NEW YORK STATE

TEACHERS' RETIREMENT SYSTEM

MEMORANDUM

DATE: December 2, 2021

TO: Retirement Board

FROM: Noreen Jones

SUBJECT: Stock Proxy Voting Policy Update

CC: T. Lee, M. Andriola, C. Brown, J. Indelicato

NYSTRS' updated Stock Proxy Voting Policy (Policy) is attached for the Board's review. Revisions include those items discussed during the November 4, 2021 Board meeting, modifications to better align with the Board's investment belief on stewardship, and minor administrative edits. To facilitate your review, a mark-up denoting the rationale for each change is attached along with a clean version of the Policy.

In preparing for this update, staff reviewed and considered the Board's investment beliefs and policies of peers, including CalPERS, CalSTRS, and NY Common, as well as BlackRock, Council of Institutional Investors, and NYSTRS' new proxy service provider. The November 4 presentation deck and the proposed policy revisions have been shared with NYSTRS' general investment consultant, ESG consultant and fiduciary counsel for review and comment; their recommendations have been incorporated.

Additional revisions arising from the Board's discussion on December 2 will be incorporated, with a final draft and resolution accepting the changes presented at the Board's January 2022 meeting.

I. Introduction

Proxy voting is one facet of NYSTRS' investment stewardship program.

II. Purpose

The System's Stock Proxy Voting policy has been established to protect the System's long-term investment interests and to promote responsible corporate policies and activities which enhance a corporation's financial prospects.

III. Management Structure

The Stock Proxy Voting policy is administered internally by the Investment Operations Department in accordance with these guidelines.

Complex issues which require additional consideration or those which do not fall within these guidelines may be submitted to the System's Executive Director and Chief Investment Officer, or designee, who is authorized to exercise best judgment in voting such issues.

NYSTRS engages an independent proxy advisor to provide vote execution services, proxy research, analysis, and recommendations, and automation of NYSTRS voting policy to the extent possible.

NYSTRS may confer with the company, other investors, or obtain additional research as needed when casting votes.

IV. Proxy Voting Guidelines/Definitions

A proxy is a written power of attorney given by a shareholder of a corporation authorizing a specific vote on its behalf at corporate meetings. A proxy will normally pertain to election of members of the corporation's board of directors or to various resolutions submitted for shareholder approval.

When voting proxies, the System generally supports corporate management if management's position appears reasonable, is not detrimental to the long-range economic prospects of the company and does not tend to diminish or truncate the rights or prerogatives of shareholders.

NYSTRS will withhold support from proposals when:

1. The underlying factors are not reasonably deemed material to the company or its operations

2. The company already substantially complies with the resolution

3. The cost outweighs the benefit, or the request is otherwise not reasonable

Proxy proposals are divided into the following general categories: management issues, executive compensation, shareholder rights, anti-takeover measures, environmental, and social issues.

A. Management Issues: Management issues which involve routine corporate operational and administrative issues are generally voted with management.

   1. Auditors: Companies are not legally required to allow shareholders to ratify the selection of auditors. However, even if not required, many companies seek shareholder ratification of auditors. The most important issue relating to auditor selection is the independence of the auditing process. The auditor's independence from the firm being audited reduces the potential for abuse. The SEC has defined "independent" as an accountant's ability to exercise "objective and impartial judgment on all issues encompassed within the accountant's engagement." The System will not ratify an auditor if independence has been impaired or any of the following conditions exist:

      a. Non-audit fees exceed audit fees

      b. There was a previous failure to detect a material internal control weakness

      c. The contract between the company and the auditor has provisions that would fully prevent or otherwise limit the company's ability to seek relief for damages by any means permissible by law

   2. Annual Meetings: Issues relative to the general logistics of annual meetings such as location, time, frequency, selection of firms to count ballots, etc., are reviewed on a case-by-case basis.

   3. Corporate Contributions: The System supports the concept of corporate philanthropy, when such philanthropy is in the best interests of the corporation and general public.

   4. Board Related Matters:

      Boards are responsible for oversight and management of material risks faced by the company; significant risks and controversies and the company's efforts to address them should be disclosed.

      Boards should respond meaningfully to shareholder concerns supported by a simple majority of shareholder votes cast and should be willing to engage with shareholders on significant issues.

Boards should oversee and disclose the company's political and charitable contributions and its lobbying activity and ensure alignment with the company's stated policies and objectives.

Requirements for Board membership are, within reason, considered a management prerogative and the System generally supports management's candidates for Board membership. The System believes an independent and diverse Board of Directors with members selected outside of management is beneficial to the overall effectiveness of corporate operations and supports proposals calling for outside directors.

The System generally votes for shareholder proposals asking that the Chairman of the Board and CEO positions be separate unless the company has a strong countervailing governance structure, such as a designated lead director elected by and from the independent Board members with clearly delineated duties that provides oversight of the CEO.

Votes should be withheld from directors that fail to adequately fulfill assigned duties, including the general responsibilities of the Board as outlined above, as well as those directors that:

a. Attend less than seventy-five percent (75%) of the board and committee meetings without a valid excuse for the absences

b. Implement or renew a poison pill without shareholder approval

c. Have failed to act on takeover offers when the majority of shares have been tendered

d. Are not independent and sit on the audit, compensation, stock option, nominating or other committee which should be comprised solely of independent directors

e. Engage in significant related-party transactions with the company or have interlocking relationships which appear to affect their objectivity

f. Serve on more than four (4) other public company boards or serve on two (2) other public company boards while serving as a chief executive at a public company

g. Serve as chair of the nominating or governance committee and:

   i. Diversity is not considered when nominating directors

   ii. There are no women or diverse candidates on the company's board and no timetable provided to address the issue

iii. Board demographic data has been requested but not disclosed

iv. There is no independent chair or assigned independent lead director and countervailing governance structure

v. Nominate directors to the audit, compensation or nominating committee that are not independent

h. Serve as chair of the audit committee when there were material misstatements, material weaknesses or restated financials due to lack of controls

i. Serve as chair of the compensation committee during a time of executive pay practices receiving a poor grade for performance from the System's independent advisory service

While the System does not feel ownership of stock in a corporation is necessary for Board membership, the System does support reasonable stock ownership plans for directors.

5. Stakeholder Proposals: Stakeholder proposals permit directors, when taking action, to weigh the interest of constituencies other than shareholders in the process of corporate decision making. These proposals allow directors to consider nearly any factor they deem relevant in discharging their duties.

