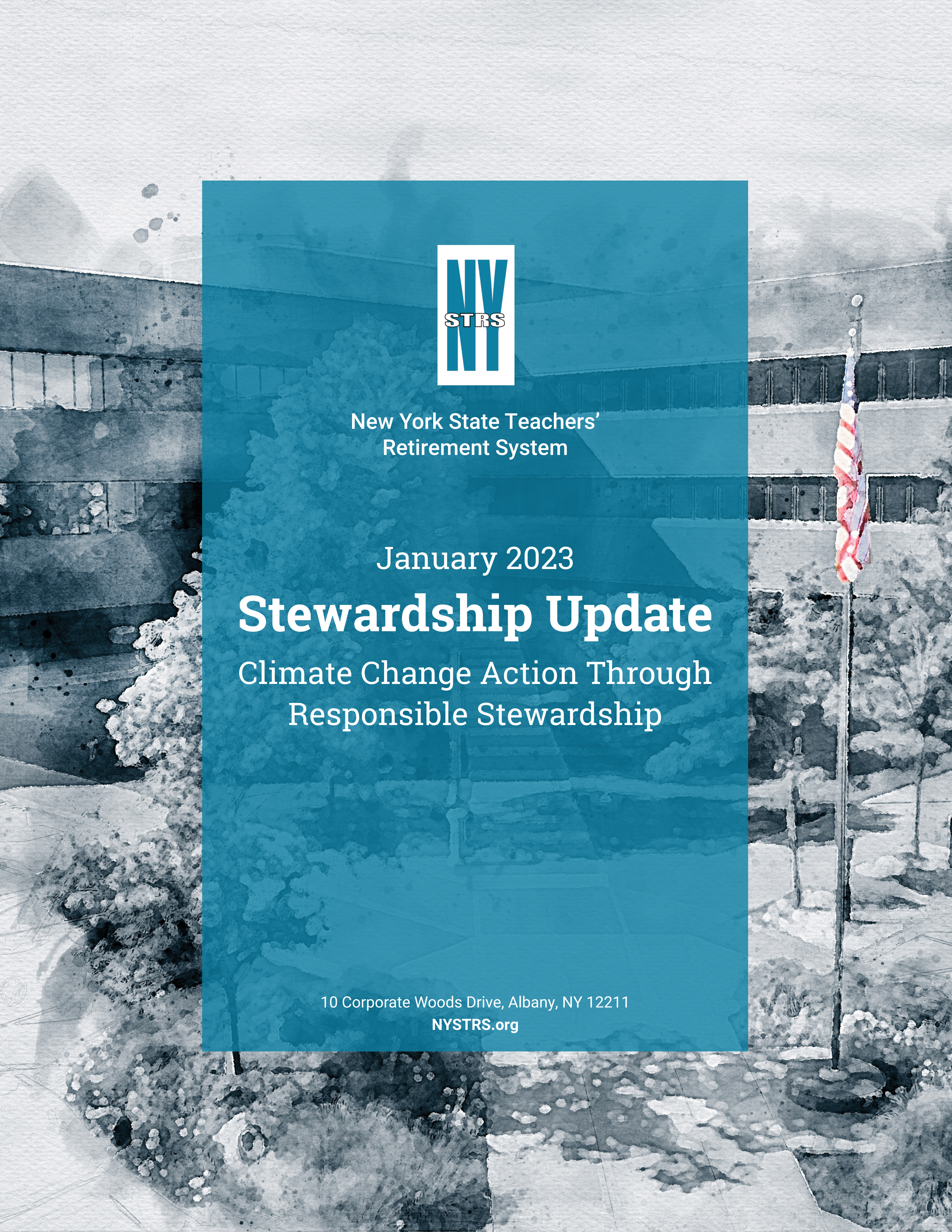

New York State Teachers' Retirement System

January 2023

Stewardship Update

Climate Change Action Through Responsible Stewardship

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NYSTRS.org

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Stewardship Update

Climate Change Action Through Responsible Stewardship

Executive Summary

As fiduciaries, NYSTRS' Board must be responsible and thoughtful stewards of the fund and act for the exclusive benefit of NYSTRS members and beneficiaries. This deliberate approach is essential to help ensure the System meets the retirement benefit payroll and therefore fulfills its fiduciary obligation to provide our members with a secure retirement.

NYSTRS approaches this from the starting point that we are universal owners with a long-term view of the markets. To ensure we can meet our fiduciary responsibility, we identify long-term risks to our portfolio through independent measurement and assessment.

To manage these risks, the System engages with the companies in which we invest, vote our proxies, and seeks opportunities to invest in companies and areas that can help to mitigate the risks we have identified.

NYSTRS has identified climate risk as a key long-term risk to the portfolio, and thus the System seeks to mitigate this risk through our proxy voting, engagement with our portfolio companies, and potential investments in opportunities that can address this risk.

