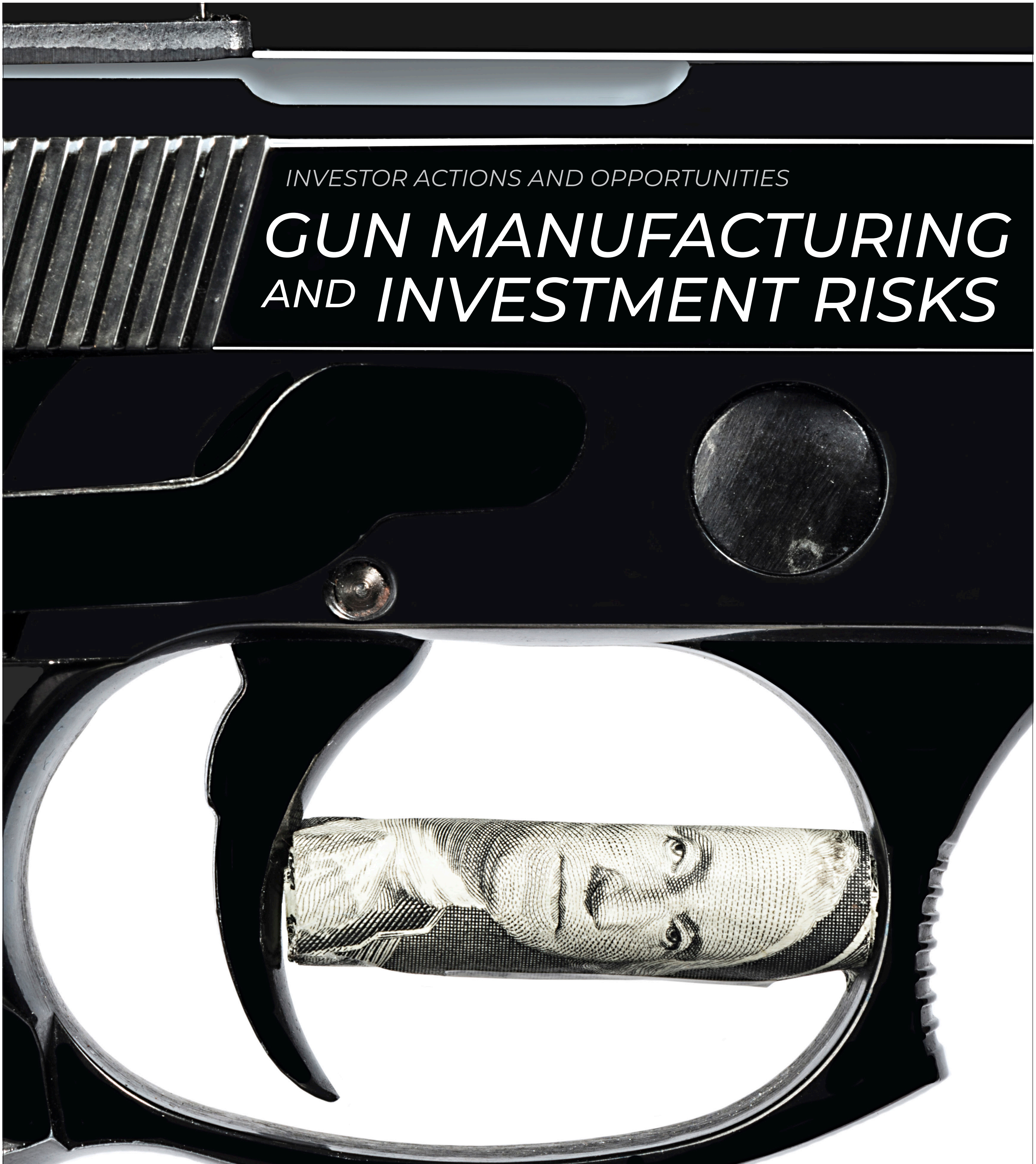
INVESTOR ACTIONS AND OPPORTUNITIES

GUN MANUFACTURING AND INVESTMENT RISKS



SPECIAL EDITION

RANKING ASSET MANAGERS REPORT

A Union of Professionals

Introduction

Since 2013, the American Federation of Teachers has periodically released a "Ranking Asset Managers" report. Those reports have provided information for the purpose of transparency and education for pension fund trustees and managers. The first reports named investment managers who solicited investments in defined-benefit pension assets and profited from investing those assets, while simultaneously supporting groups attacking those very same plans, which millions of Americans rely on for a dignified and secure retirement. This special edition report creates a watch list of investment managers who invest millions of dollars in companies that make assault weapons, which have been used to attack public school students and staff.