   The System does not support "stakeholder proposals" which give corporations broad discretion when considering business propositions. "Stakeholder proposals" can easily result in the replacement of shareholder rights by the interests of other constituencies and the System believes the interests of the shareholder should retain primacy.

6. Preemptive Rights: The System generally does not favor the maintenance or restoration of preemptive rights. Preemptive rights require a corporation to offer rights to existing shareholders when new shares are issued, allowing these shareholders to retain the same ownership percentage. The System feels, in an era of high capitalization, little purpose is served by preemptive rights and providing such rights is costly to the companies.

7. Linked or Bundled Proposals: The System does not support proposals which link unrelated issues or bundle multiple issues in one proposal. These proposals often link or bundle proposals that benefit the shareholder with proposals that do not.

8. Limiting of Liability and Increasing Indemnification: The System favors management's right to limit the liability of, and to increase indemnification for, its directors.

9. Increased Authorized Common Stock: The System will support authorization for additional common stock when required for financing or other legitimate corporate purposes. Generally, the System opposes increases of more than one hundred percent (100%) of the authorized shares.

B. Executive Compensation: The System generally supports management's right to provide compensation plans intended to motivate management unless a shareholder resolution is submitted to correct an obvious abuse in executive compensation.

   Under provisions of Dodd-Frank implemented in 2011, shareholders now have non-binding advisory votes related to both the amount of executive compensation (Say-On-Pay) and the frequency of intervals of such voting (Say-On-Frequency). The System supports Say-On-Pay votes which occur at one-year intervals.

   1. Performance Measures: The System supports reasonable compensation programs which are tied to objective performance measures.

      a. To be considered reasonable, the compensation package must not be excessive in terms of incentives for superior performance on an absolute basis or relative to industry peers.

      b. The measure should include relevant sustainability performance objectives; these objectives and the rationale for selecting them should be disclosed.

      c. The System will vote against executive pay proposals that are given a poor grade for performance by the System's independent advisory service.

   2. Stock Option Plans: The System believes stock option plans should be used solely for the purpose of motivating corporate personnel. The following are various types of stock option plans and the System's position on each.

      a. The System generally supports reasonable incentive stock option plans predicated on individual performance.

      b. The System supports reasonable stock options to outside directors.

c. The System generally supports employee stock option plans available to all employees offered at no less than eighty-five percent (85%) of market price.

d. A plan with a four percent (4%) shareholder dilution, or less, is usually supported. Shareholder dilution in excess of 4% is not supported except in cases where dilution is capped and consideration given to extenuating factors such as company size, performance and executives' compensation.

e. The System does not support option plans to key personnel offered at below market price.

f. The System does not support corporate loans to key personnel to purchase stock options.

g. The System does not support providing broad authority to a company's Compensation Committee to grant incentive programs. This broad authority usually bypasses shareholder approval.

h. The System supports certain stock option plans which offer stock appreciation rights. Those plans allow individuals to receive the difference between the option and the market price without acquiring ownership of the stock.

i. The System does not support stock options which allow pyramiding. Pyramiding is a form of cashless exercise, similar to stock appreciation rights. It involves repeated simultaneous exchanges of an individual's existing appreciated shares for a larger number of new shares under the option plan.

j. The System does not support a compensation plan that permits the repricing of underwater stock options without seeking shareholder approval.

3. Change of Control Payments (Golden Parachutes): Change of Control Payments are compensation arrangements that pay corporate managers after they leave their positions. The System opposes unusually favorable compensation structures established in advance of the sale of a company.

4. Golden Coffins: A Golden Coffin is a death-benefit package awarded to the heirs of high-ranking executives who die while still employed with a company. The System opposes Golden Coffins and other payment structures not tied to actual service to the Company.

C. Shareholder Rights: The System does not support management proposals which tend to limit or diminish the System's rights as a shareholder.

1. Confidential Voting: The System supports shareholder resolutions calling for secret ballots.

2. Cumulative Voting: The System votes for shareholder resolutions to establish cumulative voting for directors and against management proposals to end existing cumulative voting plans. Most corporations provide that shareholders are entitled to cast one (1) vote for each director for each share owned, the so-called "one share, one vote" standard. Cumulative voting for directors permits shareholders to distribute the total number of votes in any manner when electing directors.

3. Unequal Voting Rights Plan: The System opposes any proposal to establish unequal voting rights plans since they tend to reduce the voting power of public shareholders and enhance the control of management.

4. Bylaw Amendments: Generally, shareholders have the right to propose amendments to a company's bylaws unless prohibited by the charter. Some companies have adopted provisions to limit or eliminate the right of shareholders to propose bylaw amendments. The System opposes any proposal to limit or eliminate shareholder rights to propose bylaw amendments.

5. Charter/Certificate of Incorporation: The System does not support proposals by management to change the state of incorporation in order to take advantage of laws more favorable to management interests as opposed to shareholder interests.

6. Access to Management's Proxy: The System generally supports proposals which ask management to allow large shareholders equal access to management's proxy in order to discuss and evaluate management's director nominees and/or nominate and discuss shareholders nominees to the board. The System is generally in favor of resolutions that reform access, provide disclosures to identify sponsors of shareholder resolutions and especially efforts on behalf of shareholders with the SEC to achieve access to management proxies.

7. Special Meetings and Written Consent: Shareholders should be able to call special meetings or act by written consent.

D. Anti-Takeover Measures:

1. Classified Boards: A classified board is one in which the directors are divided into separate classes, with one class of directors elected each year,

thus providing for staggered terms. The only real motive for board classification is to make it more difficult to change control of the board.

The System opposes the creation of staggered or classified boards and votes against management efforts to create them and in favor of shareholder proposals to abolish them.

2. Fair Price Provisions: Fair price provisions prevent two-tier offers in which a buyer offers a premium price for only enough shares to obtain a controlling interest of a company. The common requirement of a "fair price" is to pay minority shareholders at least as much per share as the offeror paid to gain a controlling position of the company.

   The System supports fair price provisions provided no other anti-takeover provision is included. Quite often, fair price provisions require a supermajority vote to circumvent the pricing guidelines. The System will vote against the provisions with supermajorities proposed by management and for shareholder resolutions to reduce supermajority percentages.

