Raising The Bar:
Treasurer Frerichs' 2019 Annual Sustainable Investment Report

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ILLINOIS STATE TREASURER

Office of the Illinois State Treasurer

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I. Letter From Treasurer Michael W. Frerichs

I am very pleased to present our third *Annual Sustainable Investment Report*, which showcases our sustainable investing priorities and activities during calendar year 2019.

Many significant advances occurred in 2019, both at the Treasurer's Office, and for the entire State of Illinois. This year, Illinois became the first state in the nation to pass a law, the Sustainable Investing Act, requiring all state government entities to integrate sustainability factors in investment decision-making. Not only does this law help position government units across Illinois to better manage risk and optimize investment returns, it provides a model for other states across the nation seeking to innovate and enhance their investment approach.

At the Treasurer's Office, we engaged dozens of companies on materially important sustainability issues, we developed customized sustainability grades for over 50 companies, we assumed leadership of the Midwest Investors Diversity Initiative, took a leadership role in the Thirty Percent Coalition, and we broke last year's record level of business conducted with diverse investment firms.

All this work is detailed in this report, and furthermore, this work is consistent with my fiduciary duty as State Treasurer. My job is to safeguard our $32 billion investment portfolio and obtain the highest risk-adjusted investment returns using authorized means. That is why my office administers Raising The Bar, an investment approach that fuses traditional investment objectives – safety of principal, optimal returns, and diversification – with a focus on sustainability, long-term value, and corporate accountability.

I am pleased to highlight the following accomplishments from 2019.

- **Passage of the Illinois Sustainable Investing Act** – Spearheaded by Treasurer Frerichs, Illinois became the first state in the nation to pass a law establishing a framework for public fund managers to integrate sustainability factors in their investment portfolios.

- **Conducted 50+ Sustainability Analyses of Individual Companies** – Using a customized assessment process that draws on a combination of internal analysis and external reporting, the Treasurer's Office developed sustainability grades for more than 50 companies as part of the approval process of debt issuers for the Office's two internally managed investment programs.

- **Addressing Climate Risks and Opportunities** – The Treasurer's Office is taking numerous actions to address the systemic financial risks associated with climate change, including engaging major emitters directly, encouraging large asset managers like Vanguard to use their proxy votes to address climate risks, and investing $70 million directly in green bonds.

- **Closing the Gender and Racial Divide on Corporate Boards: The Midwest Investors Diversity Initiative and Thirty Percent Coalition** – The Treasurer's Office took over leadership of the Midwest Investors Diversity Initiative, a 13-member investor coalition working to increase racial and gender diversity on corporate boards of Midwest companies. Since 2016, when the group was formed, MIDI has engaged 54 companies, 40 of which added diverse board members and 32 adopted a diverse search policy. And as a leader of the Thirty Percent Coalition, the Treasurer's Office and fellow investors have successfully engaged 275 companies that have now appointed a woman to their boards.

- **Assets Managed by MWVD Firms Increased from $18 Million to $1.4 Billion** – Total assets managed by minority, women, veteran, and disabled-owned (MWVD) firms increased from $18 million in December 2014 to $1.4 billion in December 2019. That's a 78-fold increase.

- **25,580 Proxy Votes Cast** – The Treasurer's Office voted on 25,580 proposals on corporate proxy ballots in 2019 and now has engaged hundreds of companies on sustainability issues since it launched Raising The Bar in September 2016.

For more information on our sustainable investing activities, please visit www.IllinoisRaisingTheBar.com

Onward,

Michael Frerichs

Illinois State Treasurer

II. Illinois Sustainable Investing Act

The Sustainable Investing Act (PA 101-473) was spearheaded by Treasurer Frerichs and signed into law by Governor J.B. Pritzker in 2019 with an effective date of January 1, 2020. The Act, the first of its kind, establishes a framework for public fund managers to consider sustainability factors in their investment portfolios and a method for implementation.

By codifying sustainable investment, the Act ensures this critical work lays the groundwork for generations to come. The legislation, furthermore, has the potential to be replicated in other states, and could eventually drive demand for more widespread disclosures of sustainability data.

What is Sustainable Investing? Why is it Important?

Sustainability or ESG (environment, social and governance) factors are used to more comprehensively analyze an investment based on its risk profile and return potential. This complements traditional financial and technical analysis. As such, sustainability factors provide a more complete view of an investment, its past performance, and its future potential. The use of sustainability factors has been shown to minimize risk and maximize investment returns and is considered a best practice in the investment industry. Integrating these factors helps public funds better fulfill their fiduciary duty.

What Does The Sustainable Investing Act Do?

The Act provides that all state and local government entities that hold and manage public funds should integrate material, relevant, and useful sustainability factors into their policies, processes, and decision-making. While the law establishes a standard for sustainability integration, it is flexible enough that individual managers can adapt and customize how sustainability factors are considered and integrated in their investment decision-making processes. The law sets a standard of practice while maintaining managerial independence.

The Act defines sustainability factors to include data and indicators related to (1) corporate governance and leadership, (2) environmental, (3) social capital, (4) human capital (including responsible contractor and responsible bidder policies), and (5) business model and innovation.

Sustainability or ESG (environment, social and governance) factors are used to more comprehensively analyze an investment based on its risk profile and return potential.

How Do Public Funds Implement and Comply?

Update your investment policy to include the consideration of sustainability factors. Adapting your policy could be as simple as inserting a few new sentences, or as complex as developing a stand-alone policy on sustainability. The Illinois State Board of Investment ISBI added a short new section to its policy, while the State Treasurer published a comprehensive document. You should work with your investment management team to decide on the most appropriate changes for your organization.

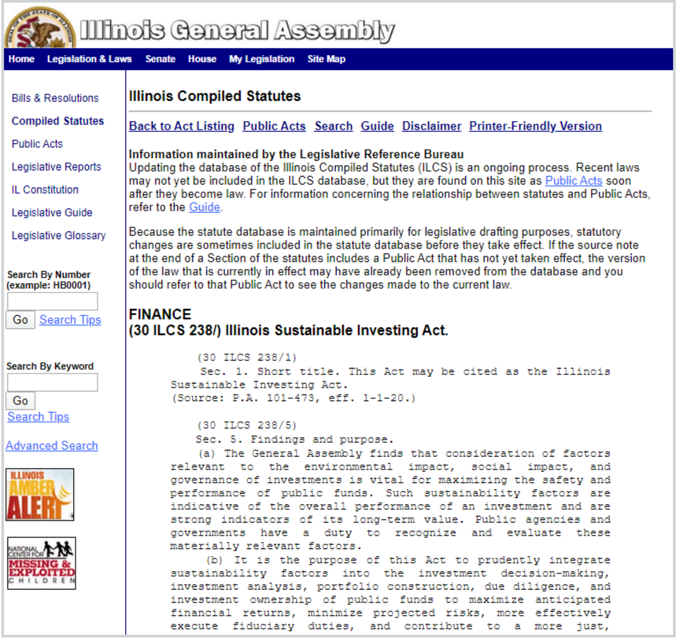
- **State Treasurer's Investment Policy Statements** – Examine the investment policy statements of the Illinois State Treasurer's Office, including the Sustainability Investment Policy Statement.
- **ISBI's Investment Policy Statement** – Examine the investment policy statement of the Illinois State Board of Investment, which includes a section on sustainability.

Integrate sustainability factors into investment practices. For those agencies making investment decisions on the security or company level, sustainability factors should be incorporated into the overall decision-making process, providing an additional layer of factors to consider when assessing the risk/value proposition of investment decisions.

- **Sample Security Analysis Due Diligence Questionnaire** – This document provides a sample framework and set of questions for the evaluation of sustainability risks and opportunities at individual publicly traded companies.
- There are many organizations that provide guidance on sustainable investing, including the Sustainability Accounting Standards Board [sasb.org], United Nations-supported Principles for Responsible Investment [unpri.org] and US SIF: The Forum for Sustainable and Responsible Investment [ussif.org].

Talk to your fund managers. Your asset management firms can work with you to consider appropriate investments for your agency with sustainability factors in mind. Many fund managers already integrate sustainability factors into their investment practice and no changes will be required, as it is common among asset managers such as BlackRock, Vanguard, State Street, Fidelity, UBS, and others.

- **Sample Sustainability Due Diligence Questionnaire** – This document provides a sample framework and set of questions for the evaluation of investment managers on sustainability integration.
- **The Illinois Funds**, a local government investment pool managed by the Treasurer's Office, currently employs sustainability factors in its fund management. It is open to local governments including cities and towns, counties, special taxing districts, municipal corporations, housing authorities, community and technical colleges, and four-year universities. If you are a participant in The Illinois Funds, your investments are already aligned with the Sustainable Investing Act.



III. Raising The Bar: The Treasurer's Sustainable Investing Strategy

Our View On Sustainable Investing

Fulfilling our fiduciary duty. We know that to fulfill our fiduciary duty and maximize investment returns, we need to focus on more than short-term gains and traditional indicators. Additional risk and value-added factors need to be integrated into the decision-making process. This provides investors with a more complete view of a fund or company's long-term financial condition.

Sustainability Factors. In line with the Sustainability Accounting Standards Board (SASB), we look at material, relevant, industry-specific sustainability factors. We also work to ensure that the integration of sustainability factors outweighs any costs of implementation. These are five principles that guide our work in this space.

- The sustainability factors we examine are: (1) corporate governance and leadership; (2) environmental; (3) social capital; (4) human capital; and (5) business model and innovation.

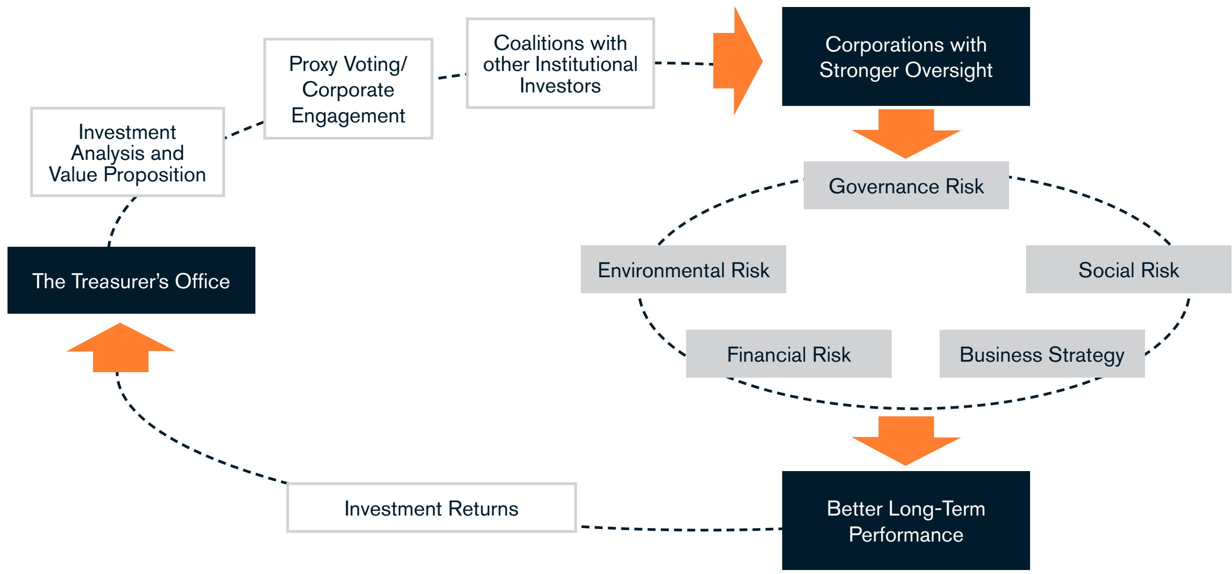
More rounded analysis of internally and externally managed investments. The integration of sustainability factors adds an additional layer of rigor to the fundamental analytical approach and helps assess balance sheet strength, risk profile, and the reliability of future cash flows and debt repayments.

Active ownership creates value. When company leaders effectively measure and manage sustainability issues, companies are better positioned to deliver long-term value to investors. As such, the Treasurer's Office utilizes active ownership practices – like proxy voting and corporate engagements – to help better manage risk, signal issues of concern, and create long-term value at portfolio companies.

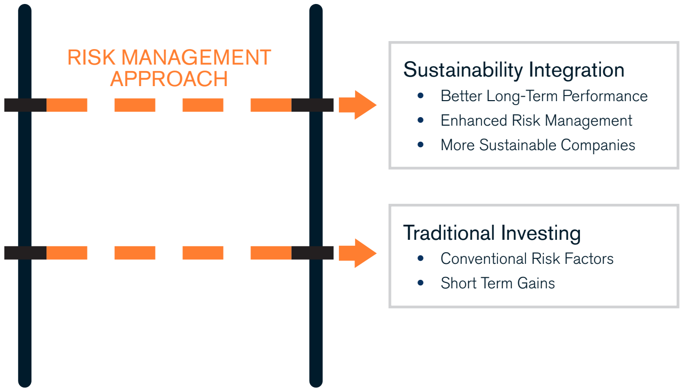
About the Office of the Illinois State Treasurer

- The Illinois Treasurer is an independent constitutional officer elected by the people of Illinois.
- The Illinois Treasurer is the state's Chief Investment and Banking Officer.
- The Treasurer's Office actively manages approximately $32 billion. The portfolio includes $14 billion in state funds, $12 billion in college and retirement savings plans and $6 billion on behalf of local and state governments.
- The Treasurer's Office returns $42 to the state for every $1 spent in operations.
- Learn more at www.illinoistreasurer.gov

Sustainability Integration: Why It Matters



Higher Standards And Better Results



[1] Fulton, Mark, Bruce Kahn, and Camilla Sharples. "Sustainable Investing: Establishing Long-Term Value and Performance." Deutsche Bank Group. June 2012. Accessible at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2222740&rec=1&srcabs=2508281&alg=1&pos=2.

[2] Verheyden, Tim, Robert G. Eccles, and Andreas Feiner. "ESG for all? the Impact of ESG Screening on Return, Risk, and Diversification." *Journal of Applied Corporate Finance*, vol. 28, no. 2, 2016., pp. 47-55.

[3] Kotsantonis, Sakis, Chris Pinney, and George Serafeim. "ESG Integration in Investment Management: Myths and Realities." *Journal of Applied Corporate Finance*, vol. 28, no. 2, 2016., pp. 10-16.

[4] Eccles, Robert G., Ioannis Ioannou, and George Serafeim. "The Impact of Corporate Sustainability on Organizational Processes and Performance." *Management Science*, vol. 60, no. 11, 2014, pp. 2835-2857.

Our Approach to Sustainable Investing

The Three Legs. The Treasurer's Office operationalizes its sustainable investing strategy primarily through three areas, each of which ties to a specific division of the investment team.

1 INTERNAL MANAGEMENT

Division of Portfolio & Risk Analytics

- Integration of sustainability factors into the review of debt issuers and counterparties (under State Investments and IPTIP)

2 EXTERNAL MANAGEMENT

Division of Investment Analysis & Due Diligence

- Integration of sustainability factors into fund manager evaluations (for 529 Plans, Secure Choice, ABLE, and Technology Investments)

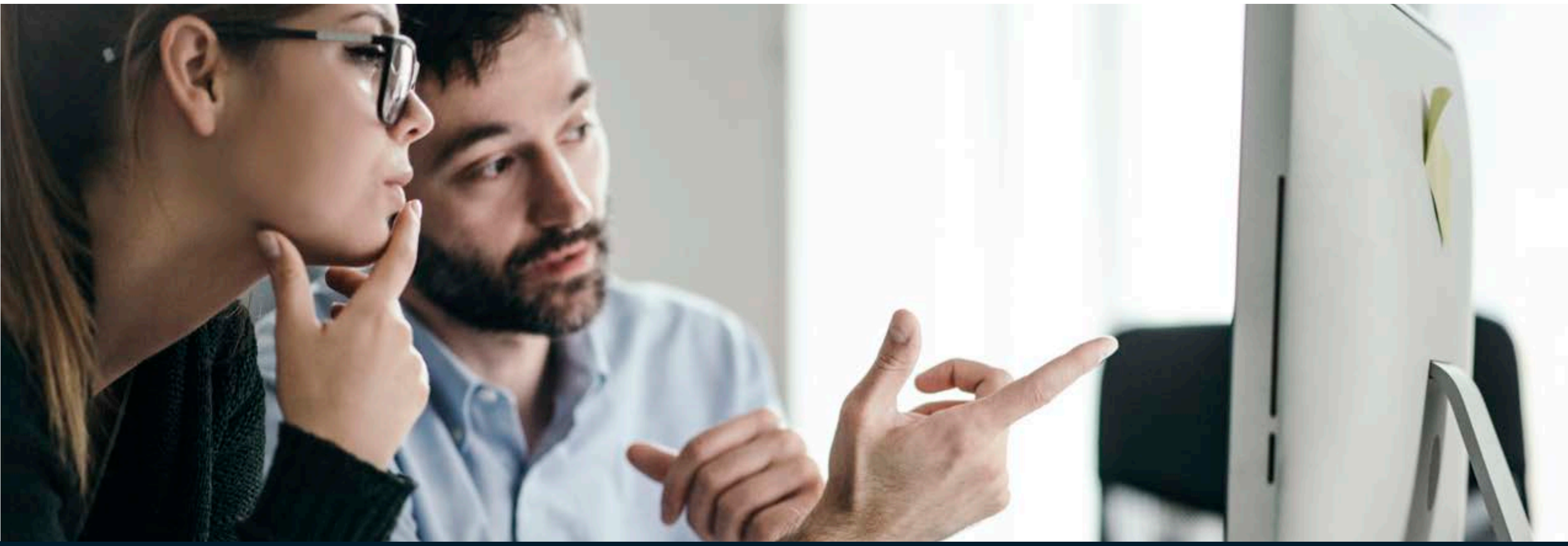
3 ACTIVE OWNERSHIP

Division of Corporate Engagement & Investment Operations

- Corporate Engagements
- Proxy Voting
- Advocacy and Policymaking

Strategies and Focus Areas. The Treasurer's Office uses a multifaceted approach to advance its sustainable investment strategy and address material financial risks and opportunities. This includes the following seven items.