On Feb. 21, 2018, in response to the shooting massacre at Marjory Stoneman Douglas High School in Parkland, Fla., the AFT executive council passed a resolution that outlines many steps the AFT has taken and will take to respond to America's gun violence epidemic.[1] One step was to explore pension funds and others' divestment from the gun industry, as was done in response to the Sandy Hook Elementary mass school shooting in Newtown, Conn.

While the recent mass shooting in Parkland has begun to catalyze change in unprecedented ways, public schools have struggled with gun violence for decades. Since the Sandy Hook massacre in Newtown, public school students have suffered through a staggering 239 school shootings.[2] Since the shootings at Columbine High School in Colorado, approximately **200 children have been killed in school** and 187,000 students have been affected by school shootings.[3] In addition to the deaths, injuries and post-traumatic stress inflicted on schoolchildren, the education sector was forced to spend an estimated $2.7 billion on security equipment and services in 2017.[4] And in the communities where AFT members live and work, gun violence is pervasive; on average, seven children, including teens, die as a result of gunshots every day in the United States.[5] There are nearly 13,000 gun homicides each year, and, for every person who dies from gun violence, two more are injured.[6] The United States' gun homicide rate is more than 25 times the average of other high-income countries.[7]

This is an epidemic, not unlike the opioid epidemic, and it has yielded widespread investor action from investors in public and private pension funds as well as large institutional investors. The escalating outbreak of school massacres should be treated like other serious public health and safety crises in the United States.

Investments in gun manufacturers bear significant economic risks: financial risk, headline risk and increasingly, risk related to societal impact.

That is why, even before the Parkland mass shooting, many investors had acknowledged that investments in gun manufacturers bear significant economic risks: financial risk, headline risk and, increasingly, risk related to societal impact,[8] including the public health and safety threats posed by assault weapons used in mass shootings.

Many public pension funds, weighing these risks and investment alternatives that offer comparable risk-adjusted returns, have taken decisive action to divest their ownership of all gun manufacturers, often following their unsuccessful efforts to engage those manufacturers on their concerns. And, recently, some large asset managers have begun to weigh their risk exposure, and the risk exposure of their clients, and publicly have taken steps to address those risks.

In this report, the AFT urges the largest asset managers that own shares, public or private, in gun manufacturers in the United States to use their power to compel those gun manufacturers to take meaningful action to address these risks. Toward that end, these are tangible steps public pension funds can take: evaluate their own risk exposure to companies that manufacture assault weapons used in mass school shootings, consider investments with comparable risk-adjusted returns, and explore divestment as one means to mitigate that risk (as several public pensions already have done). The **AFT further urges pensions to meet with their asset managers regarding those managers' engagement with gun manufacturers, the demands made of those manufacturers, the timeline for implementation, and the consequences of failure to follow through with commitments made to asset managers.**

Meaningful engagement must produce change. It is notable that both BlackRock and State Street have publicly announced that they have begun talking to gun manufacturers about investors' concerns. It remains to be seen whether that engagement will result in gun manufacturers heeding investors' concerns and taking real action, such as adopting the code of conduct that Everytown for Gun Safety has developed for financial institutions.[9] Everytown recommends that financial institutions require gun manufacturers to:

Meaningful engagement must produce change.

- Insist that all dealers and distributors in their supply chain follow a code of conduct that will reduce the diversion of firearms to prohibited persons or illegal uses; and
- Commit to developing innovations in firearms that will allow law enforcement to more easily solve gun crimes and will prevent unauthorized users from discharging firearms.

