LIVE VIRTUAL COMMITTEE MEETING

TO VIEW VIA WEB

TO PROVIDE PUBLIC COMMENT

You may submit a request to speak during Public Comment or provide a written comment by emailing PublicComment@lacera.com. If you are requesting to speak, please include your contact information, agenda item, and meeting date in your request.

Attention: Public comment requests must be submitted via email to PublicComment@lacera.com no later than 5:00 p.m. the day before the scheduled meeting.

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION
300 N. LAKE AVENUE, SUITE 650, PASADENA, CA

AGENDA

A REGULAR MEETING OF THE CORPORATE GOVERNANCE

COMMITTEE AND THE BOARD OF INVESTMENTS*

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

300 N. LAKE AVENUE, SUITE 810, PASADENA, CALIFORNIA 91101

8:00 A.M., WEDNESDAY, FEBRUARY 10, 2021

This meeting will be conducted by teleconference pursuant to the Governor's Executive Order N-29-20.

Any person may view the meeting online at
https://members.lacera.com/lmpublic/live_stream.xhtml

The Committee may take action on any item on the agenda, and agenda items may be taken out of order.

I. CALL TO ORDER

II. APPROVAL OF MINUTES

A. Approval of the Minutes of the Regular Committee Meeting of October 14, 2020.

III. PUBLIC COMMENT
(**You may submit written public comments by email to PublicComment@lacera.com. Please include the agenda number and meeting date in your correspondence. Correspondence will be made part of the official record of the meeting. Please submit your written public comments or documentation as soon as possible and up to the close of the meeting.

You may also request to address the Boards. A request to speak must be submitted via email to PublicComment@lacera.com no later than 5:00 p.m. the day before the scheduled meeting. Please include your contact information, agenda item, and meeting date so that we may contact you with information and instructions as to how to access the Board meeting as a speaker.)

IV. NON-CONSENT ITEMS

A. Recommendation as submitted by Scott Zdrazil, Senior Investment Officer, and Dale Johnson, Investment Officer: That the Committee advance for Board of Investments approval a revised Corporate Governance and Stewardship Principles policy. (Memo dated January 20, 2021)

V. REPORTS

A. Educational Speaker Regarding Investor Rights and Regulatory Developments: Rick Fleming, U.S. Securities and Exchange Commission Office of the Investor Advocate
Scott Zdrazil, Senior Investment Officer
(Memo dated January 20, 2021)

B. LACERA Corporate Governance and Stewardship Update
Jonathan Grabel, Chief Investment Officer
Scott Zdrazil, Senior Investment Officer
Dale Johnson, Investment Officer
(For Information Only) (Memo dated January 20, 2021)

VI. ITEMS FOR STAFF REVIEW

VII. GOOD OF THE ORDER
(For Information Purposes Only)

VIII. ADJOURNMENT

*The Board of Investments has adopted a policy permitting any member of the Board to attend a standing committee meeting open to the public. In the event five or more members of the Board of Investments (including members appointed to the Committee) are in attendance, the meeting shall constitute a joint meeting of the Committee and the Board of Investments. Members of the Board of Investments who are not members of the Committee may attend and participate in a meeting of a Committee but may not vote, make a motion, or second on any matter discussed at the meeting. The only action the Committee may take at the meeting is approval of a recommendation to take further action at a subsequent meeting of the Board.

Documents subject to public disclosure that relate to an agenda item for an open session of the Board of Investments that are distributed to members of the Board of Investments less than 72 hours prior to the meeting will be available for public inspection at the time they are distributed to a majority of the Board of Investments Members at LACERA's offices at 300 N. Lake Avenue, Suite 820, Pasadena, CA 91101, during normal business hours of 9:00 a.m. to 5:00 p.m. Monday through Friday.

Requests for reasonable modification or accommodation of the telephone public access and Public Comments procedures stated in this agenda from individuals with disabilities, consistent with the Americans with Disabilities Act of 1990, may call the Board Offices at (626) 564-6000, Ext. 4401/4402 from 8:30 a.m. to 5:00 p.m. Monday through Friday or email PublicComment@lacera.com, but no later than 48 hours prior to the time the meeting is to commence.

MINUTES OF THE REGULAR MEETING OF THE CORPORATE

GOVERNANCE COMMITTEE AND THE BOARD OF INVESTMENTS

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

300 N. LAKE AVENUE, SUITE 810, PASADENA, CALIFORNIA 91101

9:00 A.M., WEDNESDAY, OCTOBER 14, 2020

This meeting was conducted by teleconference pursuant to the Governor's Executive Order N-29-20.

PRESENT: Alan Bernstein, Chair

Herman Santos, Vice Chair

David Muir

Gina Sanchez

Keith Knox, Alternate

MEMBERS AT LARGE

Wayne Moore

Shawn Kehoe

STAFF, ADVISORS, PARTICIPANTS:

Jonathan Grabel, Chief Investment Officer

Scott Zdrazil, Senior Investment Officer

Dale Johnson, Investment Officer

I. CALL TO ORDER

The meeting was called to order by Chair Bernstein at 12:50 p.m. in the Board Room of Gateway Plaza.

II. APPROVAL OF MINUTES

A. Approval of the Minutes of the Meeting of September 9, 2020

Mr. Muir made a motion, Ms. Sanchez seconded, to approve the minutes of the special meeting of September 9, 2020. The motion passed unanimously (roll call) with Messrs. Bernstein, Muir, Santos, Ms. Sanchez voting yes.

III. PUBLIC COMMENT

There were no requests from the public to speak.

IV. NON-CONSENT

A. Recommendation as submitted by Scott Zdrazil, Senior Investment Officer, and Dale Johnson, Investment Officer: That the Committee advance to the Board of Investments for approval the proposed Minimum Qualifications, Evaluation Criteria, and Scope of Work, thereby authorizing staff to initiate a Request for Proposals for a proxy voting platform provider and proxy research service(s).
(Memo dated September 28, 2020)

Mr. Bernstein made a motion, Mr. Muir seconded, to advance staff recommendation. The motion passed (roll call) with Messer. Bernstein, Muir and Ms. Sanchez voting yes and Mr. Santos voting no.

IV. NON-CONSENT (Continued)

B. Recommendation as submitted by Jonathan Grabel, Chief Investment Officer: That the Committee advance to the Board of Investment for Approval LACERA's nomination of Scott Zdrazil for re-election to the Council of Institutional Investors ("CII") 2021 annual board elections. (Memo dated September 17, 2020)

Ms. Sanchez made a motion, seconded by Mr. Santos, to advance the recommendation to the Board of Investments for approval LACERA's nomination of Scott Zdrazil to the CII 2021 annual board elections. The motion passed unanimously (roll call) with Messrs. Santos, Bernstein, Muir and Ms. Sanchez voting yes.

V. REPORTS

A. Corporate Governance Engagement Initiatives
Scott Zdrazil, Senior Investment Officer
(Report dated September 25, 2020)

Mr. Zdrazil as present and answered questions from the Committee.

VI. ITEMS FOR STAFF REVIEW

There were no items to report.

VII. GOOD OF THE ORDER
(For information purposes only)

There was nothing to report.

VIII. ADJOURNMENT

There being no further business to come before the Committee, the meeting was adjourned at approximately at 1:35 p.m.

