



# **Corporate Governance and Stewardship Principles**

MAY 2023

# Corporate Governance and Stewardship Principles

## Table of Contents

<b>About LACERA</b> .....	<b>1</b>
<b>Statement of Purpose</b> .....	<b>2</b>
<b>Legal Authority</b> .....	<b>3</b>
<b>Stewardship Strategies</b> .....	<b>4</b>
<b>Principles</b> .....	<b>5</b>
<b>I. Directors</b> .....	<b>6</b>
Independent Oversight .....	6
Board Quality and Composition .....	6
Director Selection and Elections .....	7
Board Roles and Responsibilities .....	8
Board Performance and Effectiveness .....	9
<b>II. Investor Rights and Capital Structure</b> .....	<b>12</b>
Investor Rights .....	12
Capital Structure .....	14
<b>III. Compensation and Incentives</b> .....	<b>18</b>
Advisory Vote on Executive Compensation .....	18
Compensation Plan Design .....	18
Equity Plans .....	20
Employee Equity Programs .....	20
Severance and Retirement Arrangements .....	21
Director Compensation .....	21
<b>IV. Performance Reporting</b> .....	<b>22</b>
Financial Reports .....	22
Fiscal Term .....	22
Auditors .....	22
<b>V. Environmental and Social Factors</b> .....	<b>24</b>
Social Factors .....	24
Environmental Factors .....	24
<b>Responsibilities and Delegations</b> .....	<b>25</b>
<b>Policy Review and Affirmation</b> .....	<b>27</b>
<b>Appendix: Guidelines for Evaluating Prospective ESG-Related Divestments</b> .....	<b>28</b>

# About LACERA

The Los Angeles County Employees Retirement Association (“LACERA”) administers defined benefit retirement plans and other post-employment benefits for employees of Los Angeles County and certain other districts.

The Los Angeles County Board of Supervisors established LACERA in 1937 under the terms of California’s County Employees Retirement Law. LACERA is governed by the California Constitution (Article XVI, Section 17), the California County Employees Retirement Act of 1937, and the California Public Employees’ Pension Reform Act of 2013. Today, LACERA serves over 160,000 active and retired members.

LACERA’s mission is to “produce, protect, and provide the promised benefits.” LACERA aims to fulfill its mission through prudent investment and conservation of plan assets, in accordance with the *Investment Beliefs* that frame its *Investment Policy Statement* and in consideration of actuarial analysis.

LACERA’s Board of Investments is responsible for establishing LACERA’s investment policy and objectives, as well as exercising oversight of the investment management of the fund.

---

## LACERA MISSION STATEMENT

---

We Produce, Protect, and Provide  
the Promised Benefits

# Statement of Purpose

LACERA seeks to responsibly steward its investments in a manner that promotes and safeguards the economic interests of LACERA and its members, consistent with LACERA's mission to "produce, protect, and provide the promised benefits." LACERA believes that robust investor rights, strong corporate governance practices and policies at the firms in which it invests, and sound public policies governing financial markets help generate long-term economic performance. LACERA prudently exercises its rights as an investor to support corporate governance practices and financial market policies that promote sustainable, long-term value and enhance LACERA's ability to fulfill its mission.

The fundamental objective of LACERA's *Corporate Governance and Stewardship Principles* (the "Principles") is to safeguard and promote the economic interests of the trust. The *Principles* identify LACERA's core principles of corporate governance and the key stewardship strategies LACERA pursues to advance them. They are intended to further the *Investment Beliefs* that frame LACERA's *Investment Policy Statement* by articulating LACERA's view on sound governance and broader environmental, social, and governance (also known as "ESG") issues.

LACERA seeks to exercise the legal rights it has as an investor and to steward its assets by applying these *Principles*. The *Principles* guide LACERA's proxy votes, engagements with policymakers and portfolio companies, and collaboration with other institutional investors when it shares common objectives (such as actively participating in investor associations). The *Principles* help inform LACERA's investment process, including the evaluation and monitoring of portfolio investments, consistent with the rights and legal obligations of each asset. And the *Principles* outline the legal authority, roles, and responsibilities guiding LACERA's application of the *Principles* and initiatives.

In advocating practices in line with these *Corporate Governance and Stewardship Principles*, LACERA aims to maximize the long-term value of plan holdings.

# Legal Authority

The LACERA Board of Investments has “the sole and exclusive fiduciary responsibility over the assets of” the system, as provided by the California Constitution (Article XVI, Section 17(a)). LACERA exercises its legal rights on corporate governance matters in furtherance of its fiduciary duty under Article XVI, Section 17 of the California Constitution, the County Employees Retirement Law of 1937 (CERL), and other governing laws, regulations, and case authority. The Board’s fiduciary duty has two components:

## A. Duty of Loyalty

Under the duty of loyalty, Board members have the sole and exclusive responsibility to administer the system in a manner that will assure prompt delivery of benefits and related services to the participants and their beneficiaries. (Article XVI, Section 17(a).) Board members shall discharge their duties with respect to the system solely in the interest of, and for the exclusive purposes of providing benefits to, participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the system. (CERL Section 31595(a).) The Board’s duty to participants and their beneficiaries shall take precedence over any other duty. (Article XVI, Section 17(b).)

## B. Duty of Prudence

Under the duty of prudence, Board members shall discharge their duties with respect to the system with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims. (Article XVI, Section 17(c); CERL Section 31595(b).) “[T]he Board may, in its discretion, invest or delegate the authority to invest, the assets of the fund through the purchase, holding, or sale of any form or type of investment, financial instrument, or financial transaction when prudent in the informed opinion of the Board.” (CERL Section 31595.) Further, the Board “[s]hall diversify the investments of the system so as to minimize risk of loss and to maximize the rate of return, unless under the circumstances it is clearly prudent not to do so.” (CERL Section 31595(c).)

The fiduciary obligations of prudence and loyalty to plan participants and beneficiaries compel and guide LACERA’s corporate governance activities and consideration of financially material environmental, social, and governance factors in its investment process. LACERA’s fiduciary duties extend to, but are not limited to, prudently managing its proxy votes, vigilantly monitoring and diligently mitigating risks to the value of its investments, and judiciously determining action in order to assist in the effective administration of the fund and promote the interest of members and their beneficiaries.

# Stewardship Strategies

LACERA's corporate governance and stewardship efforts may include the following strategies:

## A. Proxy Voting

Proxy votes are plan assets, have value, and should be managed in a manner consistent with fiduciary duty and LACERA's interest in long-term value. LACERA exercises its voting rights for the exclusive benefit of LACERA's members and votes proxies in accordance with its *Corporate Governance and Stewardship Principles*.

LACERA seeks to vote all proxies for which it has proxy voting authority. LACERA coordinates with its custodian bank and investment service vendors to maximize its opportunities to responsibly cast proxy votes in line with its fiduciary duty, while recognizing that administrative requirements and practices in certain local markets may affect LACERA's ability to cast proxy votes, such as delayed notification of proxies subsequent to vote deadlines and required powers of attorney in subcustodial chains. At meetings that require share blocking, LACERA evaluates the economic value of casting a proxy vote compared to the risk of limiting trading in the designated security and may opt to refrain from voting in order to preserve LACERA's ability to act in its best economic interests.

LACERA participates in securities lending to earn incremental income, per LACERA's *Securities Lending Program Policy*. In securities lending, the legal rights accorded those shares, including proxy voting, are transferred to the borrower of the securities during the period that the securities are on loan. As a result, LACERA forfeits its right to vote proxies on loaned securities unless those shares have been recalled from the borrower no later than the share's record date.