1. **Investment Policies** – Our policies govern investment programs and specify that sustainability factors be integrated into portfolio construction, decision-making, investment analysis, and risk management.
2. **Fund Manager Selection** – Our office and our contractors evaluate fund managers by their approach to sustainable investing, their track record and/or sustainability ratings.
3. **Investment Analysis & Due Diligence** – We conduct regular analysis on counterparties and external fund managers to identify and address sustainability risks and opportunities.
4. **Value Creation and Risk Management** – We integrate sustainability factors and ratings into reviews of debt issuers and counterparties.
5. **Proxy Voting** – We exercise our proxy voting rights for those companies and funds where we maintain the ability to vote on corporate and shareholder proposals on annual ballots.
6. **Corporate Engagements** – We engage companies in our investment portfolio on sustainability risks and opportunities through shareholder proposals, advocacy letters and direct dialogue.
7. **Advocacy and Policymaking** – We engage lawmakers and government entities to protect shareholder rights and promote sustainable investing practices.



Sustainability Integration – Internally Managed Investments

Division of Portfolio & Risk Analytics

The Division of Portfolio & Risk Analytics is responsible for analyzing, modeling, and reporting on investments in the Office's two internally managed investment programs, State Investments and The Illinois Funds, our local government pooled investments.

The team utilizes quantitative and qualitative analytical models to anticipate, identify, and mitigate financial risk exposures, as well as identify investment opportunities that provide additional prospects for alpha. This includes a focus on the evaluation of existing and prospective debt-issuing counterparties by creditworthiness, financial performance, sustainability and other factors that may have a material and relevant financial impact on safety and performance. Existing and prospective broker/dealers are also examined to determine eligibility and suitability, with an evaluation of financial performance, compliance with regulators, sustainability and other decision-useful factors.

Evaluating Debt Issuers by Sustainability Factors

In addition to traditional financial and technical analysis of existing investments and investment prospects, the Division of Portfolio & Risk Analytics applies an additional layer of sustainability analysis to better inform investment decisions. This involves the collection and analysis of sustainability data, derived from companies' financial statements and reports from third-party providers, as well as the application of a customized analytical process developed by the Treasurer's Office.

This process utilizes the conceptual framework and reporting standards developed by the Sustainability Accounting Standards Board (SASB), which provides a complete set of globally applicable industry-specific standards that identify the minimal set of financially material sustainability topics and their associated metrics for the typical company in an industry.

Analyzed 50+ companies for sustainability risks and opportunities in 2019

When evaluating an individual company by sustainability performance, the Division executes three tasks.

1. **Develops a Sustainability Investment Profile** – The Division maps sustainability risks and opportunities by the type of potential financial impact (i.e. revenue and costs, assets and liabilities, and cost of capital or risk profile), and by the potential level of financial impact (i.e. high-impact or medium-impact). This provides a basis to identify and weight the most significant sustainability risks and opportunities to the company.

   Here is an example of the SASB-based matrix our office uses to assess the sustainability investment profile of debt issuers. For this example, SASB has identified five topics under three dimensions that are materially relevant for the issuer, and the red and yellow triangles note the estimated potential impact of each topic on key financial drivers (note that the name of the issuer has been removed).

2. **Assigns a Sustainability Grade** – Focusing on the most significant sustainability risks, the Division reviews each sustainability topic and assigns a Sustainability Grade based on the performance of the company in setting targets and achieving goals. The scoring criteria is designed to reward only the highest grade available to exemplary industry leading counterparties.

3. **Assigns a Key Metrics Grade (based on a Comparative Analysis of Peers and the Industry)** – The company is also assigned a Key Metrics Grade based on quantifiable and comparable industry metrics (i.e. profitability, liquidity, leverage, valuation and material sustainability metrics suggested by the SASB). As such, the company is measured against industry competitors and assigned points based on industry-leading or industry-lagging metrics. The sustainability metrics are linked to the topics identified by the SASB and are incorporated into the final Key Metrics Grade.

Example Sustainability Matrix for Debt Issuers

Financial Drivers					
SASB Dimension	**Environment**	**Human Capital**	**Business Model & Innovation**	**Business Model & Innovation**	**Business Model & Innovation**
SASB Topic	**Energy Management**	**Employee Health & Safety**	**Fuel Economy & Emissions in Use-phase**	**Materials Sourcing**	**Remanufacturing Design & Services**
Revenue			▲ High Impact	▲ Medium Impact	▲ High Impact
Market Share					
New Markets			▲ Medium Impact		▲ Medium Impact
Pricing Power			▲ Medium Impact		
Operating Expenses	▲ High Impact	▲ Medium Impact		▲ High Impact	▲ Medium Impact
Cost of Revenue					
R&D			▲ High Impact	▲ Medium Impact	▲ High Impact
Non-Operating Expenses	▲ Medium Impact				▲ Medium Impact
CapEx		▲ Medium Impact	▲ Medium Impact		
Extraordinary Expenses					
Assets					
Tangible Assets		▲ Medium Impact			
Intangible Assets					
Liabilities					
Contingent Liabilities &		▲ Medium Impact			
Pension & Other Liabilities					
Risk Profile	▲ Medium Impact		▲ Medium Impact	▲ High Impact	
Cost of Capital					
Industry Divestment Risk					

Key: ▲ High Impact ▲ Medium Impact

Source: Office of the Illinois State Treasurer

Sustainability Integration – Externally Managed Investments

Division of Investment Analysis & Due Diligence

The Division of Investment Analysis & Due Diligence is responsible for monitoring externally managed portfolios and investment funds within the investment vehicles of the Treasurer's Office, including, but not limited to, the 529 College Savings Programs, Secure Choice Retirement Savings Program, the Illinois Growth and Innovation Fund (ILGIF), and the Illinois Achieving a Better Life Experience (ABLE) Savings Program. This team is responsible for the selection, assessment, portfolio management, and integration of sustainability factors for all prospective and current investment managers. The team continually reviews investment framework/design, portfolio construction, manager selection, asset allocation and modification, investment analysis, economic impact, investment policies/objectives and management structures and helps guide decision-making regarding the continued appropriateness of investment managers, policies, and program structures.

Integrating Sustainability in Investment Manager Assessments

The Treasurer's Office invests across a broad range of asset classes through external investment managers. With approximately $12 billion of total assets managed by external investment managers, the Division of Investment Analysis & Due Diligence assesses prospective investment managers using quantitative and qualitative criteria that align with the analysis, due diligence, and risk management responsibilities derived from state law and the investment policies of the Treasurer's Office. In addition, the team conducts due diligence and analytical procedures assessing investment managers' explicit and systematic inclusion of sustainability factors in their investment analysis and decision-making processes.

Sustainability analysis adds an additional layer of rigor to the fundamental analytical approach and helps assess the reliability of future cash flows and debt repayments. Similar to financial accounting, sustainability accounting has both confirmatory and predictive value, thus, it can be used to evaluate past performance and be used for future planning and decision-making. As a complement to financial accounting, it provides a more complete view of an investment fund or portfolio company's performance on material factors likely to impact its long-term value.

- Sustainability Questionnaire for Manager Searches

  In 2019, the Division of Investment Analysis & Due Diligence institutionalized a formal Sustainability Due Diligence Questionnaire across both traditional and alternative asset classes. The Treasurer's Office issues a due diligence questionnaire asking about sustainability integration at the company and portfolio level. The goal is to assess how investment managers integrate sustainability factors within a framework predicated on the prudent integration of material sustainability factors, including, but not limited to (1) corporate governance and leadership; (2) environmental, (3) social capital, (4) human capital, and (5) business model and innovation, as components of portfolio construction, investment decision-making, investment analysis and due diligence, prospective value proposition, risk management, and investment ownership, given that these tangible and intangible factors may have material and relevant financial impacts.

- Active Monitoring of Investment Managers by Sustainability Integration

  The Treasurer's Office continues to review the sustainability ratings of the mutual funds under the Treasurer's externally managed programs (subject to availability). The sustainability ratings are considered in concert with the financial and technical qualities of the fund, providing the Treasurer's Office with an additional indicator as to the suitability of the investment. Moreover, the Treasurer's Office conducts engagement with investment managers through ongoing due diligence meetings throughout the calendar year.

100%
of Newly Selected Fund Managers are PRI Signatories

IV. Shareholder Advocacy Efforts

236
Corporate Engagements Undertaken Since 2016

23
Shareholder Resolutions Filed Since 2016

70%
Success Rate from Resolutions Filed Since 2016

Source: Office of the Illinois State Treasurer

Illinois Passes Legislation Requiring Companies to Report on Corporate Board Diversity

In another positive step aiming to increase board diversity, the State of Illinois passed legislation in 2019 (Public Act 101-0589) that requires corporations headquartered in Illinois to report on the composition of their board members starting in January 2021. The new law also requires that companies report on their policies and practices for promoting diversity, equity, and inclusion among its board and executive officers.

Board Diversity

Why It Matters

Corporate board diversity is a critical dimension of effective board composition and performance. Diversity, which is inclusive of gender, race/ethnicity, skill sets, professional backgrounds, and LGBTQ status, positively contributes to decision-making, better reflects consumer demographics and their preferences, and better positions investors for optimal investment returns.[1, 2] Given that many corporate leaders recognize the benefits of board diversity, our role as investors is to prioritize corporate focus on the issue.

The Business Case for Investors. For long-term investors like the Treasurer's Office, board diversity is critically important because it can have a notable impact on investment performance. A 2015 McKinsey study of 366 companies found that corporate leadership groups in the top quartile for racial and ethnic diversity were 35% more likely to have financial returns above their national industry median. The study also found that companies with gender-diverse boards are 15% more likely to outperform the median in their industry. Accordingly, many large asset managers, including BlackRock, Vanguard, and State Street, support this position and actively advocate for board diversity. BlackRock's CEO Larry Fink stated that diverse boards are "less likely to succumb to groupthink or miss threats to a company's business model."[3]

As diversity has trended upwards, there has also been a focus on ensuring that diverse perspectives are valued.[4] When there is more than one diverse board member, a company is less likely to suffer from "tokenism" and more likely to create value by successfully utilizing a diverse set of competencies.[5,6,7]

Shortfalls Linger. Despite wide consensus on the value of board diversity and improving trends, women only occupy 19 percent of board seats of Russell 3000 companies, and minorities occupy only 10 percent of board seats.[8]

Companies with gender-diverse boards are 15% more likely to outperform the median in their industry.

1 Hunt, Vivian, Sara Prince, Sundiatu Dixon-Fyle, and Lareina Yee, "Delivering Through Diversity," McKinsey & Company, January 2018. Available at https://www.mckinsey.com/~/media/mckinsey/business%20functions/organization/our%20insights/delivering%20through%20diversity/delivering-through-diversity_full-report.ashx.

2 Philips, Catherine, Katie Liljenquist, and Margaret Neale, "Better Decisions Through Diversity," Kellogg Insight, October 2010. Available at https://insight.kellogg.northwestern.edu/article/better_decisions_through_diversity.

3 "BlackRock Investment Stewardship's approach to engagement on board diversity," BlackRock Investment Stewardship, March 2018. Available at https://www.blackrock.com/corporate/literature/publication/blk-commentary-engaging-on-diversity-march2018.pdf.

4 Emelianova, Olga, and Christina Milhomem, "Women on Boards," MSCI, December 2019. Available at https://www.msci.com/documents/10199/29f5bf79-cf87-71a5-ac26-b435d3b6fc08

5 Ibid.

6 Kramer, V. W., A.M. Konrad, and S. Erkut. "Critical Mass on Corporate Boards: Why Three or More Women Enhance Governance." Research & Action Report, 2006.

7 Konrad, A. M., V. Kramer and S. Erkut. "Critical Mass: The Impact of Three or More Women on Corporate Boards." Organizational Dynamics, 2008.

8 Mishra, Subodh, "U.S. Board Diversity Trends in 2019," Harvard Law School Forum on Corporate Governance, June 2019. Available at https://corpgov.law.harvard.edu/2019/06/18/u-s-board-diversity-trends-in-2019/.

Actions and Results

As a part of the Treasurer's fiduciary duty to protect and grow the monies under its stewardship, the Treasurer's Office proactively works to increase board diversity and ensure that board diversity is a corporate governance priority. In 2019, the Treasurer's Office took numerous actions to encourage and foster boardroom change and create shareholder value.

- **Midwest Investors Diversity Initiative** – The Treasurer's Office leads the Midwest Investors Diversity Initiative (MIDI), a 13-member coalition comprised of regional institutional investors with over $870 billion in assets under management. MIDI engages companies in the Midwest facing board diversity shortfalls, working collaboratively to understand company policies and practices and make targeted recommendations to institutionalize best practices and improve board diversity.

  MIDI works with companies to adopt a diverse search policy known as the "Rooney Rule," which has its origins in the National Football League. The Rooney Rule provides that, for every open board seat, female and racial minority candidates be included in the initial search pool of candidates.

  Results: Since 2016, when the group was formed, MIDI has engaged 54 companies, 40 of which added diverse board members and 32 adopted a diverse search policy.

  For the 2019-2020 proxy season, MIDI engaged 12 companies, and we're pleased to report that eight have already either appointed diverse board members or agreed to adopt a stronger diverse search policy aligned with the Rooney Rule.

  MIDI has also developed a Diverse Search Toolkit, which provides companies with a practical set of recommendations and resources for maintaining a diverse board of directors.

MIDI works with company nominating and governance board committees to encourage key practices.

- Adopt a policy for the search and inclusion of minority and female board candidates.
- Require minority and female candidates to interview for every open board seat.
- Instruct third party search firms to include such candidates in the initial pool.
- Expand the candidate pool to include candidates from non-traditional sources.

MIDI Engagements Since 2016

Engagement Launched	Number of Companies Engaged	Companies that Adopted Diverse Search Policy	Diverse Board Members Added
2016	15	8	15
2017	15	8	27
2018	12	8	12
2019 (Ongoing)	12	8	2
Total	**54**	**32**	**56**

Source: Office of the Illinois State Treasurer

- **Thirty Percent Coalition** – Since 2018, the Treasurer's Office has been actively involved on the Board of Directors of the Thirty Percent Coalition, which is comprised of over 90 members with over $6 trillion in assets under management (AUM). This coalition is committed to the goal of advancing women, including women of color, on boards of public companies.

  Results: As a leader of the Thirty Percent Coalition, the Treasurer's Office and fellow investors have successfully engaged 275 companies that have now appointed a woman to their boards.

  Over the past year alone, the Coalition has achieved the following:

  - 85 companies appointed a woman to their board for the first time;
  - 16 companies appointed a second woman;
  - 28 companies adopted public language committing to diversity in their governance documents; and
  - 30 shareholder proposals filed urging action and disclosure on board diversity. Due to investors' engagement leading to mutually agreeable outcomes with companies, 27 of the proposals were withdrawn. When resolutions did go to a vote, there was significant support by investors.

- **Engaging Mutual Fund Boards on Diversity Shortfalls** – Diversity of corporate boards has increased over the years, due to the recognition that diversity enhances board performance and effectiveness, as well as due to significant attention from investors. The same cannot be said of mutual fund boards, which have received less attention. The Treasurer's Office believes that this is another area where diversity and inclusion can drive value creation.

  Results: In 2019, our office engaged 26 mutual fund boards to request information on the diversity of trustees. This allowed the Treasurer's Office to identify high and low performers among its fund managers, and also gather best practices and recommendations for those seeking to enhance their diversity. The Treasurer's Office plans to continue these engagements in 2020 to ensure that mutual fund boards have appropriate policies and practices that promote board diversity.

- **Proxy Voting** – The Treasurer's Office exercises its proxy voting rights to support proposals to increase board diversity, gender pay gap reporting, and the inclusion of diversity as a performance metric for CEO pay.

  Results: In 2019, the Treasurer's Office voted against 323 directors due to a lack of gender diversity on the board. The Treasurer's Office also cast votes in favor of seven shareholder proposals aimed to increase board diversity in 2019. Looking ahead, the Treasurer's Office will be amending its Proxy Voting Guidelines to vote against members of Nominating & Governance Committee members for those boards that have less than two female directors.

In 2019, the Treasurer's Office voted against 323 directors due to a lack of gender diversity on the board.

Climate Risks and Opportunities

Why It Matters

The Business Case for Investors. Climate change and climate-related issues present market risks and opportunities to investors in numerous respects.

- **Legal Factors** – More stringent restrictions and penalties for violations, and increased scrutiny and litigation from government entities, interest groups, and consumers.
- **Regulatory Factors** – Tightening emissions and energy efficiency standards, changing subsidies and taxes, and retooling energy-inefficient infrastructure.
- **Reputational Factors** – Changing consumer preferences, as well as increased market demand and public advocacy for sustainable energy, air quality, water, and waste management practices.
- **Technological Factors** – Advances in energy storage, clean energy products, or energy efficiency undermining or optimizing existing business models.
- **Physical Factors** – More frequent and severe weather events disrupting physical operations.[9]

Better Long-Term Risk Management. The impact of climate change represents large risks and opportunities to every investor portfolio. Some companies face direct risks from extreme weather events and others may be affected by policy change and regulating aimed at mitigating climate change. To that end, the Treasurer's Office actively works to ensure that the companies it invests in are carefully managing climate risks in areas including, but not limited to the following considerations.

- Greenhouse Gas Emissions
- Air Quality
- Energy Management
- Water & Wastewater Management
- Waste & Hazardous Materials Management
- Ecological Impacts

9 Hildebran, Phillip and Deborah Winshel, "Adapting Portfolios to Climate Change," BlackRock Investment Institute, September 2016. Available at www.blackrock.com/corporate/literature/whitepaper/bii-climate-change-2016-us.pdf.

Actions and Results

Corporate Engagements

- **The Southern Company** – The Treasurer's Office is working with a large group of investors and Climate Action 100+ to engage, The Southern Company, the nation's second largest electric utility. The company faces mounting financial, regulatory, and operational challenges as its grapples with the systemic risks associated with climate change.

Results: At the request of investors, the company amended its executive compensation plan in 2019 to connect executive pay to progress made achieving greenhouse gas emission targets and in May 2020, the company adopted a net-zero carbon emissions goal by 2050. We continue to seek enhanced disclosure on climate transition strategies, potentially stranded assets, and corporate lobbying.

