

**NEW YORK STATE  
COMMON RETIREMENT FUND  
ENVIRONMENTAL, SOCIAL & GOVERNANCE  
PRINCIPLES  
and  
PROXY VOTING  
GUIDELINES**

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**Approved By:**

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## INTRODUCTION

### ABOUT THE NEW YORK STATE COMMON RETIREMENT FUND

The New York State Common Retirement Fund (Fund) is the third largest public pension plan in the nation with an audited value of \$192.4 billion in assets held in trust for the more than one million members of the New York State and Local Retirement System (System) as of March 31, 2017. The Fund is widely regarded as one of the nation's best-managed and best-funded pension plans.

As Trustee of the Common Retirement Fund, Comptroller DiNapoli has the responsibility to protect the interests of the System's members and that includes voicing concerns, proposing changes, and voting the proxies for the public companies in which the Fund invests. An essential component of safeguarding the Fund's investments includes working with its portfolio companies to encourage best corporate governance and sustainable business strategies to reduce risks and realize strong returns.

### ENVIRONMENTAL, SOCIAL, AND GOVERNANCE PRINCIPLES

The Fund's Investment Philosophy requires the consideration of environmental, social, and governance (ESG) factors in the Fund's investment process because they can influence both risk and return. The Fund, as a long-term owner that invests in all sectors of the economy (i.e., a "universal owner"), works to promote sound ESG practices at its portfolio companies through active ownership and public policy advocacy. 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 the company's own workforce and in its supply chain to ensure productivity while avoiding risks of liability and reputational damage. A commitment to sustainability provides a framework for companies to flourish for decades to come – and the Fund's investments along with them.

**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, geographic diversity 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 use 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 its long-term commitments. With such an enormous array of investments in so many different businesses and projects, the Fund relies on independent boards to represent investors, looks for compensation structures that properly incentivize strong long-term returns, and

expects the full disclosure of risks, opportunities and strategies necessary to allow for informed decision-making. Accountability and transparency are critical to an effective, long-term investment strategy.

This strategic focus of enhancing long-term value through sustainability, accountability, and diversity is, in part, implemented through active ownership of portfolio companies to address ESG issues in a manner consistent with enhancing shareholder value. The Fund's active ownership program takes many forms, including voting on nearly 30,000 proxy measures annually, filing shareholder resolutions, writing letters as specific issues arise, discussing important ESG issues directly with corporate directors and management, and public policy advocacy for the overall stability, transparency and functionality of the markets and the economy.

The ESG Principles and Proxy Voting Guidelines (Guidelines) have been adopted, not only to provide guidance on voting practices to the Fund, its manager and portfolio companies, but also to guide other corporate engagements and policy initiatives, and to articulate to the capital markets the Fund's view on what constitutes best practices in corporate governance and ESG issues. The Fund expects all external managers of the Fund's capital to consider these principles in investment decision making, proxy voting, and corporate engagements consistent with fiduciary duty.

The Guidelines are not intended to anticipate every proposal that will appear on portfolio companies' proxy statements. These Guidelines are not binding and the Comptroller will vote proxies consistent with his fiduciary duty. These Guidelines are subject to change at any time by approval of the Chief Investment Officer and the Comptroller.

## **PROXY VOTING PROCEDURE**

The Fund's independent proxy voting provides a direct means of influencing a company's governance, strategies and risk management, and is an integral part of the Trustee's fiduciary duty to invest prudently and for the exclusive benefit of the System's members, retirees, and beneficiaries. Proxy voting decisions are based on reviews of available information relating to items on the ballot at each portfolio company's annual and special meetings. The Fund analyzes a variety of materials from publicly available sources, including but not limited to, U.S. Securities and Exchange Commission (SEC) filings, analyst reports, relevant studies and materials from proponents and opponents of shareholder proposals, third-party independent perspectives and studies, and analyses from several corporate governance advisory firms. The Fund has an asset lending program that is administered by its custodial bank. In accordance with the terms of its asset lending program agreement with the Fund, the Fund may seek to recall loaned securities in order to facilitate the Fund's ability to exercise its voting rights.

## **REPORTING**

The Fund makes its votes available annually on the Corporate Governance segment of its [website](#).

# **PROXY VOTING GUIDELINES**

## **CORPORATE GOVERNANCE**

### ***Access to the Proxy***

Proxy access is a fundamental right of long-term shareholders. Allowing shareholders that meet the appropriate ownership requirements the ability to use management's proxy materials for the purpose of nominating director candidates to boards at companies in which they are stakeholders is a cost-effective tool to increase shareholders' ability to hold boards accountable. The Fund will support proposals requesting shareholder access to management's proxy materials for the purpose of nominating director candidates for board elections. As a general rule, the Fund will vote in favor of proxy access proposals that are no more restrictive than requiring three years of continuous ownership and three percent aggregate ownership.

### ***Anti-takeover Provisions***

#### **a. Greenmail**

Purchase terms for greenmail payments exceed the current market value and are not available to all shareholders. The Fund will support proposals that ask companies to require shareholder approval of greenmail payments that pay a premium price to repurchase shares and avert a hostile takeover.

#### **b. Supermajority Requirements**

Supermajority provisions can be used to impose voting barriers to deter unfavorable hostile takeovers. They can also be used to defeat corporate democracy, entrench status quo and diminish shareholder rights. The Fund will support proposals that ask companies to eliminate any requirement that corporate actions be approved by more than a simple majority of shareholders. The Fund will not support proposals that include provisions that require that more than a simple majority of shareholders to approve actions such as mergers, sales of assets or by-law amendments.

#### **c. Unequal Voting Rights**

Unequal voting rights can benefit some shareholders at the expense of others. Also, such rights can effectively deter premium takeover offers. The Fund will not support proposals that allow companies to issue shares with special voting rights. The Fund will also vote against boards of directors, post-IPO, at companies that have unequal voting rights and no sunset on such structure.

#### **d. Written Consent/Special Meeting**

The ability to act by written consent allows shareholders to take action collectively without a shareholder meeting. This is potentially powerful to shareholders because they may run the equivalent of a proxy contest without having to wait for the Company to set a meeting. By banning the use of consents, companies may discourage hostile takeovers by delaying an attempt to gain control of the company until a meeting is set by the Board. The Fund will support proposals that ask a company to allow shareholders meeting a minimum 10% ownership threshold to call a special meeting or act by written consent.