## B. Corporate Engagement

LACERA advocates its *Investment Beliefs, Corporate Governance and Stewardship Principles*, and mission through dialogue and engagement strategies with portfolio companies and external asset managers, which may include exercising legal rights associated with LACERA's investments, such as sponsoring shareowner resolutions.

## C. Public Policy

LACERA represents its interests to policymakers, such as legislators, regulatory agencies, and standards setting agencies, in line with its *Corporate Governance and Stewardship Principles*.

## D. Investor Collaboration

LACERA collaborates with other public pension funds, asset owners and asset managers, both informally and formally through investor associations such as the Council of Institutional Investors, in order to enhance LACERA's ability to achieve its objectives and advance its *Corporate Governance and Stewardship Principles*.

# Principles

The *Corporate Governance and Stewardship Principles* are organized into five sections. Each section addresses common corporate governance, proxy voting, and broader environmental, social, and governance (“ESG”) issues relevant to LACERA’s investment portfolio and investment partners. The five sections address issues pertaining to boards of directors, investor rights and capital structure, executive compensation and incentives, performance reporting, and environmental and social factors.

The *Corporate Governance and Stewardship Principles* are guided by five core concepts that collectively provide a framework by which LACERA aims to promote sustainable investment returns and responsible stewardship of fund assets:

**Accountability:** Governance structures and practices should be designed to promote accountability to the investors who provide the firm with capital. This extends to both board directors overseeing portfolio companies on investors’ behalf, and external managers entrusted with LACERA’s capital. Accountability helps to ensure that investments are managed in the best interests of investors.

**Integrity:** Integrity and trust are the cornerstone of financial markets and essential for economic stability. Core investor rights and protections are crucial to promoting integrity in financial markets.

**Aligned Interests:** Compensation and incentives should align the interests of the managers of capital and the investors who provide capital. This extends to senior executives at portfolio companies and external asset managers managing capital on LACERA’s behalf.

**Transparency:** Firms should provide investors with clear, comprehensive, and timely disclosures about fundamental elements of the firm’s business, financial activities, and performance.

**Prudence:** Firms should prudently identify, assess, and manage environmental and social factors that may impact the firm’s ability to generate sustainable economic value.

Fiduciary duty guides LACERA’s *Corporate Governance and Stewardship Principles*. LACERA recognizes that sound governance balances the rights of investors providing a firm with capital with the role and responsibility of portfolio company boards to direct and manage the firm.

LACERA recognizes that the application of the Principles may vary depending on the specific terms, constraints, and nature of LACERA’s investments in different asset classes. In public markets where LACERA retains voting authority to vote in line with these *Principles*, LACERA evaluates the financial impact of each issue presented on corporate proxies and votes proxies for the exclusive benefit of plan participants and beneficiaries in all instances. LACERA may oppose overly prescriptive or unduly burdensome measures proposed on corporate proxies, or resolutions that may otherwise restrict a firm’s board of directors from acting in the best economic interests of investors.

LACERA also recognizes that the laws, regulations, and customs guiding corporate governance practices vary by market. LACERA seeks to apply its *Corporate Governance and Stewardship Principles* in a universal and consistent manner, while observing and taking into consideration — as applicable and appropriate — local laws, regulations, and customs.

# I. Directors

The board of directors drives the strategic direction and oversight of the firm and its management. LACERA relies upon the directors of portfolio companies to exercise effective oversight and ensure that the firm is managed in the best interests of investors. Directors should understand the firm's long-term business strategy as well as risks that may impact the firm's value, and demonstrate a record of sound stewardship and performance. LACERA advocates policies and practices that encourage directors to be accountable to investors. Accountability ensures that a firm's operations and reporting are managed in the best interests of investors.

## A. Independent Oversight

- 1. Board Independence:** At least two-thirds of the board should be composed of independent directors in order to oversee management on behalf of investors, promote accountability to investors, and avoid potential conflicts of interest.

An independent director is defined as someone who has no material affiliation to the company, its chief executive officer, chairperson, or other executive officers, other than the board seat.

Materiality is defined as any financial, personal, or other relationship that a reasonable person might conclude could potentially influence one's objectivity in a manner that would have a meaningful impact on the individual's ability to satisfy requisite fiduciary standards on behalf of investors. Directors may not be considered independent if they, or a family member, are or have been an employee of the company (or a subsidiary or affiliate thereof) in the last five years; have a 20 percent or greater economic interest in the company; are or have been part of an interlocking director relationship with the CEO; receive direct payments for professional services unrelated to their service as a director in excess of \$10,000 per year; or engage in any related party transaction in excess of \$10,000 per year.

- 2. Board Leadership:** The board should be chaired by an independent director.
- 3. Board Committees:** Each board should establish an audit committee, a nominating and governance committee, and a compensation committee, each composed exclusively of independent directors.

Deference generally should be afforded to boards in determining appropriate oversight structures, such as the establishment and role of additional board committees. LACERA may support proposals to appoint an additional board committee in limited circumstances where a firm's performance, oversight structures, and peer comparisons demonstrate that inadequate board consideration and focus has been accorded to a compelling issue related to firm value.

LACERA may oppose or withhold support from non-independent board nominees or key board leadership positions where the board or key committees lack adequate independence.

## B. Board Quality and Composition

- 1. Composition:** The board should be composed of highly talented individuals who are best positioned to oversee the company's strategy for creating and sustaining value. Boards should give consideration to



ensuring that directors collectively possess a diverse set of relevant skills, competencies, and attributes to exercise oversight on investors' behalf, including expertise, geographic familiarity, and professional backgrounds relevant to the company's strategic objectives. The board should strive for a suitable mix of tenures to ensure both institutional familiarity and fresh perspectives on the board, as a firm's market environment and business strategies evolve.

The board should establish and disclose policies and processes for ensuring that it identifies and nominates suitable directors from a wide pool of candidates relevant to its business strategy, inclusive of including, but not limited to, diverse gender, racial, and ethnic backgrounds, gender identities, sexual orientations, and disability status. A diverse and inclusive board is better positioned to effectively deliberate and oversee business strategy in investors' interests.

Firms should disclose how the board defines and reflects a relevant and diverse mix of skills and backgrounds in its composition. In assessing board composition, LACERA generally expects to see a compelling link between requisite skill sets and a firm's corporate strategy and a credible track record of inclusivity, consistent with the diverse attributes and backgrounds defined above.

- 2. Board Size:** The board should define and disclose in governance documents an appropriate size or range of directors that ensures the board is composed of adequately diverse viewpoints and experience to effectively oversee the firm's business strategy, while not being so large as to diminish the board's operational effectiveness. Modifications to governing documents defining board size and structure should be submitted for investor approval and not be proposed for the purpose of impeding a change in firm control.
- 3. Excessive Commitments:** Directors should have adequate time to dedicate to their board service, fulfill their responsibilities, and represent investors' interests. Accordingly, directors and companies should generally limit board service to no more than three public company boards for each director, absent a clearly disclosed and compelling rationale. In consideration of the time demands on chief executive officers, they should generally not serve on more than two public boards (including any directorship of the company where they concurrently serve as CEO).
- 4. Tenure and Age Restrictions:** LACERA does not support arbitrary restrictions on director qualifications, such as tenure limits or mandatory retirement ages. Such limitations may impede a firm from benefiting from the expertise of an otherwise highly qualified director.

### C. Director Selection and Elections

- 1. Annual Elections:** Each director should be elected annually. Directors should not be elected by classes, or to "staggered" terms.
- 2. Vote Standard for Director Elections:** Director nominees in uncontested elections should be elected by a majority of votes cast. In contested director elections, a plurality of votes should determine the election.

