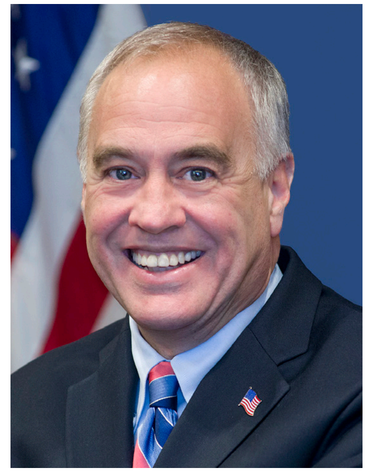
MAY 2018

2017 CORPORATE GOVERNANCE STEWARDSHIP REPORT

Enhancing Long-Term Value Through
SUSTAINABILITY, DIVERSITY AND ACCOUNTABILITY

OFFICE OF THE NEW YORK STATE COMPTROLLER
Thomas P. DiNapoli, State Comptroller

Message from the Comptroller



March 2018

The New York State Common Retirement Fund holds and invests the assets of the New York State and Local Retirement System on behalf of more than one million State and local government employees and retirees and their beneficiaries. This is an enormous responsibility, and as Trustee, I am dedicated to ensuring that the Fund meets both current and long-term obligations to those hard-working New Yorkers who rely on our System for their retirement security.

An essential component of safeguarding the Fund's investments includes working with the public companies that we invest in to make sure that they implement robust corporate governance practices and sustainable business strategies to reduce risks and realize strong returns. As the third largest public pension fund in the United States, valued at $209.1 billion as of December 31, 2017, we invest in more than 3,000 domestic public companies. Through our Corporate Governance Program, we engage with these companies to encourage the sustainability, diversity and accountability that will result in their long-term financial success. Our engagement takes many forms, including voting on nearly 30,000 proxy measures annually, filing shareholder resolutions, writing letters as specific issues arise and discussing important environmental, social and governance issues directly with corporate directors and management.

In addition to engaging directly with companies, we also weigh in on public policy proposals, seeking to promote the kind of fair, efficient, and transparent financial markets necessary for assuring sustainable returns across the Fund's portfolio. Through engagements with government policy makers and private sector standard setters, the Fund's Corporate Governance Program supports laws, regulations, frameworks, and policies that protect and improve oversight, disclosures, investor rights and systemic risk reduction measures that benefit the financial markets as a whole and, as a substantial market participant, help to protect and enhance the long term value of the Fund's assets.

I am pleased to present our first Corporate Governance Stewardship Report. This report reviews the Fund's corporate governance agenda in 2017 and provides a discussion of the major initiatives and achievements of the year.

Thomas P. DiNapoli
State Comptroller

Contents

Investment Philosophy & Strategic Focus

THE PRIMARY MISSION of the New York State Common Retirement Fund's Corporate Governance Program is to mitigate risks and protect the long-term value of the investments made on behalf of the more than one million members, retirees and beneficiaries that rely on the System for their retirement security.

New York State Common Retirement Fund's ESG Investment Philosophy

We consider environmental, social, and governance (ESG) factors in our investment process because they can influence both risks and returns.

A thriving economy, efficient markets, and companies that embrace the best environmental, social, and governance (ESG) practices are essential to ensuring the long-term value of the Fund. ESG factors can have a profound impact on both risks and returns, so while seeking positive returns, it is vital to evaluate the long-term impact that such practices may have on the performance of a business.

The Fund, as a long-term owner that invests in all sectors of the economy (i.e., a "universal owner"), must work to promote sound ESG practices at its portfolio companies through active ownership and public policy advocacy that focuses on sustainability, diversity and accountability.

Implementation of the Fund's investment philosophy and the Corporate Governance Program's strategic focus requires a commitment to key engagement processes and policy priorities.

Engagement Processes

Underlying all of the Fund's engagement processes is a commitment to active ownership—a commitment to using the Fund's votes and voice to ensure the efficient use of the capital that we invest on behalf of the System's members, retirees and beneficiaries. The Fund's independent proxy voting provides a means of directly influencing a company's governance, business practices, strategies and risk management, and is an integral part of the Trustee's fiduciary duty. In 2017, the Fund voted on 29,848 ballot measures.

Filing ***shareholder proposals*** is another powerful engagement tool that provides an opportunity to bring specific issues of concern to the attention of the board, management and fellow investors. When filing a shareholder proposal, the Fund seeks a productive dialogue with the company. This includes discussing the proposal with the company, allowing the company to highlight its work on the given issue, and negotiating how the company can address the Fund's concerns. When a company agrees to implement a proposal, the Fund withdraws the proposal.

In 2017, the Fund filed 52 shareholder proposals with companies representing a combined portfolio value in excess of $6 billion, reaching agreements with 22 to implement the resolutions and achieving votes of greater than 40 percent on resolutions at seven companies, including three majority votes.

Shareholder proposals often lead to productive dialogues with directors and management, as can other means of raising critical issues, such as letters and press strategies. The Fund's shareholder proposals, letters, communications work and private dialogues have resulted in companies moving forward with important actions, commitments and disclosures to address investor concerns, and will continue to play an essential role in our engagements.

The highlight of the Fund's Corporate Governance work in 2017 was the 62.3 percent vote garnered for our shareholder resolution co-filed with the Church of England with ExxonMobil Corporation requesting a report on risks related to climate change. In December, ExxonMobil agreed to implement the terms of the resolution, an enormous achievement for the Fund, the Church, its 47 co-filers, and all the other shareholders who will benefit from the enhanced disclosures that will provide valuable information for assessing the risks of climate change on the company's future.

The Fund is not alone in its commitment to enhancing long-term value for investors, and works with many similarly situated and like-minded investors, associations, coalitions and organizations to amplify our votes and voices. These ***partners and coalitions*** include: Ceres, a nonprofit devoted to sustainable investing, and the Committee Encouraging Corporate Philanthropy (CECP), where the Fund holds leadership roles, the Council of Institutional Investors, the Thirty Percent Coalition, the Center for Political Accountability, the Interfaith Center on Corporate Responsibility, other public pension funds, asset managers, and Taft-Hartley funds.

Ceres

CECP
THE CEO FORCE FOR GOOD

Council of Institutional Investors®
The voice of corporate governance

THIRTY PERCENT COALITION

ICCR
INTERFAITH CENTER ON CORPORATE RESPONSIBILITY

CENTER FOR POLITICAL ACCOUNTABILITY

In addition to engaging directly with companies, the Corporate Governance Program also focuses on ***public policy advocacy*** where it can improve the long-term value of our investments by advocating for the overall stability, transparency and functionality of financial markets and the economy. This public policy engagement takes many forms, including meetings with and letters to elected representatives, regulators and other public officials, testimony at hearings and forums, comments on regulatory and legislative proposals, and participation in State, national, and international forums and initiatives. In 2017, our primary public policy focus was on protecting provisions of the Dodd-Frank Act that require enhanced corporate disclosure and protect shareholder rights. These reforms, enacted after the financial crisis of 2008, provide shareholders a greater ability to assess and respond to investment risk.

