STATE BOARD of ADMINISTRATION

Comprehensive Report Regarding Governance Policies and Fiduciary Compliance as Required Pursuant to Section 112.662(4)(a), Florida Statutes

December 15, 2023

SBA FLORIDA
STATE BOARD OF ADMINISTRATION

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Comprehensive Report Regarding Governance Policies and Fiduciary Compliance as Required Pursuant to Section 112.662(4)(a), Florida Statutes

The State Board of Administration (the "SBA") hereby submits this comprehensive report to the Governor, the Attorney General, the Chief Financial Officer, the President of the Senate, and the Speaker of the House of Representatives pursuant to Section 112.662(4)(a), Florida Statutes, which provides:

> *By December 15, 2023, and by December 15 of each odd-numbered year thereafter, each retirement system or plan shall file a comprehensive report detailing and reviewing the governance policies concerning decision making in vote decisions and adherence to the fiduciary standards required of such retirement system or plan under this section, including the exercise of shareholder rights.*
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> > *1. The State Board of Administration, on behalf of the Florida Retirement System, shall submit its report to the Governor, the Attorney General, the Chief Financial Officer, the President of the Senate, and the Speaker of the House of Representatives.*
> >
> > *2. All other retirement systems or plans shall submit their reports to the Department of Management Services.*

Introduction

The SBA is responsible for investing the assets of the Florida Retirement System Pension Plan (the "FRS Pension Plan"), which is the fifth largest public pension plan in the United States and has assets in excess of $185 billion as of June 30, 2023. In managing these assets, the SBA is subject to the fiduciary requirements imposed under Section 112.662 and Section 215.47(10), Florida Statutes. In the 2023 regular legislative session, the Florida Legislature passed House Bill 3, which upon execution by the Governor became Chapter 2023-28, Laws of Florida ("HB 3"). This legislation further defined the fiduciary standards imposed on the SBA's management of the funds of the FRS Pension Plan, including the governance and proxy voting rights associated with the investments of the FRS Pension Plan. In particular, this legislation requires all investment and proxy voting decisions to be based on pecuniary considerations and prohibits investment or voting decisions made for the furtherance of social, political or ideological interests.

The SBA has robust procedures in place to ensure compliance with its fiduciary duties and has further refined those procedures to incorporate the requirements of HB 3. In making investment decisions, the SBA abides by its fiduciary duties by prudently establishing investment allocations by asset types, establishing asset classes to manage each asset type within the set allocations, establishing investment processes within each asset class, and establishing oversight and reporting processes to confirm that the investment processes have been followed. The SBA

has adopted an Investment Policy Statement that establishes investment allocations and has adopted written internal policies that govern its asset classes and investment processes.

Similarly, the SBA has adopted Corporate Governance and Proxy Voting Guidelines (the "Proxy Voting Guidelines") and associated written policies to ensure compliance with its fiduciary duties for governance and proxy voting purposes. The Proxy Voting Guidelines establish the principles associated with proxy voting decisions and specify that such decisions must be made in conformity with the guidelines set in HB 3. The SBA has engaged information service providers to obtain relevant information regarding each voting decision and evaluates each voting decision based upon that information as applied through the principles of the Proxy Voting Guidelines. Finally, the SBA provides regular updates to its Trustees and oversight groups regarding its proxy voting decisions and produces an annual proxy voting report that is available to the public.

Background and Governing Law

Governing Law

I. Historical Summary of Section 215.47(10) and ERISA Fiduciary Duty

The SBA has historically been subject to the standard of care set forth in Section 215.47(10), Florida Statutes, which provided:

> *(10) Investments made by the State Board of Administration shall be designed to maximize the financial return to the fund consistent with the risks incumbent in each investment and shall be designed to preserve an appropriate diversification of the portfolio. The board shall discharge its duties with respect to a plan solely in the interest of its participants and beneficiaries. The board in performing the above investment duties shall comply with the fiduciary standards set forth in the Employee Retirement Income Security Act of 1974 at 29 U.S.C. s. 1104(a)(1)(A) through (C). In the case of conflict with other provisions of law authorizing investments, the investment and fiduciary standards set forth in this subsection shall prevail.*

This standard of care has 3 components: (1) the Duty of Prudence, (2) the Duty of Loyalty and (3) Duty to Diversify.

The duty of prudence requires the SBA to act with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like aims. ERISA §404(a)(1)(B). This has two components: substantive prudence (the merits of an investment decision) and procedural prudence (the process of an investment decision).

Under the duty of substantive prudence, when making investment decisions, the SBA is required to act as a prudent expert would under similar circumstances, taking into account all relevant substantive factors, as such appeared at the time of the decision. Under the duty of procedural prudence, the SBA is required to exercise due diligence when making investment

decisions, including ascertaining relevant facts, investigating options and alternatives and obtaining expert advice, if necessary or appropriate.

The duty of loyalty requires the SBA to act solely in the interest of the FRS Pension Plan's participants and beneficiaries and for the exclusive purpose of: (i) providing benefits to participants and their beneficiaries; and (ii) defraying reasonable expenses of administering the plan. Any decision to invest must be exclusively grounded in economic considerations.

The duty to diversify investments requires that the SBA diversify investments so as to minimize the risk of large losses, unless under the circumstances, it is clearly prudent not to do so. The SBA undertakes this duty as an element of the asset-liability and asset allocation exercises that are discussed later in this report. Historically, the SBA has invested in multiple asset classes that include a diversified mix of investments that have included public and private equity, real estate, fixed income, alternative investments and cash.

II. Resolution and Investment Policy Statement

On August 23, 2023, the SBA's Trustees adopted a Resolution Directing an Update to the Investment Policy Statement and Proxy Voting Policies of the Florida Retirement System Defined Benefit Pension Plan and Directing the Organization and Execution of an Internal Review (the "Resolution"). The Resolution established guidelines for the implementation of the standard of care of Section 215.47(10) and included three provisions: (1) the initiation of a process to update the Investment Policy Statement to provide that an "investment decision must be based only on pecuniary factors;" (2) requiring that all proxy voting decisions must be consistent with the above-described duties of prudence and loyalty and "may not sacrifice investment return or take on additional risk to promote non-pecuniary factors;" and (3) requiring a comprehensive review and report relating to governance policies, which must be submitted to the Trustees no later than December 15, 2023. Pursuant to the Resolution, the Trustees adopted a revision of the Florida Retirement System Defined Benefit Plan Investment Policy Statement on January 17, 2023 (the "IPS"), which, under Item III, incorporated the three provisions of the Resolution.

III. Chapter 2023-28, Laws of Florida; Section 112.662, Florida Statutes

Chapter 2023-28, Laws of Florida ("HB 3"), further incorporated these provisions into Florida law, effective as of July 1, 2023. HB 3 created new Section 112.662, Florida Statutes. Section 112.662(1) defines "pecuniary factor" as a factor that the SBA prudently determines is expected to have a material effect on the risk or returns of an investment based on appropriate investment horizons consistent with the investment objectives and funding policy of the Fund. The term does not include the consideration of the furtherance of any social, political or ideological interests.[1]

New Section 112.662(2) provides when deciding to invest and when investing assets of the Fund, the SBA may only consider pecuniary factors and the interests of the participants and beneficiaries may not be subordinated to other objectives including sacrificing investment return or undertaking additional risk to promote any nonpecuniary factor. The weight given to any

[1] With respect to the SBA, this definition is also included in Section 215.47(10)(a).

pecuniary factor must appropriately reflect a prudent assessment of its impact on risk and returns. This provision addresses the standard of care in making investment decisions.[2]

New Section 112.662(3) provides when deciding whether to exercise shareholder rights or when exercising such rights for the Fund, including voting of proxies, the SBA may consider only pecuniary factors and the interests of the participants and beneficiaries may not be subordinated to other objectives including sacrificing investment return or undertaking additional risk to promote any nonpecuniary factor. This provision addresses the standard of care in exercising shareholder rights.

New Section 112.662(4)(a) requires by December 15, 2023 (and every December 15 of every odd year thereafter) that the SBA (on behalf of the Fund) prepare a comprehensive report detailing and reviewing the governance policies concerning decision making in vote decision and adherence to the fiduciary standards required of the Fund **under this section** (emphasis added), including the exercise of shareholder rights. As a result, the report must address both the standard of care in evaluating investment decisions, as required by s. 112.662(2), and the standard of care in exercising shareholder rights, as required by s. 112.662(3).

IV. HB 3; Revised Subsection 215.47(10), Florida Statutes

HB 3 also included revisions to Subsection 215.47(10), Florida Statutes, to include parts of these new provisions. New Subsection 215.47(10)(a) incorporates the same definition of "pecuniary factor" as that set forth in new Section 112.662(1). New Subsection 215.47(10)(b) incorporates the same Pecuniary Factors Standard of Care as that set forth in new Section 112.662(2). Finally, Subsection 215.47(10)(c) restates the historic standard of care from the previous version of Section 215.47, but further provides that this standard is subordinate to the pecuniary factors standard of care of Section 215.47(10)(b) in the event of a conflict.

Newly created Section 112.662(1) – (3) and Section 215.47(10)(a) and (b) build upon and clarify the duty of prudence and duty of loyalty of the original Section 215.47(10). These provisions make it clear that the exercise of the duty of prudence (substantive prudence and procedural prudence) and duty of loyalty should include considering only pecuniary factors (as defined by the law) and not factors in the furtherance of any social, political or ideological interests. This is the current duty of prudence and loyalty to which the SBA is subject.

Compliance Report

SBA Actions to Comply with Governing Law and Standard of Care in Evaluating Investment Decisions.

The SBA has robust procedures in place to ensure its compliance with its fiduciary obligations. This begins with the process of developing the overall asset allocation for the FRS Pension Plan - which is the most important driver of the SBA's investment performance for the FRS Pension Plan. In establishing the asset allocation, the SBA considers the actuarial valuations

[2] With respect to the SBA, the definition is also included in Section 215.47(10)(b).

and asset-liability studies of the FRS Pension Plan. These studies help to inform the SBA of the requirements to meet the payment obligations of the FRS Pension Plan. After obtaining an understanding of these requirements, the SBA develops an asset allocation that in its view at the time will have the best likelihood of meeting these obligations, considering the available investment universe, prevailing rates of returns, various likely future economic conditions, the SBA's legal constraints and expected risk inherent in the investment options. This asset allocation is established through the adoption of an Investment Policy Statement ("IPS").

As discussed in more detail below, the importance of asset allocation (as ultimately reflected in the IPS) is demonstrated by the statutory requirement requiring the Trustees, the Investment Advisory Council and the Executive Director to have an express role in its development.

I. Asset Allocation and Development of Investment Policy Statement ("IPS") – Total Fund Issues

A. Description of the SBA's Review of Actuarial Valuations and Asset-Liability Studies of the FRS Pension Plan

Section 121.031(3), Florida Statutes, provides for an annual actuarial valuation of the FRS Pension Plan. The Department of Management Services, Division of Retirement, conducts the official actuarial valuation through an independent outside actuary, Milliman. However, prior to completion of that valuation, legislative and executive branch staff meet in a Florida Retirement System Actuarial Assumption Conference, to which the SBA and the Division of Retirement serve as resources. Section 216.136(10), Florida Statutes, provides:

> *The Florida Retirement System Actuarial Assumption Conference shall develop official information with respect to the economic and noneconomic assumptions and funding methods of the Florida Retirement System necessary to perform the system actuarial study undertaken pursuant to s. 121.031(3). Such information shall include: an analysis of the actuarial assumptions and actuarial methods used in the study and a determination of whether changes to the assumptions or methods need to be made due to experience changes or revised future forecasts.*

As part of this annual process, pursuant to Section 121.013(2), Florida Statutes, the SBA reviews the actuarial valuation report as well as the processes by which the Florida Retirement System Contribution Rates are determined and submits comments regarding the process to the Legislature. The SBA typically submits comments prior to the Annual Assumptions Conference.

One of the key assumptions used in determining the Florida Retirement System Contribution Rates is the assumed rate of return on Pension Plan investments. Because this rate of return is the rate by which future benefit payments are discounted to present value in the actuarial valuation report, the level and reasonableness of this rate can have a substantial impact on the funded status of the Pension Plan as well as the level of contribution rates. Because of the impact of the assumed rate of return on the Pension Plan's liability, applicable accounting pronouncements require the rate to be reasonable, otherwise a different rate must be used in presenting the Pension Liability in the State's financial statements.

The SBA has historically been invited to present to the Assumptions Conference conferees on its view on markets and expected forward-looking rates of return which may be taken into account by the conferees in determining the assumed rate of return for the actuarial study and in setting the Pension Plan contribution rates. The SBA's views on forward looking rates of return are generally the same views expressed in the asset-liability and asset allocation exercises the SBA undertakes as discussed below.

The Florida Retirement System Actuarial Assumption Conference met publicly on October 20, 2022, and affirmed the assumptions and methods to be used for the 2022 actuarial valuation (i.e., measured with plan data effective July 1, 2022). Milliman provided preliminary valuation data and analysis of key assumptions (e.g., wage and workforce growth rates, expected investment returns, inflation, etc.). Milliman published the final 2022 actuarial valuation in December 2022 and calculated an unfunded actuarial liability of $38.3 billion (a $3.5 billion increase from 2021) and a funded ratio by actuarial value of assets at 82.4% (a 1.0% decrease from 2021). At this meeting, the Assumptions Conference, following the recommendation of the SBA, reduced the assumed rate of return to 6.70% from 6.80%.

The Florida Retirement System Actuarial Assumption Conference again met publicly on October 23, 2023, and affirmed the assumptions and methods to be used for the 2023 actuarial valuation (i.e., measured with plan data effective July 1, 2023). Milliman provided preliminary valuation data and analysis of key assumptions (e.g., wage and workforce growth rates, expected investment returns, inflation, etc.). The SBA expect Milliman to publish the final 2023 actuarial valuation in December 2023, including the unfunded actuarial liability and funded ratio. The preliminary actuarial valuation provided by Milliman at this meeting calculated an unfunded liability of $42.0 billion for 2023, up from $38.3 billion in the previous year, due largely to the effects of additional benefit provisions enacted during the 2023 legislative session. During this meeting the Assumptions Conference, again in line with SBA recommendations, kept the assumed rate of return steady at 6.70% which represented no change from the previous year.

While the SBA does not perform an independent actuarial valuation of the FRS Pension Plan, the SBA utilizes a form of actuarial analysis, known as an asset-liability study, to establish and manage its investment policy and asset allocation. Periodically, the SBA conducts extensive asset-liability studies to ensure that FRS Pension Plan assets are invested appropriately for the plan to be maintained in a manner that ensures the timely payment of promised benefits to current and future retirees and that keeps plan costs at a reasonable level. The study assesses investment policy and asset allocation in light of projected benefit payments (i.e., future liabilities) and expected investment performance and risks over a 15- to 30-year period.

Specifically, based on the SBA's and its consultants' views of prevailing equity risk premia and long-term capital market assumptions, various combinations of risk-seeking and non-risk-seeking assets are analyzed over several thousand economic scenarios. The SBA then utilizes the output of this stochastic process to assist in determining the split between risk-seeking and non-risk seeking assets in its asset allocation. From this point, a similar portfolio construction exercise is carried out on each of the risk-seeking and non-risk-seeking components, again incorporating the SBA's and its consultants' views on capital market assumptions and equity risk premia, to

determine the specific asset classes and asset class weights that will ultimately comprise the SBA's asset allocation for the Florida Retirement System Pension Plan.

The SBA's general consultant, Aon Investments USA, Inc. (Aon), presented an asset-liability status update to the Investment Advisory Council (IAC) on September 13, 2022. The asset-liability study was based on Milliman's 2021 actuarial valuation as well as developments in the capital markets.

In reviewing the Asset Liability Study, and in light of a then on-going Asset Class Structural Review of the Strategic Investment Asset Class, the IAC requested a full asset allocation review, which was conducted over a six-month period of time, culminating in final asset allocation recommendations to the IAC, which were approved by the IAC in the June 27, 2023, meeting. On October 25, 2023, the SBA's Trustees adopted an updated FRS Pension Plan Investment Policy Statement to reflect the recommended asset allocation. This updated Investment Policy Statement will become effective on January 1, 2024.

The asset allocation approved in the June 27, 2023, IAC meeting and the updated Investment Policy Statement calls for modifying the target allocations of the SBA's asset classes, changing the benchmark for the Fixed Income Asset Class, modifying the objectives of the Strategic Investment Asset Class and creating a new Active Credit Asset Class. The current and proposed asset class targets are set out in the chart below:

Current and Proposed Target Allocations

Asset Class	Proposed Target Allocation	Current Target Allocation	Target Allocation Change
Global Equity	45%	53%	-8%
Fixed Income	21%	18%	+3%
Active Credit	7%	0%	+7%
Real Estate	12%	10%	+2%
Private Equity	10%	6%	+4%
Strategic Investments	4%	12%	-8%
Cash Equivalents	1%	1%	0%
Total Fund	100%	100%	--

Based on this asset allocation, the split between risk-seeking and non-risk-seeking assets is approximately 78% risk-seeking, 21% non-risk seeking, representing a change from 81% risk-seeking and 19% non-risk-seeking assets in the previous asset allocation. The current expected return on the new asset allocation is expected to be approximately the same expected return as the previous asset allocation, i.e., 7.30% for the new allocation vs. 7.27% for the previous allocation. However, the expected portfolio volatility, i.e., risk, for the new asset allocation is projected to be significantly lower, 11.18% vs. 12.29% for the previous asset allocation. Based on the information available to the SBA and its consultants, the new asset allocation is expected to generate a higher

risk adjusted return (i.e., more units of return per unit of investment risk taken) than the previous asset allocation.

While this projected forward looking return expectation exceeds the current assumed rate of return established by the Assumptions Conference in 2022, it should be noted that this return assumes "instantaneous" implementation of the asset class targets. In reality, there will need to be a reasonable period of transition to these targets, which would be expected to impact the ultimate actual realized return. Moreover, the above projections are based on the best information available to the SBA and it should be expected that actual returns will deviate from projected returns and could deviate substantially and materially from projected returns.

B. Description of Process to Change the Investment Policy Statement Pursuant to Section 215.475, Florida Statutes, and the Role of Total Fund Consultant

Section 215.475, Florida Statutes, requires the SBA to conform with the Investment Policy Statement in making investments, and further requires the Investment Policy Statement to conform to the fiduciary duties of Section 215.47(10). Specifically, Section 215.475, Florida Statutes, provides:

> *(1) In making investments for the System Trust Fund pursuant to ss. 215.44 – 215.53, the board shall make no investment which is not in conformance with the Florida Retirement System Defined Benefit Plan Investment Policy Statement, hereinafter referred to as "the IPS," as developed by the executive director and approved by the board. The IPS must comply with s. 215.47(10) and include, among other items, the investment objectives of the System Trust Fund; permitted types of securities in which the board may invest; and evaluation criteria necessary to measure the investment performance of the fund. As required from time to time, the executive director of the board may present recommended changes in the IPS to the board for approval.*
>
> *(2) Prior to any recommended changes in the IPS being presented to the board, the executive director of the board shall present such changes to the Investment Advisory Council for review. The council shall present the results of its review to the board prior to the board's final approval of the IPS or changes in the IPS.*

1. Investment Policy Statement

The SBA's Executive Director is responsible for the development of the IPS and has charged the SBA's Senior Investment Policy Officer (the "SIPO") with primary responsibility for the asset allocation process, which includes the internal development and review of the IPS.

The IPS defines the SBA's investment objectives, the asset classes, the target asset allocation, the permissible ranges for asset allocations and the performance benchmarks for the total funds and asset classes. In developing the target asset allocation, assumptions are made regarding the asset classes' long run total return, the volatility of total return and the correlation of returns between the asset classes. In addition, assumptions are made regarding the FRS Pension Plan's liability structure. The principal source of information is the actuarial valuation review,

which incorporates its own assumptions related to investment return, inflation, cost-of-living adjustments for retirees and employees, total payroll growth, merit pay, mortality, incidences of retirement, turnover and disability. Together with the capital market assumptions, this allows a probabilistic determination of the expected FRS Pension Plan's funded ratio over the planning horizon.

Assumptions are also made regarding the balance between the demand on the FRS Pension Plan for cash flow to meet current benefit payments and the supply of available cash flow from employer contributions, income earnings and liquidations.

2. Investment Policy Statement Review Process

The SBA periodically reviews the FRS Pension Plan's assets and liabilities and evaluates whether any changes are necessary to the IPS. Triggering events for special reviews may include:

- Programmatic changes to the asset-liability structure of the FRS Pension Plan
- Legislative changes affecting contribution or benefit levels for the FRS Pension Plan
- Financial innovations

Existing capital market assumptions are reviewed in light of:

- The absolute historical return, volatility and correlation experience over long and short periods of time
- The performance of each asset class target index relative to the broadest asset class market index and alternative partitions of the broad index
- Current research on financial market liquidity and transaction costs
- Current research on asset class definitions and optimal allocations
- Innovations that may have altered the set of available financial instruments

The existing liability and cash flow assumptions are reviewed in light of:

- The consistency of the actuarial assumptions with other objective expert opinions
- Known or expected changes to the balance between the demand on the FRS Pension Plan for cash flow to meet current benefit payments and the supply of available cash flow from employer and employee contributions and income earnings

New capital market assumptions might be adopted in light of:

- The absolute historical return, volatility and correlation experience over long and short periods of time
- The performance of each asset class target index relative to the broadest asset class market index and alternative partitions of this broad index
- Current research on financial market liquidity and transaction costs
- Current research on optimal asset class definitions and allocations
- Innovations that may have altered the set of available financial instruments

The SIPO, working with the SBA's consultants, prepares a due diligence report which includes methods, findings, and recommendations. The report also contains an analysis of the

probability of meeting the investment objectives for the total fund over various horizons and is provided to the SBA's Senior Leaders Group for review.

On an ongoing basis, the SIPO determines whether current and expected economic and financial conditions imply that the FRS Pension Plan will fail to meet investment objectives over the intermediate term. If there is a high probability of this occurrence, the SIPO evaluates active tactical asset allocation strategies and presents findings to the SBA's Senior Leaders Group.

3. Monitoring and Measurement

The SIPO is responsible for monitoring and measuring the accuracy of the asset allocation assumptions. Annual monitoring and measurement of the majority of the assumptions is unlikely to be productive since actual results will naturally vary from the assumptions from year to year. However, annual monitoring is appropriate to detect triggering events such as those listed above. In the absence of major economic and political shocks, the regular period for monitoring and measurement will be every three to five years.

The SIPO monitors and measures the risk of meeting the SBA's investment objectives as stated in the IPS. Risk is measured through confidence interval analysis of the total fund. Total fund investment performance is tabulated and compared to the target return in the Monthly Report, the Quarterly Investment Review by the SBA's general consultant, and in the Annual Investment Report to the Legislature.

On an ongoing basis, the SIPO monitors whether an active tactical asset allocation stance is warranted in order to counteract poor market returns.

4. Risk Constraints

Material triggering events will prompt the SIPO to review the assumptions made in developing the existing IPS. In the absence of triggering events, the IPS is reviewed every three to five years. The SBA's Senior Leaders Group reviews the SIPO's due diligence reports.

Through the use of Monte Carlo simulations and working with SBA consultants, the SIPO can estimate the likelihood that the investment return of the total fund portfolio will underperform the target return over various horizons. By altering the target asset allocation, the SIPO can impact the expected level of this risk. The SBA's Senior Leaders Group provides guidance on the appropriate level of this risk.

Although the return on the total fund is heavily exposed to the vagaries of the financial markets, the SBA and its investment managers have a limited ability to counter low market returns through the active management of the asset class mix and individual portfolios. The SIPO will utilize reliable economic forecasting and tactical asset allocation services and models to recommend when an active tactical asset allocation change is warranted. Tactical asset allocation decisions are governed by a rebalancing and liquidity policy.

C. Summary of Investment Policy Statement and Description of Changes Made During the Period

The IPS provides a brief description of the SBA and the Florida Retirement System. It specifically adopts the pecuniary factors standard of care set forth in new Section 215.47(10), 112.656 and 112.662, Florida Statutes, and in the Trustee's August 2023 Resolution, including the requirement to apply the standard of care in the exercise of proxy voting rights and requires the preparation of a report regarding the SBA's compliance with these duties. Under the IPS the SBA's Executive Director is charged with the responsibility for managing and directing administrative, personnel, budgeting, and investment functions, including the strategic and tactical allocation of investment assets and with developing specific individual investment portfolio objectives and policy guidelines. The IPS provides for a targeted real rate of return for the Fund. To achieve this investment objective, the IPS establishes a target portfolio and asset allocation ranges. The asset allocation is established in concert with investment objectives, capital market expectations, projected actuarial liabilities, and resulting cash flows. The IPS also provides for performance measurement of the Fund and establishes a benchmark for each asset class. Finally, the IPS requires the SBA to develop investment guidelines for each asset class, including the requirements of the "Protecting Florida's Investments Act" and the preparation of certain periodic investment reports to track the performance of the Fund.

On September 13, 2022, the IAC recommended the approval of a revised IPS to the SBA's Trustees. The Trustees adopted the revised IPS effective as of January 17, 2023 (the "2023 IPS"). The 2023 IPS included a revision to incorporate the guidelines for the implementation of the standard of care of Section 215.47(10), as originally set forth in the Trustee's Resolution of August 2023.

On June 27, 2023, the IAC recommended a further revision of the IPS to the SBA's Trustees. The Trustees reviewed and adopted this revision on October 25, 2023, with an effective date of January 1, 2024 (the "2024 IPS"). The 2024 IPS included revisions to: (1) add a reference to the revisions to Section 112.662, (2) add a reference to the requirement of this Report, (3) revise the long term return objective of the FRS Pension Plan, (4) update the risk and return expectations of the FRS Pension Plan, (5) update the asset class target allocations and create a new Active Credit asset class, (6) update projected cash outflows, (7) add a new benchmark for the Active Credit asset class and update the benchmarks for the Real Estate, Private Equity and Strategic Investments asset classes, and (8) update certain performance measurements and guidelines for the Strategic Investments asset class.

A copy of the 2024 IPS is attached to this Report.

D. Description of Costs and Performance Measurement, Including Developments During the Period (Reporting)

The IPS requires the Executive Director to prepare the following reports:

- An annual report on the SBA and its investment portfolios, including that of the FRS.
- A monthly report on performance and investment actions taken.

- Special investment reports pursuant to Section 215.44-215.53, Florida Statutes.
- This Comprehensive Report as required by Section 112.662, Florida Statutes.

In conformity with these requirements and in order to provide additional information to the Trustees, the Legislature and the public, the SBA prepares the above required reports and a number of other reports that are provided to relevant parties and many of which are available on the SBA's website. Among the reports that the SBA prepares in association with its management of the FRS Pension Plan are the following:

- Monthly performance report to the Trustees. This report is provided to the Trustees and is available on the SBA's website.
- A Quarterly Major Mandate Performance Review by Aon that is presented to the IAC.
- A Quarterly New Managers Report that is available on the SBA's website.
- An Alternative Asset Status & Performance Report that is available on the SBA's website.
- A Global Governance Mandates Quarterly Report that is available on the SBA's website.
- The State of Florida Publicly Traded Securities Report, which is prepared quarterly and available on the SBA's website.
- A list of Scrutinized Companies in conformity with the Protecting Florida's Investments Act, which is prepared quarterly and provided to the Trustees and made available on the SBA's website.
- An Annual Audited Financial Statements that are provided to the Trustees and made available on the SBA's website.
- An Annual Corporate Governance Summary Report that is available on the SBA's website.
- An Annual Regulatory Plan Certification that is available on the SBA's website.
- An Annual Investment Report that is provided to the Trustees and available on the SBA's website.

E. Summary Trustees Actions During the Period

During the period from June 30, 2022, through the date of this Report, the SBA's Trustees met four (4) times: August 23, 2022, January 17, 2023, May 23, 2023, and October 2023. During these meetings, the Trustees took the following significant actions with respect to the Fund:

- Approved the Charter of the Audit Committee of the SBA.
- Approved Changes to the IPS, as previously discussed in this Report.
- Approved the Quarterly Reports required by the Protecting Florida's Investments Act.
- Adopted the August 2022 Resolution previously discussed in this Report.
- Approved changes to the SBA's Corporate Governance Proxy Voting Guidelines.
- Approved new appointments to the SBA's Investment Advisory Council.
- Approved new appointments to the SBA's Audit Committee.
- Approved the SBA's budget for fiscal year 2023-2024.

II. Asset Classes

A. Description of Asset Classes and Compliance with the IPS

Part of the SBA's fiduciary obligation in the management of the FRS Pension Plan is to maintain a prudent diversification of the portfolio. The IPS incorporates this concept through the inclusion of target portfolio allocations by asset classes. The IPS defines an asset class as "an aggregation of one or more portfolios with the same principal asset type."

Because asset allocation is a key driver of investment portfolio returns, it is the most fundamental way in which the SBA pursues its investment objective. Likewise, managing actual asset class exposure over time is important for the SBA to avoid unnecessary risk. For example, if 60% exposure to stocks is determined to be necessary to meet a long-term return objective, exposures below that, if persistent or poorly timed, may cause the actual return to fall short of the objective. Conversely, an exposure to stocks greater than the target will subject the portfolio to higher levels of volatility, which could also result in disappointing returns, particularly when equity markets are stressed.

A thoughtfully constructed portfolio will provide diversification across a sufficiently broad range of investments so that the portfolio has a high probability of meeting the investment objective, notwithstanding the wide distribution of performance often associated with individual investments. In other words, some individual investments may be poor performers during a specific time frame but, in a highly diversified portfolio, their overall impact on the portfolio will often be offset by other investments that, at the time, are better performers.

Asset class performance is measured in accordance with a broad market index appropriate to the asset class. The SBA has a history of making periodic adjustments to its asset allocation to ensure its strategy is appropriate for the long-term health of the pension system.

The IPS adopted by the Trustees and effective as of January 17, 2023, created target allocations across six primary asset classes: Global Equity, Fixed Income, Real Estate, Private Equity, Strategic Investments and Cash Equivalents. Each of these asset classes is described below:

- Global Equity: Asset class consisting principally of publicly traded stocks of companies located in the United States and internationally.
- Fixed Income: Asset class consisting principally of investment grade bonds.
- Private Equity: Asset class consisting principally of private equity investments through limited partnerships.
- Real Estate: Asset class consisting principally of direct-owned real properties, real estate-based joint ventures, open-end and closed-end funds, and publicly traded real estate securities (e.g., Real Estate Investment Trusts).
- Strategic Investments: Asset class established to potentially contain a variety of portfolios which represent asset types or strategies that may be more opportunistic and thus not suitable for a standing allocation of assets.
- Cash Equivalents: Asset class consisting principally of securities that are short-term, have high credit quality and are highly liquid.

The 2023 IPS established the target allocations for each asset class set forth in the table below:

Table 2: Authorized Asset Classes, Target Allocations and Policy Ranges

Asset Class	Target Allocation	Policy Range Low	Policy Range High
Global Equity	53%	45%	70%
Fixed Income	18%	10%	26%
Real Estate	10%	4%	16%
Private Equity	6%	2%	12%
Strategic Investments	12%	0%	16%
Cash Equivalents	1%	0.25%	5%
Total Fund	100%	--	--

The 2024 IPS will add Active Credit to the portfolio as an additional asset class. The Active Credit Asset Class will consist of public and private credit investments, including multi-asset credit investments such as high yield bonds, bank loans, and emerging market debt in the public markets and direct lending investments such as leveraged loans in private markets. The 2024 IPS will establish the following target allocations for each asset class:

Table 2: Authorized Asset Classes, Target Allocations and Policy Ranges

Asset Class	Target Allocation	Policy Range Low	Policy Range High
Global Equity	45%	35%	60%
Fixed Income	21%	12%	30%
Active Credit	7%	2%	12%
Real Estate	12%	8%	20%
Private Equity	10%	6%	20%
Strategic Investments	4%	2%	14%
Cash Equivalents	1%	0.25%	5%
Total Fund	100%	--	--

B. Description Annual Work Plans and Consideration of Investment and Operational Risks

1. Annual Work Plans

Each of the SBA's asset classes prepares an annual Work Plan to detail the current positioning of the asset class portfolio and the expectations for the upcoming year. The Work Plans for the private market asset classes (Private Equity, Strategic Investments and Real Estate) are submitted for the approval of the Executive Director, and the Work Plans for the public market asset classes are reviewed with the Senior Investment Officers Group. The purpose of each Work Plan is to (1) describe significant investment activity and policy, organizational, and process changes begun or effected over the last year; (2) describe the current positioning of the asset class portfolio, as it relates to the Investment Portfolio Guidelines and other policies relating to the asset class; and (3) describe anticipated portfolio activity over the next 12 months including a forward calendar of opportunities.

2. Description of Investment Guidelines (Internal and External Mandates) and Report of Any New Guidelines

As required by the IPS, the SBA develops Investment Portfolio Guidelines (IPGs) for each of its asset classes. IPGs define the parameters within which portfolios, client funds and/ or client mandates are managed. Newly developed and/or revised IPGs for internally managed portfolios are reviewed by affected areas, including areas responsible for portfolio management, performance measurement, compliance, and other SBA staff as deemed necessary. IPGs for externally managed portfolios are included in the contractual agreements for external investment managers and securities lending providers and are reviewed by relevant SBA business units, with modifications implemented through contractual amendments.

IPGs for internally managed client fund/ mandates are included in Trust Agreements executed between the SBA and clients. Modifications to existing IPGs for internally managed client fund/ mandates must be effectuated as contract amendments. Both new and revised IPGs for internally managed client fund/ mandates are reviewed by applicable functional areas and executed accordingly.

Newly developed and revised IPGs must be submitted to the Executive Director & CIO for final approval prior to the initial funding of a portfolio with cash or securities.

The Senior Investment Officer (SIO) of each asset class is responsible for the developing and maintaining the IPG for the relevant asset class or mandate and must review the IPG for the asset class or mandate on an annual basis to determine if revisions are necessary. Each IPG must include the following:

- the account name and number (or State Board of Administration (SBA) contract number)
- the overall purpose and investment objective of the specified portfolio
- the benchmark or other parameters to be used for evaluation of performance
- any investment restrictions or constraints (either absolute or relative to a benchmark)
- the permitted security types which may be utilized in the portfolio
- any other information critical to the management of the fund.

C. Investment Processes

1. Description of Specialty Consultants (Including Updates and Confirmation of Contractual Obligation to the Standard of Care)

The SBA has engaged several specialty consultants to provide investment advisory services. These consultants provide services relating to portfolio construction, investment pacing models, investment recommendations, prudent person opinions and other advice. Several of these consultants also assist with regular presentations to the IAC. The role of each consultant may differ depending on the particular nature of the asset class or portfolio relating to the services provided. Each consultant has entered into an amendment to its agreement with the SBA that obligates it to abide by the same pecuniary factors standard of care established in Section

215.47(10), 112.656 and 112.662, Florida Statutes (2023). The SBA's primary specialty consultants are listed below, along with a brief description of the services that each provides:

- Aon Investments USA Inc. (f/k/a Aon Hewitt Investment Consulting, Inc.). Aon serves as the general consultant to the overall FRS Pension Plan and other major mandates. Its retainer services include monitoring the investment policies, investment management activities and fund performance of the FRS Pension Plan; reporting to the SBA's Trustees; reporting to the IAC quarterly in person and in writing with respect to the performance of the investments of the FRS Pension Plan; and consulting and advising on topics as requested.

- Callan, LLC. Callan serves as a sounding board consultant to the FRS Pension Plan and can be called upon to provide additional services on an as needed basis. Its retainer services include providing informal consultations with the SBA on matters relating to investment policies, investment manager monitoring guidelines, portfolio guidelines, risk management, risk budgeting, funds, asset class, and manager structure assignments, and other investment-related topics designated by the SBA; and assisting the SBA with manager searches.

- Cambridge Associates. Cambridge serves as the primary investment consultant to the SBA's Strategic Investments asset class, Private Equity asset class, and the Florida Growth Fund. Its retainer services include assisting in investment policy development and review; assisting in manager search and selection, including providing due diligence reports, recommendations and prudent person opinions for hedge fund investments; and attending IAC meetings and other meetings as necessary.

- Meketa Investment Management Group, Inc. Meketa serves as an investment consultant to the Fund on an as needed basis.

- Mercer Investment Consulting, Inc. Mercer serves as the primary investment consultant to the SBA's Fixed Income and Global Equity asset classes. Its retainer services include performance reporting and manager monitoring, including preparing investment manager monitoring guidelines and quarterly reporting and recommendations supporting implementation of the guidelines; reviewing investment manager performance; providing manager research; participating in investment manager searches and due diligence; providing operational diligence and risk assessment services; and attending IAC and Trustee meetings as necessary. It also provides compensation studies and compensation review services for the administration of the SBA.

- RVK, Inc. RVK serves as an investment consultant to the Fund, as and when requested, on matters relating to investment policies, investment manager monitoring guidelines, portfolio guidelines, risk management, risk budgeting, funds, asset class, and manager structure assignments, and other investment-related topics designated by the SBA. It assists the SBA with manager searches, including

examining candidates, providing organizational reviews, commenting on recommendations, providing presentations as needed, and providing prudent person opinions.

- Townsend Holdings, LLC. Townsend serves as the primary investment advisor to the Real Estate asset class. Its retainer services include (1) assisting with the development of the real estate allocation policy, including the allocation to the asset class, the establishment of relevant benchmarks, and a prudent investment standard statement; (2) assisting with the development of the Real Estate Annual Work Plan; (3) providing market research; (4) providing data analysis for the evaluation of investment managers; (5) providing a quantitative report; (6) meeting with separate account managers and pooled fund managers; (7) assisting with manager and investment selection, including manager identification, manager review, due diligence, asset reviews and providing prudent person opinions; (8) providing operational due diligence reports; (9) preparation of a pacing model; and (10) attending on site meetings with the IAC.

- Verus Advisory, Inc. Verus serves as a sounding board investment consultant to the major mandates, including the FRS Pension Plan and can be called upon to provide additional services on an as needed basis.

- Wilshire Associates Incorporated. Wilshire serves as a sounding board consultant to the FRS Pension Plan and can be called upon to provide additional services on an as needed basis, including (1) providing informal consultations with the SBA, as and when requested by the SBA on matters relating to investment policies, investment manager monitoring guidelines, portfolio guidelines, risk management, risk budgeting, funds, asset class, and manager structure assignments and other investment-related topics designated by the SBA; and (2) assisting the SBA with manager searches, including examining the list of candidates, organizational reviews, interview participation, reviewing staff materials and recommendations, assisting in presentations, and providing prudent person opinions.

The SBA also has Acquisition Advisory Agreements with several advisors relating to the SBA's acquisition of real estate investments. These investments are housed within the Principal Investments division of the Real Estate asset class. Each of these advisors assists the SBA with the identification of potential real property investments, underwriting of potential investments, coordination and review of due diligence, negotiation of business terms, and recommendations for making the investment and closing the transaction. Each of the Acquisition Advisors has agreed to comply with the same pecuniary factors standard of care adopted within Section 215.47(10), 112.656 and 112.662, Florida Statutes (2023). The SBA's current Acquisition Advisors are:

- Heitman Capital Management Corporation
- L&B Realty Advisors, LLP
- Invesco Advisers, Inc. f/k/a Invesco Institutional (N.A.) Inc.
- MetLife Investment Advisors, LLC
- Core and Value Advisors, LLC (d/b/a Stockbridge)

The SBA's Real Estate asset class also has relationships with other advisors for other aspects of the Principal Investments portfolio. Some of the other advisory relationships are described below. Each of these advisors has agreed to comply with the same pecuniary factors standard of care adopted within Section 215.47(10), 112.656 and 112.662, Florida Statutes (2023).

- SitusAMC Real Estate Valuation Services, LLC, f/k/a RERC LLC, a Situs Company. Situs provides services to the SBA's Real Estate Asset Class for appraisal administration and advisory and management services for the administration of the Credit Facility Program.

- PGIM, Inc. PGIM serves as an investment advisor and manager with respect to an agriculture portfolio, and in that capacity has agreed to comply with the standard of care adopted within Section 215.47(10), Florida Statutes. PGIM also has an investment management agreement relating to certain senior living facilities, but this portfolio has been fully liquidated. Since the portfolio has been liquidated and the IMA will be terminated, this IMA has not been amended to encompass the new provisions in Section 215.47(10).

- Manulife Investment Management Timberland and Agriculture Inc (f/k/a Hancock Natural Resource Group, Inc.). Manulife serves as an investment advisor and manager with respect to an agriculture portfolio.

2. Investment Manager Selection – Public Markets

   a. Description of the SBA's Selection Process (Including Role of Consultants) and Contracting/Legal Negotiations Process

The SBA maintains a detailed and structured process for the selection of new public market investment managers. For investment manager searches, the SBA develops investment manager search criteria, which are approved by the Executive Director & CIO. Asset class staff then identify and evaluate firms that meet the criteria, discuss candidates and analytical material with the investment consultant, and participate in finalist interviews. The applicable Senior Investment Officer(s) makes investment manager selection recommendations for approval by the Executive Director & CIO.

Investment consultants, as needed, support the process by reviewing and evaluating the candidate list, performing organizational reviews of the candidate firms, producing performance and risk analysis reports, participating in finalist interviews, and providing a final investment memo addressing the asset class investment manager selection recommendation(s).

The Executive Director & CIO makes final decisions on the selection of investment management firms, investment products and bundled providers, and is responsible for executing contracts for these services.

Asset class staff utilize the following process to identify firms that will be recommended to the Executive Director & CIO for consideration:

Develop Manager Universe. Asset class staff screen manager databases provided by external sources to identify a universe of managers that meet specific investment initiatives. The resulting list may be supplemented with firms identified using internal manager databases and/or an internally generated "Focus List." Asset class staff may maintain a current Focus List of managers in given strategies or styles based on ongoing reviews of criteria such as size, investment strategy, uniqueness, performance and organizational characteristics. This list may be developed and maintained on an ongoing basis by screening manager databases, meeting with managers, gaining familiarity with managers/strategies through periodic conference calls, and working with the asset class consultant.

First-Level Screen. Asset class staff screen the manager universe to develop a list of firms that meet the specific search criteria with respect to total assets under management, product size, experience, investment strategy and investment performance. The purpose of this step is to eliminate managers early in the process that would not be seriously considered due to size, experience, or focus. In the event that screening on these elements results in a large number of managers to evaluate, additional screens may be added (e.g., risk-adjusted returns) to reduce the number of firms to a more manageable level. External investment consultant(s) may recommend additions or deletions to the final list.

Second-Level Screen. Asset class staff then request the remaining managers to provide comprehensive information regarding performance, portfolio composition, personnel, organizational history and structure, proposed fees, and any other information deemed necessary to make an informed decision. Asset class staff, in conjunction with the external investment consultant, evaluate risk-adjusted investment performance, investment processes and organizational issues among other issues to identify the candidate firms that will be interviewed for an assignment subject to the outcome of the preliminary conference call described below.

Alternative Screen. As an alternative to the First and Second Level Screens, Senior Investment Officers, with the prior written approval of the Executive Director & CIO, may alternatively: 1) rely more fully on the resources of an external consultant to develop a short list of candidates from the consultant's database to be interviewed; or 2) in the circumstance of a differentiated investment product/strategy, may recommend the hiring of a specific investment manager directly from the internally maintained Focus List referred to above, contingent upon the asset class consultant evaluating the investment manager and concurring with the recommendation(s).

Preliminary Conference Call. Asset class staff, as well as representatives from the SBA's General Counsel's office, conduct calls to discuss preliminary investment, administrative, contractual and legal issues. The list of potential managers may be further reduced as a result of these discussions if significant outstanding issues are not resolved.

Investment Manager Interviews. Asset class staff develop interview materials, or require the asset class consultant to develop interview materials, and conduct interviews with the finalists. Interview attendees may include, without limitation, asset class staff, the Executive Director & CIO, compliance staff, an external investment consultant, and representatives from the General Counsel's office.

Selection Recommendations. Following the completion of the interview process and any additional discussion and analysis, asset class staff evaluate the finalists, write a final investment manager recommendation and obtain the consultant's memo addressing the selection recommendation(s). Senior Investment Officers provide the signed final selection recommendation(s) and the consultant memo to the Executive Director & CIO for consideration.

Contract Execution. Upon the Executive Director & CIO's approval of the selection recommendation(s), asset class staff, in conjunction with the General Counsel's office, negotiate any remaining contractual issues with the selected investment managers. The General Counsel will approve the legality of the final contract(s) before presenting the contract(s) to the Executive Director & CIO for execution.

Legal negotiations and contract staffing.

Contract Request

Upon the selection of a proposed investment manager, the applicable asset class staff notify Vendor Management staff of the request to negotiate a new investment management agreement. Vendor Management staff then forward the request to the General Counsel who then assigns it to an in-house attorney for development, review, drafting, revision and/or negotiation. The General Counsel's Office may engage outside counsel to assist in this process and directly oversee the representation and activities of the outside counsel in these matters. The assigned attorney works collaboratively with members of the asset class, accounting, financial operations and other staff in developing, reviewing, drafting, revising and negotiating with external parties, contracts that ultimately include the SBA's required and desired contractual terms.

Contract Staffing

Once the terms of a contract have been developed, reviewed and resolved by the assigned attorney, external party, and other specified SBA staff, designated Vendor Management staff will circulate the proposed contract to the appropriate parties at the SBA for review and comment prior to execution by the SBA. This process is referred to as contract staffing. Public market investment management agreements are generally reviewed by a portfolio manager and the Senior Investment Officer of the related asset class, Accounting staff, Risk Management and Compliance staff, the Deputy Chief Investment Officer, the assigned attorney, and the General Counsel prior to the execution of the agreement. Reviewers assigned to contract staffing review and comment on contract terms that the reviewer recognizes are not consistent with usual business terms or practices within the reviewer's functional area of practice and responsibility at the SBA or with standard terms and provisions negotiated by the SBA in similar contracts. Any questions or comments concerning the draft contract are noted.

Comments of a substantive nature (non-typographical), which require re-drafting of a provision or an answer to the individual making the comment, require the re-staffing of the contract. Newly added, amended, or deleted language is underlined or struck through on the amended draft contract to facilitate the review upon re-staffing of a contract. Alternatively, the assigned SBA attorney may waive re-staffing substantive comments, provided the General Counsel and SBA Vendor Management are informed of the reason for the waiver, and substantive comments are transmitted in writing to all SBA staff included in the original contract staffing process with a request to provide any written comments or objections to all recipients within a specified period of time.

Contract Execution
For public market asset management agreements, upon completion of the staffing process, the General Counsel's Office must approve the legality of the contract via signature and obtain the proposed investment manager's execution of the contract before its final execution by the SBA. Upon execution by the new investment manager, the proposed contract is provided to the Executive Director & CIO for execution.

