# IN PERSON & VIRTUAL BOARD MEETING

**OCTOBER 9, 2024 AT 8:00 AM***

**CORPORATE GOVERNANCE COMMITTEE MEETING**

*The Committee meeting will be held prior to the Board of Investments meeting.

## TO VIEW VIA WEB

**https://lacera.com/leadership/board-meetings**

## TO PROVIDE PUBLIC COMMENT

**Members of the public may address the Committee orally and in writing. To provide Public Comment, you should visit the above link and complete the request form by selecting whether you will provide oral or written comment from the options located under Options next to the Committee meeting.**

**Attention:** If you have any questions, you may email PublicComment@lacera.com. If you would like to make a public comment during the committee meeting, review the Public Comment instructions.

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, OCTOBER 9, 2024

*This meeting will be conducted by the Corporate Governance Committee and Board of Investments both in person and by teleconference California under Government Code Section 54953*(b), (f).

*Any person may view the meeting in person at LACERA's offices or online at [https://LACERA.com/leadership/board-meetings.](https://LACERA.com/leadership/board-meetings)*

Teleconference Locations for Trustees and the Public under California Government Code Section 54953(b).
*6526 Ocean Crest Drive Rancho Palos Verdes, CA 90275*

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

COMMITTEE TRUSTEES:

Jason Green, Chair
Elizabeth Ginsberg, Vice Chair
Debbie Martin, Trustee
David Ryu, Trustee
Patrick Jones, Alternate Trustee

I. CALL TO ORDER

II. PROCEDURE FOR TELECONFERENCE MEETING ATTENDANCE UNDER AB 2449, California Government Code Section 54953(f)

A. Just Cause
B. Action on Emergency Circumstance Requests
C. Statement of Persons Present at AB 2449 Teleconference Locations

III. APPROVAL OF MINUTES

A. Approval of the Minutes of the Regular Corporate Governance Committee Meeting of May 8, 2024

IV. PUBLIC COMMENT

(Members of the public may address the Board orally and in writing. To provide Public Comment, you should visit https://LACERA.com/leadership/board-meetings and complete the request form by selecting whether you will provide oral or written comment from the options located under Options next to the Board meeting.

If you select oral comment, we will contact you via email with information and instructions as to how to access the meeting as a speaker. You will have up to 3 minutes to address the Board. Oral comment request will be accepted up to the close of the Public Comment item on the agenda.

If you select written comment, please input your written public comment or documentation on the above link as soon as possible and up to the close of the meeting. Written comment will be made part of the official record of the meeting. If you would like to remain anonymous at the meeting without stating your name, please leave the name field blank in the request form. If you have any questions, you may email PublicComment@lacera.com.)

V. REPORT

A. Review of Total Fund Proxy Voting Results and Trends for Fiscal Year 2024
Scott Zdrazil, Principal Investment Officer
Dale Johnson, Senior Investment Officer
(Memo dated September 18, 2024)

B. Review of OPEB Trust Proxy Voting Results and Trends for Fiscal Year 2024
Scott Zdrazil, Principal Investment Officer
Dale Johnson, Senior Investment Officer
(Memo dated September 18, 2024)

C. Review of Stewardship and Corporate Governance Engagement Initiatives
Scott Zdrazil, Principal Investment Officer
Dale Johnson, Senior Investment Officer
(Memo dated September 20, 2024)

VI. ITEMS FOR STAFF REVIEW

(This item summarizes requests and suggestions by individual trustees during the meeting for consideration by staff. These requests and suggestions do not constitute approval or formal action by the Board, which can only be made separately by motion on an agendized item at a future meeting.)

VII. ITEMS FOR FUTURE AGENDAS

(This item provides an opportunity for trustees to identify items to be included on a future agenda as permitted under the Board's Regulations.)

VIII. GOOD OF THE ORDER

(For information purposes only)

IX. 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 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 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, MAY 8, 2024

*This meeting was conducted by the Corporate Governance Committee and Board of Investments both in person and by teleconference under California Government Code Section 54953(b),(f).*

*Teleconference Location for Trustees and the Public under California Government Code Section 54953(b) Mar Monte Hotel – 1111 East Cabrillo Blvd., Santa Barbara, CA 93103*

PRESENT:

Jason Green, Chair (Arrived at 8:07 a.m.)

Elizabeth Ginsberg, Vice Chair

Debbie Martin

Patrick Jones, Alternate (Teleconference under Section 54953 (b))

ABSENT:

David Ryu

OTHER BOARD OF INVESTMENTS TRUSTEES:

Trevor Fay

Nicole Mi

STAFF, ADVISORS, PARTICIPANTS:

Jonathan Grabel, Chief Investment Officer

Jude Perez, Deputy Chief Investment Officer

Scott Zdrazil, Principal Investment Officer

Amy Borrus, Executive Director, Council of Institutional Investors

I. CALL TO ORDER (Trustee Green joined the meeting at 8:07 a.m.)

The meeting was called to order by Vice Chair Ginsberg at 8:07 a.m. in the Board Room of Gateway Plaza.

II. PROCEDURE FOR TELECONFERENCE MEETING ATTENDANCE UNDER AB 2449, California Government Code Section 54953(f)

A. Just Cause
B. Action on Emergency Circumstance Requests
C. Statement of Persons Present at AB 2449 Teleconference Locations

No requests were received for Just Cause or Emergency Circumstances

III. APPROVAL OF MINUTES

A. Approval of the Minutes of the Corporate Governance Committee Meeting of October 11, 2023

A motion was made by Trustee Jones, seconded by Trustee Ginsberg, to approve the minutes of the Corporate Governance Committee regular meeting of October 11, 2023. The motion passed by the following roll call vote:

Yes: Ginsberg, Green, Jones, Martin

Absent: Ryu

IV. PUBLIC COMMENT

There were no requests from the public to speak.

V. REPORT

A. **Council of Institutional Investors (CII) and Corporate Governance**
Amy Borrus, Executive Director, Council of Institutional Investors (Presentation)

Mr. Zdrazil and Ms. Borrus of Council of Institutional Investors provided a presentation and answered questions from the Board.

VI. ITEMS FOR STAFF REVIEW

There was nothing to report.

VII. ITEMS FOR FUTURE AGENDAS

There was nothing to report.

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

There was nothing to report.

IX. ADJOURNMENT

There being no further business to come before the Committee, the meeting was adjourned at 9:06 a.m.

September 18, 2024

TO: Trustees – Corporate Governance Committee

FROM: Scott Zdrazil SZ
Principal Investment Officer

Dale Johnson DOJ
Senior Investment Officer

FOR: October 9, 2024, Corporate Governance Committee Meeting

SUBJECT: **Review of Total Fund Proxy Voting Results and Trends for Fiscal Year 2024**

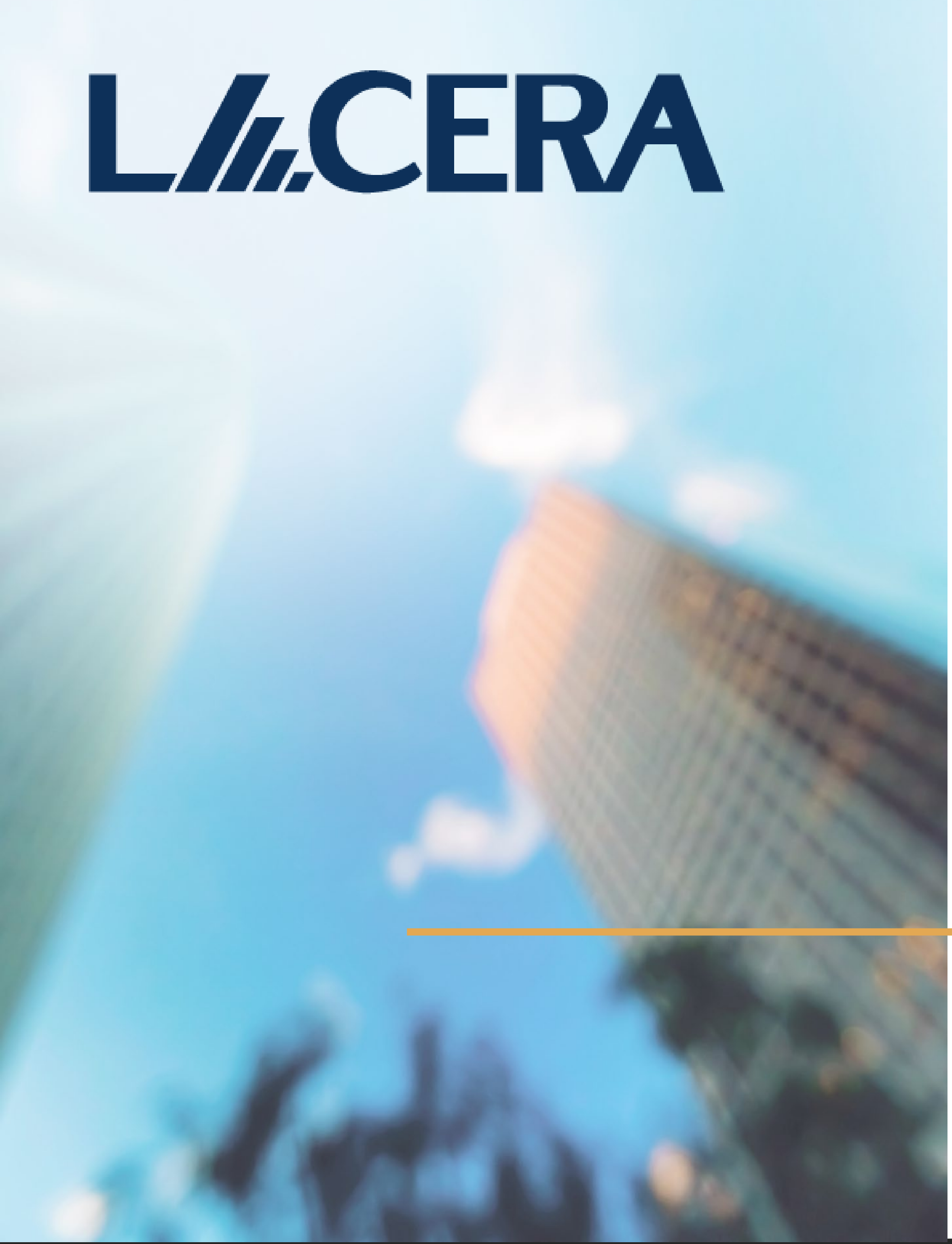
Please find attached a presentation of LACERA's Total Fund proxy voting results and trends for fiscal year 2024, covering votes cast from July 1, 2023, to June 30, 2024.

Per the roles and responsibilities defined in LACERA's *Corporate Governance and Stewardship Principles* (Principles), this FY2024 report provides an opportunity for the Committee to review results and trendlines of LACERA's proxy voting, consistent with LACERA's custom Principles.

Attachment

Noted and Reviewed:

______________________________
Jonathan Grabel
Chief Investment Officer



Attachment

# Proxy Voting Results and Trends Total Fund

## Fiscal Year 2024

**(July 1, 2023, through June 30, 2024)**

Corporate Governance Committee

October 9, 2024

Scott Zdrazil, Principal Investment Officer
Dale Johnson, Senior Investment Officer

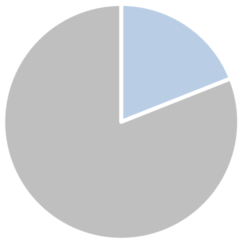
# Objective and Background

**Objective** | Review proxy voting results, trends, and related market developments

**Context**

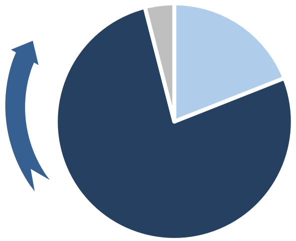

- ✓ LACERA's [Investment Policy Statement](#) explicitly states that LACERA aims to advance its fiduciary interests by promoting sound governance practices at portfolio companies to "promote and safeguard" financial value
- ✓ Fiduciary duties consider proxy votes to be plan assets and therefore must be managed consistent with LACERA's fiduciary interests to protect and promote financial value
- ✓ LACERA intentionally expanded its voting authority since 2018 by restructuring public equities accounts that resulted in lower fees, enhanced holdings transparency, and retaining our ability to directly vote proxies
- ✓ Retaining voting rights enables LACERA to vote consistent with its own policies across all holdings

**LACERA's FY2018 Voting Authority**
**By Value of Global Equity Portfolio**



**Voted 19%**
**of equities portfolio**
**1,610 meetings**

**LACERA's FY2024 Voting Authority**
**By Value of Global Equity Portfolio**

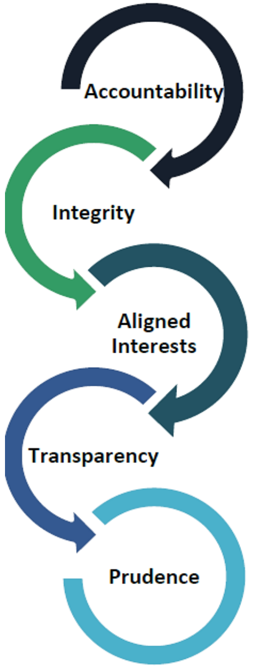


**Voted over 96%**
**of equities portfolio**
**7,268 meetings**

# Guiding Policy


- ✓ LACERA's Corporate Governance and Stewardship Principles (Principles) articulate fund positions on common corporate governance topics that LACERA believes help protect and enhance its financial interests as an investor
- ✓ Established in 2003 and harmonized three separate policies in 2018 to elevate core principles in an accessible document
- ✓ Guide all investment stewardship activities, including proxy voting, corporate engagements, and policy advocacy
- ✓ Policy divided into five sections of common governance and proxy voting topics, each guided by a core tenet illustrated below

## Five Core Guiding Tenets Driving Each Section of LACERA's Principles Policy




**ACCOUNTABILITY** ***from corporate directors***
Support practices that promote accountability from independent, highly qualified directors of diverse backgrounds to serve investors' interests

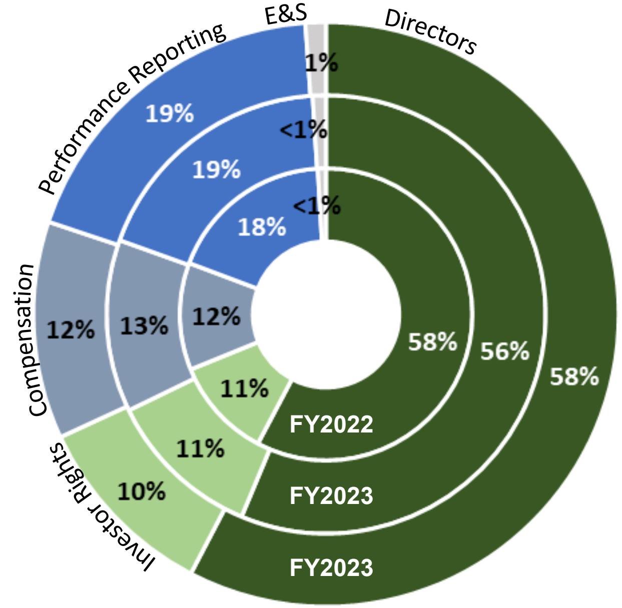
**INTEGRITY** ***through strong investor rights***
Robust rights and protections to safeguard investor interests, enable recourse in the event of fraud, and instill confidence in financial markets

**ALIGNED INTERESTS** ***in executive pay incentives***
Encourage pay-for-performance to align executives' compensation and external asset manager fees with investors' interests

**TRANPARENCY** ***in performance reporting***
Timely, reliable, accurate, comparable reporting of financial and operating performance by which investors can assess performance

**PRUDENCE** ***in mitigating material operating risks***
Diligent practices that mitigate risks to durable financial returns, including environmental, social, and governance factors such as human capital, cybersecurity, regulatory relations, and resource scarcity

## Breakdown of LACERA Proxy Votes By Five Key Subjects
***FY 2022 through FY 2024***




- Percentage of voting items by main topics **remain relatively stable**
- **~58%** of votes address **director elections** – the most common topic
- **Just over 1%** of votes address environmental and social ("E&S") matters