Addressing their own risk exposure, some financial institutions have begun to take action. Amalgamated Bank signed on to Everytown's gun safety code of conduct[10] and does not lend to businesses that manufacture or distribute guns. Citigroup, one of the largest commercial banks in the country, has imposed banking and card processing restrictions on gun retailers that sell firearms to individuals without a background check or to individuals younger than 21.[11] Bank of America also has announced plans to stop lending to companies that manufacture assault rifles for civilian use, after having previously helped finance both Remington and Vista Outdoor.[12]

The AFT has tried to engage Wells Fargo—currently one of several companies providing home mortgages to teachers nationally—on its role in financing the National Rifle Association and gun manufacturers, and will end its promotion of the Wells Fargo mortgage program if the outcome of that engagement is not constructive. This effort to engage Wells Fargo began on March 29, 2018, when the AFT asked Wells Fargo to take steps to meet the AFT and AFT members' concerns.[13] In his response,[14] Wells Fargo CEO Timothy Sloan effectively refused to join Citigroup, Bank of America and others that are engaging with manufacturers, addressing their financing relationships with the NRA and/or taking steps proactively to reduce their risk exposure. Since then, *USA Today* reports,[15] federal regulators have sought a $1 billion fine from Wells Fargo for mortgage and auto loan abuses. And, after initially agreeing to meet with the AFT, Wells Fargo has refused requests to schedule a meeting.

Oversight of public pension funds varies by state, and not all teachers and school staff have representation in their retirement funds' governance structure. In Florida, for example, the state pension fund invests in all three publicly traded gun manufacturers, including American Outdoor Brands, the maker of the AR-15 assault rifle used at Marjory Stoneman Douglas to take the lives of 17 Floridians. Florida's pension fund governance structure excludes representation by teachers or school staff, and the only recourse that concerned plan participants have is to appeal to Republican Gov. Rick Scott.

On the other hand, in many states, notably California and New York, pension fund trustees, including those representing teachers and school staff, have pushed their pension funds to engage with and/or divest from gun manufacturers given investment alternatives with comparable risk-adjusted returns. This is discussed in detail below.

It is well within a public pension trustee's scope of fiduciary responsibility to consider the legitimate risks—financial and headline—from the ownership of gun manufacturer shares and to consider whether to divest those shares, assuming other investment options offer comparable or better risk-adjusted returns. Additionally, pension funds can also consider noneconomic secondary factors in making investment decisions. The consideration of an investment manager's willingness to engage meaningfully with gun companies on risks will not violate the trustees' fiduciary obligations provided that (1) the collateral objectives are subordinate to the primary economic objective of retaining qualified managers that will provide competitive, risk-adjusted returns, and (2) the consideration of collateral factors leads to the retention of investment managers that are equivalent, from a qualification and performance standpoint, to other managers available to the plan.

The information provided in this report will help to inform trustees about which publicly traded companies to consider divestment from and which investment managers to watch in the coming months.

Pension investments in firearms manufacturers

Pension funds can be invested in firearm manufacturers in three major ways:

- Limited partnership investments in private equity firms that own privately held firearms manufacturers;
- Equity investments in the three publicly traded gun manufacturers, through either their actively or passively managed public equity accounts; and
- Investments through intermediaries, like hedge funds, that are invested in publicly traded gun manufacturers.

The sections below can help trustees identify their plan's holdings.

Publicly traded companies that manufacturer assault weapons:

Civilian variants of the AR-15 rifle have emerged as the rifle of choice for mass shooters. According to the *New York Times*, "at least 173 people have been killed in mass shootings in the United States involving AR-15s" since 2007, including in school shootings in Newtown, and Parkland.[16] The following publicly traded companies manufacture variants of the AR-15:

American Outdoor Brands (NASDAQ: AOBC)

This publicly traded company owns Smith & Wesson, which produces several rifles on the AR-15 platform (the Smith & Wesson M&P15) as well as hundreds of semiautomatic handguns.[17] American Outdoor Brands also owns Gemtech Suppressors, which makes suppressors for handguns, rifles and assault weapons.

Sturm, Ruger & Co. (NYSE: RGR)

Sturm Ruger produces an AR-15 platform rifle, the AR-556.[18] It also sells the rifle in a "takedown" format, which allows it to be quickly taken apart and placed into a small backpack.[19] Ruger also produces several semiautomatic handguns.

