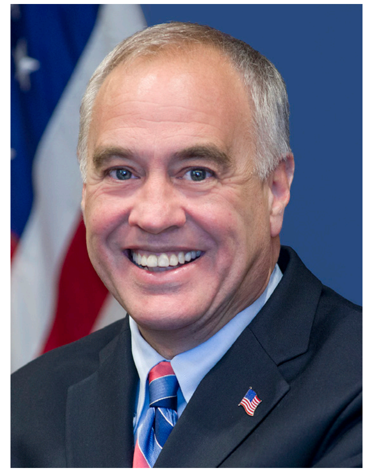
JANUARY 2019

2018 CORPORATE GOVERNANCE STEWARDSHIP REPORT

Enhancing Long-Term Value Through
SUSTAINABILITY, DIVERSITY AND ACCOUNTABILITY

OFFICE OF THE NEW YORK STATE COMPTROLLER
Thomas P. DiNapoli, State Comptroller

Message from the Comptroller



January 2019

As Trustee of the New York State Common Retirement Fund, I have a responsibility to safeguard the Fund's investments, which I manage for the benefit of the more than one million participants in the New York State and Local Retirement System. I believe it is essential to work with companies in the Fund's portfolio to ensure the implementation of robust corporate governance practices and sustainable business strategies to foster long-term financial success. I am pleased to share our 2018 Corporate Governance Stewardship Report which details our corporate governance agenda, along with major initiatives and achievements in this area.

In 2018, we took a significant step to directly address the lack of women directors on corporate boards. We recognize that board diversity is an essential measure of sound governance, a critical attribute of a well-functioning board, and an effective means to protect the Fund's investment—a belief supported by research. With the Fund's enhanced Proxy Voting Guidelines, we withheld support for director candidates at 1,117 public companies which lacked gender diversity on their boards. This effort builds on the Fund's ongoing efforts to improve director recruitment procedures in order to achieve more diverse boards.

We advanced new and emerging accountability issues in 2018, including addressing cyber security and the content management policies of social media companies. We filed a groundbreaking cyber risk shareholder proposal at Express Scripts, requesting that the board prepare a report that would allow investors to assess the company's cyber risk and the actions taken to help ensure cyber security. The Fund also co-filed shareholder proposals at Facebook, Twitter and Alphabet asking these companies to report to shareholders on how well they enforce their content policies and to assess the risks posed by content management controversies.

In 2018, we also continued to focus on investment risk arising from climate change, labor standards and human rights issues, corporate expenditures for political contributions and lobbying and executive compensation practices, employing both direct engagement with companies and public policy advocacy.

I remain dedicated to protecting the investments that enable the Fund to meet both current and long-term obligations to our Retirement System's members, retirees and beneficiaries. Our Corporate Governance Program is a critical component of our responsible stewardship of those investments.

Thomas P. DiNapoli
State Comptroller

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Investment Philosophy & Strategic Focus

THE PRIMARY MISSION of the New York State Common Retirement Fund's (Fund) Corporate Governance Program is to mitigate risks and identify opportunities to enhance the long-term value of the investments made on behalf of the 1.1 million members and pensioners who rely on the New York State and Local Retirement System for their retirement security.

A thriving economy, efficient markets and companies that embrace the best environmental, social and governance (ESG) practices are important factors in ensuring the long-term value of the Fund's investments. ESG factors can have a profound impact on both risks and returns, so it is vital to evaluate the long-term impact that such factors may have on the performance of a business.

New York State Common Retirement Fund's ESG Investment Philosophy

We consider environmental, social, and governance factors in our investment process because they can influence both risks and returns.

The Fund believes that the long-term value of its investments is greatly enhanced by the actions of its Corporate Governance Program. While the program necessarily involves the expenditure of resources, the Fund's experience shows that it provides a benefit that substantially outweighs its costs in the form of better long-term returns on investments. This report describes some of the many benefits the Fund received through the program's efforts.

As a long-term owner that invests in all sectors of the economy (i.e., a "universal owner"), the Fund works to promote sound ESG practices at the public companies in its portfolio through active ownership and targeted public policy advocacy focusing on sustainability, diversity and accountability.

Adhering to the Fund's investment philosophy and the Corporate Governance Program's strategic focus requires a commitment to key engagement processes and policy priorities.

Engagement – Through Active Ownership

Underlying all of the Fund's engagement processes is a commitment to active ownership—using the Fund's voice and votes to seek to ensure the long-term success of our portfolio investments. The Fund's ***independent proxy voting*** directly influences a company's governance, business practices, strategies and risk management, and is an integral part of the Comptroller's fiduciary duty. In 2018, the Fund voted on 26,520 ballot items at 3,025 portfolio companies (as of October 31, 2018).

Filing ***shareholder proposals*** is a powerful engagement tool that provides an opportunity to bring specific issues to the attention of the board, management and fellow investors. When filing a shareholder proposal, the Fund seeks a productive dialogue with the company. This includes discussing the proposal with the company, allowing the company to highlight its work on the given issue, and negotiating how the company can address the Fund's concerns. If the company and the Fund reach an agreement regarding the implementation of the proposal, the Fund withdraws the proposal.

In the 2018 proxy season, the Fund filed 60 shareholder proposals with companies representing a combined portfolio value in excess of $11 billion. These filings resulted in 29 agreements with companies to implement the proposals and record votes at a number of companies, including votes of greater than 30 percent on proposals at 12 companies, and one majority vote.

Other shareholder engagement efforts can also lead to productive dialogues with directors and management. Raising critical issues through written correspondence, press strategies and private dialogue has resulted in many important company actions, commitments and disclosures to address investor concerns, and will continue to play an essential role in our engagements.

The Fund is not alone in its commitment to enhancing the long-term value of its investments, and works with many like-minded investors associations, coalitions and organizations to amplify our voices. These ***affiliations, partners, and coalitions*** include three where the Fund holds leadership positions: Ceres, a nonprofit devoted to sustainable investing, the Thirty Percent Coalition, dedicated to gender diversity on boards, and the Committee Encouraging Corporate Philanthropy. Others include the Carbon Disclosure Project (CDP), the Council of Institutional Investors, the Center for Political Accountability, the Interfaith Center on Corporate Responsibility, the Human Rights Alliance, and alliances with other public pension funds, asset managers, and Taft-Hartley funds.

INVESTOR ALLIANCE FOR HUMAN RIGHTS
AN ICCR INITIATIVE

CDP

Ceres

THIRTY PERCENT COALITION

Council of Institutional Investors®
The voice of corporate governance

CECP
THE CEO FORCE FOR GOOD

INTERFAITH CENTER ON CORPORATE RESPONSIBILITY

CENTER FOR POLITICAL ACCOUNTABILITY

In addition to engaging directly with companies, the Corporate Governance Program also focuses on ***public policy advocacy*** when it will improve the long-term value of our investments by supporting policies that promote the overall stability, transparency and functionality of financial markets and the economy. This public policy engagement takes many forms, including meetings and correspondence with elected representatives, regulators and other public officials, testimony at hearings and forums, comments on regulatory and legislative proposals, and participation in state, national, and international forums and initiatives. In 2018, our primary public policy priorities included protecting shareholder rights and fighting efforts that could threaten investments by rolling back environmental protections.

ESG Priorities

The Corporate Governance Program is designed to enhance long-term value through a commitment to robust ESG practices with a strategic focus on **sustainability, diversity, and accountability**.

Sustainability is of vital interest to the Fund because our long-term commitment to the System's members and pensioners requires us to assess the long-range vision and prospects of the public companies in our portfolio. Sustainable corporate practices are of critical importance in a variety of areas, including: anticipating and responding effectively to environmental challenges; managing changes in the political and regulatory landscape; and protecting the health, safety and rights of employees in the company's own workforce and in its supply chain to ensure productivity, while diminishing the risks of liability and reputational damage. A commitment to sustainability provides a framework for companies—and the Fund's investments—to flourish for decades to come.

Diversity in its many forms is another key component of the Fund's long-term strategy for success. 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. Encouraging diversity of the boards, executive management and workforce of the companies in which we invest is an integral component of the responsible stewardship of our capital.

Accountability is essential for the Fund because of the vast scale and scope of its investments and its nature as a long-term, universal investor. With such an array of investments in so many different businesses and projects, the Fund relies on independent boards to represent investors, looks for compensation structures that properly incentivize strong long-term returns, and expects the full disclosure of risks, opportunities and strategies necessary to allow for informed decision-making. Accountability and transparency are critical to an effective, long-term investment strategy.