3. Greenmail: When a company's management buys back a block of the company's stock held by a shareholder deemed to be a "threat" to the company (or to management's tenure), the transaction is often called the payment of greenmail. The System opposes the payment of greenmail and supports shareholder resolutions to end this practice.

4. Poison Pills (Shareholder Rights Plans): Poison pills are a wide variety of provisions adopted by boards, without shareholder approval, to make it financially unattractive for a shareholder to purchase more than a small percentage of the company's stock. The System:

   a. Supports shareholder resolutions calling for corporations to submit Poison Pills to shareholder votes

   b. Generally supports shareholder resolutions calling for corporations to rescind Poison Pills

   c. Opposes management proposals to create Poison Pills when submitted to a vote

   d. Will review company proposals to determine if they might benefit shareholders over the long run, especially for chewable pills. A chewable pill is a poison pill defense clause that gives common stock shareholders the right to revoke the pill in the face of a bona fide takeover offer, or which automatically nullifies the pill if the offer meets certain predefined criteria.

5. Stock Authorization Increasing Authorized Common or Preferred Shares: The System does not support such increases when the increased stock is issued in a private placement as an anti-takeover measure. The System also opposes any type of increase in blank check preferred stock.

E. Environmental Issues:

1. Companies should disclose the environmental sustainability policies and practices most closely tied to the company's ability to create long-term value for investors.

2. 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.

3. 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.

F. Social Issues:

1. Animal Testing: The System votes on a case-by-case basis on proposals to restrict the use of animals in product testing.

2. Economic Conversion: The System does not support shareholder resolutions asking companies to report on plans to diversify or convert to the production of civilian goods and services in lieu of military production. We believe this should be a management decision.

3. Human Rights and Human Capital Management:

   a. The System supports reasonable requests for corporate accountability related to human rights and human capital management.

   b. Companies should disclose their diversity, equity and inclusion polices, efforts to promote a diverse, equitable and inclusive culture, and workforce demographics.

   c. Significant risks and opportunities related to human capital management and human rights factors, and the impact on its operations and products should be disclosed, as well as how the company identifies, measures and manages these risks and opportunities.

V. Risk Management

NYSTRS engages an external proxy advisor to provide, among other things, analysis and recommendations on proxy matters and automation of the policy to ensure votes are cast consistently with these guidelines.

VI. Communications

The Investment Operations Department will provide a report to the Retirement Board annually showing the number of proxies voted by category and how the System voted (for or against).

VII. Responsibilities & Controls

Responsible Party	Action
Investment Operations Department	1. Receive Proxy Statement from company and proxy materials from proxy advisory service. 2. Review proxy materials. 3. Request guidance from the System's Executive Director and Chief Investment Officer, or designee, for complex issues which require additional consideration or those which do not fall within these guidelines. 4. Vote proxies according to guidelines. 5. Prepare proxy report for the Board annually. 6. Update proxy voting guidelines (contained within this policy) for Board approval annually.
Retirement Board	7. Review proxy voting guidelines annually. 8. Review annual proxy report received from the Investment Operations Department. 9. Provide oversight to ensure alignment of proxy voting policy with NYSTRS' investment beliefs.
Executive Director and Chief	10. Provide guidance to the Investment Operations Department on complex issues that require

Investment Officer or designee	additional consideration or are not clearly defined in the proxy guidelines.

Stock Proxy Voting

I. Introduction

Proxy voting is one facet of NYSTRS' investment stewardship program. ~~A proxy is a written power of attorney given by a shareholder of a corporation authorizing a specific vote on its behalf at corporate meetings. A proxy will normally pertain to election of members of the corporation's board of directors or to various resolutions submitted for shareholder approval.~~

II. Purpose

The System's Stock Proxy Voting policy has been established to protect the System's long-term investment interests and to promote responsible corporate policies and activities which enhance a corporation's financial prospects.

III. Management Structure

The Stock Proxy Voting policy is administered internally by the Investment Operations Department~~. The Investment Operations Department receives ballots and accompanying proxy analysis electronically from an independent advisory service and votes~~ in accordance with these guidelines.

Complex issues which require additional consideration or those ~~Those issues~~ which do not fall within these guidelines may be submitted to the System's Executive Director and Chief Investment Officer, or ~~his~~ designee, who ~~Should a sensitive issue arise which is not included in the established guidelines, the Executive Director and Chief Investment Officer or his designee~~ is authorized to exercise best judgment in voting such issues.

NYSTRS engages an independent proxy advisor to provide vote execution services, proxy research, analysis, and recommendations, and automation of NYSTRS voting policy to the extent possible.

NYSTRS may confer with the company, other investors, or obtain additional research as needed when casting votes.

IV. Proxy Voting Guidelines/Definitions

A proxy is a written power of attorney given by a shareholder of a corporation authorizing a specific vote on its behalf at corporate meetings. A proxy will normally pertain to election of members of the corporation's board of directors or to various resolutions submitted for shareholder approval.

When voting proxies, the System generally supports corporate management if management's position appears reasonable, is not detrimental to the long-range economic prospects of the company and does not tend to diminish or truncate the rights or prerogatives of shareholders.

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Commented [CB2]: Administrative reorganization – moved below

Commented [CB3]: Administrative reorganization – moved below

Commented [CB4]: Administrative modification

Commented [CB5]: Administrative addition

Commented [CB6]: As discussed in NOV 4 Board meeting

Commented [CB7]: Administrative reorganization – moved from above

NYSTRS will withhold support from proposals when:

1. The underlying factors are not reasonably deemed material to the company or its operations

2. The company already substantially complies with the resolution

3. The cost outweighs the benefit, or the request is otherwise not reasonable

Commented [CB8]: As discussed in NOV 4 Board meeting

Proxy proposals are divided into the following general categories: management issues, executive compensation, shareholder rights, anti-takeover measures, environmental, and social issues.

Commented [CB9]: As discussed in NOV 4 Board meeting

A. Management Issues: Management issues which involve routine corporate operational and administrative issues are generally voted with management.

