APRIL 2021

2020 CORPORATE GOVERNANCE STEWARDSHIP REPORT

NEW YORK STATE COMMON RETIREMENT FUND

Protecting Long-Term Value
in Unprecedented Times

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

Message from the Comptroller

April 2021

2020 was an unprecedented year for the New York State Common Retirement Fund (Fund), as well as for society as a whole and the entire global economy. The COVID-19 pandemic and the fight for social justice, along with existing challenges such as climate change, vividly illustrated the substantial effect that environmental, social, and governance (ESG) factors have on companies and the economy. These events have accelerated and amplified pre-existing ESG trends, exposing companies to risks and opportunities that have long been a focus of the Fund and other investors. As a result, we have strengthened the Fund's commitment to integrating ESG factors into its investment process to help protect the Fund's long-term value and sustainability.

The New York State Common Retirement Fund is the third largest public pension fund in the United States, with an estimated $247.7 billion in assets (as of December 31, 2020). The Fund holds and invests the assets of the New York State and Local Retirement System on behalf of more than one million State and local government employees, retirees and beneficiaries. The Fund has consistently been ranked as one of the best-managed and best-funded plans in the nation.

I am pleased to share our 2020 Corporate Governance Stewardship Report, which highlights the Fund's work in integrating ESG factors into its stewardship program, along with major initiatives and achievements. As Trustee of the Fund, I have a responsibility to safeguard its investments. Accordingly, the Fund's Bureau of Corporate Governance provides active stewardship of the Fund's public equity holdings.

Our stewardship program encourages the companies in which the Fund invests to operate according to sound management principles that have been shown to promote long-term financial success — including incorporating ESG considerations into their business strategies. Our engagement takes many forms, ranging from voting on nearly 30,000 proxy measures annually, to filing shareholder resolutions, writing letters as specific issues arise, and discussing important ESG issues directly with corporate directors and management.

In 2020, we focused on communicating with our portfolio companies regarding their response to the COVID-19 pandemic, including issues related to workforce safety and business continuity. The murder of George Floyd and the public outcry over the killings of other Black men and women in 2020 required the Fund to intensify its efforts to ensure companies recognize the importance of diversity and inclusion. Throughout the year, the Fund asked companies how they are addressing potential and actual inequalities, including equity in opportunity, pay, and benefits for all employees and stakeholders. And importantly, we built upon our internationally recognized work addressing climate change-related investment risk at our portfolio companies with the announcement of our goal to transition the Fund's portfolio to net zero greenhouse gas emissions by 2040.

While 2020 presented unprecedented challenges, the Fund remains dedicated to protecting its investments, which enable the Fund to meet its current and long-term obligations to our members, retirees and beneficiaries. In 2021, we look forward to expanding our efforts to encourage our portfolio companies to adopt policies that allow them to emerge from the crisis stronger and in better position to enhance long-term value.

Thomas P. DiNapoli
State Comptroller

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Investment Philosophy & ESG Strategy

THE PRIMARY MISSION of the New York State Common Retirement Fund's Corporate Governance Program is to mitigate risks and identify opportunities to enhance the long-term value of the investments made on behalf of the 1.1 million members and pensioners who rely on the New York State and Local Retirement System for their pensions.

The Corporate Governance Program supports and facilitates the integration of environmental, social and governance (ESG) factors in the Fund's due diligence process, investment decisions, and performance monitoring program, and provides active stewardship of the Fund's public equity holdings. The Fund believes that the actions of the Program enhance the long-term value of its investments.

New York State Common Retirement Fund's
ESG Investment Philosophy

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

The Fund is committed to actively communicating its ESG priorities and expectations to the market and the general public in an accountable and transparent manner. This report describes the Program's key initiatives for the Fund's public equity holdings, which make up approximately 55 percent of the total portfolio, along with discussing the outcomes of these efforts.

ESG Strategy & Beliefs

A thriving economy, efficient markets and the adoption of best practices with respect to ESG issues by portfolio companies can help ensure the long-term value of the Fund's investments. The Fund has long recognized that ESG factors can have a profound impact on both risks and returns, and that it is vital to evaluate the long-term impact that such factors may have on the performance of the Fund's investments.

The Corporate Governance Program focuses on key ESG factors, which the Fund believes pose material risks and create opportunities for its portfolio companies. These factors include:

- **ENVIRONMENTAL:** climate risks and opportunities; natural resource and raw material usage; and pollution and waste management.

- **Social:** human capital management; labor relations; human rights; health and safety; diversity, equity and inclusion; supply chain labor standards; privacy and data security; product safety and quality; and community impact.
- **Governance:** risk oversight; board governance practices; director qualifications and diversity; corporate strategy and capital allocation; executive compensation; and lobbying and political spending.

New York State Common Retirement Fund's
ESG Strategy

To learn more about how ESG factors are integrated into the investment process, please read the Fund's ESG Strategy.

Public Equity Portfolio Companies – Principles and Practices

As a long-term owner that invests across all sectors of the economy, the Fund works to promote sound ESG practices at the companies in its public equity portfolio through active ownership. At the center of the Fund's ESG investment philosophy is the belief that high-performing, diverse boards of directors, good governance, and prudent management of environmental and social factors provide the foundation for sustainable long-term company success.

Underlying all of the Fund's engagement activities is a commitment to **active ownership**: using the Fund's voice and votes to mitigate risks can support the long-term success of its portfolio investments. The Fund's public company engagement activities take various forms, including proxy voting, shareholder proposals, written correspondence, investor statements, press strategies and direct dialogue. These efforts have resulted in many important company actions, commitments and disclosures, which can enhance and protect the long-term value of the Fund's investments.

In 2020, the Fund conducted 1,774 engagements with public portfolio companies.

Proxy voting at company meetings is an effective means of engaging and communicating with boards of directors and management about the Fund's ESG priorities, and can be a powerful tool for enhancing long-term value. The Fund's independent proxy voting is an important fiduciary obligation.

In 2020, the Fund voted on 28,727 ballot items at 3,219 portfolio company meetings.

Shareholder proposals are another powerful engagement tool, providing an opportunity to bring specific issues to the attention of a company's board and management as well as fellow investors. When filing a shareholder proposal, the Fund seeks a productive dialogue with the company. If the company agrees to implement the proposal's request, it is withdrawn by the Fund.

In 2020, the Fund filed 29 shareholder proposals, resulting in 11 agreements to implement the proposals' requests and in record votes on several other proposals, including one majority vote and votes of more than 25 percent of shareholders on proposals at nine companies.

Public policy and advocacy is another focus of the Corporate Governance Program's strategy, employed when it may improve the long-term value of the Fund's investments. The Fund regularly supports policies and practices that promote the overall stability, transparency and functionality of financial markets and the economy.