In implementing the strategic focus of enhancing long-term value through sustainability, accountability and diversity, the Corporate Governance Program's priority issue areas for 2018 were:

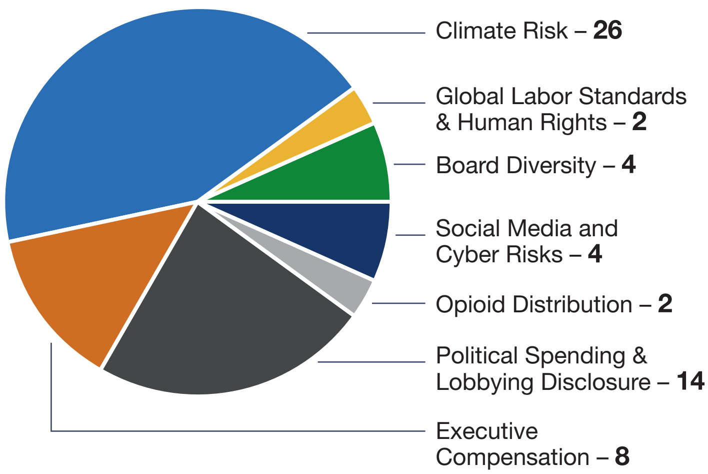
- ***Sustainability***
  - ***Climate Risk –*** 2 degree scenario analysis, deforestation, greenhouse gas reduction targets, energy efficiency and renewables, and sustainability reporting.
  - ***Labor Standards & Human Rights –*** labor management and human rights.
- ***Diversity –*** board diversity.
- ***Accountability***
  - ***Social Media & Cyber Risks –*** hate speech and fake news, and cyber risk reporting.
  - ***Opioid Distribution –*** ensuring board-level oversight and governance reforms play an effective role addressing opioid-related investment risks.
  - ***Political Spending & Lobbying Disclosure –*** ensuring investors have relevant information to address material ESG risks, including political and lobbying spending.
  - ***Executive Compensation –*** target pay, golden parachutes, incentive compensation and risks of material losses, and linking cybersecurity metrics to compensation.

The Fund's approach to these issues is discussed in greater detail within this report.

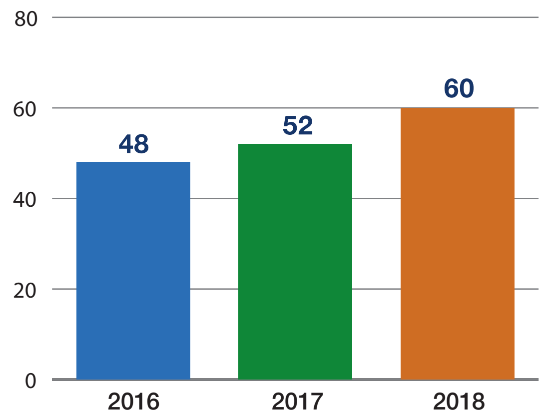
2018 By the Numbers

- **26,520** ballot items voted on at **3,025** annual meetings.
- **60** shareholder proposals filed.
- **81** percent increase in agreements to change corporate policy since 2016.
- **33** percent average vote received for Fund's shareholder proposals.
- **429** companies at which the Fund voted to withhold support from directors of companies with zero women on their boards.

2018 Shareholder Proposals by Issue

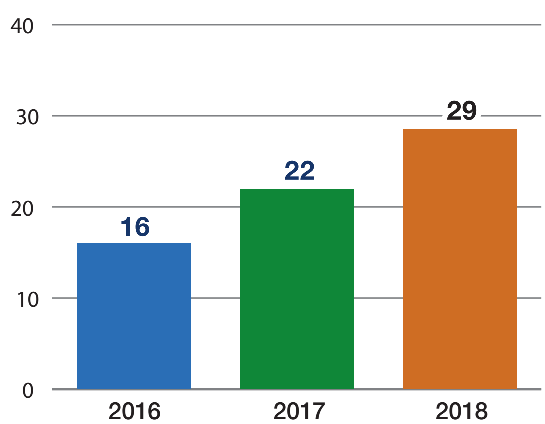


Total Shareholder Proposals, 2016-2018



Proxy Voting	2016	2017	2018
Number of Company Meetings	3,246	3,249	3,025
Total Votes Cast	27,935	29,848	26,520
Management Proposals Voted	27,365	29,358	26,035
Shareholder Proposals Voted	570	490	485

Total Agreements on Shareholder Proposals, 2016-2018



2018 Proxy Voting

BY THE NUMBERS…

26,520 BALLOT ITEMS
voted on at
3,025 ANNUAL MEETINGS

30%
of votes cast
AGAINST
management recommendations

36%
of director nominee votes cast to
WITHHOLD
support

92%
of votes cast
IN FAVOR OF
shareholder proposals

The Fund votes by proxy on all director nominees and proposals presented at annual meetings and special meetings for each of the domestic companies in the Fund's public equity portfolio, as well as those of selected international companies. In the 2018 Proxy Season the Fund cast 26,520 votes on ballot items at 3,025 domestic company meetings. Further details on the Fund's 2018 Proxy Voting can be found at osc.state.ny.us/pension/proxy-voting.htm.

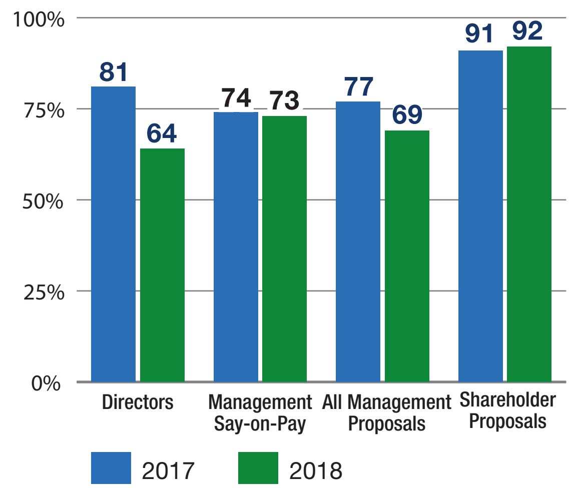
Voting at these meetings is an effective means of communicating with boards of directors and management about the Fund's ESG priorities. Voting is also a powerful tool for enhancing long-term value by promoting sustainability, diversity and accountability.

The Fund makes all proxy voting decisions independently, based on the standards in its Proxy Voting Guidelines which describe in detail the Fund's governance expectations for public companies and establish principled recommendations for voting on a broad range of issues. In addition to the Guidelines, the Fund consults with companies, partners, proxy advisors, and other investors, as well as conducting its own research, to inform its independent voting decisions.

The Guidelines are updated regularly to address new market issues, refine positions based on current research, and reflect evolving ESG best practices. In the 2018 proxy voting season, the Fund updated Guidelines related to environmental stewardship and climate risk, board diversity, global labor standards and human rights, virtual-only annual general meetings, and poor governance practices of newly public companies.

In 2018, the Fund voted on management proposals on executive compensation, selection of auditors, corporate governance rules and director nominees, as well as shareholder proposals focused on ESG policies and practices.

Fund Votes of Approval by Ballot Item Type



Director Voting

Withholding votes from director nominees is a key tool that provides the most direct means for shareholders to hold companies accountable. The Fund believes its interests are best served by directors who demonstrate a commitment to sustainable long-term performance and responsible corporate governance. The Fund withheld support for 36 percent of management board of director nominees, compared to 19 percent 2017. This increase was primarily due to the Fund's updated voting policies regarding board diversity.

Board Diversity Voting Guidelines

In 2018, the Comptroller announced that the Fund would be withholding support for:

- Incumbent directors of public companies with no women on their boards; and
- Incumbent nominating committee members when the board lacks appropriate skills and attributes, including when there is only one woman on the board.

As a result, the Fund withheld support for 1,861 incumbent directors at 429 public companies with no women on their boards, including directors at Sketchers USA, TiVo Solutions, Rent-a-Center and Arch Coal. The Fund also withheld support for 1,677 incumbent nominating committee members at 688 public companies with only one woman on their boards, including directors at Charter Communications, Chipotle Mexican Grill, and T-Mobile USA. Because the Fund believes diversity has an important bearing on companies' long-term success and, in turn, the Fund's investments, the Fund will continue to withhold support from all incumbent directors at these companies until they add women to their boards.

Executive Compensation

Shareholder votes on executive compensation—"say-on-pay" votes—promote pay accountability by allowing shareholders to influence compensation practices and strategies. The Fund believes that, in order to help protect its investments, executive compensation policies should focus on ensuring long-term, sustained performance for the company and its shareholders. In 2018, the Fund voted to withhold support for 27 percent of the proposed compensation plans presented in say-on-pay advisory measures. The Fund found, among other issues, pay disparity concerns, disconnects between pay and performance, and excessive pay relative to peer benchmarks. When these practices were not in the long-term interest of the Fund as a shareholder, the Fund voted against them.

The Fund also scrutinizes advisory measures known as “say-on-golden-parachutes” votes, which give shareholders the ability to weigh in on executive severance payments.

Moving forward, with the enhanced transparency now required of public companies by the CEO Pay Ratio Disclosure Rule promulgated by the Securities and Exchange Commission (SEC), the Fund expects improved disclosures at the public companies in its portfolio that will further inform the Fund’s proxy voting, including decisions concerning say-on-pay measures.

In addition to withholding support on proposed compensation plans through say-on-pay votes, the Fund also uses its director nominee votes to hold boards accountable for compensation practices. In 2018, the Fund withheld support from incumbent director nominees on McKesson Corporation’s compensation committee due to the committee’s failure to address what the Fund perceived as inappropriate compensation levels.

The Fund also voted to support shareholder proposals at Alphabet, United Parcel Service, DowDuPont and Expeditors International of Washington that requested a report on the feasibility of linking executive pay to sustainability. Linking sustainability metrics to executive compensation can reduce risks related to poor sustainability performance, incentivize employees to meet sustainability goals, and boost accountability.

Management Recommendations

Over the course of the 2018 proxy season, the Fund voted in opposition to management recommendations on 30 percent of all ballot items—including with respect to 29 percent of management proposals and 92 percent of shareholder proposals.

