

MINUTES of SERS Board Meeting – Wednesday, December 2, 2020

CALLED TO ORDER: 9:05 a.m. by Chair David R. Fillman

MICROSOFT TEAMS MEETING/LIVESTREAM

ATTENDEES:

Members and Designees

David R. Fillman – Chairperson

Glenn E. Becker – Assistant Chairperson

John M. DiSanto

Dan B. Frankel

Gregory K. Jordan

Mary A. Soderberg

Gregory C. Thall

Michael G. Tobash

Joseph M. Torsella

Richard Vague

James Bloom – Designee for Acting Secretary Richard Vague

Susan Boyle – Designee for Representative Michael G. Tobash

Christopher Craig – Designee for Treasurer Joseph M. Torsella

Charles Duncan – Designee for Senator Vincent J. Hughes

Lloyd Ebright – Designee for Treasurer Joseph M. Torsella

Charles Erdman – Designee for Senator John M. DiSanto

Alan Flannigan – Designee for Acting Secretary Richard Vague

Toni Marchowsky – Designee for Senator Vincent J. Hughes

Dan Ocko – Designee for Representative Dan B. Frankel

Jill Vecchio – Designee for Representative Michael G. Tobash

Executive Staff

Christopher Houston

Seth Kelly

N. Joseph Marcucci

Sara McSurdy

Terrill Sanchez

MINUTES of the SERS Board Meeting

Wednesday, December 2, 2020

1. CALL TO ORDER

Chair Fillman called the meeting to order at 9:05 a.m.

2. WELCOME AND ROLL CALL

Executive Director Terri Sanchez conducted a roll call of board members and designees who were on the tele-video conference call.

Chair Fillman noted that Representative Michael Tobash and Treasurer Joseph Torsella were being presented with commendations. Executive Director Sanchez read both commendations. Chair Fillman noted that it was a pleasure having Rep. Tobash and Treasurer Torsella on the board, working with them and that they have made SERS a premier public fund.

Rep. Tobash stated his service to the state was gratifying especially with the way SERS has advanced themselves. Treasurer Torsella stated it was a privilege being on the SERS board and is proud of what the board has accomplished.

Senator DiSanto thanked both Rep. Tobash and Treasurer Torsella for their private meetings as they brought him up to speed on the board business. Ms. Soderberg thanked both Rep. Tobash and Treasurer Torsella and initiated the SERS board's first virtual standing ovation.

3. ADOPTION OF THE AGENDA

MOTION: 2020-71

By motion that was moved, seconded, and approved by board members, it was

RESOLVED: That the board adopts the agenda for the December 2, 2020, board meeting.

4. APPROVAL OF CONSENT CALENDAR

A. Approving Board Meeting Minutes – September 30, 2020

B. Approving Statement of Changes in Fiduciary Net Position for the Periods Ending – July 31 and August 31, 2020

C. Approving Deferred Compensation Plan (DCP) Statement of Changes Report Ending – July 31 and August 31, 2020

D. Approving Defined Contribution Plan Statement of Changes Report Ending - July 31 and August 31, 2020

MOTION: 2020-72

By motion that was moved, seconded, and approved by board members, it was

RESOLVED: That the board approves the Consent Calendar items, as listed, for the December 2, 2020, board meeting.

5. COMMITTEE REPORTS/ACTION ITEMS

A. Finance and Member Services Committee

Committee Chair Soderberg provided a report of the Finance and Member Services Committee to the board (SERS Board Handout). The report was accepted by the board along with the following motions:

**DELEGATION OF AUTHORITY FOR PROCUREMENTS ISSUED PURSUANT TO
PROCUREMENT CODE****MOTION: 2020-73**

By motion that was moved, seconded, and approved by board members, it was

RESOLVED: That the board accepts the recommendation of the Finance and Member Services Committee to delegate to the Board Secretary the authority to take all actions permitted and authorized by the Commonwealth Procurement Code, 62 Pa. C.S. §§ 101-4604, and the Department of General Services Procurement Handbook, to be taken by the board as the head of a purchasing agency, and who shall have the authority to further delegate to such other employees of the board the authority granted hereby as is necessary, expedient, or appropriate for the sound administration of the board.

AUTHORIZED SECURITIES SIGNATORIES**MOTION: 2020-74**

By motion that was moved, seconded, and approved by board members, it was

RESOLVED: That the board accepts the recommendations of the Finance and Member Services Committee to authorize any two or more of the following representatives of the board, from at least two of the following offices within the State Employees' Retirement System (SERS):

- Executive Office
 - Executive Director
- Office of Administration
 - Deputy Executive Director for Administration
- Office of Member and Participant Services
 - Deputy Executive Director for Member and Participant Services
- Investment Office
 - Chief Investment Officer
 - Deputy Chief Investment Officer
 - Investment Portfolio Managers
- Office of Financial Management
 - Chief Financial Officer
 - Assistant Chief Financial Officer
 - Investment Accountants

and such other titles as may be adopted from time to time, acting together with two representatives designated by the Pennsylvania Department of Treasury, to serve as signatories for the following purposes:

- (1) to sell, transfer or request payment of any obligation of the United States of America or of any other security registered in the name of or held by the board in any capacity, including the SERS, the State Employees' Defined Contribution Plan, the Benefits Completion Plan, or the Deferred Compensation Plan; and
- (2) to appoint one or more attorneys-in-fact to affect any such sale, transfer, or request for payment.

Furthermore, each such board representative hereby is authorized:

- (1) to make certifications in relation to any such sale, transfer, or request for payment to warrant propriety of same; and
- (2) to agree, in any case where the Uniform Fiduciaries Act may not afford full protection for any such disposition, to reimburse the issuer of such obligation or security and its transfer agent the reasonable costs, including counsel fees, which either may bear in connection with such disposition of any obligation or security held in the name of SERS & CO. or any other name.

Further, that all prior authorized securities signature lists established by the board will no longer be effective, including, but not limited to, those established by Resolution Number 2012-03.

B. Investment Committee

Committee Chair Becker provided a report of the Investment Committee to the board (SERS Board Handout). The report was accepted by the board along with the following motions:

REAL ESTATE – Rubicon First Ascent, LP**MOTION: 2020-75**

By motion that was moved, seconded, and approved by board members, it was

RESOLVED: That the board accepts the recommendation of the Investment Committee to commit up to (i) \$30 million to Rubicon First Ascent, LP, and (ii) \$20 million to Rubicon First Ascent Sidecar, LP, plus investment expenses and pro rata share of partnership operating expenses, consistent with executed partnership documents, as new investments within the Real Estate asset class, subject to successful completion of contract negotiations and execution and delivery of closing documents by all parties, including required Commonwealth legal approvals, within 12 months.

PRIVATE EQUITY – Providence Strategic Growth Europe L.P.**MOTION: 2020-76**

By motion that was moved, seconded, and approved by board members, except Treasurer Torsella, who abstained, it was

RESOLVED: That the board accepts the recommendation of the Investment Committee to commit up to €64 million euros to Providence Strategic Growth Europe L.P., plus investment expenses and pro rata share of partnership operating expenses, consistent with executed partnership documents, as a new investment within the Private Equity asset class, subject to successful completion of contract negotiations and execution and delivery of closing documents by all parties, including required Commonwealth legal approvals, within 12 months.

REBALANCING DEFINED BENEFIT PLAN INVESTMENT POLICY STATEMENT**MOTION: 2020-77**

By motion that was moved, seconded, and approved by board members, it was

RESOLVED: That the board accepts the recommendation of the Investment Committee to approve the revised Rebalancing Section (Section 10) of the SERS' Defined Benefit Plan's Investment Policy Statement. The revised section is in the attached (ATTACHMENT A) meeting materials entitled "IPS Rebalancing Section Revision 12-1-2020.pdf".

FIXED INCOME STRUCTURE ENHANCEMENTS TO INVESTMENT POLICY STATEMENT**MOTION: 2020-78**

By motion that was moved, seconded, and approved by board members, it was

RESOLVED: That the board accepts the recommendation of the Investment Committee to:

- (i) approve the enhanced Fixed Income Structure Section – MIX B (Section 20, Page 35) of the SERS' Defined Benefit Plan's Investment Policy Statement (the enhanced section is in the attached (ATTACHMENT B) meeting material entitled "IPS Fixed Income Structure Section Enhancements MIX B 12-1-2020.pdf"); and
- (ii) delegate authority to the Chief Investment Officer in order to efficiently implement the enhanced Fixed Income Structure. The delegation of authority allows the Chief Investment Officer to:
 - 1) reallocate fixed income portfolios to asset classes with similar objectives;
 - 2) adjust fixed income portfolio amounts to achieve objectives of the enhanced Fixed Income Structure;
 - 3) liquidate fixed income portfolios that do not fit into the enhanced Fixed Income Structure;

- 4) hire passively-managed fixed income investment strategies to gain exposures to fulfill the needs of the enhanced Fixed Income Structure; and
- 5) adjust the implementation's time frame as required given the market conditions and/or demands of the structure implementation.

The Chief Investment Officer shall receive concurrence from the board's general investment consultant prior to executing any action. Notification of all implementation actions shall be provided at the next regularly scheduled Investment Committee or board meeting, respectively.

PROXY VOTING POLICY UPDATE

MOTION: 2020-79

By motion that was moved, seconded, and approved by board members, except Senator DiSanto, who voted NO, it was

RESOLVED: That the board accepts the recommendation of the Investment Committee to adopt the proposed revisions to the SERS U.S. and International Proxy Voting Policy, as set forth in the Attachment (ATTACHMENT C).

PPMAIRC PROGRESS UPDATE #46 (REPORT UPDATED CONTRACT TERMS)

MOTION: 2020-80

By motion that was moved, seconded, and approved by board members, it was

RESOLVED: That the board accepts the recommendation of the Investment Committee to direct the SERS Chief Counsel's Office and Investment Office to report all public market investment manager contracts that had contract terms that were amended during the preceding calendar year, similar to the attached (ATTACHMENT D) sample report provided to this Committee. The report will be produced on an annual basis and targeted to be presented to the Investment Committee in April of each year in public and/or executive session (given the potential confidential and proprietary nature of such information) as advised at such time by the Chief Counsel's Office.

C. Board Governance and Personnel Committee

Committee Chair Fillman provided a report of the Board Governance and Personnel Committee to the board (SERS Board Handout). The report was accepted by the board along with the following motions:

COMPENSATION POLICY FOR INVESTMENT PROFESSIONAL STAFF

MOTION: 2020-81

By motion that was moved, seconded, and approved by board members, it was

RESOLVED: That the board accepts the recommendation of the Board Governance and Personnel Committee to approve:

- (i) a 1.7% upward adjustment, actual values may vary slightly in accordance with standard calculations for commonwealth pay, to the salary bands for investment professionals, to be effective January 1, 2021; and
- (ii) that the values in the Compensation Policy for Investment Professional Staff – State Employees' Retirement System be updated accordingly.

ANNUAL PAY INCREASE BUDGET

MOTION: 2020-82

By motion that was moved, seconded, and approved by board members, except Senator DiSanto and Rep. Tobash, who voted NO, it was

RESOLVED: That the board accepts the recommendation of the Board Governance and Personnel Committee to approve the annual aggregate pay increase budget for 2021 to be set at 5% of salary for investment professional staff for positions below that of the Chief Financial Officer and the Chief Investment Officer, whose pay increases will be determined in accordance with the Compensation Policy for Investment Professional Staff – State Employees' Retirement System.

D. Audit, Risk and Compliance Committee

Committee Chair Torsella provided a report of the Audit, Risk and Compliance Committee to the board (SERS Board Handout). The report was accepted by the board along with the following motions:

INSIDER AND PERSONAL TRADING POLICY

MOTION: 2020-83

By motion that was moved, seconded, and approved by board members, it was

RESOLVED: That the board accepts the recommendation of the Audit, Risk and Compliance Committee to adopt the amended Insider and Personal Trading Policy, as attached (ATTACHMENT E), with an effective date of January 1, 2021.

E. Defined Contribution Committee

Committee Chair Soderberg provided a report of the Defined Contribution Committee to the board (SERS Board Handout). The report was accepted by the board along with the following motions:

457(b) DEFERRED COMPENSATION PLAN INVESTMENT POLICY STATEMENT UPDATES

MOTION: 2020-84

By motion that was moved, seconded, and approved by board members, it was

RESOLVED: That the board accepts the recommendation of the Defined Contribution Committee to accept the updates to the 457(b) Deferred Compensation Plan Investment Policy Statement, which is attached hereto and labeled "Attachment B" (ATTACHMENT F).

401(a) DEFINED CONTRIBUTION PLAN INVESTMENT POLICY STATEMENT UPDATES

MOTION: 2020-85

By motion that was moved, seconded, and approved by board members, it was

RESOLVED: That the board accepts the recommendation of the Defined Contribution Committee to accept the updates to the 401(a) Defined Contribution Plan Investment Policy Statement, which is attached hereto and labeled "Attachment A" (ATTACHMENT G).

6. OLD BUSINESS - NONE

7. NEW BUSINESS

A. Informational Item Only – 2020 Annual Divestment Report

8. SPECIAL PRESENTATION - NONE

9. REPORT OF EXECUTIVE DIRECTOR

A. Executive Director Sanchez provided the following reports:

- (i) The temporary virtual-work arrangement due to COVID-19 has been extended to June 30, 2021.

SERS will be implementing a new organizational structure as the Commonwealth Executive Board has given approval including Joe Torta's classification becoming the Deputy Executive Director for Member and Participant Services.

Executive Director Sanchez reported that one hundred PPMAIRC recommendations were reviewed by SERS staff and consultants in depth to determine and subsequently implement those recommendations that make the most sense for our members and participants. Key staff members, Sara McSurdy, Christopher Houston and Jeff Meyer, who led their respective committees through the PPMAIRC recommendations brought a brief PPMAIRC summary report to the board.

- (ii) Executive Director Sanchez noted Act 2020-17A Appropriation Act was signed by Governor Wolf on November 23, 2020 and HB 1961 Investment Performance Data Report was signed by Governor Wolf on October 29, 2020.
- (iii) The dates for the 2021 board meetings are as followings: February 23-24; March 25-26 (RETREAT); April 27-28; June 8-9; July 27-28; September 28-29; and December 7-8.

10. EXECUTIVE SESSION

- A. Notational Ballot
- B. Pending Benefits Administration Appellate Litigation Update
- C. Recent Commonwealth Court Orders Involving Public School Employees' Retirement Board
- D. Report on Referrals of Prospective or Existing Investment Transaction or Contract

At 10:22 a.m., the board recessed and entered executive session to receive legal advice on the above executive session agenda items. The public meeting resumed at 10:55 a.m.

11. BOARD COMMENTS/ANNOUNCEMENTS/DATES TO REMEMBER

The next regular meeting of the SERS board is scheduled for February 23-24, 2021.

12. MOTION TO ADJOURN

MOTION: 2020-86

By motion of Chair Fillman, the board unanimously agreed to adjourn the meeting at 10:58 a.m.

Respectfully submitted,



Terrill (Terri) J. Sanchez
Executive Director

Rebalancing Revisions to Section 10 of SERS' Defined Benefit Plan's Investment Policy Statement (Page 12)

12/01/2020

10. Rebalancing

The Board recognizes the importance of rebalancing among liquid asset classes to maintain the risk-and-return characteristics of the Fund consistent with those of the policy target asset allocation and ranges approved by the Board. Liquid asset classes subject to rebalancing include:

- U.S. Equity
- International Developed Markets Equity
- Emerging Markets Equity
- Fixed Income
- Inflation Protection (TIPS)
- Cash

The goal of the rebalancing program is to periodically rebalance toward policy target weights to ensure that the actual portfolio allocations are consistent with the asset allocation targets approved by the Board. Staff's goal is to manage the difference between the actual portfolio and target portfolio weights efficiently, with consideration for 1) current market conditions, and 2) transaction costs. Actual versus target allocations will be reviewed at least monthly.

To increase the level of accuracy at the lowest trading costs possible, SERS may use an overlay manager to efficiently implement a rebalancing program. Rebalancing transactions cannot cause a manager hiring or termination unless granted superseding authority by the Board on certain rebalancing transactions. The rebalancing process will target a consistent share of active and passive management, but a reduction in the share of active management during a rebalancing transaction is permitted.

Discretionary Rebalancing

Discretionary rebalancing decisions of liquid asset classes may be made by the Chief Investment Officer to reduce asset allocation drift from the policy targets. Rebalancing transactions will be considered attempts by the Chief Investment Officer to reduce portfolio tracking error in a cost-efficient manner.

Mandatory Rebalancing

The Board delegates to the Chief Investment Officer the authority to initiate transactions to correct any breach of the asset allocation minimum or maximum ranges. The Chief Investment Officer shall assess liquid asset class market values relative to policy ranges using the monthly asset allocation report developed by SERS' Office of Financial Management or reports generated by the SERS sub-custodian to support rebalancing between the monthly reports. When a minimum or maximum allocation is breached, the Chief Investment Officer will initiate a plan to rebalance within

the minimum/maximum range as soon as practicable given current market conditions. This rebalancing must move market values for these liquid asset classes within their policy mandated minimum/maximum allocation ranges and towards the targets.

Accountability Reporting for Rebalancing Transactions

The Chief Investment Officer shall report all rebalancing actions at the next scheduled Investment Committee meeting.

Fixed Income Structure Revisions (Mix B) to Section 20 of SERS' Defined Benefit Plan's Investment Policy Statement (Page 35)

Fixed Income

Objective

The objective of the Fixed Income allocation is to provide liquidity to minimize capital impairment risk, diversify investment risk, and enhance return and income to meet the fund's obligations. It is expected that the returns from the Fixed Income allocation will meet or exceed its benchmark performance over 5-year periods (annualized, net of fees).

Structure

Fixed Income investments are traditional investments made in the form of separate accounts and commingled funds. They include investments in publicly-traded debt obligations of sovereign, quasi-sovereign and corporate entities and securitized assets.

Strategy	Description	% of Fixed Income Target	Allocation Range
Intermediate Treasury	Investments in intermediate duration U.S. Treasury bonds as benchmarked by the Bloomberg Barclays U.S. Intermediate Treasury Index.	5%	0% to 10%
Long Duration (Treasury and Credit)	Investments in U.S. Treasury bonds and U.S. investment grade corporate and other bonds with durations equal to or greater than ten years. The benchmark for this allocation is a combination of 50% Bloomberg Barclays U.S. Long Treasury Index and 50% Bloomberg Barclays U.S. Long Credit Index.	30%	20% to 40%
Securitized	Investments in U.S. investment grade residential mortgage-backed securities, commercial mortgage-backed securities, and other asset-backed securities as benchmarked by the Bloomberg Barclays U.S. Securitized Index.	15%	10% to 20%
Intermediate Credit	Investments in intermediate duration U.S. investment grade corporate and other bonds as benchmarked by the Bloomberg Barclays U.S. Intermediate Credit Index.	35%	25% to 45%

High Yield	Investments in U.S. below investment grade fixed income securities to generate higher returns than the other elements of the fixed income portfolio as benchmarked by the Bloomberg Barclays U.S. Corporate High Yield Index or similar index.	15%	10% to 20%
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Guidelines

- a. The Fixed Income strategies should be within the ranges established by this policy. If the range is breached, the Chief Investment Officer must follow the IPS' Rebalancing Policy to restore compliance.
- b. The aggregate Fixed Income allocation must be within +/- 5% of its target allocation as a share of the total portfolio value. If the range is breached, the Chief Investment Officer must follow the IPS' Rebalancing Policy to restore compliance.
- c. Focus on cost control and liquidity by utilizing passive strategies as the first option.
- d. Focus on active management only where there is conviction in, and empirical data support for the use of, active management.



U.S. & International Proxy Voting Policy

Amended December 1, 2020

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Introduction

When the State Employees' Retirement System ("SERS") makes certain investments, it becomes a holder of common stock in a publicly traded company. Common stock is a security that represents ownership in a corporation, and holders of common stock (known as shareholders) have certain rights pertaining to their equity investment. Among the most important of these is the right to exercise control of the company by voting on certain corporate matters, including voting to elect a board of directors, voting on corporate policy, etc. Shareholders can exercise their voting rights in person at the company's annual stockholders meeting or other special meeting convened for voting purposes, or by proxy.

A proxy vote is a ballot cast by one person or entity on behalf of a shareholder of a corporation that would rather cast a proxy vote than attend a shareholders meeting.

The following voting policies apply to all proxies in which SERS is entitled to vote. Unless otherwise noted below, these voting policies will apply globally, and will consider market best practices, local corporate governance codes, and applicable listing standards. All proxy voting shall serve the best interests of SERS' beneficiaries through enhancement of long-term portfolio value, reflected in the performance of the company. SERS will normally vote in accordance with the following policies.

A. Routine Shareholder Meeting Formalities

In some markets, shareholders are routinely asked to approve certain routine meeting formalities and management proposals, which SERS will generally vote **for**, including without limitation:

- The opening of the shareholder meeting;
- That the meeting has been convened under local regulatory requirements;
- The presence of a quorum;
- The agenda for the shareholder meeting;
- The election of the chair of the meeting;
- The appointment of shareholders to co-sign the minutes of the meeting;
- Regulatory filings;
- The designation of an inspector or shareholder representative(s) of minutes of the meeting;
- The designation of two shareholders to approve and sign minutes of the meeting;
- The allowance of questions;
- The publication of meeting minutes; and/or
- The closing of the shareholder meeting.

1. FINANCIAL STATEMENTS; DIRECTOR AND AUDITOR REPORTS

SERS will generally vote **for** approval of financial statements, as well as director and auditor reports, unless:

- There are concerns about the accounts presented or audit procedures used; and/or
- The company is not responsive to shareholder questions about specific items that should be publicly disclosed.

2. ALLOCATION OF INCOME AND DIVIDENDS

- SERS will generally vote for management proposals concerning allocation of income and the distribution of dividends, unless the amount of the distribution is consistently and/or unusually small or large, and unless the payout is excessive given the company's financial position.

3. STOCK (SCRIP) DIVIDEND ALTERNATIVES

- SERS will vote for most stock (scrip) dividend proposals.
- SERS will vote against proposals that do not allow for a cash option unless management demonstrates that the cash option is harmful to shareholder value, and if the proposal is not in line with market standards.

4. CHANGE IN COMPANY FISCAL TERM

- SERS will generally vote **for** resolutions to change a company's fiscal term, unless a company's motivation for the change is to postpone its Annual General Meeting ("AGM").

B. The Board of Directors

1. VOTING ON DIRECTOR NOMINEES IN UNCONTESTED ELECTIONS

U.S. Companies:

SERS generally evaluates the election of director nominees on a **case-by-case** basis. SERS will generally vote **for** the candidates suggested by the company, unless the existing board has not properly performed its responsibilities.

SERS generally votes **against** or **abstains from voting** regarding all nominees of the board of directors if:

- The majority of the board is not independent;
- The audit, compensation, or nominating committees have not been established; and/or
- The audit, compensation, or nominating committees include non-independent directors.

SERS generally **abstains** or votes **against** individual directors who:

- Attend less than 75 percent of the board and committee meetings for two consecutive years without a valid excuse (such as illness, service to the nation, work on behalf of the company);
 - In cases of chronic poor attendance without reasonable justification, in addition to voting against the director(s) with poor attendance, SERS generally abstains or votes against appropriate members of the nominating/governance committees or the full board.
 - If the proxy disclosure is unclear and insufficient to determine whether a director attended at least 75 percent of the aggregate of his/her board and committee meetings during his/her period of service, vote against or withhold from the director(s) in question.
- Sit on more than five public company boards; and/or
- Are CEOs of public companies who sit on the boards of more than two public companies besides their own -- withhold only at their outside boards.

Vote **against/withhold** from individual directors (except new nominees) who:

- Serve as members of the nominating committee and the board lacks at least one woman and one racially diverse director, and the board is not at least 20 percent diverse. If the company does not have a formal nominating committee, vote against/withhold votes from the entire board of directors.