# Fiscal Year 2024 Proxy Votes by the Numbers

**7,268**

shareholder meetings voted

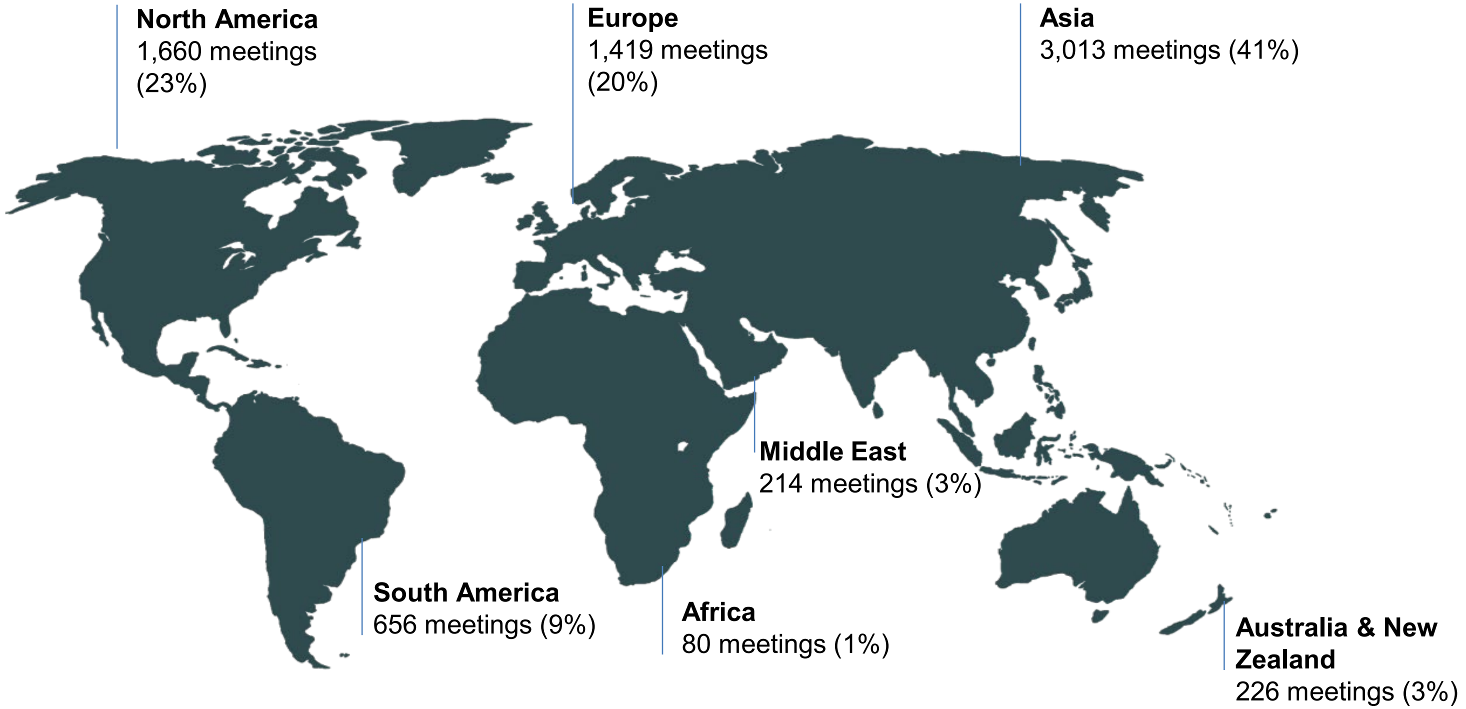
**78,729**

individual ballot items

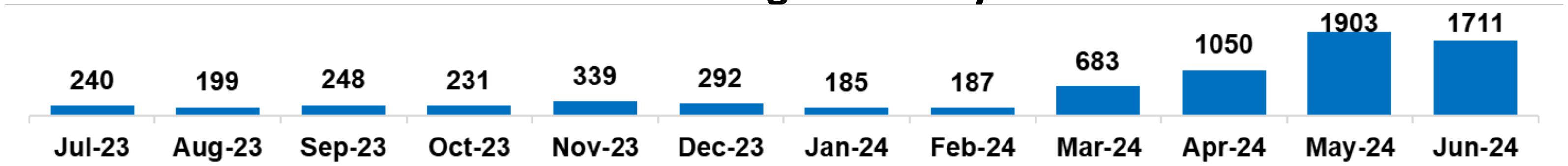
**62**

global markets voted in

## Distribution of Meetings Voted By Region




## Number of Meetings Voted By Month



# Proxy Voting Process

LACERA votes proxies in adherence to its *Corporate Governance and Stewardship Principles* in order to support practices that safeguard and enhance shareholder value.

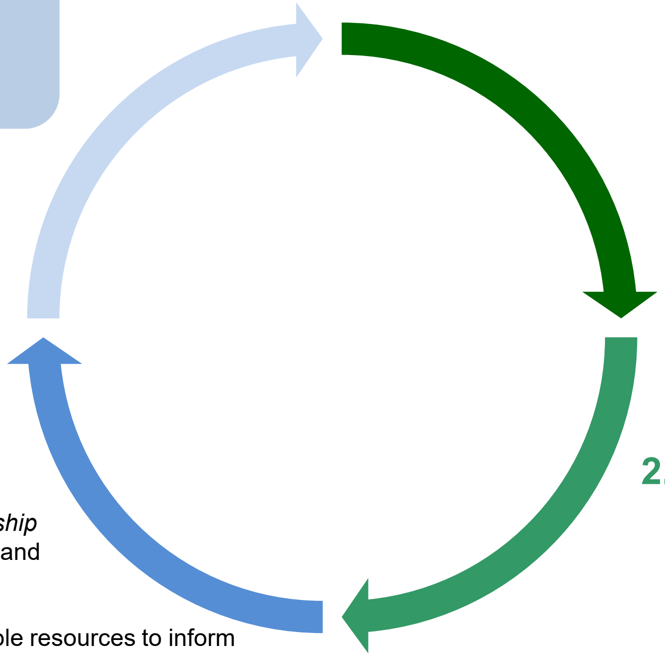
### 4. Board Oversight – *Today*

The Corporate Governance Committee reviews proxy voting results and trends, and monitors evolving market trends and issues.

### 1. Define Policy Guidance ✓

LACERA's *Corporate Governance and Stewardship Principles* define positions on sound corporate governance practices and the roles and responsibilities to implement them, including voting proxies.

The Corporate Governance Committee develops, reviews, and recommends Board approval of the *Corporate Governance and Stewardship Principles*.



### 2. Board Approval ✓

The Board of Investments approves the *Corporate Governance and Stewardship Principles*, as recommended by the Committee.

### 3. Implementation ✓

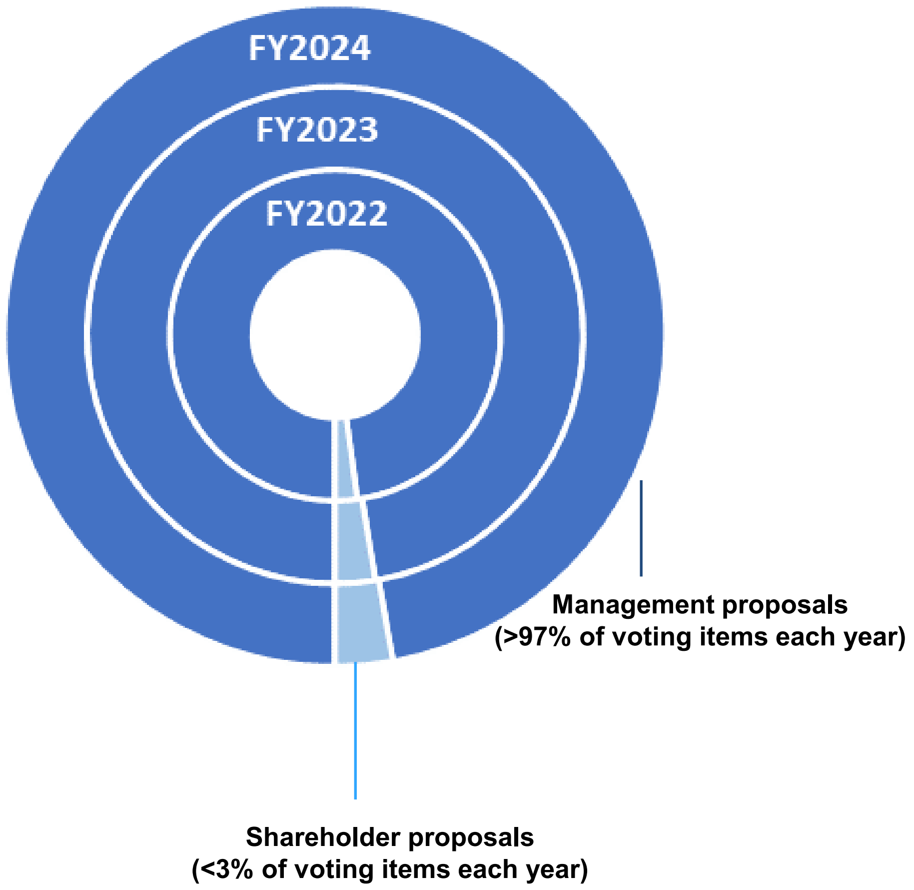
The Investment Division integrates the *Corporate Governance and Stewardship Principles* into an online voting software platform to apply policy parameters and generate vote recommendations for each meeting.

Investment staff reviews each voting item to execute a vote, using all available resources to inform voting decisions, including research from two proxy research firms, company reports and public filings with the SEC, and company dialogue, as necessary.

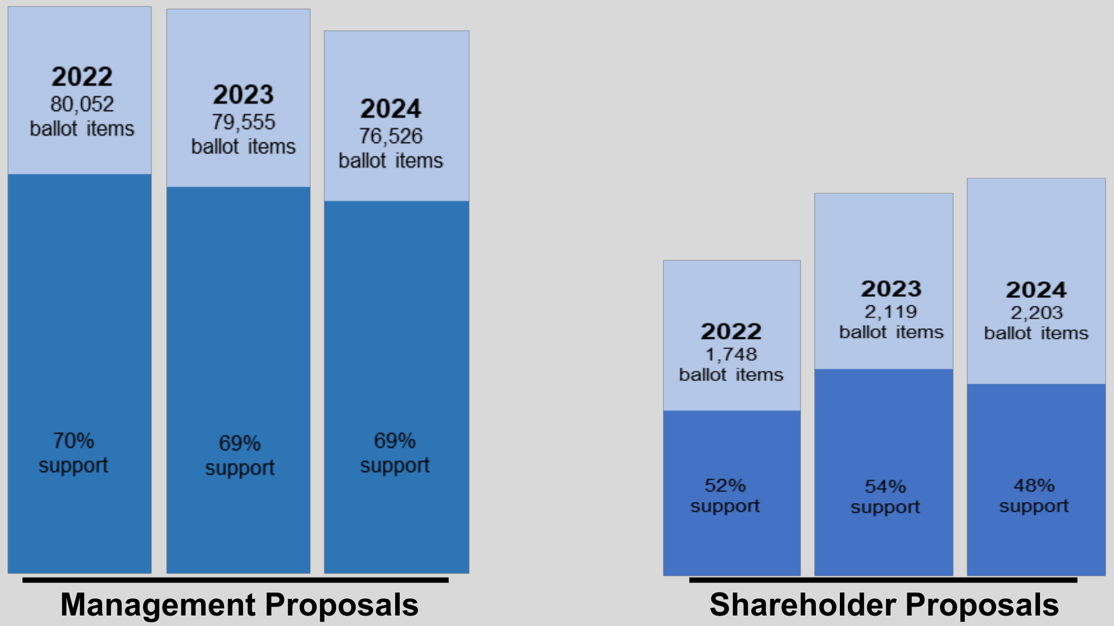
Internal oversight is provided by the CIO and Chief Counsel who are consulted on unique voting items, per policy and running practice.

# Proxy Proposals By Sponsor and Support Levels

## Proxy Items Voted by LACERA Broken Down By Sponsor

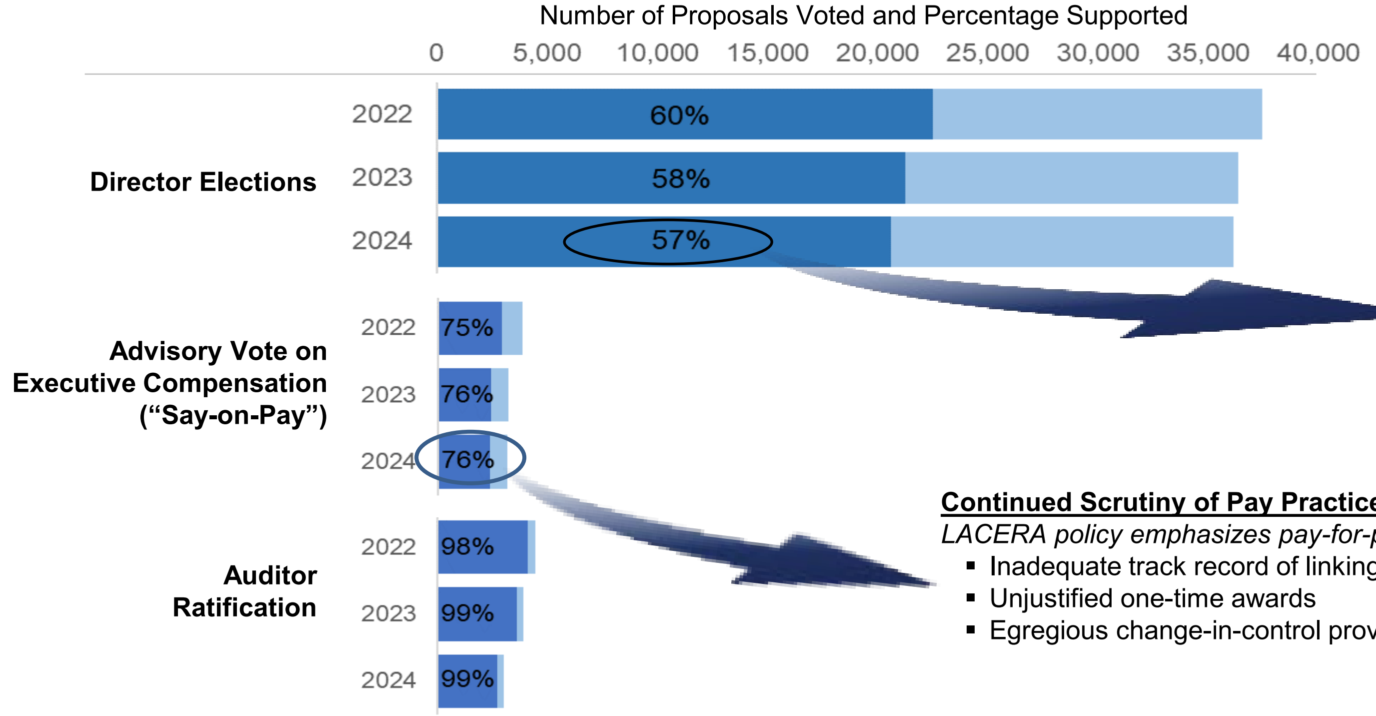



- Nearly all proxy items voted are sponsored by management (more than 97%)
- Shareholder proposals represent relatively few (less than 3%) of total votes
- LACERA's support for management proposals remains generally consistent
- LACERA's support for shareholder proposals has decreased slightly



# Management-sponsored Ballot Items

## LACERA Support Levels on Three Key Management Proposal Topics




**Key Factors Influencing Votes Against Directors in all Markets**

*LACERA policy emphasizes board quality and performance:*

- Lack of independence
- Lack of diversity
- Multi-class share structures with unequal voting rights
- Failed risk oversight and accountability
- Overboarded (more than 2 boards for CEOs; more than 3 for non-CEOs)

**Continued Scrutiny of Pay Practices**

*LACERA policy emphasizes pay-for-performance and aligned interests with investors*

- Inadequate track record of linking pay to performance
- Unjustified one-time awards
- Egregious change-in-control provisions (single-trigger, auto-accelerated equity vesting, excise tax-gross ups)

## Select Sample Votes

**Director Accountability**

Opposed 2 directors, who received less than 30% support, as the company maintains a dual-class share structure which may entrench certain investors and management, insulating them from acting in the interests of all investors.

**Pay-for-Performance**

Did not support say-on-pay vote for 7th consecutive year, which was opposed by 39% of shareholders, after company granted additional equity that results in pay-for-performance disconnect.

**Pay-for-Performance**

Voted Against say-on-pay, which was opposed by 76% of shareholders, after the company granted executive retention awards during the pandemic which were not based on pre-set performance criteria and were subsequently paid out in cash during 2023.