Policy Priorities

The Corporate Governance Program is designed to enhance long-term value through a commitment to ESG and a strategic focus on ***sustainability, diversity,*** and ***accountability.***

Sustainability is of vital interest to the Fund because our long-term commitment to the System's members and pensioners requires us to assess the long-range vision and prospects of our portfolio companies. Sustainable corporate practices may be of critical importance in a variety of areas, including anticipating and responding effectively to environmental challenges, managing changes in the political and regulatory landscape, and protecting the health, safety and rights of employees in a company's own workforce and in its supply chain to avoid risks of liability and reputational damage while ensuring productivity. A commitment to sustainability provides a framework for companies to flourish for decades to come—along with the Fund's investments.

Diversity—in its many forms—is another key component of the Fund's long-term strategy for success. Diverse investing strategies include prudent allocation among a variety of assets, geographies and a commitment to providing business opportunities for emerging managers. Research shows that the ability to draw on a wide range of viewpoints, backgrounds, skills and experience is increasingly critical to corporations' long-term success in the global marketplace. Encouraging diversity of the boards, executive management and workforce of the companies and projects that we invest in is an integral component of the responsible stewardship of our capital and the returns that we rely on to meet our obligations.

Accountability is essential for the Fund because of the vast scale and scope of its investments and the immense responsibility of shepherding its long-term commitments. With its wide array of investments in so many different businesses and projects, the Fund must rely on knowledgeable, independent boards to represent investors' interests; must look for compensation structures that properly incentivize strong long-term returns; and must demand full disclosures of risks, opportunities and strategies that are necessary to allow for informed decision-making. Accountability and transparency are critical to an effective, long-term investment strategy.

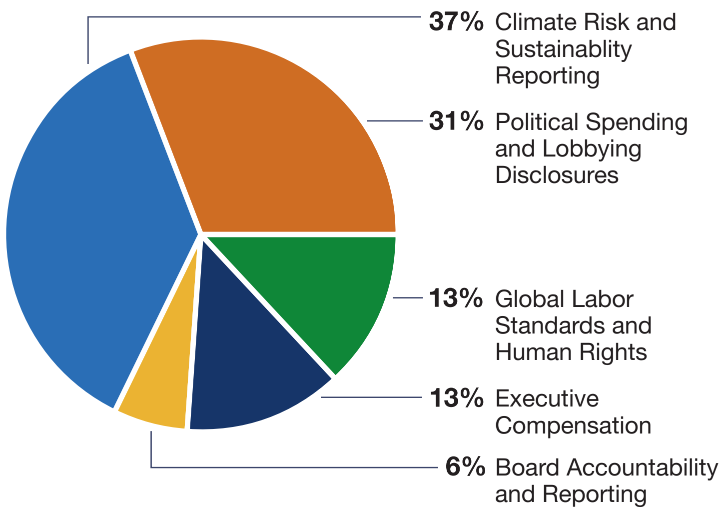
In implementing the strategic focus of enhancing long-term value through sustainability, accountability and diversity, the Corporate Governance Program's priority issue areas for 2017 were:

- ***Climate Risk & Sustainability*** – climate change, deforestation and pollution control.
- ***Board Accountability & Diversity*** – accountability, expertise and diversity.
- ***Political Spending & Lobbying Disclosure*** – ensuring investors have relevant information to address material ESG risks including political and lobbying spending, climate risks and human rights impacts.
- ***Executive Compensation*** – excessive remuneration, target pay, golden parachutes and clawbacks.
- ***Global Labor Standards & Human Rights*** – supply chains, human capital management, and enhanced execution drug controls.

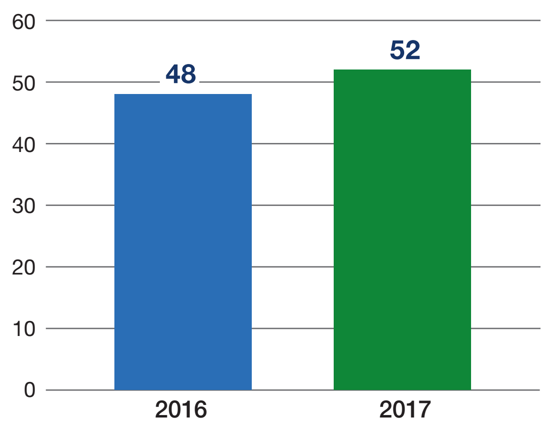
2017 By the Numbers

- **29,848** proxy votes cast at **3,249** annual meetings
- **52** shareholder resolutions filed
- **38%** increase in agreements to change corporate policy since 2016
- **300** letters written to companies requesting disclosure of carbon emissions data
- **70** companies have begun disclosing carbon emissions data since 2016
- **62.3%** vote in support of the Fund's and the Church of England's ExxonMobil climate change resolution

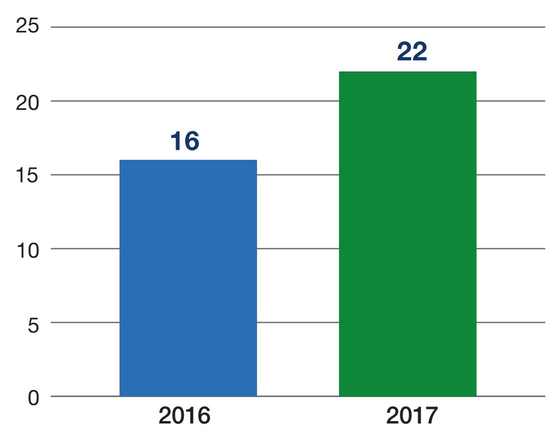
2017 Shareholder Resolutions by Issue



Shareholder Resolutions



Shareholder Resolution Agreements



Proxy Voting	2016	2017
Number of Meetings	3,246	3,249
Total Votes Cast	27,935	29,848
Management Proposals Voted	27,365	29,358
Shareholder Proposals Voted	570	490

2017 Proxy Voting

BY THE NUMBERS…

29,848 AGENDA ITEMS
voted on at
3,249 ANNUAL MEETINGS

19%
of votes cast
AGAINST
management recommendations

19%
of votes cast
AGAINST
board director candidates

91%
of votes cast
IN FAVOR OF
shareholder proposals

Proxy Voting in 2017

The Fund votes by proxy on each director nominee and proposal at all annual meetings and special meetings of U.S. companies in the Fund's public equity portfolio, as well as those of selected international companies. In the 2017 Proxy Season the Fund cast 29,848 votes at 3,249 domestic company meetings.[1]

Voting on our portfolio companies' proxy items and shareholder resolutions is an effective means to communicate with boards of directors and management on the Fund's environmental, social and governance priorities. The Fund's proxy voting is a powerful tool for enhancing long-term value by promoting sustainability, diversity and accountability.

