

MINUTES of SERS Board Meeting – Tuesday, May 2, 2023

CALLED TO ORDER: 9:32 a.m. by Chair David R. Fillman

IN-PERSON/MICROSOFT TEAMS MEETING/LIVESTREAM

ATTENDEES:

Members and Designees

David R. Fillman – Chair	In-person
Glenn E. Becker – Assistant Chair	In-person
John M. DiSanto	
Dan B. Frankel	Absent
Stacy Garrity	
Sarah Hammer	In-person
Vincent J. Hughes	Absent
Gregory K. Jordan	
Brett R. Miller	In-person
Mary A. Soderberg	In-person
Gregory C. Thall	In-person
James Bloom – Designee for Acting Secretary Sarah Hammer	
Susan Boyle – Designee for Representative Brett R. Miller	
Christopher Craig – Designee for Treasurer Stacy Garrity	
Lloyd Ebright – Designee for Treasurer Stacy Garrity	
Charles Erdman – Designee for Senator John M. DiSanto	
Alan Flannigan – Designee for Acting Secretary Sarah Hammer	In-person
Matt Lindsay – Designee for Senator Vincent J. Hughes	
Dan Ocko – Designee for Representative Dan B. Frankel	
Eric Pistilli – Designee for Acting Secretary Sarah Hammer	
Jill Vecchio – Designee for Representative Brett R. Miller	
Thomas Waters – Designee for Treasurer Stacy Garrity	

Executive Staff

N. Joseph Marcucci	In-person
Sara McSurdy	In-person
James Nolan	In-person
Joseph Torta	In-person

Consultants

Craig Graby, Korn Ferry
 Michael Elio, StepStone Group, LP
 Britt Murdoch, Callan LLC
 Matthew Ritter, NEPC, LLC
 Matt Roche, StepStone Group, LP
 Tom Shingler, Callan LLC

SERS Staff

Rose Agnew	In-person
Katie Bates	In-person
Don Bell	In-person
Kelly Bernhard	In-person
Cindy Collins	In-person
Jo Ann Collins	In-person
Brenda Cunard	In-person
Tom Derr	In-person
Randy Gilson	In-person
Pam Hile	
Dan Krautheim	In-person
Karen Lynn	
Katie Mathews	In-person
Jeffrey McCormick	
Catherine Nolan	In-person
Jon Ryan	In-person
Brett Shaffer	In-person
Steven Skoff	In-person
Dawn Smith	In-person
Matthew Soule	In-person
Bill Truong	In-person
Mark Walter	In-person

Visitors

Brian Kimmetz, Rock the Capital	In-person
Eileen O'Grady, Private Equity Stakeholder Project	In-person

MINUTES of the SERS Board Meeting TUESDAY, May 2, 2023

1. CALL TO ORDER

Chair Fillman called the meeting to order at 9:32 a.m.

2. WELCOME AND ROLL CALL

Executive Director Joseph Torta conducted a roll call of board members and designees. A quorum was met. Chair Fillman introduced and welcomed Representative Brett R. Miller to the SERS board.

3. ADOPTION OF THE AGENDA

MOTION: 2023-13

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

RESOLVED: That the board adopts the agenda for the May 2, 2023, board meeting.

4. APPROVAL OF CONSENT CALENDAR

A. Approving Board Meeting Minutes – February 28, 2023

MOTION: 2023-14

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

RESOLVED: That the board approves the Consent Calendar item, as listed, for the May 2, 2023, board meeting.

5. COMMITTEE REPORTS/ACTION ITEMS

A. Securities Litigation Committee

Committee Chair Jordan presented a report of the Securities Litigation Committee meeting of April 25, 2023, to the board.

B. Investment Committee

Committee Chair Becker presented a report of the Investment Committee meeting of April 25, 2023, to the board. The following actions were taken:

SERS' DEFINED BENEFIT PLAN INVESTMENT POLICY STATEMENT

MOTION: 2023-15

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

RESOLVED: That the State Employees' Retirement Board accepts the recommendation of the Investment Committee to adopt the proposed updates to the SERS' Defined Benefit Plan Investment Policy Statement (ATTACHMENT A).

Glenn E. Becker		YES
John M. DiSanto	Designee Charles Erdman	YES
David R. Fillman		YES
Dan B. Frankel	Designee Dan Ocko	YES
Stacy Garrity		YES
Sarah Hammer		YES
Vincent J. Hughes	Designee Matt Lindsay	YES
Gregory K. Jordan		YES
Brett R. Miller		YES
Mary A. Soderberg		YES

Gregory C. Thall YES

SERS U.S. AND INTERNATIONAL PROXY VOTING POLICY

MOTION: 2023-16

By motion that was moved, seconded, and approved unanimously by board members, it was **RESOLVED:** That the State Employees’ Retirement 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 B).

Glenn E. Becker		YES
John M. DiSanto	Designee Charles Erdman	YES
David R. Fillman		YES
Dan B. Frankel	Designee Dan Ocko	YES
Stacy Garrity		YES
Sarah Hammer		YES
Vincent J. Hughes	Designee Matt Lindsay	YES
Gregory K. Jordan		YES
Brett R. Miller		YES
Mary A. Soderberg		YES
Gregory C. Thall		YES

REAL ESTATE PORTFOLIO REVISION

MOTION: 2023-17

By motion that was moved, seconded, and approved unanimously by board members, it was **RESOLVED:** That the State Employees’ Retirement Board accepts the recommendation of the Investment Committee to approve a temporary expanded delegation of authority to the Chief Investment Officer until December 31, 2027 (or such earlier date that the board may direct) to allow the Chief Investment Officer to partially redeem and/or reallocate (a) publicly traded real estate securities, and (b) partnership interests in core or core plus open-ended commingled vehicles, to comply with the target Real Estate allocation structure in the Investment Policy Statement approved by the board on May 5, 2022.

The board’s Real Estate Consultant and the SERS Investment Office will review the progress of the restructuring annually with the Investment Committee as part of the SERS strategic pacing plan for Real Estate. In addition to the board’s Real Estate Consultant, the Chief Investment Officer shall consult with the SERS Investment Committee Chair and Board Chair prior to executing the above expanded authority investment actions. In the event such action is taken, the board will be apprised as soon as practicable, but no later than the next regularly scheduled board meeting.

Glenn E. Becker		YES
John M. DiSanto	Designee Charles Erdman	YES
David R. Fillman		YES
Dan B. Frankel	Designee Dan Ocko	YES
Stacy Garrity		YES
Sarah Hammer		YES
Vincent J. Hughes	Designee Matt Lindsay	YES
Gregory K. Jordan		YES
Brett R. Miller		YES

Mary A. Soderberg	YES
Gregory C. Thall	YES

C. Finance and Member & Participant Services Committee

Committee Chair Soderberg presented a report of the Finance and Member & Participant Services Committee meeting of April 25, 2023, to the board. The following actions were taken:

2022 ACTUARIAL VALUATION RESULTS

MOTION: 2023-18

By motion that was moved, seconded, and approved unanimously by board members, it was **RESOLVED:** That the State Employees' Retirement Board accepts the recommendation of the Finance and Member & Participant Services Committee to:

(A) approve the results of the December 31, 2022, actuarial valuation; and for the Commonwealth's fiscal year 2023-2024, certify the following contribution rates:

1. Shared-risk contribution rate of 0.0%;
2. Employer normal cost contribution rate of 8.29%;
3. Composite employer contribution rate necessary for the funding of the system of 35.27%; and
4. Employer contribution rates by group and class of service of employees as set forth in the actuarial valuation as calculated by SERS' consulting actuary, Korn Ferry, pursuant to Section 5508 of the State Employees' Retirement Code;

(B) authorize SERS staff and Korn Ferry to use those rates to develop all the employer rates for the period of July 1, 2023, to June 30, 2024, pursuant to Section 5902(k) of the State Employees' Retirement Code;

(C) establish an employer contribution rate of .05% for fiscal year 2023-2024 to fund the Benefits Completion Plan established pursuant to Section 5941 of the State Employees' Retirement Code; and

(D) authorize the Executive Director to certify such rates to all employers with employees who are active members of SERS and to the Secretary of the Budget.

Glenn E. Becker		YES
John M. DiSanto	Designee Charles Erdman	YES
David R. Fillman		YES
Dan B. Frankel	Designee Dan Ocko	YES
Stacy Garrity		YES
Sarah Hammer		YES
Vincent J. Hughes	Designee Matt Lindsay	YES
Gregory K. Jordan		YES
Brett R. Miller		YES
Mary A. Soderberg		YES
Gregory C. Thall		YES

PROCUREMENT PROCESS FOR SERS' THIRD-PARTY ADMINISTRATOR

MOTION: 2023-19

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

RESOLVED: That the State Employees' Retirement Board accepts the recommendation of the Finance and Member & Participant Services Committee to approve initiating the procurement process for SERS' Third-Party Administrator for SERS' Defined Contribution and Deferred Compensation Plans as set forth in BoardDocs (ATTACHMENT C).