SERS will vote **case-by-case** on individual directors, committee members, or the entire board of directors as appropriate if:

- The board failed to act on a shareholder proposal that received the support of a majority of the shares cast in the previous year or failed to act on a management proposal seeking to ratify an existing charter/bylaw provision that received opposition of a majority of the shares cast in the previous year. Factors that will be considered are:
 - Disclosed outreach efforts by the board to shareholders in the wake of the vote;
 - Rationale provided in the proxy statement for the level of implementation;
 - The subject matter of the proposal;
 - The level of support for and opposition to the resolution in past meetings;
 - Actions taken by the board in response to the majority vote and its engagement with shareholders;
 - The continuation of the underlying issue as a voting item on the ballot (as either shareholder or management proposals); and
 - Other factors as appropriate.
- The board failed to act on takeover offers where the majority of shares are tendered;

- At the previous board election, any director received more than 50 percent withhold/against votes of the shares cast and the company has failed to address the underlying issue(s) that caused the high withhold/against vote.

SERS will generally vote **case-by-case** on Compensation Committee members (or, in exceptional cases, the full board) and the Say on Pay proposal if:

- The company's previous say-on-pay received the support of less than 70 percent of votes cast. Factors that will be considered are:
 - The company's response, including:
 - Disclosure of engagement efforts with major institutional investors, including the frequency and timing of engagements and the company participants (including whether independent directors participated);
 - Disclosure of the specific concerns voiced by dissenting shareholders that led to the say-on-pay opposition;
 - Disclosure of specific and meaningful actions taken to address shareholders' concerns;
 - Other recent compensation actions taken by the company;
 - Whether the issues raised are recurring or isolated;
 - The company's ownership structure; and
 - Whether the support level was less than 50 percent, which would warrant the highest degree of responsiveness.
- The board implements an advisory vote on executive compensation on a less frequent basis than the frequency that received the plurality of votes cast.

SERS generally votes **against/withhold** from all nominees if:

- The company has a poison pill that was not approved by shareholders. However, vote **case-by-case** on nominees if the board adopts an initial pill with a term of one year or less, depending on the disclosed rationale for the adoption, and other factors as relevant (such as a commitment to put any renewal to a shareholder vote).
- The board makes a material adverse modification to an existing pill, including, but not limited to, extension, renewal, or lowering the trigger, without shareholder approval.

Note: If the board is staggered or classified (i.e., only a portion (often one third) of the board is elected at a time as opposed to all directors being chosen at once), and a continuing director who is not up for re-election is responsible for a problematic governance issue at the board/committee level that would warrant a **withhold/against** vote recommendation, any or all existing members that are nominees for re-election may be held accountable.

SERS will generally vote **against** directors if: the board lacks mechanisms to promote accountability and oversight, coupled with sustained poor performance relative to peers. Sustained poor performance is measured by one-, three-, and five-year total shareholder returns in the bottom half of a company's four-digit GICS industry group (Russell 3000 companies only). Take into consideration the company's operational metrics and other factors as warranted. Problematic provisions include but are not limited to:

- A classified board structure;
- A supermajority vote requirement;
- Either a plurality vote standard in uncontested director elections, or a majority vote standard in contested elections;
- The inability of shareholders to call special meetings;
- The inability of shareholders to act by written consent;
- A multi-class capital structure; and/or

- A non-shareholder-approved poison pill.

SERS generally votes **against** or **withhold** regarding individual directors, committee members, or the entire board (except new nominees, who should be considered on a **case-by-case** basis) if/when the board amends the company's bylaws or charter without shareholder approval in a manner that materially diminishes shareholders' rights or could adversely impact shareholders. In such cases, SERS shall consider the following factors:

- The board's rationale for adopting the bylaw/charter amendment without shareholder ratification;
- Disclosure by the company of any significant engagement with shareholders regarding the amendment;
- The level of impairment of shareholders' rights caused by the board's unilateral amendment to the bylaws/charter;
- The board's track record with regard to unilateral board action on bylaw/charter amendments or other entrenchment provisions (e.g., those that are more difficult to amend/require a supermajority);
- The company's ownership structure;
- The company's existing governance provisions;
- The timing of the board's amendment to the bylaws/charter in connection with a significant business development; and/or
- Other factors relevant in determining the impact of the amendment on shareholders.

Unless the adverse amendment is reversed or submitted to a binding shareholder vote, in subsequent years vote **case-by-case** on director nominees. SERS will generally vote **against** (except new nominees, who should be considered **case-by-case**) if the directors:

- Classified the board;
- Adopted supermajority vote requirements to amend the bylaws or charter; or
- Eliminated shareholders' ability to amend bylaws.

For new public companies, SERS will generally vote **against** or **withhold** from the entire board (except new nominees, who should be considered **case-by-case**) if, prior to or in connection with the company's public offering, the company or its board implemented a multi-class capital structure in which the classes have unequal voting rights without subjecting the multi-class capital to a reasonable time-based sunset. In assessing the reasonableness of time-based sunset provision, consideration will be given to the company's lifespan, its post-IPO ownership structure and the board's disclosed rationale for the sunset period selected. No sunset period of more than seven years from the date of the IPO will be considered to be reasonable. SERS will continue to vote **against** or **withhold** from incumbent directors individually on a case-by-case basis in subsequent years, unless the problematic capital structure is reversed or removed.

For new public companies, SERS generally votes **against** or **withhold** from directors individually, committee members, or the entire board (except new nominees, who should be considered on a **case-by-case** basis) if, prior to or in connection with the company's public offering, the company or its board adopts the following bylaw or charter provisions that are considered to be adverse to shareholders' rights:

- Supermajority vote requirements to amend the bylaws or charter;
- A classified board structure; or
- Other egregious provisions.

A reasonable sunset provision will be considered a mitigating factor.

Note: Unless the adverse provision is reversed or submitted to a vote of public shareholders, SERS will generally vote on a **case-by-case** basis on director nominees in subsequent years.

SERS will generally vote **against** or **withhold** from individual directors, members of the governance committee, or the full board, where boards ask shareholders to ratify existing charter or bylaw provisions considering the following factors:

- The presence of a shareholder proposal addressing the same issue on the same ballot;
- The board's rationale for seeking ratification;
- Disclosure of actions to be taken by the board should the ratification proposal fail;
- Disclosure of shareholder engagement regarding the board's ratification request;
- The level of impairment of shareholders' rights caused by the existing provision;
- The history of management and shareholder proposals on the provision at the company's past meetings;
- Whether the current provision was adopted in response to the shareholder proposal;
- The company's ownership structure; and
- Previous use of ratification proposals to exclude shareholder proposals.

SERS will generally vote **against** or **withhold** from members of the governance committee if:

- The company's governing documents impose undue restrictions on shareholders' ability to amend the bylaws. Such restrictions include but are not limited to: outright prohibition on the submission of binding shareholder proposals or share ownership requirements, subject matter restrictions, or time holding requirements in excess of SEC Rule 14a-8. SERS will generally vote **against** or **withhold** on an ongoing basis.

Submission of management proposals to approve or ratify requirements in excess of SEC Rule 14a-8 for the submission of binding bylaw amendments will generally be viewed as an insufficient restoration of shareholders' rights. SERS will generally continue to vote **against** or **withhold** on an ongoing basis until shareholders are provided with an unfettered ability to amend the bylaws or a proposal providing for such unfettered right is submitted for shareholder approval.

SERS generally votes **against** or **withhold** regarding the members of the company's Audit Committee if:

- The non-audit fees paid to the auditor are excessive;
- The company receives an adverse opinion on its financial statements from its auditor; and/or
- There is persuasive evidence that the Audit Committee entered into an inappropriate indemnification agreement with its auditor that limits the ability of the company, or its shareholders, to pursue legitimate legal recourse against the auditor.

SERS votes on a **case-by-case** basis on members of the Audit Committee and/or the full board if certain poor accounting practices, or accounting issues of serious concern, are identified such as: (i) fraud; (ii) misapplication of Generally Accepted Accounting Principles (GAAP); and/or (iii) material weaknesses identified per the disclosures required by Section 404 of the Sarbanes-Oxley Act of 2002. SERS shall examine the severity, breadth, chronological sequence, and duration of the issue, as well as the company's efforts at remediation or corrective actions regarding same, when determining whether negative vote recommendations are warranted against responsible members of the Audit Committee or the entire board.

In the absence of an Advisory Vote on Executive Compensation (Say on Pay) ballot item or in egregious situations, SERS will vote **against** or **withhold** from the members of the Compensation Committee and potentially the full board if:

- There is a significant misalignment between CEO pay and company performance (pay for performance);
- The company maintains significant problematic pay practices;

- The board exhibits a significant level of poor communication and responsiveness to shareholders.

SERS will generally vote **against** or **withhold** from the Compensation Committee chair, other committee members, or potentially the full board if:

- The company fails to include a Say on Pay ballot item when required under SEC provisions, or under the company's declared frequency of say on pay; or
- The company fails to include a Frequency of Say on Pay ballot item when required under SEC provisions.

SERS will generally vote **against** members of the board committee responsible for approving/setting non-employee director compensation if there is a pattern (i.e. two or more years) of awarding excessive non-employee director compensation without disclosing a compelling rationale or other mitigating factors.

Note: If a management "say-on-pay" ("MSOP") proposal is on the ballot, SERS will use the MSOP as the primary focus of voting on executive compensation practices, as the MSOP provides a dedicated tool for shareholders to communicate dissatisfaction with compensation practices. However, in egregious cases, or if the board fails to respond to concerns raised by a prior MSOP proposal, then SERS may vote "**against**" or "**withhold**" regarding Compensation Committee members (or all directors, if appropriate).

Under extraordinary circumstances, SERS will vote **against** or **withhold** regarding individual directors, committee members, or the entire board, due to:

- Material failures of governance, stewardship, risk oversight, or fiduciary responsibilities to the company (e.g., bribery; large or serial fines; and/or sanctions from regulatory bodies);
- Significant adverse legal judgments or settlements, hedging of company stock, or significant pledging of company stock;
- Failure to replace management as appropriate; and/or
- Egregious actions related to a director's service on other boards that raise substantial doubt about his or her ability to effectively oversee management and serve the best interests of the company's shareholders.

Non-U.S Companies:

SERS will vote on director nominees on a **case-by-case** basis, considering company practices, corporate governance codes, disclosure, and best practices, examining factors such as:

- Composition of the board and key board committees;
- Long term company performance relative to a market index;
- The company's corporate governance provisions and practices, as well as its takeover activity; and/or
- Any applicable corporate governance codes of the country in which the company is domiciled.

There are some actions by directors that should result in SERS automatically voting **against** or **withhold** (whichever vote option is applicable on the ballot). Such instances generally fall into the following categories:

- The board fails to meet minimum corporate governance standards;
- Adequate disclosure has not been provided to shareholders in a timely manner;
- There are clear concerns over questionable finances or restatements of the company;
- There are questionable transactions involving conflicts of interest between the company and the directors;

- There are records of abuses against minority shareholder interests;
- There are specific concerns about an individual director, such as criminal wrong-doing or breach of fiduciary responsibilities;
- There are material failures of governance, stewardship, risk oversight, and/or fiduciary responsibilities exist within the company;
- The failure to replace management as/when appropriate; and/or
- There are egregious actions related to a director's service on other boards that raise substantial doubt as to his or her ability to effectively oversee management and serve the best interests of shareholders.

In terms of gender diversity, [supervisory] boards should adhere to domestic legal requirements or local best market practice. The following market specific guidelines on board gender diversity will generally apply in Continental Europe, the UK, and Ireland:

SERS will generally vote **against** the chair of the nomination committee (or other directors on a **case-by-case** basis) when there are no female directors on the board of a widely-held company. Mitigating factors may be:

- The presence of a female director on the board at the preceding annual meeting and a firm commitment, publicly available, to appoint at least one female director to the board within a year; or
- Other relevant factors as applicable.

For widely-held companies in Canada, SERS will generally vote **withhold** for the Chair of the Nominating Committee or Chair of the committee designated with the responsibility of a nominating committee, or Chair of the board of directors if no nominating committee has been identified or no chair of such committee has been identified, where:

- The company has not disclosed a formal written gender diversity policy; and
- There are zero female directors on the board of directors.

Note: SERS will take market practices into account in identifying egregious behavior, and shall vote **against** the election of directors who have acted outside acceptable market practices. With that in mind, and to the extent that disclosure is available, SERS will generally vote **against** director nominees:

- Who attend less than 75% of board meetings held the previous year without a valid reason;
- Where the board is not comprised of a majority of independent directors;
- Who are non-independent and the board lacks formal Audit, Compensation and/or Nominating Committee(s);
- Who are non-independent and serve on the Audit, Compensation, and/or Nominating Committee(s);
- Who ignored a majority-supported shareholder proposal during the previous year. "Majority" support is defined as a majority of votes cast, not shares outstanding. If a board fails to act on a shareholder-sponsored proposal that is supported by a majority of shares outstanding, SERS will vote "against" or will withhold votes from all existing board member nominees at the next annual meeting.

2. DISCHARGE OF THE BOARD AND/OR MANAGEMENT

The annual formal discharge of the board and/or management from liability in respect of their duties represents shareholder approval of actions taken during the previous fiscal year. Discharge is a tacit vote of confidence in the company's management and policies. Withholding discharge is a serious matter and is advisable only when a shareholder has (i) substantial/material evidence of negligence or abuse on the part of the board and/or management, (ii) intends to take legal action, and/or (iii) has knowledge of other shareholders' intentions to take legal action.

SERS will generally vote **for** discharge of the board and/or management, unless:

- There are serious questions/concerns about actions of the board and/or management for the year in question; and/or
- Legal action is being taken or considered against the board and/or management by a shareholder.

3. INDEPENDENT CHAIR (SEPARATION OF CHAIR/CHIEF EXECUTIVE OFFICER)

In general, companies should consider separating the office of Chair and Chief Executive Officer. The Chair should be an independent director. Where Boards do not separate these two positions, a Presiding Director position should be established. The duties of the Presiding Director should be clearly delineated. Boards that choose not to take this approach should clearly explain their opposition.

That said, in cases where investment returns have exceeded the peer group average or the relevant index, SERS will generally vote **against** a separation of these positions.

In cases where investment returns have trailed the peer group average or the relevant index, the shareholder proposals to require an independent board chair will be voted on a **case-by-case** basis considering the following factors:

- The scope and rationale of the proposal;
- The company's current board leadership structure;
- The company's governance structure and practices;
- Company performance; and
- Any other factors that may be relevant/applicable.

4. INDEPENDENT DIRECTORS

SERS believes that performance should be the key factor in determining the effectiveness of a board. Independent, outside directors are often critical in achieving and maintaining superior financial performance. A director is deemed to be independent if the only non-trivial professional, familial, or financial connection to the corporation, its chairman, CEO, or any other executive officer is his or her directorship. In addition, if a non-employee director is deemed non-independent based on the relevant listing standards or board attestations, SERS will categorize the such director as an affiliated outsider.

Additionally, SERS desires full disclosure of all financial and business relationships of, and payments to, the directors or their companies, non-profits, foundations and other organizations where company directors serve as employees, officers, or directors to ensure that the board is truly independent.

Therefore, SERS will generally vote **for** shareholder proposals:

- Asking that boards be comprised of at least two-thirds of independent directors;
- Asking that board's Audit, Compensation, and Nominating Committees be comprised exclusively of independent directors; and/or
- Asking that all other board committees be comprised of a majority of independent directors.

5. MAJORITY VOTE SHAREHOLDER PROPOSALS

SERS will generally vote **for** reasonably crafted shareholder proposals calling for directors to be elected with an affirmative majority of votes cast and/or the elimination of the plurality standard for electing

directors (including binding resolutions requesting that the board amend the company's bylaws), provided the proposal includes a carve-out for a plurality voting standard when there are more director nominees than board seats (i.e., contested elections). SERS will also carefully evaluate companies who adopt a post-election policy (also known as a director resignation policy) that will provide guidelines that ensure the company will promptly address the situation of a holdover director.

6. STOCK OWNERSHIP REQUIREMENTS

SERS will vote **for** proposals requiring a director to own a minimum amount of company stock.

SERS will generally vote **against** a director who owns less than 100 shares of company stock and has served on the board for more than one year.

7. TERM OF OFFICE

SERS will vote **against** any management or shareholder proposal to limit the term that outside directors may serve on the board, including without limitation through mandatory retirement ages. An “outside director” is any member of a company’s board who is not an employee or stakeholder in the company.

However, SERS will scrutinize boards where the average tenure of all directors exceeds 15 years in consideration of factors such as independence from management, and sufficient turnover, to ensure that new perspectives are being added to the board.

8. DIRECTOR AND OFFICER INDEMNIFICATION AND LIABILITY PROTECTION

Proposals concerning director and officer indemnification and liability protection are evaluated on a **case-by-case** basis.

SERS will generally vote **against** proposals to limit or eliminate entirely director and officer liability for monetary damages for violating their duty of care.

SERS will generally vote **against** indemnification proposals that would expand coverage beyond just legal expenses to acts, such as negligence, that are more serious violations of fiduciary obligations than mere carelessness.

SERS will generally vote **against** indemnification proposals that would expand the scope of indemnification to provide for mandatory indemnification of company officials in connection with acts that previously the company was permitted to provide indemnification for, at the discretion of the company's board (i.e., "permissive indemnification"), but that previously the company was not required to indemnify.

SERS will generally vote **for** only those proposals that provide such expanded coverage in cases when a director's or officer's legal defense was unsuccessful if:

- The director was found to have acted in good faith and in a manner that he or she reasonably believed was in the best interests of the company; and/or
- Only the director's or officer's legal expenses would be covered.

9. INCREASE/DECREASE IN BOARD SIZE

SERS favors smaller boards comprised of a majority of independent directors. A board should neither be too small to maintain needed expertise and independence, nor too large to be efficiently functional. Absent compelling and/or unusual circumstances, a board should have no fewer than 5 and no more than 15 members.

SERS will generally vote **for** management proposed changes in board size if there are clear and justifiable reasons to do so, and are not intended as an anti-takeover move designed to entrench management.

SERS will vote **against** proposals that give management the ability to alter the size of the board outside of a specified range without shareholder approval.

C. Proxy Contests

1. VOTING ON DIRECTOR NOMINEES IN PROXY CONTESTS

SERS will vote **case-by-case** on the election of directors in contested elections, considering the following factors:

- Long-term financial performance of the company relative to its industry;
- Management's track record;
- Background to the contested election;
- Nominee qualifications and any compensatory arrangements;
- Strategic plan of dissident slate and quality of the critique against management;
- Likelihood that the proposed goals and objectives can be achieved (both slates); and
- Stock ownership positions.

In the case of candidates nominated pursuant to proxy access, vote **case-by-case** considering any applicable factors listed above or additional factors which may be relevant, including those that are specific to the company, to the nominee(s) and/or to the nature of the election (such as whether there are more candidates than board seats).

All items related to a contested election of directors and proxy access nominees will be referred to SERS' Chief Investment Officer, who will evaluate votes on a **case-by-case** basis, analyzing both sides of the contest.

2. REIMBURSE PROXY SOLICITATION EXPENSES

Items to provide reimbursement for dissidents waging a proxy contest are made on a **case-by-case** basis. If the item is on ballot during a proxy contest, the item will be referred to SERS' Chief Investment Officer for internal review.

If the proposal is not on ballot during a proxy contest, SERS will generally vote **for** shareholder proposals calling for the reimbursement of reasonable costs incurred in connection with nominating one or more candidates in a contested election where the following apply:

- The election of fewer than 50% of the directors to be elected is contested;
- One or more of the dissident's candidates is elected;
- Shareholders are not permitted to cumulate their votes for directors; and
- The election occurred, and the expenses were incurred, after the adoption of this bylaw.

D. Auditors

1. RATIFYING AUDITORS

The public's trust that audited financial statements provide an accurate picture of the company's finances is essential for the confidence that the capital markets require. While the Sarbanes-Oxley Act reduces some auditor conflict of interest situations, certain legally permissible services could still raise the potential for conflicts and compromise the impartiality of auditors. Public accounting firms should limit their services to performing audits and providing closely related services that do not put them in an advocacy position.

SERS will generally vote **for** management proposals to ratify auditors, unless;

- An auditor has a financial interest in or association with the company, and is therefore not independent;
- There is reason to believe that the independent auditor has rendered an opinion that is neither accurate nor indicative of the company's financial position; and/or
- Poor accounting practices are identified that rise to a serious level of concern, such as fraud or misapplication of GAAP; or
- Fees for non-audit services are excessive.

SERS will vote **against** auditors and/or withhold votes from Audit Committee members if non-audit/other fees charged by the auditor are greater than the aggregated audit fees, audit-related fees, and permissible tax-related fees charged.

Note: Audit fees cover the performance of statutory audits, comfort letters, attest services, consents, and review of company filings with the SEC.

Audit-related fees cover the performance of employee benefit plan audits, due diligence related to mergers and acquisitions ("M&A"), audits in connection with acquisitions, internal control reviews, and consultation on financial accounting and reporting standards.

Tax-related fees cover the performance of tax compliance (tax returns, claims for refunds and tax payment planning) and tax consultation and planning (assistance with tax audits and appeals, tax advice relating to M&A, employee benefit plans and requests for rulings or technical advice from taxing authorities).

2. APPOINTMENT OF INTERNAL STATUTORY AUDITORS (JAPAN)

Japanese companies routinely seek approval of independent auditors as required by law. However, most companies are appointing internal auditors that are strongly affiliated, such as retired executives of the company or individuals from the company's main bank. These appointments may meet the letter of the law but ignore its spirit.

SERS will generally vote **for** the appointment or reelection of statutory auditors, unless:

- There are serious concerns about the statutory reports presented or the audit procedures used;

- Questions or concerns exist regarding any of the statutory auditors being appointed; and/or
- The auditors have previously served the company in an executive capacity or can otherwise be considered affiliated with the company; and/or
- The nominee attended less than 75% of meetings of the board of directors or board of statutory auditors held the previous year without a valid reason.

3. INDEMNIFICATION OF AUDITORS

Companies should not agree to limit the liability of outside auditors. SERS will generally vote **against** proposals to indemnify such auditors.

SERS will generally vote **case-by-case** on the issue of auditor indemnification and limitation of liability. Factors to be assessed include, but are not limited to:

- The terms of the auditor agreement—the degree to which these agreements impact shareholders' rights;
- The motivation and rationale for establishing the agreements;
- The quality of the company's disclosure; and
- The company's historical practices in the audit area.

SERS will vote **against** or **withhold** from members of an audit committee in situations where there is persuasive evidence that the audit committee entered into an inappropriate indemnification agreement with its auditor that limits the ability of the company, or its shareholders, to pursue legitimate legal recourse against the audit firm.

4. AUDITOR INDEPENDENCE

SERS will vote on a **case-by-case** basis as to shareholder proposals asking companies to prohibit their auditors from engaging in non-audit services (or capping the level of non-audit services), considering:

- Whether the non-audit fees exceed the audit/tax-related fees, or are excessive in general; and/or
- Whether the company has policies and procedures in place to limit non-audit services or otherwise prevent auditor-related conflicts of interest.

5. AUDITOR FIRM ROTATION

SERS will evaluate on a **case-by-case** basis any shareholder proposals asking for auditor firm rotation, considering:

- The tenure of the company's current audit firm;
- The company's establishment and disclosure of a renewal process whereby the auditor is regularly evaluated for both audit quality and competitive fees;
- The length of the rotation period advocated in the proposal;
- The number of annual Audit Committee meetings held and the number of financial experts that serve on the Audit Committee; and/or
- Any significant audit-related issues.

6. REQUIRE AUDITOR FIRM RATIFICATION

SERS will generally vote **for** shareholder proposals requesting shareholders vote for audit firm ratification.

E. Takeover Defenses

SERS will generally vote **against** management proposals to ratify provisions of the company's existing charter or bylaws, unless these governance provisions align with best practice.

In addition, voting **against/withhold** from individual directors, members of the governance committee, or the full board may be warranted, considering:

- The presence of a shareholder proposal addressing the same issue on the same ballot;
- The board's rationale for seeking ratification;
- Disclosure of actions to be taken by the board should the ratification proposal fail;
- Disclosure of shareholder engagement regarding the board's ratification request;
- The level of impairment to shareholders' rights caused by the existing provision;
- The history of management and shareholder proposals on the provision at the company's past meetings;
- Whether the current provision was adopted in response to the shareholder proposal;
- The company's ownership structure; and
- Previous use of ratification proposals to exclude shareholder proposals.

