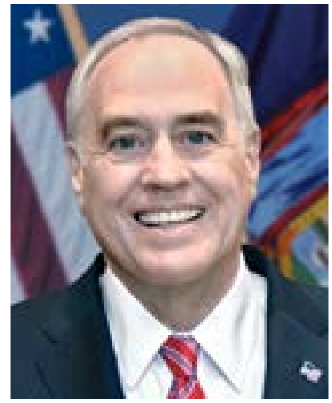
SEPTEMBER 2022

2021 CORPORATE GOVERNANCE STEWARDSHIP REPORT

NEW YORK STATE COMMON RETIREMENT FUND

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

Message from the Comptroller



September 2022

The New York State Common Retirement Fund holds and invests the assets of the New York State and Local Retirement System on behalf of more than one million State and local government employees and retirees and their beneficiaries. This is an enormous responsibility, and as Trustee, I am dedicated to safeguarding the Fund's investments.

A major component of safeguarding the Fund's investments includes encouraging 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 environmental, social and governance (ESG) considerations into their business strategies. Our Corporate Governance Program's engagement takes many forms, 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.

While 2020 presented unprecedented challenges, 2021 was a year to expand our efforts and encourage portfolio companies to adopt policies that allow them to emerge from the COVID-19 pandemic and our country's reckoning with racial injustice stronger and in better position to enhance long-term value.

In 2021, we focused on four key ESG themes: responsible capital allocation; human capital and labor management; inequality and its economic impact; and sustainable recovery. From pressing Amazon to conduct a racial equity audit to voting for change at Exxon that could improve the company's efforts to address climate change risks, we believe actions like these are needed to positively impact the long-term sustainability of the Fund's investments.

I am pleased to share our 2021 Corporate Governance Stewardship Report which details our corporate governance agenda, along with major stewardship initiatives and achievements in this area.

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 through the integration of environmental, social and governance (ESG) factors into the Fund's investment and stewardship processes 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.

> 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.

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.

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 2021, the Fund voted on 29,669 ballot items at 3,401 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 2021, the Fund filed 38 shareholder proposals, resulting in 27 agreements or actions to implement the proposals' requests and record votes on several other proposals, including three majority votes and votes of more than 25 percent of shareholders on proposals at seven companies.

Public policy and advocacy is another aspect of the Corporate Governance Program's strategy, employed when it is likely to impact 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 include 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 senior management should drive ESG performance improvements. The Fund also expects companies to disclose their approach to addressing ESG risks and opportunities. The Fund expects all its portfolio companies to engage regularly with shareholders on ESG-related issues and to respect all shareholders' rights.

2021 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 2021, the Corporate Governance Program's priority issue areas were:

- responsible capital allocation;
- human capital and labor management;
- inequality and its economic impact; and
- sustainable recovery.

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

2021 Proxy Voting

BY THE NUMBERS…

- **29,669** ballot items voted on at 3,401 meetings.
- **31** percent of votes cast **AGAINST** management recommendations.
- **36** 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.
- **87** 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 2021 Proxy Season (calendar year 2021), the Fund cast 29,669 votes on ballot items at 3,401 portfolio company meetings.

> 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.

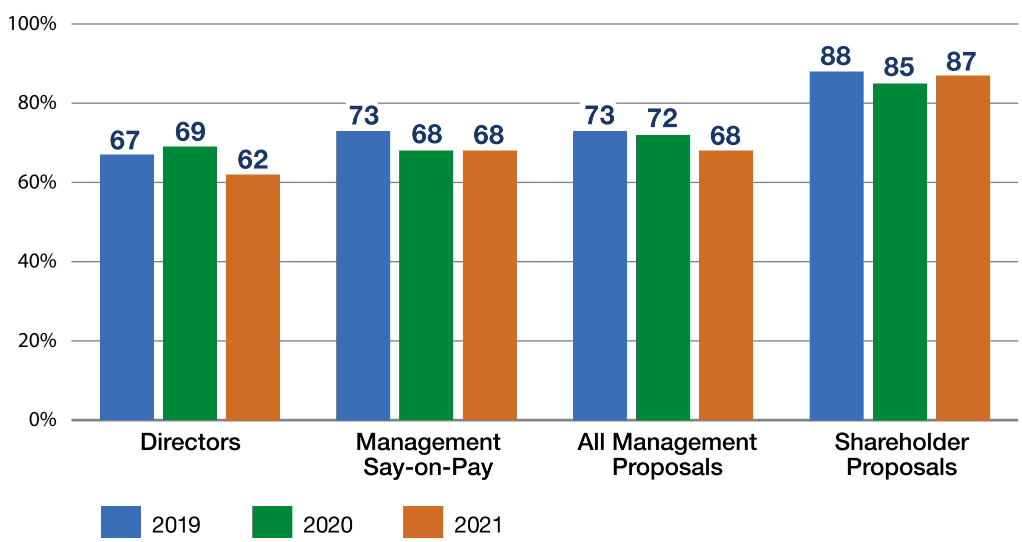
The Fund makes all proxy voting decisions independently, based on the standards in its Environmental, Social & Governance Principles and Proxy Voting Guidelines (Guidelines). These describe in detail the Fund's governance expectations for public companies and establish principled recommendations for 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 corporate governance and ESG service providers.