"Climate change presents serious risks – and opportunities – to companies and investors. To thrive in the face of such a transformative, systemic threat such as climate change, it is critical that companies set goals, build plans and marshal the resources necessary to ensure long-term sustainability."

– Treasurer Frerichs

"Climate risk is investment risk."
– Larry Fink

Source – www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter

- **Charter Communications** – The Treasurers' Office continues to lead an engagement with Charter Communications requesting that the company issue an annual sustainability report detailing its ESG risk exposures and management practices, including greenhouse gas reduction targets. The engagement includes fellow investors at Boston Trust Walden and the Connecticut State Treasurer's Office.

  Results: We are pleased to note that the company agreed to issue its first-ever Corporate Responsibility Report earlier this year and will continue collaborating with our group on enhanced sustainability reporting in the future.

- **Vanguard** – Given concerns about Vanguard's proxy voting record on environmental, social, and governance issues, specifically on climate change,[10] the Treasurer's Office co-filed a resolution with Boston Trust Walden requesting that Vanguard initiate a review and issue a report assessing its 2019 proxy voting record and evaluate the company's proxy voting policies and guiding criteria related to climate change.

  Results: While the engagement is ongoing, Vanguard has agreed to further discussions with investors and to additional disclosures regarding its proxy voting stances on climate-related issues.

- **Exxon Mobil** – The Treasurer's Office continues to engage Exxon Mobil to request that the company disclose greenhouse gas emission targets aligned with the Paris Agreement, along with the New York State Comptroller and fellow investors with Climate Action 100+. The engagement focuses on the fact that Exxon has provided no assurance that it has a strategy consistent with the goals of the Paris Agreement.

  Results: While discussions are ongoing and the company acknowledges that its business is facing an enormous transformation, the company has failed to disclose how it intends to execute this transformation and sustain long-term shareholder value.

- **Investing in Green Bonds – The Treasurer's Office has invested** $70 million in green bonds since 2017, which generate a strong investment return while supporting positive environmental impacts, including renewable energy and energy efficiency.

- **Pushing for Decarbonization of the Electrical Utility Industry** – In February 2019, the Treasurer's Office joined the Net-Zero by 2050 investor coalition, which is engaging the largest electric utilities in the U.S. to obtain commitments to achieving the net-zero carbon emissions by 2050. To date, we are pleased to report that six companies, including Duke Energy, Xcel Energy, NRG Energy, DTE Energy, Pinnacle West, and Dominion Energy have committed to net-zero by 2050.

- **Joined the Board of Ceres** – In 2019, Treasurer Frerichs joined the board of Ceres, a nonprofit organization working with influential investors and companies to drive solutions and build a sustainable future for people and the planet.

- **Inclusion of Green Technology Goals under ILGIF** – As a part of the Illinois Growth and Innovation Fund (ILGIF), the Treasurer's Office actively supports fund managers and portfolio companies that have demonstrated experience and/or a proven ability to invest in green technology businesses in Illinois. To date, 15 green tech businesses have received support through ILGIF.

- **Investor Expectations of Corporate Lobbying on Climate Change** – The Treasurer's Office signed a letter to 47 companies initiating a dedicated engagement program to address corporate climate lobbying and lobbying by trade associations to boost transparency, ensure alignment with the Paris Agreement, and build commitment to emissions reduction goals.

10 Majority Action. "Climate in the Boardroom: How Asset Manager Voting Shaped Corporate Climate Action in 2019." Available at https://static1.squarespace.com/static/5d4df99c531b6d0001b48264/t/5d8006692e5b035cf0d2b17f/1568674165939/assetmanagerreport2019.pdf.

The Opioid Epidemic

Why It Matters

A National Crisis. From 1999 to 2018, almost 450,000 people died from an overdose involving opioid products, including prescription and illicit opioids.[11] Opioid abuse is undeniably a public health crisis, and the economic, social, and human effects of the crisis are staggering. In addition to the devastating impact on families and communities, the Council of Economic Advisers has estimated that in 2018, the cost of opioid abuse was $696 billion, or 3.4% of GDP.[12]

The Risk to Investors. Publicly traded pharmaceutical companies comprise the supply chain for opioids, and many are facing significant lawsuits for issues related to weak governance, oversight, and internal controls. In addition to legal risks akin to the tobacco litigation in the late 1990s, pharma companies are confronting regulatory risks related to new limits on marketing and prescription, and reputational risks related to reduced consumer, political, and community support. This poses a risk to investors, like the Treasurer's Office, that maintain holdings in these companies.

11 "Opioid Overdose," Centers for Disease Control and Prevention, Available at https://www.cdc.gov/drugoverdose/epidemic/index.html
12 "The Wider Effects of America's Opioid Epidemic- The Drugs Don't Work," *The Economist*, January 16, 2020, Available at https://www.economist.com/business/2020/01/16/the-wider-effects-of-americas-opioid-epidemic

Actions Taken

- **Investors for Opioid & Pharmaceutical Accountability (IOPA)** – The Treasurer's Office is actively partnering with other investors to encourage impacted companies to increase oversight of opioid issues, increase transparency, and implement accountability measures. This includes participation in Investors for Opioid and Pharmaceutical Accountability (IOPA), a 56-member investor coalition with nearly $4 trillion in assets under management, led by the UAW Retiree Medical Benefits Trust and Mercy Investment Services.

Results: Established in July 2017, IOPA focuses engagement on three parts of the opioid supply chain: manufacturers; distributors; and retail pharmacies. To date, IOPA has filed 52 resolutions at impacted companies, settled 30 proposals, and overseen votes on 22 resolutions. These filings and settlements help protect investors by increasing board independence, focusing board oversight on these risks, enhancing reporting and disclosure to investors, strengthening misconduct clawbacks, rethinking executive pay, and better aligning political spending and lobbying in the fight against the opioid epidemic.

around **130**
people
die every day from overdoses involving prescription opioids

Opioid Overdoses, Centers for Disease Control and Prevention

- **[Leading an Engagement with Johnson & Johnson](#)** – The Treasurer's Office is leading IOPA's engagements with Johnson & Johnson, whose business operations are linked to the opioid epidemic.[13] In August 2019, the company was found guilty of false and misleading marketing of both their drugs and opioids and was ordered to pay $465 million to the State of Oklahoma.[14]

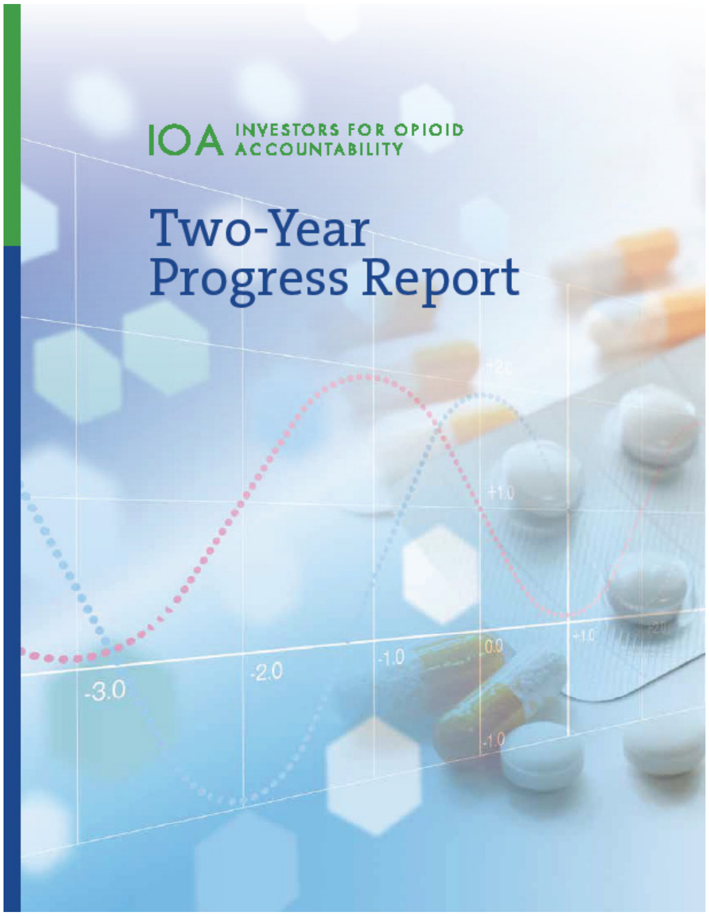
  Results: The Treasurer's Office introduced a shareholder proposal in November 2019 requesting that the company's Board of Directors issue a report describing the measures the company has implemented since 2012 to monitor and manage risks related to the opioid crisis. The proposal received a majority vote in support from the company's shareholders at the annual stockholder meeting in April 2020. The Treasurer's Office also supported an independent board chair proposal that would improve board oversight and accountability to investors.

- **Leading the Analysis of Opioid Risk Reports from Pharmaceutical Companies** – A major objective of IOPA is to request, obtain, and analyze board-level reports from pharmaceutical companies that document actions taken to mitigate opioid risk exposures. Using a customized methodology, the Treasurer's Office is leading the analysis of reports provided, reviewing each to determine strengths and weaknesses, and then participating in dialogues with companies to encourage more robust disclosure.

  Results: To date, eight pharmaceutical companies engaged by IOPA have issued board-level reports as requested, and the Treasurer's Office led in the analysis of each. The Treasurer's Office was also the lead investor on obtaining enhanced disclosure from CVS, successfully negotiating with the company to issue a report in April 2019.

- **"Vote No" Campaign at Cardinal Health** – Cardinal Health, one of the nation's largest drug distributors, is facing significant legal and reputational risks to due compliance and oversight failings under the watch of Board Director J. Michael Losh. The company estimates pending lawsuits will cost over $5 billion, more than five times the company's annual earnings. Given these failings, Treasurer Frerichs joined the state treasurers from Connecticut, Rhode Island, and Vermont in voicing their opposition to Director Losh's election in November 2019 and advocating for a fresh, outside voice to provide stronger oversight over management.

  Results: While Director Losh was reinstated by shareholders at the company's 2019 meeting, IOPA and the coalition of state treasurers continue to engage Cardinal Health on oversight shortfalls, pushing for additional dialogue with board members and enhanced board oversight.



Available at: http://www.uawtrust.org/iopa

13 Peter Whoriskey and Salwan Georges, "How Johnson & Johnson companies used a 'super poppy' to make narcotics for America's most abused opioid pills." *The Washington Post.* March 26, 2020. Available at: https://www.washingtonpost.com/graphics/2020/business/opioid-crisis-johnson-and-johnson-tasmania-poppy/?itid=hp_hp-more-top-stories_super-poppy-1230pm%3Ahomepage%2Fstory-ans.

14 Colin Dwyer and Jackie Fortier, "Oklahoma Judge Shaves $107 Million Off Opioid Decision Against Johnson & Johnson." National Public Radio. November 15, 2019. Available at: https://www.npr.org/2019/11/15/779439374/oklahoma-judge-shaves-107-million-off-opioid-decision-against-johnson-johnson.

Human Capital Management

Why It Matters

A core asset. Companies that treat their workforce as an important asset better position themselves and their investors for long-term rewards. As such, it is critically important that companies manage and report on their human capital with the same analytical lens as their physical and financial capital. This includes issues that affect the productivity of employes, such as employee engagement, diversity, incentives and compensation, as well as the attraction and retention of employees in highly competitive markets for specific talent, skills, or education.

The business case for investors. Effective human capital management strategies drive positive long-term performance through enhanced worker productivity and better risk management. There is a large body of empirical work that supports the link between effective human capital management and corporate performance in the areas of increased total shareholder return, return on assets and return on capital, profitability and overall relative firm performance.[15, 16, 17, 18, 19]

Actions and Results

- **Leading an Engagement with Host Hotels & Resorts** – The Treasurer's Office launched an engagement with Host Hotels & Resorts in October 2018 on human capital management practices and reporting. Host Hotels & Resorts is a real estate investment trust, and its core business is hospitality services. As an employee-driven service provider, investors expect the company to provide data on human capital management in its sustainability report, but little discussion of the topic is provided.

  Results: We are pleased to report that in 2019, the company included human capital management in their reporting, clarified their responsible supplier policies, amended their Nominating and Governance Committee charter to include sustainability topics, and joined the 5-Star Promise, a voluntary commitment by hospitality companies to enhance sexual harassment prevention policies, training, and resources. Dialogue with the company continues, focusing on more robust human capital management reporting and metrics.

"The only unique assets that a business has for gaining competitive advantage over its rivals are the skills and dedication of its employees."

Source – Robert Reich, Former Secretary of Labor

15 Bassi, Laurie and Daniel McMurrer, "Maximizing Your Return on People," *Harvard Business Review*, March 2007, Available at https://hbr.org/2007/03/maximizing-your-return-on-people.

16 Higgins, Jeff and Donald Atwater, "Linking Human Capital to Business Performance," Human Capital Management Institute, December 2012, http://www.talentalign.com/wp-content/uploads/2013/04/Linking-Human-Capital-To-Business-Performance-TA-Version1.pdf.

17 Ohler, Ken, "2015 Trends in Global Employee Engagement," Aon Hewitt, 2015, http://www.aon.com/attachments/human-capital-consulting/2015-Trends-in-Global-Employee-Engagement-Report.pdf.

18 Beeferman, Larry and Aaron Bernstein, "The Materiality of Human Capital to Corporate Finance," Harvard University, April 2015, https://lwp.law.harvard.edu/publications/materiality-human-capital-corporate-financial-performance.

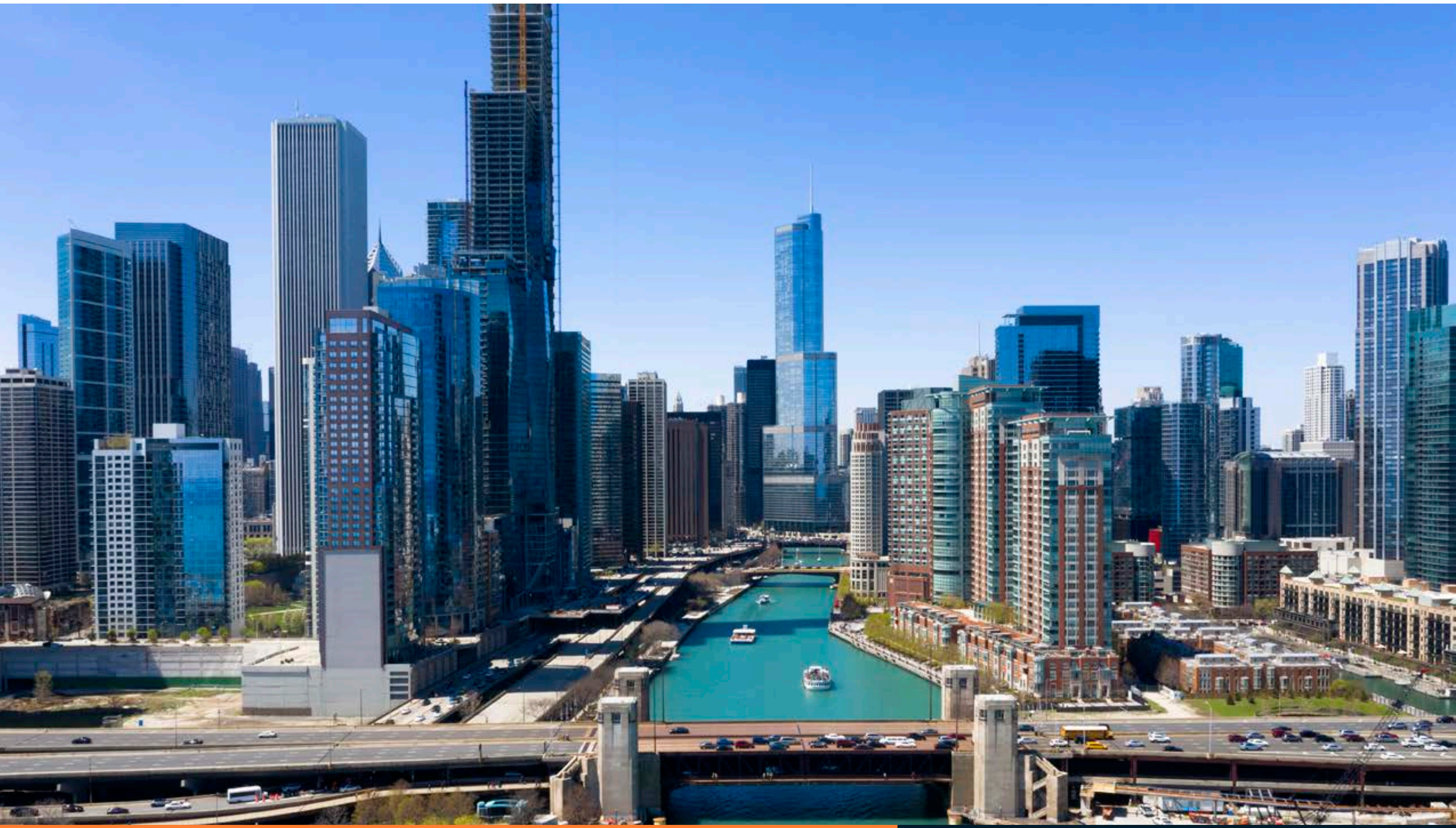
19 "BlackRock Investment Stewardship's approach to engagement on human capital management," BlackRock Investment Stewardship, January 2019. Available at https://www.blackrock.com/corporate/literature/publication/blk-commentary-engagement-on-human-capital.pdf

- **Human Capital Management Coalition** – The Treasurer's Office is an active participant of the Human Capital Management Coalition (HCMC), a group of 26 investors with more than $3 trillion in assets under management led by the UAW Retiree Medical Benefits Trust. HCMC seeks to engage companies to understand their human capital management policies and encourage disclosure of metrics to track policy implementation. The coalition also seeks to educate regulators on the relevance of these disclosures, as they often provide investors with useful information and data to assess risks and opportunities.

- **Advocating for Corporate Transparency and Human Capital Investment** – The Treasurer's Office provided a comment on the Securities and Exchange Commission's (SEC) proposed release, "Modernization of Regulation S-K Items 101, 103, and 105," to suggest a combination of rules-based disclosures with quantitative metrics that allow for comparability, together with principles-based disclosures that allow for differences in industry and individual company practices. These disclosures are necessary to provide investors with critical decision-useful information about human capital management at publicly traded companies.