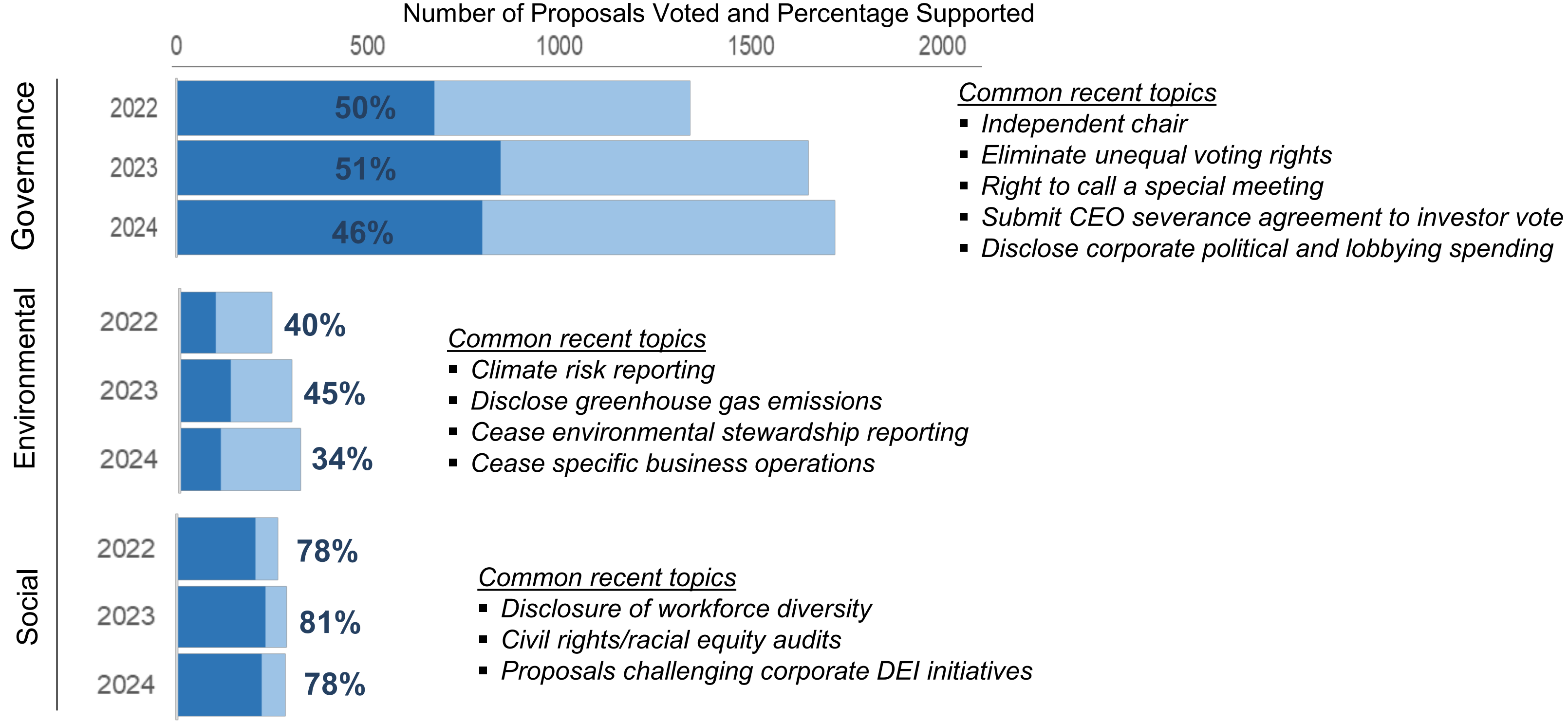
**Director Accountability**

Voted Against CEO/Board Chairs, for third consecutive year for lack of credible effort to address energy transition and mitigate related business risks.

# Shareholder-sponsored Ballot Items

- Typically non-binding requests of a board to disclose or take an action
- Governance topics are most common
- LACERA policy generally <u>supports</u> proposals regarding sound governance practices and material risks
- LACERA policy may <u>oppose</u> a proposal if it might undermine shareholder value, is overly prescriptive, or has already been adopted by the company

## LACERA Support Levels By Shareholder Proposal Subject




### Select Sample Votes

**<u>Climate Risk Reporting</u>**
Supported proposal, which received 55% support, requesting company to disclose its greenhouse gas emissions and goals to reduce emissions.

**<u>Political Contributions</u>**
Supported proposal, which received 52% support, to disclose policy governing any corporate expenditures on political activities.

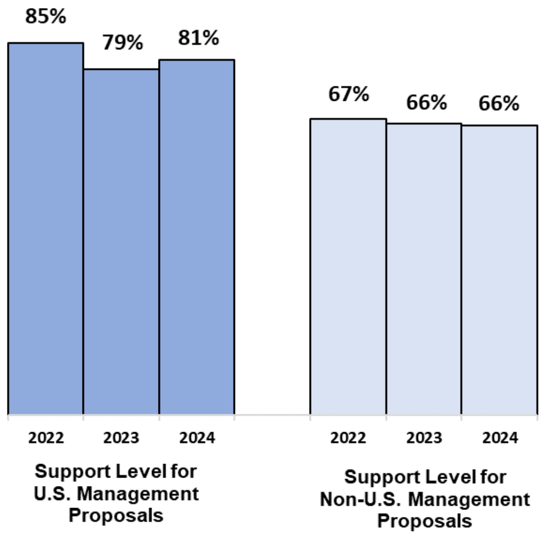
**<u>Human Capital Management</u>**
Supported proposal, which received 49% support, to conduct pay parity analysis for any discrepancies by race or gender.

**<u>Board Quality</u>**
Supported proposal, which received 40% support, to enhance disclosure of director skillsets and diversity.

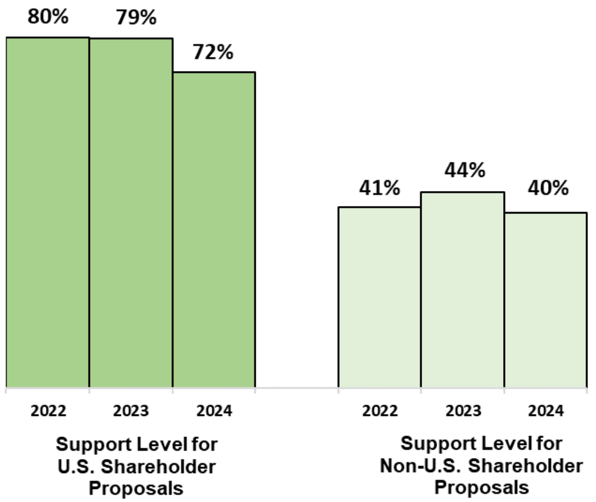
# Proxy Proposals By Region and Sponsor

LACERA applies its Principles consistently in all markets

Our support levels may vary by markets due to differences in local market governance practices and the nature of the types of proposals presented




- Nearly all proxy items are sponsored by management – 96% in the US and 97% outside the US
- LACERA's support for directors has been lower in some non-U.S. markets due to lack of board independence, less board diversity, and weaker governance provisions




- Shareholder proposals in the U.S. generally request companies to report on how they are managing material business risks, which LACERA generally supports and contributes to higher support levels
- LACERA's support levels for shareholder proposals outside the U.S. have trended lower due to proposals being more prescriptive and binding, asking companies to take specified operational measures that a management or board may be better positioned to evaluate and address

# Market Themes: Company-Sponsored Proposals

**Executive Compensation: Performance Alignment, Egregious One-time Awards**

- ✓ LACERA's *Principles* support pay for performance that encompasses prudent risk mitigation and avoids excessive risks that may be detrimental to returns
- ✓ Investors continue to provide high support for pay practices (91% average support; 27 companies received less than majority support[1])
- ✓ Several large high-profile companies rebuked with failed say-on-pay votes for egregious pay practices, such as one-off equity grants and awards
  - ➢ JetBlue Airways – failed say-on-pay vote for pandemic related retention awards granted to executives based on continued employment rather than performance criteria
  - ➢ Norfolk Southern – say-on-pay vote received only 28% support after compensation committee excluded financial impact from derailment in incentive program metrics

**Board of Directors: Skills, Experience, and Diversity**

- ✓ LACERA's *Principles* call for boards to be composed of highly talented individuals to oversee the company's strategy for creating and sustaining value, including diverse skills, competencies, and backgrounds relevant to the company's strategic objectives
- ✓ Generally high support for directors but investors increasingly apply nuanced assessment of director performance (including risk oversight, pay practices)
  - ✓ Overall support levels for directors was nearly 95% and only 40 directors received less than majority support, the lowest since at least 2020[2]
- ✓ Numerous high-profile proxy contests
  - ✓ Disney prevailed over two dissidents who challenged the board's accountability, independence, and skills necessary to navigate an evolving market
  - ✓ Dissidents withdrew their nominees at Starbucks after the company agreed to constructively engage on human capital management practices
  - ✓ Norfolk Southern saw three dissident nominees elected to its board to address perceived skills gaps that may have led to operational deficiencies
- ✓ Continued progress in diverse director appointments from investor attention at boards lacking diversity
  - ✓ Diverse representation on Russell 3000 Index company boards: Women held 29% of board seats in 2023, up from 24% just 4 years earlier and directors of color held 21% of board seats, up from 15% four years earlier[3]
  - ✓ Recent research indicates some LGBTQ board representation disclosures are emerging; e.g., companies disclosed 26 LGBTQ directors holding 33 board seats in 2023 (0.6%) of Fortune 500 directorships[4]

[1] Semler Brossy LLC. "2024 Say on Pay & Proxy Results" (Available at https://semlerbrossy.com/insights/2024-say-on-pay-reports/)
[2] PWC's Governance Center Insights. "2024 proxy season recap - Disclosures catch up with investor expectations." August 2024. (Available at https://www.pwc.com/us/en/services/governance-insights-center/library/assets/pwc-2024-proxy-season.pdf)
[3] ISS Corporate Solutions – 2023 Proxy Season Digest. (Available at https://insights.issgovernance.com/posts/2023-proxy-season-digest/)
[4] Association of LGBTQ+ Corporate Directors – 2023 LGBTQ+ Board Monitor (Available at https://fabricehoudart.com/wp-content/uploads/2023/04/2023-LGBTQ-Corporate-Board-Monitor-1.pdf)

# 2024 Market Themes: Shareholder Proposals

**Investor Support Levels Among Proposals Not Negotiated Slightly Decline, Governance Proposals Receive Most Support, Little Support for Anti-ESG**

- ✓ Average support for shareholder proposals was 23% in 2024, similar to 2023[1]
- ✓ Governance proposals received 42% support in 2024, up from 31% in 2023, with 36 receiving majority support this year, up from 13 in 2023
- ✓ Investors not discouraged by anti-ESG headlines and continue to submit environmental and social proposals (490 in 2024 and 485 in 2023)
  - ➢ Support for environmental proposals was 19% this year compared to 21% in 2023
  - ➢ Support for social proposals was 14% in 2024 compared to 17% last year
- ✓ Proposals by shareholders critical of corporate leadership or initiatives which they contend are inappropriately focused on ESG received average support of 2% over 78 proposals, with none receiving more than 10% support

**Significant Attention on Climate as a Systemic Risk**

- ✓ Similar number of climate proposals went to a vote (68 in 2024 versus 70 in 2023) while average support was 20% this year from around 22% last year[1]
  - ➢ Fewer proposals were negotiated and withdrawn before going to a vote (24% in 2024, down from 30% in 2023)
  - ➢ Some proposals were more prescriptive, such as ceasing a specified business activity
  - ➢ More companies disclose climate mitigation strategies, possibly reducing support for related investor requests
- ✓ Continued support for disclosures: Majority support for Jack in the Box and Wingstop requests to disclosure greenhouse gas emissions reduction targets

**Diversity, Equal Employment Opportunity, and Workplace Equity**

- ✓ Continued focus on workforce composition disclosure and equity audits:
  - ➢ 28 proposals requesting disclosure of DEI data or metrics (down from 35 in 2023); 14 withdrawn and 10 voted with average support of 25%
  - ➢ 22 proposals requesting assessment of equity and disparate impact of business practices (down from 55 in 2023)

**Topical Issues in Focus: Artificial Intelligence, Legal Action Against Shareholder Proponents**

- ✓ New proposals (21) ask for board oversight of artificial intelligence risks and averaged 21% support
- ✓ ExxonMobil bypassed established SEC dispute resolution process and sued two shareholders to exclude a proposal
  - ✓ Proponents subsequently withdrew proposal before investors could vote, but ExxonMobil continued legal challenge which was ultimately dismissed by the court

[1] Gibson Dunn. “Shareholder Proposal Developments During the 2024 Proxy Season” (Available at https://www.gibsondunn.com/wp-content/uploads/2024/07/shareholder-proposal-developments-during-the-2024-proxy-season.pdf?v3)

# Operational Update

Per policy, LACERA aims to vote all proxies, taking into consideration operational constraints and other factors

This slide summarizes where LACERA did not vote, consistent with fund policies, for annual review and oversight

**Approximately 11% of meetings not voted due to proxy voting chain impediments and securities lending**

**Securities Lending Impact**

- ✓ LACERA's Investment Policy Statement provides that the fund participates in securities lending consistent with fiduciary duty to generate income
- ✓ LACERA may recall shares when notable voting items may appear for a vote if LACERA requests shares to be recalled before the record date; 88% of companies do not publish ballot items before the record date
- ✓ 798 meetings not voted (about 10% of total), compared to 833 last year due to shares on loan
- ✓ Internal review of companies with shares on loan concentrated in consumer discretionary, financials, health care, and technology related companies, potentially impacted by slower consumer spending and overly optimistic growth expectations

**Certain Administrative or Operational Impediments to Voting Impacted Less Than 1% of Companies (44 companies)**

- ✓ Less than 1% of meetings not voted due to companies requiring shares to be blocked from trading (Egypt and Switzerland)
- ✓ Lack of proxy services provided by State Street's subcustodian in France for 1 company
- ✓ Custodian expired Power of Attorney impeded LACERA's votes at 6 companies (Brazil, Hungary)
- ✓ Local market practices restrict foreign investors from voting on certain items in Mexico and Taiwan (22 companies)

LACERA supports the International Corporate Governance Network and Council of Institutional Investors to promote market practices that facilitate proxy voting

LACERA

September 18, 2024

TO: Trustees – Corporate Governance Committee

FROM: Scott Zdrazil
Principal Investment Officer

Dale Johnson
Senior Investment Officer

FOR: October 9, 2024, Corporate Governance Committee Meeting

SUBJECT: **Review of OPEB Trust Proxy Voting Results and Trends for Fiscal Year 2024**

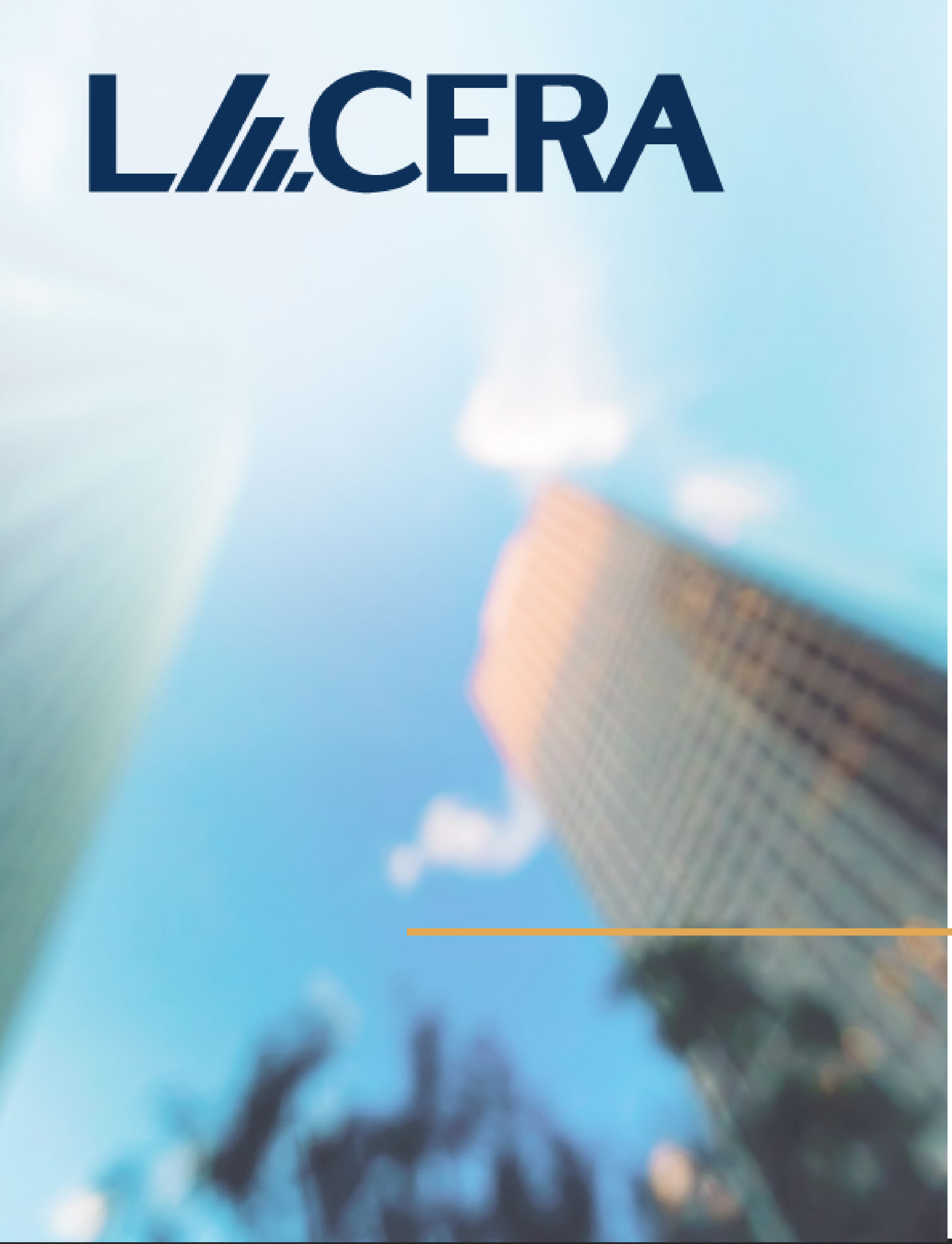
Please find attached a presentation of LACERA's proxy voting results and trends for the Other Post-Employment Benefits (OPEB) Trust covering the fiscal year 2024. Note that LACERA converted the OPEB Trusts global equity account structures from commingled funds to separately managed accounts during fiscal year 2024, which enabled LACERA to vote proxies consistent with LACERA's Corporate Governance Stewardship Principles (Principles), as approved by the Board of Investments. Proxy items covered include all votes cast from July 1, 2023, to June 30, 2024.