The Fund's public policy activities take many forms, including meetings and correspondence with elected representatives, regulators and other public officials, testimony at hearings and forums, comments on regulatory and legislative proposals, and participation in State, national, and international forums and initiatives.

The Fund's responsible engagement efforts, undertaken in collaboration with many like-minded investor associations, coalitions and organizations to amplify its voice, have resulted in its recognition by the institutional investor community as a leader on key ESG issues.

ESG Expectations for Public Equity Portfolio Companies

The Fund expects companies in its public equities portfolio to identify ESG-related risks and opportunities, and to integrate ESG considerations into their long-term business strategies. The Fund looks to companies' boards of directors to provide leadership and oversight of the management of ESG issues, policies and strategy. Additionally, companies should have strong internal leaders and support from senior management to drive ESG performance improvements.

The Fund also expects companies to disclose their approach to addressing ESG risks and opportunities. For example, how they determine ESG materiality and apply ESG-related data using widely accepted frameworks such as those established by the Sustainable Accounting Standards Board (SASB) and the Task Force on Climate-Related Financial Disclosures (TCFD). Program initiatives include encouraging companies to communicate their ESG efforts in mainstream financial filings, and to release a yearly ESG-related report (Corporate Sustainability Report) that includes, among other things, information about the company's efforts to address ESG risk and opportunities and decision-useful data that is comparable over multiple years.

The Fund expects all its portfolio companies to engage regularly with shareholders on ESG-related issues and to respect all shareholders' rights.

2020 Stewardship Priorities

In implementing the Fund's ESG Strategy, the Corporate Governance Program determines specific priority areas each year. The Fund then uses its various active ownership strategies to engage with companies in addressing those issues.

In 2020, the Corporate Governance Program's priority issue areas were:

- **Environmental:** Low-carbon transition readiness; reporting aligned with the Task Force on Climate-Related Financial Disclosures (TCFD); greenhouse gas emissions reductions; energy efficiency and renewable energy; water quality and usage; and sustainability reporting.
- **Social:** COVID-19 pandemic response; diversity, equity, and inclusion; human capital management; labor relations; workforce health and safety; and community impact.
- **Governance:** board diversity: capital structure and governance practices; sustainable executive compensation practices; and lobbying and political spending.

The Fund's approach to these issues is discussed in greater detail within this report.

ESG in 2020 and Beyond

The COVID-19 pandemic, and other significant events such as the murder of George Floyd and the national racial equity movement sparked by that tragedy, have had a significant impact on our society and the economy, illustrating the enormous effect ESG issues can have on portfolio companies. These events have accelerated and amplified pre-existing ESG trends, exposing many companies and investment managers to risks and opportunities that the Fund and other investors have urged them to consider.

The Fund believes that now is the time for companies to make meaningful changes. Reacting to recent events is not sufficient; the moment requires that boards and management work together to deliberately and fundamentally improve their companies' ESG policies and performance to ensure that they come out of this crisis stronger and in a better position to enhance long-term value.

The Fund has highlighted four key themes that have risen to the forefront of the ESG agenda in 2020 and will drive the Fund's work in 2021: **responsible capital allocation; human capital and labor management; inequality and its economic impact; and sustainable recovery.**

ESG Approach Beyond 2020

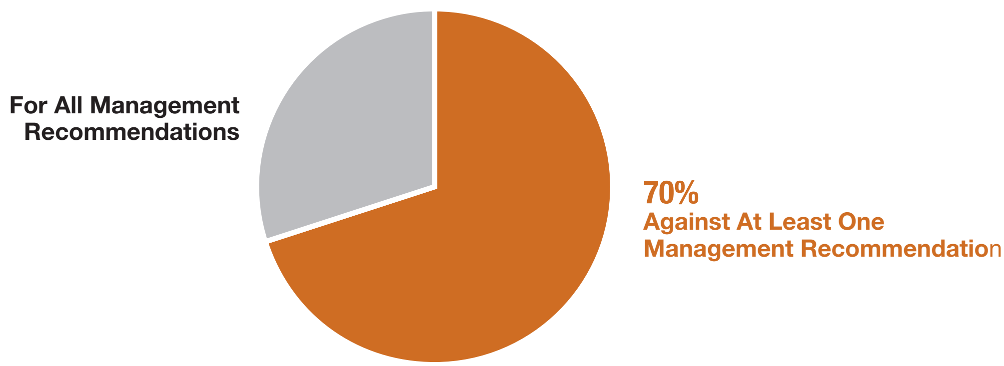
By approaching engagement more strategically and systemically, the Fund believes it can drive improved ESG performance at underperforming companies. This goal can be accomplished through improved ESG evaluations, and the development of minimum standards and methodologies for measuring performance with respect to the Fund's four key ESG themes.

Stewardship: By the Numbers

Holding Portfolio Companies Accountable

- **6,009** votes to **WITHHOLD** support or vote **AGAINST** individual directors.
- **1,911** votes **AGAINST** at least one director at portfolio companies.
- **794** votes **AGAINST** management on executive pay.
- **2,730** votes **AGAINST** director nominees for a lack of board diversity.

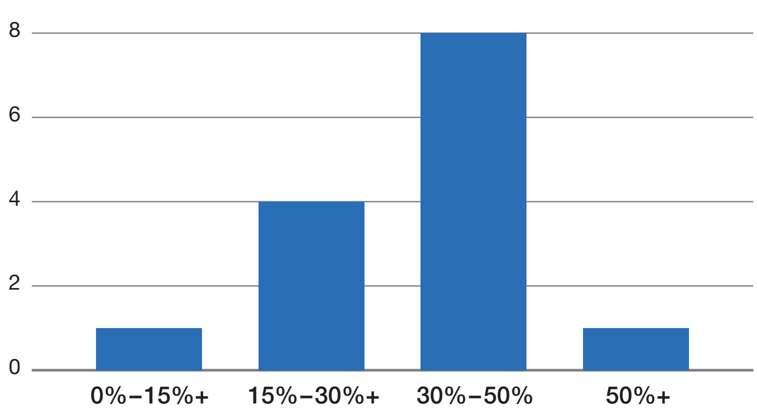
Percentage of Meetings Where the Fund Voted AGAINST Management Recommendations



Actively Engaging With Portfolio Companies

- **1,774** total engagements.
- **1,200** letters sent to portfolio companies on ESG issues.
- **29** shareholder proposals filed.
- **11** agreements with companies to implement the Fund's shareholder proposals.

Shareholder Support for Fund's Proposals that Went to Vote



2020 Proxy Voting

BY THE NUMBERS…

- **28,727** ballot items voted on at 3,219 meetings.
- **27** percent of votes cast **AGAINST** management recommendations.
- **31** percent of director nominee votes cast to **WITHHOLD** support.
- **32** percent of advisory say-on-pay votes cast to **WITHHOLD** support from management compensation plans.
- **85** percent of votes cast in **FAVOR** of shareholder proposals.