1. CLASSIFIED/STAGGERED BOARD

A classified or staggered board is one where all directors are not elected in the same year. This eliminates the possibility of removing entrenched management at any one annual election of directors.

SERS will vote **against** proposals to classify/stagger the board, and **for** proposals to repeal classified/staggered boards.

2. SHAREHOLDER ABILITY TO REMOVE DIRECTORS

SERS generally votes **against** proposals that provide that directors may be removed *only* for cause.

SERS generally votes **for** proposals to restore shareholder ability to remove directors with or without cause.

SERS generally votes **against** proposals that provide that only continuing directors may elect replacements to fill board vacancies.

SERS generally votes **for** proposals that permit shareholders to elect directors to fill board vacancies.

3. CUMULATIVE VOTING

SERS will generally vote **against** proposals to eliminate cumulative voting, and **for** proposals to restore or provide for cumulative voting, unless:

- The company has proxy access which allows shareholders to nominate directors to the company's ballot; and/or

- The company has adopted a majority vote standard, with a carve-out for plurality in situations where there are more nominees than seats and/or a director resignation policy is in place to address failed elections.

SERS will generally recommend a vote **for** proposals for cumulative voting at controlled companies (i.e., insider voting power exceeds 50%).

4. SHAREHOLDER'S ABILITY TO CALL SPECIAL MEETINGS OR ACT BY WRITTEN CONSENT

The ability to call special meetings or act by written consent gives shareholders more power in corporate governance. Both actions allow shareholders to take action prior to the next scheduled annual meeting.

SERS will vote **against** proposals to restrict or prohibit the shareholders' ability to call special meetings and/or act by written consent.

SERS will vote **for** proposals that remove restrictions on the right of shareholders to call special meetings and/or act by written consent.

5. SHAREHOLDER ABILITY TO ALTER THE SIZE OF THE BOARD

SERS generally votes **for** shareholder proposals that seek to alter the size of the board.

SERS generally votes **against** shareholder proposals that give management the ability to alter the size of the board without shareholder approval.

6. SHAREHOLDER RIGHTS PLANS (POISON PILLS)

SERS votes on a **case-by-case** basis on management proposals on poison pill ratification, focusing on the particular features of the shareholder rights plan. Such proposed plans should contain the following attributes:

- No lower than a 20% trigger, flip-in or flip-over;
- A term of no more than three years;
- No dead-hand, slow-hand, no-hand or similar feature that limits the ability of a future board to redeem the pill; and
- A shareholder redemption feature/qualifying offer clause (i.e., if the board refuses to redeem the pill 90 days after a qualifying offer is announced, 10 percent of the shares may call a special meeting or seek a written consent to vote on rescinding the pill).

In addition, the rationale for adopting the pill should be thoroughly explained by the company. In examining the request for the pill, SERS takes into consideration the company's existing governance structure, including without limitation: board independence, existing takeover defenses, and any problematic governance concerns.

SERS votes **against** proposals to adopt a poison pill for the stated purpose of protecting a company's net operating losses ("NOL") if the term of the pill would exceed the shorter of three years (or less) or the exhaustion of the NOL.

SERS votes on a **case-by-case** basis on management proposals for poison pill ratification if the term of the pill would be the shorter of three years (or less) and the exhaustion of the NOL, considering:

- The ownership threshold to transfer (NOL pills generally have a trigger slightly below 5 percent);
- The value of the NOL;
- Any other shareholder protection mechanisms (sunset provision, or commitment to cause the expiration of the pill upon exhaustion or expiration of NOL);
- The company's existing governance structure including without limitation: board independence, existing takeover defenses, track record of responsiveness to shareholders, and any other problematic governance concerns; and/or
- Any other factors that may be applicable.

SERS generally votes **for** shareholder proposals that ask a company to submit its poison pill for shareholder ratification. However, SERS will also consider:

- If the proposal is poorly targeted (i.e., the company does not currently have a poison pill in place);
- If the company currently has a policy in place that addresses the proponent's concerns (i.e., it must submit any future pills to shareholder vote within 12 months of adopting it); and/or
- If there is a shareholder approved poison pill in place.

SERS reviews on a **case-by-case** basis shareholder proposals to redeem a company's poison pill.

7. FAIR PRICE PROVISION

Fair price provisions allow management, without shareholder or board approval, to set price requirements that a potential bidder would need to satisfy in order to consummate a merger. These targets usually make the cost of acquisition prohibitively expensive. The fair price provisions usually require a supermajority vote to gain relief from the fair price provision.

SERS will vote **case-by-case** on proposals to adopt fair price provisions (provisions that stipulate that an acquirer must pay the same price to acquire all shares as it paid to acquire the control shares), evaluating factors such as the vote required to approve the proposed acquisition, the vote required to repeal the fair price provision, and the mechanism for determining the fair price.

SERS will generally vote **against** fair price provisions with shareholder vote requirements greater than a majority of disinterested shares.

SERS will vote **for** proposals to lower the shareholder vote requirement to obtain relief from a fair price provision.

SERS will vote **against** proposals to implement fair price provisions.

8. GREENMAIL

Greenmail payments are targeted share repurchases by management from individuals or groups seeking control of the company. As only the hostile party receives payment, usually at a substantial premium over the market value of its shares, the practice discriminates against all other shareholders. Greenmail payments have become a rare practice.

SERS will generally vote **for** proposals to adopt anti-greenmail charter or bylaw amendments, or otherwise restrict a company's ability to make greenmail payments.

SERS will review on a **case-by-case** basis anti-greenmail proposals when they are bundled with other charter or bylaw amendment proposals.

9. UNEQUAL VOTING RIGHTS

SERS believes in the one share/one vote philosophy that treats all shareholders of common equity equally.

SERS will vote **against** any proposals to authorize or issue shares with unequal voting privileges, considering market best practice, listing standards, and local corporate governance codes.

10. DUAL CLASS STOCK

As stated above, SERS believes in the one share/one vote philosophy that treats all shareholders of common equity equally.

SERS will generally vote **against** proposals to create a new class of common stock with superior voting rights.

SERS will generally vote **against** dual class exchange offers. SERS will generally vote against dual class recapitalizations.

SERS will generally vote **for** resolutions that seek to maintain or convert to a one-share/one-vote capital structure.

Note: SERS will generally vote **for** proposals to create a new class of nonvoting or sub-voting common stock if it is (i) intended for financing purposes with minimal or no dilution to current shareholders, and (ii) not designed to preserve the voting power of an insider or significant shareholder.

11. SUPERMAJORITY SHAREHOLDER VOTE REQUIREMENT TO AMEND THE CHARTER OR BYLAWS

A supermajority refers to a shareholder approval rate greater than 50% to pass proposals and is used by management to make changes of control at the company harder to implement.

SERS will generally vote **against** management proposals to require a supermajority shareholder vote to approve charter and bylaw amendments.

SERS will generally vote **for** shareholder proposals to lower supermajority shareholder vote requirements for charter and bylaw amendments.

12. SUPERMAJORITY SHAREHOLDER VOTE REQUIREMENT TO APPROVE MERGERS

A majority vote of common shares should be all that is required to approve major corporate decisions concerning the sale or pledge of corporate assets that would have a material impact on shareholder value.

SERS will generally vote **against** management proposals to require a supermajority shareholder vote to approve mergers and other significant business combinations.

SERS will generally vote **for** shareholder proposals to lower supermajority shareholder vote requirements for mergers and other significant business combinations.

13. TARGETED SHARE ("WHITE SQUIRE") PLACEMENTS

Targeted share placements are the issuance of voting shares, warrants, preferred stock or other securities convertible into voting stock to one person or group.

SERS will vote **for** proposals requiring shareholder approval of targeted share placements.

14. RENEWAL OF PARTIAL TAKEOVER PROVISIONS (AUSTRALIA)

Australian law allows companies to introduce into their articles a provision to protect shareholders from partial takeover offers, to be renewed by shareholders every three years. If a partial takeover of the company is announced, directors are required to convene a shareholder meeting at least 15 days before the closing of the offer to seek approval. If shareholders reject the resolution, the offer is considered withdrawn under company law and the company can refuse to register the shares tendered to the offer. This provision provides protection for minority shareholders by giving them ultimate decision-making authority based on their own interests, not the interests of directors or outside parties. SERS will vote **for** consulting shareholders on partial takeover offers.

F. Miscellaneous Corporate Governance Provisions

1. ARTICLE AMENDMENTS

SERS will review on a **case-by-case** basis all proposals seeking amendments to the articles of association.

SERS will generally vote **for** article amendments if:

- Shareholder rights are protected;
- There is negligible or positive impact on shareholder value;
- Management provides adequate justification for the amendments; and/or
- The company is required to do so by law (if applicable).

2. EXPAND BUSINESS ACTIVITIES

SERS will generally vote **for** resolutions to expand business activities, unless it believes the new business takes the company into risky areas.

3. AMEND QUORUM REQUIREMENTS

SERS will generally vote **against** amendments to lower the quorum requirement, unless SERS believes the (i) proposed change is consistent with market norms, (ii) company's reasons for the change is in line with shareholders' interests, and (iii) company's ownership structure would not hamper broad shareholder participation. Companies that have a substantial shareholder or shareholder group should set their quorum requirement well above the percentage of shares owned by such shareholder or shareholder group. Quorum requirements are intended to ensure that a broad range of shareholders are represented at meetings.

4. LOWER DISCLOSURE THRESHOLD FOR STOCK OWNERSHIP (UK AND FRANCE)

Companies in the United Kingdom and France have the ability to lower the percentage of stock ownership below the legal limit at which shareholders are required to disclose ownership. In France the legal limit is five percent ownership, while in the United Kingdom it's three percent. Companies in both countries often lower the required percentage to a fraction of one percent. If a shareholder fails to comply with a disclosure request, the company could suspend voting rights, withhold dividends, and refuse to register transfers of shares.

SERS will vote **against** these proposals since lower disclosure levels do not add substantially to shareholders' interests, and often are a pretext for an anti-takeover defense.

5. CONFIDENTIAL VOTING

A company that does not have a secret ballot provision allows management to see the votes of the shareholders prior to the meeting, thus giving management an unfair advantage. SERS' preference is for automatic and permanent confidentiality in corporate voting.

SERS will vote **for** proposals that:

- Establish confidential voting;
- Use independent vote tabulators; and/or
- Require independent inspectors of elections.

SERS will review confidential vote tally proposals on a **case-by-case** basis, considering:

- Whether the policy allows the company to monitor the number of votes cast for purposes of achieving a quorum or to conduct solicitations for other proper purposes; and/or
- Whether the enhanced confidential voting requirement applies to contested elections of directors or to contested proxy solicitations, which would put the company at a disadvantage relative to dissidents.

6. PROXY ACCESS

The board should not have the ability to prevent a shareholder proposal from appearing in the proxy statement for arbitrary reasons.

SERS will generally vote **for** management and shareholder proposals for proxy access with the following provisions:

- Ownership threshold: maximum requirement not more than three percent (3%) of the voting power;
- Ownership duration: maximum requirement not longer than three (3) years of continuous ownership for each member of the nominating group;
- Aggregation: minimal or no limits on the number of shareholders permitted to form a nominating group; and
- Cap: cap on nominees of generally twenty-five percent (25%) of the board.

7. BUNDLED PROPOSALS

SERS is philosophically opposed to bundled proposals, especially when shareholder rights to call special meetings or act by written consent are curtailed.

SERS generally votes **against** the practice of bundled proposals, unless issues that are beneficial to shareholders outweigh those that are not.

8. SHAREHOLDER ADVISORY COMMITTEES

SERS will generally vote **for** shareholder proposals requesting that the board establish an internal mechanism/process, which may include a committee, in order to improve communications between directors and shareholders, unless the company has the following features, as appropriate:

- Established a communication structure that goes beyond the exchange requirements to facilitate the exchange of information between shareholders and members of the board;
- Effectively disclosed information with respect to this structure to its shareholders;
- Company has not ignored majority-supported shareholder proposals or a majority withhold vote on a director nominee; and
- The company has an independent chair or a lead director, according to SERS' definition. This individual must be made available for periodic consultation and direct communication with major shareholders.

9. OTHER BUSINESS

SERS will generally vote **against** proposals that seek to bring forth other business matters, as these issues cannot be known.

10. ADJOURN MEETING

All directors should attend the annual shareholders' meeting and be available, when requested by the chair, to answer shareholder questions. Polls should remain open at shareholder meetings until all agenda items have been discussed.

Generally, SERS will vote **against** proposals to provide management with the authority to adjourn an annual or special meeting absent compelling reasons to support the proposal. SERS will vote **for** proposals that relate specifically to soliciting votes for a merger or transaction if SERS supports that particular merger or transaction. SERS will vote **against** proposals if the wording is too vague or if the proposal includes "other business."

11. STAKEHOLDER PROVISIONS

Stakeholder provisions allow the board to consider the interest of stakeholders in making decisions regarding corporate matters, particularly takeovers. Some states have such provisions incorporated into their anti-takeover laws. SERS believes that the board has a responsibility to consider those interests as part of its oversight responsibilities, but not at the expense of shareholder rights.

SERS will vote **for** proposals repealing stakeholder interests, and for opting out of stakeholder laws.

SERS will vote **against** proposals requiring the board to consider stakeholder interests.

SERS will vote **against** proposals that ask the board to consider non-shareholder constituencies or other non-financial effects when evaluating a merger or business combination.

12. DISCLOSURE

SERS generally votes **for** disclosure of corporate information where the cost of providing the information is not burdensome.

However, SERS will vote **against** disclosure when it would compromise trade secrets, proprietary information, or information on a company's military contracts.

13. ANNUAL MEETING LOCATION

SERS will generally vote **against** proposals to hold the meeting somewhere other than where management has chosen to hold the meeting.

However, corporations should make shareholders' expense and convenience primary criteria when selecting the time and location of shareholder meetings.

SERS will generally vote **for** proposals allowing for the convening of hybrid* shareholder meetings if it is clear that it is not the intention to hold virtual-only AGMs.

- SERS will generally vote **against** proposals allowing for the convening of virtual-only* shareholder meetings.

In light of COVID-19, in markets where "virtual-only" meetings are allowed by law without the requirement of an amendment to company bylaws, support for proposals to allow for the convening of "virtual-only" meetings may be warranted if the company clearly discloses the reason for their decision, which could include the safety of shareholder meeting attendees.

* The phrase "virtual-only" shareholder meeting refers to a meeting of shareholders that is held exclusively through the use of online technology without a corresponding in-person meeting. The term "hybrid shareholder meeting" refers to an in-person, or physical, meeting in which shareholders are permitted to participate online.

14. GOVERNANCE RELATED SHAREHOLDER PROPOSALS

SERS will generally vote on a **case-by-case** basis on other governance-related shareholder proposals, considering SERS' existing approach on the issue(s) and market best practices.

G. Capital Structure

1. COMMON STOCK AUTHORIZATION

U.S. Companies

SERS will generally vote **for** proposals to increase the number of authorized common shares where the primary purpose of the increase is to issue shares in connection with a transaction on the same ballot that warrants support.

SERS will generally vote **against** such proposals at companies with more than one class of common stock where they are intended to increase the number of authorized shares of the class that has superior voting rights.

SERS will generally vote **against** proposals to increase the number of authorized common shares if a vote for a reverse stock split on the same ballot is warranted, despite the fact that the authorized shares would not be reduced proportionally.

SERS will vote **case-by-case** on all other proposals to increase the number of shares of common stock authorized for issuance. SERS will consider company-specific factors that include, at a minimum, the following:

- Past Board Performance:
 - The company's use of authorized shares during the last three years;
- The Current Request:
 - Disclosure in the proxy statement of the specific purpose of the proposed increase;
 - Disclosure in the proxy statement of specific and severe risks to shareholders of not approving the request; and/or
 - The dilutive impact of the request as determined by an allowable increase (typically 100 percent of existing authorized shares) that reflects the company's need for shares and total shareholder returns.

Non-U.S. Companies

Companies may request increases in authorized capital for general financing flexibility or to provide for a specific purpose. Companies need an adequate buffer of unissued capital in order to take advantage of different business opportunities, and thus often request increases in authorized capital for no specific purpose other than to retain this flexibility.

SERS will vote **for** nonspecific proposals to increase authorized capital up to 100 percent over the current authorization unless the increase would leave the company with less than 30 percent of its new authorization outstanding.

SERS will also vote **for** specific proposals to increase capital, unless the specific purpose for the increase does not meet SERS' guidelines, or the increase would leave the company with less than 30 percent of its new authorized stock outstanding after adjusting for all proposed issuances.

SERS will generally vote **for** compensation plans that have a significant stock-based portion of the total compensation package and are linked to the performance of long-term shareholder interests.

SERS will vote **against** proposals to adopt unlimited capital authorizations.

2. CAPITAL ISSUANCE REQUESTS

General issuance requests under both authorized and conditional capital systems allow companies to issue shares to raise funds for general financing purposes. Issuances can be carried out with or without preemptive rights. Corporate law in many countries recognizes preemptive rights and requires shareholder approval for the disapplication of such rights.

SERS will vote **for** general issuance requests with preemptive rights for up to 50 percent of a company's outstanding capital, as this generally provides the company with sufficient financing to meet most contingencies.

SERS will vote **for** general issuance requests without preemptive rights for up to 10 percent of a company's outstanding capital.

SERS will vote **against** requests that allow excessive discounts, or refresh issuance authority, without shareholder approval.

Specific issuance requests will be judged on their individual merits on a **case-by-case** basis considering market best practices

NOTE: The evaluation of general issuance requests will take local market best practices into account which may include higher limits on requests with or without preemptive rights.

3. SHARE REPURCHASE PROGRAMS

For U.S.-incorporated companies, and foreign-incorporated U.S. Domestic Issuers that are traded solely on U.S. exchanges, SERS will vote **for** management proposals to institute open-market share repurchase plans in which all shareholders may participate on equal terms, or to grant the board authority to conduct open-market repurchases, in the absence of company-specific concerns regarding:

- Greenmail,
- The use of buybacks to inappropriately manipulate incentive compensation metrics,
- Threats to the company's long-term viability, or
- Other company-specific factors as warranted.

SERS will vote **case-by-case** on proposals to repurchase shares directly from specified shareholders, balancing the stated rationale against the possibility for the repurchase authority to be misused, such as to repurchase shares from insiders at a premium to market price.

4. REISSUANCE OF REPURCHASED SHARES

SERS will generally vote **for** requests to reissue any repurchased shares, unless there is reason to believe that such authority would be open to possible abuse, or there is clear evidence of abuse of such authority in the past.

5. STOCK SPLITS

SERS will generally vote **for** stock splits if management provides reasonable justification for the proposed split.

6. REVERSE STOCK SPLITS

SERS will review management proposals to implement a reverse stock split on a **case-by-case** basis.

SERS will generally support (vote **for**) management proposals to implement a reverse stock split based on: avoiding delisting, when the number of authorized shares will be proportionately reduced, when there is disclosure of substantial doubt about the company's ability to continue as a going concern without additional financing, the company's rationale, or other factors as applicable.

7. BLANK CHECK PREFERRED STOCK

Blank check preferred stock is a class of preferred stock that the board can issue at its discretion with respect to voting, conversion, distribution, and other rights given to shareholders. This type of discretionary issuance of preferred stock can be used by the board in a takeover defense.

SERS will vote **against** proposals authorizing the creation of new classes of preferred stock with unspecified voting, dividend distribution, and other rights ("blank check" preferred stock).

SERS will vote **for** proposals to create "declawed" blank check preferred stock (which could not be used by the board as a takeover defense).

SERS will vote **for** proposals to authorize preferred stock in cases where the company specifies the voting, dividend, and other rights of such stock, and the terms of the preferred stock appear reasonable.

SERS will vote **against** proposals to increase the number of blank check preferred stock authorized for issuance when no shares have been issued or reserved for a specific purpose.

SERS will vote on a **case-by-case** basis on proposals to increase the number of blank check preferred shares after analyzing past board performance and the current request, including the purpose and dilutive impact of the increase.

8. SHAREHOLDER PROPOSALS REGARDING BLANK CHECK PREFERRED STOCK

SERS will vote **for** shareholder proposals to have blank check preferred stock placements submitted for shareholder ratification, other than those shares issued for the purpose of raising capital or making acquisitions in the normal course of business.

9. ADJUST PAR VALUE OF COMMON STOCK

SERS will generally vote **for** management proposals to reduce the par value of common stock, unless the action is being taken to facilitate an anti-takeover device or some other negative corporate governance action.

SERS will generally vote **for** management proposals to eliminate the par value of common stock.

10. CONVERSION OF SECURITIES/CONVERTIBLE DEBT ISSUANCE REQUESTS

SERS will generally vote **for** the creation/issuance of convertible debt instruments as long as the maximum number of common shares that could be issued upon conversion meets SERS' guidelines on equity issuance requests as articulated herein.

However, SERS will vote on a **case-by-case** basis regarding the conversion of securities, taking into account (i) the dilution to existing shares, (ii) the conversion price relative to market value, (iii) financial issues, (iv) control issues, (v) termination penalties, and (vi) any conflicts of interest.

SERS will vote **for** the conversion of securities if it is expected that the company will be subject to onerous penalties, or will be forced to file for bankruptcy, if the transaction is not approved.

11. DEBT ISSUANCE REQUESTS (NON-CONVERTIBLE)/INCREASE IN BORROWING POWERS

When evaluating a debt issuance request, the issuing company's present financial situation is examined. The main factor for analysis is the company's current debt-to-equity ratio or gearing level. A high gearing level may incline markets and financial analysts to downgrade the company's bond rating, increasing its investment risk factor in the process. A gearing level of up to 100% is considered acceptable.

SERS will vote **for** debt issuances for companies when the gearing level is between zero and 100 percent unless, the company fails to provide sufficient information to enable a meaningful shareholder review.

In cases where the issuance of debt will result in a gearing level being greater than 100%, SERS will consider these proposals based on the normal market practice.

SERS will generally vote **for** proposals to approve increases in a company's borrowing powers after considering (i) management's stated need for the increase, (ii) the size of the increase, and (iii) the company's current gearing level. Large increases in borrowing powers can sometimes result in dangerously high debt-to-equity ratios that could harm shareholder value. If an increase is excessive without sufficient justification, and/or a company already has an exceptionally high gearing level compared to its industry, SERS will typically vote **against** the request.

12. DEBT RESTRUCTURING

SERS will review on a **case-by-case** basis proposals to increase common and/or preferred shares, and/or to issue shares, as part of a debt-restructuring plan, considering the following factors:

- **Dilution:** How much will the ownership interests of existing shareholders be reduced, and how extreme will the dilution be to any future earnings?

- Change in Control: Will the transaction result in a change in control of the company?
- Bankruptcy: Is the threat of bankruptcy (which would result in severe losses in shareholder value) the main factor driving the debt restructuring?
- Terms of the offer: What is the discount/premium in purchase price to investors, including any fairness opinion, termination penalties, and/or exit strategy?
- Financial issues: What is the company's financial situation (e.g., degree of need for capital; use of proceeds), and what is the effect of the financing on the company's cost of capital?
- Alternatives: What are management's efforts to pursue other alternatives?

SERS will generally vote **for** proposals that facilitate debt restructurings unless there are clear signs of self-dealing or other abuses.

13. PLEDGING OF ASSETS FOR DEBT

SERS will vote on a **case-by-case** basis on proposals to approve the pledging of assets for debt, considering the terms of the proposed debt issuance and the company's overall debt level.

14. FINANCING PLANS

SERS will generally vote **for** the adoption of financing plans if they are in the best economic interests of shareholders.

15. CONTROL AND PROFIT TRANSFER AGREEMENTS

SERS will generally vote **for** proposals to approve control and profit transfer agreements between a parent company and its subsidiaries.

16. CAPITALIZATION OF RESERVES

SERS will vote **for** proposals to capitalize the company's reserves for bonus issues of shares or to increase the par value of shares.

17. DEFENSIVE USE OF AUTHORIZED SHARE ISSUANCES

SERS will generally vote **against** management requests to issue shares in the event of a takeover offer or exchange bid for the company's shares.