- **Engaging Companies on Executive Compensation and ESG Metrics** – The Treasurer's Office joined a letter to S&P 500 companies on behalf of the Say-On-Pay Working Group, led by Segal Marco Advisors and the AFL-CIO Office of Investment, to encourage the use of ESG metrics, caution against executive stock sales connected to buybacks, and request disclosure on the use of adjusted GAAP metrics.

- **Advocating for Equity in Corporate Workplaces** – The Treasurer's Office signed the Investor Statement Regarding the Need for Corporate Workplace Equity Transparency to push companies to increase investors' accessibility to information related to their workplace equity policies and practices across gender, race, ethnicity, sexual orientation and other federally protected classes.



Transparency and Enhanced Disclosure

Why It Matters

More Informed Investing. As a fiduciary and long-term investor, the Treasurer's Office has a direct interest in ensuring that companies are reporting on material risks to their business. Companies should strive to be transparent in their business operations. Investors need robust information to make informed investment decisions. When companies are transparent with due respect to proprietary information, investors are better positioned to evaluate investment risks and opportunities that may impact financial performance. It also signals to investors that companies are thoroughly analyzing material risks to their business, deploying sufficient resources to tackle those risks, and developing strategies, metrics, and management systems to better ensure long-term sustainability and growth.

Recognized as Best Practice. An analysis from Si2 and the IRRC Institute found that 78% of S&P 500 companies issue sustainability reports. Furthermore, over 1,700 institutional investors managing over $70 trillion have joined the Principles for Responsible Investment (PRI), thereby publicly committing to seek comprehensive disclosure on environmental, social, and governance (ESG) factors and incorporate these factors into investment decisions. While many large companies and investors now share this commitment to transparency and disclosure on sustainability issues, some companies continue to lag, prompting institutional investors like the Treasurer's Office to take action.

Actions Taken

- **Engaging Companies Directly** – The Treasurer's Office launched engagements at six companies to address sustainability reporting shortfalls. The companies include O'Reilly Automotive, Crown Castle, Host Hotels & Resorts, Activision Blizzard, Intuitive Surgical, and Charter Communications.

  Results: To date, all of six companies engaged have committed to enhanced reporting and increased disclosure, and five of the six companies (all but Activision Blizzard) have released updated reports as requested. The Treasurer's Office continues collaborative dialogue to seek enhancements where these companies have shortfalls.

- **Advocating for Transparency in Corporate Taxes** – In May 2019, the Treasurer's Office joined a comment letter on the Financial Accounting Standards Board's (FASB) Revised Exposure Draft for the Proposed Accounting Standards Update to increase transparency in tax reporting by multinational corporations. The statement emphasized that income and tax information at the country-by-country level is what investors require to better understand a company's financial, reputational, and economic risks, gauge their level of risk tolerance, and make informed investment decisions.

Signatory to the Principles for Responsible Investment – The Treasurer's Office made history in 2018 as the first ever treasury in the U.S. to become a member of the Principles of Responsible Investment (PRI). In 2019, the Office participated in PRI disclosure across its investment portfolio – the first in the Office's history – and received distinguished scores.

PRI Scores

Assessment Areas	Description	ILSTO	Median
Strategy and Governance	Overarching approach to sustainable investment (i.e., governance, strategies, objectives and targets, policies, and promotion) and the incorporation of ESG issues into asset allocation	A	A
Listed Equity	Incorporation of sustainability factors in externally managed investment manager selection, appointment and monitoring	B	A
Fixed Income (Securitized)	Incorporation of sustainability factors in fixed income manager selection, appointment and monitoring	B	B
Listed Equity (Active Ownership)	Corporate engagement and proxy voting activities	A	B
Fixed Income (SSA)	ESG intergration, screening and disclosure in fixed income	B	B

Source: Office of the Illinois State Treasurer

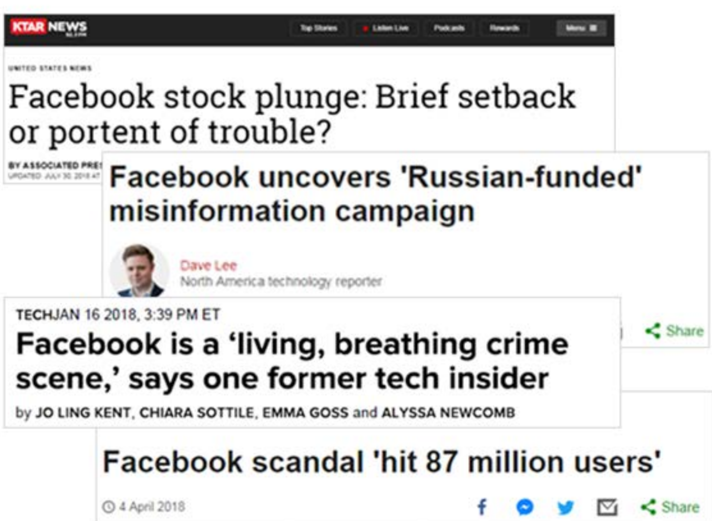
Data Security & Board Accountability – Facebook

Why It Matters

Scandal After Scandal. Facebook, a social media platform with more than 2 billion users, is embroiled in controversy. The company has overlooked or mishandled significant controversies, including:

- Russian meddling in U.S. elections;
- Sharing personal data of 87 million users with Cambridge Analytica;
- Data sharing with device manufacturers, including Huawei that is flagged by U.S. Intelligence as a national security threat;
- Proliferating fake news;
- Propagating violence in Myanmar, India, and South Sudan;
- Links to depression and other mental health issues, including stress and addiction; and
- Allowing advertisers to exclude Black, Hispanic, and other "ethnic affinities" from seeing ads.

The Risk on Investors. Facebook's long list of scandals boil down to a singular question about the company's aptitude for data oversight, which has yielded numerous government investigations, lawsuits, fines, stock volatility, and widespread reputational damage – all of which pose risks to investors about Facebook's long-term viability.



Actions Taken

- **Call for an Independent Board Chair** – To enhance the company's corporate governance structure and increase independent oversight, in 2018, and in 2019 again, the Treasurer's Office filed a proposal with the state treasurers of Pennsylvania, Rhode Island, Connecticut, the New City Comptroller, and Trillium Asset Management (lead-filer) to make the role of board chair an independent position. Having an independent chair helps the board carry out its primary duty – to monitor the management of the company on behalf of its shareowners. Doing so is best governance practice that will serve the interest of shareholders, employees, users, and our democracy. Further, 59% of S&P 500 companies have an independent chair, including other tech giants like Google, Microsoft, Apple, and Twitter.

  Results: The independent board chair proposal introduced last year received support among 68% of Facebook's independent shareholders, including large asset managers like Vanguard and BlackRock. While dialogue with the company is ongoing, the renewed independent board chair proposal is set for a vote before Facebook's shareholders at its annual meeting in 2020.

- **Seeking Enhanced Disclosure and Transparency** – Since April 2017, the Treasurer's Office has repeatedly raised concerns regarding fake news, elections interference, and mass manipulation of the platform, drafting multiple letters and filing shareholder proposals asking that these issues be confronted in an open, transparent, and responsible manner.

  Results: In June 2018, Facebook investors voted on a proposal filed by investor Arjuna Capital and co-filed by Treasurer Frerichs and New York State Comptroller Thomas DiNapoli. The proposal asked Facebook to report publicly on its risk mitigation strategies for controversies including election interference, fake news, hate speech, sexual harassment, and violence. The proposal received support from 30% of independent shareholders, a notable increase from the 2% support for the first iteration of the proposal received in 2017.

V. Fighting To Protect Shareholder Rights

Why It Matters

The Importance of Proxy Voting and Shareholder Proposals. To effectively execute our fiduciary duties, the Treasurer's Office routinely votes on proxy ballot items and is an active proponent of shareholder resolutions designed to serve the mutual interests of shareowners and corporate managers. These activities are critical in our endeavor to provide the highest level of service, stewardship, and financial value to our beneficiaries and participants.

Proxy voting and shareholder resolutions constitute critically important investor protections, providing a cost-effective, voluntary, market-based way to maintain a system of accountability among shareholders, corporate managers, and boards. Not only do these activities help protect investors, they help maintain fairness, order and efficiency in critically important corporate governance matters, and they facilitate capital formation by enhancing corporate managerial accountability and company performance.[20, 21]

An Attack on Shareholder Rights – In November 2019, the SEC proposed two new rules, one that further regulates proxy advisors (S7-22-19), which provide guidance to investors on proxy voting decisions, and another that imposes further restrictions on the shareholder proposal process (S7-23-19). The two proposals in question, which will impair investors' ability to cast informed proxy votes and submit shareholder proposals, will undoubtedly weaken investor protections that have proven indispensable in strengthening corporate governance, improving business performance, and protecting shareholder value. Strong corporate governance policies at U.S. publicly traded companies attract investment dollars. As such, should the two proposals be enacted, the SEC threatens to undermine a well-established system of value creation for shareholders, companies, and the U.S. equity market.

20 Tamas Barko, Martijn Cremers, Luc Renneboog, "Shareholder Engagement on Environmental, Social and Governance Performance," European Corporate Governance Institute, September 5, 2018. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2977219.

21 Elroy Dimson, Oguzhan Karakas, Xi Li, "Active Ownership," June 4, 2013. http://www.hbs.edu/faculty/conferences/2013-sustainability-and-corporation/Documents/Active_Ownership_-_Dimson_Karakas_Li_v131_complete.pdf?pwm=6295.

Actions Taken

- **Comment Letter** – The Treasurer's Office reached out directly to the SEC in January 2020, issuing a comment letter that outlines concerns with the two proposals.
- **Editorial on Proxy Advisor Regulation** – The Treasurer's Office partnered with the state treasurers of Pennsylvania, Connecticut, and Rhode Island to issue a joint op-ed outlining the issues with the new proposed regulations on proxy advisors.
- **Illinois Congressional Delegation** – The Treasurer's Office has been in direct contact with U.S. Senators and Representatives to urge their opposition to the two proposals, which has helped prompt letters of support from members of Congress.

Current Status – The Treasurer's Office and other advocates are actively monitoring the situation, awaiting official action from the SEC, whether that be passage of the proposals, amended versions, or postponement.

VI. Strategic Partnerships

The Treasurer's Office is not alone in its commitment to sustainable investing. We partner with coalitions and work collaboratively with experts and other investors to help us pursue learning opportunities and advance leading investment practices.

We are active members of several major investor networks, including those featured in the table below, which are made up of leading asset management firms, public pension funds, labor funds, foundations, endowments, family offices, and other state treasurers.

Investor Networks

Ceres	**Ceres –** A nonprofit organization working with influential investors and companies to drive solutions and build a sustainable future for people and the planet.
Climate Action 100+ – An investor initiative to ensure that the world's largest greenhouse gas emitters take action on climate change and ensure the long-term sustainability of their businesses.	Climate Action 100+ Global Investors Driving Business Transition
Council of Institutional Investors® The voice of corporate governance	**Council of Institutional Investors (CII)** – A nonprofit, nonpartisan association representing assets under management of $40 trillion that advocates for best practices in corporate governance.
Human Capital Management Coalition (HCMC) – A cooperative effort among a diverse group of influential institutional investors to elevate the critical importance of human capital management in company performance.	Human Capital Management Coalition
IOA INVESTORS FOR OPIOID ACCOUNTABILITY	**Investors for Opioid Accountability (IOA)** – A diverse coalition of institutional investors engaging with opioid manufactures, distributors and retailers to to mitigate business risks related to the opioid epidemic.
Midwest Investors Diversity Initiative (MIDI) – A coalition coordinated by the UAW Retiree Medical Benefits seeking to increase board diversity by encouraging the adoption of corporate governance best practices.	MIDWEST INVESTORS DIVERSITY INITIATIVE
PRI Principles for Responsible Investment	**Principles for Responsible Investing (PRI)** – A network of global investors working to promote responsible investment policies and practices.
Sustainability Accounting Standards Board (SASB) – An independent nonprofit organization founded in 2011 to develop and disseminate sustainability accounting standards.	SASB ALLIANCE
THIRTY PERCENT COALITION	**Thirty Percent Coalition** – A national organization comprising of public and private companies, professional services firms, institutional investors, government officials and major advocacy groups working to increase gender diversity in corporate boardrooms.
Climate Majority Project – A non-profit organization that works to harness the power of investors to promote climate responsibility on corporate boards and accelerate economy-wide decarbonization.	climate majority project
Say on Pay Working Group	**Say-on-Pay Working Group** – An effort organized by Segal Marco Advisors and the AFL-CIO Office of Investment to examine and improve executive compensation practices at U.S. publicly traded companies.

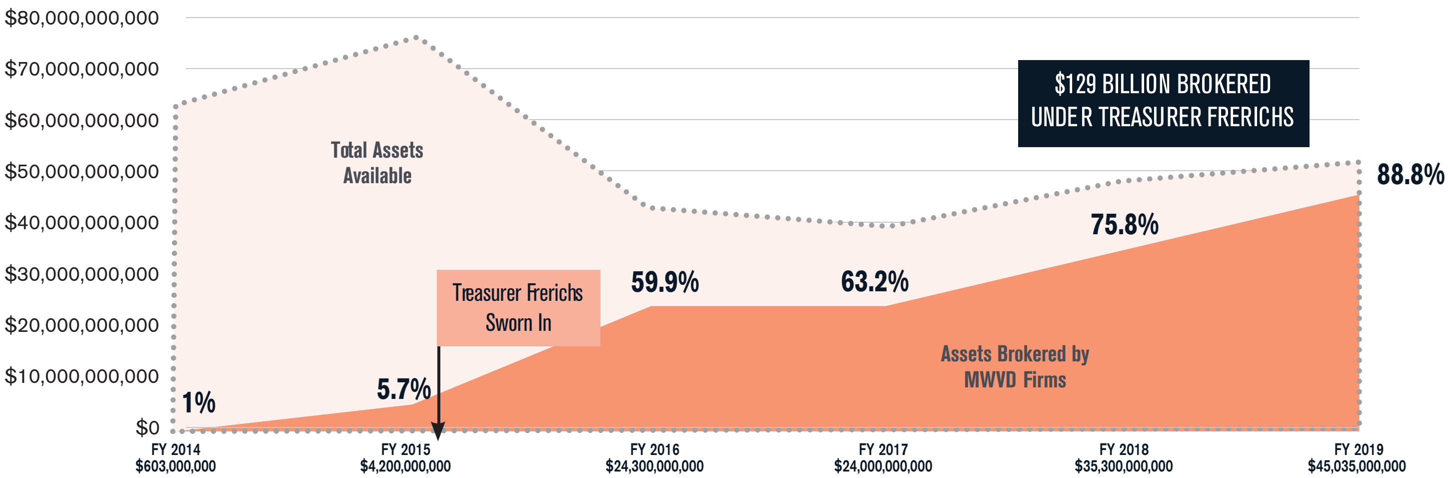
VII. Prioritizing Diverse Investment Firms

Treasurer Frerichs believes our government should mirror the diversity in our state. We know diversity is good for business. In the last year, the Treasurer's Office has made great strides to ensure inclusion and provide more opportunities for Minority, Women, Veteran, and Disabled (MWVD) firms. Among Treasurer Frerichs' top priorities are to continue to transform the Office's culture, policies, and operations to help ensure equal opportunity.

Increasing Business with MWVD Broker/Dealers: From 1% to 89% since 2015.

The Treasurer's two internally managed investment programs, the State Investment Portfolio and Illinois Public Treasurers' Investment Pool (also referred to as "The Illinois Funds,") are made up of direct purchases and brokered investments. Tapping diverse-owned broker/dealers is one of the quickest and best ways to ensure MWVD participation – and recent numbers emphasize our **sustained progress** in this area.

Assets Brokered by MWVD Firms, FY 2014-2019



Comparison of Assets Brokered by MWVD Firms

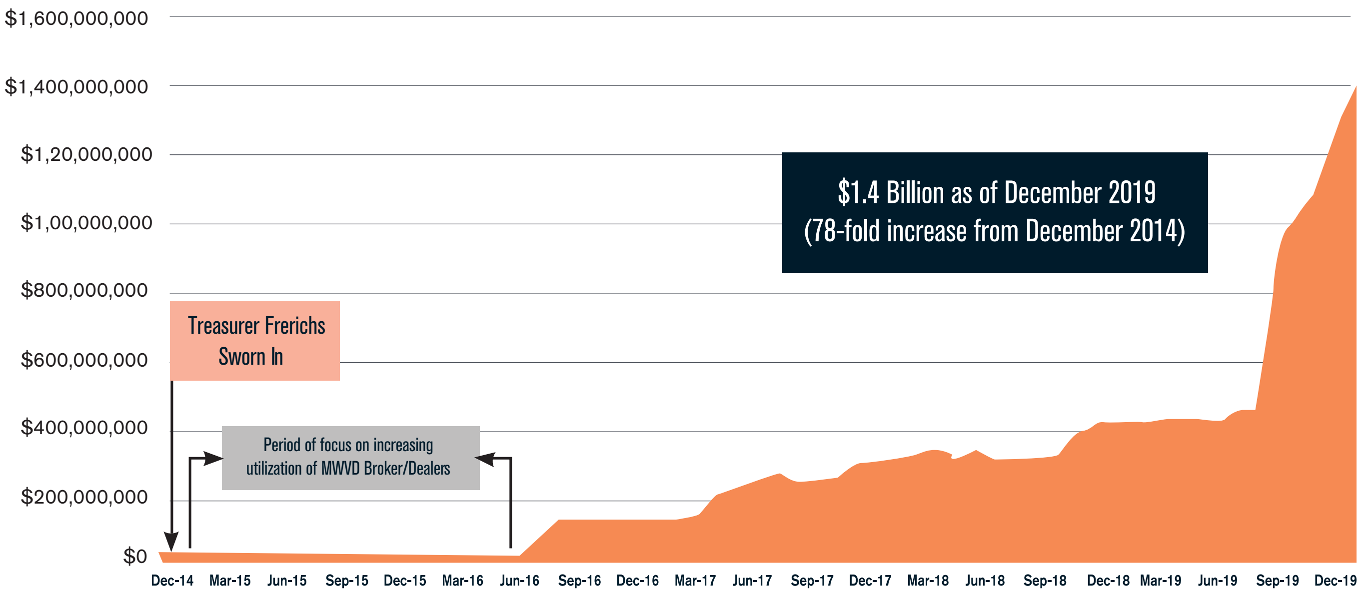
Year-by-Year Comparison of Assets Brokered by MWVD Firms FY 2014 – FY 2019						
	FY 2014	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**
Assets Brokered by MWVD Firms	$603 million	$4.2 billion	$24.3 billion	$24.0 billion	$35.3 billion	$45 billion
Total Assets Available	$60 billion	$74.0 billion	$40.6 billion	$37.9 billion	$46.6 billion	$50.7 billion
% Brokered by MWVD Firms	1.0%	5.7%	59.9%	63.2%	75.8%	88.8%

Source: Office of the Illinois State Treasurer

Increasing Business with MWVD Asset Managers: From $18 million to $1.4 billion

The Treasurer's Office has made tremendous strides expanding the use of MWVD asset managers. In December 2014, the Treasury had $18 million under MWVD asset managers. As of December 2019, the Treasurer's Office had over $1.5 billion with MWVD asset managers. That represents a **78-fold increase.**

Assets Managed by MWVD Firms



Source: Office of the Illinois State Treasurer

Ensuring Our Business Partners Prioritize Diversity & Inclusion

All firms seeking to do business with the Treasurer's Office must disclose how their firm promotes diversity and equal opportunity. This includes a 360-degree assessment on a firm's diversity and inclusion profile, which examines the following for each firm:

- Level of diversity among owners or Board of Directors;
- Level of diversity among senior executives;
- Level of diversity among the entire workforce;
- Programs and policies related to supplier diversity;
- Programs and policies related to corporate responsibility; and
- Programs and policies related to philanthropic and volunteerism activities.