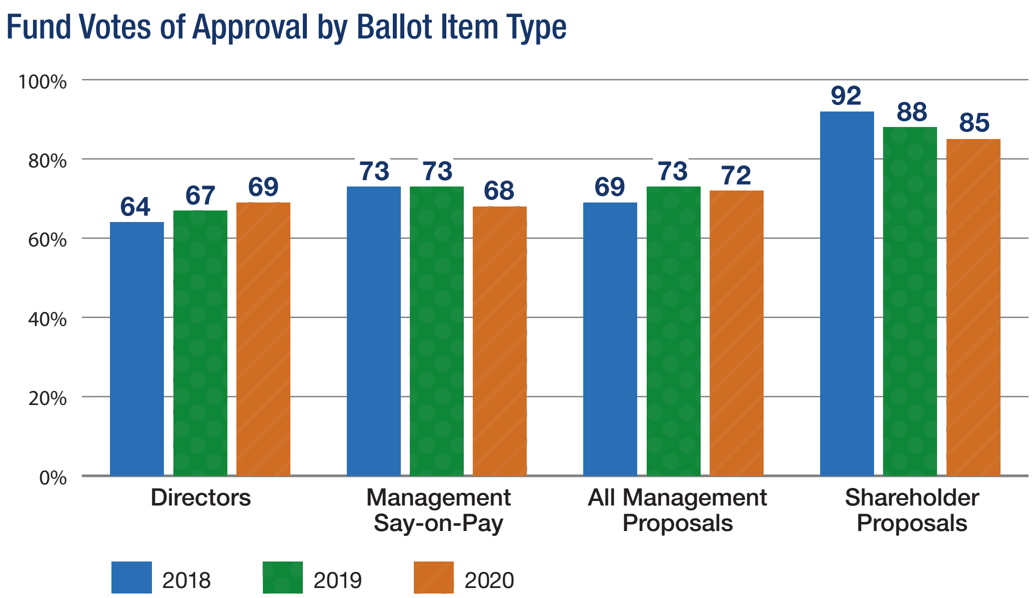
The Fund votes by proxy on all director nominees and proposals presented at annual meetings and special meetings for each of the domestic companies in the Fund's public equity portfolio, as well as those of selected non-U.S. companies. In the 2020 Proxy Season (calendar year 2020), the Fund cast 28,727 votes on ballot items at 3,219 company meetings. Details of the Fund's 2020 Proxy Voting can be found at osc.state.ny.us/common-retirement-fund/corporate-governance.

> The Fund believes proxy voting at company meetings is an effective means of engaging and communicating with boards of directors and management about the Fund's ESG priorities, and can be a powerful tool for enhancing long-term value.

The Fund makes all proxy voting decisions independently, based on the standards in its Environmental, Social & Governance Principles and Proxy Voting Guidelines (Guidelines). These describe in detail the Fund's governance expectations for public companies and establish principled recommendations for voting on a broad range of issues. In addition to the Guidelines, the Fund analyzes a variety of materials from publicly available sources, including but not limited to U.S. Securities and Exchange Commission (SEC) filings, analyst reports, relevant studies and materials from proponents and opponents of shareholder proposals, third-party independent perspectives and studies, and analyses from several corporate governance and ESG service providers.

In 2020, the Comptroller adopted updated Guidelines for the 2020 proxy season. These Guidelines are updated regularly to address new market issues, refine positions based on current research, and reflect evolving ESG best practices. The 2020 changes to the Fund's Guidelines included provisions reflecting the Fund's latest views on climate risk, various social and governance issues, and sustainable executive compensation practices.

Fund Proxy Voting Trends 2018–2020



Proxy Voting	2018	2019	2020
Number of Company Meetings	3,025	3,273	3,219
Management Proposals Voted	26,035	27,795	28,190
Shareholder Proposals Voted	485	527	537
Total Votes Cast	**26,520**	**28,322**	**28,727**

Director Voting

Voting on director nominees is a key tool that provides the most direct means for shareholders to hold companies accountable. The Fund believes its interests are best served by directors who demonstrate a commitment to sustainable long-term performance and responsible corporate governance.

- The Fund withheld support from 31 percent of management board of director nominees, compared to 32 percent in 2019 and 36 percent in 2018. The decrease since 2018 was primarily due to the Fund's voting policies, which strongly support increased board diversity and have been successful in encouraging companies to add diverse board directors.

The Fund most frequently withheld support for directors because of the following issues:

- Lack of board diversity, including gender, race, and/or ethnicity;
- Ongoing compensation concerns and poor pay-for-performance policies;

- Insufficient board and committee independence;
- Overboarded directors (i.e., directors who sit on too many different boards to fulfill their duties effectively); and
- Governance concerns following an initial public offering (IPO), such as the institution of supermajority vote requirements for bylaw or charter amendments, and classified board structures that could insulate management from accountability to shareholders.

Additionally, the Fund regularly monitors risk management practices at portfolio companies. When a company's board fails to appropriately manage material risks, the Fund will withhold support from directors. The following table details examples of where the Fund voted against management's director nominees in 2020.

Selected Examples Where the Fund Withheld Support from Management in 2020

Company Name	Concern	Fund Vote
ExxonMobil Corporation	Failure to adequately address significant shareholder concerns and properly account for climate risk in its operations	Withheld support from all board directors
Tesla Inc.	Ongoing compensation and ESG concerns	Withheld support from Board Chair and Chief Executive Officer
The Boeing Co.	Failure to exercise sufficient oversight of management strategy and corporate culture	Withheld support from all incumbent directors
The Walt Disney Company	Ongoing compensation concerns, including a CEO-to-median-employee pay ratio of 911:1	Withheld support from the Board Chair, Lead Director, and incumbent compensation committee members
Walmart Inc.	Failure to manage various ESG controversies	Withheld support from all incumbent members of the nominating and governance committee
ViacomCBS Inc.	Failure to manage material social and governance issues at the company	Withheld support from Board Chair and Audit Committee Chair

Board Diversity Voting Guidelines

In 2020, the Fund updated its Guidelines to strengthen voting policies regarding boards that are not sufficiently diverse, including consideration of age, race, gender, ethnicity, sexual orientation and gender identity, geography and disability. The Fund has long regarded board diversity as a critical measure of sound corporate governance and important to the long-term success of its portfolio companies, and has a multi-year history of voting against boards that lack gender diversity.

In accordance with the updated Guidelines, the Fund withheld support from 227 incumbent directors at 55 companies that did not have a racially and/or ethnically diverse board director.

Faced with limited data (companies are not required to disclose the self-identified race and ethnicity of directors), the Fund identified a universe of companies for further research based on three criteria: available diversity data; negative total shareholder return (TSR), indicating poor financial performance; and lagging human capital management performance (include diversity and inclusion practices).