Upon execution by both the SBA and the external party or parties, originally executed contracts are sent to the new investment manager, and the General Counsel's Office maintains the originally executed agreement, along with any subsequent amendments, renewals, modifications, and related documents.

b. Description of External Managers Retained by the SBA

Please see the SBA's Annual Investment Report for the period July 1, 2022 - June 30, 2023, which upon publication will be provided to the Governor, the Chief Financial Officer, the Attorney General, the President of the Senate, the Speaker of the House and available to the public on the SBA's website.

i. Statement in Investment Approval Signed by Executive Director Attesting to Compliance with Section 215.47(10), 112.656 and 112.662, Florida Statutes (2023)

As described above, each new investment manager selection requires the preparation of an investment recommendation (the "Investment Approval Memorandum") by the applicable investment staff, which is then submitted for the approval of the Senior Investment Officer of the asset class, the Deputy Chief Investment Officer and the Executive Director & CIO. Subsequent to the enactment of HB 3, the Investment Approval Memorandum, or an addendum, for each new public market investment has contained a statement confirming that the proposed investment complies with the requirements of Section 215.47(10), 112.656 and 112.662, Florida Statutes (2023) (including representing compliance with the pecuniary factors standard of care).

ii. Statement Confirming that All IMA's Impose the Standard of Care Under Section 215.47(10), 112.656 and 112.662, Florida Statutes

Each public market investment management agreement contains a provision that obligates the investment manager to comply with the fiduciary standard of care. Subsequent to the enactment of HB 3, each new public market investment management agreement contains a provision that obligates the investment manager to comply with the same standard of care imposed under Section 215.47(10), 112.656 and 112.662, Florida Statutes (2023) (including expressly adhering to the pecuniary factors standard of care).

iii. Statement Confirming Applicable SBA Employees Executed the Conflict-of-Interest Statements

The SBA's ethics policy provides that all "Primary SBA Staff" involved in the selection or disposition of an investment manager/investment fund or the direct acquisition or disposition of a private market real estate investment must execute the appropriate "Conflict of Interest Certification" in reasonable proximity to the point in time the SBA is legally obligated to commit funds or has executed an investment management agreement. Primary Staff consists of those individuals participating in the search and making the final evaluation and recommendation of the investment partner or manager, their supervisor, if applicable, the related Senior Investment Officer, the Deputy Chief Investment Officer, and the Executive Director & CIO. The Conflict-of-Interest Certification requires confirmation that the Primary Staff do not have a financial interest that would create a conflict of interest in their recommendation or approval of the proposed investment.

A Conflict-of-Interest Certification is also required for approval of a new counterparty and the annual renewal of the approved counterparty list. Primary staff involved in the selection and approval of the counterparty as well as the authorized traders must execute the Conflict-of-Interest Certification.

The SBA's Risk Management and Compliance staff confirm the receipt of the required Conflict of Interest Certification for each new public market investment management agreement. The appliable SBA staff members have signed the required Conflict of Interest Certification for each of the new public market investments identified above.

3. Investments Private Markets – Private Equity, Strategic Investments and Real Estate

a. Description of the SBA's Selection Process (Including Role of Consultants and Prudent Person Opinions) and Contracting Process

The selection process for Funds is distinctly different from that of public market separate account investment managers primarily due to the fact that investments may be structured as limited partnerships, limited liability companies or similar vehicles, with very specific offering periods that cycle on average every 4-6 years or, in the case of evergreen funds, may have periodic openings and closings to new investors. The limited window of opportunity to commit capital to a Fund calls for a more proactive and opportunistic approach to manager selection.

Fund selection requires the completion of the following phases:

Phase I – Annual Portfolio Evaluation

At the start of each fiscal year, the applicable Allocation Policies (i.e., Strategic Plans) are reviewed and, if necessary, updated to reflect the needs of the SBA and market conditions.

Also, at the start of each fiscal year, the applicable Senior Investment Officer (SIO) produces an Annual Investment Work Plan for each asset class. The Plans reflect research from both staff and consultants. Portfolio analysis, cash flow forecasting, and availabilities of non-Fund investments and vehicles are utilized to determine estimated annual capital commitments to Funds for the asset class. The analysis also divides estimated annual capital commitments into estimated sub-asset class commitments. These sub-asset class targets will be the basis for the estimated asset class's investment activity, although market opportunities play an important role in determining interim allocations.

The Annual Investment Work Plans are submitted to the Deputy Chief Investment Officer (DCIO) for concurrence, prior to approval by the Executive Director & CIO.

Phase II - Fund Sourcing

The general partner or its placement agent may contact the SBA directly to solicit a commitment to the partnership or hedge fund investment. The SBA's consultant(s) receive and review an even broader array of offerings, many of which may not be appropriate in the scope of the SBA's applicable Annual Investment Work Plan. SBA consultant(s) provide the applicable SIO with periodic updates of their general Fund log(s) or specific lists of Funds for the SBA's consideration.

SIOs maintain a proactive Fund sourcing approach to identify attractive Funds. This approach requires strong relationships and communication with market participants.

In order to effectively track the various opportunities in the market, staff maintain logs of potential Funds of interest. Logs provide summary information about each investment opportunity considered by the SIOs.

Phase III – Preliminary Fund Selection

Staff must choose from the potential opportunities to identify the most attractive offerings and determine where due diligence resources will be deployed. Staff identify the most attractive offerings and dedicate additional due diligence resources based initially on the following factors:

1. The offering's fit within the asset class
2. The SBA's history with the firm
3. Prior fund or other investments
4. Co-investments
5. Secondary investments
6. Consultant's opinion of the offering
7. Professional judgment of SIO and supporting staff
8. Reputation of the Fund and Fund Manager

Phase IV – Due Diligence

Upon selecting the most attractive investment opportunities from the broad list of offerings in the market, staff conduct a thorough due diligence process for each offering, which consists of investment and operational due diligence. At any point in the due diligence process, SIOs may choose to reject the offering. The result of the process is a recommendation to commit/invest capital in the offerings that are deemed most attractive by SIOs.

The due diligence process generally includes the following:

- Review of the Private Placement Memorandum and other related documentation
- Review of manager materials such as marketing presentations and letters
- Quantitative analysis by staff and/or consultant(s)
- Visit(s) to manager's office(s) by SBA and/or consultant to meet with investment staff
- Detailed reference checks with relevant parties
- Review of consultant investment and operational due diligence reports

Phase V – Recommendation and Executive Approval

Upon completing the due diligence process, the applicable SIO prepares an Investment Recommendation that the SBA commit capital or otherwise invest in the selected Fund. This recommendation includes relevant Fund information such as background on the general partner/investment firm, historical returns, investment merits and risks, liquidity provisions, expected contractual terms and other relevant information. The recommendation also includes any potential operational risks.

The Investment Recommendation must be reviewed, approved and submitted by the applicable SIO to the DCIO for concurrence, prior to final approval by the Executive Director & CIO. The Investment Recommendation Memorandum must be submitted with the consultant investment and operational due diligence materials and Prudent Person Opinion; valuation information; and Placement Agent Form. Upon approval of the recommendation, the Fund manager is notified that the SBA will commit capital to the Fund, subject to the successful negotiation of the Fund contract terms. In certain instances, staff and the General Counsel's office may initiate the legal review process prior to approval of the Investment Recommendation.

Phase VI – Negotiation of Contract Terms

Upon approval of the Investment Recommendation, the SBA General Counsel's office will contact external counsel with the instructions to initiate the legal review process. SIOs and/or staff work directly with the General Counsel's office and external counsel to coordinate and assist with the legal negotiations.

Upon successful negotiation of terms, the final contract is staffed in accordance with the SBA's Contracts policy (as generally described in the public markets section above), with the exception that the SBA signs fund subscription agreements prior to the fund sponsor's acceptance of the subscription and that the Executive Director & CIO has delegated limited

authority to the Real Estate asset class SIO for the execution of certain agreements related to directly owned real estate investments. After the completion of the contract staffing process, the final agreements are provided to the Executive Director & CIO for final approval and execution.

b. Description of Private Market Fund Investments by the SBA

Please see the SBA's Annual Investment Report for the period July 1, 2022 - June 30, 2023, which upon publication will be provided to the Governor, the Chief Financial Officer, the Attorney General, the President of the Senate, the Speaker of the House and available to the public on the SBA's website.

In addition, private market direct real estate investments apply the following additional procedures for new investment acquisitions:

Investment Structure:
The goal of private market direct real estate investments is to derive the return from wholly owned and joint venture properties primarily from current income. The Real Estate seeks to acquire direct ownership interests in investment properties on a leased fee basis or other basis as approved by the Senior Investment Officer-Real Estate (SIO-RE) or Deputy Chief Investment Officer (DCIO). Exceptions may be made on a case-by-case basis in those instances where the SBA's staff and advisors recognize opportunities to realize exceptional returns by acquiring a leasehold estate, i.e., a property subject to a ground lease. The following guidelines should be followed when acquiring a leasehold estate:

- The remaining term of the ground lease must be of such a length as to provide the SBA unimpaired investment liquidity.
- The underwriting of the transaction must address the SBA's exit strategy and the effect that the ground lease has on projected returns.

Legal Issues:
The General Counsel's Office is responsible for:

- obtaining title insurance on behalf of the real estate portfolio.
- selecting and approving, together with the Real Estate Acquisitions Manager, and on the advice of external counsel, the vehicle by which title to each real estate asset will be held.
- Forming the Title Holding Entity in accordance with SBA policy or coordinate its formation with outside counsel.
- Coordinating and documenting outside counsel tax review of the investment during the acquisition process where it is deemed appropriate, including:
    - Identifying and analyzing any Unrelated Business Income (UBI) issues.
    - Advising the SBA if Unrelated Business Income will produce taxable income.
    - Identifying and analyzing any state tax(es) that could be imposed on the asset or income.

- Identifying available federal and state exemptions from tax and the likelihood that such exemptions could be obtained.

The General Counsel's Office is responsible for determining if a tax opinion letter or memorandum is to be requested from external counsel. If such an opinion or memorandum is provided, it will be reviewed by the General Counsel's Office and the designated acquisition and management staff within the asset class. The General Counsel's Office and the acquisition and management team members will concur on and implement an acquisition tax strategy to avoid or to minimize tax liability.

c. Description of Direct Owned Real Estate Investments (Including Joint Ventures) by the SBA

Each new direct owned real estate asset is managed through one of the real estate advisors listed above under a continuing Investment Management Agreement. Each of these real estate advisors/managers has entered into an amendment to its Investment Management Agreement that requires the manager to comply with the same pecuniary factors standard of care as set forth in Section 215.47(10), 112.656 and 112.662, Florida Statutes (2023). Each new joint venture relationship is subject to a new Investment Management Agreement with the real estate advisor related to the acquisition. Each of these Investment Management Agreements contains or has been amended to contain a requirement for the manager to comply with the same new pecuniary factors standard of care as set forth in Section 215.47(10), 112.656 and 112.662, Florida Statutes (2023). In addition, for each new joint venture entered into after August 2022, the joint venture partner who is responsible for the day-to-day management of the joint venture has agreed to comply with the same pecuniary factors standard of care in Section 215.47(10), 112.656 and 112.662, Florida Statutes (2023).

Please see the SBA's Annual Investment Report for the period July 1, 2022 - June 30, 2023, which upon publication will be provided to the Governor, the Chief Financial Officer, the Attorney General, the President of the Senate, the Speaker of the House and available to the public on the SBA's website.

d. Statement in Investment Approval Memo that Executive Director and Investment Staff Attest Compliance with Section 215.47(10), 112.656 and 112.662, Florida Statutes (2023), in Making the Investment Decisions

Like public market investment manager selections, each new private market fund investment and directly owned real estate investment requires the preparation of an Investment Approval Memorandum by the applicable investment staff, which is submitted for the approval of the Senior Investment Officer of the asset class, the Deputy Chief Investment Officer and the Executive Director & CIO. Subsequent to the enactment of HB 3, the Investment Approval Memorandum, or an addendum, for each new private market investment has contained a statement confirming that the proposed investment complies with the requirements of Section 215.47(10), 112.656 and 112.662, Florida Statutes (2023) (including representing compliance with the pecuniary factors standard of care).

e. Statement Confirming Applicable SBA Employees Executed the Conflict-of-Interest Statements

Each private market investment requires the execution of a Conflict-of-Interest Certification by the Primary Staff associated with the investment. The appliable SBA staff members have signed the required Conflict of Interest Certification for each of the new private market investments identified above.

4. Investments – Public Market Internally Managed Portfolios

Managing investments internally is the hallmark of a very sophisticated institutional investment manager. In addition to needing the investment staff having the skill and ability to manage assets internally, the SBA must have the requisite trade order management systems, portfolio construction tools, trade settlement staff and tools, risk and compliance tools and pricing and account reconciliation tools necessary to effectively trade and manage the portfolios. In general, the increased costs in terms of staff and technology more than pays for itself in terms of fee savings as the cost to manage funds internally is vastly lower for most portfolios than the fees charged by external managers. Nevertheless, the decision to manage investments internally cannot be limited to an analysis of cost savings. Returns matter as well. Accordingly, the SBA's decision to invest internally is based on whether the SBA believes it can generate equivalent or higher *net* returns for a given portfolio.

Historically, the SBA has determined it can generate higher net returns in passive US equities and fixed income markets as well as in some active factor-based equity strategies, and several active fixed income strategies. A description of the SBA's internally managed portfolios is set out below.

a. Description of Public Market Internally Managed Portfolios

<u>Global Equity</u>:
The SBA's Global Equity Asset Class manages the following portfolios internally (each showing the trading strategy, benchmark, and asset balances as of September 30, 2023):

- **Avatar** – Passive Public Equity – Russell 1000 benchmark - $16.8 billion. The purpose of the Avatar portfolio is to maintain low-cost exposure to the Russell 1000 Index, and the objective is to achieve the return and risk profile of the Russell 1000 Index.
- **Nova** – Passive Public Equity – Russell 1000 benchmark - $10.2 billion. The purpose of the Nova portfolio is to maintain low-cost exposure to the Russell 1000 Index, and the objective is to achieve the return and risk profile of the Russell 1000 Index.
- **Phoenix** – Passive Public Equity – Russell 3000 benchmark - $12.2 billion. The purpose of the Phoenix portfolio is to maintain low-cost exposure to the Russell 3000 Index, and the objective is to achieve the return and risk profile of the Russell 3000 Index.
- **Atlas** – Passive Public Equity – Custom MSCI World benchmark - $2.7 billion. The purpose of the Atlas portfolio is to maintain low-cost exposure to the FSB Iran and Sudan-free World Index, and its objective is to achieve the return and risk profile of the FSB Iran and Sudan-free World Index.

- **Delta** – Active Public Equity – Russell 2000 benchmark - $178 million. The purpose of the Delta portfolio is to maintain active risk-controlled exposure to the Russell 2000 Index through an internally managed and quantitatively driven strategy. The objective of the Delta portfolio is to provide a positive active return relative to the Russell 2000 Index, within the approved risk profile. A quantitative stock selection model is used to estimate the expected relative return of all stocks within the stock selection universe, the constituents of the Russell 2000 Index.
- **GE Liquidity Portfolio** – Active Public Equity – 75% Russell 1000/25% MSCI EAFE benchmark - $1.8 billion. The primary purpose of the GE Liquidity Portfolio is to provide low-cost exposure to the benchmark while maintaining a high level of transparency and liquidity. The Portfolio can be used to manage intra-month asset allocation rebalances or to provide liquidity as needed. The Portfolio may also be used for tactical tilts, hedging, and risk management. Asset classes may borrow from the Portfolio to cover unexpected cash flows or flows during periods of market stress and will replenish the Portfolio as needed.
- **Global Equity Market Exposure** – Active Public Equity– MSCI Emerging Markets benchmark - $730 million. The purpose of the portfolio is to facilitate market beta in designated markets on an interim basis until an investment manager or account is designated or can be funded.
- **Seneca** – Active Public Equity – Russell 2000 Growth benchmark - $173 million. The purpose of the portfolio is to replicate the performance of the S&P 600 Pure Growth Index, which computes weights for each asset using the ascending order of growth rank/value rank. The objective of the portfolio is to replicate the performance of the S&P 600 Pure Growth Index and generate returns in excess of the Russell 2000 Growth benchmark.
- **Sinensis** – Active Public Equity – Custom MSCI World benchmark - $1.5 billion. The purpose of the portfolio is to transparently and efficiently create exposure to well-known factors with significant, long-term predictive power in explaining historical stock returns. These include value, momentum, quality, and low volatility. The objective of the portfolio is to achieve factor exposures that will generate returns, in excess of the benchmark.

Fixed Income:

The SBA's Fixed Income asset class manages the following portfolios internally (each showing the trading strategy, benchmark and asset balances as of September 30, 2023):

- **Internal Active Core Fixed Income** – Active Core Fixed Income – Bloomberg Intermediate Aggregate benchmark – $5.9 billion. This is a risk-controlled strategy that allows for allocations to higher tracking error external mandates. Its purpose is to generate outperformance through duration positioning and asset allocation and security selection in benchmark sectors.
- **Internal Passive Fixed Income** – Passive Fixed Income – Bloomberg U.S. Intermediate Aggregate benchmark - $11.1 billion. The purpose of this portfolio is to deliver the beta of the underlying index with a reasonable tracking error.
- **Florida Retirement System Cash Pool** – Passive Fixed Income – Bloomberg 1-3 Month Treasury Bill Index benchmark - $5.6 billion. This is an interest earning cash vehicle for participating FRS portfolios. The cash is swept daily and invested in a commingled portfolio to maintain competitive returns at a lower cost. A minimum of 10% of the

portfolio is invested in securities maturing overnight and 30% in securities maturing within 7 business days.

- **Cash Enhanced Portfolio** – Passive Fixed Income – Bloomberg 1-3 Year Government Credit Index benchmark - $0.7 billion. The purpose of this portfolio is to add an incremental risk-adjusted excess return to cash holdings. The portfolio has a duration of plus or minus 1 year to the index duration.
- **Fixed Income Liquidity** – Passive Fixed Income – Bloomberg U.S. Intermediate Treasury Bond Index benchmark - $2.1 billion. The objective of this portfolio is to achieve the return and risk profile of the benchmark while providing liquidity. The funds can be used to manage intra-month asset allocation rebalances or to provide liquidity. The portfolio is managed to a duration of plus or minus .25 years to the index duration.

The SBA has modified the Investment Policy Guidelines with respect to all internally managed portfolios to require investment recommendations and decisions be made in accordance with the new pecuniary factors standard of care set forth in Section 215.47(10), 112.656 and 112.662, Florida Statutes (2023).

b. Report on Process for Relevant Investment Staff to Attest Compliance with Section 215.47(10), 112.656, 112.662, Florida Statutes (2023)

As part of the SBA's annual training program and in conjunction with the SBA's Risk Management and Compliance staff, the SBA has implemented a process for those members of the Global Equity and Fixed Income asset classes with the responsibility for the internal management of the above-described funds to execute an annual attestation confirming compliance with the fiduciary requirements of Section 215.47(10), 112.656 and 112.662, Florida Statutes (2023) (including representing compliance with the pecuniary factors standard of care).

5. Description of Internal Compliance Function and Confirmation of Execution of Annual Compliance Certificate by All Managers or General Partners

Operational Due Diligence ("ODD") is a critical component of selecting and overseeing external investment managers. Operational Due Diligence is a comprehensive, qualitative review of an investment manager's operational effectiveness and resiliency, and includes a review of organizational structure; the experience and expertise of its key personnel; organizational and fund governance; trading processes; operational functions; IT systems, network and cybersecurity; compliance program; accounting and cash management processes and internal controls; enterprise risk management; counterparty risk management; business continuity/disaster recovery capabilities; service provider oversight; records retention; manager reporting; potential conflicts of interest; and regulatory/civil matters. ODD is conducted for all of the SBA's public and private market strategies that are managed externally, both prior to funding and on an ongoing basis at a predetermined frequency.

Asset classes are primarily responsible for ODD and utilize subject matter experts, including the SBA's Risk Management and Compliance ("RMC") staff and consultants with ODD capabilities, as an input in the decision-making process. The SBA's consultants provide the SBA

with access to ODD information and produce manager specific ODD reports, including updated reports relating to existing managers, at the request of the SBA.

Operational Due Diligence Prior to Contract Execution

The ODD process includes the below key components:

- An ODD review will be part of the investment manager selection process prior to hiring the manager. Each ODD consultant report is reviewed by RMC. RMC may provide any noted areas of concern or other commentary at the request of the asset class. The asset classes may also request that RMC prepare an Operational Risk Assessment Report so that it may be incorporated into the funding decision.
- Asset classes identify any potential operational risks within Investment Recommendation Memoranda, whether or not such risks were noted by the consultant review or by RMC, and affirm that the asset class reviewed the ODD report. RMC reviews the Investment Recommendation Memorandum package for completeness to include the consultant investment and operational due diligence reports and the Prudent Person Opinion; valuation information; and Placement Agent Form, prior to the final approval of the Investment Approval Memorandum.

Ongoing Operational Due Diligence Oversight

Each asset class is also responsible for monitoring ODD on an ongoing basis, with the support of RMC and external consultants. The ongoing monitoring of operational risk of external managers includes the below key components:

- Monitoring activities of certain managers identified and discussed in the quarterly public markets investment manager review meeting for both investment and operational issues.
- RMC conducts an annual process that includes requesting certifications. RMC assigns risk rankings to managers and discusses the risk rankings, changes in risk levels, and any key risks with individual strategies with the applicable asset class. Additionally, RMC works with each asset class to prioritize any necessary onsite visits and/or ad hoc consultant requests. RMC provides the related asset class with an ODD report upon completion of an onsite visit. Finally, RMC reviews updated consultant reports as necessary.
- With the exception of funds in wind down, for any investment manager for which there is no recent consultant ODD report, RMC may request that the investment manager update the ODD questionnaire, and RMC will review the responses.
- Asset classes play a role in ongoing ODD monitoring. As part of regular dialogue with managers, asset classes ask managers to discuss the key ODD risks as highlighted by RMC and/or consultant, and/or as identified by the asset class.
- RMC regularly reports operational risk oversight and monitoring of external managers in the Risk and Compliance Committee.

Public Market Trading Investment Oversight and Compliance

Additionally, with respect to publicly traded securities, the Executive Director & CIO has established a Trading, Investment Oversight and Compliance Committee known as TOG, as a standing sub-committee of the Enterprise Risk and Compliance Committee to:

- Regularly review compliance exceptions, trading-related investment issues and associated risks that may have a material° impact on trust funds and client portfolios (including securities lending programs) and to make recommendations to escalate exceptions or issues to the Executive Director & CIO
- Monitor and evaluate the effectiveness of compliance processes and systems and provide recommendations to the Chief Risk & Compliance Officer ("CRCO") and Executive Director & CIO
- Monitor and review associated risks of prospective and approved counterparties and make recommendations relative to risk/exposure mitigation as warranted based on market and credit conditions.

RMC includes Public Markets Compliance ("PMC") staff which test portfolios and prepare and distribute a monthly compliance report to the SIOs for Fixed Income, Global Equity, PRIME and Real Estate. The monthly compliance report summarizes the compliance exceptions (if any) and corresponding resolutions documented during the month. As exceptions occur, the applicable asset class SIO coordinates with PMC, the Director of Enterprise Risk Management ("DERM") and the Chief Risk and Compliance Officer ("CRCO"), as necessary, to resolve compliance issues in real time. For exceptions not resolved in real time and as necessary, the specific asset class Investment Oversight Group ("IOG") consisting of the asset class SIO, CRCO, PMC and DERM meet to resolve compliance exceptions and/or make determinations whether further escalation is needed. All unresolved compliance exceptions are elevated to the Executive Director & CIO for discussion and final resolution. The Executive Director & CIO may request input from TOG for resolution of an elevated compliance exception. Additionally, the PRIME and Fixed Income IOGs convene quarterly to review the stress test results.

A Total Fund compliance report is prepared quarterly and shared with TOG members and the Senior Investment Policy Officer. The TOG meets quarterly or more often on an as-needed basis and reports minutes. Minutes describe items taken up for discussion, open items requiring additional follow-up, and any actions or escalations taken thereon including portfolio management recommendations with regard to compliance exceptions. The CRCO is responsible for approving the minutes and providing a report to the Enterprise Risk and Compliance Committee.

RMC staff obtain an annual certification from all external managers confirming compliance with the manager's agreements with the SBA. The SBA has updated these certifications to require confirmation of compliance with the terms of Section 215.47(10), Florida Statutes.

6. Description of Investment Manager Monitoring and Termination Processes and Report any Terminations/Transitions

The SBA maintains a prudent process for effectively selecting, monitoring, retaining and terminating investment managers. This process is multifaceted. It focuses on qualitative and quantitative factors, considers the uniqueness of individual asset classes, and reflects the different roles investment managers play within an asset class structure. Public market investment manager monitoring consists of two key components.

- Manager monitoring, due diligence, and evaluation processes within each asset class.
- A formal quarterly assessment that provides an independent and objective review of manager performance and potential issues and facilitates discussion among senior investment staff regarding performance and other issues affecting manager retention.

Both components utilize qualitative factors and long-term quantitative measures of performance. Absent organizational or other qualitative concerns, the SBA will have a long-term horizon for evaluating most investment product performance relative to benchmarks.

The SBA acknowledges that fluctuating rates of return characterize the securities markets and accordingly has adopted three-to-five-year time horizons for evaluating investment manager and product performance relative to benchmarks. Generally speaking, net-of-fee performance along with risk-adjusted performance measures, are used over a reasonable period to assess the manager's skill.

Private Market Asset Class Manager Monitoring

Private market asset class performance information is reviewed on a regular basis by the respective SIOs and their asset class specialty consultants, with qualitative information relating to the firms providing investment services in those areas also being evaluated. These considerations may result in discussions with the firms which could result in a decision to terminate (to the extent it is viable) the particular product. Contractual considerations and the long-term nature of certain investments in the private market asset classes do not provide the same level of flexibility with regard to investment management relationships, funding/defunding and termination processes.

Public Market Asset Class Portfolio Monitoring

Individual asset class SIOs are responsible for their respective asset class performance and the monitoring of investment products. SIOs also make termination recommendations affecting their asset class to the Executive Director & CIO for final approval.

Manager Monitoring

The asset classes employ a rigorous process to evaluate investment managers. Each asset class SIO has established manager monitoring methods that focus on answering two questions:

- Has the organization, staff, investment process, and infrastructure changed in a way which may be detrimental to performance; and
- Has the SBA lost confidence in the firm and no longer believes that it can perform as expected?

Asset classes conduct periodic reviews of portfolio characteristics and patterns of performance to evaluate process consistency and level of risk. Asset classes also review the manager organization via discussions at SBA offices, on-site meetings at the managers' offices and during periodic conference calls.

External Investment Manager Termination Process

The SBA can terminate or defund investment managers at its sole discretion. The SBA may replace managers that are not achieving expected performance or are experiencing issues that may cause future performance to disappoint. Since the SBA's goal is to determine the likelihood of future success, retention/termination decisions focus on the qualitative aspects of each manager's investment process, as well as a quantitative assessment of past performance. Subject to a thorough review of the manager's organization and investment process, SIOs may recommend the termination of a relationship. Certain extraordinary events may be the basis for an immediate termination recommendation, regardless of historical performance, including, but not limited to:

1. Revisions to the business plan of the Manager
2. A key decision maker leaves the Manager
3. A rapid increase/decrease in accounts or assets under management at the Manager
4. A significant change in the investment philosophy of the Manager
5. Manager involvement in material litigation, fraud or conflicts of interest
6. Material client-servicing problems
7. Material compliance exceptions
8. Repeated or material operational issues

In addition, significant SBA developments or policy changes may lead to termination, including but not limited to:

1. Changes in asset allocation
2. Substantial increase or decrease of funds under management
3. Material changes to the active/passive mix
4. Changes in product mix within the asset classes
5. Cost control considerations such that the SBA would be better served with an alternate provider.

The SIOs submit written recommendations and supporting documentation to the Executive Director & CIO regarding termination of any external investment manager within their respective asset class. The Executive Director & CIO makes final decisions on the termination of any external investment manager or bundled provider and executes the required termination document. The SIOs also submit manager resignations in writing to the Executive Director & CIO.

Asset Transition

Once the Executive Director & CIO approves a termination recommendation or a manager resigns, the SIOs are responsible for transitioning assets of the terminated fund to the identified replacement investment manager(s) and coordinating with other SBA units as appropriate. Portfolio or asset transitions will be managed to minimize performance impact and cost on both the legacy and target accounts. The SIOs have discretion to decide the best method for transitioning assets, subject to any applicable contractual requirements and policy constraints.

Formal Quarterly Assessment

The SBA conducts a formalized review of all public market products that applies a consistent framework termed the "Investment Manager Monitoring Guidelines." The review's purpose is to provide the SIOs, Senior Investment Policy Officer (“SIPO”), Deputy Chief Investment Officer and Executive Director & CIO with an independent assessment and help inform their decisions regarding the continued retention of an investment manager.

An investment manager review meeting is held each quarter. Meeting participants include the SIPO, the SIO of Global Equity, Fixed Income and Real Estate (or designees), the Chief of Defined Contribution Programs (or designee), CRCO (or designees), Deputy Chief Investment Officer and the SBA's asset class consultant. The SBA's asset class consultant is responsible for independently monitoring external investment manager performance and providing the SBA with a quarterly review of investment managers (the "Quarterly Consultant Review") based on criteria contained in the SBA's Investment Manager Monitoring Guidelines that are described below.

Investment Manager Monitoring Guidelines

The SBA maintains formal, written *Investment Manager Monitoring Guidelines* (the "Guidelines") that provide a systematic, consistent, and diligent methodology to monitor investment managers and help avoid untimely and haphazard actions that may adversely impact fund returns. The Guidelines balance a quantitative framework to evaluate manager skill with a qualitative assessment of factors relevant to future performance.

The Guidelines are designed to:

- Foster a forward-looking, long-term approach to manager evaluations;
- Promote timely and appropriate responses to actual and potential performance issues; and
- Provide flexibility to allow application across all asset classes, management styles, and market environments.

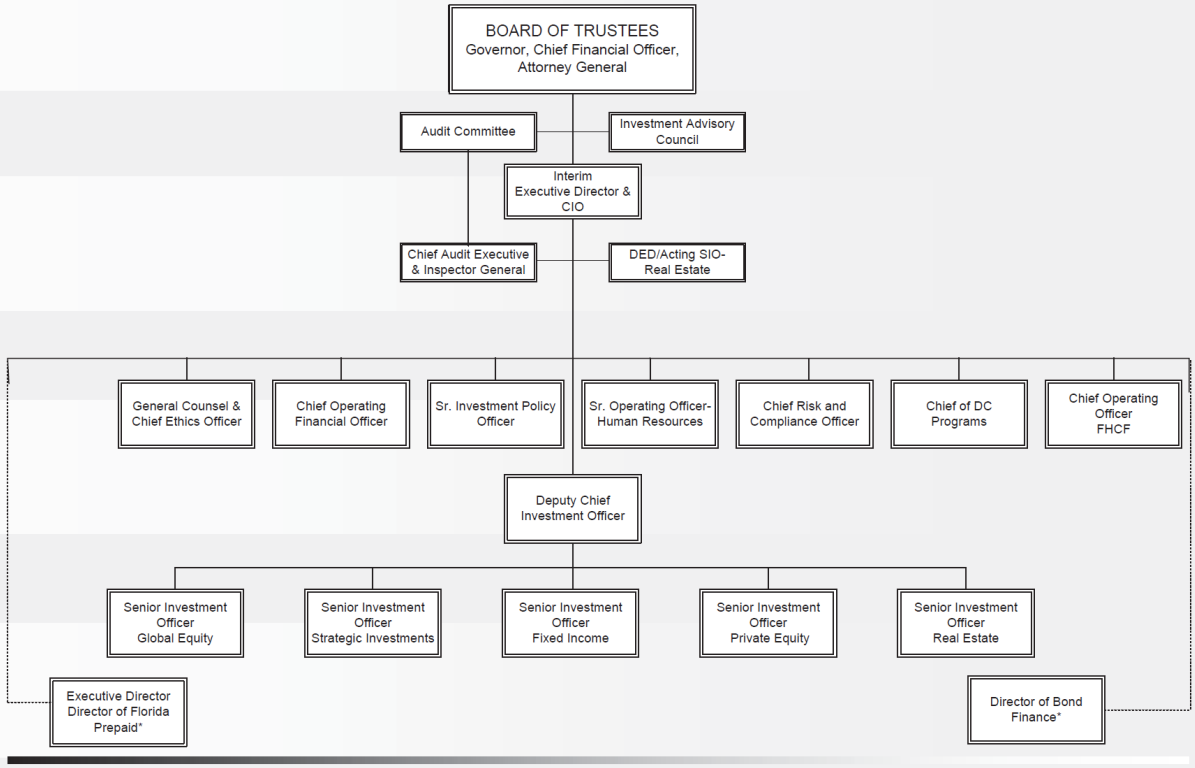
The SBA reserves the right to terminate/retain, fund/defund, or engage in enhanced monitoring of managers at its sole discretion.

III. SBA Staff and Major Non-Investment Developments

A. SBA Organizational Chart and Description of Function of Each Department

The SBA's current organizational chart is set forth below:

State Board of Administration
Functional Organization



* Reports to Other Boards

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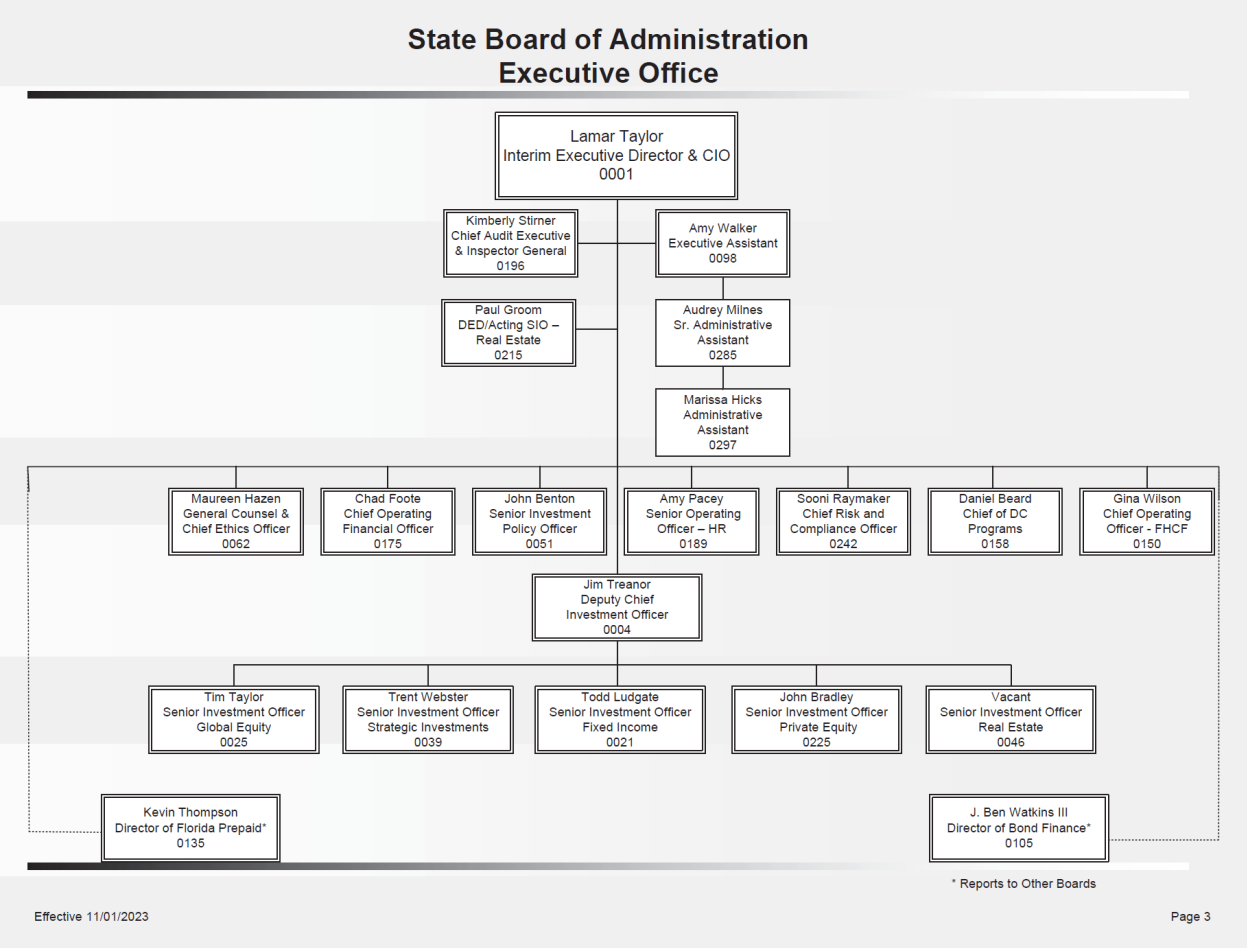


Section 121.151, Florida Statutes assigns the responsibility of investing the assets of the FRS Pension Plan to the SBA pursuant to Sections 215.44 – 215.53, Florida Statutes. The State Board of Administration is created under the State's constitution and is comprised of three Trustees: The Governor as chair, the Attorney General, and the Chief Financial Officer of the State. The Trustees act as the governing body of the State Board of Administration and are bound by the statutory and fiduciary obligations previously described herein.

Section 215.441, Florida Statutes, provides for the appointment of an Executive Director by the Trustees, and as authorized by Section 215.52, Florida Statutes, the Trustees have promulgated Rules 19-3.016 and 19-3.0161 broadly delegating the executive, investment, operational and personnel management responsibilities to the Executive Director. The Executive Director has further delegated these responsibilities to staff through various internal policies, procedures and personnel position descriptions. Currently, the SBA maintains 248.75 full-time-equivalent positions to assist in carry out the organization's responsibilities.

The functions of each of the SBA's senior executives (not including the Florida Prepaid College Board and the Division of Bond Finance) and the related departments are described below:

Interim Executive Director & Chief Investment Officer. Lamar Taylor is the Interim Executive Director & CIO of the SBA. Under broad authority granted by the Trustees, the Executive Director has administrative and investment authority and responsibility, within the statutory limitations and rules, to develop investment policies and tactically manage investments.

Deputy Executive Director (the "DED"). The DED's primary responsibility is to assist the Executive Director in the management of the SBA's various investment programs, including the FRS Pension Plan, the FRS Investment Plan, Florida PRIME™, the Florida Hurricane Catastrophe Fund, Debt Services, and miscellaneous trust funds.

Deputy Chief Investment Officer (the "DCIO"). The DCIO works directly under the guidance of the Executive Director and CIO. The DCIO assists in providing strategic leadership and oversight of the SBA's internal and external investment portfolios in accordance with the SBA's policies and state and federal law. The DCIO oversees the management of investment related activities, serving on various committees, representing the SBA with stakeholders, and assisting in the development and implementation of investment policies, processes, and strategic plans.

Chief Operating Financial Officer. The Chief Operating Financial Officer works under the direction of the Executive Director and CIO and is responsible for operational management activities of the SBA which include, general management and oversight of Accounting and Administrative Services, Financial Operations, Information Technology, Vendor Management, and Information Security.

General Counsel and Chief Ethics Officer. The General Counsel serves as the chief legal advisor to the Executive Director & CIO and staff of the SBA. The General Counsel's duties include the review and negotiation of all SBA contracts for investments and other services; management and oversight of SBA litigation; supervision of the legal activities of external firms performing legal services for the SBA; research and preparation of legal opinions and reports; and reviews and advises on all ethics matters.

Chief Audit Executive and Inspector General (the "CAE/IG"): The CAE/IG is responsible for all internal audit activities at the SBA. The CAE/IG's duties include conducting and overseeing internal audits of the SBA's activities, serving as a liaison to the office of the Florida Auditor General, coordinating the activities of the SBA's Audit Committee, and inspecting allegations of internal misconduct.

Chief Operating Officer of Florida Hurricane Catastrophe Fund. The Chief Operating Officer of the Florida Hurricane Catastrophe Fund (the "FHCF") is responsible for the day-to-day operations of the FHCF as well as strategic and operational planning, analysis of proposed legislative and regulatory actions, and administration of the Insurance Capital Build-up Incentive Program. Additionally, she oversees the operations for the Reinsurance to Assist Policyholders Program (RAP) and the Florida Optional Reinsurance Assistance Program ("FORA"). The Chief Operating Officer of the FHCF is on the Board of Directors and is the President of the State Board of Administration Finance Corporation and on the board of the Florida Commission on Hurricane Loss Projection Methodology.

Senior Officer, Investment Programs & Governance. The Senior Officer of Investment Programs & Governance primary responsibilities include corporate governance and active strategies (proxy voting and corporate engagement) as well as investment program management for the Florida PRIME™ investment pool and other non-pension investment mandates.

Chief Of Defined Contributions Programs. The Chief of Defined Contributions Programs at the SBA is responsible for the daily administration of the Office of Defined Contribution Programs, which administers the Florida Retirement System Investment Plan, a participant-directed 401(a) retirement plan. This position is also responsible for managing the educational services offered to the members of the Florida Retirement System.

Chief Risk and Compliance Officer. The Chief Risk and Compliance Officer (the "CRCO") oversees strategic planning, policy development, enterprise risk management, and compliance. The CRCO is a strategic partner providing leadership ensuring compliance with policies and guidelines to protect the integrity of the investment process.

Senior Investment Officer Global Equity. The Senior Investment Officer for Global Equity is responsible for overseeing public stock market investments, including internally and externally managed active and passive portfolios in developed and emerging markets. Duties also include establishing and implementing asset class objectives and strategies, setting investment guidelines, structuring portfolios, and risk management as well as compliance, investment manager searches, and the ongoing monitoring of external asset managers.

Senior Investment Officer Fixed Income. The Senior Investment Officer of Fixed Income oversees management of long-term and short-term fixed income investments, including internal and external investment grade and high yield portfolios. This position's duties include internal active government/credit portfolio management, internal cash management, formulating strategies and portfolio guidelines, risk management, compliance, investment manager searches, and monitoring investment portfolios.

Senior Investment Officer Real Estate. The Senior Investment Officer of Real Estate oversees management of direct-owned real estate, pooled real estate funds and REIT strategies. Duties also include formulating operating strategies, selection and engagement of professional service providers, evaluation and analysis of investment alternatives and property acquisition, management, and disposition.

Senior Investment Officer Strategic Investments. The Senior Investment Officer for Strategic Investments primarily oversees management debt, equity, real assets, diversifying strategies, flexible mandates and special situation investments. Duties also include sourcing new investments, completing due diligence, and participating on private partnership advisory boards.

Senior Investment Officer Private Equity. The Senior Investment Officer for Private Equity oversees management of limited partnerships investments, including buyout, secondary, distressed/turnaround, venture capital and co-investment commitments. Duties also include sourcing new investments, completing due diligence, and participating on private partnership advisory boards.

Senior Investment Policy Officer. The Senior Investment Policy Officer is responsible for investment policy, asset allocation, investment risk management, economic analysis, and total fund investment research.

Senior Information Technology Officer. The Senior Information Technology Officer oversees the Financial Operations and Enterprise Project Management departments and directs all aspects of Information Technology, including network services, applications and development, and support services, providing vision and leadership in information technology strategy, management, and operations.

Senior Operating Officer- Human Resources. The Senior Operating Officer for Human Resources (SOO-HR) oversees recruitment, compensation design and administration, benefit administration, employee relations, personnel record keeping, and employee training and development. The SOO-HR serves as a strategic partner with responsibility to help align colleague resources with the values, initiatives, and overall objectives of the SBA. The SOO-HR is responsible for all Human Resource activities including, but not limited to, recruitment and retention, compensation, payroll, benefits, performance management, and professional development.

B. Description of Each Internal Oversight Group

The SBA maintains a number of internal oversight groups. Each of the primary oversight groups is identified and described below.

Corporate Governance and Proxy Voting Oversight Group. The Executive Director & CIO has organized a Corporate Governance and Proxy Voting Oversight Group, as a standing sub-committee of the Senior Investment Group to (i) deliberate on specific proxies as it deems appropriate to ensure the independence and integrity of the voting process (particularly in the case of controversial or unique voting circumstances), (ii) adopt the Corporate Governance Principles & Proxy Voting Guidelines, which set forth the SBA's views with respect to certain corporate governance and other issues that typically arise in the proxy voting context, (iii) monitor annual reports regarding the specific proxy votes, corporate governance and proxy voting trends, and (iv) routinely review and/or evaluate relevant risks identified through periodic risk assessments or by group members on an ad hoc basis. The Senior Officer – Investment Programs & Governance serves as staff director of the Corporate Governance and Proxy Voting Oversight Group and collects and distributes work papers and manages the records of the Corporate Governance and Proxy Voting Oversight Group's meetings.

Investment Oversight Group ("IOG"). The Investment Oversight Group is a standing subcommittee of the Enterprise Risk and Compliance Committee. Its functions include regularly reviewing compliance exceptions and associated risks that may have a material impact on trust funds and client portfolios and developing and documenting responses to these compliance exceptions (including those relating to securities lending programs). The Chief Risk & Compliance Officer acts as Chairman of the IOG on behalf of the Executive Director & CIO, who retains final authority for actions taken.

Information Security Oversight Group ("ISOG"). The Information Security Oversight Group is organized as a standing sub-committee of the Senior Leaders Group. ISOG provides oversight and leadership for SBA's information security activities. The group receives regular reports relating to information security activities and incidents and provides guidance in addressing and preventing incidents. Material information security incidents requiring escalation under the SBA's Incident Management Framework policy will be addressed under that policy. The Director of Information Security serves as the staff director of ISOG.

Risk and Compliance Committee ("RCC"). The Risk and Compliance Committee serves as a cross-functional consultative forum which:

- Provides feedback and direction to new and ongoing Risk Management and Compliance initiatives;
- Reviews significant/material compliance exceptions;
- Reviews and evaluates effectiveness of compliance monitoring efforts;
- Evaluates management efforts for key enterprise risks;
- Identifies, reviews and assesses emerging risk issues, continuously scanning for potential new or altered industry, vendor, environmental or internal risks; and
- Provides an opportunity for Risk Management and Compliance to promote awareness among senior management pertaining to the risk management and compliance-related issues facing the SBA.

Regulatory and Collateral Management Working Group. The Regulatory and Collateral Management Working Group monitors regulatory developments and collateral management practices.

Safety Advisory Committee. The Safety Advisory Committee includes Senior Leaders Group members and other employees as appropriate. The committee participates in ongoing safety and health program activities, which include promoting safety committee participation, providing for safety and health education and training, and reviewing and updating safety policy.

Senior Investment Officers Group. The Executive Director & CIO meets biweekly with the Senior Investment Officers, Chief of DC Programs, Deputy Chief Investment Officer and Deputy Executive Director to discuss the near-term investment environment, economic and geopolitical outlook and other investment related issues.

Senior Leaders Group ("SLG"). The Executive Director & CIO serves as the group leader of the Senior Leaders Group. The Senior Leaders Group is composed of all of the SBA's senior staff and investment officers. The Senior Leaders Group provides recommendations to State Board of Administration (SBA) senior leaders having management responsibility for the investment, operational and administrative functions of the SBA for accomplishing significant cross-functional projects and ensuring that investment and operational risks are addressed. The Senior Investment Policy Officer has the responsibility for preparing and distributing work papers, as necessary, prior to each scheduled meeting.

Trading, Investment Oversight and Compliance Committee ("TOG"). The Trading Oversight Group (TOG) is a standing subcommittee of the Enterprise Risk and Compliance Committee

(RCC). TOG regularly reviews public market asset classes' methodology for broker/dealer and counterparty selection, the measuring, monitoring and managing of broker/dealer and trading counterparty risk, and the monitoring and assessment of trading activity, including efficient coverage, costs, best execution, trade allocation practices (including any limits or monitoring standards) and trade error resolution. TOG considers cash market and derivative market trading and routinely reviews and/or evaluates potential trading and counterparty risk management issues as identified through periodic risk assessments or by group members on an ad hoc basis. The TOG regularly reviews, evaluates and escalates risks resulting from portfolio compliance exceptions, internal trading and counterparty exposure.

Valuation and Performance Measurement Oversight Group ("VPOG"). The Valuation and Performance Measurement Oversight Group (VPOG) regularly reviews valuation and performance measurement methodologies, processes, issues, and relevant risks that may have a material impact on trust funds and client portfolios or internal and/or external reporting and develops and document responses to these issues. VPOG is responsible for approving SBA valuation processes, including pricing sources and hierarchies and routinely assesses relevant risks identified through formal risk assessments and/or by group members on an ad hoc basis. VPOG develops, monitors, and documents responses to valuation and performance measurement issues and material exceptions and keeps the Senior Leaders Group informed.

WorkSmart Governance Group. The WorkSmart Governance Group oversees authority for use and proper maintenance of the WorkSmart Portal.