Glenn E. Becker		YES
John M. DiSanto	Designee Charles Erdman	YES
David R. Fillman		YES
Dan B. Frankel	Designee Dan Ocko	YES
Stacy Garrity		YES
Sarah Hammer		YES
Vincent J. Hughes	Designee Matt Lindsay	YES
Gregory K. Jordan		YES
Brett R. Miller		YES
Mary A. Soderberg		YES
Gregory C. Thall		YES

D. Board Governance and Personnel Committee

Committee Chair Fillman presented a report of the Board Governance and Personnel Committee meeting of April 25, 2023, to the board. The following actions were taken:

SERS STRATEGIC PLAN 2023-2027

MOTION: 2023-20

By motion that was moved, seconded, and approved unanimously by board members, it was **RESOLVED:** That the State Employees’ Retirement Board accepts the recommendation of the Board Governance and Personnel Committee to approve the preliminary SERS strategic plan beginning July 1, 2023, through June 30, 2027, and instruct staff to finalize the strategic plan for formal submission to the Board Governance and Personnel Committee and the board at the upcoming meetings on June 6, 2023, and June 13, 2023, as set forth in the attachments (ATTACHMENT D).

Glenn E. Becker		YES
John M. DiSanto	Designee Charles Erdman	YES
David R. Fillman		YES
Dan B. Frankel	Designee Dan Ocko	YES
Stacy Garrity		YES
Sarah Hammer		YES
Vincent J. Hughes	Designee Matt Lindsay	YES
Gregory K. Jordan		YES
Brett R. Miller		YES
Mary A. Soderberg		YES
Gregory C. Thall		YES

BOARD CHAIR AND ASSISTANT CHAIR, BOARD MEMBER, COMMITTEE CHAIR AND COMMITTEE ASSISTANT CHAIR POSITIONS POLICIES

MOTION: 2023-21

By motion that was moved, seconded, and approved unanimously by board members, it was **RESOLVED:** That the State Employees’ Retirement Board accepts the recommendation of the Board Governance and Personnel Committee to approve the revisions to the (1) Board Chair and Assistant Chair Positions; (2) Board Member Position; and (3) Committee Chair and Assistant Chair Positions, as set forth in the attached documents (ATTACHMENTS E, F and G).

Glenn E. Becker		YES
John M. DiSanto	Designee Charles Erdman	YES

David R. Fillman		YES
Dan B. Frankel	Designee Dan Ocko	YES
Stacy Garrity		YES
Sarah Hammer		YES
Vincent J. Hughes	Designee Matt Lindsay	YES
Gregory K. Jordan		YES
Brett R. Miller		YES
Mary A. Soderberg		YES
Gregory C. Thall		YES

BOARD POLICIES REVISIONS

MOTION: 2023-22

By motion that was moved, seconded, and approved unanimously by board members, it was **RESOLVED:** That the State Employees' Retirement Board accepts the recommendation of the Board Governance and Personnel Committee to approve the revisions to the Strategic Planning Policy, Board Education Policy; Board Communication Policy and Board Self-Assessment Policy, as set forth in the attached documents (ATTACHMENTS H, I, J and K).

Glenn E. Becker		YES
John M. DiSanto	Designee Charles Erdman	YES
David R. Fillman		YES
Dan B. Frankel	Designee Dan Ocko	YES
Stacy Garrity		YES
Sarah Hammer		YES
Vincent J. Hughes	Designee Matt Lindsay	YES
Gregory K. Jordan		YES
Brett R. Miller		YES
Mary A. Soderberg		YES
Gregory C. Thall		YES

6. OLD BUSINESS - NONE

7. SPECIAL PRESENTATIONS

A. RFP Primer

Mses. Cynthia Collins and Dawn Smith and Mr. Steve Skoff presented the process to participate in an RFP. The process is unique with Commonwealth's contracts and strict steps must be taken. Board member Soderberg who served on several RFPs commented that the staff was very helpful assisting along the process, but the time requirement to review these proposals is consuming.

8. REPORT OF EXECUTIVE DIRECTOR

A. Executive Director Torta provided the following Administrative and Legislative Updates:

- (i) Legislative outreach meetings have continued. Eight meetings with legislators have been held since the last board meeting.
- (ii) Several key personnel have either announced their retirement plans or retired. Karen Lynn, Director of Internal Audit will retire on June 30, 2023. Two regional field office managers, Kim Shick and Joe Fleming have retired in April, 2023.
- (iii) Approximately 100,000 annual SERS member statements were mailed in March, 2023.

(iv) SERS appeared before the House Appropriations Committee on April 13, 2023, and Executive Director Torta thanked the House members for a good hearing.

(v) Two legislative updates that directly impact SERS:

S.B. 423 would allow annuitants to return as state-certified fire instructors without having their pension stopped.

H.B.786 is a constitutional revision that would provide a mandatory spending limit cap. SERS' concern is that this could lead to further underfunding to the systems.

9. EXECUTIVE SESSION

A. Chief Compliance Officer Report on Board Referrals: Prospective Investment Opportunities and Service Provider Candidates

B. Benefits Administration and Appellate Litigation Update

At 10:40 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 11:06 a.m.

10. NEW BUSINESS

A. Recognition for Departing Board Members

Chair Fillman recognized departing board members Ms. Mary Soderberg and Mr. Glenn Becker by reading board commendations and thanked them for their service while on the board (ATTACHMENTS L and M).

Executive Director Torta read a board commendation for departing board member David Fillman (ATTACHMENT N). Chair Fillman served on the board for close to 22 years.

Board members Treasurer Garrity and Greg Jordan and Designees Jim Bloom and Dan Ocko acknowledged Ms. Soderberg's, Mr. Becker's and Chair Fillman's service on the board and thanked them for their demonstration and examples of leadership.

11. BOARD COMMENTS/ANNOUNCEMENTS/DATES TO REMEMBER

Next Committee and Board Meeting Dates – June 6 and June 13, 2023

12. MOTION TO ADJOURN

MOTION: 2023-23

By motion of Chair Fillman, the board unanimously agreed to adjourn the meeting at 11:24 a.m.

Respectfully submitted,



Joseph A. Torta
Executive Director



**SERS' Defined Benefit Plan
Investment Policy Statement**

Commonwealth of Pennsylvania
State Employees' Retirement Board

Amended by the State Employees' Retirement Board:
May 2, 2023

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1. Introduction

The State Employees' Retirement Fund ("Fund") was established in 1923 by an act of the Pennsylvania legislature. The purpose of the Fund is the accumulation of funds exclusively for the benefit of the members and beneficiaries of members of the State Employees' Retirement System ("SERS" or the "System") for the payment of withdrawal, retirement, disability, and death benefits as provided in Pennsylvania Consolidated Statutes Title 71, Part XXV ("Retirement for State Employees and Officers"). The Fund is under the exclusive control and management of an eleven-member Board of Trustees ("Board"). For the purposes of this document, the term Board shall include the full Board and/or committees established by the Board.

In addition to administering a multiple-employer, cost-sharing defined benefit plan, SERS also administers a defined contribution plan, and a voluntary deferred compensation plan. This Investment Policy Statement primarily focuses on the defined benefit plan investments.

SERS' defined benefit plan is funded from investment earnings, employer contributions and employee contributions. It is the responsibility of SERS' investment professional staff, on behalf of the Board, to safeguard and invest the assets in a fiduciary capacity, solely in the interest of the members of the system.

2. Purpose

This Investment Policy Statement ("IPS" or "Policy") specifically outlines the investment philosophy and practices of SERS and has been developed to serve as the governing policy for the management of the System's defined benefit assets. 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.

This is an official investment policy document of SERS. Deviation from this document is not permitted without explicit written permission, in advance, from the Board.

This Policy may be amended by a majority vote of the Board.

3. Authority

The Board's investment authority is governed by the "prudent expert" standard as set forth in Title 71, Pennsylvania Consolidated Statutes, Section 5931(a):

Control and management of fund. The members of the Board shall be the trustees of the fund. Regardless of any other provision of law governing the investments of funds under the control of an administrative Board of the State government, the trustees shall have exclusive control and management of the said fund and full power to invest the same in accordance with the provisions of this section, subject, however, to the exercise of that degree of judgment, skill and care under the circumstances then prevailing which persons of prudence, discretion and intelligence, who are familiar with such matters, exercise in the management of their own affairs not in regard to speculation, but in regard to the permanent disposition of the funds, considering the probable income to be derived therefrom as well as the probable safety of their capital. The trustees shall have the power

to hold, purchase, sell, lend, assign, transfer or dispose of any of the securities and investments in which any of the moneys in the fund shall have been invested as well as of the proceeds of said investments, including any directed commissions which have accrued to the benefit of the fund as a consequence of the investments, and of any moneys belonging to said fund, subject in every case to meeting the standard of prudence set forth in this subsection.

No provision of this Policy shall be construed in contravention of the Board's statutory investment authority found in Title 71, Pennsylvania Consolidated Statutes, Section 5931.

4. Fiduciary Responsibility of the Board, Employees and Agents

In exercising this fiduciary responsibility, the members of the Board, employees of the Fund, and agents of the Fund are governed by the "prudent expert" standard and the exclusive benefit standard. The exclusive benefit standard requires these parties to act solely within the interests of SERS' participants and beneficiaries, and for the exclusive purpose of providing benefits to participants and beneficiaries.

Title 71, Pennsylvania Consolidated Statutes, Section 5931(e) provides, in part, as follows:

Fiduciary status of the Board. The members of the Board, employees of the Board and agents thereof shall stand in a fiduciary relationship to the members of the system regarding the investments and disbursements of any of the moneys of the fund and shall not profit either directly or indirectly with respect thereto.