In December 2021, NYSTRS published a Climate Update which outlined the initial steps in a deliberative process to address climate risk and opportunities within the broad investment portfolio. Throughout 2022, the System implemented the plan through the following actions:

- Divesting our directly held public equity portfolio from companies deriving more than 10% of their revenue from thermal coal, given the likelihood of "stranded asset" risk.
- Creating a Restricted List of companies based on climate risk factors, with no additional shares to be purchased of those companies in our internally managed public equity portfolios and externally managed passive separate accounts.
- In January 2022, NYSTRS revised its Stock Proxy Voting Policy to more clearly articulate the System's use of proxy voting to address identified climate risks in its portfolio holdings. (Highlighted proxy votes are found in the Appendix.)
- In June 2022, NYSTRS' Investment Advisory Committee hosted a panel discussion/educational session on the topic of *Fiscal Impact of Fossil Fuel Divestment* with NYS Senator Jabari Brisport, NYS Assembly Member Dr. Anna Kelles, Dr. Mark Milstein of Cornell University and Bill McKibben, Director/Founder of Third Act.
- In June 2022, NYSTRS hired an executive to lead and manage the System's policy and initiatives on Stewardship.

- Developed a divestment policy through the lens of Responsible Stewardship to guide future engagement activities and divestment decisions.
- In October 2022, NYSTRS' Responsible Stewardship Policy was approved and added to the Investment Policy Manual, outlining the System's process on risk assessment, company engagement, proxy voting and divestment.
- Notifications were sent to the Restricted List companies and engagement began through the collection of responses to our Key Performance Indicators (KPIs). System staff then conducted risk assessments on received responses. Collective engagement continued through investor coalitions (i.e., Climate Action 100+ and the Ceres Investor Network).
- Carbon intensity in our portfolio decreased by 10.4% (as measured by Mercer's ACT Transition Assessment) from 171.5 to 153.6 tons of greenhouse gas (GHG) per $M sales from June 30, 2021 to June 30, 2022.
- Continued exploration of opportunities within private equity funds that focus on energy transition (i.e., renewable energy, energy storage, carbon capture, etc.).
- An analysis of opportunities within the fixed income asset class was conducted by System staff and presented to the Board as part of an ongoing process.
- Completed due diligence of the oil sands industry and approved NYSTRS' continued ownership, and inclusion on the Restricted List, of the System's oil sands company holdings. System staff will continue to conduct ongoing engagement, monitoring and assessment of these oil sands companies.

Introduction: Our View on Responsible Stewardship

As fiduciaries, NYSTRS' Board must be responsible and thoughtful stewards of the fund and act for the exclusive benefit of NYSTRS members and beneficiaries. This deliberate approach is essential to help ensure the System meets the retirement benefit payroll and therefore fulfills its fiduciary obligation to provide our members with a secure retirement.

NYSTRS approaches this from the starting point that we are universal owners with a long-term view of the markets. To ensure we can meet our fiduciary responsibility, we identify long-term risks to our portfolio through independent measurement and assessment.

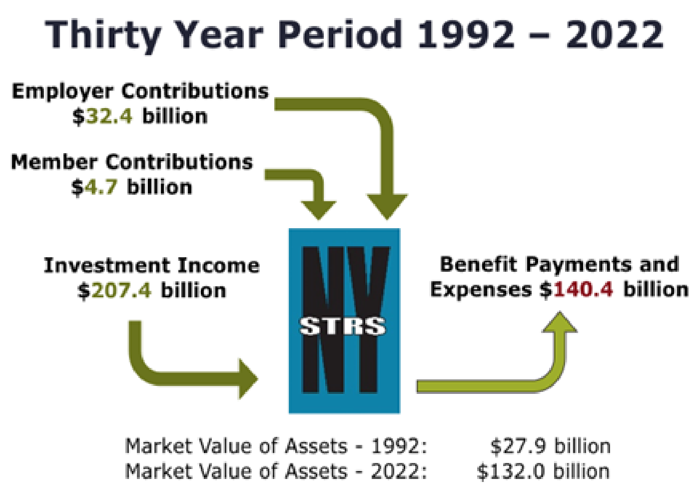
> **What are universal owners?**
> Investors with highly diversified and long-term portfolios that are representative of global capital markets.

To manage these risks, the System engages with the companies in which we invest, vote our proxies, and seeks opportunities to invest in companies and areas that can help to mitigate the risks we have identified.

NYSTRS' Mission: To Provide Our Members with a Secure Pension

Our status as one of the best-funded public pension plans in the nation is a distinction the System holds in very high regard.

NYSTRS is a defined benefit pension plan with three sources of funding with which to pay promised benefits: employer contributions, member contributions and income from investments. The System has a well-diversified and prudently managed investment portfolio that provides appropriate long-term risk adjusted returns. This diversification of assets helps us earn the highest possible long-term rate of return within appropriate risk levels. NYSTRS' total fund performance results for the 30-year period ending June 30, 2022 are at the 12th percentile compared to peers, according to a survey of public fund sponsors[1].



