2023—2024

ANNUAL SUSTAINABLE INVESTMENT REPORT

PRESENTED BY

Office of the Illinois State Treasurer

Michael W. Frerichs
Illinois State Treasurer

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*"**ESG is data.** As owners of companies, we ask for data. Data help us make good decisions and help us work with the boards of directors to establish companies that are viable for the long term."*

—Treasurer Michael Frerichs

LETTER FROM THE TREASURER

I am very pleased to present the Office of the Illinois State Treasurer's 7th annual Sustainable Investment Report, which showcases our sustainable investing activities during Fiscal Year 2024 (July 2023 – June 2024).

Before I highlight the hard work and successes we have achieved through these efforts, I must address one of the major elephants in the investment industry: the backlash against sustainable investing efforts. It is no secret that challenges continue to face the sustainable investment community. Vocal critics, elected officials, and corporations attack and mischaracterize the work that we do. These attacks persist in the form of legislation, congressional inquiries, allegations of "collusion," so-called "anti-ESG" shareholder proposals, and even a lawsuit filed by a company against its own shareholders. Yet despite the heightened rhetoric and actions against sustainable investing, I want to stress that these moves continue to prove largely unsuccessful. What these efforts have really amounted to is a waste of time and effort for fiduciaries striving to generate positive risk-adjusted returns.

The bottom line is that I will not be intimidated by these efforts, nor will they distract me from using sustainability integration to steward—in the most prudent way—the $65 billion of public assets that are in my care.

To clarify any confusion on this matter, if I had to use one phrase to describe how my Office practices sustainable investing it would be measured collaboration. Measured – in the sense that we quantitatively and qualitatively measure the material impacts of sustainability integration onto the value of our investments. Collaboration – in terms of collaborating with and between our internal investment teams, external investment managers, underlying portfolio companies, and fellow institutional investors to identify and address relevant and financially material sustainability risks.

We do this because we have a vested interest in having our investments succeed through capital appreciation over the long term.

Anything that will get in the way of that aim should be analyzed and addressed. Therefore, we don't exclude traditional financial analysis in favor of only focusing on sustainability risks present within our investment portfolios. Instead, we integrate sustainability analysis into the traditional financial analysis we perform for all of our portfolios, with the firm belief that this supplemental information can help us make more sensible, well-informed decisions.

With that in mind, let me share just some of the highlights my team has been busy working on as it relates to sustainable investing accomplishments over the last year:

• **Conducted Over 40 Engagements on Material Sustainability Issues –** We conducted or supported more than 40 engagements with portfolio companies on a range of sustainability topics, including corporate governance, board diversity, human capital management, social capital management, and environmental stewardship.

• **Negotiated Withdrawal Commitments for Proposals at 3 Companies –** Of the 8 shareholder proposals we filed or co-filed, we withdrew three of them based on agreements from the companies to enhance their disclosures around key human capital management practices and environmental metrics tied to their executive compensation.

• **Continued emphasis around utilizing Best-in-Class Diverse-Owned Firms –** Total assets managed by minority, women, veteran, and disabled-owned (MWVD) firms ended fiscal year 2023 at $3.9 billion, a 193-fold increase since June 2015, while assets brokered by MWVD firms in fiscal year 2023 was $46 billion, representing an 83% utilization rate.

• **Evaluated all External Investment Managers Based on Responses to Sustainability Questionnaires and Equity, Diversity, and Inclusion Assessments –** In addition to traditional financial and investment due diligence, my Office conducts a proprietary evaluation of all of our external investment managers to assess how each integrates sustainability and encourages equity, diversity, and inclusion within their business processes to enhance oversight, monitor risks, and capitalize on investment opportunities.

• **Cast 27,827 Proxy Votes at 2,927 Annual Meetings –** Our Office voted on 27,827 proposals on corporate proxy ballots at 2,927 annual shareholder meetings in FY 2024. We believe casting proxy votes is an indispensable tool to signal our concerns with company boards and ensure they are acting in the best interest of our beneficiaries.

As we look towards next year, this report contains something new. To hold ourselves accountable, just as we do with our external partners, we have been working on setting concrete goals and actions to enhance and further our investment objectives.

Our **Sustainability Action Plan** lays out broad yet ambitious objectives for our Office's future and serves as a testament to my unwavering commitment to sustainable investing, particularly by focusing on ways we can continue to raise the bar in areas such as human capital management disclosure, proxy voting and tackling board diversity issues. While the challenges facing sustainable investing will undoubtedly persist, this Sustainability Action Plan will help us navigate these troubled waters and ensure that we stay focused on delivering the highest risk-adjusted returns for our beneficiaries and the people of Illinois.

For more information, please visit our website at **www.IllinoisRaisingTheBar.com**.

Onward,

Michael W. Frerichs
Illinois State Treasurer

ABOUT THE OFFICE OF THE ILLINOIS STATE TREASURER

OVERVIEW

The Office of the Illinois State Treasurer ("Treasurer"), pursuant to the Illinois Constitution, is responsible for the receipt, safekeeping, investment, and disbursement of state monies.

The Treasurer prudently invests money on behalf of the State, units of government, and individuals saving for retirement, higher education, or disability-related expenses. Our investment decisions promote economic growth, continuing education, access to capital, and opportunities for individuals, communities, and government bodies across our State. The Treasurer is committed to fulfilling this mission in a professional and ethical manner that fosters transparency, efficiency, diversity and inclusion, sustainability, and the preservation of the public trust.

The Treasurer, as the State's Chief Investment Officer, manages approximately $65 billion, which includes $36 billion in State investments, $20 billion in financial product programs (ex: college savings, retirement savings, disability savings), and $9 billion in funds managed on behalf of State agencies and units of local government.

The Treasurer oversees several investment programs, including:

- State Investments
- 529 College Savings Programs
- The Illinois Funds
- Illinois Growth and Innovation Fund
- Illinois Secure Choice Retirement Savings Program
- Illinois Achieving a Better Life Experience (ABLE)
- Student Empowerment Fund
- The FIRST Fund

The Treasurer, as the State's Chief Banking Officer, also administers the State's multiple banking functions - overseeing cash management activities and processing payments and receipts on behalf of over 100 State agencies, boards, and commissions. In fiscal year 2024, the Illinois Treasurer processed $252 billion in receipts and $248 billion in expenditures.

The Office of the Illinois State Treasurer predates Illinois' incorporation in 1818. Voters in 1848 chose to make it an elected office.

Learn more at **illinoistreasurer.gov**.

The Illinois Treasurer manages approximately **$65 billion**.

2023-2024 ANNUAL SUSTAINABILITY REPORT EXECUTIVE SUMMARY

Sustainability integration is a vital element to how we prudently safeguard and invest the funds which are in our care. It is carried out through our investment-decision making processes, which are infused throughout the Office and executed via several critical functions. Below is a brief overview detailing some of the notable outcomes related to sustainability achieved during Fiscal Year 2024 (July 2023-June 2024).

SUSTAINABLE INVESTMENT ACTIVITY BY THE NUMBERS

- **$3.9 billion in Assets Managed by MWVD** (Minority, Woman, Veteran, and Disabled-Owned) Firms with investments across each of our investment portfolios.
- **27,827 Proxy Votes Cast at 2,927 Annual Meetings** in accordance with our proxy voting policy statement and in fulfillment of our fiduciary duty.
- **Conducted over 40 Engagements on Material Sustainability Issues** where the IL Treasurer supported a joint corporate engagement, signed a letter, or conducted an engagement meeting.
- **8 Shareholder Proposals Filed** where the IL Treasurer formally submitted a shareholder proposal, individually or as a co-filer, at an individual portfolio company.
- **3 Op-Eds Published by the Treasurer** covering topics of shareholder rights, sustainable investing, and environmental stewardship.

OUR APPROACH TO SUSTAINABLE INVESTING

The Illinois Sustainable Investing Act (30 ILCS 238), which took effect on January 1, 2020, provides that all state and local government entities that hold and manage public funds, including the Illinois Treasurer, "shall prudently integrate sustainability factors into its investment decision-making, investment analysis, portfolio construction, risk management, due diligence and investment ownership in order to maximize anticipated financial returns, minimize projected risk, and more effectively execute its fiduciary duty."

The Illinois Treasurer adheres to this legislation by maintaining a standalone Sustainability Investment Policy Statement that outlines sustainability factors considered in managing investments, and incorporates sustainability language within each investment portfolios' Investment Policy Statements.

SUSTAINABILITY PRINCIPLES

In line with the International Sustainability Standards Board's (ISSB) guidance via the Sustainability Accounting Standards Board (SASB), we apply sustainability factors into our investment decision making process that are material, relevant, and decision-useful. We also work to ensure that the integration of such sustainability factors outweighs the costs of implementation.

SUSTAINABILITY FACTORS

The Office's sustainability factors encompass a broad range of topics that are used to more comprehensively analyze an investment based on its risk profile and return potential.

The sustainability factors we examine fall under five categories:

Leadership

- Accountability
- Diversity
- Transparency
- Sensible Compensation
- Shareholder Rights
- Ethical Conduct
- Risk Management

Environment

- Climate Competence
- Greenhouse Gas Emissions
- Air Quality
- Energy Management
- Water & Wastewater Management
- Ecological Impacts
- Waste Management

Social Capital

- Human Rights
- Product Safety & Quality
- Data Privacy
- Cyber Security
- Community Relations
- Access & Affordability

Human Capital

- Labor Practices
- Employee Health & Safety
- Equity, Diversity, & Inclusion

Innovation

- Lifecycle Impacts of Products
- Business Model Resilience
- Supply Chain Management
- Material Sourcing & Efficiency

OFFICE ORGANIZATION

The Corporate Governance and Sustainable Investment ("CGSI") division, a branch of the wider Public Market Investments team, serves as the central hub for the Office's sustainable investing and stewardship activities. The CGSI team directly conducts and is responsible for the Office's stewardship efforts including corporate engagement, proxy voting, public policy advocacy. Indirectly, the team advises each of the investment teams of the Treasurer's Office on their oversight and diligence of sustainability integration practices. The CGSI division also works in collaboration with the Legislative team on any sustainability-related regulatory issues.

Corporate Governance & Sustainable Investment Division

Advises

Externally-Managed Portfolios

Public Market Investments

Integration of sustainability factors into external fund manager evaluations for public market focused portfolios

Alternative Investments

Integration of sustainability factors into external fund manager evaluations for alternative investments focused portfolios

Internally-Managed Portfolios

Portfolio Risk & Analytics

Integration of sustainability factors into debt issuer and investment counterparty evaluations

Policymaking & Advocacy

Legislative Affairs

Relevant enacted or proposed laws, rules, or amendments related to corporate engagement, stewardship, and sustainability integration duties of public funds

Performs

Investment Stewardship

- Corporate Engagement (individual and collaborative)
- Proxy Voting of Direct Equity Investments
- Advocacy and Regulatory Oversight, Review, and Commentary

OUR STRATEGIES AND FOCUS AREAS

1. Investment Policies – Our policies govern each investment portfolio and specify that sustainability factors be integrated into portfolio construction, decision-making, investment analysis, and risk management.

2. Fund Manager Sourcing, Selection and Evaluation – We source, select and evaluate fund managers based on a multitude of factors including, but not limited to, their governance and compensation structures, team personnel, investment stewardship policies, institutional track record, and sustainability integration process. Additionally, all prospective and existing fund managers are required to complete a questionnaire providing details on their firm's approach to sustainability integration

3. Investment Analysis & Due Diligence – We continually monitor and conduct due diligence on external fund managers and other external counterparties to identify and address sustainability risks and opportunities.

4. Risk Management – We integrate sustainability research and external ratings into reviews of debt issuers and investment counterparties (e.g., corporate bond issuers, broker/dealers, etc.) as inputs into our risk analysis process.

5. Proxy Voting – We exercise our proxy voting rights in accordance with our policies for those companies and funds where we maintain the ability to vote on management and shareholder proposals on annual ballots.

6. Corporate Engagement and Value Creation – We engage companies in our investment portfolios on sustainability risks and opportunities through direct dialogue with corporate and board leadership.

7. Strategic Partnerships – We actively partner with investor coalitions, service providers, data providers, and other stakeholders to better execute our sustainable investing strategies by identifying leading best practices or laggards and disseminating market research to strengthen our stewardship capabilities.

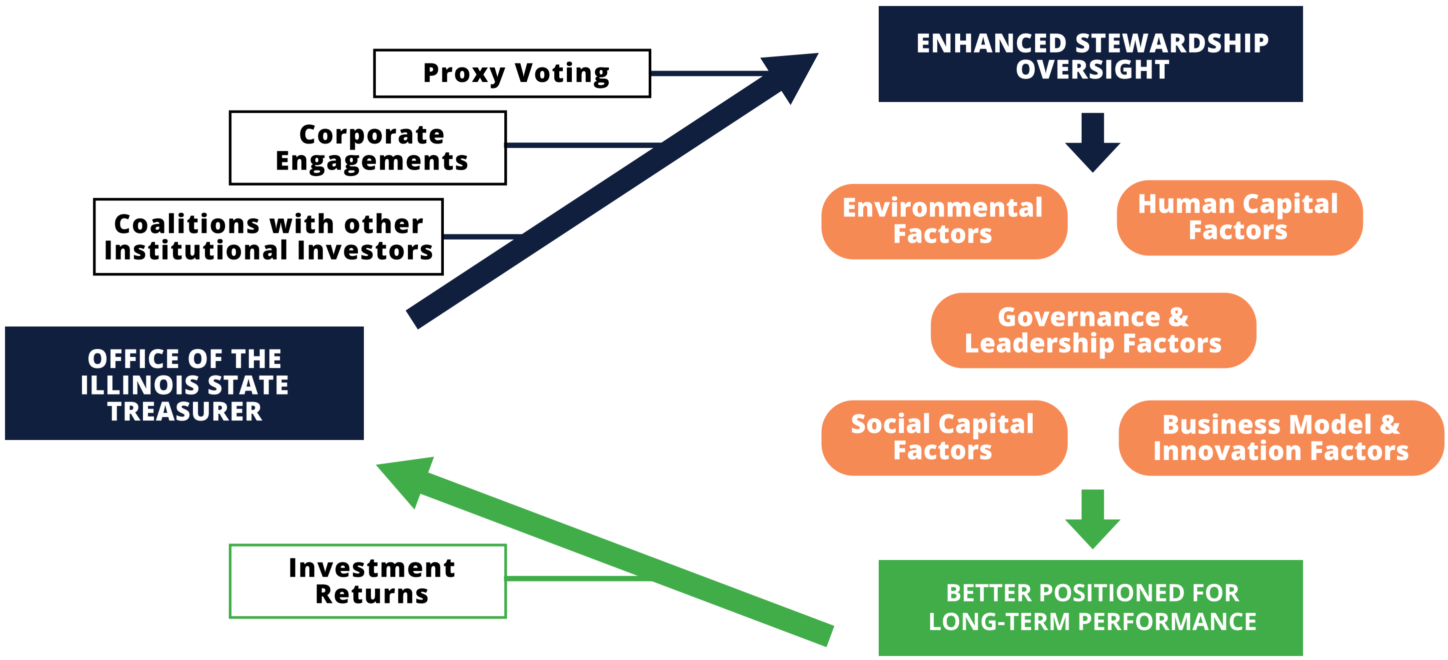
8. Advocacy and Policymaking – We engage lawmakers and government entities to protect shareholder rights and promote responsible sustainable investing practices that enhance our fiduciary duty to beneficiaries.

OUR VIEW ON SUSTAINABLE INVESTING

FULFILLING OUR FIDUCIARY DUTY. We know that to fulfill our fiduciary duty and maximize investment returns, we need to focus on more than short-term gains and traditional indicators. Additional risk and value-added factors that may have a material financial impact on the performance of our investments need to be integrated into the decision-making process to provide investors with a more complete view of an investment's short- and long-term financial conditions.

SUSTAINABLE INVESTMENT IS ABOUT VALUE, NOT VALUES. Incorporating sustainability factors into the investment decision making process furthers our fiduciary duty by seeking to better assess risk *and* return opportunities that may drive long-term capital appreciation and risk mitigation.

Generating the highest long-term risk-adjusted returns for our beneficiaries is now and always will be the top priority and investment objective for the funds that we are entrusted to manage.



SUSTAINABILITY PRINCIPLES. In line with the International Sustainability Standards Board's (ISSB) guidance via the Sustainability Accounting Standards Board (SASB), we apply sustainability factors into our investment decision making process that are material, relevant, decision-useful, and industry-specific.

SUSTAINABILITY FACTORS. Sustainability factors, as outlined in the Illinois Sustainable Investing Act, encompass a broad range of factors that are used to more comprehensively analyze an investment based on its risk profile and return potential. The sustainability factors we examine fall under five categories that include: (1) corporate governance, financial incentives and quality of leadership; (2) environmental, (3) social capital, (4) human capital, and (5) business model and innovation.

Leadership

- Accountability
- Diversity
- Transparency
- Sensible Compensation
- Shareholder Rights
- Ethical Conduct
- Risk Management

Environment

- Climate Competence
- Greenhouse Gas Emissions
- Air Quality
- Energy Management
- Water & Wastewater Management

Social Capital

- Human Rights
- Product Safety & Quality
- Data Privacy
- Cyber Security
- Community Relations
- Access & Affordability

Human Capital

- Labor Practices
- Employee Health & Safety
- Equity, Diversity, & Inclusion

Innovation

- Lifecycle Impacts of Products
- Business Model Resilience
- Supply Chain Management
- Material Sourcing & Efficiency

SYSTEM-LEVEL RISKS. Some sustainability issues, such as climate change[1 2 3 4] and biodiversity loss[5] have the potential to impact the Treasurers' entire investment portfolio. Therefore, the Treasurer examines system-level sustainability risks and their potential impact on long-term investment performance when strategizing engagement opportunities and/or regulatory and legislative priorities. In our investment due diligence process, the Treasurer also assesses asset managers' integration of these system-level risks in their investment processes.

RESEARCH ON OUTCOMES AGREE. Studies clearly illuminate that investing in companies with sustainable policies have demonstrated superior rates of return, lower volatility, and frequently provide collateral benefits to investors.[6 7 8 9 10] This is likely because sustainable companies consider all relevant risks, opportunities, and stakeholders into their business process in order to achieve the highest outcomes for employees, investors, community members, corporate leadership, and the environment.

MORE HOLISTIC ANALYSIS OF INVESTMENTS. The integration of material sustainability factors adds an additional layer of rigor to the fundamental analytical approach for manager and investment due diligence. Quantitative and qualitative sustainability factors help assess balance sheet strength, risk profiles, and the reliability of future cash flows to name a few.

[1] Financial Stability Oversight Council, "Report on Climate-Related Financial Risk," 2021, available at https://home.treasury.gov/system/files/261/FSOC-Climate-Report.pdf.
[2] Financial Stability Board, "The Implications of Climate Change for Financial Stability," 2020, available at https://www.fsb.org/wp-content/uploads/P231120.pdf.
[3] Board of Governors of the Federal Reserve System, "FEDS Notes: Climate Change and Financial Stability," March 2021, available at https://www.federalreserve.gov/econres/notes/feds-notes/climate-change-and-financial-stability-20210319.html.
[4] Financial Stability Oversight Council, "Climate-Related Financial Risk – 2023 Staff Progress Report" 2023, available at https://home.treasury.gov/system/files/261/FSOC-2023-Staff-Report-on-Climate.pdf
[5] Central Banks and Supervisors Network for Greening the Financial System, "Statement on Nature-Related Financial Risks," March 24, 2022, available at https://www.ngfs.net/sites/default/files/medias/documents/statement_on_nature_related_financial_risks_-_final.pdf, International Corporate Governance Network, "Biodiversity as Systemic Risk," January 2023, available at https://www.icgn.org/sites/default/files/2023-01/Biodiversity%20as%20Systemic%20Risk%20Viewpoint%20Jan%202023.pdf.
[6] Fulton, Mark, Bruce Kahn, and Camilla Sharples. "Sustainable Investing: Establishing Long-Term Value and Performance." Deutsche Bank Group. June 2012. Accessible at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2222740&rec=1&srcabs=2508281&alg=1&pos=2.
[7] Friede, Gunnar, Timo Busch, and Alexander Bassen. "ESG and financial performance: aggregated evidence from more than 2000 empirical studies." Journal of Sustainable Finance & Investment, vol. 5, no. 4, 2016, pp. 210-233. Accessible at: https://www.tandfonline.com/doi/full/10.1080/20430795.2015.1118917.
[8] Verheyden, Tim, Robert G. Eccles, and Andreas Feiner. "ESG for all? The Impact of ESG Screening on Return, Risk, and Diversification." Journal of Applied Corporate Finance, vol. 28, no. 2, 2016., pp. 47-55. Accessible at: https://onlinelibrary.wiley.com/doi/abs/10.1111/jacf.12174.
[9] Eccles, Robert G., Ioannis Ioannou, and George Serafeim. "The Impact of Corporate Sustainability on Organizational Processes and Performance." Management Science, vol. 60, no. 11, 2014, pp. 2835-2857. Accessible at https://www.hbs.edu/faculty/Pages/item.aspx?num=47307.
[10] Whelan, Tensie, Ulrich Atz, Tracy Van Holt, and Casey Clark. "ESG and Financial Performance: Uncovering the Relationship by Aggregating Evidence from 1,000 Plus Studies Published between 2015-2020," available at https://www.stern.nyu.edu/sites/default/files/assets/documents/ESG%20Paper%20Aug%202021.pdf.

