms openly inside any of its stores. However, those shoppers with “concealed-carry” permits will not be restricted from entering stores with firearms.

Dick’s Sporting Goods has phased out sales of assault style weapons in its Field and Stream stores (it previously phased out sales in Dick’s brand stores in 2005) and raised the age limit for gun sales to 21. CEO Ed Stack also indicated support for a variety of public policy measures aimed at stricter oversight of civilian firearms. In March 2020, the company announced plans to eliminate firearms (and the entire hunting department) at 440 Dick’s Sporting Goods locations following elimination of department at 135 stores in 2018.

SFERS Engagement Activities

At the September 12, 2018 meeting, the Board directed Staff to undertake direct engagement with Dick’s Sporting Goods, Walmart, Firstcash, Inc. and Ezcorp, Inc. around their firearms retail practices. During 2019 and 2020, Staff continued attempts to contact each company to engage in dialogue. Staff had productive dialogues with Dick’s, Walmart, and Firstcash. Despite multiple attempts, Ezcorp did not respond to requests for engagement.

On November 14, 2018, Staff became a signatory to the Principles for a Responsible Civilian Firearms Industry along with 13 other investors. The initiative has gained several more signatories and has worked to promote the following five principles:

- Principle 1: Manufacturers should support, advance and integrate the development of technology designed to make civilian firearms safer, more secure, and easier to trace.
- Principle 2: Manufacturers should adopt and follow responsible business practices that establish and enforce responsible dealer standards and promote training and education programs for owners designed around firearms safety.
- Principle 3: Civilian firearms distributors, dealers, and retailers should establish, promote, and follow best practices to ensure that no firearm is sold without a completed background check in order to prevent sales to persons prohibited from buying firearms or those too dangerous to possess firearms.
- Principle 4: Civilian firearms distributors, dealers, and retailers should educate and train their employees to better recognize and effectively monitor irregularities at the point of sale, to record all firearm sales, to audit firearms inventory on a regular basis, and to proactively assist law enforcement.
- Principle 5: Participants in the civilian firearms industry should work collaboratively, communicate, and engage with the signatories of these Principles to design, adopt, and disclose measures and metrics demonstrating both best practices and their commitment to promoting these Principles.

Going forward, Staff will continue to support the Principles and to engage with Walmart, Dick’s, and other retailers around strengthening firearms retail practices.

Historical Performance Impact:

SFERS has licensed custom indices to approximate the performance impact on the total fund due to restricting investment in firearms and ammunition manufacturers and retailers. The methodology and limitations of this approach are detailed in a separate Board report.

As shown below, SFERS decision to restrict its managers from investing in firearms and ammunition manufacturers and retailers has had negligible impact on the total fund over time.

Custom Index Relative Returns and Volatility - Total returns (net dividends) in USD

Index Name	Restriction Weighting*	Cumulative Return**	Annualized Return**	Annualized Volatility**	Dollar Impact
ACWI IMI ex Firearms	0.01%	+0.02%	+0.00%	0.00%	+\$1.5m

* Weightings of restricted stocks in the generic MSCI ACWI IMI Index at June 30, 2020.

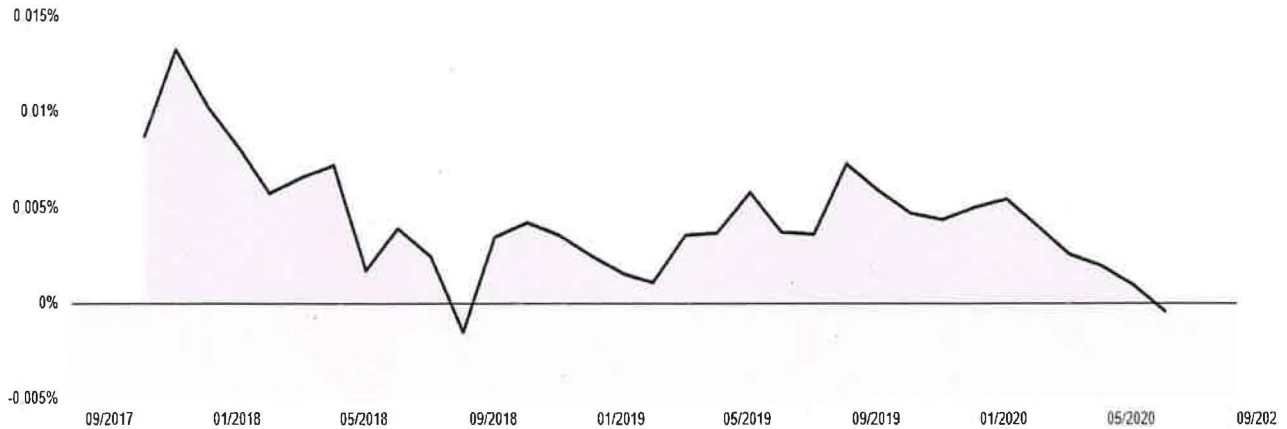
** Relative returns and volatility are against the MSCI ACWI IMI Index from custom index inception (October 31, 2016) through to June 30, 2020.