January 20, 2021

TO: Trustees – Corporate Governance Committee

FROM: Scott Zdrazil

Senior Investment Officer

Dale Johnson

Investment Officer

FOR: February 10, 2021 Corporate Governance Committee Meeting

SUBJECT: ***Corporate Governance and Stewardship Principles* Review**

RECOMMENDATION

Advance for Board of Investments approval a revised *Corporate Governance and Stewardship Principles* policy.

BACKGROUND

LACERA's *Corporate Governance and Stewardship Principles* ("Principles") articulate fundamental principles related to common corporate governance topics to guide LACERA's proxy voting, corporate engagement, and broader investment stewardship practices. The Corporate Governance Committee generally reviews the Principles in advance of the proxy voting season each year when most shareholder meetings occur, typically from March to June.

Staff considers that the Principles remain robust and are positioned to serve LACERA's purposes to vote the upcoming proxy season. Staff is recommending a modification in the Principles' board diversity language to strengthen LACERA's position to hold boards accountable when there is clear evidence that the board lacks a credible track record of nominating slates of directors that are inclusive of diversity across the multiple dimensions defined in the Principles.

Supported by empirical evidence,[1] LACERA's current Principles take a broad view of board diversity. The Principles call on boards to nominate directors with the requisite skills, attributes, and qualifications that best contribute to setting and overseeing business strategy, inclusive of nominees with diverse genders, racial/ethnic backgrounds, and the LGBTQ community.

[1] Research includes but is not limited to: McKinsey & Co. May 2020. "Diversity Wins: How Inclusion Matters." https://www.mckinsey.com/featured-insights/diversity-and-inclusion/diversity-wins-how-inclusion-matters; Karsten Strauss. January 25, 2018. "More Evidence That Company Diversity Leads to Better Profits." Forbes. https://www.forbes.com/sites/karstenstrauss/2018/01/25/more-evidence-that-company-diversity-leads-to-better-profits/?sh=69c2609c1bc7; McKinsey & Co. April 2017. "Is there a payoff from top-team diversity." https://www.mckinsey.com/business-functions/organization/our-insights/is-there-a-payoff-from-top-team-diversity

The Principles state that LACERA expects to see a "credible track record, ***including, but not limited to, gender diversity***" (emphasis added). Staff's recommended language would refine the language to the redline noted below (also available in redlined version in the **Attachment**):

> **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, but not limited to, diverse gender, racial, and ethnic backgrounds, gender identities and sexual orientations. 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 ~~including, but not limited to, gender diversity~~.

While the current language ("including, but not limited to, gender diversity") does not exclude dimensions of diversity other than gender, the refined language is intended to more affirmatively state that LACERA looks to see a credible track record across the multiple dimensions stated in the preceding paragraphs of the Principles (as excerpted above), without being redundant and repeating them.

Rationale for Proposed Language Modification

Investors use corporate disclosures to inform proxy voting. Corporate board diversity disclosures are often limited to gender diversity. However, board diversity disclosures are expanding. The refined wording is intended to strengthen language by which LACERA may vote proxies against director nominees who fail to exhibit a credible track record of inclusivity, reflective of the multiple dimensions of diversity that are already articulated in LACERA's Principles.

Based on the existing Principles and available disclosures—and as presented to the Committee for annual review of proxy voting results—LACERA voted during the past two years against certain corporate board nominees (such as Chairs of Nominating Committees) where boards fail to demonstrate a credible track record of gender inclusivity. For example, in FY2020, LACERA voted against certain directors at 921 companies globally, where companies lacked gender diversity. LACERA's votes against directors based on lack of gender diversity represented 6% of total director votes (LACERA supported 65% of directors). To our knowledge, LACERA is the

only U.S. public plan with a practice of universally applying its Principles on board gender diversity to all global markets.

If approved by the Board of Investments, the language modification would have two effects. Application of the refined Principles language would be guided by where staff has access to credible and reliable information that indicates a board lacks such a track record:

(1.) **Escalation of engagement initiative at companies where there is inadequate progress:** LACERA would vote against certain directors, such as the chair of the Nominating Committee, if LACERA has contacted the board to discuss board diversity as part of its collaborative initiative with other California funds and the company has not responded to requests for dialogue or discussions indicate insufficient progress is being made to improve recruitment policies and practices.

(2.) **Consider Expanding Board Diversity Disclosures:** Market practice is rapidly evolving—albeit from a very low base—to provide greater clarity and disclosures on dimensions of diversity beyond gender, particularly in the U.S market. Staff anticipates that the upcoming proxy season and coming year will see expanded disclosures and reporting on board diversity. As market disclosures improve, the new language would position LACERA to exercise votes, if and where there is adequate and reliable information, that a board does not have a credible track record of inclusion. The state of market disclosures is further described below.

The above approach would likely lead to only a modest impact on LACERA's director support levels in the near-term, given sparse disclosures beyond gender explained below.

Evolving Market Board Diversity Practices and Disclosures

Recent years have seen a heightened focus on "board quality," including encouraging boards to describe how the skills, qualifications, and attributes of directors are positioned to oversee strategy and risks, in investors' interests. Companies have increasingly disclosed a summary "skills matrix," which highlights key skills that each director brings to the board. The percentage of large U.S. companies (S&P 500 Index companies) disclosing skills matrices expanded from 16% to over 40% from 2017 to 2020.[2] A broader universe of companies, including some medium-sized firms, indicates a wider range of companies have also started disclosing director skills matrices, with about 30% of the Russell 1000 Index companies and about 17% of the Russell 3000 index, which includes small capitalization firms, disclosing skills matrices.[3]

Increased investor focus on director qualifications has also prompted increased disclosures of other director attributes, such as diversity. These disclosures vary in form, however. For example, some companies provide aggregated statistics, such as stating that a certain percentage of all directors are women, of diverse racial backgrounds, LGBTQ, and non-U.S. nationalities, without

[2] Glass, Lewis research analysis of S&P500 Index companies.
[3] Glass Lewis research and analysis.

disaggregating what portion of directors represent which attributes. Very few companies clearly disclose individual attributes. Staff is monitoring emerging disclosure trends, such as:

- *Heightened focus on gender diversity has increased gender representation.* As of 2019, 46% of open U.S. director seats were filled by women, driving an increased rate of representation on corporate boards: 27% in the S&P 500 Index and 19% in the Russell 3000 Index.[4] Gender remains commonly disclosed.

