2024 Stewardship Priorities & Proxy Voting Guideline Updates

NEW YORK STATE COMMON RETIREMENT FUND

Office of the New York
STATE COMPTROLLER
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The New York State Common Retirement Fund's Corporate Governance Program actively engages with the Fund's public equity portfolio companies to foster the development of robust governance practices and prudent management of environmental and social factors. The Fund is committed to communicating its priorities and expectations in a transparent way to encourage open engagement with its public equity portfolio companies. The Fund's 2024 stewardship priorities and most impactful changes to its proxy voting guidelines are outlined below.

Climate Change

Climate change poses risks to the economy, financial markets, and the Fund's investments. The Fund recognizes the immense investment risks posed by climate change, but also recognizes the significant investment opportunities in the transition to the emerging net-zero economy. To address the physical, transition and systemic risks that climate change poses to the Fund's investments, the Fund has adopted a Climate Action Plan and a goal to align its portfolio with net zero greenhouse gas emissions (GHG) by 2040.

The Fund expects companies to provide comprehensive climate disclosure in line with the Task Force on Climate-related Financial Disclosures' (TFCD) recommendations which provide a widely adopted, useful framework for investment analyses and decision-making that includes key disclosure criteria — governance, strategy, risk management, metrics and targets. The Fund also expects companies to report GHG emissions data, targets to reduce their GHG emissions across the value chain, and climate transition plans describing how the companies will achieve stated climate targets.

The Fund's Proxy Voting Guidelines have been updated for 2024 to generally withhold support from audit committee members or directors responsible for climate risk oversight when the company fails to disclose and appropriately manage and comprehensively report climate risks. The Fund's updated proxy guidelines incorporate criteria used to evaluate companies' climate performance including climate transition plans and strategies, GHG emissions reduction targets, capital expenditure alignment, and TCFD disclosure (pages 25-29). The Fund utilizes a variety of data sources, such as company filings, CDP, and the Climate Action 100+ net-zero benchmarking assessment, to inform the Fund's independent voting on board directors.

Diversity, Equity & Inclusion

Diversity, equity and inclusion are fundamental values of companies with sound, sustainable and profitable long-term strategies. Companies increasingly recognize that fostering a diverse workforce, promoting equity and ensuring inclusion are critical drivers of business success. Failure to establish robust DEI policies and practices can result in reputational damage, the loss of talent and stunted innovation.

The Fund expects companies to address racial and/or ethnic diversity-related controversies; disclose detailed workforce diversity statistics, such as EEO-1 type data; provide adequate internal frameworks or processes for addressing implicit or systemic bias throughout the organization; undertake initiatives to enhance workforce diversity and inclusion, including trainings, projects or pay disclosure; and report, using metrics or key performance indicators to demonstrate progress toward goals. Companies should implement best practices for hiring and retaining people with disabilities. Specific expectations are outlined in the Fund's guidelines (pages 29-32).

Workforce Management

A company's ability to establish and maintain constructive relationships with its workers is a hallmark of a company with a sound, sustainable and profitable long-term strategy. Workforce management best practices prioritize the protection of the health, safety, and rights of employees in a company's workforce and in its supply chain. Implementing workforce management best practices can create an engaged and stable workforce that in turn can provide a competitive advantage for companies.

The Fund expects companies to develop effective employee engagement, fair compensation, adequate training and development, and strive for suitable rates of retention that are conducive to driving long-term value. Boards and management must play an active role in setting high standards for workforce management and establishing a company culture that values and protects its workforce. Companies should adopt human rights policies and regularly assess how effectively those policies are implemented. Human rights policies should address labor rights and commit to respecting and promoting widely accepted international labor standards.

The Fund's updated Proxy Voting Guidelines include more specific expectations and considerations around workforce management (pages 32-34).

Governance

Sound governance and responsible business practices are imperative to well-functioning companies and the creation of shareholder value. It is essential that companies maintain autonomous boards composed of diverse, well-qualified directors who engage in rigorous oversight and risk supervision. Equally crucial is the thorough disclosure of risks, which enable investors to make informed choices and mitigate uncertainties. The adept management of controversies demonstrates a company's commitment to addressing concerns transparently and taking corrective actions. By adhering to these practices, companies can attract investment, enhance their reputation, and navigate a dynamic business environment with resilience and integrity.