While the Fund and other market participants have long advocated for standardized disclosure relating to the self-identified race and ethnicity of board candidates, the Fund believes there is renewed momentum for improving company disclosure. Due to initiatives spearheaded by investors and corporate governance organizations, disclosure of board diversity should greatly improve in the coming years. As a result, the Fund anticipates an expansion of its voting against directors at companies that lack racially and/or ethnically diverse boards.

While enhancing its board diversity policy, the Fund also continued to implement its gender board diversity voting guidelines, which were initially adopted in 2018. The Fund's Guidelines entail withholding support for:

- Incumbent directors of public companies with no women on their boards; and
- Incumbent nominating committee members when the board lacks appropriate skills and attributes, including when there is only one woman on the board.

In 2020, the Fund withheld support from 879 incumbent directors at 193 public companies with no women on their boards. The Fund also withheld support from 1,574 incumbent nominating committee members at 673 public companies that had only one woman on their boards.

Because the Fund recognizes that diversity can have an important impact on companies' long-term success and, in turn, on the Fund's investments, the Fund will continue to withhold support from incumbent directors at these companies until they add women members to their boards.

COVID-19 Impacts: Shareholder Rights Plans and Virtual-Only Shareholder Meetings

As companies were grappling with the unprecedented challenges resulting from the COVID-19 pandemic, many adopted shareholder rights plans ("poison pills") as a means to avoid corporate takeovers. Poison pills can reduce management accountability by substantially limiting opportunities for corporate takeovers. Because the Fund believes poison pills can have a significant economic impact on shareholder value, shareholders should be allowed to review and vote on any proposed rights plan. The Fund will withhold support from directors who have approved a poison pill without seeking prior shareholder approval—an action it took in 2020 when it withheld support from directors at the Williams Companies Inc., HP Inc., and Six Flags Inc.

Another impact of the pandemic included companies holding virtual-only annual shareholder meetings (with no gathering of shareholders in person). The Fund believes that, as a general matter, virtual-only meetings weaken shareholder rights, and as a result, will vote to withhold support for members of the governance committee if a company's annual shareholder meeting is virtual-only. Because of the risk of spreading the virus in person, the Fund understood the need for virtual-only annual meetings this year, and as a result, only withheld support for 252 members of governance committees at companies that had a previous history of holding virtual-only shareholder meetings. The Fund also withheld support from directors at companies where it had prior knowledge that a virtual-only meeting would be conducted without the use of best practices.[1] For example, the Fund withheld support from directors at AT&T Inc. for failing to allow a shareholder to introduce a shareholder proposal, and at Berkshire Hathaway Inc. for failing to provide a comprehensive question and answer opportunity for shareholders.

Executive Compensation

Shareholder votes on executive compensation—"say-on-pay" votes—promote pay accountability by allowing shareholders to review and influence compensation practices and strategies. The Fund believes that, in order to help protect its investments, executive compensation policies should reflect a focus on ensuring long-term, sustained performance for the company and its shareholders.

In 2020, the Fund further elaborated its criteria for assessing executive compensation plans, including establishing higher expectations for "say-on-pay," equity ownership guidelines, and incentive plans for executives. In implementing its guidelines, the Fund focused on: reviewing the overall structure and disclosure of executive compensation plans; CEO pay compared to a company's self-disclosed peer-group; and internal pay disparities.

1 Best practices for virtual-only annual meetings have been released by groups like the Council of Institutional Investors, and include practices like live audio and video feed of all key company representatives in attendance and a comprehensive Q&A tool.

As a result, the Fund voted to withhold support for 32 percent of the proposed compensation plans presented in say-on-pay advisory ballot items. This compares to 27 percent in both 2019 and 2018. The Fund found, among other issues, pay disparity concerns, disconnects between pay and performance, and excessive pay relative to peer benchmarks at these companies. When these practices were not in the long-term interests of the Fund as a shareholder, the Fund voted against them. The following table summarizes the Fund's voting on executive compensation matters in 2020.

2020 Fund Voting on Executive Compensation by Issue

Executive Compensation Ballot Issue	Total Number of Votes	Total Votes Against Management	Percent of Votes Against Management
Say-On-Pay	2,477	793	32%
Adoption of New Equity Plan	269	25	9%
Change to Equity Plan	405	80	20%
Say-On-Golden-Parachutes	67	58	87%
Frequency of Say-On-Pay Vote	224	42	16%
Total	**3,908**	**1,105**	**28%**

Environmental Stewardship and Climate Risk Votes

Climate change-related threats such as extreme weather, along with public policies adopted to mitigate climate risks, pose significant challenges to companies that are unprepared for these physical and transitional risks, as well as to their investors. In 2020, the Fund enhanced its Proxy Voting Guidelines by adding criteria clarifying how the Fund reviews companies' preparedness for the transition to a low-carbon economy, and delineating situations in which the Fund will withhold votes from director nominees for failing to manage climate risks.

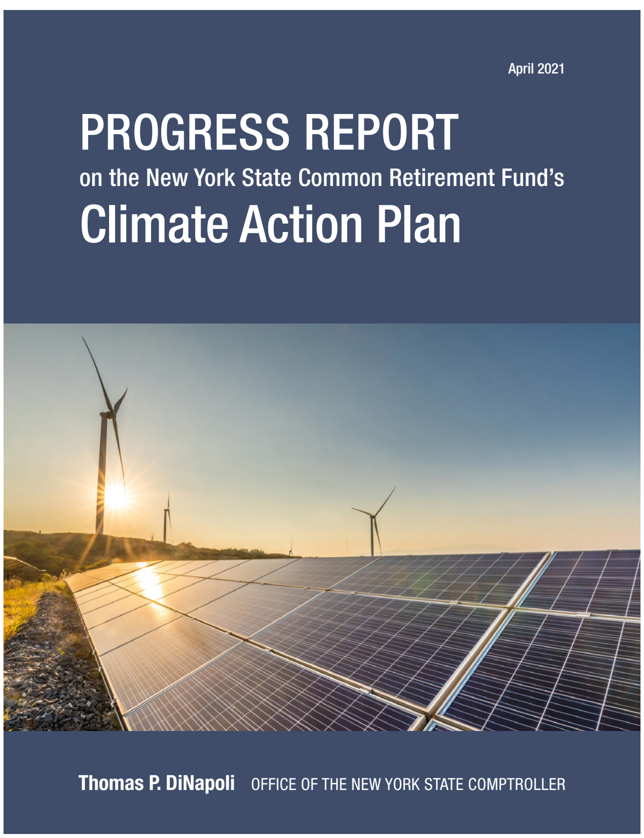
The Fund believes oversight should include the assurance of appropriate comprehensive reporting on climate risk to shareholders—beyond what is required within current financial reporting—through adherence to internationally recognized sustainability reporting protocols, such as those proposed by the TCFD. When boards fail to appropriately manage and comprehensively report on climate risk, the Fund may withhold support from directors. Furthermore, if a board fails to report publicly on its material climate risks and management practices (including disclosing 2-degree scenario analysis aligned with the goals of the Paris Climate Agreement, and its greenhouse gas [GHG] emissions), the Fund may withhold support from directors responsible for overseeing those risks.