- 3. Universal Proxy Card:** In the event of a contested director election, investors should have the right to select and vote for individual director nominees on a consolidated, or “universal,” proxy ballot, regardless of whether the director nominee is put forward by management or a dissident investor.
- 4. Cumulative Voting:** LACERA supports cumulative voting in director elections, in compliance with California Government Code Section 6900.<sup>1</sup>
- 5. Proxy Access:** Long-term investors who have held a significant ownership interest for a reasonable amount of time should have the right to nominate alternative directors for consideration on a firm’s proxy, otherwise known as “proxy access.” Proxy access procedures should have sound safeguards in place to ensure an orderly nominating process and prevent proxy access from being used to effectuate a change in control.
- 6. Ability to Remove Directors:** Investors should have the right to remove directors with or without cause, in order to allow investors to take action when a director is not serving investors’ best interests.

#### D. Board Roles and Responsibilities

- 1. Governance Guidance:** The board should develop, adopt, disclose, and periodically review clearly defined governance guidelines that govern the board’s operations.
- 2. Resources:** The board should have adequate resources and access to information to enable it to execute its responsibilities and duties. Directors should be provided information in advance of meetings. Directors should have full access to senior management and information concerning the firm’s operations. Directors should be familiar with a firm’s operations independent of the chief executive officer and senior management. Directors should have the authority and adequate budget to hire outside experts, if necessary.
- 3. Independent Proceedings:** Directors should work with the chief executive officer to establish board agendas. Independent directors should meet at least annually without management or non-independent directors’ participation.
- 4. Board Communication and Engagement:** Firms should establish reasonable policies that permit effective communication between investors and directors regarding business strategy and corporate governance matters.
- 5. Management Succession Planning:** The board should conduct a regular evaluation of the chief executive officer and plan for business continuity, including establishing and disclosing a succession plan for the chief executive officer and key senior executives

---

<sup>1</sup> Section 6900. Cumulative Voting. “Government Body.” Whenever any government body is a shareholder of any corporation, and a resolution is before the shareholders which will permit or authorize cumulative voting for directors, such government body shall vote its shares to permit or authorize cumulative voting. As used in this section, the term “government body” means the state, and any office, department, division, bureau, board, commission or agency thereof, and all counties, cities, districts, public authorities, public agencies and other political subdivisions or public corporations in the state.

**6. Board Self-Evaluation and Refreshment:** Boards should adopt and disclose a process for regular, rigorous, and earnest self-assessment and evaluation. The evaluation process should be conducted under the direction of independent directors and ensure candor, confidentiality, trust, and effective interaction among directors. Board self-evaluation should be tailored to meet the firm's and board's strategic objectives and requirements. In order to promote long-term planning aligned with business needs, the board's self-evaluation process should assess the board's size and operational effectiveness, identify emerging business risks and relevant skills gaps among its composition, and prudently anticipate and proactively plan for board vacancies and refreshment. It should appraise the alignment and adequacy of director education and development, as well as the delineation of management and board powers, while positioning the board to efficaciously exercise oversight in investors' interests.

**7. Charitable and Political Contributions:** Corporate charitable contributions may accrue direct and indirect benefits to a firm and its investors, including goodwill in communities in which it operates and favorable tax treatment. Charitable contributions should not be directed, eliminated, or otherwise restricted by investors.

The board should monitor, assess, and approve all charitable and political contributions (including trade association contributions) made by the firm. Political and charitable contributions should be consistent with the interests of the firm and its investors. The board should clearly define and approve the terms and conditions by which corporate assets may be provided to charitable and political activities, including developing and publicly disclosing guidelines for the approval of such contributions. The board should disclose on an annual basis the amounts and recipients of all monetary and non-monetary contributions made by the firm during the previous fiscal year, including any expenditures earmarked for political or charitable activities that were provided to or through a third party.

**8. Indemnification:** Directors may be provided reasonable and limited protections, including indemnification and limited personal liability for damages resulting from violating duty of care, where the director is found to have acted in good faith and in a manner the director believed to be in the best interests of the firm. Reasonable limitations may ensure the board is positioned to recruit qualified directors.

## E. Board Performance and Effectiveness

**1. Performance Evaluation:** The board's performance, and that of individual directors, should be assessed within the context of the board's suitability for and track record of serving and protecting investors' interests. LACERA may withhold support or oppose individual directors, members of a board committee, or the entire board where the track record demonstrates directors' failure to serve investors' best interests. Director and board performance is evaluated in consideration of the following factors:

**1.1. Stewardship and Risk Oversight:** Directors should demonstrate a sound track record of stewardship and risk oversight, including avoiding any material failures of governance, risk oversight, or fiduciary responsibilities at the company. Risk is broadly understood to encompass financial, reputational, and operational risks relevant to a firm's ability to generate sustainable financial returns. Material risks may include, but are not limited to, internal controls related to legal compliance, cyber security, and data privacy, as well as broader risks addressed throughout these *Corporate Governance and Stewardship Principles*, such as risks associated with accounting practices, climate change, and human capital management.

- 1.2. Effective Oversight of Management:** Directors should conduct effective oversight of management, including avoiding any failure to replace management as appropriate.
- 1.3. Attendance:** Each director should attend at least 75 percent of scheduled board meetings each year, including attendance at assigned committees, absent a compelling, clearly disclosed justification.
- 1.4. Board Service:** Directors' track records and performance on other boards may be considered in evaluating director nominees. In particular, a director's failure to effectively exercise oversight on other boards or any egregious actions that raise substantial doubt about the director's ability to fulfill a director's obligations and serve the best interests of investors may prompt opposition to the director's nomination.
- 1.5. Ethics:** Directors should demonstrate the utmost integrity and be free of any criminal wrongdoing, breaches of fiduciary responsibilities, or questionable transactions with conflicts of interest.
- 1.6. Transparency in Reporting:** Financial reports and material disclosures should be published in a satisfactorily diligent and timely manner.
- 1.7. Investor Responsiveness:** Directors should demonstrate accountability and responsiveness to investors. Directors should not unilaterally amend a firm's governing documents in a manner that materially diminishes investor rights or otherwise adversely impacts investors without seeking investor approval. Directors should not adopt a poison pill or make a material change to an existing poison pill without submitting the plan for investor approval within the following 12 months. Directors should take reasonable steps to implement resolutions approved within the previous 12 months by a majority of investors, within the confines of legal and regulatory constraints. Directors should respond to tender offers where a majority of shares have been tendered. There should be no record of abuse against minority investor interests.
- 2. Committee Performance:** Each committee should demonstrably fulfill its core duties and the specific responsibilities outlined in its committee charter. LACERA may oppose the committee chair or incumbent directors who have served on committees that have failed to perform their duties in investors' best interests. In cases where governance provisions, such as staggered board elections, impede LACERA from holding designated directors accountable, LACERA may oppose board leadership or other incumbent directors.

Audit Committee members should ensure that non-audit fees are not excessive, no adverse opinion has been rendered on the company's audited financial statements, and the firm has not entered into an inappropriate indemnification agreement that limits legal recourse against the external auditor.

Nominating and Governance Committee members should establish sound governance practices, reasonable and timely responsiveness to investors on governance concerns, and effective board nomination, evaluation, and refreshment practices.

Compensation Committee members should demonstrate a clear and proven track record of aligning executive pay with the firm's strategic objectives and performance, refrain from permitting problematic pay practices, ensure clear disclosures of all key components of pay plan design and practices, and exhibit reasonable and timely responsiveness to investors.

**3. Contested Director Elections:** In assessing director nominees in contested elections, LACERA may consider all relevant factors to identify and support the nominees best suited to enhance sustainable firm value and serve investors' economic interests. Consideration may be given to the long-term financial performance of the firm, its governance profile, and management's track record; nominees' proposed strategies for value creation; the qualifications and suitability of director nominees, including their alignment with LACERA's governance principles; and the dissidents' ownership stake and history of generating sustainable returns at other firms.