Table 1: Percentage of U.S. Board Seats Held By Women

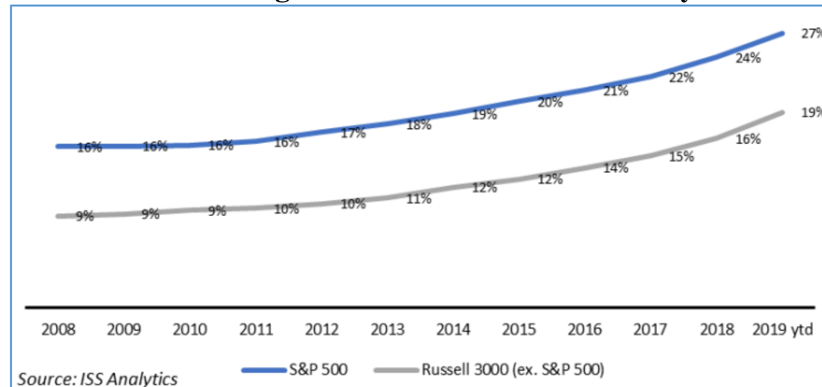
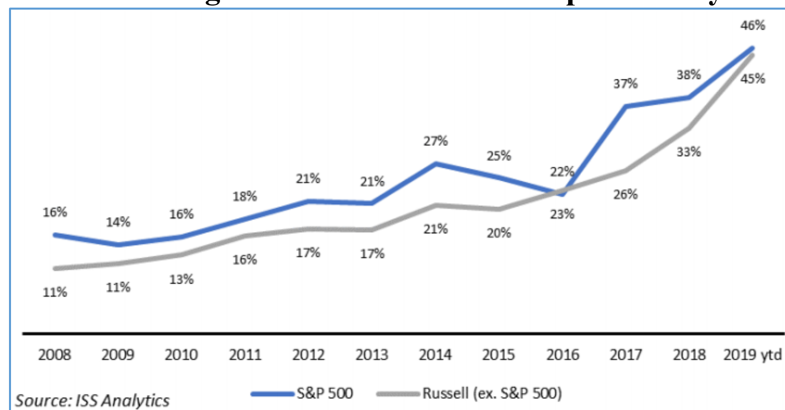


Table 2: Percentage of New U.S. Directorships Filled by Women



- *Race/ethnicity disclosure are expanding but vary in format and clarity.* Only 12% of S&P 500 Index companies disclosed individual directors' race or ethnicity, as of 2019.[5] Disclosures are expanding, with about 50% of large U.S. companies disclosing some level of information related to the gender and/or racial/ethnic backgrounds of directors in 2020.[6] Disclosures are often aggregated with other attributes, however, that make it difficult to discern the extent of racial/ethnic diversity, separate from gender diversity, on the board.

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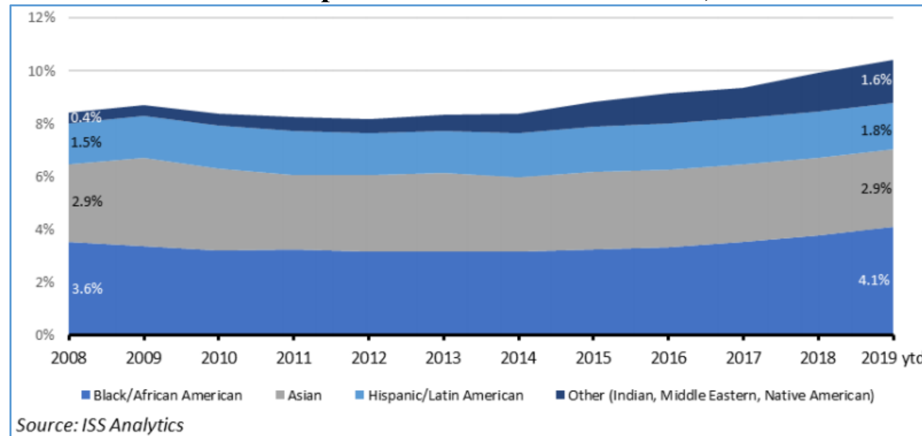
[4] ISS. May 2019. "U.S. Board Diversity Trends in 2019." https://www.issgovernance.com/file/publiciations/ISS_US-Board-Diversity_trends-2019.pdf.

[5] The Conference Board. 2020. "Corporate Board Practices: In the Russell 3000 and S&P 500 / 2020 Edition." Page 4. https://www.conference-board.org/topics/board-practices-compensation/corporate-board-practices-2020-edition

[6] Glass Lewis research and analysis of S&P 500 Index companies.

Based on companies where race/ethnicity can be identified, ISS provides the following snapshot of U.S. corporate boards:

Table 3: Racial/Ethnic Representation on U.S. Boards, Where Identifiable



- *Few disclosures of LGBTQ representation on boards.* Only 24 out of 5000 directors of Fortune 500 companies (0.48%) are reportedly openly LGBTQ.[7]

- *Limited Disclosures Outside U.S.* Disclosures are typically even more limited outside of the U.S. market. Disclosures only provide race/ethnicity information for 7.5% of UK directors, for example.[8] Some international markets, such as France, have civil rights provisions that limit data on ethnicity and race. Staff is monitoring developments in best practices, market disclosures, and data availability in non-U.S. markets. While gender can generally be discerned through disclosures and will continue to inform LACERA's vote in all global markets, LACERA's approach to voting on other dimensions would take into account local market practice and regulations, consistent with language in the Principles.[9]

Likely Expanding Board Diversity Disclosures

Investor focus on board diversity, coupled with legislative and regulatory measures, may enhance disclosures around board diversity going forward.

- **Investor engagement initiatives**, such as LACERA's collaborative effort with other California public plans, encourages companies to provide clear disclosures of the diversity attributes of board nominees.

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[7] EgonZehnder. 2020. "2020 Global Board Diversity Tracker." Page 19. https://www.egonzehnder.com/global-board-diversity-tracker

[8] The Parker Review Committee. February 5, 2020. "Ethnic Diversity Enriching Business Leadership: An update report from The Parker Review." Page 17. https://assets.ey.com/content/dam/ey-sites/ey-com/en_uk/news/2020/02/ey-parker-review-2020-report-final.pdf

[9] See Principles, page 5: "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."

- **State-level legislative efforts** are likely to prompt further disclosure. California Assembly Bill AB979 requires California-based companies to disclose participation on their boards of underrepresented communities, defined as "an individual who self-identifies as Black, African American, Hispanic, Latino, Asian, Pacific Islander, Native American, Native Hawaiian, or Alaska Native, or who self-identifies as gay, lesbian, bisexual, or transgender."[10] Illinois, Maryland, Hawaii, New Jersey, New York, Michigan, and Washington State also have or are considering legislative efforts related to board diversity.[11]

- **Possible federal regulation or legislation,** such as "The Improving Corporate Governance Through Diversity Act of 2019" passed by the U.S. House of Representatives in 2019, if enacted, would prompt more corporate disclosures in the U.S. market.[12]

LACERA Corporate Engagement on Board Diversity

LACERA has worked for several years to engage portfolio companies where there is a clear indication of a lack of board diversity. To date, over 100 directors of diverse backgrounds have been appointed to boards where LACERA—along with partner California funds—have engaged corporate directors. Moreover, many have revised board governance documents and recruitment strategies to consider diversity of gender, race/ethnicity, and the LGBTQ community.

In the current round of engagements, LACERA and partner funds have requested dialogues with 74 of the largest U.S. companies identified for lack of apparent racial or ethnic diversity and urged broad consideration of multiple dimensions of diversity (gender, race/ethnicity, LGBTQ). While engagement dialogues remain ongoing, to date, 18 companies have added 21 directors of diverse backgrounds, including 14 women of which 5 are Black/African American, 1 is Asian, and 1 is Latina. Seven men of color have been added, of which 4 are Black/African American, 1 is Latino, 1 is Asian, and 1 is non-white, based on available disclosures. No directors identified as LGBTQ have been appointed.

Based on recent dialogues, LACERA anticipates that more appointments will be announced as companies publish their director slates in upcoming 2021 proxy statements. However, some companies have not yet responded to the coalition's request for a dialogue, and in other cases, dialogues indicate that targeted companies may not exhibit progress in the near-term.