[In reference to Pennsylvania-based investments] The Board may, when possible and consistent with its fiduciary duties imposed by this subsection or other law, including its obligation to invest and manage the fund for the exclusive benefit of the members of the system, consider whether an investment in any project or business enhances and promotes the general welfare of this Commonwealth and its citizens, including, but not limited to, investments that increase and enhance the employment of Commonwealth residents, encourage the construction and retention of adequate housing and stimulate further investment and economic activity in this Commonwealth.

5. Roles and Responsibilities

A. Board

The members of the Board are responsible as trustees for the proper management of the assets of the Fund.

In carrying out these duties, the Board is responsible for:

1. Approving the IPS that serves as the governing policy for the management of the System's assets.
2. Approving a long-term target asset allocation with asset class objectives and benchmarks as defined in the IPS.

3. Approving the engagement and termination of investment managers/funds and investment consultants. With regard to engagement and termination of investment managers/funds, the Board seeks recommendations from Investment Office Staff and consultants in a joint or separate recommendation memo/analysis.
4. Approving the Annual Comprehensive Financial Report.
5. Approving the annual actuarial report, assumptions, and funding level. Approving an actuarial experience study that is to be conducted no less than every five years.
6. Approving proxy voting guidelines.
7. Reviewing the investment performance and risk characteristics of the Fund.
8. Reviewing the results of an asset/liability study on a periodic basis, but not less than every five years.
9. Oversight and monitoring of staff including, but not limited to the hiring of the Chief Investment Officer, the Executive Director, the Director of Internal Audit, and the Chief Compliance Officer.

Act 5 of 2017 established additional duties for the Board. Specifically, Title 71, Pennsylvania Consolidated Statutes, Section 5902(q)(2) provides, in part, as follows:

Limitation on fees charged to the Board. In order to strive towards actuarial savings of \$1,500,000,000 over 30 years from the effective date of this subsection while achieving the assumed annual rate of return at the least cost and maximum return on the system assets, the board shall:

Consider the findings and recommendations of the Public Pension Management and Asset Investment Review Commission. The Board shall, at its discretion, adopt guidelines and procedures to implement any recommendations of the Public Pension Management and Asset Investment Review Commission that the Board believes will ensure the highest return on investment at the lowest responsible cost.

Review, identify and implement any investment fee reduction and cost avoidance strategies identified to be prudent by the board, to reduce expenditures for investment.

B. Executive Director (Secretary)

Title 71, Pennsylvania Consolidated Statutes, Section 5902(a.1) provides, in part, as follows:

Secretary. The secretary shall act as chief administrative officer for the Board with respect to both the system and the plan. In addition to other powers and duties conferred upon and delegated to the secretary by the Board, the secretary shall:

1. Serve as the administrative agent of the Board.

2. Serve as liaison between the Board and applicable legislative committees, the Treasury Department, the Department of the Auditor General, and between the Board and the investment counsel and the mortgage supervisor in arranging for investments to secure maximum returns to the fund.
3. Review and analyze proposed legislation and legislative developments affecting the system or the plan and present findings to the Board, legislative committees, and other interested groups or individuals.
4. Direct the maintenance of files and records and preparation of periodic reports required for actuarial evaluation studies.
5. Receive inquiries and requests for information concerning the system or the plan from the press, Commonwealth officials, State employees, the general public, research organizations, and officials and organizations from other states, and provide information as authorized by the Board.
6. Supervise a staff of administrative, technical, and clerical employees engaged in record-keeping and clerical processing activities for both the system and the plan in maintaining files of members and participants, accounting for contributions, processing payments to annuitants and terminated participants, preparing required reports, and retirement counseling.

C. Investment Office Staff

The Chief Investment Officer is charged with the coordination of all investment-related matters within the System and supervision of Investment Office Staff. The Chief Investment Officer is responsible for the day-to-day administration of investment-related matters in accordance with Board policies. In general, the Chief Investment Officer is responsible for the following day-to-day investment-related activities:

1. Authorize receipt or payment for the acquisition or disposition of investments.
2. Act as liaison on behalf of the Board with all investment-related contractors.
3. Review investment transactions for conformity to certain applicable laws, regulations, each manager's investment strategy statement, and this Policy.
4. Review investment proposals presented by investment managers, and where appropriate, summarize and recommend the same for Board consideration.
5. Review and summarize for the Board pertinent information from relevant publications, discussions, meetings, and research on current investment related topics.

6. Respond to inquiries from the Board and Pennsylvania Legislature, the membership, the press, other governmental representatives, and the public concerning the investments of the Fund.
7. Provide an annual update to the Board summarizing what was accomplished over the past year and what the Fund will be doing in the next year in order to implement Policy Target Asset Allocation.
8. Update the IPS on an annual basis for Board review and approval.
9. Update investment-related policies and processes, and as appropriate, present to the Board for approval.
10. Perform such other duties as may be required to implement this Policy.

D. Internal Audit

The Director of Internal Audit reports functionally to the Audit, Risk, and Compliance Committee and administratively to the Executive Director. The internal audit department is independent of the System's operational activity and is responsible for providing objective audit and review services for the entire System, including the Investment Office. Internal audit's services emphasize the promotion of adequate and effective internal controls at a reasonable cost and result in suggested improvements that will lead to economies and efficiencies in the Systems' operations.

E. 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, monitoring the compliance activities of the Investment Office, with tasks including:

1. identifying potential areas of compliance vulnerability and risk;
2. assisting with the development, and implementation of risk management, and mitigation for resolution of problematic issues, and
3. providing guidance on how to avoid or address similar situations in the future.

F. Investment Consultants

The general and specialty consultants should be free of conflicts of interest or, where they potentially exist, make complete and total disclosure to the Board and obtain pre-clearance from the Board. The Board shall determine their specific responsibilities, which shall be set forth in their respective contracts with the Board.

General Investment Consultant

The general investment consultant makes recommendations to the Board on asset allocation, investment structure, policies, the investment managers' implementation of policy and strategy, and the appropriate investment horizon for the Fund given its actuarial

characteristics, and provide such other research as may be needed from time to time. The general investment consultant also assists with investment manager searches, performance measurement and performance monitoring. The general investment consultant provides other services as contractually agreed upon with the Board and Investment Office Staff.

Specialty Investment Consultants

The Board may retain other investment consultants as required for specialized needs, such as for particular asset classes or unique investment projects. These specialty consultants will report to the Board on emerging trends and issues that are germane to their respective assignments and that are of concern to public pension funds generally and to the Fund in particular. Within the scope of their assignments, the specialty consultants will also analyze and make recommendations with respect to this Policy, the investment managers' implementation of policy and strategy, and provide such other research as may be needed from time to time. Specialty investment consultants provide other services as contractually agreed upon with the Board and Investment Office Staff.

G. Investment Managers

All external investment managers shall be retained pursuant to written contracts. Investment managers shall construct and manage investment portfolios consistent with the investment philosophy and disciplines for which the Board retained them and their specific investment guidelines, all of which shall be set forth in their investment objectives and guidelines. The guidelines shall be subject to periodic amendment at the discretion of the Board.

It is the Board's policy to limit the allocation of Fund investments such that no more than 15% of the total market value of Fund assets should be invested in any one investment product offered by an investment manager, except where management of such investments is of a passive nature (e.g., index funds).

Each manager's benchmark will reflect that manager's particular style or strategic role in SERS' investment process. Each benchmark will be clearly specified, measurable, and replicable (when possible). Benchmarks do not have to be published or widely recognized; they may be "customized" for a particular investment style or styles. The benchmark shall be determined in advance of funding by mutual agreement between the manager, Investment Office Staff, and consultant (general and/or specialty consultant, as appropriate). In the event of a change in management style, agreed upon change in a manager's strategy, availability of a better benchmark construction methodology, or changes to or additions in indices, a manager's benchmark may be modified by mutual consent between the manager, Investment Office Staff, and consultant (general and/or specialty consultant, as appropriate).

The Board further requires those public markets investment managers selected and working on its behalf to perform the following activities:

1. Execute investment decisions that are consistent within the scope of the approved investment guidelines expressed in the respective management agreement and other relevant documents.

2. Execute investment transactions on behalf of the Board in a manner that maximizes the investment value of each transaction from the viewpoint of the Fund, utilizing such brokers and dealers as they deem appropriate to obtain best execution and/or valuable information with respect to the economy and the affairs of corporations at the lowest total cost to the Fund.
3. Report to the Board at least quarterly through the Investment Office, with the exact frequency and format of reporting to be determined by the Investment Office, on the composition and relative performance of the investments in their designated portfolios; the economic and investment outlook for the near and long term; significant changes in the portfolio during the preceding period; and the reasons for any significant differences between the performance of their portfolios and the appropriate market indices or metrics.
4. Make themselves available as needed for meetings with the Board, Investment Office Staff, or agents of the Board regarding investment matters.
5. Comply at all times with all laws, regulations, contractual investment guidelines, and reporting requirements as determined by Investment Office Staff.
6. Perform such additional activities as detailed in each manager's investment management agreement with SERS.

H. State Treasurer

The State Treasurer serves as the custodian of the Fund, pursuant to Title 71, Pennsylvania Consolidated Statutes, Section 5931(c). In this capacity, the State Treasurer is responsible for the safe physical custody of investment instruments and the safe custody of any book-entry investment instruments that are held in depositories on behalf of the Commonwealth. As custodian, the State Treasurer is also responsible for preparing and delivering securities for settlement as authorized by the Board, attending to corporate actions, maintaining a book of record for these securities, facilitating an annual examination of these securities and books, and for preparing payment for securities transactions upon presentation of warrants properly signed and authorized. The State Treasurer may enter into a contract with a sub-custodian bank to assist in the execution of these responsibilities.