## *Auditors*

In order for an audit committee to effectively carry out its responsibilities on behalf of shareholders, its members must include directors with appropriate expertise. As such, members of the audit committee must be independent and possess knowledge and experience in auditing and financial matters.

Given the importance of a public company's financial statements, the Fund believes shareholders should have a voice in deciding which firm audits the company's financials. To that end, the Fund believes shareholder ratification of the auditor serves to increase the auditor's accountability. In the event that the board fails to put the selection of the auditor up for shareholder ratification, the Fund will withhold support from the chair of the audit committee.

The appointment of independent auditors is critical to long-term shareholder value. Conflicts of interest can arise when auditors provide both audit and non-audit services to the same company and/or when an auditor is continuously employed by a company. These conflicts can compromise auditors' independence and jeopardize investors' interests. The Fund will support the appointment of an outside auditor as long as the auditor's non-auditing services are limited to no more than 25 percent of services in order to minimize the creation of conflicts of interest for the auditor or auditing firm with the company.

The Fund will generally withhold support from members of the audit committee and/or from outside auditors in situations where there are alternative dispute resolution procedures, there have been recent material restatements of annual financial statements or persistent late filings by the company, or if the company has had back dated option awards.

## *Board of Directors' Independence, Accountability and Responsibilities*

The election of directors is a fundamental shareholder right, providing the most direct means for shareholders to hold directors accountable for their actions and decisions. Shareholders' interests are best served by directors who demonstrate a commitment to sustainable long-term performance and responsible corporate governance.

### **a. Board Accountability**

The Fund will cast its votes in a manner that promotes the election of independent directors. In addition, the Fund will generally withhold support from the following director nominees:

- i. Directors who have attended less than 75 percent of board and committee meetings during the preceding year without legitimate justification.
- ii. Directors who are members of an excessive number of corporate boards and/or number of key committees.
- iii. Directors who refused to implement as corporate policy the resolve of a shareholder resolution which received a favorable vote from a majority of the ballots cast during the preceding annual meeting.
- iv. Directors who have failed to fulfill their committee duties and ignored the best interests of shareholders.

- v. Nominating committee members who failed to adopt all-independent audit, compensation and/or nominating committees at the corporation.
- vi. Nominating committee chair when the board has neither appointed an independent chairman nor an independent lead or presiding director.
- vii. Nominating committee members who have failed to implement a majority independent board.
- viii. Audit committee members when the company has failed to put the selection of the auditor up for shareholder ratification.
- ix. Audit committee members who have limited auditor liability through auditor engagement contracts.
- x. Governance committee members when the board has unilaterally adopted a governance provision that weakens shareholder rights without shareholder approval (such as an exclusive forum bylaw, fee-shifting bylaw, or mandatory arbitration bylaw, virtual only meetings), or is currently seeking shareholder approval for such a governance provision pursuant to a bundled bylaw or charter amendment rather than as an individual proposal. In egregious instances, the Fund may withhold from all board nominees.
- xi. Directors of newly public companies that have entrenchment devices, such as dual class structure and/or weak shareholder rights.
- xii. Directors who have approved a poison pill without seeking prior shareholder approval.
- xiii. Directors of companies with no women on the board.
- xiv. Nominating committee members when the board lacks appropriate skills and attributes, including when there is only one woman on the board.

The Fund also monitors director performance by analyzing a variety of company performance metrics, including but not limited to total shareholder return (TSR) relative to industry peers for 3-, 5- and 10-year periods. In the event of chronic underperformance, the Fund may vote against or withhold support from directors who served on the board during such periods of underperformance.

As part of director performance evaluation, the Fund will evaluate if the board maintains multiple governance provisions that may insulate or entrench directors from accountability. Such entrenchment devices include, but are not limited to, classifying the board, imposing supermajority vote requirements, issuing dual-class shares and approving “poison pills” (or shareholders’ rights plans – see section on Poison Pills below). In such instances, the Fund may vote against members of the governance committee who have established such provisions. Further, the Fund will generally vote against directors, who either in their individual capacity or in their capacity as a director sitting on another board has a history of material financial lapses, poor risk management, or regulatory and/or ethical misconduct.

## **b. Board Composition**

- i. **Attributes and Skills.** The Fund will support the appointment of qualified and diverse directors who are capable of fulfilling fiduciary responsibilities to shareholders. The Fund focuses on long-term performance and expects that each director possesses the requisite skills to appropriately oversee a company’s overall strategy and operations. To this end, and in order to focus on long-term sustainability of the company’s business, a board should reflect a broad diversity of experience including leadership, finance, accounting, international business management, industry expertise, customer base experience, risk and crisis management. Also, the Fund believes that a company should seek director candidates

reflecting diverse attributes based on age, race, gender, ethnicity, geography, sexual orientation and gender identity. Nominating committee charters should define diversity to encompass all of these factors, including sexual orientation and gender identity. By broadening the definition of boardroom diversity, portfolio companies will help to ensure that a board remains open to new ideas and remains inclusive and representative of all its employees and customer base.

- ii. **Director Independence.** The election of independent directors is critical to long-term shareholder value. “Inside” directors can experience conflicts of interest when faced with decisions that impact management. Independent directors are better able to evaluate objectively management’s recommendations to the Board and generate alternatives and proposals for Board consideration. Independent directors are necessary to ensure that the Board consistently acts in the best interests of shareholders. The Fund will support proposals that ask that a majority or a substantial majority of a company’s directors be “independent” directors. A director will not be considered “independent” if he or she:<sup>o</sup>

(i) is, or in the past 5 years has been, or whose relative is, or in the past 5 years has been, employed by the corporation or employed by or a director of an affiliate;

An "affiliate" relationship is established if one entity either alone or pursuant to an arrangement with one or more other persons, owns or has the power to vote more than 20 percent of the equity interest in another, unless some other person, either alone or pursuant to an arrangement with one or more other persons, owns or has the power to vote a greater percentage of the equity interest. For these purposes, equal joint venture partners and general partners meet the definition of an affiliate, and officers and employees of equal joint venture enterprises and general partners are considered affiliated. A subsidiary is an affiliate if it is at least 20 percent owned by the corporation.