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[10] Fenwick and West LLP. October 2020. "New Law Requires Diversity on Boards of California Companies." Harvard Law School Forum on Corporate Governance. New Law Requires Diversity on Boards of California-Based Companies (harvard.edu).
[11] Jackson Lewis, PC. May 2020. "States Are Leading The Charge to Corporate Boards: Diversify." Harvard Law School Forum on Corporate Governance. States are Leading the Charge to Corporate Boards: Diversify! (harvard.edu).
[12] Lori Tripoli. November 20, 2019. "House Passes Bill Requiring Disclosure of Diversity on Corporate Boards." Compliance Week. House passes bill requiring disclosure of diversity on corporate boards | Article | Compliance Week

Implications and Impact of the Proposed Language Refinement on Proxy Votes

Staff considers it important to maintain a credible voting record that relies upon good information and clear disclosures. If approved by the Committee and Board of Investments, staff would interpret and apply the Principles by accessing available and reliable information, as disclosures permit. Accordingly, LACERA would continue its record of voting against certain directors responsible for a lack of gender inclusivity in all global markets. LACERA would use its vote as a tool to encourage action at companies targeted in current engagements that have not been responsive to addressing a confirmed lack of inclusivity by race/ethnicity or the LGBTQ community. And going forward, the proposed language refinements would permit LACERA to use emerging disclosures on board diversity—where available and reliable—in voting decisions, consistent with the Principles view to assess whether boards exhibit a credible track record of inclusion in board nominations. In implementing the Principles, staff will continue to seek reliable sources of information.

Based on the approach outlined above—and given limitations of disclosures—staff anticipates the refined language, if approved, would impact less than 1% of director votes for the upcoming proxy season.

If approved, proxy voting results and trends will be presented to the Committee as part of its regular cycle of proxy voting review, which typically occurs in the fall of each year. The fall timeframe allows staff to execute votes during the proxy season, tally voting results and trends upon completion of the fiscal year and provide the Committee with data and insights on voting results.

Staff recommends approval of the refined language to further apply the spirit of LACERA's Principles to encourage boards to cast a wide net for qualified talent, inclusive of diverse backgrounds.

Attachment

Noted and Reviewed:

____
Jonathan Grabel
Chief Investment Officer

Attachment

[DRAFT REDLINED VERSION FOR REVIEW]

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION LACERA

Corporate Governance and Stewardship Principles

[Date TBD]

Corporate Governance and Stewardship Principles

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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 ~~it’s~~ the *Investment Beliefs* that frame its *Investment Policy Statement* and in consideration of actuarial analysis.

LACERA
Mission Statement:

We Produce, Protect, and Provide the Promised Benefits

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.

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, but not limited to, diverse gender, racial, and ethnic backgrounds, gender identities and sexual orientations. 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 should not serve on more than four public company boards. Currently serving chief executive officers should not serve on more than three public boards (including their own).

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.[1]

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.

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

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[1] 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.

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. **Director 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 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. **Golden 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 *Procedures for Evaluating ESG-Related Divestments* (Appendix A), 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 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 A: Guidelines ~~Procedures~~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[2] 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.

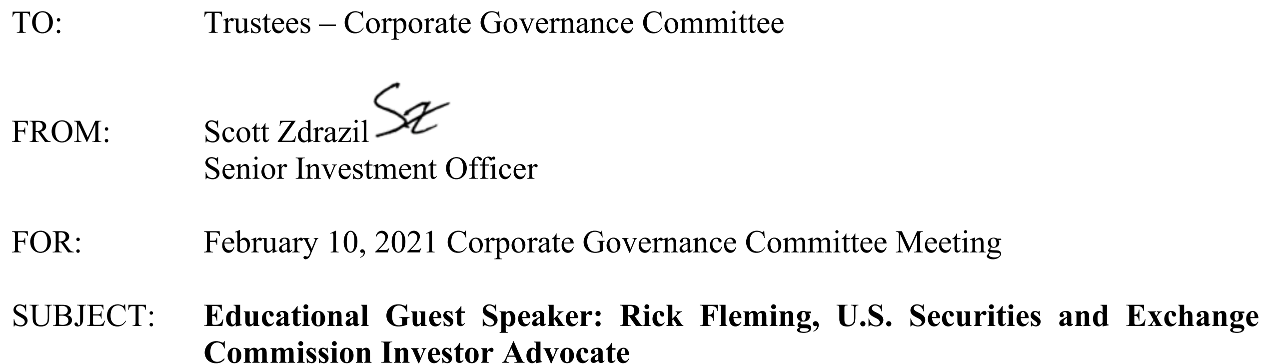
15. Staff will provide an economic substitution list update to the Board annually which will include the following:
    a. All companies currently on the list.
    b. Issue for which the company was placed on the list.
    c. Investment exposure within separate accounts of public markets asset classes.
    d. Current status of mitigating factors.

[2] 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

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

January 20, 2021



TO: Trustees – Corporate Governance Committee

FROM: Scott Zdrazil
Senior Investment Officer

FOR: February 10, 2021 Corporate Governance Committee Meeting

SUBJECT: **Educational Guest Speaker: Rick Fleming, U.S. Securities and Exchange Commission Investor Advocate**

LACERA will host Mr. Rick Fleming, Investor Advocate at the U.S. Securities and Exchange Commission (SEC), as an educational guest speaker at the February Committee meeting. Please see the attached biography for Mr. Fleming, who will participate virtually (**Attachment**).

Mr. Fleming will share perspectives on the state of financial market policy and regulation ten years after the passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, including:

- Recent regulatory and policy developments related to investor rights and protections;
- Financial market integrity and the vibrancy of initial public offerings (IPO's); and
- Forthcoming and anticipated priorities at the SEC.

The session is intended to provide insights on corporate governance and financial market policies to continue to inform and guide LACERA's investment program and advocacy efforts via comment letters to the SEC, collaboration with the Council of Institutional Investors, and other engagements. The discussion will also afford Trustees the opportunity for questions and discussion related to the Investor Advocate's Report of Activities for FY2020, submitted to the U.S. Congress on December 29, 2020, and available at: https://www.sec.gov/files/sec-investor-advocate-report-on-activities-2020.pdf.

ABOUT THE SEC OFFICE OF THE INVESTOR ADVOCATE

The Office of the Investor Advocate was established pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. While the Investor Advocate reports to the Chair of the SEC, the position involves a measure of independence. The law requires the Investor Advocate to submit reports directly to Congress, without any prior review or comment from the Commissioners or SEC staff.

The Office has four core functions:

- **To Provide a Voice for Investors.** The Office of the Investor Advocate works to ensure that the needs of investors are considered as decisions are made at the SEC and in Congress. It

analyzes the potential impact on investors of proposed regulatory changes, identifies problems that investors have with investment products and financial service providers, and recommends changes to statutes and regulations for the benefit of investors.

- **To Assist Retail Investors.** The Investor Advocate appoints an Ombudsman who acts as a liaison to assist retail investors in resolving problems they may have with the Commission.

- **To Study Investor Behavior.** The Office is responsible for investor research. The research may encompass surveys, focus groups, and other methods to gain insight into investor behavior and provide data regarding policy choices. In addition, the Office reviews the economic analyses of rulemakings to ensure that they appropriately reflect the impact on investors from proposed rule changes.