1. Auditors~~/CPA~~: Companies are not legally required to allow shareholders to ratify the selection of auditors. However, even if not required, many companies seek shareholder ratification of auditors. The most important issue relating to auditor selection is the independence of the auditing process. The auditor's independence from the firm being audited reduces the potential for abuse. The SEC has defined "independent" as an accountant's ability to exercise "objective and impartial judgment on all issues encompassed within the accountant's engagement." ~~act with integrity and objectivity. The regulations explain that an auditor "must act in an unbiased and objective manner and he must be free of any financial or other interest which would create the perception that he may not be independent."~~ The System will not ratify ~~an~~ an auditor ~~selected~~ if ~~we become aware~~ independence has been impaired or any of the following conditions exist:

Commented [CB10]: Administrative deletion

Commented [CB11]: Administrative modification

   a. Non-audit fees exceed audit fees

   b. There was a previous failure to detect a material internal control weakness

   c. The contract between the company and the auditor has provisions that would fully prevent or otherwise limit the company's ability to seek relief for damages by any means permissible by law

2. Annual Meetings: Issues relative to the general logistics of annual meetings such as location, time, frequency, selection of firms to count ballots, etc., are reviewed on a case-by-case basis.

3. Corporate Contributions: The System supports the concept of corporate philanthropy, when such philanthropy is in the best interests of the corporation and general public.

4. Board Related Matters:

   Boards are responsible for oversight and management of material risks faced by the company; significant risks and controversies and the company's efforts to address them should be disclosed.

   Boards should respond meaningfully to shareholder concerns supported by a simple majority of shareholder votes cast and should be willing to engage with shareholders on significant issues.

   Boards should oversee and disclose the company's political and charitable contributions and its lobbying activity and ensure alignment with the company's stated policies and objectives.

   Requirements for Board membership are, within reason, considered a management prerogative and the System generally supports management's candidates for Board membership. The System believes an independent and diverse Board of Directors with members selected outside of management is beneficial to the overall effectiveness of corporate operations and supports proposals calling for outside directors.

   The System generally votes for shareholder proposals asking that the Chairman of the Board and CEO positions be separate unless the company has a strong countervailing governance structure, such as a designated lead director elected by and from the independent Board members with clearly delineated duties that provides oversight of the CEO.

   ~~Votes on nominees should be made on a case-by-case basis.~~ Votes should be withheld from directors that fail to adequately fulfill assigned duties, including the general responsibilities of the Board as outlined above, as well as those directors that~~who~~:

   ~~Fail to adequately fulfill their assigned duties; this may include, but not be limited to poor compensation or governance practices or the reporting of significant internal control weaknesses~~

   a. Attend less than seventy-five percent (75%) of the board and committee meetings without a valid excuse for the absences

   b. Implement or renew a poison pill without shareholder approval

Commented [CB12]: As discussed in NOV 4 Board meeting

Commented [CB13]: As discussed in NOV 4 Board meeting

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Commented [CB16]: As discussed in NOV 4 Board meeting

Commented [CB17]: Administrative reorganization

~~c. Ignore a shareholder proposal that is approved by a majority of the votes cast for two (2) consecutive years, or more than sixty-six percent (66%) in a single year~~

Commented [CB18]: As discussed in NOV 4 Board meeting --- addressed in the second paragraph of this section

c. Have failed to act on takeover offers when the majority of ~~the shareholders have tendered their~~ shares have been tendered

Commented [CB19]: Administrative modification

d. Are not independent and sit on the audit, compensation, stock option, nominating or other committee which should be comprised solely of independent directors

e. Engage in significant related-party transactions with the company or have interlocking relationships which appear to affect their objectivity

f. Serve on more than four (4) other public company boards or serve on two (2) other public company boards while serving as a chief executive at a public company

~~g. Serve as chair of the nominating or governance committee and there are no women on the company's board and no timetable provided to address the issue~~

~~h. Serve as chair of the nominating committee and there is no independent chair or assigned independent lead director~~

Commented [CB20]: Administrative reorganization --- incorporated below

g. Serve as chair of the nominating or governance committee and:

i. Diversity is not considered when nominating directors

Commented [CB21]: As discussed in NOV 4 Board meeting

ii. There are no women or diverse candidates on the company's board and no timetable provided to address the issue

iii. Board demographic data has been requested but not disclosed

Commented [CB22]: As discussed in NOV 4 Board meeting

iv. There is no independent chair or assigned independent lead director and countervailing governance structure

v. Nominate directors to the audit, compensation or nominating committee that are not independent

~~i.~~h. Serve as chair of the audit committee when there were ~~and there were~~ material misstatements, material weaknesses or restated financials due to lack of controls

Commented [CB23]: Administrative modification

~~j.~~i. Serve as chair of the compensation committee during a time of executive pay practices receiving a poor grade ~~of "D" or "F"~~ for performance from the System's independent advisory service

Commented [CB24]: Administrative modification

While the System does not feel ownership of stock in a corporation is necessary for Board membership, the System does support reasonable stock ownership plans for directors.
~~The System generally votes for shareholder proposals asking that the Chairman of the Board and CEO positions be separate; unless the company has strong countervailing governance structure, such as, a designated lead director elected by and from the independent Board members with clearly delineated duties.~~

5. Stakeholder Proposals: Stakeholder proposals permit directors, when taking action, to weigh the interest of constituencies other than shareholders in the process of corporate decision making. These proposals allow directors to consider nearly any factor they deem relevant in discharging their duties.

   The System does not support "stakeholder proposals" which give corporations broad discretion when considering business propositions. "Stakeholder proposals" can easily result in the replacement of shareholder rights by the interests of other constituencies and the System believes the interests of the shareholder should retain primacy.~~normally override those of other constituencies.~~

6. Preemptive Rights: The System generally does not favor the maintenance or restoration of preemptive rights. Preemptive rights require a corporation to offer rights to existing shareholders when new shares are issued, ~~so as to allow~~ allowing these shareholders to retain the same ownership percentage ~~ownership in the company as held prior to the new offering~~. The System feels, in an era of high capitalization, little purpose is served by preemptive rights~~,~~ and providing such rights is costly to the companies.

7. Linked or Bundled Proposals: The System does not support proposals which link unrelated issues or bundle multiple issues in one proposal. These proposals often link or bundle proposals that benefit the shareholder with proposals that do not.

8. Limiting of Liability and Increasing Indemnification: The System favors management's right to limit the liability of, and to increase indemnification for, its directors.

9. Increased Authorized Common Stock: ~~The System reviews requests for additional common stock on a case-by-case basis.~~ The System will support authorization for additional common stock when required for financing or other legitimate corporate purposes. Generally, the System opposes increases of more than one hundred percent (100%) of the authorized shares.