Investment Objectives and Risk Tolerance	Traditional Analysis	Sustainability Factors
Optimize Risk-Adjusted Returns	Profitability	Governance and Leadership
Asset Allocation and Portfolio Construction	Valuation	Environment
Diversification	Operations	Social Capital
	Capital & Leverage	Business Model and Innovation
	Cash Flow & Liquidity	Human Capital
	Price and Volume Transformations	
	Market Trends	

UTILIZING THE POWERS OF INVESTMENT STEWARDSHIP. When investors fuse traditional investment objectives – optimal risk-adjusted returns, low expenses, and diversification – with a focus on sustainability and sound governance, they are better positioned to generate long-term value. As such, the Treasurer utilizes a combination of investment stewardship best practices, like fundamental security analysis, manager due diligence, proxy voting, and corporate and asset manager engagement, to optimize investment returns, actively manage risk exposures, signal issues of concern, highlight best practices, and protect the long-term value of investment portfolios.

OUR CONTINUED COMMITMENT TO SUSTAINABLE INVESTING. Since 2022, we have witnessed a widespread, highly coordinated, politically motivated attack on investors who consider sustainability factors. The pushback is anti-free market and anti-investor. Research has shown that disregarding such factors harms retirement savers, pensioners, working people, and businesses.

Therefore, the Treasurer remains committed to integrating sustainability factors into investment decision-making processes. Doing so enables us to maximize the risk-adjusted returns of our investments. It provides additional sources of data, not the only source of data, to make prudent investment decisions. The more data investors have, including sustainability information, the better informed our decisions are when selecting investments over the long-term.

"I am tasked with investing not just for the next quarter – but with the goal of maximizing returns over the next quarter century."

—TREASURER MICHAEL FRERICHS

OUR APPROACH TO SUSTAINABLE INVESTING

ALIGNMENT WITH STATE LAW. The Illinois Sustainable Investing Act (30 ILCS 238), which took effect on January 1, 2020, provides that all state and local government entities that hold and manage public funds, including the Illinois Treasurer, "shall prudently integrate sustainability factors into its investment decision-making, investment analysis, portfolio construction, risk management, due diligence and investment ownership in order to maximize anticipated financial returns, minimize projected risk, and more effectively execute its fiduciary duty." As such, the Treasurer maintains a standalone Sustainability Investment Policy Statement that outlines sustainability factors considered in managing investments Office-wide, as well as includes sustainability process language within each of its investment portfolios' Investment Policy Statements to act in compliance with state law and fulfill its duties to the people of Illinois.

INTERNAL OFFICE OVERSIGHT. The Corporate Governance and Sustainable Investment Subcommittee (CGSI) is tasked with reviewing the sustainable investment activities and related outcomes of the Illinois Treasurer in order to monitor the Office's adherence to its core fiduciary duties. CGSI meets at least monthly to evaluate and provide examples and guidance on the Office's sustainability integration processes through corporate engagement activities, proxy voting results, public policy advocacy efforts, internal counterparty reviews, and external fund manager reviews, among other tasks. CGSI is composed of personnel across the Office's investment teams, allowing for the collaboration of sustainability strategy development and the exchange of best practices.

THE ILLINOIS SUSTAINABLE INVESTING ACT

The Sustainable Investing Act (PA 101-473) was signed into law by Governor J.B. Pritzker in 2019 with an effective date of January 1, 2020. The Act, the first of its kind, establishes a framework for public fund managers to consider sustainability factors in their investment portfolios and a method for implementation. The investment strategy of the Treasurer complies with the parameters outlined in the Act.

While the law establishes a standard for sustainability integration, it is flexible enough that individual public fund managers can customize how sustainability factors are considered and integrated in their investment decision-making processes in order to maintain managerial independence.

An amended version of the Act (PA 103-0324) was signed into law on July 28, 2023. The amendment requires that effective January 1, 2024, investment managers shall disclose their sustainability integration process prior to the award of a contract when seeking to serve as a fiduciary for a public agency, pension fund, retirement system, or governmental unit in the State.

For more information, including information on how public funds in Illinois can comply with the Act and access sample investment policies and procedures, visit www.illinoistreasurer.gov/Local_Governments/Sustainable_Investing_Act.

STRATEGIES AND FOCUS AREAS. The Illinois Treasurer uses a multifaceted approach to advance its sustainable investment strategy and address material financial risks and opportunities. This includes:

1. Investment Policies – Our policies govern each investment portfolio and specify that sustainability factors be integrated into portfolio construction, decision-making, investment analysis, and risk management.

2. Fund Manager Sourcing, Selection and Evaluation – We source, select and evaluate fund managers based on a multitude of factors including, but not limited to, their governance and compensation structures, team personnel, investment stewardship policies, institutional track record, and sustainability integration process. Additionally, all prospective and existing fund managers are required to complete a questionnaire annually to provide details on their firm's approach to sustainability integration.

3. Investment Analysis & Due Diligence – We continually monitor and conduct due diligence on external fund managers and other external counterparties to identify and address sustainability risks and opportunities.

4. Risk Management – We integrate sustainability research and external ratings into reviews of debt issuers and investment counterparties (e.g., corporate bond issuers, broker/dealers, etc.) as inputs into our risk analysis process.

5. Proxy Voting – We exercise our proxy voting rights in accordance with our policies for those companies and funds where we maintain the ability to vote on management and shareholder proposals on annual ballots.

6. Corporate Engagement and Value Creation – We engage companies in our investment portfolios on sustainability risks and opportunities through direct dialogue with corporate and board leadership.

7. Strategic Partnerships – We actively partner with investor coalitions, service providers, data providers, and other stakeholders to better execute our sustainable investing strategies by identifying leading best practices or laggards and disseminating market research to strengthen our stewardship capabilities.

8. Advocacy and Policymaking – We engage lawmakers and government entities to protect shareholder rights and promote responsible sustainable investing practices that enhance our fiduciary duty to beneficiaries.

CORPORATE GOVERNANCE & SUSTAINABLE INVESTMENT DIVISION

The Division of Corporate Governance & Sustainable Investments, part of the wider Public Market Investments Team, is responsible for leading and managing the sustainable investment and stewardship activities on behalf of the Illinois Treasurer.

These activities further the Office's compliance with the Illinois Sustainable Investing Act (PA 101-473) and support the Office's core investment objectives and fiduciary duties of maximizing financial returns and minimizing projected risks.

The Illinois Treasurer seeks to emulate industry best practices for investment stewardship through three core activities: (1) corporate engagement, (2) proxy voting, and (3) public policy advocacy.

These functions are vital to best-in-class portfolio management as they stem from shareholder advocacy efforts working to improve governance and reporting practices at portfolio companies expected to have a material impact on financial performance, which ultimately benefits shareholders through increased expected performance and reduced risk exposures. [11,12]

Advises

Externally-Managed Portfolios

Public Market Investments

Integration of sustainability factors into external fund manager evaluations for public market focused portfolios

Alternative Investments

Integration of sustainability factors into external fund manager evaluations for alternative investments focused portfolios

Internally-Managed Portfolios

Portfolio Risk & Analytics

Integration of sustainability factors into debt issuer and investment counterparty evaluations

Policymaking & Advocacy

Legislative Affairs

Relevant enacted or proposed laws, rules, or amendments related to corporate engagement, stewardship, and sustainability integration duties of public funds

Performs

Investment Stewardship

- Corporate Engagement (individual and collaborative)
- Proxy Voting of Direct Equity Investments
- Advocacy and Regulatory Oversight, Review, and Commentary

[11] Andreas G. F. Hoepner et al., "ESG Shareholder Engagement and Downside Risk." Review of Finance, Volume 28, Issue 2, March 2024, pages 483-510, https://doi.org/10.1093/rof/rfad034.
[12] Tomas Barko, Martjin Cremers, and Luc Renneboog, "Shareholder Engagement on Environmental, Social, and Governance Performance." Journal of Business Ethics, Volume 180, 2022, pages 777–812. https://doi.org/10.1007/s10551-021-04850-z

CORPORATE ENGAGEMENT OVERVIEW

No company or investment manager is perfect when it comes to disclosures, policies, or practices related to the ever-changing world of sustainability. Therefore, engagement with portfolio companies and external counterparties is one of the most productive tools available to the Illinois Treasurer to both mitigate risk and enhance investment opportunities

Engagement is an effective way to encourage increased disclosure on issues that can have a material impact on performance. It also provides an opportunity to better understand how companies which the Office is invested in are managing such sustainability risks and opportunities

These engagements cover a wide range of sustainability risks and opportunities that the Treasurer believes could have a material, financial impact on company performance, such as executive compensation, workforce safety, board diversity, and climate risk management. The Office takes a cooperative approach with company boards and senior leaders; as investors, we also want these companies to succeed and generate stronger, more risk-adjusted returns for our beneficiaries.

Engagement can take many forms. It may involve sending letters, conducting direct dialogue with company management, collaborating with investor coalitions, and in some cases, filing shareholder proposals and exempt solicitations in advance of a company's annual general meeting.

Building an Effective Engagement Strategy

• **Establishing Policy –** Developing the Office's Sustainable Investment Policy Statement to outline the authority, philosophy, and investment criteria by which the Office pursues corporate engagement activities.

• **Identifying and Prioritizing Material Sustainability Factors –** Identifying material sustainability risks and opportunities in the Office's investment portfolio, including at the systemic, industry-wide, or company level, and deploying resources accordingly.

• **Crafting Engagement Strategies –** Developing actionable strategies and tactics to address said risks and opportunities with company management.

• **Conducting Engagements –** Leading engagements with decision-makers to learn more about the company's management of relevant sustainability issues, request additional pertinent disclosures, and provide targeted recommendations.

• **Forming Partnerships and Coalitions –** Building coalitions and coordinating activities with other institutional asset owners and investment managers (e.g., Midwest Investors Diversity Initiative, Human Capital Management Coalition, Climate Action 100+, etc.).

• **Championing Best Practices –** Examining data, research, and recommendations from third party providers, such as the International Sustainability Standards Board (ISSB), Morningstar, Bloomberg, Principles for Responsible Investment (PRI), Ceres, Majority Action, and the Council for Institutional Investors (CII), to identify and implement best practices in corporate engagement.

• **Voting Proxy Ballots –** Voting proxy ballot items to signal support/disfavor, encourage specific actions, and hold board directors accountable

Proxy Voting

The Illinois Treasurer routinely votes on proxy ballot items for those companies and underlying funds where it maintains the right to vote on items on annual ballots. For example, during the 2024 fiscal year (July 2023-June 2024), the Treasurer voted on 27,827 proposals at 2,927 shareholder meetings through coordination with the Office's corporate governance consultant, Segal Marco Advisors.

Proxy voting is a fundamental right of all shareholders and is a critical function of fulfilling one's fiduciary duty by providing shareholders with the ability to take part in official company decisions that convey views to corporate boards and management on business strategies. It is also a means to hold boards accountable when they fail to address material governance and risk management issues.

We believe this work is critical in our endeavor to provide the highest level of service, stewardship, and financial value to our beneficiaries and participants, and will continue to advocate for shareholder rights to protect this tool.

Refer to the Illinois Treasurer's Proxy Voting Policy Statement and Proxy Voting Summary Table for additional information on how the Treasurer votes proxies, particularly related to different subject matters.

For information on how the Treasurer voted at specific companies, please see the Office's Proxy Voting Dashboard, which contains voting information going back to 2017.

Public Policy Advocacy

The Illinois Treasurer engages with various governmental entities, ranging from the Illinois General Assembly to the U.S. Securities and Exchange Commission, that play a role in protecting investors and positioning the Office to better execute its core duties. Public policy has wide-spread implications on the present and future sustainability, transparency, and efficiency of capital markets, and as such, requires investors' input and expertise in material public policy efforts.

The Illinois Treasurer strives to advocate for policy outcomes that protect the ability of institutional investors to serve their beneficiaries and participants, protect shareholder rights, provide enhanced and verifiable disclosures to investors on material sustainability topics, increase equity, diversity and inclusion in the marketplace, and address risks to market stability and economic prosperity.

FY 2024 (Q3'23-Q2'24)

CORPORATE ENGAGEMENT & STEWARDSHIP SUMMARY

27,827

Proposals Voted on

At 2,927 annual meetings, of which 817 were filed by shareholders

67%

Votes Cast in Favor

Proposals filed by shareholders

48%

Votes Cast in Favor

Directors up for election on corporate boards

FY 2024 (Q3'23-Q2'24)

CORPORATE ENGAGEMENT & STEWARDSHIP SUMMARY

40+

Engagement Activities

Where the Treasurer supported a joint corporate engagement, signed a letter, or led an engagement meeting

8

Shareholder Proposals Filed

Where the Treasurer formally submitted a shareholder resolution or proposal, individually or as a co-filer, at an individual portfolio company

3

Shareholder Proposals Withdrawn

Based on commitments made by the companies where those proposals were filed

3

Op-Eds Published

Covering topics of shareholder rights, sustainable investing, and environmental stewardship

BOARD DIVERSITY

DIVERSITY IS A CRITICAL DIMENSION OF EFFECTIVE BOARD COMPOSITION AND PERFORMANCE. Boards of directors wield immense influence over the governance, management, business strategy, and financial performance of corporations. They also serve as the elected representatives of a company's shareholders, which further ensures that boards are focused and legally bound to protect and grow shareholder value. Given this level of influence, it is clear why corporate leaders, financial analysts, institutional investors, and other stakeholders devote time and attention to the composition of corporate boards, including the diversity of its members.

Companies with diverse boards – inclusive of gender, race, ethnicity, skillsets, professional backgrounds, and sexual orientation – are better positioned to execute good governance, effective risk management, and optimal decision-making. [13] [14] [15] [16] Given the correlation between board diversity and long-term financial outperformance, asset owners like the Illinois Treasurer have a direct interest in ensuring that the companies in which they invest are diverse and inclusive at all levels of management, which is assessed at the highest levels through corporate disclosure of board compositions. A 2023 McKinsey study found companies in the top quartile for gender or racial diversity are 39 percent more likely to outperform peers. [17]

OPPORTUNITIES FOR PROGRESS REMAIN. Despite broad consensus on the value of board diversity on investment performance and improving trends, women still only occupy only 30.0% of board seats among Russell 3000 companies, and persons of color occupy only 24.6% of board seats, with little change over the past few years.[18] Of the total U.S. population, women account for nearly 50.5% of people[19] and people of color account for nearly 41.6% of people.[20] As such, the representation of corporate boards is still significantly disproportionate to the representation of women and people of color in the total population.

[13]Philips, Catherine, Katie Liljenquist, and Margaret Neale, "Better Decisions Through Diversity," Kellogg Insight, October 2010. Available at https://insight.kellogg.northwestern.edu/article/better_decisions_through_diversity.
[14]Stephanie Creary, "When and Why Diversity Improves Your Board's Performance," Harvard Business Review, March 27, 2019, https://hbr.org/2019/03/when-and-why-diversity-improves-your-boards-performance.
[15]David Rock and Heidi Grant, "Why Diverse Teams are Smarter," Harvard Business Review, Nov. 4, 2016, available at: https://hbr.org/2016/11/why-diverse-teams-are-smarter.
[16]David Larcker and Brian Tayan, "Diverse Boards: Research Spotlight," Stanford Graduate School of Business, April 2016, available at: https://www.gsb.stanford.edu/sites/gsb/files/publication-pdf/qg-diverseboards.pdf.
[17]"Diversity Matters Even More," McKinsey & Company, 2023, available at: https://www.mckinsey.com/~/media/mckinsey/featured%20insights/diversity%20and%20inclusion/diversity%20matters%20even%20more%20the%20case%20for%20holistic%20impact/diversity-matters-even-more.pdf?shouldIndex=false.
[18]KPMG, "Board Diversity Disclosures," available at https://kpmg.com/us/en/board-leadership/articles/2023/kpmg-board-diversity-disclosure-benchmarking-tool.html
[19]World Bank Group, https://data.worldbank.org/indicator/SP.POP.TOTL.FE.ZS?locations=US.
[20]United States Census Bureau: QuickFacts, available at https://www.census.gov/quickfacts/fact/table/US/PST045222
Based on data from KPMG, available at https://kpmg.com/us/en/board-leadership/articles/2023/kpmg-board-diversity-disclosure-benchmarking-tool.html

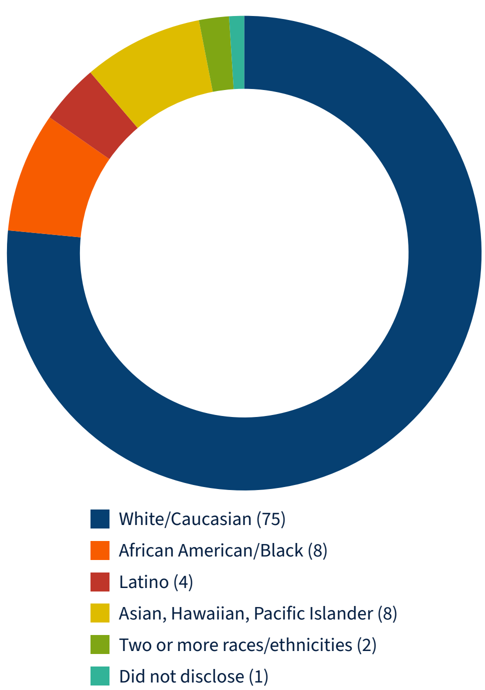
DIVERSITY IS A CRITICAL DIMENSION OF EFFECTIVE BOARD COMPOSITION AND PERFORMANCE. Treasurer Frerichs has been working to prioritize and increase corporate board diversity since 2016, utilizing an array of strategies, including direct shareholder corporate engagements, proxy voting, and public advocacy. In 2023, the Illinois Treasurer took numerous actions to encourage and foster boardroom change and create shareholder value.

MIDWEST INVESTORS DIVERSITY INITIATIVE

ENGAGEMENTS THROUGH MIDWEST INVESTORS DIVERSITY INITIATIVE. The Illinois Treasurer leads the Midwest Investors Diversity Initiative (MIDI), a 16-member coalition comprised of regional institutional investors with over $1 trillion in assets under management and advisement.

MIDI primarily engages companies headquartered in the Midwest facing board diversity shortfalls, by engaging collaboratively to understand current company policies and make targeted recommendations to institutionalize best practices around diversity. In 2022, MIDI also established an asset manager engagement sub-group to collaborate with asset managers in understanding their current corporate policies regarding diversity and the implications of such on their workforce development and investment process.

Racial Diversity among Russell 3000 Board Directors[21]



Gender Diversity among Russell 3000 Board Directors

[21]Based on data from KPMG, available at https://kpmg.com/us/en/board-leadership/articles/2023/kpmg-board-diversity-disclosure-benchmarking-tool.html

For **corporate engagements**, MIDI offers guidance and tools to help companies take steps to diversify their boards and adopt best disclosure practices, including collaborating with companies to:

- Adopt a policy for the search and inclusion of minority and female board candidates;
- Require minority and female candidates be interviewed for every open board seat;
- Instruct third party search firms to include such candidates in the initial pool;
- Expand candidate pools to include candidates from non-traditional sources;
- Disclose the gender and race/ethnicity of individual board directors annually via a board matrix; and
- Disclose the company's consolidated EEO-1 report annually.