Affiliates include predecessor companies. A "predecessor" of the corporation is an entity that within the last 5 years was party to a “merger of equals” with the corporation or represented more than 50 percent of the corporation's sales or assets when such predecessor became part of the corporation.

“Relatives” include spouses and domestic partners, parents, children, step-children, siblings, mothers- and fathers-in-law, sons- and daughters-in-law, brothers- and sisters-in-law, aunts, uncles, nieces, nephews and first cousins, and anyone sharing the director’s home.

(ii) is, or in the past 5 years has been, or whose relative is, or in the past 5 years has been, an employee, director or owner of a firm that is one of the corporation's or its affiliate's paid advisers or consultants or that receives revenue of at least \$50,000 for being a paid adviser or consultant to an executive officer of the corporation;

The term "executive officer" includes the chief executive, operating, financial, legal and accounting officers of a company. This includes the president, treasurer, secretary,

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<sup>o</sup> Based on recommendations made by the Council of Institutional Investors and its current definition of “independent director” updated as of April 13, 2010, *cii.org* at “Council Policies”.

controller and any vice-president who is in charge of a principal business unit, division or function (such as sales, administration or finance) or performs a major policymaking function for the corporation.

(iii) is, or in the past 5 years has been, or whose relative is, or in the past 5 years has been, employed by or has had a 5 percent or greater ownership interest in a third-party that provides payments to or receives payments from the corporation which account for 1 percent of the third-party's or 1 percent of the corporation's consolidated gross revenues in any single fiscal year, or if the third-party is a debtor or creditor of the corporation, the amount owed exceeds 1 percent of the corporation's or the third party's assets. Ownership means beneficial or record ownership, not custodial ownership.

(iv) has, or in the past 5 years has had, or whose relative has paid or received more than \$50,000 in the past 5 years under, a personal contract with the corporation, an executive officer or any affiliate of the corporation;

(v) is, or in the past 5 years has been, or whose relative is, or in the past 5 years has been, an employee or director of a foundation, university or other non-profit organization that receives significant grants or endowments from the corporation or one of its affiliates or has been a direct beneficiary of any donations to such an organization;

(vi) is, or in the past 5 years has been, or whose relative is, or in the past 5 years has been, part of an interlocking directorate in which the CEO or other employee of the corporation serves on the board of a third-party entity (for-profit or not-for-profit) employing the director;

or

(vii) has a relative who is, or in the past 5 years has been, an employee, a director or a 5 percent or greater owner of a third-party entity that is a significant competitor of the corporation.

### **c. Classified Board**

All directors should be accountable to shareholders on an annual basis. Moreover, classified boards make it extremely difficult for a bidder to acquire control or for a challenger to engage successfully in a proxy contest. The Fund will generally support proposals to eliminate a classified (staggered) board and elect all directors on an annual basis.

### **d. Committees**

The formation of committees intended to examine specific issues helps to ensure that the board gives accurate, complete and thorough consideration to these issues. Independent directors are best able to evaluate objectively management's recommendations on specific issues and generate alternatives and proposals for board consideration. All-independent committees are necessary to ensure that the board consistently acts in the best interests of shareholders. The Fund will support proposals that request that companies establish compensation, governance and nominating committees of the board of directors. The Fund will also support proposals that request that such committees consist solely of independent directors. The Fund will evaluate on a case-by-case basis the establishment of a new standing or ad-

hoc board committee, taking into consideration the extent to which the board's existing committee(s) appropriately evaluate risks that are material to the firm's strategy and operations.

#### **e. Director Liability and Indemnification**

Limitations on directors' liability can benefit the company and its shareholders by facilitating the attraction and retention of qualified directors. At the same time, shareholders should be protected in situations of egregious misconduct by directors.

The Fund will generally support proposals that ask a company to limit director liability and provide indemnification. The Fund will not support proposals that provide indemnity for the following actions:

- i. breach of the duty of loyalty
- ii. acts or omissions not in good faith or involving intentional misconduct or knowing violations of the law
- iii. unlawful purchase or redemption of stock
- iv. payment of unlawful dividends
- v. receipt of improper personal benefits

#### **f. Director Tenure**

Arbitrary limits on director tenure will not necessarily ensure that a director will be more qualified to serve in shareholders' best interests. The Fund believes that boards should continually evaluate director tenure as part of its comprehensive review of the board and encourages boards to establish mechanisms that promote periodic refreshment of the board. The Fund will not support proposals that ask a company to provide for age limits for directors. The Fund also will not support proposals that request that a company provide for term limitations for directors. Although the Fund does not support director term limits, the Fund will scrutinize boards more closely in terms of independence and overall performance where the average tenure of all directors exceeds 15 years.

#### **g. Diversity of the Board**

Modern corporations operate in a diverse, multi-cultural environment. Long-term financial performance is likely to be enhanced when boards reflect this diversity and draw upon talent from the widest choice of candidates. The Fund will support proposals that encourage diversified representation on the board and those that aim to expand the search for director nominees with a diversity of experience. Diversity includes expertise, skills, age, race, gender, ethnicity, geography, sexual orientation, and gender identity. The nominating committee charter should include language reflecting each of these categories.

#### **h. Independent Board Chairman**

The Fund will support proposals that request that a company take the steps necessary to adopt a policy that the board chairman be an "independent" director. The Fund will also support proposals that request that a company take the steps necessary to separate the roles of chairman and chief executive officer. Alternatively, where there is one director acting as both the chairman of the board and the chief executive officer, the Fund will support proposals that request that the company appoint a lead or presiding director. Independent directors are best able to evaluate objectively management's recommendations on corporate strategy and specific issues, and generate alternatives and proposals for

board consideration. The appointment of an independent director as chairman of the board would help to ensure that the board consistently acts in the best interests of shareholders.

#### **i. Independent Director/Shareholder Dialogue**

Communication between shareholders and independent directors helps ensure that the interests and concerns of shareholders are represented in board deliberations. The Fund will support proposals that request that a company establish a policy and procedure by which shareholders can communicate with independent directors.