The Fund makes all proxy voting decisions independently, based on the standards in its Proxy Voting Guidelines, which describe in detail the Fund's governance expectations for companies and establish principles-based recommendations for voting on a broad range of issues. In addition to the Guidelines, the Fund consults with companies, partners, proxy advisors, and other investors, and conducts its own research to inform its independent voting decisions.

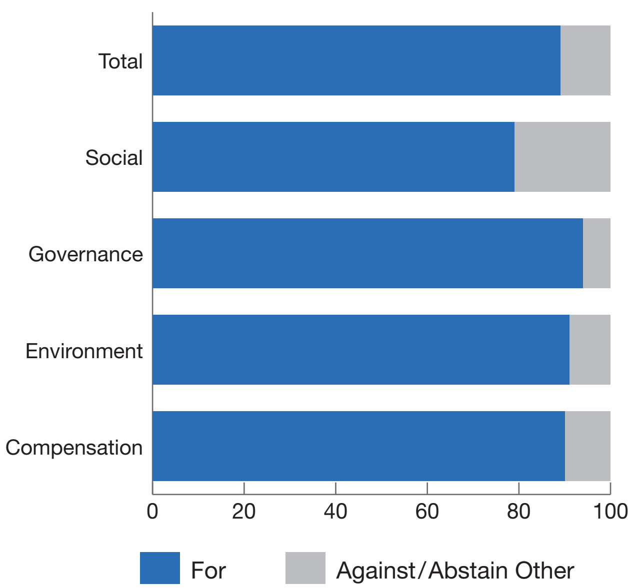
In 2017, the Fund voted on management proposals on executive compensation, selection of auditors, corporate governance rules and director nominees, as well as shareholder proposals focused on ESG policies and practices.

Over the course of the 2017 proxy season, the Fund voted against management recommendations on 19 percent of all ballot items—17 percent on management proposals and 92 percent on shareholder proposals. The Fund also rejected 19 percent of management's board of director nominees, and voted against management's compensation proposals 23 percent of the time. In 2017, the Fund supported all one-year Say-on-Pay advisory measures, which give shareholder the right to express their views of executive compensation for the most highly compensated company executives.

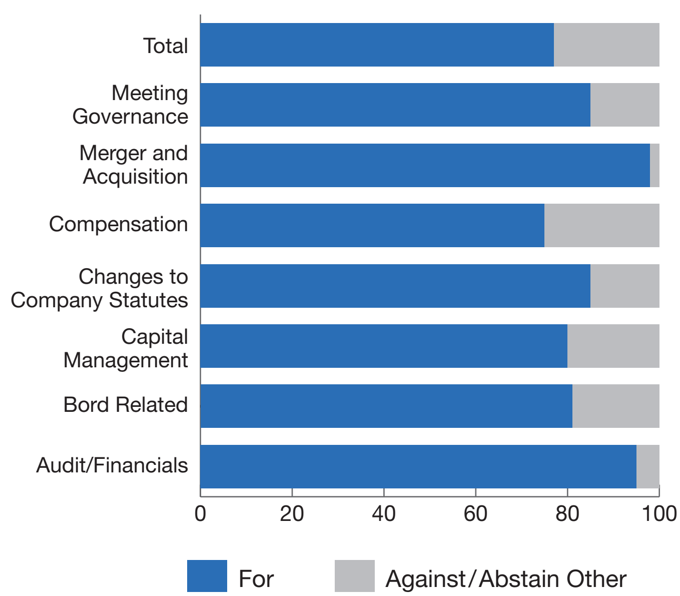
Voting against board nominees and company compensation proposals is a key tool that provides the most direct means for shareholders to hold directors accountable. The Fund believes shareholders' interests are best served by directors who demonstrate a commitment to sustainable long-term performance and responsible corporate governance.

The Fund voted to support 91 percent of shareholder proposals on the ballot in 2017. A majority of these votes related to governance issues, with social, environmental, and compensation proposals making up the remainder.

2017 Voting Statistics on Shareholder Proposals



2017 Voting Statistics on Management Proposals



Case Study - Executive Accountability

In addition to carefully considering votes on executive compensation, the Fund generally votes against compensation for committee members when the company has had egregious or persistent problems with executive compensation plans. When warranted, the Fund may single out directors responsible for failures in setting appropriate compensation levels and structures. Additionally, the Fund may vote against the compensation committee or the entire board of directors should the board fail to respond to majority votes against management's compensation plan.

In 2017, in response to the EpiPen price-hiking controversy, continued executive compensation concerns, and a history of oversight failures, the Fund joined with the New York City Pension Funds and other investors in waging a "Vote No" campaign at Mylan N.V. Shareholders overwhelmingly opposed the executive compensation plan, with a vote of 83.5 percent against.

Looking Ahead – New Issues and Guidelines

The Fund's Proxy Voting Guidelines are updated regularly to address new market issues, refine positions based on current research, and reflect evolving ESG best practices.[2] In the 2018 proxy voting season, key issues and policy updates will include:

- **Environmental Stewardship and Climate Risk:** The Fund views environmental responsibility as vital to maintaining the sustainability of business operations, and supports efforts aimed at protecting the environment and sustainable uses of the earth's resources. The Fund's proxy voting policies on issues related to climate change are based on the belief that corporations that address these issues responsibly and transparently are likely to experience sustained growth in financial performance. In addition, the Fund believes that additional climate risk disclosure can enhance shareholder value by providing shareholders with information critical to informed decision-making. The updated Guidelines amplify the Fund's position that any failure of a board to appropriately manage and comprehensively report on climate and other material ESG risks may lead the Fund to withhold support from directors.
- **Board Diversity:** By broadening the definition of boardroom diversity, portfolio companies can ensure that a board remains open to new ideas. The updated Guidelines specify that appropriate diversity practices should encompass updating nominating committee charter language to include sexual orientation and gender identity. The Guidelines also strengthen the Fund's position of withholding support from director nominees when the board lacks appropriate skills and attributes, including withholding support for boards with no women.
- **Executive Compensation:** Allowing shareowners the opportunity to express their views on proposed executive compensation practices and strategies is an effective way to promote pay accountability and ensure companies benefit from an open dialogue.
- **Global Labor Standards and Human Rights:** Modern corporations operate in a global economy. The most successful and productive businesses will be those that demonstrate a commitment to human rights by carefully examining and improving their operations and those of their supply chain businesses around the world. We believe companies should respect the dignity and rights of all people, and ensure that their suppliers are held to a high standard.
- **Virtual Only Annual General Meetings:** The updated Guidelines specify that the Fund will vote against directors who implement virtual-only meetings, which limit meaningful interaction between boards and investors. This policy will not apply to boards that implement hybrid meetings open to both in-person and online participation.
- **Poor Governance Practices of Newly Public Companies:** The Guidelines will add a provision that clarifies that the Fund will vote against Boards of Directors, post IPO, where there are entrenching mechanisms such as unequal voting rights or other poor governance practices.