[1] Callan, *NYSTRS Asset Allocation and Performance Statistics as of June 30, 2022.* The "Callan Public Fund Sponsor Very Large Peer Group" consists of 51 constituent funds with average Assets Under Management (AUM) of $48.8 billion and a median AUM of $35.7 billion. The peer group includes Callan clients and anonymously shared data from BNY Mellon and Investment Metrics.

As such, the System is nearly 100% funded based on the actuarial value of assets as of June 30, 2022.

NYSTRS serves more than 442,000 active members, retirees and beneficiaries. During the last fiscal year, the System paid $8.0 billion in benefit payments. Over the 30-year period from July 1, 1992 to June 30, 2022, the System paid $140.4 billion in benefit payments and expenses. During that same period, approximately 85% of the System's income was generated from investments, far exceeding the industry average of approximately 64%.[2]

The Board's Fiduciary Duties, Investment Beliefs and a Responsible Investment Pathway

NYSTRS' Board has strict fiduciary duties under New York State regulations (11 NYCRR §136-1.6) and applicable law:

> The administrative heads are fiduciaries and as such shall act solely in the interests of the members and beneficiaries of the systems they administer. They shall perform their responsibilities in a manner consistent with those of a reasonably prudent person exercising care, skill and caution.

The Board is committed to its fiduciary duties to act in the best interest of the System's members and to prudently manage System assets using appropriate skill, care and diligence. The Board's unequivocal focus at all times is to ensure the System is sufficiently funded in order to fulfill its mission of providing our members with a secure pension.

[2] National Association of State Retirement Administrators (NASRA) Public Fund Survey for FY 2021.

Climate Risk

Climate risk is uniquely important in that it has the potential to pose an existential threat to many areas all around the world. The risks of flooding, severe droughts, extreme temperature changes and the increasing frequency of "once in a generation" weather events have already had material economic and financial impact and if it continues, will lead to the reshaping of cities and human migration over the coming decades.

As universal owners with a long-term view of the markets, this is a risk that we do not ignore.

Global scientific consensus (including the U.S. Environmental Protection Agency and the United Nations Intergovernmental Panel on Climate Change) points to human-produced greenhouse gas emissions, such as carbon dioxide and methane, as the key drivers of climate change for the past century. Growing global demand for energy has been a key driver of this increase in emissions. Ironically, as temperatures head toward extremes, the need for energy consumption rises. In fact, cooling and heating become not simply luxuries, but necessities in the face of extreme temperatures.

Addressing this issue requires two approaches: reducing existing greenhouse gas emissions and transitioning to cleaner sources of energy. NYSTRS believes these goals can be best accomplished within the scope of its investment portfolio through:

1) engaging with the companies we own; and

2) analyzing energy transition opportunities.

Responsible Stewardship and Climate Risk

NYSTRS Retirement Board's Investment Beliefs, detailed in the Board Governance Manual, provide a consistent and transparent framework to guide the System's investment decision-making processes. With regards to stewardship, the key areas are:

- Risk – Make prudent investment choices under a disciplined risk-controlled strategy.
- Ownership – Be active owners of the companies we invest in through efforts such as direct engagement and proxy voting.
- Collaboration – Work together with other long-term institutional investors to engage with companies.
- Rules and Frameworks – Participate with external investor organizations to shape future regulation and disclosure standards related to identified key long-term portfolio risks.

It is through this framework that NYSTRS has approached an independent analysis of climate risk and the challenges posed by the energy transition and assessed the specific impact on the System's ability to continue securing the pensions of our members and beneficiaries.

RESPONSIBLE STEWARDSHIP – THE ENERGY TRANSITION

Risk

Identifying the measures driving climate risk (GHG/carbon emissions) and estimating the impact on our portfolio through scenario analysis.

Ownership

Engaging actively with companies we own on their transition plans and progress towards those plans, and voting proxies in line with addressing the risks identified.

Collaboration

Joining organizations such as Climate Action 100+, an investor-led global coalition that engages with the top 100+ greenhouse gas emitters to take necessary action; and the Ceres Investor Network, which works with institutional investors to advance sustainable investing practices.

Rules and Frameworks

Working with organizations like the International Financial Reporting Standards Foundation, which brings together asset owners, asset managers and standard setters on material and important metrics for disclosure.

Mitigating Risk: An Investor's Perspective

NYSTRS has been successful in providing secure pensions for our members for over one hundred years through an investment program designed to maintain the sustainability of retirement benefits members have earned. The System has accomplished this as universal owners – owning assets across the U.S. (and global) economy.

In terms of investor actions on the issue of climate risk, the two most common actions discussed are divestment from, or engagement with, publicly traded companies. It is important to note that divestment, in and of itself, does not solve the problem of greenhouse gas emissions – an investor simply sells their holdings to another investor, and this transaction does not necessarily change how that business is run. Although divestment reduces portfolio emissions, it does not reduce real world emissions.