Per the roles and responsibilities defined in LACERA's Principles, this FY2024 report provides an opportunity for the Committee to review results and trendlines of LACERA's proxy voting.

Attachment

Noted and Reviewed:

______________________________
Jonathan Grabel
Chief Investment Officer



Attachment

# Proxy Voting Results and Trends OPEB Trust

## Fiscal Year 2024

**(July 1, 2023, through June 30, 2024)**

Corporate Governance Committee

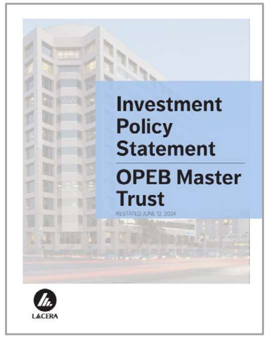
October 9, 2024

Scott Zdrazil, Principal Investment Officer
Dale Johnson, Senior Investment Officer

# Objective and Background

Objective | Review proxy voting results, trends, and related market developments

Context



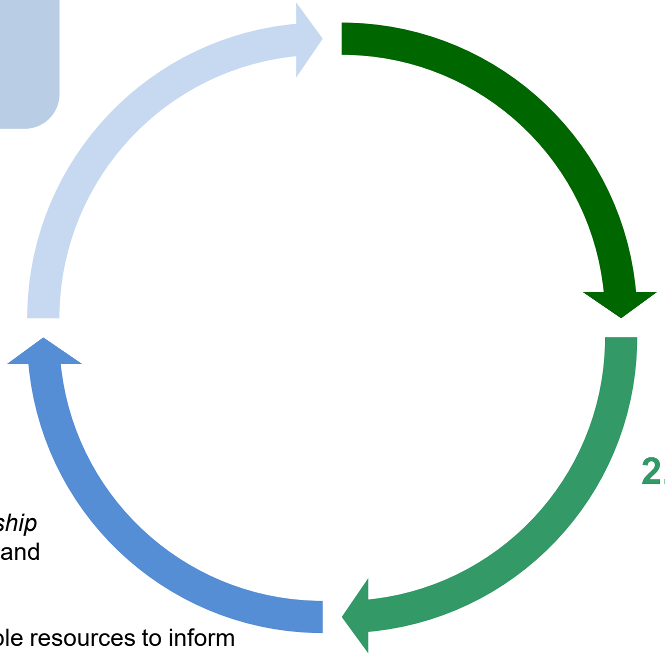

- ✓ The OPEB Trust Investment Policy Statement states that LACERA aims to advance its fiduciary interests by promoting sound governance practices at portfolio companies to “promote and safeguard” financial value
- ✓ Fiduciary duties consider proxy votes to be plan assets and therefore must be managed consistent with LACERA’s fiduciary interests to protect and promote financial value
- ✓ LACERA restructured the OPEB Trust’s global equity portfolio during fiscal year 2023-2024 from a commingled fund account to a separately-managed account by which LACERA enhanced holdings transparency and retained the ability to directly vote proxies consistent with the Corporate Governance and Stewardship Principles approved by the Board of Investments
- ✓ LACERA votes all OPEB proxy items consistent with LACERA’s Corporate Governance and Stewardship Principles which articulate LACERA’s positions on common corporate governance topics that come up for a vote and are approved by the Board of Investments

# Proxy Voting Process

LACERA votes proxies of the OPEB Trust in adherence to its *Corporate Governance and Stewardship Principles* in order to support practices that safeguard and enhance shareholder value.

### 4. Board Oversight – *Today*

The Corporate Governance Committee reviews proxy voting results and trends, and monitors evolving market trends and issues.



### 1. Define Policy Guidance ✓

LACERA's *Corporate Governance and Stewardship Principles* define positions on sound corporate governance practices and the roles and responsibilities to implement them, including voting proxies.

The Corporate Governance Committee develops, reviews, and recommends Board approval of the *Corporate Governance and Stewardship Principles*.

### 2. Board Approval ✓

The Board of Investments approves the *Corporate Governance and Stewardship Principles*, as recommended by the Committee.

### 3. Implementation ✓

The Investment Division integrates the *Corporate Governance and Stewardship Principles* into an online voting software platform to apply policy parameters and generate vote recommendations for each meeting.

Investment staff reviews each voting item to execute a vote, using all available resources to inform voting decisions, including research from two proxy research firms, company reports and public filings with the SEC, and company dialogue, as necessary.

Internal oversight is provided by the CIO and Chief Counsel who are consulted on unique voting items, per policy and running practice.

# Fiscal Year 2024 Proxy Votes by the Numbers - OPEB

**4,684**

shareholder meetings voted

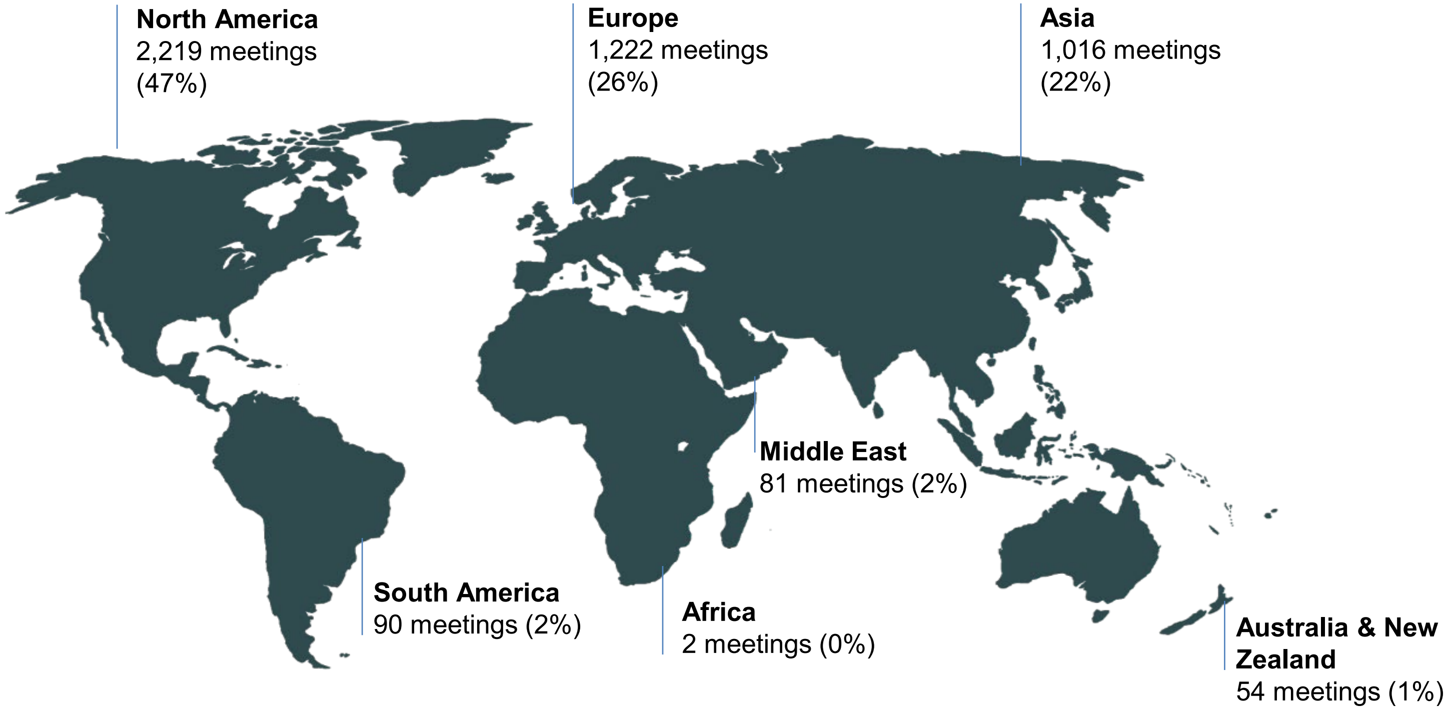
**57,496**

individual ballot items

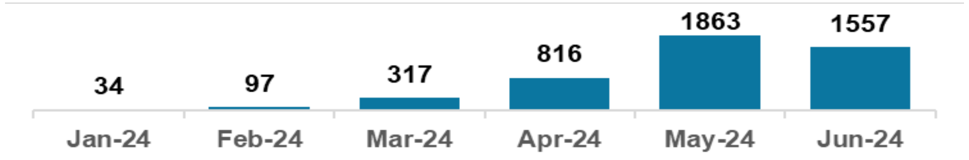
**41**

global markets voted in

## Distribution of Meetings Voted By Region

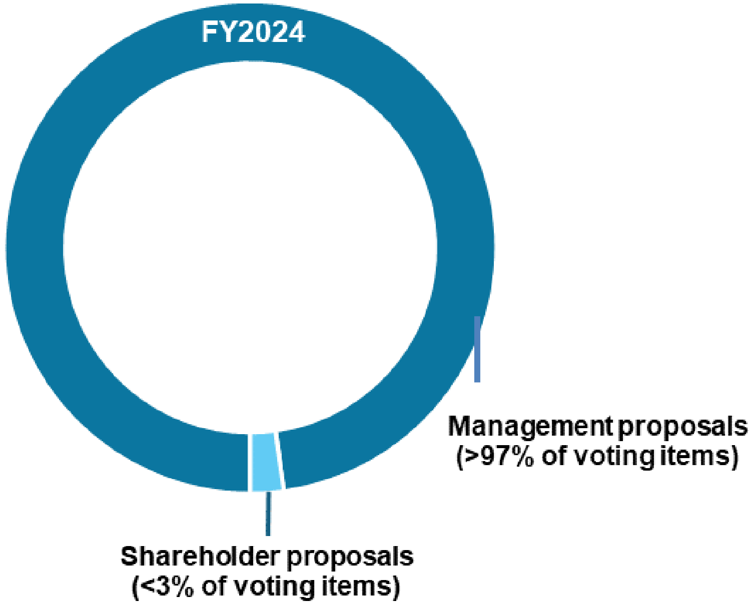



## Number of Meetings Voted By Month

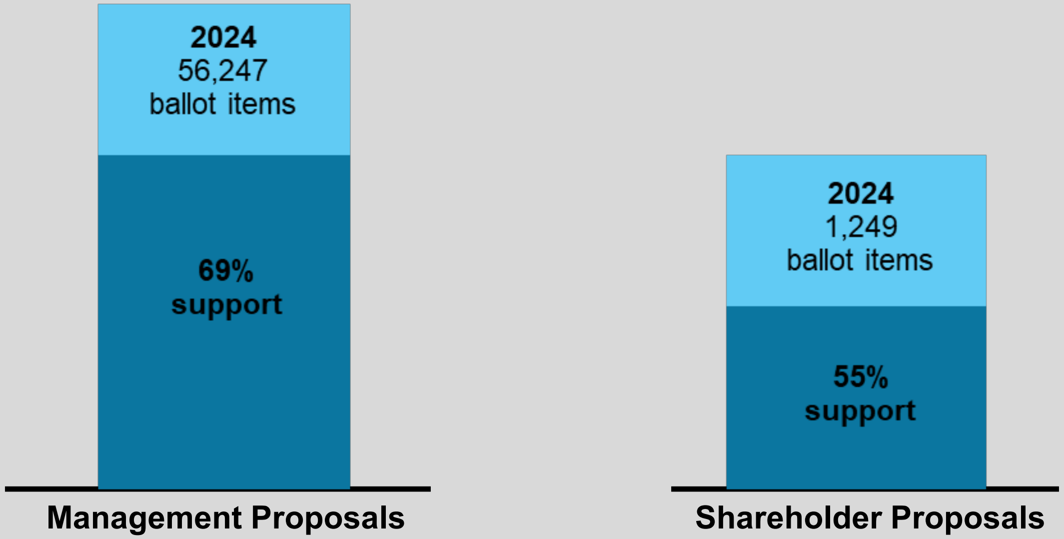


# Proxy Proposals By Sponsor and Support Levels - OPEB

## Proxy Items Voted by LACERA Broken Down By Sponsor




- Nearly all proxy items voted are sponsored by management (more than 97%)
- Shareholder proposals represent relatively few (less than 3%) of total votes




The OPEB Trust's support levels for voting items during the FY2024 year in review were consistent with the support levels reported by the LACERA defined benefit plan, as reported separately.

LACERA

September 20, 2024

TO: Trustees - Corporate Governance Committee

FROM: Scott Zdrazil SZ
Principal Investment Officer

Dale Johnson DOJ
Senior Investment Officer

FOR: October 9, 2024, Corporate Governance Committee Meeting

SUBJECT: **Review of Stewardship and Corporate Governance Engagement Initiatives**

The attached presentation (**Attachment 1**) provides a summarized update of LACERA's key corporate governance engagement initiatives and ESG integration efforts for the Committee's review, per LACERA's *Corporate Governance and Stewardship Principles.*

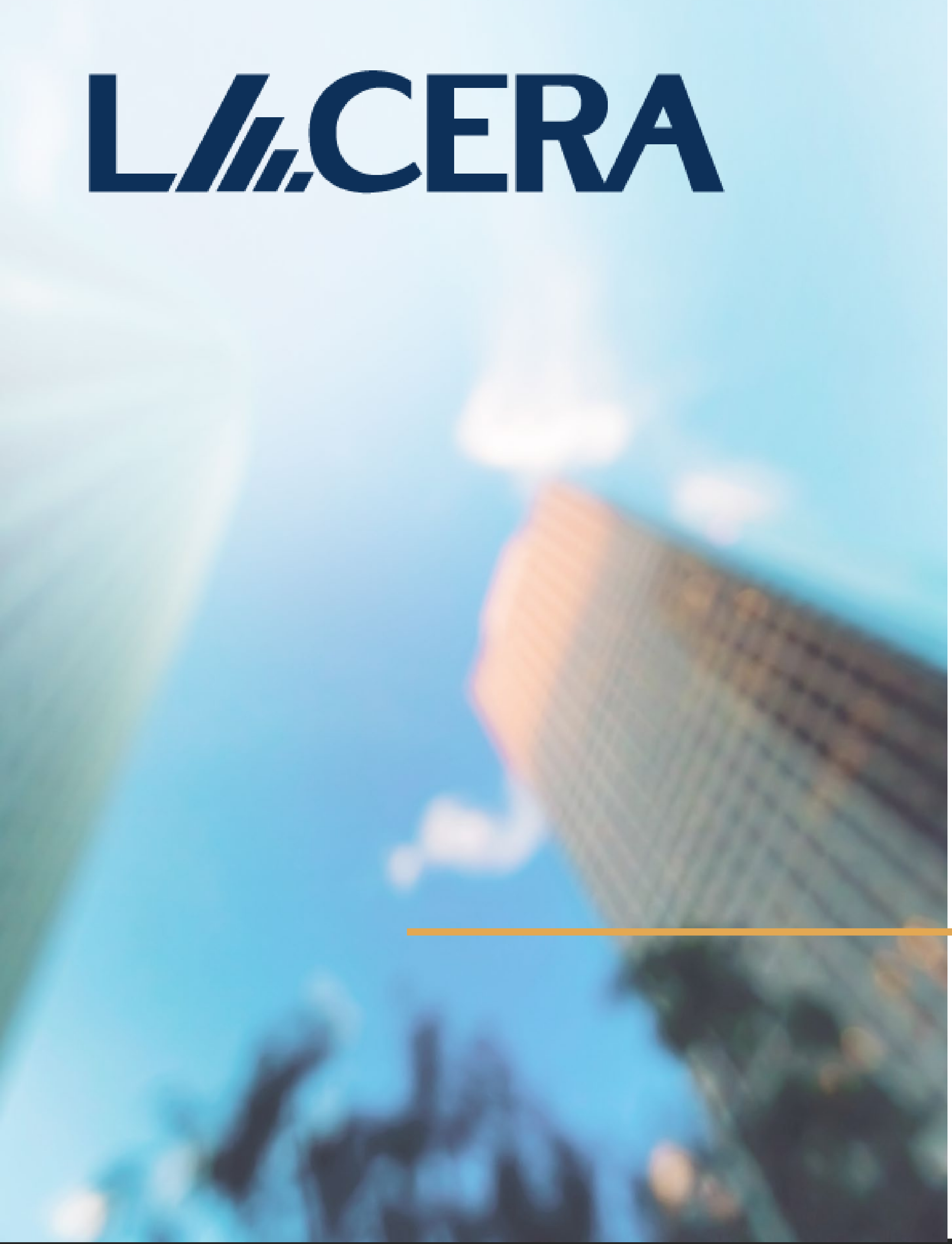
Also attached is LACERA's 2024 *Corporate Governance and Stewardship Update* (**Attachment 2**), which aims to provide a transparent look at LACERA's corporate governance and stewardship efforts, including proxy voting, engagements, ESG integration, and a brief explanation of how LACERA is assessing investment opportunities and risks related to climate change and the energy transition. The report will be posted to LACERA.com, consistent with past practice, for quick access for members, beneficiaries, and interested parties.