For **asset manager engagements**, MIDI focuses on recommending the following best practices for the diversity, equity, and inclusion priorities that are unique to asset managers:

- Disclose the gender and racial/ethnic diversity numbers for investment portfolio managers and job positions with stated investment decision-making responsibilities;
- Analyze the diversity among portfolio managers and job positions with stated investment decision-making responsibilities compared to firm-wide diversity levels;
- Create goals regarding how to promote and retain diversity among portfolio managers and investment teams;
- Conduct pay equity analyses by gender and race/ethnicity among portfolio managers and firm-wide; and
- Enhance and analyze the firm's talent pipeline and recruiting efforts and compare recruitment practices to peers.

Results from MIDI Engagements Since 2016

91

Midwest companies engaged on board diversity

143

Diverse directors appointed at MIDI-engaged companies, including 111 women, 75 persons of color, and 43 women of color

66

MIDI-engaged companies that now disclose board diversity

76

Companies have adopted a diverse policy search

• **Proxy Voting –** The Illinois Treasurer also exercises its proxy voting rights to support proposals which increase board diversity, gender pay gap reporting, and the inclusion of diversity as a performance metric for executive compensation. As the industry evolves, we continue to update our expectations when it comes to gender and racial/ethnic diversity on corporate boards.

In 2024, the Illinois Treasurer amended its Proxy Voting Policy Statement to vote against nominating committee members when the board (1) does not have 30% gender diversity, or (2) discloses racial diversity but does not have at least one racially diverse director, or (3) does not disclose their board composition.

- **Results:** Over the past fiscal year, the Illinois Treasurer voted against 441 directors on nominating committees for failure to disclose the racial composition of the board, and voted against 1,923 directors on nominating committees for lack of gender diversity. The Illinois Treasurer also cast votes in favor of 3 shareholder proposals aimed to increase board diversity and 16 proposals to report on gender pay gap.

• **Policy Engagement –** The Illinois Treasurer also continues to advocate for transparency when it comes to board diversity on a more systemic level. In 2023, the Illinois Treasurer urged the Securities and Exchange Commission to require all companies that trade on U.S. exchanges to disclose diversity metrics.

"Board diversity has been and continues to be a focus of mine, because of the clear tie of diverse leadership to better company performance. As investors, it is prudent to focus on those sustainability issues that are financially material, and research shows that when companies have a diverse leadership team, they are better positioned to innovate, attract talent, reach more customers, and increase productivity."

—TREASURER MICHAEL FRERICHS

HUMAN CAPITAL MANAGEMENT

WORKERS ARE VITAL, NOT DISPOSABLE. Workers are the most important asset for any company. When companies recognize this and treat their employees well, they are better positioned for long-term success and to unlock sustainable value creation for their investors. Unfortunately, there have been alarming trends among some of the largest companies in the United States and elsewhere to treat workers more as disposable commodities than as vital assets. This includes tolerating high employee injury rates, turnover rates, subverting labor standards, or hiring contract workers with limited protections. Trends such as these represent poor human capital management practices that can create material operational, legal, regulatory, and reputational risks that can lead to depressed financial performance.

THE BUSINESS CASE FOR INVESTORS. Effective human capital management strategies drive positive long-term performance through enhanced worker productivity and better risk management. A large body of empirical work supports the link between effective human capital management and corporate performance in the areas of increased total shareholder return, return on assets, return on capital, profitability, and lower attrition. [22] [23] [24] [25]

PRIORITY AREAS. During the past year, the Illinois Treasurer focused on two key areas tied to human capital management: labor practices and relations, and employee health and safety. Refer below to some of the examples of our engagement activities from the past year that addressed these priorities.

- **Labor Practices and Relations –** America's second-largest private employer, Amazon, claims in its sustainability reporting to respect employees' right to freedom of association, but allegations of unfair labor practices suggest otherwise.[26] [27] [28] [29] The Illinois Treasurer firmly believes that employees' right to freedom of association and collective bargaining should not be infringed, and Amazon's efforts to stifle those rights hurts workers as well as the company's own long-term financial performance. For that reason, we co-filed a shareholder proposal, along with 21 other investors, calling for the Company to complete an independent assessment of its stated commitments with its actual performance on these two fundamental rights—freedom of association and collective bargaining.

[22]Krekel, Ward, and Jan-Emmanuel De Neve, "Employee Wellbeing, Productivity, and Firm Performance," Said Business School WP 2019-04, March 2019, available at SSRN: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3356581.
[23]Higgins, Jeff and Donald Atwater, "Linking Human Capital to Business Performance," Human Capital Management Institute, December 2012, Available at http://www.talentalign.com/wp-content/uploads/2013/04/Linking-Human-Capital-To-Business-Performance-TA-Version1.pdf.
[24]Beeferman, Larry and Aaron Bernstein, "The Materiality of Human Capital to Corporate Finance," Harvard University, April 2015, Available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2605640.
[25]"Performance Through People: Transforming Human Capital into Competitive Advantage,' McKinsey Global Institute, February 2, 2023, Available at https://www.mckinsey.com/mgi/our-research/performance-through-people-transforming-human-capital-into-competitive-advantage.
[26]Streitfeld, David, "How Amazon Crushes Unions," The New York Times, March 2021, https://www.nytimes.com/2021/03/16/technology/amazon-unions-virginia.html.
[27]Fickenscher, Lisa, "Amazon Used Illegal Intimidation Tactics in Alabama Vote, Union Claims," New York Post, April 2021, https://nypost.com/2021/04/19/amazon-used-illegal-intimidation-tactics-in-ala-vote-union/.
[28]Scheiber, Noam, "Amazon is Cracking Down on Union Organizing, Workers Say," The New York Times, December 2023, https://www.nytimes.com/2023/12/08/business/economy/amazon-union-workers.html.
[29]Sainato, Michael, "'They Are Breaking the Law': Inside Amazon's Bid to Stall a Union Drive," The Guardian, April 2024, https://www.theguardian.com/technology/2024/apr/03/amazon-union-warehouse-california.

The Company stubbornly refused to meet with most of the co-filers of the proposal and adamantly claimed that there was no discrepancy between their stated commitments and their actions. As a different tool in the corporate engagement toolbox, the Illinois Treasurer's team participated in meetings with asset managers with significant holdings in Amazon to discuss these investments concerns. As a result, the proposal received support from a significant base of investors (32%), making it the highest-supported shareholder proposal presented at the company this year. We recognize this issue is a material concern and one that will not be abandoned.

- **Employee Health and Safety –** Following reports of unsafe working conditions from key corporate stakeholders, the Treasurer conducted multiple engagements with two major domestic airlines: Southwest Airlines and American Airlines. The engagements focused on the lack of transparency the companies provided on key safety metrics, particularly in the realm of contracted workers. Fortunately, after considerable dialogue, the Treasurer was able to successfully negotiate with both airlines:


The New York Times

Amazon Is Cracking Down on Union Organizing, Workers Say

The company has disciplined union supporters and fired one in recent weeks, ahead of a trial that will weigh their right to interact with co-workers.

- **Southwest Airlines:** The company committed to continue its efforts to join the International Air Transport Association (IATA) Operational Audit registry and undergo the IATA Operational Safety Audit, which is a third-party, independent audit that entails a review of the company's safety policies and programs. Furthermore, Southwest committed to disclosing its OSHA Recordable (OSHA-R) injury rate for its workers, as well as exploring ways to enhance its disclosures pertaining to contracted worker health and safety.

  Following our engagement with Southwest Airlines, the company further disclosed in its annual report that it began utilizing an external provider to assess suppliers' sustainability performance and alignment with Southwest Airlines' Supplier Code of Conduct.[30] We view this as a strong step forward in holding themselves and their suppliers accountable to sustainability concerns voiced by shareholders.

- **American Airlines:** The company committed to publish regular reporting of either the Global Reporting Initiative (GRI) Standard 414 1.1 (the Supplier Social Assessment), or a materially similar disclosure framework, on a regular basis starting in 2026. This will allow investors to better assess how American Airlines is implementing its Safety Policy when it comes to contracted workers.

  Following our engagement, American Airlines also added additional disclosure in its sustainability report that outlines its process for monitoring its suppliers.[31] We view this as a strong step forward in understanding how the company holds its suppliers accountable to sustainability concerns voiced by shareholders.

The Treasurer looks forward to continued dialogue and collaboration with these companies, with the goal of mitigating material investments risks related to human capital management.

[30] Southwest Airlines, "The One Report," 2023, page 99. Available at https://www.southwest.com/assets/pdfs/communications/one-reports/2023-One-Report_Online_Final.pdf.
[31] American Airlines, "Sustainability Report 2023," page 54. Available at: https://s202.q4cdn.com/986123435/files/images/esg/American-Airlines-Sustainability-Report-2023.pdf

SOCIAL CAPITAL MANAGEMENT

COMPANIES DO NOT OPERATE IN A VACUUM. The success of any company most obviously depends upon its relationship with its customers, but there are other important groups that are also important to the bottom-line – local communities, the broader public, and government entities. The business case for robust social capital management is well-documented, and becomes particularly important during moments of financial crisis. [32] [33]

While some might argue that the goals of capitalism are fundamentally at odds with a fair and just society, or that it's simply not the responsibility of companies to consider its stakeholders, we vehemently disagree with both perspectives. We believe that companies can—and have been—a force for good and innovation that drives long-term successful financial performance, but that only happens when companies fully consider the needs and wants of their relevant stakeholders.

This is why our Sustainability Investment Policy Statement highlights six key areas of social capital management that we believe may impact investment returns:

- Product quality and safety
- Data privacy
- Cyber security
- Human rights
- Community relations and community reinvestment
- Access and affordability

Actions and Results

Corporate Engagement Highlight: HCA Healthcare. HCA Healthcare ("HCA") is the largest private healthcare provider in the country, which operates 186 hospitals throughout 21 US states and the UK. Over the past several years, the Company has been the subject of intense scrutiny from employees, patients, and officials at all levels of government for allegations of poor working conditions and negligent patient care.[34] [35] [36] These stakeholders have accused HCA of slashing services, cutting staffing levels, and pushing patients to the emergency room as a means of reducing costs and driving up corporate profits.

[32]Lins, Karl V., Henri Servaes, and Ane Tamayo, "Social Capital, and firm Performance: The Value of Corporate Social Responsibility during the Financial Crisis (and Why it Can Keep Helping Them)," Journal of Applied Corporate Finance, July 2, 2019, available at SSRN: https://onlinelibrary.wiley.com/doi/abs/10.1111/jacf.12347.
[33]Hasan, Iftekhar et al, "Is Social Capital Associated with Corporate Innovation? Evidence from Publicly Listed Firms in the US," Journal of Corporate Finance (Volume 62), June 2020, https://www.sciencedirect.com/science/article/abs/pii/S0929119920300675.
[34]Morgenson, Gretchen, Anna Schecter, and Cynthia McFadden, "Roaches in the operating room: Doctors at HCA hospital in Florida say patient care has suffered from cost cutting," NBC News, February 15, 2023, https://www.nbcnews.com/health/health-care/roaches-operating-room-hca-hospital-florida-rcna69563.
[35]Offices of Sen. Marco Rubio and Rep. Gus M. Bilirakis, Letter to HCA Florida Bayonet Point Hospital CEO, March 20, 2023, https://www.rubio.senate.gov/wp-content/uploads/_cache/files/517356e3-94b9-4ed2-a37f-5d6b326356ef/1BA0E42C8F5247E447B9476586E1CF57.03.20.23-rubio-bilirakis-letter-to-hca-bayonet-point-re-health-and-safety-concerns.pdf.
[36]Office of Attorney General Josh Stein, HCA Face Sheet, https://ncdoj.gov/wp-content/uploads/2023/12/HCA-fact-sheet.pdf.
See full findings here: https://drive.google.com/file/d/1oz_V4371DkaqET7123l57BOpjYCCWKtr/view

Conditions have been particularly bad at Mission Health System, an HCA-owned facility in Asheville, North Carolina. In February of 2024, the Centers for Medicare and Medicaid Services (CMS) formally determined that the hospital put patient safety in "immediate jeopardy", meaning that "...the provider's noncompliance with one or more requirements of participation has caused, or is likely to cause, serious injury, harm, impairment, or death to a resident." While CMS has since removed the "immediate jeopardy" determination, issues continue to persist over patient safety, with further violations potentially impacting Medicare and Medicaid funding levels.

Given the clear financial, regulatory, and legal risks facing the company, the Treasurer began engaging with HCA in 2022 to better understand how its board was overseeing such risks. The Office continued its engagement efforts in 2023 focusing on the governance mechanisms in place to remedy patient safety concerns. Although the board appears to receive robust reporting from staff members, the Office found little evidence that they were receiving feedback directly from the patients themselves.

Therefore, the Office filed a shareholder proposal requesting that the Company better incorporate information from this key stakeholder group. While the proposal—the first of its kind—received modest support from shareholders (15.4%), it remains a key focus area for the Treasurer given that patient safety concerns, as well as worker staffing concerns, persist more broadly at the Company. The Office plans to continue engaging with HCA Healthcare on the topic, as well as collaborate with affected stakeholders throughout the country.

ENVIRONMENTAL RISKS AND OPPORTUNITIES

THE NEED FOR GLOBAL ACTION ON CLIMATE IS GREATER THAN EVER. 2023 was officially the hottest year on record, with early trends for 2024 suggesting that record may be broken yet again.[38][39] The physical impacts of a warmer planet are already hurting business and communities across the globe, and absent significant private and public sector intervention and investment, the outlook looks grim.

The Illinois Treasurer, along with many other institutional investors, believes that climate risk—and the ways that companies manage that risk—will play a significant role in determining individual company and overall portfolio performance.[40][41] Ignoring this issue or claiming that such data is outside the purview of investors is financial malfeasance that not only turns a blind eye to decision-useful information, but also passively enables the financial consequences of the climate crisis.

RISK MITIGATION AND OPPORTUNITY CAPITALIZATION. Given these fast-evolving risks and market conditions, as well as innovative technologies and opportunities, companies have a responsibility to their investors – and to their communities, customers, workers, and wider stakeholders – to prepare for and participate in the energy transition. Similarly, investors have a responsibility to their beneficiaries to ensure that the companies in which they invest are addressing the financial risks and opportunities posed by climate change and effectively positioning themselves for long-term financial stability.

"A rapid decarbonization of the energy system is the key to keeping the goal of 1.5° Celsius within reach. This requires accelerating clean energy transition both from the demand and supply side, while such transformation should be orderly, just and equitable and also account for energy security."

-UNFCCC, SUMMARY OF GLOBAL CLIMATE ACTION AT COP 28

THERE IS GLOBAL CONSENSUS ON THE ROLE OF FOSSIL FUELS. During the latest Conference of the Parties (COP) summit in the United Arab Emirates, a consortium of 100 countries officially acknowledged that fossil fuel production was contributing to a hotter planet and issued a first-of-its-kind commitment to "transition away from fossil fuels in energy systems" in order to reach net zero by 2050. With such strong global agreement, the case for companies to thoughtfully, swiftly, and steadfastly move away from their dependence on fossil fuels has never been clearer. This includes decarbonization, as well as methane management plans.

[38] Bateman, John, "2023 Was the World's Warmest Year on Record, by Far," National Oceanic and Atmospheric Administration, January 12, 2024, https://www.noaa.gov/news/2023-was-worlds-warmest-year-on-record-by-far.
[39] Gaffney, Austyn, "2024 on Track to Be the Hottest Year on Record," The New York Times, August 8, 2024, https://www.nytimes.com/2024/08/08/climate/heat-records-2024.html.
[40] Gull, Ammar Ali et. al., "Revisiting the association between environmental performance and financial performance: Does the level of environmental orientation matter?," Corporate Social Responsibility and Environmental Management, 29-5 (1647-1662), May 23, 2022, https://onlinelibrary.wiley.com/doi/full/10.1002/csr.2310.
[41] Laidlaw, Jennifer et. al., "Quantifying the financial costs of climate change physical risks for companies", S&P Global, November 20, 2023, https://www.spglobal.com/esg/insights/featured/special-editorial/quantifying-the-financial-costs-of-climate-change-physical-risks.

NATURE STEWARDSHIP IS AN EMERGING INVESTMENT CONCERN. With increased temperatures comes a greater strain on the natural resources we all rely on, including fresh water, oceans, biodiversity, and land (collectively known as "natural capital"). Therefore, it is becoming imperative for investors and companies to carefully consider how they are managing these resources. Reckless deforestation practices, poor water or waste management, and excessive pollution may yield profits in the short term, but these actions threaten financial health in the long term as well as the natural capital that supports that financial health.[42]

To that end, the Illinois Treasurer actively works to ensure that the funds and companies in which it invests are carefully managing environmental risks and opportunities in areas including, but not limited to:

- Board Competence on Environmental Risks and Opportunities
- Greenhouse Gas Emissions
- Air Quality Impacts
- Energy Management
- Water and Wastewater Management
- Waste and Hazardous Materials Management
- Ecological and Biodiversity Impacts

INVESTOR TOOLBOX AND LEADERSHIP OPPORTUNITIES. The Illinois Treasurer deploys an array of strategies to address climate risks and opportunities, and to hold companies accountable for their environmental pledges/commitments and for their failures to progress. This includes conducting direct engagement with corporate leaders, utilizing our proxy voting rights, filing shareholder proposals, and assuming leadership roles in influential investor coalitions. For example, Treasurer Frerichs has served on the board of Ceres, a nonprofit organization working with influential investors and companies to drive solutions to build a sustainable future for people and the planet, since 2019. In 2022, he also became one of the leading Task Force Members for the newly launched Valuing Water Finance Initiative. Additionally, the Treasurer is an active member in many other groups assisting investors in addressing climate-related risks and opportunities, such as CA100+ & the PRI.

"Water is essential to communities, economies, and the environment. It's also essential to the investments institutional investors manage on behalf of their clients. There isn't a business on Earth that can operate without water. But as the news makes clear, the days of taking water for granted are over. Water has become a systemic financial risk."

—TREASURER MICHAEL FRERICHS

[42]Evison, Will, Lit Ping Low, and Danile O'Brien, "Managing Nature Risks: From Understanding to Action," Strategy + Business, April 4, 2023, https://www.pwc.com/gx/en/issues/esg/nature-and-biodiversity/managing-nature-risks-from-understanding-to-action.html.

Actions and Results

Targeted Corporate Engagements – The Illinois Treasurer directly engages companies with material climate risk exposures, both independently and in coalition with fellow institutional investors, to drive progress and hold corporate leaders accountable. For example, the Illinois Treasurer is a member of Climate Action 100+, an investor coalition including over 600 members, working to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. Refer below to some of the engagements the Illinois Treasurer leads and supports as it relates to environmental sustainability factors.

- **Corporate Engagement Spotlight: Southern Company** – Southern Company is one of the nation's largest electric utilities as measured by power generation and market share. It is also the nation's second largest emitter of greenhouse gases (GHG). Given the company's notable exposure to material climate risks to its business model, the Illinois Treasurer has engaged the company since 2018 as part of the Climate Action 100+ investor initiative. In response to feedback from investors, the company has established GHG emission reduction goals, published a decarbonization strategy and just transition report, and linked its decarbonization goals to executive compensation.

- The Office continued its series of constructive dialogues with Southern Company during the last fiscal year and focused its efforts on key components of its executive compensation plan. For example, we were concerned that the current executive compensation structure allowed executives to meet emissions reduction targets even in instances where absolute emission rates went up, not down. Therefore, the Office filed a shareholder proposal seeking greater disclosure and analysis on the compensation structure. Upon successful dialogue, the Treasurer negotiated a withdrawal of the proposal due to Southern Company's plan to incorporate energy efficiency and demand response megawatts as part of the GHG Reduction Metric calculation in its executive compensation plan. The Company also agreed to provide more detailed analysis of carbon emission rates used as an input into the GHG Reduction Metric. As a result of these changes, investors will be better able to assess how executives are achieving GHG reduction goals in relation to Southern Company's GHG emissions.