The Treasurer's Office also maintains specialized evaluation processes for investment consultants, asset managers, and venture capital and private equity firms to further ensure that these partners effectively prioritize diversity and inclusion.

VIII. Proxy Voting

The Treasurer's Office votes its proxies in line with the Proxy Policy Statement available on page 47 of this report. In 2019, the Treasurer's Office voted 25,580 proposals at 2,815 companies. A full list of the votes cast is available on the Treasurer's Raising The Bar website.

A Glance at 2019 Proxy Voting

25,580
PROPOSALS VOTED AT 2,815 ANNUAL MEETINGS IN 2019

16,931
ELECTION OF DIRECTOR PROPSOALS VOTED IN 2019

617
SHAREHOLDER PROPOSALS VOTED IN 2019

70% OF VOTES CAST IN FAVOR OF ALL PROPOSALS VOTED IN 2019

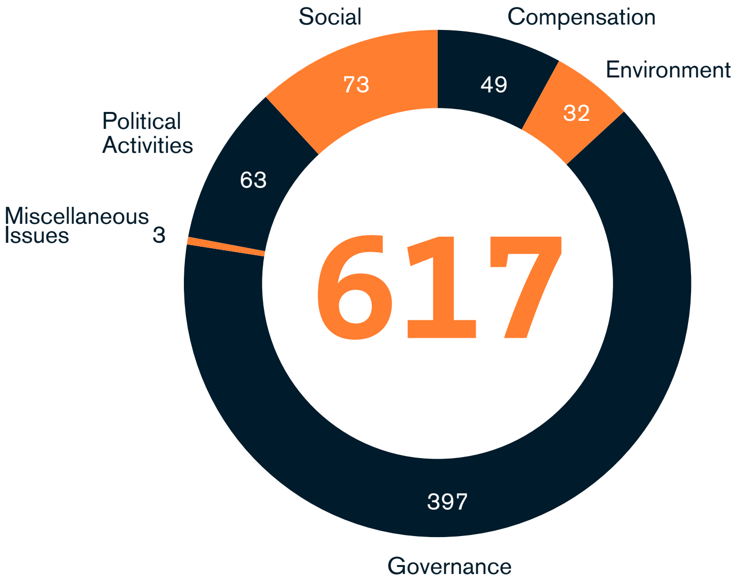
76% OF VOTES CAST IN FAVOR OF ELECTION OF DIRECTOR OF PROPOSALS VOTED IN 2019

80% OF VOTES CAST IN FAVOR OF SHAREHOLDER PROPOSALS VOTED IN 2019

Source: Office of the Illinois State Treasurer

Summary of All Shareholder Proposals Voted in 2019

Proposals land on company ballots through one of two avenues: either management puts forward a proposal to comply with legal requirements or to gauge shareholder sentiment; or investors that meet a certain threshold submit a proposal to the company. The eight most commonly voted proposals in both categories — shareholder proposals and management proposals — are described below. A statistical report on the Treasurer's Office voting is at the end of this section.

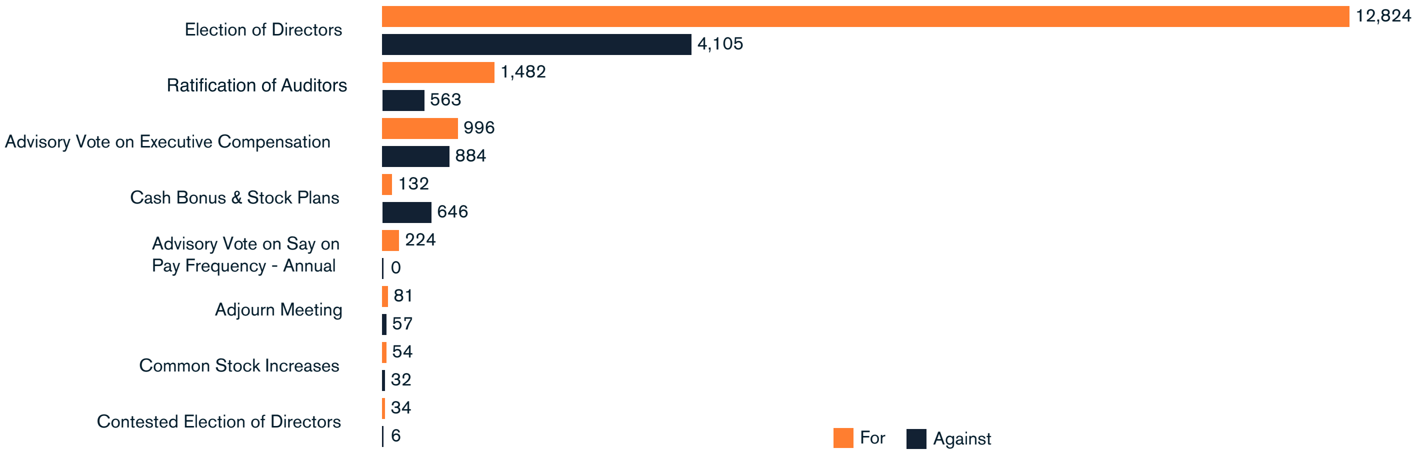


The Treasurer's Office voted in favor of 12,824 proposals to elect directors: 76%

Source: Office of the Illinois State Treasurer

The Eight Most Common Management Proposals Voted

2019 Votes of Most Common Management Proposals



Source: Office of the Illinois State Treasurer

A glance at Election of Directors — The Treasurer's Office votes against nominees for corporate directorships for the following reasons.

- Weak relative financial performance over a sustained period.
- The board has less than two-thirds independent directors or insiders sit on key board committees.
- The board took an egregious action that is averse to shareholder interests.
- A director failed to attend fewer than 75 percent of board and committee meetings without providing a valid explanation for the absence.
- Against the nominating committee members at companies with no gender diversity.

Contested Election of Directors

In contested elections of directors, shareholders make a twofold decision between voting on the company proxy card, which includes only the company's director nominees, or the shareholder's proxy card, which includes the activist's nominees, and/or the company's nominees recommended by the activist. Activists typically seek a number of board seats to implement their strategic vision for the company. The Treasurer's Office evaluates the slates on the individual qualification of the candidates, the quality and feasibility of the plan that the dissident has put forth to add long-term corporate value, management's performance record, the background of the proxy contest and the equity ownership positions of the activist.

The Treasurer's Office voted in favor of 36 shareholder proposals to elect directors in contested elections: 80%

Ratification of Auditors

In 2001 the SEC began requiring companies to disclose how much they paid their accountants for both audit and non-audit work in the prior year. The disclosures revealed that many companies were paying their auditors three times more for "other" work than for their audit work. The 2002 Sarbanes-Oxley Act ("SOX") limited the auditor conflict issue, although auditors are still permitted to perform tax and other non-audit related services for companies they audit.

The vote to ratify auditors is a routine vote in favor unless auditors receive substantial enough sums for non-audit services that it poses a potential conflict of interest for an independent audit.

The Treasurer's Office voted in favor of 1,482 proposals to ratify auditors: 72%

The Treasurer's Office voted in favor of 996 advisory votes on compensation: 53%

Cash Bonus and Stock Plans

Companies implement and amend cash bonus and stock plans to award their key executives, outside directors and rank-and-file employees. The Treasurer's Office votes on these plans on a case-by-case basis and supports plans that are specific and challenges performance standards without excessive rewards. Stock plans can take many forms. The most common are: stock option plans, which give the holder the right to exercise the option to buy stock at a set price in the future; restricted stock plans, which grant stock to a person at no cost, but the person has no right to the stock until certain conditions are met (sometimes the mere passage of time); and employee stock ownership plans, which allow stock to be purchased by all full-time and some part-time employees through payroll deductions and are subject to federal guidelines.

The Treasurer's Office considers the following items when determining how to vote on compensation plans:

- Dilution;
- Performance standards and incentives;
- Acceleration of options and restricted stock in change-in-control scenarios; and
- Breadth of employee plan participation.

Adjourn Meeting

Proposals that request to adjourn the meeting ask shareholders to permit suspension of a meeting, indefinitely or resumed at a future date. There are instances where companies request to adjourn a meeting to extend the voting period to solicit more votes for a merger or acquisition. The vote to adjourn meeting is a routine vote in favor unless there are other matters on the ballot that are not supported.

The Treasurer's Office voted in favor of 81 proposals to adjourn meetings: 59%

Advisory Vote on Executive Compensation

Since 2011, the Dodd-Frank legislation provided shareholders with an advisory vote on executive compensation. The following factors are weighed.

- **Alignment:** Company performance and compensation amounts should compare favorably relative to its peer group
- **Stock awards:** Performance-based stock awards drive superior performance as compared to time vested awards that are paid out regardless of performance.
- **Dilution:** The dilution to current shareholder equity should not exceed 5 percent.
- **Severance payments:** A company should not provide severance pay-out that qualifies as a golden parachute under the Internal Revenue Code (IRC). A company also should not gross-up excise taxes owed by the executive in receipt of golden parachute payments.
- **CEO Pay Ratio:** Ratios will be monitored in comparison to peer groups and on an annual basis.

The Treasurer's Office voted in favor of 132 compensation plans 17%

Advisory Vote on Say-on-Pay Frequency

Dodd-Frank also enables shareholders to decide if they want to vote on a company's executive compensation annually, every two years or every three years. The vote on how frequently shareholders will vote on the say-on-pay vote occurs every six years. Since the first round of say-on-pay votes was in 2011, in 2017, most U.S. companies put forward the frequency vote for the second time. The Treasurer's Office supports an annual say-on-pay vote in all cases because it provides shareholders with the opportunity to inform boards of their views on a more routine basis.

The Treasurer's Office voted in favor of annual frequency on the say-on-pay vote at 244 meetings.

Common Stock Increases

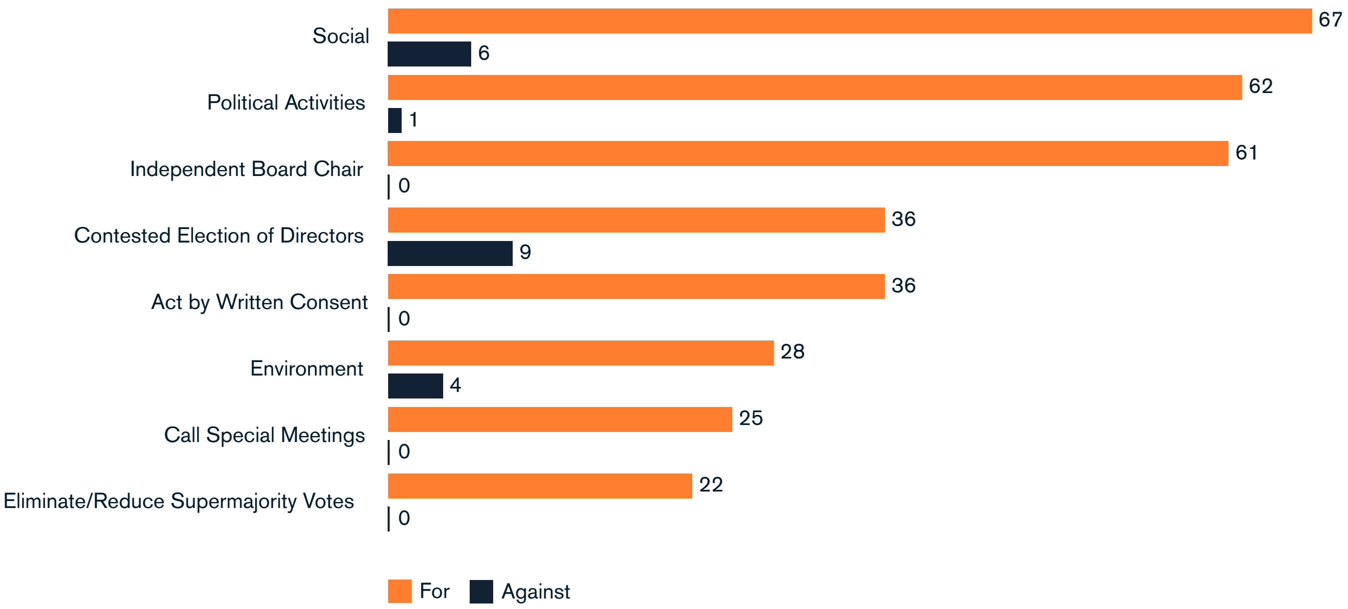
Increases in common stock authorizations can negatively affect shareholder value because once shareholders approve the increases, the board of directors can issue the additional shares at its discretion without seeking shareholder approval.

This could include issuance of shares for financial recapitalization plans or for acquisitions or to thwart acquisitions. Share issuances also dilute current shareholders' equity. The Treasurer's Office analyzes whether a request for an increase in common stock is excessive or if there is a specific purpose for the increased stock authorization, such as an acquisition or stock split.

The Treasurer's Office voted in favor 54 proposals to increase in common stock authorization: 63%

The Eight Most Common Shareholder Proposals Voted

2019 Votes of Most Common Shareholder Proposals



Source: Office of the Illinois State Treasurer

Act by Written Consent

The proponents of the resolution, which first began appearing with regularity in the 2010 season, state that to act by written consent gives shareholders the opportunity to raise important matters outside the normal annual meeting cycle.

An action by written consent gives shareholders the right to approve certain corporate matters without having to call a meeting of shareholders or to give notice to all shareholders about the matters being approved. In some instances, an action by written consent could be more efficient and cost-effective than holding a special meeting.

The Treasurer's Office voted in favor of 25 proposals to amend the right to call a special meeting: 100%

Call Special Meetings

Shareholders with the right to call a special meeting have an additional tool for weighing in on critical issues. The corporate laws of some states (although not Delaware, where most companies are incorporated) provide that holders of 10 percent of the shares outstanding of a company may call a special meeting of shareholders, absent a contrary provision in the company's charter of bylaws. Most companies' charter or bylaws only grant the board of directors the ability to call a special meeting of shareholders — typically to consider a merger or acquisition. Australia, Canada and the UK have corporate laws that allow shareholders to call special meetings.

In the past in the U.S., only a few such proposals were filed sporadically. But, starting in 2007, proposals were filed by a coalition of individual shareholders which asked companies to amend their bylaws to establish a process by which the holders of 10 percent to 25 percent of outstanding shares may call a special meeting.

The Treasurer's Office voted in favor of 22 proposals to reduce supermajority voting requirement: 100%

Eliminate/Reduce Supermajority Votes

The bylaws at some companies provide that on certain issues — such as amending bylaws — a simple majority vote of the shareholders will not suffice and a supermajority (e.g., 66.6 percent or 75 percent) is required. Shareholders can address the supermajority issue head on by filing proposals asking companies to voluntarily eliminate supermajority vote provisions. The Treasurer's Office position is that a majority vote by shareholders should be sufficient for all matters.

The Treasurer's Office voted in favor of 28 environmentally focused proposals: 88%

Environment

Environmentally focused investors have long filed proposals to request companies provide disclosure and act on climate change, greenhouse-gas emission and sustainability efforts. In recent years, these efforts received growing support among the mainstream proxy voting community. The Treasurer's Office supports proposals on environmental topics that seek clarity from companies on how they approach environmental concerns, what actions they are undertaking and how they are reporting their efforts. Shareholder proposals that ask for more aggressive action by companies are evaluated on a case-by-case basis.

Independent Board Chair

The chairman of the board supervises and monitors the executives that manage the company on behalf of shareholders. When a chairman is the CEO or has close ties to the CEO or the other principal executive officers, a potential conflict of interest is inherent. The combined role CEO/chairman role is still prevailing among U.S. publicly traded firms where the separation of those roles is standard in other markets, most notably in the UK where it is a requirement.

The Treasurer's Office voted in favor of 61 proposals for an independent board chair: 100%

Political Activities

A wide coalition of institutional investors have been filing proposals seeking disclosure on corporate political spending for more than a decade. Shareholders argue boards of directors should oversee the corporate political spending to ensure it supports corporate goals and priorities. Advocates of the disclosure argue companies will better weigh the benefits and risks of political spending when the reporting is public.

The Treasurer's Office voted in favor of 62 proposals on political activities: 98%

Social

Social shareholder proposals are a comprehensive list of various proposals addressing social risk that span from investors requesting companies to adopt policies regarding board diversity, report on company risks regarding human rights concerns, media content management, sexual harassment, gender pay gaps and impacts of company-specific events.