In implementing the updated climate voting guidelines, the Fund focused on companies in the high-impact sectors (as set out by TCFD) that had failed to demonstrate transition readiness and climate risk management, such as:

- Thermal coal companies that lack transition plans;
- Climate Action 100+ company laggards (high emitters); and
- Carbon Disclosure Project (CDP) persistent non-disclosing companies.

> As a result, the Fund withheld support from or voted against 42 incumbent directors who were members of audit and/or environment and social committees at 16 portfolio companies, including Exxon Mobil, Phillips 66, Peabody Energy Corp., and Berkshire Hathaway.

Moving forward, the Fund will continue to use its voice and vote to encourage climate risk management, strategic planning, and reporting by portfolio companies. Corporate efforts to transition to the low-carbon economy are integral to long-term value creation for shareholders.



To learn more about how the Fund is addressing climate change-related risk, please see the 2021 Progress Report on the New York State Common Retirement Fund's Climate Action Plan.

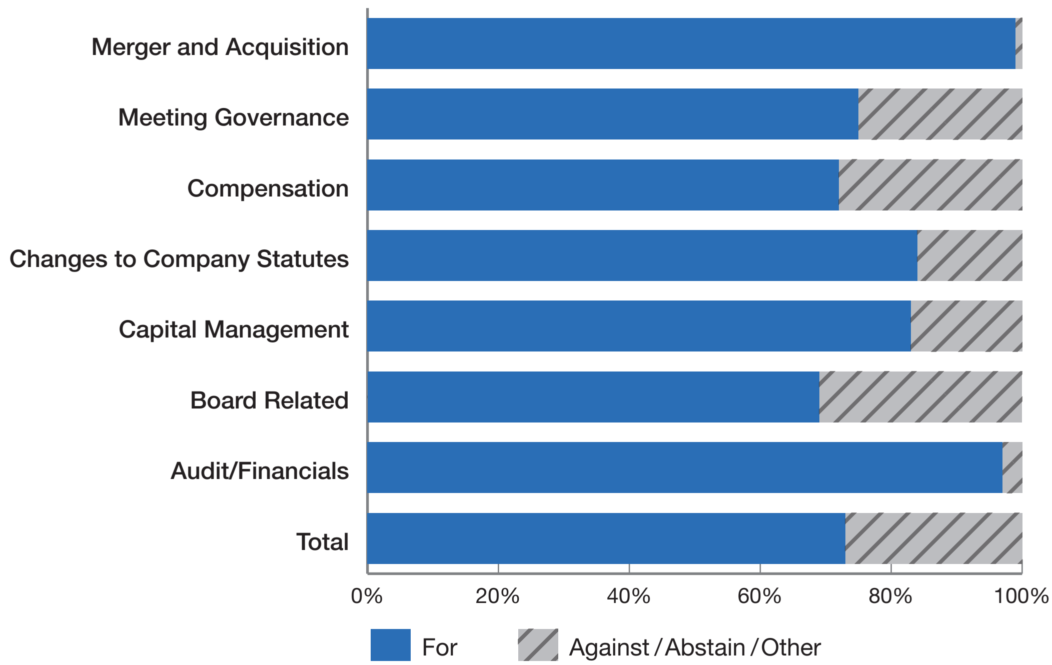
Management Recommendations

Over the course of the 2019 proxy season, the Fund voted in opposition to management recommendations on 28 percent of all ballot items, which included 27 percent of management proposals and 88 percent of shareholder proposals.

In terms of specific ballot items, the Fund voted in opposition to management recommendations on:

- 28 percent of compensation-related items, including say-on-pay;
- 31 percent of board-related items, including election of directors;
- 17 percent of capital management and allocation items; and
- 3 percent of audit/financial items, including ratification of auditor.

Fund 2020 Voting Statistics on Management Proposals By Type



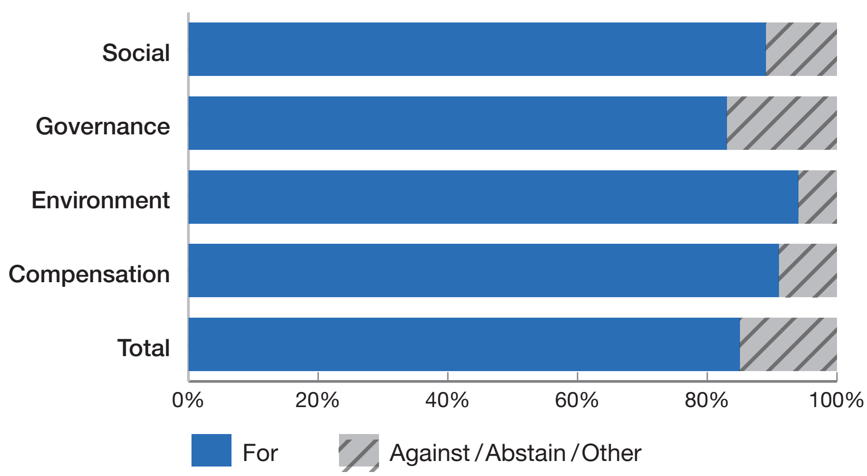
Voting on Shareholder Proposals

The Fund voted to support 85 percent of shareholder proposals on ballots in 2020, slightly down from 88 percent in 2019 and 92 percent in 2018. The slight decrease in the Fund's support for shareholder proposals was due, for the most part, to the recent increase in new types of shareholder proposals where the Fund does not yet have voting guidelines. In most cases, the Fund will abstain from such new types of ballot items pending further review.

In terms of specific shareholder proposals, the Fund voted in support of:

- 85 percent of all shareholder proposals;
- 94 percent of environment-related shareholder proposals;
- 89 percent of shareholder proposals in the social category;
- 83 percent of governance-related shareholder proposals; and
- 91 percent of compensation-related shareholder proposals.