2017 Shareholder Resolutions

BY THE NUMBERS…

- **22** agreements for changes to portfolio company policies secured by the Fund.
- **38%** increase in agreements to change corporate policies over 2016.
- **7** proposals received over **40%** shareholder support including **3** that achieved majority support.
- **28** resolutions that came to a vote averaged **32%** shareholder support (consistent with 2016 average).

In accordance with the Fund's investment philosophy, the Corporate Governance Program files shareholder resolutions with portfolio companies on important ESG issues. The shareholder proposal process allows the Fund to bring corporate policy changes directly to other shareholders and represents an important tool to mitigate ESG risks.

Annually, the Fund develops an engagement program based on a series of ESG priorities. The priorities are developed by assessing several factors, including new and emerging ESG trends and risks, and developing market conditions and issues.

In the 2017 proxy season, the Fund focused on three core priorities: ***sustainability, diversity*** and ***accountability.*** Within those priorities, the Fund focused on engaging on issues surrounding:

- Climate Risk & Sustainability
- Board Accountability & Diversity
- Political Spending & Lobbying Disclosure
- Executive Compensation
- Global Labor Standards & Human Rights

The Fund filed shareholder resolutions with 52 companies representing a combined portfolio value in excess of $6 billion. Out of the 52 resolutions, the Fund reached an agreement with the company or achieved majority shareholder support for 22 resolutions, a 38 percent increase from 2016.

Priority Issues	Shareholder Resolutions
Climate Risk & Sustainability	19
Political Spending & Lobbying Disclosures	16
Executive Compensation	7
Global Labor Standards and Human Rights	7
Board Accountability and Diversity	3
TOTAL	**52**

Climate Risk & Sustainability

BY THE NUMBERS…

300
REQUESTS
to companies seeking disclosure
of carbon emissions data

8
AGREEMENTS
regarding climate risk and
sustainability reporting

19
environmental and energy shareholder
RESOLUTIONS
filed

62.3%
SUPPORT
for the Fund's and
the Church of England's
2-degree scenario resolution
by ExxonMobil shareholders

70
AGREEMENTS
to start disclosing
carbon emissions data
since 2016

Comptroller DiNapoli and the Fund believe climate change is one of the greatest threats to the Fund's investments, the economy, and society as a whole. As Trustee of the Fund, the Comptroller is legally bound by a fiduciary duty to act in the sole interests of more than one million members, retirees and beneficiaries. Consistent with that duty, the Comptroller uses the most effective strategies at his disposal to address investment risks related to climate change. The Comptroller has been a global leader in the fight against climate change-related investment risks and a leader among institutional investors in addressing the risks and opportunities presented by climate change.

As a long-term institutional investor, the Comptroller believes the Fund must use its voice and seat at the table to protect its investments by challenging companies on climate change policies and encouraging long-term changes in business models for transitioning into the low-carbon economy.

Since 2008, the Fund has sponsored over 120 climate change-related shareholder resolutions and reached agreements with 42 portfolio companies to analyze climate risks, including setting greenhouse gas emissions reduction targets and renewable energy and energy efficiency goals.

Shareholder Resolutions

For the 2017 proxy season, of the 19 resolutions filed by the Fund related to climate risk, five requested companies to analyze how the Paris Climate Agreement's goal of restricting global temperatures to no more than 2 degrees Celsius above preindustrial levels will affect their business, and to address their financial risks associated with that 2-degree scenario.

In May 2017, a major victory was achieved at ExxonMobil Corporation when the Fund's resolution requesting that the company assess climate risks, co-filed with the Church of England and a coalition of four dozen investors, garnered 62.3 percent of the shareholder vote. The landslide vote was followed by months of negotiations with the company. In December 2017, ExxonMobil agreed to implement the terms of the resolution and to disclose the requested information, including studies and analyses that will assist investors' efforts to assess investment risks related to climate change.

In addition to ExxonMobil, the Fund filed similar proposals at several utilities, winning majority shareholder support at Pennsylvania's largest utility, PPL Corporation (56.8 percent). Both PPL Corporation and Duke Energy Corporation, where the Fund's proposal won 46.4 percent support, have also agreed to conduct a 2-degree scenario analysis and disclose their findings. Other 2-degree scenario proposals received record support, including Dominion Resources, Inc. (47.8 percent) and DTE Energy Company (45 percent).

In addition to 2-degree scenario resolutions, the Fund's resolutions on sustainability reporting led to agreements with Under Armour, Inc., Assurant, Inc., PayPal Holdings, Inc., and W.R. Berkley Corporation. Those resolutions called on the companies to produce an annual sustainability report describing the company's short-term and long-term responses to ESG-related issues. The Fund also won majority support of 52.1 percent for a sustainability reporting resolution filed with Pioneer Natural Resources Company, which subsequently agreed to publish an annual sustainability report.

Company	Issue	Result
Assurant, Inc.	Sustainability Reporting	Agreement
PayPal Holdings, Inc.	Sustainability Reporting	Agreement
Under Armour, Inc.	Sustainability Reporting	Agreement
W. R. Berkley Corporation	Sustainability Reporting	Agreement
ExxonMobil Corporation	Climate Risk – 2 Degree Scenario	62.3% and Agreement
PPL Corporation	Climate Risk – 2 Degree Scenario	56.8% and Agreement
Pioneer Natural Resources Company	Sustainability Reporting	52.1% and Agreement
Duke Energy Corporation	Climate Risk – 2 Degree Scenario	46.4% and Agreement
Dominion Resources, Inc.	Climate Risk – 2 Degree Scenario	47.8%
DTE Energy Company	Climate Risk – 2 Degree Scenario	45.0%
Michael Kors Holdings ltd	Climate Change – Energy Efficiency	39.6%
Kinder Morgan, Inc.	Sustainability Reporting	38.4%
Fluor Corporation	Climate Change – GHG Reductions	36.7%
Marathon Petroleum Corporation	Sustainability Reporting	35.2%
Netflix, Inc.	Sustainability Reporting	29.5%
Domino's Pizza, Inc.	Climate Risk – Deforestation	23.1%
Chevron Corporation	Director with Environmental Expertise	19.6%
Diamond Offshore Drilling, Inc.	Sustainability Reporting	17.5%
The Kraft Heinz Company	Climate Risk – Deforestation	13.1%

Carbon Emissions Reporting

Along with shareholder resolutions, the Fund's multifaceted engagement strategy with portfolio companies on climate change included corresponding with portfolio companies.