Given the focus of publicly traded companies on their shareholders, the System believes it is more effective to maintain a voice as owners of a company in order to engage them to develop plans to mitigate risks we have identified. Divestment is a last resort, only considered if:

a) companies fail to address identified risks after engagement steps have been taken; or

b) when engagement has not resulted in a meaningful risk mitigation plan.

Divestment may also be considered in light of other long-term risk factors, such as technological innovation and improvements leading to the possibility of "stranded asset" risk.

The Year in Review: A Look Back

Together with staff, the Board continues to analyze the System's portfolio for climate risks and opportunities that support the transition to a more sustainable future. In December 2021, the Board adopted an initial climate action plan as a first step in NYSTRS' deliberative process regarding portfolio adjustments. The resolutions and the progress are:

1. Divest from all of the System's directly held public equity securities in companies that derive more than 10% of their revenue from thermal coal (i.e., the "Divestment List").

   ACTION: NYSTRS has divested from companies meeting the thermal coal criteria and continues to monitor the portfolio to ensure compliance with the Divestment List policies in the directly held public equity strategies.

2. For directly held public equity securities in the System's internally managed portfolios and externally managed passive portfolios, cease further purchase of shares in companies that meet the following criteria (i.e., the "Restricted List"):

   a. The 10 largest positions held by the System in companies that have more than 0.3 gigaton of potential CO_2 emissions from thermal coal reserves;

   b. The 10 largest positions held by the System in companies that (i) derive more than 20% of their revenue from oil and gas, or (ii) have more than 0.1 gigaton of potential CO_2 emissions from oil and gas reserves; and

   c. Companies that derive more than 10% of their revenue from oil sands.

   ACTION: NYSTRS ceased adding to positions held on the Restricted List.

3. Prioritize the companies on the Restricted List for engagement efforts, to the extent that the System directly holds equity securities in such companies, seeking to engage with such companies on their climate transition plans.

   ACTION: NYSTRS developed a database tool to track engagement efforts with the 25 companies on the Restricted List. Notification letters were sent to all companies in the first quarter of 2022, and initial responses to the letters were sent by all companies by the third quarter. The System also conducted independent risk assessments of the 24 companies currently held by the System using the following Key Performance Indicators (KPIs):

NYSTRS' CLIMATE KEY PERFORMANCE INDICATORS (KPI)

Reduction Target(s):
To assess if short-, medium- and long-term GHG reduction targets or Net Zero by 2050 pledges have been established.

Decarbonization Strategy:
To assess if there are clearly defined action plans that align with proposed reduction targets.

Climate Governance – Executive Compensation:
To assess executive compensation alignment with stated climate goals, further supporting a firm-wide adoption of a transition plan.

Climate Governance – Board Oversight:
To assess whether a firm's board has clear oversight of climate change and sufficient capabilities to manage climate risk and opportunities.

Standardized Disclosure:
To assess whether the firm follows best practice Task Force on Climate-related Financial Disclosures (TCFD) as it pertains to climate reporting and disclosure.

The System's independent assessments have three key features:

1) Transparency: They allow the companies we invest in and the public to know our KPIs.
2) Measurable: The KPIs are both reportable and measurable, to allow for continued monitoring, achievement of milestones by companies, and to measure the success of our engagement.
3) Actionable: The System can act on the success (or failure) of engagement, by removing companies that have shown progress and improvement in their KPIs from the Restricted List or divesting from companies that have shown an unwillingness to engage or a lack of progress toward stated goals.

4. Review and update the Divestment List and the Restricted List based on the criteria set forth above, at least annually.

   ACTION: During mid-2022, the System implemented new portfolio risk management tools to ensure that changes to underlying indices used in directly managed portfolio strategies would not result in unintended violations of the Divestment List or Restricted List criteria.

5. Monitor the actions taken under this initial climate action plan and their impact on the System's investment portfolio and recommend to the Board (i) any additional actions with regard to the companies on the Restricted List, and (ii) any changes to this initial action plan, in each case, as appropriate under the circumstances.

   ACTION: A proposed Divestment Policy was drafted and amended to a broader Responsible Stewardship Policy in July 2022, with final approval and addition to the NYSTRS Investment Policy Manual in October 2022.

6. Take the foregoing actions expeditiously and in a prudent manner to minimize market impact and potential adverse impact on the value of the System's holdings affected by this initial climate action plan.