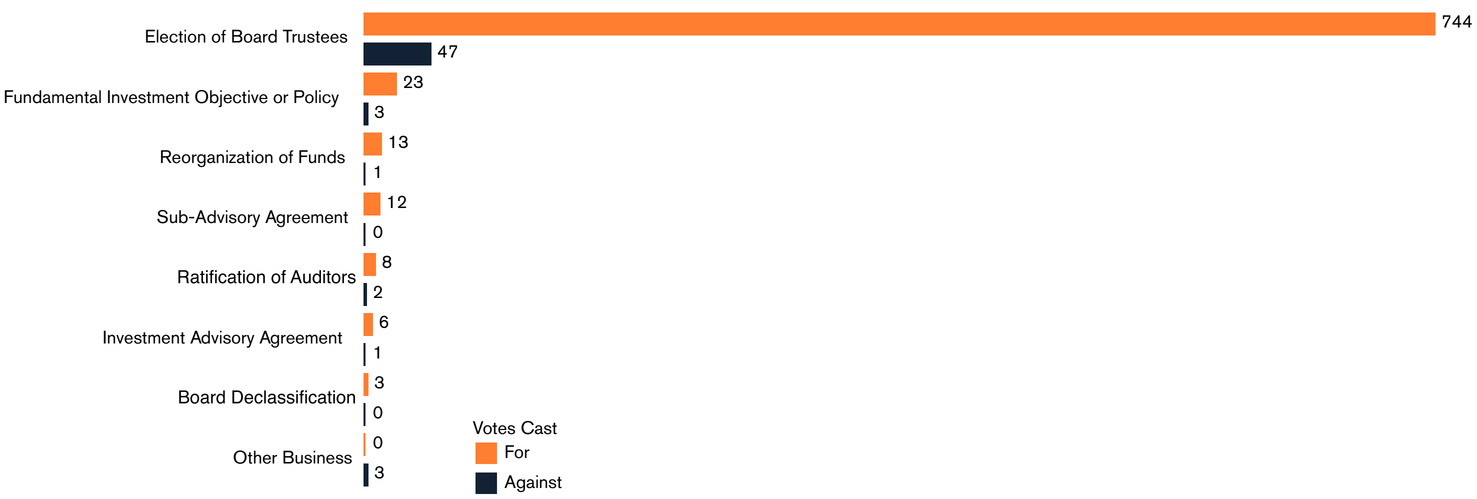
Proposals filed were by investors at Amazon, Walmart and XPO Logistics, Inc. requesting them to establish board oversight of workplace sexual harassment. Investors continue to ask Facebook, Google and Twitter to report to investors how they review their risks related to content policies and assess the effectiveness of the enforcement of their content policies.

The Treasurer's Office voted in favor of 67 socially focused proposals: 92%

Mutual Fund Voting 2019

The Treasurer's Office is an active steward of its investments across the full spectrum of asset classes. Beginning in 2016, we undertook an effort to vote proxies on equity holdings in the interest of the people whose assets are entrusted to us. In September 2018, we expanded the program to assert our voting rights on mutual fund ballots. Investors in mutual funds and similarly structured commingled funds are entitled to vote to elect the board of trustees, to approve strategic changes in the fund, opine on investment advisory agreements and handle shareholder proposals, although funds receive vastly fewer shareholder proposals than publicly traded firms. The table below provides a snapshot of the issues and frequency of the voting for mutual fund ballots.

2019 Votes of Mutual Fund Proposals



Source: Office of the Illinois State Treasurer

IX. Conclusion

The Treasurer's Office seeks to invest all funds under its control in a manner that provides the highest risk-adjusted investment return for beneficiaries using authorized instruments. To achieve this objective, the Treasurer's Office has a responsibility to recognize and evaluate risk factors that may have a material financial impact on the performance of our investments.

As such, the Treasurer's Office prudently integrates sustainability factors into its investment processes to help fulfill core fiduciary duties, which include maximizing anticipated financial returns, minimizing projected risk, and in a larger sense, contributing to a more just, accountable, and sustainable State of Illinois.

For regular updates and more information on the sustainable investing activities of the Treasurer's Office, please visit www.IllinoisRaisingTheBar.com.

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Appendix A: Sustainability – Investment Policy Statement

State of Illinois
Office of the Illinois State Treasurer
SUSTAINABILITY – INVESTMENT POLICY STATEMENT
Approved October 2, 2019

1.0 PURPOSE

This document sets forth the Sustainability ("Sustainability") Investment Policy ("Policy") for the Office of the Illinois State Treasurer ("Treasurer").

The purpose of the Policy is to outline the sustainability factors that shall be applied by the Treasurer's internal and external investment holdings in evaluating investment decisions and ongoing business relationships.

This Policy is designed to allow for sufficient flexibility in the execution of sustainability investment responsibilities while setting forth specific sustainability factors and industry-recognized best practices that are relevant to the Treasurer's investment portfolio and the evolving marketplace.

The Treasurer establishes and executes this Policy in accordance with applicable local, state, and federal laws.

2.0 AUTHORITY

Pursuant to the State Treasurer Act (15 ILCS 505), Deposit of State Moneys Act (15 ILCS 520), and the Public Fund Investment Act (15 ILCS 235), the Treasurer is authorized to serve as the fiscal agent for public agencies and specific program participants for the purpose of holding and investing assets.

Pursuant to the Illinois Sustainable Investing Act (30 ILCS 238), the Treasurer shall prudently integrate sustainability factors into its investment decision-making, investment analysis, portfolio construction, risk management, due diligence and investment ownership in order to maximize anticipated financial returns, minimize projected risk, and more effectively execute its fiduciary duty.

3.0 PHILOSOPHY

The Treasurer seeks to invest all funds under its control in a manner that provides the highest risk-adjusted investment return for beneficiaries using authorized instruments. To achieve this objective, the Treasurer has a responsibility to recognize and evaluate risk factors that may have a material and relevant financial impact on the safety and/or performance of our investments.

Thus, consistent with achieving the investment objectives set forth herein, the Treasurer and its agents shall prudently integrate sustainability factors into its investment decision-making, investment analysis, portfolio construction, risk management, due diligence and investment ownership in order to maximize anticipated financial returns, minimize projected risk, and more effectively execute its fiduciary duty.

Sustainability factors shall be implemented within a framework predicated on the following considerations.

- **Integration of Sustainability Factors –** Prudent integration of material sustainability factors, including, but not limited to, (1) corporate governance and leadership, (2) environmental factors, (3) social capital, (4) human capital, and (5) business model and innovation, as components of portfolio construction, investment decision-making, investment analysis and due diligence, prospective value proposition, risk management, and investment ownership, given that these tangible and intangible factors may have material and relevant financial impacts.

- **Regular Evaluation of Sustainability Factors –** Recurring biannual evaluation, at a minimum, of sustainability factors to ensure the factors are relevant to the evolving marketplace.

- **Engagements –** Attentive oversight of investment holdings to address sustainability risks and opportunities through direct engagement with entities, such as investment funds, portfolio companies, government bodies, and other organizations.

- **Additional Relevant and Financially Material Factors –** Consideration of other relevant factors such as legal, regulatory, and reputational risks that contribute to an optimal risk management framework and are necessary to protect and create long-term investment value.

The sustainability analysis adds an additional layer of rigor to the fundamental analytical approach and helps assess the reliability of future cash flows and debt repayments. Similar to financial accounting, sustainability accounting has both confirmatory and predictive value, thus, it can be used to evaluate past performance and be used for future planning and decision-making. As a complement to financial accounting, it provides a more complete view of an investment fund or portfolio company's performance on material factors likely to impact its long-term value.

4.0 CORPORATE GOVERNANCE AND LEADERSHIP FACTORS

The Treasurer supports board accountability, transparency, sensible executive compensation programs, robust shareholder rights, and ethical conduct as key governance factors. The Treasurer advocates for policies and practices in support of these factors. Corporate governance and leadership factors also involve the management of issues that are inherent to the business model or common practice in the industry and that are in potential conflict with the interest of broader stakeholder groups (e.g., government, community, customers, and employees), and therefore create a potential liability or, worse, a limitation or removal of a license to operate. This includes compliance, and regulatory and political influence.

a) **Board Accountability**
The board of directors is elected by the company's shareholders and is accountable to them. The role of the board is to represent shareholders' interests in their oversight of corporate management.

The board of directors must maintain a level of independence from management to exercise proper oversight. The Treasurer considers an independent director to be one who: (1) is not an executive of the company, (2) does not have direct familial ties with executive management, (3) does not have significant business ties to the company, and (4) is not a significant shareholder.

b) **Board Diversity**
Research demonstrates that a diverse board of directors is better equipped to ensure multiple perspectives are considered and better positioned to enhance long-term company performance within a marketplace defined by extensive diversity and multiculturalism. Diversity is inclusive of gender, race/ethnicity, skill sets, professional backgrounds, and LGBT status.

c) **Transparency**
With due respect to proprietary information, companies should strive to be transparent in their business operations. Disclosure concerning matters of shareholder or public interest, such as those items outlined in this Policy, provides useful information and mitigates risks inherent with undisclosed matters.

Transparency and accuracy in the reporting of fees to the Treasurer from service providers is also essential to secure competitive rates.

d) **Sensible Executive Compensation Programs**
Excessive executive compensation programs may signal board entrenchment and exacerbate income inequality. Executive compensation should be reflective of company performance and within a reasonable range of compensation levels at industry leading companies.

The Treasurer believes an annual vote on executive compensation is a better option than a biennial or triennial vote because it affords shareholders the opportunity to provide the company's compensation committees more timely feedback about the appropriateness of executive pay levels, which typically are decided on an annual basis.

e) **Robust Shareholder Rights**
Shareholders should be given tools to convey their perspectives to the board of directors, which serves as their representative body. Tools that provide

shareholders with the appropriate mechanisms for communication include the ability to (1) call a special meeting, (2) act by written consent, and (3) have access to the proxy to nominate their own candidate(s) for the board assuming certain threshold requirements.

In addition, a majority voting standard for the election of directors ensures that directors have the confidence of their shareholders.

Boards of directors should also be declassified to enable shareholders to weigh-in on each director on an annual basis.

f) Ethical Conduct and Business Practices

Companies conducting business with or in receipt of investments from the Treasurer must comply with all laws and regulations under which they are governed. Further, the Treasurer expects companies to meet (if not exceed) all applicable ethical and professional standards of conduct.

Companies that seek short-term profits by taking disreputable or anti-social actions may risk long-term sustainability. Prior corporate scandals have clearly demonstrated that profiting from harm caused to others impacts a company's reputation and bottom line. The Treasurer expects companies to operate within the bounds of the law and ethical norms, particularly when it comes to responsible drug pricing, safe working conditions, and the sale and distribution of drugs, weapons and other products and services that may cause harm.

g) Systemic Risk Management

The increased globalization and interconnectedness of the marketplace has become a central concern of state, federal, and international regulators. This is particularly relevant to companies in the financial sector and insurance industry, with many designated or at-risk of being designated as systemically important institutions. This designation can subject firms to stricter regulatory standards, credit limitations, and increased oversight by government officials. In an effort to demonstrate how these risks are being managed, companies should enhance their disclosures of key metrics, risk exposures, and additional aspects of systemic risk management.

h) Regulatory Capture and Political Influence

While political contributions can benefit the strategic interests of a company, board-level policies and processes should exist to ensure that such giving is aligned with shareholders' long-term interests. While shareholders understand that corporate participation in the political process can benefit companies strategically and contribute to value creation, corporate political giving has the potential to create risks to shareholder value through reputational harm and through undesirable reactions by employees and customers. Companies should have appropriate internal controls in place to manage, monitor, and disclose political contributions and managed related risks.

5.0 ENVIRONMENTAL FACTORS

Environmental stewardship is a shared responsibility. Furthermore, environmental and climate-related factors may have adverse financial impacts on the Treasurer's investment portfolio. Accordingly, the Treasurer recognizes that impacts on the environment, either through the use of non-renewable natural resources as inputs to the factors of energy production or through harmful releases into the environment are key factors for consideration in identifying a company's value proposition and risk exposures.

a) **Greenhouse Gas Emissions**
Greenhouse gas emissions contribute to climate change, and create additional regulatory compliance costs and risks due to climate change mitigation policies. Companies that cost-effectively reduce greenhouse gas emissions from their operations by implementing industry-leading technologies and processes can create operational efficiency. They can mitigate the impact on value from increased fuel costs and regulations that limit — or put a price on — carbon emissions, which are occurring as regulatory and public concerns about climate change are increasing in the U.S. and globally.

b) **Air Quality, Energy and Fuel Management**
Companies should consider how the environment and related regulation will positively or negatively impact operations and vice versa. Routine assessment of the nexus of operations, natural resource dependency, and the environment may be communicated to investors through sustainability reports. Quantitative reporting on environmental risks, policies, performance, and goals assures investors that companies are aware of potential opportunities and/or risks and are seeking to act upon them appropriately.

c) **Water and Waste**
Impacts of water-intensive production and potential contamination of water resources include higher costs, liabilities, and lost revenues due to curtailment or suspension of operations. Similarly, companies that reduce, recycle, and effectively manage their waste streams lower their regulatory and litigation risks, remediation liabilities, and operating costs.

d) **Climate Competence**
Climate change has serious risk implications for investors and the businesses in which they invest. Shifts in temperature, weather patterns, and rising sea levels impact supply chain, consumer demand, physical capital, and communities. Extreme weather events are occurring on a more frequent basis and with increasing intensity. Events such as droughts, floods, and storms may lead to scarce resources and disruptions in operations and workforce availability. A company's awareness of environmental risks and opportunities may have a significant impact on its operational capacity, financial position, and long-term value creation. With new environmental technologies, regulations, and business strategies rapidly developing

(e.g., carbon pollution regulations and energy efficiency opportunities), it is important that companies maintain the knowledge and innovation to adapt and capitalize on these evolving changes. This may include, among other strategies, maintaining a board member or senior executive with expertise or ample experience with environmental science and technology.

6.0 SOCIAL CAPITAL FACTORS

Social capital factors address the management of relationships with key outside parties, such as customers, local communities, the public, and the government. They may impact investment returns, particularly if companies become involved in controversies that pose risks to their reputation. Human rights, access and affordability, customer welfare, data security and customer privacy, fair disclosure and labeling, and fair marketing and advertising, and community reinvestment are key social capital factors that warrant attention.

a) Human Rights

Companies have a legal duty to adhere to internationally recognized labor and human rights standards. Beyond the legal requirements, companies risk losing their social license to operate if they contribute to human rights abuses throughout their supply chain. The United Nations' "Guiding Principles on Business and Human Rights" sets out corporations' responsibility to respect human rights. Companies should regularly assess and seek to minimize any negative impact caused by their operations.

b) Consumer Welfare

Companies have a material interest to provide products and services that do not expose their customers to undue physical or mental harm, deception, manipulation, exploitation, or unlawful conduct. This can expose companies to significant legal, regulatory, reputational, or other financial risks that jeopardize shareholder value. In addition, research demonstrates that companies that employ socially responsible business practices have the potential to create several distinct forms of value for customers, including positive marketing outcomes and subsequent financial performance. As such, this enhances firm value and long-term shareholder value.

c) Data Security and Consumer Privacy

Consumers trust companies with their personal and financial data. Companies that prevent data breaches and effectively manage data security and consumer privacy avoid harming brand value, reduce contingent liabilities, and maintain market share. Furthermore, companies that address data security threats and vulnerabilities through prevention, detection, and remediation are better positioned for customer acquisition and retention and may reduce extraordinary expenses from breaches of data security.

d) Community Relations and Community Reinvestment

Community relations are a fundamental, strategic aspect of business for public and private corporations. They are not only a barometer of image and market presence across the world. It helps attract and retain top employees, positions itself positively among customers and, increasingly improves its position in the market. Positive, proactive community relations can translate into improved financial performance.

The Treasurer wants to encourage an open and effective banking system that grows local communities and boosts Illinois' economy. Pursuant to the Deposit of State Moneys Act (15 ILCS 520/16.3), the Treasurer is authorized to consider a financial institution's record and current level of financial commitment to its local community when deciding whether to deposit State funds in that financial institution. As such, the Treasurer shall consider applicable firms' level of community reinvestment when undertaking investment decision-making.

Furthermore, all banking and financial firms seeking to transact in investment activity with the Treasurer shall possess a minimum Community Reinvestment Act (CRA) rating of Satisfactory.

7.0 HUMAN CAPITAL FACTORS

Companies that consider their workforce to be an important asset to deliver long-term value should manage their human capital with as much care and analytical insight as they manage their tangible and financial capital. It includes issues that affect the productivity of employees, such as employee engagement, diversity, incentives and compensation, as well as the attraction and retention of employees in highly competitive or constrained markets for specific talent, skills, or education. Employers should respect the right of their workers to organize under collective bargaining agreements and should provide a working environment that upholds health and safety standards.

a) **Labor Relations and Fair Labor Practices**
Companies benefit from taking a long-term perspective on managing human capital. This relates to practices involving fair compensation, workers' rights, worker safety, and workforce productivity enhancements through skills and capacity building, research and development, and capital investments. Companies that subvert the law of widely adopted international standards for labor practices are exposed to operational, legal, regulatory, and reputational risks that may create roadblocks for both its existing operations as well as efforts to expand to other markets. Conversely, companies with fair labor policies and practices may be at a competitive advantage in attracting and employing an effective workforce, leading to a healthy company culture, stronger customer loyalty, increased revenue, and reduced costs.

b) **Recruitment, Development, and Retention**
The evolution of U.S. business into a true service-based economy has led many companies to espouse that their employees are their most valuable asset. As key contributors to value creation, skilled workers are highly sought after, and many companies face challenges recruiting and retaining those assets. Shortages in skilled domestic employees have created intense competition to acquire and maintain highly skilled employees, as evidenced by high employee turnover rates.

Companies that improve employee compensation, benefits, training, and engagement are likely to improve retention and productivity, which positively contributes to profitability and long-term value creation.

c) **Equity, Diversity and Inclusion**
The U.S. population is undergoing a massive demographic shift, with an increase in minority populations. Companies can benefit from ensuring that their company culture and hiring and promotion practices embrace the building of a diverse workforce at management and lower-ranking positions. Companies that respond to this demographic trend and employ staff who will recognize the needs of these populations may be better able to capture demand from these segments, which can provide companies a competitive advantage.