18. REDUCTION OF CAPITAL

SERS will generally vote **for** proposals to reduce capital for routine accounting purposes, unless the terms are unfavorable to shareholders.

SERS will vote on a **case-by-case** basis on proposals to reduce capital in connection with corporate restructuring, considering the company's situation and the future prospects for shareholders.

19. GOLDEN SHARES

Recently privatized companies around the world often include in their share structure a golden share held by their respective governments. These shares often carry special voting rights or the power of

automatic veto over specific proposals. Golden shares are most common among former state-owned companies or politically sensitive industries such as utilities, railways, and airlines.

While the introduction of golden shares is not a desirable governance practice, SERS recognizes the political importance certain companies hold for governments, and reviews proposals for the introduction or amendment of government shares on a **case-by-case** basis.

H. Executive and Director Compensation

SERS will generally vote **for** compensation plans that have a significant stock-based portion of the total package and are linked to the performance of long-term shareholder interests.

1. EQUITY BASED COMPENSATION PLANS

U.S. COMPANIES

SERS will generally vote on a **case-by-case** basis on certain equity-based compensation plans¹ depending on a combination of certain plan features and equity grant practices, where positive factors may counterbalance negative factors, and vice versa, as evaluated using an "equity plan scorecard" (EPSC) approach utilizing the following three pillars:

- Plan Cost:

The total estimated cost of the company's equity plans relative to industry/market cap peers, measured by the company's estimated Shareholder Value Transfer (SVT) in relation to peers when considering both:

- SVT based on new shares requested plus shares remaining for future grants, plus outstanding unvested/unexercised grants; and
- SVT based only on new shares requested plus shares remaining for future grants.

- Plan Features:

- Automatic single-triggered award vesting upon a change in control (CIC);
- Discretionary vesting authority;
- Liberal share recycling on various award types;
- Lack of minimum vesting period for grants made under the plan;
- Dividends payable prior to award vesting.

- Grant Practices:

- The company's three-year burn rate relative to its industry/market cap peers;
- Vesting requirements in most recent CEO equity grants (three-year look-back);
- The estimated duration of the plan (based on the sum of shares remaining available and the new shares requested, divided by the average annual shares granted in the prior three years);
- The proportion of the CEO's most recent equity grants/awards subject to performance conditions;
- Whether the company maintains a claw-back policy;
- Whether the company has established post exercise/vesting share-holding requirements.

SERS will generally vote **against** the compensation plan proposal if the combination of above factors indicates that the plan is not, overall, in the shareholders' best interests, or if any of the following egregious factors apply:

- Awards may vest in connection with a liberal change-of-control definition;

¹ Proposals evaluated under Institutional Shareholder Services Inc.'s Equity Plan Scorecard policy generally include those to approve or amend (1) stock option plans, (2) restricted stock plans, and (3) omnibus stock incentive plans, for employees and/or directors.

- The plan would permit repricing or cash buyout of underwater options without shareholder approval (either by expressly permitting it for NYSE and Nasdaq listed companies, or for non-listed companies, by not prohibiting it when the company has a history of repricing);
- The plan is a vehicle for problematic pay practices or a significant pay-for-performance disconnect under certain circumstances; or
- The plan is excessively dilutive to shareholders' holdings;
- The plan contains an evergreen (automatic share replenishment) feature; or
- Any other plan features are determined to have a significant negative impact on shareholder interests.

NON-U.S. COMPANIES

SERS favors the use of stock options to align management and shareholder interests. However, some stock options are adversarial to shareholder interests, and will be opposed by SERS based on the following factors:

- Total dilution of the plan:
 - Shares available under all compensation plans should be no more than 5% of the issued capital at the time of approval for mature companies, and no more than 10% of the issued capital at the time of approval for growth companies;
 - Plans at mature companies with dilution levels of up to 10% may be supported if the plan includes other position features such as challenging performance criteria or premium-priced options;
- Exercise price:
 - SERS prefers that options be priced at not less than 100% of the shares' fair market value on the date of grant;
 - In the absence of performance criteria, SERS opposes grants of discounted options, including restricted stock;
- Plan administration: Administration of plans should be in the hands of directors who are unable to participate in the plan. Plans that allow non-executive directors to participate should prohibit them from having any influence or discretion on individual grants; instead, an automatic system of grants should be introduced with fixed annual grants at market prices on a fixed date;
- Vesting Periods: SERS prefers a minimum three-year vesting period;
- Repricing: SERS opposes plans that include option repricing when the exercise price is reduced in response to a dropping share price;
- Reloading Options: SERS opposes the reloading of options when an existing grant expires, as this eliminates the risk of exercising options;
- Converting option grants into cash: Stock Appreciation Rights permit the holder to receive the difference between option price and market value in cash, without exercising the option. Pyramiding permits payment for stock options with the conversion of previously owned shares that have appreciated. Both practices are cash compensation plans disguised as stock-linked compensation.
- Market best practices: SERS will vote **against** option plans that do not incorporate criteria that is standard market practice, such as the use of performance criteria.

SERS will vote **against** loans to officers to purchase stock, especially at below-market interest rates.

SERS will vote **for** specific stock award plans to officers, but opposes discretionary awards.

In the UK, whether the terms of a compensation plan are to be satisfied by the issuance of new shares or through the use of treasury shares, the maximum commitment of the aggregate awards under all of the company's plans should not exceed 10% of issued ordinary capital over a rolling 10-year period for broad-based plans. Within these limits, awards for discretionary plans should not exceed 5% for a rolling 10-year period.

In Canada, SERS generally votes against an equity compensation plan proposal if:

- The basic dilution (i.e. not including warrants or shares reserved for equity compensation) represented by all equity compensation plans is greater than 10 percent;
- The average annual burn rate is greater than 5 percent per year (generally averaged over most recent three-year period and rounded to nearest whole number for policy application purposes);
- The plan expressly permits the repricing of options without shareholder approval and the company has repriced options within the past three years;
- The plan is a rolling equity plan that enables auto-replenishment of share reserves without requiring periodic shareholder approval of at least every three years (i.e. evergreen plan).

In general, SERS prefers to see the full text of the proposed compensation plan, or a summary of the plan's key terms, with information on the plan's dilution, exercise price/presence of discounts, administration and participation, types of awards used, vesting provisions, and performance criteria.

However, in many markets, especially where companies are only beginning to introduce stock-based compensation, information on key plan terms can be quite limited. Until disclosure standards improve in these markets, SERS believes that it would be counterproductive to oppose all plans in a given country on this basis. Still, some basic parameters are necessary in order for SERS to consider supporting a compensation plan. At a minimum, companies should disclose information on the maximum potential dilution of a plan, and information concerning the exercise price. If a plan meets SERS' guidelines on these two points, SERS will generally support the plan. For markets where certain plan information is regularly disclosed, and a company has failed to provide this information to shareholders, SERS will generally vote **against** the plan on the basis of substandard disclosure.

2. REMUNERATION REPORT OR POLICY/MANAGEMENT ADVISORY VOTE ON EXECUTIVE COMPENSATION

SERS will vote **for** proposals that require annual advisory shareholder votes on the compensation of senior executives.

U.S. COMPANIES

SERS will vote **against** management say-on-pay (MSOP) proposals, **against/withhold** on compensation committee member (or, in rare cases where the full board is deemed responsible, all directors including the CEO), and/or **against** an equity-based incentive plan proposal if:

- There is a misalignment between CEO pay and company performance (pay for performance);
- The company maintains problematic pay practices; and/or

- The board exhibits poor communication and responsiveness to shareholders.

For externally-managed issuers (EMIs), SERS will generally vote **against** the say-on-pay proposal when insufficient compensation disclosure precludes a reasonable assessment of pay programs and practices applicable to the EMI's executives.

Voting Alternatives

In general, the MSOP ballot item is the primary focus of voting on executive pay practices. Shareholder dissatisfaction with a company's compensation practices can be expressed by voting against MSOP proposals rather than withholding or voting against the compensation committee. However, if there is no MSOP proposal on the ballot, then the negative vote will apply to members of the compensation committee. In addition, in egregious cases, or if the board fails to respond to concerns raised by a prior MSOP proposal, then SERS will vote **against/withhold** on compensation committee members (or, if the full board is deemed accountable, all directors). If the negative factors involve equity-based compensation, then SERS will vote **against** an equity-based plan proposal.

Primary Evaluation Factors for Executive Pay

Pay-for-Performance Evaluation

SERS will review pay-for-performance analysis to identify strong or satisfactory alignment between pay and performance over a sustained period. With respect to companies in the S&P500, Russell 3000, or Russell 3000E Indices, this analysis considers the following:

- 1) Peer Group Alignment:
 - The degree of alignment between the company's annualized TSR rank and the CEO's annualized total pay rank within a peer group, each measured over a three-year period.
 - The rankings of CEO total pay and company financial performance within a peer group, each measured over a three-year period.
 - The multiple of the CEO's total pay relative to the peer group median in the most recent fiscal year.
- 2) Absolute Alignment – the absolute alignment between the trend in CEO pay and company TSR over the prior five fiscal years – i.e., the difference between the trend in annual pay changes and the trend in annualized TSR during the period.

If the above analysis demonstrates significant unsatisfactory long-term pay-for-performance alignment or, in the case of companies outside the Russell indices, a misalignment between pay and performance is otherwise suggested, our analysis may include any of the following quantitative and/or qualitative factors, as relevant to an evaluation of how various pay elements may work to encourage or to undermine long-term value creation and alignment with shareholder interests:

- The ratio of performance- to time-based incentive awards;
- The overall ratio of performance-based compensation to fixed or discretionary pay;
- The rigor of performance goals;
- The complexity and risks around pay program design;
- The transparency and clarity of disclosure;
- The company's peer group benchmarking practices;
- Financial/operational results, both absolute and relative to peers;
- Special circumstances related to, for example, a new CEO in the prior FY or anomalous equity grant practices (e.g., bi-annual awards);
- Realizable pay compared to grant pay; and
- Any other factors deemed relevant.

Problematic Pay Practices

The focus is on executive compensation practices that contravene the global pay principles, including:

- Problematic practices related to non-performance-based compensation elements;
- Incentives that may motivate excessive risk-taking or present a windfall risk; and
- Pay decisions that circumvent pay-for-performance, such as options backdating or waiving performance requirements.

Problematic Pay Practices related to Non-Performance-Based Compensation Elements

Pay elements that are not directly based on performance are generally evaluated case-by-case considering the context of a company's overall pay program and demonstrated pay-for-performance philosophy. The list below highlights the problematic practices that carry significant weight in this overall consideration and may result in adverse vote recommendations:

- Repricing or replacing of underwater stock options/SARs without prior shareholder approval (including cash buyouts and voluntary surrender of underwater options);
- Extraordinary perquisites or tax gross ups;
- New or materially amended agreements that provide for:
 - Excessive termination or CIC severance payments (generally exceeding 3 times base salary and average/target/most recent bonus);
 - CIC severance payments without involuntary job loss or substantial diminution of duties ("single" or "modified single" triggers) or in connection with a problematic Good Reason definition;
 - CIC excise tax gross-up entitlements (including "modified" gross-ups);
 - Multi-year guaranteed awards that are not at risk due to rigorous performance conditions;
- Liberal CIC definition combined with any single-trigger CIC benefits;
- Insufficient executive compensation disclosure by externally managed issuers (EMIs) such that a reasonable assessment of pay programs and practices applicable to the EMI's executives is not possible;
- Any other provision or practice deemed to be egregious and present a significant risk to investors.

Options Backdating

The following factors should be examined case-by-case to allow for distinctions to be made between “sloppy” plan administration versus deliberate action or fraud:

- Reason and motive for the options backdating issue, such as inadvertent vs. deliberate grant date changes;
- Duration of options backdating;
- Size of restatement due to options backdating;
- Corrective actions taken by the board or compensation committee, such as canceling or re-pricing backdated options, the recouping of option gains on backdated grants; and
- Adoption of a grant policy that prohibits backdating and creates a fixed grant schedule or window period for equity grants in the future.

NON-U.S. COMPANIES

SERS will take market practice into account when considering the remuneration reports or policies, and vote **for** proposals where the company has acted within market best practice. That said, such best compensation practices across all markets should be consistent with the following principles:

- Provide shareholders with clear, comprehensive compensation disclosures;
- Maintain appropriate pay-for-performance alignment with emphasis on long-term shareholder value;
- Avoid arrangements that risk "pay for failure";
- Maintain an independent and effective compensation committee; and
- Avoid inappropriate pay to directors.

3. OBRA-RELATED COMPENSATION PROPOSALS (U.S. COMPANIES ONLY)

SERS will generally vote **for** proposals to approve or amend executive incentive bonus plans if the proposal:

- Is only to include administrative features;
- Places a cap on the annual grants any one participant may receive to comply with the provisions of Section 162(m) of the Omnibus Budget Reconciliation Act (OBRA);
- Adds performance goals to existing compensation plans to comply with the provisions of Section 162(m) unless they are clearly inappropriate; and/or
- Covers cash or cash and stock bonus plans that are submitted to shareholders for the purpose of exempting compensation from taxes under the provisions of Section 162(m) if no increase in shares is requested.

SERS will vote **against** such proposals if:

- The compensation committee does not fully consist of independent outsiders, per SERS' director classification;
- The plan contains excessive problematic provisions;
- In addition to seeking Section 162(m) tax treatment, the amendment may cause the transfer of additional shareholder value to employees (e.g., by requesting additional shares, extending the option term, or expanding the pool of plan participants). In such cases, SERS will evaluate the SVT in comparison with the company's allowable cap; and/or
- A company is presenting the plan to shareholders for Section 162(m) favorable tax treatment for the first time after the company's initial public offering (IPO). In such cases, SERS will perform a full equity plan analysis, including consideration of total SVT, burn rate (if applicable), repricing, and liberal CIC. Other factors such as pay-for-performance or problematic pay practices as related to MSOP may be considered (where applicable).

4. QUALIFIED AND NON-QUALIFIED EMPLOYEE STOCK PURCHASE PLANS

SERS will vote **against** qualified employee stock purchase plans where either any of the following apply:

- Purchase price is less than 85% of fair market value;
- Offering period is greater than 27 months; or
- The number of shares allocated to the plan is more than 10% of the outstanding shares.

SERS will vote **for** non-qualified employee stock purchase plans with all of the following features:

- Broad-based participation;
- Limits on employee contribution;
- Company matching contribution up to 25% of employee's contribution (an effective 20% discount off market value); and
- No discount on the stock price on the date of purchase (due to company matching contribution).

5. SHAREHOLDER PROPOSALS TO LIMIT EXECUTIVE AND/OR DIRECTOR PAY

SERS will vote **for** shareholder proposals that seek additional disclosure of executive and/or director pay information, provided the information requested is relevant to shareholders' needs, would not put the company at a competitive disadvantage relative to its industry, and is not unduly burdensome to the company.

SERS will generally vote **against** shareholder proposals seeking to set absolute levels on executive and/or director compensation, or otherwise dictate the amount or form of such compensation.

SERS will generally vote **against** shareholder proposals seeking to eliminate stock options or any other equity grants to employees or directors.

SERS will review on a **case-by-case** basis all other shareholder proposals that seek to limit executive and/or director pay, taking into account (i) the details of the proposal, (ii) company performance, (iii) pay level versus peers, (iv) pay level versus industry, and (v) long-term corporate outlook.

6. GOLDEN AND TIN PARACHUTES

SERS will generally vote **for** shareholder proposals to have golden and tin parachutes submitted for shareholder ratification. A “golden parachute” is a term used for a special compensation arrangement between a company and its senior executives in the event the company is acquired or if the executive is terminated. The term “tin parachute” refers to similar compensation arrangements granted to all company employees below the executive level.

SERS will review on a **case-by-case** basis all management proposals to ratify or cancel golden or tin parachutes. An acceptable parachute should include, but is not limited to, the following:

- The triggering mechanism should be beyond the control of management;
- The amount should not exceed three times base amount (defined as the average annual taxable W-2 compensation during the five years prior to the year in which the change of control occurs); and
- Change-in-control payments should be double-triggered (i.e., (1) after a change in control has taken place, and (2) termination of the executive as a result of the change).

SERS will vote on a **case-by-case** basis on say-on-golden-parachute proposals, including consideration of existing change-in-control arrangements maintained with named executive officers rather than focusing primarily on new or extended arrangements.

Features that may result in an adverse vote by SERS include one or more of the following, depending on the number, magnitude, and/or timing of issue(s):

- Single-trigger or modified-single-trigger cash severance;

- Single-trigger acceleration of unvested equity awards;
- Excessive cash severance (greater than 3x base salary and bonus);
- Excise tax gross-ups triggered and payable (as opposed to a provision to provide excise tax gross-ups);
- Excessive golden parachute payments (on an absolute basis or as a percentage of transaction equity value);
- Recent amendments that incorporate any problematic features (such as those above) or recent actions (such as extraordinary equity grants) that may make packages so attractive as to influence merger agreements that may not be in the best interests of shareholders; and/or
- The company's assertion that a proposed transaction is conditioned on shareholder approval of the golden parachute advisory vote.

Note: Recent amendments to a company's parachute policies that incorporate problematic features will tend to carry more weight on the overall analysis. However, the presence of multiple legacy problematic features will also be closely scrutinized.

In cases where the golden parachute vote is incorporated into a company's advisory vote on compensation (MSOP), SERS will evaluate the say-on-pay proposal in accordance with these guidelines, which may give higher weight to that component of the overall evaluation.

7. DIRECTOR REMUNERATION

Non-U.S

SERS will vote **for** proposals to award cash fees to non-executive directors, unless the following negative factors are apparent:

- Lack of disclosure specific to director fees;
- Amounts are excessive relative to other companies in the country or industry;
- There are intended increases in fees that are excessive compared to market/sector practices, without justification and;
- Proposals already provide for the granting of performance-based equity and cash awards to non-executive directors

SERS will vote **against** proposals that require director fees to be paid only in stock.

For U.S based proposals regarding stock plans in lieu of cash, SERS will generally vote **for** proposals to compensate non-employee directors in stock in lieu of cash when the annual level compensation in stock is comparable to the annual level of cash compensation. When the value of awarded shares is significantly greater than the cash compensation that the directors receive, SERS will vote **against** such proposals.

SERS will vote **for** proposals that eliminate non-employee director pension plans.

8. RETIREMENT BONUSES FOR DIRECTORS AND STATUTORY AUDITORS

SERS will generally vote **against** the payment of retirement bonuses to directors and statutory auditors when one or more of the individuals to whom the grants are being proposed has not served in an executive capacity for the company for at least three years. SERS will also generally vote **against** payment of retirement bonuses to any directors or statutory auditors who have been designated by the company as independent. Retirement bonus proposals are all-or-nothing, meaning that split votes

against individual payments cannot be made. If any one individual does not meet the independence criteria, SERS will generally vote **against** the entire bundled item.

9. 401(K) EMPLOYEE BENEFIT PLANS/EMPLOYEE STOCK OWNERSHIP PLANS (ESOP)

SERS will vote **for** proposals to implement 401(k) plans for employees.

SERS will vote **for** proposals to implement an employee stock purchase plan (ESOP) or increase authorized shares for existing ESOPs, unless the number of shares allocated to the ESOP is excessive (more than five percent of outstanding shares).

10. PERFORMANCE-BASED EQUITY COMPENSATION

The use of performance-based compensation should provide a better linkage of management's interests with those of the company's shareholders. Compensation policies should have a long-term focus that corresponds with the company's long-term goals.

SERS will generally favor shareholder proposals advocating the use of performance-based equity awards (indexed-options, premium-priced options, performance-vested awards).

SERS will generally vote **for** shareholder proposals advocating the use of performance-based equity awards, unless the company demonstrates that it is using a "substantial" portion of performance-based awards for its top executives.

11. HOLDING PERIODS

Key executives and directors should be encouraged to obtain and hold a significant amount of the company's stock as further incentive to operate the company in a manner that maximizes its value for all shareholders. SERS will generally vote **for** shareholder proposals asking companies to adopt full tenure holding periods for stock or other equity granted for their executives. The percentage/ratio of net shares required to be retained, and minimum holding periods for equity, will be evaluated. Holding periods for senior executives and directors should generally not be less than the holding period for other employees under 401(k) or similar retirement plans.

12. FUTURE STOCK OPTION AWARDS

SERS will generally vote **against** shareholder proposals to ban future stock option grants to executives. SERS may consider supporting such shareholder proposals in situations where the company (i) is a serial re-pricer, (ii) has a huge "overhang", and/or (iii) has a highly dilutive, broad-based, and non-approved stock option plan and is not acting to correct the situation.

13. SUPPLEMENTAL RETIREMENT BENEFITS FOR EXECUTIVES

SERS will generally vote **for** proposals requiring the company to report on its executive retirement benefits (such as deferred compensation, split-dollar life insurance, supplemental executive retirement plans (SERPs), and pension benefits).

SERS will generally vote **for** shareholder proposals requesting to put extraordinary benefits contained in SERP agreements to a shareholder vote, unless the company's executive pension plans do not contain excessive benefits beyond what is offered under employee-wide plans.

SERS will generally vote **for** shareholder proposals requesting to limit the executive benefits provided under the company's supplemental executive retirement plan (SERP) by limiting covered compensation to a senior executive's annual salary or those pay elements covered for the general employee population.

14. PRE-ARRANGED TRADING PLANS (UNDER SEC RULE 10b5-1 PLANS)

SERS will generally vote **for** a shareholder proposal calling for certain principles regarding the use of prearranged trading plans (as permitted under SEC Rule 10b5-1) for corporate executives. These principles include:

- The adoption, amendment, or termination of a 10b5-1 Plan must be disclosed within two business days in a Form 8-K;
- An amendment or early termination of a 10b5-1 Plan is allowed only under extraordinary circumstances, as determined by the board;
- Ninety (90) days must elapse between the adoption or amendment of a 10b5-1 Plan, and initial trading under such plan;
- Reports on Form 4 must identify transactions made pursuant to a 10b5-1 Plan;
- An executive may not trade in company stock outside the 10b5-1 Plan; and/or
- Trades under a 10b5-1 Plan must be handled by a broker who does not handle other securities transactions for the executive seeking to trade under the plan.

15. OPTION EXCHANGE/REPRICING PROGRAMS

SERS will vote on a **case-by-case** basis on management proposals seeking approval to exchange/reprice options, taking into consideration the following factors:

- Historic trading patterns (i.e., whether the stock price is so volatile that the options are likely to be back "in-the-money" over the near term);
- Rationale for the repricing (i.e., whether the stock price decline was beyond management's control);
- Whether it was a value-for-value exchange;
- Whether surrendered stock options will be added back to the plan reserve;
- Whether the new option will vest immediately or after a black-out period);
- The term of the option should remain the same as that of the replaced option);
- The exercise price should be set at fair market or a premium to market; and/or
- Participants (i.e., executive officers and directors should be excluded).

If the surrendered options are added back to the equity plans for re-issuance, then also take into consideration the company's total cost of equity plans and its three-year average burn rate.

In addition to the above considerations, evaluate the intent, rationale, and timing of the repricing proposal. The proposal should clearly articulate why the board is choosing to conduct an exchange program at this point in time. Repricing underwater options after a recent precipitous drop in the company's stock price demonstrates poor timing and warrants additional scrutiny. Also, consider the terms of the surrendered options, such as the grant date, exercise price and vesting schedule. Grant dates of surrendered options should be far enough back (two to three years) so as not to suggest that re-

pricings are being done to take advantage of short-term downward price movements. Similarly, the exercise price of surrendered options should be above the 52-week high for the stock price.

SERS will vote **for** shareholder proposals to put option repricing to a shareholder vote.

16. COMPENSATION-RELATED SHAREHOLDER PROPOSALS

SERS will generally vote **for** shareholder proposals calling for companies to adopt a policy of not providing tax gross-up payments to corporate executives, except in situations where gross-ups are provided pursuant to a plan, policy or arrangement applicable to management employees of the company (such as a relocation of expatriate tax equalization policy).

SERS will generally vote **for** shareholder proposals calling for board compensation committees to develop and disclose a policy for (i) reviewing unearned bonus and incentive payments that were awarded to executive officers as a result of fraud, (ii) reviewing financial results that require restatement, and/or (iii) some other cause. Such a policy should require recovery or cancellation of any unearned awards to the extent that it is feasible and practical to do so.