Vista Outdoor (NYSE: VSTO)

Vista Outdoor is an outdoor sports conglomerate that owns Savage Arms. Savage Arms produces an AR-15 platform rifle, the MSR 15.[20] Savage also produces a pump shotgun with a pistol grip.[21]

Public pension funds' direct ownership of these three publicly traded companies is listed in Appendix A.

Private equity asset managers that own gun manufacturers:

Cerberus Capital Management

Private investment firm Cerberus Capital Management boasts $30 billion in assets under management and manages retirement savings for several public employee pension funds. Through its Cerberus Institutional Partners Series IV fund, Cerberus acquired several gun manufacturers and formed Freedom Group, the largest firearms manufacturer in the United States.[22] Freedom Group later changed its name to Remington Outdoor Company, which produces several AR-15 platform rifles, including the Bushmaster rifle used in the Sandy Hook massacre.

Many public employee pension plans have investments in Cerberus funds, including the Institutional Partners Series IV fund that owned Remington Outdoor. Responding to pressure from investors after the Sandy Hook shooting, and despite unsuccessful efforts by Cerberus to sell Remington Outdoor, Cerberus removed Remington Outdoor from its funds and allowed investors owning shares to sell them if desired.[23] The California State Teachers' Retirement System, notably, negotiated a sale of its interest in this Cerberus fund following Sandy Hook.

As further evidence of the investment risk associated with gun manufacturers today, Remington Outdoor filed for bankruptcy in March 2018.[24]

Sciens Capital Management

Sciens Capital Management, through its Golden Sciens Marine Investments fund, purchased a large stake in Colt Defense more than 25 years ago.[25] According to Preqin, Sciens' only known public pension fund investor is the Missouri Department of Transportation and Patrol Employees' Retirement System.

Public equity asset managers ownership of gun manufacturers:

Several investment managers have publicly and privately committed to engage in a dialogue with firearm manufacturers and/or retailers, in an effort to mitigate their clients' risk exposure and ensure that their portfolio companies are focused on creating long-term value.

Engagement must be meaningful and must result in change. The AFT contacted five of the top six asset owners of the three publicly traded gun manufacturers that had not issued public statements on the issues around investment in gun manufacturers.[26] In response to the AFT's inquiries, Voya, Vanguard, Dimensional Fund Advisors and Fidelity responded with statements clarifying that they are engaging in a dialogue with gun manufacturers and retailers regarding the risks posed by firearms. Among these, only Invesco Advisers failed to take a public position or respond to a request for comment on engaging manufacturers on firearm-related risks. **Failure to engage on this important investment risk issue should be considered as trustees review investment manager allocations going forward.**

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BlackRock: Engaging with manufacturers and distributors

Following the Parkland shooting, BlackRock announced on Feb. 22 that it would speak to firearms manufacturers and retailers to "understand their response" to the shooting and would discuss a number of questions with them related to their business strategy and risk assessment.[27] As BlackRock is the world's largest asset manager, with an estimated $6.3 trillion AUM, this is an important development.

In BlackRock's press release on firearms, it asserts that "another key aspect of investment stewardship is voting on specific proxy proposals and on the election of a company's directors**." If corporate engagement with firearm manufacturers proves ineffective at resolving investor risks, investors can and should take these and other actions** to ensure that these companies are aligned with shareholders' interests in long-term value creation.

State Street: Engaging with manufacturers

Investment manager State Street Global Advisors, which managed $2.8 trillion in late 2017, owned an estimated 2 percent stake in both American Outdoor and Sturm Ruger.[28] Following BlackRock's announcement, State Street issued a statement on Feb. 26, 2018, indicating that it too would begin dialogue with firearms manufacturers and offering the following details:[29]

> *We will be engaging with weapons manufacturers and distributors to seek greater transparency from them on the ways that they will support the safe and responsible use of their products. … And we will also seek to ensure that any shareholder resources used to influence legislation and regulations, or fund other advocacy efforts is consistent with the company's public views.*