C. Description of Other External Partners and Subject Matter Experts

The SBA has contracted with a number of other external service providers and subject matter experts to provide specific services. These services include such matters as asset custody, legal advice, accounting and auditing, appraisals, and other similar services. Some of the SBA's primary service providers and the services that they provide are listed below:

Global Master Custodian:	Bank of New York Mellon
Legal Advisors:	Eversheds Sutherland Greenberg Traurig Groom Law Group Haynes and Boone Mayer Brown Morgan Lewis Sidley Austin
Accounting and Auditing Services:	Crowe Ernst & Young KPMG RSM

Appraisal Services: SitusAMC

D. Description of the SBA's Internal Policies

The SBA has robust internal procedures and processes to ensure it is complying with its fiduciary duties. This is demonstrated and memorialized in the extensive and thorough set of internal policies that cover all of the areas of the SBA's investment, operational and administrative responsibilities. Set forth below are a list of the key SBA policies governing investment recommendations and decisions.

INTERNAL POLICIES AMENDED TO INCLUDE HB3 LANGUAGE

10-018 - Asset Class Allocation Policies
10-019 - New Investment Vehicles and Programs
10-033 – Securities Litigation
10-060 – Risk Budget
10-065 – Rebalancing and Liquidity Management
10-015 – Corporate Governance
15-002 – Investment Portfolio Guidelines
15-010 – Public Market Asset External Investment Manager Selection
15-018 – Securities Lending
15-501 – Private Equity Allocation Policy
15-502 – Private Market Investment Guidelines
15-510 – Private Markets and Evergreen Fund Selection
15-511 – Retention and Termination of Private Market Managers and Service Providers
15-601 – Strategic Investments Allocation Policy
15-701 – Real Estate Allocation Policy
15-710 – Direct Private Market Real Estate Acquisitions
15-711 – Disposition of Real Estate Wholly Owned Investments
15-720 - Direct Private Market Real Estate Credit Facility Program
20-1211 – Terminated Investment Products
20-532 – Risk Budget Implementation
20-710 – Liquidity Portfolio Use
20-721 – Investment Policy Design Risk

The SBA has modified all of the above policies to require that all investment recommendations and decisions be made in accordance with the new pecuniary factors standard of care set forth in Section 215.47(10), 112.656 and 112.662, Florida Statutes (2023).

E. Summary of Policies relating to Ethics – Ethics, Personal Investment Activity, Internal Controls & Fraud, Insider Trading/MNPI, Code of Conduct

Part of the SBA's vision is to exemplify the principles of trust, integrity and performance, and the SBA maintains policies to support its mission to adhere to the highest ethical, fiduciary and professional standards. In this regard, the SBA has specific policies relating to: (a) Ethics; (b)

Personal Investment Activity; (c) Internal Controls and Fraud; (d) Insider Trading and Material Non-Public Information; and (e) Code of Conduct and Disciplinary Action. These policies are extensive and detailed, and a violation of any of them is a serious matter. Each of these policies is briefly summarized below.

Ethics Policy. The SBA's Ethics policy provides that SBA employees will maintain the highest standards of honesty, integrity, impartiality, and conduct to ensure the proper discharge of the SBA's duties and completion of its mission. The avoidance of misconduct and conflicts of interest on the part of employees through use of informed judgment is vital to the success of these standards. Among other requirements, the policy requires SBA employees to:

- Act with honor and integrity in professional relationships;
- Maintain a duty of loyalty to beneficiaries;
- Avoid personal, social, employment or business activities and relationships that create conflicts of interest or interfere in the performance of official duties;
- Promptly disclose conflicts of interest;
- Avoid misuse of their official position for private gain;
- Not seek or accept gifts, money or preferential treatment or property that would influence official duties;
- Exercise prudence and care in the management of funds;
- Use care and discretion in handling confidential information;
- Comply with all SBA policies and local, state and federal laws;
- To avoid false record keeping and false statements;
- To comply with professional standards;
- To report fraud and misconduct.

The Ethics Policy is intentionally more stringent than the requirements of Chapter 112, Part III, Florida Statutes. It goes into great detail in defining and describing the practices that are prohibited or required with respect to: gifts, honoraria, lobbyist contacts, outside employment and similar activities, political activities, and other financial and business interests.

Personal Investment Activity Policy. The Personal Investment Activity Policy is intended to establish a set of internal controls that govern personal investment activity to ensure that actual or potential conflicts of interest between personal investments and professional responsibilities are avoided. Employees must exercise due care and caution to always place the interests of the SBA before their own. The Personal Investment Activity Policy provides thorough guidance regarding the prohibitions associated with personal investments and trading. It creates reporting requirements for employees. Each employee must report personal investment activity through the Risk Management and Compliance Group. The policy also requires certain personal investment trading to be preapproved by the Risk Management and Compliance Group and establishes trading pre-clearance procedures and approval criteria. Finally, the policy requires employees to disclose material ownership and investment interests in any financial institution that they interact with on behalf of the SBA.

Internal Controls and Fraud. This policy defines the responsibilities of management and staff of the SBA with regard to the establishment and maintenance of an effective system of internal controls and defines responsibilities when impropriety, including fraud, is suspected or detected.

SBA management and supervisors are required to develop a system to ensure that transactions are appropriately authorized, the true substance and effect of transactions are properly recorded, assets are properly safeguarded, and accountability for actions and resources is appropriately identified and documented. Internal controls are defined as processes, effected by an entity's management, designed to provide reasonable assurance that organizational objectives, such as effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations can be achieved. Internal controls are intended to reduce the risk of unauthorized transactions, misleading or improperly recorded transactions, loss of resources and assets, and failure to identify the person(s) responsible for errors and fraud. Adequate systems of internal control must address authorization, recording, safeguarding, and accountability.

Insider Trading and Material Nonpublic Information. The purpose of this policy is to provide guidance and direction to SBA employees regarding insider trading, the use of inside information, and reporting material nonpublic information (MNPI). This policy is meant to guard against impropriety, as well as to protect both the SBA and its employees from inadvertently violating federal securities laws. No employee may trade, whether personally, on behalf of others, or for the SBA's portfolios or other accounts managed by the SBA, based on material nonpublic information or communicate material nonpublic information to others in violation of federal securities laws. This conduct is often referred to as "insider trading." No decision or recommendation to purchase or sell securities for the portfolios or accounts of the SBA, its clients or anyone else may be based, in whole or in part, on material nonpublic information.

Code of Conduct. All employees are expected to adhere to the highest ethical and professional standards in the performance of their duties, and in doing so, are expected to observe the guidelines of the Code of Conduct Policy. This policy further describes the disciplinary actions that may result from a violation of the Code of Conduct. Employees of the SBA are expected to adhere to the following Code of Conduct:

- Abide by the SBA Code of Ethics;
- Strive to perform at the highest level of efficiency and effectiveness;
- Be reliable and dependable, which includes reporting for work, ready to work, on a reliable basis;
- Observe established work hours and scheduled appointments;
- Complete work on time and maintain focus on job related activities during work hours;
- Provide the level of effort necessary to complete assigned duties;
- Demonstrate willingness and ability to make decisions and exercise sound judgment;
- Produce work that consistently meets or exceeds expectations;
- Accept responsibility for performance and actions;
- Adapt to changes in work assignments, procedures and technology;
- Commit to improving individual performance;
- Schedule leave in a manner that minimizes work disruption;
- Exercise due care and responsible diligence in the performance of job duties;
- Follow lawful orders and carry out the directives of persons with duly delegated authority;
- Strive to work constructively with auditors, compliance and risk management staff, including providing appropriate and timely attention and responses to audit processes, risk identification and assessment, and compliance monitoring activities;

- Resolve differences with management in a constructive manner;
- Abide by the law and applicable rules, policies and procedures of the SBA;
- Conduct oneself, both on and off the job, in a manner that will not bring discredit or embarrassment to the SBA or the State of Florida;
- Maintain clear boundaries between personal relationships with other SBA employees and business interactions during working hours and within the working environment;
- Be courteous, considerate, respectful, and prompt in dealing with the public and co-workers;
- Maintain high standards of honesty, integrity and impartiality;
- Place the interests of the public ahead of personal interests;
- Protect SBA property from loss or abuse and use property only in a manner beneficial to the SBA.

IV. Employee Training Requirements (Including Fiduciary and Ethics Training)

The SBA requires annual policy education for all SBA employees. The SBA's mandatory policy training has been updated to require an annual certification from all employees of compliance with the obligations of Section 215.47(10), 112.656 and 112.662, Florida Statutes (2023) (including representing compliance with the pecuniary factors standard of care, as applicable).

Annual Mandatory Policy Curricula. Each year's policy curricula are defined in the Mandatory Policy Course Cycles document which lists the individual web-based policy courses included in the curricula, how often each course is required, and the employees required to complete specific courses. The cycles and the individual courses included therein are developed to meet statutory requirements, organizational policies, and/or risk management and compliance priorities. Individual policy courses are annually reviewed, evaluated and updated by Human Resources, with input from course content contributors and owners, who have organizational oversight of the policies covered. Courses are developed and added to the curricula as needed and eliminated when no longer required. The final courses are approved by the General Counsel.

New Hires. All newly hired SBA employees, including OPS and interns, are provided information regarding SBA policies and how to access them, and are required to acknowledge receipt of this information and the responsibility to adhere and comply with all SBA policies and procedures, including all rules and regulations contained therein. In addition, all newly hired SBA employees, including OPS and interns, are required to complete the New Hire Mandatory Policy Curriculum as defined in the Mandatory Policy Course Cycles document within the first 30 days of employment.

Incumbent Employees. All SBA employees, including OPS and interns, are required to complete the annual Mandatory Policy Curriculum as defined in the Mandatory Policy Course Cycles document annually by June 30.

V. Investment Advisory Council

A. Description of Statutory Duties of IAC (Sections 215.444 and 215.475, Florida Statutes)

Section 215.444, Florida Statutes, provides:

(1) There is created a nine-member Investment Advisory Council to review the investments made by the staff of the Board of Administration and to make recommendations to the board regarding investment policy, strategy, and procedures. The council shall meet with staff of the board at least once each quarter and shall provide a quarterly report directly to the Board of Trustees of the State Board of Administration at a meeting of the board.

(2) The members of the council shall be appointed by the board as a resource to the Board of Trustees of the State Board of Administration and shall be subject to confirmation by the Senate. These individuals shall possess special knowledge, experience, and familiarity with portfolio management, institutional investments, and fiduciary responsibilities. Members shall be appointed for 4-year terms. A vacancy shall be filled for the remainder of the unexpired term. The council shall annually elect a chair and a vice chair from its membership. A member may not be elected to consecutive terms as chair or vice chair.

(3) The council members must undergo regular fiduciary training as required by the board and must complete an annual conflict disclosure statement. In carrying out their duties, council members must make recommendations consistent with the fiduciary standards applicable to the board.

(4) The council may create subcommittees as necessary to carry out its duties and responsibilities.

Section 215.475(2), Florida Statutes, requires any change to the Investment Policy Statement to be reviewed by the Investment Advisory Council (the "IAC"). The statute states:

Prior to any recommended changes in the IPS being presented to the board, the executive director of the board shall present such changes to the Investment Advisory Council for review. The council shall present the results of its review to the board prior to the board's final approval of the IPS or changes in the IPS.

B. Description of Current IAC Members

The current members of the IAC are:

- Tere Canida. Tere Canida is the current Chair of the IAC. She was originally appointed on September 24, 2019, and was reappointed on October 25, 2023. Her current term expires on December 12, 2026. Ms. Canida currently serves as Principal and Portfolio Manager of Cito Capital Group, LLC, a multifamily office registered as an investment advisor with the SEC. She has served on the boards of publicly traded companies, including serving on investment and audit committees. Ms. Canida holds an MBA degree and a CFA designation.

- Vinny Olmstead. Vinny Olmstead is the current Vice Chair of the IAC. He was originally appointed on September 1, 2015, and has been subsequently reappointed. His current term expires on February 1, 2027. Mr. Olmstead is the founding figure and current Managing Director of Vocap Investment Partners, a leading venture capital firm in the southeast U.S. that concentrates on growth-stage investments. He has served on the boards of several firms. He was previously the founder and CEO of Bridgevine. Mr. Olmstead holds an MBA and a Master of Health Science degree from the University of Florida.
- John Goetz. John Goetz was originally appointed to the IAC on September 24, 2019, and was reappointed on October 25, 2023. His current term expires on December 12, 2026. Mr. Goetz is the President, Co-Chief Investment Officer, and a member of the Board of Directors of PZena Investment Management, Inc., a deep value investment management firm that currently manages over $37 billion globally. He previously held key positions at Amoco Corporation. He holds an MBA degree from the Kellog School at Northwestern University.
- Pat Neal. Pat Neal was originally appointed to the IAC on May 28, 2020. His current term expires on February 1, 2024. Mr. Neal is the Chairman of the Executive Committee of Neal Communities, Inc., which has built over 14,000 homes, home sites and condominiums over several Florida counties. He served in the Florida House of Representatives from 1974 to 1978 and in the Florida Senate from 1978 to 1986. He has served on the boards of multiple state government and public service organizations.
- Ken Jones. Ken Jones was originally appointed to the IAC on January 17, 2023, and reappointed on October 25, 2023. His current term expires on December 12, 2027. Mr. Jones is the Founder, Managing Partner and Co-Chair of the Investment Committee of Third Lake Partners, a global private firm dedicated to investment management and capital deployment for numerous private clients who own and operate some of the largest privately held companies in the world. He serves as a board member for a number of portfolio companies and has served on various fund advisory committees. Prior to Third Lake, Mr. Jones founded and served as Chairman and CEO of TL Capital and Fairbourne Properties. He previously spent time in legal, government and management positions in Washington, D.C., including as chief legal counsel and deputy chief of staff for former U.S. Senate Majority Leader Trent Lott. He holds a law degree from the University of Florida.
- Gary Wendt. Gary Wendt was originally appointed to the IAC on November 15, 2011, and has been subsequently reappointed. His current term expires on December 12, 2023. Mr. Wendt is Chairman, Co-Founder and Partner of Deerpath Capital Management, a $1 Billion plus Small Business Lender with a main office in Fort Lauderdale. He was previously the Chairman, CEO and President of General Electric Capital. He has served on the boards of a number of companies and public service organizations. He holds an MBA from the Harvard Graduate School of Business.
- Peter Collins. Peter Collins was originally appointed to the IAC on December 20, 2021. His current term expires on December 21, 2025. Mr. Collins is Co-Founder and Managing Principal of Forge Capital Partners ("Forge"). Mr. Collins directs all private equity activities for Forge and is the CEO of Forge's real estate private equity fund business. Prior to co-founding Forge, Mr. Collins spent 5 years as Managing Director at Rock Creek Capital, located in Jacksonville, Florida, which at the time, was one of

the Southeast's largest private equity firms. Mr. Collins previously served four years as Chief of Staff to Florida State Senator Charles Williams. He holds an MBA degree from Florida State University.

- Freddie Figgers. Freddie Figgers was originally appointed to the IAC on May 23, 2023. His current term expires on February 1, 2027. Mr. Figgers is the founder and CEO of Figgers Communication Inc., an American telecom operator that also manufactures smartphones and consumer electronics. He is also the founder of Figgers Health, which manufactures devices and software for healthcare solutions. He currently serves as the Chairman of the Board of the Figgers Foundation, which is a philanthropic organization. He has served on the boards of several public service organizations.
- Peter Jones. Peter Jones was originally appointed to the IAC on December 4, 2018. His current term expires on December 12, 2024. Mr. Jones has served as the Chairman of Franklin Templeton Institutional, LLC and as the President of Franklin Templeton Distributors, Inc. He previously served as the President of IDEX Distributors, Inc. He holds a Bachelor of Science degree from Florida State University and has served as a Trustee and Chairman of the Investment Committee for the Florida State University Foundation.

C. Summary of Major Activities of IAC and All Actions Taken During the Period

The Investment Advisory Council held six (6) regular quarterly meetings between June 30, 2022, and the date of this report. Each regular quarterly meeting typically includes a report from the SBA's Executive Director & CIO, an in-depth review of the activities of one or more of the SBA's asset classes and the SBA's related outside investment advisor, and summary updates from each of the SBA's other asset classes. In addition, each regular meeting includes a major mandates performance review, which provides a summary of the performance of the FRS Pension Plan for the period.

The IAC's Compensation Subcommittee met three times between June 30, 2022, and the date of this report. The Compensation Subcommittee is responsible for reviewing the compensation system of the SBA's employees and the compensation of the Executive Director & CIO and making recommendations to the entire IAC with respect to those matters. During the period, the Compensation Subcommittee reviewed and recommended several changes to the SBA's compensation system, including (a) recommending an annual effort to align the SBA's pay scale with the 50th percentile of peer institutions, (b) revising the incentive compensation plan to allow incentive compensation payments for outperformance of the benchmark during periods of negative overall market performance, and (c) providing for incentive compensation to be paid to the Interim Executive Director & CIO. The Compensation Subcommittee also reviewed and commented on the performance of the Interim Executive Director & CIO.

In addition to standing reports and other matters typically considered at each regular meeting of the IAC, the IAC also considered and made recommendations regarding the following significant issues:

<u>September 13, 2022, Meeting</u>:

- IAC Governance Role and Fiduciary Duties Training. The IAC heard a presentation regarding its governance role and received fiduciary training from the SBA's General Counsel.
- Asset Liability Study and discussion of the Assumptions Conference. The IAC heard information regarding the Pension Plan's anticipated ability to pay benefits as they become due and the impact on portfolio development.
- Update to the FRS Pension Plan Investment Policy Statement. The IAC heard information regarding an update to the Investment Policy Statement and made a recommendation to the Trustees regarding the adoption of the revised IPS.
- Review of Corporate Governance Proxy Voting Guidelines. The IAC heard a presentation regarding the SBA's Corporate Governance Proxy Voting Guidelines and recommended the adoption of the revised Guidelines to the Trustees.
- Compensation Subcommittee Update. The IAC heard an update from the Compensation Subcommittee and the Committee's recommendation for Mercer to complete its review of the SBA's current policies.

December 13, 2022, Meeting:

- Results of the Asset Allocation Study. The IAC heard the results of the Asset Allocation Study and suggested that additional time should be reserved for the discussion of this issue at the next meeting.

March 28, 2023:

- Asset Allocation Review. The IAC heard an additional presentation regarding the SBA's asset allocation study and made recommendations to the Executive Director & CIO regarding the study.
- Compensation Subcommittee Update. The IAC heard additional information from the Compensation Subcommittee and recommended four changes to the SBA's compensation plan.

June 27, 2023:

- Asset Allocation Review and Recommendation. The IAC heard a further presentation regarding the Asset Allocation Study and adopted a recommendation for the revision of the SBA's allocation policy.
- FRS Pension Plan Benchmark Recommendations. The IAC heard a presentation regarding the benchmarks used by the SBA and made a recommendation regarding the adoption of new benchmarks.
- Revisions to the FRS Pension Plan Investment Policy Statement. The IAC heard recommendations regarding the SBA's asset allocation and other proposed revisions to the FRS Pension Plan Investment Policy Statement and made a recommendation to the Trustees regarding the adoption of the updated Investment Policy Statement.

September 19, 2023:

- FRS Pension Plan Risk Budget Review. The IAC reviewed the acceptable risk levels (active return seeking investments) for the FRS Pension Plan and the SBA's performance within those parameters over time. The IAC made recommendations

regarding the SBA's Risk Budgets and actions with respect to working within the Risk Budgets.

- Compensation Subcommittee Review. The IAC heard an update from the Compensation Subcommittee and made recommendations to be submitted to the Trustees.

D. Description of Annual Certificate Executed by Each Member Regarding Statutory Compliance, Conflicts and Fiduciary Training

Section 215.444(3), Florida Statutes, requires the IAC members to undergo regular fiduciary training and to complete an annual conflict disclosure statement and provides that IAC members must make recommendations consistent with the fiduciary standards applicable to the SBA. A copy of the form of the Annual Conflict Disclosure Statement is provided below.

SBA FLORIDA
STATE BOARD OF ADMINISTRATION

Investment Advisory Council Annual Conflict Disclosure Statement

Fiduciary Training and Standards

❒	I agree to undergo regular fiduciary training as required by the board and have made and will make recommendations consistent with the fiduciary standards applicable to the board.

Standards of Conduct and Ethics Requirements

❒	I understand that as a member of the SBA Investment Advisory Council, I am subject to the standards of conduct for "public officers" located in section 112.313, F.S. and ethics requirements located in section 215.4754, F.S. (see attached), and I have abided and agree to abide by these standards of conduct and ethics requirements.

Disclosure

❒	I agree to proactively and promptly disclose to the General Council any circumstances or situations that, in my best judgment, may create an actual or potential conflict of interest. In instances where I am unsure whether to disclose or not, and in borderline circumstances or situations, I agree to err on the side of proactive and prompt disclosure. Disclosure(s) attached, if appropriate.

Signature

❒	I certify that the statements and indications above are true and accurate as of the date below to the best of my knowledge.

	Signature		Date	
	Print Name		Date Term Expires	

Ethics Requirements Specific to the IAC.
Section 215.4754, Florida Statutes, generally provides a 2-year cooling-off period before an IAC member (or affiliated persons) may conduct certain business with the SBA. Specifically, the statute provides that an IAC member or any business organization or affiliate thereof that is owned by or employs such member may not directly or indirectly contract with or provide services for the investment of trust funds invested by the SBA during the time of the member's service on the IAC or for 2 years thereafter.

Ethics Requirements – Public Officers and Employees.
Chapter 112, Part III, Florida Statutes, generally sets forth the Code of Ethics for Public Officers and Employees. Some of the provisions of Chapter 112, Part III, apply to the IAC members, and some do not. For example, much of Section 112.313, Florida Statutes, which sets forth the standards of conduct for public officers and employees, applies to members of an advisory body (including the members of the IAC) and prohibits conduct such as solicitation and acceptance of gifts based on the understanding that such gifts will influence the action of the IAC member; doing business with the SBA (separate from Section 215.4754, Fla. Stat., described above); misuse of public position; and conflicting employment or contractual relationships. In addition, Section 112.3143, Florida Statutes, regarding voting on conflicts could apply to members of the IAC under certain circumstances.

Fiduciary Training.
The SBA's General Counsel and Chief Ethics Officer presented fiduciary training to the entire IAC at its meeting on September 13, 2022. During the past calendar year, each IAC member has received a handbook that includes information regarding statutory obligations and copies of the fiduciary training materials.

VI. SBA External Oversight

A. Description of the Statutory Duties of the Audit Committee (Section 215.44(2)(c) and the Audit Committee Charter)

Section 215.44(2)(c), Florida Statutes provides:

The board shall create an audit committee to assist the board in fulfilling its oversight responsibilities. The committee shall consist of three members appointed by the board. Members shall be appointed for 4-year terms. A vacancy shall be filled for the remainder of the unexpired term. The committee shall annually elect a chair and vice chair from its membership. A member may not be elected to consecutive terms as chair or vice chair. Persons appointed to the audit committee must have relevant knowledge and expertise as determined by the board. The audit committee shall serve as an independent and objective party to monitor processes for financial reporting, internal controls and risk assessment, audit processes, and compliance with laws, rules, and regulations. The audit committee shall direct the efforts of the board's independent external auditors and the board's internal audit staff. The committee shall periodically, but not less than quarterly, report to the board and the executive director of the board.

The Audit Committee is governed by a Charter that is approved by the Audit Committee and by the SBA's Trustees. The Audit Committee approved the current Charter at its meeting on August 21, 2023, and the Trustees approved the updated Charter on October 25, 2023. The Charter provides that the Audit Committee exists to assist the Trustees in fulfilling their oversight responsibilities. The Board of Trustees appoints three members to serve as independent and objective parties to monitor processes for financial reporting, internal controls and risks assessment, audit processes, and compliance with laws, rules, and regulations. The Charter describes the authority, membership requirements and duties and responsibilities of the Audit Committee. The Charter requires the Audit Committee to report quarterly to the Board and the Executive Director.

One of the primary responsibilities of the Audit Committee is to direct the efforts of the board's internal audit staff. The SBA maintains an Office of Internal Audit, which is currently headed by a Chief Audit Executive & Inspector General (the "CAE & IG"). The responsibilities of the CAE & IG include: leading development of and ensuring execution of the annual internal audit plan; overseeing and coordinating with external providers of assurance services; evaluating and recommending actions regarding security; evaluating compliance with rules, laws and policies; conducting investigations relating to fraud, abuse and waste; and any other investigations directed by the ED & CIO or as independently determined. The CAE & IG administratively reports to the ED & CIO but functionally reports to the Audit Committee. Both the Audit Committee and the Office of Internal Audit are governed by Charters. The Audit Committee Charter is approved by the Trustees and the Office of Internal Audit Charter is approved by the Audit Committee.

As representatives of those charged with governance, the Audit Committee receives the reports from external assurance service providers in connection with the annual audits of the FRS Pension Plan Trust Fund, the FRS Investment Plan Trust Fund, the Florida Hurricane Catastrophe Fund and Florida PRIME.

B. Description of Audit Committee Members

The current members of the SBA Audit Committee are:

- Mark Thompson, CPA, CIA, CISA. Mr. Thompson is the Chair of the Audit Committee. He was originally appointed to the Audit Committee in 2015. Mr. Thompson has held positions as the Director of Internal Audit, Internal Audit Director and Audit Manager for several public and private entities.
- Kimberly Williams, CPA. Ms. Williams is currently the Vice-Chair of the Audit Committee. She was originally appointed to the Audit Committee in 2011. She has held positions as Budget Officer, Chief Auditor Medicaid Fraud Control Unit and various positions as Auditor and Chief Financial Officer for state and local government entities.
- Sam McCall, PhD, CPA, CIA, CGAP, CGFM, CIG. Mr. McCall was appointed to the Audit Committee on May 23, 2023. Mr. McCall worked with the Florida Auditor General's Office for 30 years, including 13 years as Deputy Auditor General and 9 years supervising the audit of the SBA. He was also the City of Tallahassee City Auditor for 13 years and the FSU Chief Audit Officer for 9 years.

C. Description and Summary of Preparation and External Audit of Annual Financial Statements (Section 215.44(2)(d), Florida Statutes)

Section 215.44(2)(d) provides: "*The board shall produce a set of financial statements for the Florida Retirement System on an annual basis, which shall be reported to the Legislature and audited by a commercial independent third-party audit firm."*

The SBA produced the annual financial statements for the Florida Retirement System Trust Fund for the fiscal year ending June 30, 2023 (the "Annual Financial Statements") and engaged Crowe LLP as a commercial independent third-party audit firm to perform the audit. Crowe LLP issued its Independent Auditor's Report on November 6, 2023 (the "Independent Auditor's Report"). The SBA submitted the Annual Financial Statements and Independent Auditor's Report to the Florida Legislature under a cover letter dated November 8, 2023. The Independent Auditor's Report and the Annual Financial Statements are available to the public on the SBA's website.

D. Description of Major Activities of the Audit Committee and All Actions Taken During the Period

The Audit Committee met six (6) times between June 30, 2022, and the date of this report. At each meeting, the Audit Committee hears quarterly reports from the Interim Executive Director & CIO, the Chief Risk and Compliance Officer, Chief Audit Executive & Inspector General, and the Office of Internal Audit. During the period, the Audit Committee also discussed the following significant issues:

- ITN for the 2022 Governance, Risk and Compliance ("GRC") Assessment. The Audit Committee approved issuing an ITN for this assessment.
- Engagement for Governance, Risk and Compliance Assessment. The Audit Committee approved the engagement of Funston to conduct the GRC Assessment.
- Presentation of Results of OPPAGA Reports.

- Presentations regarding the external auditor's audit plans for the annual financial statements. The Audit Committee heard Crowe's plans for the annual audits of the SBA's major mandates and approved the plans.
- Real Estate Entity Audit Reports. The Audit Committee heard a presentation regarding the audits of the SBA's real estate title holding entities.
- Funston's Presentation Regarding the Governance, Risk and Compliance Assessment. The Audit Committee heard the results of Funston's assessment.
- Presentation of Update Regarding Systems Upgrade Projects.
- Annual Review of Audit Committee Charter and Office of Internal Audit Charter. The Audit Committee discussed these Charters and recommended the approval of the Charters with certain revisions.
- Status of Inspector General Position. The Audit Committee considered and recommended the elimination of the position of Inspector General and the transfer of certain duties to the Chief of Internal Audit and the General Counsel.

E. Description of OPPAGA's Examination Required by Section 215. 44(6), Florida Statutes

Section 215.44(6), Florida Statutes, provides:

The Office of Program Policy Analysis and Government Accountability shall examine the board's management of investments every 2 years. The Office of Program Policy Analysis and Government Accountability shall submit such reports to the board, the President of the Senate, and the Speaker of the House of Representatives and their designees.

The Office of Program Policy Analysis and Government Accountability produced its biennial report in February 2023 under Report Number 23-03. The Report examines the SBA's management costs and performance for major investment funds as of June 30, 2022. The Report is available for review on OPPAGA's website.

OPPAGA's Report made the following summary findings:

In the two years since OPPAGA's last review, State Board of Administration (SBA) investment returns for most major investment funds met or exceeded market-based investment benchmarks. During this time, the SBA's 5-year and 10-year returns for major investment funds also exceeded benchmarks.

Florida Retirement System Pension Plan investment returns met or exceeded the board's overall investment objective for four of the five periods OPPAGA examined during a 30-year span. In addition, the fund's multi-year performances were similar to returns for other states with large pension funds. For example, as of June 30, 2021, the Pension Plan had a 10-year return of 9.3%, while nine comparable state pension funds had 10-year returns ranging from 7.7% to 10%.

The SBA's operating and investment management costs increased from Fiscal Year 2020-21 to Fiscal Year 2021-22. To reduce investment management costs, the SBA reports that it negotiated lower fees and various discounts. For example, the SBA renegotiated global equity investment manager fee schedules for an annual savings of $1.8 million and

negotiated lower fees for strategic investments, with discounts ranging from 25 to 50 basis points off the standard rate.

VII. SBA Reporting

A. Summary of Materials Provided to the Trustees During the Period and Reference to Any Notebooks/Materials

During the period from June 30, 2022, through the date of this Report, the SBA Trustees held four (4) meetings. For each meeting, the SBA submitted an agenda and comprehensive books containing associated meeting materials. At each meeting, the SBA presented the Trustees with reports from the Audit Committee, the Investment Advisory Committee, the Inspector General, the General Counsel, the Executive Director, and other reports as required by the Trustees, pursuant to Section 215.44(2)(e). Copies of the agendas for each meeting are attached to this report.

The SBA also produced the following reports, which have been provided to the parties associated with each report:

- Annual Investment Reports:
  - SBA Annual Investment Report for 2022 (as required by Section 215.44(5)(a)-(f), Florida Statutes), which was provided to the Trustees, Florida Senate, Florida House of Representatives and made available to the public on the SBA's website.
  - On or before December 31, 2023, the SBA will produce the SBA Annual Investment Report for 2023 (as required by Section 215.44(5)(a)-(f), Florida Statutes), which will be provided to the Trustees, Florida Senate, Florida House of Representatives and made available to the public on the SBA's website.
- Annual Audited Financial Statements
  - Audited Financial Statements for 2022 (as required by Section 215.44(2)(d), Florida Statutes), which were provided to the Trustees and made available to the public on the SBA's website.
  - On or before December 31, 2023, the SBA will produce its Audited Financial Statements for 2023 (as required by Section 215.44(2)(d), Florida Statutes), which will be provided to the Trustees and available to the public on the SBA's website.
- Annual Governance Reports
  - SBA Corporate Governance Principles and Proxy Voting Guidelines 2023, which are available to the public on the SBA's website.
  - 2022 Annual Corporate Governance Summary Report, which is available to the public on the SBA's website.
  - On or before December 31, 2023, the SBA will publish its Annual Corporate Governance Summary Report for 2023, which will be available to the public on the SBA's website.
- Annual Regulatory Report
  - State Board of Administration of Florida ("SBA") 2022-2023 Annual Regulatory Plan (as required pursuant to Chapter 2015-162, Laws of Florida) dated October 1, 2022, which is available to the public on the SBA's website.

- State Board of Administration of Florida ("SBA") 2023-2024 Annual Regulatory Plan (as required pursuant to Chapter 2015-162, Laws of Florida) dated October 1, 2023, which is available to the public on the SBA's website.

- Global Governance Mandates Quarterly Reports, which are available to the public on the SBA's website.
  - Global Governance Mandates Quarterly Report dated October 25, 2023.
  - Global Governance Mandates Quarterly Report dated May 23, 2023.
  - Global Governance Mandates Quarterly Report dated January 17, 2023.
  - Global Governance Mandates Quarterly Report dated August 23, 2022.
- State of Florida Publicly Traded Securities Reports updated as of the second quarter 2023 and dated as of June 30, 2023, which is available to the public on the SBA's website.
- Protecting Florida's Investments Act "Scrutinized Companies" list pursuant to Section 287.135, Florida Statutes, updated as of October 25, 2023, which is available to the public on the SBA's website.
- Scrutinized Companies that Boycott Israel list pursuant to Section 215.4725, Florida Statutes, updated as of October 25, 2023, which is available to the public on the SBA's website.
- SBA Proxy Voting Summary (Real Time, Individual Company), which is available to the public on the SBA's website.
- SBA Proxy Voting Dashboard – July 1, 2016, to Present, which is available to the public on the SBA's website.
- Monthly Performance Reports to the Trustees, for each month through October 2023, which are provided to the Trustees and are available to the public on the SBA's website.

B. Description of Annual Reports and Quarterly Reports that are Publicly Available for the Applicable Periods

1. Annual Investment Report

Each year, the SBA produces an Annual Investment Report that describes the performance and significant issues impacting the FRS Pension Plan over the past year. This Report is produced pursuant to Section 215.44(5)(a)-(f), Florida Statutes, which provides:

> *(5) On or before January 1 of each year, the board shall provide to the Legislature a report including the following items for each fund which, by law, has been entrusted to the board for investment:*
>
> *(a) A schedule of the annual beginning and ending asset values and changes and sources of changes in the asset value of:*
>
> *1. Each fund managed by the board; and*
>
> *2. Each asset class and portfolio within the Florida Retirement System Trust Fund.*
>
> *(b) A description of the investment policy for each fund, and changes in investment policy for each fund since the previous annual report.*
>
> *(c) A description of compliance with investment strategy for each fund.*

(d) A description of the risks inherent in investing in financial instruments of the major asset classes held in the fund.
(e) A summary of the type and amount of technology and growth investments held by each fund.
(f) Other information deemed of interest by the executive director of the board.

During the relevant period of this Report, the SBA prepared and produced the Annual Investment Reports, Quarterly Reports and Monthly Performance Reports described above. The SBA will prepare and produce the Annual Investment Report for 2023 on or before December 31, 2023.

2. Quarterly Reports of Functional Departments

Section 215.44(2)(e), Florida Statutes, provides:

(e) The board shall meet at least quarterly and shall receive reports from the audit committee, the investment advisory committee, the inspector general, the general counsel, the executive director, and such other persons or entities as the board may require about the financial status, operations, and investment activities of the board.

The SBA has provided reports from the Audit Committee, the Investment Advisory Committee, the Inspector General, the General Counsel, and the Executive Director as part of the meeting materials for each of the meetings of the SBA's Trustees.

3. Quarterly Equity Investment Reports

Section 215.442, Florida Statutes, provides:

(1) The executive director shall present to the Board of Trustees of the State Board of Administration a quarterly report to include the following:
(a) The name of each equity in which the State Board of Administration has invested for the quarter.
(b) The industry category of each equity.
(2) The executive director shall present each quarterly report at a meeting of the board of trustees, which shall be open and noticed to the public pursuant to the requirements of s. 286.011 and s. 24(b), Art. I of the State Constitution.
(3) The State Board of Administration shall publish a copy of each quarterly report on its website prior to presenting the report at each quarterly meeting of the board of trustees.

The SBA has published a list of its equity investments on its website and provided a copy of this list by reference to the SBA's Trustees as part of the meeting materials for each of the meetings of the SBA's Trustees.

C. Description of and Reference to Other Reports that are Publicly Available

The SBA has provided the reports set forth above. In addition, the following reports are available to the public on the SBA's website:

- Quarterly New Managers Report for each quarter of 2022 and 2023.
- Alternative Asset Status and Performance Summary for each quarter of 2022 and 2023.

SBA Actions to Comply with Governing Law: Contents of Comprehensive Report – Standard of Care in Exercising Shareholder Rights.

I. Governing Standards

A. Description of SBA Policy 10-015

The primary objective of the SBA corporate governance program is to improve the governance structures at invested companies in order to lower risk and enhance the long-term value of SBA investments. The SBA describes its corporate governance practices in Policy 10-015, which defines the roles and responsibilities of staff for corporate governance and related activities. The policy specifically notes that stock ownership rights, which include proxy votes, participation in corporate bankruptcy proceedings, and shareowner litigation, are financial assets that must be managed with the same care, skill, prudence, and diligence as any other financial asset and exercised to protect and enhance long-term portfolio value for the exclusive benefit of pension plan participants, clients, and beneficiaries. The policy also provides that the SBA's fiduciary duties of prudence and loyalty require that the SBA consider only those factors that relate to the economic value of the SBA's investments and not subordinate the interests of the beneficiaries to unrelated objectives. The policy notes that state laws may prohibit investment in companies or mandate reporting on certain investments due to geopolitical, ethnic, religious or other factors. Compliance with these laws and any related reporting requirements has similarities to corporate governance issues and is consolidated organizationally in the Investment Programs & Governance Unit. The policy has been amended to reflect the new requirements in Sections 215.47(10), 112.656 and 112.662, Florida Statutes (2023), including expressly that when deciding whether to exercise shareholder rights or when exercising such rights, the SBA must consider only pecuniary factors. A copy of the policy is attached to this Report.

B. Description of SBA's Proxy Voting Guidelines and Changes During the Period

The proxy vote is a fundamental right tied to owning stock and an integral part of managing assets in the best interests of fund clients and beneficiaries. Pursuant to Florida law and in step with guidance from the U.S. Department of Labor, the SBA's fiduciary responsibility requires proxies to be voted in the best interest of fund participants and beneficiaries. In accordance with Section 112.662, Florida Statutes, when deciding whether to exercise shareholder rights or when exercising such rights, including the voting of proxies, only pecuniary factors may be considered and the interests of the participants and beneficiaries may not be subordinated to other objectives, including sacrificing investment return, or undertaking additional investment risk to promote any nonpecuniary factor. The term "pecuniary factor" means a factor that the plan administrator, named fiduciary, board, or board of trustees prudently determines is expected to have a material effect on the risk or returns of an investment based on appropriate investment horizons consistent

with the investment objectives and funding policy of the retirement system or plan. The term does not include the consideration of the furtherance of any social, political, or ideological interests.

The SBA casts votes for portfolio holdings managed within both the defined benefit ("FRS Pension Plan") and defined contribution ("FRS Investment Plan") plans of the Florida Retirement System ("FRS"), where possible, as well as other select non-pension trust funds. For omnibus accounts, including open-end mutual funds utilized within the FRS Investment Plan, the SBA votes proxies on all shares for funds that conduct annual shareowner meetings. The SBA's corporate governance principles and proxy voting guidelines are applied consistently across all types of investment strategies, accounts, and fund assets that have a proxy voting component.

The SBA adopts a published set of Corporate Governance Principles and Proxy Voting Guidelines (the "Proxy Voting Guidelines"), which provide clear and consistent policies to guide proxy voting decisions on all issues. The Proxy Voting Guidelines are reviewed at least annually, approved by SBA Trustees, and publicly disclosed for all beneficiaries, clients, companies, and other interested parties. The Proxy Voting Guidelines describe the SBA's general philosophy with respect to the exercise of shareholders rights. In particular, the Proxy Voting Guidelines specifically include the requirements of new Sections 215.47(10), 112.656 and 112.662, Florida Statutes (2023) and the Trustees' August 23, 2022, Resolution and clearly state that proxy voting decisions are financial assets that are subject to the same fiduciary requirements as the management of other financial assets. The Proxy Voting Guidelines describe the role of the SBA's Corporate Governance unit in engaging with companies regarding their corporate governance policies and decisions. They further set standards for the exercise of voting decisions with respect to particular issues.

Pursuant to investor regulations, managing stock ownership rights and proxy voting rights includes the establishment of written proxy voting guidelines, which must include written voting policies on issues likely to be presented, procedures for determining votes that are not covered or which present conflicts of interest for plan sponsor fiduciaries, procedures for ensuring that all shares held on a record date are voted, and procedures for documentation of voting records. The SBA's Proxy Voting Guidelines are primarily designed to cover publicly traded equity securities. Other investment forms, such as privately held equity, limited liability corporations, privately held REITs, exchange traded funds, etc., are not specifically covered by individual guidelines, although broad application of the Proxy Voting Guidelines can be used for these more specialized forms of equity investments. The Proxy Voting Guidelines provide a general framework for making individual voting decisions using the facts and circumstances present at the time of the vote.

The Trustees adopted a revision of the Proxy Voting Guidelines at their meeting on January 17, 2023. This revision provided for the specific inclusion of the provisions of the Trustees' August 23, 2022, Resolution into the Proxy Voting Guidelines. Subsequently, the Trustees approved a further revision of the Proxy Voting Guidelines at their meeting on October 25, 2023. This revision included a number of amendments to clarify the SBA's positions with respect to certain voting decisions and to conform specific voting instructions with the requirements of HB 3 and the Trustees' Resolution.

The SBA's Proxy Voting Guidelines are published on its website, and a copy of the Proxy Voting Guidelines is attached to this Report.

C. Summary of Actions Taken by the Trustees and/or the IAC During the Period

During the period from June 30, 2022, through the date of this Report, the SBA's Trustees took the following actions with respect to corporate governance and proxy voting:

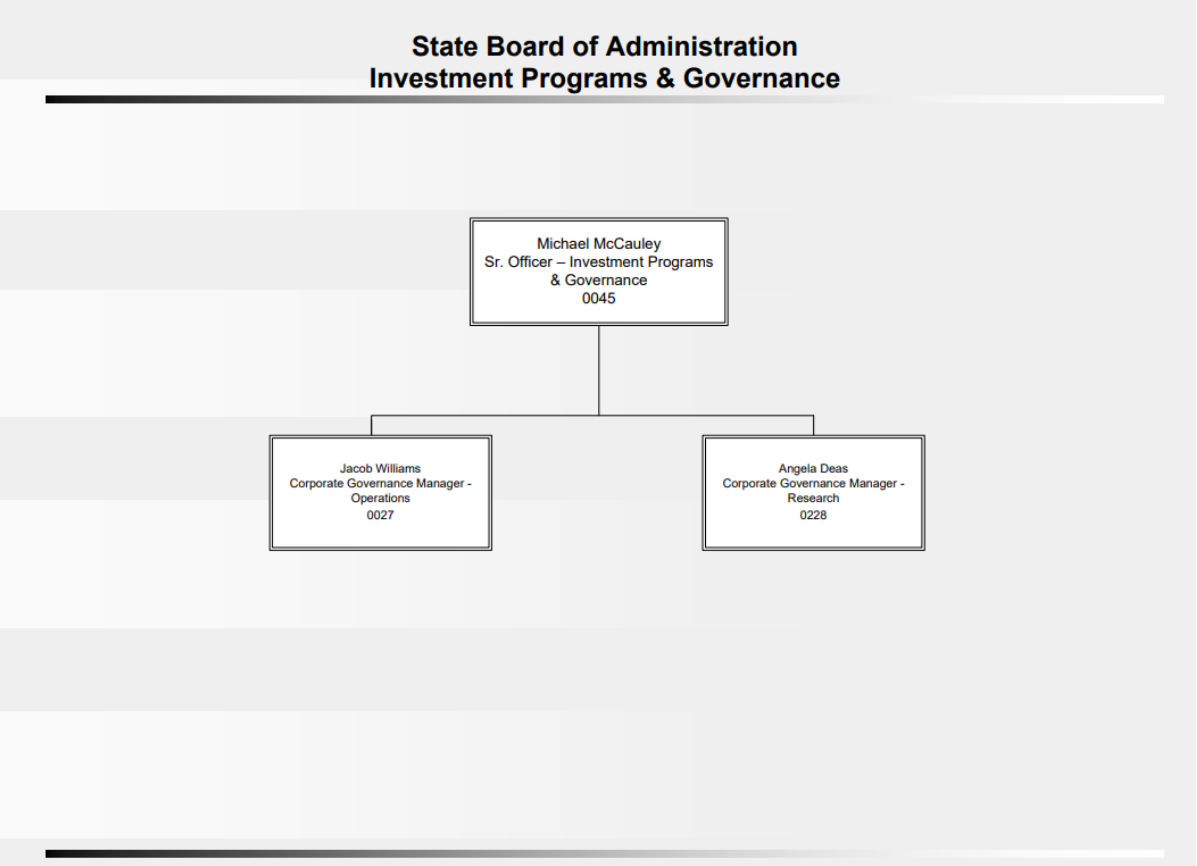
- The Trustees passed the August 23, 2022, Resolution, which requires that the SBA:

  When deciding whether to exercise shareholder rights and when exercising such rights, including the voting of proxies, the board: (a) Must act prudently and solely in the interests of participants and beneficiaries and for the exclusive purpose of providing benefits to participants and beneficiaries and defraying the reasonable expenses of the Florida Retirement System Defined Benefit Pension Plan. (b) May not subordinate the interests of the participants and beneficiaries to other objectives and may not sacrifice investment return or take on additional investment risk to promote nonpecuniary factors. (c) In the case of a conflict with this section and any other provision of Florida law, Florida law shall prevail.
- At its meeting on September 13, 2022, the IAC recommended the adoption of a revision of the Proxy Voting Guidelines to conform to the Trustees' Resolution.
- The Trustees subsequently adopted the revised Proxy Voting Guidelines at their meeting on January 17, 2023.
- The Trustees adopted a further revision of the Proxy Voting Guidelines at their meeting on October 25, 2023.

II. SBA Corporate Governance Staff

A. SBA Organizational Chart and Description of Function

The SBA's Investment Programs and Governance unit is responsible for exercising shareholder rights and proxy voting responsibilities. It is composed of three members: Michael McCauley, Senior Officer – Investment Programs & Governance; Jacob Williams, Corporate Governance Manager – Operations; and Angela Deas, Corporate Governance Manager – Research. The organizational chart of the SBA's Investment Programs and Governance unit is set forth below:



B. Description of Various Industry Groups in Which SBA Corporate Governance Employees Participate

The employees of the SBA's Investment Programs and Governance unit participate in a number of industry groups, including the two primary groups in the U.S. market (CII and ISG). The industry groups and listed and described further below:

- The Council of Institutional Investors ("CII");
- The Harvard Law School Program on Institutional Investors;
- The International Corporate Governance Network ("ICGN");
- The CFA Institute;
- The Best Practices Policies Group Oversight Committee;
- The Independent Steering Committee of Broadridge Financial Co.; and
- The Investor Stewardship Group ("ISG") – administered through the University of Delaware Weinberg Center for Corporate Governance.

Council of Institutional Investors ("CII")

The Council of Institutional Investors ("CII") is a nonprofit, nonpartisan association of U.S. public, corporate and union employee benefit funds, other employee benefit plans, state and local entities charged with investing public assets, and foundations and endowments with

combined assets under management of approximately $5 trillion. Members include major long-term shareowners with a duty to protect the retirement savings of millions of workers and their families, including public pension funds with more than 15 million participants. Its associate members include non-U.S. asset owners with about $4.8 trillion in assets, and a range of asset managers with approximately $55 trillion in assets under management. CII's voting membership has grown to more than 135 public, union and corporate employee benefit plans, endowments and foundations. CII describes its role as a leading voice for effective corporate governance and strong shareowner rights. CII also promotes policies that support effective corporate governance and shareowner rights. In comment letters and dialogues, in speeches and on advisory panels, CII backs sensible policies that foster transparency, responsibility, accountability and market integrity. CII accomplishments during the 2023 fiscal year included progress on several key issues aligned with SBA governance objectives. An SBA staff member currently serves as the Public Fund Co-Chair on CII's Board of Directors.