Fund 2020 Voting Statistics on Shareholder Proposals



Engagements and Outcomes

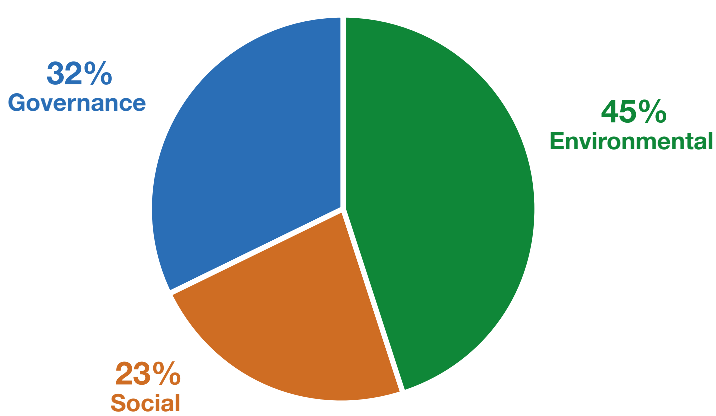
BY THE NUMBERS…

- **1,774** total engagements with the Fund's portfolio companies.
- Over **40** percent of companies in the public equity portfolio engaged.
- Over **1,200** letters sent to portfolio companies requesting action on ESG-related issues.

During 2020, the Fund conducted more engagements with more portfolio companies than ever before, reaching 40 percent of the Fund's public equity portfolio. These engagements encourage the high-performing, diverse boards of directors, good governance, and prudent management of environmental and social factors that promote and sustain company success. The Fund's work has resulted in many important actions, commitments and disclosures by portfolio companies, which protect the long-term value of the Fund's investments.

Engaging also ensures that the Fund understands a company's approach, and allows the Fund to communicate its views and expectations related to corporate governance and ESG issues. In 2020, the Fund focused on both proxy season and off-season engagements.

Fund 2020 Engagements by Topic



Direct dialogue with companies during proxy season allow the Fund to express its views on various ballot items, including board quality, executive compensation, and other ESG issues.

During off-season engagements, the Fund is able to discuss broader ESG and corporate issues with portfolio companies. In 2020 those discussions focused on the following priorities: **COVID-19 response; human capital management policies; diversity, equity and inclusion practices; overall corporate governance practices;** and **climate-related risk management**.

Writing portfolio companies, whether undertaken individually or in collaboration with other shareholders, is also an effective engagement tool that allows the Fund to communicate its views and request action on specific issues. In 2020, the Fund sent over 1,200 letters to portfolio companies on subjects such as physical risks related to climate change, diversity and inclusion, and executive compensation.

Racial Equity and Diversity Engagement

The Fund has long regarded employee, management and board diversity as a critical measure of sound corporate governance, as research has shown that the ability to draw on a wide range of perspectives and experiences is a vital component of a company's sustained success in the global marketplace. Additionally, companies that ensure diverse talent and strengthen equity and inclusion in their workforce increase their likelihood of performing well financially. In 2020, with concerns about racial inequities brought to the forefront of society by the tragic murder of George Floyd, Comptroller DiNapoli called on the Fund's portfolio companies to improve racial diversity in their boardrooms and workplaces, and adopt corporate policies that address racism and inequality.

Addressing Inequalities

Recent events have accelerated and deepened inequalities, including inequalities associated with age, race, gender, ethnicity, sexual orientation, gender identity, disability, healthcare, opportunity and income. Higher levels of inequality can negatively impact the economy as a whole, and the companies in which the Fund invests.

During the Fund's 2020 off-season engagements with portfolio companies, the Fund has delved into how they are addressing potential and actual inequalities, including issues related to equity in opportunity, pay, and benefits for all employees and stakeholders. In 2021, the Fund will continue engaging with companies to address inequalities, including ending racial injustice, protecting at-risk employee populations, and managing reputational risks.

In August 2020, Comptroller DiNapoli wrote to 72 S&P 500 companies from different sectors that share a common trait: they appeared to have no racially or ethnically diverse board members. The letter asked these portfolio companies to examine whether their policies promote racial and ethnic inclusion and diversity in recruitment, hiring and promotion at all levels. In addition, the Comptroller requested that the companies disclose the self-identified race, ethnicity and gender of their board of directors, management and workforce.

Companies that failed to respond to the Comptroller's letter or provided inadequate responses will face adverse votes against incumbent board of director nominees at 2021 annual meetings.

COVID-19 Response

In 2020, the COVID-19 pandemic resulted in significant disruption to the global economy and the Fund's portfolio companies. Companies faced unprecedented tests of their operational resilience and health and safety protocols for their workforce, while managing business continuity and disruptions to the global supply chain. The pandemic also accelerated and amplified many different business, social-economic, and ESG trends.

Throughout 2020, the Fund engaged with its portfolio companies on their responses to the COVID-19 pandemic. The goals of these dialogues were to understand how companies were ensuring business continuity, protecting workforce health and safety, and aligning business practices (capital allocation, human capital, and executive compensation) with long-term value creation.

Safety Standards for Frontline Workers

After media reports linked a number of meat processing plants to COVID-19 outbreaks throughout the United States, Comptroller DiNapoli wrote nine of the largest meat processing companies to inquire about their implementation of enhanced COVID-19 prevention and control measures for workforce protection.

"Safety standards are not abstract; they may determine life and death of workers on whom the company depends, ultimately determining the long-term value of the company for shareholders."

– Comptroller DiNapoli

In 2021, the Fund plans to scrutinize its portfolio companies' responses to the COVID-19 pandemic when voting its proxies, including holding directors accountable and voting against executive compensation if the corporate response was inadequate. The Fund expects its portfolio companies to report on their 2020 response to the pandemic, explaining how they weighed their decisions affecting stakeholders, including employees, customers, and communities, in relation to their impact on the company.

Proxy Season Engagements

During the 2020 proxy season, the Fund conducted engagements focused on its portfolio companies' policies and practices related to annual meetings and proxy items. Proxy season engagements allow the Fund to understand each company's approach to corporate governance, executive compensation, and ESG-related issues. Additionally, these engagements allow the Fund to directly express its views on these issues and encourage portfolio companies to address shareholder concerns.

For example, since 2014, the Fund has voted against JPMorgan Chase & Co.'s "say-on-pay" recommendation and members of its compensation committee due to various concerns related to its executive compensation program. Furthermore, the board's Lead Independent Director has spent more than 30 years on the board of the bank and its predecessor, J.P. Morgan, and has been lead independent director since 2001. In April 2020, numerous institutional investors, including the Fund, announced their intention to vote against the reappointment of this candidate, citing numerous corporate governance concerns.

Following that announcement and engagement with the company, JPMorgan Chase disclosed that the director would not stand for re-election in 2021. The Fund believes the company's action will result in important board refreshment, enhanced independence, and more sustainable corporate practices.

Integrating ESG Metrics into Executive Compensation

In 2020, the Fund began a new initiative to encourage its portfolio companies to consider integrating ESG metrics into their incentive compensation plans for executives. Research has shown that strong management of ESG risks and opportunities has a positive effect on long-term shareholder value. The Fund believes that, in order to drive improved performance, ESG issues should be a key metric by which company executives are evaluated. Furthermore, by integrating ESG metrics into compensation plans, companies may reduce their risks by incentivizing executives to meet ESG goals, thereby achieving greater long-term value for shareowners.