SERS will generally vote **for** shareholder proposals calling for companies to adopt a policy on severance pay.

SERS will generally vote on a **case-by-case** basis on other compensation-related shareholder proposals, considering SERS' existing approach on the issue and market best practice.

17. MISCELLANEOUS COMPENSATION ISSUES

SERS will vote **for** pay-for-performance fees.

SERS will vote **against** loans to officers to purchase stock, especially at below-market interest rates.

SERS opposes discretionary equity awards to officers outside of existing equity compensation plans. SERS will vote on a **case-by-case** basis on plan-based equity grants to officers, based on the same criteria by which SERS evaluates equity compensation plans in general.

I. Incorporation

1. VOTING ON STATE TAKEOVER STATUTES

Many states have statutory provisions that specifically discourage takeover activity. Many states allow a company to opt out of these anti-takeover laws.

SERS will vote **for** proposals to opt out of state anti-takeover statutes.

Subject to the caveat stated above, SERS will review on a **case-by-case** basis proposals to opt in or out of state takeover statutes (including control share acquisition statutes, control share cash-out statutes, freeze-out provisions, fair price provisions, stakeholder laws, poison pill endorsements, severance pay and labor contract provisions, anti-greenmail provisions, and disgorgement provisions), evaluating from the perspective of the statutes' effect on shareholders' rights.

2. REINCORPORATION

SERS votes on a **case-by-case** basis on management or shareholder proposals to change a company's state of incorporation, considering both financial and corporate governance concerns that include the following:

- Reasons for the proposed reincorporation;
- Governance provisions in the proposed new charter that differ from those in the existing charter; and/or
- Comparison of the corporation laws of the original state and the destination state.

SERS will vote **for** proposals to reincorporate in states that are more supportive to shareholder rights, and/or which are supported by compelling business reasons.

SERS will vote **against** proposals to reincorporate in states with tougher anti-takeover laws, or states that have poor corporate governance profiles.

SERS votes **for** reincorporation when economic factors outweigh any neutral or negative governance changes.

The issue of offshore reincorporation is complicated, primarily involving many issues other than purely corporate governance issues. First and foremost, reincorporation issues are fiduciary issues. Many companies will strive to take advantage of legal tax advantages in order to become more profitable. Often, a company pays taxes only on its U.S. earnings, and may be able to reduce or eliminate paying taxes on its foreign earnings by reincorporating. However, a secondary consequence of offshore reincorporation may be a diminution of shareholder rights. Therefore, while offshore reincorporation may be politically and socially undesirable, it may still be prudent from a fiduciary point of view.

SERS will evaluate on a **case-by case** basis shareholder proposals that seek to bar a company from relocating offshore.

SERS will evaluate on a **case-by-case** basis shareholder proposals requiring a company to reincorporate back to the United States from an offshore jurisdiction.

J. Mergers and Corporate Restructurings

In voting proxies, SERS pays special attention to companies that are either headquartered or incorporated in Pennsylvania to ensure that the best interests of the Commonwealth (and SERS members who live in the Commonwealth) are considered. Any proxy votes related to mergers and acquisitions involving Pennsylvania-based companies, or proposals affecting the SERS board of directors, will be referred to SERS' Chief Investment Officer.

1. MERGERS AND ACQUISITIONS

As a general rule, SERS will vote **for** management when a corporation is merging with, or into, or being acquired by another firm on a friendly basis.

Any significant merger, acquisition or hostile bid, particularly a transaction where one party is headquartered in Pennsylvania, will be referred to SERS' Chief Investment Officer on a **case-by-case** basis. There are a number of factors to be considered when voting on any proposed merger or acquisition, including without limitation:

- Whether the proposed transaction would promote SERS' long-term financial interests;
- The existence of a fairness opinion in connection with the transaction;
- The existence of a majority of outside directors voting on the proposal, and the relative performance of their companies;
- Management's compensation in the transaction, and the treatment of shareholder rights in the resulting company;
- Whether various lock-up or lock-out provisions exist which prevent potential bidders from competing with management's offer; and
- In the case of a management buyout, whether other potential acquirers have the opportunity to make competitive bids.

2. PROPOSALS DESIGNED TO DISCOURAGE MERGERS AND ACQUISITIONS

These provisions direct board members to weigh socio-economic, legal, and financial factors when evaluating takeover bids. This allows the interest of customers, suppliers, managers, and other non-shareholders to be considered.

SERS will vote **against** these proposals.

3. CORPORATE TRANSACTIONS

SERS will generally vote **for** management proposals to make certain corporate transactions, such as spin-offs or asset sales. SERS prefers a fairness opinion, and a favorable stock market reaction, prior to casting its vote on such proposals.

SPAC

SERS will vote **case-by-case** on SPAC extension proposals considering the length of the requested extension, the status of any pending transaction(s) or progression of the acquisition process, any added incentive for non-redeeming shareholders, and any prior extension requests.

- Length of request: Typically, extension requests range from two to six months, depending on the progression of the SPAC's acquisition process.

- Pending transaction(s) or progression of the acquisition process: Sometimes an initial business combination was already put to a shareholder vote, but, for varying reasons, the transaction could not be consummated by the termination date and the SPAC is requesting an extension. Other times, the SPAC has entered into a definitive transaction agreement, but needs additional time to consummate or hold the shareholder meeting.
- Added incentive for non-redeeming shareholders: Sometimes the SPAC sponsor (or other insiders) will contribute, typically as a loan to the company, additional funds that will be added to the redemption value of each public share as long as such shares are not redeemed in connection with the extension request. The purpose of the "equity kicker" is to incentivize shareholders to hold their shares through the end of the requested extension or until the time the transaction is put to a shareholder vote, rather than electing redemption at the extension proposal meeting.
- Prior extension requests: Some SPACs request additional time beyond the extension period sought in prior extension requests.

4. LIQUIDATIONS

SERS will generally vote on a **case-by-case** basis on liquidation proposals after reviewing (i) management's efforts to pursue other alternatives, (ii) appraisal value of assets, and (iii) the compensation plan for executives managing the liquidation.

SERS will generally vote **for** the liquidation if the company will file for bankruptcy if the proposal is not approved.

5. APPRAISAL RIGHTS

SERS will generally vote **for** proposals to restore, or provide shareholders with, rights of appraisal.

6. CHANGING CORPORATE NAME

SERS will vote **for** management proposals to change the name of the company.

7. MANDATORY TAKEOVER BID WAIVER

Many countries impose a bid threshold that forces any shareholder whose stake in a company exceeds the legal limit to tender a public bid to all the other shareholders to purchase the remaining shares. SERS votes **against** proposals to exempt a large shareholder from the obligation to bid. The requirement that a takeover bid should be launched when a substantial amount of shares have been acquired prevents the entrenchment of the controlling shareholder and protects minority owners.

Note: SERS does make an exception to the mandatory takeover bid rule when the event prompting the takeover bid is a repurchase by the company of its own shares. When a company repurchases its own shares, the relative stake of a large shareholder increases even though the number of shares held by the large shareholder has not changed. Under certain circumstances, SERS will support a waiver, namely, if the share repurchase would not push the large shareholder's stake in the company above 50%.

8. RELATED PARTY TRANSACTIONS

SERS will evaluate related-party transactions on a **case-by-case** basis, considering factors including, but not limited to, the following:

- The parties on either side of the transaction, including the identity and relationship;
- The nature of the asset to be transferred/service to be provided;
- The pricing of the transaction (and any associated professional valuation);
- The views of independent directors (where provided);
- The views of an independent financial adviser (where appointed);
- Whether any entities party to the transaction (including advisers) are conflicted; and/or
- The stated rationale for the transaction, including discussions of timing.

K. Mutual Fund and Exchange Traded Fund Proxies²

1. ELECTION OF TRUSTEES

SERS will vote on trustee nominees on a **case-by-case** basis, considering market best practices.

2. INVESTMENT ADVISORY AGREEMENTS

SERS will vote on investment advisory agreements on a **case-by-case** basis, considering market best practices.

3. FUNDAMENTAL INVESTMENT RESTRICTIONS

SERS will vote on amendments to a fund's fundamental investment restrictions on a **case-by-case** basis, considering market best practices.

4. DISTRIBUTION AGREEMENTS

SERS will vote on distribution agreements on a **case-by-case** basis, considering market best practices.

² This includes conversion of closed-end funds to open-end funds, as well as the approval of multi-manager structures.

L. Social, Environmental and Political Issues

SERS will vote on social, environmental and political issues based on their effect on shareholder value and the financial impact on the company. Proposals will generally be voted with management, particularly where there are serious financial costs to the company. The following specific issues will be voted on as follows:

1. SUSTAINABILITY REPORTING

SERS generally votes **for** proposals requesting that a company report on its policies, initiatives, and oversight mechanisms related to social, economic, and environmental sustainability, unless:

- The company already discloses similar information through existing reports or policies such as an environment, health and safety (EHS) report, a comprehensive code of corporate conduct, and/or a diversity report; and/or
- The company has formally committed to the implementation of a reporting program based on Global Reporting Initiative (GRI) guidelines, or a similar standard within a specified time frame.

2. ESTABLISH OTHER BOARD COMMITTEE PROPOSALS

SERS generally votes **against** shareholder proposals to establish a new board committee, as such proposals seek a specific oversight mechanism/structure that potentially limits a company's flexibility to determine an appropriate oversight mechanism for itself. However, the following factors will be considered:

- Existing oversight mechanisms (including current committee structure) regarding the issue for which board oversight is sought;
- Level of disclosure regarding the issue for which board oversight is sought;
- Company performance related to the issue for which board oversight is sought;
- Board committee structure compared to that of other companies in its industry sector; and
- The scope and structure of the proposal.

3. LOBBYING

SERS will vote **for** proposals requesting information on a company's lobbying activities, policies, or procedures (including direct, indirect, and grassroots lobbying).

4. POLITICAL CONTRIBUTIONS

SERS will vote **for** proposals requesting greater disclosure of a company's political contributions, as well as its trade association spending policies and activities.

5. CHARITABLE CONTRIBUTIONS

SERS will vote **for** shareholder proposals requesting for disclosure or reporting of a company's charitable contributions.

M. Lack of Information

It is impossible to determine the impact a proposal would have on shareholder value unless shareholders are furnished with detailed information. An uninformed voting decision can be harmful to shareholders.

Management proposals where little or no information is given to shareholders will be examined on a **case-by-case** basis.

SERS will **abstain** from proposals for lack of information where there is deemed to be poor disclosure laws in a given country (market specific).

SERS will vote **against** proposals if a company fails to provide shareholders with adequate information with which to base their voting decisions (company specific)

**Annual Report of Investment Manager Contract Term Changes/Updates
For the 12 Months Ending December 31, 20XX**

<u>Manager Name</u>	<u>Asset Type</u>	<u>Date</u>	<u>Brief Description of Term Update/Changes</u>
Manager A	Public Equity	dated Jan 4, 2020; effective Feb 1, 2020	2nd Amendment to IMA for Portfolio Management; amendment to fee schedule/better fees (<i>e.g.</i> , "X" Basis points to "Y" Basis points)
Manager B	Public Equity	dated January 20, 2020; effective Feb 1, 2020	7th Amendment to IMA for Portfolio Funds Management; amendment to fee schedule/better fees (<i>e.g.</i> , "X" Basis points to "Y" Basis points) (credit to be given for retroactivity of better rate)
Manager C	Fixed Income	dated Feb 1, 2020; effective February 26, 2020	1st Amendment to IMA for Portfolio Management; amendment to fee schedule/better fees (<i>e.g.</i> , "X" Basis points to "Y" Basis points)
Manager D	Fixed Income	dated March 4, 2020; effective January 1, 2020	3rd Amendment to IMA for Portfolio Management; amendment to fee schedule/better fees (<i>e.g.</i> , "X" Basis points to "Y" Basis points)
Manager E	REIT	dated April 15, 2020; effective May 1, 2020	4th Amendment to IMA for Portfolio Management; amendment to fee schedule/better fees (<i>e.g.</i> , "X" Basis points to "Y" Basis points)

Policy Name: Insider and Personal Trading Policy
Policy Number: 2020 POL-BD-01
Effective Date: January 1, 2021
Reviewed Date: September 8, 2020
Applies To: Board Members, Designees, and Employees
Contact Person: SERS Legal Office

I. Purpose

It is the general policy of the State Employees' Retirement Board ("Board") that the highest moral and ethical standards shall prevail in the accomplishment of the work of the Board and its employees. The members of the Board serve as trustees of the following:

- A. The State Employees' Retirement Fund ("Retirement Fund"), which consists of all balances in separate accounts set apart and to be used under the direction of the Board for the sole and exclusive benefit for the members ("Members") of the State Employees' Retirement System ("SERS");
- B. The State Employees' Defined Contribution Trust ("401(a) Trust"), which is established as part of the State Employees' Defined Contribution Plan ("401(a) Plan"). The 401(a) Trust is comprised of the individual investment accounts and all assets and money in those accounts, and any assets held by the Board as part of the 401(a) Plan that are not allocated to individual investment accounts established for those state employees who participate in the 401(a) Plan, which the Board administers and manages exclusively for the benefit of the 401(a) Plan participants and their beneficiaries until such time as the funds are distributed to the participants and their beneficiaries in accordance with the 401(a) Plan;
- C. The Deferred Compensation Plan Trust for Officers and Employees of the Commonwealth of Pennsylvania ("457 Trust"), which is established as part of the Fifth Amended and Restated Deferred Compensation Plan ("457 Plan"). The 457 Trust is comprised of all property and rights purchased with compensation deferred under the 457 Plan, all income attributable thereto, and such other monies or assets as are permitted by law to be transferred to the 457 Plan, which the Board administers and manages exclusively for the benefit of the 457 Plan participants and their beneficiaries until such time as the funds are distributed to the participants and their beneficiaries in accordance with the 457 Plan; and
- D. The Benefits Completion Plan ("BPC"), which is a retirement benefit plan within the meaning of, in conformity with and then only to the extent and so long as permitted by IRC §415(m) for the purpose of providing such retirement benefits as would otherwise

have been payable under the State Employees' Retirement Code to annuitants of SERS on or after July 2, 2001, but for the application of the limitations on benefits of IRC §415.

The Board, Board member designees ("Designees"), employees of the Board (each an "Employee"), and its agents (each a "SERS Agent") stand in a fiduciary relationship to the Members and beneficiaries of SERS, and to the participants and beneficiaries in both the 401(a) Plan and the 457 Plan (hereafter referred to collectively as the "DC Plans"). All business of SERS, the BPC, and the DC Plans is to be conducted in the best interests of the Members, participants in the DC Plans, and their respective beneficiaries, and not for the benefit or profit of any Board members, Designees, Employees, or SERS Agent or to serve the interest of any third party. Board member's, Designee's, and Employee's obligations also include making full and fair disclosure of all relevant facts and any potential or actual conflicts of interest. Board members, Designees, and Employee are to act with loyalty and good faith, and place the interests of the Members, participants in the DC Plans, and their respective beneficiaries before their own. Hereinafter, any reference to SERS shall include a reference to the DC Plans.

Board members, Designees, and Employees are subject to various policies which relate to standards of conduct, some of which are either statutory or promulgated by other Commonwealth entities ("Commonwealth Policies").

Commonwealth Policies that may apply to an Employee, Board member, and Designee include the following:

- The Pennsylvania Public Official and Employees Ethics Act (65 Pa. C.S. §§1101 *et seq.*), which prohibits a public official or public employee from engaging in "...conduct that constitutes a conflict of interest." 65 Pa. C.S. §1103(a). A conflict of interest includes using "...any confidential information received through his holding public office or employment for the private pecuniary benefit of himself, a member of his immediate family or a business with which he or a member of his immediate family is associated." 65 Pa. C.S. §1102.
- The Governor's Code of Conduct (4 Pa. Code §7.151 *et seq.*), which provides that an employee, appointee or official in the Executive Branch of the Commonwealth shall not:
 - (1) Engage directly or indirectly in business transactions or private arrangement for profit which accrues from or is based upon his official position or authority.
 - (2) Participate in the negotiation of or decision to award contracts, the settlement of claims or charges in contracts, the making of loans, the granting of subsidies, the fixing of rates, or the issuance of permits, certificates, guarantees or other things of value to, with or for an entity in which he has a financial or personal interest.

4 Pa. Code §7.151.

The Governor's Code of Conduct further provides that:

No employee[e], appointee or official in the Executive Branch of the Commonwealth may represent or act as agent for a private interest, whether for compensation or not, in a transaction in which the State has a direct and substantial interest and which could be reasonably expected to result in a conflict between a private interest of the official or employee[e] and his official State responsibility.

4 Pa. Code §7.152.

Board members who are members of the General Assembly and their Designees are subject to the Legislative Code of Ethics (46 P.S. §§143.1 *et seq.*), which provides that no member shall:

- (1) Accept employment or engage in any business or professional activity which will require him to disclose confidential information which he has gained by reason of his official position or authority.
- (2) Improperly disclose confidential information required by him in the course of his official duties nor use such information to further his personal interests,
- (3) Use or attempt to use his official position to secure unwarranted privileges or exemptions for himself or others.

As a general policy, a Board member, Designee and Employee shall comply with all laws and regulations, including the Commonwealth Policies, applicable to the business of SERS. On March 6, 2008, the Securities and Exchange Commission issued a *Report of Investigation Pursuant to Section 21 (e) of the Securities Exchange Act of 1934*, Release No. 57446 (March 6, 2008). Then-SEC Chair Christopher Cox said, "While public pension funds are exempt from most of the federal securities laws governing money managers, they are not exempt from important anti-fraud provisions that prohibit insider trading and other manipulative and dishonest behavior that threatens the integrity of the market."

Moreover, members of professional organizations that promulgate standards of conduct are subject to those professional standards, as applicable. For example, members of the Chartered Financial Analyst Institute (the "CFA Institute") who are responsible for the Board's investment decisions or who are involved in the management of SERS' assets shall be governed in their personal investment activities by the Standards of Professional Conduct established by the CFA Institute and applicable State statutes, and shall sign a yearly affirmation of compliance with the Code of Ethics of the CFA Institute.

To preserve the value of integrity and applicable laws and regulations, the Board adopts this Insider and Personal Trading Policy (this "Policy") to create safeguards against the misuse of insider information (as defined below).

Each Board member, Designee, and Employee who is covered by this Policy is required to be familiar with this Policy and adhere to it. Strict adherence to this Policy is mandatory, and any questions should be discussed with the Employee's supervisor, the Chief Counsel, Executive Director, and/or Chief Compliance Officer of SERS. Violations of this Policy may lead to disciplinary action for Employees up to and including termination.

Although strict adherence to the specific requirements of this Policy is mandatory, this Policy cannot and is not intended to address all circumstances that may arise. Every Board member, Designee, and Employee must perform their duties in a manner designed to minimize even the appearance of impropriety or a conflict of interest. This Policy is intended to demonstrate to stakeholders and the general public that each Board member, Designee, and Employee is dedicated to transparency, accountability, and the highest ethical behavior, and that adequate controls are in place to ensure compliance with all legal, regulatory, and policy requirements.

II. Coverage

This Policy applies to: (i) each Employee who holds any of the "SERS Covered Employee Positions" identified in Exhibit A (SERS Covered Employee Positions) attached to this document; each such Employee will be referred to herein as a "Covered Employee" or the "Covered Employees;" and (ii) Board members and Designees. Covered Employees are those Employees, who have access to material, non-public information ("MNPI") about proposed trading, trading strategies or holdings of SERS and includes individuals involved in recommending or making investment decisions, or who have access to systems containing Confidential SERS Investment-Related Information, as hereinafter defined. Covered Employees also include those working with or in close proximity to an Employee involved in decision-making and who regularly have the opportunity to see MNPI written information or hear MNPI discussions relating to SERS' previous, current and/or potential investments.

The insider trading and front running prohibitions established in this Policy continue to apply to Board members, Designees, and Covered Employees who are in possession of MNPI or Confidential SERS Investment-Related Information even after: (i) termination of employment for Employees, or (ii) a Board member's or Designee's position on the Board ceases, until such time, if ever, that such MNPI information or Confidential SERS Investment Related Information becomes generally available to the public other than through the direct or indirect actions of the Board member, Designee, or Covered Employee.

III. Definitions

The following terms when used in this Policy shall have the meanings set forth below:

- A. "Confidential SERS Investment-Related Information" shall mean any confidential and/or proprietary commercial and/or financial information relating to SERS investments in any asset class, investment management practices and/or

investment strategies that is not generally available to the public, the disclosure of which would be detrimental to SERS' investments or potential investments or to the party to which the information pertains.

- B. "Exempt Transactions" shall mean transactions in any of the following:
1. direct obligations of the U.S. government (*e.g.*, Treasury securities);
 2. bankers' acceptances, bank certificates of deposit, commercial paper, and high-quality short-term debt obligations, including repurchase agreements;
 3. shares issued by money market funds;
 4. shares issued by open-end mutual funds;
 5. shares of closed-end funds and exchange-traded funds;
 6. options on index-replicating exchange-traded funds;
 7. normal dividend reinvestment plans limited to the periodic reinvestment of the dividend amount. Note: Additions of capital to a dividend reinvestment plan are reportable;
 8. investment transactions in the DC Plans, excluding, however, Personal Securities Transactions in self-directed brokerage accounts that are not otherwise exempt;
 9. investment transactions in 529 plans (established pursuant to 26 U.S.C. §529) and the Pennsylvania ABLE Savings Program (established pursuant to 72 P.S. §4666.101 *et seq.*);
 10. purchases of securities by an exercise of rights issued to the holders of a class of securities pro rata, to the extent those rights are issued with respect to securities of which a Covered Employee or Related Parties have beneficial ownership;
 11. acquisitions or dispositions of securities as a result of a stock dividend, stock split, reverse stock split, merger, consolidation, spin-off or other similar corporate action distributions or reorganization applicable to all holders of a class of securities of which you have beneficial ownership;
 12. investment transactions in blind trusts;
 13. broker controlled or investment advisor-controlled transactions;

14. investment transactions resulting from automated rebalancing; and

15. currency transactions.

- C. “Personal Securities Transaction” shall mean a discretionary transaction involving the purchase or sale of a security in which a Board member, Designee, or Covered Employee, or any Related Party, had or gained, directly or indirectly, a pecuniary interest, and in which the Board member, Designee, or Covered Employee or any Related Party had influence or control, directly or indirectly, over the timing of such transaction. Exempt Transactions shall not be considered a Personal Securities Transaction.
- D. “Prohibited Securities List” shall mean a restricted list of companies for which trading of public securities by Covered Employees is restricted.
- E. “Related Party” shall mean a spouse, domestic partner, dependent child, and other related persons of the Board member, Designee, or Covered Employee residing in the same household as a Board member, Designee, or Covered Employee.

IV. Prohibition on Insider Trading; Confidentiality of Insider Information

This Policy is intended to prohibit “insider trading.” Board members, Designees, and Covered Employees may be provided or have access to Confidential SERS Investment-Related Information, which might include MNPI about a company. Any Confidential SERS Investment-Related Information not publicly available must be treated as confidential by Board members, Designees, and Covered Employees even if it is not designated as confidential. Neither MNPI about publicly traded companies acquired through SERS, nor Confidential SERS Investment-Related Information may be used by Board members, Designees, or Covered Employees for personal gain or to benefit any third party, including without limitation Related Parties or friends. In addition, Board Members, Designees, and Covered Employees may not undertake Personal Securities Transactions to which such information pertains. If there is uncertainty about whether a piece of information is Confidential SERS Investment-Related Information or constitutes MNPI, Board members, Designees, and Covered Employees should consult with the Chief Compliance Officer.

Federal, state and foreign securities laws, rules and regulations regarding “insider trading” are constantly changing. The description of “insider trading” below should be used merely as guidance. Board members, Designees, and Covered Employees are encouraged to consult with SERS’ Chief Compliance Officer when attempting to apply such laws, rules and regulations to specific circumstances.