LACERA may support requests to reimburse dissident nominees for reasonable, incurred expenses when dissident nominees have presented a compelling case and support for their nomination is warranted.

## II. Investor Rights and Capital Structure

Integrity and trust are the cornerstones of capital markets and essential for economic stability. Core investor rights ensure fair and equitable treatment of investors and help instill investor confidence, thereby facilitating capital formation and economic stability.

LACERA supports core rights and protections at portfolio companies and within financial market policies in order to safeguard its investments and foster a stable investment climate within the broader financial markets in which it invests. Financial rules and regulations should promote fair, orderly, and competitive markets and provide for investor protections. Investor rights extend to key decisions that may fundamentally impact or modify a firm's capital structure, such as share issuances, restructuring, and mergers and acquisitions.

### A. Investor Rights

- 1. Rights Proportionate to Economic Interest:** Investors should have voting rights proportionate to their economic interests. Multiclass ownership structures may entrench certain investors and management, insulating them from acting in the interests of all investors. LACERA therefore supports the principle of "one share, one vote."
- 2. Voting Requirements and Procedures:** Investors should have the right to act on fundamental corporate matters by a simple majority of votes cast. Fundamental matters may include, but are not limited to, amending a firm's governing documents (such as its charter or bylaws) and effecting corporate transactions, such as a merger or acquisition.
  - 2.1 Simple Majority Voting:** Companies should not adopt supermajority voting requirements except when such provisions may protect outside or minority investors from unilateral action being taken by an entity (or entities) with controlling interest or significant insider ownership.
  - 2.2 Voting Procedures:** Voting and tabulation of matters put before investors by proxy or otherwise should be guided by transparent procedures, consistent application of rules, and fairness for all eligible voters. Votes should be counted by an independent tabulator and kept confidential. Voting results should be promptly disclosed once tabulation has been finalized.
  - 2.3 Bundled Voting:** Investors should be able to review and cast votes on unrelated matters as separate and distinct ballot items. Disparate matters should not be presented for investor consideration as a "bundled" voting item. LACERA may oppose bundled proposals that combine supportable voting items with matters that LACERA opposes.
  - 2.4 Broker Non-Votes:** Uninstructed broker votes and abstentions should be counted for quorum purposes only.

### 3. Annual Meetings

**3.1 Quorum Requirements:** Quorum requirements should promote that a broad range of investors are represented at meetings. Quorum requirements should not be unduly low, in either absolute terms or relative to the economic interest of a controlling investor or significant investor, in order to protect investors from unrepresentative action being conducted.

**3.2 Technology:** Investors should have the right to attend an annual meeting of a firm in person. Any use of technology, such as audiocasts or webcasts, should expand and enhance, and not restrict or otherwise impede, investors' ability to participate in an annual meeting, and should afford opportunities for meeting participation equal to those afforded investors attending the meeting in person.

**3.3 Resolutions:** Investors with a reasonable ownership interest in a firm should have the right to put forward a resolution for investors' consideration and vote at the firm's annual meeting.

**3.4 Advance Notice Requirements:** Investors should be able to submit items for formal consideration at an annual meeting, such as proposals or director nominees, as close to the meeting date as reasonably possible and within the broadest timeframe possible, recognizing the need to allow sufficient notice for company, regulatory, and investor review.

**3.5 Transaction of Other Business:** LACERA generally opposes requests for advance approval by proxy of undisclosed business items that may come before an investor meeting for consideration.

**4. Special Meetings:** Investors should be able to call a special meeting to take action on certain matters that may occur between regularly scheduled annual meetings. The right to call a special meeting should require aggregating a minimum of 10 percent ownership interest and be subject to reasonable terms and conditions.

**5. Action by Written Consent:** Investors should have the right to act by written consent on key governance matters under reasonable terms and conditions.

**6. Access to Research:** Investors should have access to competitive, timely, and independent market, investment, and proxy research services of their choosing. Market regulation should support and not impede a competitive market of service providers.

**7. Ownership Disclosure:** Significant ownership interests above 5 percent should be disclosed.

**8. Incorporation:** A firm's country or state of incorporation may significantly impact the firm's financial health, competitive position, governance profile, and the legal rights afforded to investors, as defined by the jurisdiction of incorporation. When selecting a jurisdiction for incorporation (such as in relation to a merger or acquisition or a proposed reincorporation), firms should give due consideration to competitively positioning the firm for financial success while also ensuring sound governance practices and strong legal rights and protections for investors. LACERA may oppose proposals for reincorporation where the business and financial rationale for reincorporation do not outweigh the detrimental impact of a reincorporation on investor rights and governance provisions.

**9. Litigation Rights:** Robust and viable litigation rights enable investors to protect firm value, deter misconduct, and seek recourse in the event of egregious corporate malfeasance or fraud. Corporations should not curtail or otherwise diminish investors' prospective legal recourse through governance provisions, such as exclusive forum designations for legal disputes, mandatory arbitration clauses, or "fee-shifting" provisions by which an investor who unsuccessfully brings legal action must bear the entirety of the corporation's legal costs.

## B. Capital Structure

Finding the optimal mix of equity, long-term debt, and short-term financing is critical to driving economic returns. A firm's capital structure should support the generation of long-term, sustainable returns. The board should determine and drive a firm's capital structure, in coordination with senior management. Capital structure should coordinate and balance multiple factors, including the firm's business profile, strategy, and opportunities for growth; access to and cost of capital; and capital distributions such as the firm's dividend policy.

Investors should be able to vote on matters that may fundamentally modify or impact a firm's capital structure, such as common share issuances, and mergers and acquisitions.

**1. Share Issuances and Authorizations:** Share issuances enable firms to raise funds for financing purposes.

**1.1 Authorization of Common Shares Issuance:** Requests to authorize capital or approve share issuances should specify the quantity of shares for which approval is sought. Requests should be evaluated upon careful consideration of the individual details and merits of each request and according to LACERA's economic interests. Firms should present a compelling purpose for the share issuance, demonstrate a track record of responsibly using authorized shares in investors' interests, and provide for rights and restrictions attached to proposed equity that are aligned with investors' interests. In evaluating requests, the availability of preemptive rights and any risks of authorizing the share issuance, including the dilutive impact of the request, may also be considered. Capital authorization terms should not facilitate an anti-takeover device or otherwise adversely impact investors' interests.

**1.2 Preemptive Rights:** Preemptive rights provide current investors the right to maintain a proportionate interest in a firm by exercising a right to purchase shares proportionate to what they already own in any new issuances of equity. Requests to create or abolish preemptive rights should consider the size of the firm, the characteristics of its investor base, and the liquidity of its equity to ensure that preemptive rights may be pragmatically exercised and do not impose an onerous restriction on capital raising.

**1.3 Preferred Shares Authorization:** Preferred shares, which provide distinct features such as fixed dividend payments or seniority of claims relative to common shares, may be supportable when the purpose of such issuance is in connection with a proposed transaction appearing on the same ballot that merits support. Otherwise, requests for authorization are evaluated in consideration of the request's stated purpose, the firm's past use of authorized preferred shares, and an assessment of the risk of authorizing the share issuance, including the dilutive impact of the request, and should not create or increase shares that carry superior voting rights to common shares. Any conversion rights should define reasonable conversion ratios and not result in excessive dilution of common shares.