Commented [CB25]: Administrative reorganization -- moved to top of section

Commented [CB26]: Administrative modification

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B. Executive Compensation: The System generally supports management's right to provide compensation plans intended to motivate management unless a shareholder resolution is submitted to correct an obvious abuse in executive compensation.

~~Under the Omnibus Budget Reconciliation Act of 1993, publicly held corporations can no longer deduct compensation paid to their top officers in excess of $1 million annually unless the payment relates to the attainment of productivity goals. To keep this deduction, a corporation must submit its executive compensation plan to shareholders in a proxy proposal which includes the plan's terms, eligibility and performance goals. The plan must be approved by a majority vote of the shareholders.~~

Under provisions of Dodd-Frank implemented in 2011, shareholders now have non-binding advisory votes related to both the amount of executive compensation (Say-On-Pay) and the frequency of intervals of such voting (Say-On-Frequency). The System supports Say-On-Pay votes which occur at one-year intervals.

1. Performance Measures: The System supports reasonable compensation programs which are tied to objective performance measures.

   a. To be considered reasonable, the compensation package must not be excessive in terms of incentives for superior performance on an absolute basis or relative to industry peers.

   b. The measure should include relevant sustainability performance objectives; these objectives and the rationale for selecting them should be disclosed.

   c. The System will vote against executive pay proposals that are given a poor grade for performance by the System's independent advisory service.

2. Stock Option Plans: The System believes stock option plans should be used solely for the purpose of motivating corporate personnel. ~~In all cases, stock option plans are reviewed on a case-by-case basis.~~ The following are various types of stock option plans and the System's position on each.

   a. The System generally supports reasonable incentive stock option plans predicated on individual performance.

   b. The System supports reasonable stock options to outside directors.

Commented [CB29]: Administrative deletion -- several amendments have been made to IRC 162(m) including elimination of the exception for performance-based compensation

Commented [CB30]: As discussed in NOV 4 Board meeting

Commented [CB31]: Administrative modification

Commented [CB32]: Administrative deletion

c. The System generally supports employee stock option plans available to all employees offered at no less than eighty-five percent (85%) of market price.

d. A plan with a four percent (4%) shareholder dilution, or less, is usually supported. Shareholder dilution in excess of 4% is~~are~~ not supported except in cases where~~,~~ dilution is capped and consideration given to extenuating factors such as company size, performance and executives' compensation.

Commented [CB33]: Administrative modification

e. The System does not support option plans to key personnel offered at below market price.

f. The System does not support corporate loans to key personnel to purchase stock options.

g. The System does not support providing broad authority to a company's Compensation Committee to grant incentive programs. This broad authority usually bypasses shareholder approval.

h. The System supports certain stock option plans which offer stock appreciation rights. Those plans allow individuals to receive the difference between the option and the market price without acquiring ownership of the stock.

i. The System does not support stock options which allow pyramiding. Pyramiding is a form of cashless exercise, similar to stock appreciation rights. It involves repeated simultaneous exchanges of an individual's existing appreciated shares for a larger number of new shares under the option plan.

j. The System does not support a compensation plan that permits the repricing of underwater stock options without seeking shareholder approval.

3. Change of Control Payments (Golden Parachutes): Change of Control Payments are~~is~~ compensation arrangements that pay corporate managers after they leave their positions. ~~The System reviews these arrangements on a case-by-case basis.~~ The System opposes unusually favorable compensation structures established in advance of the sale of a company.

Commented [CB34]: Administrative modification

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4. Golden Coffins: A Golden Coffin is a death-benefit package awarded to the heirs of high-ranking executives who die while still employed with a company. The System opposes Golden Coffins and other payment structures not tied to actual service to the Company.

5. ~~Advisory Votes on Executive Compensation: The System is in favor of shareholder proposals establishing the right to vote on executive compensation structures. Voting shall be advisory in nature.~~

Commented [CB36]: Administrative deletion – redundant language from beginning of Executive Compensation section

C. Shareholder Rights: The System does not support management proposals which tend to limit or diminish the System's rights as a shareholder.

1. Confidential Voting: The System supports shareholder resolutions calling for secret ballots.

2. Cumulative Voting: The System votes for shareholder resolutions to establish cumulative voting for directors and against management proposals to end existing cumulative voting plans. Most corporations provide that shareholders are entitled to cast one (1) vote for each director for each share owned, the so-called "one share, one vote" standard. Cumulative voting for directors permits shareholders to distribute the total number of votes in any manner when electing directors.

3. Unequal Voting Rights Plan: The System opposes any proposal to establish unequal voting rights plans since they tend to reduce the voting power of public shareholders and enhance the control of management.

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5. Charter/Certificate of Incorporation: The System does not support proposals by management to change the state of incorporation in order to take advantage of laws more favorable to management interests as opposed to shareholder interests.

6. Access to Management's Proxy: The System generally supports proposals which ask management to allow large shareholders equal access to management's proxy in order to discuss and evaluate management's director nominees and/or nominate and discuss shareholders nominees to the board. The System is generally in favor of resolutions that reform access, provide disclosures to identify sponsors of shareholder resolutions and especially efforts on behalf of shareholders with the SEC to achieve access to management proxies.

~~Shareholder Request for Reports: The System opposes these requests if such information is readily available to the shareholders or is too costly to provide.~~

Commented [CB37]: Administrative reorganization – moved to 3rd paragraph of section IV Proxy Voting Guidelines/Definitions

7. Special Meetings and Written Consent: Shareholders should be able to call special meetings or act by written consent.

Commented [CB38]: As discussed in NOV 4 Board meeting

D. Anti-Takeover Measures:

1. Classified Boards: A classified board is one in which the directors are divided into separate classes, with one class of directors elected each year, thus providing for staggered terms. The only real motive for board classification is to make it more difficult to change control of the board.

   The System opposes the creation of staggered or classified boards and votes against management efforts to create them and in favor of shareholder proposals to abolish them.

2. Fair Price Provisions: Fair price provisions prevent two-tier offers in which a buyer offers a premium price for only enough shares to obtain a controlling interest of a company. The common requirement of a "fair price" is to pay minority shareholders at least as much per share as the offeror paid to gain a controlling position of the company.

   The System supports fair price provisions provided no other anti-takeover provision is included. Quite often, fair price provisions require a supermajority vote to circumvent the pricing guidelines. The System will vote against the provisions with supermajorities proposed by management and for shareholder resolutions to reduce supermajority percentages.