Insider Trading

“Insider trading” is not defined in the securities laws, but the term is used broadly to refer to buying or selling securities on the basis of MNPI relating to those securities. Any person who possesses MNPI is considered an “insider” as to that information. The scope of insider trading liability has been extended to “controlling persons,” which includes any entity or person with power of influence or control over the management, policies or activities of another person (such as the Board in regard to an Employee) who is responsible for taking steps to implement policies to prevent insider trading. It has also been extended to “tippees” who receive MNPI from an insider when the “tipper” (the “insider”) breaches a fiduciary duty for his or her personal benefit, and the “tippee” knows or has reason to know of the breach. Liability also has been extended to employees who trade securities based on MNPI they misappropriated from their employer (such as a Covered Employee making a Personal Securities Transaction based on insider information it obtained as an Employee). The law provides civil and criminal penalties for insider trading violations.

Material Information

What constitutes “material” is determined by examination of all of the facts and circumstances; however, it is generally such information that would be considered important by a reasonable investor in deciding whether to buy, sell, or refrain from any activity regarding that company's securities. Common examples of “material information” include, but are not limited to: (i) financial results and projections, (ii) news of a merger or acquisition, (iii) stock splits, (iv) public or private securities/debt offerings, (v) changes in dividend policies or amounts, (vi) gain or loss of a major customer or supplier, (vii) major product announcements, (viii) significant changes in senior management, (ix) a change in accounting policies, (x) actions of regulatory agencies, and (xi) major problems or successes of the business.

Non-public Information

“Non-public” information is information that has not achieved broad dissemination to the investing public generally, typically through a press release or filing with the U.S. Securities and Exchange Commission. Information may be considered “non-public” despite early or preferential disclosure to Board members, Designees, and Covered Employees or financial analysts in the investment industry. Board members, Designees, and Covered Employees should exercise special caution with information provided to SERS pursuant to a non-disclosure or confidentiality agreement or information that has been expressly or impliedly designated as confidential by the provider of the information. Further, Board members, Designees, and Covered Employees must also exercise caution with information that has been provided to SERS if the person receiving the information knows or should know that the provider of the information received the information in confidence. Questions regarding non-disclosure or confidentiality agreements should be addressed to the SERS Legal Office. After the information becomes public, it loses its status as “insider” information.

Board members, Designees, and Covered Employees must regard MNPI about publicly traded securities as highly confidential and use information barriers to protect the confidentiality of such information. Further, such information shall not be shared with any other individual, without the written approval of the Chief Counsel and the Chief Compliance Officer. Board members, Designees, and Covered Employees in possession of MNPI also must take proactive steps to preserve the confidentiality of that information and prevent its intentional or inadvertent disclosure.

Federal and state securities laws generally prohibit SERS from trading in a security while in possession of MNPI related to the traded security or issuer. The federal securities laws, however, permit institutional investors to trade while one or more of its employees possesses MNPI if the individual or group of individuals making the investment decision on behalf of the institutional investor is not aware of that information.

Further, the institutional investor must have implemented reasonable policies and procedures that ensure that the individual or group of individuals making an investment decision on behalf of the institutional investor is not aware of MNPI related to that investment decision.

Prohibited Securities List and Information Barriers

Any Covered Employee who believes that he or she has obtained MNPI, whether obtained through their employment with SERS or otherwise, must communicate such information and the circumstances surrounding the Employee's acquisition of MNPI to the Chief Compliance Officer or his or her designee.¹ Upon notification of a Covered Employee's acquisition of such information, the Chief Compliance Officer will promptly review and reach a determination as to whether the information received is MNPI under applicable laws and regulations; such determination shall be documented in writing to the Covered Employee providing such information (the "Insider Person"). It is not contemplated that Board members or Designees would regularly receive MNPI; however, Board members and Designees shall notify the Chief Compliance Officer if they do come into possession of MNPI other than from Employees and, in such event, they are deemed to be an Insider Person. If the information is determined to be MNPI:

- An Insider Person may not use or disclose MNPI with any other individual, including without limitation Related Parties or friends, (i) whether or not obtained as a result of their position as a Board member or Designee or employment with SERS (including information obtained from Advisory Board meetings or materials, regardless of whether such information is received by the Board

¹ In the event the Chief Compliance Officer has obtained MNPI to be communicated and reviewed, he/she is to communicate such information to the Chief Counsel and the Chief Counsel shall: (i) solely determine whether the information is MNPI, the use or disclosure of the MNPI, and if any other information barriers or other actions are warranted; (ii) direct the Chief Investment Officer to add the security to the Prohibited Securities List; and/or (iii) monitor the security as to its continuing MNPI status.

member, Designee, or Covered Employee directly or indirectly), and (ii) not available to the general public, in connection with the direct or indirect purchase or sale of a security, without the approval of the Chief Compliance Officer. Such approval shall be documented in writing.

- The Chief Compliance Officer shall add the security to the Prohibited Securities List. It is anticipated that, with the use of external investment managers, the Prohibited Securities List may contain few or no securities since manager reporting of transactions and Insider Person knowledge typically occurs after the fact.
- The Chief Compliance Officer shall promptly establish an “information barrier” by informing the Insider Person that they may not participate, directly or indirectly, in investment decisions regarding the security on behalf of SERS, themselves, or others. The Chief Compliance Officer will further advise the Insider Person that the MNPI is to be disclosed solely upon the written approval of the Chief Compliance Officer. The Chief Compliance Officer will further advise the Insider Person, who shall adhere to such advice, that they should take the following precautions to protect the integrity of the information barrier and the confidentiality of the MNPI:
 - Do not discuss confidential information in public places such as elevators, hallways, or social gatherings;
 - To the extent practical, limit access to areas of SERS where confidential information can be observed or overheard to individuals with a business need for being in the area;
 - Avoid using speaker phones to discuss or receive confidential information;
 - Where appropriate, use code names or numbers for confidential projects;
 - If feasible, excuse persons involved in making investment decisions in securities on behalf of SERS from meetings or portions of meetings where confidential information is discussed; and
 - Avoid placing documents (including electronic documents) with confidential information in places where they may be read by unauthorized persons and store such documents in secure locations.

If there is a need for disclosure of MNPI related to a particular security to an Employee who is not an Insider Person with regard to that Security, the disclosing Insider Person shall promptly inform the Chief Compliance Officer. The Chief Compliance Officer shall promptly provide the new Insider Person with the information and advice described above and establish an information barrier as described above. In the event of an inadvertent disclosure of MNPI to an Employee who was not an Insider Person with regard to a particular security, the Chief Compliance Officer shall be promptly informed of the disclosure by the Insider Person who is responsible for protecting the MNPI and/or by the Employee who

received the disclosed information. The Chief Compliance Officer shall promptly establish an information barrier as described above.

- The Chief Compliance Officer shall monitor the security put on the Prohibited Securities List due to MNPI.
- The Chief Compliance Officer shall be responsible for determining when the MNPI no longer meets the definition of material, non-public information and will remove the information barrier or trading restrictions accordingly.

V. Front Running Prohibition

The following description should be used merely as guidance on what constitutes “front running.” Like insider trading, “front running” may subject Board members, Designees, or Covered Employees to criminal and/or civil proceedings. Front running involves doing a trade of securities with advance knowledge of pending orders from SERS or another investor. It could occur, for example, when any Board member, Designee, or Covered Employee trades, or facilitates trading by a third party, with the knowledge that a trade is pending on behalf of SERS.

Front running may also constitute a misappropriation of SERS’ proprietary information for private or personal gain, in violation of policies governing SERS’ standards of behavior. Accordingly, front running by Board members, Designees, and Covered Employees is prohibited.

Board members, Designees, and Covered Employees may not commit to placing an order for a Personal Securities Transaction when they have advance knowledge that a securities transaction being made by a third-party on behalf of SERS (“SERS Transaction”) is pending in a security of the company that is the subject of the Personal Securities Transaction. The Board member, Designee, or Covered Employee shall not transact a Personal Securities Transaction in the security: (i) during the period of time (“Blackout Period”) three (3) business days prior to the SERS Transaction in that security is executed, unless the commitment to place an order to transact occurred before they had knowledge of the SERS Transaction and more than three (3) business days prior to the SERS Transaction in that security, and must wait until three (3) business days after the SERS Transaction is executed before placing an order for a Personal Securities Transaction involving securities of the same company, unless the commitment to place an order to transact occurred before they had knowledge of the SERS Transaction and more than three (3) business days prior to the SERS transaction in that security, or (ii) if the Board member, Designee, or Covered Employee is aware of MNPI regarding such asset.

Similarly, Board members, Designees, and Covered Employees may not knowingly delay, hinder, modify, or cancel any SERS Transaction with the intent of facilitating a Personal Securities Transaction.

VI. Compliance, Implementation, and Enforcement

The Chief Compliance Officer will be responsible for developing and maintaining formal procedures, including any requisite forms, needed for compliance with this Policy.

A. Annual Acknowledgement Form

A copy of this Policy shall be provided to each Board member, Designee, and Covered Employee. To assure compliance with this Policy, Board members, Designees, and Covered Employees are required to familiarize themselves with this Policy. The Chief Compliance Officer will provide training on this Policy for all Board members, Designees, and Covered Employees to which the Policy applies. To acknowledge their understanding of and intent to comply with this Policy, each Board member, Designee, and Covered Employee will be required within thirty (30) days of the adoption of this Policy or, (i) in the case of Covered Employees, thirty (30) days of hire for new employees or of transition from a non-Covered Employee position with SERS to a Covered Employee position, and (ii) for new Board members and Designees, prior to their commencement of service on the Board, and annually thereafter on or before May 1, to execute an acknowledgement form ("Acknowledgement Form"), substantially in the form attached hereto as Exhibit B, which shall include an acknowledgment that failure to act in conformance with this Policy may, for Covered Employees, lead to disciplinary action up to and including termination. For Covered Employee's, the original of the Acknowledgement Form will be retained in a Covered Employee's personnel file, with a copy provided to the Chief Compliance Officer. For Board members and Designees, the original of the Acknowledgement Form will be retained by the Chief Compliance Officer.

B. Board member's, Designee's, and Covered Employee's Personal Securities Transactions

Board members, Designees, and Covered Employees must comply with the following Personal Securities Transactions restrictions:

1. A Board member, Designee, and Covered Employee may not undertake a Personal Securities Transaction of a security that is included on the Prohibited Securities List, which are those securities directed to be placed on the list by the Chief Compliance Officer pursuant to Section IV of this Policy. The Prohibited Securities List will be developed and maintained by the Chief Compliance Officer and/or his or her designee and will be available to Board members, Designees, and Covered Employees on an access-controlled repository ("List Repository"). The Chief Compliance Officer or his or her designee shall maintain the List Repository as follows:

a. Upon an addition to or removal of a security from the Prohibited Securities List, the Chief Compliance Officer or his or her designee shall provide notice via email to Board members, Designees, and Covered Employees of the addition or

removal.

b. The Prohibited Securities List shall include the date a security was added to (“Date Added”) or removed from (“Date Removed”) the list and shall set forth the date upon which the list was revised (“Revision Date”).

c. A Personal Securities Transaction of a security on the Prohibited Securities List is prohibited until the Date Removed.

The Prohibited Securities List shall be maintained confidentially on the List Repository, with access limited to Board members, Designees, Covered Employees, Internal Audit, Chief Counsel, and the Chief Compliance Officer and his or her designee, and such other persons as the Chief Compliance Officer shall authorize in writing. Board members, Designees, and Covered Employees may not tip or disclose the Prohibited Securities List to others, including other SERS Employees, unless the recipient is duly authorized to receive this information and upon receipt of written approval from the Chief Compliance Officer.

This provision is not intended to be punitive. If a Board member, Designee, or Covered Employee currently holds a position at the time it is placed on the Prohibited Securities List, the Board member, Designee, and Covered Employee may submit a written request to the Chief Compliance Officer or his or her designee for permission to liquidate that position. The written request shall include the reasons justifying the liquidation request. The Chief Compliance Officer or his or her designee shall promptly review the liquidation request and issue a written determination to the Covered Employee.

2. No Covered Employees will engage in any trading activity that interferes with their job responsibilities.

C. Transaction Report

Except as otherwise provided in this section, each Board member, Designee, and Covered Employee shall file annually with the Chief Compliance Officer a transaction report on the form attached hereto as Exhibit C (“Transaction Report”), which shall either: (i) certify that the Board member, Designee, or Covered Employee did not have any Personal Securities Transactions (including Personal Securities Transactions known to a Board member, Designee, or Covered Employee of his or her Related Parties) for the prior year in any securities on the Prohibited Securities List, or (ii) list Personal Securities Transactions (including Personal Securities Transactions known to a Board member, Designee, or Covered Employee of his or her Related Parties) for the prior year of any securities included on the Prohibited Securities List, along with any statements or other supporting documentation requested by the Chief Compliance Officer for transactions engaged in during the prior year. The Chief Compliance Officer shall file his/her

Transaction Report with the Chief Counsel, along with any statements or other supporting documentation requested by the Chief Counsel. The due date for filing the Transaction Report, with respect to Personal Securities Transactions during the prior calendar year, shall be May 1 of each year that a Covered Employee is employed at SERS or a Board member or Designee holds such a position and of the year after a Covered Employee leaves SERS employment or the Board member or Designee vacates the position.

Exempt Transactions are excluded from the reporting requirements. In the event no securities are included on the Prohibited Securities List at any point in time during a calendar year, the Chief Compliance Officer or his or her designee shall provide notice via email to the Board member, Designee, and Covered Employees at the end of the calendar year that Transaction Reports are not required to be filed for the prior year.

After review by the Chief Compliance Officer or Chief Counsel, as applicable, is completed, the Transaction Reports and any statements or other supporting documentation submitted will be given to SERS Human Resources to file with the Covered Employee's personnel file. Transaction Reports of Board members and Designees shall be retained by the Chief Compliance Officer.

D. Application of Right-to-Know Law

Under the Right-to-Know Law, Act of February 14, 2008, P.L. 6, 65 P.S. §§67.101-67.3104, Transaction Reports and any statements or other supporting documentation submitted are "personal financial information" and exempt from access by a requester pursuant to 65 P.S. §67.708(b)(6)(i)(A).

VII. Additional Information

This Policy should be read in conjunction with any applicable federal and state laws, rules and regulations, as well as other Commonwealth Policies. If this Policy imposes different or greater obligations than those imposed therein, then the requirements of this Policy are deemed to be in addition to and not in conflict with such other obligations. Any questions regarding the application of multiple requirements should be addressed to the Chief Compliance Officer.

Document Properties

- a. **Document Owner:** SERS Legal Office
- b. **Document Author:** SERS Legal Office
- c. **Summary of Changes:**

Date	Version	Author	Summary
September 8, 2020	2020 POL- BD-01	SERS Legal Office	Policy established to create safeguards against the misuse of insider information.

Exhibit A - SERS COVERED EMPLOYEE POSITIONS

**INSIDER AND PERSONAL TRADING
POLICY**

- A. All Investment Office Personnel
- B. All Executive Office Personnel
- C. All Internal Audit Division Personnel
- D. All Communications and Policy Office Personnel
- E. Office of Finance and Administration
 - a. Chief Financial Officer
 - b. Assistant Chief Financial Officer
 - c. All Investment Control Division Personnel
 - d. All Compliance and Quality Control Division Personnel
 - e. All General Accounting, Deferred Compensation Program, and Defined Contribution Plans Division Personnel (excluding the General Accounting section)
- F. All Legal Office Personnel
- G. Office of Member and Participant Services
 - a. Director of Office of Member and Participant Services
- H. Human Resources Division
 - a. Human Resources Director
- I. Office of Information Technology
 - a. Chief Information Officer
 - b. Chief Information Security Officer
 - c. Director of Applications Division
 - d. Director of Technical Support Division
 - e. Director of Database Administration Division

Exhibit B – ACKNOWLEDGEMENT FORM

**INSIDER AND PERSONAL TRADING
POLICY**

I hereby acknowledge that:

1. I have read and understand the Insider and Personal Trading Policy (“Policy”) and agree to adhere strictly to the Policy.
2. I have had the opportunity to speak with and ask questions to the Chief Compliance Officer about any provisions of the Policy that are unclear to me.
3. If I am a SERS employee, I further understand that failure to act in strict conformance with the Policy may lead to disciplinary action up to and including termination.

Signature: _____

Printed Name: _____

Date: _____

Exhibit C

TRANSACTION REPORT INSIDER AND PERSONAL TRADING POLICY

In accordance with the Insider and Personal Trading Policy (2020 POL-BD-) (the “Policy”), for each year where securities are included on the Prohibited Securities List, you must either: (i) certify that you did not have any Personal Securities Transactions (including Personal Securities Transactions known to you of your Related Parties) for the prior year in any securities on the Prohibited Securities List, or (ii) list Personal Securities Transactions (including Personal Securities Transactions known to you of your Related Parties) for the prior year of any securities included on the Prohibited Securities List, along with any statements or other supporting documentation requested by the Chief Compliance Officer for transactions engaged in during the year.

This report must be submitted on this form to the Chief Compliance Officer annually, no later than May 1, with respect to Personal Securities Transactions during the prior calendar year. Capitalized terms used but not defined in this form have the meanings given to them in the Policy.

1. Name: _____

2. Job Title: _____

3. Reporting Period: 20____

Check ONE of the two boxes below and Sign where applicable:

☐ I certify that during the calendar year specified above, there were no reportable Personal Securities Transactions engaged in by me or any reportable Personal Securities Transactions known to me of my Related Parties in any securities on the Prohibited Securities List.

Signature:

Printed Name:

Date:

☐ The following is a list of all reportable Personal Securities Transactions engaged in by me or any reportable Personal Securities Transactions known to me of my Related Parties in any securities on the Prohibited Securities List during the calendar year specified above.

Security (name, type, ticker or trading symbol, as applicable)	Buy/ Sell	Date of Transaction (Trade Date) (Month/Day/ Year)	Number of Shares or other Units Bought or Sold	Price	Aggregate Market Value of Securities Bought or Sold

*Attach additional sheets as necessary.

I certify that this report constitutes all of the reportable Personal Securities Transactions engaged in by me or any reportable Personal Securities Transactions known to me of my Related Parties in any securities on the Prohibited Securities List during the calendar year specified above

Signature:

Printed Name:

Date:



457(b) Deferred Compensation Plan Investment Policy Statement

Commonwealth of Pennsylvania
State Employees' Retirement Board

Adopted by the State Employees' Retirement Board:
July 31, 2019

Amended by the State Employees' Retirement Board:
December 2, 2020

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1. Introduction

The Commonwealth of Pennsylvania is the sponsor of the Deferred Compensation Plan ("DCP" or "457(b) Plan") that was established for Commonwealth of Pennsylvania officers and employees through Act 81 on November 6, 1987. That Act authorizes the State Employees' Retirement Board ("Board") to establish and administer the 457(b) Plan as an eligible deferred compensation plan in accordance with the Internal Revenue Code ("IRC") Section 457 (b) of 1986, as amended. The 457(b) Plan is a voluntary participant-directed deferred compensation plan and is established as a trust for the exclusive benefit of participants and their beneficiaries. Plan participants are responsible for all fees of the 457(b) Plan.

The 457(b) Plan participants and beneficiaries are expected to have different investment objectives, time horizons, and risk tolerances. To meet these varying investment needs, participants and beneficiaries will be able to direct their account balances among a range of investment options to construct diversified portfolios that can reasonably span the risk/return spectrum. Participants select the funds and asset mix options offered in the 457(b) Plan and bear the risk of the investment results of their selection(s).

2. Purpose of the Investment Policy Statement

The purpose of this Policy is to formalize the Board's investment objectives and policies, and to define the duties and responsibilities of the various individuals and entities involved in the investment process. The policy outlines the following components:

- Define the purpose of the 457(b) Plan;
- Define the roles of those responsible for managing the 457(b) Plan;
- Define investment options for the 457(b) Plan; and
- Establish investment funds performance standards and the objectives, standards and processes for monitoring and evaluating investment options.

3. Purpose and Objectives of 457(b) Deferred Compensation Plan

The purpose of the 457(b) Plan is to provide eligible employees with a convenient and voluntary way to save on a regular and long-term basis and thereby help supplement their retirement income. The objective of the 457(b) Plan is to allow eligible employees to voluntarily defer a portion of their salary into the 457(b) Plan in order to supplement their income during their retirement years, promote and maximize capital accumulation, and enable participants to meet personal retirement investment goals. It is the Board's intent to make available an array of low-cost investment options that satisfy the following criteria:

- Each investment option is diversified within itself;
- Each investment option has different risk and return and/or style characteristics; and

- Each investment option, in combination with the other investment options, contributes to the diversification and risk-return opportunities of a participant's 457(b) Plan account portfolio.

4. Roles & Responsibilities

The Board has delegated certain responsibilities related to the effective management of the 457(b) Plan. Various responsibilities are allocated among the Board, Agency Staff, Investment Consultant, Investment Managers, Custodian/Sub-custodian, and Third-Party Administrator, as defined below. All persons who act as agents of the Board shall adhere to the highest standards of professional integrity and honesty. The responsibilities of the 457(b) Plan's service providers are governed by the applicable services agreements as well as this Investment Policy Statement.

A. Board

The Board is the 457(b) Plan administrator, trustee, and the named fiduciary responsible for designating the DCP investment options from which a participant can build a diversified portfolio. The Board will act in the sole interest of participants and their beneficiaries for the exclusive purpose of providing benefits to the participants and their beneficiaries. Furthermore, the Board must comply with and fulfill all aspects of the established guidelines under the IRC and other governing rules and regulations that relate to the administration and investment of the assets under the 457(b) Plan. At all times any final decisions/actions with regard to the 457(b) Plan and the results of those actions is the sole province of the Board.

The Board performs the following in conjunction with 457(b) Plan and statutory provisions:

- Comply with all applicable rulings, regulations, and legislation;
- Act in accordance with the provisions of all legal documents governing the 457(b) Plan;
- Approve and maintain all legal documents governing the 457(b) Plan, including the Plan Document, Trust Declaration and this Policy;
- Review and approve the 457(b) Plan structure and design;
- Review and approve both investment and manager fees;
- Review and approve the hiring and termination of contractors to assist in managing the 457(b) Plan based on recommendations from Administrative Staff and, if applicable, the Investment Consultant;
- Review and approve investment options based on recommendations from Investment Office staff and the Investment Consultant;
- Review and approve hiring and termination of investment managers based on recommendations from Investment Office staff and the Investment Consultant;
- Review the 457(b) Plan's audited financial statements;
- Review and evaluate the 457(b) Plan's investment performance and costs;
- Oversee and monitor Agency Staff responsible for the oversight and management of the 457(b) Plan; and

- Approve the engagement and termination of industry experts, including but not limited to, an independent Investment Consultant.

B. Agency Staff

The Board has delegated certain functions to the Executive Director's Office, Office of Member and Participant Services, Communications and Policy Office, Office of Administration, Office of Financial Management, Investment Office, and Chief Counsel's Office, as well as to various contractors who provide professional services to the Board.

Executive Director's Office

The Executive Director's Office provides strategic leadership and administrative oversight for the 457(b) and directly serves the Board, including facilitating communications, and managing meetings and documentation. The Executive Director's Office is expressly charged with statutorily prescribed duties including review and analysis of legislation, maintaining files and records, and responding to information inquiries and requests from press, commonwealth officials, state employees and the general public, among others.

Communications and Policy Office

The Communications and Policy Office works with the General Assembly and Administration officials on policy-related matters, tracks legislation, administers the agency's right-to-know program, serves as liaison to the media, prepares a wide range of publications and informational materials in print and electronic format, manages the agency's website and social media accounts, and provides an array of communications support to the agency.

Office of Administration

The Office of Administration is responsible for overseeing all administrative support functions for the agency which includes contracting, purchasing, leasing, facilities management, safety and security, continuity of operations, printing, mailing, fleet management, records retention, information technology, telecommunications, human resources, strategic planning and project management, Board education, and Board governance.

Office of Member and Participant Services

The Office of Member and Participant Services is responsible for administering the agency's deferred compensation plan. This office is responsible for and leads the relationship with the Third-Party Administrator (recordkeeper), participant communication efforts and interpretation of 457(b) Plan provisions (e.g. emergency withdrawals).