Attachments

Noted and Reviewed:

______________________________
Jonathan Grabel
Chief Investment Officer

Attachment 1




# Review of Key Engagement and Stewardship Initiatives

Corporate Governance Committee

October 9, 2024

Scott Zdrazil, Principal Investment Officer
Dale Johnson, Senior Investment Officer

# Report Objective and Overview

## Objective

Provide the Committee updates and opportunity for review of key engagement and stewardship initiatives that LACERA pursues to advance corporate governance practices in line with LACERA's Corporate Governance and Stewardship Principles (Principles)

## Context


- ✓ LACERA's Investment Policy Statement states that LACERA aims to advance its fiduciary interests by promoting sound governance practices at portfolio companies to "promote and safeguard" financial value
- ✓ In addition to voting proxies, LACERA proactively engages portfolio companies and policymakers to promote adoption of practices in line with its Principles policy
- ✓ The Principles guide all stewardship initiatives

This report covers updates in three areas:

1. **Portfolio Company Engagement and Policy Advocacy:** Focused, strategic initiatives to encourage systemic market adoption of practices and policies outlined in LACERA's Principles
2. **ESG Integration:** Conduct due diligence and portfolio analytics to identify and evaluate financially relevant environmental, social, and governance (ESG) investment risks and opportunities
3. **Transparency:** Report on LACERA's efforts to stewards its assets in line with LACERA's Principles

# 1. Engagement and Advocacy: Guiding Framework

Four priorities continue to guide where LACERA pursues proactive engagement and advocacy initiatives, initially set at April 2018 Committee meeting

LACERA's Corporate Governance and Stewardship Principles provide policy guidance for all engagements to support sustainable value

### Financial Market Policy and Regulations

Advance robust investor rights and fair rules to instill investor confidence and facilitate capital formation in financial markets, often in collaboration with associations, such as

- **Council of Institutional Investors (CII)**
- **Institutional Limited Partners Association (ILPA)**

### Systemic Engagement to Advance Best Practices

Promote market adoption of sound governance practices through focused, strategic, and proactive initiatives, including:

- **Corporate board quality and diversity**
- **Climate risk mitigation**
- **Equal investor voting rights**


LACERA

Corporate Governance and Stewardship Principles

### ESG Data Quality and Disclosures

Expand investor access to reliable, comparable, investment-useful ESG corporate reporting including market use of reporting frameworks:

- **IFRS International Sustainability Standards Board (ISSB)**
- **Task force on Climate-related Financial Disclosures (TCFD)**

### Thought Leadership

Elevate market discussion of industry developments and pragmatic strategies to advance LACERA's economic interests

- **LACERA Towards Inclusion, Diversity, and Equity***

**Key considerations** guiding engagements include:

**Focused priorities:** Intentional action and workload
**Collaboration:** Partnerships enhance effectiveness
**Credibility:** Market credibility broadens impact
**Diplomacy:** Constructive dialogue from viewpoint as "owner"
**Prospects for success:** Initiatives with potential to move the needle

The following slides provide brief updates on specific engagement projects

* LACERA TIDE annual update forthcoming in December 2024

# Board Quality and Diversity

**Best Practices**

Promote market adoption of sound governance practices through focused, strategic, and proactive initiatives

**Objective:** Promote corporate board quality by encouraging portfolio companies to cast a wide net for qualified director talent of diverse backgrounds

**Background**

- 6th year of collaborative initiative that identifies portfolio companies that lack board diversity based on the company's available corporate disclosures
- LACERA sends letters with CalSTRS, CalSTRS, and San Francisco ERS to companies requesting dialogue with Nominating Committee Chairs
  - Encourages robust board self-evaluations to identify requisite skills to oversee business strategy and cast a wide net for director talents, inclusive of diverse backgrounds such as gender, race, and the LGBTQ community
  - Ensure governing documents affirm nominating committee's attentiveness to seeking diverse talent

**Update and Status**

- 447 directors of diverse backgrounds appointed at 343 engaged companies over 6 years [1]
- 19 directors of diverse backgrounds appointed at 52 engaged companies in FY2024
- Companies have refined their governing policies and enhanced disclosures on board diversity
- LACERA filed "exempt solicitation" letters to announce that LACERA would vote against certain directors at five non-responsive companies, with notable opposition votes at several:
  - Estimated 57-84% of outside investors opposed all directors at one company
  - Estimated 24-56% opposition to directors at a second company

**Project Updates for FY2024 and Since Inception**


**Next Steps for FY2025 Engagement Cycle**

- Joint letters to engage focus list of 41 firms selected for disclosed diversity lagging peers
- Including several companies in non-U.S. markets such as Japan and Brazil

[1] Of the 447 directors appointed, 69% have been women of any ethnic or racial background and 31% have been men of color, as disclosed by the firms in corporate filings. Of the female directors appointed, company disclosures indicate 15% are Asian American, 16% Black or African American, 7% Latina or Hispanic, 60% White, and 2% firms did not disclose the race or ethnicity of the female director. Of the men of color, 36% were disclosed as Asian American, 45% Black or African American, 12% Latino or Hispanic, and 7% of appointees were disclosed as racially diverse without specifying the race or ethnicity. 15 companies have disclosed LGBTQ representation on their boards.

# Climate Action 100+

**Best Practices**

Promote market adoption of sound governance practices through focused, strategic, and proactive initiatives

**Objective**

- LACERA affiliated in 2018 to encourage carbon-intensive companies to report climate risks and energy transition plans to provide LACERA and the market with information to price and mitigate investment risks

**Background**

- Climate Action 100+ is an investor initiative to engage 170 companies representing ~80% of industrial emissions
- Encourage target companies to implement a strong governance framework and disclose climate risks and energy transition plans
- Global investor involvement: 700 global investors with $68 trillion in asset
- Target companies account for about half of LACERA's public market carbon footprint

**Update and Status**

- Engaged companies continue to enhance investor risk disclosures and describe near-term and long-term energy transition plans:
  - Over three-quarters (77%) committed to achieving net zero by 2050 (up from 75% in 2022)
  - 93% have some level of board oversight of climate mitigation strategies (up from 91% in 2022)
  - 87% disclose medium-term reduction targets in greenhouse gas emissions (up from 81% in 2022)
  - Companies in diverse industries have adopted net zero pledges (i.e., utilities, some oil & gas, shipping, and airlines)

- Key focus areas in recent engagements include
  - Greater clarity to investors of how companies align capital allocation, executive pay incentives, and business strategies to support stated energy transition plans and durable shareholder value

- LACERA proxy votes: Consistent with LACERA fund policies to assess director risk oversight performance, LACERA opposed director nominees at 18 companies serving in board leadership roles at companies lagging their industry peers in disclosing climate-related risks

More information available at www.climateaction100.org

# Equal Investor Voting Rights

**Best Practices**

Promote market adoption of sound governance practices through focused, strategic, and proactive initiatives

## Objective

- LACERA supports an investor coalition co-led by Council of Institutional Investors to promote equal investor voting rights
- Key focus to encourage companies to adopt "sunset" provisions by which unequal voting rights "sunset" within a defined period of time (e.g., within 7 years of an initial public offering, or IPO) or are subject to investor approval

## Background

- LACERA's Corporate Governance and Stewardship Principles strongly support one share, one vote as a fundamental governance right
- Most U.S. public companies (9 out of 10) have equal voting rights[1]
- But about 17% of recent U.S. IPOs use weighted voting, typically granting founders 10 votes per share and ongoing control of the company[1]
- Academic research indicates companies with unequal voting rights trade at a discount, particularly after about 7 years post IPO [2, 3, 4]
- LACERA votes against board directors at firms in all markets when a company has unequal voting rights absent a sunset provision

## Update and Next Steps

- Investor Coalition for Equal Votes (ICEV) continues engages pre-IPO companies and standard setters (such as stock exchanges) to encourage equal voting rights and sunset provisions when plans to adopt unequal rights have been announced[5]
- Sunset provisions have gained some market traction
    - Sunset provisions at large U.S. firms with unequal voting structures increased from 22% to 47% between 2015 and 2022 [6]
    - Sunset provisions at smaller U.S. firms with unequal voting structures increased from 31% to 68% between 2015 and 2022 [6]

[1] LACERA analysis using MSCI data of LACERA's global equity benchmark index 9the MSCI All-Countries World Investible Market (ACWI IMI) Index) and MSCI USA Investible Market Index; And CII data available at: www.cii.org/dualclass_stock
[2] Cremers, K. J. Martijn and Lauterbach, Beni and Pajuste, Anete, The Life-Cycle of Dual Class Firm Valuation (June 30, 2022). European Corporate Governance Institute (ECGI) - Finance Working Paper No. 550/2018, Available at SSRN: https://ssrn.com/abstract=3062895 or http://dx.doi.org/10.2139/ssrn.3062895
[3] Bebchuk, L. and Kastiel, K. (2017), 'The Untenable Case for Perpetual Dual-Class Stock', Virginia Law Review, Vol. 103 (4), pp. 585-631, https://virginialawreview.org/articles/untenable-case-perpetual-dual-class-stock/
[4] Cremers, M., Lauterbach, B. and Pajuste, A. (2022), The Life Cycle of Dual-Class Firm Valuation (European Corporate Governance Institute), https://www.ecgi.global/sites/default/files/working_papers/documents/duallifecyclefinal.pdf
[5] For more information on the initiative: The Investor Coalition for Equal Votes (ICEV) challenge unequal voting rights in the US and UK (railpen.com)
[6] ISS. 'Dual Class Share Structures: Is the Sun Setting Too Slowly?' December 2022. https://corpgov.law.Harvard.edu/2022/12/19/dual-class-share-structures-is-the-sun-setting-too-slowly/

# Quality ESG Corporate Reporting

**ESG Data Quality and Disclosures**

Expand investor access to reliable, comparable, investment-useful ESG corporate reporting including market adoption of key reporting frameworks

**Objective:** Expand availability and quality of investment-useful ESG information by supporting credible, investment-relevant reporting frameworks

**Background**

- The International Financial Reporting Standards (IFRS) International Sustainability Standards Board (ISSB) defines industry-specific ESG metrics with input from companies, investors, and empirical research to facilitate corporate reporting of financially relevant metrics in 77 industries
- The ISSB was formed in 2023 by merging two groups to consolidate recognized global reporting frameworks
  - The Sustainability Accounting Standards Board (SASB) initially established industry-specific standards [1]
  - Taskforce on Climate-related Financial Disclosures (TCFD) initially founded by the Financial Stability Board to guide company reporting of climate risks so that the market may better price related investment risks [1]

**Update and Status**

- LACERA continues to support market use of ISSB standards to guide corporate disclosures and participates in ISSB Investor Advisory Group
- Market uptake of ISSB standards continues through a combination of **voluntary adoption** and **regulatory requirements:**
  - In the U.S., over 90% of large publicly-listed companies now **voluntarily** use ISSB metrics to report ESG information [2]
  - Outside the U.S., regulators and stock exchanges have **mandated** that public companies use ISSB metrics in over 20 countries representing:[2]


- Convergence among global reporting frameworks continues, with ISSB announcing efforts in 2024 to work with other ESG-related reporting frameworks, such as International Finance Corporation of the World Bank and Global Reporting Initiative

[1] LACERA Board of Investments affiliated to the SASB Investor Advisory Group in 2019 and endorsed the TCFD in 2019

[2] Source: International Financial Reporting Standards Foundation

# Recent Policy Advocacy Updates

**Financial Market Policy and Regulations**

Advance robust investor rights and fair rules to instill investor confidence and facilitate capital formation in financial markets

**Select Highlights and Developments of Recent Activity, Often in Collaboration with Associations Such as Council of Institutional Investors (CII) and Institutional Limited Partners Association (ILPA)**

**Securities and Exchange Commission (SEC) 2023 Private Funds Rule Approved and then Vacated**

- Aimed to enhance transparency in fees and performance reporting and certain investor rights
- Approved in August 2023 and vacated by U.S. Court of Appeals for the Fifth Circuit in June 2024 for exceeding regulatory authority
- LACERA submitted 2022 comment letter supporting transparency measures and expressing concern about limitations to side letters

**Enhancing Investment-Useful Disclosures: Stayed SEC Climate Rule**

- SEC adopted 2024 climate rule requiring public companies to disclose baseline metrics regarding emissions and material climate-related risks
- Rule was stayed in June 2024 after legal challenges in the Fifth Circuit Court of Appeals
- LACERA 2022 comment letter supported enhancing comparable disclosures and consistency with established reporting frameworks such as ISSB

**Delayed Human Capital Rule**

- SEC has delayed anticipated rule proposal to enhance comparable human capital and workforce management disclosures
- LACERA 2021 comment letter supports enhancing comparable baseline metrics and aligning with established reporting frameworks, such as ISSB

**Modernizing Financial Market Infrastructure and Proxy "Plumbing"**

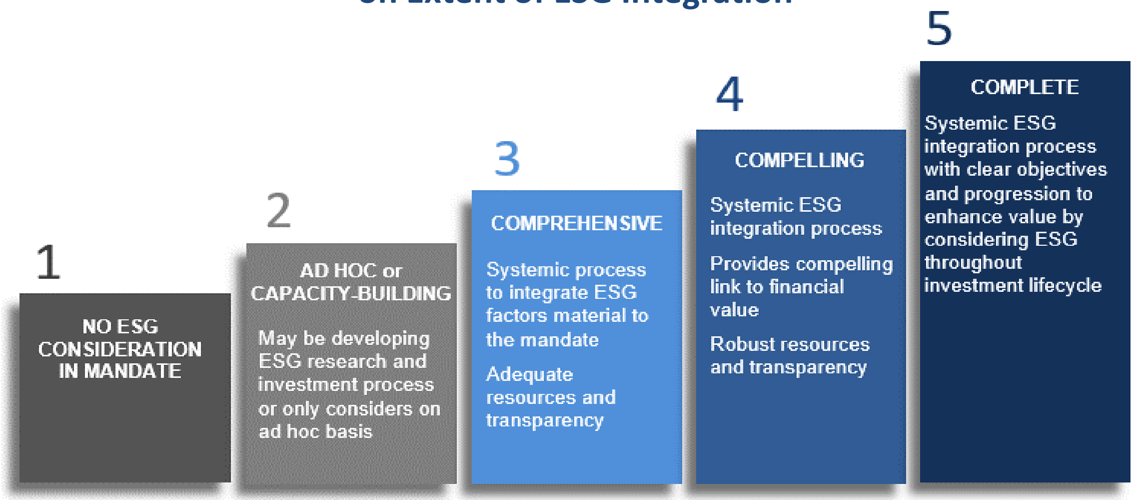
- Share traceability and end-to-end vote confirmation
- LACERA comment letter encourages the SEC to enhance market efficiency and investor rights with technological solutions
- 2024 CII SEC petition for rulemaking to consider technological solutions such as blockchain to facilitate share traceability and vote confirmation