Shareholder Proposals

The Fund voted to support 92 percent of shareholder proposals on ballots in 2018, up one percent from 2017. Sixty percent of these votes were related to governance issues, including separating the positions of board chair and CEO, improving proxy access, strengthening the right to call a special meeting, and initiating and adopting recapitalization plans for all outstanding stock to have one vote per share. The remainder were social, environmental, and compensation proposals, such as political spending or lobbying disclosure, reporting on energy efficiency and renewables, and linking executive pay to social metrics, such as human rights.

Governance Votes

In 2018, the SEC granted no-action relief to companies whose management had included proxy proposals to confirm the existing thresholds of stock ownership required to call special investor meetings, while excluding shareholders’ proposals which would set lower thresholds for the right to call such meetings. The Fund believes these companies are “gaming the system” to block shareholder proposals that would enhance shareholder rights. As a result, the Fund withheld support for incumbent directors sitting on the governance committees of companies at which this tactic was employed.

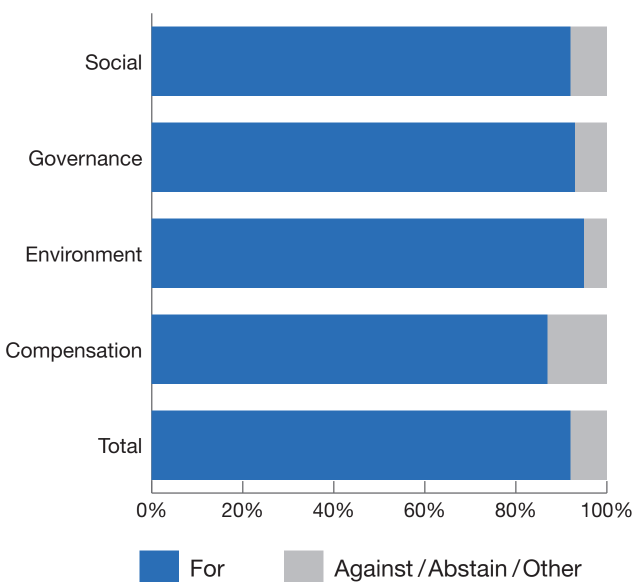
Environmental Stewardship and Climate Risk Votes

The Fund's Proxy Voting Guidelines amplify the Fund's position that boards must appropriately manage and comprehensively report on climate and other material ESG risks. Failing to do so may lead the Fund to withhold support from directors. In 2018, the Fund voted to withhold support from incumbent board directors at ExxonMobil Corporation and Kinder Morgan due to their failures to appropriately manage and comprehensively report on climate and risks involving indigenous peoples' rights.

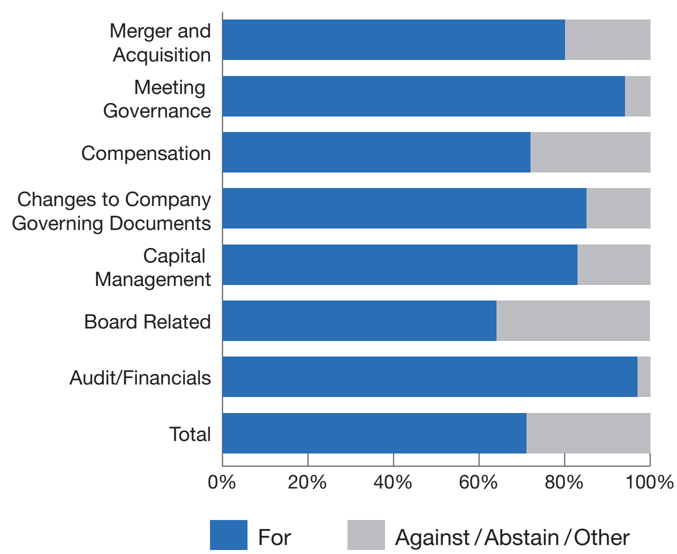
In 2018, the Fund supported all shareholder proposals related to environmental-related issues in accordance with its Guidelines. For example, the Fund supported shareholder proposals requesting companies to disclose analysis of the potential impacts on company performance of climate scenarios consistent with the Paris Climate Agreement. These included proposals at Anadarko Petroleum Corporation and Kinder Morgan, which received majority support from shareholders.

Additionally, the Fund supported shareholder proposals at General Motors and Ford which requested that the companies publish a report describing whether their fleet greenhouse gas (GHG) emissions through 2025 would increase, given the industry's proposed weakening of Corporate Average Fuel Economy (CAFE) standards or, conversely, how the companies plan to retain emissions consistent with current CAFE standards and ensure that products are sustainable in a rapidly decarbonizing vehicle market.

Fund 2018 Voting Statistics on Shareholder Proposals



Fund 2018 Voting Statistics on Management Proposals



2018 Engagements

BY THE NUMBERS…

- **60** shareholder proposals filed.
- **29** agreements to implement the Fund's shareholder proposals.
- **33** percent average vote received for Fund's shareholder proposals.
- **60.4** percent vote in support of the Fund's sustainability proposal at Kinder Morgan.

Consistent with its investment philosophy, the Fund files shareholder proposals with public companies in its portfolio regarding ESG issues that can have a material impact on risk and return. The shareholder proposal process allows the Fund to bring proposed corporate policy changes directly to the attention of the company's leadership and other shareholders, and is an important tool for mitigating investment risks.

Annually, the Fund develops an engagement program based on several ESG priorities. The priorities are developed by assessing various factors, including new and emerging ESG issues that pose investment risks, as well as market conditions.

In the 2018 proxy season, the Fund focused on three core priorities: **sustainability, diversity and accountability**. Within those priorities, the Fund focused its engagement efforts on issues surrounding:

- Sustainability
    - Climate Risk
    - Labor Standards & Human Rights
- Diversity
    - Board Diversity
- Accountability
    - Social Media Content Management
    - Cyber Risks
    - Opioid Distribution
    - Political Spending & Lobbying Disclosure
    - Executive Compensation

Priority Issues	Shareholder Proposals
Sustainability	28
Diversity	4
Accountability	28
Total	**60**

The Fund filed shareholder proposals with 60 companies representing a combined portfolio value in excess of $11 billion. Of these proposals, 29 led to agreements with the companies and one earned the support of a majority of shareholders. The total of 30 successful proposals represents a 32 percent increase from 2017 and a 81 percent increase from 2016.

Sustainability

BY THE NUMBERS…

- **28** sustainability shareholder proposals filed.
- **14** agreements for companies to address climate risks.
- **2** agreements for companies to address global labor standards and human rights.
- **300** requests to public companies seeking disclosure of carbon emissions data.
- **60.4** percent vote in support of the Fund's sustainability proposal at Kinder Morgan.

Sustainability – Climate Risk

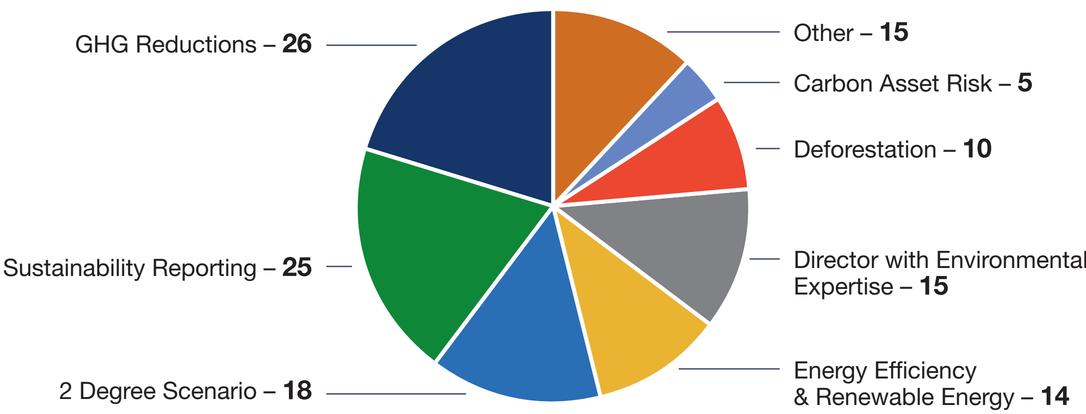
Comptroller DiNapoli believes that climate change represents one of the greatest risks to the Fund's investments and the economy as a whole. As Trustee of the Common Retirement Fund, the Comptroller is legally bound by a fiduciary duty to act prudently and for the exclusive benefit of the more than one million members, retirees and beneficiaries of the New York State and Local Retirement System. Consistent with that duty, Comptroller DiNapoli uses the most effective strategies at his disposal to address climate change-related investment risks. The Comptroller has been a global leader in addressing the investment risks and opportunities presented by climate change.

In 2018, as a result of the Comptroller's work, the Asset Owners Disclosure Project ranked the Fund third among the world's 100 largest global pension funds and first among U.S.-based pension funds in managing climate-related investment risk.