In 2016, the Fund established a groundbreaking equity index strategy—the first of its kind in the United States for a public pension fund—by creating a low emissions index to further decarbonize the Fund's public equity holdings. Created in partnership with Goldman Sachs Asset Management, the low emission index is an internally managed fund that is weighted toward companies with lower emissions that have comparable earnings.

The low emission index eliminates or underweights stock ownership in some of the worst greenhouse gas emitters in the Russell 1000 Index (R1000) based on emissions data reported to or estimated by CDP (Carbon Disclosure Project). With the goals of continuing the success of the low emission index and encouraging portfolio companies to disclose emissions data, the Fund developed an active engagement program for the index, focusing on non-disclosing companies and high GHG emitters.

It is critical for the Fund to obtain standardized emission data in order to make capital allocation decisions as well as to expand the index strategy. As a result, the Fund engages with companies in the R1000 to request the disclosure of emissions data to CDP.

In January, the Fund participated in the Carbon Action Initiative, a joint initiative led by CDP on behalf of over 250 investors representing $25 trillion, seeking to accelerate company action on emissions reductions, public disclosure of emissions reduction targets, and investments in emissions reduction projects. Since 2016, the Carbon Action request letters have been sent to over 200 companies in the R1000.

Along with the joint letters, the Fund separately wrote to 300 companies to reinforce the request for disclosure, which targeted large-cap high emitters in the R1000. After closing CDP's reporting cycle in 2016 and 2017, more than 70 additional companies in the R1000 started disclosing emissions data to CDP.

In addition, the Fund continued to urge the high greenhouse gas (GHG) emitters in its public equity holdings to adopt long-term GHG reduction targets in line with the goal of the Paris Climate Agreement. These high GHG emitters are identified through the Fund's annual carbon footprint analysis. The Fund believes that these high emitters present one of the greatest climate-related risks to the portfolio, and is concerned that their existing GHG reduction targets are not scaled in magnitude or timeline to meet the 2-degree Celsius goal. Disclosing metrics used to assess climate risks and performance against GHG emissions targets is a practice recommended by the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD). The Fund will continue to request the high GHG emitters adopt the TCFD recommendations.

Global Advocacy

The Fund has also engaged with the international community regarding the importance of successfully transitioning to a low-carbon economy and fully implementing the Paris Climate Agreement. In May 2017, the Comptroller joined 217 investors (representing more than $15 trillion in assets) in writing to the governments of the G7 and G20 nations to urge them to continue to support and fully implement the Paris Climate Agreement, to drive investment into the low-carbon transition, and to implement climate-related financial reporting frameworks.

In July, the Comptroller co-signed a global investor statement to the G20 requesting that countries stand by the Paris Agreement and strive for its swift implementation. In November, the Comptroller attended COP23 in Bonn, Germany, and participated in a discussion regarding how investors are working with companies and governments to achieve the goals of the Paris Agreement and accelerate the low-carbon transition.

Comptroller DiNapoli at COP21 for the Paris Agreement on Climate Change.

Board Accountability & Diversity

BY THE NUMBERS…

3
AGREEMENTS
to seek diverse director nominees

36
amendment
LETTERS
to corporations

Among the greatest risks to any company is a poorly performing board or management. The Fund believes in the importance of board diversity as an essential measure of sound governance and a critical attribute of a well-functioning board. Research shows that the ability to draw on a wide range of viewpoints, backgrounds, skills and experience is increasingly critical to corporations' long-term success in the global marketplace. In August 2012, Credit Suisse Report found that of 2,360 global companies surveyed over the past six years, investors in companies with one or more women on their boards would have seen higher average returns on equity and better average growth than those without.[3]

The Fund urges its portfolio companies to amend their nominating committee charters to include diverse candidates—including diversity of gender, race, ethnicity, sexual orientation and gender identify—in its pool of director candidates.

Since 2010, the Fund has filed over 40 shareholder proposals calling on portfolio companies to enhance board accountability, including by increasing board diversity, appointing independent chairs, and eliminating classified boards. Of those proposals, the Fund has secured 19 agreements with portfolio companies to promote pay accountability, and engagement successes have added 24 diverse members to the boards of directors.

Shareholder Resolutions

In 2017, the Fund filed three shareholder proposals requesting companies to improve their board diversity practices by formally including race, ethnicity, sexual orientation, and gender identity in their consideration when seeking diverse board candidates. The Fund reached agreements with all three companies—Go Pro, Inc., Zillow Group, Inc., and FleetCor Technologies, Inc.—pursuant to which the companies will amend their nominating and governance committee charters to expressly include such considerations and solidify their commitment to seeking diverse nominees.

Research shows that the ability to draw on a wide range of viewpoints, backgrounds, skills and experience is increasingly critical to corporations' long-term success in the global marketplace.

For example, GoPro's Nominating and Governance Committee Charter now states that "on an ongoing basis, the Committee will consider Board composition factors, including independence, integrity, diversity (inclusive of age, gender, race, ethnicity, sexual orientation and gender identity), skills, financial and other expertise, breadth of experience, knowledge about the Company's business or industry and willingness and ability to devote adequate time and effort to Board responsibilities."

Company	Issues	Result
GoPro, Inc.	Board Accountability – Board Diversity	Agreement
Zillow Group, Inc.	Board Accountability – Board Diversity	Agreement
FleetCor Technologies, Inc.	Board Accountability – Board Diversity	Agreement

Board Diversity – Sexual Orientation and Gender Identity

In 2017, the Comptroller wrote to 36 portfolio corporations requesting them to amend their board nominating committee charters to include sexual orientation and gender identity in their description of diversity, and identified resources to help the companies achieve greater director diversity. The letter highlighted research that has shown that corporate policies fostering inclusive workplaces by supporting lesbian, gay, bisexual and transgender employees lead to more positive business outcomes, lower staff turnover, and increased job satisfaction and productivity.