- **Corporate Engagement Spotlight: Monster Beverage Corporation** – Monster is a well-known and growing beverage company that primarily develops and markets energy drinks. Following the acquisition of a craft brewer in 2022, the company has also started brewing and distributing beer and other flavored malt beverages. All of these operations are heavily water-intensive. An assessment completed by the Valuing Water Finance Initiative (VWFI) revealed that Monster exercised the poorest water management of the 17 beverage companies they evaluated in 2023, as measured by their governance, risk management, targets, and implementation.[43]

Southern Company

MONSTER BEVERAGE CORPORATION

[43]"Valuing Water Finance Initiative Benchmark – Beverage Industry." October 2023. Ceres. https://assets.ceres.org/sites/default/files/Valuing%20Water%20Finance%20Initiative%20Benchmark%20-%20Beverage.pdf

Monster has acknowledged that a number of their domestic and international sites are operating in areas with high water stress, which exposes the company to numerous legal, regulatory, and reputational risks—risks that are only likely to grow more severe as water becomes scarcer. To better understand how Monster was considering and mitigating these potential risks, the Illinois Treasurer supported Mercy Investment Services in their engagement efforts with the company, which resulted in commitments by the company to disclose decision-useful information to investors, such as:

- Site-specific targets to improve water efficiency in high water-stressed areas;
- Targets to improve water efficiency at its brewery locations by Q4 2024; and
- Goals for newly acquired or established production facilities within the first 12 months of full operation.

Proxy Voting: Holding Companies Accountable for Addressing Environmental Risks – The Illinois Treasurer continues to have in place a proxy voting policy statement that enables the Office to vote against board directors that fail to address environmental risks. As a fiduciary and shareholder, the Illinois Treasurer has a responsibility to use its voting rights to ensure boards are effectively managing material risk exposures, such as environmental factors. Sometimes this results in voting against directors at companies that have, for example: (1) failed to set science-based carbon reduction targets; (2) failed to properly disclose climate risk exposures aligned with ISSB; (3) failed to implement viable climate transition plans related to capital expenditures; and/or (4) failed to align their lobbying and political spending activities with net-zero transitions.

Results: In FY 2024, the Illinois Treasurer voted against directors at 20 companies flagged as climate laggards, consistent with the Office's proxy voting policy. In addition, the Office supported 87 shareholder proposals on various environmental topics, including, for example, proposals that ask companies to adopt GHG reduction targets or report on their climate lobbying activities.

INVESTING IN SUSTAINABLE BONDS. The Illinois Treasurer purchased over $58 million in sustainability bonds over the last year, which results in current portfolio exposures consisting of over $228 million in sustainability bonds. These bonds first and foremost generate a strong investment return, while also supporting positive environmental outcomes, including renewable energy and energy efficiency projects.

CORPORATE GOVERNANCE AND SHAREHOLDER RIGHTS

THE CASE FOR CORPORATE GOVERNANCE.

The directors that oversee publicly traded companies serve as the elected representatives of shareholders, and they are bound to act in the best interest of those shareholders. They perform incredibly important work that has clear implications for the long-term financial health of a company. They hire the CEO, evaluate corporate and executive performance, and oversee strategy for the corporation. Boards of directors also embody and enforce governance practices that define the nature of the workplace, whether it be ethical, inclusive, or innovative, and guides the company towards long-term sustainable growth.

In short, effective boards help cultivate and sustain strong companies. When corporate boards uphold high standards of accountability, transparency, ethical conduct, and risk management, companies and their investors are often better positioned for long-term success. On the flipside, boards that disregard sound governance practices often contribute to elevated risks which drive the underperformance of shareholders' investments.[44] [45] [46] Therefore, the Illinois Treasurer frequently engages companies in which it invests on issues of board governance and accountability, given the materiality of these issues.

"Good governance typically leads corporations to achieve their goals ethically and in compliance with regulatory expectations and best practices. In successfully fulfilling their mission and plans through corporate governance, corporations will enhance their prosperity and find favor in the eyes of their shareholders."

—DILIGENT CORPORATION[47]

[44]Papadopoulos, Kosmas, "Director Overboarding: Global Trends, Definitions, and Impact," ISS Analytics, August 5, 2019, https://corpgov.law.harvard.edu/2019/08/05/director-overboarding-global-trends-definitions-and-impact/#:~:text=Companies%20whose%20CEOs%20served%20on,worst%20performance%20in%20both%20metrics.
[45]Al-Shammari, Hussam A., "CEO Compensation and Firm Performance: The Mediating Effects of CEO Risk Taking Behavior," Cogen Business & Management, March 7, 2021, https://www.tandfonline.com/doi/full/10.1080/23311975.2021.1894893#abstract.
[46]Crowe, James, "Dual-Class Structures and Classified Boards: Evidence from 2018-2023," CII Research and Education Fund, August 2023, https://www.ciiref.org/_files/ugd/72d47f_6da15abec2c146e3b4d14caf9ce747fa.pdf.
[47]Donohue, Jessica, "What is Good Corporate Governance? 9 Characteristics (with Examples)", Diligent, March 28, 2024, https://www.diligent.com/en-gb/resources/blog/what-constitutes-good-governance.

KEY GOVERNANCE FACTORS. The Office's Sustainability Investment Policy Statement, as well as its Proxy Voting Policy Statement, explain the Illinois Treasurer's position on key governance factors, which is further detailed below:

- **Board Independence –** Boards of directors should maintain a level of independence from management to exercise proper oversight and serve the interests of shareholders. As such, company management should not serve on any board committees and regular board refreshment is encouraged to prevent directors from staying at any company too long.

- **Separation of the CEO and Board Chair –** The primary purpose of the board of directors is to protect shareholder interests by providing independent oversight of management. If the Chair of the Board is also the CEO of the company, the quality of the board's oversight is obviously hindered. An independent chairperson helps avoid any conflicts of interest in the board's role of overseeing management.[48]

- **Transparency –** Shareholders benefit from material, relevant, and decision-useful disclosures such as: board responsibilities and procedures, company operating practices, policies, and targets, management executive compensation, etc. Notwithstanding proprietary information, companies should strive therefore to be transparent in their business operations.

- **Duty and Focus –** Board directors need to be able to devote sufficient time and energy into their roles. Therefore, they should maintain a strong board meeting attendance record, as well as limit themselves to the number of other boards they sit on.

- **Oversight of Material Sustainability Risks –** Boards of directors should have a responsibility to oversee and respond to risks that may have a material impact on performance, such as reputational, legal, operational or regulatory risks.

- **Sensible Executive Compensation Programs –** Executive compensation should be reflective of a company's performance and incentivize appropriate manager behavior. Excessive executive compensation programs that are not connected to the company's financial or operational performance may signal board entrenchment, leave executives unaccountable, and exacerbate income inequality.

- **Board Elections –** We believe that having directors stand for re-election each year improves accountability and increases opportunities for shareholders to express their approval or disapproval. Therefore, we discourage the use of classified (or staggered) board election systems.

- **Board Diversity –** Research demonstrates that a diverse board of directors is better equipped to ensure multiple perspectives are considered to position a company to enhance long-term performance within a marketplace defined by extensive diversity and multiculturalism. Diversity is inclusive of gender, race/ethnicity, skill sets, professional backgrounds, and LGBTQ+ status.

[48]Noam Noked, "The Costs of a Combined CEO/Board Chair." Harvard Law School Forum on Corporate Governance. July 2012. Available at: https://corpgov.law.harvard.edu/2012/07/13/the-costs-of-a-combined-chairceo/.

Actions and Results

Corporate Engagement Spotlight: Meta Platforms – Meta Platforms ("Meta") has been a focus for the Illinois Treasurer for several years given the legal, reputational, and regulatory risks that continue to impact the Company. For example, in October 2023, more than 40 states sued Meta and alleged that Facebook and Instagram "exploit and manipulate children." In January 2024, Mark Zuckerberg, Meta CEO and Board Chairman, joined other social media CEOs to testify in front of Congress and address bipartisan concerns of child safety and wellbeing on social media platforms. In addition, Meta has been fined nearly $2 billion over the past two years for violations related to targeted ad practices, privacy violations, and data leaks. We believe the Company's weak governance system may be hindering its ability to adequately respond to these crises and address investor and customer concerns.

As a founder of the Company, Meta's dual-class stock structure makes Mark Zuckerberg the deciding voice on all matters subject to a vote by shareholders. Given these red flags, the Treasurer has continuously engaged with the Company in an effort to bolster its corporate governance practices and provide additional checks on the CEO's power. In 2021, the Treasurer filed a shareholder proposal seeking to separate the CEO and board chair roles. During the latest shareholder meeting, the Treasurer filed another proposal asking for enhanced transparency of its unequal voting rights system.

Results: Due to Meta's unequal voting structure, the proposal received only 17% support from all outstanding shares. However, taking out Zuckerberg's vote, the proposal received support from a majority of independent shareholders. During the 2024 shareholder meeting, a total of 5 of the 10 shareholder proposals on the Company's proxy received majority support among independent shareholders. These proposals covered several topics; calling on the Company to either provide more transparency on or altogether eliminate its dual-class stock structure, enhance the authority of the lead independent director, bolster its oversight of potential generative AI misinformation, and furnish a report on the platform's impact on child safety. The high amount of support for these proposals shows that investors remain concerned about the controversies that continue to mar the Company, and further highlights concerns that the board may not be properly addressing them. As a result, the Treasurer remains committed to working with Meta to find ways in which the Company's leadership is held more accountable for addressing shareholder concerns and mitigating further negative impacts to long-term shareholder value.

AN UNCONVENTIONAL ATTACK ON SHAREHOLDER RIGHTS: EXXONMOBIL. This year, the oil and gas company ExxonMobil ("Exxon"), took a highly aggressive action when it sued two of its own investors, Arjuna Capital and Follow This, in response to their filing of a shareholder resolution asking the company to disclose more information on its environmental stewardship. Exxon pursued this action to prevent the proposal from being presented at the upcoming shareholder meeting. However, instead of utilizing the well-established process of appealing to the Securities and Exchange Commission (SEC), the company took the proponents to court.

Exxon's actions were a clear attack on shareholder rights. All eligible investors have, and should continue to have, the right to avail themselves of the company and submit shareholder proposals. There are already clear limits and restrictions over who can submit proposals and over what topics, and Exxon ignored all of that when it tried to silence Arjuna Capital and Follow This. To be clear, our outrage was not in defense of the merits of the proposal. Rather, it was a defense of the rights of all investors. An infringement on the right to petition companies that investors collectively own eliminates shareholder voice in the decision-making process. If allowed, the legal action could also create a chilling effect at Exxon or any other publicly traded company that would make boards less accountable to their shareholders.

For this reason, the Treasurer filed an exempt solicitation calling on investors to vote against Exxon's board leadership. Many other large institutional investors joined in, including CalPERS, the New York City Comptroller, the California State Treasurer, the AFL-CIO Staff Retirement Plan, and the United Steelworkers International Union Staff Pension Plan, among others. Collectively, they argued that the company's actions could lead to erosion of shareholder voice which would ultimately reduce company value in the long run.

Results: A significant block of investors signaled their disapproval of Exxon's board of directors, with 13% voting against Lead Independent Director Joseph Hooley. This is not a small number considering that average support for directors in the Russell 3000 was 95% in 2023.[49] Further, Exxon's lawsuit was ultimately dismissed in June for lack of standing, which the Treasurer views as a win for shareholder rights advocacy.

"Recent attempts to silence shareholders must serve as a wake-up call not only to investors, but to each of us with a stake in American prosperity."

—TREASURER MICHAEL FRERICHS

[49]Vanbastelaer, Austin et. al., "2023 Say on Pay & Proxy Results," Harvard Law School Forum on Corporate Governance, August 31, 2023, https://corpgov.law.harvard.edu/2023/08/31/2023-say-on-pay-proxy-results-3/#:~:text=Average%20vote%20support%20for%20Director%20nominees%20of%2094.6%25,higher%20than%20the%20year-end%20support%20observed%20in%202022.

A CLOSER LOOK AT ANNUAL MEETINGS AND SHAREHOLDER PROPOSALS

Publicly traded companies domiciled in the United States are required to hold an annual meeting of shareholders in which shareholders cast proxy votes on important proposals brought forward by company management and, on occasion, by shareholders themselves. These meetings are an incredibly important opportunity for investors, as owners of publicly traded companies, to voice support or concern for a company's board and its strategic corporate actions. However, there are a few elements that can sometimes limit shareholder voice and corporate accountability:

- **BOARD DIRECTORS TYPICALLY RUN UNOPPOSED.** In most cases, shareholders only have the option to vote for a director or vote against a director. There is rarely an option to choose a different director. Just as in democratic elections, it is easy for a candidate to win when they run unopposed.

- **PLURALITY VOTE STANDARDS MAKE IT EVEN EASIER FOR DIRECTORS TO WIN THEIR ELECTIONS.** Many companies maintain a majority vote standard that requires directors receive a simple majority vote in order to win their election. However, under a plurality vote standard, which some companies maintain, a director only needs to receive a single "for" vote to win their election—a very low bar to clear. So even if most of the shares vote against a director, having at least one vote cast for them will keep them in their seat. This is why we favor boards that employ a majority vote standard.

- **CLASSIFIED BOARDS FURTHER PROTECT DIRECTORS.** The standard practice is that each director stands for re-election every year. However, at companies that operate "classified" boards, only a portion of directors are up for election at each annual meeting, which limits shareholders' ability to invoke widespread management changes.

- **UNEQUAL STOCK STRUCTURES ALSO ENTRENCH LEADERSHIP AND DIMINISH SHAREHOLDER VOICE.** These structures can take many forms wherein a certain class of shares has disproportionate voting power per share than a different class of shares. For instance, a company may offer Class A shares that grant 10 votes per share, while Class B shares receive one vote per share. In most cases, the higher-powered stock is offered only to a handful of company insiders, and their votes have the power to outnumber those of the remaining investors.

- **SHAREHOLDER PROPOSALS FACE AN UPHILL BATTLE.** Most investors rightly defer to board leadership more often than not on matters presented at annual meetings due to management's intimate understanding of a company. Therefore, when shareholder proposals are presented, proponents need to argue that there is a material gap in board oversight over a certain issue. Winning a majority support is very challenging, often due to unequal voting rights or the concentration of ownership among a few asset managers, such that proposals that receive 20% support or more generally deserve additional board attention and engagement from company leadership.[50]

For these reasons, the Treasurer strives to protect the rights of shareholders, adamantly opposes efforts to limit or threaten those rights, and advocates for measures that boost corporate governance, board accountability, and transparency.

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[50] Glass Lewis, "2024 Benchmark Policy Guidelines," November 2023, https://www.glasslewis.com/wp-content/uploads/2023/11/2024-US-Benchmark-Policy-Guidelines-Glass-Lewis.pdf?hsCtaTracking=104cfc01-f8ff-4508-930b-b6f46137d7ab%7C3a769173-3e04-4693-9107-c57e17cca9f6.

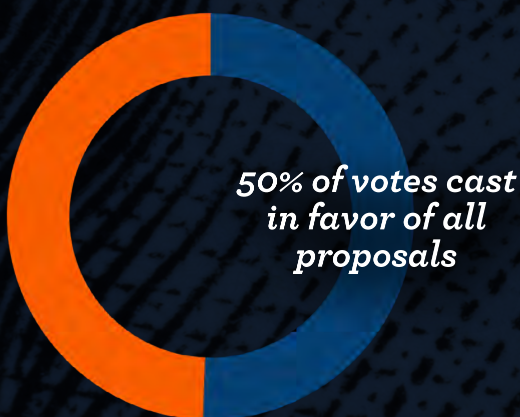
INVESTMENT STEWARDSHIP – PROXY VOTING

The Office routinely votes on proxy ballot items for those companies and funds where it maintains the right to vote at annual shareholder meetings. This work is critical in our endeavor to provide the highest level of service, stewardship, and financial value to our beneficiaries and participants.

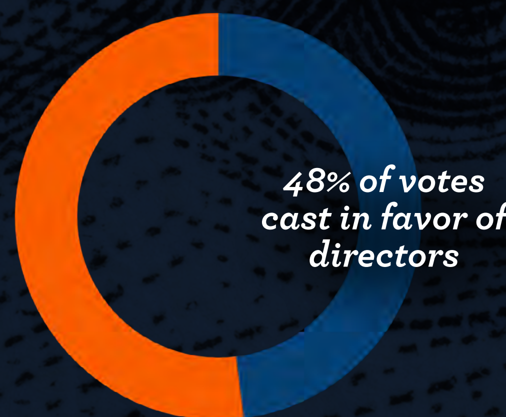
The Illinois Treasurer votes its proxies in line with the Office's Proxy Voting Policy Statement. Over the past fiscal year (July 2023 – June 2024), the Illinois Treasurer voted 27,827 proposals at 2,927 companies. A full list of the votes cast can be found on the Proxy Voting Summary Table.

For information on how the Treasurer voted at specific companies, please see the Office's Proxy Voting Dashboard.

A GLANCE AT 2023-2024 PROXY VOTING



27,827 proposals voted at 2,927 annual meetings in FY 2024



18,702 Election of director proposals voted

817 shareholder proposals voted

Climate

Voted **against** directors at 20 companies flagged as climate laggards

Board Independence

Voted **against** 1,069 companies for board independence concerns

Racial Diversity

Voted **against** 441 directors on nominating committees for failure to disclose the racial composition of the board

Governance Shareholder Proposals

Supported 95% of shareholder proposals covering corporate governance topics at 77 companies (46% of which received majority support)

Gender Diversity

Voted **against** 1,923 directors on nominating committees for lack of gender diversity

Executive Compensation

Voted **against** 42% of executive compensation plans presented by the boards of 1,978 companies

SUSTAINABILITY INTEGRATION PRACTICES THROUGHOUT THE OFFICE

Internally Managed Investments

The Division of Portfolio & Risk Analytics ("PRA") is responsible for analyzing, modeling, and reporting on investments in the Office's two internally managed investment programs, State Investments and The Illinois Funds, which invest in only high-quality, investment grade securities rated single-A or above. The team does this by utilizing quantitative and qualitative analytical models to anticipate, identify, and mitigate financial risk exposures, as well as identify investment opportunities that provide additional prospects for return.

For example, PRA reviews and evaluates security issuers (i.e., issuers of corporate bonds, commercial paper, repurchase agreements, etc.), broker/dealers and counterparties first and foremost by their creditworthiness (e.g., liquidity, leverage, profitability) and historical financial performance, as well as through assessing sustainability factors that may have a material and relevant financial impact on safety and preservation of capital.

In their issuer and counterparty reviews, PRA utilizes the conceptual framework and reporting standards provided under the International Sustainability Standards Board (ISSB) guidance from the Sustainability Accounting Standards Board (SASB), which provides a robust set of globally applicable industry-specific standards that identify the minimal set of financially material sustainability topics and their associated metrics for the typical company in an industry.

Once an issuer or counterparty is reviewed and assessed, internal scores are generated to decide if a counterparty or issuer is approved or restricted for investment within the two internally managed investment portfolios. In instances where material sustainability information causes a review to be restricted, the PRA team will also conduct dialogue with companies to address their concerns. Refer below to instances of sustainability analysis that drove a counterparty/issuer's internal scoring and eligibility for investment.

APPROVED ISSUER: ELI LILLY

Pharmaceutical company Eli Lilly was approved as an issuer for investment due to its creditworthiness, in addition to being among the highest-rated counterparties for sustainability performance in its peer group. Sustainability performance was measured in the following ways:

- **STRONG COMMITMENT TO ENVIRONMENTAL STEWARDSHIP.** The Company has set ambitious goals to reduce its carbon footprint, aiming for carbon neutrality by 2030, by investing in renewable energy and improved energy efficiency in its operations. In demonstrating its viability to meet such goals, as measured by GHG emissions and energy intensity per sales, Eli Lilly has shown stronger performance than its peers.

- **A FOCUS ON CONSUMERS AND THEIR NEEDS.** The Company has received praise for its efforts to improve access to insulin and other critical medications, particularly to those in underserved communities. The Lilly 30x30 initiative aims to improve access to quality health care for 30 million people in resource-limited settings by 2030. Its response to the COVID-19 pandemic, including its development of antibody treatments, bolstered its reputation for innovation and social responsibility. Further, Eli Lilly's tremendous breakthroughs in GLP-1 weight-loss drugs offer a potentially transformative treatment for obesity, which could significantly improve public health outcomes and reduce the burden on healthcare systems.

- **TRANSPARENCY AND ACCOUNTABILITY IN THE BOARDROOM.** Eli Lilly has made efforts to increase board diversity and enhance transparency in its political contributions. It maintains a compensation claw-back policy that requires executives to return all or part of past compensation if such executives are found to have engaged in fraud or deliberate noncompliance. The Company's board also includes significantly more independent, non-insider directors than its peers.