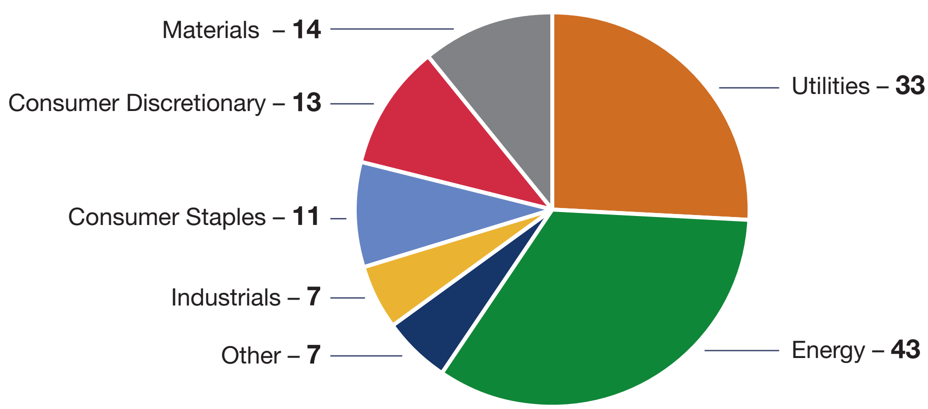
The Comptroller, as a long-term institutional investor, believes the Fund must use its voice and seat at the table to protect its investments by persuading companies to adopt responsible climate change policies and by encouraging long-term business model changes for the transition to a low-carbon economy.

Since 2008, the Fund has sponsored over 128 climate change-related shareholder proposals and reached agreements with 56 public companies in its portfolio to analyze climate risks, including setting GHG emissions reduction targets and renewable energy and energy efficiency goals.

Fund Climate Risk Proposals by Issue Since 2008



Fund Climate Risk Proposals by Industry Since 2008



Shareholder Proposals

During the 2018 proxy season, of the 26 proposals filed by the Fund related to climate risk, seven requested that companies analyze how the Paris Climate Agreement's goal of restricting the rise of global temperatures to no more than 2 degrees Celsius above preindustrial levels would affect their business, and to assess the risks associated with that 2 degree scenario to their business. Subsequently, the Fund reached agreements with four of those companies—Chesapeake Energy, Dominion Energy, DTE Energy and Southwestern Energy—to implement the terms of the shareholder proposal and undertake the requested 2 degree scenario study.

American Electric Power (AEP) is one of the largest electric power companies in the United States, and has been among the top 10 GHG emitters in the Fund's public equity portfolios due to its high dependence on coal to generate electricity. While AEP had plans to reduce its GHG emissions by increasing its use of natural gas and renewables, the company's previous carbon emissions reduction targets only extended to 2020. The Fund filed a shareholder proposal calling on AEP to set long-term GHG reduction targets out to 2050 that align with the Paris Climate Agreement's goals. Following negotiations with the Fund, AEP published a report including reduction targets that extended to 2050 and providing more details about its planned clean energy business transformation. The Fund thus withdrew the proposal and will continue its dialogue with AEP about concrete steps to achieve its 2-degree-aligned transition and to provide greater disclosure on climate risks and opportunities in line with recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). The engagement will continue under the auspices of the Climate Action 100+ initiative.

The Fund also refiled its 2 degree scenario shareholder proposal with ExxonMobil which had received approval from more than 62 percent of the company's shareholders in 2017. Following the refiling, ExxonMobil confirmed its previous agreement to produce the requested report and the Fund withdrew the proposal.

In addition to 2 degree scenario proposals, the Fund filed proposals at five public companies calling for an annual sustainability report describing each company's short-term and long-term responses to ESG-related issues. Three of those companies—Dollar General, Advance Auto Parts and Universal Health Services—agreed to the requested reporting and the Fund withdrew those proposals. The Fund also won majority support of over 60 percent for the proposal filed with Kinder Morgan, Inc., after which the company agreed to undertake the report in consultation with the Fund.

Company	Issue	Result
Dollar General Corporation	Sustainability – Sustainability Reporting	Withdrawn with Agreement
Advance Auto Parts, Inc.	Sustainability – Sustainability Reporting	Withdrawn with Agreement
Universal Health Services, Inc.	Sustainability – Sustainability Reporting	Withdrawn with Agreement
Kinder Morgan, Inc.	Sustainability – Sustainability Reporting	60.4% Vote For
American Financial Group, Inc.	Sustainability – Sustainability Reporting	48.4% Vote For
American Electric Power Company, Inc.	Sustainability – GHG Reductions – Targets	Withdrawn with Agreement
The AES Corporation	Sustainability – GHG Reductions – Targets	Withdrawn
Fluor Corporation	Sustainability – GHG Reductions – Targets	41.6% Vote For
Lowe's Companies, Inc.	Sustainability – Energy Efficiency & Renewables	Agreement
Michael Kors Holdings Limited	Sustainability – Energy Efficiency & Renewables	46.2% Vote For
General Dynamics Corporation	Sustainability – Energy Efficiency	Withdrawn
Rite Aid Corporation	Sustainability – Energy Efficiency	SEC Granted No-Action Relief
Community Health Systems, Inc.	Sustainability – Energy Efficiency	No Result
Chevron Corporation	Sustainability – Director with Environmental Expertise	26.5% Vote For
Bunge Limited	Sustainability – Deforestation	Withdrawn with Agreement
US Foods Holding Corp.	Sustainability – Deforestation	Withdrawn with Agreement
Aramark	Sustainability – Deforestation	Withdrawn with Agreement
Domino's Pizza, Inc.	Sustainability – Deforestation	30.6% Vote For
Chesapeake Energy Corporation	Sustainability – 2 Degree Scenario	Withdrawn with Agreement
Dominion Energy, Inc.	Sustainability – 2 Degree Scenario	Withdrawn with Agreement
DTE Energy Company	Sustainability – 2 Degree Scenario	Withdrawn with Agreement
ExxonMobil Corporation	Sustainability – 2 Degree Scenario	Withdrawn with Agreement

Southwestern Energy Company	Sustainability – 2 Degree Scenario	Withdrawn with Agreement
Great Plains Energy Incorporated	Sustainability – 2 Degree Scenario	Merger with Westar – No Annual Meeting
Westar Energy, Inc.	Sustainability – 2 Degree Scenario	Merger with Great Plains – No Annual Meeting
SCANA Corporation	Sustainability – 2 Degree Scenario	Merger with Dominion Energy – Withdrawn

Low Emissions Index & Carbon Emissions Reporting

In 2016, the Fund established a groundbreaking equity index strategy—the first of its kind in the United States for a public pension fund—by creating a low emissions index and seeding it with $2 billion to further decarbonize the Fund's public equity portfolio. Created in partnership with Goldman Sachs Asset Management, the low emissions index is an internally managed fund that underweights investments in companies that are large contributors to carbon emissions and increases investments in companies with lower emissions, while closely tracking its benchmark index. In 2018, the Comptroller announced an increase of the Fund's investment in the index to $4 billion, doubling its initial investment.

> The Fund's low emissions index has reduced the intensity of carbon emissions by 75 percent within its holdings.

The low emissions index eliminates or underweights stock ownership in some of the worst greenhouse gas (GHG) emitters based on emissions data reported to or estimated by CDP (Carbon Disclosure Project). With the goals of continuing the success of the low emissions index and encouraging companies to disclose emissions data, the Fund developed an active engagement program for the index, focusing on non-disclosing companies and high GHG emitters.

It is important for the Fund to obtain standardized emission data in order to make capital allocation decisions as well as to expand the index strategy. Therefore, the Fund engages with companies to request the disclosure of emissions data to CDP.

Since 2016, the Fund has participated in the Carbon Action Initiative, a joint initiative led by CDP on behalf of over 250 investors representing $25 trillion in assets, seeking to accelerate company action on emissions reductions, public disclosure of emissions reduction targets and investments in emissions reduction projects. Under this initiative, the Fund has sent similar letters to over 300 companies since 2016.

In partnership with CDP's disclosure team, the Fund has engaged with a number of non-disclosing companies. Over the last three years, more than 100 additional companies in the R1000 started disclosing emissions data to CDP, including 30 companies that provided emissions data to CDP for the first time in 2018. These newly disclosing companies include some of the global high GHG emitting corporations such as Southern Company, Dominion Energy, PPL Corporation, and Schlumberger NV, among others. As the world's largest environmental disclosure platform, CDP provides a standardized and comparable data set that covers more than 6,300 companies, representing 56% of total world market capitalization in 2017. The Fund believes that there is great value in bringing together information on this issue across sectors and regions using the consistent approach provided by CDP. The CDP's 2018 disclosure request was updated for sectoral relevance and alignment with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

In addition, the Fund continued to urge the high GHG emitters in its public equity holdings to adopt long-term GHG reduction targets in line with the goal of the Paris Climate Agreement. These high GHG emitters are identified through the Fund's annual carbon footprint analysis. The Fund believes that these high emissions present a great risks to those companies, and is concerned that their existing GHG reduction targets are not scaled in magnitude or timeline to meet the 2 degree goal. Disclosing metrics used to assess climate risks and performance against GHG emissions targets is a practice recommended by the TCFD. During 2018, in addition to AEP, the Fund had productive dialogues with high emitters such as Southern Company, AES, and Entergy regarding their GHG reduction targets and climate risks, and has begun to engage with Exxon, Martin Marietta, and Duke Energy as part of the Climate Action 100+ initiative.

Task Force on Climate-related Financial Disclosures

In 2018, the Comptroller, on behalf of the Fund, joined over 315 organizations in expressing support for TCFD, which has developed recommendations for voluntary climate-related financial disclosures. Such disclosures will provide better access to data and help assure more consistent reporting of climate-related risks. Reporting consistent with TCFD's recommendations by the public companies in its portfolio and their managers will enhance the Fund's efforts to identify, assess and address its climate-related risks, and inform capital allocation decisions. In 2018, for the first time, the Fund implemented TCFD's recommendations to report on its climate change initiatives in its Comprehensive Annual Financial Report (CAFR).