8.0 BUSINESS MODEL & INNOVATION FACTORS

The impact of sustainability issues on innovation and business models including corporate strategy and other innovations in the production process are integral to a company's financial and operating performance. The ability of a company to plan and forecast viable opportunities and risks to its business model is critically important to its ability to create long-term shareholder value.

a) **Lifecycle Impacts of Products and Services**
Companies face increasing challenges associated with environmental and social externalities attributed to product manufacturing, transport, use and disposal. Rapid obsolescence of products exacerbates the externalities. Addressing product lifecycle concerns such as hazardous material inputs, energy efficiency, and waste, particularly through product design and end-of-life management could contribute to increased shareholder value through improved competitive positioning, greater market share, and lower regulatory, demand, and supply chain risks.

b) **Product Quality and Safety**
Companies have a material interest in ensuring the safety, proper labeling, and quality of their products. Companies that limit the incidence of safety or other product claims will be better positioned to reduce regulatory, legal, and reputational expenses and protect shareholder value. Conversely, companies with poor quality and safety standards may experience revenue loss due to damaged reputation, product recalls, or fines.

c) **Supply Chain Management**
Supply chain management is crucial for companies to prevent operational disruptions, avoid legal or regulatory action, protect brand value, and improve revenues. Sourcing from suppliers that have high quality standards, employ environmentally sustainable methods, honor labor rights, and avoid socially damaging practices better positions companies to protect themselves from supply disruptions and maintain shareholder value. In addition, appropriate supplier screening, monitoring, and engagement is necessary to ensure continued future supply and to minimize potential lifecycle impacts on company operations.

9.0 DIVESTMENT
The Treasurer opposes any policy or strategy that would direct the Treasurer to sell an individual or group of securities in order to achieve a goal that is not primarily investment-related. The Treasurer may consider divesting only in cases where the financial or reputational risks from a company's policies or activities are so great that maintaining the investment security is no longer prudent.

The Treasurer firmly believes that active and direct engagement is the best way to resolve issues and risk factors. The Treasurer's policy of engagement over divestment is based on several key considerations: (1) divestment would eliminate our standing and rights as a shareholder and foreclose further engagement; (2) divestment would likely have a negligible impact on portfolio companies or the market; (3) divestment could result in increased costs and short-term losses; and (4) divestment could compromise the Treasurer's investment strategies and negatively affect performance. For these reasons, we believe that divestment does not offer the Treasurer an optimal strategy for changing the policies and practices of portfolio companies, nor is it the best means to produce long-term value.

10.0 POTENTIAL ACTIONS
It is necessary to remain informed about issues that are likely to be of interest to other investors during the review process, including the Treasurer. The total mix of information available through the existence of, or potential for, impacts on factors include: (1) direct financial impacts and risk; (2) legal, regulatory, and policy drivers; (3) industry norms, best practices, and competitive drivers; (4) stakeholder concerns that could lead to financial impact; and (5) opportunities for innovation.

Potential actions will identify issues that can or do affect operational and financial performance by analyzing the three primary drivers of financial impact: (1) revenues and costs; (2) assets and liabilities; and (3) cost of capital or risk profile. Revenue in market size or pricing power of a company will be tracked to identify trends. Costs that can impact a company's profitability include recurring costs such as COGS, R&D, CAPEX or any other capital expenditures will be monitored. Issues, like climate change, that can impair tangible and intangible assets, such as PP&E and brand value are part of the review. Sustainability issues have the potential to create contingencies and provisions, or impact pensions and other liabilities and must be part of the overall assessment. The financial condition of a company can be impacted by sustainable factors that will raise the risk profile and create uncertainty in time capital needs.

The Treasurer may undertake various activities to advance the aforementioned key sustainability factors, including, but not limited to the following actions.

1. **Internal and External Investment Management** – Prudently integrating sustainability criteria as components of portfolio construction, investment decision-making, investment analysis and due diligence, prospective value proposition, risk

management, and investment ownership for internally-managed and externally-managed investment managers;

2. **Policy Advocacy –** Weighing in on the public policymaking process as it pertains to the investment landscape generally and sustainability issues specifically;

3. **Engagements –** Engaging corporate decision-makers directly on sustainability risks and opportunities to protect shareholder value;

4. **Coalitions** – Working in coalition with other institutional investors and with thought-leadership organizations;

5. **Proxy Voting –** Casting proxy votes in accordance with fiduciary duty and within policy guidelines; and

6. **Shareholder Proposals –** Submitting shareholder proposals to companies for inclusion in the annual stockholders' general meeting.

Appendix B: Proxy Voting Policy

2020 PROXY POLICY STATEMENT

Approved April 2020

PROXY VOTING GUIDELINES

The Illinois State Treasurer's Office ("Treasurer's Office") serves as trustee and administers the investment of state, local, and individual monies. For equity holdings, the Treasurer's Office maintains the right to vote by proxy on ballots and proposals presented at corporate annual meetings.

These Proxy Voting Guidelines ("Guidelines") have been approved and adopted by the Illinois State Treasurer's Office ("Treasurer's Office") for proxy voting on issues pertaining to corporate governance and financial performance. These Guidelines provide the framework for the proxy votes wherein the Treasurer's Office is eligible to cast a ballot.

The Guidelines are based on what the Treasurer's Office, through thorough evaluation and in consultation with Segal Marco Advisors, its corporate governance consultant, view as best practices in corporate governance and investment stewardship. Ultimately, the Treasurer's Office seeks to invest all funds under its control in a manner that provides the highest risk-adjusted return and promotes preservation of capital for beneficiaries using authorized instruments. To achieve this objective, the Treasurer's Office has a responsibility to vote by proxy on ballots and proposals that may have a prospective material and relevant financial impact on safety or performance of its investments.

CORPORATE GOVERNANCE PHILOSOPHY

An essential component of responsible investment stewardship and risk management is supporting good governance practices. Good governance mitigates investment risks and may provide collateral benefits to the beneficiaries of the assets under the Treasurer's stewardship. Numerous studies and surveys of leading institutional investors demonstrate the value of good corporate governance. Below are references to relevant sources.

Specifically:

A 2015 Columbia Business School study, ***"Management Influence on Investors: Evidence from Shareholder Votes on the Frequency of Say on Pay,"*** found, "Compared to firms adopting an annual frequency, firms following management's recommendation to adopt a triennial frequency are significantly less likely to change their compensation practices in response to an adverse say on pay vote, consistent with the notion that a less frequent vote results in lower management accountability."

A January 2015 study by McKinsey & Company, "***Why Diversity Matters**,"* found companies in the top quartile for gender or racial and ethnic diversity tend to report financial returns above their national industry medians.

Credit Suisse came to similar conclusions in its 2014 study, "***Women's Positive Impact on Corporate Performance**."* The financial services firm found "Greater gender diversity in companies' management coincides with improved corporate financial performance and higher stock market valuations."

A 2015 study by professors at The Wharton School and Boston College, ***Passive Investors, Not Passive Owners,*** that found passively managed mutual funds exert influence on firms' governance. The research also found the significant governance changes associated with the funds such as more independent directors, removal of takeover defenses and more equal voting rights improve firms' long-term performance.

A survey in 2000 by the World Bank of 200 institutional investors In the U.S., Europe, Asia and Latin America whose aggregate assets were valued at $3.25 trillion revealed that 75% of the respondents considered corporate governance to be at least as important as financial performance when evaluating assets and 80% said they would pay more for shares of a well-governed company than a poorly-governed company with comparable financials. The good governance factors were: a majority of independent directors; formal evaluations of directors; company responsiveness to requests on governance issues; directors holding significant shares of the company; and a large portion of director compensation being paid in stock.

A 2003 study of 1,600 major U.S. and foreign companies by Governance Metrics International that assessed businesses on 600 criteria (e.g., auditor independence, conflict of interest among top executives, potential share dilution from stock options, board independence, financial disclosure and internal controls) found that over three years, companies with the poorest governance ratings lost an average of 13% a year compared with a loss of 1.8% for all companies. Companies with good governance ratings beat those rated near the bottom for periods of over five and 10 years. The study concluded that superior governance does not necessarily generate superior returns, but inferior governance does evidence inferior returns.

A 2003 study in the Quarterly Journal of Economics, "Corporate Governance and Equity Prices," found that those firms with stronger shareholder rights had higher firm value, higher profits, higher sales growth and lower capital expenditures.

A 2004 Harvard University study found that classified boards are correlated with an economically significant reduction in firm value. The study applied a standard financial economic measure known as Tobin's Q (market value of assets divided by their book value) to more than 1,400 companies accounting for more than 90% of the total capitalization of the U.S. stock market. Having a classified board reduced a company's Tobin's Q value by an average of three to four per cent.

A 2004 study in Financial Analysts Journal found that as the number of outside directors on board and key committees increased, the likelihood of misdeeds decreased, which lends support to the corporate governance activists who argue that a substantial majority of independent outsiders is needed on boards to protect shareholders, not just the simple majority in the listing requirements of the New York Stock Exchange and NASDAQ. The study compared 133 companies accused of fraud from 1978-2001 with another sample of 133 no-fraud companies of similar size and in the same industries.

In 2005, an Institutional Shareholder Services study showed that companies with better corporate governance outperformed poorly-governed companies in return on investment, annual dividend yield, net profit margin and price-to-earnings ratio.

In 2006, Institutional Shareholder Services surveyed more than 300 large investors overseeing $10.5 trillion in assets in 19 countries and found that: 94% of investors view corporate governance as critical to their companies; 63% think corporate governance will become even more critical over the next three years; 67% believe that corporate governance offers value; and 58% think that corporate governance enhances investment returns.

A 2007 study by Governance Metrics that graded the S&P 500 companies on more than 400 corporate governance variables as well as their stock performance from July 1, 2003 through June 30, 2006, found that those companies that were graded above average on corporate governance outperformed the S&P 500 in total shareholder return (13.46% to 11.32%) and those companies with below average corporate governance ratings underperformed the S&P 500 (10.53% to 11.32%).

A 2007 study by Wilshire Consulting for the California Public Employees' Retirement System (CalPERS) showed that of the 128 poorly performing focus list companies CalPERS engaged from 1987-2005 to improve their corporate governance: the companies underperformed their respective benchmarks by 86.7% for the five years preceding CalPERS activism; the companies outperformed their respective benchmarks by 12.2% for the subsequent five-year period.

In 2007, Institutional Shareholder Services attributed shareholder activism with creating $3.3 billion in additional value for Caremark shareholders by forcing CVS to restructure its acquisition of Caremark.

Each proxy will be reviewed on a case-by-case basis with final decisions based on the merits of each case. In reviewing the proxy issues, we will use the following Issue Guidelines for each of the categories of issues listed below. If any conflicts of interest should arise, SMA will resolve them pursuant to the steps prescribed in the Administrative Procedures section below.

ISSUE GUIDELINES

ELECTION OF DIRECTORS

The members of the boards of directors are elected by shareholders to represent the shareholders' interests. This representation is most likely to occur if two-thirds of the members are independent outsiders as opposed to insider directors (such as long-tenured directors of more than 10 years, senior management employees, former employees, relatives of management or contractors with the company). If two-thirds of the board is not represented by independent outsiders, a vote will usually be cast to withhold authority on the inside directors.

Other factors that will be considered when reviewing candidates will be the diversity of board nominees in terms of race, gender, experience and expertise (members of the nominating and governance committee of board of directors with fewer than two women will be held accountable); the number of corporate boards on which they already serve (CEOs should serve on no more than one other corporate boards, while non-CEO directors with fulltime jobs should serve on no more than three other boards and no individual should serve on more than five other boards); whether they have pledged a substantial amount of company stock; their performance on committees and other boards; the company's short-term and long-term financial performance under the incumbent candidates; the company's responsiveness to shareholder concerns (particularly the responsiveness to shareholder proposals that were approved by a majority of shareholders in the past 12 months) and other important corporate constituents; the overall conduct of the company (e.g., excessive executive compensation, adopting anti-takeover provisions without shareholder approval); and not attending at least 75% of Board and Committee meetings unless there is a valid excuse.

Recently, more emphasis has been placed on the independence of key Board committees—audit, compensation and nominating committees. It is in the best interests of shareholders for only independent directors to serve on these committees. Votes will be withheld from any insider nominee who serves on these committees. Votes will also be cast against board chairs concurrently serving as CEOs. An independent chairman helps avoid any conflicts of interest in the board's role of overseeing management.

In contested elections of directors, the competing slates will be evaluated upon the personal qualifications of the candidates, the quality of the strategic plan they advance to enhance long-term corporate value, management's historical track record, the background to the proxy contest, and the equity ownership positions of individual directors.

RATIFICATION OF AUDITORS

The ratification of auditors used to be universally considered a routine proposal, but a disturbing series of audit scandals at publicly-traded companies and SEC-mandated disclosures that revealed auditors were being paid much more for "other" work at companies in addition to their "audit" work have demonstrated that the ratification of auditors needs to be scrutinized as much as the election of directors.

Although the Sarbanes-Oxley Act of 2002 attempted to address the issue of auditor conflicts of interest, it still allows auditors to do substantial "other" work (primarily in the area of taxes) for companies that they audit. Therefore, SMA will weigh the amount of the non-audit work and if it is so substantial as to give rise to a conflict of interest, it will vote against the ratification of auditors. Concern will be raised if the non-audit work is more than 20% of the total fees paid to the auditors. Other factors to weigh will be if the auditors provide tax avoidance strategies, the reasons for any change in prior auditors by the company, and if the same firm has audited the company for more than seven years.

ROUTINE PROPOSALS

Routine proposals are most commonly defined as those which do not change the structure, by laws, or operation of the company to the detriment of the shareholders. Traditionally, these issues include:

- Indemnification provisions for directors;
- Liability limitations of directors;
- Stock splits/reverse stock splits; and
- Name changes.

Given the routine nature of these proposals, proxies will usually be voted with management. However, each will be examined carefully. For example, limitations on directors' liability will be analyzed to ensure that the provisions conform with the law and do not affect their liability for such actions as the receipts of improper personal benefits or the breach of their duty of loyalty. The analysis of a proposal to limit directors' liability would also take into consideration whether any litigation is pending against current board members.

NON-ROUTINE PROPOSALS

Issues in this category are more likely to affect the structure and operation of the company and, therefore will have a greater impact on the value of a shareholder's investment. We will review each issue in this category on case-by case basis.

As previously stated, voting decisions will be made based on the financial interest of the plan beneficiaries. Non-routine matters include.

Mergers/Acquisitions and Restructuring (See also Reincorporating/ Inversions)
Our analysis will focus on the strategic justifications for the transaction and the fairness of any costs incurred.

Advisory Votes on Compensation Policies and Practices
To evaluate compensation policies and practices, the threshold query is "does a company's compensation reflects its performance"? This will be determined by how a company has performed for shareholders compared to its peer group as well as by how a company has compensated its executives compared to its peer group. Whether restricted stock awards are time vesting or performance vesting will also be taken into consideration. Additional queries will be made to determine the level of dilution in stock compensation plans, and to ascertain if golden parachutes have been awarded to executives and, if they have, whether they pay tax gross-ups. The ratio of pay to the CEO as compared to the average worker will also be taken into consideration. The threshold query will carry the most weight, but the additional queries can be persuasive in the event the answer to the threshold query is not clear cut. There will also be an option as to whether the company should have these advisory votes on compensation on an annual basis or every two or three years. An annual basis is in the best interests of shareholders.

Advisory Votes on Severance Packages In Connection with Mergers/Acquisitions
The factors to weigh are whether the total payment is in excess of 2.99 times salary and bonus, whether excise taxes are grossed-up, if there is a double trigger for cash payments and whether the accelerated vesting of stock awards is excessive.

Fair-Price Provisions
These attempts to guard against two-tiered tender offers in which some shareholders receive less value for their stock than other shareholders from a bidder who seeks to take a controlling interest in the company. There can be an impact on the long-term value of holdings in the event shareholders do not tender. Such provisions must be analyzed on a case-by-case basis.

Reincorporating/Inversions
A company usually changes the state or country of its incorporation to take advantage of tax and corporate laws in the new state or country. These advantages should be clear and convincing and be supported by specific, legitimate business justifications that will enhance the company's long-term value to shareholders and will be weighed along with any loss in

shareholder rights and protections (e.g., dilution of management accountability and liability, anti-takeover devices), reputational risk, damage to governmental relationships, adverse impact on the company's employees and erosion of the local/state/Federal tax base.

Changes in Capitalization
Our inquiry will study whether the change is necessary and beneficial in long run to shareholders. Creation of blank check preferred stock, which gives the board broad powers to establish voting, dividend and other rights without shareholder review, will be opposed.

Increase in Preferred and Common Stock
Such increases can cause significant dilution to current shareholder equity and can be used to deter acquisitions that would be beneficial to shareholders. We will determine if any such increases have a specific, justified purpose and if the amounts of the increase are excessive.

Stock/Executive Compensation Plans
The purpose of such plans should be to reward employees or directors for superior performance in carrying out their responsibilities and to encourage the same performance in the future. Consequently, the plan should specify that awards are based on the executive's/director's and the company's performance. In the case of directors, their attendance at meetings should also be a requirement. In evaluating such plans, we will also consider whether the amount of the shares cause significant dilution (5% or more) to current shareholder equity, how broad-based and concentrated the grant rates are, if there are holding periods, if the shares are sold at less than fair market value, if the plan contains change-in-control provisions that deter acquisitions, if the plan has a reload feature, and if the plan allow the repricing of "underwater" options.

Employee Stock Purchase Plans
These are broad-based plans, federally regulated plans which allow almost all fulltime and some part-time workers to purchase limited amounts of company stock at a slight discount. Usually the amount of dilution is extremely small. They will normally be supported because they do give workers an equity interest in the company and better align their interests with shareholders.

Creation of Tracking Stock
Tracking stock is designed to reflect the performance of a particular business segment. The problem with tracking stocks is they can create substantial conflicts of interest between shareholders, board members and management. Such proposals must be carefully scrutinized and they should be supported only if a company makes a compelling justification for them.

Approving Other Business
Some companies seek shareholder approval of management being given broad authority to take action at a meeting without shareholder consent. Such proposals are not in the best interests of shareholders and will be opposed.

CORPORATE GOVERNANCE PROPOSALS

We will generally vote against any management proposal that is designed to limit shareholder democracy and has the effect of restricting the ability of shareholders to realize the value of their investment. Proposals in this category would include the following.