- **To Support the SEC's Investor Advisory Committee.** The Office provides staff and operational support for the Committee, which was also established under Dodd-Frank, and the Investor Advocate serves as a statutory member.

More information is available at: https://www.sec.gov/page/investor-advocate-landing-page.

Attachment

Noted and Reviewed:

____
Jonathan Grabel
Chief Investment Officer

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
OFFICE OF THE INVESTOR ADVOCATE

Rick A. Fleming
Investor Advocate
Office of the Investor Advocate

Rick Fleming was named the U.S. Securities and Exchange Commission's (SEC) first Investor Advocate in February 2014.

Prior to joining the Commission, Mr. Fleming spent fifteen years as a state securities regulator, including more than a decade as General Counsel for the Office of the Kansas Securities Commissioner. He moved to Washington, D.C. in 2011 to serve as the Deputy General Counsel for the North American Securities Administrators Association (NASAA), where he advocated for investors and represented the organization of state securities regulators before Congress and federal agencies, including the SEC.

Mr. Fleming received his bachelor's degree with a dual major in finance and economics from Washburn University and holds a law degree from Wake Forest University.

LACERA

FOR INFORMATION ONLY

January 20, 2021

TO: Trustees – Corporate Governance Committee

FROM: Jonathan Grabel
Chief Investment Officer

Scott Zdrazil
Senior Investment Officer

Dale Johnson
Investment Officer

FOR: February 10, 2021 Corporate Governance Committee Meeting

SUBJECT: **CORPORATE GOVERNANCE AND STEWARDSHIP UPDATE REPORT**

Please find attached a brief report summarizing LACERA's recent corporate governance and stewardship activities. The report updates a version first published a year ago. It includes LACERA's FY2020 proxy voting highlights and engagement initiatives (as reported to the Committee in October 2020), as well as a description of our approach to integrating ESG ("environmental, social, and governance" factors) into investment due diligence and analysis.

The report is part of LACERA's efforts to be transparent and provide accessible information to stakeholders, members, and the broader public about LACERA's corporate governance and stewardship activities. It also furthers LACERA's efforts to adhere to the United Nations -affiliated Principles for Responsible Investment, which urges similar regular reporting. Consistent with the PRI reporting framework, and as referenced at the October 2020 Committee meeting, the report has also been expanded to describe how LACERA is evaluating and incorporating into investment due diligence financial risks related to climate change.

The report will be available in the corporate governance section of LACERA's website (http://www.lacera.com/investments/corporate_governance/corporate_governance.html) and further updated and refined, as appropriate.

Attachment

Attachment

CORPORATE GOVERNANCE AND STEWARDSHIP UPDATE

December 31, 2020

LACERA

CONTACT

Phone: 626 564 6000
Website: lacera.com

ADDRESS

300 North Lake Ave.
Suite 650
Pasadena, CA 91101

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LACERA

MISSION

The Los Angeles County Employees Retirement Association (LACERA) proudly serves over 180,000 members and beneficiaries with an exclusive mission to "produce, protect, and provide the promised benefits."

LACERA encourages sound corporate governance practices at the companies in which it invests and prudent policies governing financial markets in order to promote sustainable, long-term financial value and enhance LACERA's ability to fulfill its mission, consistent with our fiduciary duties.

The following pages summarize core components of LACERA's recent corporate governance and stewardship work.

GUIDING PRINCIPLES

LACERA has established *Corporate Governance and Stewardship Principles* to articulate our views and guide LACERA's corporate governance initiatives, such as proxy voting and corporate engagement. The *Corporate Governance and Stewardship Principles* are centered around five core concepts that collectively provide a framework by which we aim to promote sustainable investment returns and responsible stewardship of fund assets:

ACCOUNTABILITY

LACERA supports independent, highly-qualified, and diverse directors to serve on corporate boards and encourages corporate policies that promote accountability from corporate directors to investors.

INTEGRITY

LACERA seeks strong investor rights and protections to safeguard our economic interests and instill confidence in financial markets.

TRANSPARENCY

LACERA promotes timely, accurate, and comparable financial reports so that investors may have a transparent view of corporate performance.

ALIGNED INTERESTS

LACERA encourages pay-for-performance to align corporate executives' compensation with investors' interests.

PRUDENCE

LACERA expects companies to diligently mitigate operational risks that might jeopardize sustainable financial returns, including environmental and social factors such as resource scarcity, climate change, and human capital.

The *Corporate Governance and Stewardship Principles* are publicly available on LACERA's website at: http://www.lacera.com/investments/corporate_governance/corporate_governance.html.

TAKING ACTION

VOTE

LACERA votes proxies consistent with our *Corporate Governance and Stewardship Principles* at shareholder meetings of portfolio companies with an exclusive aim to promote and safeguard the financial value of our investments.

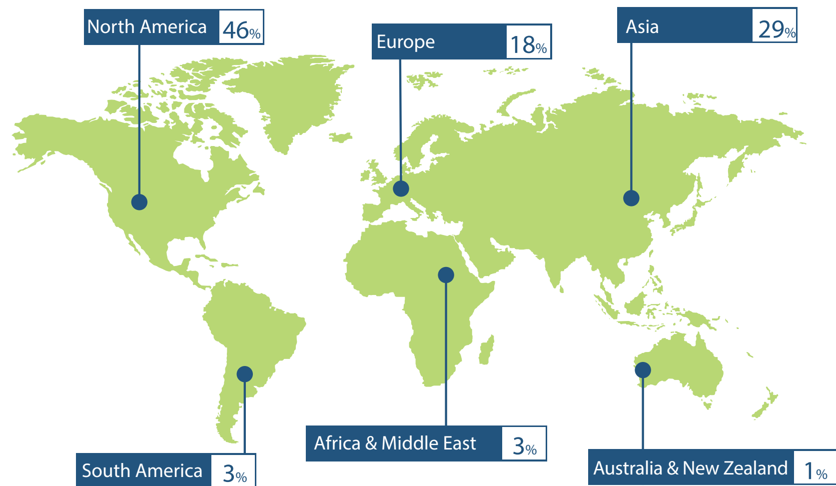
LACERA voted proxies around the globe during the fiscal year ending June 30, 2020:

7,179
shareholder meetings voted

77,379
individual ballot items

65
global markets voted in

Global Reach of LACERA Proxy Votes -
Location of Shareholder Meetings by Region



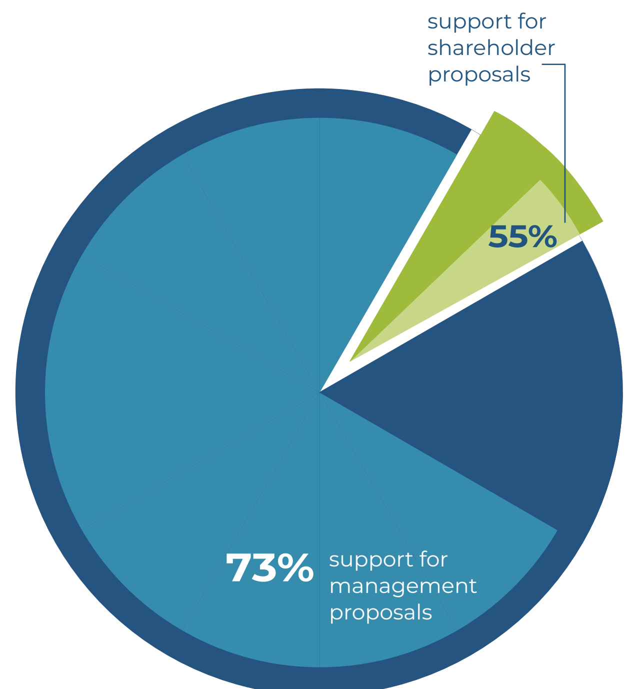
Support Levels by Proposal Sponsor

Of 77,379 individual ballot items, 98 percent were put forward by management and 2 percent were put forward by investors.