#### **j. Majority Voting**

A majority vote standard provides shareholders a meaningful say in determining who will represent them in the boardroom resulting in increased accountability and performance of directors. Directors are accountable to shareholders of the company. Board nominees should therefore be elected by the majority of votes cast at the annual meeting of shareholders. The Fund will withhold support from directors who received majority withhold votes or those who fail to receive a majority support in prior years and have not stepped down from the board. Further, the Fund will withhold support from nominating committee members who have failed to appropriately address these votes.

#### **k. Risk Expertise**

The Fund will generally support proposals that request the nomination of independent director candidates with expertise in areas that will assist in the mitigation of company risk. These would include environmental experts in the extractive industries. Other industries where a "risk expert" might be appropriate are banking, nuclear, and waste management.

Additionally, the Fund believes that companies should possess climate risk competency on the board in order to effectively manage the respective long-term material risks and opportunities to the company and to the broader financial markets. The board should clearly define relevant climate risk — and more broadly environmental, social and governance (ESG) — oversight. Such oversight should include the assurance of appropriate comprehensive reporting to shareholders beyond what is required within current financial reporting with adherence to internationally recognized sustainability reporting protocols. Failure of a board to appropriately manage and comprehensively report climate and other material ESG risk may lead the Fund to withhold support from directors.

#### **l. Size of the Board of Directors**

The Fund may vote against members of the nominating committee if there are fewer than five board members and may vote against members of the nominating committee if there are more than 20 board members. While there is no universally applicable optimum board size, the Fund believes boards should have at least five directors to ensure sufficient diversity in decision-making and to allow for the formation of key board committees. Conversely, boards with more than 20 members may have difficulty reaching consensus and making timely decisions.

#### **m. Succession Planning**

The Fund will support proposals requesting the adoption and disclosure of a well-defined succession planning process. Boards have a responsibility to oversee CEO and board succession planning including the assessment of candidates and development of a transition plan. Lack of appropriate succession planning by boards can risk serious disruption of company operations in the event of CEO or board member departures.

## Capital Structure

### a. Dividend Policy

- i. **Declare/Increase Annual Dividend.** Many factors should be considered in a decision to declare/increase dividends, including corporate profits, expenses, strategic plans and market conditions. The declaration/increase of a dividend may not necessarily promote long-term shareholder value if there is opportunity to reinvest into the corporation to promote growth. However, if a corporation is unlikely to benefit from reinvestment, declaring/increasing a dividend may be appropriate. The Fund will consider supporting proposals asking companies to declare/increase dividends on a case-by-case basis with the assistance of portfolio managers and service providers.
- ii. **Disclosure.** Disclosure of company dividend policies allows shareholders to be well informed and can assist decision making by shareholders. The Fund will support proposals that request a company report on its dividend policy.

### b. Stock Authorization

- i. **Blank-Check Preferred Stock.** When issuing preferred stock, a company's board of directors is allowed to specify dividend rates, voting rights, conversion rights and other conditions that could serve as an anti-takeover defense without shareholder approval. The Fund will not support proposals that authorize the creation or increase of blank-check preferred stock. The Fund will support proposals that ask a company to redeem preferred stock that has been previously issued.
- ii. **Dual Class Stock.** Dual class capitalization creates a second class of common stock with either superior or inferior voting rights to those of the existing class of stock. Dual classifications with unequal voting rights violate the principle of "one share, one vote" and enable management to perpetuate itself without the support of a true majority of shareholders. The Fund will not support proposals that authorize the creation or extension of dual class voting stock.
- iii. **Increase Stock Authorization.** An increase in the number of shares authorized but not issued provides a company's board of directors with flexibility to meet changing financial conditions. However, such increases can also be used to thwart hostile takeovers that on a case-by-case basis may be desirable. The Fund will generally support proposals that request an increase in the number of authorized but not issued common stock, provided the amount requested is necessary for sound business practice and is reasonable given the company's industry group and performance history. All such proposals will be reviewed on a case-by-case basis.
- iv. **Share Repurchasing.** Stock buyback programs, in narrow circumstances, can serve as an efficient vehicle for distributing cash to shareholders. However, many factors should be considered in a decision to institute a share buyback plan, including corporate profits, expenses, strategic plans and market conditions. Share buybacks may not necessarily promote long-term shareholder value if there is opportunity to reinvest cash back into the corporation to promote growth. The Fund will support proposals submitted by management to institute open-

market share repurchase plans in which all shareholders may participate on equal terms on a case-by-case basis.

- v. **Share Pledging.** The SEC’s Item 403(b) of Regulation S-K requires the disclosure of the number of shares pledged as security by named executive officers, directors, and director nominees. Pledging of company stock as collateral for a loan may not be a responsible use of equity and may have a detrimental impact on shareholders if the director or officer must sell company stock, for instance to meet a margin call. The forced sale of a substantial amount of company stock has the potential to negatively impact the company's stock price, and may also violate company insider trading policies. In addition, share pledging may be used as part of hedging or monetization strategy that could insulate an executive against the financial impacts from downturns in the company’s stock price, despite maintaining voting rights. The Fund, as part of its board of director evaluation process, will review directors and executives who have pledged company stock. Excessive pledging activity calls into question the audit committee's ability to effectively oversee such a risk. In such instances, the Fund may consider withholding votes from audit committee members.
- vi. **Tracking Stock.** Tracking stock can boost the market value of the parent company; however, it does not provide shareholders with ownership of corporate assets, nor does it necessarily provide voting rights. The existence of tracking stock can also pose conflicts of interest between the parent company and the portion of the business that is being “tracked.” When a parent company issues “tracking stock”, all revenues and expenses of the division are separated from the parent company’s financial statements and then attributed to the tracking stock. Often this is done to separate a high-growth division with large losses from the financial statements of the parent company. The Fund will generally not support proposals that ask companies to create tracking stock. Such proposals will be considered on a case-by-case basis.

### *Cumulative Voting*

Cumulative voting allows each shareholder as many votes as the number of shares each owns multiplied by the number of directors to be elected. This allows shareholders to cast all of their votes for any individual or slate of candidates. The result is that a minority block of stock can be disproportionately represented on the board. Such representation could be counter to the interests of the majority of shareholders. The Fund will generally not support proposals that request the adoption of a cumulative voting policy.