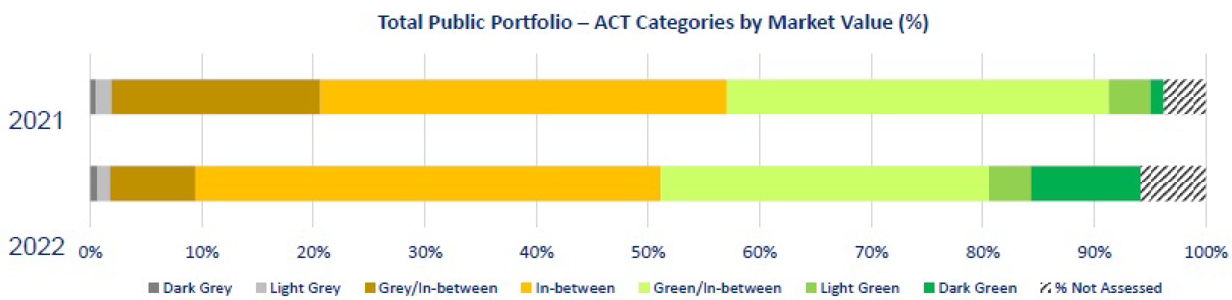
   ACTION: The System staff implemented bi-monthly climate meetings to ensure continued progress on the climate plan.

Climate Transition Via Asset Ownership of Public Markets

As universal owners of the broad market, NYSTRS participates in the evolution of the global economy that is adapting to the risks and opportunities posed by climate change. For example, NYSTRS' public equities portfolios include investments in renewable energy; wind turbines; biofuels; liquefied natural gas; lithium-ion batteries; and electric vehicles. NYSTRS' portfolios also reflect many of the industry leaders that are embracing the transition to a more sustainable future.

The integration of climate change-related risks and opportunities into our investment process is an exceedingly complex and intricate undertaking. In December 2022, Mercer completed an assessment of the climate transition readiness of the System's public markets portfolio as of June 30, 2022, using a proprietary tool called Analytics for Climate Transition ("ACT"). Mercer's ACT tool is a forward-looking multi-factor model that aims to assess the transition capacity of NYSTRS' portfolio along a spectrum ranging from high carbon intensity assets with low capacity to transition ("Grey" assets), to assets that have relatively low carbon intensity or have high capacity to transition ("Green" assets), and assets that are in between ("In-between" assets). Compared to the results from June 30, 2021, Mercer's analysis found a reduction in the amount of Grey to Grey/In-between assets (from 20.6% last year to 9.4% this year) and an increase in Green assets (from 39.2% to 43.0%) of NYSTRS' public markets portfolio as of June 30, 2022.

Mercer's ACT Transition Assessment of NYSTRS' Public Markets Portfolio as of 6/30/22.



Please note that Mercer's transition capacity methodology has been updated during 2022. The figures shown suggest a directional shift toward the "Green" assets, though the results are not strictly comparable year-to-year. However, there are a few key drivers that increased the "Green" exposures:

- An increase in more green (especially dark green) is due to the increase in more ambitious corporate climate commitments and goals, since the model incorporates company climate targets approved by the Science Based Target initiative (SBTi).
- Carbon intensity in our public markets portfolio decreased from 171.5 to 153.6 tons GHG/$M sales (part of this can be attributed to the decision to divest from thermal coal assets).
- The increase in percentage not assessed is small relative to the portfolio but did increase from last year (5.83% this year vs. 3.73% prior year) due to a lower coverage in mapping of different entities across global fixed income and high-yield strategies.

The ACT analysis examines the transition readiness of NYSTRS' entire portfolio, not just specific holdings in the fossil fuel production industry. As universal owners, NYSTRS' portfolio will continue transitioning in line with the broader economy. NYSTRS believes that maintaining universal ownership of public markets preserves its access to the economic transition to a more sustainable economy.

Climate Disclosure Frameworks & Alliances

Access to clear, consistent and reliable climate-related disclosures from companies help asset owners such as NYSTRS evaluate climate change-related risks and opportunities in their investment portfolios and make informed investment decisions. As noted in the Board's Stewardship Investment Belief, the System is actively participating with external organizations to help shape future rules and regulations related to sustainable investing.

One such example is the System's active participation with groups such as The International Financial Reporting Standards Foundation ("IFRS") in this developing area. NYSTRS supports the IFRS Sustainability Disclosure Standards and participates as an active member of the International Sustainability Standards Board Investor Advisory Group ("IIAG"). The IIAG comprises leading global asset owners, asset managers, and investment intermediaries who recognize the need for consistent, comparable, and reliable disclosure of financially-material, decision-useful environmental, social and governance ("ESG") information to investors. The IIAG serves as an advisory body to the International Sustainability Standards Board ("ISSB") by providing strategic guidance on developing IFRS Sustainability Disclosure Standards and by helping to ensure that the investor perspective is articulated clearly and is considered in the ISSB's standard-setting process. The IIAG also helps achieve widespread adoption of IFRS Sustainability Disclosure Standards by encouraging organizations to use the Standards to communicate performance to investors on sustainability-related issues that affect enterprise value.