- 1.4 Blank Check Preferred Shares:** Firms generally should not create classes of shares providing the board with broad discretion to define voting, conversion, dividend distribution, and other rights, absent a compelling rationale and clearly stated restrictions in line with investors' interests. The voting rights of unissued shares should be presented for investor approval and not be subject to board discretion.
- 1.5 Blank Check Preferred Share Placements:** Investor approval should be required for the placement of preferred shares with any person or group for other than general corporate purposes to enable investor review of the business purpose, prospective impact on dilution and voting positions, and any adverse impact on existing investors.
- 1.6 Reverse Stock Split:** Reverse stock splits, by which multiple shares are exchanged for a lesser amount to increase share price, generally should be accompanied by a proportionate reduction in authorized shares.
- 2. Debt Issuance and Borrowing Powers:** Debt issuances and restructuring, amendments to a firm's aggregate limit on the board's ability to borrow money, and other debt-related items should serve a compelling and clearly articulated business purpose, be in line with and supportive of generating sustainable and viable financial returns, and take into reasonable consideration any detrimental impact on existing investors. LACERA evaluates debt-related proposals upon careful consideration of the individual terms and merits of the request.
- 3. Capital Allocation and Income Distributions:** A firm should allocate capital, including distribution of income through dividends or share repurchases, in a disciplined and balanced manner that supports the generation of long-term value.
- 3.1 Allocation of Income:** Firms should provide adequate justification when seeking investor approval for the allocation of income when the payout ratio appears unbalanced or unsustainable (either inordinately low, such as below 30 percent, or excessive, given the firm's financial position).
- 3.2 Stock (Scrip) Dividend Policy:** Firms may provide investors the option to receive dividend payments in the form of common equity in lieu of cash. Such provisions enable a firm to retain cash and may strengthen the position and commitment of long-term investors. In all circumstances, firms should provide a cash option, absent a compelling justification that such an option may be harmful to investors.
- 3.3 Share Repurchase Programs:** Open market share repurchase plans should enable investors to participate on equal terms and support balanced and disciplined capital allocation. Requests to authorize share repurchases should have a defined and limited duration, incorporate clear and reasonable terms and conditions, and generally not exceed 10 percent for market repurchases within any single authority, absent a compelling rationale in line with investors' interests and market practice.
- 4. Mergers, Acquisitions, and Other Corporate Restructuring:** Mergers and corporate restructuring (including spin-offs, leveraged buyouts, and reorganizations) have major financial implications for investors.

**4.1 Evaluation:** LACERA carefully examines all relevant facts and circumstances of each proposal to determine whether the proposal, in its entirety, is in LACERA's best interests. Assessment of each proposed transaction takes into account multiple factors. The valuation should be reasonable. Market reaction may be considered. The strategic rationale and expected benefits should be sensible, with any projected synergies or financial impact reasonably achievable. Management should have a favorable track record of successful integration of acquisitions or business combinations. The negotiation and deal process should be fair and equitable. There should be no conflicts of interest, such as factors enabling insiders to disproportionately benefit from the proposed transaction. The resulting entity should observe sound corporate governance practices. The risks of not completing the transaction or corporate restructuring may be considered. Sufficient information should be provided to enable investors to make an informed decision.

**4.2 Appraisal Rights:** Investors should be afforded appraisal rights by which they may seek a judicial review of the terms of certain corporate transactions in order to determine fair market value.

**5. Anti-Takeover Measures:** Investors should be afforded the reasonable opportunity to deliberate and decide on the merits of takeover bids and acquisitions. Practices and provisions, including corporate bylaws, charters, laws, and statutes, that may impede or deter a corporate transaction that is otherwise in investors' interests, may take a variety of forms and generally should be submitted for investor review and approval.

**5.1 Poison Pills:** The board should not enact or amend a poison pill without investor approval. LACERA generally supports the redemption of existing poison pills, except in unique circumstances where a carefully designed, short-term plan may enable a firm to negotiate more favorable terms with a potential bidder. Such plans should require a minimum 20 percent ownership threshold to trigger, provide for limited and reasonable duration, exclude provisions by which only continuing directors may remove the pill, and otherwise provide adequate investor protections so that the plan will not unduly impede a bid that is otherwise in investors' interests.

**5.2 Net Operating Loss (NOL) Protective Amendments:** Protective amendments with the stated purpose of preserving a company's net operating losses for a tax benefit, such as under the terms of Section 382 of the Internal Revenue Code, should balance the anticipated benefit to investors of preserving the tax value and the risk of potential abuse of such provisions as an anti-takeover measure. Because NOL protective amendments may serve as a poison pill, the board should submit related items for investor review and approval. Such provisions should only be used under limited, clearly justified circumstances and include adequate protections, such as an appropriate ownership threshold and clearly defined and reasonable duration limits.

**5.3 Greenmail:** Greenmail, by which a firm repurchases shares of a potential acquirer at an above-market price to deter a takeover, should be prohibited.

**5.4 Other Anti-Takeover Measures:** LACERA generally opposes provisions that impose onerous restrictions or impediments on prospectively beneficial takeover bids, taking into account the specific terms and circumstances of such provisions to determine the provision's alignment with LACERA's economic interests. LACERA supports firms opting out of related anti-takeover laws and statutes, where legally permitted.

Fair price provisions that require an investor seeking to purchase control of a firm to pay a defined fair price should not impose onerous requirements that may deter a competitive bid from being considered by investors.

Firms should opt out of control share acquisition statutes that void the voting rights of an investor surpassing certain ownership thresholds; control share cash-out provisions requiring an investor above a specified ownership threshold to purchase shares from remaining investors at the highest acquiring price if remaining investors exercise their right to sell their shares; and freeze-out provisions requiring an investor who meets a defined ownership threshold to wait a specified period of time before gaining control of the firm.

Disgorgement provisions, by which an investor who acquires ownership interest above a specified threshold must pay the firm any profits realized from the sale of the firm's equity purchased within a defined time period prior to exceeding the defined ownership threshold, should be avoided.

Firms should not provide designated investors (such as the government of a related, formerly state-owned enterprise) "golden shares" that provide for exceptional veto power or voting rights regarding specific corporate proposals.

**6. Related-Party Transactions:** Investors should have the right to approve significant related-party transactions. Investor approval helps to protect investors against self-dealing. Firms should provide clear information regarding such transactions — including all fees, a compelling rationale for the service or services provided, and the assessment of independent directors and an independent financial advisor of the transactions — in order to permit an informed assessment of prospective conflicts of interest.

## III. Compensation and Incentives

Compensation and incentives should align the interests of senior executives and investors. Executive compensation and incentives serve a critical role in recruiting, motivating, and retaining talent. Pay plan design, structure, and goals should be fundamentally derived from and relevant to a firm's core business objectives and collectively promote sustainable value creation. Accordingly, pay and incentives should incentivize and reward executives for the achievement of outstanding performance, while encompassing prudent risk mitigation and taking care to avoid excessive risks that may be detrimental to the firm's long-term financial returns.

Boards should determine core components of executive pay design, including target pay levels and incentives. Boards oversee compensation paid to senior executives, award bonuses, and establish incentive plans that may include equity and performance-based grants and awards. The board may also review and approve supplemental compensation plans for firm employees, including employee equity and retirement plans.

Firms should provide investors with transparent, clear, and comprehensive disclosure of senior executives' total compensation package. This includes disclosure of salary, short and long-term incentive compensation, and all benefits and perquisites. Selected performance metrics and targets upon which compensation is contingent should be provided in a plain and clear format.

### A. Advisory Vote on Executive Compensation

Executive compensation design and practices should be submitted for investor review and non-binding approval on an annual basis (also known as "say on pay"). Advisory votes should consider the firm's pay design and practices as a whole, taking into account the alignment of executive pay with long-term firm performance, the absence of significant problematic pay practices and excessive risk in targets and reward incentives, and the clarity of the firm's pay disclosures.