A link to the CII website, which details its member services and research and advocacy efforts can be found at: https://www.cii.org

Investor Stewardship Group ("ISG")

On January 31, 2017, a coalition of sixteen investors, including the SBA, with collectively $17 trillion in assets under management premiered the ISG's Framework for U.S. Stewardship and Governance (the "Framework"). This Framework represents a set of six fundamental governance principles for U.S. listed companies and stewardship principles for U.S. institutional investors. The initiative established a set of best practices in asset stewardship and corporate governance which were intended to serve as the foundation of U.S. institutional investor and boardroom conduct. Many empirical studies have highlighted a causal relationship between companies with high governance standards and increased shareholder returns. The Framework is the first corporate governance code of best practices that has been developed for the U.S. equity market. The Framework is intended as a "comply or explain" format, similar to several European markets' governance codes—whereby firms either meet the Framework's requirements or provide shareowners with an explanation on why non-compliance is necessary. The Framework had an implementation date of January 1, 2018. An SBA staff member currently serves on ISG's Board of Directors and in the role of Treasurer.

A link to the ISG website, which details the group's current membership, policy framework and related information can be found at: https://isgframework.org/

C. Summary of Corporate Governance Employee Training Requirements

Each member of the SBA's Investment Programs and Governance unit is subject to the SBA's training requirements regarding fiduciary duties and ethics as previously described in this report.

III. Description of Exercise of Shareholder Rights & Proxy Voting

A. Description of Proxy Voting Process, Including any Changes During the Period

The SBA believes that, as a long-term investor, good corporate governance practices serve to protect and enhance our long-term portfolio values - that is, we advocate for governance practices that have a link to economic value. Corporate governance is defined as the mechanics practiced at shareholders' meetings and maintained by internal corporate mechanisms, such as the board of directors and its committees, to grant investors the assurance as to protection of their capital. These mechanisms help ensure investors that their rights to participate in discussions, vote on important matters in general meetings, and to enjoy fair and equal treatment are well protected. To ensure returns for our beneficiaries, we support the adoption of internationally recognized governance structures for public companies. This includes a basic and unabridged set of share-owner rights, strong independent boards, performance-based executive compensation, accurate accounting and audit practices, and transparent board procedures and policies covering issues such as succession planning and meaningful shareowner participation.

Managing stock ownership rights and the proxy vote includes the establishment of written proxy voting guidelines, which must include voting policies on issues likely to be presented, procedures for determining votes that are not covered or which present conflicts of interest for plan sponsor fiduciaries, procedures for ensuring that all shares held on a record date are voted, and procedures for documentation of voting records. All management and shareholder ballot proposals are evaluated by SBA staff through a common lens by considering both how the proposal might impact the company's financial health as well as its impact on shareowner rights. Each proxy voting decision across all markets and portfolios is made by SBA staff in accordance with our Proxy Voting Guidelines.

The SBA believes the primary role of shareowners within the corporate governance system is in some ways limited, although critical. Shareowners have the duty to communicate with management and encourage them to align their processes with corporate governance best practices. This means shareowners have two primary obligations: 1) to monitor the performance of the company and 2) to protect their right to act when it is necessary. In the 1930s, Benjamin Graham and David Dodd succinctly described the agenda for corporate governance activity by stating that shareowners should focus their attention on matters where the interest of the officer and the stockholders may be in conflict, referred to as the "principal-agent problem." This includes questions about preserving the full integrity and value of the characteristics of ownership appurtenant to shares of common stock. For example, the right to vote may be diluted by a classified board or by dual class capitalization, and the right to transfer the stock to a willing buyer at a mutually agreeable price may be abrogated by the adoption of a poison pill.

Since management and board composition change over time, while shareowners continue their investment, shareowners must ensure that the corporate governance structure of companies will allow them to exercise their ownership rights permanently. Good corporate management is not an excuse or rationale upon which institutional investors may relinquish their ownership rights and responsibilities. Management needs protection from the market's frequent focus on the short-term to concentrate on long-term returns, productivity, and competitiveness. Shareowners need protection from coercive takeover tactics and costs associated with principal agent conflicts. Ideal governance provisions should provide both sides with adequate protection. They should be designed to give management the flexibility and continuity it needs to make long-term plans, to

permit takeover bids in cases where management performance is depressing long-term value, to ensure that management is accountable to shareowners, and to prevent coercive offers that force shareowners to take limited short-term gains.

B. Description of Proxy Research Providers and Services

The fiduciary standard of care required under Florida law is the highest standard of care known to the law. In the SBA's view, this standard of care is necessary and appropriate to protect the interests of the FRS Pension Plan (and its beneficiaries) from the influence of interests that have nothing to do with the economic interests of the FRS Pension Plan and its beneficiaries. The law requires, in part, that when making investment decisions or voting proxies consistent with this fiduciary standard, the SBA undertake a prudent course of action and due diligence, including ascertaining relevant facts and investigating options that inform the SBA's decisions. To comply with this requirement and inform its decision-making, the SBA regularly and systematically reviews, evaluates, and relies, in part, on proxy voting research and other information from a wide variety of sources, including from the external research providers utilized by the SBA. Such proxy research and information is of use only if it is objective, comprehensive and based on factual analyses.

A summary of each external proxy research provider used (and under contract by the SBA is detailed below:

Glass, Lewis & Co. ("GLC")

Glass Lewis was founded in 2003 and serves approximately 1,300 investors globally who use the firm's Proxy Paper research and Viewpoint proxy vote management solution. GLC covers over 30,000 individual annual and special shareholder meetings each year, across approximately 100 global markets. The firm has U.S. locations in San Francisco and Kansas City, as well as offices in the United Kingdom, Ireland, Germany, France, Australia, and Japan. GLC's Viewpoint proxy voting platform casts and records all SBA proxy voting transactions and provides related reporting and recordkeeping. The SBA has maintained Glass Lewis as its proxy voting agent since 2016 and has utilized its Proxy Paper research since 2003. The GLC contract was active during Fiscal Year 2023 and continues into Fiscal Year 2024.

Glass, Lewis & Co. Due Diligence Materials, website link:
https://www.glasslewis.com/due_diligence_resources/

Institutional Shareholder Services ("ISS")

ISS is one of the largest and oldest proxy advisory firms in the world, providing governance research and vote recommendations in over 100 global markets covering over 35,000 public companies. As an investment adviser registered with the SEC under the Investment Advisers Act of 1940, ISS owes it clients the fiduciary duties of care and loyalty. In 2022, ISS covered approximately 50,000 shareholder meetings and maintained 1,600 clients. The SBA has maintained a proxy research contract with ISS since 1988. Their contract continues into Fiscal Year 2024.

Institutional Shareholder Services (ISS) Due Diligence Materials, website link: https://www.issgovernance.com/compliance/due-diligence-materials/

Other Research Providers

During Fiscal Year 2023, one new proxy advisor was added as an external research provider. Strive Advisory LLC was contracted in May 2023 to provide proxy research and ballot level voting recommendations on U.S. company constituents of the Russell 1000 stock index. Strive Advisory's proxy research services were offered to clients in 2022 and are primarily focused on public companies in the United States. The SBA's contract continues into Fiscal Year 2024.

Although not a proxy advisor, per se, Equilar, Inc. was added as a new external research provider during Fiscal Year 2023. Equilar provides various data, related modeling, and analysis of executive compensation practices among U.S. companies. This contract continues into Fiscal Year 2024.

Additional research providers are under contract to provide market information, proxy voting analysis, thematic research and other datasets on a variety of corporate governance issues. These research providers include MSCI, Diligent (Insightia), and FactSet Research.

Best Practices Principles Group ("BPPG")

The BPPG was formed in 2013 by the global proxy voting research industry to promote transparency and professional standards among providers of corporate governance research and support services. Many of the largest global proxy advisors are members of the BPPG and participate in the group's annual compliance review, including both GLC and ISS. The group and principals are governed by signatories and include organizations which provide research, data, and administrative services to investors. In 2020, an SBA staff member was appointed to the BPPG Oversight Committee ("BPP OC"). The BPP OC reviews BPPG members' disclosures surrounding research methodology, service delivery, and operational performance, and is a 12-person group representing investors, companies, and researchers, which evaluates disclosures and best practices among the leading global proxy advisors, including two of the three proxy advisors used by the SBA—GLC and ISS. During the fiscal year, SBA staff participated in meetings of the Oversight Committee, which finalized its review of compliance reports from major global proxy advisors and produced its third annual report, which is publicly available on the BPPG's website. Regulatory bodies in Europe and in the US have praised the BPP OC's work and confirmed the robustness of its "monitored self-regulation" process.

SBA staff continuously review a variety of corporate governance issues including the volume and market trends of proxy votes, company-specific voting scenarios, external benchmarking of corporate governance policies, major regulatory developments and individual company research related to state laws restricting certain equity investments. The SBA reviews the services provided by all external research providers and any other proxy voting or record keeping and vote execution service provider(s), to assess whether the proxy service provider is capable of making impartial proxy voting recommendations in the best interests of SBA

beneficiaries. This ongoing review may consider: 1) the proxy service provider's conflict management procedures and assessment of the effectiveness of the implementation of such procedures; 2) the proxy service provider's Form ADV, if applicable, and other disclosures made by a proxy service provider regarding its products, services and methods of addressing conflicts of interest; and/or; 3) inquiries to, and discussions with, representatives of a proxy service provider regarding its products, services and methods of addressing conflicts of interest. SBA staff regularly reviews each proxy service provider's disclosures regarding their research process and proposed and actual changes to policies and analysis, any material revisions to such procedures, and a general assessment of their qualifications, the quality of services offered, and the reasonableness of fees charged.

C. Report of all Proxy Votes or Other Shareholder Action Taken During the Period and Compliance with New Sections 215.47(10) and 112.662, Florida Statutes

Summary of Fiscal Year 2023 SBA Proxy Voting Activities

SBA staff manage a high volume of proxy voting, covering approximately 12,000 annual and special shareowner meetings ("AGMs") each year. These proxy votes occur throughout the year and across multiple global markets—with the bulk of the U.S. meetings taking place from early April to late June, with the second quarter voting level representing about 60% of the total SBA annual volume. Corporate annual meetings are required under state law and stock exchange listing requirements for public companies. State law also governs many of the procedural requirements of an annual meeting including such topics as the required quorum, the meeting location and notice of the meeting. Annual meeting requirements will also be contained in the company's own articles of incorporation and bylaws.

During fiscal year 2022-23, staff cast votes at 12,203 companies worldwide, an all-time high for the SBA, voting on ballot items including director elections, audit firm ratification, executive compensation plans, mergers and acquisitions, and a variety of other management and shareowner proposals. These votes involved 116,460 distinct voting items—voting 81% "For'' and 15.7% "Against", with the remaining 3.3% involving abstentions. Of all votes cast, 15.8% were "Against" the management-recommended-vote. SBA proxy voting was conducted across 70 countries, with the top five countries comprised of the United States (2,837 votes), China (2,192), Japan (1,320), India (865), and South Korea (559).

Highlights from the 2023 U.S. proxy season included the continued focus and critical voting on the level and form of executive compensation, continued investor opposition to "over-boarded" directors, and further declines in shareowner support for some types of environmental and social topic proposals. In the U.S. market, the biggest takeaway from this year's proxy voting activities has been the declining support for a variety of shareholder proposed ballot items ("SHPs"). These SHPs have received lower average support for the second year in a row. Average support received for environmental and social shareholder proposals has declined by approximately 32% since the SEC implemented new staff guidance on its review and acceptance of resolutions in late 2021. The SBA's voting support levels on SHPs have also declined over the last two years, primarily due to more prescriptive resolutions in the U.S. equity market.

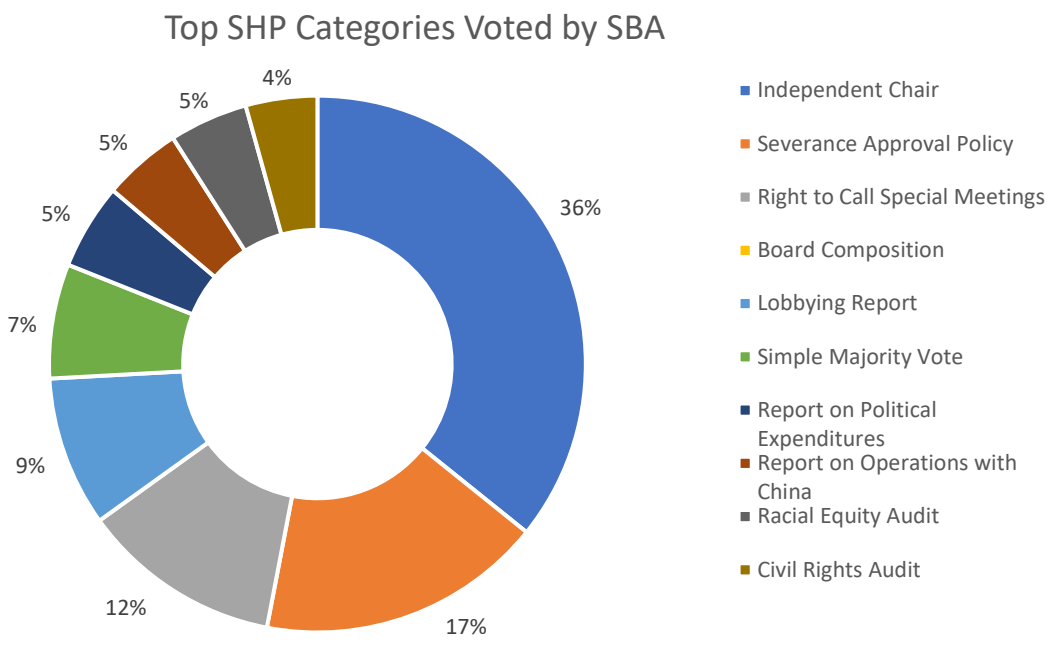
Virtually all shareowner resolutions are "precatory" in nature, and as such are not legally binding on corporate boards or members of management—they are merely advisory in nature and companies often do not implement any or all of the provisions embedded in the resolutions, even when they receive above a majority level of support from shareowners. There is also a high degree of volatility in the volume, characteristics, and submission of shareowner proposals from year to year. It is common for resolutions to evolve and significantly change year over year, even though their primary issue(s) may stay the same. The SBA makes proxy voting decisions on SHPs on a consistent basis and in line with the Proxy Voting Guidelines. All management and shareholder proposals are evaluated through a common lens by considering both how the proposal might affect the company's financial health as well as its impact on shareowner rights. The SBA's proxy voting decisions are based on pecuniary factors to promote the best risk adjusted returns for its beneficiaries.

Another area of notable shareowner focus has been on executive compensation practices and related say-on-pay ("SOP") investor opposition. During 2022, a record number of companies received extremely low or failing support on their compensation practices. As a result, many companies have made changes to their pay design and incentive arrangements and sought investor support in 2023. The SEC's new pay-versus-performance disclosure requirements also began earlier in the year, which require companies to disclose the compensation "actually paid" ("CAP") to its Chief Executive Officer and the metrics the company believes are the most significant in determining pay. It is still too early to gauge how investors will incorporate this information into voting decisions and their analysis of executive compensation.

The 2023 proxy season also saw the reemergence of investor proposals to split the CEO and Chair of the Board. There were approximately eighty independent chair proposals through June 2023, compared with only thirty-six in the same period last year. These proposals have come from traditional proponents as well as from newer activists submitting so-called "anti-ESG" proposals. Regardless of the proponent, many resolutions highlight concerns about the inherent conflicts when the two roles are combined and/or advocate for a policy adoption for independent chair roles to be phased in whenever there is a CEO change. Although there has been a sharp increase in the absolute number of independent chair proposals, none have gained majority support this year.

Shareholder Proposal Proxy Voting

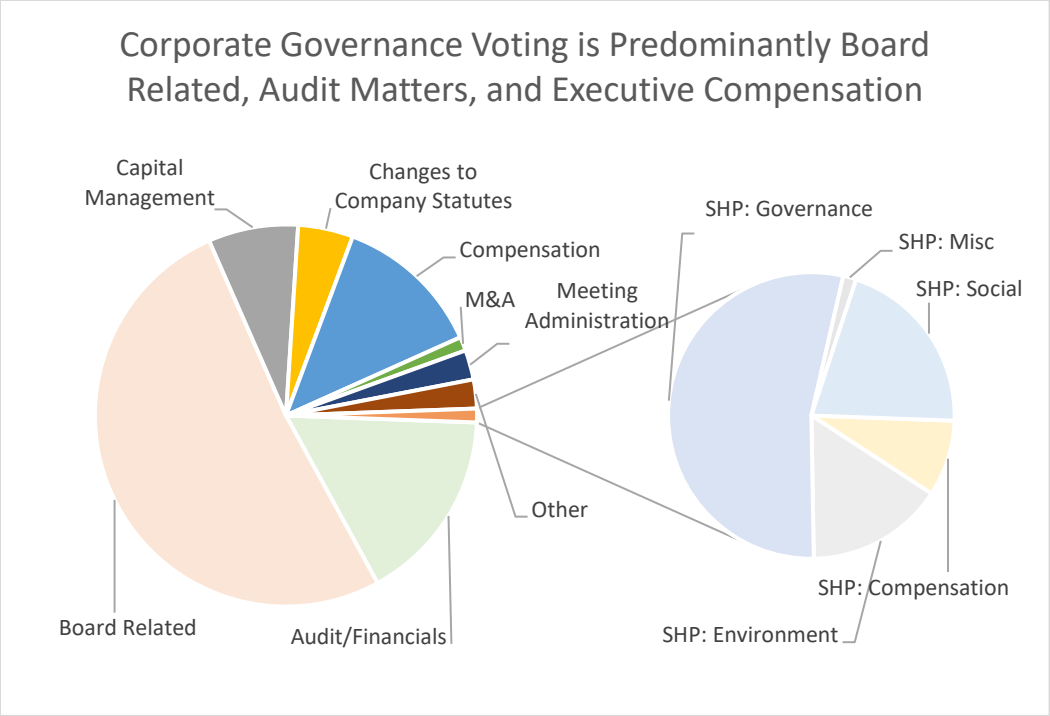
As with any ballot item voted by staff, the SBA approaches voting on proposals submitted by shareholders ("SHPs") as a fiduciary responsibility, and we evaluate SHPs through a common lens by considering both how the proposal might impact the company's financial health as well as its impact on shareowner rights. When voting on non-binding (precatory) SHPs, staff typically places more focus on the issue covered by the proposal rather than solutions or terms offered by the proponent in making a voting decision and whether it may be material to a company's business and financial performance. We also consider the company's policies relative to its industry and sector peers, with a bias towards supporting SHPs directed at lagging firms. The focus of SBA analysis is centered on whether and how robust board oversight and compliance procedures are related to expenditures of corporate assets.



Governance-oriented SHPs typically involve corporate policies or procedures affecting shareholder rights and related board election standards and bylaw and charter components. They've also been centered around several anti-takeover elements related to the market for control—such as classified board structures whereby director terms are staggered instead of held on an annual cycle, supermajority voting thresholds, poison pills, and defensive policies intended to thwart unwanted takeover activity. In general, SBA staff have tended to support SHPs that seek to enhance shareholder rights, such as the introduction of majority voting to elect directors, the adoption of proxy access bylaws, the elimination or reduction of supermajority provisions, the declassification of the board, the submission of shareholder rights' plans to a shareholder vote, and the principle of one share—one vote (i.e., removal of multi-class share structures).

During Fiscal Year 2023, there was a mix of policy and qualitatively driven proxy voting decision making across the top SHP categories, with a bias towards supporting many of the more frequently submitted SHPs involving fundamental investor rights and risk-mitigating corporate governance practices. For example, support for topics such as improved board composition, adoption of simple majority voting policies, and improved rights for shareholders to call special meetings, are routinely supported. Other categories represent more mixed voting support, depending largely on the nature of the proposal and individual company practices.

The pie chart below shows the relative distribution of shareowner proposals (SHPs). Governance SHPs make up 54% of all shareowner proposals, Compensation-related proposals, which could also be considered as within the governance arena, are 9%, Social proposals are 21%, and Environmental proposals are 16% of all shareowner proposals.



While some shareowner proposals are high profile and receive greater focus from investors and the media, they typically represent approximately 1% of all corporate governance voting matters each year. Historically, in the US equity market, the largest-capitalization firms receive the highest number of SHPs. For fiscal year 2023, all SHPs combined represent a mere 1.2% of all individual ballot item voting decisions.

SBA Proxy Voting Across all Voting Categories

The following table presents another view of proxy voting by category, ordering the categories by voting frequency (number of individual voting items) and covering all proxy votes made during Fiscal Year 2023.

Corporate Governance Voting Categories	# of Voting Items	Percent of Total
Board Related	59,715	51.4%
Audit/Financials	19,131	16.5%
Compensation	14,651	12.6%
Capital Management	8,852	7.6%
Changes to Company Statutes	5,423	4.7%

Meeting Administration	2,911	2.5%
Other	2,849	2.5%
M&A	1,363	1.2%
SHP: Governance	727	0.6%
SHP: Social	277	0.2%
SHP: Environment	210	0.2%
SHP: Compensation	116	0.1%
SHP: Misc	20	0.0%

Proxy Voting and Securities Lending

The SBA participates in securities lending to enhance the return on its investment portfolios. In the process of lending securities, the legal rights attached to those shares are transferred to the borrower of the securities during the period that the securities are on loan. As a result, SBA's right to exercise proxy voting on loaned securities is forfeited unless those affected shares have been recalled from the borrower in a timely manner (i.e., on, or prior to, the share's record date). The SBA has a fiduciary duty to exercise its right to vote proxies and to recall shares on loan when it is in the best interest of our beneficiaries. The ability to vote in corporate meetings is an asset of the fund which needs to be weighed against the incremental returns of the securities lending program.

Although the SBA shall reserve the right to recall the shares on a timely basis prior to the record date for the purpose of exercising voting rights for domestic as well as international securities, the circumstances required to recall loaned securities are expected to be atypical. Circumstances that lead the SBA to recall shares include, but are not limited to, occasions when there are significant voting items on the ballot such as mergers or proxy contests or instances when the SBA has actively pursued coordinated efforts to reform the company's governance practices, such as submission of shareholder proposals or conducting an extensive engagement. In each case, the direct monetary impact of recalled shares will be considered and weighed against the discernible benefits of recalling shares to exercise voting rights. However, because companies are not required to disclose an upcoming meeting and its agenda items in advance of the record date, it usually is not possible to recall shares on loan.

Disclosure of Proxy Voting Decisions

The SBA reports extensively on its proxy voting decisions and maintains a high level of transparency around such decisions, our policies, and historical voting patterns. The SBA

discloses all proxy voting decisions once they have been made, typically a few calendar days prior to the date of the shareowner meeting and generally within one business day of the vote being exercised regardless of the date of the corporate meeting. SBA staff believes disclosing proxy votes prior to the meeting date improves the transparency of our voting decisions and better informs a variety of stakeholders of our actions. Historical proxy votes dating back to July 1, 2016, are publicly available on the SBA's website, both in a company specific lookup feature as well as across geographic markets, time periods and ballot items. Occasionally, the SBA may provide media commentary and/or investor group updates to highlight select voting decisions on key matters. The SBA confirms that all proxy votes and shareholder actions taken during the period of this report conform to the requirements of Sections 112.656, 112.662 and 215.47(10), Florida Statutes (2023).

Internal Proxy Voting Authority & "Pass Through" Voting

Over the last two years, the SBA transferred the proxy voting authority from several external investment managers, switching each portfolio's shares onto the SBA's internal proxy voting platform. At the end of calendar year 2021, SBA staff was directly responsible for voting approximately 92% of all equity (stock) assets held within the FRS Pension Plan. In late Fall of 2021, SBA staff began to revoke the voting authority of several external investment managers and consolidate their accounts. At the end of fiscal year 2022, SBA staff was directly voting approximately 100% of all voteable FRS Pension Plan assets, which continued throughout Fiscal Year 2023. External investment managers having their voting authority transferred to the SBA included several accounts managed by Mondrian, Acuitas, and BlackRock, among others. Any proxy vote related to external asset managers with commingled funds offering pass-through voting are reflected in the SBA's general proxy voting reporting framework and all proxy votes are cast using the GLC Viewpoint platform. SBA staff continue to seek full voting authority on the remaining assets whenever pass-through voting is available on any commingled portfolio account.

IV. Description of Other SBA Corporate Governance Activities

A. Summary of Following Activities During the Period: Issuer Engagement; Regulatory Commentary; Investor Collaboration; and Corporate Governance Research

Issuer (Company) Engagement

In addition to proxy voting, the SBA actively engages companies it invests in throughout the year, at times maintaining a year-round dialogue and analysis of corporate governance issues and other reforms. It is now routine for the largest companies in the U.S. to proactively reach out to their largest investors. SBA staff engages with about 100 companies annually, including divestment related communications. SBA staff routinely interact with other shareowners and groups of institutional investors to stay abreast of issues involving specific companies and governance practices. At times, the SBA will collaborate with other investors on governance initiatives.

Corporate engagement, both by equity owners and bond holders, concerns whether and how an investor tries to encourage and influence an issuer's behavior on corporate governance

matters. Throughout the fiscal year, SBA staff routinely discuss corporate governance matters with executives and board members of invested companies via a constructive, one-on-one dialogue. Engagement involves active dialogue with companies with a particular purpose and typically covers one or more corporate governance practices.

Active ownership strategies employ ownership and voting rights to drive positive change in a company, generally through direct or collaborative engagement between management and investors. These engagement efforts can be a very effective way to advocate for positive changes and improve reporting by the companies in which the SBA invests. There is strong evidence that engagement, if carried out well, can positively influence corporate behavior and that the changes made can deliver long-term value. These discussions are most likely to occur just ahead of an upcoming annual shareholder meeting, but they may also result from events such as a proxy contest, divestment related outreach (tied to the Protecting Florida's Investment Act or PFIA), or other governance changes during the fiscal year.

Many companies seek out their largest shareowners to discuss pressing concerns and current governance topics. Some forms of engagement start bottom-up, by focusing on the specific issues faced by an individual company, while others operate top-down by applying a perspective on particular issues across all companies in a sector or market as a whole. Typically, the approach is linked to the investor's investment objectives and ownership thesis—therefore, the SBA's engagement activities are overwhelmingly related to core governance and voting analysis, with individual proxy contests and corporate outreach tied to statutorily required divestment both representing a smaller proportion of SBA engagement activities.

Improved corporate disclosures are a key objective of SBA engagement, as transparent and improved comparability can help all shareowners make better investment decisions. The SBA's corporate engagement activity addresses corporate governance concerns and seeks opportunities to improve alignment with the interests of our beneficiaries. The SBA attempts to engage proactively, as appropriate, with investee companies on risks to long-term performance to advance beneficiary or client interests. The SBA routinely engages portfolio companies on a variety of issues and often collaborates with other pension or investor funds, including external investment managers, when possible.

During fiscal year 2023, SBA staff met with a number of companies prior to annual shareholder meetings to discuss a range of upcoming proxy votes and governance issues, with a primary focus on executive compensation and director over-boarding. Staff met with several companies to discuss concerning executive pay practices including incomplete disclosure of performance goals and misaligned pay-for-performance. The SBA believes relevant performance metrics, full disclosure of performance goals, and limited discretionary payouts to be in the best interest of shareholders and had the opportunity to share those views with companies. The SBA also highlighted the importance of board member duties and responsibilities. We believe directorship requires a significant time commitment. Therefore, the SBA considers directors active on more than three (3) boards to be overextended. Staff engaged several companies with overextended directors and also addressed board independence and board refreshment concerns.

During the fiscal year, the SBA did not submit any direct comment letters to regulatory bodies related to any final or proposed regulation(s).

Investor Collaboration

Interaction among global shareowners and groups of institutional investors can be very effective in dealing with significant governance topics and regulatory changes. The SBA encourages all investors to act collectively as appropriate and where this would assist in advancing beneficiary or client interests, taking account of relevant legal and regulatory constraints. The SBA routinely interacts with other shareowners and groups of institutional investors to discuss significant governance practices, collaborate on issues involving specific firms, and address important legal and regulatory changes globally. An example of this type of approach is the Investor Coalition for Equal Votes ("ICEV"). In June 2022, the Council of Institutional Investors ("CII"), Railpen and several US Pension funds launched the ICEV, whose mission is to promote the adoption of capital structures ensuring that equity positions with substantially similar economic rights, e.g., two classes of common stock, provide identical voting power on a share-for-share basis creating equal voting rights or "one-share, one-vote." ICEV pursues this mission primarily by engaging with pre-IPO companies and their advisors, with other financial market participants, and with policymakers and regulators.

Corporate Governance Research

The SBA regularly and systematically reviews, evaluates, and relies, in part, on research and other information from a wide variety of sources, including from external proxy, data and corporate research providers.

During the most recent fiscal year, SBA staff did not directly produce any new research reports or related empirical analyses.

V. SBA Reporting

A. Summary of Materials Provided to the IAC and Trustees During the Period

During the period from July 1, 2022, through the date of this Report, the SBA provided the following reports relating to corporate governance and proxy voting to the SBA's Investment Advisory Council:

- September 13, 2022, IAC Meeting:
  - Review of Corporate Governance Proxy Voting Guidelines.
  - SBA Corporate Governance Statistics.
- December 13, 2022, IAC Meeting:
  - SBA Corporate Governance/Proxy Voting Summary
- March 28, 2023, IAC Meeting:
  - Corporate Governance Review/Proxy Voting Guidelines
- June 27, 2023, IAC Meeting:
  - Corporate Governance – Proxy Voting Summary Q1/2023

- September 19, 2023, IAC Meeting:
    - Corporate Governance – Quarterly Proxy Voting Review

During the period from July 1, 2022, through the date of this Report, the SBA provided the following reports relating to corporate governance and proxy voting to the SBA's Trustees:

- August 23, 2022, Trustees Meeting:
    - SBA Quarterly Report Required by the Protecting Florida's Investments Act (PFIA)
    - Quarterly Standing Report – Investment Programs and Governance
- January 17, 2023, Trustees Meeting:
    - SBA Quarterly Report Required by the Protecting Florida's Investments Act (PFIA)
    - Changes to the Corporate Governance and Proxy Voting Guidelines
    - Quarterly Standing Report – Investment Programs and Governance
- May 23, 2023, Trustees Meeting:
    - SBA Quarterly Report Required by the Protecting Florida's Investments Act (PFIA)
    - Quarterly Standing Report – Investment Programs and Governance
- October 25, 2023, Trustees Meeting:
    - SBA Quarterly Report Required by the Protecting Florida's Investments Act (PFIA)
    - Quarterly Standing Report – Investment Programs and Governance

B. Annual Reports & Quarterly Reports

During the period from July 1, 2022, through the date of this Report, the SBA made the following reports relating to corporate governance and proxy voting publicly available on its website:

- Annual Governance Reports
    - SBA Corporate Governance Principles and Proxy Voting Guidelines 2023.
    - 2022 Annual Corporate Governance Summary Report.
    - On or before December 31, 2023, the SBA will publish its Annual Corporate Governance Summary Report for 2023.
- Global Governance Mandates Quarterly Reports
    - Global Governance Mandates Quarterly Report dated October 25, 2023.
    - Global Governance Mandates Quarterly Report dated May 23, 2023.
    - Global Governance Mandates Quarterly Report dated January 17, 2023.
    - Global Governance Mandates Quarterly Report dated August 23, 2022.
- Protecting Florida's Investments Act "Scrutinized Companies" list pursuant to Section 287.135, Florida Statutes, updated as of October 25, 2023.
- Scrutinized Companies that Boycott Israel list pursuant to Section 215.4725, Florida Statutes, updated as of October 25, 2023.

- SBA Proxy Voting Summary (Real Time, Individual Company).
- SBA Proxy Voting Dashboard – July 1, 2016, to Present.

Attachments

1. Florida Retirement System Defined Benefit Plan Investment Policy Statement
2. State Board of Administration Meeting Agenda for the January 17, 2023 Trustees meeting
3. State Board of Administration Meeting Agenda for the May 23, 2023 Trustees meeting
4. State Board of Administration Meeting Agenda for the August 23, 2022 Trustees meeting
5. State Board of Administration Meeting Agenda for the October 25, 2023 Trustees meeting
6. State Board of Administration Corporate Governance Policy # 10-015
7. State Board of Administration Corporate Governance Principles & Proxy Voting Guidelines for Fiscal Year 2023-2024

Final for Adoption by Trustees on October 25, 2023
Effective January 1, 2024

FLORIDA RETIREMENT SYSTEM
DEFINED BENEFIT PLAN INVESTMENT POLICY STATEMENT

I. DEFINITIONS

Absolute Real Target Rate of Return - The total rate of return by which the FRS Portfolio must grow, in excess of inflation as reported by the U.S. Department of Labor, Bureau of Labor Statistics (Consumer Price Index – All Urban Consumers), in order to achieve the long-run investment objective.

Asset Class - An asset class is an aggregation of one or more portfolios with the same principal asset type.[1] For example, all of the portfolios whose principal asset type was stocks would be aggregated together as the Global Equity asset class. As such, it would contain primarily—but not exclusively—the principal asset type.

Asset Type - An asset type is a category of investment instrument such as common stock or bond.

Portfolio - A portfolio is the basic organization unit of the FRS Fund. Funds are managed within portfolios. A portfolio will typically contain one principal asset type (common stocks, for example), but may contain other asset types as well. The discretion for this mix of asset types is set out in guidelines for each portfolio.

II. OVERVIEW OF THE FRS AND SBA

The State Board of Administration (Board) provides investment management of assets contributed and held on behalf of the Florida Retirement System (FRS). The investment of retirement assets is one aspect of the activity involved in the overall administration of the Florida Retirement System. The Division of Retirement (DOR), the administrative agency for the FRS, provides full accounting and administration of benefits and contributions, commissions actuarial studies, and proposes rules and regulations for the administration of the FRS. The State Legislature has the responsibility of setting contribution and benefit levels, and providing the statutory guidance for the administration of the FRS.

III. THE BOARD

The State Board of Administration has the authority and responsibility for the investment of FRS assets. The Board consists of the Governor, as Chairman, the Chief Financial Officer, and the Attorney General. The Board has statutory responsibility for the investment of FRS assets, subject to limitations on investments as outlined in Section 215.47, Florida Statutes.

[1] The Strategic Investments asset class is an exception, purposefully established to contain a variety of portfolios which may represent asset types and strategies not suitable for inclusion in other asset classes.

The Board shall discharge its fiduciary duties in accordance with the Florida statutory fiduciary standards of care as contained in Sections 215.44(2)(a), 215.47(10) and 112.662(1)-(3), Florida Statutes.

On August 23, 2022, the Board adopted a Resolution directing the following policy language be included in this Investment Policy Statement:

1. STANDARD OF CARE AND EVALUATION OF INVESTMENTS

   (a) The evaluation by the Board of an investment decision must be based only on pecuniary factors. As used in this section, "pecuniary factor" means a factor that the board prudently determines is expected to have a material effect on the risk and return of an investment based on appropriate investment horizons consistent with the fund's investment objectives and funding policy. Pecuniary factors do not include the consideration of the furtherance of social, political, or ideological interests.
   (b) The board may not subordinate the interests of the participants and beneficiaries to other objectives and may not sacrifice investment return or take on additional investment risk to promote any non-pecuniary factors. The weight given to any pecuniary factor by the board should appropriately reflect a prudent assessment of its impact on risk and returns.
   (c) In the case of a conflict with this section and any other provision of Florida law, Florida law shall prevail.

2. PROXY VOTING - When deciding whether to exercise shareholder rights and when exercising such rights, including the voting of proxies, the board:

   (a) Must act prudently and solely in the interests of participants and beneficiaries and for the exclusive purpose of providing benefits to participants and beneficiaries and defraying the reasonable expenses of the Florida Retirement System Defined Benefit Pension Plan.
   (b) May not subordinate the interests of the participants and beneficiaries to other objectives and may not sacrifice investment return or take on additional investment risk to promote non-pecuniary factors.
   (c) In the case of a conflict with this section and any other provision of Florida law, Florida law shall prevail.

3. INTERNAL REVIEW

The State Board of Administration will organize and conduct a comprehensive review and prepare a report of the governance policies over the voting practices of the Florida Retirement System Defined Benefit Pension Plan, to include an operational review of decision-making in vote decisions and adherence to the fiduciary standards of the Fund. The State Board of Administration will ensure compliance with the updated Investment Policy Statement and adherence to the proxy voting requirements through the review process of this resolution. The State Board of Administration will submit its report to the Trustees no later than December 15, 2023.

The State Board of Administration will file and submit to the Governor, the Attorney General, the Chief Financial Officer, the President of the Senate and the Speaker of the House of Representatives a comprehensive report detailing and reviewing the governance policies concerning decision making in vote decisions and adherence to the fiduciary standards required under Section 112.662, Fla. Statutes, including the exercise of shareholder rights. The SBA will submit this report by December 15, 2023 and by December 15 of each odd-numbered year thereafter.

The Board delegates to the Executive Director the administrative and investment authority, within the statutory limitations and rules, to manage the investment of FRS assets. An Investment Advisory Council (IAC) is appointed by the Board. The IAC meets quarterly, and is charged with the review and study of general portfolio objectives, policies and strategies, including a review of investment performance. The IAC will review formal asset allocation studies every three-years or less on an as-needed basis.

The mission of the State Board of Administration is to provide superior investment management and trust services by proactively and comprehensively managing risk and adhering to the highest ethical, fiduciary and professional standards.

IV. THE EXECUTIVE DIRECTOR

The Executive Director is charged with the responsibility for managing and directing administrative, personnel, budgeting, and investment functions, including the strategic and tactical allocation of investment assets.

The Executive Director is charged with developing specific individual investment portfolio objectives and policy guidelines, and providing the Board with monthly and quarterly reports of investment activities.

The Executive Director has investment responsibility for maintaining diversified portfolios, and maximizing returns with respect to the broad diversified market standards of individual asset classes, consistent with appropriate risk constraints. The Executive Director will develop policies and procedures to:

- Identify, monitor and control/mitigate key investment and operational risks.
- Maintain an appropriate and effective risk management and compliance program that identifies, evaluates and manages risks within business units and at the enterprise level.
- Maintain an appropriate and effective control environment for SBA investment and operational responsibilities.
- Approve risk allocations and limits, including total fund and asset class risk budgets.

The Executive Director will appoint a Chief Risk and Compliance Officer, whose selection, compensation and termination will be affirmed by the Board, to assist in the execution of the responsibilities enumerated in the preceding list. For day-to-day executive and administrative purposes, the Chief Risk and Compliance Officer will proactively work with the Executive Director and designees to ensure that issues are promptly and thoroughly addressed by management. On at least a quarterly basis, the Chief Risk and Compliance Officer will provide reports to the Investment Advisory Council, Audit Committee and Board and is authorized to directly access these bodies at any time as appropriate to ensure the integrity and effectiveness of risk management and compliance functions.

Pursuant to written SBA policy, the Executive Director will organize an Investment Oversight Group(s) to regularly review, document and formally escalate guideline compliance exceptions and events that may have a material impact on the Trust Fund. The Executive Director is delegated the authority and responsibility to prudently address any such compliance exceptions, with input from the Investment Advisory Council and Audit Committee as necessary and appropriate, unless otherwise required in this Investment Policy Statement.

The Executive Director is responsible for evaluating the appropriateness of the goals and objectives in this Plan in light of actuarial studies and recommending changes to the Board when appropriate.

V. INVESTMENT OBJECTIVES

The investment objective of the Board is to provide investment returns sufficient for the plan to be maintained in a manner that ensures the timely payment of promised benefits to current and future participants and keeps the plan cost at a reasonable level. To achieve this, a long-term real return approximating 4.8% per annum (compounded and net of investment expenses) should be attained. As additional considerations, the Board seeks to avoid excessive risk in long-term cost trends. To manage these risks, the volatility of annual returns should be reasonably controlled.

The Board's principal means for achieving this goal is through investment directives to the Executive Director. The main object of these investment directives is the asset class. The Board directs the Executive Director to manage the asset classes in ways that, in the Board's opinion, will maximize the likelihood of achieving the Board's investment objective within an appropriate risk management framework. The Board establishes asset classes, sets target allocations and reasonable ranges around them for each and establishes performance benchmarks for them. In addition, it establishes a performance benchmark for the total portfolio.

VI. TARGET PORTFOLIO AND ASSET ALLOCATION RANGES

The Board's investment objective is an absolute one: achieve a specific rate of return, the absolute real target rate of return. In order to achieve it, the Board sets a relative objective for the Executive Director: achieve or exceed the return on a performance benchmark known as the Target Portfolio over time. The Target Portfolio is a portfolio composed of a specific mix of the authorized asset classes. The return on this portfolio is a weighted-average of the returns to passive benchmarks for

each of the asset classes. The expectation is that this return will equal or exceed the absolute real target rate of return long-term and will thus assure achievement of the Board's investment objective.

This relative return objective is developed in a risk management framework. Risk from the perspective of the Board is any shortfall of actual investment returns relative to the absolute real target rate of return over long periods of time, and the asset mix is developed to manage this risk. In selecting the Target Portfolio, the Board considers information from actuarial valuation reviews and asset/liability studies of the FRS, as well as asset class risk and return characteristics. In addition, the timing of cash demands on the portfolio to honor benefit payments and other liabilities are an important consideration. Potential asset mixes are thus evaluated with respect to their expected return, volatility, liquidity, and other risk and return measures as appropriate.

The Target Portfolio defined in Table 2 has a long-term expected compound annual real return that approximates the absolute real target rate of return. To achieve the absolute real target rate of return or actuarial return, material market risk must be borne (i.e., year to year volatility of returns). For example, in 2008 the Trust Fund's net managed real return was -26.81% compared to gains of 17.56% in 2009 and 21.48% in 2003. While downside risk is considerably greater over shorter horizons, the natural investment horizon for the Trust Fund is the long-term. Table 1 illustrates a modeled estimate of the Target Portfolio's potential range of real returns that could result over longer-term investment horizons. Over a 10-year investment horizon there is an 80 percent probability that the Target Portfolio will experience a compound annual real return between 0.1% and 9.2% and a 90 percent probability that the Target Portfolio will experience a compound annual real return between -1.4% and 10.6%.

Table 1: Expected Risk in Target Portfolio's Real Returns

Time Horizon	5th Percentile Real Return	10th Percentile Real Return	90th Percentile Real Return	95th Percentile Real Return
1 Year	-14.8%	-10.4%	18.8%	22.9%
3 Years	-6.3%	-3.9%	13.1%	15.4%
5 Years	-4.0%	-2.0%	11.1%	13.0%
7 Years	-2.5%	-0.9%	10.1%	11.6%
10 Years	-1.4%	0.1%	9.2%	10.6%

Although the Target Portfolio has an expected return and risk associated with it, it is important to note that this expected return is neither an explicit nor an implicit goal for the managers of the Florida Retirement System Trust Fund (FRSTF). These figures are used solely in developing directives for fund management that will raise the probability of success in achieving the absolute real target rate of return. The Executive Director is held responsible not for specifically achieving the absolute real target rate of return in each period, but rather for doing at least as well as the market using the Target Portfolio's mix of assets.

In pursuit of incremental investment returns, the Executive Director may vary the asset mix from the target allocation based on market conditions and the investment environment for the individual asset classes. The Executive Director shall adopt an asset allocation policy guideline which specifies the process for making these tactical decisions. The guideline shall concentrate on the analysis of economic conditions, the absolute values of asset class investments and the relative values between asset classes. The Board establishes ranges for tactical allocations, as shown in Table 2.

The Executive Director shall prudently execute the transition from the Target Asset Allocation in Table 2 of the Investment Policy Statement, effective January 17, 2023, to the New Target Asset Allocation in Table 2 below.

Table 2: Authorized Asset Classes, Target Allocations and Policy Ranges

Asset Class	Target Allocation	Policy Range Low	Policy Range High
Global Equity	45%	35%	60%
Fixed Income	21%	12%	30%
Active Credit	7%	2%	12%
Real Estate	12%	8%	20%
Private Equity	10%	6%	20%
Strategic Investments	4%	2%	14%
Cash Equivalents	1%	0.25%	5%
Total Fund	100%	--	--

For purposes of determining compliance with these policy ranges, an asset class is considered to be an aggregation of one or more portfolios with substantially the same principal asset type.[2] An asset type is a category of investment instrument such as common stock or bond. For example, all of the portfolios whose principal asset type is bonds would be aggregated together as the Fixed Income asset class. As such, it would contain primarily—but not exclusively—the principal asset type. As a standard management practice, portfolio managers are expected to meet their goals for all assets allocated to their portfolio.

It is expected that the FRS Portfolio will be managed in such a way that the actual allocation mix will remain within these ranges. Investment strategies or market conditions which result in an allocation position for any asset class outside of the enumerated ranges for a period exceeding thirty (30) consecutive business days shall be reported to the Board, together with a review of conditions causing the persistent deviation and a recommendation for subsequent investment action.

The asset allocation is established in concert with the investment objective, capital market expectations, projected actuarial liabilities, and resulting cash flows. Table 3 indicates estimated net cash flows (benefit payments less employer and employee contributions) and associated

[2] The Strategic Investments asset class is an exception, purposefully established to potentially contain a variety of portfolios which may represent asset types and strategies not suitable for inclusion in other asset classes.

probabilities that are implicit in this policy statement, assuming the Legislature adheres to system funding provisions in current law. Additionally, the annualized income yield of the fund is projected to approximate 2% to 3%.

Table 3: Estimated Net Cash Outflow ($ millions/ % Fund)

	In 5 Years		In 10 Years	
10th Percentile	$ 7,367	3.62%	$ 5,275	2.97%
25th Percentile	$ 7,977	3.87%	$ 7,497	3.49%
Median	$ 8,539	4.20%	$ 9,744	3.99%
75th Percentile	$ 9,080	4.59%	$ 13,041	4.47%
90th Percentile	$ 9,601	4.98%	$ 13,149	4.91%

VII. PERFORMANCE MEASUREMENT

Asset class performance is measured in accordance with a broad market index appropriate to the asset class. The indices identified in Table 4 are used as the primary benchmarks for the authorized asset classes.

Table 4: Authorized Target Indices

Asset Class	Index
Global Equity	A custom version of the MSCI All Country World Investable Market Index (ACWI IMI), in dollar terms, net of withholding taxes on non-resident institutional investors, adjusted to reflect securities and other investments prohibited by Florida law or that would be prohibited by Florida law if acquired as of the date of the measurement of such Index notwithstanding that the securities or investments were actually acquired before such date
Fixed Income	The Bloomberg U.S. Aggregate Bond Index
Active Credit	Floating based on public/private mix: (1) High Yield – Bloomberg High Yield Index; (2) Bank Loans – LSTA Leveraged Loan Index; (3) Emerging Market Debt, adjusted to reflect securities and other investments prohibited by Florida law and SBA policy – Bloomberg Emerging Market Local Currency Government 10% Country Capped, Bloomberg Emerging Market USD Sovereign, and Bloomberg Emerging Market USD Corporate; and (4) Private Credit - LSTA Leveraged Loan Index + 1.75%

Real Estate	The core portion of the asset class is benchmarked to an average of the National Council of Real Estate Investment Fiduciaries (NCREIF) Fund Index – Open-ended Diversified Core Equity, NET of fees, weighted at 83.3%, and the non-core portion of the asset class is benchmarked to an average of the National Council of Real Estate Investment Fiduciaries (NCREIF) Fund Index – Open-ended Diversified Core Equity, NET of fees, weighted at 16.7%, plus a fixed return premium of 150 basis points per annum[3]
Private Equity	Global Equity Target Index, plus a fixed premium return of 250 basis points per annum
Strategic Investments	Floating based on sub-category weights: (1) Hedge Funds - Secured Overnight Financing Rate (SOFAR) + 3%; (2) Real Assets – CPI + 4%; (3) Insurance Linked Securities – Swiss RE CAT Bond Total Return Index; and (4) Opportunistic Strategies – Shall be assessed against an appropriate benchmark
Cash Equivalents	Bloomberg Barclays U.S. Treasury Bill: 1-3 Months Index

The return on the Target Portfolio shall be calculated as an average of the returns to the target indices indicated in Table 4 weighted by the target allocations indicated by Table 2, but adjusted for floating allocations. The policy allocations for the Active Credit and private market asset classes would all "float" against the public market asset classes (i.e., limited short-term liquidity available for rebalancing and benefit payments means that their policy allocations would equal their actual allocations) as identified in Table 5.