3. Greenmail: When a company's management buys back a block of the company's stock held by a shareholder deemed to be a "threat" to the company (or to management's tenure), the transaction is often called the payment of greenmail. The System opposes the payment of greenmail and supports shareholder resolutions to end this practice.

4. Poison Pills (Shareholder Rights Plans): Poison pills are a wide variety of provisions adopted by boards, without shareholder approval, to make it financially unattractive for a shareholder to purchase more than a small percentage of the company's stock. The System:

   a. Supports shareholder resolutions calling for corporations to submit Poison Pills to shareholder votes

   b. Generally supports shareholder resolutions calling for corporations to rescind Poison Pills

   c. Opposes management proposals to create Poison Pills when submitted to a vote

d. Will review company proposals to determine if they might benefit shareholders over the long run, especially for chewable pills. A chewable pill is a poison pill defense clause that gives common stock shareholders the right to revoke the pill in the face of a bona fide takeover ~~TAKEOVER~~ offer, or which automatically ~~automatically~~ nullifies the pill if the offer meets certain predefined criteria.

Commented [CB39]: Administrative modification

5. Stock Authorization Increasing Authorized Common or Preferred Shares: ~~The System reviews requests for additional common stock on a case-by-case basis.~~ The System does not support such increases when the increased stock is issued in a private placement as an anti-takeover measure. The System also opposes any type of increase in blank check preferred stock.

Commented [CB40]: Administrative deletion

E. Environmental Issues:

1. Companies should disclose the environmental sustainability policies and practices most closely tied to the company's ability to create long-term value for investors.

2. 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.

3. 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.

Commented [CB41]: As discussed in NOV 4 Board meeting

F~~E~~. Social Issues:

1. Animal Testing: The System votes on a case-by-case basis on proposals to restrict the use of animals in product testing.

2. Economic Conversion: The System does not support shareholder resolutions asking companies to report on plans to diversify or convert to the production of civilian goods and services in lieu of military production. We believe this should be a management decision.

~~3. Environmental Issues: The System supports shareholder requests for information when the information requested is reasonable, is not otherwise readily available to the shareholder, can be obtained by the corporation without excessive expense, and will not subject the corporation to liability. The System does not support shareholder proposals when the information requested is available in other forms. The CERES Principles will be voted~~

~~on a case-by-case basis. The System is concerned about the environment and will express that concern when appropriate.~~

~~4. Workplace Standards: Votes are made on a case-by-case basis. The System will support a reasonable request for corporate accountability of human rights standards in the workplace.~~

3. Human Rights and Human Capital Management:

   a. The System supports reasonable requests for corporate accountability related to human rights and human capital management.

   b. Companies should disclose their diversity, equity and inclusion polices, efforts to promote a diverse, equitable and inclusive culture, and workforce demographics.

   c. Significant risks and opportunities related to human capital management and human rights factors, and the impact on its operations and products should be disclosed, as well as how the company identifies, measures and manages these risks and opportunities.

~~5. Northern Ireland: The System supports shareholder resolutions relating to the corporate activities in Northern Ireland with regard to the MacBride Principles.~~

~~6. Tobacco: Public pension funds are facing increasing pressure to divest their portfolios of tobacco stocks. The System supports and will vote in favor of reasonable proxy proposals directed at spinning off non-tobacco related components. The System also supports shareholder proposals aimed at advertising, labeling, diversifying and anti-smoking campaigns. The Retirement Board is concerned about the sale and use of tobacco products; however, its action must be consistent with overriding fiduciary responsibilities and consideration of the economic impact of the vote.~~

~~7. Sudan: Public pension funds are facing increasing pressure to divest their portfolios of companies doing business in Sudan. The Retirement Board is deeply concerned with atrocities and human rights violations that have been occurring in Sudan. The System supports efforts which urge the government of the United States to compile and publish a list of companies with business dealings or operations in Sudan which might be supporting the atrocities and human rights violations in that region. The System will support and vote in favor of reasonable proxy proposals relating to aiding the victims in that region; however, its actions must be consistent with the overriding fiduciary responsibilities and consideration of the economic impact of the vote.~~

Commented [CB42]: Administrative deletion –environmental issues discussed above and CERES Principles no longer referenced as the Principles are no longer enumerated on the CERES website.

Commented [CB43]: As discussed in NOV 4 Board meeting – replaced with Human Rights and Human Capital Management below

Commented [CB44]: As discussed in NOV 4 Board meeting

Commented [CB45]: Administrative deletion --- issues covered under Human Rights and Human Capital Management

V. Risk Management

NYSTRS engages an external proxy advisor to provide, among other things, analysis and recommendations on proxy matters and automation of the policy to ensure votes are cast consistently with these guidelines.

Commented [CB46]: As discussed in NOV 4 Board meeting

~~A. Market Risk: Most domestic equity positions held by the System are significant in size and occasionally corporate governance activity reflected in proxy voting has the ability to influence the market price of the respective corporations' securities. Therefore, the System makes every attempt possible to maintain a low profile.~~

Commented [CB47]: Administrative deletion – unnecessary and not consistent with NYSTRS' investment beliefs regarding stewardship

~~B. Operational Risk: The Stock Proxy Voting policy is a tool used by the System to uphold its fiduciary responsibility. Proxies are voted with a focus on maximizing long-term earnings. The Communications and Responsibilities & Controls sections will delineate the measures implemented to control operational risks.~~

Commented [CB48]: Administrative deletion – not related to operational controls and risk management

VI. Communications

~~Retirement Board Reporting:~~

Commented [CB49]: Administrative deletion

The Investment Operations Department will provide a report to the Retirement Board annually showing the number of proxies voted by category and how the System voted (for or against).