Vanguard: Engaging with manufacturers and distributors

In response to an inquiry from the AFT, Vanguard clarified its position on gun manufacturers and distributors, writing, in part:

> *We are meeting with the leaders of gun manufacturers and distributors. We want to know how they will mitigate the risks that their products pose, how they are responding to the Parkland attack, and how they plan to help prevent such tragedies from happening again. We believe that boards and managements of gun manufacturers should disclose and reduce the risks associated with gun violence and the ongoing national debate on gun safety and control. We believe that when a business poses a risk to society, it can also pose a risk to investors. We are expressing this viewpoint directly with company leaders because we believe greater focus and transparency on these issues will ultimately benefit society and investors alike.*

Fidelity: Engaging with manufacturers and distributors

Responding to an inquiry from the AFT, Fidelity clarified its position on engaging with firearm manufacturers and distributors. A Fidelity spokesperson previously had declined to comment on its firearm holdings when contacted by *Barron's*.[30] Fidelity provided the following statement to the AFT:

> *While it's our general practice not to comment publicly on individual companies or investment decisions, I can tell you that we regularly engage with companies we invest in and conduct due diligence to assess whether they should remain part of our portfolios. In a changing*

environment for gun manufacturers and distributers, as responsible owners we are engaging with those companies to assess how/whether they are adapting their business models and which governance measures they are considering implementing to monitor and manage these changes.

Dimensional Fund Advisors: Urging manufacturers to "find common ground to improve safety"

After being contacted by the AFT, Dimensional Fund Advisors issued the following statement:

Recently, a number of our clients have expressed their concerns about gun safety and understanding what major gun companies are doing to improve gun safety has become an important topic for them. We have contacted several gun companies and have urged them to listen to these voices and to find common ground for improving safety.

Although we have never invested in public companies for purposes of control, we want to make sure gun manufacturers hear our clients' concerns. For clients that have separately managed accounts with us, and express the desire, we exclude gun manufacturers from their portfolios. Additionally, we manage certain commingled funds that take social and sustainable considerations into the security selection process. As of March 1, 2018, the civil arms manufacturers we have identified are completely excluded from these portfolios.

Voya: Engaging with firearm manufacturers

In response to a query from the AFT, Voya Financial provided a statement that read, in part:

Voya's standard investment practice is to engage with the management of companies held in our portfolios to address various facets of their business and matters that may affect the company's attractiveness to investors, customers and broader stakeholder groups. These discussions (including those with any firearms manufacturers) would involve gathering information on a company's risk management practices as well as its plans to address financial, reputational, regulation or litigation exposures, both in response to particular events and in support of longer-term corporate strategy. These discussions with management may impact portfolio management and proxy voting decisions with respect to a company. When we do not find the answers or information satisfactory or reassuring, we may dispose of a position.

As a firm that emphasizes reliable investing, Voya values company management teams that are responsible and thoughtful, since we believe these qualities lead to greater stakeholder value. To that end, we will continue to discuss with companies their plans for addressing short- and long-term developments that affect their businesses.

	Taking action on gun makers	Holdings					
		American Outdoor		Sturm, Ruger & Co.		Vista Outdoor	
		%	Shares	%	Shares	%	Shares
BlackRock Fund Advisors	Engaging	10.51	5,689	16.18	2,820	11.91	6,827
Invesco Advisers	No	8.84	4,785	3.02	527	1.03	590
Vanguard Group Inc.	Engaging	8.14	4,405	9.32	1,625	9.00	5,161
Dimensional Fund Advisors	Engaging	3.19	1,725	3.71	647	8.05	4,612
Voya Investment Management	Engaging	3.06	1,656	4.46	777	.05	26
Fidelity Investments/ Geode Capital Management	Engaging	0.95	515	0.85	149	14.58	8,355

Trillium Asset Management: Not investing with gun-makers

Trillium, a $2.5 billion investment manager with an environmental, social and governance focus, has committed to excluding from its portfolios companies that derive significant revenue from firearms.[31]

Amalgamated Bank: Engaging with manufacturers

Amalgamated Bank's investment arm manages investments for clients that include ownership in gun manufacturers and has committed to engage those manufacturers in meaningful shareholder action. Amalgamated also offers investment accounts, both individual and commercial, that screen out guns and weapons producers.