The Fund filed shareholder proposals at American Airlines Group Inc., FedEx Corporation, and XPO Logistics, Inc. asking them to consider linking ESG metrics to executive compensation incentive plans. After a successful engagement with American Airlines, the company agreed to incorporate an ESG-related performance metric in its plan and publish an ESG report in line with TCFD recommendations and SASB sector standards. American Airlines has since added "operational and customer experience goals" as part of its executive pay plan and released a robust ESG report.

After receiving shareholder support from over 20 percent of XPO Logistics shareholders, the company adopted an ESG scorecard as part of its incentive compensation plan for its executives. The ESG scorecard will make up 25 percent of the overall compensation plan, and will encompass the categories of workforce/talent, employee and community safety, diversity and inclusion, data security, environment and sustainability, and governance.

Following these successful shareholder proposals, Comptroller DiNapoli wrote 20 portfolio companies, including Pfizer Inc., Netflix Inc., United Parcel Service Inc., Starbucks Corp., eBay Inc., and Ford Motor Co, calling on them to consider integrating ESG metrics into their executive compensation plans. As a result of subsequent engagements, 10 companies will be considering adding ESG metrics during 2021.

Uber Technologies, Inc. and Lyft, Inc.

In October 2019, Comptroller DiNapoli wrote the CEOs of Uber Technologies, Inc., and Lyft, Inc., requesting that each company issue an annual sustainability report describing the company's policies, performance and improvement targets related to material ESG risks and opportunities. Following the letters and multiple engagements in 2020, Uber and Lyft each released ESG reports that allow their shareholders to understand how the companies are managing material ESG risks and opportunities that can affect long-term shareholder value. Additionally, both companies have committed to releasing ESG reports in the future, and have agreed to consider more robust reporting on driver and delivery person practices, including impacts, outcomes and engagements.

In 2020, Comptroller DiNapoli also wrote both companies regarding their unprecedented corporate political spending on California Proposition 22, App-Based Drivers as Contractors and Labor Policies Initiative. The Comptroller requested that both companies fully disclose their political spending and lobbying expenditures, and the policies and procedures for making such expenditures. Since the letter, Uber has made progress toward complying with the Comptroller's request, including reporting on its policy for making political expenditures and its overall spending on political activity. In contrast, Lyft has failed to take action on the Comptroller's request. In 2021, the Fund will continue to engage with both companies to encourage comprehensive reporting on corporate political spending and lobbying expenditures.

Climate Change Risk

In December 2020, Comptroller DiNapoli announced he would be building on the Fund's "Climate Action Plan 2019" to establish a goal of transitioning the Fund's portfolio to net zero greenhouse gas emissions by 2040. Major companies have already adopted net zero (or negative carbon) goals, including Microsoft (negative carbon by 2030), Apple (net zero by 2030), and Amazon (net zero by 2040), and more companies adopting these goals will further mitigate the risks of climate change on the Fund's portfolio.

This process will include a review of investments in energy sector companies to be completed within four years, using minimum standards to assess transition readiness and climate-related investment risk, and, where consistent with fiduciary duty, potential divestment from companies that fail to meet minimum standards.

> "New York State's pension fund is at the leading edge of investors addressing climate risk, because investing for the low-carbon future is essential to protect the Fund's long-term value. Achieving net-zero carbon emissions by 2040 will put the Fund in a strong position for the future mapped out in the Paris Agreement."
>
> – Comptroller DiNapoli

Engaging with the Fund's portfolio companies is a critical component of this work. As a result, the Fund has developed a systematic shareholder engagement program to address climate change risk that prioritizes companies for engagement, sets specific time frames, uses transition-readiness and resiliency metrics to define goals, and measures progress against these goals.

To learn more about how the Fund is addressing climate change-related risk through engagement, please see the 2021 Progress Report on the New York State Common Retirement Fund's Climate Action Plan.

2020 Shareholder Proposals

BY THE NUMBERS…

- **29** shareholder proposals filed.
- **11** agreements with companies to implement the Fund's proposals.
- **59** percent vote in support of the Fund's diversity proposal at National Healthcare Corporation.

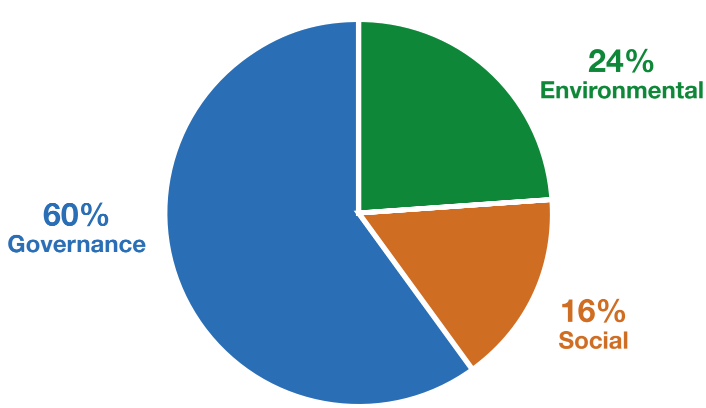
One form of engagement that the Fund routinely deploys, consistent with its investment philosophy, is filing shareholder proposals with public companies in its portfolio regarding ESG issues that can have a material impact on risk and return. The shareholder proposal process allows the Fund to bring recommended changes in corporate policy directly to the attention of the company's leadership and other shareholders, and is an important tool for addressing investment risks.

ESG shareholder proposals, while often non-binding in the United States, can garner significant attention, high levels of shareholder support, and as a result, send a strong message to the board and management. When filing a shareholder proposal, the Fund seeks a productive dialogue with the company. This includes discussing the proposal with company officials, allowing the company to detail its work on a given issue, and negotiating how management can address the Fund's concerns. If the company and the Fund reach an agreement regarding the implementation of the proposal, the Fund withdraws the proposal.

For 2020, the Fund filed shareholder proposals with 29 companies representing a combined portfolio value in excess of $5 billion. Of these, 11 led to agreements with the companies, and of the 14 proposals that went to a vote, one earned the support of a majority of shareholders and nine received greater than 25 percent of support from shareholders. The average level of support for Fund proposals that went to a vote was 29 percent.

Due to the COVID-19 pandemic, the Fund filed fewer shareholder proposals than in recent years.

2020 Fund Shareholder Proposals by Topic



2020 Shareholder Proposals – Highlights

Five agreements on environmental issues

Texas Instruments Incorporated, Qorvo, Inc., Microchip Technology, Inc., Fluor Corporation, and Carter's, Inc. will address environmental risks and opportunities.

Agreements with Coca Cola Co. and Gap, Inc. on executive compensation

The companies will consider the wages they pay all of their employees when setting executive salaries, aiming to bring them into closer alignment.

New proposals linking ESG metrics to executive compensation

Agreement with American Airlines Inc. and responsive action taken by XPO Logistics, Inc.