VII. Responsibilities & Controls

Responsible Party	Action
Investment Operations Department	1. Receive Proxy Statement from company and proxy materials from proxy advisory service. 2. Review proxy materials. ~~2.~~3. Request guidance from the System's Executive Director and Chief Investment Officer, or designee, for complex issues which require additional consideration or those which do not fall within these guidelines. ~~3. If the issue is sensitive, request guidance from the Executive Director and Chief Investment Officer or designee.~~

	~~4. If the issue is not clearly defined in the proxy guidelines, request guidance from the Executive Director and Chief Investment Officer or designee.~~ ~~5.~~4. Vote proxies according to guidelines~~ and obtain advice when needed from the Executive Director and Chief Investment Officer or designee~~. ~~6.~~5. Prepare proxy report for the Board annually. ~~7.~~6. Update proxy voting guidelines (contained within this policy) for Board approval annually.
Retirement Board	7. Review proxy voting guidelines annually. 8. Review annual proxy report received from the Investment Operations Department. ~~8.~~9. Provide oversight to ensure alignment of proxy voting policy with NYSTRS' investment beliefs. ~~Review proxy voting guidelines annually.~~
Executive Director and Chief Investment Officer or designee	~~9.~~10. ~~11.~~ Provide guidance to the Investment Operations Department on complex issues that require additional consideration ~~are sensitive~~ or are not clearly defined in the proxy guidelines.

Commented [CB50]: Administrative modification to align with language used in Section III

Commented [CB51]: Administrative modification

Commented [CB52]: As discussed in NOV 4 Board meeting

Commented [CB53]: As discussed in NOV 4 Board meeting

Commented [CB54]: Administrative reorganization – moved to #8 above

Commented [CB55]: Administrative modification to align with language used in Section III

PROXY POLICY UPDATE

NOVEMBER 4, 2021

NOREEN JONES, CHIEF FINANCIAL OFFICER

CHRIS BROWN, ASSISTANT MANAGER INVESTMENT OPERATIONS

We Believe:

As fiduciaries, we must be responsible and thoughtful stewards of the Fund, acting for the exclusive benefit of NYSTRS' members and beneficiaries

PROXY VOTING IS ONE FACET OF NYSTRS' STEWARDSHIP PROGRAM

TODAY'S AGENDA

Review high priority issues including:

- Proposals we are likely to see but are not covered by NYSTRS policy
- Those that are covered but need updating

Objectives:

- Support NYSTRS stewardship efforts
- Memorialize NYSTRS voting practices in policy
- Reduce the number of manual votes

Categories:

- Board Related Matters
- Shareholder Rights
- Compensation
- Environmental
- Human Capital Management / Human Rights

ROLE OF NYSTRS' RETIREMENT BOARD

As stated in the Stock Proxy Voting policy, NYSTRS' Retirement Board has two principal responsibilities with respect to proxy voting:

- Review annual proxy report received from the Investment Operations Department
- Review proxy voting guidelines annually

NYSTRS' PROXY VOTING GUIDELINES – GENERAL PRINCIPLES

- **NYSTRS' Stock Proxy Voting policy has been established to:**
  - Protect NYSTRS' long-term investment interests
  - Promote responsible corporate policies and activities which enhance a corporation's financial prospects

STOCK PROXY VOTING POLICY UPDATES

BOARD RELATED MATTERS

Diversity should be considered when nominating directors; board demographic data should be disclosed (current policy addresses lack of women on the board)

Boards are responsible for oversight and management of material risks faced by the company; significant risks and controversies and the company's efforts to address them should be disclosed

Boards should oversee and disclose the company's political and charitable contributions and its lobbying activity, and ensure alignment with the company's stated policies and objectives

Boards should respond meaningfully to shareholder concerns supported by a simple majority of shareholder votes cast (current policy withholds support from directors that ignore a SHP that is approved by a majority of votes cast for 2 consecutive years, or more than 66% in a single year); and should be willing to engage with shareholders on significant issues

SHAREHOLDER RIGHTS

Shareholders should be able to call special meetings or act by written consent

COMPENSATION

Executive compensation should include relevant sustainability performance objectives (expands upon existing policy that supports reasonable compensation programs tied to objective performance measures)

The sustainability performance objectives and the rationale for selecting them should be disclosed

ENVIRONMENTAL

Companies should disclose the environmental sustainability policies and practices most closely tied to the company's ability to create long-term value for investors

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*

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

*Includes physical and transition risks

HUMAN CAPITAL MANAGEMENT / HUMAN RIGHTS

Companies should disclose their diversity, equity and inclusion polices; efforts to promote a diverse, equitable and inclusive culture; and workforce demographics

Significant risks and opportunities related to human capital management and human rights factors, and the impact on its operations and products should be disclosed; as well as how the company identifies, measures and manages these risks and opportunities

CAVEAT – WE WILL CONTINUE TO WITHHOLD SUPPORT FOR PROPOSALS* WHEN ANY OF THE FOLLOWING CONDITIONS ARE MET:

THE FACTORS ARE NOT REASONABLY DEEMED MATERIAL TO THE COMPANY OR ITS OPERATIONS

THE COMPANY ALREADY SUBSTANTIALLY COMPLIES WITH THE RESOLUTION

THE REQUEST IS OTHERWISE NOT REASONABLE, OR THE COST OUTWEIGHS THE BENEFITS

*These would typically be shareholder proposals as management proposals normally don’t meet these conditions

NEXT STEP:
STAFF WILL UPDATE POLICY FOR BOARD APPROVAL

QUESTIONS?

APPENDIX

INVESTMENT BELIEFS

MISSION OF THE INVESTMENT PROGRAM

We Believe:

Keeping our members at the forefront of all we do and providing them with a secure pension requires an investment program designed to maintain the sustainability of the benefits.

Context:

- The investment program is designed to:
  - Accumulate sufficient assets to fund the retirement benefits of NYSTRS' members and beneficiaries over the long term.
  - Maintain sufficient liquidity to pay such benefits as they become due.
- Receiving actuarially determined contributions is foundational to ensuring the accumulation of sufficient assets.

GOVERNANCE

We Believe:

A strong governance structure is vital to our success.

Context:

- A strong governance structure includes:
  - A common understanding of our fiduciary responsibility and mission.
  - A well-defined and documented system of checks and balances, which recognizes the need for organizational agility.
  - Clearly delineated roles and responsibilities:
    - It is the responsibility of the Retirement Board to set policy.
    - It is the responsibility of the Executive Director and Chief Investment Officer and staff to implement policy and maintain operations.
  - Internal policies and procedures which set forth clear expectations and processes to ensure a culture of integrity, respect, accountability, transparency and compliance.
  - Valuing broad and diverse input.

STEWARDSHIP

We Believe:

As fiduciaries, we must be responsible and thoughtful stewards of the Fund, acting for the exclusive benefit of NYSTRS' members and beneficiaries.