RESTRICTED COUNTERPARTY: 3M

Due to significant litigation risks stemming from product quality concerns, the Office decided to restrict 3M from serving as a counterparty for its internal investment portfolios in December of 2023. This followed the legal settlement, valued at up to $10.3 billion, that 3M made with U.S. public water suppliers throughout the country over 3M's role in leaking PFAS chemicals in drinking water supplies. These compounds, known as "forever chemicals," are in many of the products that 3M manufactures, but recent research suggests that some of them may cause detrimental health effects.[51] Furthermore, as two of the major credit ratings agencies, Fitch and S&P Global Ratings, downgraded their ratings of 3M (to BBB+ and A- respectively), the Company is ineligible to serve as a counterparty for the Treasurer. As a result, the Office has indefinitely stopped purchasing any of its corporate bonds or corporate paper.

[51] "5 Ways Forever Chemicals (PFAS) May Affect your Health," Cleveland Clinic, June 6, 2024, https://health.clevelandclinic.org/what-are-forever-chemicals-pfas.

Externally Managed Investments

Public Market Investments

The Public Market Investments team is responsible for monitoring the externally managed financial products investment portfolios of the Treasurer's Office, including, but not limited to, the College Savings 529 Programs, Illinois Secure Choice Retirement Savings Program, and the IL ABLE Program.

The team is responsible for the sourcing, selection, assessment, monitoring, and due diligence for all prospective and current external investment managers, including the manager's integration of sustainability factors into the investment process. Through the team's continual review of the portfolios' construction, manager selection, asset allocation, economic impact, and investment policies/objectives, the team guides decisions regarding the continued appropriateness of investment managers, policies, and program structures.

Sustainability Integration in Investment Manager Selection and Oversight

With approximately $20 billion of total assets managed by external investment managers across asset classes in publicly traded securities, the Division of Public Market Investments assesses prospective and existing investment managers using various quantitative and qualitative criteria that align with the investment analysis, due diligence, and risk management responsibilities derived from the investment policies of the Illinois Treasurer. Part of the quantitative and qualitative factors that are considered in investment manager searches, selection, and oversight includes a manager's integration of sustainability factors.

How external managers integrate sustainability into their portfolio management duties provides additional sources of data and adds an additional layer of rigor to the fundamental analytical investment approach, which may help to further assess the governance structures or reliability of future cash flows and debt repayments of portfolio companies. Similar to traditional financial accounting, sustainability considerations can have both confirmatory and predictive value. Thus, we believe it can be beneficial to be used to evaluate past performance and/or for future planning, valuation, and decision-making. Assessing sustainability factors therefore provides a more complete view of an investment in a fund, company, or external manager by considering the implications of supplemental material factors that may impact long-term investment value.

*Nearly **$20 billion** of assets are managed by external investment managers who have been assessed for their sustainability integration processes.*

Comprehensive Sustainability Integration Evaluation Process

In 2021, the Office developed a customized sustainability scorecard to assess both existing and prospective asset managers on the quality and depth of their sustainable investment processes. Each year since then, the Office has continued to refine this process and analysis. Annually, the Office distributes its Sustainability Due Diligence Questionnaire to managers, with responses used to assess each manager across criteria within the following categories: sustainability policy, proxy voting, sustainability integration, research, engagements, and firm-wide policies. This enables the Office to analyze managers across the same criteria in order to leverage the information for relative and comparative assessment purposes, as well as to identify specific risk areas or areas of improvement for individual managers.

Additionally, each of the Office's external investment managers, as well as financial counterparties, is assessed annually on diversity, equity and inclusion policies, practices, and outcomes through the Office's Equity, Diversity, and Inclusion Assessment. The annual assessment seeks diversity information regarding both the firm's leaders and total workforce, as well as information on the organizational policies, practices and initiatives of the firm. This information is similarly used for comparative purposes and to identify specific areas of improvement or potential engagement.

Engagement with Investment Managers

The Public Market Investments Team actively engages with its external investment managers throughout the year by conducting due diligence meetings, distributing assessments and questionnaires, and launching targeted engagements as relevant topics arise. For instance, if a manager's proxy voting decisions misalign with clearly identified sustainability risk exposures, the team uses its discretion to launch a dialogue, encourage best practices, and formulate an action plan for potential improvements.

100%

of public market investment manager searches incorporate sustainability due diligence.

Private Market Investments

The Division of Alternative Investments is responsible for monitoring the externally managed investment portfolios of the Treasurer's Office which invest in private market investments, including the Illinois Growth and Innovation Fund (ILGIF), the Student Empowerment Fund, and one of the Office's newest initiatives, the FIRST Fund.

FIRST FUND

TREASURER MICHAEL W. FRERICHS

The FIRST Fund is a first-of-its-kind, evergreen, $1.5 billion impact investment fund dedicated to building and strengthening Illinois' infrastructure and real estate. The fund allows the Treasurer to allocate up to 5% of the State portfolio to invest in, create, and maintain infrastructure and real estate assets within the State through infrastructure development firms, which must maintain a significant presence in Illinois (as defined in legislation) and have a track record of development in Illinois.

- **LOCAL IMPACT.** Investing with a unique regional focus, enabling financial returns while supporting investments that grow the local economy and generate additional impact in the State through improved infrastructure and high-quality job creation. All funds invested in are required to invest twice the Office's commitment amount to the fund into Illinois-based projects to ensure capital is recycled and has the intended impact in Illinois.

- **INVESTMENT DIVERSIFICATION.** Expanding the pool of assets in which the State investment portfolio can be invested to diversify the portfolio, mitigate risk, and increase State investment earnings potential.

- **SUSTAINABLE INVESTMENTS.** Encouraging sustainable development while also improving financial outcomes.

- **DIVERSITY AND INCLUSION.** Expanding the manager pool, diversifying investor perspectives, and meeting the needs of all communities to promote more equitable and inclusive infrastructure development within the State of Illinois.

- **WORKER-CENTRIC.** The Treasurer believes that an adequately compensated and trained worker delivers a higher-quality product and service. Through the Treasurer's Responsible Contractor Policy, the Office supports and encourages fair wages and fair benefits for workers.

SUSTAINABLE INVESTMENT HIGHLIGHTS

Ullico

• **COMMITMENT:** $75,000,000

• **IMPACT:** Worker-Centric, Human Capital, Local Impact

The Ullico Infrastructure Taxable Fund LP is a $1.25B open-ended fund which focuses primarily on core and core plus assets across utilities, energy, transportation, and digital infrastructure within the U.S. and Canada. Ullico's access to union labor is a major competitive advantage for winning deals. Although not all jobs related to investment assets are 100% union, the firm's responsible contractor policy calls for job creation and preservation for union construction, operations, and maintenance. The Ullico Infrastructure Taxable Fund has created 6.7 million new construction man-hours for union workers.

nexamp

• **COMMITMENT:** $20,000,000

• **IMPACT:** Renewable Energy, Local Impact

Nexamp is a community solar infrastructure business, which owns and operates its solar and storage projects through end-to-end capabilities across development, management, and maintenance. Nexamp is based in Chicago and Boston with a presence in all major solar markets. The Company was founded in 2007 by two U.S. Army veterans with the intent to reduce America's dependence on foreign energy and build a locally powered clean energy future. To date, Nexamp has 250+ completed projects and 70,000 subscribers across 18 states.

The Company has become the largest community solar player in Illinois with a commitment to continue expanding its presence in the State. Nexamp has committed over $2 billion to Illinois' solar infrastructure. The Company holds approximately 12,000 direct energy customers in Illinois, each saving an average of $190 annually. The Company has 75 projects in operation or under development, generating 285 MW of energy from operation and development projects.

The Ullico Infrastructure Taxable Fund has created

6.7 million

new construction man-hours for union workers.

Ullico

PRIORITIZING DIVERSE INVESTMENT FIRMS

A core tenet of the Treasurer's mission is to promote education, access, and opportunity for individuals, families, and governmental bodies across the State of Illinois to help them achieve the American Dream. Inclusive within that mission is the Treasurer's commitment to providing equal access for minority persons, women, qualified veterans, and persons with disabilities ("MWVD Persons").

Treasurer Frerichs firmly believes that our governance should mirror the diversity in our state.
Significant academic research demonstrates that diverse-owned companies are often more well-situated to capitalize on market inefficiencies, and as such, primed to outperform their peers. That is why the Illinois Treasurer is focused on providing more opportunities to qualified investment firms and suppliers owned by MWVD Persons because *diversity is good for business performance*.

Beyond this fundamental understanding of the corporate value of diversity, Section 30 of the Illinois State Treasurer Act declares that it be policy of the Illinois Treasurer to promote and encourage the use of businesses owned by or under the control of MWVD Persons and sets forth the aspirational goal of directing 25% of the total dollar amount of funds under management, purchases of investment securities, and other contracts to businesses owned by or under the control of MWVD Persons.

ENSURING OUR BUSINESS PARTNERS PRIORITIZE DIVERSITY & INCLUSION. All firms seeking to business with the Illinois Treasurer (ex: investment consultants, brokers, active depositories, asset managers, etc.) must disclose how their firm promotes diversity, equity and inclusion through an internal assessment our Office distributes and collects annually from each firm, the Equity, Diversity, and Inclusion Assessment.

This assessment includes, but is not limited to, the following topic areas:

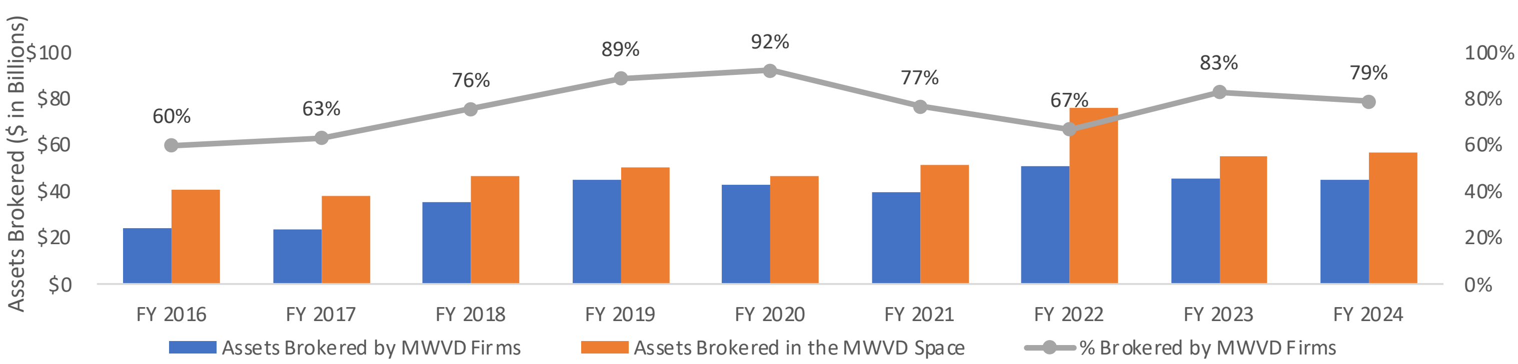
- Level of diversity among owners or Board of Directors;
- Level of diversity among senior executives;
- Level of diversity among the workforce;
- Programs and policies related to supplier diversity;
- Programs and policies related to gender and racial pay equity analyses; and
- Programs and policies related to firm-wide organizational activities that promote equity, diversity, and inclusion.

Due to these internal initiatives and policies, and in coordination with external partners, refer below for some of the great strides the Illinois Treasurer has made to provide more opportunities for MWVD firms.

Actions and Results

INCREASING UTILIZATION WITH MWVD BROKER/DEALERS TO NEW LEVELS. The Treasurer's two internally managed investment programs, the State Investment Portfolio and the Illinois Funds, are made up of direct purchases and brokered investments of fixed income securities. Utilizing diverse-owned broker/dealers for best execution of such activity is one of the most effective and worthwhile opportunities for MWVD participation. The percentage of assets brokered by MWVD firms in available asset classes remains well above the 25% statutory preference. For example, since FY 2015, the utilization of MWVD firms for brokerage services has increased from 6% to 83%, and total assets brokered with MWVD firms increased from $4.2 billion in FY 2015 to $45.8 billion in FY 2023.

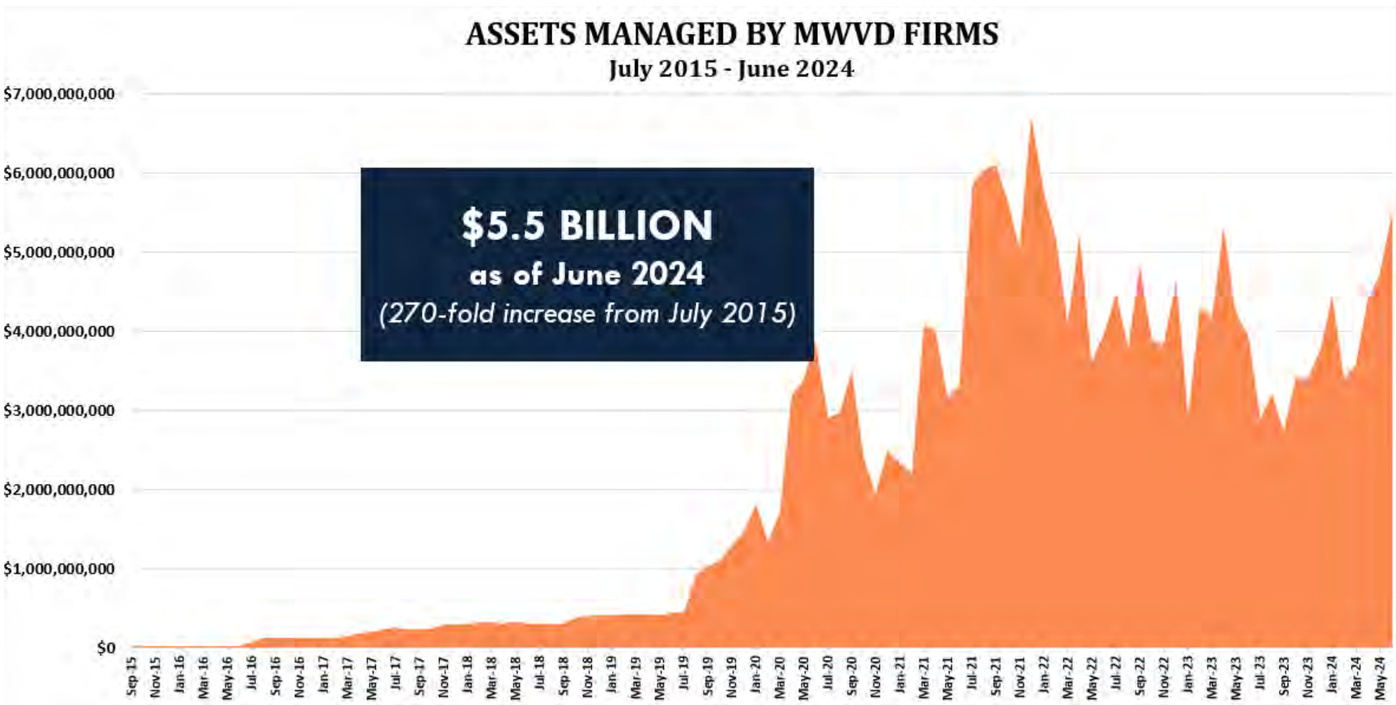
Assets Brokered with MWVD Firms FY 2015 – FY 2024



Totals Cumulative Assets Brokered by MWVD Firms under Treasurer Frerichs' administration has increased to ***$312 Billion.***

INCREASING BUSINESS NEARLY 200-FOLD WITH MWVD ASSET MANAGERS. Across the various investment pools under the Treasurer's purview, significant allocations to high-quality MWVD-owned asset managers have occurred. Since June 2015, assets managed by MWVD managers has increased 193-fold, from $20.4 million to $3.9 billion, which indicates that across all externally managed assets, MWVD firms managed 18% of assets. We will continue to strive to increase this above and beyond the 25% aspirational statutory goal.

Assets Brokered with MWVD Firms FY 2015 – FY 2024



DIVERSE INVESTMENT FIRM SPOTLIGHT

SUPPLY CHANGE CAPITAL

Through ILGIF, the Illinois Treasurer has committed $2.5 million to Supply Change Capital ("SCC"). SCC is a women-owned private investment firm based in Chicago and Los Angeles.

SCC invests in technology to transform the food system across the following pillars:

- **ENVIRONMENT**: Solutions for environmental adaptation and mitigation (waste, water, soil);
- **HEALTH:** Technologies and products enabling modern conveniences in service of healthy habits;
- **NOVEL INGREDIENTS:** Materials with competitively advantaged IP and price parity at scale; and
- **VALUE CHAIN:** Data and platforms for a more efficient supply chain.

As the global population is projected to reach nearly 10 billion by 2050, investing in the food and agriculture sector offers an enormous opportunity for returns and impact in this $10 trillion global industry. The increased pressure and demand for food result in a need to develop more efficient and sustainable production, supply chain, and manufacturing solutions. SCC believes that innovation across food and agriculture technology is critical to building a healthier and more regenerative food system for people and the planet, which is why their focus is on supporting innovative entrepreneurs to accelerate this transition.

SCC follows a 5-step process to invest, monitor, and partner with entrepreneurs to reach their business goals and impact outcomes.

1. THEORY OF CHANGE: A proprietary theory of change and impact framework is utilized to ensure that the portfolio aligns with critical impact outcomes. This framework guides SCC's investment thesis and illustrates how short-term activities lead to long-term impact.

2. IMPACT PRE-SCREENER: As part of SCC's diligence process, they screen a company's current or projected impacts across three key dimensions—environment, health, and diversity—using a standard rubric.

3. POST-INVESTMENT TOOLS: SCC's impact expectations are formalized in an investment side letter. An annual questionnaire allows companies to track their impacts across 30 IRIS+ aligned indicator metrics.

4. IMPACT KPIS: SCC teams with founders to identify 3-5 impacts on key stakeholders. These metrics align with externally defined impact frameworks such as IRIS+.

5. REPORTING: Portfolio companies report their impacts annually. Recognizing their early stages, SCC works with portfolio companies to adjust and refresh metrics as their businesses evolve.

SCC's latest Impact Reports and more about their approach can be found here: https://supplychange.fund/our-portfolios-impacts/.

STRATEGIC PARTNERSHIPS

THE ILLINOIS TREASURER IS PROUD TO WORK WITH OTHER PARTNERS COMMITTED TO SUSTAINABLE INVESTING. In order to expand the resources, reach, insights, and depth of the work that we do, we partner with investor coalitions, industry experts, and key stakeholder groups to execute our investment objectives, pursue learning opportunities, and share leading operational and investment best practices. However, it is important to note that the Illinois Treasurer conducts all coalition engagement activity through the lens of the individual fiduciary duty to which he owes.

Refer to the table below for some of the investor networks, policy/research groups, and coalitions of which we are a member or work closely with to incorporate sustainability into our investment processes in the most prudent manner. These organizations are also supported by leading asset management firms, public pension funds, labor unions, foundations, endowments, family offices, and other state treasurers.

CERES – A non-profit organization working with influential capital market leaders to drive solutions for building a just and sustainable future.

COUNCIL OF INSTITUTIONAL INVESTORS (CII) – A non-profit, non-partisan association for best practices in corporate governance, strong shareholder rights, and sensible financial regulations.

FOR THE LONG TERM – A nonprofit that supports Treasurers, Comptrollers, Controllers, and Auditors in managing the material risk factors (ex: climate change, racial inequity) their investment portfolios and beneficiaries face as they work to create fairer, more sustainable, and more inclusive markets.

HUMAN CAPITAL MANAGEMENT COALITION (HCMC) – A cooperative effort among a diverse group of influential institutional investors to elevate the critical importance of human capital management's impact on company performance.

MAJORITY ACTION – A nonprofit, non-partisan organization that empowers shareholders to hold corporations accountable to high standards of corporate governance, social responsibility, and long-term value creation.

MIDWEST INVESTORS DIVERSITY INITIATIVE (MIDI) – A coalition of Institutional investors led by the Illinois Treasurer dedicated to increasing racial, ethnic, and gender diversity on corporate boards of companies headquartered in the Midwest.

PRINCIPLES FOR RESPONSIBLE INVESTING (PRI) – A network of global investors working to promote responsible investment policies and practices, supported by the United Nations.