### B. Compensation Plan Design

Executive compensation and practices should link pay to firm performance. Compensation should be commensurate with the firm's long-term performance, appropriately aligned with firms with which the firm competes for executive talent (such as industry peers and firms of comparable size and profile), and properly consider the firm's long-term outlook for generating sustainable returns.

**1. Performance Criteria:** Incentive compensation should incorporate clearly defined, rigorous, and disclosed performance criteria upon which incentive pay is contingent. Performance metrics, targets, and hurdles should be consistent with and promote the firm's strategy for generating sustainable value, including key financial and operating objectives, and effective management of relevant business risks.

**2. Peer Benchmarking:** Peer groups used to benchmark compensation should be clearly disclosed and relevant to the firm's business profile and size.

- 3. Compensation Consultants:** Compensation consultants providing strategy, design, and implementation services related to executive compensation to the board's compensation committees should be at the exclusive hire and service of the committee, unquestionably independent, and clearly disclosed.
- 4. Equity Ownership, Retention, and Holding Requirements:** Equity ownership among senior executives may strengthen the alignment of interests between executives and investors and promote prudent risk mitigation, and should be encouraged. Equity ownership guidelines providing that executives should maintain reasonable equity in the firm, requirements for executives to retain a meaningful portion of equity acquired through compensation plans, and equity grant holding requirements should strike an appropriate balance to promote equity ownership while avoiding overly restrictive or onerous provisions that may undermine talent motivation and retention to the detriment of investors' interests.
- 5. Prearranged Trading Plans:** Prearranged trading plans, as provided under Securities and Exchange Commission Rule 10b5-1, define parameters for executives' predetermined securities transactions in advance of an executive becoming aware of material non-public information regarding the firm's securities and are intended to mitigate the risks of insider trading. The adoption, amendment, or termination of prearranged trading plans for senior executives should be governed by the board, promptly disclosed, and provide for timely disclosure of transactions made pursuant to the plan's provisions.
- 6. Hedging and Speculative Transactions:** Senior executives should be prohibited from engaging in derivative or speculative transactions involving equity of the firm, including hedging, holding equity in a margin account, or pledging equity as collateral for a loan.
- 7. Internal Pay Disparity:** Executive compensation should be considered in the context of how a firm compensates its employees, including in relation to industry peers. Firms should disclose the ratio of the chief executive officer's total pay to that of the average firm employee.
- 8. Restrictions:** Executive pay should not be subject to arbitrary restrictions or limitations on the magnitude or form of compensation, such as linking executive pay to average employee compensation. Arbitrary limits and restrictions may undermine a firm's ability to attract and retain competent talent and create a competitive disadvantage for the firm.
- 9. Recoupment Policies:** Firms should adopt and disclose rigorous policies defining the terms and conditions by which incentive compensation may be recouped, in order to align pay with performance, promote accurate financial reporting, and deter misconduct. Robust clawback policies should enable the board to review and recoup senior executive incentive compensation in the event that compensation was calculated using inaccurate financial reports, or in the event of fraud or misconduct. Application of the recoupment policy should be reasonably disclosed.
- 10. Perquisites:** Firms should refrain from providing executives with extraordinary or excessive perquisites that are not linked to firm performance, incongruent with prevailing best practices, and unjustified to adequately attract and retain executive talent. Corporate assets should not be unduly expended on personal expenses that are unrelated to an executive's employment and that extend beyond those

widely offered to a firm's employees. Firms should avoid, or otherwise adequately and cogently justify, paying an executive's personal income tax obligations (including excise tax gross-up's), personal use of corporate aircraft, and extensive personal and home security payments.

### C. Equity Plans

Equity plans should motivate plan participants to focus on long-term firm value and returns, encourage equity ownership, and advance the principle of aligning employee interests with those of investors.

Firms should submit equity plans for investor approval. Equity plans should be reviewed taking into account plan features, impact on equity dilution, and prospects to align pay with performance.

- 1. Performance-Based:** Equity plans should define robust and appropriate performance requirements by which equity may be granted that are aligned with and justifiable by the firm's business strategy and strategic objectives. Such provisions may include terms and performance criteria permitting a plan to qualify for favorable tax treatment.
- 2. Track Record:** The firm should demonstrate a history of responsibly linking equity awards to performance and avoiding grants of excessive awards.
- 3. Impact:** The total cost and potential dilution of the plan should be reasonable.
- 4. Repricing:** Equity granted under the terms of the plan, such as share options and stock appreciation rights, should not be repriced without investor approval, as repricing may sever the link between pay and performance. Requests to reprice underwater options should clearly define and compellingly justify the rationale and intent, timing, defined participants, and terms, such as a value-for-value exchange, exercise price, and vesting requirements.

### D. Employee Equity Programs

- 1. Employee Stock Purchase Plans:** Employee stock purchase plans encourage firm employees to acquire an ownership stake in the firms for which they work by providing employees the right to purchase the firm's equity at a set price within a certain period of time. Employee stock purchase plans should define reasonable terms, such as designating exercise prices at no lower than 85 percent of fair market value, fixing a justifiable offering period, and limiting voting power dilution to less than 10 percent.
- 2. Employee Stock Ownership Plans:** Employee stock ownership plans (ESOPs) enable employees to accumulate firm equity. ESOPs should balance encouraging employee equity ownership while avoiding harm to existing investors. Shares allocated to ESOPs should not be excessive (generally no more than 5 percent of outstanding shares).

## E. Severance and Retirement Arrangements

Severance payments to executives in the event of an employment termination, separation, or change in firm control should be justifiable by the executive's performance, serve the long-term interests of the firm and its investors, and not be excessive.

**1. Parachutes:** Firms should submit for investor approval arrangements to provide executives with extraordinary severance payments in certain circumstances, such as a change in firm control. Extraordinary payments may be assessed in relation to market and peer practice and should not exceed payments greater than three times base salary and bonus. Severance payments should not be so attractive as to influence merger agreements that may not be in the best interests of investors and should have triggering mechanisms beyond the control of senior executives. Any payments in the event of a change in control should be "double triggered," i.e., contingent upon both an actual change in control and an employment separation related to the change-in-control event. Unvested equity should not accelerate upon the change in control. Payments should not trigger, and firms should not commit to paying, executives' excise taxes ("gross ups"). A change in control should not be contingent upon investor approval of executives' severance payments.

**2. Supplemental Executive Retirement Plans:** Retirement plans that provide extraordinary retirement benefits exclusive to executives should be presented for investor approval and avoid excessive payouts, such as excluding all incentive or bonus pay from covered compensation calculations.

**3. Golden Coffins:** Firms should refrain from providing extraordinary compensation upon an executive's death. Firms should submit for investor approval agreements and policies that oblige the firm to make payments or awards following the death of a senior executive, including unearned salary or bonuses, accelerated vesting or continuation in force of unvested equity grants, and other extraordinary payments or awards.

## F. Director Compensation

Firms should disclose the philosophy and process used for determining compensation paid to directors serving on the board and the value of all elements of director compensation.

**1. Structure and Design of Director Compensation:** Directors may be compensated in both cash and equity. Fees and compensation paid to directors should be appropriate relevant to market norms, the firm's industry, and its financial performance. Equity should not constitute the entirety of director compensation, as this may undermine directors' incentive to monitor and exercise oversight of long-term risks to firm value.

**2. Equity Ownership:** Equity ownership by directors promotes the alignment of directors' interests with those of investors. Firms should adopt and disclose equity ownership guidelines to encourage directors to acquire and hold a meaningful amount of equity in the firm. Equity ownership should not, however, be a qualification for board service, as such restrictions may impede otherwise highly qualified individuals from serving as directors.