The Guidelines are updated biennially to address new market issues, refine positions based on current research, and reflect evolving ESG best practices. While the Guidelines were fully updated in 2020, additional implementation guidance was adopted for the 2021 proxy season to reflect newly available data, specific changes in circumstance or the need for greater consistency. This included:

- Further guidance on voting against directors due to a failure to address climate risk;
- Voting against all incumbent directors at S&P 500 companies that had no directors who identify as an underrepresented minority[1] on their board;
- Voting against all incumbent nominating committee members at S&P 500 companies with only one director who identifies as an underrepresented minority on their board;
- Voting against the board chair and incumbent audit committee members at S&P 500 companies that do not disclose the racial/ethnic diversity of directors on an individual basis; and
- Voting against all incumbent nominating committee members at S&P 500 companies that do not disclose that the board expressly considers both gender and race/ethnicity diversity in the director search process.

Fund Proxy Voting Trends 2019–2021

Fund Votes of Approval by Ballot Item Type



1 "Underrepresented Minority" means, consistent with the categories reported to the Equal Employment Opportunity Commission ("EEOC") through the Employer Information Report EEO-1 Form ("EEO-1 Report"), an individual who self-identifies as one or more of the following: Black or African American, Hispanic or Latinx, Asian, Native American or Alaska Native, Native Hawaiian or Pacific Islander, or Two or More Races or Ethnicities.

Proxy Voting	2019	2020	2021
Number of Company Meetings	3,273	3,219	3,401
Management Proposals Voted	27,795	28,190	29,159
Shareholder Proposals Voted	527	537	510
Total Votes Cast	**28,322**	**28,727**	**29,669**

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 36 percent of management board of director nominees, compared to 31 percent in 2020 and 32 percent in 2019. The increase was primarily due to the Fund's voting policies, which increased scrutiny of board diversity.

The Fund most frequently withheld support for directors due to:

- 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 2021.

Selected Examples Where the Fund Withheld Support from Management Recommendations in 2021

Company Name	Concern	Fund Vote
Amazon.com, Inc.	Lack of board diversity and failure to disclose the racial/ethnic diversity of directors on an individual basis.	Voted against six incumbent directors.
Boeing Co.	Board's failure to exercise sufficient oversight of management strategy and corporate culture.	Voted against six incumbent directors.
Exxon Mobil Corporation	Failure to address climate-related risks.	Voted for all activist investment firm Engine No. 1's dissident candidates.
Wells Fargo & Co.	Ongoing governance concerns regarding risk management and failing to propose a proper reform plan to prevent further consumer abuses.	Voted against three incumbent directors.

Board Diversity Voting Guidelines

As noted last year in our report 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 February 2021, Comptroller DiNapoli announced the Fund would expand its voting position against boards at companies that lacked a director identifying as an underrepresented minority. As a result, the Fund voted against:

- 1,176 directors at 280 companies that do not disclose the racial/ethnic diversity of directors on an individual basis;
- 132 directors at 36 companies that do not disclose that the board expressly considers both gender and race/ethnicity diversity in director search processes;
- 345 directors at 97 companies with only one board director who identifies as an underrepresented minority; and
- 123 directors at 18 companies with no board director who identifies as an underrepresented minority.

The Fund has also continued to implement its gender board diversity voting guidelines, which were initially adopted in 2018. The Fund's Guidelines direct 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 2021, the Fund withheld support for 443 incumbent directors at 97 public companies with no women on their boards. The Fund also withheld support for 1,056 incumbent nominating committee members at 455 public companies with 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 and underrepresented minority directors to their boards.

Say-on-Pay Votes

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 the 2020 Guideline update, 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 in 2021, the Fund continued to focus 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.

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 in 2021. This compares to 32 percent in 2020 and 27 percent in 2019. 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.

In 2021, some companies made changes to their executive compensation plans as a result of the COVID-19 pandemic. This included changes like allowing CEOs the opportunity to earn bonuses they might otherwise have lost, such as by exchanging cash awards for equity with the potential to increase in value through a stock price recovery, changing structure to discretionary or retention awards, or easing financial targets/metrics to determine the value of awards. When compensation committees failed to provide thorough disclosure or failed to provide convincing rationales regarding changes to executive compensation plans, the Fund voted against the company's say-on-pay proposal.