Golden Parachutes
These are special severance agreements that take effect after an executive is terminated following a merger or takeover. In evaluating such proposals, we will consider the salaries, bonuses, stock option plans and other forms of compensation already available to these executives to determine if the additional compensation in the golden parachutes is excessive. Shareholder proposals requesting that they be approved by shareholders will be supported.

Greenmail Payments
Greenmail is when a company agrees to buy back a corporate raider's shares at a premium in exchange for an agreement by the raider to cease takeover activity. Such payments can have a negative impact on shareholder value. Given that impact, we will want there to be a shareholder vote to approve such payments and we will insist that there be solid economic justification before ever granting such approval.

Super Majority Voting
Some companies want a super majority (e.g., 66%) vote for certain issues. We believe a simple majority is generally in the best interest of shareholders and we will normally vote that way unless there is strong evidence to the contrary.

Dual Class Voting
Some companies create two classes of stock with different voting rights and dividend preferences. We will examine the purpose that is being used to justify the two classes as well as to whom the preferred class of stock is being offered. Proposals that are designed to entrench company management or a small group of shareholders at the expense of the majority of shareholders will not be supported. Proposals that seek to enhance the voting rights of long-term shareholders will be given careful consideration.

Fair Price Proposals
These require a bidder in a takeover situation to pay a defined "fair price" for stock. Our analysis will focus on how fairly "fair price" is defined and what other anti-takeover measures are already in place at the company that might discourage potential bids that would be beneficial in the long term to shareholders.

Classified Boards
These are boards where the members are elected for staggered terms. The most common method is to elect one-third of the board each year for three-year terms. We believe the accountability afforded by the annual election of the entire board is very beneficial to

stockholders and it would take an extraordinary set of circumstance to develop for us to support classified boards.

Shareholders' Right To Call Special Meetings and Act By Written Consent
These are important rights for shareholders and any attempts to limit or eliminate them should be resisted. Proposals to restore them should be supported.

SHAREHOLDER PROPOSALS

Proposals submitted by shareholders for vote usually include issues of corporate governance and other non-routine matters. We will review each issue on a case-by-case basis to determine the position that best represents the financial interest of the Treasurer's Office. Shareholders matters include the following.

Board Diversity
Research demonstrates that a board comprised of diverse directors is better equipped to ensure multiple perspectives are considered and better positioned enhance long-term company performance within a marketplace defined by extensive diversity and multiculturalism. Diversity is inclusive of gender, race/ethnicity, skill sets, professional backgrounds, and LGBTQ status. We will support proposals that encourage diverse representation on the board and those that aim to expand the search for diverse candidates, including proposals asking companies to make greater efforts to diversify their boards and proposals to report to shareholders on those efforts and on the process of selecting nominees.

Poison Pill Plans
These plans are designed to discourage takeovers of a company, which can deny shareholders the opportunity to benefit from a change in ownership of the company. Shareholders have responded with proposals to vote on the plans or to redeem them. In reviewing such plans, we check whether the poison pill plans were initially approved by shareholders and what anti-takeover devices are already in place at the company.

Independence of Boards and Auditors
The wave of corporate/audit scandals at the start of the 21st Century provided compelling evidence that it is in the best interests of shareholders to support proposal seeking increased independence of boards (e.g., requiring supermajority of independents on boards, completely independent nominating, compensation and audit committees, stricter definitions of "independence", disclosures of conflicts of interest) and auditors (e.g., eliminate or limit "other" services auditors perform, rotation of audit firms). A related issue is the independence of analysts at investment banking firms. Proposals seeking to separate the investment banking business from the sell-side analyst research and IPO allocation process should be supported.

Cumulative Voting

This allows each shareholder to vote equal to the number of shares held multiplied by the number of directors to be elected to the board. Shareholders can then target all their votes for one of a few candidates or allocate them equally among all candidates. It is one of the few ways shareholders can attempt to elect board members. In studying cumulative voting proposals, we will review the company's election procedures and what access shareholders have to the nominating and voting process.

Confidential Voting

Most voting of proxies in corporate America is not confidential. This opens the process to charges that management pressures shareholders or their investment managers to vote in accordance with management's recommendations. We believe the concept of confidential voting is so fundamental to the democratic process and is so much in the best interest of shareholders that we would oppose it only in the most extraordinary circumstances.

Shareholder Access to the Proxy For Director Nominations

Proposals to provide shareholders access to the company proxy statement to advance non-management board candidates will generally be supported if they are reasonably designed to enhance the ability of substantial shareholders to nominate directors and are not being used to promote hostile takeovers.

Separate Chairperson and Chief Executive Officer

The primary purpose of the board of directors is to protect shareholder interests by providing independent oversight of management. If the Chair of the Board is also the Chief Executive Officer of the company, the quality of oversight is obviously hindered. Therefore, proposals seeking to require that an independent director serve as Chair of the Board will be supported. An alternative to this proposal would be the establishment of a lead independent director, who would preside at meetings of the board's independent directors and coordinate the activities of the independent directors.

Term Limit For Directors

Proposals seeking to limit the term for directors will normally not be supported because they can deny shareholders the service of well-qualified directors who have effectively represented shareholder interests.

Greater Transparency and Oversight

Shareholders benefit from full disclosure of board practices and procedures, company operating practices and policies, business strategy, and the way companies calculate executive compensation. Proposals seeking greater disclosure on these matters will generally be supported.

Executive/Director Compensation

Proposals seeking to tie executive and director compensation to specific performance standards, to impose reasonable limits on it or to require greater disclosure of it are in the best interests of shareholders. The expense of options should be included in financial statements (as required in Canada). Financial performance is the traditional measurement for executive compensation—the more specific the better. Where executive pay is based on metrics that are improved through share repurchases the impact of repurchases should be neutralized to avoid artificially inflating executive pay. Other performance measures can be a useful supplement to the traditional financial performance measurement and are worthy of consideration. Examples are regulatory compliance, international labor standards, high performance workplace standards and measures of employee satisfaction.

High Performance Workplaces
We will support proposals encouraging the high-performance workplace practices identified in the Department of Labor's report that contribute to a company's productivity and long-term financial performance.

Codes of Conduct
Proposals seeking reports on and/or implementation of such commonly accepted principles of conducts as the Ceres Principles (environment), MacBride Principles (Northern Ireland), Code of Conduct for South Africa, United Nations' International Labor Organization's Fundamental Conventions, fair lending practices and the U.S. Equal Employment Opportunity Commission are in the best interests of shareholders because they provide useful information and promote compliance with the principles.

Pension Choice
There has been a recent trend by companies to convert traditional defined benefit pension plans into cash-balance plans. This has proved controversial because cash-balance plans often hurt older workers and may be motivated by a company's desire to inflate its book profits by boosting surpluses in its pension trust funds. Proposals giving employees a choice between maintaining their defined benefits or converting to a cash-balance will generally be supported.

Say on Pay
Shareholders in the United Kingdom, Australia, Norway, the Netherlands and Sweden have had an advisory vote on companies' compensation reports for several years. Say on Pay proposals will be supported because they give shareholders meaningful input on a company's approach to executive compensation without entangling them with the micromanagement of specific plans**.**

Majority Vote Standard for Director Elections
For years, most boards of directors were elected by a plurality vote standard—nominees who get the most votes win. In a non-contested election (which most are) the only vote options are "for" and "withhold authority." That means a nominee could have only one share cast "for" him/her and still be elected, regardless of how many shareholders withheld their votes for that nominee. Therefore, proposals requesting that nominees in non-contested elections receive a majority of the votes cast will be supported.

MUTUAL FUND PROXIES

MANAGEMENT PROPOSALS FOR MUTUAL FUNDS

Election of Trustees
Generally, vote in favor of the board of trustees unless the board lacks independence, has been unresponsive to investor concerns or has lost investor confidence in their stewardship of the fund.

Ratification of Auditors
A vote generally will be cast in favor of the auditors unless the amount paid for non-audit work is substantial enough to raise concerns about a potential conflict of interest to audit work.

Amend Declaration of Trust
A vote generally will be cast in favor of amendments that are procedural in nature and against amendments that include changes adverse to investor interests.

Approve Reorganization of Funds
A vote generally will be cast in favor of a reorganization of funds to decrease operating expenses. A vote generally will be cast against if a reorganization significantly changes the mandate of a fund to the detriment of the investor's interest.

Converting Closed-end Fund to Open-end Fund
Vote case-by-case on conversion proposals, considering the following factors:

- Measures taken by the board to address the discount;
- Past performance as a closed-end fund;
- Market in which the fund invests; and
- Past shareholder activism, board activity, and votes on related proposals.

Amend Investment Policy
A vote generally will be cast in favor of amendments that are procedural in nature and against amendments that include changes adverse to investor interests upon consideration and evaluation of the specific changes.

Approve Hiring of a New Manager
In the absence of any specific concerns, a vote generally will be cast in favor of proposals seeking to hire a new manager.

Approve a New Sub Advisory Agreement
Vote case-by-case on such proposals taking into consideration the need for efficiencies in manager selection, the firm's capabilities and the rationale for a new agreement.

Vote Upon Such Other Matters as May Properly Come Before the Meeting
A vote generally will be cast against this proposal because it provides approval for undisclosed items.

Approve Change to Fundamental Investment Objective or Policy
A vote generally will be cast against changes to fundamental investment objectives or fundamental investment policy if the changes are not adequately explained or significantly alter the terms of the investment.

Approve a Fund's Service Agreement
A vote generally will be cast in favor of service agreements that are procedural in nature and against service agreements that include changes adverse to investor interests.

Fee Structure
Funds may seek changes to the fee structure through revenue sharing agreements or alternative arrangements, which will only be supported if the changes are unlikely to result in overall increased fees to the investor.

Authorizing the Board to Hire and Terminate Subadvisors Without Shareholder Approval
A vote will be cast against proposals authorizing the board to hire or terminate subadvisors without shareholder approval.

SHAREHOLDER PROPOSALS FOR MUTUAL FUNDS

A vote will be cast in favor of reporting and transparency about issues that may impact a fund's performance or risk profile. Requests for further action by the fund, such as divestment, will be assessed on a case-by-case basis.

Appendix C: 2019 Proxy Voting Statistics

Receive/Approve Report/Announcement	7	12	12	0	0	0	0	0	0	0	12	0
Receive/Approve Special Report	2	2	2	0	0	0	0	0	0	0	2	0
Totals for Routine/Business:	2361	3007	2217	699	30	49	12	0	0	0	2219	776
SH-Compensation												
Adjust Executive Compensation Metrics for Share Buybacks	4	4	4	0	0	0	0	0	0	0	0	4
Advisory Vote to Ratify Named Executive Officers' Compensation	2	2	2	0	0	0	0	0	0	0	0	2
Clawback of Incentive Payments	6	6	6	0	0	0	0	0	0	0	1	5
Company-Specific—Compensation-Related	4	5	2	2	0	1	0	0	0	0	4	1
Increase Disclosure of Executive Compensation	1	1	1	0	0	0	0	0	0	0	0	1
Limit Executive Compensation	8	8	6	2	0	0	0	0	0	0	2	6
Limit/Prohibit Accelerated Vesting of Awards	3	3	3	0	0	0	0	0	0	0	0	3
Link Executive Pay to Social Criteria	11	11	11	0	0	0	0	0	0	0	0	11
Report on Pay Disparity	4	4	4	0	0	0	0	0	0	0	0	4
Stock Retention/Holding Period	2	2	2	0	0	0	0	0	0	0	0	2
Use GAAP for Executive Compensation Metrics	3	3	3	0	0	0	0	0	0	0	0	3
Totals for SH-Compensation:	41	49	44	4	0	1	0	0	0	0	7	42
SH-Corp Governance												
Approve Recapitalization Plan for all Stock to Have One-vote per Share	8	8	8	0	0	0	0	0	0	0	1	7
Company-Specific—Governance-Related	7	12	7	1	0	0	4	0	0	0	4	4
Miscellaneous—Equity Related	2	20	0	20	0	0	0	0	0	0	0	20
Proxy Voting Tabulation	2	2	2	0	0	0	0	0	0	0	0	2
Reduce Supermajority Vote Requirement	22	23	22	0	0	0	1	0	0	0	6	16
Submit Severance Agreement (Change-in-Control) to Shareholder Vote	1	1	1	0	0	0	0	0	0	0	0	1
Submit Shareholder Rights Plan (Poison Pill) to Shareholder Vote	1	2	1	0	0	0	1	0	0	0	1	0
Totals for SH-Corp Governance:	40	68	41	21	0	0	6	0	0	0	12	50
SH-Dirs' Related												
Adopt Proxy Access Right	5	5	5	0	0	0	0	0	0	0	1	4
Amend Articles Board-Related	1	1	0	1	0	0	0	0	0	0	1	0
Amend Articles/Bylaws/Charter—Call Special Meetings	25	25	25	0	0	0	0	0	0	0	0	25
Amend Proxy Access Right	22	22	22	0	0	0	0	0	0	0	0	22
Amend Vote Requirements to Amend Articles/Bylaws/Charter	1	1	1	0	0	0	0	0	0	0	0	1
Appoint Alternate Internal Statutory Auditor(s) [and Approve Auditor's/Auditors' Remuneration]	5	6	3	1	2	0	0	0	0	0	3	3
Board Diversity	12	12	7	5	0	0	0	0	0	0	6	6
Change Size of Board of Directors	2	2	0	0	2	0	0	0	0	0	2	0
Company-Specific Board-Related	7	9	8	1	0	0	0	0	0	0	3	6
Declassify the Board of Directors	6	9	6	0	0	0	3	0	0	0	2	4
Elect Director (Cumulative Voting or More Nominees Than Board Seats)	2	13	5	8	0	0	0	0	0	0	5	8
Elect Director (Dissident)	14	87	36	4	0	5	42	0	0	0	40	5
Elect Supervisory Board Members (Bundled)	1	1	0	1	0	0	0	0	0	0	1	0
Elect a Shareholder-Nominee to the Board (Proxy Access Nominee)	3	3	1	0	1	1	0	0	0	0	3	0
Establish Environmental/Social Issue Board Committee	5	5	5	0	0	0	0	0	0	0	0	5

Establish Other Governance Board Committee	3	3	0	3	0	0	0	0	0	0	3	0
Establish Term Limits for Directors	1	1	0	1	0	0	0	0	0	0	1	0
Provide Right to Act by Written Consent	36	36	36	0	0	0	0	0	0	0	0	36
Removal of Existing Board Directors	5	12	1	5	2	0	4	0	0	0	7	1
Require Environmental/Social Issue Qualifications for Director Nominees	1	1	0	1	0	0	0	0	0	0	1	0
Require a Majority Vote for the Election of Directors	17	19	17	0	0	0	2	0	0	0	7	10
Restore or Provide for Cumulative Voting	3	3	3	0	0	0	0	0	0	0	0	3
Totals for SH-Dirs' Related:	152	276	181	31	7	6	51	0	0	0	86	139
SH-Gen Econ Issues												
Employ Financial Advisor to Explore Alternatives to Maximize Value	1	1	0	1	0	0	0	0	0	0	1	0
Seek Sale of Company/Assets	1	1	1	0	0	0	0	0	0	0	0	1
Totals for SH-Gen Econ Issues:	2	2	1	1	0	0	0	0	0	0	1	1
SH-Health/Environment												
Climate Change Action	2	3	1	2	0	0	0	0	0	0	2	1
Community-Environment Impact	9	9	9	0	0	0	0	0	0	0	0	9
GHG Emissions	10	10	10	0	0	0	0	0	0	0	0	10
Operations in Protected Areas	1	1	0	1	0	0	0	0	0	0	1	0
Prepare Report on Health Care Reform	1	1	1	0	0	0	0	0	0	0	0	1
Product Toxicity and Safety	5	5	5	0	0	0	0	0	0	0	0	5
Recycling	4	4	4	0	0	0	0	0	0	0	0	4
Renewable Energy	1	1	0	1	0	0	0	0	0	0	1	0
Report on Climate Change	3	3	3	0	0	0	0	0	0	0	1	2
Report on Sustainability	1	1	1	0	0	0	0	0	0	0	0	1
Totals for SH-Health/Environ.:	30	38	34	4	0	0	0	0	0	0	5	33
SH-Other/misc.												
Animal Welfare	1	1	1	0	0	0	0	0	0	0	0	1
Company-Specific—Shareholder Miscellaneous	1	1	0	1	0	0	0	0	0	0	1	0
Gender Pay Gap	15	15	15	0	0	0	0	0	0	0	0	15
Political Contributions Disclosure	38	38	37	1	0	0	0	0	0	0	1	37
Political Lobbying Disclosure	25	25	25	0	0	0	0	0	0	0	1	24
Report on EEO	8	8	7	1	0	0	0	0	0	0	1	7
Totals for SH-Other/misc.:	80	88	85	3	0	0	0	0	0	0	4	84
SH-Routine/Business												
Amend Articles/Bylaws/Charter—Non-Routine	4	5	4	0	0	0	1	0	0	0	1	3
Approve Allocation of Income/Distribution Policy	2	2	1	1	0	0	0	0	0	0	2	0
Company-Specific—Miscellaneous	9	42	2	3	37	0	0	0	0	0	6	36
Establish Shareholder Advisory Committee	1	1	0	0	0	1	0	0	0	0	1	0
Require Independent Board Chairman	61	62	61	0	0	0	1	0	0	0	0	61
Totals for SH-Routine/Business:	75	112	68	4	37	1	2	0	0	0	10	100
SH-Soc./Human Rights												
Human Rights Risk Assessment	11	11	11	0	0	0	0	0	0	0	0	11
Improve Human Rights Standards or Policies	4	4	4	0	0	0	0	0	0	0	1	3
Operations in Hgh Risk Countries	1	1	1	0	0	0	0	0	0	0	0	1
Totals for SH-Soc./Human Rights:	16	16	16	0	0	0	0	0	0	0	1	15
Social Proposal												
Miscellaneous Proposal—Environmental & Social	21	27	22	5	0	0	0	0	0	0	5	22
Totals for Social Proposal:	21	27	22	5	0	0	0	0	0	0	5	22
Totals for the report:	**2815**	**25714**	**18056**	**4342**	**281**	**2678**	**134**	**223**	**0**	**0**	**17898**	**7682**