### *Employee Stock Purchase, Retirement and Pension Plans*

#### **a. Stock Purchase Programs**

The Fund will support management proposals that authorize or amend Employee Stock Purchase Plans for all employees at prices that are not less than 85 percent of the fair market value of the shares; with an offering period no greater than 27 months.

The Fund will not support proposals that ask a company to restrict stock purchase programs to selected employees. The Fund will support proposals that ask companies to require disclosure about such programs.

#### **b. Supplemental Executive Retirement Plans (SERPs)**

The Fund will generally not support proposals that ask a company to increase the benefits awarded in supplemental executive retirement plans (SERPs). The Fund will support proposals that ask a company to eliminate SERPs or to increase disclosure on its SERPs.

SERPs provide additional pension benefits for individual senior executives. They impose additional pension liabilities on companies and are not tax-deductible.

### *Executive and Director Compensation*

#### **a. Advisory Vote on Executive Compensation (“Say-On-Pay”)**

Allowing shareholders the opportunity to voice their say on executive compensation practices and strategies is an effective measure to express concern about, and open dialogue with the company to promote, pay accountability. The Fund will support resolutions seeking the opportunity for shareholders to hold a non-binding advisory vote on compensation practices.

The Fund will vote case-by-case on proposals requesting ratification of a company’s executive compensation plan. The Fund supports annual advisory votes on compensation with the view that it is the responsibility of an independent compensation committee to dispense executive compensation policies and practices focused on ensuring long-term sustained performance for the company and its shareholders. In aligning compensation practices with shareholder interest, the Fund takes a holistic approach (rather than focusing singularly on any individual plan feature) when reviewing and determining how to vote on a company’s compensation plan as disclosed within the Compensation Discussion and Analysis (CD&A) sections of its proxy statement. The Fund believes that appropriate compensation practices should include a combination of performance-based short- and long-term incentives. Such plans should also include provisions requiring executives and directors to hold an equity stake in the company to better align their interest with those of shareholders. The Fund may vote against executive compensation plans in instances where executive pay is excessive relative to peer benchmarks, if there are demonstrated pay disparity concerns, if there is a disconnect between executive pay and company performance, or in instances where egregious perquisites and/or severance packages (including golden handshakes and golden parachutes) have been established.

In addition to careful consideration of “say on pay” votes, the Fund will withhold support from directors the Fund deems responsible for failures in setting appropriate compensation levels. Where the Fund has voted against the advisory vote on compensation, it generally will also withhold support from compensation committee members and, where the failure is persistent, the Fund may consider withholding support from the entire board of directors.

#### **b. Clawback Provisions**

Policies addressing the recovery of unearned awards are in the best interest of shareholders. The Fund will support proposals requesting policies that direct recoupment of unearned compensation in the event of fraud or restatements. The Fund will support the recovery of such unearned payments where possible. The Fund is in favor of provisions that allow for recapturing unearned bonus and incentive income awarded to all executives.

### **c. Disclosure of Executive Compensation**

Disclosure provides greater and more accurate information that is critical to informed decision-making by shareholders. The Fund will support proposals that request that a company disclose its compensation policies, including retirement benefits.

### **d. Expense Stock Options at Time of Grant**

Accounting for stock options provides shareholders with a more accurate picture of a company's earnings. The Fund will generally support proposals that ask companies to expense in their annual income statements the costs of all awarded and but not-yet-vested stock options issued to company executives.

### **e. Holding of Option Shares**

Options are intended to be an incentive for good management and a reward for superior performance. A long-term holding requirement would encourage executives to focus on a company's long-term performance. The Fund will generally support proposals that ask a company to require executives to hold shares gained from exercised options.

### **f. Incentive Bonus Plans for Executives**

The U.S. government offers corporations tax deductions for certain shareholder-approved bonus plans that are performance-based. These tax advantages can be beneficial to shareholders. Performance goals will be most meaningful if they are measurable, clearly defined and distinctly related to an executive's performance. The Fund will generally support incentive compensation plans that are specifically related to corporate and individual performance, including those plans intended to comply with IRS Section 162(m). The Fund will generally not support plans that include more than five types of performance criteria or are otherwise in violation of these proxy voting guidelines.

### **g. Internal Pay Disparity**

Compensation should aim to reward and motivate employee performance. High disparity of pay may make employees less productive. In addition, the Fund believes that proposals that require additional disclosure of compensation policies can enhance shareholder value by providing shareholders information critical to informed decision-making. The Fund will generally support proposals that ask a company to consider pay of all employees when setting compensation for top executives. The Fund will also support proposals requesting a report that compares compensation for executives and non-executives.

### **h. Re-pricing of Stock Options**

Options are intended to be an incentive for good management and a reward for superior performance. Management should be willing to accept market risk in the same manner as the shareholder, and the value of stock option plans should not be guaranteed. The Fund will support proposals asking companies to prohibit the re-pricing of underwater stock options. The Fund will also support proposals asking companies to obtain shareholder approval before re-pricing stock options. In the event that an option exchange program is authorized under which employees and officers exchange some or all of their underwater stock options for replacement options without shareholder approval, the Fund will generally vote against or withhold support from the compensation committee members who oversaw the transaction.

**i. Restrict/Limit/Cap Director Compensation**

Compensation should aim to reward and motivate director performance. Proposals that impact compensation through fixed formulas or arbitrary limitations may make directors less responsible and accountable to shareholders. The Fund will not support proposals asking companies to restrict, limit or cap the compensation of an individual director or the aggregate compensation of all directors.

**j. Restrict/Limit/Cap Executive Compensation**

The Fund will not support proposals asking companies to restrict, limit or cap the compensation of an individual executive or the aggregate compensation of any group of employees.

**k. Restricted Stock Grants**

Restricted stock awards are granted with a vesting period, during which time the employee's rights to the shares are limited. As such, they are a form of compensation that rewards and motivates employees. Proposals to eliminate such awards may make employees less productive and may not necessarily be in the best interests of shareholders. The Fund will not support proposals that ask a company to terminate its restricted stock plan unless the proponent makes a compelling case for its position.

**l. Severance Payments ("Say on Golden Parachutes")**

Shareholders should have an opportunity to vote on issues that would have a material financial impact upon a corporation and the value of their investment. Shareholder value might be diminished by severance agreements. Shareholders should be able to approve or disapprove them. The Fund will support proposals that ask companies to obtain shareholder approval of future severance agreements ("golden parachutes").