The following tables summarize the Fund's voting on executive compensation matters in 2021 and key votes against company say-on-pay.

2021 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	2,395	777	32%
Adoption of New Equity Plan	238	30	13%
Change to Equity Plan	430	67	16%
Total	**3,063**	**854**	**28%**

Key Votes Against Company Say-on-Pay Proposals

Company	Concern
Walmart Inc.	Misalignment between pay and performance.
General Electric Company	Inadequate disclosure pertaining to COVID-related changes in compensation.
Walgreens Boots Alliance Inc.	Misalignment between pay and performance.
XPO Logistics, Inc.	Misalignment between pay and performance.
Xerox Holdings Corporation	Inadequate disclosure pertaining to COVID-related changes in compensation and misalignment between pay and performance.
Norwegian Cruise Line Holdings	Inadequate disclosure pertaining to COVID-related changes.
Hilton Worldwide Holdings Inc.	Inadequate disclosure pertaining to COVID-related changes and misalignment between pay and performance.
Park Hotel & Resorts	Inadequate disclosure pertaining to COVID-related changes.
Wynn Resorts Limited	Misalignment between pay and performance.

Environmental Stewardship and Climate Risk Votes

The Fund's proxy guidelines incorporate criteria used to evaluate each company's climate performance, including climate transition targets, strategies, capital expenditure alignment, and Task Force on Climate-related Financial Disclosures (TCFD) reporting. The Fund utilizes a variety of data sources, such as company filings, CDP disclosures, and the Climate Action 100+ net-zero benchmarking assessment, which inform the Fund's climate-related director votes.

In 2021, the Fund withheld support from or voted against 404 individual directors at 88 portfolio companies that lacked robust climate risk management, including Berkshire Hathaway, Chevron Corporation, Phillips 66 and Reliance Steel. Notably, the Fund voted for an alternative slate of board candidates at ExxonMobil, put forward by investment firm Engine No. 1, because these candidates are most qualified to better position the energy company for the low-carbon future which would better address the company's climate risk management; three candidates were successful in winning board seats, a major development for Exxon's climate risk management.

Moving forward, the Fund will continue to use its voice and vote to encourage and support efforts in climate risk management, strategic planning, and reporting by portfolio companies, which the Fund believes will help them achieve a successful transition to the low-carbon economy, which is integral to long-term value creation for shareholders.

To learn more about how the Fund is addressing climate change-related risk, please see the 2022 Progress Report on the New York State Common Retirement Fund's Climate Action Plan.

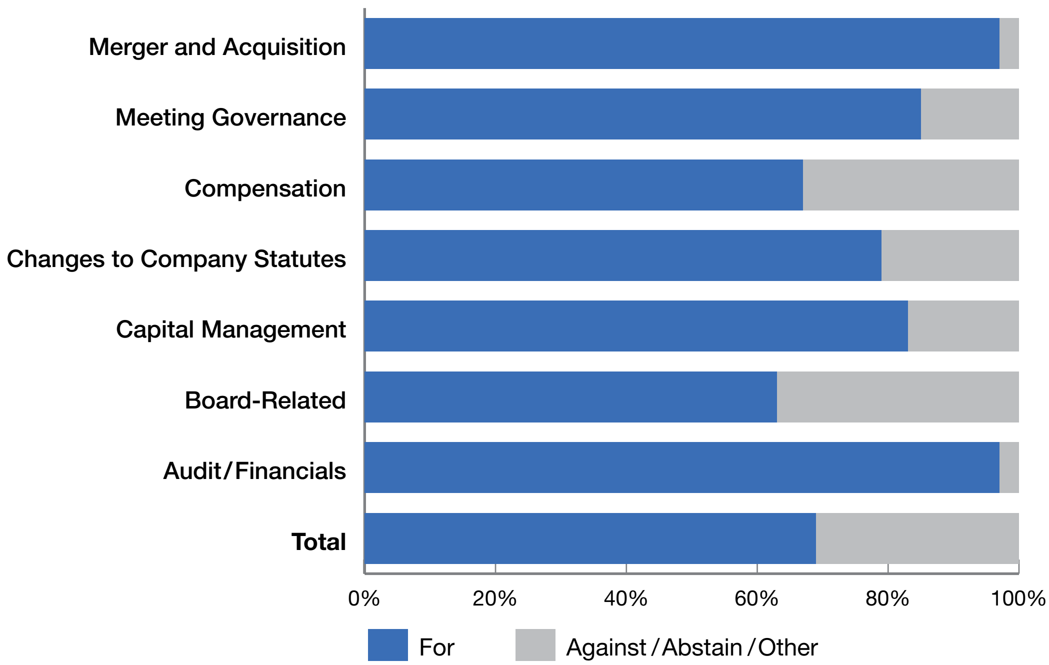
Management Recommendations

Over the course of the 2021 proxy season, the Fund voted in opposition to management recommendations on 31 percent of all ballot items, which included 30 percent of management proposals and 91 percent of shareholder proposals.