Office of Financial Management

The Office of Financial Management maintains accounting controls, financial operations, and financial reporting for all Board funds. It administers all financial transactions including member and participant benefit payments; member, participant, and employer contributions; investment purchases, sales, and other activity; payment

of 457(b) plan approved fees and operational expenses; and oversees the budgeting and expense monitoring for all funds. It ensures the proper and efficient administration of the 457(b) Plan through the appropriate accounting controls and that the financial statements for the plan are presented in accordance with generally accepted accounting principles. Additionally, it processes and reconciles daily investment activity with the Third-Party Administrator and Custodian/Sub-custodian.

Investment Office

The Investment Office works closely with the Board to oversee the investment options offered in the 457(b) Plan. The Office establishes and implements investment policies; monitors fund cash flow, investment managers, fund risks, and performance; and researches and recommends new investment options that could be included in the plan. To ensure that the investment goals and objectives of the 457(b) Plan are being fulfilled, the Investment Office staff also reviews and analyzes the philosophies, policies, and strategies employed by the investment managers, evaluating the appropriateness of their decision-making processes and their investment styles in relation to present and projected investment horizons. The Office also maintains deep and current expertise related to the analysis of capital and global markets. The Investment Office is also responsible for updating and maintaining this Policy and coordinating the hiring of an external investment consultant to assist in investment matters of the 457(b) Plan, subject to the Board's approval. The Chief Investment Officer reports administratively to the Executive Director and functionally to the Board.

Chief Counsel's Office

The Chief Counsel's Office serves as the agency's independent, in-house counsel to the Board and the agency for benefits, investments, corporate governance, compliance, and administrative matters. The Office is responsible for drafting and interpreting legislation, rendering legal advisory memoranda, interpreting the Right-to-Know Law, drafting and approving contracts, and representing the 457(b) Plan in legal proceedings. The Chief Counsel's Office is responsible for ensuring the lawful administration of the 457(b) Plan through negotiating all underlying contracts within the 457(b) Plan as well as confirming the legalities of plan designs and implementations within the 457(b) Plan. The Chief Counsel's Office is responsible for answering any legal questions that arise from the Staff as well as reviewing the actions and recommendations of the Investment Managers and the Investment Consultant. The Chief Counsel's Office will consult with the Board at the Board's request.

Chief Compliance Officer

The Chief Compliance Officer reports functionally to the Audit, Risk, and Compliance Committee and administratively to the Chief Counsel. The Chief Compliance Officer is responsible for, among other duties, ensuring that the Board is complying with applicable laws, Board bylaws, ethics requirements, and policies and procedures applicable to Board members, including those contained in the *SERS Board Governance Policy Manual*, as well as monitoring the compliance activities of the Investment Office, with tasks including:

- Identifying potential areas of compliance vulnerability and risk;
- Assisting with the development, and implementation of risk management, and mitigation for resolution of problematic issues; and

- Providing guidance on how to avoid or address similar situations in the future.

Internal Audit Office

The Internal Audit Office tests business processes and internal controls to confirm that they are adequate and operating properly to ensure vigilant stewardship of agency funds. It performs onsite audits of investment consultants and managers. The Office also coordinates independent, external audits of the fund on an annual basis and performs special projects at the direction of the Board and Audit Committee. The Office is an independent appraisal unit with a reporting relationship to the Board and the Audit Committee. The Internal Audit Office is independent of the agency's operational activity and is responsible for providing objective audit and review services for the entire agency, including the Investment Office. The Internal Audit Office's services emphasize the promotion of adequate and effective internal controls.

The Internal Audit Office also facilitates the annual independent audit performed by independent certified public accountants. The independent CPAs examine the books and records of the 457(b) Plan and certify that the financial statements are free from material error.

C. Investment Managers

Each investment manager will have discretion over the management of a specific mandate as designated by the Board. The specific terms of each investment management agreement (including but not limited to separate accounts, commingled investment funds, and commingled investment trusts) will include an Investment Strategy Statement, which establishes and governs the investment guidelines and responsibilities of the investment manager. Each investment manager must select investments with the same care, skill, prudence, and due diligence that experienced investment professionals acting in a like capacity and fully familiar with such matters would use in like activities for like retirement plans with like aims in accordance and compliance with all applicable laws, rules and regulations.

D. Investment Consultant

The Board shall retain an independent investment consultant to advise the Board, Defined Contribution Committee, and Investment Office. While the investment consultant will act in a non-discretionary capacity, the investment consultant is to be considered a fiduciary, as defined in section 3(21) of ERISA.

The investment consultant will provide investment advice and recommendations concerning the 457(b) Plan structure, administration, and investment management of the 457(b) Plan assets consistent with the investment objectives, policies, guidelines and constraints as established in this Policy. Specific responsibilities of the investment consultant will be established and maintained under an investment consulting agreement, and generally will include reviewing policies, investment funds, investment asset mix options, investment manager due diligence, benchmarks, ongoing due diligence, , and evaluating the cost of the 457(b) Plan.

E. Custodian and Sub-custodian

The Custodian and Sub-custodian are expected to fulfill all the regular fiduciary duties of a custodian, pursuant to the terms of the applicable trust and custodial agreements and as required by other pertinent state and federal laws.

In general, these duties include the following:

- Receive contributions and deferrals from the State and pay all benefits, as directed by the Board or its designee(s);
- Protect trust assets, ensure timely settlement of security transactions, credit all income and principal realizable by investment assets of the trust in a timely and accurate fashion, sweep excess cash from custodied Investment Manager accounts into a suitable cash management vehicle each day, and calculate the net asset value for unitized accounts or report stated net asset values for non-unitized accounts in a timely and accurate fashion;
- Report periodically to the Board or its agents and designees on all monies received or paid on behalf of the Trust and on all securities under the custody contract including all unsettled securities transactions;
- Deliver Trust assets to a successor custodian or as otherwise directed with proper instructions within a reasonable time period of termination;
- Promptly distribute all proxy materials or other corporate actions received by the Board/Custodian;
- Coordinate asset transfers as requested by the Board or its designee(s); and
- Provide fund accounting for investment options. Services include, but are not limited to, calculating or reporting net asset value (NAV) and posting and settling securities trades.

F. Third-Party Administrator

The Third-Party Administrator is expected to fulfill all of the contracted responsibilities including, but not limited to, maintaining individual participant investment account records and providing participants and beneficiaries with sufficient information to manage their investments. The Third-Party Administrator is also expected to comply with the reporting requirements of the Plan Document, the requirements established and maintained under the Third-Party Administrator contract, and all pertinent federal, state, and local rules and regulations. Services may also include, but are not limited to, providing:

- Enrollment services in the 457(b) Plan for employees;
- Educational materials and programs explaining investment options in the 457(b) Plan;
- Advice tools and products;
- Tools to facilitate the effective exchanges and transfers to, from, and among investment options offered within the 457(b) Plan;
- Periodic individual statements and distributions;
- Distributions and the preparation of periodic reports to participants, alternate payees, and beneficiaries;

- Master recordkeeping responsibilities;
- Maintenance of accounts and other records;
- Reports in support of compliance and regulatory obligations;
- An effective and automated interface with the Custodian/Sub-custodian to initiate net trades on investment options and rebalancing transactions as directed; and
- Reports and information reconciliations to the Board or its designees, and the Custodian/Sub-custodian.

5. Investment Options

It is the Board's intent to offer a broad range of investment options with materially different risk and return characteristics to allow Participants, by choosing among such investment options, the opportunity to diversify their balances and construct portfolios consistent with their unique circumstances, goals, time horizons, and tolerance for risk. It is the objective of the Board to offer investment options at a reasonable cost in terms of management, custody, and other costs and have investment characteristics that can be successfully communicated to participants. Further, it is the intent of the Board to designate names for the investment options that are easily understood by participants.

To comply with this Policy, the Board offers three tiers of investment options to meet various participant investment objectives. Described below are the various types of investment options.

The Board selects available investment options and investment managers and adds or removes such options or investment managers at any time in its discretion.

A. Tier I – Target Date Fund Investment Options

Target date funds provide a series of asset allocation funds that allow participants to choose a single fund that is based on their expected target retirement date. Each target date fund includes a professionally managed portfolio of underlying investments that may include fixed income, equity and alternative asset classes. The investment manager adjusts and rebalances the allocation of assets over time to reduce the expected risk as each fund progresses toward its target date.

The Board recognizes that some Participants may fail to make investment choices for their Plan account. Therefore, the Board believes it is appropriate to designate a target date fund based on the participant's age as the default investment option for any Participant who fails to make an investment choice for his or her contributions.

B. Tier II – Asset Class Investment Options

The Board offers investment options within each of the following broad asset classes:

- Capital Preservation;
- Fixed Income;
- Broad U.S. Equity; and
- Broad International Equity.

The Board may also establish additional asset classes and investment options at its own discretion to serve the needs of the Participants.

C. Tier III – Self-Directed Brokerage Option

The self-directed brokerage option provides access to a brokerage window for participants who seek greater investment flexibility. Participants investing in this option do so at their own risk. The Board is not responsible for the monitoring or evaluation of any self-directed brokerage account investments.

The Board selects available investment options and investment managers and adds or remove such options or investment managers at any time in its discretion. The screening process for the initial selection of any investment vehicle or investment manager will consider attributes relevant to the specific asset class and search objective, as developed by the Board with the assistance of the Investment Office staff and in consultation with its external investment consultant, where applicable.

6. Objectives, Standards and Processes for Evaluating and Monitoring Investment Options and Investment Managers

A. Investment Manager Evaluations and Selection

Pursuant to its duties as defined in section “4. Roles & Responsibilities,” the Investment Office staff shall, as directed by the Board and in consultation with the Investment Consultant, search for and hire investment managers to carry out investment mandates. The screening process for the initial selection of any investment option or investment manager will consider attributes relevant to the specific search objective in question. Investment Office staff and the Investment Consultant will consider but will not be limited to reviewing the manager’s strategy, quality and experience of professional staff, ownership structure, investor level breakdown, assets under management by firm and product, fees and a comparison of performance history among peers and against appropriate benchmarks. Based on this analysis, Investment Office staff and the Investment Consultant will determine which investment managers would be suitable candidates for further review.

B. Investment Performance Reviews

Investment Office staff review investment options and investment manager performance, portfolio positioning, and transactions at least annually. Investment Office staff use the Deferred Compensation Plan Investment Manager Monitoring Policy, attached as **Exhibit II**, as may be applicable to the Investment Options, to apply consistent criteria in evaluating investment managers. The Board may change specific investment options or investment managers without amending this Policy.

C. Investment Manager and Investment Option Termination

The Board recognizes that investment options or investment manager terminations have unique circumstances which may result in different action plans upon termination. Upon a decision to terminate an investment option or investment manager, the Board expects to review the circumstances with Investment Office staff and the Investment Consultant to

deliberately decide on a prudent and reasonable process for termination, replacement of the terminated investment option and/or investment manager, and mapping of impacted assets. Investment Office staff will notify Administrative Staff and Legal Staff to coordinate proper notice to the participants if an investment option is terminated.

D. Prohibited Transactions

Investment managers are prohibited from entering into any transactions on behalf of the 457(b) Plan that are not expressly authorized by this Policy or by specific investment manager guidelines, offering memorandum, or mutual fund prospectus. Investment managers must at all times follow all applicable laws and regulations. All managers and consultants shall disclose any and all economic positions that may conflict with this Policy or specific investment manager guidelines.

The use of derivatives is to facilitate risk management, and to manage the cost of investing in publicly traded stocks and bonds. Derivatives shall not be used to magnify exposure to investments beyond that which would be allowed by the portfolio's Investment Strategy Statement. Derivatives shall not be used to create exposures to securities, indices or other financial variables unless such exposures would be allowed by a portfolio's Investment Strategy Statement if created with non-derivatives securities.

Exhibit I: 457(b) Plan Investment Options as of 1/4/2020

Investment Option	Benchmark	Fund #
A. Tier I – Target Date Fund Investment Options		
Target Date Fund Suite	Custom Index	1

Participants who do not make an investment selection will be assigned into a five-year group based on their birthdate. These groups are used to default participants into an age-appropriate target date fund vintage. The Board utilizes the following birthdate ranges and will work directly with the Third-party Administrator to update periodically. The birthdate ranges are expected to change every time a fund merges into the Post Retirement Fund and a new fund is added. For defaulted participants that change birthdate groups when a new vintage becomes available, the participant's investment election and account balance will be transferred to the age appropriate target date fund vintage. For example, the 2065 Retirement Date Fund currently covers birthdate ranges 1996 and after; however, when the 2070 Retirement Date Fund becomes available it will cover birthdate ranges 2001 and after.

2020 Birthdate Ranges	Fund Name
1996 and After	2065 Retirement Date Fund
1991 and 1995	2060 Retirement Date Fund
1986 to 1990	2055 Retirement Date Fund
1981 to 1985	2050 Retirement Date Fund
1976 to 1980	2045 Retirement Date Fund
1971 to 1975	2040 Retirement Date Fund
1966 to 1970	2035 Retirement Date Fund
1961 to 1965	2030 Retirement Date Fund
1956 to 1960	2025 Retirement Date Fund
1955 and Before	Post Retirement Fund

B. Tier 2 – Asset Class Investment Options

1. Stock Funds

U.S. Large Company Stock Index Fund	S&P 500 Index	2
U.S. Small/Mid Company Stock Index Fund	Dow Jones U.S. Completion Total Stock Market Index	3
Global Non-U.S. Stock Index Fund	MSCI All Country World ex U.S. Index	4

2. Fixed Income Funds

U.S. Bond Index Fund	Bloomberg U.S. Aggregate Bond Index	5
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3. Capital Preservation Funds

Stable Value Fund	BofA Merrill Lynch 3 Month T-Bill Index	6
Short-Term Investment Fund (money market fund)	BofA Merrill Lynch 3 Month T-Bill Index	7

C. Tier III – Self-Directed Brokerage Option

Schwab Personal Choice Retirement Account	N/A	8
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Additional Features (Non-Investment Options)

Managed Accounts

Exhibit II: 457(b) Deferred Compensation Plan Investment Manager Monitoring Policy

457(b) Deferred Compensation Plan Investment Manager Monitoring Policy

The State Employees' Retirement Board ("Board") employs external investment managers to manage the 457(b) Deferred Compensation Plan ("457(b) Plan") assets. The 457(b) Deferred Compensation Plan Investment Policy Statement charges the Investment Office with responsibility for coordinating all investment activities and investment matters for the 457(b) Plan, including the continual review and analysis of investment managers. It also allows for the use of external investment consultants to provide various investment-related services, including assistance with the analysis of investment managers.

The purpose of this Policy is to provide the Board with an enhanced communication tool to keep the Board and the Defined Contribution Committee informed of investment managers that warrant additional monitoring by the Investment Office and external consultant.

The Deferred Compensation Plan Investment Manager Evaluation List ("Evaluation List") was developed to clearly communicate which investment managers have been identified as experiencing quantitative or qualitative pattern changes worthy of greater review by the Investment Office and external investment consultants. Although a quantitative analysis is clearly important, it is not a best practice to rely exclusively on such data when evaluating investment managers due to the imperfect nature of many indices used as portfolio benchmarks. In addition, the placement of an investment manager on the Investment Manager Evaluation List does not automatically serve as evidence of a problem with the investment manager. This can only be determined after the Investment Office and external investment consultant conduct a further review.

A. Investment Manager Monitoring Guidelines and Evaluation List

The Investment Manager Monitoring Guidelines formalize the identification and application of qualitative and quantitative criteria employed by the agency with respect to the monitoring of current investment managers in the deferred compensation plan. The Investment Manager Monitoring Guidelines:

1. Establish clear expectations between the Board, Defined Contribution Committee, Investment Office, external investment consultants, and investment managers,
2. Enhance communication among the Board, Defined Contribution Committee, Investment Office, external investment consultants,
3. Encourage the use of prudently applied criteria to evaluate investment managers,
4. Foster a long-term approach toward performance evaluation of investment managers,
5. Focus the resources of the Investment Office and external investment consultants on those investment managers most likely to require additional attention,
6. Avoid costly turnover in investment manager relationships driven by a period of short-term poor performance, and
7. Improve the probability that the agency will identify problematic relationships which otherwise might produce unsatisfactory investment returns.

The Board endeavors not to make adverse retention decisions about investment managers based upon performance absent at least three years of performance data, recognizing that investment strategies are best assessed over full market cycles. All of the criteria identified in the Investment Manager Monitoring Guidelines are intended to provide a normal, minimum standard for retaining investment Managers.

However, the Board may terminate any current investment manager for any reason whatsoever in accordance with the provisions of investment manager agreements between the agency and the external investment managers. These Investment Manager Monitoring Guidelines do not limit the agency's ability to take such action.

B. Criteria for Active and Passive Management

Addition to the Investment Manager Evaluation List

The Investment Office, in consultation with its external investment consultant, will place an investment manager on the Investment Manager Evaluation List for any of the following reasons:

Quantitative Factors

The active investment manager's rolling, three-year return falls below the rolling, three-year benchmark return for four (4) consecutive quarters. This is a net-of-fee comparison.

The active investment manager's rolling, three-year return ranks below the median of the external investment consultant's peer group for four (4) consecutive quarters (excludes investment managers with no relative peer group). This is a gross-of-fee comparison or a net-of-fee comparison, depending on which is appropriate based on the investment vehicle. The comparison assumes that a reasonable and similar peer group exists for evaluating each investment option.

The passive investment manager's rolling three-year return is not in line with the rolling, three-year benchmark return. The Investment Office, in consultation with its external investment consultant, will determine what variance from the benchmark is deemed acceptable, given the passive strategy. This is a net-of-fee comparison.

The active or passive investment manager's return significantly deviates from its expected return established in its investment strategy statements (investment guidelines) with the agency. This is a net-of-fee comparison.

Qualitative Factors

A significant and potentially adverse event related to any of the following qualitative issues or events, among others, will be considered:

- Violation of investment guidelines
- Deviation from stated investment style and/ or shifts in the firm's philosophy or process
- Turnover of one or more key personnel
- Change in firm ownership or structure
- Significant loss of clients and/or assets under management
- Significant and persistent lack of responsiveness to client requests
- Litigation
- Failure to disclose significant information, including potential conflicts of interest

- Chronic violations of the State Employees' Retirement Board Deferred Compensation Plan Statement of Investment Policy
- Any other issue or situation of which the Investment Office, external investment consultants, and/or Board members become aware that is deemed material.

Removal from the Investment Manager Evaluation List

An investment manager may be removed from the Investment Manager Evaluation List when the Investment Office, in consultation with its external investment consultant, determines that the investment manager has satisfactorily met the quantitative or qualitative criteria for removal from the Evaluation List.

Generally for active investment managers, two consecutive quarters of rolling, three-year performance above the benchmark and a ranking above the median of the external investment consultant's peer group (assuming that a reasonable and similar peer group exists for evaluating each investment option) following placement on the Evaluation List will be required for an investment manager's removal from the Evaluation List for performance reasons.

For index fund investment managers, one period of rolling, three-year performance in line with the benchmark following placement on the Evaluation List will be required for an investment manager's removal from the Evaluation List for performance reasons.

The Investment Office, in consultation with its external investment consultant, will typically make a decision to recommend retention or termination twelve (12) months following placing an investment manager on the Evaluation List. At the point of decision, the Investment Office, in consultation with its external investment consultant, may recommend renewing inclusion on the Evaluation List for an additional period of time subject to supporting due diligence.

C. Application of Criteria

1. The Investment Manager Evaluation List is a confidential internal document and will only be used for internal purposes.
2. The Investment Office, in consultation with external investment consultants, will provide the Defined Contribution Committee with a current Investment Manager Evaluation List at the same Defined Contribution Committee meeting when the quarterly investment performance is provided to the Defined Contribution Committee. The Evaluation List will include all investment managers which have been added or removed and summary of the reasons for the addition or removal.
3. The Investment Manager Evaluation List will be provided to the Defined Contribution Committee in executive session.
4. When an investment manager is placed on the Investment Manager Evaluation List, the Investment Office and external investment consultants will conduct a further review of the investment manager to assess whether or not genuine issues of concern actually exist.
5. If genuine issues of concern are identified, the Investment Office and external investment consultants will assess the cause, magnitude, and likely duration of the issues.

6. If the analysis from the Investment Office, in consultation with its external investment consultants, reveals that the issues are not of concern, the investment manager will be removed from the Investment Manager Evaluation List.
7. If the investment manager resolves the issues of concern to the satisfaction of the Investment Office, in consultation with its external investment consultants, the investment manager will be removed from the Investment Manager Evaluation List.
8. If the Investment Office, in consultation with its external investment consultant, determines that the issues of concern have persisted without satisfactory resolution or are unlikely to be resolved within 12 months, then a recommendation on whether to retain the investment manager will be provided to the t Defined Contribution Committee.
9. In emergency situations, the Chief Investment Officer, in consultation with the Investment Committee Chair and Board Chair, may make investment decisions (i.e. halt trading or terminate an investment manager). Emergency situations are defined as those that are unforeseeable and in the absence of action, the Fund may be adversely impacted. In the event such action is taken, the Investment Committee will be notified as soon as practical, but no later than the next scheduled meeting.



401(a) Defined Contribution Plan Investment Policy Statement

Commonwealth of Pennsylvania
State Employees' Retirement Board

Adopted by the State Employees' Retirement Board:
June 13, 2018

Amended by the State Employees' Retirement Board:
December 2, 2020

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1. Introduction

The Commonwealth of Pennsylvania is the sponsor of the Defined Contribution Plan ("DC" or "401(a) Plan") that was established for Commonwealth of Pennsylvania officers and employees through Act 5 on June 12, 2017. The Act of June 12, 2017, P.L. 11, No. 5 authorizes the State Employees' Retirement Board ("Board") to establish and administer the 401(a) Plan as an eligible defined contribution plan in accordance with the Internal Revenue Code ("IRC") Section 401(a) of 1986, as amended. For purposes of this Defined Contribution Plan Policy ("Policy"), the term "Participants" means any participant, beneficiary or alternate payee who has an account in the 401(a) Plan.

The 401(a) Plan participants have an opportunity to exercise control over the assets in their individual 401(a) Plan accounts, and may choose, from a broad range of investment options, the manner in which the assets within their accounts are invested. Participants bear the risk of investment results due to their selection(s). Participants are responsible for investment fees of the 401(a) Plan.

2. Purpose of the Investment Policy Statement

The purpose of this Policy is to formalize the Board's investment objectives and policies, and to define the duties and responsibilities of the various individuals and entities involved in the investment process. The Policy outlines the following components:

- Define the purpose of the 401(a) Plan;
- Define the roles of those responsible for managing the 401(a) Plan;
- Define investment options for the 401(a) Plan; and
- Establish investment funds performance standards and the objectives, standards and processes for monitoring and evaluating investment options.

3. Purpose and Objectives of the 401(a) Defined Contribution Plan

The purpose of the 401(a) Plan is to provide eligible employees ("employees") with a source of retirement income from accumulated employee contributions, employer contributions, and investment returns. The objective of the 401(a) Plan is to allow employees to defer a portion of their salary into the 401(a) Plan, promote and maximize capital accumulation, and enable employees to meet their personal retirement investment goals. It is the Board's intent to make available an array of low-cost investment options that satisfy the following criteria:

- Each investment option is diversified within itself;

- Each investment option has different risk and return and/or style characteristics; and
- Each investment option, in combination with the other available investment options, contributes to the diversification opportunities of a participant's 401(a) Plan account portfolio.

4. Roles & Responsibilities

The Board has delegated certain responsibilities related to the effective management of the 401(a) Plan. Various responsibilities are allocated among the Board, Agency Staff, Investment Managers, Investment Consultant, Custodian/Sub-custodian, and Third-Party Administrator, as defined below. All persons who act as agents of the Board shall adhere to the highest standards of professional integrity and honesty. The responsibilities of the 401(a) Plan's service providers are governed by the applicable services agreements as well as this Investment Policy Statement.

A. Board

The Board is the 401(a) Plan administrator, trustee, and the named fiduciary responsible for designating the investment options from which a Participant can build a diversified portfolio. The Board will act in the sole interest of participants and their beneficiaries for the exclusive purpose of providing benefits to the participants and their beneficiaries and defraying the reasonable expenses of administering the 401(a) Plan. Furthermore, the Board must comply with and fulfill all aspects of the established guidelines under the IRC and other governing rules and regulations that relate to the administration and investment of the assets under the 401(a) Plan. At all times any final decisions/actions with regard to the 401(a) Plan and the results of those actions is the sole province of the Board.