Source: MSCI. Refer to disclaimer below.

ACWI IMI ex Firearms Rolling 12 Month Relative Returns Versus MSCI ACWI IMI

Quant Analytics - Rolling Relative Return (12M)

MSCI ACWI Investable Market TR Net USD



Total returns (net dividends) in USD.

Source: MSCI. The MSCI data is comprised of a custom index calculated by MSCI for, and as requested by, SFERS. The MSCI data is for internal use only and may not be redistributed or used in connection with creating or offering any securities, financial products or indices. Neither MSCI nor any other third party involved in or related to compiling, computing or creating the MSCI data (the "MSCI Parties") makes any express or implied warranties or representations with respect to such data (or the results to be obtained by the use thereof), and the MSCI Parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to such data. Without limiting any of the foregoing, in no event shall any of the MSCI Parties have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

Recommendation:

Staff recommends the Board reaffirm the intent to remain divested from firearms and ammunition manufacturer and retail companies, the criteria used for such divestment, and adopt the list of restricted companies identified in Appendix B.

If the Board agrees then the following motion is recommended:

Move that the San Francisco Employees' Retirement System adopt the List of Restricted Firearms and Ammunition Manufacturers and Retailers presented in Attachment B

Appendix A

List of Restricted Firearms and Ammunition Manufacturers and Retailers, Reflecting Recommended Changes from 2019 to 2020

Olin Corporation	Forjas Taurus S.A.
Vista Outdoor, Inc.	American Outdoor Brands Corporation
Sturm, Ruger & Company, Inc.	Miroku Corporation
Clarus Corporation	Verney Carron S.A.
Big 5 Sporting Goods Corporation	Sportsman's Warehouse Holdings, Inc.
Camping World Holdings, Inc.	Poongsan Corporation
Taurus Armas S.A.	Smith & Wesson Brands, Inc.

Updated: October 14, 2020

Note 1: MSCI ESG Research data was used to create the information provided

Note 2: Companies in red font indicate those that have been added to the restricted list; companies in red font and strike-through indicate those that have been removed from the restricted list.

Appendix B

List of Restricted Firearms and Ammunition Manufacturers and Retailers, Recommended for 2020 Adoption

Olin Corporation	Forjas Taurus S.A.
Vista Outdoor, Inc.	Taurus Armas S.A.
Sturm, Ruger & Company, Inc.	Miroku Corporation
Clarus Corporation	Verney Carron S.A.
Big 5 Sporting Goods Corporation	Sportsman's Warehouse Holdings, Inc.
Camping World Holdings, Inc.	Poongsan Corporation
Smith & Wesson Brands, Inc.	

Updated: October 14, 2020

Note 1: MSCI ESG Research data was used to create the information provided

Appendix C

Criteria for Divestment from Firearms and Ammunition Manufacturers and Retailers

The San Francisco Employees Retirement System (SFERS) shall not invest in public securities of companies if the company either is a:

- A. Global manufacturer of civilian firearms and/or ammunition (including so-called dual-use ammunition) that received greater than 10% of revenue from such business segments.
- B. US-domiciled retailers of civilian firearms and/or ammunition that received greater than 10% of revenue from such product segments.
- C. US-domiciled retailers of civilian firearms that sell weapons illegal for sale in California, including "assault weapons" (i.e., any semi-automatic, centerfire rifle or semi-automatic pistol that lacks a fixed magazine and has one of a number of features that include a protruding pistol grip or a folding or telescoping stock), regardless of revenue from this product segment.

Assault weapons shall be defined consistent with the definition provided in California Senate Bill 880.

Updated: August 28, 2018