Action on the disclosure of corporate political spending

Agreements with VF Corporation, Simon Property Group, Inc., The Brown–Forman Corporation, and record high votes at CMS Energy Corporation and Duke Energy Corporation.

To see a full list of the Fund's shareholder proposals and outcomes, please see the Appendix.

Public Policy and Advocacy

The Corporate Governance Program employs public policy and advocacy strategies when they can serve to improve the long-term value of the Fund's investments.

The Fund regularly supports policies and practices that promote the overall stability, transparency and functionality of financial markets and the economy. The Fund's public policy advocacy takes many forms, including meetings and correspondence with elected representatives, regulators and other public officials, testimony at hearings and forums, comments on regulatory and legislative proposals, and participation in State, national, and international forums and initiatives. In 2020, the Fund's primary public policy priorities included protecting its rights as a shareholder, and fighting efforts to roll back environmental protections, which could threaten the Fund's investments. The following table details some of the Fund's most significant policy advocacy during in 2020.

Selected 2020 Fund Initiatives Regarding Public Policies

Governmental Entity	Topic
U.S. Department of Labor	Fiduciary Duties Regarding Proxy Voting and Shareholder Rights
New York State Public Service Commission	Regarding the Need for Reporting Risks Related to Climate Change
Pennsylvania Department of Environmental Protection	Investor Statement Supporting Strong Existing Source Methane Emissions Regulation in Pennsylvania
U.S. Financial Regulators	Letter Regarding Immediate Action to Address Climate Change as a Systemic Financial Risk
U.S. Securities and Exchange Commission	Proposed Rule Change to Adopt Listing Rules Related to Board Diversity
U.S. Securities and Exchange Commission	Assessment and Recommendation Regarding 2016-2020 Division of Corporation Finance Shifting Interpretations Under the Rule 14a-8 No Action Process
U.S. Securities and Exchange Commission	Universal Proxy Working Group
U.S. Securities and Exchange Commission	Amendments to Exemptions from the Proxy Rules for Proxy Voting Advice
U.S. Securities and Exchange Commission	Procedural Requirements and Resubmission Thresholds under Exchange Act Rule 14a-8
U.S. Securities and Exchange Commission	Rulemaking Petition Requiring Companies to Report on the Physical Location of Their Significant Assets
Various	Multi-State Medium- and Heavy-Duty Zero Emission Vehicle Initiative

The Fund's multi-faceted and responsible fiduciary approach resulted in it being at the forefront of the institutional investor community on key ESG issues. Additionally, the Fund works with many like-minded investor associations, coalitions and organizations to amplify its voice.

Organizations Where the Fund Holds Leadership Positions

- CERES
- Chief Executives for Corporate Purpose
- The Council of Institutional Investors
- The Thirty Percent Coalition

Partners, Affiliations, and Coalitions

- Carbon Disclosure Project (CDP)
- Climate Action 100+
- Farm Animal Investment Risk and Return (FAIRR)
- Human Capital Management Coalition
- Investors for Opioid & Pharmaceutical Accountability
- Say-on-Pay Working Group
- The Center for Political Accountability
- The Human Rights Alliance
- The Interfaith Center on Corporate Responsibility
- UN Principles for Responsible Investing

In addition to those listed, the Fund works informally with other public pension funds, asset managers, and Taft-Hartley funds (multiemployer benefit trust funds regulated by the federal Taft-Hartley Act) to engage companies on issues or to promote sound public policies.

Testing Corporate Purpose

In 2020, the Fund played a leadership role in the Test of Corporate Purpose (TCP), an initiative formed to evaluate companies' performance through the COVID-19 pandemic and the period of social unrest in response to inequality, and to assess any alignment between performance and the Business Roundtable's statement of corporate purpose and commitments to stakeholder primacy. The TCP found that corporate commitments to purpose are less informative about a company's future performance on social and human capital issues than other indicators. What matters more is whether a company has a strong track record of proactively managing issues that may become material during a crisis, and whether a company is an early responder on relevant issues during a crisis.

Appendix: 2020 Shareholder Proposals

Company	Issue	Result
National Healthcare Corporation	Board Diversity	59.21 Percent in Favor
Gaming and Leisure Properties, Inc.	Board Diversity	Withdrawn
Facebook, Inc.	Change in Stockholder Voting (one share-one vote)	27.14 Percent in Favor
Red Rock Resorts, Inc.	Change in Stockholder Voting (one share-one vote)	Withdrawn
Wells Fargo & Company	Compensation Incentives Reporting	23.34 Percent in Favor
Quest Diagnostics Incorporated	Cyber Risk Reporting	Withdrawn
Texas Instruments Incorporated	Energy Efficiency and Renewable Energy	Withdrawn with agreement
Qorvo, Inc.	Energy Efficiency and Renewable Energy	Withdrawn with agreement
Microchip Technology, Inc.	Energy Efficiency and Renewable Energy	Withdrawn with agreement
Newmont Goldcorp Corporation	Energy Efficiency and Renewable Energy	Withdrawn
Fluor Corporation	Greenhouse Gas Emissions Reduction Targets	Withdrawn with agreement
Charter Communications, Inc.	Independent Board Chair	23.55 Percent in Favor
ExxonMobil Corporation	Independent Chair	32.70 Percent in Favor
VF Corporation	Political Spending Disclosure	Withdrawn with agreement
Simon Property Group, Inc.	Political Spending Disclosure	Withdrawn with agreement
The Brown-Forman Corporation	Political Spending Disclosure	Withdrawn with agreement
Royal Caribbean Cruises Ltd.	Political Spending Disclosure	31.63 Percent in Favor
CMS Energy Corporation	Political Spending Disclosure	34.93 Percent in Favor
Duke Energy Corporation	Political Spending Disclosure	38.86 Percent in Favor
Chipotle Mexican Grill, Inc.	Share Buybacks and Stock Retention	20.73 Percent in Favor
The TJX Companies, Inc.	Share Buybacks and Stock Retention	29.03 Percent in Favor
The Boeing Company	Share Buybacks and Stock Retention	26.30 Percent in Favor
Fleetcor Technologies, Inc.	Share Buybacks and Pay for Performance	27.00 Percent in Favor
American Airlines Group Inc.	Linking ESG Metrics to Executive Compensation	Withdrawn with agreement
FedEx Corporation	Linking ESG Metrics to Executive Compensation	9.50 Percent in Favor
XPO Logistics, Inc.	Linking ESG Metrics to Executive Compensation	20.65 Percent in Favor
Carter’s, Inc.	Sustainability Reporting	Withdrawn with agreement
The Coca-Cola Company	Aligning Executive Compensation and Workforce Pay	Withdrawn with agreement
The Gap, Inc.	Aligning Executive Compensation and Workforce Pay	Withdrawn with agreement

Contact

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