# 2. ESG Integration

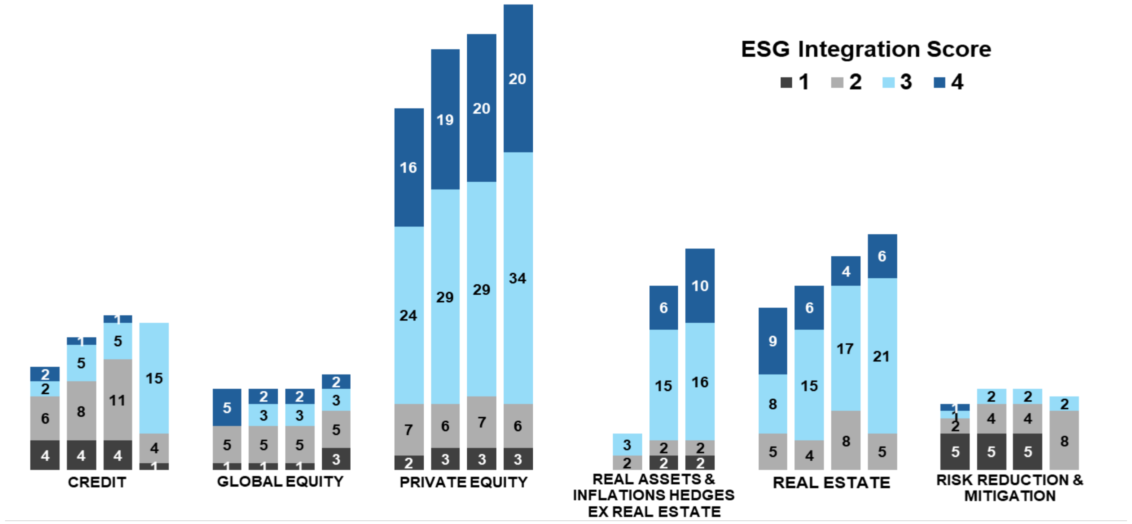
LACERA's Investment Policy Statement recognizes that environmental, social, and governance (ESG) factors may impact financial performance

LACERA evaluates 100% of external managers in upfront and ongoing due diligence to assess capacity to evaluate ESG factors in mandate

### LACERA's 5-Point Scale to Assess Each Investment Mandate on Extent of ESG Integration




### Four-Year Summary of ESG Scores of Each Mandate by Asset Class As Reported in Quarterly Manager Scorecard [1]




**Status and Updates:**

- Deepening ESG focus among asset managers in some private market asset classes, including new initiatives to measure and report ESG data
- Climate-aware strategic asset allocation: Updated stress tests of 2024 capital market expectations for climate and energy transition scenarios
- Current risk platform RFP is under review and includes ESG and climate-related data providers
- Continued integration of Global Real Estate Sustainability Benchmark and Responsible Contractor Policy in real assets diligence and monitoring

[1] ESG assessment scores for each mandate are reported to the Board of Investments in the quarterly performance review for the 4th quarter of each of the past four fiscal years

# 3. Transparency

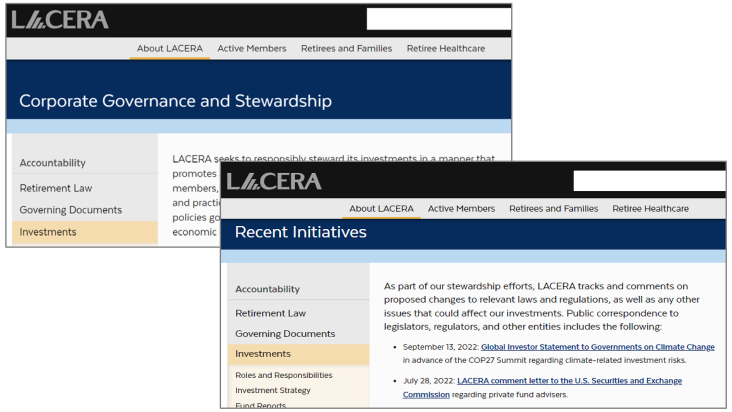
LACERA publicly reports on its corporate governance and stewardship strategies
for members, stakeholders, and interested parties


**2024 Corporate Governance and Stewardship Update**

Summarizes
- Guiding governance principles outlined in LACERA's Corporate Governance and Stewardship Principles
- FY2024 proxy voting statistics and multi-year trends
- Corporate governance engagement and policy advocacy developments
- Fundwide approach to integrating financially relevant ESG factors
- Climate-aware investing following TCFD climate reporting framework

Available on [lacera.com](lacera.com) and as **Attachment 2** to this report

**lacera.com website**
- Summary description of LACERA's approach to stewardship and corporate governance
- Includes Corporate Governance and Stewardship policy
- FY2024 Corporate Governance and Stewardship Update report
- Links to all public policy and regulatory comment letters and joint statements



# Summary of Next Steps

**Strategic Engagement Initiatives**

- Continue periodic comments and input on public policy and regulatory matters, often with affiliated investor associations (CII, ILPA)
- Corporate board diversity initiative
- Climate Action 100+
- Investor Coalition for Equal Voting Rights

**ESG Integration**

- Asset manager ESG evaluations: Continued upfront due diligence and monitoring in all asset classes, as reported in Manager Scorecard
- Current RFP for ESG and climate-related data analytics to update current providers
- Continue integration of Global Real Estate Sustainability Benchmark and Responsible Contractor Policy in fund diligence and monitoring
- Evaluate support and use of ESG-related data initiatives in private market asset classes (e.g., ESG Data Convergence Initiative)

**Transparency**

- Continue lacera.com website updates of initiatives and comment letters
- Periodic summary reports and other communication tools for membership and stakeholders

# Appendix

# Protocol for Incoming Inquiries

LACERA receives input and inquiries regarding its investment program from outside parties and stakeholders from time to time

- Formal letters or emails
- Informal phone calls, discussion with trustees or staff
- Public comments at LACERA public meetings

LACERA's consideration of any incoming information, inquiries, and requests is guided by fiduciary duty, laws, established policies and protocols, with an aim of being *constructive, cohesive,* and *compliant,* including:

- Fiduciary duty
- Board-adopted Fund policies, including but not limited to
  - Investment Policy Statement
  - Corporate Governance and Stewardship Principles
  - Responsible Contractor Policy
  - Code of Ethics
  - Conflict of Interest Code
  - Fund Communication and Media Policies
  - Public Records Act
- Protocols as reviewed by the Board of Investments in 2020 and 2024[1]

LACERA's established protocol guides how we assess and manage inquiries with a cohesive voice in line with Board-approved policies and includes:

- Direct all inquiries to Chief Investment Officer
- Identify/verify information
- Ascertain investment exposure, including the materiality of LACERA's relationship
- Identify any relevant LACERA Principles or policies providing fund guidance on the matter
- Identify any legal rights or parameters that may impact LACERA's opportunity or ability to engage
- Consider the paramount interest in transparency subject to legal limitations regarding confidentiality, diligence materials, and other exemptions
- Identify possible courses of action, including likely effectiveness of each
- Determine whether to take any specific actions in consultation with the Chief Investment Officer, Legal Office, and others, as warranted

[1]See February 2024 Board of Investments materials for full report

Attachment 2

# CORPORATE GOVERNANCE & STEWARDSHIP UPDATE 2024

LACERA
Los Angeles County Employees Retirement Association

300 NORTH LAKE AVE.
SUITE 650
PASADENA, CA 91101

626-564-6000

LACERA.COM

# Table of Contents

# LACERA Mission and Approach to Investment Stewardship

The Los Angeles County Employees Retirement Association (LACERA) invests over $85 billion in assets with an exclusive focus on fulfilling our mission “to produce, protect, and provide the promised benefits” to over 190,000 active and retired members and beneficiaries.

We seek to prudently steward our investments to meet our investment objectives. We therefore encourage sound corporate governance practices to mitigate the risk of governance failures at companies in which we invest and to enhance prospects for stable financial growth. We advocate sensible public policies and regulations to promote strong investor rights, instill investor confidence, and support healthy financial markets. We endeavor to evaluate financially relevant environmental, social, and governance (ESG) factors that may shape the risk-return profile of our investments and ultimately their financial performance. And throughout our investment process, we maintain a steadfast focus on conducting sound investment diligence and exercising our legal rights to protect our investments from downside risks and produce returns that enable us to pay our members’ promised benefits.

This report provides an overview of LACERA’s approach to corporate governance and investment stewardship, including recent results from our key initiatives.

# Guiding Principles

LACERA's Corporate Governance and Stewardship Principles policy articulates the fund's views on key corporate governance topics and guides our stewardship strategies, including proxy voting, corporate engagements, policy advocacy, and consideration of material ESG factors in our investment process. The Corporate Governance and Stewardship Principles center around five fundamental principles that collectively provide a framework by which we aim to steward fund assets to promote durable investment returns.

## ACCOUNTABILITY

LACERA supports governance measures that promote accountability from independent, highly qualified directors of diverse backgrounds so that corporate boards of portfolio companies best serve investors' interests.

## INTEGRITY

LACERA seeks strong investor rights and protections to safeguard our economic interests, enable investor recourse in the event of fraud or wrongdoing, and instill confidence in financial markets.

## TRANSPARENCY

LACERA believes markets work most effectively when investors have timely, accurate, and comparable information about key financial and performance metrics to evaluate investment prospects.

## ALIGNED INTERESTS

LACERA encourages pay-for-performance to align corporate executives' compensation and our external asset managers' fees with investors' interests.

## PRUDENCE

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

The Corporate Governance and Stewardship Principles are publicly available.
Visit lacera.com > About LACERA > Investments > Corporate Governance

# Putting Principles into Practice
# PROXY VOTING

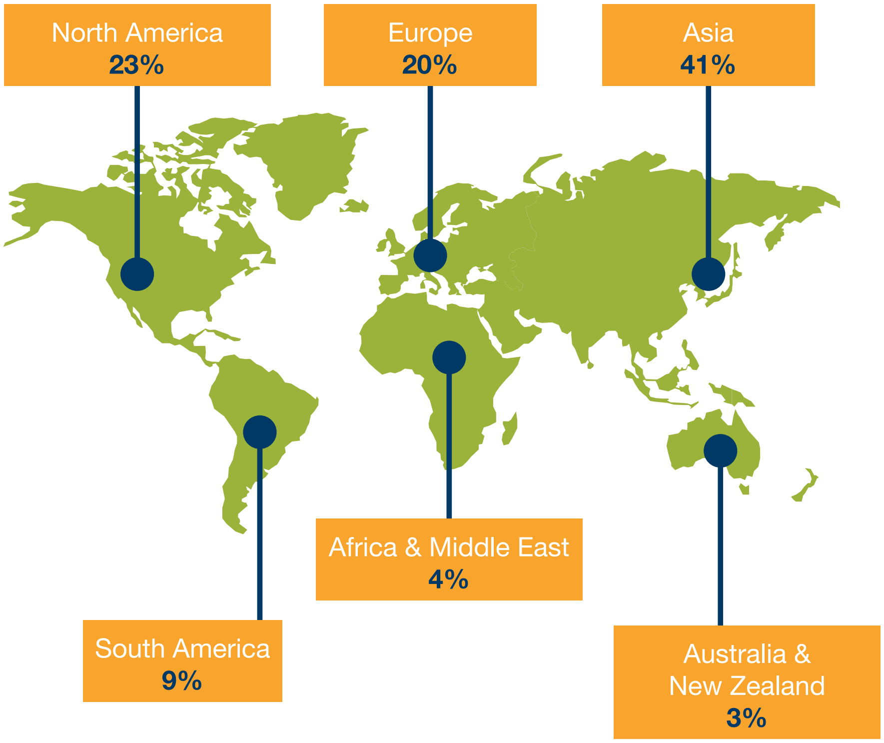
LACERA has the right to vote on a range of matters that publicly listed portfolio companies present to investors at annual and special shareholder meetings. LACERA votes its proxies consistent with our Corporate Governance and Stewardship Principles to promote and safeguard the financial value of our investments. Casting our votes on ballot items is a core stewardship strategy to influence the governance practices at portfolio companies and advance sound practices across the market.

The following presents summary information of how LACERA voted on corporate proxies during the fiscal year ending June 30, 2024.

**7,268**
shareholder meetings voted

**78,729**
individual ballot items voted

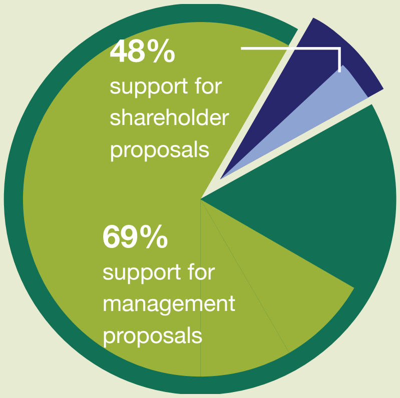
**62**
global markets voted in




## Support Levels by Proposal Sponsor

Most individual ballot items on corporate proxies (over 97 percent) are presented by company management. LACERA supported 69 percent of management proposals.

Shareholder proposals represent the remaining 3 percent of all proposals that LACERA voted on. LACERA supported 48 percent of shareholder proposals.



Putting Principles into Practice - Proxy Voting (Continued)

## Voting on Corporate Board Directors

LACERA relies on corporate board directors to serve investors' best interests. In determining whether to vote for or against director nominees, LACERA emphasizes board quality, accountability, and performance.

**57%** SUPPORT FOR DIRECTOR NOMINEES

LACERA generally supports most director nominees. The most common reasons we vote "no" on directors are:

- Lack of adequate board independence. LACERA expects at least two-thirds of every portfolio company board to be composed of independent directors in all markets.
- Overcommitted directors who serve on too many boards to adequately dedicate time to serve investors. LACERA opposes directors who serve on more than three boards, and CEOs who serve on more than two boards.
- Poor track record of inclusion in recruiting directors with diverse backgrounds. LACERA votes no when boards do not present a compelling track record of identifying and nominating qualified candidates with diverse backgrounds, such as few directors of diverse racial or gender backgrounds.
- Directors maintain problematic governance features detrimental to investors, such as not providing all investors equal voting rights.
- Egregious governance failures or poor risk oversight, including any chronic history of regulatory infractions.

## Voting on Executive Compensation

**76%** SUPPORT (OPPOSED ONE OUT OF FOUR CEO PAY PACKAGES)

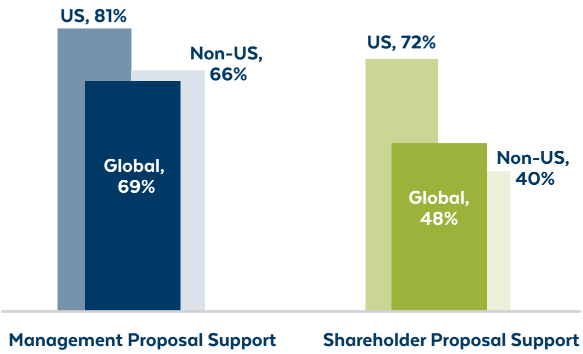
LACERA cast votes against 24 percent of advisory "say-on-pay" proposals because of excessive CEO pay and poor linkages between pay and performance.

## Sample Proxy Votes

| PAY FOR PERFORMANCE | DIRECTOR ACCOUNTABILITY | PAY FOR PERFORMANCE | DIRECTOR ACCOUNTABILITY |
|---|---|---|---|
| Voted against CEO pay package, along with 76% of investors, after the company granted and paid stock awards lacking performance criteria. | Opposed certain directors for poor risk oversight and impeding investors' ability to review and determine for themselves whether to vote in support of a shareholder proposal. | Opposed CEO pay package due to continued pay-for-performance disconnect. | Opposed board leadership for lagging risk oversight of climate and energy transition risks. |
| jetBlue | ExxonMobil | BROADCOM | Chevron |

Putting Principles into Practice - Proxy Voting (Continued)

## LACERA's Vote Support by Region




LACERA applies our Corporate Governance and Stewardship Principles consistently throughout our portfolio holdings in all 62 markets to support the same sound governance practices. Our support levels may vary by market depending on the strength of local governance practices.