**m. Stock Option Plan**

Stock option plans allow executives and directors to hold an equity stake in the company and align their interests with shareholders' interests. Properly structured plans can provide significant incentives for executives and directors, and can help a company attract and retain talented employees. The Fund will not support proposals that request companies to adopt a policy prohibiting future stock option grants.

Several factors, such as the category of the company (whether emerging, growth or mature) and the long-term financial performance, require detailed analysis. Accordingly, the Fund reviews stock option plans on a case-by-case basis.

The Fund will generally support proposals that ask a company to establish or to amend stock option plans with the following terms:

- i. Dilution levels should be reasonable.
- ii. Options should not be awarded at below-market discounts.
- iii. Plans should reward performance. The criteria for performance rewards should be clear and definitive.
- iv. Plans should not include stock appreciation rights or stock depreciation rights.
- v. Plans should not allow "pyramiding" — the practice of paying for stock options with previously owned shares in successive short term transactions.
- vi. Plans should not include reload provisions that allow the company to replace stock already given in the exercise of an option.

#### **n. Survivor Benefit Plans (Golden Coffins)**

The Fund will support proposals that request shareholder approval of any future agreements pertaining to payments or awards made to executives following their death. These payments can be very expensive for the company and are not tied to performance. The Fund encourages compensation that is linked to shareholder value.

### ***Poison Pills***

#### **a. Adoption of Poison Pill**

“Poison pills” or shareholders’ rights plans involve the issuance of preferred stock purchase rights often unilaterally declared as a dividend without shareholder participation or approval. A poison pill provides the targeted Board the power to veto takeover bids and serves as a mechanism to insulate management from potential change in control. However, insulating management may also limit the possibility of competitive bids. The Fund generally will not support proposals submitted by management that would establish or extend a “poison pill.”

#### **b. Shareholder Approval**

Poison pills can have a significant economic impact on shareholder value. Shareholders should be allowed to review and vote on the rights plan. The Fund will support proposals that ask a company to submit its poison pill to shareholders for a vote.

### ***Preemptive Rights***

Preemptive rights permit shareholders to maintain their relative ownership of a corporation, while permitting the company to raise the new capital it needs. These proposals serve to prevent the erosion of the rights of existing shareholders. The Fund will support proposals that would grant or restore preemptive rights to shareholders.

### ***Reimbursement of Proxy Expenses***

Reimbursement of proxy expenses in some cases can help ensure that the most qualified Board candidates are able to offer their services. In instances where the dissident has a successful outcome, it would be in the best interest of shareholders to vote in favor of reimbursement expenses. The Fund will vote on a case-by-case basis proposals seeking to amend by-laws in order to permit the reimbursement of expenses incurred when shareholders nominate a candidate or a slate of candidates for board election.

### ***Reincorporation***

The Fund will vote on a case-by-case basis proposals requesting a company to reincorporate in a new state or country, evaluating the business rationale and, on balance, the relative strength of shareholder

rights and governance protections of the jurisdictions. Generally, all matters being equal, the Fund opposes reincorporation to jurisdictions that would weaken shareholder rights.

## ***Restructurings***

### **a. Fair Price Provisions**

The Fund will support proposals that require a bidder for a company to pay every shareholder a fair price. The Fund will not support fair price provisions if they are coupled or “linked” with a supermajority amendment or other defensive device.

### **b. Mergers and Acquisitions**

The Fund will evaluate any proposed merger and acquisitions on a case-by-case basis in terms of what is in the long-term interest of the Fund and its members. The analysis takes into consideration the strategic rationale, valuations of the targeted company to include revenue and cost synergies, and the disclosure of an open and fair negotiation process. As part of the research process, the Fund’s analysis of the transaction may take into consideration input from heads of asset classes, investment managers and advisors, and other sources of commentary and analysis. The Fund will evaluate whether a transaction is in the long-term best economic interest of the Fund.

### **c. Sell the Company**

The Fund will consider on a case-by-case basis proposals asking a company to explore a sale or other transaction in order to maximize shareholder value. Proposals to sell the company are intended to encourage the company to revive a depressed stock price. However, the proposed restructuring activities can be distracting to the board and senior management if other strategic plans are in place.

### **d. Spin Off a Division**

The Fund will consider on a case-by-case basis proposals asking a company to spin-off or sell a portion of its business. Proposals to spin off a portion of business are intended to encourage the company to revive a depressed stock price. However, the proposed restructuring activities can be distracting to the board and senior management if other strategic plans are in place.

## ***Voting Policies and Procedures***

### **a. Annual Meeting Date and Location**

For many shareholders, annual meetings are their only opportunity to communicate directly with senior managers and members of the board of a corporation. Shareholders should be encouraged to attend annual meetings. The Fund will support proposals that seek to change the date or location of the annual meeting to provide greater access to a greater number of shareholders. The Fund will not support proposals that seek to change the date or location of the annual meeting without providing a reason.

### **b. Response to Shareholder Proposals Receiving Majority Vote**

The proxy vote is an important mechanism for shareholders to express their views on how a company should be run. It is fundamental to shareholder rights that the Board responds to the expressed desires of a majority of shareholders. The Fund will support proposals that ask companies to establish a process and procedures for adopting shareholder proposals that are presented in the company’s proxy

statement and are supported by more than fifty percent of shares voted at an annual meeting of the company.

**c. Tabulation of Shareholder Votes**

The Fund will support proposals that ask companies to reform the method by which management tallies and reports abstentions in the proxy vote. This type of proposal is intended to clarify the method by which shareholder votes are counted. Companies set different voting requirements for passage of shareholder proposals, and they also differ in the manner they treat abstentions. The SEC does not count abstentions when calculating whether a proposal has gained votes for resubmission, nor should management.

**d. Universal Proxy**

The Fund will support proposals requesting companies to facilitate shareholder voting process to vote shares with a proxy card showing all director nominees.

## **ENVIRONMENTAL AND SOCIAL ISSUES**

### ***Climate Risks***

The Fund's policies on issues related to climate change are based on the belief that corporations that address these issues responsibly, fully, and transparently are likely to experience sustained growth in financial performance. In addition, the Fund believes that proposals that require additional disclosure can enhance shareholder value by providing shareholders with information critical to informed decision-making.