Table 5: Allocations of Active Credit and Private Market (Real Estate, Private Equity and Strategic Investments) Under and Overweights to Public Market (Global Equity and Fixed Income) Table 2 Target Allocations

Public Market Asset Classes	Float Allocation Limit	Private Market Asset Classes			
		Active Credit	Real Estate	Private Equity	Strategic Investments
Global Equity	N/A	67%	65%	100%	35%
Fixed Income	N/A	33%	35%	0%	65%

3 Core RE Non-Core RE

(83.3% * NFI-ODCE) + [16.7% * (NFI-ODCE + 150 bps)]

Measurement of asset allocation performance shall be made by comparing the actual asset allocation times the return for the appropriate indices to the target allocation times the index returns. For asset classes with floating allocations the basis of tactical measurement shall be the asset class's actual share.

Performance measurement of the effectiveness of the implementation of the Private Equity asset class shall be based on an internal rate of return (IRR) methodology, applied over significant periods of time. Performance measurement of the effectiveness of the implementation of the Private Equity, Strategic Investments, and Cash Equivalents asset classes shall be assessed relative to both the applicable index in Table 4 and:

- For Private Equity, the joint Cambridge Associates Global Private Equity and Venture Capital Index pooled return at peer group weights.
- For Strategic Investments, a weighted average of individual portfolios' benchmarks.
- For Cash Equivalents, the iMoneyNet First Tier Institutional Money Market Funds Net Index

VIII. ASSET CLASS PORTFOLIO MANAGEMENT

General Asset Class and Portfolio Guidelines

The Executive Director is responsible for developing asset class and individual portfolio policies and guidelines which reflect the goals and objectives of this Investment Policy Statement. In doing so, he is authorized to use all investment authority spelled out in Section 215.47, Florida Statutes, except as limited by this Plan or SBA Rules. The Executive Director shall develop guidelines for the selection and retention of portfolios, and shall manage all external contractual relationships in accordance with the fiduciary responsibilities of the Board.

All asset classes shall be invested to achieve or exceed the return on their respective benchmarks over a long period of time. To obtain appropriate compensation for associated performance risks:

- Public market asset classes shall be well diversified with respect to their benchmarks and have a reliance on low-cost passive strategies scaled according to the degree of efficiency in underlying securities markets, capacity in effective active strategies, and ongoing total fund liquidity requirements.
- Private Credit and Bank Loans (within the Active Credit asset class), Private Equity, Real Estate and Strategic Investments asset classes shall utilize a prudent process to maximize long-term access to attractive risk-adjusted investment opportunities through use of business partners with appropriate:
    - Financial, operational and investment expertise and resources;

- Alignment of interests;
- Transparency and repeatability of investment process; and
- Controls on leverage.

Strategic Investments Guidelines

The objective of the asset class is to proactively identify and utilize non-traditional and multi-asset class investments, on an opportunistic and strategic basis, in order to accomplish one or more of the following:

- Reduce the volatility of FRS Pension Plan assets and improve the FRS Pension Plan's Sharpe Ratio, over five-year measurement periods.
- Outperform the FRS Pension Plan during periods of significant market declines.
- Increase investment flexibility across market environments in order to access evolving or opportunistic investments outside of traditional asset classes and effective risk-adjusted portfolio management strategies.

Strategic Investments may include, but not be limited to, direct investments authorized by s. 215.47, Florida Statutes or investments in capital commitment partnerships, hedge funds or other vehicles that make or involve non-traditional, opportunistic and/or long or short investments in marketable and nonmarketable debt, equity, and/or real assets (e.g., real estate, infrastructure, or commodities). Leverage may be utilized subject to appropriate controls.

Other Guidelines

The Executive Director shall develop and implement policies as appropriate for the orderly and effective implementation of the provisions of Chapter 2007-88, Laws of Florida, the "Protecting Florida's Investments Act." Actions taken and determinations made pursuant to said policies are hereby incorporated by reference into this Investment Policy Statement, as required by subsection 215.473(6), Florida Statutes.

The Executive Director shall develop and implement policies as appropriate for the orderly and effective implementation of the provisions of Chapter 2016-36, Laws of Florida, an act relating to companies that boycott Israel. Actions taken and determinations made pursuant to said policies are hereby incorporated by reference into this Investment Policy Statement, as required by subsection 215.4725(5), Florida Statutes.

The Executive Director shall develop and implement policies as appropriate for the orderly and effective implementation of the provisions of Chapter 2018-125, Laws of Florida, an act relating to state investments in or with the government of Venezuela. Actions taken and determinations made pursuant to said policies are hereby incorporated by reference into this Investment Policy Statement, as required by subsection 215.475(3)(a), Florida Statutes.

Subsection 215.475(3)(a) Florida Statutes is consistent with the Resolution adopted by the Trustees of the Board on August 16, 2017. At that meeting, the Board also included in the Resolution the specific direction that the SBA include in this Investment Policy Statement upon review of the IAC in accordance with Section 215.475(2) Florida Statutes, the following: "The SBA will not vote in favor of any proxy resolution advocating the support of the Maduro Regime in Venezuela."

IX. REPORTING

The Board directs the Executive Director to coordinate the preparation of quarterly reports of the investment performance of the FRS by the Board's independent performance evaluation consultant.

The following formal periodic reports to the Board shall be the responsibility of the Executive Director:

- An annual report on the SBA and its investment portfolios, including that of the FRS.
- A monthly report on performance and investment actions taken.
- Special investment reports pursuant to Section 215.44-215.53, Florida Statutes.
- The reports listed in No. 3 above (Internal Review).

X. IMPLEMENTATION SCHEDULE

This policy statement shall be effective January 1, 2024.

MEETING OF THE STATE BOARD OF ADMINISTRATION

GOVERNOR DESANTIS AS CHAIR
CHIEF FINANCIAL OFFICER PATRONIS
ATTORNEY GENERAL MOODY

January 17, 2023

To View Agenda Items, Click on the Following Link:
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ITEM 1. **APPROVAL OF THE JUNE 22, 2022, MEETING MINUTES**

(See Attachment 1)

ACTION REQUIRED

ITEM 2. **APPROVAL OF THE AUGUST 23, 2022, MEETING MINUTES**

(See Attachment 2)

ACTION REQUIRED

ITEM 3. **A RESOLUTION OF THE STATE BOARD OF ADMINISTRATION APPROVING THE FISCAL SUFFICIENCY OF AN AMOUNT NOT EXCEEDING $28,500,000 STATE OF FLORIDA, BOARD OF GOVERNORS, FLORIDA INTERNATIONAL UNIVERSITY PARKING FACILITY REVENUE REFUNDING BONDS, SERIES (TO BE DETERMINED)**

(See Attachment 3)

ACTION REQUIRED

ITEM 4. **A RESOLUTION OF THE STATE BOARD OF ADMINISTRATION APPROVING THE FISCAL SUFFICIENCY OF AN AMOUNT NOT EXCEEDING $76,000,000 STATE OF FLORIDA, BOARD OF GOVERNORS, FLORIDA POLYTECHNIC UNIVERSITY DORMITORY REVENUE BONDS, SERIES (TO BE DETERMINED)**

(See Attachment 4)

ACTION REQUIRED

ITEM 5. **A RESOLUTION OF THE STATE BOARD OF ADMINISTRATION APPROVING THE FISCAL SUFFICIENCY OF AN AMOUNT NOT EXCEEDING $12,500,000 STATE OF FLORIDA, BOARD OF GOVERNORS, UNIVERSITY OF FLORIDA DORMITORY REVENUE REFUNDING BONDS, SERIES (TO BE DETERMINED)**

(See Attachment 5)

ACTION REQUIRED

ITEM 6. **A RESOLUTION OF THE STATE BOARD OF ADMINISTRATION APPROVING THE FISCAL SUFFICIENCY OF AN AMOUNT NOT EXCEEDING $27,000,000 STATE OF FLORIDA, BOARD OF GOVERNORS, UNIVERSITY OF FLORIDA STUDENT ACTIVITY REVENUE REFUNDING BONDS, SERIES (TO BE DETERMINED)**

(See Attachment 6)

ACTION REQUIRED

ITEM 7. **REQUEST APPROVAL OF A DRAFT LETTER TO THE JOINT LEGISLATIVE AUDITING COMMITTEE AFFIRMING "THE SBA TRUSTEES HAVE REVIEWED AND APPROVED THE AUDITOR GENERAL'S ANNUAL FINANCIAL AUDIT OF LOCAL GOVERNMENT SURPLUS FUNDS TRUST FUND (FLORIDA PRIME) Report No. 2023-060 AND ACTIONS TAKEN, IF ANY, TO ADDRESS ANY IMPACTS." (SECTION 218.409(9), F.S.)**

(See Attachment 7)

ACTION REQUIRED

ITEM 8. **REQUEST APPROVAL OF DRAFT LETTERS TO THE JOINT LEGISLATIVE AUDITING COMMITTEE AFFIRMING "THE SBA TRUSTEES HAVE REVIEWED AND APPROVED THE MONTHLY [FLORIDA PRIME] SUMMARY REPORTS AND ACTIONS TAKEN, IF ANY, TO ADDRESS ANY IMPACTS" FOR THE THIRD QUARTER OF 2022, (SECTION 218.409(6)(a)1, F.S.)**

(See Attachment 8)

ACTION REQUIRED

ITEM 9. **REQUEST APPROVAL OF SBA QUARTERLY REPORT REQUIRED BY THE PROTECTING FLORIDA'S INVESTMENTS ACT (PFIA).**

Pursuant to sections 215.442, 215.473, 215.4725, 215.4702, and 215.471 Florida Statutes, the SBA is required to submit a quarterly report that includes lists of "continued examination" and "scrutinized companies" with activities in Sudan and Iran, Anti-BDS, Northern Ireland, Cuba and Syria, and Venezuela.

(See Attachment 9)

ACTION REQUIRED

ITEM 10. **REQUEST APPROVAL OF, AND AUTHORITY TO FILE, A NOTICE OF PROPOSED RULE FOR FLORIDA HURRICANE CATASTROPHE FUND RULE 19-8.029, F.A.C., INSURER REPORTING REQUIREMENTS AND RESPONSIBILITIES, AND TO FILE THIS RULE FOR ADOPTION IF NO MEMBER OF THE PUBLIC TIMELY REQUESTS A RULE HEARING OR IF A HEARING IS REQUESTED AND NO NOTICE OF CHANGE IS NEEDED.**

(See Attachment 10)

ACTION REQUIRED

ITEM 11. REQUEST APPROVAL OF THE APPOINTMENT OF THE CHAIR FOR THE FLORIDA COMMISSION ON HURRICANE LOSS PROJECTION METHODOLOGY.

Each year, the SBA is required by Section 627.0628(2)(d), F.S., to appoint a Commission member to serve as Chair. It is recommended that Floyd Yager be reappointed to serve as Chair. A copy of Mr. Yager's biography and a list of all Commission members IS provided.

(See Attachment 11)

ACTION REQUIRED

ITEM 12. REQUEST APPROVAL OF CHANGES TO THE INVESTMENT POLICY STATEMENT FOR THE FLORIDA RETIREMENT SYSTEM PENSION PLAN (i.e., FLORIDA RETIREMENT SYSTEM DEFINED BENEFIT (DB) PLAN), AS REQUIRED UNDER s. 215.475(2), F.S.

The Investment Policy Statement, required pursuant to s. 215.475, F.S., is the principal vehicle through which the Trustees establish investment objective(s), risk tolerance, asset allocation and address associated policy issues for the Florida Retirement System DB Plan.

Prior to any changes to the Investment Policy Statement being presented to the Trustees, the Executive Director of the Board must present such changes to the Investment Advisory Council for review. Results of the council's review must be presented to the Trustees before final approval of changes to the Investment Policy Statement.

On August 23, 2022, the Trustees adopted a resolution that in part directs the following language to be included in the Investment Policy Statement:

> *"STANDARD OF CARE AND EVALUATION OF INVESTMENTS. The State Board of Administration will initiate the process of updating the Board's Investment Policy Statement to reflect the following changes:*
>
> *The evaluation by the Board of an investment decision must be based only on pecuniary factors. As used in this section, "pecuniary factor" means a factor that the board prudently determines is expected to have a material effect on the risk and return of an investment based on appropriate investment horizons consistent with the fund's investment objectives and funding policy. Pecuniary factors do not include the consideration of the furtherance of social, political, or ideological interests.*
>
> *The board may not subordinate the interests of the participants and beneficiaries to other objectives and may not sacrifice investment return or take on additional investment risk to promote any non-pecuniary factors. The weight given to any pecuniary factor by the board should appropriately reflect a prudent assessment of its impact on risk and returns.*
>
> *In the case of a conflict with this section and any other provision of Florida law, Florida law shall prevail."*

On August 23, 2022, the Trustees adopted a resolution that directs the following language with regard to proxy voting and internal review, both of which have also been included in the Investment Policy Statement:

> *"PROXY VOTING." When deciding whether to exercise shareholder rights and when exercising such rights, including the voting of proxies, the board: (a) Must act prudently and solely in the interests of participants and beneficiaries and for the exclusive purpose of providing benefits to participants and beneficiaries and defraying the reasonable expenses of the Florida Retirement System Defined Benefit Pension Plan. (b) May not subordinate the interests of the participants and beneficiaries to other objectives and may not sacrifice investment return or take on additional investment risk to promote non-pecuniary factors. (c) In the case of a conflict with this section and any other provision of Florida law, Florida law shall prevail.*

"INTERNAL REVIEW "
The State Board of Administration will organize and conduct a comprehensive review and prepare a report of the governance policies over the voting practices of the Florida Retirement System Defined Benefit Pension Plan, to include an operational review of decision-making in vote decisions and adherence to the fiduciary standards of the Fund. The State Board of Administration will ensure compliance with the updated Investment Policy Statement and adherence to the proxy voting requirements through the review process of this resolution. The State Board of Administration will submit its report to the Trustees no later than December 15, 2023.

At the September 13, 2022, Investment Advisory Council (IAC) meeting, the Interim Executive Director & CIO, recommended adding the resolution language adopted by the Trustees on August 23rd, 2022. The IAC has reviewed and approved the resolution language.

(See Attachment 12; a *DRAFT* version of the FRS DB Plan Investment Policy Statement was reviewed by the Investment Advisory Council on September 13, 2022.)

ACTION REQUIRED

ITEM 13. REQUEST APPROVAL OF CHANGES TO THE CORPORATE GOVERNANCE PROXY VOTING GUIDELINES.

On August 23, 2022, the Trustees adopted a resolution that directs the following language with regard to proxy voting which was immediately added to the proxy voting principals and guidelines and submitted to the Investment Advisory Council for their review. The IAC has reviewed and approved the resolution language.

"PROXY VOTING." When deciding whether to exercise shareholder rights and when exercising such rights, including the voting of proxies, the board: (a) Must act prudently and solely in the interests of participants and beneficiaries and for the exclusive purpose of providing benefits to participants and beneficiaries and defraying the reasonable expenses of the Florida Retirement System Defined Benefit Pension Plan. (b) May not subordinate the interests of the participants and beneficiaries to other objectives and may not sacrifice investment return or take on additional investment risk to promote non-pecuniary factors. (c) In the case of a conflict with this section and any other provision of Florida law, Florida law shall prevail.

(See Attachment 13, Page 8; a *DRAFT* version of the Corporate Governance Proxy Voting Guidelines was reviewed by the Investment Advisory Council on September 13, 2022)

ACTION REQUIRED

ITEM 14. REQUEST APPROVAL OF THE APPOINTMENT OF KEN JONES TO THE INVESTMENT ADVISORY COUNCIL (S. 215.444, F.S.).

(See Attachment 14)

ACTION REQUIRED

ITEM 15. REQUEST APPROVAL OF CHANGES TO THE COMPREHENSIVE INVESTMENT PLANS FOR THE FLORIDA PREPAID COLLEGE BOARD, AS REQUIRED UNDER S. 1009.973, F.S.

The Comprehensive Investment Plans, required pursuant to s. 1009.973, F.S., are the principal vehicles through which the Florida Prepaid College Board establishes the investment objectives, strategies, goals and authorized investment types for the Florida Prepaid College Program and the Florida College Savings program.

At the September 21, 2022 Florida Prepaid College Board meeting, the Board unanimously agreed to amend the Florida Prepaid College and Florida College Savings programs' Comprehensive Investment Plans to:

> Define the standard of care in the evaluation of investments. The Board is making a commitment " ... to only invest in a manner that prioritizes the highest return on investments, without consideration for nonpecuniary beliefs or political factors." Furthermore, "The evaluation by the Board of an investment decision ... must be based only on pecuniary factors." "Pecuniary factors do not include the consideration of the furtherance of social, political, or ideological interests." The language closely mirrors the resolution adopted by the SBA Trustees on August 23, 2022, that directs an update to the FRS Pension Plan Investment Policy Statement and proxy voting policies.

The proposed changes have been thoroughly vetted by the Board's investment consultant (Aon). The Board's Investment Committee met and approved the proposed changes to the CIPs on September 21, 2022.

All policy changes would be effective upon final approval by the SBA Trustees.

(See Attachment 15)

ACTION REQUIRED

ITEM 16. QUARTERLY REPORTS PURSUANT TO SECTION 215.44 (2)(e), FLORIDA STATUTES

- **Interim Executive Director & CIO Introductory Remarks and Standing Reports**
- **Major Mandates Investment Performance Reports**
  - Florida Retirement System Pension Plan (DB)
  - Florida Retirement System Investment Plan (DC)
  - Florida PRIME (Local Government Surplus Funds Trust Fund)
  - Lawton Chiles Endowment Fund (LCEF)
  - Florida Hurricane Catastrophe Fund (FHCF)

INFORMATION/DISCUSSION ITEMS

MEETING OF THE STATE BOARD OF ADMINISTRATION

GOVERNOR DESANTIS AS CHAIR
CHIEF FINANCIAL OFFICER PATRONIS
ATTORNEY GENERAL MOODY

May 23, 2023

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ITEM 1. **APPROVAL OF THE JANUARY 17, 2023, MEETING MINUTES**

(See Attachment 1)

ACTION REQUIRED

ITEM 2. **A RESOLUTION OF THE STATE BOARD OF ADMINISTRATION APPROVING THE FISCAL SUFFICIENCY OF AN AMOUNT NOT EXCEEDING $50,000,000 STATE OF FLORIDA, BOARD OF GOVERNORS, UNIVERSITY OF FLORIDA RESEARCH REVENUE BONDS, SERIES (TO BE DETERMINED)**

(See Attachment 2)

ACTION REQUIRED

ITEM 3. **REQUEST APPROVAL OF DRAFT LETTER TO THE JOINT LEGISLATIVE AUDITING COMMITTEE AFFIRMING "THE SBA TRUSTEES HAVE REVIEWED AND APPROVED THE MONTHLY [FLORIDA PRIME] SUMMARY REPORTS AND ACTIONS TAKEN, IF ANY, TO ADDRESS ANY IMPACTS" FOR THE FOURTH QUARTER OF 2022, (SECTION 218.409(6)(a)1, F.S.)**

(See Attachment 3)

ACTION REQUIRED

ITEM 4. **REQUEST APPROVAL OF DRAFT LETTER TO THE JOINT LEGISLATIVE AUDITING COMMITTEE AFFIRMING "THE SBA TRUSTEES HAVE REVIEWED AND APPROVED THE MONTHLY [FLORIDA PRIME] SUMMARY REPORTS AND ACTIONS TAKEN, IF ANY, TO ADDRESS ANY IMPACTS" FOR THE FIRST QUARTER OF 2023, (SECTION 218.409(6)(a)1, F.S.)**

(See Attachment 4)

ACTION REQUIRED

ITEM 5. **REQUEST APPROVAL OF SBA QUARTERLY REPORT REQUIRED BY THE PROTECTING FLORIDA'S INVESTMENTS ACT (PFIA).**

Pursuant to sections 215.442, 215.473, 215.4725, 215.4702, and 215.471 Florida Statutes, the SBA is required to submit a quarterly report that includes lists of "continued examination" and "scrutinized companies" with activities in Sudan and Iran, Anti-BDS, Northern Ireland, Cuba and Syria, and Venezuela.

(See Attachment 5)

ACTION REQUIRED

ITEM 6. **REQUEST APPROVAL TO FILE FOR NOTICE, AMENDMENTS TO RULES 19-11.001, 19-11.002, 19-11.006, 19-11.007, 19-11.008, 19-11.009, 19-11.011 and 19-11.012, F.A.C. IN RULE CHAPTER 19-11, F.A.C. (PROCEDURES FOR THE FRS INVESTMENT PLAN), AND FURTHER TO FILE THE RULES FOR ADOPTION, IF NO MEMBER OF THE PUBLIC TIMELY REQUESTS A RULE HEARING RELATED TO THESE RULES.**

The proposed amendments mainly serve to update and clarify certain information in the various rules and to adopt the most recent versions of forms. There are no significant policy issues or controversial issues connected to these rule amendments

The specific changes proposed are:

- Rule 19-11.001, F.A.C. is being amended to add definitions for "default"/"default election" and "electronic signature." Also, "member" is being revised to include a terminated DROP member who has effectuated a rollover.
- Rule 19-11.002, F.A.C. is being amended to set forth the most recent versions of the General Retirement Plan Enrollment Form and the 2nd Election Enrollment Form.
- Rule 19-11.006 is being amended to update procedures for various classes to enroll in the Florida Retirement System ("FRS"). The latest versions of the various enrollment forms are being adopted. Finally, the rule is being amended to state that if a member's enrollment is incomplete, the election will not be processed, and the member will need to submit a new election.
- Rule 19-11.007, F.A.C. is being amended to emphasize that members that are on unpaid leave cannot use their election until they return to FRS-covered employment and are earning salary and service credit. The rule also is being amended to adopt the latest versions of the 2nd election enrollment forms.
- Rule 19-11.008, F.A.C.is being amended to state that if a member, who had separated from service at a time in which he or she had an unvested account balance, returns to FRS-covered employment within 5 years of date of termination, that member will receive the unvested funds together with any earnings or losses those funds experienced while being in the FRS Core Plus Bond Fund. The rule also notes that if a member leaves FRS employment after vesting in the Investment Plan but before vesting in any transferred Pension Plan benefit, the member will only be able to receive his or her vested Investment Plan benefit. However, if the member takes a distribution of any Investment Plan funds, the member will immediately be considered "retired" and will forfeit any unvested Pension Plan funds, as well as any earnings on such funds and any service credit related thereto.
- Rule 19-11.009, F.A.C., is being amended to adopt the latest version of the Certification Form that is used to prevent the hiring of ineligible retirees.
- Rule 19-11.011, F.A.C., is being amended to make some editorial revisions and to indicate that newly-hired employees with prior FRS service who either elect or default into the FRS Investment Plan will have their Pension Plan accumulated benefit obligation ("ABO") calculated and transferred to their Investment Plan account.
- Rule 19-11.012, F.A.C., is being amended to adopt the latest versions of the Employee Rollover Deposit Instructions and Form, and to make some editorial revisions to emphasize that a member who has rolled over monies into the Investment Plan cannot receive a distribution of such funds until the member has terminated employment for three full months following termination of all FRS employment.

(See Attachment 6)

ACTION REQUIRED

ITEM 7. **REQUEST APPROVAL OF THE 2023-2024 FLORIDA HURRICANE CATASTROPHE FUND REIMBURSEMENT PREMIUM FORMULA.**

(See Attachment 7)

ACTION REQUIRED

ITEM 8. **REQUEST APPROVAL OF, AND AUTHORITY TO FILE, A NOTICE OF PROPOSED RULE FOR FLORIDA HURRICANE CATASTROPHE FUND RULE 19-8.028, F.A.C., REIMBURSEMENT PREMIUM FORMULA, AND TO FILE THIS RULE, ALONG WITH THE INCORPORATED FORM, FOR ADOPTION IF NO MEMBER OF THE PUBLIC TIMELY REQUESTS A RULE HEARING OR IF A HEARING IS REQUESTED AND NO NOTICE OF CHANGE IS NEEDED.**

(See Attachment 8)

ACTION REQUIRED

ITEM 9. **REQUEST APPROVAL OF THE STATE BOARD OF ADMINISTRATION'S PROPOSED BUDGETS FOR FISCAL YEAR 2023-2024: (1) STATE BOARD OF ADMINISTRATION; (2) FRS INVESTMENT PLAN; (3) FLORIDA HURRICANE CATASTROPHE FUND; (4) DIVISION OF BOND FINANCE; AND, (5) FLORIDA PREPAID COLLEGE BOARD.**

(See Attachment 9)

ACTION REQUIRED

ITEM 10. **APPOINTMENTS**

(See Attachment 10)

ACTION REQUIRED

ITEM 11. **QUARTERLY REPORTS PURSUANT TO SECTION 215.44 (2)(e), FLORIDA STATUTES**

- **Standing Reports**
- **Major Mandates Investment Performance Reports**
  - Florida Retirement System Pension Plan (DB)
  - Florida Retirement System Investment Plan (DC)
  - Florida PRIME (Local Government Surplus Funds Trust Fund)
  - Lawton Chiles Endowment Fund (LCEF)
  - Florida Hurricane Catastrophe Fund (FHCF)

(See Attachment 11)

MEETING OF THE STATE BOARD OF ADMINISTRATION

GOVERNOR DESANTIS AS CHAIR
CHIEF FINANCIAL OFFICER PATRONIS
ATTORNEY GENERAL MOODY

August 23, 2022

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ITEM 1. **RESOLUTION – ESG**

(See Attachment 1)

ITEM 2. **APPROVAL OF THE FEBRUARY 2, 2021, MEETING MINUTES**

(See Attachment 2)

ACTION REQUIRED

ITEM 3. **APPROVAL OF THE MARCH 9, 2021, MEETING MINUTES**

(See Attachment 3)

ACTION REQUIRED

ITEM 4. **APPROVAL OF THE MAY 4, 2021, MEETING MINUTES**

(See Attachment 4)

ACTION REQUIRED

ITEM 5. **APPROVAL OF THE SEPTEMBER 21, 2021, MEETING MINUTES**

(See Attachment 5)

ACTION REQUIRED

ITEM 6. **A RESOLUTION OF THE STATE BOARD OF ADMINISTRATION APPROVING THE FISCAL SUFFICIENCY OF AN AMOUNT NOT EXCEEDING $29,000,000 STATE OF FLORIDA, BOARD OF GOVERNORS, FLORIDA STATE UNIVERSITY DORMITORY REVENUE REFUNDING BONDS, SERIES (TO BE DETERMINED)**

(See Attachment 6)

ACTION REQUIRED

ITEM 7. **A RESOLUTION OF THE STATE BOARD OF ADMINISTRATION APPROVING THE FISCAL SUFFICIENCY OF AN AMOUNT NOT EXCEEDING $205,000,000 STATE OF FLORIDA, FULL FAITH AND CREDIT, STATE BOARD OF EDUCATION PUBLIC EDUCATION CAPITAL OUTLAY REFUNDING BONDS, SERIES (TO BE DETERMINED)**

(See Attachment 7)

ACTION REQUIRED

ITEM 8. **A RESOLUTION OF THE STATE BOARD OF ADMINISTRATION APPROVING THE FISCAL SUFFICIENCY OF AN AMOUNT NOT EXCEEDING $113,000,000 STATE OF FLORIDA, DEPARTMENT OF TRANSPORTATION SEAPORT INVESTMENT PROGRAM REVENUE REFUNDING BONDS, SERIES (TO BE DETERMINED)**

(See Attachment 8)

ACTION REQUIRED

ITEM 9. **A RESOLUTION OF THE STATE BOARD OF ADMINISTRATION APPROVING THE FISCAL SUFFICIENCY OF AN AMOUNT NOT EXCEEDING $444,100,000 STATE OF FLORIDA, DEPARTMENT OF TRANSPORTATION TURNPIKE REVENUE BONDS, SERIES (TO BE DETERMINED)**

(See Attachment 9)

ACTION REQUIRED

ITEM 10. **A RESOLUTION OF THE STATE BOARD OF ADMINISTRATION APPROVING THE FISCAL SUFFICIENCY OF AN AMOUNT NOT EXCEEDING $214,000,000 STATE OF FLORIDA, DEPARTMENT OF TRANSPORTATION TURNPIKE REVENUE REFUNDING BONDS, SERIES (TO BE DETERMINED)**

(See Attachment 10)

ACTION REQUIRED

ITEM 11. **REQUEST APPROVAL OF, AND AUTHORITY TO FILE, A NOTICE OF PROPOSED RULE FOR FLORIDA HURRICANE CATASTROPHE FUND RULE 19-8.010, F.A.C., REIMBURSEMENT CONTRACT, AND TO FILE THIS RULE, ALONG WITH THE INCORPORATED FORMS, FOR ADOPTION IF NO MEMBER OF THE PUBLIC TIMELY REQUESTS A RULE HEARING OR IF A HEARING IS REQUESTED AND NO NOTICE OF CHANGE IS NEEDED.**

(See Attachment 11)

ACTION REQUIRED

ITEM 12. REQUEST ANNUAL APPROVAL OF THE CHARTER OF THE AUDIT COMMITTEE OF THE STATE BOARD OF ADMINISTRATION OF FLORIDA (CHARTER).

Pursuant to Sections 215.44, F.S., the Audit Committee was created to assist the Board in fulfilling its oversight responsibilities. The Charter was last approved in August 2020. There are no changes to the Charter approved by the Audit Committee on August 15, 2022

(See Attachment 12)

ACTION REQUIRED

ITEM 13. REQUEST APPROVAL OF CHANGES TO THE INVESTMENT POLICY STATEMENT FOR THE FLORIDA RETIREMENT SYSTEM PENSION PLAN (i.e., FLORIDA RETIREMENT SYSTEM DEFINED BENEFIT (DB) PLAN), AS REQUIRED UNDER s. 215.475(2), F.S.

The Investment Policy Statement, required pursuant to s. 215.475, F.S., is the principal vehicle through which the Trustees establish investment objective(s), risk tolerance, asset allocation and address associated policy issues for the Florida Retirement System DB Plan.

Prior to any changes to the Investment Policy Statement being presented to the Trustees, the Executive Director of the Board must present such changes to the Investment Advisory Council for review. Results of the council's review must be presented to the Trustees before final approval of change to the Investment Policy Statement. At the June 28, 2022 Investment Advisory Council (IAC) meeting, the Interim Executive Director & CIO recommended increasing the policy limit for Private Equity from 10% to 12%. The IAC has reviewed and approved the change.

(See Attachment 13 *DRAFT* versions of the FRS DB Plan Investment Policy Statement that were reviewed by the Investment Advisory Council on June 28, 2022.)

ACTION REQUIRED

ITEM 14. REQUEST APPROVAL OF FLORIDA PRIME PROPOSED INVESTMENT POLICY STATEMENT

(See Attachment 14)

ACTION REQUIRED

ITEM 15. REQUEST APPROVAL OF FLORIDA PRIME 2022 BEST PRACTICES REVIEW

(See Attachment 15)

ACTION REQUIRED

ITEM 16. REQUEST APPROVAL OF 2022 LOCAL GOVERNMENT SURPLUS FUNDS TRUST FUND STATUTORY COMPLIANCE REVIEW

(See Attachment 16)

ACTION REQUIRED

ITEM 17. REQUEST APPROVAL OF DRAFT LETTERS TO THE JOINT LEGISLATIVE AUDITING COMMITTEE AFFIRMING "THE SBA TRUSTEES HAVE REVIEWED AND APPROVED THE MONTHLY [FLORIDA PRIME] SUMMARY REPORTS AND ACTIONS TAKEN, IF ANY, TO ADDRESS ANY IMPACTS" FOR THE SECOND QUARTER OF 2022, (SECTION 218.409(6)(a)1, F.S.

(See Attachment 17)

ACTION REQUIRED

ITEM 18. REQUEST APPROVAL OF SBA QUARTERLY REPORT REQUIRED BY THE PROTECTING FLORIDA'S INVESTMENTS ACT (PFIA).

Pursuant to sections 215.442, 215.473, 215.4725, 215.4702, and 215.471 Florida Statutes, the SBA is required to submit a quarterly report that includes lists of "continued examination" and "scrutinized companies" with activities in Sudan and Iran, Anti-BDS, Northern Ireland, Cuba and Syria, and Venezuela.

(See Attachment 18)

ACTION REQUIRED

ITEM 19. QUARTERLY REPORTS PURSUANT TO SECTION 215.44 (2)(e), FLORIDA STATUTES

- **Interim Executive Director & CIO Introductory Remarks and Standing Reports**
- **Major Mandates Investment Performance Reports**
  - Florida Retirement System Pension Plan (DB)
  - Florida Retirement System Investment Plan (DC)
  - Florida PRIME (Local Government Surplus Funds Trust Fund)
  - Florida Hurricane Catastrophe Fund (FHCF)

(See Attachment 19)

INFORMATION/DISCUSSION ITEMS

MEETING OF THE STATE BOARD OF ADMINISTRATION

GOVERNOR DESANTIS AS CHAIR
CHIEF FINANCIAL OFFICER PATRONIS
ATTORNEY GENERAL MOODY

October 25, 2023

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ITEM 1. **A RESOLUTION OF THE STATE BOARD OF ADMINISTRATION APPROVING THE FISCAL SUFFICIENCY OF AN AMOUNT NOT EXCEEDING $86,700,000 STATE OF FLORIDA, BOARD OF GOVERNORS, UNIVERSITY OF NORTH FLORIDA DORMITORY REVENUE BONDS, SERIES (TO BE DETERMINED)**

(See Attachment 1)

ACTION REQUIRED

ITEM 2. **REQUEST APPROVAL OF DRAFT LETTER TO THE JOINT LEGISLATIVE AUDITING COMMITTEE AFFIRMING "THE SBA TRUSTEES HAVE REVIEWED AND APPROVED THE MONTHLY [FLORIDA PRIME] SUMMARY REPORTS AND ACTIONS TAKEN, IF ANY, TO ADDRESS ANY IMPACTS" FOR THE SECOND QUARTER OF 2023, (SECTION 218.409(6)(a)1, F.S.)**

(See Attachment 2)

ACTION REQUIRED

ITEM 3. **REQUEST APPROVAL OF FLORIDA PRIME 2023 BEST PRACTICES REVIEW**

(See Attachment 3)

ACTION REQUIRED

ITEM 4. **REQUEST APPROVAL OF 2023 LOCAL GOVERNMENT SURPLUS FUNDS TRUST FUND STATUTORY COMPLIANCE REVIEW**

(See Attachment 4)

ACTION REQUIRED

ITEM 5. **REQUEST APPROVAL OF SBA QUARTERLY REPORT REQUIRED BY THE PROTECTING FLORIDA'S INVESTMENTS ACT (PFIA).**

Pursuant to sections 215.442, 215.473, 215.4725, 215.4702, and 215.471 Florida Statutes, the SBA is required to submit a quarterly report that includes lists of "continued examination" and "scrutinized companies" with activities in Sudan and Iran, Anti-BDS, Northern Ireland, Cuba and Syria, and Venezuela.

(See Attachment 5)

ACTION REQUIRED

ITEM 6. REQUEST APPROVAL OF REVISIONS TO THE STATE BOARD OF ADMINISTRATION'S CORPORATE GOVERNANCE PRINCIPLES AND PROXY VOTING GUIDELINES

Adding language to SBA's Corporate Governance and Proxy Voting Guidelines which conform to HB 3-Government and Corporate Activism, effective July 1, 2023. The revised materials also include updated references to relevant rules and materials.

(See Attachment 6)

ACTION REQUIRED

ITEM 7. REQUEST APPROVAL OF THE REVISIONS TO THE INVESTMENT POLICY STATEMENT FOR THE FLORIDA RETIREMENT SYSTEM PENSION PLAN AS REQUIRED UNDER S. 215.475(2), F.S.

The Investment Policy Statement, required pursuant to s. 215.475, is the principal vehicle through which the Trustees establish an investment objective(s), asset allocation, and address associated policy issues for the FRS Pension Plan.

A. Adding language to Investment Policy Statement which conforms to House Bill 3 – Government and Corporate Activism effective July 1, 2023. HB 3 revises provisions relating to the investment of retirement system and trust fund assets, associated governance policies, and certain related reporting requirements. The State Board of Administration (SBA) is required to file and submit to the Governor, the Attorney General, the Chief Financial Officer, the President of the Senate and the Speaker of the House of Representatives a comprehensive report detailing and reviewing the governance policies concerning decision making in vote decisions and adherence to the fiduciary standards required under Section 112.662, Fla. Statutes, including the exercise of shareholder rights. The SBA will submit this report by December 15, 2023, and by December 15 of each odd-numbered year thereafter.

B. This past year, the State Board of Administration (SBA) staff and SBA investment consultants performed in-depth analyses of the Pension Plan's assets and liabilities (asset liability study), the structure of the Strategic Investments asset class, and overall asset allocation. The purpose of these analyses was to reassess the Pension Plan's investment policy and asset allocation considering the latest actuarial study and capital market expectations. Prior to recommended changes in the Investment Policy Statement being presented to the Trustees, the Interim Executive Director of the Board presented such changes to the Investment Advisory Council for review on June 27, 2023. The Investment Advisory Council approved the proposed investment policy and asset allocation changes which materially reduces the Pensions Plan's risk while maintaining the level of its investment return. The proposed changes to the Investment Policy Statement will be implemented over a reasonable period of time based upon market conditions and liquidity.

(See Attachments 7A and 7B)

ACTION REQUIRED

ITEM 8. REQUEST APPROVAL OF, AND AUTHORITY TO FILE, A NOTICE OF PROPOSED RULE FOR FLORIDA HURRICANE CATASTROPHE FUND RULE 19-8.010, F.A.C., REIMBURSEMENT CONTRACT, AND TO FILE THIS RULE, ALONG WITH THE INCORPORATED FORMS, FOR ADOPTION IF NO MEMBER OF THE PUBLIC TIMELY REQUESTS A RULE HEARING OR IF A HEARING IS REQUESTED AND NO NOTICE OF CHANGE IS NEEDED

(See Attachment 8)

ACTION REQUIRED

ITEM 9. REQUEST APPOINTMENT OF THE CHAIR FOR THE FLORIDA COMMISSION ON HURRICANE LOSS PROJECTION METHODOLOGY

Each year, the SBA is required by Section 627.0628(2)(d), F.S., to appoint a Commission member to serve as Chair. It is recommended that Steve Paris be appointed to serve as Chair. A copy of Mr. Paris' biography and a list of all Commission members are provided.

(See Attachment 9)

ACTION REQUIRED

ITEM 10. APPOINTMENT(S) - FLORIDA HURRICANE CATASTROPHE FUND ADVISORY COUNCIL

(See Attachment 10)

ACTION REQUIRED

ITEM 11. REQUEST ANNUAL APPROVAL OF THE CHARTER OF THE AUDIT COMMITTEE OF THE STATE BOARD OF ADMINISTRATION OF FLORIDA (CHARTER)

Pursuant to Sections 215.44, F.S., the Audit Committee was created to assist the Board in fulfilling its oversight responsibilities. The Charter was last approved in August 2022. There are no changes to the Charter approved by the Audit Committee on August 21, 2023.

(See Attachment 11)

ACTION REQUIRED

ITEM 12. QUARTERLY REPORTS PURSUANT TO SECTION 215.44 (2)(e), FLORIDA STATUTES

- **Interim Executive Director & CIO Introductory Remarks and Standing Reports**
- **Major Mandates Investment Performance Reports**
  - Florida Retirement System Pension Plan (DB)
  - Florida Retirement System Investment Plan (DC)
  - Florida PRIME (Local Government Surplus Funds Trust Fund)
  - Lawton Chiles Endowment Fund (LCEF)
  - Florida Hurricane Catastrophe Fund (FHCF)
- **Investment Advisory Council Recommendation to amend and include Interim Executive Director/CIO in the Incentive Compensation Plan**

(See Attachment 12)

ACTION REQUIRED

ITEM 13. APPOINTMENT(S) – INVESTMENT ADVISORY COUNCIL

(See Attachment 13)

ACTION REQUIRED

ITEM 14. **A RESOLUTION OF THE STATE BOARD OF ADMINISTRATION OF FLORIDA DETERMINING THAT THE ISSUANCE OF PRE-EVENT REVENUE BONDS WOULD MAXIMIZE THE CAPACITY OF THE FLORIDA HURRICANE CATASTROPHE FUND (THE "FUND") AND THE ABILITY OF THE FUND TO MEET FUTURE OBLIGATIONS; REQUESTING THE STATE BOARD OF ADMINISTRATION FINANCE CORPORATION ISSUE PRE-EVENT REVENUE BONDS, FROM TIME TO TIME, IN AN AGGREGATE PRINCIPAL AMOUNT UP TO, BUT NOT EXCEEDING, $3.8 BILLION IF IN THE DETERMINATION OF THE PRESIDENT OF THE CORPORATION, SUCH ISSUANCE IS NECESSARY TO MAXIMIZE THE ABILITY OF THE FLORIDA HURRICANE CATASTROPHE FUND TO MEET FUTURE OBLIGATIONS.**

(See Attachment 14)

ACTION REQUIRED

STATE BOARD OF ADMINISTRATION
FINANCE CORPORATION

Governor DeSantis, Chair
Chief Financial Officer Patronis
Attorney General Moody
J. Ben Watkins, III
Gina Wilson, President

ITEM 1. **REQUEST ADOPTION OF A RESOLUTION AUTHORIZING THE ISSUANCE AND NEGOTIATED SALE OF PRE-EVENT REVENUE BONDS OR NOTES, FROM TIME TO TIME, IN AN AGGREGATE PRINCIPAL AMOUNT UP TO BUT NOT EXCEEDING $3,800,000,000 UPON DETERMINATION OF THE CORPORATION PRESIDENT THAT ISSUANCE IS NECESSARY.**

(See Attachment 1 [Resolution and Exhibits A-F] of the meeting of the State Board of Administration on)

ACTION REQUIRED

10-015 Corporate Governance

Previous Revision: ***First Issued:***	February 6, 2018 August 6, 1999	Lamar Taylor Interim Executive Director & CIO	October 9, 2023 Date
Applies to	This policy applies to the State Board of Administration's (SBA) Investment Programs & Governance.		
Purpose	This policy describes the SBA's approach to improving the corporate governance structures at identified companies in which the SBA owns significant shares in an attempt to enhance the value of SBA investments. This policy also defines the roles and responsibilities of staff for corporate governance and related activities.		
Policy	The primary objective of the SBA corporate governance program is to improve the governance structures at invested companies. This objective corresponds with the ultimate goal of lowering risk and enhancing the long-term value of SBA investments.		
Governing Law	Section 215.47(10), Fla. Stat. (applies to all funds managed by the SBA except the FRS Investment Plan) Section 112.656, Fla. Stat. (applies to the FRS Trust Fund and the FRS Investment Plan) Section 112.662, Fla. Stat. (applies to the FRS Trust Fund)		
Policy References	10-007 Senior Leadership Working Group		

Guidelines/Implementation

The SBA corporate governance program acts as a strong advocate on behalf of FRS members and beneficiaries, retirees, and other clients to strengthen shareowner rights and promote leading corporate governance practices at U.S. and international companies. The SBA focuses on enhancing share value and ensuring that public companies are accountable to their shareowners, with independent boards of directors, transparent disclosure, accurate financial reporting, ethical business practices and policies that protect and enhance the value of SBA investments.

Section 215.47(10), Florida Statutes, requires that investments made by the SBA be designed to maximize financial return consistent with the risks incumbent in each investment and to preserve an appropriate diversification of the portfolio. This section further provides that the SBA shall discharge its duties solely in the interest of its participants and beneficiaries, and that in performing these investment duties, the SBA shall comply with the fiduciary standards of care set forth in the Employee Retirement Income Securities Act of 1974 ("ERISA") at 29 U.S.C. s. 1104(a)(1)(A) through (C), as incorporated in Florida law. As part of this, and as required by this section, when deciding whether to invest and when investing the assets of any fund, the SBA must make decisions based solely on pecuniary factors and may not subordinate the interests of the participants and beneficiaries of the fund to other objectives, including sacrificing investment return or undertaking additional investment risk to promote any nonpecuniary factor. The weight given to any pecuniary factor must appropriately reflect a prudent assessment of its impact on risk or returns. The term "pecuniary factor" is defined in this section as a factor that the SBA prudently determines is expected to have a material effect on the risk or returns of an investment based on appropriate investment horizons consistent with applicable investment objectives and funding policy.

The term does not include the consideration of the furtherance of any social, political, or ideological interests.

Because Florida law incorporates the fiduciary standards of care under ERISA (as clarified by Florida law), the SBA generally considers the U.S. Department of Labor ("DOL") interpretive bulletins and SEC Rule 206(4)-6 to be persuasive legal authority and guidance with respect to certain issues, such as voting proxies. In accordance with the Department of Labor Interpretive Bulletin §2509.08-2, stock ownership rights, which include proxy votes, participation in corporate bankruptcy proceedings, and shareowner litigation, are financial assets and must be managed with the same care, skill, prudence, and diligence as any other financial asset and exercised to protect and enhance long-term portfolio value, for the exclusive benefit of pension plan participants, clients, and beneficiaries. In 2016, the DOL issued Interpretive Bulletin 2016-1 which emphasized that a fiduciary's obligation to manage plan assets prudently extends to proxy voting and that it is appropriate for plan fiduciaries to incur reasonable expenses in fulfilling those fiduciary obligations. However, in the event of a conflict between Florida law and the persuasive legal authority in any DOL rule or interpretative bulletin, Florida law prevails.

Further, in accordance with Section 112.662, Florida Statutes, when deciding whether to exercise shareholder rights or when exercising such rights, including the voting of proxies, only pecuniary factors may be considered and the interests of the participants and beneficiaries may not be subordinated to other objectives, including sacrificing investment return or undertaking additional investment risk to promote any nonpecuniary factor.

Consistent with regulatory guidance, a policy that contemplates activities intended to monitor or influence the management of corporations is consistent with the SBA's fiduciary responsibilities when there is a reasonable expectation that such monitoring or communications will enhance the economic value of the SBA's investment, after taking into account the costs involved. The SBA does not base its corporate governance activities on social or political causes. Instead, it focuses on managing risks and the "bottom line" of enhanced shareowner value.

Consistent with prudent and responsible investment policy, all or some of the following measures may be instituted when an investment is found by the SBA to be underperforming industry peers or market indices or exhibits deficient corporate governance practices:

- The SBA will discuss the corporate governance deficiency with a representative and/or the Board of Directors of the company in question for the purpose of expressing the view that the SBA is opposed to such activity, practice or policy. Additionally, the SBA may request to be informed of the progress in ameliorating such deficiencies.

- For US entities subject to SEC Rule 14(a)-8, shareowner proposals may be submitted to companies with identified performance deficiencies. Shareowner proposals will be used to place significant issues on a company's meeting ballot in order to allow all shareowners to approve or disapprove of significant issues and voice the collective preferences of company owners. For non-US entities, shareowner proposals may also be submitted under the protocol of their respective markets.