The statements made by each of these investment managers, along with the financial institutions and pension funds, are a testament to the risk to which all investors are exposed in the current environment.

Public pension funds' actions

The three public pension funds highlighted below are among several that have demonstrated leadership in acknowledging risks related to their ownership of manufacturers of guns used in mass shootings, and have taken some form of action to address those risks, through engaging those manufacturers or divesting their ownership, or both. These case studies offer pension trustees and fund managers a road map to begin evaluating and addressing risk exposure from gun manufacturers.

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CalPERS: Engaging and divesting

The California Public Employees' Retirement System provides retirement benefits for 1.9 million public employees throughout California. CalPERS is the largest public pension fund in the nation, with AUM of $345 billion.[32] CalPERS has taken the following actions to evaluate and mitigate its exposure to risks related to its ownership stake in firearms manufacturers that make weapons illegal for public sale in California.

CalPERS passed a divestment policy in 2009, creating a process for the board's consideration of divestment issues.[33] Following the Sandy Hook school massacre in December 2012, at the board's direction, CalPERS examined its exposure to gun manufacturers throughout its investment portfolio, identifying a $5 million exposure to two publicly traded gun manufacturers, Smith & Wesson and Sturm, Ruger & Co.[34] In February 2013, the CalPERS board voted to divest from firearms manufacturers that produce and distribute to private persons assault weapons that are illegal under California law.[35]

Beginning in October 2017, after the Las Vegas massacre, CalPERS began engagement with five assault rifle retailers and wholesalers in their public equity portfolio: Big 5, Dick's Sporting Goods, Kroger, Walmart, and Sportsman's Warehouse.[36] CalPERS sent written correspondence to the corporate boards of all five companies in November 2017, asking the boards to "review the reputational and associated risks" and articulating CalPERS' concern as related to "the Board's responsibilities to address risks to its reputation and brand."

CalPERS reported that four of the five companies reported taking various actions, with only Sportsman's Warehouse declining to change its policy to address reputational risks.

CalSTRS: Engaging and divesting

The California State Teachers' Retirement System provides retirement benefits for more than 933,000 public school educators and their families in California.[37] CalSTRS is the largest educator-only pension fund in the world, and, with AUM of $224 billion, it is the second-largest public pension fund in the nation.[38] CalSTRS has taken the following actions to respond to risks related to its ownership stake in gun companies that manufacture firearms that are illegal for sale or possession in the state of California, including assault-style weapons used in public school massacres.

The CalSTRS board adopted a divestment policy in 2009 and, in the aftermath of the Sandy Hook massacre in December 2012, applied it to firearms beginning in January 2013.[39] That policy stipulates that CalSTRS engage gun manufacturers first, and then, after exhausting all options to resolve risks, divest. In April 2013, CalSTRS sold its nearly $3 million interest in Sturm Ruger and Smith & Wesson.[40]

In 2015, CalSTRS completed its firearms divestment by unwinding an ownership stake in Remington Outdoor, manufacturer of the Bushmaster rifle used in the Sandy Hook massacre, which is privately owned by Cerberus Capital Management.[41] As one of many investors in a limited partnership, CalSTRS urged Cerberus to sell Remington and, after that proved unsuccessful, negotiated a deal to exit its economic interest in Remington. **CalSTRS has taken an additional step of including in new private equity agreements provisions that exclude firearms subject to divestment and protect CalSTRS with opt-out options should such investments occur.**[42]

CalSTRS' May 2018 investment committee agenda includes an informational item to discuss how to address risks related to ownership of ammunition manufacturers and retail sellers.

NYCERS and TRSNYC: Divesting and engaging

The New York City retirement system includes five pension funds with a combined nearly $195 billion AUM.[43] The two largest funds, the Teachers' Retirement System of the City of New York and the New York City Employees' Retirement System are among the largest public employee retirement systems in the United States, with more than 550,000 active members and retirees. NYCERS and TRSNYC have been consistently in the forefront among public pension funds in evaluating and mitigating their exposure to gun-related investment risks.