Another key organization of which NYSTRS is a member is Climate Action 100+, an investor-led initiative to ensure that the world's largest corporate greenhouse gas emitters take necessary action on climate change. At present, the initiative is comprised of over 700 investors managing approximately $68 trillion in assets, and is focused on engaging 166 companies which make up 80%+ of global historical industrial emissions. Climate Action 100+ has three main requests of companies with which they engage:

- Implement a strong governance framework which clearly articulates the board's accountability and oversight of climate change risk.
- Take action to reduce greenhouse gas emissions across the value chain, consistent with the Paris Agreement's goal of limiting global average temperature increase to well below two degrees Celsius above pre-industrial levels, aiming for 1.5 degrees. Notably, this implies the need to move towards net-zero emissions by 2050 or sooner.
- Provide enhanced corporate disclosure in line with the final recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and sector-specific Global Investor Coalition on Climate Change (GIC) Investor Expectations on Climate Change guidelines (when applicable), to enable investors to assess the robustness of companies' business plans against a range of climate scenarios, including well below two degrees and improve investment decision-making.

This membership has already yielded success in the engagement of companies on NYSTRS' Restricted List:

- One company has had their 2030 targets validated by the Science Based Targets initiative (SBTi), a partnership between the Carbon Disclosure Project (CDP), the United Nations Global Compact, the World Resources Institute (WRI) and the World Wide Fund for Nature (WWF). The targets have been validated as being aligned with a "well below 2℃" Paris Agreement goal.
- Another has released a more ambitious transition plan as a result of engagement with investors in Climate Action 100+, setting a new net zero by 2050 target as well as increasing their target for Scope 1-2 emissions reduction by 2030 substantially.

Of the 25 companies on NYSTRS Restricted List, 17 of them are on the Focus List of Climate Action 100+.

Private Equity: Investing in the Energy Transition

As detailed above, addressing climate risk involves both reducing existing emissions and transitioning to new sources of energy, production and manufacturing that can replace current methods. NYSTRS' private equity portfolio has exposure to a number of energy transition assets such as:

- A company commercializing one of the first at-scale carbon capture, sequestration, utilization and storage projects in North America.
- A company developing a greenfield produced water treatment and recycling platform in North America.
- A leading provider of outsourced energy efficiency and demand response program management services, product fulfillment, and customer engagement software to utility clients.
- A company that produces exhaust and emissions systems for commercial vehicles to help original equipment manufacturers meet more stringent emissions standards.
- A supplier of sustainable plating systems, which is approaching sustainability through reducing the use of toxic chemicals and reduced usage of water, energy and raw materials.
- One of the world's largest manufacturers of gearboxes, generators and services for wind turbines. To ensure a sustainable production process, they have taken a large number of measures to reduce energy requirements and have also switched to carbon-neutral electric power. This has already enabled them to reduce the carbon footprint of the remaining energy requirements by about 83% in the last four years.
- A leading vertically integrated platform for ultra-low and carbon negative fuel development, production, operating and environmental credit marketing. The company is a pioneering player in the dairy renewable natural gas industry and currently processes waste from nearly 100,000 cows across 12 dairies into ultra-low carbon renewable transportation fuel.
- A battery company, providing smart, high-performance and cost-effective energy storage solutions to small industrial and commercial enterprises.
- A manufacturer of water sterilization and decontamination devices intended to provide low-cost, clean energy-powered water purification.
- An alternative energy company, employing a unique technology for plasma generation of electricity.
- A company specializing in electrical vehicle charging infrastructure.

Real Estate: Investing in the Energy Transition

The real estate team at NYSTRS is implementing several strategies for reducing energy usage and emissions at our directly owned properties, such as:

- Achieving LEED Certification for each of our office properties. LEED Certification is sponsored by the U.S. Green Building Council and focuses on efficient energy and water usage as well as implementation of best practices in operations. All of our existing office properties (4.3M SF) have LEED Certifications and our new mixed-use development property is currently in the certification process.
- Working with our advisors and consultants to obtain our greenhouse gas emissions from our office properties as a baseline from which to measure future improvements.
- Utilizing software (i.e., Yardi Energy Services) to track and analyze energy use at our multi-family properties, as well as engaging consultants to perform energy audits at several other multi-family properties. In addition, we have been actively installing energy efficient appliances, low flow plumbing fixtures, LED and motion activated lighting, and recyclable carpets. We are also installing EV charging stations for tenant usage.
- Implementing similar initiatives at our industrial properties such as replacement of HVAC units with energy efficient units, conversion to LED lighting, installing and maintaining white roofs on certain properties and including "green lease" language in all new leases requiring tenants to report energy usage. We have installed a white silicone roof coating and solar panels on one industrial property and are currently assessing two additional buildings for solar panels.
- Specific to our mixed-use development property, we have installed a small solar array on the roof which powers hot water serving the residential amenity space. The residential units and retail spaces are served by heat pumps.
- In addition to implementing energy efficiency strategies at our properties, NYSTRS also invests in 149,000 acres of Timberland in the Southeast United States. The forest carbon cycle is a natural process through which carbon cycles from the atmosphere into forests. Harvested wood products store carbon while forests are replanted in a positive feedback loop that accumulates carbon in forests and wood products. Our timberland currently sequesters 12.4M CO_2 equivalent metric tons of above ground carbon.
- In addition to these property level initiatives, the real estate team has engaged with both the Global Real Estate Sustainability Benchmark (GRESB) and MSCI to identify additional areas of focus, including climate risk assessments and other opportunities to collect and measure energy usage and emissions data to assess opportunities for improvement.