The Board performs the following in conjunction with 401(a) Plan and statutory provisions:

- Comply with all applicable rulings, regulations, and legislation;
- Act in accordance with the provisions of all legal documents governing the 401(a) Plan;
- Approve and maintain all legal documents governing the 401(a) Plan, including the Plan Document, Trust Declaration, and this Policy;
- Review and approve the 401(a) Plan structure and design;
- Review and approve both investment and manager fees;
- Review and approve the hiring and termination of contractors to assist in managing the 401(a) Plan based on recommendations from Agency Staff and, if applicable, the Investment Consultant;

- Review and approve investment options based on recommendations from Investment Office staff and the Investment Consultant;
- Review and approve hiring and termination of investment managers based on recommendations from Investment Staff and the Investment Consultant;
- Review the 401(a) Plan's audited financial statements;
- Review and evaluate the 401(a) Plan's investment performance and costs;
- Oversee and monitor Agency Staff responsible for the oversight and management of the 401(a) Plan; and
- Approve the engagement and termination of industry experts, including but not limited to, an independent Investment Consultant.

B. Agency Staff

The Board has delegated certain functions to the Executive Director's Office, Office of Member and Participant Services, Communications and Policy Office, Office of Financial Management, Investment Office, and Chief Counsel's Office, as well as to various contractors who provide professional services to the Board.

Executive Director's Office

The Executive Director's Office provides strategic leadership and administrative oversight for the 401(a) and directly serves the Board, including facilitating communications, and managing meetings and documentation. The Executive Director's Office is expressly charged with statutorily prescribed duties, including review and analysis of legislation, maintaining files and records, and responding to information inquiries and requests from press, commonwealth officials, state employees and the general public, among others.

Communications and Policy Office

The Communications and Policy Office works with the General Assembly and Administration officials on policy-related matters, tracks legislation, administers the agency's right-to-know program, serves as liaison to the media, prepares a wide range of publications and informational materials in print and electronic format, manages the agency's website and social media accounts, and provides an array of communications support to the agency.

Office of Administration

The Office of Administration is responsible for overseeing all administrative support functions for the agency, which includes contracting, purchasing, leasing, facilities management, safety and security, continuity of operations, printing, mailing, fleet management, records retention, information technology,

telecommunications, human resources, strategic planning and project management, Board education, and Board governance.

Office of Member and Participant Services

The Office of Member and Participant Services is responsible for administering the agency's deferred compensation plan. This office is responsible for and leads the relationship with the Third-Party Administrator (recordkeeper), participant communication efforts and interpretation of 401(a) Plan provisions (e.g. emergency withdrawals).

Office of Financial Management

The Office of Financial Management maintains accounting controls, financial operations, and financial reporting for all Board funds. It administers all financial transactions including member and participant benefit payments; member, participant, and employer contributions; investment purchases, sales, and other activity; payment of 401(a) plan approved fees and operational expenses; and oversees the budgeting and expense monitoring for all funds. It ensures the proper and efficient administration of the 401(a) Plan through the appropriate accounting controls and that the financial statements for the plan are presented in accordance with generally accepted accounting principles. Additionally, it processes and reconciles daily investment activity with the Third-Party Administrator and Custodian/Sub-custodian.

Investment Office

The Investment Office works closely with the Board to oversee the investment options offered in the 401(a) Plan. The Office establishes and implements investment policies, monitors fund cash flow, investment managers, fund risks, and performance, and researches and recommends new investment options that could be included in the plan. To ensure that the investment goals and objectives of the 401(a) Plan are being fulfilled, the Investment Office staff also reviews and analyzes the philosophies, policies, and strategies employed by the investment managers, evaluating the appropriateness of their decision-making processes and their investment styles in relation to present and projected investment horizons. The Office also maintains deep and current expertise related to the analysis of capital and global markets. The Investment Office is also responsible for updating and maintaining this Policy and coordinating the hiring of an external investment consultant to assist in investment matters of the 401(a) Plan, subject to the Board's approval. The Chief Investment Officer reports administratively to the Executive Director and functionally to the Board.

Chief Counsel's Office

The Chief Counsel's Office serves as the agency's independent, in-house counsel to the Board and the agency for benefits, investments, corporate governance, compliance, and administrative matters. The Office is responsible

for drafting and interpreting legislation, rendering legal advisory memoranda, interpreting the Right-to-Know Law, drafting and approving contracts, and representing the 401(a) Plan and the Board in legal proceedings. The Chief Counsel's Office ensures the lawful administration of the 401(a) Plan. The Chief Counsel's staff is responsible for negotiating all underlying contracts within the 401(a) Plan as well as confirming the legalities of plan designs and implementations within the 401(a) Plan. The Chief Counsel's staff is responsible for answering any legal questions that arise from the Agency Staff, including the Investment Office staff, as well as reviewing the actions and recommendations of the investment managers and the Investment Consultant. The Chief Counsel's staff will consult with the Board at the Board's request.

Chief Compliance Officer

The Chief Compliance Officer reports functionally to the Audit, Risk, and Compliance Committee and administratively to the Chief Counsel. The Chief Compliance Officer is responsible for, among other duties, ensuring that the Board is complying with applicable laws, Board bylaws, ethics requirements, and policies and procedures applicable to Board members, including those contained in the *SERS Board Governance Policy Manual*, as well as monitoring the compliance activities of the Investment Office, with tasks including:

- Identifying potential areas of compliance vulnerability and risk;
- Assisting with the development, and implementation of risk management, and mitigation for resolution of problematic issues; and
- Providing guidance on how to avoid or address similar situations in the future.

Internal Audit Office

The Internal Audit Office tests business processes and internal controls to confirm that they are adequate and operating properly to ensure vigilant stewardship of agency funds. It performs onsite audits of investment consultants and managers. The Office also coordinates independent, external audits of the trust on an annual basis, and performs special projects at the direction of the Board and Audit Committee. The Office is an independent appraisal unit with a reporting relationship to the Board and the Audit Committee. The Internal Audit Office is independent of the agency's operational activity and is responsible for providing objective audit and review services for the entire agency, including the Investment Office. The Internal Audit Office's services emphasize the promotion of adequate and effective internal controls.

The Internal Audit Office also facilitates the annual independent audit performed by independent certified public accountants. The independent CPAs

examine the books and records of the 401(a) Plan and certify that the financial statements are free from material error.

C. Investment Managers

Each investment manager will have discretion over the management of a specific mandate as designated by the Board. The specific terms of each investment management agreement (including but not limited to mutual fund, separate account, commingled investment fund and commingled investment trust) will include an Investment Strategy Statement, which establishes and governs the investment guidelines and responsibilities of the investment manager. Each investment manager must select investments with the same care, skill, prudence and due diligence that experienced investment professionals acting in a like capacity and fully familiar with such matters would use in like activities for like retirement plans with like aims in accordance and compliance with all applicable laws, rules and regulations.

D. Investment Consultant

The Board shall retain an independent investment consultant to advise the Board, Defined Contribution Committee, and Investment Office. While the investment consultant will act in a non-discretionary capacity, the investment consultant is to be considered a fiduciary, as defined in section 3(21) of ERISA.

The investment consultant will provide investment advice and recommendations concerning the 401(a) Plan structure, administration and investment management of the 401(a) Plan assets consistent with the investment objectives, policies, guidelines and constraints as established in this Policy. Specific responsibilities of the investment consultant will be established and maintained under an investment consulting agreement, and generally will include reviewing policies, investment options, investment manager due diligence, benchmarks, ongoing due diligence, and evaluating the costs of the 401(a) Plan.

E. Custodian and Sub-custodian

The Custodian and Sub-custodian are expected to fulfill all the regular fiduciary duties of a custodian, pursuant to the terms of the applicable trust and custodial agreements and as required by other pertinent state and federal laws.

In general, these duties include the following:

- Receive contributions and deferrals from the State and pay all benefits, as directed by the Board or its designee(s);

- Protect trust assets, ensure timely settlement of security transactions, credit all income and principal realizable by investment assets of the trust in a timely and accurate fashion, sweep excess cash from custodied investment manager accounts into a suitable cash management vehicle each day, and calculate the net asset value for unitized accounts or report stated net asset values for non-unitized accounts in a timely and accurate fashion;
- Report periodically to the Board or its agents and designees on all monies received or paid on behalf of the Trust and on all securities under the custody contract including all unsettled securities transactions;
- Deliver Trust assets to a successor custodian or as otherwise directed with proper instructions within a reasonable time period of termination;
- Promptly distribute all proxy materials or other corporate actions received by the Board/Custodian;
- Coordinate asset transfers as requested by the Board or its designee(s); and
- Provide fund accounting for investment options. Services include, but are not limited to, calculating or reporting net asset value (NAV) and posting and settling securities trades.

F. Third-Party Administrator

The Third-Party Administrator is expected to fulfill all of the contracted responsibilities including, but not limited to, maintaining individual participant investment account records and providing Participants with sufficient information to manage their investments. The Third-Party Administrator is also expected to comply with the reporting requirements of the Plan Document, the requirements established and maintained under the Third-Party Administrator contract and all pertinent federal, state and local rules and regulations. Services may also include, but are not limited to, providing:

- Enrollment services in the 401(a) Plan for employees;
- Educational materials and programs explaining investment options in the 401(a) Plan;
- Advice tools and products;
- Tools to facilitate the effective exchanges and transfers to, from, and among investment options offered within the 401(a) Plan;
- Periodic individual statements and distributions;
- Distributions and the preparation of periodic reports to participants, alternative payee, and beneficiaries;
- Master recordkeeping responsibilities;
- Maintenance of accounts and other records;
- Reports in support of compliance and regulatory obligations;

- An effective and automated interface with the Custodian/Sub-custodian to initiate net trades on investment options and rebalancing transactions as directed; and
- Reports and information reconciliations to the Board or its designees, and the Custodian/Sub-custodian.

5. Investment Options

It is the Board's intent to offer a broad range of investment options with materially different risk and return characteristics to allow Participants, by choosing among such investment options, the opportunity to diversify their balances and construct portfolios consistent with their unique circumstances, goals, time horizons, and tolerance for risk. It is the objective of the Board to offer investment options at a reasonable cost in terms of management, custody, other costs and have investment characteristics that can be successfully communicated to participants. Further, it is the intent of the Board to designate names for the investment options that are easily understood by participants.

To comply with this Policy, the 401(a) Plan is required to offer a minimum of ten investment options that are professionally managed by at least three investment managers. The Board will offer three tiers of investment options to meet various participant investment objectives. Described below are the various types of investment options.

The Board selects available investment options and investment managers and adds or removes such options or investment managers at any time in its discretion.

A. Tier I – Target Date Fund Investment Options

Target date funds provide a series of asset allocation funds that allow participants to choose a single fund that is based on their expected target retirement date. Each target date fund includes a professionally managed portfolio of underlying investments that may include fixed income, equity and alternative asset classes. The investment manager adjusts and rebalances the allocation of assets over time to reduce the expected risk as each fund progresses toward its target date.

The Board recognizes that some Participants may fail to make investment choices for their Plan account. Therefore, the Board believes it is appropriate to designate a target date fund based on the participant's age as the default investment option for any Participant who fails to make an investment choice for his or her contributions.

B. Tier II – Asset Class Investment Options

The Board offers investment options within each of the following broad asset classes:

- Capital Preservation;
- Fixed Income;
- Broad U.S. Equity; and
- Broad International Equity.

The Board may also establish additional asset classes and investment options at its own discretion to serve the needs of the Participants.

C. Tier III – Self-Directed Brokerage Option

The self-directed brokerage option provides access to a brokerage window for participants who seek greater investment flexibility. Participants investing in this option do so at their own risk. The Board is not responsible for the monitoring or evaluation of any self-directed brokerage account investments.

The Board selects available investment options and investment managers and adds or removes such options or investment managers at any time in its discretion. The screening process for the initial selection of any investment option or manager will consider attributes relevant to the specific asset class and search objective, as developed by the Board with the assistance of the Investment Office staff and in consultation with its external investment consultant, where applicable.

6. Objectives, Standards and Processes for Evaluating and Monitoring Investment Options and Investment Managers

A. Investment Manager Evaluations and Selection

Pursuant to its duties as defined in section “4. Roles & Responsibilities,” the Investment Office staff shall, as directed by the Board and in consultation with the Investment Consultant, search for and hire investment managers to carry out investment mandates. The screening process for the initial selection of any investment option or manager will consider attributes relevant to the specific search objective in question. Investment Staff and the Investment Consultant will consider, but will not be limited to reviewing the manager’s strategy, quality and experience of professional staff, ownership structure, investor level breakdown, assets under management by firm and product, fees and a comparison of performance history among peers and against appropriate benchmarks. Based on this analysis, Investment Staff and the Investment

Consultant will determine which investment managers would be suitable candidates for further review.

B. Investment Performance Reviews

Investment Office staff review investment options and investment manager performance, portfolio positioning and transactions at least annually. Investment Office staff use the Defined Contribution Plan Investment Manager Monitoring Policy, attached as **Exhibit II**, as may be applicable to the Investment Options, to apply consistent criteria in evaluating investment managers. The Board may change specific investment options or investment managers without amending this Policy.

C. Investment Manager and Investment Option Termination

The Board recognizes that investment options or investment manager terminations have unique circumstances which may result in different action plans upon termination. Upon a decision to terminate an investment option or investment manager, the Board expects to review the circumstances with Investment Office staff and the Investment Consultant to deliberately decide on a prudent and reasonable process for termination and replacement of the terminated investment option and/or investment manager, and mapping of impacted assets. Investment Office staff will notify Agency Staff, including the Chief Counsel's Office staff to coordinate proper notice to the participants if an investment option is terminated.

D. Prohibited Transactions

Investment managers are prohibited from entering into any transactions on behalf of the 401(a) Plan that are not expressly authorized by this Policy or by specific investment manager guidelines, offering memorandum, or mutual fund prospectus. Investment managers must at all times follow all applicable laws and regulations. All managers and consultants shall disclose any and all economic positions that may conflict with this Policy or specific investment manager guidelines.

The use of derivatives is to facilitate risk management, and to manage the cost of investing in publicly traded stocks and bonds. Derivatives shall not be used to magnify exposure to investments beyond that which would be allowed by the portfolio's Investment Strategy Statement. Derivatives shall not be used to create exposures to securities, indices or other financial variables unless such exposures would be allowed by a portfolio's Investment Strategy Statement if created with non-derivatives securities.

Exhibit I: 401(a) Plan Investment Options as of December 31, 2019

Investment Option	Benchmark	Fund #
A. Tier I – Target Date Fund Investment Options		
Target Date Fund Suite	Custom Index	1

Participants who do not make an investment selection will be assigned into a five-year group based on their birthdate. These groups are used to default participants into an age-appropriate target date fund vintage. The Board utilizes the following birthdate ranges and will work directly with the Third-Party Administrator to update periodically. The birthdate ranges are expected to change every time a fund merges into the Post Retirement Fund and a new fund is added. For defaulted participants that change birthdate groups when a new vintage becomes available, the participant's investment election and account balance will be transferred to the age-appropriate target date fund vintage. For example, the 2065 Retirement Date Fund currently covers birthdate ranges 1996 and after; however, when the 2070 Retirement Date Fund becomes available it will cover birthdate ranges 2001 and after.

2020 Birthdate Range	Fund Name
1996 and After	2065 Retirement Date Fund
1991 and 1995	2060 Retirement Date Fund
1986 to 1990	2055 Retirement Date Fund
1981 to 1985	2050 Retirement Date Fund
1976 to 1980	2045 Retirement Date Fund
1971 to 1975	2040 Retirement Date Fund
1966 to 1970	2035 Retirement Date Fund
1961 to 1965	2030 Retirement Date Fund
1956 to 1960	2025 Retirement Date Fund
1955 and Before	Post Retirement Fund

B. Tier 2 – Asset Class Investment Options		
1. Stock Funds		
U.S. All Company Stock Index Fund	Dow Jones U.S. Total Stock Market Index	2
U.S. Large Company Stock Index Fund	S&P 500 Index	3
U.S. Small/Mid Company Stock Index Fund	Dow Jones U.S. Completion Total Stock Market Index	4
Global Non-U.S. Stock Index Fund	MSCI All Country World ex U.S. Index	5
2. Fixed Income Funds		
U.S. Treasury Inflation Protected Securities Fund	Bloomberg U.S. TIPS Index	6
U.S. Bond Index Fund	Bloomberg U.S. Aggregate Bond Index	7
3. Capital Preservation Funds		
Short-Term Bond Index Fund	Bloomberg U.S. Gov/Credit 1-3 Years Index	8
Short-Term Investment Fund (<i>money market fund</i>)	BofA Merrill Lynch 3 Month T-Bill Index	9

C. Tier III – Self-Directed Brokerage Option		
Schwab Personal Choice Retirement Account	N/A	10

Additional Features
Managed Accounts
Out-of-Plan Annuity

Exhibit II: 401(a) Defined Contribution Plan Investment Manager Monitoring Policy

401(a) Defined Contribution Plan Investment Manager Monitoring Policy

The State Employees' Retirement Board ("Board") employs external investment managers to manage the 401(a) Defined Contribution Plan ("401(a) Plan") assets. The 401(a) Defined Contribution Plan Statement of Investment Policy charges the Investment Office with responsibility for coordinating all investment activities and investment matters for the 401(a) Plan, including the continual review and analysis of investment managers. It also allows for the use of external investment consultants to provide various investment-related services, including assistance with the analysis of investment managers.

The purpose of this Policy is to provide the Board with an enhanced communication tool to keep the Board and the Defined Contribution Committee informed of investment managers that warrant additional monitoring by the Investment Office and external consultant.

A Defined Contribution Plan Investment Manager Evaluation List ("Evaluation List") was developed to clearly communicate which investment managers have been identified as experiencing quantitative or qualitative pattern changes worthy of greater review by the Investment Office and its external investment consultant. Although a quantitative analysis is clearly important, it is not a best practice to rely exclusively on such data when evaluating investment managers due to the imperfect nature of many indices used as portfolio benchmarks. In addition, the placement of an investment manager on the Evaluation List does not automatically serve as evidence of a problem with the investment manager. This can only be determined after the Investment Office and external investment consultant conduct a further review.

A. Investment Manager Monitoring Guidelines and Evaluation List

The Investment Manager Monitoring Guidelines formalize the identification and application of qualitative and quantitative criteria employed by the agency with respect to the monitoring of current investment managers in the Defined Contribution compensation plan. The Investment Manager Monitoring Guidelines:

1. Establish clear expectations between the Board, Defined Contribution Committee, Investment Office, external investment consultants, and investment managers,
2. Enhance communication among the Board, Defined Contribution Committee, Investment Office, external investment consultants,
3. Encourage the use of prudently applied criteria to evaluate investment managers,
4. foster a long-term approach toward performance evaluation of investment managers,
5. Focus the resources of the Investment Office and external investment consultants on those investment managers most likely to require additional attention,

6. Avoid costly turnover in investment manager relationships driven by a period of short-term poor performance, and
7. Improve the probability that agency will identify problematic relationships which otherwise might produce unsatisfactory investment returns.

The Board endeavors not to make adverse retention decisions about investment managers based upon performance absent at least three years of performance data, recognizing that investment strategies are best assessed over full market cycles. All of the criteria identified in the Investment Manager Monitoring Guidelines are intended to provide a normal, minimum standard for retaining investment Managers.

However, the Board may terminate any current investment manager for any reason in accordance with the provisions of investment management agreements between the agency and the external investment managers. These Investment Manager Monitoring Guidelines do not limit the agency's ability to take such action.

B. Criteria for Active and Passive Management

Addition to the Evaluation List

The Investment Office, in consultation with its external investment consultant, will place an investment manager on the Evaluation List for any of the following reasons:

Quantitative Factors

The active investment manager's rolling, three-year return falls below the rolling, three-year benchmark return for four (4) consecutive quarters. This is a net-of-fee comparison.

The active investment manager's rolling, three-year return ranks below the median of the external investment consultant's peer group for four (4) consecutive quarters (excludes investment managers with no relative peer group). This is a gross-of-fee comparison or a net-of-fee comparison, depending on which is appropriate based on the investment vehicle. The comparison assumes that a reasonable and similar peer group exists for evaluating each investment option.

The passive investment manager's rolling three-year return is not in line with the rolling, three-year benchmark return. The Investment Office, in consultation with its external investment consultant, will determine what variance from the benchmark is deemed acceptable, given the passive strategy. This is a gross-of-fee comparison.

The active or passive investment manager's return significantly deviates from its expected return established in its investment strategy statements (investment guidelines) with the agency. This is a net-of-fee comparison.

Qualitative Factors

A significant and potentially adverse event related to any of the following qualitative issues or events, among others, will be considered:

- Violation of investment guidelines
- Deviation from stated investment style and/or shifts in the firm's philosophy or process
- Turnover of one or more key personnel
- Change in firm ownership or structure
- Significant loss of clients and/or assets under management
- Significant and persistent lack of responsiveness to client requests
- Litigation
- Failure to disclose significant information, including potential conflicts of interest
- Chronic violations of the SERS Defined Contribution Plan Statement of Investment Policy
- Any other issue or situation of which the Investment Office, the external investment consultant, and/or Board members become aware that is deemed material.

Removal from the Evaluation List

An investment manager may be removed from the Investment Manager Evaluation List when the Investment Office, in consultation with its external investment consultant, determines that the investment manager has satisfactorily met the quantitative or qualitative criteria for removal from the Evaluation List.

Generally for active investment managers, two consecutive quarters of rolling, three-year performance above the benchmark and a ranking above the median of the external investment consultant's peer group (assuming that a reasonable and similar peer group exists for evaluating each investment option) following placement on the Evaluation List will be required for an investment manager's removal from the Evaluation List for performance reasons.

For index fund investment managers, one period of rolling, three-year performance in line with the benchmark following placement on the Evaluation

List will be required for an investment manager's removal from the Evaluation List for performance reasons.

The Investment Office, in consultation with its external investment consultant, will typically make a decision to recommend retention or termination twelve (12) months following placing an investment manager on the Evaluation List. At the point of decision, the Investment Office, in consultation with its external investment consultant, may recommend renewing inclusion on the Evaluation List for an additional period of time subject to supporting due diligence.

C. Application of Criteria

1. The Investment Manager Evaluation List is a confidential internal document and will only be used for internal purposes.
2. The Investment Office, in consultation with external investment consultants, will provide the SERS Defined Contribution Committee, with a current Investment Manager Evaluation List at the same SERS Defined Contribution Committee, meeting when the Callan quarterly performance is provided to the SERS Defined Contribution Committee. The Evaluation List will include all investment managers which have been added or removed and summary of the reasons for the addition or removal.
3. The Investment Manager Evaluation List will be provided to the Defined Contribution Committee, in executive session.
4. When an investment manager is placed on the Investment Manager Evaluation List, the Investment Office and external investment consultants will conduct a further review of the investment manager to assess whether or not genuine issues of concern actually exist.
5. If genuine issues of concern are identified, the Investment Office and external investment consultants will assess the cause, magnitude, and likely duration of the issues.
6. If the analysis from the Investment Office, in consultation with its external investment consultants, reveals that the issues are not of concern, the investment manager will be removed from the Investment Manager Evaluation List.
7. If the investment manager resolves the issues of concern to the satisfaction of the Investment Office, in consultation with its external investment consultants, the investment manager will be removed from the Investment Manager Evaluation List.
8. If the Investment Office, in consultation with its external investment consultant, determines that the issues of concern have persisted without satisfactory resolution or are unlikely to be resolved within 12 months, then a recommendation on whether to retain the investment manager will be provided to the Defined Contribution Committee.
9. In emergency situations, the Chief Investment Officer, in consultation with the Investment Committee Chair and Board Chair, may make investment decisions (*i.e.* halt trading or terminate an investment manager). Emergency situations

are defined as those that are unforeseeable and in the absence of action, the Fund may be adversely impacted. In the event such action is taken, the Investment Committee will be notified as soon as practical, but no later than the next scheduled meeting.