For example, LACERA focuses on board quality as a core measure of sound governance. We opposed a higher percentage of director nominees in some markets outside of the U.S. due to the boards lacking adequate independence and track records of inclusive director recruitment, as well as a greater number of directors serving on an excessive number of corporate boards.

LACERA's support for shareholder proposals also varied by market due to the different types of investor requests that are presented in different markets. For example, LACERA generally supports proposals requesting basic investor rights, such as requiring all votes to have the same weighting (also known as "one share, one vote"). We also support proposals requesting that a company disclose material business risks so that investors can better evaluate and price such risks. However, LACERA often opposes proposals that request companies to take specific, prescriptive actions on operational matters that LACERA believes boards and company management are better positioned to evaluate and address on investors' behalf.

## Sample Shareholder Proposal Votes

**CLIMATE RISK REPORTING**

Supported proposal, which received 55%, requesting company to disclose its greenhouse gas emissions and goals to reduce emissions.

Jack in the box

**POLITICAL CONTRIBUTIONS**

Supported proposal, which received 52% support, to disclose policy governing corporate expenditures on political activities.

dexcom CONTINUOUS GLUCOSE MONITORING

**HUMAN CAPITAL MANAGEMENT**

Supported proposal, which received 49% support, to conduct pay parity analysis for any discrepancies by race or gender.

AMERICAN TOWER

**BOARD QUALITY**

Supported proposal, which received 40% support, to enhance disclosure of director skillsets and diversity.

NEXTera ENERGY

## Putting Principles into Practice - Proxy Voting (Continued)

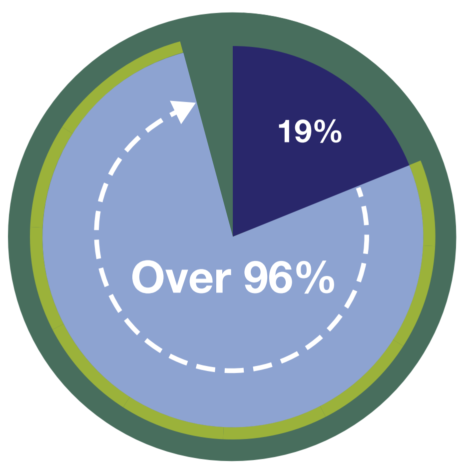
# Encouraging Diverse Director Slates

LACERA encourages corporate boards to be composed of highly qualified directors with the requisite mix of skill and professional backgrounds to oversee strategy and risk, including diverse backgrounds such as gender, race and ethnicity, and the LGBTQ community. We scrutinize board composition across all markets and oppose directors responsible for identifying nominees at companies that are outliers in putting forward inclusive candidate slates for investor consideration.

LACERA voted against directors serving in board leadership positions at over one-third of portfolio companies (2,573) in fiscal year 2024 for lacking a credible track record of inclusion, based on available company disclosures and information.

# Increasing LACERA's Authority to Vote

LACERA prefers to retain all voting rights associated with our investments when we contract with external asset managers. Maintaining the authority to vote proxies enables LACERA to independently apply the same governance standards outlined in LACERA's Corporate Governance and Stewardship Principles. We apply the same independently-defined standards across all markets and investment holdings to advance governance practices that we believe to be in LACERA's financial interests. LACERA expanded our voting authority from 19 percent to over 96 percent of the value of our global equities investments over the last seven years. We did so by restructuring our investment accounts with external asset managers and retaining the legal right to vote. LACERA anticipates continuing to grow its voting authority to 100 percent in the near future.



# Putting Principles into Practice
# ENGAGEMENT

LACERA's stewardship strategies go beyond voting proxies at shareholder meetings. LACERA proactively engages portfolio companies and policymakers on strategic, focused initiatives to promote practices in line with our economic interests. By advancing leading practices, we aim to encourage marketwide adoption of practices aimed at optimizing long-term investment outcomes.

## Recent Initiatives

### Corporate Board Diversity

LACERA expects portfolio companies to have robust, independent, and diverse boards of directors that possess the requisite mix of skills and experience to oversee corporate strategy and risk on investors' behalf.

**Over 440 directors of diverse backgrounds appointed in past six years**

Diverse backgrounds can bring an informed combination of perspectives to improve decision-making, identify overlooked risks, and reduce "groupthink" dynamics. Empirical research continues to demonstrate that boards that effectively access and manage diverse talent at all levels perform better across a range of financial metrics.

To encourage effective and inclusive boards in our portfolio, LACERA has engaged 343 portfolio companies on board refreshment and recruitment practices over the past six years, in collaboration with the California Public Employees Retirement System, California State Teachers Retirement System, and San Francisco Employees Retirement System. We identify portfolio companies that, based on available disclosures, appear to be outliers in the market by having few, if any, directors of diverse backgrounds, including gender, race, or the LGBTQ community. We send letters and request a dialogue about the board's strategies to identify requisite director skills and how their recruitment efforts cast a wide net—inclusive of diverse gender and racial backgrounds and the LGBTQ community to identify qualified candidates. We ask that firms consider a wide spectrum of sources for director talent and to define in governing documents, such as the nominating committee charter, their commitment to seeking talent of diverse backgrounds. By encouraging firms to be strategic and intentional in board searches, we aim to promote consideration of diverse director talent.

To date, more than 440 directors of diverse backgrounds have been appointed to the boards of companies that we have engaged through the initiative, including 19 directors at 17 companies in the past year. Notably, many companies have revised their recruitment practices and guidance in their governing policies to seek more diverse director slates going forward.

# Putting Principles into Practice - Engagement (Continued)

## Sound Financial Market Policy

As diversified investors with holdings across thousands of companies, LACERA advances its fiduciary interests by supporting public policies that provide strong investor rights and create conditions conducive to economic growth, including several recent efforts:

- Formally submitted comments to the U.S. Securities and Exchange Commission related to its proposed rules guiding transparency and investor rights at private fund advisers. The Securities and Exchange Commission approved a new Private Funds Advisor Rule in August 2023, which was then challenged and overturned by the U.S. Fifth Circuit Court of Appeals for measures considered to have exceeded the SEC's statutory authority. LACERA continues to support full fee transparency as a best practice and secures fee transparency reporting when entering investment contracts with private fund advisers.
- Encouraged the U.S. Securities and Exchange Commission in a formal comment letter to facilitate consistent, comparable, and reliable reporting of climate-related risks so that investors have adequate information to price climate-related risks. The SEC adopted final rules for public companies to enhance and standardize climate-related disclosures for investors in March 2024. The SEC has stayed its implementation of the new climate disclosure guidance pending review in the Eighth Circuit U.S. Court of Appeals.
- Serve on the Investor Advisory Committee to the U.S. Public Company Accounting Oversight Board to promote integrity in accounting practices on behalf of investors' interests.

## Corporate Reporting of Sustainability Risks

LACERA recognizes that how companies manage operational risks related to environmental, social, and governance factors can affect their ability to deliver financial returns. We encourage companies to provide investors with timely, comparable, and consistent disclosures of ESG factors that are relevant to their specific businesses.

Toward that end, LACERA promotes expanding the availability and quality of investment-relevant corporate disclosures related to material ESG risks and operating factors. In doing so, we hope to avail better information for our asset managers and us to identify and manage material investment risks to construct and manage our portfolio in our fiduciary interests.

LACERA has supported the development and growth of effective market infrastructure to help investors and companies alike identify what ESG information should be reported to investors so that investors have decision-useful information to assess investment prospects. LACERA formally endorsed and became affiliated with the Sustainability Accounting Standards Board (SASB Standards) in 2019. The SASB Standards have defined financially relevant ESG standards that are specific to 77 industries through a rigorous standard setting process using input from companies and investors in the industries and empirical evidence. LACERA has participated on the SASB Standards Investor Advisory Group to lend our voice to effective strategies to ensure productive and efficient dissemination of investment-relevant sustainability reporting.

Ninety-four percent of U.S. companies listed on the S&P 500 Index and eight-six percent of global companies listed on the S&P Global 1200 Index use SASB Standards to help identify meaningful reporting metrics to provide investors. LACERA has also observed that numerous asset managers in our private asset classes draw from SASB Standards to help identify financial risks and opportunities in their internal investment due diligence and portfolio management processes.

LACERA also endorsed the Financial Stability Board's Taskforce on Climate-related Financial Disclosures (TCFD) in 2019. The Financial Stability Board was established after the great financial crisis of 2007/2008 to facilitate dialogue among leading central banks on pivotal systemic financial risks. The FSB recognized that climate change is transforming global economies and established the TCFD to develop guidance on how financial organizations can recognize impacts of climate change on their business strategies to create and sustain financial value and guide climate-related

## Putting Principles into Practice - Engagement (Continued)

disclosures to investors.

Together, the SASB Standards and the TCFD have quickly become leading reference points across the market to guide corporate reporting of ESG and climate-related financial risks and opportunities so that investors have clearer visibility to inform their investment analyses.

Global investors and related associations have recently taken the critical step to converge these prominent reporting frameworks. The SASB Standards and TCFD announced that they would consolidate their reporting frameworks (along with several other initiatives) under a new "International Sustainability Standards Board" (ISSB) to be housed within the International Financial Reporting Standards (IFRS). The IFRS is well-recognized as the body that administers the International Accounting Standards Board, which sets accounting standards for most leading financial markets around the world. The newly established ISSB hit the ground running, quickly proposing consolidated ESG and climate reporting standards for market feedback. In June 2023, the ISSB announced the launch of formal, now consolidated reporting guidance for both ESG and climate factors for use by companies and investors alike.

LACERA continues to actively support the market adoption of the ISSB Standards as a member of the ISSB's Institutional Investor Advisory Group. By improving the availability and quality of ESG-related data across the market, LACERA aims to have better information to compare, assess, and track financially material risks in our investments.

# Putting Principles into Practice
# COLLABORATION

LACERA advances its fiduciary duties by selecting opportunities to join with other pension fund systems and institutional investors to amplify our voice when advancing shared interests in sound corporate governance practices and public policies. Toward that end, LACERA is formally affiliated with a number of 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 asset owners and asset managers representing over $44 trillion in assets.

## PRINCIPLES FOR RESPONSIBLE INVESTMENT

The PRI is a global investor initiative affiliated with the United Nations composed of investors representing over $120 trillion in assets 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 Standards are industry-specific standards to facilitate reporting of financially relevant sustainability information in 77 industries. Now overseen by the IFRS Foundation's International Sustainability Standards Board (ISSB), the IFRS Institutional Investor Advisory Group includes leading asset owners and asset managers representing over $34 trillion who advance market adoption of the SASB Standards and are committed to improving the quality and comparability of sustainability-related disclosures to investors.

## INSTITUTIONAL LIMITED PARTNERS ASSOCIATION

ILPA represents over 600 member institutions with over $2 trillion in private equity assets to advance the interests of limited partners and their beneficiaries through best-in-class education, research, advocacy, and events.

## CLIMATE ACTION 100+

Climate Action 100+ is an investor initiative to engage the world's largest corporate greenhouse gas emitters and urge necessary action to address climate change risks. Its members include more than 600 investors with more than $68 trillion in assets under management.

## INTERNATIONAL CORPORATE GOVERNANCE NETWORK

Led by investors responsible for over $70 trillion in assets, 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.

## GLOBAL REAL ESTATE SUSTAINABILITY BENCHMARK

The Global Real Estate Sustainability Benchmark (GRESB) was formed by public pension systems and asset managers to facilitate reporting a common set of real asset ESG factors and metrics to financial markets. GRESB provides benchmark ESG data for business management, engagement tools, and regulatory reporting solutions for investors, asset managers, and the broader industry.

# Putting Principles into Practice
# LEADERSHIP

LACERA often serves in leadership roles at affiliated organizations to promote sound corporate governance practices in financial markets, including the following roles in the past year.

**Council of Institutional Investors**
U.S. Asset Owner Advisory Committee

**Institutional Limited Partners Association**
Diversity in Action Advisory Council

**International Financial Reporting Standards International Sustainability Standards Board**
Institutional Investor Advisory Group

**Public Company Accounting Oversight Board**
Investor Advisory Group

**UN Principles for Responsible Investment**
Asset Owners Technical Advisory Committee

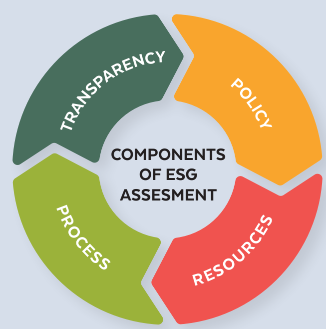
# Putting Principles into Practice
# ESG INTEGRATION

Diligent consideration of investment risks and opportunities presented by environmental, social, and governance factors (ESG) is a critical component of how LACERA stewards our investments with the aim of protecting and promoting sustainable financial returns.

LACERA recognizes that ESG factors can shape the risk/return profiles of our investments and ultimately our financial returns. Depending on the nature of the investment and the industry in which it operates, relevant ESG factors might vary. Sound governance provisions that instill investor confidence and provide adequate investor protections can influence how the market prices securities or considers investments. Regulatory compliance and cybersecurity shape operational and financial risks for banks and financial institutions. Workplace health and safety practices are impactful at mining companies and construction firms. Clean air and ventilation can assist commercial real estate properties to command a lease premium or suffer leasing discounts with poor air quality. Energy efficiency may reduce operating costs and improve bottom line returns at other firms in real estate, manufacturing, and industrials. And constructive human capital practices are often cited as central to any company's success.

LACERA has integrated ESG across our investment process to consider identifiable investment risks and opportunities that enhance our ability to further our fiduciary duty and mission. ESG analysis is ongoing and embedded throughout our portfolio management. It includes selection of the external financial service firms that manage capital on our behalf as well as qualitative and quantitative analysis to inform portfolio decisions.

Our qualitative process begins with initial due diligence of external asset managers seeking to manage capital on our behalf. We assess how external asset managers identify, assess, and manage financially relevant ESG factors that may impact the financial performance of the mandate that they manage or seek to manage. LACERA evaluates asset managers' ESG policies, the resources they use to inform ESG investment risk evaluation, and how ESG insights are applied in their portfolio construction and management process. LACERA aims to get a clear view of how robust, well-resourced, and ultimately credible and likely to protect or promote financial value each asset manager's ESG integration is. This evaluation can help provide peer comparisons and highlights firms using leading practices that are better positioned to identify and manage relevant investment risks.



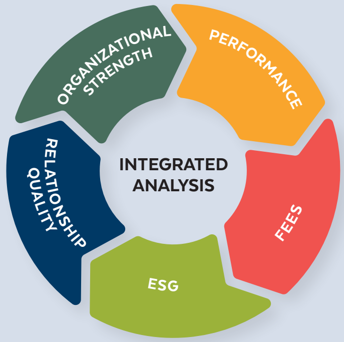

**LACERA Assesses Asset Managers' Capacity to Assess and Integrate ESG Factors**

Our qualitative process is complemented by quantitative analytics. LACERA uses data where available to identify concentrated portfolio risks and inform monitoring of individual investment mandates and the broader portfolio.

Our evaluation of each manager's ESG process is integrated into a "Manager Scorecard" which consists of multiple performance indicators including the asset manager's fees, performance, and organizational strength. The scorecard is intended to provide a holistic view of manager quality in order to inform which manager is best positioned to produce and protect returns on our behalf. The assessment helps guide LACERA's decisions to award, increase, or reduce capital allocations to asset managers.

## Putting Principles into Practice - ESG Intergration (Continued)

**Monitoring of External Assets Managers Includes ESG as One of Five Core Components**




LACERA became a signatory of the United Nations-affiliated Principles for Responsible Investment (PRI) in 2008. We collaborate both formally and informally with peers and through networks such as PRI to identify and disseminate effective ESG practices with an exclusive aim of better protecting and producing financial returns.

LACERA's overall approach to responsible investing and ESG integration has been recognized by Institutional Investor, which named LACERA as a finalist for "ESG Investor of the Year" in 2023.

### ESG Integration Spotlight No. 1: Benchmarking ESG Performance in Real Assets

To further advance our ESG integration with an aim of protecting and producing investment returns, LACERA formally affiliated with the Global Real Estate Sustainability Benchmark (GRESB) in 2022. GRESB is a global effort formed by public pension systems and asset managers to facilitate consistent measurement, reporting, and benchmarking of ESG integration by real estate and infrastructure investors. Empirical evidence points to a correlation between GRESB benchmark scores and better financial performance.