The Fund will support proposals requesting companies to disclose analysis of potential impacts on company performance of different climate scenarios such as a 2°C scenario, including impacts to the organization's businesses, strategy, and financial planning.

The Fund will support proposals requesting companies to disclose processes to identify, assess, and manage climate-related risks and opportunities.

The Fund will support proposals calling for annual reporting of metrics and targets to assess and manage climate risks and opportunities such as GHG emissions from operations as well as from vehicles or other products that a company sells.

The Fund will support proposals asking companies to set long-term targets to reduce emissions from their operations and products to be aligned with the goal of the Paris Climate Agreement.

In the event that a board fails to publicly report on its material climate risks and management practices, including disclosing 2°C scenario analysis and greenhouse gas emissions, the Fund may withhold support from directors responsible for such oversight.

The Fund will support proposals asking for reports explaining how a company will address risks associated with deforestation.

The Fund will also support proposals asking the companies to report on the feasibility of obtaining certifications of the Forest Stewardship Council.

The Fund will support proposals asking for reports explaining how a company will respond to rising regulatory, competitive, and public pressure to develop renewable energy sources and energy efficiency standards.

The Fund will support proposals requesting the company prepare a report summarizing environmental impact of unconventional oil and gas exploration and development practices such as hydraulic fracturing, offshore drilling, and oil sands.

## ***Contributions***

### **a. Charitable Contributions**

The Fund believes that companies should be good corporate citizens and should participate in the charitable life of the community. Companies that make contributions do not necessarily endorse a particular organization's positions. The Fund will not support proposals that request that contributions be directed to or prohibited from particular charitable organizations.

### **b. Disclosure of Political and Lobbying Expenditures and Charitable Contributions**

The Fund will support proposals asking companies to disclose their political and lobbying expenditures and charitable contributions. The Fund will support proposals asking companies to put their political expenditures to a shareholder vote. The Fund will vote on a case-by-case basis on proposals asking for approval of specific political expenditures.

## ***Genetically-Modified Organisms***

The Fund will support proposals requesting that manufacturers of genetically-modified organisms report on risks and environmental impacts of their products, contingency plans for removing genetically-modified organisms, the potential for using alternative products, and evidence of independent long-term safety testing that demonstrates product safety.

The Fund will support proposals requesting that corporations report on the scope of the company products that are derived from or contain genetically-modified organisms.

The Fund will also support proposals requesting that companies adopt a policy of labeling products that are derived from or may contain genetically-modified organisms.

## ***Pollution Control***

### **a. Hazardous Substances**

The Fund will support proposals requesting that a company report to shareholders on its annual expenditures related to the health and environmental consequences and/or financial and regulatory risks from the use of hazardous substances in company operations.

### **b. Nuclear Plant Safety**

Nuclear energy strategies pose heightened risks, and shareholders should have access to all pertinent information regarding those risks. The Fund will support proposals that request a report on the risks of storage of nuclear and chemical waste. The Fund will also support proposals asking a company to take steps to diminish the risk of nuclear accidents.

### **c. Pesticide Imports and Exports**

The Fund will support proposals that ask a pesticide manufacturer to provide a report on its products that have been banned for sale in any jurisdiction or identified as probable carcinogens.

### **d. Pollutants**

The Fund will support proposals asking companies to report to shareholders on risks associated with emissions and releases of pollutants including sulfur dioxide, nitrogen oxide, mercury, or ozone. The Fund will also support proposals asking companies to report to shareholders on the economic benefits of committing to pollutant mitigations and controls.

### **e. PVC Phase-out**

The Fund will support proposals that ask medical product companies to phase out the manufacture of PVC-containing or phthalate-containing medical supplies where safe alternatives are available. The Fund will also support proposals asking companies to report on the feasibility of removing dibutyl phthalates from products.

## ***Resource Management***

The Fund will support proposals asking corporations to report on efforts to adopt resource efficiency and recycling policies and strategies.

## ***Water Risks***

Water is an essential resource to many businesses, and impairments of the quality or decreases in the quantity of available water can pose material risks. In addition, community concern about corporate water use can have a negative impact on a corporation's public reputation and long-term financial performance. The Fund will support proposals that ask corporations to evaluate business risks linked to water use.

## ***Equal Employment***

### **a. Equal Employment Opportunity (EEO) Reporting**

The Fund will support proposals that ask corporations to report to shareholders on equal employment opportunity activities. These reports may include a copy of the annual consolidated EEO-1 reports filed with the U.S. Equal Employment Opportunity Commission. Successful corporations are likely to be those that demonstrate a commitment to respect and tolerance; prohibit all forms of discrimination; and recruit, hire, and promote employees from the widest choice of candidates. Proposals that require

additional disclosure about such activities can enhance shareholder value by providing shareholders with information critical to informed decision-making.

#### **b. Glass Ceiling**

The Fund will support proposals requesting a report on steps taken to break the “glass ceiling” — barriers to women’s and racial minorities’ advancement to senior management positions. Reports may include information on company policies to address diversity and leadership development, links between executive compensation and efforts to break the glass ceiling, and top company wage earners broken down by gender and race.

The Fund will support proposals requesting that corporations enforce federal anti-discrimination laws and their own antidiscrimination policies.

The Fund will consider on a case-by-case basis proposals that ask a company to appoint a committee of independent members to develop a plan to eliminate the impact of discrimination at the company.

#### **c. Sexual Orientation and Gender Identity**

The Fund will support proposals asking companies to adopt or amend equal employment opportunity policies to explicitly prohibit discrimination based on sexual orientation and gender identity and expression.

### ***Health Issues***

#### **a. Execution Drugs**

The Fund will support proposals that ask corporations to report on controlled distribution systems to prevent the diversion of restricted medicines to prisons for use in executions and process for monitoring and auditing these systems to check for safeguard and against failure.

#### **b. HIV/AIDS, TB and Malaria in Developing Countries**

The Fund will support proposals asking corporations to report on the effect of deadly diseases on their operations, as well as on any measures taken in response.

The Fund will support proposals requesting pharmaceutical companies to establish standards of response to the health pandemic of HIV/AIDS, tuberculosis and malaria in developing countries.