The State Treasurer is responsible for the temporary investment of cash balances until funds are required to meet disbursements or to acquire investments.

I. Actuarial Consultant

Pursuant to Title 71, Pennsylvania Consolidated Statutes, Section 5902(j), the Board engages an actuary to perform a valuation of the various accounts of SERS on an annual basis within six months of the close of each calendar year. In every fifth year, the Board shall have the actuary conduct an actuarial investigation and evaluation of the system based on data including the mortality, service, and compensation experience provided by the Board annually during the preceding five years concerning the members and beneficiaries.

6. Investment Objectives

The objectives of the Fund are to provide benefit payments to participants and beneficiaries at the lowest cost to the Commonwealth and to fund the program through a carefully planned and executed investment program.

The Fund seeks to produce the highest return on investment that is consistent with acceptable investment risks while providing sufficient liquidity that will permit the Fund to meet the System's benefit obligations.

7. Investment Performance Objectives

SERS' Investment Performance Objectives:

- Achieve SERS' actuarial assumed rate of return over the long-term, net of fees.
- Achieve a SERS' total fund policy benchmark return over 10-year periods, net of fees. The fund policy benchmark index will be based on the asset allocation set forth in the IPS approved by the Board.

SERS' investment process requires a thorough analysis of the plan liabilities, liquidity requirements, and market opportunities. The Board, in collaboration with the Chief Investment Officer, actuarial consultant, and investment consultants, establishes the actuarial assumed rate of return. Achieving, or exceeding the actuarial assumed rate of return is the primary investment performance objective of SERS' investment office to help meet the desired funded status.

8. Asset Allocation Process

The Board accepts asset allocation as the primary determinant of the System's long-term contributor to investment return and risk. Asset allocation is substantially more influential than individual mandates deployed within asset classes, managers selected to implement the mandates, or tactical asset allocation decisions.

Among the factors that the Board considers in developing the policy target asset allocation are the following:

- Achieve SERS' actuarial rate of return over the long-term, net of fees, within risk and investment management fee levels deemed prudent by the Board.
- Maintain a level of liquid assets with a low correlation to the U.S. equity markets to pay retirement benefits and covenants during prolonged periods of market decline and potential state budgetary constraints.

In addition, SERS' asset allocation structure was developed by considering the Fund's liabilities, benefits policy, funding policy, and each asset class's expected return, volatility, and correlation with other asset classes. Investment Office Staff, in consultation with the Board and general investment consultant, combines asset classes in the most optimal structure to provide the highest expected return for a given level of risk, subject to implementation, liquidity, diversification, and cost constraints.

9. Liquidity

In addition to developing asset mixes to deliver on the Board's return and risk requirements, consideration is also given to ensure adequate liquidity which is sensitive to the duration of the plan liabilities, the ratio of active vs. retired members, and other factors. While maintaining a relatively large cash cushion has appeal, the Board is mindful of the potential drag on total portfolio returns over the long term, and as such, maintains a structure to provide adequate liquidity, while preserving earnings power.

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
- Real Estate (REITs Only)
- 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' Investment Office 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.

11. Emergency Situations

The Board delegates authority to the Chief Investment Officer to make investment decisions on behalf of the Board in emergency situations. Emergency situations are defined as those that are unforeseeable and in the absence of action taken, the Fund may be adversely impacted. The Chief Investment Officer shall consult with the Investment Committee Chair and Board Chair prior to executing any emergency actions. In the event such action is taken, the Board will be apprised as soon as practical, but no later than the next scheduled Board meeting.

12. Prohibited Transactions

Investment managers are prohibited from entering into any transactions on behalf of the Fund that are not expressly authorized by this Policy or by specific investment manager guidelines including all applicable laws and regulations. All managers and consultants shall disclose any and all

economic positions that may conflict with SERS' investment objectives and guidelines.

13. Investment Manager Recommendation Process

Investment Committee Interviews Investment Manager: Two weeks prior to the Investment Committee meeting, SERS' Investment Office and Investment Consultants provide the Investment Committee with an executive summary, a comprehensive investment memorandum, and a presentation from the investment manager. The Investment Committee interviews the investment manager and makes the decision to recommend the investment to the full Board for approval.

Full Board Approval: The Investment Committee Chair or a designee of the Chair presents the investment motions to the full Board to vote on approving the investment opportunity.

Ultimately, the decision to commit to an investment opportunity is one for the Board to make. In making its decision, the Board will take into consideration the action, if any, taken by the Investment Committee, but it is for the Board to make the decision on whether to proceed with the investment.

14. Investment Manager Evaluations

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.

The Board's time horizon to review performance trends shall normally be over full market cycles, although the trend in investment experience over other time periods may be judged important. Any extreme or unusual events or trends will be considered when evaluating intermediate and short-term investment results. The *Investment Manager Monitoring Policy* has been developed in order to assist Investment Office Staff in applying consistent criteria to evaluate investment managers.

Notwithstanding the above, Investment Office Staff will review manager performance, portfolio positioning, and transactions at least annually.

15. Corporate Governance Standards

Good corporate governance promotes responsible business practices that serve as an integral component to a corporation's long-term value creation process and is an indispensable element of an effective corporate risk management program.

SERS is committed to improve corporate governance practices of the companies within the SERS portfolio. SERS' involvement includes: the development and periodic updating of the Board approved proxy voting policy, voting proxies, active participation in groups working to improve and enhance corporate governance practices, and ad hoc responses to important issues that affect the value of the portfolio, such as letters responding to regulatory and legislative proposals.

Updates to the proxy voting policies shall be prepared by the Investment Office and submitted to the Board for approval. In the update of the policies, the Investment Office shall seek to develop best practices. Best practices shall be developed through relationships with groups working to improve and enhance corporate governance practices and input that focuses on improving corporate governance practices from other prominent plan sponsors.

In addition, SERS monitors and, where appropriate, incorporates best corporate governance practice recommendations from organizations into the proxy voting guidelines. As good corporate governance practices are not static, the annual proxy voting modifications are designed to reflect the current trends in the marketplace.

Stock proxies are voted in accordance with guidelines and procedures contractually agreed upon with the Board and Investment Office Staff.

Corporate Actions

The custodian bank has standing instructions to forward notices of all corporate actions received, such as dividends, stock splits, mergers, acquisitions, spin-offs, or class action suits to SERS and/or its investment managers.

16. Trading and Brokerage Practices

The Board delegates the responsibility for the selection of brokerage firms to its investment managers, provided the investment managers select and utilize brokers. Notwithstanding this practice, the Board reserves the right to enter into brokerage commission recapture programs, and to establish goals for directed commissions provided the managers' investment processes are not being affected so as to adversely impact the Fund or place the Fund in a disadvantageous position relative to the managers' other accounts. As such, managers may be requested to direct a percentage of their brokerage activity on behalf of SERS. The Board will select the brokerage firms that are designated to receive such directed commissions and will communicate this information to the managers.

The Board also seeks to have managers direct a portion of trades through minority owned firms and reserves the right to establish proposed trading targets. However, the responsibility for the selection and use of minority brokerage firms is delegated to the investment managers.

Finally, all things being equal, the Board seeks to have investment managers trade through Pennsylvania-based brokers.

Efforts to monitor and control trading costs will be ongoing and may include the periodic use of formal trading cost analyses.

17. Transparency

SERS continues to work on enhancing its transparency efforts, while complying with the legal restrictions of its contracts. SERS requires general partners of new investment opportunities approved by the Board in private markets to provide SERS with the information found within the Institutional Limited Partners Association's (ILPA) Reporting Template through customize reporting or completion of the ILPA Reporting Template. SERS will continue to publish its

quarterly performance reports and its private markets specialty consultants' semi-annual performance report, unredacted to the greatest extent possible. SERS will use commercially reasonable efforts to publish net-of-fee and gross-of-fee returns on a prospective basis when reporting quarterly investment performance to the Board, effective with the 1st Quarter 2020 performance report.

SERS will post summary board materials on SERS' public website, which includes a summary manager presentation, summary staff memo, and summary consultant memo for all new investment opportunities presented to the Board. SERS will publicly disseminate an annual report of all investment fees and expenses reported by its managers beginning with calendar year 2020.

Public Access to Records

Records of investment transactions are maintained by the System at its office located at 30 North Third Street, Harrisburg, PA 17101. Requests for public inspection or copies of documents that are a matter of public record will be honored in a manner consistent with the Pennsylvania Right-to-Know Law (RTKL), 65 P.S. §§ 101 - 3104, and SERS' Right-To-Know Law Policy regarding the dissemination of public information. Inquiries should be directed to SERS' Right-to-Know Law Open-Records Officer.

18. Diversity and Inclusion

The Board defines "diverse investment manager" as an investment management firm owned and/or controlled by a majority of persons who are women and/or minorities.

The Board encourages the use of diverse investment managers in managing the Fund's assets, encompassing all asset classes, within the bounds of financial and fiduciary prudence, and to take affirmative steps to remove any barriers to the full participation in investment opportunities afforded by the Fund.¹ SERS believes that professionals and decision-makers who come from diverse backgrounds contribute different points of view that enhance organizational quality and economic performance.