The Thirty Percent Coalition

To advance the goal of increasing board diversity, Comptroller DiNapoli and the Fund are members of the Thirty Percent Coalition. The Coalition is a national organization of industry leaders, including senior business executives, national womens' organizations, corporate governance experts, board members and institutional investors who believe in the power of collaborative effort to achieve gender diversity in public company leadership, and in the necessity of attaining at least 30 percent female representation across public company boards.

In 2017, the Fund and other Coalition members, wrote to 130 companies with all-male boards, urging them to institutionalize a commitment to diversity in their nominating committee charters by including women and minority candidates in every pool of board nominees.

Comptroller DiNapoli at the Womens' Roundtable.

Political Spending & Lobbying Disclosure

BY THE NUMBERS…

16
political spending and lobbying disclosure
RESOLUTIONS
filed

2
AGREEMENTS
secured – Goodyear Tire & Rubber Company and NiSource Inc.

Since the 2010 U.S. Supreme Court's *Citizens United* ruling removing certain restraints on corporate expenditures for political purposes, the Fund has made it a priority to engage its portfolio companies to disclose their spending on political and lobbying activities.

In *Citizens United,* Justice Anthony Kennedy stated, "[D]isclosure permits citizens and shareholders to react to the speech of corporate entities in a proper way. This transparency enables the electorate to make informed decisions and give proper weight to different speakers and messages." Without proper disclosure of political and lobbying spending, shareholders would be unable to ensure spending is aligned with a business purpose and assess the risks, including legal, reputation, and business risks to companies, that come with corporate spending in politics.

The shareholder proposals filed by the Fund ask companies for comprehensive public reports that list their corporate spending on candidates, political parties, ballot measures, direct or indirect state and federal lobbying, payments to trade associations used for political purposes, and payments to organizations that write and endorse model legislation.

Since 2010, the Fund has filed 130 shareholder proposals on political spending and lobbying disclosures, and 36 companies have adopted or agreed to adopt political spending disclosure procedures pursuant to an agreement with the Fund.

> Disclosure permits citizens and shareholders to react to the speech of corporate entities in a proper way. This transparency enables the electorate to make informed decisions and give proper weight to different speakers and messages.
>
> – Anthony Kennedy, Senior Associate Justice of the U.S. Supreme Court

Shareholder Resolutions

During the 2017 Proxy Season, the Fund filed 16 shareholder resolutions seeking full disclosure of direct and indirect political spending, including lobbying, contributions to independent committees, and the portion of trade association dues used for political purposes. Of these 16 resolutions, the Fund reached agreements with Goodyear Tire & Rubber Company and NiSource, Inc.

Company	Issue	Result
NiSource, Inc.	Political Spending Disclosure	Agreement
Goodyear Tire & Rubber Company	Political Spending Disclosure	Agreement
NextEra Energy, Inc.	Political Spending Disclosure	41.2%
CMS Energy Corporation	Political Spending Disclosure	36.2%
Equifax Inc.	Political Spending Disclosure	35.9%
Western Union Co.	Political Spending Disclosure	35.1%
Wynn Resorts Ltd.	Political Spending Disclosure	29.7%
Aetna Inc.	Political Spending Disclosure	26.5%
UnitedHealthcare Group Inc.	Political Spending Disclosure	25.1%
The Allstate Corporation	Lobbying Disclosure	24.9%
Eli Lilly and Company	Lobbying Disclosure	24.8%
Textron Inc.	Political Spending Disclosure	23.4%
Oracle Corporation	Political Spending Disclosure	21.9%
CONSOL Energy Inc.	Political Spending Disclosure	21.6%
Expedia, Inc.	Political Spending Disclosure	13.8%
Occidental Petroleum Corporation	Political Spending Disclosure	7.8%

Executive Compensation

BY THE NUMBERS…

7
executive compensation
RESOLUTIONS
filed

5
AGREEMENTS
on
executive compensation

The Fund views executive compensation as a window into board accountability and sees it as a critical and visible aspect of a company's governance. The Fund believes that executive compensation should be transparent and tied tightly to long-term performance. The overarching goals should be to create sustainable value and to advance the company's strategic objectives. If the members of independent compensation committees cannot fulfill their duties as they relate to setting responsible executive compensation levels, it is a strong indicator that the board's overall oversight of management is inadequate.

Since 2013, the Fund's focus on executive compensation, including shareholder proposals and other engagement efforts with 28 portfolio companies has yielded 13 agreements to improve executive compensation policies and practices.

Shareholder Resolutions

In 2017, the Fund filed seven executive compensation resolutions at portfolio companies to promote improved executive compensation policies and practices. The Fund focused its executive compensation resolutions on the issues of golden parachutes and target pay. Golden parachute resolutions address potentially excessive severance packages. Target pay resolutions ask boards to take into consideration the pay grades and salary ranges of *all* classifications of employees when setting target pay for CEO compensation.

Portfolio companies were selected for having garnered significant shareholder opposition with respect to their companies' executive compensation practices at recent annual meetings. Those filings led to agreements with five companies—BB&T Corporation, Discovery Communications, Inc., Regeneron Pharmaceuticals, Inc., Vertex Pharmaceuticals Incorporated, and Bed Bath & Beyond Inc.

Since 2013, the Fund's focus on executive compensation, including shareholder proposals and other engagement efforts with 28 portfolio companies has yielded 13 agreements to improve executive compensation policies and practices.

Company	Issue	Result
Vertex Pharmaceuticals Incorporated	Executive Compensation – Board Declassification	Agreement
Regeneron Pharmaceuticals, Inc.	Executive Compensation – Target Pay	Agreement
Discovery Communications, Inc.	Executive Compensation – Target Pay	Agreement
Bed Bath & Beyond Inc.	Executive Compensation – Golden Parachute	Agreement
BB&T Corporation	Executive Compensation – Target Pay	Agreement
Guess?, Inc.	Executive Compensation – Golden Parachute	36.0%
Wells Fargo & Company	Executive Compensation	SEC Granted No Action Relief

Excessive Executive Pay

In 2017, the Fund joined a Say-on-Pay investor working group to address issues of excessive executive pay. Along with other public pension funds and asset managers, the Fund wrote to portfolio companies where a majority of shareholders had voted against the executive compensation pay packages. In the letters, the group outlined best practices for executive pay and board accountability mechanisms, and requested companies provide a written response on changes they are considering to executive compensation practices.