Climate Action 100+

The Comptroller has taken a leadership role in the Climate Action 100+ initiative, a five-year initiative led by 289 investors from across 29 countries, who collectively manage $30 trillion in assets, to engage with systemically important GHG emitters and other companies across the global economy that have significant opportunities to drive the clean energy transition and help achieve the goals of the Paris Agreement.

As part of the initiative, investors have begun engaging with those companies on improving governance on climate change, curbing GHG emissions, and strengthening climate-related financial disclosures. As part of the Climate Action 100+, the Comptroller has commenced engagements with Exxon Mobil, AEP, Martin Marietta, Duke Energy and Ford Motor Company on these important issues.

ExxonMobil 2 Degree Scenario Reporting

Last year, the Fund and the Church of England led a group of investors in filing a shareholder proposal requesting that ExxonMobil report to its shareholders regarding the potential impacts on the company of climate mitigation goals agreed to in the Paris Accord. In May 2017, this request received overwhelming support, earning approval from more than 62 percent of ExxonMobil shareholders.

In December 2017, after the Fund and the Church of England resubmitted the proposal, ExxonMobil agreed to produce the requested report. The proposal was withdrawn and ExxonMobil published the report in February 2018. As requested, the company included its analysis of 2 degree scenarios and the implications of these scenarios for the production of company reserves. The company acknowledges that efforts to mitigate climate change will produce changes in the markets for its products, but nonetheless projects growth in markets for commercial liquid fuels, plastics and petrochemicals. ExxonMobil's report views the most likely climate change scenario as one that the United Nations Intergovernmental Panel on Climate Change's 2013 report found could result in warming by as much as 2.4 degrees Celsius by the end of the century. However, current researchers have found that this scenario could actually result in warming by as much as 3 degrees Celsius by the end of the century.

The ExxonMobil report also identifies the trends in energy use that it believes would lead to this scenario. While the report provides some insight into the company's approach to transitioning to a low-carbon economy, it also raises important questions about the company's overall strategy and the assumptions upon which it is basing its forecast. In addition, ExxonMobil does not set any internal goals for greenhouse gas reductions, or address potential impacts on the company and the market for its products in a world approaching 3 degrees Celsius of warming over pre-industrial levels.

Despite limitations the Fund has identified in the report, it will serve as a starting point for the Fund and other shareholders participating in the Climate Action 100+ initiative to continue engagement and press ExxonMobil to develop targets consistent with the Paris Agreement for reduction of GHG emissions from its operations.

U.S. Fuel Economy (CAFE) Standards

In 2018, the Comptroller led a coalition of investors with $666 billion in assets under management in urging Ford and General Motors to commit to supporting the retention or strengthening of the overall current U.S. corporate average fuel economy (CAFE) and GHG vehicle standards, and to distance itself from the Automobile Alliance's efforts to delay compliance. The coalition stated that weakened standards would undermine the American auto manufacturers' global competitiveness as the rest of the world moves toward cleaner vehicles. Additionally, the coalition has urged the companies to publicly commit to working with California to develop a post-2025 framework for emissions reductions, and to identify any appropriate modifications to the 2022-2025 standards that would not compromise their ability to meet climate goals.

Decarbonization Advisory Panel

In 2018, the Comptroller and New York's Governor announced the creation of the first-ever Decarbonization Advisory Panel, whose members will provide their expertise for the Comptroller's consideration regarding strategies to help the Fund identify, assess and manage the investment risks and opportunities of climate change and prepare for a transition to a low carbon economy. The panel will evaluate strategies including: expanding the Fund's low-carbon index for public equity holdings; divesting from significant fossil fuel holdings; and using the New York Green Bank and other organizations to invest in New York's green economy. The panel will also look at what other pension funds and investors have done to decarbonize their assets. The panel's recommendations will be advisory in nature.

Pebble Mine Engagement

In early 2018, the Comptroller wrote to one of the public companies in the Fund's portfolio, First Quantum Minerals, regarding its framework agreement with Northern Dynasty Minerals and the advancement of the Pebble Mine project—a proposed gold and copper mine to be sited in the headwaters of Alaska's Bristol Bay in a seismically active region. In the letter, the Comptroller stated that the Pebble Mine project raised "a host of financial, regulatory, operational, legal, and reputational risks for First Quantum Minerals, and implicates far-reaching and long-term economic and sustainability risks which may infringe on the rights of indigenous peoples." As a result, the Comptroller requested that the company inform shareholders what steps it had taken to assess the risks of the project, and further requested that in the absence of full consideration of regional economic and environmental impacts and all required licensing, the company not proceed with its involvement in the Pebble Mine Project. In May, First Quantum Minerals announced it would be exiting its partnership with Northern Dynasty Minerals and the Pebble Mine project.

Global Advocacy

The Comptroller and the Fund have also engaged with the international community regarding the importance of successfully transitioning to a low-carbon economy and fully implementing the Paris Climate Agreement. The Comptroller has attended events including the 2017 United Nations Climate Change Conference, COP23, in Bonn, Germany, and has participated in discussions with other investors on how they are working with companies and governments to achieve the goals of the Paris Agreement and accelerate the transition to a low-carbon economy.

In 2018, the Comptroller spoke at the Investor Summit on Climate Risk at the United Nations. The Comptroller discussed the Fund's work on climate change, as well as the importance of investment and job creation opportunities that arise during the global shift to clean energy. In September, the Fund participated in the Global Climate Action Summit in San Francisco, sharing the Fund's strategies and initiatives for addressing climate-related risk and deliberating on other means of addressing these risks. The Comptroller joined in signing the 2018 "Investor Statement of Support for a Low Carbon Economy" and the "2018 Global Investor Statement to Governments on Climate Change."

Comptroller DiNapoli at COP24 for the United Nations Climate Change Conference.

In December, Comptroller DiNapoli attended COP24 in Katowice, Poland, as a member of the We Are Still In Leaders' Circle and an ambassador for American climate action. As a panelist at the UN Conference, the Comptroller reinforced the message that many states, municipalities, and investors throughout the United States are supporting the goals of the Paris Agreement despite the federal government's opposition. Additionally, the Comptroller announced a $3 billion increase to the Fund's Sustainable Investment Program, raising its total commitment to $10 billion.

WE ARE STILL IN

Sustainability – Labor Standards & Human Rights

Sustainable corporate practices—including protecting the health, safety, and rights of employees in a company's workforce and in its supply chain—are critically important to help ensure productivity while avoiding risks of liability and reputational damage.

Human rights violations resulting from the environmental and labor practices of U.S. corporations and their domestic and overseas suppliers can result in significant legal and reputational harm. Through shareholder proposals and other engagements, the Fund has asked selected companies, particularly those with extensive overseas operations which are more likely to operate in areas that have less protective laws and less effective enforcement, to require their major suppliers to report on the environmental and social impacts of their operations and to uphold global labor standards.

In 2014, the Comptroller visited Bangladesh and the site of the Rana Plaza building collapse, the deadliest garment factory incident in history. His conversations with survivors and local labor leaders there illuminated the extent of the dangerous conditions workers often face in the developing world, as well as the scope of the risks that can arise for companies with global supply chains if contractors and subcontractors are not adequately monitored.

The Fund has also worked closely with New York University's Stern Center for Business and Human Rights in urging companies to develop policies and practices that respect human rights while advancing their business interests. The Center has partnered with business leaders as well as shareholders to set standards for human rights performance across multiple industries.

Since 2011, the Fund has filled shareholder proposals with 22 public companies in its portfolio addressing labor standards and human rights. These engagements have resulted in 17 agreements to enhance their reporting on human rights policies and risk assessments in their supply chains.

Shareholder Proposals

In 2018, the Fund filed shareholder proposals regarding labor management and human rights policies at Tesla and Marathon Petroleum. The Fund negotiated an agreement with Tesla to implement the proposal, which asked Tesla to report on its process for comprehensively identifying and analyzing potential and actual human rights risks in its business operations.

The Fund also negotiated an agreement with Marathon Petroleum to report on the due diligence process it uses to identify and address environmental impacts and human rights in reviewing potential acquisitions.

Company	Issue	Result
Tesla, Inc.	Sustainability – Labor Management & Human Rights	Withdrawn with Agreement
Marathon Petroleum Corporation	Sustainability – Environmental Impacts & Human Rights	Withdrawn with Agreement

Labor Management

As a long-term investor, the Fund believes that the ability to establish and maintain constructive relationships with workers and the communities in which they operate is a hallmark of a company with a sound, sustainable and profitable long-term strategy. The Comptroller engaged several companies this year regarding labor practices that could pose risks to the Fund's investments.

In the July, the Comptroller wrote to Santander Consumer USA Holdings, inquiring about how the company is mitigating risks from its reportedly questionable labor management practices. The letter highlighted reported low pay and high pressure incentives for employees, call-length metrics that encourage workers to give customers inappropriate guidance about their accounts, and the company's use of technology called "Call Miner," which records employees' calls.