If a prospective manager meets the requirements of being a diverse investment manager, it will be noted in the presentation materials Investment Office staff provides to the Board.

SERS currently reports on Minority/Woman-Owned Managers and Brokers in the annual Budget Book, which shows the firms that classify themselves as minority and/or woman owned firms, as well as their AUM/Committed Capital/Commissions.

SERS' Master DDQ, which is sent out to prospective managers, has a Diversity and Inclusion section that requests information from the manager on related policies. It also encourages the completion of the ILPA Team Diversity Template. This template has the manager provide a breakdown of both gender and racial/ethnic composition by position for the firm.

¹ Language incorporated from Final Report and Recommendations: Public Pension Management and Asset Investment Review Commission (pg. 49) and Fiduciary Guide to Investing with Diverse Asset Managers and Firms (pg. 47).

19. SERS' Emerging Investment Manager Program

Objective

Consistent with the Board's fiduciary responsibilities, the Board established the SERS' Emerging Investment Manager Program ("SERS EIM Program") to:

- Identify and gain early access to talented investment managers in their early stages to generate above benchmark returns (net of fees); and
- Provide an evaluation platform of potential investment managers who have demonstrated superior risk-adjusted returns for consideration into the Fund.

Scope

The SERS EIM Program shall apply to emerging investment managers who manage long-only public equity assets.

Structure and Standards

The SERS EIM Program will be comprised of manager-of-managers selected in accordance with SERS' Hiring Investment Manager Process. The manager-of-managers will have the discretion and authority to select and invest with emerging investment managers based on the objectives and guidelines established by the Board and SERS' Investment Office. The manager-of-managers' fees shall be disclosed to the Board for evaluation.

Emerging Investment Manager Criteria

Investment managers selected by the manager-of-managers to participate in the SERS EIM Program must meet the following criteria:

- Registered under the Investment Advisors Act of 1940 or has an exemption from registration (and will maintain such registration or exemption);
- Total firm assets under management of less than \$5 billion and/or an investment strategy of less than \$1 billion at the time of the manager-of-managers' initial evaluation;
- A quantifiable track record for the investment product under consideration (or for a product with a similar investment philosophy and process as the product under consideration);
- Portfolio manager(s) with a minimum two-year track record (directly or indirectly attributable to that portfolio manager(s)) in an investment style and process similar to that which is under consideration;
- Historical performance must be GIPS compliant; and
- Disclosure of position and transaction level transparency (at least monthly).

As indicated in Section 4 of this Policy, the Board may, when possible and consistent with its fiduciary duties imposed by law, including its obligation to invest and manage the Fund for the

exclusive benefit of the members of the System, consider whether an investment in any project or business enhances and promotes the general welfare of the Commonwealth and its citizens. Where investment characteristics are equivalent, the Board's policy will favor investments that will have a positive impact on the economy of Pennsylvania.

Therefore, when making their selections, manager-of-managers may favor emerging investment managers who meet the SERS EIM Program objectives and criteria noted above, plus having one or more of the following characteristics:

- Pennsylvania investment management firms headquartered or incorporated within the Commonwealth; and/or
- Investment management firms owned and/or controlled by a majority of persons who are women and/or minorities; and/or
- A veteran-owned investment management firm, with proper DD-214 verification and honorable discharge; or a service-disabled-veteran-owned investment management firm with a letter from the United States Department of Veteran Affairs Administration.

Administration

The Investment Office shall be responsible for the oversight of the SERS EIM Program by recommending program policies and manager-of-managers for the Board's consideration.

Source of Funding

Funding for the SERS EIM Program may come from assets within public equity assets or cash at the Board's sole discretion, depending on the current equity allocation relative to the target allocation.

20. Asset Class Objectives, Structure, and Guidelines

Private Equity

Objective

The objective of Private Equity is to achieve a return in excess of its public equity benchmark (75% Russell 3000 Index / 25% MSCI World ex U.S. Index plus a 300 basis point premium) over 10-year periods (annualized, net of fees).

Structure

Private Equity investments are non-traditional investments made in the form of closed-end limited partnership structures organized to make domestic and international private investments such as buyouts, special situations, and growth equity.

Strategy	Description	% of Total Plan	Allocation Range
Buyouts	A specialized form of private equity characterized chiefly by investments in established privately held firms that are undergoing a fundamental change in operations or strategy.	10.4%	4%-16%
Special Situations	Investments in funds which acquire distressed companies or companies in need of restructuring and funds from the secondary market.	2.4%	0%-5%
Growth Equity	Investments in specialized forms of private equity, characterized chiefly by investments in late stage venture, minority growth equity, and small buyout strategies.	3.2%	0%-6%

Guidelines

a. Permitted Investment Vehicles

SERS may invest in fund-of-funds, separately managed accounts, or other non-closed-end vehicles, if by doing so SERS achieves access to investment opportunities and/or information that might not otherwise be attainable through closed-end funds.

b. Diversification

Achieved by investing in funds with differing vintage years, industry/sector, geographic area, and private equity focuses (e.g. buyouts, distressed, secondaries, late stage venture, minority growth equity, small buyout strategies, etc.).

c. Investment Size

The Fund's investment/commitment in a single Private Equity commingled closed-end fund may not exceed five percent (5%) of the net market value of the Private Equity portfolio at the time of initial investment.

The Fund's investment/commitment in a single Private Equity commingled closed-end fund may not exceed twenty percent (20%) of the commingled closed-end fund's total fund size.

These criteria exclude separately managed accounts where SERS is the sole investor.

d. Minimum Criteria:

Investment Strategy

There must be a sufficient universe of potential investments to accommodate institutional investing. The investment strategy must be set forth in sufficient detail to permit substantive and meaningful review of the opportunity, verification of investment concept, and comprehensive analysis of risk factors. The investment strategy shall also outline the Firm's corporate governance policies and procedures with respect to management of the Firm and its underlying investments. Finally, there must be sound evidence that the investment will provide reasonable probability of achieving the return and risk objectives of SERS.

Investment Process

The Firm shall demonstrate a sound process for sourcing, performing due diligence, selecting, monitoring, and exiting investments. This investment process shall describe the Firm's internal investment and management controls and should provide for regular monitoring and valuing of existing investments, as well as a strategy and procedure for exiting investments. The Fund shall have carefully documented its investment processes, including those related to hiring managers to manage the Fund's investments.

Management

The Manager must have expertise and experience in sourcing, pricing, selection, structuring and negotiating private equity investments. It is preferable that the Firm's key investment personnel have direct experience investing for institutional investors, a history of working together, a successful track record of implementing the strategy proposed for the particular investment and are managing portfolios of capital similar in size to the amount currently being sought. Depending on the strategy, operational experience in target industries is desirable.

Terms and Conditions

Each partnership agreement shall be negotiated such that SERS receives competitive terms and conditions.

e. Due Diligence:

Before any investment is recommended to the Board and an investment is made, Investment Office Staff and its Private Equity consultant will rigorously review the investment opportunity. Best efforts shall be made to complete a due diligence review by Investment Office Staff and Private Equity consultant prior to uploading to BoardDocs of the materials pertaining to the investment opportunity for Investment Committee and Board consideration. If the due diligence results are favorable, the Investment Office staff and Private Equity consultant shall recommend to the Board in writing the investment opportunity. The Investment Committee and Board shall be made fully aware of any due diligence matters that are outstanding, which must be satisfied prior to successful completion of contract negotiations. The due diligence materials shall include without limitation, meetings with the investment principals, reviews of pertinent offering documents and supporting materials, the Manager's completion of a due diligence questionnaire, and reference checks. Such reviews allow SERS to more effectively evaluate the soundness of the investment opportunity, and its adherence to SERS' investment guidelines as to investment strategy, process, management, and terms and conditions.

f. Monitoring and Reporting:

Each manager will provide SERS' Investment Office with quarterly unaudited reports (or semi-annual reports if customarily produced by the manager) and annual audited reports in sufficient detail to allow Investment Office Staff to assess the performance of each Private Equity investment. Each manager is expected to timely report on all material developments including, but not limited to, personnel changes, contractual problems or amendments, distribution issues, and any other items required for appropriate monitoring by Investment Office Staff. Each manager, as part of its investment report to SERS, is expected to provide information concerning its Pennsylvania portfolio activity (if any), including employment statistics.

Semiannually, the Private Equity consultant will submit to the Board a Private Equity performance report which includes Private Credit investments. Performance measurement will utilize an Internal Rate of Return metric ("IRR"). The IRR is based on inflows and outflows of partnership capital, giving consideration to the residual value of investment holdings, and calculated net of management fees, expenses, and the manager's share of carried interest. The IRR calculation is an annualized-since-inception measure, updated quarterly, and along with cash-on-cash return multiples, serves as the primary objective measurement of a manager's performance. The performance of each investment will be compared against Burgiss' relevant Vintage Year Median Returns (or other relevant relative return data made available by SERS' Private Equity consultant).

Investment performance for private market investments must be viewed over a longer time horizon than the assessment period used for publicly traded securities. Although the final performance of a Private Equity investment cannot be known until its

termination, it is recognized that the performance of a more mature investment (7–10 years) provides a more accurate indication thereof.