LACERA Supported:

73% OF MANAGEMENT PROPOSALS

55% OF SHAREHOLDER PROPOSALS



TAKING ACTION

VOTE

LACERA relies on the directors it elects onto corporate boards to serve investors' best interests. In determining whether to vote for or against director nominees, LACERA places particular emphasis on board quality, accountability, and performance.

65% SUPPORT OF DIRECTOR NOMINEES

LACERA opposes certain director nominees if a board lacks robust independence, directors serve on too many boards to adequately dedicate time to serve investors, or there has been an egregious failure of risk oversight at the company.

LACERA scrutinizes executive compensation practices to promote alignment between the incentives that pay programs create for executives and our interests as long-term investors. LACERA believes that executive pay and incentives should be adequately linked to, and justified by, the firm's financial performance.

OPPOSED ONE OUT OF EVERY FOUR CEO PAY PACKAGES

LACERA cast votes against 26 percent of advisory "say-on-pay" proposals because of excessive CEO pay and poor linkages between pay and performance.

LACERA encourages corporate boards to be comprised of directors of diverse backgrounds, inclusive of gender, race and ethnicity, and the LGBTQ community. LACERA uses its voting power to encourage board diversity, where disclosures indicate a poor track record of inclusive board nomination practices. LACERA voted against certain nominated directors at 921 companies around the globe for failing to nominate any female directors to their boards. LACERA's policy is driven by empirical evidence that indicates board diversity correlates with better long-term financial performance.

Sample Proxy Votes

DIRECTOR ACCOUNTABILITY

Voted against three directors for repeatedly preventing investors from voting on a shareholder proposal to mitigate climate change risks.

ExxonMobil

PAY FOR PERFORMANCE

Opposed Qualcomm CEO pay package after board granted an excessive bonus related to company litigation.

Qualcomm

HUMAN CAPITAL MANAGEMENT

Voted yes on shareholder proposal for company to provide investors more information on its workforce practices.

O'Reilly AUTO PARTS

LONG-TERM PAY INCENTIVES

Supported proposal to incorporate risks related to drug pricing in executives' compensation incentives.

Lilly

TAKING ACTION

ENGAGE

LACERA's efforts to encourage sound corporate governance go beyond voting proxies at shareholder meetings. LACERA engages portfolio companies and public policymakers to promote practices in line with our economic interests and to defend investor rights.

RECENT INITIATIVES

CORPORATE BOARDROOM DIVERSITY

LACERA wants the best talent to represent investors on corporate boards. We therefore expect companies to cast a wide net to find qualified directors. Empirical research finds a correlation between boards comprised of directors with diverse backgrounds and long-term financial performance.

OVER 100 DIRECTORS OF DIVERSE BACKGROUNDS APPOINTED

LACERA engages companies lacking board diversity to encourage robust self-evaluations and expansive recruitment strategies aimed at promoting access to directors of diverse backgrounds, inclusive of diverse genders, race and ethnicity, and the LGBTQ community.

Over the past two years, LACERA—partnering with peer funds CalSTRS and CalPERS—engaged 101 California based companies lacking gender diversity to encourage board recruitment reforms and more inclusive board nomination practices. These companies have added 114 female directors to date, including at least 14 women of color. Numerous companies have revised their governing documents to incorporate diversity into their formal recruitment policies and commitments.

LACERA and its allied California pension funds—joined by the San Francisco Employees Retirement System—recently expanded the initiative to a national focus. The funds have initiated an engagement targeting 74 of the largest U.S. companies that lack any apparent racial or ethnic diversity on their boards. Again, LACERA and its partner funds encourage boards to seek directors of diverse backgrounds, inclusive of diverse gender and racial backgrounds, and the LGBTQ community.

SOUND FINANCIAL MARKET POLICY

LACERA advocates financial market policies that help safeguard its investments. In the past year, LACERA:

- Provided a comment letter to the U.S. Securities and Exchange Commission ("SEC") in support of investors' right to file non-binding shareholder resolutions that may strengthen investor rights and accountability when needed.
- Urged the SEC to enact regulatory reforms to provide for a "universal proxy card," enabling investors to elect nominees across slates in contested director elections.
- Sent a comment letter urging the SEC to protect investor access to independent and timely proxy research.
- Formally signed an amicus brief developed by the Council of Institutional Investors in support of an Institutional Shareholder Services, Inc. lawsuit challenging new SEC regulations finalized in July 2020 that impact investors' access to high-quality, independent, and timely proxy and corporate research on portfolio companies.

SUSTAINABILITY REPORTING

LACERA supports the Sustainability Accounting Standards Board, an industry-led initiative to define and encourage corporate reporting of sustainability practices that are financially material to companies in 77 industries. By improving corporate reporting of clear, comparable, consistent information about sustainability risks and performance, investors have better information to take into account in our own investment decisions.

TAKING ACTION

COLLABORATE

LACERA works with other pension fund systems and institutional investors to amplify our voice and advance common interests in sound corporate governance practices and public policies. We are affiliated with numerous institutional investor associations.

COUNCIL OF INSTITUTIONAL INVESTORS

CII is a nonprofit, nonpartisan association that is the leading voice for effective corporate governance, strong shareowner rights and vibrant, transparent, and fair capital markets. CII promotes policies that enhance long-term value for U.S. institutional asset owners and beneficiaries. Its members include U.S. asset owners with combined assets of $4 trillion and asset managers with more than $35 trillion in assets under management.

PRINCIPLES FOR RESPONSIBLE INVESTMENT

The PRI is a global investor initiative, affiliated with the United Nations, comprised of investors representing over $80 trillion who commit to understand the investment implications of environmental, social, and governance (ESG) factors and incorporate these factors in their investment and ownership practices.

SUSTAINABILITY ACCOUNTING STANDARDS BOARD

SASB helps businesses around the world identify, manage, and report on the sustainability topics that matter most to their investors. Its Investor Advisory Group includes leading asset owners and asset managers representing over $34 trillion who are committed to improving the quality and comparability of sustainability-related disclosures to investors.

INSTITUTIONAL LIMITED PARTNERS ASSOCIATION

With over 500 member institutions representing more than $2 trillion of private equity assets under management, ILPA is the only global organization dedicated exclusively to advancing the interests of limited partners (LPs) and their beneficiaries through best-in-class education, research, advocacy, and events.

Climate Action 100+

Climate Action 100+ is an investor initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. Its members include more than 540 investors with more than $52 trillion in assets under management.