LACERA's work with GRESB provides ESG insights at our participating real assets portfolios that enhances investment evaluation and monitoring, enables peer comparisons, and provides select data, such as energy efficiency, carbon footprint, and utility usage. We joined after a two-year trial affiliation during which asset managers reported that GRESB helped provide a roadmap to identify improvements to their ESG integration practices and most mandates improved their overall GRESB scores.

GRESB is one of several efforts that LACERA is undertaking to address ESG data gaps in private asset classes. We aim to further build and refine tools that help provide better insights and a holistic view of ESG risks and opportunities across the portfolio to promote and protect the value of plan assets.

## Putting Principles into Practice - ESG Intergration (Continued)

### ESG Integration Spotlight No. 2: Responsible Contractor Policy

LACERA believes the performance of its investments can be affected by how portfolio companies select, engage, and monitor key contractors to perform work. This is particularly acute in LACERA's real assets portfolio, where the quality of construction and building operations contractors can impact construction quality, project timeliness, tenant experience, and other financial factors. LACERA initially adopted a Responsible Contractor Policy (RCP) in 2002 to require that real estate investments where LACERA had a controlling interest abide by high quality contracting standards. High quality services include evidence of experience, skill, reputation, responsiveness, dependability, record of compliance with applicable laws, regulations and statues, and payment of fair compensation and benefits to employees. LACERA believes that by promoting responsible contracting, it can prudently optimize financial performance while mitigating investment risks (such as compliance, legal, operational, and reputational liabilities) when businesses fail to meet responsible contracting standards.

LACERA refreshed and restated its RCP in 2022 to elevate and amplify its expectations of how external asset managers select and manage contractors on real assets projects in which LACERA is invested. LACERA's RCP now covers both real estate and other real assets investments (such as infrastructure and natural resources). It elevates key standards for responsible contracting to include fair wages and benefits, legal compliance (including environmental stewardship, anticorruption and anti-bribery provisions, and human rights), equal employment opportunity and nondiscrimination, competitive bidding, and respect for freedom of association. While the new RCP continues to require compliance at properties where LACERA is a majority owner, it also extends to all of LACERA's real assets investments by encouraging and assessing contracted real estate and real asset managers on the extent to which they have robust and effective responsible contracting provisions in place, including where LACERA does not have full ownership control.

# Putting Principles into Practice
# CLIMATE-AWARE INVESTING

LACERA recognizes that climate change presents and is already shaping material financial risks and opportunities for individual companies in our portfolio and the broader economy in which we invest. Financial risks include both the physical impacts from weather-related events on portfolio companies as well as changes to public policies that may result in repricing of assets. Public policies and technological innovations may also present promising new sources of investment returns.

LACERA has sought to pursue a deliberate, thoughtful, and methodical approach to assessing risks and opportunities related to the energy transition in order to inform LACERA's investment decisions. LACERA's focus on evaluating financial risks and opportunities related to climate change is a conscious effort to consider near-term and longer-term investment implications from climate change and advance an orderly transition to a low-carbon future. Our "climate aware" investing approach is a fundamental, continuous aspect of investment analysis across the fund and our effort to foster 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 encourages corporate analysis and reporting of climate risks for investor use and aims to improve 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 (see more at www. fsb-tcfd.org). Consistent with LACERA's commitment to transparency and prudence, LACERA has applied the TCFD's framework to provide insight into the fund's approach to address climate-related investment risks and opportunities.

## 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

# Putting Principles into Practice - Climate-Aware Investing (Continued)

## Governance

LACERA's Board of Investments oversees all aspects of LACERA's investment program, including setting the fund's strategic asset allocation and defining LACERA's investment policies. LACERA's board has undertaken exercises to inform a climate-aware investing lens and has adopted policies addressing ESG factors, including 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 regularly assesses 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's assessment of climate change's impacts on its investment program are guided by LACERA's recognition 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.

Starting in 2021 and renewed again in 2024, LACERA undertook a comprehensive strategic asset allocation incorporating emerging data and analyses in the capital market assumptions and estimations that consider prospective risks and opportunities related to climate change. LACERA's approach aimed to shape a strategic asset allocation that is "climate aware." We use climate-aware investing to describe a process in which the fund deliberately, prudently, and systematically accesses available information to inform investment decisions with insights regarding how climate change may impact investment performance and LACERA's ability to fulfill its mission.

A key feature of the climate-aware strategic asset allocation was the incorporation of climate-related analysis to illuminate prospective impacts on return and risk (volatility) of the fund, individual asset classes, and strategies. The climate-related analysis included various scenarios, such as prospective temperature changes, policy changes, and technology innovations which informed numerous asset allocations simulations to develop a broader range of return and risk expectations. The analysis revealed both prospective decreased long-term expected returns and increased volatility across all asset allocation mixes related to various climate change scenarios. The combination of lower expected returns and increased volatility, while appearing to be relatively small individually, could result in a prospective 10 percent to 20 percent reduction in risk-adjusted returns, as measured by the Sharpe Ratio. The range of return and volatility outcomes also reflects the variability of impacts of future climate change and highlights the importance of employing a climate-aware approach to understand prospective implications of various investment exposures going forward on the fund's performance.

LACERA identified several key points to monitor and manage as it implements the climate-aware strategic asset allocation:

1. Precise climate change impacts are not easily identifiable or simple to counteract.
2. Available modelling indicates that climate change may result in prospective lower-than-expected returns across nearly all asset classes, as well as increased volatility.
3. Climate change is not all downside risk: Being

# Putting Principles into Practice - Climate-Aware Investing (Continued)

attentive to climate change in investment decisions may also provide attractive investment opportunities.

4. Prospective lower equity returns and increased volatility will likely require more effort to identify higher expected return and opportunities in other asset classes.
5. Beyond the strategic asset allocation, strategy selection and portfolio construction within asset classes is an important component of mitigating climate risk and pursuing related opportunities. In addition to informing LACERA's strategic asset allocation research, LACERA uses data and analytical tools to inform careful analysis of climate-related financial impacts and opportunities within asset classes. LACERA periodically performs a carbon footprint of its public markets exposures, which now account for about 41 percent of the total fund. LACERA conducts the analysis in public markets because data is more readily available for publicly listed companies than is presently available in private market asset classes. LACERA continues to track its public markets carbon emission exposures and pursue opportunities to access data on private markets, such as collaborating with the Global Real Estate Sustainability Benchmark to access data on private real estate investments and encouraging our private market managers to collect and disclose relevant data.

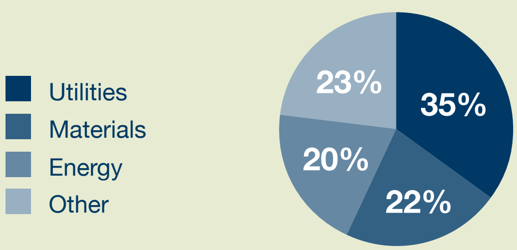
LACERA's public market carbon footprint analysis and monitoring continue to reveal a number of insights, including that emissions are driven across several prominent sectors and concentrated among key companies within the public markets portfolios:

- Three emissions-intense sectors—energy, materials, and utilities—account for over 77% of Scope 1 and 2 emissions.
- Fifty companies accounted for approximately 42% of the Scope 1 and 2 emissions.

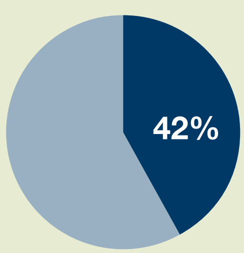
LACERA also conducts scenario analyses to identify and assess forward-looking financial risks and opportunities and the global public market portfolio's alignment with the Paris Agreement goals. These exercises evaluate future developments and impacts related to:

- **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, drought, 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

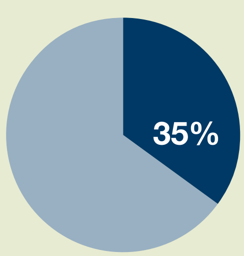
## Summary of Carbon Footprint Contributors




Three industries represent 77% of LACERA's Scope 1 & 2 Carbon Footprint in Public Market Investments




50 companies account for 42% of LACERA's Total Scope 1 and 2 Carbon Emissions




50 companies account for 35% of LACERA's Total Scope 1, 2 and 3 Carbon Emissions

## Putting Principles into Practice - Climate-Aware Investing (Continued)

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 exposures and decisions. For example, considering current policy commitments, and based on a company's future capital expenditures, more than a third (39.8 percent) of LACERA's public markets holdings appear to be aligned with a 2.0°C scenario consistent with the Paris Agreement goals, compared to a similar percentage of the MSCI ACWI IMI Index (38.3 percent). Through a climate value-at-risk lens, the analysis conveys a potential approximate 12 percent economic value loss due to combination of estimated physical and transition risks and technological opportunity. Downside risks—similar to the carbon footprint exercise—are concentrated in the energy, materials, and utilities sectors, which represent approximately 60 percent of the portfolio value at risk.

## Risk Management

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

**1) Public Policy**: LACERA has participated in several Global Investor Statements to Governments on Climate Change. As a signatory, LACERA joined with over 500 global investors representing nearly $40 trillion in assets (about 50 percent of global invested assets). The statement, released in advance of the Global COP27 Climate Change Convention, urges governments to achieve the Paris Agreement goals and to pursue measures to facilitate an orderly low-carbon economic transition.

**2) Corporate Engagement to Mitigate Climate Risks:** 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+. Climate Action 100+ is a global network of asset managers and asset owners. Affiliated investors are engaging 170 of the most carbon-intensive companies. Collectively, these companies account for an estimated 80 percent of global industrial emissions. The targeted companies also account for approximately half of LACERA's carbon footprint of Scope 1 and 2 emissions.

To date, three quarters (131) of the targeted companies have committed to net zero emissions by 2050 in line with the Paris Agreement.

In the utility sector—where LACERA participates in numerous company dialogues—each target company has committed to net zero emissions by 2050 and is pursuing short-term business strategies to reduce the carbon intensity of their energy mix. Through dialogue, investors are encouraging companies to provide greater clarity of their pathways towards net zero and disclose how their business strategies align with their stated climate goals. For example, investors welcome utility companies to disclose interim pathways and targets; describe how their capital allocation, executive pay incentives, and lobbying efforts align with their stated climate objectives; and explain how their climate mitigation efforts take into account their employees and other stakeholders to support a "just transition."

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) Deliberate 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. Asset managers' consideration of ESG factors, including climate factors, is integrated into a "Manager Scorecard," by which we

## Putting Principles into Practice - Climate-Aware Investing (Continued)

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 portfolio and integration of ESG factors. In addition, LACERA regularly reviews any enhancements in ESG integration and reporting by the external managers and often engages with the managers to discuss their approach to addressing climate-related risks and opportunities, among other 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:

- Report current greenhouse gas emissions and short-, medium-, and long-term reduction targets at Jack in the Box and Wingstop (proposals passed)
- Report on efforts to reduce greenhouse gas emissions in alignment with Paris Agreement at Boeing (30 percent support)
- Assess and report on financing activities of low-carbon energy supply relative to financing of fossil fuel energy supply at Goldman Sachs (28 percent support)

Shareholder proposals are typically not binding. Rather, they are signals to company boards of investor sentiment. LACERA expects portfolio companies to implement majority-supported resolutions and to identify pragmatic ways to be responsive to resolutions that receive notable support from investors, as companies often do.

In addition to supporting certain shareholder proposals, LACERA has scrutinized the boards of directors at its most carbon-intensive portfolio holdings to assess to what extent the board is overseeing an effective strategy to mitigate business risks and opportunities amid the energy transition. LACERA opposed the reelection of board leadership nominees at 18 companies that have lagged their peers in disclosing compelling information about how they are positioning their businesses for durable financial resilience amid shifting economic opportunities.

**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 3,000 supporters 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, only about half of the 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 facilitates investors' ability to take such information into account in investments.

LACERA also supports the SASB Standards (now International Sustainability Standards Board) which define material, investment-relevant ESG performance indicators for companies across 77 industries to report. Climate-related key performance indicators are the second most common metrics in the SASB Standards.

LACERA supported the U.S. Securities and Exchange Commission's (SEC) 2022 proposed rulemaking to enhance climate-related financial disclosures at publicly listed companies, which was approved in March 2024 and stayed pending judicial review. The SEC's rules would require corporate reporting

## Putting Principles into Practice - Climate-Aware Investing (Continued)

consistent with the TCFD framework and inclusive of Scope 1 and 2 emissions.

Enhancing available market information is a key means to better price climate-related investment risks and opportunities in the market.

**6) Pursuing Investment Opportunities**: Careful consideration of investment risks and opportunities related to the energy transition underpins LACERA's structure review of its real assets portfolio. Consistent with investment parameters approved by LACERA's Board of Investments, LACERA has committed about $4 billion in capital to private funds that aim to deploy capital to a diverse range of targeted infrastructure and natural resources opportunities related to the energy transition. These investments all are made with an eye toward financially relevant ESG factors and include emerging opportunities related to the energy transition. Such investments include renewables, energy transmission, battery storage, and critical mineral inputs necessary to enable a transition to a low-carbon economy. Anticipated investments cover several regional exposures, mainly in North America and Europe. Included among the new fund commitments are two focused energy transition funds dedicated to offshore wind and related opportunities specific to the Nordic market and mineral inputs necessary for a successful energy transition. LACERA aims to continue to deploy capital and track investment exposures to emerging areas of opportunity.

# Metrics and Targets

Prudent investment decisions are rooted in sound data and analysis. LACERA is aware that the data and tools around climate changes are nascent and evolving. As such, LACERA is actively advocating for clear market reporting of climate risks and is committed to incorporating data and tools into our own analysis. LACERA continues to incorporate available data and conduct analyses to identify areas of concentrated risks and lean into investment opportunities related to climate. Such analysis helps to inform investment decisions and portfolio construction. LACERA has not set metrics or targets at this time.

In the near-term, LACERA intends to further build out its data and tracking of investment exposures. For example, LACERA has formerly affiliated with GRESB to procure ESG data, including climate-related information, from LACERA's external private real estate managers. Clear data and analysis help inform and evaluate investment opportunities, portfolio positioning, and ultimately LACERA's climate resiliency.

# Putting Principles into Practice - Climate-Aware Investing (Continued)

## Building On Momentum

LACERA actively pursues deliberate and pragmatic approaches to identify climate-related investment risks and opportunities and position our investment portfolio for long-term resiliency and success. We have conducted "top-down" stress testing of the capital market assumptions that underlie our strategic asset allocation. And we regularly conduct "bottom-up" assessment of portfolio climate change impacts and consider climate change in investment due diligence and portfolio positioning. As LACERA has been implementing its climate-aware strategic asset allocation, we have been reallocating assets from carbon intensive investments to opportunities including about $4 billion committed to real assets private funds with diversified exposures to renewable power and energy sources (hydro, biofuels, wind, solar), transmission and smart grid infrastructure, and energy transition mining inputs (lithium, copper, graphite) and two dedicated energy transition funds.

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 become more refined. In the short-term, LACERA is in the process of updating research of how climate-related risks and opportunities may impact the capital market assumptions that underlie our strategic asset allocation. This research will help shape and inform LACERA's deliberation of any refinements or revisions to its strategic asset allocation in the coming year. This exercise helps shed a light on where the fund may lean further into areas of emerging investment opportunities, as well as be aware of concentrated risks. In addition, LACERA continues to pursue a total fund approach to climate resiliency by encouraging better information tools in private asset classes, such as private equity and real assets, to complement information available from publicly listed companies, and tracking total fund exposures to both climate-related upside investment opportunities and concentrated risks. We remain active in global investor initiatives and policy advocacy to address the negative externalities that climate change presents to LACERA's investments and facilitate a marketwide transition to low-carbon future.

# Putting Principles into Practice
# TIMELINE

| | |
|---|---|
| **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 for Responsible Investment |
| **2012** | Joined investor initiative advocating annual elections for corporate board directors, prompting 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 percent to over 90 percent of global public equity portfolio |
| **2020** | Conducted first climate analysis and carbon footprinting of public markets investments |
| **2020** | Expanded *Corporate Governance Principles* to incorporate fund-wide stewardship activities in new *Corporate Governancy and Stewardship Principles* policy |
| **2021** | Conducted climate-aware strategic asset allocation study |
| **2022** | Affiliated to the Global Real Estate Sustainability Benchmark (GRESB) |

# A Commitment to Continuous Improvement

LACERA recognizes that best practices related to investment stewardship continue to evolve and expand. We are proud of our stewardship efforts and remain committed to a deliberate and pragmatic approach to promoting sound corporate governance practices, advocating sensible financial market policies, and diligently integrating material ESG factors 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.