For Investment Office Staff to more actively monitor a manager's investments for compliance with the terms and conditions of the limited partnership agreement as well as SERS' expectations, SERS often seeks a seat on the fund's advisory board or valuation committee. In such capacity, Investment Office Staff will generally participate in the review and/or approval of: (i) the Manager's valuation policy, (ii) underlying investments remaining in the portfolio, (iii) the Manager's valuation of such underlying investments, and (iv) whether potential conflicts of interest exist. As the size of SERS' commitments decrease, so does the likelihood that it will be offered opportunities to serve on their advisory boards and valuation committees.

Real Estate

Objective

The objective of Real Estate is to generate returns through capital appreciation and current income to achieve a return in excess of its benchmark (NCREIF Fund Index – Open End Diversified Core Equity (“NFI-ODCE”)) over 5-year periods (annualized, net of fees). Real Estate investments may also lower overall fund volatility and provide a moderate hedge against inflation.

Structure

Real Estate investments are non-traditional investments made in the form of individually managed accounts and pooled investment vehicles organized to invest in private market equity and debt investments in real estate and real estate related companies and public market investments in real estate investment trusts (REITs) and real estate operating companies.

Strategy	Description	% of Total Plan	Allocation Range
Core/Core Plus	Core and Core Plus investments are long-term investments in high-quality real estate that generate returns primarily from stable income producing properties.	1.75%	0%-3%
Value-Add and Opportunistic	Value-Add and Opportunistic investments have higher risk/return expectations than Core/Core Plus investments. Value-Add and Opportunistic strategies utilize greater leverage and active real estate strategies including leasing, repositioning, renovation and/or rehabilitation in addition to development, thereby taking higher risks but demanding higher returns. Returns are primarily generated from capital appreciation from opportunistic investments.	4.9%	3%-7%
Real Estate Securities	Investments in publicly-traded securities of companies whose primary business is to own real estate. Real Estate Securities provide SERS with direct exposure to U.S. and non-U.S. real estate markets and offer high dividend yield and liquidity.	.35%	0%-1%

Guidelines

a. Permitted Investment Vehicles

SERS' investments in Real Estate will be through vehicles that maximize the Fund's control, including the ability to exit an investment are preferred, but the Fund acknowledges that it may use vehicles with limited control in order to achieve certain goals, such as diversification, access to specialized investments, or manager expertise.

The Fund may purchase assets on a wholly owned basis through Individually Managed Account structures. The Individually Managed Account structure is the preferred investment vehicle due to its low-cost structure and control features provided to SERS, except when pooled investment vehicles offer an identifiable advantage for accessing a particular investment opportunity.

Investment opportunities may be accessed through the ownership of units or shares of a Pooled Investment Vehicle. Any legally organized vehicle is allowed, including, but not limited to, joint ventures, limited partnerships, public and private real estate investment trusts, insurance company separate accounts, and limited liability corporations. Preference will be given to those Pooled Investment Vehicles that offer greater investment and reporting transparency.

b. Individually Managed Accounts

The Individually Managed Account manager may consider joint venture or co-investment ownership within Individually Managed Account structures.

Individually Managed Accounts are actively managed programs with managers buying and selling investments as market conditions and opportunities dictate. All investments are made within the scope of approved investment guidelines in each manager's respective investment management agreement, as well as this IPS. The size of each individually managed account will be determined with reference to the overall allocation to real estate and the level of purchase and sale activity in any given manager's portfolio.

It is the intent that over the long-term each individually managed account be self-funded; i.e., that new acquisitions be funded out of portfolio cash flows and sales proceeds. However, it is recognized that the timing of cash flows in these portfolios is difficult to forecast given the uncertainties and lead time involved with the purchase and sale of commercial real estate investments. In addition, it is understood that commercial real estate investments are stand-alone business entities that may require periodic investment of new cash, some of which may be unanticipated and time sensitive, in order to enhance the value of any given investment and honor legal, health and safety, or other obligations, to which the owner (a SERS controlled entity) is bound. At no time will the total amount funded to any individually managed account exceed the

commitment amount plus total capital returned as monitored and reported by the Real Estate consultant to the Board.

The Investment Office and Real Estate consultant will monitor cash flow projections provided by the managers to ensure that the total real estate portfolio remains near the target allocation provided within this Policy. At no time, however, will an Individually Managed Account manager be required to liquidate investments at inopportune times for the purposes of rebalancing.

c. Diversification

Strategy

SERS anticipates that approximately 25% of its real estate program will be targeted to Core investments, 70% targeted to Non-Core investments (value-add and opportunistic) and 5% to REITs.

Manager

No single investment manager shall manage more than 30% of the total real estate allocation determined by the Board. However, there may be instances when the “denominator effect,” special situations such as portfolio take-overs and value appreciation of investments, can suddenly cause an “out of balance” situation with regard to any given manager. When this type of situation occurs the Investment Office and Real Estate consultant will work with the affected manager to bring the portfolio back into balance within a reasonable timeframe.

Property Type and Property Location

Diversification by property type and location will be monitored and prudently managed, but the Fund recognizes that its diversification relative to benchmark may vary due to current opportunities available in the market and expectations for optimal risk-adjusted returns going forward. Diversification by geography includes international investments.

Vintage Year Diversification

SERS’ Investment Office shall prudently monitor and manage the vintage year exposure of the total real estate portfolio, but the Fund recognizes that vintage year exposures will vary due to current opportunities and the expectations for optimal risk-adjusted returns available in the market.

International Investing

Targeted international investments totaling up to 20% of the total real estate portfolio shall be permitted as approved by the Board. Incidental non-domestic real estate exposure may exist from Pooled Investment Vehicle investments.

d. Investment Size

At no time shall the net investment amount in a single property within an Individually Managed Account exceed five percent (5%) of the net market value of the total Fund's real estate portfolio at the time of initial investment.

The Fund's investment in a single closed-end Pooled Investment Vehicle may not exceed five percent (5%) of the net market value of the real estate portfolio at the time of initial investment.

The Fund's investment/commitment in a single closed-end Pooled Investment Vehicle may not exceed twenty percent (20%) of the closed-end fund's total fund size.

The Fund's investment in a single open-end pooled fund may not exceed 15% of the net market value of the real estate portfolio at the time of initial investment.

e. Leverage

The Fund shall seek to constrain overall leverage within the real estate program to a loan-to-value ratio ("LTV") of 50% at the time the debt is placed. The LTV ratio in the separate account portfolios shall not exceed 60% at the time that debt is placed. It is understood that market value fluctuations may cause the LTV of all or a component of the program to exceed the limits expressed herein; in such an event, SERS shall not be required to sell investments or pay down debt in order to meet LTV limits expressed herein. The preference is to provide the managers the discretion to use leverage within contractual guidelines, when accretive to returns, without significantly increasing risk; however, debt that is recourse to a separate account will not be permitted unless approved by SERS' Investment Office.

f. Valuation

All investments in an Individually Managed Account will be independently valued not less than once every three years by a qualified Member Appraisal Institute (MAI) designated appraiser approved by SERS' Investment Office. During interim periods, the Investment Manager responsible for the investments will perform the valuations. Investments held in Pooled Investment Vehicles shall be valued using the methodology approved with the selection of the Pooled Investment Vehicle.

g. Selection Criteria for Individually Managed Accounts:

Manager Selection Process

Investment managers (both Individually Managed Account and Pooled Investment Vehicle managers) must have significant and direct experience investing and managing money for institutional investors. The manager must have expertise and experience in

pricing, selection, structuring, and negotiating real estate investments. It is preferable that key investment personnel have a successful track record of implementing the strategy proposed for this investment and managing portfolios of capital similar in size to the amount currently sought. Investment Office Staff and Consultant shall establish specific qualification criteria, desired levels of competency, and respective evaluation factors consistent with the purpose of each search for an Individually Managed Account manager.

Investment Office Staff and Real Estate consultant shall meet with, review, and evaluate preferred candidates based upon the established criteria.

Investment Office Staff and Real Estate consultant shall recommend to the Board in writing the manager to be interviewed and selected by the Board.

Control and Monitoring

Preliminary Investment Summary

Individually Managed Account managers shall have full discretion over the acquisition, management, and sale of individual investments. Prior to closing an investment, the manager shall provide a Preliminary Investment Summary to Investment Office Staff. The preliminary package shall include an analysis of the merits, projected return, and exit strategy for the proposed investment, together with sufficient information for SERS' Investment Office to confirm the proposed investment's consistency with this IPS and the investment manager's guidelines and strategy under its investment management agreement.

Reporting

Individually Managed Account managers shall adhere to the most recent version of the Real Estate Information Standards established jointly by the National Council of Real Estate Investment Fiduciaries, the Pension Real Estate Association, and the National Association of Real Estate Investment Managers, as well as, generally accepted accounting principles (GAAP). Managers will submit on an annual basis a third-party audited financial statement of the account managed by the Individually Managed Account manager.

Responsible Contracting

Managers of the Fund's wholly-owned assets in Individually Managed Accounts shall support and encourage the engagement of responsible contractors to provide building construction and maintenance services for such assets, subject to adherence to the Fund's fiduciary principles of loyalty, care, skill, prudence, and diligence. In all respects, such managers shall recognize and adhere to the principle that only the involved contractor has control over (1) the means and manner by which the contracted services are provided, and (2) the contractor's labor relation policies.