INTERNATIONAL CORPORATE GOVERNANCE NETWORK

Led by investors responsible for assets under management in excess of $54 trillion, the ICGN is a leading authority on global standards of corporate governance and investor stewardship. It promotes high standards of professional practice among companies and investors alike in their pursuit of long-term value creation contributing to sustainable economies worldwide.

ASIAN CORPORATE GOVERNANCE ASSOCIATION

The ACGA is an independent, nonprofit membership organization dedicated to working with investors, companies, and regulators in the implementation of effective corporate governance practices throughout Asia.

LEADERSHIP

LACERA serves in a leadership capacity in a number of organizations to encourage sustainable business practices and sound governance practices in financial markets.

- **Council of Institutional Investors**
  - Board of Directors
- **Institutional Limited Partners Association**
  - Diversity and Inclusion Advisory Council
- **Sustainability Accounting Standards Board**
  - Investor Alliance
  - Investor Advisory Group
- **UN Principles for Responsible Investment**
  - Western North America Advisory Committee
  - Private Equity Advisory Committee
- **International Corporate Governance Network**
  - Annual Conference Planning Committee

PRI AND ESG INCORPORATION

As an integral part of fulfilling our mission to LA County employees, LACERA has adopted leading practices to diligently and pragmatically consider environmental, social, and governance ("ESG") factors that might impact the risk/return profile of our investments and ultimately our ability to generate sustainable returns.

LACERA seeks to steward its investments in a responsible manner that promotes sound corporate governance and sustainability practices and mitigates the downside risks that governance failures present. In doing so, LACERA aims to achieve stable financial returns and fulfill our mission. ESG factors include the corporate governance practices of companies we invest in, environmental risks such as climate change and resource scarcity, and social factors like how companies access and manage human capital. LACERA recognizes that such ESG factors may present investment risks and opportunities and, in line with our fiduciary duty, should be prudently assessed.

This past year, LACERA maintained an A+ assessment by the United Nations-affiliated Principles for Responsible Investment (PRI) for our overall approach to responsible investing and ESG integration. LACERA has been committed to the PRI for twelve years, having become a signatory to the PRI in 2008.

ESG is a core component of LACERA's due diligence and active monitoring of all external asset managers who manage investment mandates on our behalf. We seek to understand how extensively external managers' identify, assess, and incorporate ESG factors that may impact the financial performance of the mandate. The extent to which a manager incorporates ESG factors that may impact the financial performance of our investments is integrated into a 5-point "Manager Scorecard," by which we assess and monitor manager quality.

ESG is one pillar of the scorecard, alongside other aspect such as fees, performance, and operational due diligence, to promote a holistic, multivariate view of manager quality. The assessment is incorporated into our recommendations whether to award an investment mandate to an asset manager and may inform whether we increase or decrease investments with the manager. LACERA's senior investment team is also assessed on their focus to ESG as part of their annual performance evaluations.

Monitoring of External Assets Managers Includes ESG as One of 5 Core Components

The United Nations Principles for Responsible Investment (PRI) scored LACERA's ESG efforts an A+ this past year for overall strategy and governance.

During the past year, LACERA procured additional ESG data and analytics tools from multiple service providers, including carbon and climate data. These tools help to further inform and evaluate ESG risks and exposures in investment portfolios managed by external asset managers, as well as across LACERA's public market investments. The combination of qualitative and quantitative approaches to ESG integration provides for a comprehensive, thorough view of asset managers' efforts to identify, assess, and incorporate ESG factors and how that may impact the portfolio construction process and resultant performance of the mandate.

LACERA Assesses Asset Managers' Capacity to Assess and Integrate ESG Factors

APPROACH TOWARDS CLIMATE RESILIENCE

LACERA recognizes that climate change presents far-reaching consequences, including impacts that are shaping and influencing individual companies in our portfolio and the broader economy in which we invest. LACERA has sought to pursue a prudent, judicious, and deliberate approach to assess climate change impacts and inform LACERA's investment decisions. LACERA's efforts aim to consider financial risks and opportunities related to climate change and facilitate an orderly transition to a low-carbon future. Consideration of climate change is a core, consistent component of investment analysis across the fund and is part of our efforts to promote sustainable, long-term value that enhances LACERA's ability to fulfill its mission.

LACERA endorsed the Task Force on Climate-related Financial Disclosures ("TCFD") in 2019 as part of the fund's focus on climate change. The TCFD was established by the Financial Stability Board and co-chaired by Mary Shapiro (former Chair of the U.S. Securities and Exchange Commission) and Michael Bloomberg (Co-founder of Bloomberg, L.P., and former Mayor of New York). The TCFD encourages corporate analysis and reporting of climate risks for investor use and aims to improve focus, availability, and reliability of data related to the financial impacts of climate change in the global economy.

The TCFD recommended guidelines for climate risk reporting center around four core elements of how organizations operate and are intended to be applicable to organizations across sectors and jurisdictions.[1]

CORE ELEMENTS OF THE TCFD'S RECOMMENDED DISCLOSURES

Governance
The organization's governance around climate-related risks and opportunities

Strategy
The actual and potential impacts of climate-related risks and opportunities on the organization's business, strategy, and financial planning

Risk Management
The processes used by the organization to identify, assess, and manage climate-related risks

Metrics and Targets
The metrics and targets used to assess and manage relevant climate-related risks and opportunities

Consistent with LACERA's commitment to transparency and prudence—which are two of the core concepts of LACERA's own *Corporate Governance and Stewardship Principles*—LACERA has applied the TCFD's framework to provide insight into the fund's approach to address climate-related risks and opportunities in its investments.

[1]See www.tcfdhub.org.

APPROACH TOWARDS CLIMATE RESILIENCE

Governance

LACERA's Board of Investments oversees all aspects of LACERA's investment program, including developing policies addressing ESG factors like climate change. The Board has a dedicated Corporate Governance Committee to oversee specific corporate governance and sustainable investment initiatives. LACERA management and staff develop, recommend, and implement policies and initiatives for assessing and managing climate-related risks and opportunities.

Strategy

LACERA has sought to assess the prospective range of impacts from climate change on its investment strategy and portfolio to identify potential areas of concentrated risk as well as investment opportunities. LACERA recognizes that climate change's impact may vary by the geography or locations where a portfolio company operates, its industry, the investment time horizon, and the specific nature of the business strategy of a portfolio company. Government policies to mitigate climate change—both current and prospective future measures and regulations—also vary by market and may have different impacts on different industries and companies.

To inform careful analysis of various impacts and opportunities, LACERA uses multiple portfolio data sets and analytical tools. As a starting point, LACERA this year completed its first-ever carbon footprint exercise of its global public equities portfolio. The analysis revealed a number of insights, including that emissions are driven across several prominent sectors and concentrated among key companies:

- Four emissions-intense sectors—industrials, energy, materials, and utilities—account for 75% of Scope 1 & 2 emissions
- 50 companies account for approximately 50% of Scope 1 & 2 emissions

LACERA conducted the analysis in public equities because data is more readily available for publicly listed companies than is presently available in private market asset classes.

LACERA also conducted scenario analyses to identify and assess forward-looking financial risks and opportunities and the global public equity portfolio's alignment with the Paris Agreement goals. These exercises evaluate future developments and impacts related to:

- **Policy Risks** - Changes to the regulatory framework that could prompt a reassessment of the value of an asset or investment in LACERA's portfolio.
- **Physical Risks** - Impact on the value of a portfolio holding that might arise from climate-related events that damage property or disrupt trade, such as flooding, draught, or extreme weather events.
- **Technology Opportunity** – Possible innovations and technological advances resulting from the process of adjustment towards a lower-carbon economy that could prompt revaluation of assets.