For specific ballot items, the Fund voted in opposition to management recommendations on:

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

Fund 2021 Voting Statistics on Management Proposals By Type



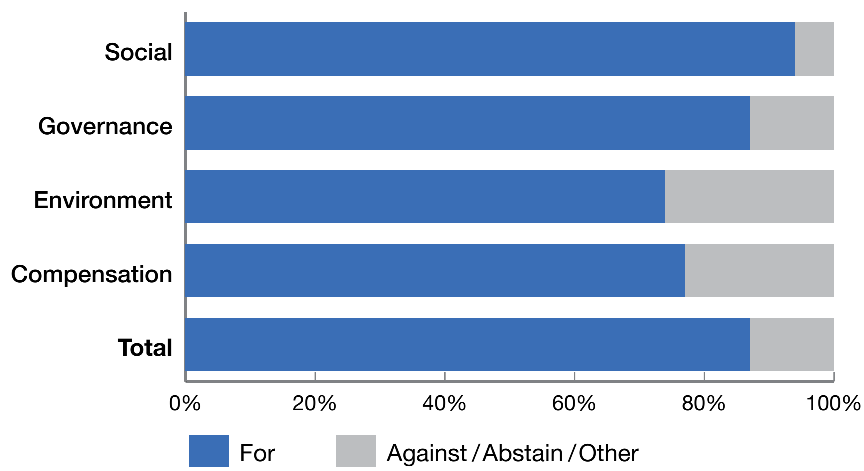
Voting on Shareholder Proposals

The Fund voted to support 87 percent of shareholder proposals on ballots in 2021, slightly up from 85 percent in 2020. The Fund's shareholder proposal support rate was 88 percent in 2019 and 92 percent in 2018. The slight decrease in the Fund's support for shareholder proposals since 2018 is 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 such 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:

- 87 percent of all shareholder proposals;
- 74 percent of environment-related shareholder proposals;
- 94 percent of shareholder proposals in the social category;
- 87 percent of governance-related shareholder proposals; and
- 77 percent of compensation-related shareholder proposals.

Fund 2021 Voting Statistics on Shareholder Proposals



2021 Engagements and Stewardship

The Fund's Corporate Governance Program conducts ongoing engagements with portfolio companies to 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 serve to protect the long-term value of the Fund's investments. Engaging also ensures that the Fund understands a company's strategy and allows the Fund to communicate its views and expectations related to corporate governance and ESG issues.

In 2021, the Fund focused on both proxy season and off-season engagements. Direct dialogues 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. 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.

Climate Change Risk

As reported last year, in December 2020, Comptroller DiNapoli announced he would be building on the Fund's 2019 Climate Action Plan to establish a goal of transitioning the Fund's portfolio to net zero greenhouse gas emissions by 2040. This process, which is well underway, includes a review of investments in energy sector companies to be completed by 2024, using minimum standards to assess transition readiness and climate-related investment risk, and includes, 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. 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 2022 Progress Report on the New York State Common Retirement Fund's Climate Action Plan.

Social Media Companies & the January 6th Attack on the U.S. Capitol

In January 2021, Comptroller DiNapoli, the Service Employees International Union and the Unitarian Universalist Association wrote Facebook Inc., Twitter Inc. and Alphabet Inc. asking the companies to step up their content control efforts to reduce the threat of violence ahead of the inauguration of Joe Biden. Following the January 6th attack on the U.S. Capitol, violent rhetoric, conspiracy theories and radicalizing content increased on social media platforms. Specifically, the letters asked the companies to take steps to disable the coding that can elevate conspiracy theories and radicalizing content, and continue to flag content with hashtags like #Stopthesteal. Additionally, the Comptroller asked the companies' boards and executives to review their business models and reliance on algorithmic decision making, which has been linked to the spread of hate and disinformation online.