Global Labor Standards & Human Rights

BY THE NUMBERS…

7
RESOLUTIONS
filed on
global labor standards

3
AGREEMENTS
on supply chain
human rights policies

2017
AGREEMENT
with
Akorn Pharmaceuticals

Human rights controversies concerning environmental and labor policies of U.S. corporations and their overseas suppliers can cause significant legal and reputational harm to the Fund's portfolio companies. Through shareholder resolutions and other engagements, the Fund has asked selected companies, particularly those with extensive overseas operations, to require their major suppliers to report on the environmental and social impacts of their operations and to uphold global labor standards.

In 2014, Comptroller DiNapoli visited Bangladesh and the site of the Rana Plaza building collapse, the deadliest garment factory incident in history. His conversations with survivors and local labor leaders there gave him a new appreciation of the dangerous conditions workers often face in the developing world, as well as of the scope of the risks for companies with global supply chains that can arise if contractors and subcontractors are not adequately monitored.

The Fund has also worked closely with New York University's Stern Center for Business and Human Rights to urge companies to develop policies and practices that respect human rights while advancing their business interests. The Center has partnered with business leaders as well as shareholders to set standards for human rights performance across multiple industries.

Since 2011, the Fund has engaged with nearly 20 portfolio companies on global labor standards and human rights. These engagements have resulted in 15 agreements by companies to enhance their reporting on human rights policies and risk assessments in their supply chains.

Shareholder Resolutions

In 2017, the Fund filed resolutions at four companies, resulting in agreements on global labor standards with Macy's, Inc., Ross Stores, Inc., and The TJX Companies, Inc.

The resolutions asked that the companies' significant suppliers take necessary steps to publish an annual, independently verifiable sustainability report that the companies would make available to their shareholders. Among other disclosures, the reports should include the suppliers' objective assessments and measurements of performance on workplace safety, human and worker rights, and environmental compliance using internationally recognized standards, indicators and measurement protocols.

Company	Issue	Result
Ross Stores, Inc.	Supplier Labor Standards	Agreement
The TJX Companies, Inc.	Supplier Labor Standards	Agreement
Macy's, Inc.	Supplier Labor Standards	Agreement
Akorn Pharmaceuticals	Execution Drugs	Agreement
Foot Locker, Inc.	Supplier Labor Standards	SEC Granted No Action Relief
Cardinal Health, Inc.	Execution Drugs	SEC Granted No Action Relief
McKesson Corporation	Execution Drugs	SEC Granted No Action Relief

Labor and Human Capital Management

In addition to shareholder resolutions, the Comptroller corresponded with several companies regarding labor practices that could pose risks to the Fund. In 2017, the Comptroller wrote Charter Communications Inc., voicing concerns about the legal, reputational and financial risks of a long-running contract dispute. In the letter, the Comptroller stated,

> *"I am concerned that these consequences of the prolonged labor discord between Charter and its IBEW Local 3 employees have the potential to negatively impact the Fund's investments in the company. Based on the Fund's experience as a long-term investor, I believe the ability to establish and maintain a constructive relationship with employees is vital to a sustainable and profitable long term business strategy."*

In addition to Charter Communications, the Comptroller also signed onto a letter to Tesla, Inc., regarding its questionable business practices. Following reports related to significant production delays and mounting concerns with worker-related issues, labor rights, and occupational safety, investors called on Tesla to: increase board accountability by adopting proxy access; make oversight of human capital a responsibility of the board of directors; and develop and ensure the implementation and monitoring of a meaningful company-wide workplace human rights policy.

Execution Drug Controls

Since 2014, the Fund has engaged with pharmaceutical companies to implement strict control of drugs used in executions. Several recent mishandled executions in the United States have renewed public concern regarding the use of drugs in lethal injection executions and exposed pharmaceutical companies that manufacture or distribute those drugs to negative publicity. The Fund and other investors have urged pharmaceutical companies to impose controls over selling execution drugs in order to mitigate that reputational harm.

In 2017, the Fund filed and subsequently withdrew a resolution at Akorn Pharmaceuticals after the company agreed with our request to adopt strong policies and procedures to ensure that its products will not be used in executions. Akorn also agreed to the Fund's request that it contact pentobarbital customers to determine if any of them had sold that drug to third parties, as well as asking the Missouri Department of Corrections to disclose whether it has Akorn pentobarbital or has used it in executions.

The Comptroller also wrote to Pfizer Inc. requesting it to prevent the use of one of its medicines in eight executions scheduled in the State of Arkansas. Pfizer's response noted that McKesson, a distributor, sold the drug to the Arkansas Department of Correction in violation of Pfizer's policies. Despite Pfizer's and McKesson's requests, the Department of Corrections did not return the products. Following its engagement with the fund, McKesson filed suit against Arkansas, temporarily blocking some of the planned executions.[4]

Public Policy Advocacy

The long-term value of the Fund's investments are often impacted by particular legislative and regulatory actions. As a result, addressing certain public policy matters is a key component of the Fund's engagement strategy. In 2017, the primary public policy focus was on defending shareholder rights and protecting the financial safeguards that were implemented at the federal level after the Great Recession in 2008, including those provisions of the Dodd-Frank Act that enhance disclosure requirements for public corporations.

- In December 2017, Comptroller DiNapoli led a coalition of state and municipal treasurers and comptrollers in urging the Environmental Protection Agency (EPA) to reconsider its announced repeal of the Clean Power Plan. The comment letter highlighted the importance of the Clean Power Plan, and the potential negative impacts of climate change on the operations and revenues of our portfolio companies.
- In late December, the Comptroller commented on the Sustainability Accounting Standards Board's Exposure Draft of the Sustainability Accounting Standards, which are designed to improve the effectiveness of corporate disclosure on ESG factors in SEC filings.

- In letters to the U.S. House of Representatives Committee on Financial Services in November and the New York Congressional delegation in December, the Comptroller expressed his opposition to H.R. 4015, a bill which would weaken corporate accountability and shareholder oversight by undercutting proxy advisory firms' invaluable independence, and reorient proxy advisors to serve companies rather than shareholders.

- In October, Comptroller DiNapoli joined a coalition of investors in voicing support for the EPA's and the Department of Transportation's National Highway Traffic Safety Administration's final rule to extend the National Program to further reduce greenhouse gas emissions and improve fuel economy for light-duty vehicles in model years 2017 through 2025. The letter to EPA Administrator Scott Pruitt argued that strong fuel efficiency standards help ensure the global competitiveness of the U.S. auto industry, in which the Fund invests, and provide the regulatory certainty needed to spur innovation.

- During the summer, the Comptroller organized a national coalition of 13 elected fiduciaries, who represent in excess of $1 trillion in assets invested on behalf of more than five million public employees and retirees, in creating a Joint Statement on Defending Fundamental Shareholder Rights. Due to the proposed Financial CHOICE Act's attack on Rule 14(a)-8, which governs the filing of shareholder proposals, the statement was shared with all 435 members of the U.S. House of Representatives.