After the Sandy Hook school shootings, TRSNYC trustees voted in February 2013 to divest its $13.5 million stake in five makers of assault weapons and high-capacity ammunition magazines: Alliant Techsystems, Forjas Taurus, Olin Corp., Smith & Wesson and Sturm Ruger.[44] They were the first of New York City's five funds to divest, and were followed by NYCERS, which voted to divest its $16.2 million stake in the same five companies in May 2013.[45]

When companies produce products, like assault rifles, that create a national public health and safety crisis, the societal impact creates financial risk for investors.

In June 2016, NYCERS' trustees voted to divest its $10.5 million stake in three gun retailers—Dick's Sporting Goods, Cabela's and Big 5 Sporting Goods—at the same time it pressed Walmart and Kroger to remove guns from their store shelves.[46] NYCERS was the first of the five New York City funds to divest from gun retailers.[47]

Investor responses to economic risks posed by holding an ownership interest in gun manufacturers and supporting their lobbying arm, the NRA, have been decidedly mixed. Several pension funds have been among the first to recognize and mitigate their risk exposure, while other investors and financial institutions more recently have begun to address risks, either through engagement or action. Other investment managers, notably Invesco, have not committed publicly to take any concrete actions.

Conclusion

Whether investors welcome it or not, society's expectations of corporations and investment managers are shifting. When companies produce products, like assault rifles, that create a national public health and safety crisis, the societal impact creates financial risk for investors. Long-term investors have a duty to steer those companies toward longer-term value creation strategies that align with societal demands, such as embracing enhanced safety measures.

In light of investor risks, some investors, including some pension funds, have pursued divestment, and others have committed to engage gun manufacturers. **Others, like Invesco, have refused to commit publicly to do anything**.

Trustees should carefully weigh investment managers' failure to engage on this important investment risk issue as they review investment allocations going forward.

The AFT recommends that investors take the following specific actions:

1. All investors, including investment managers, pension funds and related financial institutions, should **evaluate their risk exposure to gun manufacturing in both public and private equity holdings, including both direct holdings and indirect ownership through passively managed accounts.** The AFT urges all investment managers that manage pension fund assets to assist their clients in analyzing their risk exposure and exploring investment alternatives with comparable or better risk-adjusted returns.

2. Investment managers that own "the market," including gun manufacturers, should follow the lead of BlackRock, Amalgamated and other investors in **offering gun-free product options.**[48] Those products should be comparably priced and available to institutional investors of all sizes,

offering similar risk-adjusted returns. Investment managers should also **commit to meaningful engagement with gun manufacturers,** and they should be willing to **take action if progress is insufficient to address risks.**

3. The AFT urges pension fund trustees whose funds have active risk exposure to meet with fund staff and consultants to review those risks; they should consider divestment and other means to mitigate risk from all gun manufacturers, including privately owned manufacturers. For pension funds without elected board representation from plan participants, such as the Florida State Board of Administration, those funds should solicit public input from plan participants on how to address their retirement fund's risk exposure. The AFT also recommends that **pension funds with passive risk exposure urge their passive account managers to both engage meaningfully with gun manufacturers** and create comparably priced gun-free products, as described above.

4. Pension trustees and investment staff should meet with their asset managers to **discuss their managers' engagement with gun manufacturers, the demands made of those manufacturers, the timeline for implementation, and the consequences of failure to follow through with commitments made to asset managers.** Under what circumstances will asset managers liquidate their position in the shares of the gun manufacturer?

Engagement is only meaningful if it yields changes in gun manufacturers' behavior that address core investor risks. If dialogue is insufficient to produce meaningful change, **investment managers can and should vote their proxies in ways that reflect their concern and produce needed changes**. The AFT will continue to watch what investment managers say, whether their engagement produces change, and, if not, what actions they take.

Note to asset managers:
If you feel that your fund has been included in the watch list in error, please contact the AFT's Center for Workers' Benefits and Capital Strategies at either 202-879-4428 or aftresearch@aft.org.