Economy in Transition: Fixed Income Opportunities

In December 2022, the fixed income team presented an educational session to NYSTRS' Investment Advisory Committee entitled *Economy in Transition: Fixed Income Opportunities*, with the purpose of:

- Discussing how decarbonization of the economy applies to credit analysis; and
- Evaluating strategies to manage fixed income portfolios through the transition.

All of NYSTRS' fixed income portfolios are actively managed through a mix of macroeconomic, sector and bond selection strategies. The ability of fixed income to provide direct capital to companies in supporting the energy transition while providing strong investment opportunities for the portfolio will be crucial in the years ahead. The key conclusions included:

- The transition to a decarbonized economy will require long-term bond market financing for companies.
- Policy measures and technology are compelling and incentivizing companies to transition to greener alternatives.
- Portfolio tilts (e.g., exclusionary screens of certain securities), third-party ESG ratings provider scoring, and green and other ESG-labeled bonds have a role in fixed income portfolio management but are incomplete solutions.
- The System's preference is to manage the carbon transition more from a traditional credit analysis view of bond issuer risk and opportunity.
- In line with the multi-decade transition ahead, NYSTRS' fixed income portfolios (internal and external) will continue to be managed with a long-term view.

The Year Ahead: A Look Forward

NYSTRS' thoughtful and deliberative approach to stewardship and risk mitigation continues in earnest. The System's foremost actions are as follows:

- The first round of engagement (both direct and through collaborative initiatives) with the Restricted List companies regarding their risk mitigation plans will continue through June 30, 2023 with assessments of their progress to be made after that point.
- For companies that have not demonstrated meaningful progress toward risk mitigation, we will increase collaborative engagement as well as direct engagement discussions regarding the possibility of divestment.
- Opportunities in the energy transition space will continue to be analyzed and invested in by the fixed income and private equity teams.

The System pledges to continue working with industry groups in support of ongoing regulatory efforts to develop climate disclosure frameworks and standards that promote clear, consistent, reliable and decision-useful climate disclosures.

The Board is committed to helping develop the path to a climate-friendly future. The Board's deliberative process is ongoing and will continue to evolve given many possible factors (e.g., geopolitical, regulatory, technological innovation, etc.).

The Retirement Board and NYSTRS staff are committed to actively engage in investigating how to best integrate the risks and opportunities associated with climate change into its investment analysis and portfolio construction, including any potential portfolio adjustments or enhancements, and they are doing this in a methodical and prudent manner consistent with their fiduciary responsibilities.

Appendix: Highlighted 2022 Proxy Votes

Chevron

SHP: Adopt medium and long-term GHG emissions reduction targets (failed with 33% support)

Shareholders request the Company to set and publish medium- and long-term targets to reduce the greenhouse gas (GHG) emissions of the Company's operations and energy products (Scope 1, 2, and 3) consistent with the goal of the Paris Climate Agreement: to limit global warming to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C.

NYSTRS' Vote: FOR - NYSTRS believes companies with significant GHG emissions or other negative environmental impacts should disclose plans for transitioning to a more sustainable business model, including GHG emissions and explicit reduction targets where such emissions are material. Chevron set an ambition to be net zero in upstream Scope 1 & 2 emissions by 2050 but has only established intensity-reduction targets for 2028 which partially include Scope 3. Establishment of targets in the medium and long-term would allow shareholders to more accurately gauge how Chevron is responding to climate-related risks.

SHP: Issue audited net-zero scenario analysis report (failed with 39% support)

Shareholders request Chevron's Board of Directors provide an audited report addressing how application of the assumptions of the IEA's Net Zero by 2050 pathway would affect the assumptions and estimates underlying its financial statements, including its long-term commodity and carbon prices, remaining asset lives, existing and future asset retirement obligations, capital expenditures, and asset valuations (impairments). The report should be produced at reasonable cost and omitting proprietary information.

NYSTRS' Vote: FOR - Significant risks and opportunities related to climate change and other environmental factors should be disclosed, as well as how the company identifies, measures and manages these risks and opportunities. These risks should include relevant physical and transition risks and opportunities. Given Chevron's spending plan and business strategy, shareholders would benefit from greater disclosure about the risk of stranded assets. Although the company has produced a similar report, there was limited transparency concerning the scenarios evaluated so an independent 3rd party review would provide shareholders with assurance that the analysis is being conducted with appropriate demand and price assumptions.

Exxon

SHP: Set GHG emissions reduction targets consistent with Paris agreement goal (failed with 27% support)

Shareholders request the Company to set and publish medium- and long-term targets to reduce the greenhouse gas (GHG) emissions of the Company's operations and energy products (Scope 1, 2, and 3) consistent with the goal of the Paris Climate Agreement: to limit global warming to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C.