LABOUR RIGHTS INVESTOR NETWORK (LRIN) – A global investor network for exploring the risks and benefits associated with workers' rights to freedom of association and collective bargaining.

THIRTY PERCENT COALITION – A pioneering advocate for increased gender, racial and ethnic diversity on corporate boards and in senior leadership.

CLIMATE ACTION 100+ – An investor-led initiative to ensure that the world's largest corporate greenhouse gas emitters take necessary action on climate change.

CONCLUSION

The Illinois Treasurer seeks to invest all funds under its control in a manner that provides the highest risk-adjusted investment return for beneficiaries using authorized instruments. To achieve this objective, the Illinois Treasurer has a responsibility to recognize and evaluate risk factors that may have a material financial impact on the performance of our investments.

As such, the Illinois Treasurer prudently integrates sustainability factors into its investment processes to help fulfill its fiduciary duties, which include maximizing anticipated financial returns and minimizing projected risk. As a result of this mission, the financial outcomes achieved are expected to contribute to a more just, equitable, and sustainable State of Illinois.

FOR REGULAR UPDATES AND MORE INFORMATION ON THE SUSTAINABLE INVESTING ACTIVITIES OF THE ILLINOIS TREASURER, PLEASE VISIT WWW.ILLINOISRAISINGTHEBAR.COM.

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APPENDICES

SUSTAINABILITY ACTION PLAN

SUSTAINABILITY ACTION PLAN

While this annual report focuses on the actions my Office took last year when it comes to sustainable investing, we have also set priorities for the upcoming year. Because sustainable investing is a dynamic field, we strive to innovate and adapt.

This year, we have set the following goals for our investment team:

1) HUMAN CAPITAL MANAGEMENT AND CORPORATE GOVERNANCE EXPECTATIONS OF COMPANIES. Both human capital management and sound corporate governance practices are material to company performance. We will publish best practices for company disclosure and performance related to these two topics and begin engaging companies who are laggards in this regard.

2) ENHANCED PROXY VOTING OVERSIGHT. Proxy voting is an important right of shareholders and a lever to provide input on important sustainability topics at the company level. We aim to enhance our oversight of the proxy voting activities and policies of our external asset manager within our portfolios, as well as our own proxy voting consultant, who casts votes according to our proxy voting policy.

3) FOCUS ON MWVD UTILIZATION. The Office has focused on promoting and encouraging the use of businesses owned by or under the control or managed by MWVD Persons. We are proud of the progress that we have made to date and will focus on exploring potential areas for improvement when it comes to MWVD utilization.

4) BOARD DIVERSITY. Research demonstrates that diverse boards are better positioned to execute good governance, effective risk management, and optimal decision-making. For that reason, we will begin tracking metrics related to board diversity, including, but not limited to:

> **a.** The percentage of portfolio's market value exposed to companies where women comprise at least 30% of the board of directors.
> **b.** The percentage of portfolio's market value exposed to companies with no female directors.
> **c.** Percentage of the portfolio market value that is exposed to companies that either do not disclose racial/ethnic diversity or do not have any racially/ethnically diverse directors.

SUSTAINABILITY INVESTMENT POLICY STATEMENT

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OFFICE OF THE ILLINOIS STATE TREASURER SUSTAINABILITY INVESTMENT POLICY STATEMENT

1.0 PURPOSE
This document sets forth the Sustainability Investment Policy ("Policy") for the Office of the Illinois State Treasurer ("Treasurer").

The purpose of the Policy is to outline the sustainability factors that shall be applied to the Treasurer's internally and externally managed investment holdings in evaluating investment decisions and ongoing business relationships.

This Policy is designed to allow for sufficient flexibility in the execution of sustainable investment responsibilities while setting forth specific sustainability factors and industry-recognized best practices that are relevant to the Treasurer's investment portfolio and the evolving marketplace.
The Treasurer establishes and executes this Policy in accordance with law.

2.0 AUTHORITY
Pursuant to the State Treasurer Act (15 ILCS 505), Deposit of State Moneys Act (15 ILCS 520), and the Public Fund Investment Act (30 ILCS 235), the Treasurer is authorized to serve as the fiscal agent for public agencies and specific program participants for the purpose of holding and investing assets.

Pursuant to the Illinois Sustainable Investing Act (30 ILCS 238), the Treasurer shall prudently integrate sustainability factors into its investment decision-making, investment analysis, portfolio construction, risk management, due diligence and investment ownership in order to maximize anticipated financial returns, minimize projected risks, and more effectively execute its fiduciary duties.

3.0 PHILOSOPHY
The Treasurer seeks to invest all funds under its control in a manner that provides the highest risk-adjusted investment return for beneficiaries using authorized instruments. To achieve this objective, the Treasurer has a responsibility to evaluate risk and value factors that may have a material and relevant financial impact on the safety and/or performance of our investments.

Consistent with achieving the investment objectives set forth herein, the Treasurer and its agents shall prudently integrate financially material sustainability factors into its investment decision-making processes to obtain a more complete view of risks and value prospects that may materially impact an investment's long-term value. Therefore, as a complement to traditional financial analysis, the integration of sustainability factors provides an additional layer of decision-useful information and rigor which can be useful in better assessing the risk and return prospects of portfolio companies, investment funds, and other investment vehicles. Such sustainability factors are indicative of the overall performance of an investment and can be strong indicators of its long-term value.

SUSTAINABILITY FACTORS SHALL BE IMPLEMENTED WITHIN A FRAMEWORK PREDICATED ON THE FOLLOWING:

• **MATERIALITY** – The Treasurer considers whether and to what extent a sustainability risk or opportunity exists that is reasonably likely to have a material impact on the financial condition or operating performance of a company, investment fund, or other investment vehicle.

• **INDUSTRY-SPECIFIC INFORMATION –** The Treasurer considers whether and to what extent the financially material sustainability risk or opportunity in question is relevant and applicable to individual industries.

• **INTEGRATION OF MATERIAL SUSTAINABILITY FACTORS IN INTERNALLY AND EXTERNALLY MANAGED INVESTMENT PROGRAMS –** The Treasurer prudently integrates material and relevant sustainability factors, including, but not limited to, (1) corporate governance, financial incentives and quality of leadership, (2) environmental factors, (3) social capital factors, (4) human capital, and (5) business model and innovation, as components of portfolio construction, investment decision-making, investment analysis and due diligence, prospective value proposition, risk management, and investment ownership in internally and externally managed investment programs.

• **ACTIVE OWNERSHIP –** The Treasurer attentively oversees investment holdings to address sustainability risks and opportunities through the exercise of proxy voting rights and direct engagement with entities, such as investment funds, portfolio companies, government bodies, and other organizations.

• **REGULAR EVALUATION OF SUSTAINABILITY FACTORS –** The Treasurer performs a recurring annual evaluation, at a minimum, of sustainability factors to ensure the factors are relevant to the evolving marketplace.

• **ADDITIONAL RELEVANT AND FINANCIALLY MATERIAL FACTORS –** The Treasurer considers other relevant factors such as legal, regulatory, and reputational risks that contribute to an optimal risk management framework and are necessary to protect and create long-term investment value.

4.0 GOVERNANCE

The Chief Investment Officer shall be responsible for the oversight and administration of sustainable investment activities on behalf of the Treasurer, working to ensure compliance with the Illinois Sustainable Investing Act (P.A. 101-473) and this Policy, and to advance the Treasurer’s core investment objectives to maximize anticipated financial returns, minimize projected risk, and effectuate the Treasurer’s fiduciary duties.

The Chief Investment Officer and Chief Banking Officer shall supervise and task pertinent divisions, including but not limited to the Division of Public Market Investments, the Division of Alternative Investments, and the Division of Portfolio Risk & Analytics, to execute sustainable investment duties and prudently integrate sustainability factors into investment decision-making, investment analysis, portfolio construction, risk management, due diligence and investment ownership.

The Treasurer may utilize the Investment Policy Committee and its subcommittees, including but not limited to the Corporate Governance & Sustainable Investment Subcommittee, Financial Analysis Subcommittee, and Investment Review Subcommittee, to assist in the review, development, and implementation of sustainable investment objectives and activities.

5.0 CORPORATE GOVERNANCE AND LEADERSHIP FACTORS

The Treasurer supports board accountability, transparency, sensible executive compensation programs, robust shareholder rights, and ethical conduct as key governance factors. The Treasurer advocates for policies and practices in support of these factors. Corporate governance and leadership factors involve the management of issues that are inherent to the business model or industry common practice. As such, they are in potential conflict with the interest of broader stakeholder groups (e.g., government, community, customers, and employees) and create a potential liability or, in a worst-case scenario, a limitation or removal of a license to operate. This includes factors such as regulatory compliance and political influence.

A) BOARD ACCOUNTABILITY

The board of directors is elected by the company's shareholders and is accountable to them. The role of the board is to represent shareholders' interests in their oversight of corporate management. The board of directors should maintain a level of independence from management to exercise proper oversight. The Treasurer considers an independent director to be one who is not an executive or former employee of the company; does not have direct familial ties with executive management; has not had business ties to the company for the past five years; and is not a long-tenured director of more than 10 years.

B) BOARD DIVERSITY

Research demonstrates that a diverse board of directors is better equipped to ensure multiple perspectives are considered and better positioned to enhance long-term company performance within a marketplace defined by extensive diversity and multiculturalism. Diversity is inclusive of gender, race/ethnicity, skill sets, professional backgrounds, and LGBTQ+ status.

C) TRANSPARENCY

With due respect to proprietary information, companies should strive to be transparent in their business operations. Disclosure concerning matters of shareholder or public interest, such as those items outlined in this Policy, provides decision-useful information and mitigates risks inherent with undisclosed matters.

Transparency and accuracy in the reporting of fees to the Treasurer from service providers is also essential to secure competitive rates.

D) SENSIBLE EXECUTIVE COMPENSATION PROGRAMS

Excessive executive compensation programs may signal board entrenchment and exacerbate income inequality. Executive compensation should be reflective of company performance and within a reasonable range of compensation levels at industry leading companies.

The Treasurer believes an annual vote on executive compensation is a better option than a biennial or triennial vote because it affords shareholders the opportunity to provide the company's compensation committees more timely feedback about the appropriateness of executive pay levels, a portion of which is typically decided on an annual basis.

E) ROBUST SHAREHOLDER RIGHTS

Shareholders should be given tools to convey their perspectives to the board of directors, which serve as their representative body. Tools that provide shareholders with the appropriate mechanisms for communication include, but are not limited to, the ability to (1) call a special meeting; (2) act by written consent; (3) have access to the proxy to nominate their own candidate(s) for the board assuming appropriate ownership threshold requirements are met; and (4) file shareholder proposals in accordance with established regulatory processes.

In addition, boards of directors should maintain a majority voting standard for the election of directors and should be declassified in their structure. These practices ensure that directors have the confidence of their shareholders, while also providing an opportunity for those shareholders to weigh in on each director on an annual basis.

Multi-class share structures can limit shareholder voices and lead to board entrenchment, particularly when board members own a large percentage of the higher voting power shares. Companies that maintain multi-class share structures risk alienating their shareholders and make it more difficult for outside perspectives to be fully considered, which could hurt long-term value.

F) BOARD ACCOUNTABILITY

Companies conducting business with or in receipt of investments from the Treasurer must comply with all laws and regulations under which they are governed. Further, the Treasurer expects companies to meet (if not exceed) all applicable ethical and professional standards of conduct.

Companies that seek short-term profits by taking disreputable or unlawful actions may risk long-term sustainability and face adverse regulatory, legal and/or reputational repercussions. Prior corporate scandals have clearly demonstrated that profiting from harm caused to others impacts a company's reputation and bottom line. The Treasurer expects companies to operate within the bounds of the law and ethical norms, particularly when it comes to responsible drug pricing, safe working conditions, and the sale and distribution of drugs, weapons, and other products and services that may cause harm. Companies should espouse a high ethical standard particularly when operating in markets and countries with lax regulatory oversight.

G) SYSTEMIC RISK MANAGEMENT

The increased globalization and interconnectedness of the marketplace has become a central concern of state, federal, and international regulators. This is particularly relevant to companies in the financial sector and insurance industry, with many designated or at risk of being designated as systemically important institutions.

This designation can subject firms to stricter regulatory standards, credit limitations, and increased oversight by government officials. To demonstrate how these risks are being managed, companies should enhance their disclosures of key metrics, risk exposures, and additional aspects of systemic risk management.

H) MANAGEMENT OF THE LEGAL AND REGULATORY ENVIRONMENT

A company's approach to engaging with regulators and lawmakers may have the potential for long-term adverse or opportunistic impacts on investors. While lobbying and political contributions can benefit the strategic interests of a company, board-level policies and processes should exist to ensure that such activities are aligned with shareholders' long-term interests, especially in cases where conflicts may exist between corporate and public interests. Lobbying and corporate political giving have the potential to cause reputational harm and can be viewed negatively by employees and customers. Companies should have appropriate internal controls in place to monitor, manage, and disclose political contributions and related risks, as well as to ensure that corporate participation in lobbying, trade associations, and political activities effectively aligns with the long-term strategy and shareholders' interests.

I) CRITICAL INCIDENT RISK MANAGEMENT

A company's use of risk management systems, scenario-planning, and business continuity planning can help to identify, minimize, and/or prevent the occurrence of high-impact incidents that may affect shareholder value. Companies should develop and disclose critical incident risk management plans, including relevant safety systems, technology controls, and workforce protections, to better inform investors of the implications of such events and the potential long-term impacts to the company and its shareholders.

J) SYSTEMIC RISK MANAGEMENT

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6.0 ENVIRONMENTAL FACTORS

Environmental and climate-related factors may have adverse financial impacts on the Treasurer's investment portfolio. The Treasurer recognizes that a company's impact on the environment is a key factor for consideration in identifying its value proposition and risk exposures. Negative impacts include, but are not limited to, use of non-renewable natural resources in energy production, harmful chemical releases into the environment, biodiversity loss, and/or poor water stewardship Routine assessment of environmental and climate impacts, associated risk exposures, and management practices may be communicated to investors through financial filings and/or sustainability reports. Quantitative reporting on environmental risks, policies, performance, and goals assures investors that companies are aware of potential opportunities and/or risks and are seeking to act upon them appropriately.

A) CLIMATE COMPETENCE

Climate change may pose a source of systemic risk for investors and the businesses in which they invest as well as the financial system. Shifts in temperature, weather patterns, and rising sea levels impact supply chain, consumer demand, physical capital, and communities represent risks that can disrupt proper functioning of financial markets and institutions. Extreme weather events are occurring on a more frequent basis and with increasing intensity. Events such as droughts, floods, and storms may lead to scarce resources and disruptions in operations and workforce availability. A company's awareness of environmental risks and opportunities may have a significant impact on its operational capacity, financial position, and long-term value creation. With new environmental technologies, regulations, and business strategies rapidly developing (e.g., carbon pollution regulations and energy efficiency opportunities), it is important that companies adapt and capitalize on these evolving changes. This may include, among other strategies, maintaining a board member or senior executive with expertise or ample experience with environmental science, technology, and/or regulation.

B) GREENHOUSE GAS EMISSIONS

Greenhouse gas emissions contribute to climate change and create additional regulatory compliance costs and risks due to climate change mitigation policies. This includes greenhouse gas emissions from stationary (e.g., factories and power plants) and mobile sources (e.g., trucks, delivery vehicles, and planes), whether a result of combustion of fuel or non-combusted direct releases during activities such as natural resource extraction, power generation, land use, or biogenic processes. Companies that cost-effectively reduce greenhouse gas emissions from their operations by implementing industry-leading technologies and processes can create operational efficiency. They can mitigate the impact on value from increased fuel costs and regulations that limit or put a price on carbon emissions, which could increase as regulatory and public concerns about climate change are increasing in the U.S. and globally. The Kyoto Protocol covers the following seven greenhouse gases: carbon dioxide (CO2), methane (CH4), nitrous oxide (N20), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), sulfur hexafluoride (SF6), and nitrogen trifluoride (NF3).

C) AIR QUALITY

Companies should consider the management of air quality impacts resulting from stationary (e.g., factories and power plants) and mobile sources (e.g., trucks, delivery vehicles, and planes) as well as industrial emissions. Relevant airborne pollutants include, but are not limited to, oxides of nitrogen (NOx), oxides of sulfur (SOx), volatile organic compounds (VOCs), heavy metals, particulate matter, and chlorofluorocarbons. This factor does not include GHG emissions, which are considered in a separate category.

D) ENERGY MANAGEMENT

This factor addresses environmental impacts associated with energy consumption. It includes the management of energy in manufacturing and/or for provision of products and services derived from utility providers (grid energy) not owned or controlled by the entity. It specifically comprises management of energy efficiency and intensity, energy mix, as well as grid resilience.

E) WATER & WASTEWATER MANAGEMENT

Factors related to water use, water consumption, wastewater generation, and other impacts of operations on water resources may have a material effect on companies, including higher costs, liabilities, and lost revenues due to curtailment or suspension of operations. Similarly, companies that efficiently manage their water resources and wastewater streams lower their regulatory and litigation risks, remediation liabilities, and operating costs. Note that these factors may be influenced by regional differences in the availability, quality, and competition for water resources.

F) WASTE AND HAZARDOUS MATERIALS MANAGEMENT

Environmental issues associated with hazardous and non-hazardous waste generated by companies can have a material financial impact on performance. A company's management of solid wastes in manufacturing, agriculture, and other industrial processes, as well as activities related to waste treatment (including handling, storage, disposal, and regulatory compliance), warrant consideration when assessing risk exposure and risk management. Improper waste and hazardous materials management may disproportionately impact nearby communities who are marginalized due to historical and systemic socioeconomic inequities, which exacerbates issues of environmental justice that has the potential to impact companies' licenses to operate.

G) BIODIVERSITY AND ECOLOGICAL IMPACTS

This factor addresses management of ecosystems and biodiversity through activities including, but not limited to, land use for exploration, natural resource extraction, and cultivation, as well as project development and construction. The impacts include, but are not limited to, biodiversity loss, habitat destruction, and deforestation at all stages –planning, land acquisition, permitting, development, operations, and site remediation. Investors can benefit from corporate disclosure that demonstrates how portfolio companies rely on and utilize natural capital, including disclosure of a company's oversight processes for nature-related risks and opportunities, particularly when a company's business strategy is heavily reliant on the availability of natural resources or when a company's supply chains are exposed to locations with material nature-related risks.

H) JUST TRANSITION

The global transition to a low-carbon energy system is likely to create major changes in the business models and operations of many companies, particularly those in the energy and utilities sectors. Companies that consider the impact of transition activities on key stakeholders, including but not limited to their workers and the communities in which they operate, will better manage potential financial risks and will be better positioned to capitalize on related opportunities. Companies that neglect to consider these issues may face community opposition and experience worker disillusionment, strikes, and reduced productivity, potentially making them less competitive. The Treasurer generally supports corporate disclosure of Just Transition considerations and corporate strategies to manage human capital and community relations risks and opportunities related to the energy transition consistent with companies' fiduciary duties to shareholders.

7.0 SOCIAL CAPITAL FACTORS

Social capital factors address the management of relationships with key outside parties, such as customers, local communities, the public, and the government. They may impact investment returns, particularly if companies become involved in controversies that pose risks to their reputation. Human rights, access and affordability, customer welfare, cyber security and data privacy, fair disclosure and labeling, fair marketing and advertising, and community reinvestment are key social capital factors that warrant attention.

A) HUMAN RIGHTS

Companies have a legal duty to adhere to internationally recognized labor and human rights standards. Beyond the legal requirements, companies risk losing their social license to operate if they contribute to human rights abuses directly or throughout their supply chain. The United Nations' "Guiding Principles on Business and Human Rights" sets out the corporate responsibility to respect human rights. Companies should regularly assess and seek to minimize any negative impact caused by their operations.

B) PRODUCT QUALITY & SAFETY

Companies have a material interest in ensuring the safety, proper labeling, and quality of their products. Companies that limit the incidence of safety, deceptive marketing, or other product claims will be better positioned to reduce regulatory, legal, and reputation-related expenses and protect shareholder value as well as limiting the exposure that customers have to physical or mental harm or unlawful conduct. This can expose companies to material legal, regulatory, reputational, or other financial risks that jeopardize shareholder value. Conversely, companies that employ socially responsible business practices may enjoy reputational benefits that enhance financial performance and create long-term shareholder value. Companies utilizing or considering the use of Artificial Intelligence (AI) should also consider associated risks to data integrity, responsible use, and the impact on workers.