- Any other strategies to achieve desired corporate governance improvements as necessary, including but not limited to, collaborative efforts with other investors, regulatory initiatives advocating improved corporate governance practices, or other advocacy initiatives with capital market stakeholders such as stock exchanges, non-governmental entities, or other investment organizations.

The SBA considers investments underperforming industry peers or market indices when operational or total stockholder returns (TSR) are below those of peer and stock index benchmarks. Performance of specific companies will be evaluated over various rolling time periods (such as 1, 3, 5, or more years) and

will be compared relative to other companies of their own industry, size (market capitalization), and/or peer group. Companies may also be selected based on the ability to gain successful shareowner support, the size of the SBA's holdings, and the type of corporate governance issue.

The Senior Officer–Investment Programs and Governance (SOIPG) or delegee, is responsible for the following:

- Developing SBA proxy voting guidelines and maintaining proxy voting records.
- Developing performance and other criteria to be utilized in identifying companies where deficiencies exist.
- Identifying the courses of action to be taken with the companies and/or developing shareowner proposals.
- Identifying any statutory restrictions on investments and monitoring compliance.
- Preparing an annual report on corporate governance and complying with any other reporting requirements associated with corporate governance and related activities.
- Representing the SBA as an "active shareowner" in all relevant areas, including coordination with the Council of Institutional Investors (CII) as well as other significant shareowners or shareowner groups.

Florida Law sometimes prohibits investment in companies, governs proxy voting, or mandates reporting on certain investments. Certain responsibilities for research, reporting and compliance related to these statutory criteria are performed by the Investment Programs & Governance unit. The SOIPG will structure corporate governance processes and procedures in such a manner as to ensure the adequate and appropriate coordination and involvement of SBA staff and other shareowners.

The SBA discloses its proxy voting records once the voting decision has been made, typically in advance of all annual shareowner meetings, on the SBA website. Voting data covers every security for which the SBA retains voting authority and has executed a proxy vote.

The SBA participates in securities lending in order to enhance the return on its investment portfolios. In the process of lending securities, the legal rights attached to those shares are transferred to the borrower of the securities during the period that the securities are on loan. As a result, the SBA's right to exercise proxy voting on loaned securities is forfeited unless those affected shares have been recalled from the borrower in a timely manner (i.e., on, or prior to, the share's record date). The SBA has a fiduciary duty to exercise its right to vote proxies and to recall shares on loan when it is in the best interest of beneficiaries. The ability to vote in corporate meetings is an asset of the fund that needs to be weighed against the incremental returns of the securities lending program.

The SBA reserves the right to recall the shares on a timely basis prior to the record date for the purpose of exercising voting rights for domestic as well as international securities. Circumstances that lead the SBA to recall shares include, but are not limited to, occasions when there are significant voting items on the ballot such as mergers or proxy contests or instances when the SBA has actively pursued coordinated efforts to reform the company's governance practices, such as submission of shareholder proposals or conducting a detailed engagement. In each case, the direct monetary impact of recalled shares will be considered and weighed against the benefits of recalling shares to exercise voting rights.

Pursuant to Policy 10-007, Senior Leadership Working Group, the Corporate Governance and Proxy Voting Oversight Group deliberates on specific proxies, reviews corporate governance policies, and provides general oversight of the SBA's governance activities to ensure the independence and integrity of the proxy voting process. The SOIPG serves as staff director of this oversight group.

Compliance

The SOIPG is assigned primary responsibility for compliance with this Policy. The SOIPG may develop additional policies or guidelines as necessary to implement this Policy and will maintain adequate records to demonstrate compliance with this Policy.

SBA FLORIDA
STATE BOARD OF ADMINISTRATION

Corporate Governance Principles and Proxy Voting Guidelines

Fiscal Year 2023-2024

Table of Contents

About the SBA

The State Board of Administration (SBA) of Florida is an agency of Florida state government that provides a variety of investment services to governmental entities. The SBA has three Trustees: The Governor, as Chairman, the Chief Financial Officer, as Treasurer, and the Attorney General, as Secretary. All three of the Trustees of the Board are elected statewide to their respective positions as Governor, Chief Financial Officer, and Attorney General. SBA Trustees are dedicated to ensuring that the SBA invests assets and discharges its duties in accordance with Florida law, guided by strict policies and a code of ethics to ensure integrity, prudent risk management and top-tier performance. The Board of Trustees appoints nine members to serve on the Investment Advisory Council (IAC). The IAC provides independent oversight of SBA's funds and major investment responsibilities.

The SBA is an investment fiduciary under law, and subject to the stringent fiduciary duties and standards of care defined by the Employee Retirement Income Security Act of 1974 (ERISA), as incorporated into Florida law.

The SBA strives to meet the highest ethical, fiduciary, and professional standards while performing its mission, with a continued emphasis on keeping operating and investment management costs as low as possible for the benefit of Florida taxpayers.

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INTRODUCTION

The State Board of Administration (SBA) of Florida manages one of the largest U.S. pension funds and other non-pension trust funds with assets spanning domestic and international capital markets. Our primary function is to represent the interests of our beneficiaries so that they will see fair returns on their investment; therefore, we have a clear interest in promoting the success of companies in which we invest. To ensure returns for our beneficiaries, we support the adoption of internationally recognized governance structures for public companies. This includes a basic and unabridged set of shareowner rights, strong independent boards, performance-based executive compensation, accurate accounting and audit practices, and transparent board procedures and policies covering issues such as succession planning and meaningful shareowner participation. All proposals are evaluated through a common lens by considering both how the proposal might impact the company's financial health as well as its impact on shareowner rights.

Corporate Governance Principles

The SBA believes that, as a long-term investor, good corporate governance practices serve to protect and enhance our long-term portfolio values.[1] In furtherance of this, and in accordance with Section 112.662, Florida Statutes, when deciding whether to exercise shareholder rights or when exercising such rights, including the voting of proxies, only pecuniary factors may be considered and the interests of the participants and beneficiaries may not be subordinated to other objectives, including sacrificing investment return or undertaking additional investment risk to promote any nonpecuniary factor. The term "pecuniary factor" means a factor that the plan administrator, named fiduciary, board, or board of trustees prudently determines is expected to have a material effect on the risk or returns of an investment based on appropriate investment horizons consistent with the investment objectives and funding policy of the retirement system or plan. The term does not include the consideration of the furtherance of any social, political, or ideological interests.

Other regulations affecting proxy voting are: 1) the U.S. Securities & Exchange Commission's (SEC) Rule 206(4)-6 under the Investment Advisers Act, promulgated in 2003, and 2) the Department of Labor (DOL) —Employee Benefits Security Administration (EBSA) rule, "Prudence and Loyalty in Selecting Plan Investments and Exercising Shareholder Rights," most recently modified and effective in early 2023. This SEC Rule made it, "fraudulent for an investment adviser to exercise proxy voting authority without having procedures reasonably designed to ensure that the adviser votes in the best interest of its clients. In the rule's adopting release, the SEC confirmed that an adviser owes fiduciary duties of care and loyalty to its clients with respect to all services undertaken on its client's behalf, including proxy voting."[2] The adopting release states, "The duty of care requires an adviser with proxy voting authority to monitor corporate events and to vote the proxies. To satisfy its duty of loyalty, the adviser must cast the proxy votes in a manner consistent with the best interest of its clients and must not subrogate client interests for its own."[3] DOL regulation recognizes that when a plan's assets include shares of stock, the fiduciary duty to manage plan assets includes the management of shareholder rights related to those shares, such as the right to vote proxies. Under this guidance, proxy voting should be treated like any other financial asset, executed in the best interest of beneficiaries in accordance with written guidelines.[4] However, these sources of legal authority are persuasive, and in the event of any conflict between Florida law and any such persuasive legal authority, Florida law prevails.

Managing stock ownership rights and the proxy vote includes the establishment of written proxy voting guidelines, which must include voting policies on issues likely to be presented, procedures for determining votes that are not covered or which present conflicts of interest for plan sponsor fiduciaries, procedures for ensuring that all shares held on record date are voted, and procedures for documentation of voting records. The following corporate governance principles and proxy voting guidelines are primarily designed to cover publicly traded equity securities. Other investment forms, such as privately held equity, limited liability corporations, privately held REITs, etc., are not specifically covered by individual guidelines, although broad application of the principles and guidelines can be used for these more specialized forms of equity investments.

[1] CFA Centre for Financial Market Integrity, "The Corporate Governance of Listed Companies: A Manual for Investors," 2009.
[2] The Conference Board, "The Separation of Ownership from Ownership," 2013.
[3] "Proxy Voting by Investment Advisers," SEC Final Rule adopted January 31, 2003, effective April 14, 2003; www.sec.gov/rules/final/ia-2106.htm.
[4] 29 CFR § 2550.404a-1(d) - Investment duties.

The primary role of shareowners within the corporate governance system is in some ways limited, although critical. Shareowners have the duty to communicate with management and encourage them to align their processes with corporate governance best practices. This means shareowners have two primary obligations: 1) to monitor the performance of the company and 2) to protect their right to act when it is necessary.

In the 1930s, Benjamin Graham and David Dodd succinctly described the agenda for corporate governance activity by stating that shareowners should focus their attention on matters where the interest of the officer and the stockholders may be in conflict. This includes questions about preserving the full integrity and value of the characteristics of ownership appurtenant to shares of common stock. For example, the right to vote may be diluted by a classified board or by dual class capitalization, and the right to transfer the stock to a willing buyer at a mutually agreeable price may be abrogated by the adoption of a poison pill.

Since management and board composition change over time, while shareowners continue their investment, shareowners must ensure that the corporate governance structure of companies will allow them to exercise their ownership rights permanently. Good corporate management is not an excuse or rationale upon which institutional investors may relinquish their ownership rights and responsibilities.

The proxy voting system must be an even playing field. Neither management nor shareowners should be able to dominate or influence voting dynamics. A 2006 article analyzed the corporate governance implications of the decoupling of voting power and economic ownership through methods such as vote trading and equity swaps, methods largely hidden from public view and not captured by current regulation or disclosure rules. This method has been used by finance-savvy activist hedge funds, for example, who have borrowed shares just before the record date to better support proposals they favor, reversing the transactions after the record date. The SBA believes that enhanced disclosure rules are critical to reveal hidden control of voting power.[5]

Management needs protection from the market's frequent focus on the short-term to concentrate on long-term returns, productivity, and competitiveness. Shareowners need protection from coercive takeover tactics and directors with personal agendas. Ideal governance provisions should provide both sides with adequate protection. They should be designed to give management the flexibility and continuity it needs to make long-term plans, to permit takeover bids in cases where management performance is depressing long-term value, to ensure that management is accountable to shareowners, and to prevent coercive offers that force shareowners to take limited short-term gains.

A study on shareowner activism and corporate governance in the United States found that shareowner opposition has slowed the spread of takeover defenses, such as staggered boards, that require shareowner approval. However, shareowners have failed in their efforts to get companies to roll back takeover defenses and, perhaps more importantly, managers frequently ignore even a majority shareowner vote in favor of a proposal.[6]

Global Standards of Corporate Governance

The SBA believes strongly that good corporate governance practices are important to encourage investments in countries and companies in a globalized economy where gaining access to capital markets is increasingly viewed as critical. Empirical evidence demonstrates the relationship between corporate valuation and corporate governance structures, finding that foreign institutional investors invested lower amounts in firms with higher insider control, lower transparency, and are domiciled in countries with weak investor protections.[7] A comparative analysis of corporate governance in US and international firms shows

[5] Hu, Henry T.C. and Black, Bernard S., "Empty Voting and Hidden (Morphable) Ownership: Taxonomy, Implications, and Reforms". As published in Business Lawyer, Vol. 61, pp. 1011-1070, 2006 Available at SSRN: http://ssrn.com/abstract=887183. Also, Christoffersen, S.E.K., Geczy, C.C., Musto, D.K., and Reed, A.V. 2006, "Vote Trading and Information Aggregation."
[6] Black, B., 1998. "Shareowner Activism and Corporate Governance in the United States."
[7] Christian Leuz, Karl V. Lins, and Francis E. Warnock, "Do Foreigners Invest Less in Poorly Governed Firms?" The Review of Financial Studies, 22 (2009).

that the ability of controlling shareowners to extract private benefits is strongly determined by a country's investor protection. Thus, if investor protection is weaker, improvements in firm-level governance will be costlier for the controlling shareowner.[8]

Many countries, international organizations, and prominent institutional investors have developed and implemented international policies on corporate governance and proxy voting issues (e.g., the Organization for Economic Co-operation and Development, and the International Corporate Governance Network).[9] Many of these promulgated guidelines recognize that each country need not adopt a "one-size-fits-all" code of practice. However, SBA expects all capital markets to exhibit basic and fundamental structures that include the following:

1. Corporate Objective

The overriding objective of the corporation should be to maximize the returns to its shareowners over time. Where other considerations affect this objective, they should be clearly stated and disclosed. To achieve this objective, the corporation should endeavor to ensure the long-term viability of its business.

2. Communications & Reporting

Corporations should disclose accurate, adequate, and timely information, in particular meeting market guidelines where they exist, to allow investors to make informed decisions about the acquisition, ownership obligations and rights, and sale of shares. Material developments and foreseeable risk factors, and matters related to corporate governance should be routinely disseminated to shareowners. Shareowners, the board, and management should discuss corporate governance issues. Where appropriate, these parties should converse with government and regulatory representatives, as well as other concerned bodies, to resolve disputes, if possible, through negotiation, mediation, or arbitration. For example, investors should have the right to sponsor resolutions and convene extraordinary meetings. Formal procedures outlining how shareowners can communicate with board members should be implemented at all companies and be clearly disclosed.

3. Voting Rights

Corporations' ordinary shares should feature one vote for each share. Corporations should act to ensure the owners' rights to vote and apply this principle to all shareowners regardless of their size. Shareowners should be able to vote in person or in absentia, and equal effect should be given to votes whether cast in person or absentia. Votes should be cast by custodians or nominees, in a manner agreed upon with the beneficial owner of the shares. Impediments to cross border voting should be eliminated. Minority shareholders should be protected from abusive actions by, or in the interest of, controlling shareholders acting either directly or indirectly and should have effective means of redress.[10]

4. Corporate Boards

The Board of Directors, or Supervisory Board, as an entity, and each of its members, as individuals, is a fiduciary for all shareowners, and they should be accountable to the shareowner body as a whole. Each member should stand for election on a regular basis, preferably with annual election cycles. Corporations should disclose upon appointment to the board, and thereafter in each annual report or proxy statement, information on the identities, core competencies, professional or other backgrounds, factors affecting independence, other commitments, and overall qualifications of board members and nominees to enable investors to weigh the value that they add to the company. Information on the appointment procedure should also be disclosed annually. Boards should include a sufficient number of independent, non-executive members with appropriate qualifications. Responsibilities should include monitoring and contributing effectively to the strategy and performance of management, staffing key committees of the board, and influencing the conduct of the board. Accordingly, independent non-executives should comprise no fewer than three (3) members and as much as a substantial majority. Audit, Compensation and Nomination committees should be composed entirely of independent non-executives.

[8] Aggraval, Reena et al, 2007, "Differences in Governance Practices between US and Foreign Firms: Measurement, Causes, and Consequences", Charles A. Dice Center for Research in Financial Economics, Working Paper 2007-14.

[9] Organization for Economic Co-operation & Development (OECD), "Corporate Governance Factbook," 2023.

[10] Organization for Economic Cooperation & Development (OECD), Role of Institutional Investors in Promoting Good Corporate Governance, January 11, 2012.

5. Executive & Director Compensation

Remuneration of corporate directors or supervisory board members and key executives should be aligned with the interests of shareowners. Corporations should disclose in each annual report or proxy statement the board's policies on remuneration and, preferably, the remuneration of individual board members and top executives; so that shareowners can judge whether corporate pay policies and practices meet this standard. Broad-based employee share ownership plans, or other profit-sharing programs are effective market mechanisms that promote employee participation.

6. Strategic Planning

Major strategic modifications to the core business of a corporation should not be made without prior shareowner approval of the proposed modification. Equally, major corporate changes that, in substance or effect, materially dilute the equity or erode the economic interests or share ownership rights of existing shareowners should not be made without prior shareowner approval of the proposed change. Shareowners should be given sufficient information about any such proposal early enough to allow them to make an informed judgment and exercise their voting rights.

7. Voting Responsibilities

The exercise of ownership rights by all shareowners, including institutional investors should be facilitated. Institutional investors acting in a fiduciary capacity should disclose their overall corporate governance and voting policies with respect to their investments, including the procedures that they have in place for deciding on the use of their voting rights. Institutional investors acting in a fiduciary capacity should disclose how they manage material conflicts of interest that may affect the exercise of key ownership rights regarding their investments. Shareowners, including institutional investors, should be allowed to consult with each other on issues concerning their basic shareowner rights, subject to exceptions to prevent abuse. The corporate governance framework should be complemented by an effective approach that addresses and promotes the provision of analysis or advice by analysts, brokers, rating agencies, and others that is relevant to decisions by investors, free from material conflicts of interest that might compromise the integrity of their analysis or advice.

Pecuniary Factors

In accordance with Section 112.662, Florida Statutes, when deciding whether to exercise shareholder rights or when exercising such rights, including the voting of proxies, only pecuniary factors may be considered and the interests of the participants and beneficiaries may not be subordinated to other objectives, including sacrificing investment return or undertaking additional investment risk to promote any nonpecuniary factor. The term "pecuniary factor" means a factor that the plan administrator, named fiduciary, board, or board of trustees prudently determines is expected to have a material effect on the risk or returns of an investment based on appropriate investment horizons consistent with the investment objectives and funding policy of the retirement system or plan. The term does not include the consideration of the furtherance of any social, political, or ideological interests.

Active Strategies & Company Engagement

The objective of SBA corporate governance engagement is to improve the governance structures at companies in which the SBA owns significant shares to enhance the value of SBA equity holdings.

A study on the evolution of shareowner activism in the United States affirms that activism by investors has increased considerably since the mid-1980s due to the involvement of public pension funds and institutional shareowners. The study identifies the potential to enhance value of investments as the main motive for active participation in the monitoring of corporations. However, as shareowner activism entails concentrated costs and widely disbursed benefits, only investors with large positions are likely to obtain a large enough return on their investment to justify the costs.[11]

The two primary obligations of shareowners are to monitor the performance of the companies and to protect their right to act when necessary. The SBA has neither the time nor resources to micromanage companies in which it holds publicly traded stock.

[11] Gillan, Stuart L. and Laura T. Starks, 2007, "The Evolution of Shareowner Activism in the United States", Journal of Applied Corporate Finance, Volume 19, Number 1, Winter 2007, Published by Morgan Stanley.

Furthermore, the legal duties of care and loyalty rest with the corporate Board of Directors, not with the shareowners. For these reasons, the SBA views its role as one of fostering improved management and accountability within the companies in which we own shares. Other recent SBA corporate governance activities have included dealing with conflicts of interest within organizations with which we do business.

Voting proxies is a fiduciary responsibility, and proxies should be treated like any other financial asset, executed in the best interest of beneficiaries and not for the furtherance of any social, political or ideological interests. Florida Law may prohibit investment in companies or mandate reporting on certain investments due to geopolitical, ethnic, religious, or other factors. Compliance with these laws and any related reporting requirements have similarities to corporate governance issues and are consolidated organizationally.

Consistent with prudent and responsible investment policy, all or some of the following measures may be instituted when a corporation is found by the SBA to be under-performing market indices or in need of corporate governance reform:

- The SBA will discuss the corporate governance deficiencies with a representative and/or the Board of Directors. Deficiencies may occur in the form of policies or actions, and often result from the failure to adopt policies that sufficiently protect shareowner assets or rights. The SBA may request to be informed of the progress in ameliorating such deficiencies.
- Under SEC Rule 14(a) 8, shareowner proposals may be submitted to companies with identified performance deficiencies. Shareowners' proposals will be used to place significant issues on a company's meeting ballot to allow all shareowners to approve or disapprove of significant issues and voice the collective displeasure of company owners.[12]
- Any other strategies to achieve desired corporate governance improvements as necessary.

Investor engagement can be classified into three categories, including "Extensive," "Moderate," and "Basic." Extensive engagement is defined as multiple instances of focused interaction with a company on issues identified with a view to changing the company's behavior. The engagements were systematic and begun with a clear goal in mind. Moderate engagement is defined as more than one interaction with a company on issues identified. The engagement was somewhat systematic, but the specific desired outcome may not have been clear at the outset. Basic engagement is defined as direct contact with companies, but engagement tended to be ad-hoc and reactive. Such engagement may not have pursued the issue beyond the initial contact with the company and includes supporting letters authored by other investors or groups.

In addition to overseeing the corporate governance of companies in which we invest, the SBA must also govern the accessibility of our own records by these companies. As a beneficial owner of over 10,000 publicly traded companies, the SBA has elected to be an objecting beneficial owner, or an "OBO." By being an OBO, the SBA does not give permission to a financial intermediary to release our name and address to public companies that we are invested in. This keeps our holdings or trading strategies confidential and allows us to avoid unwanted solicitations.

Recent developments have led many to believe that the distinction between OBO and non-objecting beneficial owners or "NOBOs" should be eliminated. However, the SEC is likely to be cautious in seeking to change the current framework in significant ways.[13] Strong opponents to an elimination of OBO and NOBO distinction are brokers and banks, who have a large incentive to ward off this change due to fee income derived from forwarding proxy materials.

While shareowner communication can be very important, steps must be taken to address the distinction between OBO and NOBO companies and to respect the privacy of beneficial owners involved. Proposals that eliminate the possibility of anonymity are not supported. It is necessary for any changes made to the current system to accommodate the strong privacy interests of current OBO firms, such as SBA.

[12] Rule 14a-8 is an SEC rulemaking promulgated under the Securities Exchange Act of 1934 and offers a set of procedural requirements governing how and when shareowners may submit resolutions for inclusion in a corporation's proxy statement.
[13] Beller, Alan L. and Janet L. Fisher. "The OBO/NOBO Distinction in Beneficial Ownership: Implications for Shareowner Communications and Voting." Council of Institutional Investors. February 2010.

Disclosure of Proxy Voting Decisions

SBA discloses all proxy voting decisions once they have been made, typically a few calendar days prior to the date of the shareowner meeting. Disclosing proxy votes prior to the meeting date improves the transparency of our voting decisions. Historical proxy votes are available electronically on the SBA's website.[14]

Proxy Voting and Securities Lending

SBA participates in securities lending to enhance the return on its investment portfolios. In the process of lending securities, the legal rights attached to those shares are transferred to the borrower of the securities during the period that the securities are on loan. As a result, SBA's right to exercise proxy voting on loaned securities is forfeited unless those affected shares have been recalled from the borrower in a timely manner (i.e., on, or prior to, the share's record date). SBA has a fiduciary duty to exercise its right to vote proxies and to recall shares on loan when it is in the best interest of our beneficiaries. The ability to vote in corporate meetings is an asset of the fund which needs to be weighed against the incremental returns of the securities lending program.

Although SBA shall reserve the right to recall the shares on a timely basis prior to the record date for the purpose of exercising voting rights for domestic as well as international securities, the circumstances required to recall loaned securities are expected to be atypical. Circumstances that lead SBA to recall shares include, but are not limited to, occasions when there are significant voting items on the ballot such as mergers or proxy contests or instances when SBA has actively pursued coordinated efforts to reform the company's governance practices, such as submission of shareholder proposals or conducting an extensive engagement. In each case, the direct monetary impact of recalled shares will be considered and weighed against the discernible benefits of recalling shares to exercise voting rights. However, because companies are not required to disclose an upcoming meeting and its agenda items in advance of the record date, it usually is not possible to recall shares on loan.

[14] Reporting is publicly available at www.sbafla.com, including real time voting decisions prior to shareowner meetings.

THE BOARD OF DIRECTORS

Of the voting items that come before shareowners, the matters of the board and its operation are the most pivotal. Shareowners must be able to elect and maintain a board of directors whose main charge is to monitor management on the behalf of shareowners, but who will also sufficiently heed majority shareowner input on matters of substantial importance. These voting items concern the election of the board members, as well as chairmanship and committee service, and the processes that govern the frequency, setting and outcome of elections. The nominees' qualifications, performance, and overall contribution to the board skillset are of great importance to shareowners casting votes on the elections of individuals, particularly in cases of proxy contests.

SBA votes with the intent of electing candidates who are qualified and able to effectively contribute, and we support election processes that allow shareowners in the aggregate to exercise meaningful control over who may serve as board members and under what circumstances. We favor transparent election procedures and structures that sufficiently allow for shareowners to elect and consequently hold directors accountable for their performance.

ELECTION OF DIRECTORS: CASE-BY-CASE

Director elections are of the most important voting decisions that shareowners make. Directors function as the representatives of shareowners and serve a critical role in monitoring management. The SBA generally considers a nominee's qualifications, relevant industry experience, independence, performance, and overall contribution to the board when assessing election votes.[15] At the board level, we consider the applicability of differing backgrounds, experiences, and knowledge, and other appropriate categories. In cases where a proxy contest has resulted in more nominees than available board seats, it's important to assess each candidate's relative expertise and experience, as well as differences in strategic vision if applicable.

The SBA may vote against (i.e., "withhold" support for) director nominees for one or more of the following reasons:

Poor performance or oversight in duties of the board or board committees – including poor performance in board service at other public companies. Board members exhibiting poor performance may have failed to appropriately monitor or discipline management in cases where failed strategies continue to be implemented or when the board refuses to consider views from a large majority of shareowners, analysts, and market participants. In the case of a breakdown of proper board oversight, SBA is likely to vote against all or most members of the board, and in cases where a dissident has launched a proxy contest, SBA may be supportive of the dissident nominees if they present with appropriate qualifications and strategies, as discussed below. Shareowners sometimes target under-performing directors through "vote no" campaigns. An empirical study found that "vote no" campaigns are an effective tool to voice concerns with a particular director and often successfully pressure the company to act.[16] This underscores that performance is an essential component of governance and should be considered when evaluating director elections.

Boards are expected to conduct internal and external evaluations of their own functioning to assess how well they are performing their responsibilities.[17] These evaluations can be particularly helpful for committees as well, such as in assessing audit committee performance. The audit committee is responsible for independent oversight of the company's financial statements and, in the absence of a separate risk committee, is also often responsible for risk oversight.[18] Regular self-assessments are critical to a productive audit committee. The SBA will consider the audit committee's

[15] The SBA generally does not consider age as a rationale for withholding votes. Length of service on a board is sometimes a factor in determining independence for a director but is not used to justify a withhold vote except in rare instances with unusual circumstances. See the guideline for "Limits on board service".

[16] Diane Del Guercio, Laura Seery, and Tracie Woidtke, "Do Boards Pay Attention when Institutional Investor Activists 'Just Vote No,'" available at http://ssrn.com/abstract=575242. The study finds a forced CEO turnover rate of 25 percent in firms targeted with "vote no" campaigns.

[17] A paper by the Global Corporate Governance Forum recommends using board evaluations as open communication to focus on inadequacies, identify strategic priorities and become more efficient through the review of policies and procedures [GCGF, Board Performance Evaluation].

[18] SEC Rule 10A-3 under the Exchange Act mandates that stock exchanges adopt listing standards that require that each member of the audit committee of a listed company has (1) not received compensation from the issuer other than for board services and (2) is not an "affiliated person" of the issuer that either controls, is controlled by, or is under common control with the issuer.

performance, especially as it relates to oversight and risk management, when voting on individual committee members. Evidence of poor audit committee performance are financial restatements, including as a result of option backdating, unremediated material weaknesses, and attempts to limit auditor liability through auditor engagement contracts. The severity, breadth, chronological sequence and duration of financial restatements, and the company's efforts at remediation will be examined in determining whether withhold votes are warranted.

Likewise, the function of the nominating and governance committees will be assessed by considering how the committees have approached implementation of governance rules and the impact on shareowners' rights, particularly in cases of bylaw amendments or votes on shareowner and management proposals. When a company goes public with a dual or multi-class share structure without a sunset provision on unequal voting rights such as in the case of an IPO or spinoff, SBA may withhold votes from or vote against directors. Bylaws that create supermajority voting thresholds or limit shareowner rights are generally undesirable but depends on the context of the individual company. This committee also is responsible for board nominations, and SBA judges this function by the qualifications of the nominees. This committee should try to seek candidates that are diversified not only in backgrounds, experience and knowledge, but in all other aspects appropriate for the individual company and should disclose these efforts to shareowners.

Members of the compensation committee are judged in accordance with the aspects of the compensation philosophy, plan, and implementation. Compensation that is out of line with respect to magnitude, peers, or performance is problematic, as are plans that reward compensation without appropriate performance-based conditions or feature undesirable elements such as gross-ups or single-trigger severance packages.

We may withhold support for individual directors if there are indications that directors are failing or failed to understand company risk exposures and/or take reasonable steps to mitigate the effects of the risk, leading to large losses.

Restricting shareowner rights or failing to sufficiently act on shareowner input – such as ignoring a shareowner proposal that received majority support of votes cast or attempting to block or limit the ability of shareowners to file precatory or binding proposals or adopt or amend bylaws.

Serving on too many boards ("over-boarding') – generally a director who serves on more than 3 company boards and who is employed in a full-time position.[19] Directors with significant outside responsibilities such as serving as CEO of a public company should not exceed one external board membership.[20] Surveys of directors have indicated that the average board membership requires over 250 hours of active, committed work, making service on multiple boards difficult for executives, particularly CEOs, and leading to many investors embracing similar limits as the SBA. When seeking to improve board composition, boards should choose well-qualified candidates who are not already committed to serving as a director on more than three boards.

Poor attendance at meetings without just cause – less than 75 percent attendance rate.

Lack of independence – most markets should have independent board representation that meets a minimum two thirds threshold. Independence is defined as having no business, financial or personal affiliation with the firm other than being a member of its board of directors. Directors or nominees that are affiliated with outside companies that conduct business with the company, have significant outside links to senior management, were previously employed by the company or are engaged directly or indirectly in related-party transactions are highly likely to be considered non-independent, depending

[19] See Fich, Eliezer M. and Anil Shivdasani, 2006, "Are Busy Boards Effective Monitors?," The Journal of Finance, Vol. 61, No. 2, pp. 689-724 (36), Blackwell Publishing. This study of U.S. industrial firms between 1989 and 1995, found that when a majority of outside directors serve on three or more boards, firms exhibit lower market-to-book ratios, as well as weaker operating profitability. When a majority of outside directors are over boarded, the sensitivity of CEO turnover to performance is significantly lower than when a majority of outside directors are not busy. Investors react positively to the departure of over boarded directors, while firms, whose directors acquire an additional board seat and become over boarded, end up experiencing negative abnormal returns.

[20] Neil Roland, "Directors at troubled companies overbooked, research firm claims" Financial Week, February 25, 2009. This article gives examples of over-boarding problems at struggling U.S. financial institutions. State Board of Administration (SBA) of Florida, "Time is Money," study on over-boarded directors and company performance, 2018.

on the materiality of the circumstances. At controlled companies (where an investor controls a majority of a firm's equity capital); support may be withheld from directors at boards with less than a one-third proportion of independent directors.

Boards without adequate independence from management may suffer from conflicts of interest and impaired judgment in their decision-making. In addition to poor transparency, directors with ties to management may be perceived to be less willing and able to effectively evaluate and scrutinize company strategy and performance. SBA scrutinizes management nominees to the board, because of the conflict of interest inherent in serving on the board, which in turn is charged with overseeing the performance of senior management. In most markets, we support the CEO of the company as the only reasonable management team member to serve on the board.

Lack of disclosures – because there are differences in each market as to disclosures and voting procedures for director elections, SBA considers practices in the local market, but does not compromise on fundamental tenets such as the right to elect individual directors (as opposed to a slate as a whole) and the need for proof that director candidates can provide independent oversight of management. Global markets increasingly depend on the homogenization of better governance standards to increase shareowner value and liquidity in emerging markets. The protection of fundamental voting rights may be at odds with local market customs in the short run[21], but through voting the SBA aims to encourage companies to adopt minimum-level best practices throughout the portfolio of holdings.

In certain markets where the quality and depth of disclosures about the nominees are less than desirable, we work with other investors to advocate for improvements in these markets as a matter of course. In a few markets, the directors may be proposed as a group in a single bundled voting item, preventing a vote on each director, which is considered a very poor practice in developed economies.

When nominees are bundled or insufficient information is disclosed, we typically oppose the item. When appropriate information is disclosed, we make voting decisions based on the qualifications of the nominee, the performance of the nominee on this or other boards, if applicable, and the needs of the board considering the other nominees' overall skillset.

Minimal or no stock ownership – regarding industry or market peers. Companies should adopt a policy covering stock ownership for directors and annually review compliance among members. Certain markets have laws prohibiting ownership or discourage ownership among directors as a potential conflict of interest, so SBA is more nuanced in assessing directors on these markets.

Proxy contests are less typical election events, only occurring in a small fraction of director elections, but require shareowners to judge between competing views of strategic direction for the company. When analyzing proxy contests, the SBA focuses on two central questions: (1) Have the dissidents demonstrated that change is warranted at the company, and if so, (2) will the dissidents be better able to affect such change versus the incumbent board?

When dissidents seek board control with a majority of nominees, they face a high burden of proof and must provide a well-reasoned and detailed business plan, including the dissidents' strategic initiatives, a transition plan that describes how the dissidents will affect change in control, and the identification of a qualified and credible new management team. The SBA compares the detailed dissident plan against the incumbents' plan and compares the dissidents' proposed board and management team against the incumbent team.

Usually dissidents run a "short slate", which seeks to place just a few nominees on the board, not a majority. In these cases, the SBA places a lower burden of proof on the dissidents. In such cases, the SBA's policy does not necessarily require the dissidents to provide a detailed plan of action or proof that its plan is preferable to the incumbent plan. Instead, the dissidents must prove

[21] For instance, Italy amended its "Consolidated Financial Act" to mandate that Italian issuers reserve a certain number of board seats for candidates presented by minority shareowners. This mandate affects Board of Director elections, Supervisory Board elections, and Board of Statutory Auditor elections. See, "Italian Issuers-Guidelines for the election of the Board of Directors (or Supervisory Board) or Board of Statutory Auditors," Trevisan & Associati February 19, 2009, available at http://www.trevisanlaw.it/en_mask.html?5 (last visited March 2, 2009).

that change is preferable to the status quo and that the dissident slate will add value to board deliberations, including by considering the issues from a viewpoint different from current management, among other factors.

PROXY ACCESS: FOR

Proxy access is an important mechanism for shareowners with substantial holdings to nominate directors directly in the company's proxy materials. Generally, we support proposals that have reasonable share ownership (3% or less) and holding history (three years or less) requirements, allow shareowners to aggregate holdings for joint nominations (permitting groups of at least 20 shareowners), cap the number of shareowner nominees at the greater of two or at least 20% of the board seats, and feature other procedural elements that are not unduly burdensome on shareowners seeking to make nominations. The SBA may vote against proposals which contain burdensome or otherwise restrictive requirements, such as ownership or holding thresholds which are set at impractical levels.

SEPARATE CHAIRMAN & CHIEF EXECUTIVE OFFICER (CEO): CASE-BY-CASE

Because the board's main responsibility is to monitor management on behalf of shareowners, it is generally desirable for the chairman of the board to be an independent director, as opposed to the current CEO or a non-independent director such as a former CEO. Most academic evidence concludes that there is more benefit to shareowners when the chair is an independent director.[22] SBA typically supports proposals to provide for an independent board chairman; however, in certain cases where strong performance and governance provisions are evident, SBA may support the status quo of a serving combined CEO and chairman.

When considering whether to support a separate CEO and chairman proposal, SBA considers factors such as if there is a designated, independent lead director with the authority to develop and set the agenda for meetings and to lead sessions outside the presence of the executive chair, as well as short and long-term corporate performance on an absolute and peer-relative basis. To maintain board accountability, the SBA will not endorse the combined role of CEO and chair unless there is a strong, empowered lead director, superior company performance, and exemplary governance practices in other areas such as shareowner rights and executive compensation.

MAJORITY VOTING FOR DIRECTOR ELECTIONS: FOR

Proxy contests are rare; most elections feature uncontested elections where the number of directors nominated equals the number of board seats. When plurality voting is used as the voting standard in uncontested elections, the members are guaranteed election, no matter how few shareowners supported them. The SBA supports a majority voting standard for uncontested elections because it adds the requirement that a majority of shareowners must vote for each member to be considered duly elected. We prefer for the board to make this requirement in the bylaws of the company, not as a board policy. Policies that require the board members failing to achieve majority support to offer a resignation, which in turn may or may not be accepted by the board or committee, are not acceptable alternatives to a true majority vote standard for uncontested elections.

The SBA strongly endorses the majority voting election standard for the meaningful accountability it affords shareowners and because it provides another element to the system of checks and balances of power within the corporate structure. In

[22] Grinstein, Yaniv and Valles Arellano, Yearim, "Separating the CEO from the Chairman Position: Determinants and Changes after the New Corporate Governance Regulation." March 2008; Lorsch, Jay and Zelleke, Andy, "Should the CEO Be the Chairman?" MIT Sloan Management Review, 2005; Ryan Krause, Semadeni, Matthew, "Apprentice, Departure, and Demotion: An Examination of the Three Types of CEO-Board Chair Separation," Academy of Management Journal 55(6), 2012; Tonello, Matteo, John C. Wilcox, and June Eichbaum, "The Role of the Board in Turbulent Times: CEO Succession Planning." The Corporate Board, August 2009; Lucier, Chuck, Steven Wheeler, and Rolf Habbel, "The Era of the Inclusive Leader." The Corporate Board, September/October 2007; "Chairing the Board: The Case for Independent Leadership in Corporate North America," Policy Briefing No. 4, Millstein Center for Corporate Governance & Performance, Yale School of Management, 2009.

contested elections, however, plurality voting remains the most effective voting standards, so all bylaws should specify that the majority voting standard applies only to uncontested elections.

ANNUAL ELECTIONS / NON-CLASSIFIED BOARD: FOR

A classified, or staggered, board is one in which directors are divided into three "classes" with each director serving three-year terms. All directors on a non-classified board serve one-year terms and the entire board is re-elected each year. The SBA opposes classified boards and their provisions because we believe that annual accountability will ultimately lead to increased corporate performance. Classified boards decrease corporate accountability by protecting directors from election on an annual basis. Alternatively, the SBA supports changing from a staggered board structure to annual elections for all directors.

Studies performed by economists at the SEC and by academics support the view that classified boards are contrary to shareowner interests, showing negative effects on share value for companies that adopt classified boards.[23] While classified board proponents cite stability, independence, and long-term strategic risk taking as justification for staggered boards, recent research has shown little evidence of such benefits.[24][25]

REQUIRE MAJORITY OF INDEPENDENT DIRECTORS: FOR

SBA supports a majority independence requirement because shareowners are best served when the board includes a significant number of independent outside directors who will represent their interests without personal conflict. The most important role of the board is to objectively evaluate the performance of senior management, so outside directors with relevant, substantial industry qualifications are most likely to perform well in this role.

SBA considers local market practices but is likely to vote against current members if less than a majority of independent directors exists. In developed markets, we expect a supermajority of independent directors and consider a two-to-one ratio of independent directors to inside and affiliated directors to be a reasonable standard and will withhold support from individual director nominee who are not independent in those circumstances. Furthermore, SBA supports restricting service on compensation, audit, and governance/nominating committees to independent outside directors only.

ESTABLISH OR SET MEMBERSHIP OF BOARD COMMITTEES: CASE-BY-CASE

SBA supports the audit, compensation, and governance/nominating committees being composed solely of independent board members. Independent directors face fewer conflicts of interests and are better prepared to protect shareowner interests.[26]

Some proposals seek to add committees on specific issues such as risk management, sustainability issues, and even specific issues such as technology and cybersecurity. When voting on proposals suggesting the establishment of new board committees, we assess the rationale for the committee and the process for handling discussions and decisions on such topics currently in place at the company. We support formation of committees that would protect or enhance shareowner rights when the company's current practices are failing to do so adequately.

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[23] For example, the SEC studied the impact of 649 anti-takeover proposals submitted between 1979 and 1985. The proposals consisted of fair price provisions, institution of supermajority vote requirements, classified board proposals, and authorization of blank check preferred stock. Stocks within the group showed an average loss in value of 1.31 percent. The study also found that the proposals were most harmful when implemented at firms that have higher insider and lower institutional shareholdings.

[24] Faleye, Olubunmi, "Classified Boards, Stability, and Strategic Risk Taking." Financial Analysts Journal, Volume 65, No. 1, 2009. Also see, Lucian A. Bebchuk, "The Myth That Insulating Boards Serves Long-Term Value," Columbia Law Review, Vol. 113, October 2013 and Bebchuk, Lucian, Cohen, Alma, and Wang, Charles C.Y.; "Staggered Boards and the Wealth of Shareholders: Evidence from a Natural Experiment," Harvard Law School John M. Olin Center Discussion Paper No.

[25] , June 2010; Gompers, Paul A., Joy L. Ishii, and Andrew Metrick, "Corporate Governance and Equity Prices." National Bureau of Economic Research Working Paper No. W8449, August 2001; Bates, Thomas W., David A. Becher and Michael L. Lemmon, 2007, "Board Classification and Managerial Entrenchment from the Market for Corporate Control", electronic copy available at: http://ssrn.com/abstract=923408; Jiraporn, Pornsit and Yixin Liu, 2008, "Capital Structure, Staggered Boards, and Firm Value," Financial Analyst Journal, Volume 64, Number 1.

[26] T Aggraval, Reena et al, 2007, "Differences in Governance Practices between US and Foreign Firms: Measurement, Causes, and Consequences", Charles A. Dice Center for Research in Financial Economics, Working Paper 2007-14

In most markets, SBA expects board to have key committees such as compensation, nominating/governance, and audit committees. SBA generally encourages companies, especially financial companies, to have a standing enterprise risk management committee of the board with formal risk management oversight responsibilities.[27] We may withhold support for individual directors if there are indications that directors failed to understand company risk exposures and/or failed to take reasonable steps to mitigate the effects of the risk, leading to large losses.

Shareowner advisory committees may advise the board on shareowner concerns and create formal means of communication between company stockholders and company management. SBA generally supports advisory committee proposals, particularly those intended to improve poor corporate governance practices.

SBA is typically unsupportive of proposals that specify establishment of a governmental party committee (as seen in certain proposals to add a Communist party committee for Chinese or Hong Kong state-owned entities) without disclosing board decision-making processes or the respective responsibilities of the party organization and the board. Companies should disclose as much relevant information on the interaction between the company and the government party committee as possible to help shareowners understand the company's decision-making process—particularly in those circumstances where the board allows the party committee to make material decisions. SBA generally votes against such proposals as they may erode the ability of shareowner-elected directors to govern the firm and sever the ties of accountability between the board and shareowners.

CUMULATIVE VOTING: CASE-BY-CASE

Cumulative voting generally is useful to minority shareowners at companies where a large or controlling shareowner or block of shareowners that may act in concert (such as a family-owned company) exists. It guarantees that minority shareowners will be able to elect at least one of their preferred candidates to the board of directors, even if the candidate does not win a majority vote. In contrast, only majority shareowners are guaranteed board representation at companies without cumulative voting.

The SBA will examine proposals to adopt cumulative voting considering the company's ownership profile (particularly whether there is a majority or near majority voting block) and the presence of other governance provisions such as proxy access and majority voting election requirements that directly address the voting process. A majority vote election standard ensures board accountability in uncontested elections and in some cases mitigates the need for cumulative voting. Although majority voting is meaningful in uncontested elections, it can convolute voting outcomes in contested elections. Cumulative voting, on the other hand, is meaningful primarily in contested elections, and therefore pairs well with proxy access provisions at controlled companies.

The SBA is likely to support cumulative voting proposals at majority-controlled companies to ensure that a single shareowner or small group of shareowners is unable to control voting outcomes in full. The SBA may vote against proposals to adopt cumulative voting if the company has no large shareowner blocks that aggregate easily to majority control and has adopted a full majority voting in elections bylaw (not a resignation policy), as well as proxy access or a similar structure that proactively encourages shareowners to nominate directors to the company's ballot.

REIMBURSE SHAREOWNERS FOR PROXY EXPENSES: CASE-BY-CASE

SBA generally supports proposals requiring reimbursement of proxy solicitation costs for successful dissident nominees. The expenses associated with promoting incumbent directors in a proxy contest are paid by the company, and for parity, dissidents elected by shareowners should have this benefit as well.

[27] In 2004, the Committee of Sponsoring Organizations of the Treadway Commission (COSO) defined Enterprise Risk Management (ERM) as, "a process, effected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives."

In some circumstances at firms with no reimbursement policy, dissidents are reimbursed only for proxy solicitation expenses if they gain control of the company and seek shareowner approval for the use of company funds to reimburse themselves for the costs of solicitation. SBA would typically support reimbursement of reasonable costs in these instances.

CONFIDENTIAL VOTING: FOR

SBA supports greater transparency in election tabulations and the use of independent tabulators and inspectors, and we support to concept of end-to-end vote confirmation so that shareowners can be confident that their vote was correctly cast and counted. However, we are respectful of shareowners who may prefer anonymity. In a confidential voting system, only vote tabulators and inspectors of elections may examine individual proxies and ballots—management and shareholders are given only voting totals. The SBA supports resolutions requesting that corporations adopt a policy of confidential voting combined with the use of independent vote tabulators and inspectors of elections because it is the best way to guarantee confidentially. However, the SBA generally does not support resolutions calling for confidential voting if they lack an independent inspector requirement.

In the absence of such policies, shareowners can vote confidentially by registering their shares with third parties as objecting beneficial owners (OBOs), allowing anonymity in the voting process. In an open voting system, management can determine who has voted against its director nominees (or proposals) and then re-solicit those shareowners before the final vote count. As a result of the re-solicitation, shareowners may be pressured to change their vote. On the positive side, many companies are increasing their interactions with shareowners before the voting occurs through expanded proxy solicitation conversations and other paths of engagement.

MINIMUM STOCK OWNERSHIP: FOR

The SBA typically supports proposals that require directors to own a reasonable minimum amount of company stock.[28] The SBA will consider voting against directors who own no company stock and have served on the board for more than one year. One of the best ways for directors to align their interests with those of the shareowners is to own stock in the corporation, and since director fees are typically paid partially in stock, retention guidelines encourage long-term ownership of these shares. SBA typically expects non-employee directors to maintain ownership of a number of shares having a market value equal to five times their annual retainer.

Boards should establish a policy and annually review and identify the positions covered by directors and executives. The annual review should also provide information to shareowners on whether guidelines are met and describe any action taken for non-compliance. The guidelines should identify what compensation types may be considered as ownership and what holdings are not (such as hedged positions).

NOMINEE QUALIFICATIONS: CASE-BY-CASE

SBA may support proposals concerning nominee qualifications if there is justification for doing so and the criteria include reasonable limits, restrictions, or requirements.

Some boards of directors may unilaterally implement changes to their corporate bylaws or articles aimed at restricting the ability of shareowners to nominate director candidates who receive third-party compensation or payments for serving as a director candidate or for service as a director of the company. Such restrictive director qualification requirements may deter legitimate investor efforts to seek board representation via a proxy contest and could exclude highly qualified individuals from being candidates for board service. When such provisions are adopted without shareowner ratification, the SBA may withhold support from members of the full board of directors or members of the governance committee serving at the time of the bylaw

[28] Executive stock ownership is covered in the executive compensation section of these guidelines.

amendment. However, SBA does support disclosure of all compensation and payments made by a third-party to nominees or directors.

LIMITS ON BOARD SERVICE: AGAINST

The SBA generally votes AGAINST proposals to limit the service of outside directors. While refreshing a board with new outside directors often brings in fresh ideas and a healthy mix of director experience that benefit shareowners, we do not believe arbitrary limits such as tenure limits and mandatory retirement ages are appropriate ways to achieve that goal. They preclude a board's more nuanced examination of its members' contributions and could harm shareowners' interests by preventing some experienced and knowledgeable directors from serving on the board. Age limits are a form of discrimination.