A responsible contractor is a contractor who, among other things: (1) has the appropriate experience, reputation, employee relations, responsiveness, fees, and dependability to perform required work; and (2) provides workers a fair wage and fair benefits for the required work, based on local market conditions. The utilization of such contractors may add value to the Funds' investments by ensuring that essential building and construction services are provided by adequately trained, experienced, and motivated workers.

The Board recognizes the right, as provided by law, of eligible employees to organize into a union or to not organize into a union, as the employees choose, and encourages contractors providing building construction and management services for the Fund's wholly-owned assets in Individually Managed Accounts to recognize and not impermissibly interfere with the lawful exercise of those rights and, upon a proper request, to bargain in good faith with any such lawfully recognized union.

Managers of the Fund's wholly-owned assets in Individually Managed Accounts and contractors providing building construction and maintenance services for such assets shall comply with applicable federal, state, and local laws, regulations and ordinances, including (but not limited to) those related to insurance, tax withholdings, minimum wage, health and safety, labor, and environmental matters.

With respect to those assets that the Fund does not wholly-own, it is desirable that the entity owning such assets comply with the foregoing policy statement.

Budget and Management Plan

Not more than 90 days after the end of the calendar year, Investment Office Staff and Real Estate consultant shall meet with the manager of personnel directly responsible for an Individually Managed Account portfolio and asset management for a review and evaluation of the Manager's Budget and Management Plan, which shall include a summary of the prior year's financial performance, budgeted projections for the ensuing year, and the Manager's current hold/sell recommendation for each property.

h. Selection Criteria for Pooled Investment Vehicles:

Selection Process

Investment Office Staff and Real Estate consultant will conduct screenings of the universe of available investment offerings that may be identified through Real Estate consultant's real estate databases, meetings with fund sponsors and their agents, and established SERS' relationships. The initial screen will focus on the identification of high-quality candidates that clearly meet SERS' real estate investment guidelines and strategy, and which conform to the diversification and other risk management policies set forth in this Policy.

After identifying potential candidates, Investment Office Staff and Real Estate consultant will conduct due diligence to ascertain which will provide optimal investment opportunities for SERS. The candidates will be assessed across a variety of criteria, including but not limited to:

- investment track record;
- quality, stability, depth and experience of investment professionals;
- clearly defined investment strategy that complements or is otherwise accretive to SERS' current or projected real estate portfolio construction;
- alignment of general partner's interests with limited partners' interests;
- adequacy of operational, accounting, legal compliance and reporting systems and personnel;
- terms and conditions of the fund, including but not limited to fees, promoted interests, key person provisions and removal and/or replacement of the general partner by the limited partners;
- client base and references; and
- unique advantages to the investment that benefit SERS, such as negotiation of preferred fees by Investment Office Staff and/or Real Estate consultant.

Best efforts shall be made by Investment Office Staff and the Real Estate consultant to complete due diligence prior to uploading to BoardDocs of the materials pertaining to the investment opportunity for Investment Committee and Board consideration. If due diligence results are favorable, the Investment Office staff and Real Estate consultant shall recommend to the Investment Committee and the Board in writing the investment opportunity to be interviewed and selected by the Board. The Investment Committee and Board shall be made fully aware of any due diligence matters that are outstanding, which must be satisfied prior to successful completion of contract negotiations.

Closing Process

Completion of due diligence requires Fund counsel's review of the Pooled Investment Vehicle's formation and associated legal documents.

i. Discretionary Authority:

The Board provides complete investment discretion within contractual guidelines to its managers regarding the acquisition, management, and disposition of real estate holdings.

j. Performance Measurement Report

Real Estate consultant shall provide performance measurement reports on a semi-annual basis. The report shall also include attributes for both the investment managers and the total portfolio including: income, appreciation, gross and net returns, cash flow, diversification, and comparisons with relevant industry performance indices.

U.S. Equity

Objective

The objective of U.S. Equity is to generate returns through capital appreciation, income from dividend payments and to generate returns comparable to its public equity benchmark (Russell 3000 Index) over 5-year periods (annualized, net of fees).

Structure

U.S. Equity investments are equity investments made in the form of separate accounts and commingled funds. U.S. Equity contributes to a higher expected long-term return to the fund and is also a material contributor to volatility.

Strategy	Description	% of Total Plan	Allocation Range
US Large/Mid Cap	Investments in U.S. large-cap and mid-cap companies as benchmarked to the Russell 1000 Index.	28%	25% to 31%
US Small Cap	Investments in U.S. small-cap companies as benchmarked to the Russell 2000 Index.	3%	0% to 6%

Guidelines

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

International Developed Markets Equity

Objective

The objective of International Developed Markets Equity is to generate returns through capital appreciation and income from dividend payments that meet or exceed the MSCI World ex U.S. Index over 5-year periods (annualized, net of fees).

Structure

International Developed Markets Equity investments are traditional equity investments made in the form of separate accounts and commingled funds. International Developed Markets Equity contributes to a higher expected long-term return to the fund and is also a material contributor to volatility.

Guidelines

- a. Maintain an allocation to International Developed Markets Equity within +/- 5% of its target allocation as stated in this Policy.
- b. Contain tracking error and maintain cost control by investing in passive strategies in more efficient areas of the International Developed Markets Equity.

Emerging Markets Equity

Objective

The objective of Emerging Markets Equity is to generate returns through capital appreciation and income from dividend payments that exceed the MSCI Emerging Markets Index over 5-year periods (annualized, net of fees).

Structure

Emerging Markets Equity investments are traditional equity investments generally made in the form of commingled funds since there are legal challenges for SERS to use separate accounts to open sub-custodial trading accounts in certain emerging market countries. Emerging Markets Equity contributes to a higher expected long-term return to the fund and is also a material contributor to volatility.

Emerging markets are generally regarded as less efficient than developed markets and historically have been more volatile than developed markets. Returns have been influenced by capital flows into and out of these markets; however, longer term, emerging markets can be attractive to those investors seeking to access the financial returns derived from rapidly expanding economies. Due to the high return volatility associated with emerging markets, the SERS Fund takes a diversified approach using a variety of investment strategies. The SERS Fund employs a structure diversified by investment advisor, style, and type.

Guidelines

- a. Maintain an allocation to Emerging Markets Equity within +/- 4% of its target allocation as stated in this Policy.
- b. Contain tracking error, maintain cost control, and the ability to efficiently rebalance to the Emerging Markets Equity asset class by keeping a passive strategy.
- c. The percentage allocation to the actively managed segment, which could make up the majority of the Emerging Markets Equity asset class, will be determined by conviction in and the availability of actively managed investment strategies.

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 to meet the fund's obligations. It is expected that the returns from the Fixed Income allocation will meet or exceed its benchmark (Bloomberg U.S. Aggregate Bond Index) 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 Total Plan	Allocation Range
Core Fixed Income	Investments in intermediate duration investment grade bonds of various types (e.g. agency government bonds, corporate bonds, agency-mortgage backed securities), which provide capital loss protection in difficult market conditions, and offer risk mitigation due to low correlation with equity.	15%	12%-18%
Nominal U.S. Treasuries	Investments in securities matching the risk and return profile U.S. Treasury (30% Treasury bonds as benchmarked by the Bloomberg U.S. Intermediate Treasury Index/70% Bloomberg U.S. Long Treasury Index).	5%	2%-8%
Opportunistic Fixed Income	Investments in sovereign debt, commercial and residential nonagency mortgage-backed securities, asset-backed securities, credit strategies, and high yield debt, which seek to provide excess return when performance conditions are favorable, and offer varying potential return with a corresponding variance in expected risk	2%	0%-4%

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.

Inflation Protection (TIPS)

Objective

The objective of Inflation Protection is to protect against both expected and unexpected higher inflation, provide liquidity to minimize capital impairment risk, reduce volatility of the total fund, and contribute total return to the fund that meet or exceed its benchmark (Bloomberg Barclays U.S. TIPS Index) over 5-year periods (annualized, net of fees).

Structure

Treasury Inflation-Protected Securities (TIPS) are traditional investments made in the form of separate accounts and commingled funds. The primary advantage of TIPS is that their return offers protection against both expected and unexpected higher inflation, as the securities' coupon payments are directly tied to the rate of inflation. TIPS, therefore, maintain the purchasing power of the investor. The coupon payments of TIPS have two components: a real coupon rate that is established at the issuance of the bond, and an accrual equal to the rate of inflation which adds to the principal balance of the security. TIPS are also useful for hedging liabilities which are affected by inflation and for hedging a cash flow stream against the need to liquidate equities and conventional bonds at depressed prices, in order to meet pension obligations during periods of unexpected inflation.

Guidelines

- a. Maintain an allocation to TIPS within +/- 3% of its target allocation as stated in this Policy.
- b. Maintain cost control and the ability to rebalance to Inflation Protection by keeping a passive strategy or a low-cost active strategy alternative approved by the Board.

Cash

Objective

The objective of Cash is to serve as the primary source of liquidity and generate returns that meet or exceed its benchmark (ICE BofAML U.S. 3-Month Treasury Bill Index) over a three-year period.

Structure

Cash investments emphasize the use of higher credit quality debt instruments that are liquid and have short maturities and durations, or have floating rates and have historically been invested in the Pennsylvania Treasury Group Investment Fund, a short-term investment fund.

Guidelines

- a. Maintain a maximum allocation to Cash of 7% as stated in this Policy.