Labor Rights

With changing labor trends related to the pandemic, Comptroller DiNapoli has continued to focus on the impact of the growing labor movement, workers' efforts to unionize, and the demand for higher wages and benefits. He believes companies need to rethink their approaches to their workforces now more than ever as the ability to establish and maintain constructive relationships with workers is a hallmark of a company with a sound, sustainable and profitable long-term strategy. In 2021, Comptroller DiNapoli engaged numerous companies regarding labor-related disputes, strikes, or questionable labor practices, including:

- **Amazon –** Encouraged the company to adopt a policy of neutrality, under which Amazon would not interfere with employees' right to associate in Bessemer, Alabama.
- **Starbucks –** Encouraged the company to adopt a policy of neutrality, under which Starbucks would not interfere with employees' right to associate in Buffalo, New York.
- **John Deere –** Encouraged the company to settle its labor dispute with United Auto Workers employees on strike at facilities across Colorado, Georgia, Illinois, Iowa and Kansas.
- **Kellogg's –** Encouraged the company to settle its labor dispute with Bakery, Confectionery, Tobacco Workers and Grain Millers International Union employees on strike at facilities across the U.S and expressed concerns with Kellogg's plans to permanently replace striking workers.

Minimum Wage

In 2021, Comptroller DiNapoli wrote to the largest U.S. restaurant companies, which rely on tipped workers, asking about the potential positive impacts to the companies of raising the minimum wage for all employees. These companies included Brinker International (owns Chili's and Maggiano's Little Italy), Cheesecake Factory, Darden Restaurants (owns Olive Garden Italian Restaurant and LongHorn Steakhouse), Denny's, The Walt Disney Company and Dine Brands Global (owns Applebee's Neighborhood Grill & Bar and International House of Pancakes). The Fund has long believed that a company's long-term success is inextricably tied to its human capital management policies and practices, including compensation and benefits.

Disability Inclusion

Since 2019, the Comptroller has engaged portfolio companies on the issue of disability inclusion, including sending letters asking companies to participate in the Disability Equality Index (DEI). According to "Getting to Equal: The Disability Inclusion Advantage," a 2018 report published by Accenture, Disability:IN and the American Association of People with Disabilities, companies that embrace best practices for employing people with disabilities have outperformed their peers. The DEI is a joint initiative of the American Association of People with Disabilities (AAPD) and Disability:IN. It is a national, transparent, annual benchmarking tool that offers businesses an opportunity to receive an objective score on their disability inclusion policies and practices and identify opportunities for continued improvement. In September 2021, Comptroller DiNapoli wrote 24 companies encouraging their participation in the 2022 DEI. These companies included Apple, Berkshire Hathaway, FedEx, and American Express.

Factory Safety in Bangladesh

In December 2021, Comptroller DiNapoli wrote to companies that utilize factories in Bangladesh to manufacture products and goods regarding ongoing concerns with factory safety. In 2013, Comptroller DiNapoli visited Bangladesh and the site of the Rana Plaza building collapse, the deadliest garment factory incident in history. His conversations with survivors and local labor leaders there gave him a new appreciation of the dangerous conditions workers often face in the developing world, as well as of the scope of the risks for companies with global supply chains that can arise if contractors and subcontractors are not adequately monitored.

The Comptroller's letters asked VF Corporation, Kohl's Corporation, Gap, Inc., Nordstrom, Inc., Macy's, Inc., Target Corporation, Walmart, Inc., and PVH Corporation to provide more information on steps to monitor factory safety in their supply chains in Bangladesh; participation in organizations that monitor factory safety; and when they identify safety gaps in factories manufacturing of products, what actions were taken to remediate the problems.

The Fund has long believed that a company's long-term success is inextricably tied to its human capital management policies and practices throughout its value chain, including its management of health and safety. Research has shown that poor human capital management practices may jeopardize worker health and safety, and can create substantial risks for investors, including financial, reputational and legal risks that can harm long-term shareholder value.

Boeing Company Derivative Lawsuit

In November 2021, Comptroller DiNapoli and the Fire and Police Pension Association of Colorado (FPPA) announced a proposed settlement of their derivative lawsuit against the directors of The Boeing Company. The settlement was approved by the Delaware Court of Chancery in February 2022. The pension funds' lawsuit sought damages and corporate governance reforms, following two mass casualty 737 MAX crashes and the subsequent grounding of the aircraft. Under the settlement, Boeing agreed to adopt enhanced safety and oversight protocols including, among other measures, implementing an ombudsman program that will provide a channel for Boeing employees to raise work-related concerns, and adding an additional director with aviation, engineering, or product-safety oversight experience. The Comptroller and FPPA's suit resulted in the recovery of $237.5 million for the company from the directors' insurers, the largest monetary recovery in a suit filed in the Delaware Courts alleging that directors failed to protect against the risk of harm to the company.