- In July, in response to the Business Roundtable's lobbying for the virtual elimination of shareholder proposals, the Comptroller wrote its President and JPMorgan Chase & Company CEO Jamie Dimon, to request that Business Roundtable discontinue its lobbying efforts in pushing for amendments to Rule 14a-8.

- Comptroller DiNapoli, as a member of the Human Capital Management Coalition, led by the United Auto Workers Retiree Medical Benefits Trust, submitted a rulemaking petition to the SEC urging the adoption of standards that would require listed companies to disclose information on human capital management policies, practices, and performance. The petition builds the investor case for enhanced disclosure, while providing a foundation upon which the SEC can develop consistent and comprehensive standards that would allow investors to better understand and assess how well the companies they own are managing their talent.

- In the spring, as a result of legislative attacks on shareholder rights, the Comptroller wrote to the Chair of House Committee on Financial Services, to express his opposition to various provisions of the Financial CHOICE Act of 2017. The Comptroller wrote,

> ***"Of particular concern to me as a fiduciary and a major institutional investor, I believe the FCA would harm the interests of investors by significantly constraining corporate engagement and diminishing corporate accountability."***

- In January 2017, the Comptroller wrote to the SEC supporting universal proxy rules. Among other comments, the Comptroller stated,

> ***"Because proxy voting is one of the primary means by which shareholders act to manage and preserve their investments, I believe as a fiduciary that there should be no distinction between the franchise of a shareholder attending a meeting in person and that of a shareholder voting by proxy."***

Appendix: 2017 CRF Shareholder Resolutions

Company	Issue	Result
Zillow Group	Board Accountability – Board Diversity	Withdrawn with Agreement
GoPro, Inc.	Board Accountability – Board Diversity	Withdrawn with Agreement
FleetCor Technologies, Inc	Board Accountability – Board Diversity	Withdrawn with Agreement
Michael Kors Holdings	Climate Change – Energy Efficiency	39.6%
Fluor Corporation	Climate Change – GHG Reductions	36.7%
ExxonMobil Corporation	Climate Risk – 2 Degree Scenario	62.3% and Agreement
PPL Corporation	Climate Risk – 2 Degree Scenario	56.8% and Agreement
Dominion Resources, Inc.	Climate Risk – 2 Degree Scenario	47.8%
Duke Energy Corporation	Climate Risk – 2 Degree Scenario	46.4% and Agreement
DTE Energy Company	Climate Risk – 2 Degree Scenario	45.0%
Domino's Pizza, Inc.	Climate Risk – Deforestation	23.1%
The Kraft Heinz Company	Climate Risk – Deforestation	13.1%
Chevron Corp.	Climate Risk – Director with Environmental Expertise	19.6%
Akorn Pharmaceuticals	Execution Drugs	Withdrawn with Agreement
McKesson Corporation	Execution Drugs	SEC Granted No Action Relief
Cardinal Health, Inc.	Execution Drugs	SEC Granted No Action Relief
Wells Fargo & Company	Executive Compensation	SEC Granted No Action Relief
Vertex Pharmaceuticals Inc.	Executive Compensation – Declassification	Withdrawn with Agreement
Bed Bath & Beyond Inc.	Executive Compensation – Golden Parachute	Withdrawn with Agreement
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Discovery Communications, Inc.	Executive Compensation – Target Pay	Withdrawn with Agreement
Regeneron Pharmaceuticals, Inc.	Executive Compensation – Target Pay	Withdrawn with Agreement
BB&T Corporation	Executive Compensation – Target Pay	Withdrawn with Agreement
Allstate Corporation	Lobbying Disclosure	24.9%
Eli Lilly and Company	Lobbying Disclosure	24.8%
NiSource Inc.	Political Spending Disclosure	Withdrawn with Agreement
Goodyear Tire & Rubber Company	Political Spending Disclosure	Withdrawn with Agreement

Oracle Corporation	Political Spending Disclosure	21.9%
Occidental Petroleum Corporation	Political Spending Disclosure	7.8%
NextEra Energy, Inc.	Political Spending Disclosure	41.2%
CMS Energy Corporation	Political Spending Disclosure	36.2%
Equifax Inc.	Political Spending Disclosure	35.9%
Western Union Company	Political Spending Disclosure	35.1%
Wynn Resorts Ltd.	Political Spending Disclosure	29.7%
Aetna Inc.	Political Spending Disclosure	26.5%
UnitedHealthcare Group Inc.	Political Spending Disclosure	25.1%
Textron Inc.	Political Spending Disclosure	23.4%
CONSOL Energy Inc.	Political Spending Disclosure	21.6%
Expedia, Inc.	Political Spending Disclosure	13.8%
The TJX Companies, Inc.	Supplier Labor Standards	Withdrawn with Agreement
Ross Stores, Inc.	Supplier Labor Standards	Withdrawn with Agreement
Macy's, Inc.	Supplier Labor Standards	Withdrawn with Agreement
Foot Locker, Inc.	Supplier Labor Standards	SEC Granted No Action Relief
Under Armour, Inc.	Sustainability Reporting	Withdrawn with Agreement
PayPal Holdings, Inc.	Sustainability Reporting	Withdrawn with Agreement
Assurant, Inc.	Sustainability Reporting	Withdrawn with Agreement
Pioneer Natural Resources Company	Sustainability Reporting	52.1% and Agreement
Kinder Morgan, Inc.	Sustainability Reporting	38.4%
Netflix, Inc.	Sustainability Reporting	29.5%
Diamond Offshore Drilling, Inc.	Sustainability Reporting	17.5%
W. R. Berkley Corporation	Sustainability Reporting	Withdrawn with Agreement
Marathon Petroleum Corporation	Sustainability Reporting	35.2%

Endnotes

1 NYSCRF 2017 Proxy Voting at http://www.osc.state.ny.us/pension/proxy-voting.htm.

2 NYSCRF Proxy Voting Guidelines: http://www.osc.state.ny.us/pension/proxyvotingguidelines.pdf.

3 Gender Diversity and Corporate Performance – Credit Suisse at https://publications.credit-suisse.com/tasks/render/file/index.cfm?fileid=88EC32A9-83E8-EB92-9D5A40FF69E66808.

4 Reuters: Company sues Arkansas, charging fraud over lethal injection drugs: https://www.reuters.com/article/us-arkansas-execution/company-sues-arkansas-charging-fraud-over-lethal-injection-drugs-idUSKBN17K2P8.

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