**3. Retirement Benefits:** Retirement benefits for director service are improper, as such benefits may impede objectivity and sever the alignment of interest between directors and investors.

## IV. Performance Reporting

Financial markets work most efficiently when investors have timely, reliable, and comparable information about material aspects of a firm's performance. Transparency of a firm's key financial and operating performance is critical for investors to assess the firm's financial viability and prospects. Independent verification of a firm's financial disclosures promotes investor confidence.

LACERA supports clear and comprehensive disclosure of relevant financial and operating performance indicators (including environmental, social, and governance matters) that may provide valuable information for investors to assess a firm's prospects for delivering sustainable value.

### A. Financial Reports

Financial statements and auditor reports are essential in evaluating a firm's performance. Financial reports should present clear, reliable, and comprehensive data and information. A firm's overall performance reporting framework should conform with, and place primary prominence on, established accounting standards. Additional reporting measures that do not adhere to generally accepted accounting principles (either GAAP or International Financial Reporting Standards/ IFRS, depending on the reporting market) should be clearly explained and justified, and should supplement, as opposed to replace or otherwise obfuscate, performance reporting that is consistent with established accounting standards.

When presenting financial reports for investor review, there should be no unresolved concerns about the accounts presented or audit procedures, inadequate disclosures, or unresponsiveness regarding investor or regulatory questions on specific items.

### B. Fiscal Term

Firms should define an appropriate fiscal term. The fiscal term should not be altered for the purpose of postponing an annual meeting.

### C. Auditors

Firms should ensure independent, high-quality, and timely provision of audited financial statements by a clearly disclosed external auditing firm.

**1. Ratification:** Auditors should be clearly disclosed and presented to investors for ratification. LACERA takes into consideration the following factors when evaluating auditor ratification:

**1.1. Independence:** The external auditor should be objective and free of conflicts of interest in providing auditing services. Accordingly, non-audit fees paid to an external auditor should not be excessive. Specifically, non-audit fees should not exceed the total of audit and audit-related (such as permissible tax) fees, and the auditing firm should have no financial interest or association with the company.



- 1.2. Quality:** There should be no question as to the accuracy of the external auditor's opinion, the financial report's indication of the company's financial position, and the accurate application of established accounting standards. There should be no aggressive accounting practices or significant audit-related issues at the company, such as a history of restated financial results or material weaknesses in internal controls.
- 1.3. Timeliness:** There should be no unjustified delays in the publication of audited financial statements.
- 2. Rotation:** Requests to rotate auditors should be evaluated in consideration of the audit firm's tenure, any proposed length of rotation, the presence of significant audit-related issues at the company, the extent to which the company periodically assesses audit pricing and quality, and the robustness of the audit committee's functions, such as the presence of financial experts and how often the committee meets.
- 3. Indemnification:** To avoid any impairment of the external auditor's objectivity and independence, companies should not enter into engagement letters that indemnify or otherwise limit the external auditor's liability.

## V. Environmental and Social Factors

Environmental and social factors — such as management of human capital, access to natural resources, and environmental risks — may shape and impact a firm’s ability to generate and sustain value. Firms should identify and prudently manage social and environmental factors relevant to the firm’s business strategy, industry, and geographic markets. Social and environmental factors may present opportunities to drive value or risks to a firm’s strategic objectives.

Firms should ensure diligent board oversight and provide reasonable disclosures of relevant environmental and social factors and how they are managed. Reporting enables investors to make informed investment decisions when evaluating companies and the long-term viability and sustainability of their business practices.

In addition to identifying, evaluating, and mitigating the risks presented by social and environmental factors, firms should carefully consider the impact of their business activities. Promotion, adoption, and effective implementation of guidelines for the responsible conduct of business and business relationships are consistent with the fiduciary responsibility of protecting long-term investment interests.

### A. Social Factors

- 1. Human Capital Management:** Effective management of human capital — including the development, incentives, and retention of the firm’s workforce — is key to accomplishing a firm’s strategic objectives. Companies should identify, ensure board oversight, and disclose information about significant human capital value drivers that are related to the firm’s ability to create and protect firm value. Central to effective human capital management is the assurance of equal employment opportunity, including non-bias in compensation and employment terms, and a workplace free of harassment in all forms.
- 2. Human Rights Risk:** Firms should mitigate the risks of human rights abuses in global operations and supply chains by adopting robust human rights policies and ensuring effective internal controls to monitor compliance with stated human rights standards.

### B. Environmental Factors

- 1. Natural Resource Stewardship:** Firms should give consideration to efficient, sustainable use and stewardship of natural resources, such as energy and water, to enhance operational efficiency and safeguard firm value from the risks of resource scarcity.
- 2. Environmental Risk:** Firms should ensure reasonable oversight mechanisms and mitigation of environmental risks, such as hazardous waste disposal and pollution, to mitigate prospective legal, regulatory, and operational risks to firm value.
- 3. Climate Risk:** Climate change may present financial, operational, and regulatory risks to a firm’s ability to generate sustainable value, as well as to the broader economy. Firms should assess and disclose material climate-related risks and sufficient, non-proprietary information to enable investors to prudently and adequately evaluate the prospective impact of climate risk on firm value.

# Responsibilities and Delegations

## A. The Board of Investments:

- (i.) Approves and promulgates policies addressing environmental, social, and governance issues, such as corporate governance and proxy voting matters and including but not limited to the *Corporate Governance and Stewardship Principles*, as recommended by the Corporate Governance Committee of the Board.
- (ii.) Receives periodic reports concerning the program's progress and priorities from the Corporate Governance Committee.
- (iii.) Approves LACERA representatives for nomination to governing bodies of the corporate governance associations to which LACERA is affiliated, as recommended by the Corporate Governance Committee.
- (iv.) Approves procedures to comply with legislated or other mandated divestment or investment exclusions, such as LACERA's Guidelines for Evaluating ESG-Related Divestments (Appendix), as developed and recommended by the Corporate Governance Committee.

## B. The Corporate Governance Committee of the Board of Investments:

- (i.) Recommends the *Corporate Governance and Stewardship Principles* and other items concerning environmental, social, and governance matters to the Board of Investments for consideration and approval.
- (ii.) Exercises oversight and monitoring of the corporate governance program, including reviewing program priorities and progress.
- (iii.) Reviews reports regarding proxy voting results and trends and develops recommendations for Board approval for any policy recommendations, as appropriate.
- (iv.) Reviews and ensures alignment of strategic initiatives with the *Corporate Governance and Stewardship Principles*.
- (v.) Provides periodic reports on the program to the Board of Investments.
- (vi.) Delegates authority to the Committee Chair to determine LACERA's action on time-sensitive, investment- or financial market-related legislative or regulatory matters that are not adequately addressed in the Corporate Governance and Stewardship Principles or joint investor engagements affiliated with investor associations to which LACERA has formally affiliated.
- (vii.) Recommends for Board of Investment approval, LACERA representatives for nomination to governing bodies of the corporate governance associations to which LACERA is affiliated. In event the Committee is not scheduled to meet or lacks adequate time to recommend a nomination to the Board prior to a formal deadline, the Committee delegates authority to the Committee Chair to recommend consideration of the nomination by the Board.

- (viii.) Recommends for Board of Investment approval, time-permitting, LACERA's votes in support or opposition of candidates listed on a formal member ballot and nominated to a governing board of an investor association to which LACERA has formally affiliated. In event the Committee is not scheduled to meet or lacks adequate time to agendize under the Brown Act an informed recommendation to the Board for vote determinations prior to a formal deadline, the Committee delegates authority to the Committee Chair to recommend consideration by the Board, time-permitting, of the votes in support or opposition of board candidates. In time-sensitive circumstances where vote deadlines do not permit such vote considerations by the Committee or the Board, the Committee delegates authority to the Committee Chair to consult with staff per Section V(C)(vi.) below on votes.