2021 Shareholder Proposals

BY THE NUMBERS…

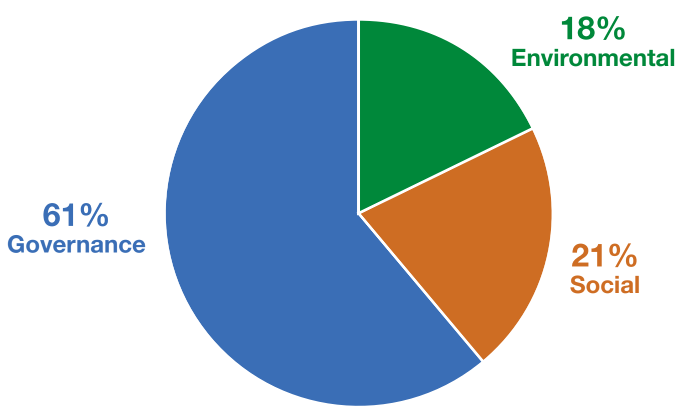
- **38** shareholder proposals filed.
- **27** agreements with companies to implement the Fund's proposals.
- **71** percent vote in support of the Fund's diversity proposal at First Community Bankshares.
- **52** percent vote in support of the Fund's political spending proposal at Duke Energy.

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 2021, the Fund filed shareholder proposals with 38 companies. Of these, 27 led to agreements with the companies, and of the 11 proposals that went to a vote, three earned the support of a majority of shareholders and seven received greater than 25 percent of support from shareholders. The average level of support for Fund proposals that went to a vote was 31 percent. To see a full list of the Fund's 2021 shareholder proposals and outcomes, please see the Appendix.

2021 Fund Shareholder Proposals by Topic



Climate Change Risk

Since 2008, the Fund has filed over 160 climate-change-related shareholder resolutions, reaching more than 81 agreements with portfolio companies on climate issues such as setting GHG emissions reduction targets, committing to renewable energy and energy efficiency goals, and providing enhanced climate disclosures in line with TCFD.

In 2021, the Fund reached agreements with all seven portfolio companies where it had filed climate-related shareholder proposals. **This was the first proxy season in which the Fund achieved agreements on all of its climate-related shareholder proposals.**

Four of the companies agreed to adopt the standards of the Science Based Targets initiative (SBTi), which are considered a best practice in reducing GHG emissions: Domino's Pizza Inc., medical supply company McKesson Corp., commercial real estate company Realty Income Corp. and Advance Auto Parts Inc. Among these four, McKesson agreed to set the SBTs in line with a 1.5-degree scenario as outlined in the Paris Agreement.

Steel maker Cleveland-Cliffs Inc. notably set GHG targets and committed to co-funding an environmentally friendly hydrogen project. Chemical maker Albemarle Corp. committed to adopting GHG targets, and water treatment company Pentair plc agreed to set GHG and clean energy targets.

Diversity, Equity and Inclusion

Following the murder of George Floyd in 2020, and the public outcry over the killings of other Black men and women, many publicly traded corporations spoke out against racial injustice and made commitments to address racial inequities. Comptroller DiNapoli noted that companies face increased risks when their corporate policies, practices, products or services are, or are perceived to be, discriminatory, racist, or adding to racial inequities. By contrast, research shows companies that foster diversity are more likely to outperform their less diverse peers, and companies that develop a culture of inclusion, equity and belonging are better positioned to drive long-term value for shareholders.

> “Companies must root out racial inequality, just as they would root out any other systemic problem that puts their long-term success at risk. Corporate America must join in the national reckoning over racial injustice and confront institutionalized racism. Companies succeed when their workforces reflect the diversity of America and when they develop a corporate culture that embraces equity and inclusion. Many companies are taking meaningful steps towards achieving diversity, equity and inclusion, but it’s clear more is needed.”
>
> **– Comptroller DiNapoli**

In February 2021, Comptroller DiNapoli announced a multi-faceted initiative to hold publicly traded corporations and their top executives accountable for their DEI policies and practices. The Fund filed shareholder proposals on a range of DEI issues:

EEO-1 Reporting

Disclosure of federally filed Equal Employment Opportunity (EEO-1) data helps investors assess their portfolio companies’ commitments to greater racial inclusion, not just in a given year, but over time by comparing how the proportion of Black women, for example, has changed in a given job category from one year to another.

The Fund reached agreements with Hilton Worldwide, Qorvo Inc. and Lowe’s Companies, Inc. (co-filing with the Comptroller of the City of New York) to disclose their EEO-1 reports detailing the race, ethnicity and gender of their workforce, including senior management.

Board Diversity

Comptroller DiNapoli has urged companies in the Fund’s portfolio to diversify their board directors for many years. Diversity of background and experience has been shown to be a factor in improving companies’ performance.

In 2021, the Fund’s shareholder proposals at First Community Bankshares Inc. and National Healthcare Corp. called on the companies to take actions, such as adopting formal language asserting a commitment to inclusivity of diversity by sex, race, ethnicity, age, gender identity, gender expression and sexual orientation. National Healthcare agreed to the proposal and committed to adding a woman to its board in 2022. The proposal at First Community Bankshares received support from 71 percent of investors.