Context:

- Responsible stewardship includes:
  - Making prudent investment choices, consistent with our fiduciary duties under a disciplined risk-controlled strategy.
  - Promoting responsible corporate governance, consistent with our Duty of Loyalty to act for the exclusive benefit of NYSTRS' members and beneficiaries.
  - Being active owners of public and private companies, including but not limited to:
    - Voting proxies.
    - Participating on Limited Partner Advisory Committees.
    - Capitalizing on the System's assets to achieve investment goals and objectives in a responsible manner.
  - Collaborating with other institutional investors to harness collective influence in engagement efforts.
  - Actively participating with external organizations to help shape future rules and regulations related to sustainable investing. (e.g., Value Reporting Foundation efforts to advocate for uniform reporting and disclosure templates)

INVESTMENT BELIEFS

DIVERSITY, EQUITY AND INCLUSION

We Believe:
Diversity, equity and inclusion are integral to the organizational vision of being the model for pension fund excellence.

Context:
- Promoting and fostering a culture of diversity, equity and inclusion, both within NYSTRS and among its partners, will:
  - Enhance decision making and outcomes.
  - Contribute to a more equitable and just society.

ASSET ALLOCATION

We Believe:
The most significant contributor to a fund's long-term investment performance is asset allocation.

Context:
- The asset allocation process is designed to:
  - Maximize the likelihood the Fund meets its expected return and liquidity requirements.
  - Ensure the overall portfolio is broadly diversified, subject to statutory requirements.
  - Minimize risk.
- NYSTRS is a universal owner of the global public markets, with a highly diversified, long term portfolio. We hold the following convictions about the capital markets:
  - Markets are generally efficient.
  - Passive management provides broad, diversified exposure, while active management can yield benefits when the investment manager has an informational, technical or operational advantage.
  - Alternative investments allow the System to expand the opportunity set beyond public markets and can be used as a return enhancer and risk diversifier.
- Cost, diversification, risk and return should be considered within the context of the attributes of each asset class, individually, and its contributions to the portfolio as a whole.
  - Performance should be monitored and evaluated net of fees and costs.

RISK

We Believe:
Risk is inherent in all investments and must be prudently managed.

Context:
- NYSTRS' risk management program is designed to identify, assess and address significant risks, including the ability to manage System assets relative to liabilities, meet liquidity requirements and maintain an appropriate funding level.

PROXY ADVISORY SERVICES

Proxy Advisory services include:

- Research and analysis
- Proxy vote recommendations
- Vote execution, recordkeeping and reporting

Institutional Shareholder Services (ISS) - NYSTRS' new proxy advisor:

- Founded in 1985
- 2,200+ employees across 29 offices in 15 countries
- Annual coverage of approx. 45,000 meetings in 115 countries
- Serves approx. 3,000 clients

NEW YORK STATE TEACHERS' RETIREMENT SYSTEM

TO: Retirement Board

FROM: Harvey Leiderman and Joseph Indelicato, Jr.

CC: T. Lee

SUBJECT: Fiduciary Counsel Pathway

Date: November 30, 2021

As discussed during the previous Board meeting of November 23rd, we are providing the following fiduciary outline and pathway for the Board as it further considers the risks and opportunities related to the thermal coal and oil sands industries, and ultimately whether, based on thorough due diligence and on the recommendations of its staff, counsel and investment consultants, it is prudent for the Board to authorize changes to its current holdings; and if so, how it can best maximize return and minimize risk to the fund consistent with the Board's fiduciary duties.

Outline of Fiduciary Counsel Pathway Summary to the Board Meeting Dec. 2, 2021

1. The Board has three relevant fiduciary duties under New York State regulations (11 NYCRR 136-1.6) and applicable law:

   - To act in the best interests of the members of the system
   - To use the assets of the system exclusively for the benefit of the members of the system and not for other purposes
   - To prudently manage the assets of the system, using appropriate skill, care and diligence under the circumstances then prevailing

2. Prudent stewardship by a collective board of trustees requires prudent decision-making processes, consistent with Board-established policies and procedures, informed knowledge, a thorough consideration of the relevant facts, and a reasoned, unbiased exercise of judgment…followed by timely monitoring of the impacts of the decision and making future adjustments based on circumstances then prevailing. The Board has an obligation to observe procedural due diligence in making investment decisions in the best interests of members of the system.

3. Just having good intentions ("doing the right thing") alone does not satisfy the duty of prudence.

4. A fiduciary who follows a prudent decision-making process does not breach their fiduciary duty simply because the outcome of the decision turns out differently from their reasonable expectations.

5. The Board is presently considering the broad issue of climate change and its long-term impact on the system's assets. The Board believes in this value proposition: *That climate change presents risks and opportunities impacting the long-term value of our assets.* The Board believes that it has an obligation to assess these risks and opportunities as they may impact the assets of the fund, and to take appropriate action. The Board is determining whether it would be prudent to make changes to its portfolio in light of the forecasted risks and opportunities presented by climate change.

6. In making its determinations, the Board has obtained and is continuing to obtain advice from staff, counsel and outside investment consultants with expertise in this field. The Board and the System's consultants have provided extensive education for the Board relating to the topic of climate change, industry sectors impacting and impacted by climate change, and the past and forecasted performance of public and private global markets generally, and public and private portfolio holdings specifically.

7. The Board next intends to consider various scenarios covering several options available, designed to mitigate risks and/or capitalize on opportunities related to climate change.

8. Among the options available to the Board is one that relates to its holdings in the thermal coal and oil sands industries. These industries appear to be the most directly and immediately affected by climate change, based on changes in expected performance, available capital financing and governmental and regulatory actions (given the documented level of greenhouse gas emissions.) Climate change is likely to pose risks to the long-term value of these holdings and the role they play in a broadly diversified, global portfolio. It is also likely to create alternative investment opportunities worth considering.

9. As part of its due diligence review of the thermal coal and oil sands industries, the Board has been advised, and continues to be advised by its staff, counsel and investment consultants in an ongoing, rigorous evaluation of the risk and opportunities, and options available to the Board. To the extent the Board's deliberations relate to specific holdings, proposed securities transactions or confidential trading strategies, those discussions have been and will be held in executive or closed session, as permitted by law. The broader deliberations about markets in general and the Board's options have been and will be held in open, public sessions, at which members of system and interested members of the public may attend. The Board believes an open and transparent process is key to its prudent stewardship of the system and serves the best interest of its members.