Boards of directors should evaluate director tenure as part of the analysis of a director's independence and overall performance. Some studies indicate a correlation between director tenure and firm performance. A study of companies in the U.S. found that the relationship between average director tenure and firm value was negatively correlated, but highly dependent on tenure levels over time.[29]

SET BOARD SIZE: CASE-BY-CASE

The voting decision for these proposals depends on who is making the proposal and why. On occasion, management proposals seek to limit a shareowner's ability to alter the size of the board, while at the same time, allowing management to increase or decrease the size of the board at its discretion. Corporate management argues that the purpose of such proposals is to prevent a dominant shareowner from taking control of the board by drastically increasing the number of directors and electing its own nominees to fill the newly created vacancies. Other scenarios may include a board's downsizing in response to business changes or acquisitions. The SBA generally supports such proposals when a reasonable rationale is presented for the change. We prefer a shareowner vote for any changes in board size because the directors serving are representatives of the shareowners, and they should collectively determine the size of the board. Often, state law supersedes corporate bylaws by specifying minimum and maximum board size, as well as the process governing changes in board size.

REQUIRE MORE NOMINEES THAN BOARD SEATS: AGAINST

SBA opposes shareowner proposals requiring two candidates per board seat. Proxy access is a preferable mechanism for shareowners to nominate directors when necessary.

DIRECTOR LIABILITY AND/OR INDEMNIFICATION: CASE-BY-CASE (AND ACCORDING TO STATE LAWS)

Indemnification literally means "to make whole." When a corporation indemnifies its directors and officers, the directors are covered by the company or insured by a purchased policy against certain legal expenses, damages and judgments incurred because of lawsuits relating to their corporate actions. SBA may vote in favor if the covered acts provide that a "good faith" standard was satisfied. The SBA votes against such proposals if coverage expands beyond legal expenses and applies to acts that are more serious violations of fiduciary obligation, such as negligence or violating the duty of care.

SUPPORT SHAREOWNER COMMUNICATIONS WITH THE BOARD: FOR

The SBA generally supports shareowners' proposals requesting that the board establish a procedure for shareowners to communicate directly with the board, such as through creating an office of the board of directors, unless the company has done all the following:

- Established a communication structure that goes beyond the exchange requirements to facilitate the exchange of information between shareowners and members of the board;
- Disclosed information with respect to this structure to its shareowners;
- Heeded majority-supported shareowner proposals or a majority withhold vote on a director nominee;

[29] Huang, Sterling, "Board Tenure and Firm Performance," INSEAD Business School, May 2013.

- Established an independent chairman or a lead/presiding director. This individual must be made available for periodic consultation and direct communication with major shareowners.

ADOPT TWO-TIERED (SUPERVISORY/MANAGEMENT) BOARD STRUCTURE: CASE-BY-CASE

Companies in some countries have a two-tiered board structure, comprising a supervisory board of non-executive directors and a management board with executive directors. The supervisory board oversees the actions of the management board, while the management board is responsible for the company's daily operations. At companies with two-tiered boards, shareowners elect members to the supervisory board only; the supervisory board appoints management board members. In Austria, Brazil, the Czech Republic, Germany, Peru, Poland, Portugal, and Russia, two-tiered boards are the norm. They are also permitted by Company law in France and Spain.

The merits of the new structure will be weighed against the merits of the old structure in terms of its ability to represent shareowners' interests adequately, provide for optimal governance structure, and to generate higher shareowner value.

RATIFY ACTIONS TAKEN BY BOARD DURING PAST YEAR: CASE-BY-CASE

Many countries require that shareowners discharge the board or management for actions taken in the previous year. In most cases, discharge is a routine item and does not preclude future shareowner action if wrongdoing is discovered.[30] Unless there is clear evidence of negligence or action counter to shareowners' interests, the SBA will typically support the proposals. However, in the United States, given the unusual nature of discharge proposals, the SBA will typically vote against proposals that would limit the board or management from any future legal options.

APPROVE PROPOSED/COMPLETED TRANSACTIONS BETWEEN DIRECTORS AND COMPANY: CASE-BY-CASE

Transactions between a parent company and its subsidiary, or a company's dealings with entities that employ the company's directors, are usually classified as related-party transactions and are subject to company law or stock exchange listing requirements that mandate shareowner approval. Shareowner approval of these transactions is critical as they are meant to protect shareowners against abuses of power. Transactions should be completed at arm's length and not benefit directors and/or insiders at company or shareowners' expense. We also support reviews of director transactions by independent committees.

[30] In June 2008, Manifest and Morley Fund Management analyzed governance practices in continental Europe and issued a report that emphasized the country specific implications of discharging directors. "Directors' Liability Discharge Proposals: The Implications for Shareowners" stressed that the nature and scope of directors' liabilities vary by jurisdiction. "Each market has its own rules, regulations and best practice guidelines against which informed decisions should be measured and carefully weighed." One similarity noted in the report was that "in all the markets covered by the study, a failure to grant a discharge from liability does not have an immediate effect on the liability of directors, but merely leaves the possibility open for the company to initiate an action for liability."

INVESTOR PROTECTIONS

Investor protections encompass voting items that impact the ability of shareowners to access information needed to make prudent decisions about ownership and to exercise their rights to influence the board, election processes, and governance structure of the company. These items fall into categories relating to audits, disclosures, anti-takeover defenses and vote related mechanisms. SBA is committed to strong investor rights across all these domains and will exercise our votes to protect and strengthen the rights of shareowners in these crucial areas.

While SBA is deferential to the company and board on many issues affecting the operations of the firm whenever prudent, we are not deferential when it comes to the ability to exercise shareowner responsibilities, which includes monitoring the firm and the board of directors and acting to support change when it is warranted. We require and therefore will support strong audit functioning and detailed disclosures in a variety of areas. Strong investor rights, as well as policies that do not allow board entrenchment, are necessary for investors to protect share value.

Auditors

RATIFICATION OF AUDITORS: CASE-BY-CASE

Most major companies around the world use one of the major international auditing firms to conduct their audits. As such, concerns about the quality and objectivity of the audit are typically minimal, and the reappointment of the auditor is usually a routine matter. In the United States, companies are not legally required to allow shareowners to ratify the selection of auditors; however, a growing number are doing so. Typically, proxy statements disclose the name of the company's auditor and state that the board is responsible for selection of the firm.

The auditor's role in safeguarding investor interests is critical. Independent auditors have an important public trust, for it is the auditor's impartial and professional opinion that assures investors that a company's financial statements are accurate.[31] Therefore, the practice of auditors providing non-audit services to companies must be closely scrutinized. While large auditors may have internal barriers to ensure that there are no conflicts of interest, an auditor's ability to remain objective becomes questionable when fees paid to the auditor for non-audit services such as management consulting, general bookkeeping, and special situation audits exceed the standard annual audit fees. In addition to ensuring that the auditor is free from conflicts of interest with the company, it is also important to ensure the quality of the work that is being performed. [32]

One of the major threats to high quality financial reporting and audit quality is the risk of material financial fraud. Several studies have analyzed the nature, extent, and characteristics of fraudulent financial reporting, as well as the negative consequences for investors and management.[33] The studies' authors noted that auditing standards place a responsibility on auditors to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud.

SBA generally supports proposals to ratify auditors unless there is reason to believe that the auditing firm has become complacent in its duties, or its independence has been compromised.[34] SBA believes all publicly held corporations should rotate

[31] Hollis Ashbaugh-Skaife, et al, The Effect of SOX Internal Control Deficiencies on Firm Risk and Cost of Equity June 10, 2008.

[32] Joseph Carcello & Chan Li, "Costs and Benefits of Requiring an Engagement Partner Signature: Recent Experience in the United Kingdom," Corporate Governance Center at the University of Tennessee, Working Paper, 2012. This study found that when an audit partner's name is included within the audit report, the quality of the audit increases, along with auditor fees.

[33] Mark S. Beasley, Joseph V. Carcello, Dana R. Hermanson, and Terry L. Neal, "An Analysis of Alleged Auditor Deficiencies in SEC Fraud Investigation: 1998-2010," University of Tennessee Corporate Governance Center, May 2013. Also see, Committee of Sponsoring Organizations of the Treadway Commission (COSO), "Fraudulent Financial Reporting: 1998–2007, An Analysis of U.S. Public Companies," 2010.

[34] Jonath Stanley, Auburn University, "Is the Audit Fee Disclosure a Leading Indicator of Clients' Business Risk?," American Association of Accountants Quarterly Journal, 2011. For example, non-audit fees, primarily tax and other consulting fees, can exceed audit fee revenue by a large margin, impairing an audit firm's objectivity. This study examined about 5,000 small sized companies over a seven-year period and concluded that rising audit fees were a leading indicator for future deterioration in financial performance as measured by firms' return on assets, determined by both earnings and cash flows.

their choice of auditors periodically. Shareowners should be given the opportunity to review the performance of the auditors annually and ratify the board's selection of an auditor for the coming year.[35]

The audit committee should oversee the firm's interaction with the external auditor and disclose any non-audit fees completed by the auditor. Audit committees should disclose all factors considered when selecting or reappointing an audit firm, information related to negotiating auditor fees, the tenure of the current external audit firm, and a description of how the audit committee oversees and evaluates the work of their external auditor. Serial or significant restatements are potential indications of a poorly performing auditor, audit committee, or both.

APPOINT INTERNAL STATUTORY AUDITORS (JAPAN, HONG KONG, SOUTH KOREA): FOR

Most votes for auditors in Japan are to approve internal statutory auditors (also known as corporate auditors) rather than external auditors. Statutory auditors have the right to attend board meetings, although not to vote, and the obligation to cooperate with the external auditor and to approve its audit. They are required by law to keep board members informed of the company's activities, but this has become a largely symbolic function. They do not have the ability to remove directors from office. Internal auditors serve for terms of four years and may be renominated an indefinite number of times. While many investors view statutory auditors in a positive light, they are not substitutes for independent directors.

In Japan, at least half of internal auditors must be independent. While companies have complied with the technical requirements of the law, many have ignored its spirit. It is in shareowners' interests to improve the audit and oversight functions in Japan and to increase the accountability of companies to shareowners. Therefore, the SBA will not support internal auditors specified as independent but with a past affiliation with the company. When a statutory auditor attends fewer than 75 percent of board and auditor meetings, without a reasonable excuse, the SBA will generally vote against the auditor's appointment.

In other capital markets, such as South Korea, proposals seeking shareowner approval for statutory auditors' fees are not controversial. Generally, management should disclose details of all fees paid to statutory auditors well in advance of the meeting date so that shareowners can make informed decisions about statutory auditor remuneration requests. In any market, SBA may vote against the appointment of the auditor if necessary information about the auditors and fees has not been appropriately disclosed.

REMOVE/ACCEPT RESIGNATION OF AUDITORS: CASE-BY-CASE

SBA seeks to ensure auditors have not been pressured to resign in retaliation for their opinions or for providing full disclosure.

AUDITOR INDEMNIFICATION AND LIMITATION OF LIABILITY: CASE-BY-CASE

Auditor indemnification and limitation of liability are evaluated on an individual basis. Factors to be assessed by the SBA include:

- the terms of the auditor agreement and degree to which it impacts shareowners' rights;
- motivation and rationale for establishing the agreements;
- quality of disclosure; and
- historical practices in the audit area.

SBA will consider voting against auditor ratification if the auditor engagement contract includes provisions for alternative dispute resolution, liability caps, and caps on punitive damages (or the exclusion of punitive damages). Such limitations on

[35] Under Rule 10A-3(b)(2) of the Securities Exchange Act of 1934, as amended, the audit committee, "must be directly responsible for the appointment, compensation, retention and oversight," of the independent auditor. Section 303A.06 of the New York Stock Exchange Listed Company Manual requires that the audit committees of its listed companies satisfy the requirements of Rule 10A-3. As a result of these requirements, audit committee charters normally include the responsibility for and total discretion to select, evaluate, compensate, and oversee the work of any registered public accounting firm engaged in preparing or issuing audit report(s).

liability and indemnification shift the risk from the auditor to the company, and therefore, the shareowners. The staff of the Securities and Exchange Commission (SEC) has stated that it believes caps on punitive damages in audit contracts are not in the public interest and compromises auditor independence.[36] SBA will also consider voting against audit committee members if they have diminished the value or independence of the audit, such as when a company has entered into an agreement with its auditor requiring alternative dispute resolution or punitive liability caps.

APPROVE ACCOUNTING TRANSACTIONS (OTHER THAN DIVIDEND): CASE-BY-CASE

In many international markets, proposals to approve accounting transfers are common and are often required to maintain specified balances in accounts as required by relevant market law. Companies are required to keep specific amounts in each of their reserves. Additionally, companies may, in some instances, be required by law to present shareowners with a special auditors' report confirming the presence or absence of any non-tax-deductible expenses, as well as the transfer of these to the company's taxable income if applicable. In the absence of any contentious matters, the SBA is generally in favor.

AUDIT FIRM ROTATION, TERM RESTRICTIONS, AND SCOPE OF ENGAGEMENT PROPOSALS: CASE-BY-CASE

These shareowner proposals typically ask companies to adopt practices that are thought to help preserve auditor independence, such as prohibiting the auditor from providing non-audit services or capping the level of non-audit services and/or requiring periodic rotation of the audit firm. These practices are expected to help maintain a neutral and independent auditor by making the auditor's relationship with the company less lucrative.[37]

While term limits may result in higher audit fees, the positive impact would be that a new auditor would periodically provide a fresh look at the company's accounting practices. A practice of term limits also ensures that the audit won't see the company as a never-ending client, and perhaps will be more inclined to flag questionable practices. Despite attracting a lot of attention, mandatory audit rotation has not been required by regulators or by exchange listing standards. [38] SBA weighs the aspects of the individual situation and proposal terms when making voting decisions concerning audit rotation, considering the length of tenure for the auditor, the level of audit and non-audit fees, and the history of audit quality. A history of restatements or atypical fees increases the likelihood of SBA supporting these proposals. Most companies seek shareowner ratification of the auditor, and the lack of this provision would also increase the likelihood of SBA supporting a reasonable proposal.

Disclosures

COMPANY REPORTS OR DISCLOSURES: CASE-BY-CASE

Often, shareowner proposals do not request that companies take a specific action, but instead simply request information in the form of reports or disclosures on their policies or actions. Disclosure requests cover a variety of topics. SBA considers supporting disclosure requests when there is a reasonable expectation that the information would help investors make better risk assessments and for topics that cover issues that could have a substantial impact on shareowner value. We evaluate the company's existing disclosures on the topic and weigh the benefit from additional disclosures against the cost to the company, which includes not just the direct cost of compiling information but potential of disclosing sensitive or competitively damaging information. For each proposal, the SBA considers whether such information is already publicly provided by the company, and we do not support redundant proposal requests.

Common disclosure requests and SBA's evaluation process:

- Greenhouse gas emissions—Companies are already required by the Securities and Exchange Commission (SEC) to disclose material expected capital expenditures when operating in locales with greenhouse gas emission standards.

[36] U.S. Securities and Exchange Commission, Office of the Chief Accountant: Application of the Commission's Rules on Auditor Independence – Frequently Asked Questions, December 13, 2004.

[37] Max H. Bazerman, George Loewenstein, and Don A. Moore, "Why Good Accountants Do Bad Audits." Harvard Business Review, Vol. 80, Issue 11, Nov. 1, 2002.

[38] The Conference Board Commission on Public Trust and Private Enterprise, "Corporate Governance: Principles, Recommendations and Specific Best Practice Suggestions." Parts 2 and 3, Jan. 9, 2003. PCAOB Concept Release No. 2011-006. August 16, 2011. http://pcaobus.org/Rules/Rulesmaking/Docket037/Release_2011-006.pdf. Jackson, Modrich, and Roebuck, "Mandatory Audit Firm Rotation and Audit Quality," 2007; Chung, H., "Selective Mandatory Rotation and Audit Quality: An Empirical Investigation of Auditor Designation Policy in Korea," 2004. Also see, Martinez and Reis, "Audit Firm Rotation and Earnings Management in Brazil," 2010.

Companies may also be required to disclose risk factors regarding existing or pending legislation that relates to climate change and assess whether such regulation will likely have any material effect on the company's financial condition or results, the impact of which is not limited to negative consequences but should include new opportunities as well.

- Energy efficiency—SBA considers the current level of disclosure related to energy efficiency policies, initiatives, and performance measures; the company's level of participation in voluntary energy efficiency programs and initiatives; the company's compliance with applicable legislation and/or regulations regarding energy efficiency; and the company's energy efficiency policies and initiatives relative to industry peers.
- Water supply and conservation—Companies should disclose crucial water supply issues, as well as contingency planning to ensure adequate supply for anticipated company demand levels. SBA often supports proposals seeking disclosure of water supply dependency or preparation of a report pertaining to sustainable water supply for company operations.
- Political contributions and expenditure—Companies should disclose the amount and rationales for making donations to political campaigns, political action committees (PACs), and other trade groups or special interest organizations. SBA typically considers the following factors:
    - Recent significant controversy or litigation related to the company's political contributions or governmental affairs;
    - The public availability of a company policy on political contributions and trade association spending, including the types of organizations supported;
    - The business rationale for supporting political organizations;
    - The board oversight and compliance procedures related to such expenditures of corporate assets.
- Operations in protected or sensitive areas—such operations may expose companies to increased oversight and the potential for associated risk and controversy. The SBA generally supports requests for reports outlining potential environmental damage from operations in protected regions unless operations in the specified regions are not permitted by current laws or regulations, the company does not currently have operations or plans to develop operations in protected regions, or the company provides disclosure on its operations and environmental policies in these regions comparable to industry peers.
- Community impact assessments—Controversies, fines, and litigation can have a significant negative impact on a company's financials, public reputation, and even ability to operate. Companies operating in areas where potential impact is a concern often develop internal controls aimed at mitigating exposure to these risks by enforcing, and in many cases, exceeding local regulations and laws. SBA considers proposals to report on company policies in this area by evaluating the company's current disclosures, industry norms, and the potential impact and severity of risks associated with the company's operations.
- Supply chain risks—Often these proposals seek information for better understanding risks to the company through their materials purchasing and labor practices. For example, allegations of sweatshop labor or child labor can harm sales and reputation, so knowledge of the company's policies for preventing these practices are highly relevant to shareowners. SBA considers the terms of the proposal against the current company disclosures and industry standards, as well as the potential severity of risks.

Anti-takeover Defenses

ADVANCE NOTICE REQUIREMENTS FOR SHAREOWNER PROPOSALS/NOMINATIONS: CASE-BY-CASE

SBA generally supports proposals that allow shareowners to submit proposals as close to the meeting date as reasonably possible and within the broadest window possible. Requests to shrink the window and/or move advance notice deadlines to as early as 150 days or 180 days prior to meetings have been presented by a number of company boards in recent years. Such early deadlines hinder shareowners' ability to make proposals and go beyond what is reasonably required for sufficient board notice. In addition, many companies now request shareowner approval of "second generation advance notice bylaws", which

require shareowner nominees to submit company-prepared director questionnaires.[39] While the SBA appreciates increased disclosure of the qualifications of nominees (and incumbents), we disapprove of such requirements if they serve to frustrate shareowner-proposed nominees.

AMEND BYLAWS WITHOUT SHAREOWNER CONSENT: AGAINST

The SBA does not support proposals giving the board exclusive authority to amend the bylaws. We also discourage board members from taking such unilateral actions and may withhold votes from board members that do so. Shareowners should be party to any such decisions, a view supported by Delaware courts where a majority of U.S. firms are domiciled.[42] If unusual circumstances necessitate such action, at a minimum, unilateral adoption should incorporate a sunset provision or a near-term window for eventual shareowner approval.

RESTRICT LEGAL RECOURSE METHODS: AGAINST

The SBA generally opposes restrictions on shareowner ability to pursue options of legal recourse. This includes binding or forced arbitration, fee-shifting, and exclusive forum bylaws.[40] Standard access to the court system is a fundamental shareowner right. SBA generally votes against proposals to establish exclusive forum and supports proposals requesting that exclusive forum provisions be ratified by shareowners. SBA will critically examine the company's rationale for limiting shareowners' rights to legal remedy, including choice of venue and any material harm that may have been caused by related litigation outside its jurisdiction of incorporation in making a voting decision.

POISON PILLS: AGAINST

Poison pills used to be the most prevalent takeover defense among S&P 500 companies, but their utilization has steadily declined since 2002. The vast majority of pills were instituted after November 1985, when the Delaware Supreme Court upheld a company's right to adopt a poison pill without shareowner approval in Moran v. Household International, Inc. Poison pills are financial devices that, when triggered by potential acquirers, do one or more of the following: (1) dilute the acquirer's equity holdings in the target company; (2) dilute the acquirer's voting interests in the target company; or (3) dilute the acquirer's equity holdings in a post-merger company. Generally, poison pills accomplish these tasks by issuing rights or warrants to shareowners that are essentially worthless unless triggered by a hostile acquisition attempt. They are often referred to by the innocuous but misleading name "shareowner rights plans".

The SBA supports proposals asking a company to submit its poison pill for shareowner ratification and generally votes against proposals approving or creating a poison pill. The best defense against hostile takeovers is not necessarily a poison pill, but an effective board making prudent financial and strategic decisions for the company.[41] SBA will consider voting against board members that adopt or renew a poison pill unless the pill is subject to shareowner ratification within a year of adoption or renewal.

LIMIT WRITTEN CONSENT: CASE-BY-CASE

The SBA votes against proposals to unduly restrict or prohibit shareowners' ability to take action by written consent and supports proposals to allow or make easier shareowner action by written consent. Most states allow shareowners to take direct action such as adopting a shareowner resolution or electing directors through a consent solicitation, which does not involve a

[39] Weingarten, Marc and Erin Magnor, "Second Generation Advance Notification Bylaws" Harvard Law School Corporate Governance Forum, March 17, 2009.
[42] Claudia H. Allen, "Delaware Corporations – Can Delaware Forum Selection Clauses in Charters or Bylaws Keep Litigation in the Court of Chancery?," April 18. 2011. Early adopters of the exclusive forum provision chose to enact bylaw provisions without seeking shareowner approval. However, the Galaviz v. Berg decision by the U.S. District Court for Northern California if Oracle's exclusive forum provision was unenforceable, in part due to Oracle's failure to bring the provision before shareowners.
[40] In a March 2010 opinion, the Delaware Court of Chancery provided an opportunity for any Delaware corporation to establish the Court as the exclusive forum for "intra-entity" corporate disputes, such as claims of breach of fiduciary duty. Such claims have been used to overturn directors' business judgments on mergers, and other matters. Subsequently, a number of U.S. companies have decided to bring the exclusive forum provision to a shareowner vote, and others have amended their charter or by-law provisions.
[41] Srinidhi, Bin and Sen, Kaustav, "Effect of Poison Pills on Value Relevance of Earnings."

physical meeting. Alternatively, consent solicitations can be used to call special meetings and vote on substantive items taking place at the meeting itself.

LIMIT SPECIAL MEETINGS: CASE-BY-CASE

The SBA votes against proposals that unduly restrict or prohibit a shareowner's ability to call special meetings. We generally support proposals that make it easier for shareowners to call special meetings. Most states' corporate statutes allow shareowners to call a special meeting when they want to present certain matters before the next annual meeting. The percentage of shareowner votes required to force the corporation to call the meeting often depends on the state's statutes, as does the corporation's ability to limit or deny altogether a shareowner's right to call a special meeting.

SUPERMAJORITY VOTE REQUIREMENTS: AGAINST

The SBA does not support shareowner proposals that require supermajority voting thresholds. Supermajority requirements can be particularly burdensome if combined with a requirement for the vote result to be calculated using the number of shares outstanding (rather than the votes cast). There have been many instances when a company's requirements called for a proposal to be supported by eighty percent of shares outstanding but failed because just under eighty percent of shares outstanding were voted. This can be particularly problematic for resolutions to approve mergers and other significant business combinations. Voting results should simply be determined by a majority vote of the disinterested shares.[42] SBA supports simple majority voting requirements based on shares voted for the passage of any resolution, ordinary or extraordinary, and regardless of whether proposed by management or shareowners.

ADOPT SUPERVOTING RIGHTS ("TIME-PHASED VOTING"): AGAINST

Time-phased voting involves the granting of super-voting rights to shareowners who have held their stock for some specified period, commonly for a period of 3-5 years.[43] The practice is intended to be a reward for long-term shareowners and to make the votes of entities with a short-term focus relatively less effective. However, differential voting rights distort the commensurate relationship between ownership and voting power, and however well-intentioned, the practice ultimately risks harm to companies and their shareowners. By undermining the fundamental connection between voting power and economic interest, it increases risk to investors rather than reducing it. Further, it creates murkiness in the voting process where transparency is already lacking. While we value our right to vote and at times would even have increased rights under such a policy as a long-term owner, we do not wish to subvert the economic process for our own benefit, and we are concerned the practice has potential for significant harm and abuse. We do not endorse any practice that undermines the fundamental link between ownership and determination: one share, one vote.

LIMIT VOTING RIGHTS: AGAINST

The SBA supports maximization of shareowners' voting rights at corporations. Any attempts to restrict or impair shareowner voting rights, such as caps on voting rights, holding period requirements, and restrictions to call special meetings, will be opposed.

ABSTENTION VOTING TABULATION: CASE-BY-CASE

Abstentions should count for quorum purposes but should be excluded from voting statistics reporting percentages for and against. Some companies request to count abstentions in with against votes when reporting tabulations. This practice makes

[42] Ravid, S. Abraham and Matthew I. Spiegel, "Toehold Strategies, Takeover Laws and Rival Bidders." Journal of Banking and Finance, Vol. 23, No. 8, 1999, pp. 1219-1242.

[43] Under SEC Rule 19c-4, firms are generally prohibited from utilizing several forms of stock that deviate from a one-share, one-vote standard. Such instances include tracking stocks, different stock classes with asymmetric voting rights (e.g., dual class shares), shares with time-phased voting rights as well as shares of stock with capped voting or even no rights whatsoever. However, under an amendment to the Rule made in 1994, most U.S. companies are exempted from such restrictions under circumstances.

for inaccurate voting statistics and defies the intentions of the shareowners casting their votes. We strongly support abstention tabulation for matters of quorum satisfaction only.

TABULATING VOTES: CASE-BY-CASE

The SBA supports proposals that allow for independent third parties to examine and tabulate ballots. We support practices of end-to-end vote confirmation for accuracy and security in casting votes.

ESTABLISH A DISTINCTION FAVORING REGISTERED HOLDERS/BENEFICIAL HOLDERS: AGAINST

An extremely small and shrinking percentage of shareowners hold shares in registered form, nearing only one percent of shares outstanding. SBA does not believe any preference or distinction in ownership holding mechanism is necessary or useful. We oppose the adoption of any policy using distinctions among shareowners based on how shares are held.

CORPORATE STRUCTURE

These proposals seek to make some change in the corporate structure and are often operational in nature. In every case, SBA decides by considering the impact of the change on the financial value and health of the company, as well as its impact on shareowner rights. These proposals include corporate restructurings, capital structure changes, changes to the articles of incorporation and other various operational items. While many of these proposals are routine, they are not inconsequential. Some have profound impact on shareowner value and rights. Shareowners should have the opportunity to approve any issuance of shares or securities that carry equity-like claims or rights. Furthermore, companies may bundle non-routine items with routine items to obtain a more favorable outcome, so the SBA must examine these proposals on a case-by-case basis. SBA may vote against bundled items in any case if the bundle includes highly negative components.

MERGERS/ACQUISITIONS/SPINOFFS: CASE-BY-CASE

SBA evaluates these proposals based on the economic merits of the proposal and anticipated synergies or advantages. We also consider opinions of financial advisors. Support for the proposal may be mitigated by potential conflicts between management's interests and those of shareowners and negative impacts on corporate governance and shareowner rights. The SBA may oppose the proposal if there is a significant lack of information to make an informed voting decision.

For any proposal, the following items are evaluated:

- Economic merits and anticipated synergies;
- Independence of board, or special committee, recommending the transaction;
- Process for identifying, selecting, and negotiating with partners;
- Independence of financial advisor and financial opinion for the transaction;
- Tax and regulatory impacts;
- Corporate governance changes;
- Aggregate valuation of the proposal.

APPRAISAL RIGHTS: FOR

SBA generally supports proposals to restore or provide shareowners with rights of appraisal. In many states, mergers and other corporate restructuring transactions are subject to appraisal rights. Rights of appraisal provide shareowners who are not satisfied with the terms of certain corporate transactions the right to demand a judicial review to determine a fair value for their shares. If a majority of shareowners approve a given transaction, the exercise of appraisal rights by a minority of shareowners will not necessarily prevent the transaction from taking place. Therefore, if a small minority of shareowners succeed in obtaining what they believe is a fair value, appraisal rights may benefit all shareowners. If enough shareowners dissented and if the courts found a transaction's terms were unfair, such rights could prevent a transaction that other shareowners had already approved.

ASSET PURCHASES/SALES: CASE-BY-CASE

Boards may propose a shareowner vote on the sale or purchase of significant assets; sometimes these proposals are part of a strategy shift driven by changes in the marketplace, problematic corporate performance, or activist-investor campaigns. The SBA evaluates asset purchase proposals on a case-by-case basis, considering the following factors:

- Transaction price;
- Fairness opinion;
- Financial and strategic benefits;
- Impact on the balance sheet and working capital;
- The negotiation history and process;
- Conflicts of interest;
- Other alternatives for the business; and
- Non-completion risk.

APPROVE REORGANIZATION OF DIVISION OR DEPARTMENT/ARRANGEMENT SCHEME, LIQUIDATION: CASE-BY-CASE

Resolutions approving corporate reorganizations or restructurings range from the routine shuffling of subsidiaries within a group to major rescue programs for ailing companies. Such resolutions are usually supported unless there are clear conflicts of interest among the various parties or negative impact on shareowners' rights. In the case of routine reorganizations of assets or subsidiaries within a group, the primary focus with the proposed changes is to ensure that shareowner value is being preserved, including the impact of the reorganization on the control of group assets, final ownership structure, relative voting power of existing shareowners if the share capital is being adjusted, and the expected benefits arising from the changes. Options are far more limited in the case of a distress restructuring of a company or group as shareowners often have few choices and little time. In most of these instances, the company has a negative asset value, and shareowners would have no value remaining after liquidation. SBA seeks to ensure that the degree of dilution proposed is consistent with the claims of outside parties and is commensurate with the relative commitments of other company shareowners.

APPROVE SPECIAL PURPOSE ACQUISITION COMPANY (SPAC) TRANSACTION: CASE-BY-CASE

A SPAC is a pooled investment vehicle designed to invest in private-equity type transactions, particularly leveraged buyouts. SPACs are shell companies that have no operations at the time of their initial public offering but are intended to merge with or acquire other companies. Most SPACs grant shareowners voting rights to approve proposed business combinations. SBA evaluates these proposals based on their financial impact as well as their impact on shareowners' ability to maintain and exercise their rights.

FORMATION OF HOLDING COMPANY: CASE-BY-CASE

The SBA evaluates proposals to create a parent holding company on a case-by-case basis, considering the rationale for the change, any financial, regulatory or tax benefits, and impact on capital and ownership structure. SBA may vote against proposals that result in increases in common or preferred stock in excess of the allowable maximum or adverse changes in shareowner rights.

APPROVE A "GOING DARK" TRANSACTION: CASE-BY-CASE

Deregistrations, or "going-dark" transactions, occur rarely, whereby companies cease SEC reporting but continue to trade publicly. Such transactions are intended to reduce the number of shareowners below three hundred and are typically achieved either by a reverse stock split (at a very high ratio with fractional shares resulting from the reverse split being cashed out), by a reverse/forward stock split (with fractional shares resulting from the reverse split being cashed out), or through a cash buyout of shares from shareowners owning less than a designated number of shares (tender offer or odd-lot stock repurchase). Such transactions allow listed companies to de-list from their stock exchange and to terminate the registration of their common stock under the Securities & Exchange Act of 1934, so that, among other things, they do not have to comply with the requirements of the Sarbanes-Oxley Act of 2002. [44] Companies seeking this approval tend to be smaller capitalization firms and those with lower quality financial accounting. SBA would consider the impact of the lack of disclosure and oversight and loss of liquidity and shareowner rights in making a decision.

LEVERAGED BUYOUT (LBO): CASE-BY-CASE

A leveraged buyout is a takeover of a company using borrowed funds, normally by management or a group of investors. Most often, the target company's assets serve as security for the loan taken out by the acquiring firm, which repays the loan out of cash flow of the acquired company. SBA may support LBOs when shareowners receive a fair value including an appropriate premium over the current market value of their shares.

[44] "Why Do Firms Go Dark? Causes and Economic Consequences of Voluntary SEC Deregistrations," Christian Leuz, Alexander Triantis and Tracy Wang, Finance Working Paper Number 155/2007, European Corporate Governance Institute, March 2008.

When the acquirer is a controlling shareowner, legal rulings have imposed a higher standard of review to ensure that this type of transaction, referred to as an entire fairness review, is fair to existing shareowners. Typically, investor protections include review by an independent committee of the board and/or approval by a majority of the remaining shareowners. Whether a buyout is pursued by a controlling shareowner can impact the valuation and premiums, with one study finding that buyouts in which an independent committee reviewed the deal terms produced 14 percent higher average premiums for investors.[45] However, deals requiring majority-of-the-minority ratification did not significantly impact the level of premium paid to investors. Researchers found that the size of the premium paid changed depending on who initiated the transaction, with significantly lower premiums associated with deals initiated by management. As well, the study's findings mimic other empirical evidence demonstrating that 'go-shop' provisions, whereby additional bidders are solicited, were ineffective and may be used to camouflage under-valued management buyouts.[46]

NET OPERATING LOSS CARRY-FORWARD (NOL) & ACQUISITION RESTRICTIONS: CASE-BY-CASE

Companies may seek approval of amendments to their certificate of incorporation intended to restrict certain acquisitions of its common stock to preserve net operating loss carry-forwards (or "NOLs"). NOLs can represent a significant asset for the company, one that can be effective at reducing future taxable income. Section 382 of the Internal Revenue Code of 1986 imposes limitations on the future use of the company's NOLs if the company undergoes an ownership change; therefore, some companies seek to limit certain transactions by adopting ownership limits. Firms often utilize a shareowner rights plan (poison pill) in conjunction with NOL-oriented acquisition restrictions.

While stock ownership limitations may allow the company to maximize use of its NOLs to offset future income, they may significantly restrict certain shareowners from increasing their ownership stake in the company. Such ownership limitations can be viewed as an anti-takeover device. Though these restrictions on shareowners are undesirable, SBA often supports proposals when firms seek restrictions solely to protect NOLs. We review the company's corporate governance structure and other control protections in conjunction with the proposal and weigh the negative impact of the restrictions against the financial value of the NOLs (relative to the firm's market capitalization) in making a decision.

CHANGE OF CORPORATE FORM (GERMANY, AUSTRALIA, NEW ZEALAND): CASE-BY-CASE

This proposal seeks shareowner approval to convert the company from one corporate form to another. Examples of different corporate forms include the following: Inc., LLP, PLP, LLC, AG, SE. The SBA generally votes FOR such proposals unless there are concerns with the motivation or financial impact of a change to a firm's corporate structure.

Public Benefit Corporations (PBC) are for-profit corporations that have also adopted a public benefit purpose embedded in its certificate of incorporation. This public benefit is intended to have positive effects on a category of person(s), entities, or communities other than the financial interests of shareowners. When deciding to support or oppose resolutions to convert to a PBC, expected (or actual) accruals to shareholder value will be the primary consideration. Additionally, the SBA will consider company-specific characteristics, the stated rationale for such structure, and the impact on shareholders' rights.

Capital Structure

CHANGE AUTHORIZED SHARE CAPITAL: CASE-BY-CASE

The SBA generally supports authorized share capital increases up to 100 percent of the current number of outstanding shares. We will consider additional increases if management demonstrates a reasonable use. It is important that publicly held corporations have authorization for shares needed for ordinary business purposes, including raising new capital, funding reasonable executive compensation programs, business acquisitions, and facilitating stock splits and stock dividends. Increases beyond 100 percent of the current number of outstanding shares will be scrutinized to ensure its use will benefit shareowners.

[45] Matthew Cain, and Steven Davidoff, "Form Over Substance? The Value of Corporate Process and Management Buyouts," August 2010.
[46] Adonis Antoniades, Charles Calomiris, and Donna M Hitscherich, "No Free Shop: Why Target Companies in MBOs and Private Equity Transactions Sometimes Choose Not to Buy 'Go-Shop' Options," November 2013; Guhan Subramanian, "Go-Shops vs. No-Shops in Private Equity Deals: Evidence and Implications," The Business Lawyer, Volume 63, May 2008.

We apply a stricter standard if the company has not stated a use for the additional shares or has significant levels of previously authorized shares still available for issue. Proposals that include shares with unequal voting rights will likely be opposed.

In the case of rights offerings, SBA considers the dilution and extent to which issued rights may be subscribed, both by SBA individually and other shareowners collectively, and how that may affect or adversely concentrate the level of control if a large single shareowner exists. Proposals to reduce authorized share capital can result from a variety of corporate actions, ranging from routine accounting measures to reductions pertaining to a significant corporate restructuring in the face of bankruptcy. These proposals can vary significantly from market to market because of local laws and accounting standards. In all instances, the SBA considers whether the reduction in authorized share capital is for legitimate corporate purposes and not to be used as an anti-takeover tactic.

STOCK SPLIT OR REVERSE STOCK SPLIT: FOR

Typically, the SBA supports reasonable proposals for stock splits or reverse stock splits. These proposals often seek to scale back the cost of each share into what is traditionally thought of as a comfortable price and trading zone, which seeks to influence the psychology of the market's perception of price more than anything else. Reverse stock splits may be requested to ensure a company's shares will not be subject to delisting by their exchange's standards, often following a significant negative shock to the share price.

DUAL CLASS STOCK: AGAINST

SBA opposes dual class share structures. The one share, one vote principle is essential to proper functioning of capitalism; dual class shares distort the commensurate relationship between economic interest and voting power and ultimately risk harm to companies and their shareowners.[47] Several academic studies have documented an array of value-destroying effects stemming directly from dual class share structures.[48] [49] SBA will support proposals asking companies to move away from dual class structures. SBA may withhold votes or cast votes against the election of directors in cases where a company completes an IPO with a dual or multi-class share structure without a reasonable sunset provision on the unequal voting rights. We will generally support proposals that provide for the disclosure of voting results broken down by share class when dual class structures exist.

APPROVE GENERAL SHARE ISSUANCE WITH PRE-EMPTIVE RIGHTS: CASE-BY-CASE

General issuance requests under both authorized and conditional capital systems allow companies to issue shares to raise funds for general financing purposes. Approval of such requests gives companies sufficient flexibility to carry out ordinary business activities without having to bear the expense of calling shareowner meetings for every issuance. Pre-emptive rights guarantee current shareowners the first opportunity to purchase shares of new issuances of stock in the class they own in an amount proportional to the percentage of the class they already own. SBA generally supports issuance requests with preemptive rights when the amount of shares requested is less than the unissued ordinary share capital or one-third of the issued ordinary share

[47] Bebchuk, Lucian Arye, Kraakman, Reinier H. and Triantis, George G., "Stock Pyramids, Cross-Ownership, and Dual Class Equity: The Creation and Agency Costs of Separating Control from Cash Flow Rights". As published in CONCENTRATED CORPORATE OWNERSHIP, R. Morck, Ed., pp. 445-460, 2000 Available at SSRN: http://ssrn.com/abstract=147590. Masulis, Ronald W., Wang, Cong and Xie, Fei, "Agency Problems at Dual-Class Companies" (November 12, 2006). Available at SSRN: http://ssrn.com/abstract=961158. Tinaikar, Surjit, "The Voluntary Disclosure Effects of Separating Control Rights from Cash Flow Rights" (November 2006). Available at SSRN: http://ssrn.com/abstract=951547.

[48] Kastiel, Kobi, "Executive Compensation in Controlled Companies," Harvard Law School Working Paper, October 2014. Claessens, Stijn & Fan, Joseph P.H. & Lang, Larry, 2002. "The Benefits and Costs of Group Affiliation: Evidence from East Asia," CEPR Discussion Papers 3364, C.E.P.R. Discussion Papers, revised.

[49] Bennedsen, Morten and Nielsen, Kasper Meisner, "The Principle of Proportional Ownership, Investor Protection and Firm Value in Western Europe" (October). ECGI - Finance Working Paper No. 134/2006 Available at SSRN: http://ssrn.com/abstract=941054. Gompers, Paul A., Ishii, Joy L. and Metrick, Andrew, "Extreme Governance: An Analysis of Dual-Class Companies in the United States" (May 1, 2008). AFA 2005 Philadelphia Meetings Available at SSRN: http://ssrn.com/abstract=562511 or DOI: 10.2139/ssrn.562511. Cremers, Martijn and Allen Ferrell, "Thirty Years of Corporate Governance: Firms Valuation & Stock Returns" (September 2009). Yale ICF Working Paper No. 09-09. Available at http://ssrn.com/abstract=1279650. Puttonen, Vesa, Ikaheimo, Seppo and Ratilainen, Tuomas, "External Corporate Governance and Performance - Evidence from the Nordic Countries" (January 30, 2007) Available at SSRN: http://ssrn.com/abstract=960431. Jiraporn, Pornsit, 2005, "An Empirical Analysis of Corporate Takeover Defenses and Earnings Management: Evidence from the U.S.", Applied financial Economics (University of Warwick, U.K.), Vol. 15, No. 5, pp. 293-303. Li, Kai, Ortiz-Molina, Hernan and Zhao, Shelly, "Do Voting Rights Affect Institutional Investment Decisions? Evidence from Dual-Class Firms" (November 2007). Available at SSRN: http://ssrn.com/abstract=950295. Dimitrov, Valentin and Jain, Prem C., "Recapitalization of One Class of Common Stock into Dual-class: Growth and Long-run Stock Returns" (September 1, 2004). Available at SSRN: http://ssrn.com/abstract=422080 or DOI: 10.2139/ssrn.422080.

capital. Issuance authority should be limited to a five-year timeframe. SBA also considers the issue price and any potential pricing discounts, as well as past issuance practices at the company, in judging the appropriateness of the terms and potential for misuse (such as granting large blocks at a discount to a third party). If insufficient information is disclosed about the issuance and conditions of its implementation, SBA may vote against authorization. Proposals that include shares with unequal voting rights will likely be opposed.

APPROVE GENERAL SHARE ISSUANCE WITHOUT PREEMPTIVE RIGHTS: CASE-BY-CASE

Companies may need the ability to raise funds for routine business contingencies without the expense of carrying out a rights issue. Such contingencies include, but are not limited to, facilitating stock compensation plans, small acquisitions, or payment for services. Recognizing that shareowners suffer dilution because of issuances, authorizations should be limited to a fixed number of shares or a percentage of capital at the time of issuance. The SBA generally supports issuance requests without pre-emptive rights up to a maximum of 20 percent above current levels of issued capital. Proposals that include shares with unequal voting rights will likely be opposed.

APPROVE ISSUE OF PREFERRED SHARES: CASE-BY-CASE

"Preferred share" typically refers to a class of stock that provides preferred dividend distributions and preferred liquidation rights as compared to common stock; however, preferred shares typically do not carry voting rights. SBA typically votes against preferred share issues that carry voting rights, include conversion rights, or have "blank check" ability. We typically support issuances without conversion or voting rights when the company demonstrates legitimate financial needs. Blank check preferred stock gives the board of directors the power to issue shares of preferred stock at their discretion, with voting, conversion, distribution, and other rights set by the board at the time of issuance. Blank check preferred stock can be used for sound corporate purposes like raising capital, stock acquisition, employee compensation, or stock splits or dividends. However, blank check preferred stock is also suited for use as an entrenchment device. The company could find a "white knight," sell the knight a large block of shares, and defeat any possible takeover attempt. With such discretion outside the control of common stock shareowners, the SBA typically opposes any proposals to issue blank check preferred stock.

RESTRUCTURE/RECAPITALIZE: CASE-BY-CASE

These proposals deal with the alteration of a corporation's capital structure, such as an exchange of bonds for stock. The SBA is in favor of recapitalizations when our overall investment position is protected during the restructuring process.

TARGETED SHARE PLACEMENT: CASE-BY-CASE

SBA typically supports shareowner proposals requesting that companies first obtain shareowner authorization before issuing voting stock, warrants, rights, or other securities convertible into voting stock, to any person or group, unless the voting rights at stake in the placement represent less than 5 percent of existing voting rights.

SHARE REPURCHASE: CASE-BY-CASE

When a company has excess cash, SBA's preferred method for distributing it to shareowners is through adopting a quarterly dividend. Dividends are an effective means for returning cash and serve as an important signal to the market of earnings stability. Because dividend adoptions and subsequent changes are scrutinized, they serve as an important marker of a company's commitment to return cash to shareowners. Repurchases on the other hand require no commitment to ongoing return of profits to shareowners. Repurchased shares often end up being granted to executives as part of stock compensation packages; this common use of cash is paying compensation and not a form of profit return to owners. Because of this, SBA strongly prefers dividend adoption over share repurchases. We support repurchases only in cases of unusual cash accumulation, such as from a divestiture of assets. Cash flows from operations that have an expected long-term generation pattern should be committed to owners through quarterly dividends. Repurchases are also supported if the rationale is that management believes the stock is undervalued. Companies should not commit to long term repurchases at any market price; evidence shows that many companies tend to repurchase shares at market-highs with these plans and generally buy at

inopportune times. Compensation programs should not depend upon metrics that are impacted by repurchases, or metrics should at least be adjusted to account for the impact of repurchases so that compensation is not affected by these programs.

DECLARE DIVIDENDS: FOR

Declaring a dividend is a preferred use of cash and method of releasing profits to shareowners. SBA generally supports dividend declarations unless the payout is unreasonably low, or the dividends are not sustainable by reserves and cash flow. Payouts less than 30 percent of net income for most markets are considered low.

TRACKING STOCK: CASE-BY-CASE

The SBA closely examines the issuance of tracking stock shares, particularly corporate governance rights attached to those shares. Normally, tracking stock is a separate class of common stock that "tracks" the performance of an individual business of a company. Tracking stock represents an equity claim on the cash flows of the tracked business as opposed to legal ownership of the company's assets. Tracking stock is generally created through a charter amendment and provides for different classes of common stock, subject to shareowner approval. Due to their unique equity structure, we examine closely all the following issues when determining our support for such proposals: corporate governance features of tracking stock (including voting rights, if any), distribution method (share dividend or initial public offering), conversion terms and structure of stock-option plans tied to tracking stock.

APPROVE ISSUE OF BONDS, DEBENTURES, AND OTHER DEBT INSTRUMENTS: FOR

Generally, SBA supports debt issuance of reasonable amounts for the purpose of financing future growth and corporate needs. Debt issues may also add a beneficial monitoring component, making managers more accountable for corporate performance because if the company does not perform well financially, the company may not be able to meet its financial obligations. Studies have also examined the relationship between firms' capital structure and the quality of their corporate governance mechanisms, confirming that corporations use debt in place of corporate governance tools.[50] While the SBA recognizes the need to employ various tools to minimize agency costs and align management interests with shareowner interests, corporations must not abdicate their corporate governance duties by expanding leverage.

When companies seek to issue convertible debt or debt with warrants, SBA considers the impact of the potential conversion on existing shareowners' rights when making a decision. We may also support limits on conversion rights to prevent significant dilution of SBA's ownership.