Racial Equity Audit

The Fund's shareholder proposal at Amazon.com Inc. requesting an independent review of the company's policies and practices on civil rights, equity, diversity and inclusion, and how they affect the company's business, was supported by 44 percent of the company's shareholders, which is considered a strong outcome for a first-time proposal. As a result of the significant support from shareholders, Comptroller DiNapoli asked Amazon's new CEO, Andy Jassy, to take steps to implement the proposal. DiNapoli will continue to press the company to take an independent look at how it is addressing racial justice and equity, as other major corporations have done.

Linking Executive Compensation to Diversity & Inclusion

The Fund secured an agreement with McDonald's Corp. to disclose workforce diversity data and tie executive compensation to improving diversity representation for women and underrepresented groups, and creating a culture of inclusion among employees.

Political Spending Disclosure

During the 2021 proxy season, the Fund filed five shareholder proposals at various companies seeking a public report disclosing companies' direct and indirect political spending. Since the 2010 U.S. Supreme Court's Citizens United ruling striking down certain restraints on corporate political spending, Comptroller DiNapoli has made it a priority to engage the Fund's portfolio companies in disclosing their political spending. The proposals filed by the Fund ask companies for comprehensive and public reports that list their corporate spending on candidates, political parties, ballot measures, any direct or indirect state and federal lobbying, payments to any trade associations used for political purposes, and payments made to any organization that writes and endorses model legislation.

> "The increased polarization of our political discourse and the January 6th attack on the Capitol show just how risky it can be for companies to fund political agendas. Corporate accountability is a priority for our pension fund and, since the *Citizens United* ruling, we have focused on increasing sunlight on political spending. In the current climate, with our democracy itself under attack, corporations have to question whether any spending on political causes is in shareholders' interests."
>
> **– Comptroller DiNapoli**

The Fund was successful with all five of its political spending disclosure shareholder proposals during the 2021 proxy season. This was the first proxy season in which the Fund achieved agreements or majority votes on all of its political spending disclosure proposals:

- CMS Energy Corporation, Molson Coors Beverage Company, and FirstEnergy Corp. – Agreements to disclose their political spending.
- Duke Energy Corp. (52 percent) and Royal Caribbean Group (53 percent) – Majority support from shareholders.

Agreements & Company Action on Governance Proposals

The Fund secured agreements with companies on various governance issues during the 2021 proxy season:

- Lyft, Inc. and Southwest Airlines Co.: human capital management board oversight.
- The TJX Companies, Inc., Chipotle Mexican Grill, Inc., and Boeing Company: excluding share buybacks from executive compensation and executive stock retention.
- Darden Restaurants, Ross Stores, Inc., Big Lots, Inc., and Intel Corporation: executive share retention.

Integrating ESG Metrics into Executive Compensation

In 2020, the Fund began an 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 can have 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.

In 2021, the Fund filed shareholder proposals at Pilgrim's Pride Corporation, McDonald's Corporation, Tenet Healthcare Corporation, and Treehouse Foods, Inc., asking them to consider linking ESG metrics to executive compensation incentive plans. The Fund secured agreements with McDonald's Corporation, Tenet Healthcare Corporation and Treehouse Foods, Inc.

Public Policy and Advocacy

The Corporate Governance Program employs public policy and advocacy strategies when they are likely 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 can take different forms, such as 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 2021, the Fund's primary public policy priorities included:

- encouraging the rollback of federal regulations that adversely impact shareholder rights;
- supporting mandated ESG disclosure for public companies; and
- encouraging comprehensive action by the federal government to address the risks and opportunities associated with climate change.

Comptroller DiNapoli Testifies on Importance of Diversity, Equity and Inclusion

In March 2021, Comptroller DiNapoli testified before the U.S. House Committee on Financial Services Subcommittee on Diversity and Inclusion. The hearing, titled "By the Numbers: How Diversity Data Can Measure Commitment to Diversity, Equity and Inclusion," focused on how investors utilize such data. Comptroller DiNapoli said research has shown that companies face risks when their corporate policies, practices or products are perceived to be discriminatory or compounding inequities. By contrast, companies that foster diversity are more likely to outperform their less diverse peers. When they develop a culture of equity and belonging, companies are better positioned to drive long-term value for shareholders. By not addressing diversity and inclusion, DiNapoli noted companies are more likely to underperform their peers, face reputational risks, and jeopardize long-term returns.