Scenarios vary by the timing and scale of policy constraints on emissions, the severity of physical impacts, and the pace of technological innovations. They can be a tool to assess and inform investment decisions.

These analyses identified areas of concentrated risks as well as prospects for investment opportunity. Downside risks—similar to the carbon footprint exercise—are concentrated in the energy, materials and utilities sectors, which represent approximately 60% of the financial value at risk in the portfolio from climate change. Upside opportunities exist across the portfolio, including in information technology and industrial sectors, such as construction, engineering, and manufacturing.

APPROACH TOWARDS CLIMATE RESILIENCE

Risk Management

LACERA is pursuing a five-part strategy to address climate-related risks and opportunities in its portfolio, as informed by ongoing analysis and leading investment practices:

1) Public Policy – LACERA is a formal signatory to the Global Investor Statement to Governments on Climate Change. As a signatory, LACERA joins with 630 global investors representing $37 trillion in assets in urging governments to achieve the Paris Agreement goals and to pursue measures to facilitate a low-carbon economic transition.

2) Corporate Engagement – Recognizing that a concentrated number of industries and companies account for significant portions of the climate-related risks in LACERA's portfolio, LACERA has joined a global investor effort named the Climate Action 100+ to promote emissions reductions and changes in business strategies to mitigate climate change risks. Climate Action 100+ is a global network of 540 investors with $54 trillion in assets. Affiliated investors are engaging 161 of the most carbon intensive companies. Collectively, these companies account for an estimated 80% of global industrial emissions. The targeted companies also account for approximately 46% of our carbon footprint of Scope 1 & 2 emissions. To date, over 60 of the targeted companies have committed to net zero emissions by 2050 in line with the Paris Agreement and over a third have adopted specific targets that, if achieved, make progress towards that goal. By engaging the most emissions-intense companies, LACERA supports mitigating climate risks at both individual companies as well as in the broader economy into which LACERA invests.

3) Prudent Investment Due Diligence - LACERA's due diligence and active monitoring of all external asset managers is focused on understanding how extensively external managers identify, assess, and incorporate ESG factors, including climate change, that may impact the financial performance of the mandate. Managers' consideration of ESG factors, including climate factors, is integrated into a 5-point "Manager Scorecard," by which we assess and monitor manager quality. LACERA uses carbon and climate data and analytics as part of its review of externally-managed investment portfolios. The data and tools help inform evaluation of the manager's representation of its portfolio construction process and integration of ESG factors.

4) Proxy Voting – LACERA uses its legal rights as an investor to vote proxies in support of resolutions requesting companies to assess, report on, and mitigate climate-related risks. These proposals are presented across a wide range of industries, not only in the most emissions-intense sectors. LACERA voted in support of numerous climate-related shareholder proposals in the last year, such as requests for:

- Climate risk reporting at trucking company JB Hunt (Proposal passed)
- Climate risks evaluation of the loan portfolio at JP Morgan (Proposal nearly passed: 49.6%)
- Alignment of lobbying by Chevron with Paris Agreement (Proposal passed)
- Adopt more aggressive emissions reduction at Royal Dutch Shell and Total SA

5) Better Market Data and Corporate Reporting – To evaluate and address climate risks, investors need reliable and widely available information. LACERA is one of over 1,000 endorsers of the Financial Stability Board's Task force on Climate-related Financial Disclosures (TCFD), a global framework to guide companies to report how they are addressing climate risks. Efforts such as the TCFD aim to address shortcomings in currently available data. For example, less than 40% of public companies in LACERA's portfolio disclose their carbon emissions, requiring LACERA and other investors to access tools to estimate and model emissions and climate risks. Expanding clear and reliable information about climate risks and performance facilitates investors' ability to take such information into account in investments.

APPROACH TOWARDS CLIMATE RESILIENCE

Metrics and Targets

Prudent investment decisions are rooted in sound data and analysis. LACERA is aware that the data and tools around climate change continue to evolve and improve. As such, LACERA is actively advocating clear market reporting of climate risks and is committed to incorporating data and tools into our own analysis. LACERA is incorporating available data and analysis into its forthcoming Strategic Asset Allocation. While LACERA has not yet set metrics or targets, we will continue to evaluate the efficacy of the data and analytical tools and, where prudent, evaluate prospective opportunities to improve LACERA's climate resiliency.

LACERA evaluates portfolio climate change impacts, considers climate change in investment due diligence, and takes pragmatic and deliberate actions to address climate risks at portfolio companies and in the wider economy. LACERA's efforts support a transition to a low-carbon economy, promote clear corporate disclosures of climate-related risks and opportunities to improve data breadth and depth, and urge portfolio companies to manage climate risks.

LACERA's consideration of climate-related investment risks and opportunities is an ongoing and iterative process. It will evolve and be refined as data disclosures and analytical tools also evolve and improve. Looking forward, LACERA endeavors to incorporate climate analysis into the portfolio wide capital market expectations that guide LACERA's strategic asset allocation and to develop and encourage better information tools in private asset classes, such as private equity and real assets, to complement information available from publicly listed companies.

LACERA's attention to climate change remains rooted in our commitment to responsibly steward investments in a manner that promotes and safeguards the economic interests of LACERA and its members, consistent with LACERA's fiduciary duties and mission to "produce, protect, and provide the promised benefits."

TIMELINE

LACERA has a lengthy history of advocating sound corporate governance practices in financial markets.

2001 Joined Council of Institutional Investors

2003 Adopted LACERA *Corporate Governance Principles*

2007 Established dedicated Corporate Governance Committee of LACERA's Board of Investments

2008 Became signatory to the United Nations-affiliated Principles or Responsible Investment

2012 Joined investor initiative advocating annual elections for corporate board directors, prompt sharp increase in declassified boards in U.S. market

2014 Joined International Corporate Governance Network and Asian Corporate Governance Association

2017 Expanded LACERA's *Corporate Governance Principles* to address investment risks related to environmental and social factors such as climate change, human rights, and human capital

2018 Endorsed the Stewardship Principles of the International Corporate Governance Network

2018 Signed the Global Investor Statement to Governments on Climate Change

2018 Formally joined the global Climate Action 100+ investor initiative

2019 Endorsed the Financial Stability Board's Task force on Climate-related Financial Disclosures

2019 Affiliated to the Sustainability Accounting Standards Board's Investor Advisory Group

2020 Completed expansion of proxy voting authority from 19% to over 90% of global public equity portfolio

2020 Conducted first climate analysis and carbon foot printing of public markets investments

2020 Expanded *Corporate Governance Principles* to incorporate fund-wide stewardship activities in new *Corporate Governance and Stewardship Principles* policy

A COMMITMENT TO CONTINUOUS IMPROVEMENT

LACERA remains committed to a deliberate and pragmatic approach to responsibly integrating ESG and other sustainability strategies into our investment process. In doing so, we maintain a steadfast view towards our fiduciary duties to pursue and advance leading investment practices that strengthen our ability to deliver a secure retirement to LACERA members.