PRIVATE PLACEMENTS: CASE-BY-CASE

Private placement is a method of raising capital through the sale of securities to a relatively small number of investors rather than a public offering. Investors involved in private placement offerings typically include large banks, mutual funds, insurance companies and pension funds. Because the private placement is offered to a limited number of investors, detailed financial information is not always disclosed and the need for a prospectus is waived. Moreover, in the United States, the authority does not have to be registered with the Securities and Exchange Commission. The SBA evaluates private placements on a case-by-case basis, voting against if the private placement contains extraordinary voting rights or if it may be used in some other way as an anti-takeover defense.

[50] Marquardt, Carol, "Managing EPS Through Accelerated Share Repurchases: Compensation Versus Capital Market Incentives." Baruch College-CUNY, September 2007.

Operational Items

ADJOURN MEETING: CASE-BY-CASE

SBA generally votes against proposals to provide management with the authority to adjourn an annual or special meeting absent compelling reasons to support the proposal. The SBA may support proposals that relate specifically to soliciting votes for a merger or transaction if we support that merger or transaction.

TRANSACT OTHER BUSINESS: AGAINST

This proposal provides a forum for addressing resolutions that may be brought up at the annual shareowner meeting. In most countries, the item is a formality and does not require a shareowner vote, but companies in certain countries include permission to transact other business as a voting item. This discretion is overly broad, and it is against the best interest of shareowners to give directors unbound permission to make corporate decisions without broad shareowner approval. Because most shareowners vote by proxy and would not know what issues will be raised under this item, SBA does not support this proposal.

AMEND SHAREOWNERS' MEETING QUORUM REQUIREMENTS: CASE-BY-CASE

SBA supports quorums of a simple majority. We do not support super-majority quorum requirements.

AMEND BYLAWS OR ARTICLES OF ASSOCIATION: CASE-BY-CASE

The SBA considers the merits of the proposed amendment and its potential impact on shareowner rights and value. Different amendments should not be presented in a bundled format, which would prevent shareowners from making individual decisions on each provision. We may not support a bundled proposal that contains a mix of desirable and undesirable features.

NAME CHANGE: FOR

Changing a company's name is a major step that has likely gone through extensive management consideration and/or marketing research. SBA generally supports these proposals.

RECEIVE/APPROVE/AMEND REPORTS AND AUDITED ACCOUNTS FOR PREVIOUS FINANCIAL REPORTING PERIODS: CASE-BY-CASE

Generally, SBA supports these proposals unless we are aware of serious concerns about the accounting principles used or doubt the integrity of the company's auditor. Annual audits of a firm's financial statements should be mandatory and carried out by an independent auditor.

CHANGE METHOD OF PREPARING ACCOUNTS/DISTRIBUTING FINANCIAL STATEMENTS TO SHAREOWNERS: CASE-BY-CASE

If the changes have been instituted by a nationwide regulation, they will be approved. Otherwise, they will be scrutinized to ensure they are not damaging to our interests. For instance, managers may seek to reclassify accounts to enhance their perceived performance. If this is the case, then managers may earn more in performance-based compensation without adding actual value to the firm.

ADOPT OR CHANGE STAKE DISCLOSURE REQUIREMENT(S): CASE-BY-CASE

Proposals may be submitted to conform to recent changes in home market disclosure laws or other regulations. However, proposed levels that are below typical market standards are often only a pretext for an anti-takeover defense. Low disclosure levels may require a greater number of shareowners to disclose their ownership, causing a greater burden to shareowners and to the company. Positions of more than five percent are significant, however, and would be supported by SBA.

ACCESS TO PRELIMINARY VOTING TABULATIONS CONCERNING SHAREOWNER PROPOSALS: CASE-BY-CASE

The SBA supports equal access by management and shareowner proponents to preliminary voting results of shareowner proposals. Some proponents are concerned that companies may receive preliminary voting results and use the information to target shareowner engagement at a disadvantage to the proponent. Generally, the SBA will not support restricting access to this voting data to either party. Some proposals seek to restrict access while others may seek to place conditions on using the information.

RESTRICT INTER-SHAREOWNER COMMUNICATIONS: AGAINST

The ability to dialogue assists shareowners in seeing each other's perspective and helps owners exercise their rights in a free, capitalist market. SBA would not typically support restrictions beyond those of market regulators. In U.S. markets, the SEC has established enforceable guidelines that govern communications from shareowners or other parties for the purposes of soliciting proxies or pursuing corporate takeover measures.

CHANGE DATE OF FISCAL YEAR-END: FOR

Companies may seek shareowner approval to change their fiscal year end. Most countries require companies to hold their annual shareowners meeting within a certain period after the close of the fiscal year. While the SBA typically supports this routine proposal, opposition may be considered in cases where the company is seeking the change solely to postpone its annual meeting.

AUTHORIZE DIRECTORS TO MAKE APPLICATION FOR ONE OR MORE EXCHANGE LISTINGS: FOR

SBA generally supports proposals to authorize secondary share listings, absent evidence that important shareowner rights will not be harmed or restricted to an unreasonable extent. Secondary listings may provide additional funding in other capital markets and/or increase share liquidity.

SET OR CHANGE DATE OR PLACE OF ANNUAL MEETING: FOR

Flexibility is necessary in time and location of board meetings. As such, the SBA typically supports proposals that provide reasonable discretion to the board for scheduling a shareowner meeting. SBA would not support changes if their impact would potentially inhibit participation by shareowners.

CHANGE/SET PROCEDURE FOR CALLING BOARD MEETINGS: CASE-BY-CASE

The SBA embraces full disclosure regarding the procedures for calling board meetings. Therefore, we typically vote FOR improvements in these procedures and the disclosure of these procedures.

ALLOW DIRECTORS TO VOTE ON MATTERS IN WHICH THEY ARE INTERESTED: CASE-BY-CASE

Generally, SBA does not support these proposals unless it is shown that the directors' interests are not material, or the proposal conforms to federal regulations or stock exchange requirements.

CHANGE QUORUM REQUIREMENT FOR BOARD MEETINGS: CASE-BY-CASE

SBA may support reasonable changes in quorum requirements for board meetings. We would not support a quorum of less than fifty percent.

REINCORPORATION TO A DIFFERENT STATE: CASE-BY-CASE

Corporations may change the state in which they are incorporated as a way of changing minimum or mandatory governance provisions. A corporation having no business contacts or connections in a state may nonetheless choose that state as its place

of incorporation and that state's laws will determine certain aspects of its internal governance structure. The ability of corporations to choose their legal domicile has led many states to compete for revenue from corporate fees and taxes by enacting management-friendly incorporation codes. This competition has encouraged states to support an array of antitakeover devices and provide wide latitude in restricting the rights of shareowners.

Many companies changed their state of incorporation to Delaware since the 1980s because they viewed it as having a predictable and favorable legal climate for management. In 2007, North Dakota changed its laws of incorporation to create an environment of corporate governance best practices and strong shareowner rights. SBA will support proposals to shift the state of incorporation to states with net improvements in shareowner protections; however, the opportunity to increase shareowner rights will be weighed against the costs and potential disruption of changing the state of incorporation.[51]

OFFSHORE REINCORPORATION: CASE-BY-CASE

In some circumstances the costs of a corporation's reincorporation may outweigh the benefits, primarily tax and other financial advantages. Reincorporation can also result in the loss of shareowner rights, financial penalties, future detrimental tax treatment, litigation, or lost business. The SBA evaluates reincorporation proposals by examining the economic costs and benefits and comparing governance and regulatory provisions between the locations.

CONTROL SHARE ACQUISITION PROVISIONS: CASE-BY-CASE

Control share acquisition statutes function by denying shares their voting rights when they contribute to ownership in excess of certain thresholds. Voting rights for those shares exceeding set ownership limits may only be restored by approval of either a majority or supermajority of disinterested shares. Thus, control share acquisition statutes effectively require a hostile bidder to put its offer to a shareowner vote or risk voting disenfranchisement if the bidder continues buying up a large block of shares. SBA supports proposals to opt out of control share acquisition statutes unless doing so would enable the completion of a takeover that would be detrimental to shareowners. SBA opposes proposals to amend the charter to include control share acquisition provisions or limit voting rights.

CONTROL SHARE CASH-OUT PROVISIONS: FOR

Control share cash-out statutes give dissident shareowners the right to "cash-out" of their position in a company at the expense of the shareowner who has taken a control position. When an investor crosses a preset threshold level, the remaining shareowners are given the right to sell their shares to the acquirer, who must buy them at the highest acquiring price. SBA typically supports proposals to opt out of control share cash-out statutes.

OPT-OUT OF DISGORGEMENT PROVISIONS: FOR

Disgorgement provisions require an acquirer or potential acquirer of more than a certain percentage of a company's stock to disgorge (or pay back) to the company any profits realized from the sale of that company's stock purchased 24 months before achieving control status. All sales of company stock by the acquirer occurring within a certain period (between 18 months and 24 months) prior to the investor's gaining control status are subject to these recapture-of-profits provisions. SBA supports proposals to opt out of state disgorgement provisions.

ANTI-GREENMAIL: FOR

Greenmail payments are targeted share repurchases by management of company stock from individuals or groups seeking control of the company. They are one of the most wasteful entrenchment devices available to management. Since only the hostile party receives payment, usually at a substantial premium over the market value of his shares, the practice is discriminatory to all other shareowners of the company. With greenmail, management transfers significant sums of corporate

[51] Subramanian, Guhan, "The Influence of Anti-takeover Statutes on Incorporation Choice: Evidence on the 'Race' Debate and Anti-takeover Overreaching." Harvard NOM Research Paper No. 01-10, December 2001.

cash to one entity for the purpose of fending off a hostile takeover. SBA supports proposals to adopt anti-greenmail charter or bylaw amendments or otherwise restrict a company's ability to make greenmail payments.

FAIR PRICE AND SIMILAR PROVISIONS IN TWO-TIERED TENDER OFFERS: CASE-BY-CASE

SBA supports proposals to adopt a fair price provision if the shareowners' vote requirement embedded in the provisions is no more than a majority of the disinterested shares. The SBA will vote against all other management fair price proposals. SBA also will typically support shareowner proposals to lower the shareowners' vote requirement embedded in existing fair price provisions.

FAIR PRICE PROVISION: CASE-BY-CASE

Fair price provisions are a variation on standard supermajority voting requirements for mergers, whereby shareowners vote before a significant business combination can be affected. Fair price provisions add a third option, allowing a bidder to consummate a merger without board approval or a shareowner vote if the offer satisfies the price requirements stipulated in the provision. Fair price provisions are normally adopted as amendments to a corporation's charter. The provisions normally include a super majority lock-in, a clause requiring a super majority shareowner vote to alter or repeal the provisions itself. We typically support management proposals to adopt a fair price provision, if the shareowner vote requirement imbedded in the provision is no more than a majority of the disinterested shares. We generally support shareowner proposals to lower the shareowner vote requirement imbedded in existing fair price provisions.

OPT OUT OF ANTI-TAKEOVER LAW: FOR

The SBA does not support corporations opting into state anti-takeover laws (e.g., Delaware). Such laws may prohibit an acquirer from making a well-financed bid for a target, which provides a premium to shareowners. We support proposals to opt out of state anti-takeover laws.

APPROVE STAKEHOLDER PROVISIONS: AGAINST

Stakeholder provisions or laws permit directors to weigh the interests of constituencies other than shareowners, including bondholders, employees, creditors, customers, suppliers, the surrounding community, and even society, in the process of corporate decision making. The SBA does not support proposals for the board to consider non-shareowner constituencies or other nonfinancial effects when evaluating making important corporate decisions, such as a merger or business combination.

Evaluating the impact on non-shareowner constituencies provides a board with an explicit basis, approved by the shareowners, which it may invoke to reject a purchase offer that may be attractive in purely financial terms. Some state laws also allow corporate directors to consider non-financial effects, whether the companies have adopted such a charter or bylaw provision. SBA would support proposals to opt-out of such provisions.

COMPENSATION

Compensation is an area that merits oversight from investors, as it exemplifies the delicate principal-agent relationship between shareowners and directors. Directors create compensation plans, often with the assistance of compensation consultants, which aim to motivate performance and retain management. Ultimately, it is the shareowners that bear the cost of these plans, and as average compensation packages have climbed steadily in value in recent years, shareowners have concern over the level of pay, the lack of disclosure, the role of compensation advisers, and the loyalty of board members to shareowners' interests over those of management. Voting against plans with exorbitant pay or poor design is an important shareowner duty, and engagement with companies on their plans and features is a meaningful way for shareowners to protect value and contribute to oversight of their agents.[52]

ADOPT OR AMEND STOCK AWARD OR OPTION PLAN: CASE-BY-CASE

The SBA supports compensation structures that provide incentives to directors, managers, and other employees by aligning their performance and economic interests with those of the shareowners. Therefore, we evaluate incentive-based compensation plans on reasonableness of the total cost to shareowners and the incentive aspects of the plan, as well as the overall design and transparency of the program.

Stock-based incentive plans should require some financial risk. Proper and full disclosure is essential for shareowners to assess the degree of pay-for-performance inherent in plans. Some companies disclose metrics and thresholds that are inappropriately low and easy to attain; other companies refrain from disclosing metrics and/or thresholds at all. When there is insufficient disclosure on plan metrics and compensation levels appear out of line with peers or problematic pay practices are used, SBA will not support the plan.

For plans to provide proper incentives, executive compensation should be linked directly with the performance of the business. Typically, companies use peer groups when developing compensation packages to make peer-relative assessments of performance. A company's choice of peers can have a significant impact on the ultimate scope and scale of executive compensation, and in many cases, companies set executive compensation at or above the fiftieth percentile of the peer group.[53] Problematic issuer-developed peer groups may exhibit the following red flags: 1) too many firms listed (more than 15); 2) bias toward "peers" that are substantially larger and/or more profitable;[54] 3) peer groups with unusually high CEO pay, particularly if not direct competitors; 4) groups with too many industries and geographic markets included; and 5) unexplained year-to-year peer group changes. When the basis of compensation uses benchmarks and relative comparisons to an inappropriate peer group selection, SBA is unlikely to support the compensation plan.

When making voting decisions, we look for reasonable compensation levels, both on an absolute basis and relative to peers, alignment between pay and performance, disclosure of performance metrics and thresholds, and fair plan administration practices. We may vote against compensation plans for the following reasons:

- High compensation levels on an absolute or peer-relative basis
- Disconnect between pay and performance
- Poor disclosure of performance metrics, thresholds, and targets
- Heavy reliance on time-based instead of performance-based vesting
- Imbalance between long-term and short-term incentive program payments
- Large, guaranteed payments

[52] CFA Centre for Financial Market Integrity, "The Compensation of Senior Executives at Listed Companies: A Manual for Investors," 2007.
[53] Bizjak, M. John, Lemmon, L. Michael, and Naveen, Lalitha. 2000 "Has the Use of Peer Groups Contributed to Higher Pay and Less Efficient Compensation?" [56] Faulkender, Michael W. and Yang, Jun, "Inside the Black Box: The Role and Composition of Compensation Peer Groups," (March 15, 2007). AFA 2008 New Orleans Meetings Paper.
[54] Albuquerque, Ana M., De Franco, Gus and Verdi, Rodrigo S., "Peer Choice in CEO Compensation," (July 21, 2009). Available at SSRN: http://ssrn.com/abstract=1362047.

- Failure to modify compensation award metrics for accounting adjustments or the impact of stock repurchases (buybacks)
- "Long-term" plans with overly short performance measurement and payout periods
- Excessive severance or single-trigger change-in-control packages
- Plans that cover non-employee consultants or advisors
- Inappropriate peer group selections resulting in outsized or misaligned pay
- Excessive perquisites
- Lack of stock ownership guidelines for executives
- Tax gross-ups, evergreen issues, or option repricing practices are permitted
- Accelerated or unreasonable vesting provisions
- Dividend payments are made or allowed to accrue on unvested or unearned awards
- Lack of an independent compensation committee or egregious consultant practices
- Poor committee response to investor concerns, proposals or engagements, especially insufficient response to recent low vote outcomes on compensation plan items including say-on-pay votes.

ADVISORY VOTE ON EXECUTIVE COMPENSATION: CASE-BY-CASE

Say-on-pay votes are required in several markets, including the U.S., U.K., Australia, the Netherlands, Sweden, Norway, and Spain. These advisory votes allow investors to provide feedback on the administration of a company's pay program, typically on an annual basis (though in some markets, investors of some companies have voted for lesser frequencies of two or three years). Say-on-pay advisory votes add value because investors can seek accountability if the administration of an approved plan proves to be poor. The combination of compensation plan votes and annual say-on-pay advisory votes allow investors to approve the plans and still weigh in on the actual administration of those plans on a regular basis. SBA uses similar criteria for evaluating say-on-pay proposals as detailed in the "Adopt or amend stock incentive plan" guideline.

ADOPT BONUS 162(M) PLAN (U.S.): CASE-BY-CASE

SBA reviews proposals to adopt performance-based cash bonus plans for executives on a case-by-case basis. These plans are put to a shareowner vote to preserve the tax deductibility of compensation in excess of $1 million for the five most highly compensated executives, pursuant to section 162(m) of the Internal Revenue Code. A vote against these plans does not necessarily prevent the bonus from being paid, but only precludes the ability to take a tax deduction.[55] SBA will vote against these proposals under any of these conditions: misalignment of pay and performance, lack of defined or acceptable performance criteria, or unlimited or excessively high maximum pay-outs.

ADOPT OR AMEND EMPLOYEE STOCK PURCHASE PLAN: CASE-BY-CASE

Employee stock purchase plans (ESPP) are normally broad-based equity plans that allow employees to purchase stock via regular payroll deductions, often at a reduced price. Equity-based compensation can be a useful tool in aligning the interests of management and employees with those of the shareowners. ESPPs provide low-cost financing for corporate stock and can improve employee productivity, both of which should, in theory, lead to increased shareowner value. Numerous studies favorably link ESPPs with improved corporate performance.[57] SBA considers the plan's salient features, such as use of evergreen provisions, purchase limits/discounts, pay deductions, matching contributions, holding requirements, tax deductibility, the size and cost of the plan, as well as the company's overall use of equity compensation, in making voting decisions. The plan is generally accepted if the combined amount of equity used across all programs is deemed reasonable.

LINKING PAY WITH PERFORMANCE: CASE-BY-CASE

These proposals would require the company to closely link pay with performance, using performance measures that are mandated in the proposal language or that must be presented to investors by the company for pre-approval.

[55] "Section 162(m) Requirements, Implications and Practical Concerns," Exequity, September 2008;
2006 Employee Stock Purchase Plan Report, Equilar, Inc., 2006.

When the performance measures are mandated by the proposal language, SBA typically supports proposals that reasonably and fairly align pay with specific performance metrics, require detailed disclosures, or mandate adherence to fair compensation practices. We are less likely to support proposals that require metrics that are a degree removed from ultimate performance measures, such as proposals that require pay to be linked to performance on specific social mandates, absent a compelling argument for their usage.

SBA supports meaningful investor oversight of executive compensation practices and generally supports proposals requiring shareowner approval of specific performance metrics in equity compensation plans. SBA supports prior disclosure of performance metrics including quantifiable performance measures, numerical formulas, and other payout schedules covering at least a majority of all performance-based compensation awards to any named executive officers.

OPTION REPRICING: CASE-BY-CASE, TYPICALLY AGAINST

Option repricing is a contravening of the incentive aspect of plans. If the company has a history of repricing underwater options, SBA is unlikely to vote in support. There are very rare instances where repricing is acceptable, but several strict conditions must be met including a dramatic decline in stock value due to serious macroeconomic or industry-wide concerns and the necessity to reprice options to retain and motivate employees.

RECOUP BONUSES OR INCENTIVE COMPENSATION THROUGH CLAWBACK PROVISIONS: CASE-BY-CASE

Most commonly, clawback provisions address situations where the company's restated financial statements show that an executive did not achieve the performance results necessary for the executive to receive a bonus or incentive compensation. SBA recognizes that clawback provisions are an important aspect of performance-based compensation plans. To align executive interests with the interests of shareowners, executives should be compensated for achieving performance benchmarks. Equally, an executive should not be rewarded if he or she does not achieve established performance goals. If restated financial statements reveal that the executive was falsely rewarded, he or she should repay any unjust compensation received.

SBA evaluates these proposals by taking into consideration the impact of the proposal in cases of fraud, misstatement, misconduct, and negligence, whether the company has adopted a formal recoupment policy, and if the company has chronic restatement history or material financial problems.

DISCLOSURE OF WORK BY COMPENSATION CONSULTANTS: FOR

External compensation consultants should be independent to ensure that advice is unbiased and uncompromised. Multiple business dealings or significant revenue from the company may impair the independence of a pay consultant's opinions, advice, or recommendations to the compensation committee. The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 requires that compensation committees analyze the independence of their compensation consultants and advisers and disclose any conflicts of interest concerning such consultants and advisers. Item 407(e)(3)(iv) of Regulation S-K codifies the SEC's proxy disclosure requirement with respect to compensation consultant conflicts of interest, applicable to proxies filed in 2013 and thereafter.[56] Compensation committees are required to assess whether the consultant's work raises any conflicts of interest and, if so, disclose to investors information about the nature of any such conflict and how the conflict is being addressed.

SBA generally supports proposals seeking disclosure regarding the company, board, or compensation committee's use of compensation consultants, such as company name, business relationships, fees paid, and identification of any potential conflicts of interest. Additionally, compensation consultants should not be eligible as consultants or advisors on any stock incentive plan at the company.

[56] Securities and Exchange Commission Final Rule, "Listing Standards for Compensation Committees," adopted June 20, 2012, effective July 27, 2012.

RESTRICT EXECUTIVE PAY: CASE-BY-CASE

SBA supports levels of compensation that are consistent with the goal of aligning management's interests with shareowners' interests. Absolute limits may inhibit the compensation committee's ability to fulfill its duties. When the company's executive compensation and performance have been reasonable and in line with that of peers, SBA is unlikely to support proposals seeking an arbitrary cap.

HEDGING AND PLEDGING COMPANY STOCK: CASE-BY-CASE

Companies are increasingly adopting policies that prohibit insiders, such as board directors and senior executives, from hedging the value of their company equity or pledging company shares as collateral to margin accounts. Hedging is a strategy to offset or reduce the risk of price fluctuations for an asset or equity. Stock-based compensation or open-market purchases of company stock should serve to align executives' or directors' interests with shareowners. Hedging of company stock through a covered call, 'cashless' collar, forward sale, equity swap, or other derivative transactions can sever the alignment with shareowners' interests. Some researchers have found negative stock price performance associated with certain hedging activities.[57] Pledging of company stock as collateral for a loan may have a detrimental impact on shareowners if the officer or director is forced to sell company stock, for example, to meet a margin call. The forced sale of significant amounts of company stock may negatively impact the company's stock price and may also violate a company's insider trading policies and 10b5-1 trading plans. In addition, pledging of shares may be utilized as part of hedging or monetization strategies that could potentially immunize an executive against economic exposure to the company's stock, even while maintaining voting rights. Such strategies may also serve to significantly alter incentives embedded within long-term compensation plans. SBA generally supports proposals designed to prohibit named executive officers from engaging in derivative or speculative transactions involving company stock, including hedging, holding stock in a margin account, or pledging large amounts of stock as collateral for a loan. SBA will evaluate the company's historical practices, level of disclosure, and current policies on the use of company stock.

PROHIBIT TAX GROSS-UPS: FOR

Tax gross-ups are reimbursements to senior executives paid by the company to cover an executive's tax liability. Tax gross-ups are an unjustifiably costly practice to shareowners; it generally takes at least $2.50 and as much as $4 to cover each $1 of excise tax that must be "grossed-up."[58] SBA generally supports proposals for companies to adopt a policy of not providing tax gross-up payments to executives, except in situations where gross-ups are provided pursuant to a plan, policy, or arrangement applicable to management employees of the company, such as a relocation or expatriate tax equalization policy.

REQUIRE SUPERMAJORITY OF INDEPENDENT BOARD MEMBERS TO APPROVE CEO COMPENSATION: AGAINST

SBA generally votes against proposals to seek approval of an amendment to the bylaws to provide that a company's CEO's compensation must be approved by a supermajority of all independent directors of the board. Proponents of this proposal argue that approval of this proposal would ensure that the company provides a CEO pay package that is widely supported by its independent directors, increasing the likelihood that the company's independent directors are kept informed of and feel shared responsibility for CEO compensation decisions. However, SBA supports the compensation committee members as sufficient to be the knowledgeable arbiters of compensation plan terms, metrics, and pay-outs.

MANDATORY HOLDING PERIODS: CASE-BY-CASE

SBA supports proposals asking companies to adopt substantial mandatory holding periods for their executives, as well as requiring executives to meet stock ownership retention of at least a majority of shares granted or otherwise transferred in executive compensation arrangements. When making voting decisions, SBA considers whether the company has any holding

[57] J. Carr Bettis, John M. Bizjak, and Swaminathan L. Kalpathy, "Why Do Insiders Hedge Their Ownership and Options? An Empirical Examination," Social Science Research Network, March 2010.

[58] "New Study on Tax Gross-ups," Risk & Governance Weekly, 12/5/08.

period or officer ownership requirements in place and how actual stock ownership of executive officers compares to the proposal's suggested holding period and the company's present ownership or retention requirements.

EXECUTIVE SEVERANCE AGREEMENTS OR GOLDEN PARACHUTES: CASE-BY-CASE

SBA examines a variety of factors that influence the voting decision in each circumstance, such as:

- The value of the pay-outs in relation to annual salary plus certain benefits for each covered employee as well as the equity value of the overall transaction;
- The scope of covered employees along with their tenures and positions before and after the transaction, as well as other new or existing employment agreements in connection with the transaction;
- The scope of change in control agreement as it relates to the nature of the transaction;
- The use of tax gross-ups;
- Features that allow accelerated vesting of prior equity awards or automatic removal of performance-based conditions for vesting awards;
- For new or outside executives, the lack of sunset provisions; and
- The type of "trigger" necessary for plan pay-outs. Single triggers involve just a change in control; double triggers require a change in control and termination of employment.

Ideally, a golden parachute should not incentivize the executive to sacrifice ongoing opportunities with the surviving firm and should be triggered by a mechanism that is outside of the control of management. Likewise, careful structuring can enhance shareowner value and result in higher takeover bids; exorbitant pay-outs may discourage acquirers from seeking the company as a target and result in a lower shareowner value. Plans that include excessive potential pay-outs, single triggers, overly broad change in control applications, and/or accelerated vesting features are typically not supported by the SBA. Occasionally, more detrimental features such as single triggers or overly broad application of the plan to lower-level employees may warrant withholding votes from compensation committee members in addition to an against vote on the golden parachute plan. Some research indicates that firms adopting golden parachutes experience reductions in enterprise value, as well as negative abnormal stock returns, both during the inter-volume period of adoption and thereafter.[59]

Some executives may receive provision for severance packages, vested shares, salary, bonuses, perquisites, and pension benefits even after death.[60] Most public companies include death benefits with other types of termination-related pay due their CEOs, with variations for whether the person is fired, becomes disabled or dies in office. Death benefits may be layered on top of pensions, vested stock awards and deferred compensation, which for most CEOs already amount to large sums. Though not all companies provide it, the most common posthumous benefit is acceleration of unvested stock options and grants of restricted stock; these accelerated vesting provisions are not supported by SBA proxy voting guidelines. SBA supports their removal from compensation frameworks.

SUPPLEMENTAL EXECUTIVE RETIREMENT PLANS (SERPS): CASE-BY-CASE

SERPs are non-qualified, executive-only retirement plans under which the company provides an additional retirement benefit to supplement what is offered under the employee-wide plan where contribution levels are capped. SERPs are different from typical qualified pension plans in two ways. First, they do not receive the favorable tax deductions enjoyed by qualified plans. The company pays taxes on the income it must generate to pay the executive in retirement. Therefore, some critics contend that the executive's tax obligation is shifted to the company. Second, SERPs typically guarantee fixed payments to the executive for life. Unlike defined contribution plans, SERPs transfer the risk of investment performance entirely to the firm. Even if the company or its investment performs poorly, the executive is entitled to receive specified stream of payments.[61] SBA may

[59] Lucian A Bebchuk, Alma Cohen, and Charles C. Y. Wang, "Golden Parachutes and the Wealth of Shareholders," Harvard Law and Economics Discussion Paper No. 683 (October 2012).

[60] "Companies Promise CEOs Lavish Posthumous Paydays," Wall Street Journal, June 10, 2008.

[61] Bebchuk, Lucian Arye and Fried, Jesse M., "Pay without Performance: Overview of the Issues", Journal of Corporation Law, Vol. 30, No. 4, pp. 647-673, 2005.

Also see Bebchuk, Lucian A., Cohen, Alma, and Spamann, Holger, "The Wages of Failure" (Working Draft, November 22, 2009).

support proposals to limit their usage if there is evidence of abuse in the SERP program or post-employment benefits that indicate the company is operating the program in excess of peers. SBA also supports the limitation of SERP formulas to base compensation, rather than the extension to variable compensation or other enhancements, and we do not endorse the practice of granting additional years of service that were not worked.

PRE-ARRANGED TRADING PLANS (10B5-1 PLANS): CASE-BY-CASE

The SBA generally supports proposals calling for certain principles regarding the use of prearranged trading plans (10b5-1 plans) for executives. These principles include:

- Adoption, amendment, or termination of a 10b5-1 Plan are disclosed within two business days in a Form 8-K;
- Amendment or early termination of a 10b5-1 Plan is allowed only under extraordinary circumstances, as determined by the board;
- Multiple, overlapping 10b5-1 plans should be prohibited;
- Plans provide that ninety days must elapse between adoption or amendment of a 10b5-1 Plan and initial trading under the plan;
- Reports on Form 4 must identify transactions made pursuant to a 10b5-1 Plan;
- An executive may not trade in company stock outside the 10b5-1 Plan; and
- Trades under a 10b5-1 Plan must be handled by a broker who does not handle other securities transactions for the executive.

Boards of companies that have adopted 10b5-1 plans should adopt policies covering plan practices, periodically monitor plan transactions, and ensure that company policies cover plan use in the context of guidelines or requirements on equity hedging, pledging, holding, and ownership.

DIRECTOR COMPENSATION: CASE-BY-CASE

Non-employee director compensation should be composed of a mix of cash and stock awards, where market practices do not prohibit such a mix. Director compensation plans are evaluated by comparing the cash compensation plus the approximate value of the equity-based compensation per director to a peer group with similar size and enterprise value. The initial compensation that is provided to new directors is also considered. The cash retainer and equity compensation are adequate compensation for board service; therefore, SBA does not support retirement benefits for non-employee directors. We encourage stock ownership by directors and believe directors should own an equity interest in the companies upon which boards they are members. However, we do not support a specific minimum or absolute ownership levels.

BUSINESS CONDUCT

SBA often engages with companies outside of the proxy voting process, speaking directly to corporate and board representatives about business conduct decisions relevant to shareowner value, such as in the guidelines discussed below. Most of the guidelines in this section cover proposals that are submitted by shareowners rather than management, but these issues impact most companies regardless of whether they have had shareowner proposals submitted. Therefore, engagement is an extremely effective and important tool for mitigating the widespread and systematic risks inherent in these issues.

SBA considers the vote on these proposals to be an important part of the communication process with management. We support these proposals when their adoption seems prudent considering the current circumstances and the proposed actions may reasonably be considered to have a cost-effective, protective impact on shareowner value. These topics cover risks such as product safety, environmental impact, and human rights abuses—areas where investors have experienced significant share value losses over time due to missteps in management of these risks. It is our fiduciary duty to engage companies and make prudent voting decisions in the presence of substantial risks, by supporting reasonable proposals and maintaining a dialogue with companies on these topics.

PRODUCT SAFETY: CASE-BY-CASE

Inadequate product safety standards can be catastrophic to brand and market value through lost sales, fines, and legal liability. Failure to implement effective safety standards, and to enforce them throughout the supply chain, creates a risk that is difficult to overstate. Generally, SBA supports reasonable proposals requesting increased disclosure regarding oversight procedures, product safety risks, or the use of potentially dangerous or toxic materials in company products. Proposals asking the company to cease using certain production methods or materials will be evaluated based on the merits of the case supporting the actions called for in the proposal. SBA also considers current regulations, recent significant controversy, litigation and/or fines, and the current level of disclosure by the company.

FACILITY SAFETY (NUCLEAR AND CHEMICAL PLANT SAFETY): CASE-BY-CASE

Resolutions requesting that companies report on risks associated with their operations and/or facilities are examined on a case-by-case basis, by considering the company's compliance with applicable regulations and guidelines; the level of existing disclosure related to security and safety policies, procedures, and compliance monitoring; and the existence of recent, significant violations, fines, or controversy related to the safety and security of the company's operations or facilities.

Some shareowner-sponsored resolutions ask a company to cease production associated with the use of depleted uranium munitions or nuclear weapons components and delivery systems, including disengaging from current and proposed contracts. Such contracts are monitored by government agencies, serve multiple military and non-military uses, and withdrawal from these contracts could have a negative impact on the company's business. SBA evaluates these proposals on a case-by case basis, but generally leaves decisions on the risk of engaging in certain lines of business up to the board, absent compelling a rationale to intervene.

ANIMAL TESTING AND WELFARE POLICIES: CASE-BY-CASE

Some resolutions ask companies to report on animal welfare conditions or to make changes in procedures relating to the treatment of animals. SBA examines each proposal in the context of current regulations, consumer sentiment, company disclosures, available technology and potential alternatives to the company's present procedures, and the feasibility and cost impact of the proposal when making a voting determination.

ENERGY AND ENVIRONMENT: CASE-BY-CASE

The SBA examines each proposal in the context of current regulations, company practices, and company disclosures when making a voting determination. The SBA evaluates such proposals, considering whether the company has clearly disclosed its

current policies and action plans, as well as an analysis of the potential for regulatory and business risks in their operations. Proposals that request a company engage in specific environmental actions are evaluated on the potential to contribute to improved shareowner value.

Marketing, Sales, and Business Policies

RESTRICTIONS ON PRODUCT SALES, PRICING AND MARKETING: CASE-BY-CASE

Absent compelling arguments that product marketing or pricing has potential to cause damage such as through increased liability or reputational concern, SBA generally allows management to determine appropriate business strategies and marketing tactics.

PRIVACY AND CENSORSHIP: CASE-BY-CASE

As technology has changed, consumers have become more dependent on products that generate significant amounts of personal data, raising concerns over susceptibility to both government surveillance and invasive corporate marketing. In some markets, freedom to access information on the internet is impaired by government decree. Shareowners may make proposals asking companies to limit their own use of consumer-generated data or prohibit access to the data by other entities, such as governments. Proposals may also ask companies to cease certain business lines in countries where governments demand access to the data or the blocking of certain information. Such restrictions may not only violate human rights, but they also decrease the quality of service provided by companies and threaten the integrity of the industry. Proposals may also ask companies to provide reports on their practices and policies related to these concerns.

The SBA generally votes in favor of reasonable, disclosure-based resolutions relating to policies on data collection and internet access, unless the company already meets the disclosure provisions requested in the proposal. SBA considers the level of current applicable disclosure on the topic, the history of stakeholder engagement, nature and scope of the company's operations, applicable legislation, and the company's history of controversy and litigation as it pertains to human rights. SBA generally does not support proposals asking companies to modify or restrict their business operations in certain markets, unless under extraordinary circumstances where a considerable threat to the company's operations or reputation exists.

OPERATIONS IN HIGH-RISK MARKETS: CASE-BY-CASE

Shareowners may propose that companies adopt guidelines for doing business with or investing in countries where there is a pattern of ongoing egregious and systematic violations of human rights. Shareowners of companies operating in regions that are politically unstable, including terrorism-sponsoring states, sometimes propose ceasing operations or re-porting on operations in high-risk markets. Such concerns focus on how these business activities or investment may, in truth or by perception, support potentially dangerous and/or oppressive governments, and further, may lead to potential company reputational, regulatory, or supply chain risks. In accordance with §215.471(2) of Florida Statutes, the SBA votes against all proposals advocating increased United States trade with Cuba, Syria or Venezuela, and SBA will not vote in favor of any proxy resolution advocating the support of the Maduro regime in Venezuela per resolution of the Trustees of the State Board of Administration. SBA is also prohibited by state law from investing in companies doing certain types of business in Iran and Sudan.

SBA votes on a CASE-BY-CASE basis when evaluating requests to review and report on the company's potential financial and reputation risks associated with operations in high-risk markets, such as a terrorism-sponsoring state or otherwise, considering:

- Compliance with Florida state law;
- Compliance with U.S. sanctions and laws;
- Consideration of other international policies, standards, and laws;
- The nature, purpose, and scope of the operations and business involved that could be affected by social or political disruption;
- Current disclosure of applicable risk assessments and risk management procedures; and
- Whether the company has been recently involved in significant controversies or violations in high-risk markets.

CONFLICT MINERALS: CASE-BY-CASE

As a part of the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act, the SEC mandates that public companies using 'conflict minerals' annually report on the scope of their due diligence of their suppliers, in addition to making disclosures about any payments made to foreign governments for the acquisition or production of these resources. SBA evaluates the scope of proposals going beyond the reports required by the SEC, as well as the economic rationale, and compares it to the expected compliance costs in making a voting decision.

POLITICAL NEUTRALITY: CASE-BY-CASE

These resolutions call for companies to maintain political neutrality. They may also propose that appearance of coercion in encouraging its employees to make political contributions be avoided. The SBA examines proposals requesting the company to affirm political non-partisanship in the workplace on a case-by-case basis. We generally vote against such resolutions provided that the company complies with laws governing corporate political activities and the company has procedures in place to ensure that employee contributions to company-sponsored political action committees (PACs) are strictly voluntary and not coercive.

Codes of Conduct

CODES OF CONDUCT: CASE-BY-CASE

Workplace codes of conduct are designed to safeguard workers' rights in the international marketplace. Advocates of workplace codes of conduct encourage corporations to adopt global corporate standards that ensure minimum wages and safe working conditions for workers at in developing countries. U.S. companies that outsource portions of their manufacturing operations to foreign companies are expected to ensure that the products received from those contractors do not involve the use of forced labor, child labor, or sweatshop labor. A number of companies have implemented vendor standards, which include independent monitoring programs with respected local human rights and religious organizations to strengthen compliance with international human rights norms. Failure to manage the risks to workers' safety and human rights can result in boycotts, litigation, and stiff penalties.

When compliance is deemed necessary, SBA favors incorporation of operational monitoring, code enforcement, and robust disclosure mechanisms.[62] SBA prefers to see companies with supply-chain risks proactively engage an independent monitoring organization to provide objective oversight and publicly disclose such evaluation.

NORTHERN IRELAND (MACBRIDE PRINCIPLES): FOR

The MacBride Principles call on companies with operations in Northern Ireland to promote fair employment practices. Signatories of the MacBride Principles agree to make reasonable, good faith efforts to abolish all differential employment criteria whose effect is discrimination based on religion. SBA supports adoption and implementation of the MacBride Principles, along with fair and transparent employment practices by firms operating in Northern Ireland.

[62] "Incorporating Labor and Human Rights Risk into Investment Decisions." Aaron Bernstein, Harvard Labor and Worklife Program, Occasional Paper Series No. 2, September 2008.

MUTUAL FUND VOTING

Like shareowners of publicly held corporations, shareowners of mutual funds are allowed a voice in fund governance. While some funds proscribe annual meetings in their charter documents, all funds must call special meetings of shareowners to amend substantive governance matters such as board composition, investment advisory agreements, distribution agreements, and changes to fundamental investment restrictions. To this end, mutual fund managers issue and solicit proxies like the way that stock corporations do.

Mutual fund proxies raise issues that differ substantially from those found in the proxies of public companies. Though mutual fund proxy holders are also frequently asked to elect trustees and ratify auditors, most of the other agenda items are related to the special nature of this type of security. As with elections of directors of corporations, it is preferable to see mechanisms that promote independence, accountability, responsiveness, and competence regarding the mutual fund. There is evidence demonstrating a positive link between the quality of a mutual fund's board and its future performance and Sharpe ratio.[63] SBA's voting approach on mutual fund resolutions is like that of our approach on publicly traded company resolutions in that votes are cast with an intention of maximizing value and preserving or enhancing investor rights.

Fund Objective and Structure

The principal investment strategy identifies the financial market asset class or sub-sector in which the fund typically invests, e.g., the fund normally invests at least eighty percent of its assets in stocks included in the S&P 500. A fundamental investment restriction identifies prohibited activities, e.g., the fund may not invest more than twenty-five percent of the value of its total assets in the securities of companies primarily engaged in any one industry.

Beyond a fund's investment objectives, fund structure may also affect shareowner value. Most investment funds are open-end investment companies, meaning that they have no set limit on the number of shares that they may issue. A change in fee structure or fundamental investment policy requires the approval of a majority of outstanding voting securities of the fund, which under the Federal Investment Company Act of 1940 is defined as the affirmative vote of the lesser of either sixty-seven percent or more of the shares of the fund represented at the meeting, if at least 50 percent of all outstanding shares are represented at the meeting, or fifty percent or more of the outstanding shares of the fund entitled to vote at the meeting. Failure to reach this "1940 Act majority" subjects the funds to additional solicitation and administrative expenses.

ELECTION OF DIRECTORS: CASE-BY-CASE

Like the election of directors of corporations, it is preferable to see mechanisms that promote independence, accountability, responsiveness, and competence within the mutual fund. Votes on director nominees should be determined on a case-by-case basis, considering the following factors:

- Director independence and qualifications, including relevant skills and experience;
- Past performance relative to its peers;
- Board structure;
- Attendance at board and committee meetings;
- Number of mutual funds' boards and/or corporate boards (directorships) upon which a nominee sits; and
- If a proxy contest, Strategy of the incumbents versus the dissidents.

SBA typically withholds votes from directors if:

- They've attended less than 75 percent of the board and committee meetings without a valid reason for the absences;
- They've ignored a shareowner proposal that was approved by a majority of the shares voting;
- They are non-independent directors and sit on the audit or nominating committees;

[63] Carl R. Chen and Ying Huang, "Mutual Fund Governance and Performance: A Quantile Regression Analysis of Morningstar's Stewardship Grade," Corporate Governance: An International Review, 2011, 19(4): 311-333.

- They are non-independent directors, and the full board serves as the audit or nominating committee, or the company does not have one of these committees; or
- The audit committee did not provide annual auditor ratification, especially in the case of substantial non-audit fees or other poor governance practices.

CONVERTING CLOSED-END FUND TO OPEN-END FUND: CASE-BY-CASE

The SBA evaluates conversion proposals on a case-by-case basis, considering the following factors:

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

INVESTMENT ADVISORY AGREEMENTS: CASE-BY-CASE

Votes on investment advisory agreements are determined by considering the following factors:

- Proposed and current fee schedules;
- Fund category/investment objective;
- Performance benchmarks;
- Share price performance as compared with peers;
- Resulting fees relative to peers; and
- Assignments (where the advisor undergoes a change of control).

When considering a new investment advisory agreement or an amendment to an existing agreement, the proposed fee schedule should be compared with those fees paid by funds with similar investment objectives. Any increase in advisory fees of more than 10 percent of the prior year's fees are judged to determine the long-term impact on shareowner value, and management must offer a detailed, specific, and compelling argument justifying such a request.

APPROVE NEW CLASSES OR SERIES OF SHARES: FOR

The SBA generally votes FOR the establishment of new classes or series of shares. Boards often seek authority for a new class or series of shares for the fund to grow the fund's assets. The ability to create classes of shares enables management to offer different levels of services linked to the class or series of shares that investors purchase. Also, fee structures can be varied and linked to the series of shares, which allows investors to choose the purchasing method best suited to their needs. The board can use separate classes and series of shares to attract a greater number of investors and increase the variety of services offered by the fund.

CHANGE FUND'S INVESTMENT OBJECTIVE OR CLASSIFICATION: CASE-BY-CASE

Votes on changes in a fund's objective or classification are determined on a case-by-case basis, considering the following factors:

- Potential competitiveness;
- Current and potential returns;
- Risk of concentration; and
- Consolidation in target industry.

AUTHORIZE THE BOARD TO HIRE OR TERMINATE SUB-ADVISORS WITHOUT SHAREOWNER APPROVAL: AGAINST

SBA generally opposes proposals authorizing the board to hire or terminate sub-advisors without shareowner approval. Typically, the management company will seek authority, through the investment advisor, to hire or terminate a new sub-

advisor, modify the length of a contract, or modify the sub-advisory fees on behalf of the fund. These investment decisions are normally made with majority shareowner approval, as determined by Section 15 of the Investment Company Act of 1940. However, funds may apply to the SEC for exemptions to this rule, and the SEC often grants these exemptions. These exemptions are usually structured so that they do not apply to the investment sub-advisory agreement that is in place at the time but apply to any future sub-advisory agreement into which the fund enters.

MERGERS: CASE-BY-CASE

The SBA generally evaluates mergers and acquisitions on a case-by-case basis, determining whether the transaction enhances shareowner value by considering:

- Resulting fee structure;
- Performance of both funds;
- Continuity of management personnel; and
- Changes in corporate governance and the impact on shareowner rights.

CHANGE DOMICILE: CASE-BY-CASE

The SBA votes on fund re-incorporations on a case-by-case basis by considering the regulations and fundamental policies applicable to management investment companies in both states. Shareowner rights can be particularly limited in certain states, including Delaware, Maryland, and Massachusetts.[64]

AMENDMENTS TO THE CHARTER: CASE-BY-CASE

The SBA votes on changes to the charter document on a case-by-case basis, considering the following factors:

- The potential impact and/or improvements, including changes to competitiveness or risk;
- The standards within the state of incorporation; and
- Other regulatory standards and implications.

The SBA generally opposes of the following changes:

- Removal of shareowner approval requirement to reorganize or terminate the trust or any of its series;
- Removal of shareowner approval requirement for amendments to the new declaration of trust;
- Removal of shareowner approval requirement to amend the fund's management contract, allowing the contract to be modified by the investment manager and the trust management, as permitted by the 1940 Act;
- Allow the trustees to impose other fees in addition to sales charges on investment in a fund, such as deferred sales charges and redemption fees that may be imposed upon redemption of a fund's shares;
- Removal of shareowner approval requirement to engage in and terminate sub-advisory arrangements; and
- Removal of shareowner approval requirement to change the domicile of the fund.

SHAREOWNER PROPOSALS TO ESTABLISH DIRECTOR OWNERSHIP REQUIREMENT: CASE-BY-CASE

The SBA generally favors the establishment of a director ownership requirement and considers a director nominee's investment in the fund as a critical factor in evaluating his or her candidacy. This decision should be made on an individual basis and not according to an inflexible standard. If the director has invested in one fund of the family, he/she is considered to own stock in the fund.

SHAREOWNER PROPOSALS TO TERMINATE INVESTMENT ADVISOR: CASE-BY-CASE

Votes on shareowner proposals to terminate the investment advisor considering the following factors:

- Performance of the fund;
- The fund's history of shareowner relations; and

[64] Lucian Bebchuk and Alma Cohen, "Firms' Decisions Where to Incorporate." National Bureau of Economic Research Working Paper 9107, August 2002.

- Performance of other funds under the advisor's management.

ASSIGN TO THE USUFRUCTUARY (BENEFICIARY), INSTEAD OF THE TRUSTEE, THE VOTING RIGHTS APPURTENANT TO SHARES HELD IN TRUST: CASE-BY-CASE

The SBA votes against if the company assigns voting rights to a foundation allied to management.

SHAREOWNER PROPOSALS TO ADOPT A POLICY TO REFRAIN FROM INVESTING IN COMPANIES THAT SUBSTANTIALLY CONTRIBUTE TO GENOCIDE OR CRIMES AGAINST HUMANITY: CASE-BY-CASE

The SBA will evaluate such proposals with an adherence to the requirements and intent of Florida law, including but not limited to the Protecting Florida's Investments Act, which prohibits investment in companies involved in proscribed activities in Sudan or Iran, and other laws covering companies with policies on or investments in countries such as Cuba, Northern Ireland, and Israel.

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