In 2018, the Comptroller and the Fund significantly updated and expanded the Fund's Responsible Contractor Policy. Under the updated policy, the Fund undertakes enhanced due diligence that considers a manager's contracting policies and practices for equity real estate and infrastructure investments. In addition, the revised policy requires post-closing reporting by investment managers on construction and service contracts valued at over $100,000 if the Fund owns more than 50 percent of the investment. The policy focuses on the payment of fair wages and benefits, including employer-paid safety training and competitive bidding on covered construction and service contracts. This enhanced policy aids the Fund in monitoring and mitigating investment risks that can arise in the real estate and real assets portfolios from labor unrest.

Diversity

BY THE NUMBERS…

- **4** agreements with companies to seek women and minority board director candidates
- **206** letters to companies seeking action to correct the lack of women directors on their boards
- **24** diverse members added to boards of directors since 2010 following the Fund's engagement

Diversity – Board Diversity

Among the greatest risks to any company is a poorly performing board or management. The Fund believes in the issportance of board diversity as an essential measure of sound governance and a critical attribute of a well-functioning board. 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.

As a part of the Fund's broader strategy to address board diversity, which includes proxy voting and public policy advocacy, the Fund urges the public companies in its portfolio to amend their nominating committee charters to require consideration of diverse candidates—including diversity of gender, race, ethnicity, sexual orientation and gender identify—in its pool of director candidates.

Since 2010, the Fund has filed 28 shareholder proposals calling on public companies in its portfolio to increase board diversity. Through those proposals, the Fund has secured 15 agreements with companies to promote diversity on boards, and engagement successes have added 24 diverse members to the boards of directors.

> "When a company's board does not reflect the diversity of its employees and customers, a divergence of priorities can occur, as seen recently with the #MeToo movement, and can increase the risk of reputational damage."
>
> – Comptroller Thomas P. DiNapoli

Shareholder Proposals

In 2018, the Fund filed four shareholder proposals requesting that companies improve their board diversity practices by formally including race, ethnicity, sexual orientation, and gender identity in their consideration when seeking diverse board candidates. The Fund reached agreements with all four companies—Bristol-Myers Squibb Company, Leucadia National, Packaging Corporation of America, and PulteGroup—pursuant to which the companies will amend their nominating and governance committee charters to expressly include such considerations and solidify their commitment to seeking diverse nominees.

Company	Issue	Result
Bristol-Myers Squibb Company	Diversity – Board Diversity	Withdrawn with Agreement
Leucadia National Corporation	Diversity – Board Diversity	Withdrawn with Agreement
Packaging Corporation of America	Diversity – Board Diversity	Withdrawn with Agreement
PulteGroup Inc.	Diversity – Board Diversity	Withdrawn with Agreement

Boards Without Women

In September 2018, the Comptroller sent letters to 206 companies in its public equity portfolio where the Fund had withheld support from director nominees because the companies had no women on their boards based on its Proxy Voting Guidelines. The letter urged the companies' boards to take action to add women directors, and requested a response detailing how they would address the issue. The letter also informed the companies that the Fund would continue to withhold support from all incumbent directors until the companies added women to their boards.

The Thirty Percent Coalition

To advance the goal of increasing board diversity, the Comptroller and the Fund are members of the Thirty Percent Coalition. The Coalition is a national organization of industry leaders, including senior business executives, national women's organizations, corporate governance experts, board members and institutional investors who believe in the power of collaborative effort to achieve gender diversity in public company leadership, and in the necessity of attaining at least 30 percent female representation across public company boards.

In 2018, the Fund and other Coalition members wrote to 168 companies with all-male boards or one-woman boards, urging them to institutionalize a commitment to diversity in their nominating committee charters by including women and minority candidates in every pool of board nominees.

Comptroller DiNapoli at the Womens' Roundtable.

Accountability

BY THE NUMBERS...

- **28** shareholder proposals filed seeking enhanced accountability in corporate policies and practices.
- **12** agreements to promote corporate responsibility.
- **3** new proposals on content governance related to hate speech and fake news.
- **29.5** percent vote at Express Scripts for groundbreaking cyber risk disclosure proposal.

Accountability – Social Media and Cyber Risks

As companies around the world increasingly rely on electronic data, communications services and public platforms to conduct their business, associated risks have increased. A single data breach or high-profile content incident can create liability or cause reputational harm and may have a significant impact on value and returns for a company. As an investor, the Fund is deeply concerned about these risks and has focused on accountability of companies that have significant cyber-related risks.

Hate Speech & Fake News Content Management

Social networks and other web-based platform companies face global controversies surrounding the expanding roles of their platforms. Areas of concern have included: instances of election interference; the distribution of disinformation, or "fake news," and hate speech that can threaten marginalized groups and undermine our democracy; and the companies' roles in properly enforcing their own terms of service related to content policies. As such controversies grow, shareholders are concerned that some companies have failed to proactively address these issues, which can pose significant regulatory, legal, and reputational risks to shareholder value.

The Fund believes that social networks and other web-based platform companies have an obligation to demonstrate how they manage content to prevent violations of their own terms of service.

Shareholder Proposals

In 2018, the Fund co-sponsored shareholder proposals at Alphabet, Facebook, and Twitter asking the companies how they are managing the business and public policy risks related to users posting content that may violate the companies' own terms of service, including election interference, fake news, hate speech, sexual harassment and violence.

All three proposals went to a shareholder vote with the Fund's proposals receiving 35.7 percent support from Twitter shareholders, 12.8 percent support from Alphabet shareholders, and 10.2 percent support from Facebook shareholders. When taking into account unequal voting rights due to dual-class stock structures, 40.1 percent of the non-inside, public shareholders supported the Fund's proposals at Facebook and 39.2 percent at Alphabet.

Company	Issue	Result
Twitter, Inc.	Accountability – Hate Speech & Fake News Content Management	35.7% Vote For
Alphabet Inc.	Accountability – Hate Speech & Fake News Content Management	12.8% Vote For
Facebook, Inc.	Accountability – Hate Speech & Fake News Content Management	10.2% Vote For

Cyber Risk Reporting

Cyber risk has been identified as an area of urgent and systemic concern for companies given the frequency, magnitude, and cost of cybersecurity incidents. For example, in 2017, Equifax reported that attackers had found a flaw in its website and used it to obtain the personal information of as many as 147 million Americans. The breach has cost Equifax more than $439 million already and could eventually top $600 million, which would make it the most costly data breach in history.

Unfortunately, some public companies do not appear to be prepared for a cyberattack and many have failed to disclose information to investors on how they plan to prevent the regulatory sanctions, monetary costs, and reputational harm associated with such an event.

Shareholder Proposals

In 2018, the Fund filed a groundbreaking cyber risk shareholder proposal at Express Scripts Holding Company. The proposal requested that the Board prepare a report that would allow investors to assess the company's cyber risk practices. After the SEC declined to grant no-action relief to the company, the Fund's proposal received support from 29.5 percent of Express Scripts' shareholders, a substantial vote for a new proposal.

Company	Issue	Result
Express Scripts Holding Co.	Accountability – Cyber Risk Reporting	29.5% Vote For

Accountability – Opioid Distribution Risk

In 2018, the Fund engaged with pharmaceutical companies to address the risks associated with uncontrolled opioid distribution. The public health crisis surrounding opioid abuse has increased the need for pharmaceutical companies involved with opioids to address potential financial and reputational risks. Board-level oversight and governance reforms can play an important role in effectively addressing opioid-related risks, and shareholders would benefit from a fuller understanding of governance mechanisms serving that function.

Shareholder Proposals

In partnership with a coalition of 51 institutional investors, the Fund co-filed two shareholder proposals in 2018 requesting that Cardinal Health, and McKesson Corporation assess the risks associated with opioid distribution. The proposals asked the companies "to report to shareholders on the governance measures the companies have implemented to more effectively monitor and manage financial and reputational risks related to the opioid crisis in the United States," given the companies' distribution of opioid medications, including whether the companies have assigned responsibility for such monitoring to the Board or one or more Board committees, revised senior executive compensation metrics or policies, adopted or changed mechanisms for obtaining input from stakeholders, or altered policies or processes regarding company political activities.

As a result, the coalition reached agreements with both companies to strengthen opioid distribution oversight.

Company	Issue	Result
Cardinal Health, Inc.	Accountability – Opioid Distribution Risk	Withdrawn with Agreement
McKesson Corporation	Accountability – Opioid Distribution Risk	Withdrawn with Agreement

Accountability –
Political Spending & Lobbying Disclosure

Since the 2010 *Citizens United* ruling by the U.S. Supreme Court removed certain restraints on corporate expenditures for political purposes, the Fund has made it a priority to engage the public companies in its portfolio regarding disclosure of their spending on political and lobbying activities.

In the *Citizens United* decision, Justice Anthony Kennedy highlighted the importance of corporate political spending disclosure: "[D]isclosure permits citizens and shareholders to react to the speech of corporate entities in a proper way. This transparency enables the electorate to make informed decisions and give proper weight to different speakers and messages."

Without proper disclosure of political and lobbying spending, shareholders are unable to determine whether that spending is aligned with a business purpose and cannot assess the legal, reputational, and business risks that can arise from these types of expenditures.

> "Shining more light on the use of corporate resources to influence the political process leads to better shareholder understanding of how this activity can affect a company's bottom line and long-term value."
>
> – Comptroller Thomas P. DiNapoli

The Fund's shareholder proposals ask companies for comprehensive public reports that include their corporate spending on candidates, political parties, ballot measures, direct or indirect state and federal lobbying, payments to trade associations used for political purposes, and payments to organizations that write and endorse model legislation.