Selected 2021 Fund Initiatives Regarding Public Policies

Governmental Entity	Topic
Environmental Protection Agency	Methane Emission Regulations for the Oil and Gas Industry
National Governments	Global Investor Statement to Governments on the Climate Crisis
President Biden	Business and Investor Letter in Support of an Ambitious U.S. 2030 Nationally Determined Contribution
The Biden Administration	Call for Ambitious Methane Regulation for the Oil and Gas Industry
U.S. Congress	Calling on Congress to Pass the Federal Economic Recovery and Infrastructure Bill
U.S. Congress	Passing Legislation on Federal Paid Family and Medical Leave Policy
U.S. Congress	Congressional Testimony on DEI Data
U.S. Congress	Letter of Support for Dual-Class Stock Sunset Legislation
U.S. Congress	Letter Urging Congressional Review Act Disapproval of SEC's Rule 14a-8 Amendments
U.S. Department of Labor	Rulemaking on Prudence and Loyalty in Selecting Plan Investments and Exercising Shareholder Rights
U.S. Securities and Exchange Commission	Corporate Climate Disclosures
U.S. Securities and Exchange Commission	Rulemaking on Proxy Voting Advice
U.S. Securities and Exchange Commission	Rulemaking on Reopening of Comment Period for Universal Proxy

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

Affiliations and Coalitions

- 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 that have implications for our investments.

Appendix: 2021 Shareholder Proposals

Company	Issue	Result
First Community Bankshares, Inc.	Board Diversity	71 Percent in Favor
National Healthcare Corporation	Board Diversity	Withdrawn with action
Tyson Foods, Inc.	Change in Stockholder Voting (one share - one vote)	20 Percent in Favor
Facebook, Inc.	Change in Stockholder Voting (one share - one vote)	28 Percent in Favor
Red Rock Resorts, Inc.	Change in Stockholder Voting (one share - one vote)	9 Percent in Favor
McKesson Corporation	Climate Change - Clean Energy	Withdrawn with agreement
Advance Auto Parts, Inc.	Climate Change - Clean Energy	Withdrawn with agreement
Pentair plc	Climate Change - Clean Energy	Withdrawn with agreement
Realty Income Corporation	Climate Change - Clean Energy	Withdrawn with agreement
Albermarle Corporation	Climate Change - GHG Targets	Withdrawn with agreement
Cleveland-Cliffs Inc.	Climate Change - GHG Targets	Withdrawn with agreement
Domino's Pizza, Inc.	Climate Change - GHG Targets	Withdrawn with agreement
Wells Fargo & Company	Compensation Incentives Reporting	26 Percent in Favor
Qorvo Inc.	EEO-1 Disclosure	Withdrawn with agreement
Lowe's Companies, Inc.	EEO-1 Disclosure	Withdrawn with agreement
Hilton Worldwide Holdings Inc.	EEO-1 Disclosure	Withdrawn with agreement
Lyft, Inc.	Human Capital Management Proposal	Withdrawn with action
Southwest Airlines Co.	Human Capital Management Proposal	Withdrawn with agreement
Square Inc.	Independent Chair	11 Percent in Favor
Charter Communications, Inc.	Independent Chair	25 Percent in Favor
Pilgrim's Pride Corporation	Linking ESG Metrics to Incentive Compensation	5 Percent in Favor
McDonald's Corporation	Linking ESG Metrics to Incentive Compensation	Withdrawn with action (No-Action filed)

Appendix: 2021 Shareholder Proposals

Company	Issue	Result
Tenet Healthcare Corporation	Linking ESG Metrics to Incentive Compensation	Withdrawn with agreement
Treehouse Foods, Inc.	Linking ESG Metrics to Incentive Compensation	Withdrawn with agreement
Sanderson Farms, Inc.	Lobbying Reporting	Withdrawn with agreement
Duke Energy Corporation	Political Spending	52% Percent in Favor
Royal Caribbean Cruises Ltd.	Political Spending	53% Percent in Favor
CMS Energy Corporation	Political Spending	Withdrawn with agreement
Molson Coors Beverage Company	Political Spending	Withdrawn with agreement
FirstEnergy Corp.	Political Spending	Withdrawn with agreement
Amazon.com, Inc.	Racial Equity Audit/Civil Rights Assessment	44% Percent in Favor
The TJX Companies, Inc.	Share Buybacks and Stock Retention	Withdrawn with agreement
Chipotle Mexican Grill, Inc.	Share Buybacks and Stock Retention	Withdrawn with agreement
The Boeing Company	Share Buybacks and Stock Retention	Withdrawn with action (No-Action filed)
Darden Restaurants	Share Retention	Withdrawn with agreement
Ross Stores, Inc.	Share Retention	Withdrawn with agreement
Big Lots, Inc.	Share Retention	Withdrawn with agreement
Intel Corporation	Share Retention	Withdrawn with agreement

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