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[15] Kevin McCoy, "Wells Fargo Faces $1B Fine from Federal Regulators over Mortgage, Auto Loan Abuses," USA Today, April 13, 2018, https://usat.ly/2qtCsXD.
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[26] The AFT did not contact BlackRock, due to the clear position it publicly articulated.
[27] BlackRock shared specific questions it was asking gun manufacturers, including:

1. What is your strategy and process for managing the reputational, financial and litigation risk associated with manufacturing civilian firearms?
2. How do you assess the financial, reputational and litigation risk of the various aspects of your product lines and how each of those products is distributed?
3. What steps do you take to support the safe and responsible use of your products?
4. How do you determine where you will allow your products to be distributed?
5. What strategies do you employ to monitor how your products are being sold?
6. Are you investing in Research & Development to promote the safety of your products (e.g., effective trigger locking technology)? What is your strategy in this area?

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Appendix A: Public pension fund holdings in publicly traded firearm manufacturers

This data comes from the most recent available Form 13 filings made with the Securities and Exchange Commission.

Pension Funds	Sturm, Ruger & Co. (RGR)		Vista Outdoor (VSTO)		American Outdoor Brands (AOBC)	
	Percent	Shares	Percent	Shares	Percent	Shares
Alaska Department of Revenue		-	0.01	11,000		-
Alaska Retirement Management Board	0.01	11,000		-		-
Arizona State Retirement System	0.17	29,000	0.16	103,000		-
Colorado Public Employees' Retirement Association	0.02	4,000		-	0.01	3,000
Illinois State Board of Investment	0.01	2,000		-	0.01	5,000
Kentucky Teachers' Retirement System	0.04	8,000	0.03	20,000		-
Louisiana State Employees' Retirement System	0.04	8,000	0.04	24,000		-
Municipal Employees' Retirement System of Michigan	0.04	7,000	0.03	21,000		-
*New York State Common Retirement Fund		-	0.1	61,000		-
New York State Teachers' Retirement System	0.15	88,000		-		-
Ohio Public Employees Retirement System	0.01	2,000		-	0.01	5,000
Public Employees' Retirement Association of Colorado		-	0.02	12,000		-
State Board of Administration of Florida	0.06	10,000	0.08	41,000	0.08	41,000
State of New Jersey Common Pension Fund D		-	0.07	45,000		-
State of Wisconsin Investment Board		-		-	0.74	400,000
Teacher Retirement System of Texas	0.03	6,000		-	0.03	18,000
Tennessee Consolidated Retirement System	0.08	14,000		-		-
Tennessee Treasury Department		-	0.07	45,000		-
Texas Permanent School Fund	0.07	12,000	0.06	38,000		-

*In correspondence with the New York State Common Retirement Fund, the AFT verified that the fund is currently reviewing and clarifying its policy on firearms manufacturers adopted after the Sandy Hook school shooting, which may affect future ownership.

Appendix B: Fiduciary duty, and engagement or divestment decisions

In performing their fiduciary duties with respect to selecting, monitoring, terminating and replacing investment managers, pension plan fiduciaries must, first and foremost, rely on economic criteria. In this regard, the plan fiduciaries must carefully monitor and assess current and prospective managers. This monitoring should include, among other things, evaluating the manager's performance record and qualifications (credentials, education, suitability, expertise) and the role that the manager's portfolio will play in the plan's overall investment portfolio in terms of diversification, liquidity, cost, and risk-adjusted returns.

Pension trustees are not without recourse when it comes to avoiding the selection of an investment fund manager whose actions place that manager at odds with the economic, moral or political interests of the participants and beneficiaries. **In addition to the primary economic considerations, pension trustees also may take into account certain collateral factors, such as a manager's position on collective bargaining, privatization, proposals to discontinue providing benefits through defined-benefit pension plans, and, in this case, the practices of gun manufacturers.**

The consideration of an investment manager's position on such issues will not violate a trustee's fiduciary obligations provided that (1) the collateral objectives are subordinate to the primary economic objective of retaining qualified managers that will provide competitive, risk-adjusted returns, and (2) the consideration of collateral factors leads to the retention of investment managers that are equivalent, from a qualification and performance standpoint, to other managers available to the plan.

The AFT encourages trustees, pension consultants and pension fund staff to review their portfolios' allocations to asset managers included in this report, and to consult this watch list when making allocation decisions.