The Fund expects companies to implement widely accepted best practices around corporate governance and board oversight, many of which are delineated in the Fund's Proxy Voting Guidelines (pages 4-24). When companies face controversies around their business practices or oversight, we expect companies to address the concerns transparently, take corrective actions and engage with shareholders on the issue.

The amended Guidelines include various changes to governance-related issues, including: voting against incumbent board nominees at companies that have adopted a classified board structure without a reasonable sunset; voting against proposed charter amendments seeking to extend exculpation to corporate officers; voting against, on a case-by-case basis, governance committee members when a company fails to disclose the identity of shareholder proposal proponents; and voting against proposals that seek to adopt onerous or overly restrictive advance notice requirements.

Board Diversity

Board diversity is an essential measure of sound governance and a critical attribute of a well-functioning board of directors. Research shows that the ability to draw on a wide range of viewpoints, backgrounds, skills and experience is increasingly critical to corporations' long-term success in the global marketplace.

The Fund expects companies to: disclose the self-identified diversity characteristics of its board directors as outlined in the NASDAQ Board Diversity Rule and consider adding disability to diversity characteristics; explicitly consider and memorialize in governing document and policies, specific diversity characteristics including gender and racial/ethnic diversity when developing a pool of candidates for new director nominees; and disclose whether the company has adopted a "Rooney Rule" or an equivalent commitment to include diverse candidates in the initial pool of candidates when selecting new director nominees.

Updates to the Fund's Proxy Voting Guidelines specify that a determination that a board is not sufficiently diverse and/or insufficient efforts have been taken to address a lack of diversity, may result in the Fund withholding support from incumbent nominating committee nominees or all incumbent board nominees. The Guidelines outline specific factors the Fund may consider when making such a determination (pages 8-9).

Executive Compensation

Executive compensation is a key component of company accountability, as well as a critical and visible aspect of a board's governance. Sustainable executive compensation programs align management incentives with long-term value creation, reducing short-termism and fostering strategic decision making.

The Fund expects executive compensation plans to be transparent and tied to sustainable performance, create long-term value and advance the company's long-term strategic goals. The Fund generally considers long-term to be at least five years, and preferably ten years. The overarching goals of executive and director compensation should be to create sustainable value and to advance the company's strategic objectives. Additionally, the Fund expects compensation committee members to set responsible executive compensation levels and provide sufficient oversight. Specific expectations for executive compensation plans are outlined in the Fund's Guidelines (page 18-22).

The updated Proxy Voting Guidelines clarify time horizon expectations for long-term incentive plans and specify voting against incumbent compensation committee members where there is a lack of a comprehensive clawback policy. The Fund expects to withhold support from incumbent compensation committee members who fail to make sufficient changes to an executive compensation plan that failed in the previous year's "say on pay" vote.

Political Spending Disclosure

Corporate political spending disclosure is a well-established best practice and is in the best interests of shareholders as it allows investors to assess whether spending supports a company's business strategy or puts it at risk.

The Fund expects companies to report their policies and procedures for spending on any campaign for or against any candidate for public office or to influence the public on an election or referendum. Additionally, companies should disclose the amount of contributions and expenditures made, the identity of the recipient and those responsible for corporate political spending decisions.

Background

Environmental, Social & Governance Principles and Proxy Voting Guidelines:
https://www.osc.ny.gov/files/common-retirement-fund/corporate-governance/pdf/proxy-voting-guidelines-2024.pdf

2023 Corporate Governance Stewardship Report:
https://www.osc.ny.gov/files/reports/special-topics/pdf/2023-corporate-governance-stewardship-report.pdf

2023 Climate Action Plan Progress Report:
https://www.osc.ny.gov/files/reports/special-topics/pdf/progress-report-climate-action-plan-2023.pdf

New York State Common Retirement Fund's ESG Strategy:
https://www.osc.ny.gov/files/common-retirement-fund/2020/pdf/ESG-strategy-report-2020.pdf

Contact

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