The Fund will support proposals that ask a company to outline steps that can be taken to help address the HIV/AIDS pandemic.

#### **c. International Drug Trials**

The Fund will support proposals that request that a company disclose the countries where it sponsors clinical trials and how it ensures compliance with ethical guidelines and protocols.

#### **d. Opioid Abuse**

The Fund will support proposals that request that a company report on the governance measures to monitor and manage financial and reputational risks related to the Opioid crisis.

## *Labor Rights*

The Fund views greater corporate accountability for labor rights and workplace fairness as integral to sound corporate culture and long-term value creation.

The Fund supports proposals asking companies to protect, promote, and implement core labor standards including workers' rights to organize and choose representatives of their own.

The Fund will support proposals asking companies to adopt or amend policies to protect employees who report human rights violations, to establish reporting procedures to ensure this protection, and to inform employees about such procedures.

The Fund will support proposals requesting that companies establish a policy indicating zero tolerance for violence in the workplace.

The Fund supports and encourages a position of neutrality in the event there is a legitimate attempt by a labor organization to organize workers employed by companies in which the Fund is invested. The Fund will not support proposals that infringe on neutrality in labor disputes.

The Fund will not support proposals requesting disclosure of the names of employees who recently worked for the federal government.

The Fund will support proposals asking for corporate adherence to International Labor Organization (ILO) standards such as freedom of association and effective recognition of the right to collective bargaining, elimination of discrimination with respect to employment and occupation, abolition of forced labor and child labor, and employment of independent monitoring of compliance with those standards.

The Fund will support proposals asking companies to encourage suppliers to comply with ILO standards. The Fund will also support proposals requesting that companies contract for an independent monitor of their suppliers.

The Fund will support proposals that request companies review and report on their codes for international operations. The Fund will also support proposals that request companies report on efforts to ensure that they and their suppliers do not use illegal child or forced labor.

## *Human Rights*

### **a. Censorship/Freedom of Expression**

The Fund will support proposals asking a company to adopt policies to help protect freedom of expression and access to the internet including a pledge not to engage in proactive censorship or host user data in countries that restrict political speech.

The Fund will support proposals asking a company to disclose the company's operations' impacts on human rights and freedom of expression.

### **b. Human Rights Policies**

The Fund will support proposals that ask companies to adopt a comprehensive and verifiable human rights policy.

The Fund will also support proposals asking companies to implement the United Nations Guiding Principles on Business and Human Rights including human rights due diligence process to identify, prevent, mitigate and account for how they address their impacts on human rights, and report progress.

### **c. Indigenous Peoples Rights**

The Fund will support proposals asking a company to conduct operations and obtain resources in ways that do not have undue adverse environmental, socioeconomic and human rights impacts upon indigenous peoples.

The Fund will support proposals that request companies review and report on their codes for international operations, including policies regarding the fair treatment of indigenous peoples.

## ***Military and Security Issues***

### **a. Space Weaponry, Missile Defense**

The Fund will look at proposals asking companies to report on their involvement in space-based weaponization on a case-by-case basis.

### **b. Foreign Military Sales**

The Fund will support proposals asking companies to disclose information regarding sales and intended sales of military equipment to foreign governments. The Fund will also support proposals asking for reports on the process and criteria for choosing countries with which to do business.

### **c. Corporate Activity in Sanctioned Countries**

The Fund will support proposals asking companies to review and report on their operations in countries subject to economic and trade sanctions by the U.S. Department of the Treasury Office of Foreign Assets Control.

## ***Northern Ireland***

The Fund will support proposals asking corporations to implement the MacBride Principles for fair employment in Northern Ireland. The Fund will also support proposals asking a corporation to urge its franchisees in Northern Ireland to implement the MacBride Principles.

## ***Safety***

### **a. Amusement Park Safety**

The Fund will support proposals requesting a report on amusement park safety policies, including disclosure of injury episodes.

## **b. Animal Welfare**

The Fund will support proposals asking a company to report on its animal welfare standards. The Fund will also support proposals requesting a report on company policies regarding use of antibiotics in animal production facilities.

## ***Sustainability Reporting***

The Fund will support proposals that request that companies disclose information on their corporate environmental, social and governance (ESG) risks, targets, and performance.

The Fund is of the view that sustainability reporting must be comprehensive and extend well beyond what is required within current financial reporting. Failure of a board to appropriately manage and comprehensively report climate and other material ESG risk may lead the Fund to withhold support from directors.

## ***Tobacco***

### **a. Assistance to Smoking Victims**

The Fund will support proposals that ask a corporation to develop a plan for compensating customers whom an independent medical committee shows have developed smoking-related diseases from use of corporate products.

### **b. Environmental Tobacco Smoke**

The Fund will support proposals asking companies to develop a program to warn smokers and nonsmokers that tobacco smoke is hazardous to nonsmokers.

### **c. Internet Tobacco Sales**

The Fund will support proposals asking companies to establish a board committee to determine ways to ensure the company is not involved in selling cigarettes through the internet that may facilitate illegal and/or youth access to tobacco products. The Fund will also support proposals that request a report on the efforts of such a committee.

### **d. Light/Ultra-Light Cigarettes**

The Fund will support proposals asking companies to find appropriate ways to inform customers about the actual health risks of “light” and “ultralight” cigarettes.

### **e. Nitrosamines in Snuff**

The Fund will support proposals that ask a company to adopt a policy of reducing tobacco-specific nitrosamines in its products.

### **f. Product Labelling**

The Fund will support proposals that ask a company to include on every package of its tobacco products information regarding ingredients that may be harmful to consumers’ health, toxicity, detriment to life-expectancy and health hazards connected with environmental tobacco smoke.

**g. Store Advertising, Sales**

The Fund will support proposals that request a company to create guidelines to ensure it does not promote tobacco products. The Fund will also support proposals that request companies to report on plans to reduce tobacco use in communities.

**h. Tobacco Smuggling**

The Fund will support proposals requesting that companies determine the extent of past or present involvement in cigarette smuggling throughout the world and report to shareholders.

**i. Youth Smoking**

The Fund will support proposals requesting that companies review and report on corporate adherence worldwide to policies aimed at discouraging smoking among youth.