C) DATA PRIVACY

Companies have a material interest in managing risks related to the use of personally identifiable information and other customer or user data for secondary purposes including, but not limited to, marketing through affiliates and non-affiliates. This factor includes legal, regulatory, and reputational issues that may arise from a company's approach to collecting data, obtaining consent (e.g., opt-in policies), managing user and customer expectations regarding how their data is used, and managing evolving regulation.

D) SENSIBLE EXECUTIVE COMPENSATION PROGRAMS

Consumers trust companies with their personal and financial data. Preventing data breaches and effectively managing data security and consumer privacy help companies protect their brand value, reduce contingent liabilities, and maintain market share. Furthermore, companies that address data security threats and vulnerabilities through policies and practices related to IT infrastructure, staff training, record keeping, cooperation with law enforcement, and other mechanisms are better positioned for customer acquisition and retention and may reduce their exposure to extraordinary expenses from breaches of data security.

E) COMMUNITY RELATIONS AND COMMUNITY REINVESTMENT

Community relations are a fundamental, strategic aspect of business for public and private corporations. They are a barometer of image and market presence across the world. A good community relations policy helps a company attract and retain top employees. It also helps a company gain favor with customers and, increasingly, improves its position in the market. Positive, proactive community relations can translate into improved financial performance. As such, companies have an interest in managing socio-economic community impacts, the cultivation of local workforces, and impacts on local businesses.

The Treasurer encourages an open and effective banking system that grows local communities and boosts Illinois' economy. Pursuant to the Deposit of State Moneys Act (15 ILCS 520/16.3), the Treasurer shall consider a financial institution's record and current level of financial commitment to its local community when deciding whether to deposit State funds in that financial institution. As such, the Treasurer shall consider applicable firms' level of community reinvestment when making investment decisions. Furthermore, all banking and financial firms seeking to transact in investment activity with the Treasurer shall possess a minimum Community Reinvestment Act (CRA) rating of Satisfactory, 15 ILCS 520/16.3 (a-5).

F) ACCESS AND AFFORDABILITY

A company's ability to ensure broad access to its products and services, specifically in the context of underserved markets and/or population groups, can contribute to long-term value creation or expose the company to adverse reputational, regulatory, or legal impacts. This includes the management of issues related to universal needs, such as the accessibility and affordability of health care, financial services, utilities, education, and telecommunications.

8.0 HUMAN CAPITAL FACTORS

Companies that consider their workforce to be an important asset should manage their human capital with as much care and analytical insight as they manage their tangible and financial capital. Effective human capital management includes issues that affect the productivity of employees, such as employee engagement, diversity, incentives and compensation, as well as the attraction and retention of employees in highly competitive or constrained markets for specific talent, skills, or education. To better assess company practices, the Treasurer encourages companies to disclose measures on the Company's total workforce headcount, total cost of the workforce, workforce hiring and retention metrics, and workforce diversity data. Employers should also respect the right of their workers to organize under collective bargaining agreements and should provide a working environment that upholds health and safety standards.

A) LABOR PRACTICES AND RELATIONS

Companies benefit from taking a long-term perspective on managing human capital. This relates to practices involving fair compensation, workers' rights, worker health and safety, and workforce productivity enhancements through skills and capacity building, research and development, and capital investments. Companies that adopt responsible contractor policies may also position themselves to be more competitive and attract and retain a greater share of high-quality workers, especially in industries that rely heavily on contracted labor.

Companies that subvert the law or widely adopted international standards for labor practices are exposed to operational, legal, regulatory, and reputational risks that may create roadblocks for both its existing operations as well as efforts to expand to other markets. Conversely, companies with fair labor policies and practices may be at a competitive advantage in attracting and employing an effective workforce, which can lead to a healthy company culture, stronger customer loyalty, increased revenue, and reduced costs.

B) EMPLOYEE HEALTH AND SAFETY

This factor includes a company's ability to create and maintain a safe and healthy workplace environment that is free of injuries, fatalities, and illness (both chronic and acute). It is traditionally accomplished through implementing safety management plans, developing training requirements for employees and contractors, and conducting regular audits of internal practices as well as those of contractors and vendors. This category further considers how companies ensure physical and mental health of workers through technology, training, corporate culture, regulatory compliance, monitoring and testing, and personal protective equipment.

C) EMPLOYEE ENGAGEMENT, EQUITY, DIVERSITY AND INCLUSION

As the U.S. population continues to undergo a demographic shift, with an increase in minority populations, Companies can benefit from ensuring that their company culture and hiring, promotion, and retention practices embrace building a diverse, equitable, and inclusive workforce. Companies that respond to this demographic trend and recognize the needs of these populations may be better able to capture demand from these segments, which can provide companies a competitive advantage. Further, as key contributors to value creation, skilled workers are highly sought after, forcing many companies to face recruitment and retention challenges of acquiring and maintaining highly skilled employees, as evidenced by high employee turnover rates. Companies that improve employee compensation, benefits, training, and engagement are likely to improve retention and productivity, which can lead to profitability and long-term value creation.

9.0 BUSINESS MODEL & INNOVATION FACTORS

The impact of sustainability issues on innovation and business models including corporate strategy and other innovations in the production process are integral to a company's financial and operating performance. The ability of a company to plan and forecast viable opportunities and risks to its business model is critically important to its ability to create long-term shareholder value.

A) LIFECYCLE IMPACTS OF PRODUCTS AND SERVICES

Companies face increasing challenges associated with environmental and social externalities related to product manufacturing, transport, use, and disposal. Rapid obsolescence of products exacerbates the externalities. Addressing product lifecycle concerns such as hazardous material inputs, forever chemicals, plastics and microplastics, anti-microbial resistance, energy efficiency, and waste – particularly through product design and end-of-life management – may contribute to increased shareholder value through improved competitive positioning and greater market share. Addressing lifecycle risks could also help reduce potential regulatory risks as well as issues related to demand and supply chain.

B) BUSINESS MODEL RESILIENCE

A company or industry's capacity to manage risks and opportunities related to social, environmental, and political transitions can positively or adversely impact long-term investors. Long-term business model planning ensures that companies are responsive to evolving environmental, social, and political conditions that may fundamentally alter business models and shareholder value. This includes, for example, responsiveness and disclosure related to the transition to a low-carbon economy and the growth of new markets among underserved populations.

C) SUPPLY CHAIN MANAGEMENT

Supply chain management is crucial for companies to prevent operational disruptions, avoid legal or regulatory action, protect brand value, and improve revenues. Sourcing from suppliers that have high quality business standards, employ environmentally sustainable methods, honor labor rights, and avoid socially damaging practices better positions companies to protect themselves from supply disruptions and maintain shareholder value. In addition, appropriate supplier screening, monitoring, and engagement is necessary to ensure continued future supply and to minimize potential lifecycle impacts on company operations.

D) MATERIALS SOURCING AND EFFICIENCY

The impacts of climate change and other external environmental and social factors on the operational activity of suppliers can affect the availability and pricing of key resources. The resiliency, or lack thereof, of materials supply chains to weather such impacts may have material financial impacts. It is important to assess a company's ability to manage these risks through product design, manufacturing, and end-of-life management, such as using recycled and renewable materials, reducing the use of key materials, maximizing resource efficiency in manufacturing, and making research and development investments in substitute materials. Companies can manage these issues by screening, selecting, monitoring, and engaging with suppliers to ensure their resilience to external risks.

E) PHYSICAL IMPACTS OF CLIMATE CHANGE

This factor includes a company's ability to manage risks and opportunities associated with direct exposure of its owned or controlled assets and operations to actual or potential physical impacts of climate change. It relates to a company's ability to adapt to increased frequency and severity of extreme weather, shifting climate, sea level risk, and other physical disruptions related to climate change. Management of such issues may involve enhancing resiliency of physical assets and/or surrounding infrastructure, as well as incorporating climate considerations into key business activities (e.g., mortgage and insurance underwriting, planning and development of real estate projects).

10.0 DIVESTMENT

The Treasurer opposes any policy or strategy that would direct the Treasurer to sell an individual security or group of securities in order to achieve a goal that is not primarily investment-related. The Treasurer may consider divesting only in cases where the financial or reputational risks from a company's policies or activities are so great that maintaining the investment security is no longer prudent.

The Treasurer firmly believes that active and direct engagement is the best way to resolve issues and risk factors. The Treasurer's policy of engagement over divestment is based on several key considerations: (1) divestment would eliminate our standing and rights as a shareholder and foreclose further engagement; (2) divestment would likely have a negligible impact on portfolio companies or the market; (3) divestment could result in increased costs and short-term losses; and (4) divestment could compromise the Treasurer's investment strategies and negatively affect performance. For these reasons, we believe that divestment does not offer the Treasurer an optimal strategy for changing the policies and practices of portfolio companies, nor is it the best means to produce long-term value.

11.0 POTENTIAL ACTIONS
It is necessary to remain informed about issues that are likely to be of interest to other investors, including the Treasurer, during the review process. When assessing financially material sustainability factors, the Treasurer and its agents may consider: (1) direct financial impacts and risk; (2) legal, regulatory, and policy drivers; (3) industry norms, best practices, and competitive drivers; (4) stakeholder concerns that could lead to financial impact; and (5) opportunities for innovation. Analyzing the three primary drivers of a Company's financial impact – revenues and costs, assets and liabilities, and cost of capital driven by risk profile – will help identify issues that can or do affect operational and financial performance.

Revenue in market size or pricing power of a company will be tracked to identify trends. Costs that can impact a company's profitability include recurring costs such as cost of goods sold, research and development, or any other capital expenditures. Sustainability risks, such as climate change, that can impair tangible (ex: property, plant and equipment) and intangible assets (ex: brand value), are considered for their implications financial returns, as well as any issues that have the potential to create contingencies and provisions on future assets or liabilities.

The Treasurer may undertake various activities to escalate the aforementioned sustainability factors, including, but not limited to:

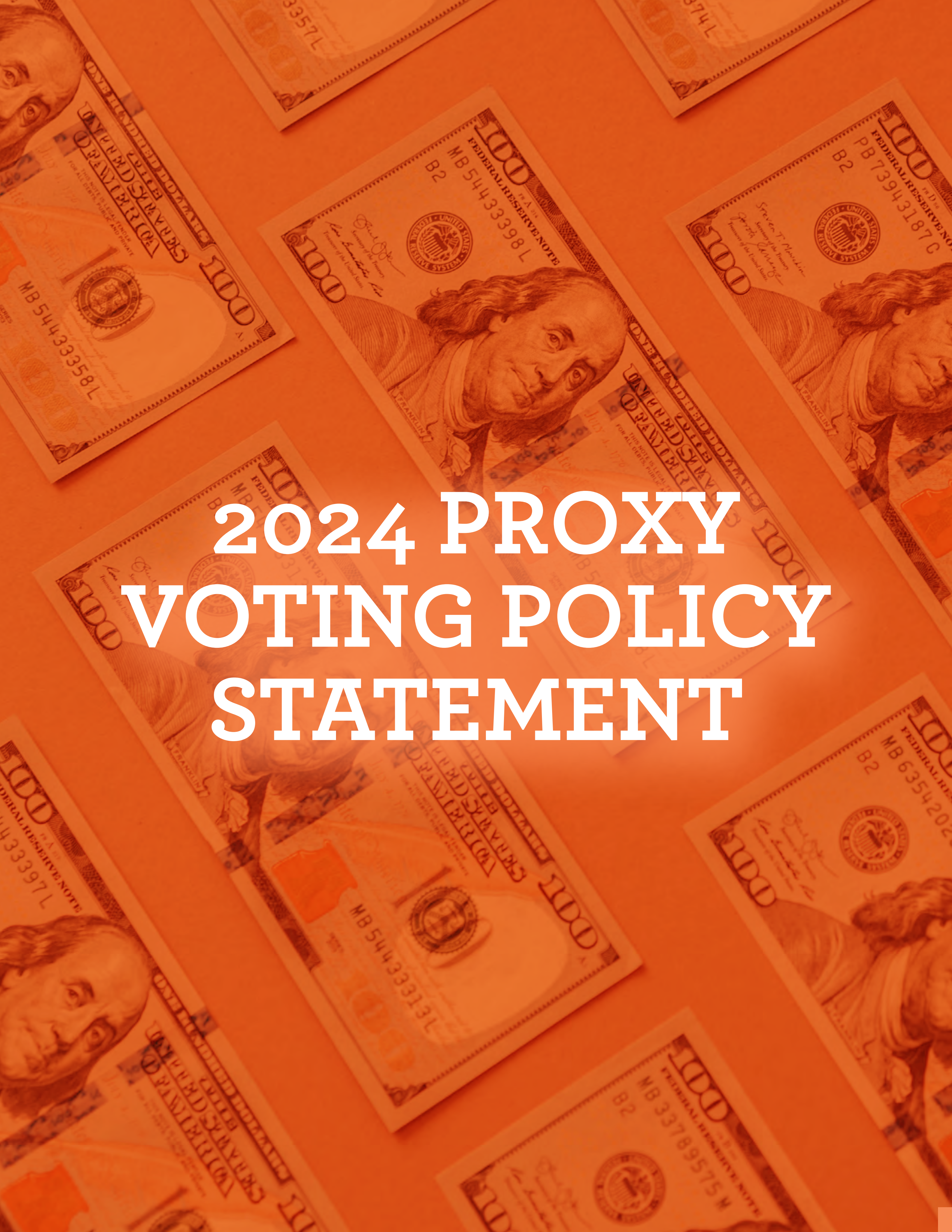
1. Internal and External Investment Management – Prudently integrating sustainability criteria into portfolio construction, investment decision-making, investment analysis and due diligence, prospective value proposition, risk management, and investment ownership for internally-managed and externally-managed investment programs;
2. Proxy Voting – Casting proxy votes in accordance with fiduciary duty and within policy guidelines;
3. Engagements – Engaging corporate decision-makers directly on sustainability risks and opportunities to advocate for disclosure on material operational processes, encourage value-enhancing governance practices, and protect shareholder financial interests;
4. Shareholder Proposals – Submitting shareholder proposals to companies for inclusion in the annual stockholders' general meeting;
5. Policy Advocacy – Weighing in on the public policymaking process as it pertains to the investment landscape generally and sustainability issues specifically; and
6. Coalitions – Working in coalition with other institutional investors and with thought-leadership organizations.

12.0 REPORTING

One report per month may be presented to the Corporate Governance & Sustainable Investment Subcommittee for its review. The report is intended to contain sufficient information to enable the Corporate Governance & Sustainable Investment Subcommittee to review the sustainable investment activities of the Treasurer and the outcomes of those activities in advancing the Treasurer's sustainable investment responsibilities.

The Treasurer shall issue a report on its sustainable investment activities at least annually. The report shall be published on the Treasurer's official website.

2024 PROXY VOTING POLICY STATEMENT



PROXY VOTING GUIDELINES

The Office of the Illinois State Treasurer ("Illinois Treasurer") serves as trustee and administers the investment of state, local, and individual monies. For equity holdings, the Illinois Treasurer maintains the right to vote by proxy on ballots and proposals presented at corporate annual meetings.

These Proxy Voting Guidelines ("Guidelines") have been approved and adopted by the Illinois Treasurer for proxy voting on issues pertaining to corporate governance and financial performance. These Guidelines provide the framework for the proxy votes wherein the Illinois Treasurer is eligible to cast a ballot. The Guidelines are based on what the Illinois Treasurer, through thorough evaluation and in consultation with Segal Marco Advisors ("SMA"), its corporate governance consultant, view as best practices in corporate governance and investment stewardship.

Ultimately, the Illinois Treasurer seeks to invest all funds under its control in a manner that provides the highest risk-adjusted return and promotes preservation of capital for beneficiaries using authorized instruments. To achieve this objective, the Illinois Treasurer has a responsibility to vote by proxy on ballots and proposals that may have a prospective material and relevant financial impact on safety or performance of its investments.

CORPORATE GOVERNANCE PHILOSOPHY
An essential component of responsible investment stewardship and risk management is supporting good governance practices. Good governance mitigates investment risks and may provide collateral benefits to the beneficiaries of the assets under the Illinois Treasurer's stewardship. Numerous studies and surveys of leading institutional investors demonstrate the value of good corporate governance.

Each proxy will be reviewed on a case-by-case basis with final decisions based on the merits of each case. In reviewing the proxy issues, we will use the following Issue Guidelines for each of the categories of issues listed below. If any conflicts of interest should arise, SMA will resolve them pursuant to the steps prescribed in the Administrative Procedures section below.

ISSUE GUIDELINES

<u>ELECTION OF DIRECTORS</u>
The members of the boards of directors ("directors") are elected by shareholders to represent the shareholders' interests. This representation is most likely to occur if two-thirds of the members are independent outsiders as opposed to insider directors (such as long-tenured directors of more than 10 years, senior management employees, former employees, relatives of management or contractors with the company). If two-thirds of the board is not represented by independent outsiders, a vote will usually be cast to withhold authority on the inside directors.

Recently, more emphasis has also been placed on the independence of key Board committees—audit, compensation and nominating committees. It is in the best interests of shareholders for only independent directors to serve on these committees. Votes will be withheld from any insider nominee who serves on these committees. Votes will also be cast against board chairs concurrently serving as CEOs or are otherwise non-independent.

An independent chairman helps avoid any conflicts of interest in the board's role of overseeing management.

Other factors that will be considered when reviewing members and candidates will be the diversity of the board's composition in terms of race, gender, experience and expertise. We may vote against nominating committees if the board (1) does not have 30% gender diversity, or (2) discloses racial diversity but does not have at least one racially diverse director, or (3) does not disclose their board composition.
In addition, members and candidates will be assessed against number of corporate boards on which they already serve (CEOs should serve on no more than one other corporate board, while non-CEO directors with fulltime jobs should serve on no more than three other boards and no individual should serve on more than five other boards); whether they have pledged a substantial amount of company stock; their performance on committees and other boards; the company's short-term and long-term financial performance under the incumbent candidates; the company's responsiveness to both majority, minority, and independent shareholder concerns (particularly the responsiveness to shareholder proposals that were approved by a majority of shareholders in the past 12 months) and other important corporate constituents; the overall conduct of the company (e.g., excessive executive compensation, adopting anti-takeover provisions without shareholder approval); and their attendance at least 75% of Board and Committee meetings unless there is a valid excuse.

Directors will not be supported where the board has failed in its oversight responsibilities (such as where there is significant corporate misbehavior, repeated financial restatements or inadequate responses to systemic risks, including climate change, that may have a material impact on performance). We may also vote against directors at companies that have failed to set science-based emissions targets aligned to the goal of limiting warming to 1.5°C or failed to disclose material climate risk exposures and how the company governs, manages, and mitigates those risks.

In contested elections of directors, the competing slates will be evaluated upon the personal qualifications of the candidates, the quality of the strategic plan they advance to enhance long-term corporate value, management's historical track record, the background to the proxy contest, and the equity ownership positions of individual directors.

RATIFICATION OF AUDITORS

The ratification of auditors used to be universally considered a routine proposal, but a disturbing series of audit scandals at publicly-traded companies and SEC-mandated disclosures revealed auditors were being paid much more for "other" work at companies in addition to their "audit" work which has demonstrated that the ratification of auditors needs to be scrutinized as much as the election of directors.

Although the Sarbanes-Oxley Act of 2002 attempted to address the issue of auditor conflicts of interest, it still allows auditors to do substantial "other" work (primarily in the area of taxes) for companies that they audit. Therefore, SMA will weigh the amount of the non-audit work and if it is so substantial as to give rise to a conflict of interest, it will vote against the ratification of auditors. Concern will be raised if the non-audit work is more than 20% of the total fees paid to the auditors. Other factors to weigh include if the auditors provide tax avoidance strategies, the reasons for any change in prior auditors by the company, and if the same firm has audited the company for more than seven years.

ROUTINE PROPOSALS

Routine proposals are most commonly defined as those which do not change the structure, bylaws, or operation of the company to the detriment of the shareholders. Traditionally, these issues include:

• Indemnification provisions for directors;
• Liability limitations of directors;
• Stock splits/reverse stock splits; and
• Name changes.

Given the routine nature of these proposals, proxies will usually be voted with management. However, each will be examined carefully. For example, limitations on directors' liability will be analyzed to ensure that the provisions conform with the law and do not affect their liability for such actions as the receipts of improper personal benefits or the breach of their duty of loyalty. The analysis of a proposal to limit directors' liability would also take into consideration whether any litigation is pending against current board members.