Since 2010, the Fund has filed 140 shareholder proposals on political spending and lobbying disclosure, and 39 companies have adopted or agreed to adopt such disclosure.

Shareholder Proposals

During the 2018 Proxy Season, the Fund filed 16 shareholder proposals seeking verification of companies' direct and indirect political spending and disclosure of lobbying expenditures, including contributions to independent committees, and the portion of trade association dues used for political purposes. The Fund reached agreements with Mattel to disclose its political spending and with Textron and Bank of America to disclose lobbying spending. Of those proposals that went to a vote, the Fund's proposals received an average of 32 percent support from shareholders.

Company	Issue	Result
Mattel, Inc.	Accountability – Political Spending Disclosure	Withdrawn with Agreement
Oracle Corporation	Accountability – Political Spending Disclosure	21.2% Vote For
CMS Energy Corporation	Accountability – Political Spending Disclosure	45.2% Vote For
NextEra Energy, Inc.	Accountability – Political Spending Disclosure	43.2% Vote For
Ameriprise Financial, Inc.	Accountability – Political Spending Disclosure	38.8% Vote For
Wynn Resorts Limited	Accountability – Political Spending Disclosure	36.7% Vote For
Western Union Company	Accountability – Political Spending Disclosure	32.0% Vote For
Equifax Inc.	Accountability – Political Spending Disclosure	29.7% Vote For
General Electric Company	Accountability – Political Spending Disclosure	Withdrawn
The Home Depot, Inc.	Accountability – Political Spending Disclosure	No Result
Bank of America Corporation	Accountability – Lobbying Disclosure	Withdrawn with Agreement
Textron Inc.	Accountability – Lobbying Disclosure	Withdrawn with Agreement
Eli Lilly and Company	Accountability – Lobbying Disclosure	20.1% Vote For
Charter Communications, Inc.	Accountability – Lobbying Disclosure	19.6% Vote For

Accountability – Executive Compensation

The Fund views executive compensation as a key component of company accountability, as well as being critical and visible aspects of a board's governance. The Fund believes that executive compensation should be transparent and tied tightly to long-term performance. The overarching goals should be to create sustainable value and to advance the company's strategic objectives. If the members of an independent compensation committee fail to set responsible executive compensation levels, it is a strong indicator that the board's overall oversight of management is inadequate.

Since 2013, the Fund's focus on executive compensation, including shareholder proposals and other engagement efforts with 36 public companies in its portfolio, has yielded 18 agreements to improve executive compensation policies and practices.

Shareholder Proposals

In 2018, the Fund filed proposals related to executive compensation at eight companies, seeking to promote improved policies and practices regarding golden parachutes and target pay. Golden parachute proposals ask companies to address potentially excessive severance packages. Target pay proposals ask boards to take into consideration the pay grades and salary ranges of all classifications of employees when setting target pay for CEO compensation.

Those filings led to agreements with five companies—Microsoft, CVS, Macy's, salesforce.com, and The TJX Companies.

In addition, three proposals went to a shareholder vote. This included a golden parachute proposal at Guess?, which received support from over 37 percent of the company's shareholders. The proposal requested the company to seek shareholder approval for future severance agreements with senior executives that provide benefits in an amount exceeding 2.99 times the sum of an executive's base salary, plus bonus. The Fund has long been concerned about the Guess? golden parachute severance packages, which would allow top executives to walk away with millions of dollars upon agreements to leave the company. This concern grew following news that Guess?'s co-founder Paul Marciano had resigned as executive chairman in the wake of a special committee investigation into allegations of improper conduct, and would be eligible for $22.5 million in severance pay.

In addition, the Fund filed a proposal at Wells Fargo calling on the bank to provide a report detailing the company's efforts to determine whether its incentive pay practices have exposed it to financial loss. The proposal, which received nearly 22 percent support from shareholders, came as Wells Fargo faced multiple lawsuits from employees, customers and investors, and potentially $1 billion in fines as a result of scandals involving incentive pay for employees. The Comptroller said,

> ***"Investors need to know whether the company has taken steps to identify employees' incentive-based compensation that could spur conduct that puts the bank, its customers and investors at risk. If investors don't hear from Wells Fargo, we will be left to wonder when the next headline will inform us of a new scandal or more enforcement penalties."***

Company	Issue	Result
salesforce.com, inc.	Accountability – Executive Compensation – Target Pay	Withdrawn with Agreement
CVS Health Corporation	Accountability – Executive Compensation – Target Pay	Withdrawn with Agreement
Macy's, Inc.	Accountability – Executive Compensation – Target Pay	Withdrawn with Agreement
The TJX Companies, Inc.	Accountability – Executive Compensation – Target Pay	Withdrawn with Agreement
Microsoft Corporation	Accountability – Executive Compensation – Target Pay	Withdrawn with Agreement
Verizon Communications Inc.	Accountability – Executive Compensation – Linking Cybersecurity Metrics to Compensation	11.6% Vote For
Wells Fargo & Company	Accountability – Executive Compensation – Incentive Compensation and Risks of Material Losses	21.9% Vote For
Guess?, Inc.	Accountability – Executive Compensation – Golden Parachute	37.2% Vote For

Excessive Executive Pay

In 2018, the Fund continued its work as part of a say-on-pay investor working group to address issues of excessive executive pay. Together with other public pension funds and asset managers, the Fund wrote to 36 public companies in its portfolio at which a majority of shareholders had voted against the executive compensation pay packages. In the letters, the group outlined best practices for executive pay and board accountability mechanisms, and requested companies provide a written response on changes they are considering to executive compensation practices.

Pay Ratio Disclosure

In October 2018, the Fund, as part of the say-on-pay investor working group, sent letters to the Boards of Directors of all S&P 500 companies on the importance of pay ratio disclosures, which are an essential tool in evaluating compensation practices at public companies. The letter specifies that the signatories “favor ratios that indicate companies are making investments in their employees and that CEO compensation is set within the parameters of the company’s overall compensation philosophy.” Investors use this information when voting on say-on-pay measures, and in other evaluations of companies’ human capital management and compensation practices. The letter also provides specific examples of best practices and supplemental information that the signatories encourage companies to include along with their pay ratio disclosures.

Accountability – Wynn Resorts Derivative Lawsuit

In February, the Comptroller, as Trustee of the Fund, filed a legal action against officers and directors of Wynn Resorts Ltd. The derivative action alleges that certain officers and directors breached their fiduciary duties by concealing Steve Wynn's sexual misconduct toward employees and failing to investigate or hold him accountable. Since the January filing, the Fund and the New York City Retirement Systems and Pension Funds have been appointed co-lead plaintiffs in the derivative lawsuit.

Accountability – Financial Institutions & Firearms

In the wake of the February mass shooting at Marjory Stoneman Douglas High School in Florida and the continued reputational risk surrounding businesses associated with the gun industry, the Comptroller sent letters to nine financial institutions, including JPMorgan, Bank of America, Wells Fargo, Mastercard, and Visa, requesting that they evaluate the risks of being linked to firearms, ammunition and gun accessories manufacturers.

In the letters, the Comptroller stated, "As a long-term institutional investor in your company, I request that [Company] assess the risks associated with its services being used in the purchase of firearms, ammunition and accessories, and explore the operational and financial cost of implementing a system that could reject these purchases from its merchants in order to ameliorate such risks."

Accountability – Shareholder Rights & National Association of Manufacturers

Investors led by the Fund, Walden Asset Management and CalSTRS sent letters to 45 companies with representation on the Executive Committee of the National Association of Manufacturers (NAM) calling on them to take steps to end the trade association's attacks on shareholders' rights. The investors' letters ask the companies to distance themselves from NAM's recent attempts to discredit shareholder engagement on climate change. These efforts have been undertaken through NAM's membership in the Main Street Investors Coalition (MSIC) and through a report NAM funded and distributed that incorrectly asserts that shareholder proposals diminish company value.

Accountability – Telsa Corporate Governance Reform

As a result of the Securities and Exchange Commission's settlement with Tesla regarding allegations that Mr. Musk misled investors, the Comptroller joined other investors in calling on Tesla's independent directors to make sweeping changes to its governance to enhance oversight. Reforms requested included the creation and release of a plan to refresh the board and for timelines to be set for the departure of several directors; the permanent separation of the positions of CEO and Board Chair; and the appointment of truly independent board directors.

Public Policy Advocacy

The long-term value of the Fund's investments can be impacted by particular legislative and regulatory actions. As a result, addressing public policy matters is a key component of the Fund's stewardship strategy. In 2018, our primary public policy advocacy priorities included protecting shareholder rights and fighting against harmful deregulation efforts surrounding climate change.

- In November, the Comptroller wrote SEC Chairman Jay Clayton to comment on the Commission's Roundtable on the U.S. Proxy Process. Because the Fund is a significant market participant which actively uses the shareholder proposal and proxy voting process, the Comptroller commented on the importance of protecting the current rights of shareholders and ensuring integrity in the proxy voting process. The Comptroller stated,

  > *"Any changes to Rule 14a-8 that would strip shareholders of their current rights, including those proposed both legislatively and by business groups, are not necessary and would be inconsistent with the SEC's mission of investor protection and maintenance of efficient markets."*

- In October, Comptroller DiNapoli submitted a comment letter on the EPA's proposed Clean Power Plan replacement, known as the Affordable Clean Energy (ACE) rule. In the letter, the Comptroller voiced his opposition to ACE and called on the EPA to produce regulations that would actually reduce pollution.
- In September, the Comptroller voiced his support for U.S. Senator Elizabeth Warren's proposed Climate Risk Disclosure Act. The act would direct the SEC to issue rules that would require public companies to report their GHG emissions; how their businesses are impacted by climate change and the global effort to mitigate it; and what steps they are taking to minimize climate risk in their operations.