### C. Staff

- (i.) Develops and recommends *Corporate Governance and Stewardship Principles* and related policies for review and consideration by the Corporate Governance Committee.
- (ii.) Executes proxy votes in adherence to the *Corporate Governance and Stewardship Principles*. Staff consults with and seeks the input of the Chief Investment Officer and Chief Counsel, when applicable, to apply the *Corporate Governance and Stewardship Principles*, and the spirit thereof, to unique or new proxy voting items in their best judgment and interpretation of the *Corporate Governance and Stewardship Principles*. Staff recalls shares of loaned securities when doing so is in LACERA's economic interests, such as at portfolio companies where LACERA has sponsored a shareowner proposal.
- (iii.) Communicates and represents the *Corporate Governance and Stewardship Principles* in dialogues and communication with portfolio companies, external asset managers and investment partners, other investors and stakeholders, related conferences, and other interested parties.
- (iv.) Presents any strategic plans for engagement to the Corporate Governance Committee, per the Committee's review and oversight, to promote alignment with Board-approved *Corporate Governance and Stewardship Principles*. In the event of time-sensitive strategic initiatives, staff consults with the Chair of the Committee, who determines action or recommends consideration of the matter by the Committee or Board, time-permitting.
- (v.) Represents the *Corporate Governance and Stewardship Principles* in written communication to legislators and regulatory agencies, in consultation with the Chief Executive Officer, Chief Investment Officer, and Chief Counsel. Staff may participate in joint investor written communications that are organized as part of formal investor associations to which LACERA has formally affiliated. In event that a time-sensitive, investment- or financial market policy-related legislative or regulatory matter arises that is not adequately considered by the *Corporate Governance and Stewardship Principles* or being addressed by an investor association to which LACERA is affiliated, staff consults with the Chair of the Committee, who determines whether to approve action or recommend consideration of the matter by the Board, time-permitting.

(vi.) Represents LACERA and its *Corporate Governance and Stewardship Principles* at investor associations, including managing membership surveys, business meeting votes (other than selecting which candidates to a governing board to support or oppose), and other operational interactions, in adherence to the Corporate Governance and Stewardship Principles and the spirit thereof, in its best judgment and interpretation. In event that a time-sensitive vote arises on a unique item or an issue that is not adequately considered by the *Corporate Governance and Stewardship Principles*, as well as for governance-related investor associations' formal business meeting ballot items pertaining to support or opposition of candidates to a governing board, and time constraints prohibit such items from being presented to the Committee or Board for consideration, staff may determine a vote in consultation with the Chair of the Committee.

## Policy Review and Reaffirmation

LACERA reviews and reaffirms this Policy at least every three years in order to ensure its alignment with LACERA's mission and objectives and in light of evolving market practices on corporate governance; environmental, social, and governance ("ESG"); and responsible investment matters.

## APPENDIX: Guidelines for Evaluating Prospective ESG-Related Divestments

As stated in LACERA's Investment Beliefs, "LACERA operates in a global financial marketplace, and as such, LACERA believes that in order to diversify its risk broadly, it is vital that LACERA possess a global perspective. Diversification across different risk factors is necessary for risk reduction."

As a diversified, global investor, LACERA may periodically review its public markets investment exposures to certain issues arising from environmental, social, or governance concerns. It is generally the preference of LACERA, in order to promote diversification and minimize risk, to engage rather than divest investment holdings concerning risks to long-term value. However, in order to address prospective divestment issues and identify LACERA's exposure to exogenous risks related to environmental, social, or governance issues and not addressed elsewhere in the Investment Policy Statement, the following formal process has been adopted:

1. The issue will be directed to Committee for further direction to Staff.
2. If the Committee decides to review the issue, Staff will assess the potential economic and reputational impact of the issue on LACERA.
  - a. Does the issue violate LACERA's *Corporate Governance and Stewardship Principles*?
  - b. Determine criteria for identification of investment(s).
  - c. Preliminary identification of the investment.
  - d. Preliminary estimate on size of the investment.
  - e. Seriousness of the issue/violation and whether it impacts the economics of the investment(s).
  - f. Consultation with LACERA's Chief Executive Officer, Chief Investment Officer, and legal counsel.
3. Staff will report its findings on the potential economic and reputational impact of the issue on LACERA to the Committee.
4. The Committee may forward the issue and potential economic and reputational impact on LACERA to the Board of Investments (Board) for further direction.
5. If the Board directs staff to continue the analysis, staff will calculate the anticipated resources involved in analyzing the issue including, but not limited to:
  - a. Estimate of staff hours required for research and analysis.
  - b. Estimate of the resource impact on current staff initiatives and projects (for example the delay in an RFP search).
  - c. Estimate of cost to obtain information (e.g.: company list) from external service provider.
6. Staff will report back to the Committee with its resource requirements analysis.
7. Committee may make recommendation to the Board to pursue additional analysis.
8. Upon receiving direction from the Board, Staff will contract with external data provider to identify investment(s) impacted by the issue.

9. Staff will identify investment exposures within the separate accounts of the public markets asset classes (equities, fixed income and commodities).
10. Staff will contact external investment managers to solicit feedback from portfolio managers on reasoning for the investment and potential return and risk trade-off of economic substitution.
11. Staff will present findings to the Board and any recommendation(s) as necessary. If further action is warranted, such as engagement with companies, staff's report to the Board will include the following:
  - a. An estimate of additional staff hours needed to execute engagement.
  - b. An estimate of the impact of diverting resources from current staff initiatives and projects (for example the delay in an RFP search).
  - c. Cost of retaining external resources (3rd party consultant) to assist in the engagement process.
  - d. Feedback from portfolio managers on their investment in the company.
  - e. Discussion of criteria and terms for company engagement.
12. If further action, such as engagement, is recommended and approved by the Board, staff will seek to engage with companies on the issue. Letters will be written to the company's executive management and their boards requesting responses within 60 days.
13. If company response is determined to be insufficient, staff will assess the need to place the company on an economic substitution list<sup>2</sup> and present recommendation(s) to the Board for approval. Included in the recommendation(s) will be the following:
  - a. Updated company exposure within separate accounts of public markets asset classes.
  - b. Annual cost to procure company list.
  - c. Criteria by which company will be removed from the economic substitution list.
14. Staff will continuously monitor company status relative to criteria for removal from the economic substitution list. Once criteria have been met, staff will recommend removal of the company to the Board.
15. Staff will provide an economic substitution list update to the Board annually which will include the following:
  - a. All companies currently on the list.
  - b. Issue for which the company was placed on the list.
  - c. Investment exposure within separate accounts of public markets asset classes.
  - d. Current status of mitigating factors.

---

<sup>2</sup> Companies on the list will be covered by the following investment guideline policy language: "Investment managers should refrain from purchasing securities on the economic substitution list when the same investment goals concerning risk, return, and diversification can be achieved through the purchase of another security."

**Document History**

Revised May 10, 2023  
Revised March 10, 2021  
Consolidated and restated October 14, 2020  
Revised March 13, 2019  
Consolidated and reorganized February 14, 2018  
Revised August 9, 2017  
Revised October 12, 2016  
Revised November 19, 2014  
Revised April 10, 2013  
Revised April 22, 2009  
Revised April 27, 2005  
Revised May 26, 2004  
Revised August 13, 2003  
Revised June 11, 2003  
Original adopted March 12, 2003