NYSTRS' Vote: FOR -- Exxon set a target to be net zero in its *operational* emissions by 2050 and has established interim (2030) intensity-reduction targets for its Scope 1 and Scope 2 emissions but has not established Scope 3 targets. Establishment of targets in the medium and long-term would allow shareholders to more accurately gauge how Exxon is responding to climate-related risks.

SHP: Report on scenario analysis consistent with IEA Net Zero by 2050 (passed with 51% support)

Shareholders request that ExxonMobil's Board of Directors seek an audited report assessing how applying the assumptions of the International Energy Agency's Net Zero by 2050 pathway would affect the assumptions, costs, estimates, and valuations underlying its financial statements, including those related to longterm commodity and carbon prices, remaining asset lives, future asset retirement obligations, capital expenditures and impairments. The Board should obtain and ensure publication of the report by February 2023, at reasonable cost and omitting proprietary information.

NYSTRS' Vote: FOR - Given Exxon's spending plan and business strategy, shareholders would benefit from greater disclosure about the risk of stranded assets. Although Exxon has produced a similar report and received a "quality assurance audit" or "model review" from a research and consulting firm, there was limited transparency concerning the scenarios evaluated and the assumptions employed. An independent 3rd party auditor would provide shareholders with reasonable assurance that the analysis is being conducted with appropriate demand and price assumptions.

SHP: Report on reducing plastic pollution (failed with 37% support)

Shareholders request that Exxon's Board issue an audited report addressing whether and how a significant reduction in virgin plastic demand, as set forth in <u>Breaking the Plastic Wave's</u> System Change Scenario to reduce ocean plastic pollution, would affect the Company's financial position and assumptions underlying its financial statements. The report should be at reasonable cost and omit proprietary information.

NYSTRS' Vote: FOR - NYSTRS believes companies should disclose the environmental sustainability policies and practices most closely tied to the company's ability to create long-term value for investors, and significant risks and opportunities related to climate change and other environmental factors should be disclosed, as well as how the company identifies, measures and manages these risks and opportunities. NYSTRS acknowledges Exxon's efforts to eliminate plastic pollution from its manufacturing facilities and the company's disclosures on its Plastic Waste Management website to increase plastic recyclability and plastic waste recovery. Additional disclosure on metrics and targets related to Exxon's ability to transition from virgin polymer production would allow shareholders to better assess the company's plastic-related risks.

<u>BP Plc</u>

Management proposal: Approve Net Zero – from ambition to action report (passed with 89% support)

BP plc is seeking shareholder approval for its "Net Zero – from ambition to action" Report, which displays the Company's net zero ambition and actions to achieve this.

NYSTRS' Vote: FOR - NYSTRS had previously ABSTAINED from votes to establish Say-on-Climate advisory votes as there was uncertainty regarding the legal ramifications of casting such a vote and concerns regarding loss of director accountability for the company's climate strategy. In this case the advisory vote had already been established and BP stated that the board's decision to offer shareholders an advisory vote on the Company's net zero ambition is not intended in any way to undermine its accountability for setting the Company's strategy, and that the board members recognize its responsibilities as directors. BP set targets that cover all scopes in the short-, medium- and long-term, maintains board level oversight of climate-related risks, and receives very good ESG ratings from both proxy advisors.

Shell Plc

Management proposal: Approve the Shell Energy Transition Progress Update (passed with 80% support)

Shell Plc is seeking shareholder approval for its energy transition progress update, which gives details of its progress against its climate objectives, as set out in its 2021 Energy Transition Strategy.

NYSTRS' Vote: FOR - Shell has stated that the vote on the progress towards its targets and plans is purely advisory and will not be binding on its shareholders. The Company notes that the legal responsibility for its strategy lies with the board and executive committee.

Shell has set Scope 1, 2 and 3 reduction targets for the short-, medium- and long-term (although Scope 3 targets are relative), maintains board level oversight of climate-related risks and recently created the Carbon Reporting Committee, reports in alignment with TCFD recommendations, and receives very good ESG ratings from both proxy advisors.

SHP: Request Shell to set and publish targets for GHG emissions (failed with 20% support)

Set and publish targets that are consistent with the goal of the Paris Climate Agreement: to limit global warming to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C. These quantitative targets should cover the short-, medium-, and long-term greenhouse gas (GHG) emissions of the company's operations and the use of its energy products (Scope 1, 2, and 3).

NYSTRS' Vote: ABSTAIN - Shell substantially complies with the request as it has established short-, medium-, and long-term GHG reduction targets for Scope 1, 2 and 3, and reports on the strategy and progress towards reaching these targets in the Company's annual Energy Transition Strategy update. There is also legal uncertainty regarding the passing of this binding proposal given the company's existing Say-on-Climate advisory vote.