- In 2018, Comptroller DiNapoli led a coalition of state and municipal treasurers and comptrollers in opposing the rollback of vehicle mileage and emissions standards. The reduction in these standards would impose additional costs on consumers, increase emissions of GHG and other pollutants, and potentially reduce the competitiveness of U.S.-manufactured automobiles, thereby negatively impacting the Fund's investments.
- Throughout the year, the Comptroller was a major voice in opposition to H.R. 4015, a bill that would weaken corporate accountability to shareowners, undercut the invaluable independence of the proxy advisory firms that investors retain, and add significant resource burdens that would increase the cost of their services. The Comptroller's efforts included letters of opposition sent to the New York State Congressional Delegation, the U.S. Senate Committee on Banking, Housing, and Urban Affairs and the U.S. House of Representatives Committee on Financial Services.
- In July, Comptroller DiNapoli joined a coalition of investors in opposition to House Concurrent Resolution 119, a nonbinding resolution expressing the sense of Congress that a carbon tax would be detrimental to the United States economy. The investors' letter, which was sent to the leaders of the U.S. House of Representatives, requested them not to allow a vote on House Concurrent Resolution 119 in the Ways and Means Committee or on the House floor.
- In June, the Comptroller wrote to members of the U.S. Senate Committee on Banking, Housing, and Urban Affairs in support of S.536, Cybersecurity Disclosure Act of 2017. The letter expressed support for the legislation, but also stated the bill did not go far enough in providing investors with the comprehensive disclosures needed to determine whether a company has identified its vulnerability to cyber incidents and taken adequate steps to mitigate that risk.
- In a letter sent to members of the U.S. House of Representatives Committee on Financial Services in May, the Comptroller stated his opposition to H.R. 5756, which would drastically raise thresholds for resubmitting shareholder proposals, thereby precluding shareholder consideration of many important governance proposals that, if adopted, could enhance long-term shareowner value. The Comptroller stated,

  > *"If H.R. 5756 had been enacted during the nascent stages of board diversity proposals, shareowners would have been thwarted in advancing this emerging issue that has resulted in improved value for shareholders."*

- In February, the Comptroller publicly supported U.S. Senator Elizabeth Warren's proposed Sunlight in Workplace Harassment Act, which would require publicly traded companies to disclose any settlements arising from workplace sexual harassment and abuse. The bill would help reveal settlements that often are shrouded by nondisclosure agreements which provide cover for individuals to get away with abuse, harassment and discrimination.

- Led by Comptroller DiNapoli and New York City Comptroller Scott Stringer, a coalition of 41 investors in February urged U.S. companies to oppose President Trump's repeated actions on immigration, which pose risks to the national economy. The coalition of investors, financial advisors and public labor unions said the President's actions would damage the economy by limiting the talent pool from which businesses can hire. The Comptrollers stated,

  > *"We're calling on American companies to embrace inclusive immigration policies and stand against President Trump's divisive actions that risk damaging our nation's economy. Many of the corporations in which we invest depend on immigrants who provide an important hiring pool of talented workers."*

  The Comptrollers further pointed out that the President's actions not only limit the talent pool for hiring, but also pose a threat to our economy and demoralize the very people who have helped build our nation.

Appendix: 2018 CRF Shareholder Resolutions

Company	Issue	Result
Express Scripts Holding Company	Accountability – Cyber Security Risk Reporting	29.5% Vote For
Guess?, Inc.	Accountability – Executive Compensation – Golden Parachute	37.2% Vote For
Wells Fargo & Company	Accountability – Executive Compensation – Incentive Compensation and Risks of Material Losses	21.9% Vote For
Verizon Communications Inc.	Accountability – Executive Compensation – Linking Cybersecurity Metrics to Compensation	11.6% Vote For
CVS Health Corporation	Accountability – Executive Compensation – Target Pay	Withdrawn with Agreement
Macy's, Inc.	Accountability – Executive Compensation – Target Pay	Withdrawn with Agreement
Microsoft Corporation	Accountability – Executive Compensation – Target Pay	Withdrawn with Agreement
salesforce.com, inc.	Accountability – Executive Compensation – Target Pay	Withdrawn with Agreement
The TJX Companies, Inc.	Accountability – Executive Compensation – Target Pay	Withdrawn with Agreement
Alphabet Inc.	Accountability – Hate Speech & Fake News Content Management	12.8% Vote For
Facebook, Inc.	Accountability – Hate Speech & Fake News Content Management	10.2% Vote For
Twitter, Inc.	Accountability – Hate Speech & Fake News Content Management	35.7% Vote For
Bank of America Corporation	Accountability – Lobbying Disclosure	Withdrawn with Agreement
Charter Communications, Inc.	Accountability – Lobbying Disclosure	19.6% Vote For
Eli Lilly and Company	Accountability – Lobbying Disclosure	20.1% Vote For
Textron Inc.	Accountability – Lobbying Disclosure	Withdrawn with Agreement
Cardinal Health, Inc.	Accountability – Opioid Distribution Risk	Withdrawn with Agreement
McKesson Corporation	Accountability – Opioid Distribution Risk	Withdrawn with Agreement
Ameriprise Financial, Inc.	Accountability – Political Spending Disclosure	38.8% Vote For
CMS Energy Corporation	Accountability – Political Spending Disclosure	45.2% Vote For

Equifax Inc.	Accountability – Political Spending Disclosure	29.7% Vote For
General Electric Company	Accountability – Political Spending Disclosure	Withdrawn
Mattel, Inc.	Accountability – Political Spending Disclosure	Withdrawn with Agreement
NextEra Energy, Inc.	Accountability – Political Spending Disclosure	43.2% Vote For
Oracle Corporation	Accountability – Political Spending Disclosure	Filed – Result Pending
The Home Depot, Inc.	Accountability – Political Spending Disclosure	No Result
Western Union Company	Accountability – Political Spending Disclosure	32.0% Vote For
Wynn Resorts Limited	Accountability – Political Spending Disclosure	36.7% Vote For
Bristol-Myers Squibb Company	Diversity – Board Diversity	Withdrawn with Agreement
Leucadia National Corporation	Diversity – Board Diversity	Withdrawn with Agreement
Packaging Corporation of America	Diversity – Board Diversity	Withdrawn with Agreement
PulteGroup Inc.	Diversity – Board Diversity	Withdrawn with Agreement
DTE Energy Company	Sustainability – 2 Degree Scenario	Withdrawn with Agreement
ExxonMobil Corporation	Sustainability – 2 Degree Scenario	Withdrawn with Agreement
Great Plains Energy Incorporated	Sustainability – 2 Degree Scenario	Merger with Westar – No Annual Meeting
SCANA Corporation	Sustainability – 2 Degree Scenario	Merger with Dominion Energy – Withdrawn
Southwestern Energy Company	Sustainability – 2 Degree Scenario	Withdrawn with Agreement
Westar Energy, Inc.	Sustainability – 2 Degree Scenario	Merger with Great Plains – No Annual Meeting
Aramark	Sustainability – Deforestation	Withdrawn with Agreement
Bunge Limited	Sustainability – Deforestation	Withdrawn with Agreement
Domino's Pizza, Inc.	Sustainability – Deforestation	30.6% Vote For
US Foods Holding Corp.	Sustainability – Deforestation	Withdrawn with Agreement
Chesapeake Energy Corporation	Sustainability – 2 Degree Scenario	Withdrawn with Agreement
Dominion Energy, Inc.	Sustainability – 2 Degree Scenario	Withdrawn with Agreement
Chevron Corporation	Sustainability – Director with Environmental Expertise	26.5% Vote For
Community Health Systems, Inc.	Sustainability – Energy Efficiency	No Result

General Dynamics Corporation	Sustainability – Energy Efficiency	Withdrawn
Rite Aid Corporation	Sustainability – Energy Efficiency	SEC Granted No-Action Relief
Lowe's Companies, Inc.	Sustainability – Energy Efficiency & Renewables	Agreement
Michael Kors Holdings Limited	Sustainability – Energy Efficiency & Renewables	46.2% Vote For
Marathon Petroleum Corporation	Sustainability – Environmental & Human Rights	Withdrawn with Agreement
American Electric Power Company, Inc.	Sustainability – GHG Reductions – Targets	Withdrawn with Agreement
Fluor Corporation	Sustainability – GHG Reductions – Targets	41.6% Vote For
The AES Corporation	Sustainability – GHG Reductions – Targets	Withdrawn
Tesla, Inc.	Sustainability – Labor Management & Human Rights	Withdrawn with Agreement
Advance Auto Parts, Inc.	Sustainability – Sustainability Reporting	Withdrawn with Agreement
American Financial Group, Inc.	Sustainability – Sustainability Reporting	48.4% Vote For
Dollar General Corporation	Sustainability – Sustainability Reporting	Withdrawn with Agreement
Kinder Morgan, Inc.	Sustainability – Sustainability Reporting	60.4% Vote For
Universal Health Services, Inc.	Sustainability – Sustainability Reporting	Withdrawn with Agreement

Contact

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