NON-ROUTINE PROPOSALS

Issues in this category are more likely to affect the structure and operation of the company and, therefore will have a greater impact on the value of a shareholder's investment. We will review each issue in this category on case-by case basis.

As previously stated, voting decisions will be made based on the financial interest of the plan beneficiaries. Non-routine matters include:

CLIMATE ACTION PLAN

Companies seeking shareholder approval for their Climate Action Plan should provide detailed disclosure that shows consistency with the Paris Agreement's goal of limiting global warming to well below 2 degrees, preferably 1.5 degrees, Celsius compared to pre-industrial levels and with achieving net zero by 2050. Careful consideration of the proposed plan will review several key factors, including: (i) whether the plan includes clear and measurable goals of short, medium and long-term emissions reduction targets; (ii) the effectiveness of the company's corporate governance framework to manage climate-related risks; (iii) the alignment of executive compensation and climate change metrics; (iv) how a company addresses its transition plan for employees, including training and support for new employment and disclosure of any job losses; and (v) the company's commitment to regularly report progress on its climate transition plan. A vote will be cast in favor where the Climate Action Plan provides the detailed specificity on key factors and against where the Plan lacks detail or ambition.

SPAC MERGER TRANSACTIONS

A Special Purpose Acquisition Corporation (SPAC) is a shell company created for the sole purpose of merging with a private company to take it public within a two-year timeframe as an alternative to the traditional IPO process. SPAC sponsors may hold founder shares and receive a premium regardless of the return to public investors. SPAC shareholders are entitled to vote on the transition to bring a specific private company public. A vote will be cast in favor where the stock of the merged entity will trade at a premium to the redemption value for public shareholders and against where it trades at a discount.

MERGERS/ACQUISITIONS AND RESTRUCTURING

Our analysis will focus on the strategic justifications for the transaction and the fairness of any costs incurred.

ADVISORY VOTES ON COMPENSATION POLICIES AND PRACTICES

To evaluate compensation policies and practices, the threshold query is “does a company’s compensation reflect its performance”? This will be determined by how a company has performed for shareholders compared to its peer group, as well as by how a company has compensated its executives compared to its peer group. Whether restricted stock awards are time vesting or performance vesting will also be taken into consideration. Additional queries will be made to determine the level of dilution in stock compensation plans, and to ascertain if golden parachutes have been awarded to executives and, if they have, whether they pay tax gross-ups. The ratio of pay to the CEO as compared to the average worker will also be taken into consideration as well as whether companies adjust GAAP metrics and the robustness of the explanatory disclosure. The threshold query will carry the most weight, but the additional queries can be persuasive in the event the answer to the threshold query is not clear cut. Related to advisory votes on compensation, we prefer an annual cadence for such advisory votes on compensation, rather than every two or three years.

ADVISORY VOTES ON SEVERANCE PACKAGES IN CONNECTION WITH MERGERS/ACQUISITIONS

The factors to weigh are whether the total payment is in excess of 2.99 times salary and bonus, whether excise taxes are grossed-up, if there is a double trigger for cash payments, and whether the accelerated vesting of stock awards is excessive.

FAIR-PRICE PROVISIONS

These are attempts to guard against two-tiered tender offers in which some shareholders receive less value for their stock than other shareholders from a bidder who seeks to take a controlling interest in the company. In such cases, there can be an impact on the long-term value of holdings in the event shareholders do not tender. Such provisions must be analyzed on a case-by-case basis.

REINCORPORATING/INVERSIONS

A company usually changes the state or country of its incorporation to take advantage of tax and corporate laws in the new state or country. These advantages should be clear and convincing and be supported by specific, legitimate business justifications that will enhance the company’s long-term value to shareholders and will be weighed along with any loss in shareholder rights and protections (e.g., dilution of management accountability and liability, anti-takeover devices), reputational risk, damage to governmental relationships, adverse impact on the company’s employees and erosion of the local/state/Federal tax base.

CHANGES IN CAPITALIZATION

Our inquiry will study whether the change is necessary and beneficial in the long-run to shareholders. Creation of blank check preferred stock, which gives the board broad powers to establish voting, dividend and other rights without shareholder review, will be opposed.

INCREASE IN PREFERRED AND COMMON STOCK

Such increases can cause significant dilution to current shareholder equity and can be used to deter acquisitions that would be beneficial to shareholders. We will determine if any such increases have a specific, justified purpose and if the amounts of the increase are excessive.

STOCK/EXECUTIVE COMPENSATION PLANS

The purpose of such plans should be to reward employees or directors for superior performance in carrying out their responsibilities and to encourage the same performance in the future. Consequently, the plan should specify that awards are based on the

EXECUTIVE'S/DIRECTOR'S PERFORMANCE AND THE COMPANY'S PERFORMANCE.

In the case of directors, their attendance at meetings should also be a requirement. In evaluating such plans, we will also consider whether the amount of the shares cause significant dilution (5% or more) to current shareholder equity, how broad-based and concentrated the grant rates are, if there are holding periods, if the shares are sold at less than fair market value, if the plan contains change-in-control provisions that deter acquisitions, if the plan has a reload feature, and if the plan allows the repricing of "underwater" options.

EMPLOYEE STOCK PURCHASE PLANS

These are broad-based, federally regulated plans which allow almost all fulltime and some part-time workers to purchase limited amounts of company stock at a slight discount. Usually the amount of dilution is extremely small. They will normally be supported because they do give workers an equity interest in the company and better align their interests with shareholders.

CREATION OF TRACKING STOCK

Tracking stock is designed to reflect the performance of a particular business segment. The problem with tracking stock is it can create substantial conflicts of interest between shareholders, board members and management. Such proposals must be carefully scrutinized and they should be supported only if a company makes a compelling justification for them.

APPROVING OTHER BUSINESS

Some companies seek shareholder approval of management being given broad authority to take action at a meeting without shareholder consent. Such proposals are not in the best interests of shareholders and will be opposed.

CORPORATE GOVERNANCE PROPOSALS

We will generally vote against any management proposal that is designed to limit shareholder democracy and has the effect of restricting the ability of shareholders to realize the value of their investment. Proposals in this category would include:

GOLDEN PARACHUTES

These are special severance agreements that take effect after an executive is terminated following a merger or takeover. In evaluating such proposals, we will consider the salaries, bonuses, stock option plans and other forms of compensation already available to these executives to determine if the additional compensation in the golden parachutes is excessive. Shareholder proposals requesting that they be approved by shareholders will be supported.

GREENMAIL PAYMENTS

Greenmail is when a company agrees to buy back a corporate raider's shares at a premium in exchange for an agreement by the raider to cease takeover activity. Such payments can have a negative impact on shareholder value. Given that impact, we will want there to be a shareholder vote to approve such payments and we will insist that there be solid economic justification before ever granting such approval.

SUPER MAJORITY VOTING

Some companies want a super majority (e.g., 66%) vote for certain issues. We believe a simple majority is generally in the best interest of shareholders and we will normally vote that way unless there is strong evidence to the contrary.

DUAL CLASS VOTING

Some companies create two classes of stock with different voting rights and dividend preferences. We will examine the purpose that is being used to justify the two classes as well as to whom the preferred class of stock is being offered. Proposals that are designed to entrench company management or a small group of shareholders at the expense of the majority of shareholders will not be supported. Proposals that seek to enhance the voting rights of long-term shareholders will be given careful consideration.

FAIR PRICE PROPOSALS

These require a bidder in a takeover situation to pay a defined "fair price" for stock. Our analysis will focus on how fairly "fair price" is defined and what other anti-takeover measures are already in place at the company that might discourage potential bids that would be beneficial in the long term to shareholders.

CLASSIFIED BOARDS

These are boards where the members are elected for staggered terms. The most common method is to elect one-third of the board each year for three-year terms. We believe the accountability afforded by the annual election of the entire board is very beneficial to stockholders and it would take an extraordinary set of circumstances to develop for us to support classified boards.

SHAREHOLDERS' RIGHT TO CALL SPECIAL MEETINGS AND ACT BY WRITTEN CONSENT

These are important rights for shareholders and any attempts to limit or eliminate them should be resisted. Proposals to restore them should be supported.

SHAREHOLDER PROPOSALS

Proposals submitted by shareholders for vote usually include issues of corporate governance and other non-routine matters. We will review each issue on a case-by-case basis to determine the position that best represents the financial interest of the Treasurer's Office. We generally do not support shareholder proposals that are overly prescriptive.

Shareholders matters include:

PUBLIC BENEFIT CORPORATION

A Public Benefit Corporation (PBC) is a legal status for a for-profit corporation that has a dual purpose of providing a public benefit, such as a fulfilling a social or environmental mission. A vote may be cast in favor of a proposal seeking the conversion to a PBC where the entity ensures no shareholder rights are weakened and where the entity does not subordinate financial return for the public benefit. Additional criteria to evaluate the firm's readiness to sustain success as a PBC include: (i) company performance over the past five years; (ii) approach and history with the stated public benefit it seeks to achieve; (iii) designated board committee to oversee the transition; (iv) absence of a dual class stock structure with different voting rights and (v) shareholder rights in the form of ability to call a special meeting, act by written consent and proxy access.

DIVERSITY

Research demonstrates that a board comprised of diverse directors is better equipped to ensure multiple perspectives are considered and better positioned to enhance long-term company performance within a marketplace defined by extensive diversity and multiculturalism. Diversity is inclusive of gender, race/ethnicity, skill sets, professional backgrounds, and LGBTQ status. We will support proposals that encourage diverse representation on the board and those that aim to expand the search for diverse candidates, including proposals asking companies to make greater efforts to diversify their boards and proposals to report to shareholders on those efforts and on the process of selecting nominees.

Workforce diversity is another important value driver and can provide insight into a company's management of its human capital. We will support proposals that encourage disclosure of EEO-1 information.

Proposals calling for Racial Equity Audits, which generally consist of an objective investigation into a company's practices, policies and histories to determine such company's impact on social issues and areas for improvement, will be evaluated on a case-by-case basis.

We generally support proposals that request that a company measure and report on pay equity based on race, gender, or other appropriate categories, as well as proposals that a company report on its policies and goals to reduce pay gaps.

POISON PILL PLANS

These plans are designed to discourage takeovers of a company, which can deny shareholders the opportunity to benefit from a change in ownership of the company. Shareholders have responded with proposals to vote on the plans or to redeem them. In reviewing such plans, we check whether the poison pill plans were initially approved by shareholders and what anti-takeover devices are already in place at the company.

INDEPENDENCE OF BOARDS AND AUDITORS

The wave of corporate/audit scandals at the start of the 21st Century provided compelling evidence that it is in the best interests of shareholders to support proposals seeking increased independence of boards (e.g., requiring supermajority of independents on boards, completely independent nominating, compensation and audit committees, stricter definitions of "independence", disclosures of conflicts of interest) and auditors (e.g., eliminate or limit “other” services auditors perform, rotation of audit firms). A related issue is the independence of analysts at investment banking firms. Proposals seeking to separate the investment banking business from the sell-side analyst research and IPO allocation process should be supported.

CUMULATIVE VOTING

This allows each shareholder to vote equal to the number of shares held multiplied by the number of directors to be elected to the board. Shareholders can then target all their votes for one of a few candidates or allocate them equally among all candidates. It is one of the few ways shareholders can attempt to elect board members. In studying cumulative voting proposals, we will review the company’s election procedures and what access shareholders have to the nominating and voting process.

CONFIDENTIAL VOTING

Most voting of proxies in corporate America is not confidential. This opens the process to charges that management pressures shareholders or their investment managers to vote in accordance with management’s recommendations. We believe the concept of confidential voting is so fundamental to the democratic process and is so much in the best interest of shareholders that we would oppose it only in the most extraordinary circumstances.

SHAREHOLDER ACCESS TO THE PROXY FOR DIRECTOR NOMINATIONS

Proposals to provide shareholders access to the company proxy statement to advance non-management board candidates will generally be supported if they are reasonably designed to enhance the ability of substantial shareholders to nominate directors and are not being used to promote hostile takeovers.

SEPARATE CHAIRPERSON AND CHIEF EXECUTIVE OFFICER

The primary purpose of the board of directors is to protect shareholder interests by providing independent oversight of management. If the Chair of the Board is also the Chief Executive Officer of the company, the quality of oversight is obviously hindered. Therefore, proposals seeking to require that an independent director serve as Chair of the Board will be supported. An alternative to this proposal would be the establishment of a lead independent director, who would preside at meetings of the board’s independent directors and coordinate the activities of the independent directors.

TERM LIMIT FOR DIRECTORS

Proposals seeking to limit the term for directors will normally not be supported because they can deny shareholders the service of well-qualified directors who have effectively represented shareholder interests.

GREATER TRANSPARENCY AND OVERSIGHT

Shareholders benefit from full disclosure of board practices and procedures, company operating practices and policies, business strategy, and the way companies calculate executive compensation. Proposals seeking greater disclosure on these matters will generally be supported.

EXECUTIVE/DIRECTOR COMPENSATION

Proposals seeking to tie executive and director compensation to specific performance standards, to impose reasonable limits on it or to require greater disclosure of it are in the best interests of shareholders. The expense of options should be included in financial statements (as required in Canada). Financial performance is the traditional measurement for executive compensation—the more specific the better. Where executive pay is based on metrics that are improved through share repurchases the impact of repurchases should be neutralized to avoid artificially inflating executive pay. Other performance measures can be a useful supplement to the traditional financial performance measurement and are worthy of consideration. Examples are regulatory compliance, international labor standards, high performance workplace standards and measures of employee satisfaction.

HIGH PERFORMANCE WORKPLACES

We will support proposals encouraging high-performance workplace practices identified in the Department of Labor's report[1] that contribute to a company's productivity and long-term financial performance.

CODES OF CONDUCT

Proposals seeking reports on and/or the implementation of such commonly accepted principles of conducts as the Ceres Principles (environment), MacBride Principles (Northern Ireland), Code of Conduct for South Africa, United Nations' International Labor Organization's Fundamental Conventions, fair lending practices and the U.S. Equal Employment Opportunity Commission are in the best interests of shareholders because they provide useful information and promote compliance with the principles.

PENSION CHOICE

There has been a recent trend by companies to convert traditional defined benefit pension plans into cash-balance plans. This has proved controversial because cash-balance plans often hurt older workers and may be motivated by a company's desire to inflate its book profits by boosting surpluses in its pension trust funds. Proposals giving employees a choice between maintaining their defined benefits or converting to a cash-balance will generally be supported.

SAY ON PAY

Say on Pay proposals will be supported because they give shareholders meaningful input on a company's approach to executive compensation without entangling them with the micromanagement of specific plans.

MAJORITY VOTE STANDARD FOR DIRECTOR ELECTIONS

For years, most boards of directors were elected by a plurality vote standard—nominees who get the most votes win. In a non-contested election (which most are) the only vote options are "for" and "withhold authority." That means a nominee could have only one share cast "for" him/her and still be elected, regardless of how many shareholders withheld their votes for that nominee. Therefore, proposals requesting that nominees in non-contested elections receive a majority of the votes cast will be supported.

[1] U.S. Bureau of Labor Statistics, "High Performance Work Systems and Firm Performance. Available at https://www.bls.gov/opub/mlr/1995/article/high-performance-work-systems-and-firm-performance.htm.

CLIMATE-RELATED DISCLOSURES AND RISK MANAGEMENT

Proposals will generally be supported that request companies disclose how they may be impacted by climate-related risks and opportunities, how they oversee climate-related risks and opportunities and how they plan to deliver long-term financial performance while prioritizing a just transition for workers and communities and operating under a scenario in which global warming is limited to well below 2°Celsius, and considering global ambitions to achieve a limit of 1.5°Celsius.

We generally support requests for companies to disclose quantifiable targets to reduce greenhouse gas emissions and to disclose their performance against such goals. We generally support proposals that encourage disclosure of just transition considerations and corporate strategies to manage human capital and community relations risks and opportunities related to energy transition activities.

BIODIVERSITY DISCLOSURES AND RISK MANAGEMENT

Proposals that ask companies to provide disclosure on how their business relies on and uses natural capital, including disclosure of a company's oversight processes for nature-related risks and opportunities, will generally be supported when a company's business strategy is heavily reliant on the availability of natural resources or when a company's supply chains are exposed to locations with material nature-related risks.

HUMAN CAPITAL MANAGEMENT

We will generally support proposals that ask companies to provide disclosure on how it manages its human capital, including disclosure of four foundational metrics: (1) Workforce headcount – including the number of employees of the organization, broken down by part-time, full-time, contingent; (2) Total cost of the work force – including wages, benefits and other employee expenses and investment in the workforce; (3) Workforce stability metrics – including turnover data, and actions to attract and retain workers; and (4) Workforce diversity data – including gender, racial, ethnic, LGBTQ+ diversity broken down by seniority and employee bands/levels.

POLITICAL SPENDING AND LOBBYING

We generally support proposals advocating for board oversight of political spending, lobbying activities and trade association memberships, and for proposals requesting a reasonable level of company reporting on the amounts and recipients of such expenditures. Beyond board oversight and company reporting, we generally support proposals that require companies to report on the extent to which the company's political spending and lobbying activities (either directly or through trade association memberships) are in alignment with the stated goals or strategies of the company.

MUTUAL FUND PROXIES

MANAGEMENT PROPOSALS FOR MUTUAL FUNDS

ELECTION OF TRUSTEES

Generally, vote in favor of the board of trustees unless the board lacks independence, has been unresponsive to investor concerns or has lost investor confidence in their stewardship of the fund.

RATIFICATION OF AUDITORS

A vote generally will be cast in favor of the auditors unless the amount paid for non-audit work is substantial enough to raise concerns about a potential conflict of interest to audit work.

AMEND DECLARATION OF TRUST
A vote generally will be cast in favor of amendments that are procedural in nature and against amendments that include changes adverse to investor interests.

APPROVE REORGANIZATION OF FUNDS
A vote generally will be cast in favor of a reorganization of funds to decrease operating expenses. A vote generally will be cast against if a reorganization significantly changes the mandate of a fund to the detriment of the investor's interest.

CONVERTING CLOSED-END FUND TO OPEN-END FUND
Vote case-by-case on conversion proposals, considering the following factors:

• Measures taken by the board to address the discount;
• Past performance as a closed-end fund;
• Market in which the fund invests; and
• Past shareholder activism, board activity, and votes on related proposals.

AMEND INVESTMENT POLICY
A vote generally will be cast in favor of amendments that are procedural in nature and against amendments that include changes adverse to investor interests upon consideration and evaluation of the specific changes.

APPROVE HIRING OF A NEW MANAGER
In the absence of any specific concerns, a vote generally will be cast in favor of proposals seeking to hire a new manager.

APPROVE A NEW SUB ADVISORY AGREEMENT
Vote case-by-case on such proposals taking into consideration the need for efficiencies in manager selection, the firm's capabilities and the rationale for a new agreement.

VOTE UPON SUCH OTHER MATTERS AS MAY PROPERLY COME BEFORE THE MEETING
A vote generally will be cast against this proposal because it provides approval for undisclosed items.

APPROVE CHANGE TO FUNDAMENTAL INVESTMENT OBJECTIVE OR POLICY
A vote generally will be cast against changes to fundamental investment objectives or fundamental investment policy if the changes are not adequately explained or significantly alter the terms of the investment.

APPROVE A FUND'S SERVICE AGREEMENT
A vote generally will be cast in favor of service agreements that are procedural in nature and against service agreements that include changes adverse to investor interests.

FEE STRUCTURE
Funds may seek changes to the fee structure through revenue sharing agreements or alternative arrangements, which will only be supported if the changes are unlikely to result in overall increased fees to the investor.

AUTHORIZING THE BOARD TO HIRE AND TERMINATE SUBADVISORS WITHOUT SHAREHOLDER APPROVAL

A vote will be cast against proposals authorizing the board to hire or terminate subadvisors without shareholder approval.

SHAREHOLDER PROPOSALS FOR MUTUAL FUNDS

A vote will be cast in favor of reporting and transparency about issues that may impact a fund's performance or risk profile. Requests for further action by the fund, such as divestment, will be assessed on a case-by-case basis.

2023—2024

ANNUAL SUSTAINABLE INVESTMENT REPORT

Michael W. Frerichs
Illinois State Treasurer