21. SERS' Policy Target Asset Allocations, Benchmarks and Liquidity

SERS' Policy Target Asset Allocation, Asset Class and Total Fund Benchmarks

Asset Class	Asset Class Benchmarks	Policy Target Asset Allocation %	Policy Ranges
Private Equity	75% Russell 3000 Index / 25% MSCI World ex U.S. Index plus 300 basis points	16.0%	+/- 2%
Real Estate	NCREIF Fund Index – Open End Diversified Core Equity (“NFI-ODCE”)	7.0%	N/A
U.S. Equity	Russell 3000 Index	31.0%	+/- 5%
International Developed Markets Equity	MSCI World ex U.S. Index	14.0%	+/- 5%
Emerging Markets Equity	MSCI Emerging Markets Index	5.0%	+/- 4%
Fixed Income	Bloomberg U.S. Aggregate Bond Index	22.0%	+/- 5%
Inflation Protection (TIPS)	Bloomberg U.S. TIPS Index	3.0%	+/- 3%
Cash	ICE BofAML U.S. 3-Month Treasury Bill Index	2.0%	7% max

Total Fund Benchmark

The total fund benchmark is calculated monthly using asset class benchmark returns and policy target asset allocation weights, respectively (as shown in the table above).

Projected Liquidity of Policy Target Asset Allocation

	Capital Preservation Assets			Return Seeking Assets				
	Cash	Inflation Protection (TIPS)	Fixed Income [^]	US Equity	Int. Dev. Mkts Equity	Emerging Mkts Equity	Real Estate	Private Equity
Policy Target Asset Allocation	2%	3%	22%	31%	14%	5%	7%	16%
Expected Return (Geometric)*	2.75%	4.00%	4.25%	7.35%	7.25%	7.45%	5.75%	8.50%
Expected Volatility*	0.90%	5.30%	4.10%	18.05%	20.15%	25.70%	14.20%	27.60%
Liquidity	HIGH	HIGH	HIGH	HIGH	HIGH	MEDIUM	LOW	LOW
Correlation to US Equity*	-0.06	-0.07	0.02	1.00	0.73	0.79	0.44	0.79
Months of Benefit Payments**	1.8	3.2	16.4					
Months of Benefit Payments (includes EE & ER contributions)**	6.3	10.9	56.6					
Cumulative Months of Benefit Payments (includes EE & ER contributions)**	73.8							

*Callan 2023 Capital Market Projections

**As of 12/31/2022. Benefit payment calculations for fixed income represent core fixed income , TIPS, treasury and cash allocations.

[^]Core and Opportunistic fixed Income combined.

Assumptions:

- Total fund assets as of 12/31/2022 at \$33.7 billion
- Monthly benefit payments at \$317 million
- Monthly benefit payments net of contributions at \$92 million



U.S. & International Proxy Voting Policy

Amended May 2, 2023

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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 a person or entity on behalf of a corporate shareholder that would rather vote remotely (by proxy) than attend a shareholder's meeting. When deciding to exercise shareholder rights, including the voting through proxies, the SERS Board, as plan fiduciaries, shall execute their duties prudently and solely in the interests of the participants and beneficiaries of the retirement fund and for the exclusive purpose of providing benefits to participants and beneficiaries of the retirement plan.

The following voting policies apply to all situations 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.

SERS generally votes **against/withholds** 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 (except new nominees, who should be considered case-by-case) if:

- The company has a long-term poison pill (with a term of over one year) that was not approved by the public shareholders.
- 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.
- The company has a poison pill, whether short-term or long-term, with a dead hand or slow hand feature.

SERS will vote **case-by-case** on nominees if the board adopts an initial short-term pill (with a term of one year or less) without shareholder approval, taking into consideration:

- The disclosed rationale for the adoption;
- The trigger;
- The company's market capitalization (including absolute level and sudden changes);
- A commitment to put any renewal to a shareholder vote; and
- Other factors as relevant.

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** directors (except new nominees, who should be considered **case-by-case**) if the board:

- Classified the board;
- Adopted supermajority vote requirements to amend the bylaws or charter;
- Eliminated shareholders' ability to amend bylaws;
- Adopted a fee-shifting provision; or
- Adopted another provision deemed egregious.

SERS will generally vote **withhold** or **against** directors individually, committee members, or the entire board (except new nominees, who should be considered **case-by-case**), if the company employs a common stock structure with unequal voting rights.

Exceptions to this policy will generally be limited to:

- Newly-public companies with a sunset provision of no more than seven years from the date of going public;
- Limited Partnerships and the Operating Partnership (OP) unit structure of REITs;
- Situations where the unequal voting rights are considered *de minimis*; or
- The company provides sufficient protections for minority shareholders, such as allowing minority shareholders a regular binding vote on whether the capital structure should be maintained.

For companies that hold or held their first annual meeting of public shareholders after February 1, 2015, 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 provision which specifies that the problematic structure(s) will be sunset within seven years of the date of going public 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 board diversity, [supervisory] boards should adhere to domestic legal requirements or local best market practice. Any thresholds or requirements related to board diversity in non-US markets will vary and be applied based on market specific best practices.

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 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 **case-by-case** on management proposals regarding director term/tenure limits, considering:

- The rationale provided for adoption of the term/tenure limit;
- The robustness of the company's board evaluation process;
- Whether the limit is of sufficient length to allow for a broad range of director tenures;
- Whether the limit would disadvantage independent directors compared to non-independent directors; and
- Whether the board will impose the limit evenly, and not have the ability to waive it in a discriminatory manner.

SERS will vote **case-by-case** on shareholder proposals asking for the company to adopt director term/tenure limits, considering:

- The scope of the shareholder proposal; and
- Evidence of problematic issues at the company combined with, or exacerbated by, a lack of board refreshment.

SERS will generally vote **against** management and shareholder proposals to limit the tenure of independent directors through mandatory retirement ages. SERS will vote **for** proposals to remove mandatory age limits.

For Continental Europe markets, SERS will vote **against** the election or re-election of any director when his/her term is not disclosed or when it exceeds four years and adequate explanation for non-compliance has not been provided. Under best practice recommendations, companies should shorten the terms for directors when the terms exceed the limits suggested by best practices. The policy will be applied to all companies in these markets, for bundled as well as unbundled items.

8. DIRECTOR AND OFFICER INDEMNIFICATION AND LIABILITY PROTECTION

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

Among the factors considered are the stated rationale for the proposed change, and the extent to which the proposal would:

- Limit or eliminate director and officer liability for monetary damages for violating their duty of care;

- Expand coverage beyond just legal expenses to more serious violations of fiduciary obligations; and
- Expand the scope of indemnification to provide for mandatory rather than permissive indemnification of company officials.

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

- The individual was found to have acted in good faith and in a manner that the individual reasonably believed was in the best interests of the company; and
- Only the individual'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 the reasons are clear and justifiable, 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 **case-by-case** on proposals to reduce quorum requirements for shareholder meetings below a majority of the shares outstanding, taking into consideration:

- The new quorum threshold requested;
- The rationale presented for the reduction;
- The market capitalization of the company (size, inclusion in indices);
- The company's ownership structure;
- Previous voter turnout or attempts to achieve quorum;
- Any provisions or commitments to restore quorum to a majority of shares outstanding, should voter turnout improve sufficiently; and
- Other factors as appropriate.

In general, a quorum threshold kept as close to a majority of shares outstanding as is achievable is preferred.

SERS will generally vote **case-by-case** on directors who unilaterally lower the quorum requirements below a majority of the shares outstanding, taking into consideration the factors listed above.

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.

SERS will vote **case-by-case** on proposals concerning virtual-only meetings, considering:

- Whether the company has committed to ensuring shareholders will have the same rights participating electronically as they would have for an in-person meeting;
- Rationale of the circumstances under which virtual-only meetings would be held;
- In-person or hybrid meetings are not precluded;
- Whether an authorization is restricted in time or allows for the possibility of virtual-only meetings indefinitely; and
- Local laws and regulations concerning the convening of virtual meetings.

* 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 vote **case-by-case** on proposals to increase the number of authorized shares of common stock that are to be used for general corporate purpose:

- If share usage (outstanding plus reserved) is less than 50% of the current authorized shares, vote **for** an increase of up to **50%** of current authorized shares.
- If share usage is 50% to 100% of the current authorized, vote **for** an increase of up to **100%** of current authorized shares.
- If share usage is greater than current authorized shares, vote **for** an increase of up to the current share usage.
- In the case of a stock split, the allowable increase is calculated (per above) based on the post-split adjusted authorization.

SERS will generally vote **against** proposed increases, even if within the above ratios, if the proposal or the company's prior or ongoing use of authorized shares is problematic, including, but not limited to:

- The proposal seeks to increase the number of authorized shares of the class of common stock that has superior voting rights to other share classes;
- On the same ballot is a proposal for a reverse split for which support is warranted despite the fact that it would result in an excessive increase in the share authorization;
- The company has a non-shareholder approved poison pill (including an NOL pill); or
- The company has previous sizeable placements (within the past 3 years) of stock with insiders at prices substantially below market value, or with problematic voting rights, without shareholder approval.

However, SERS will generally vote **for** proposed increases beyond the above ratios or problematic situations when there is disclosure of specific and severe risks to shareholders of not approving the request, such as:

- In, or subsequent to, the company's most recent 10-K filing, the company discloses that there is substantial doubt about its ability to continue as a going concern;
- The company states that there is a risk of imminent bankruptcy or imminent liquidation if shareholders do not approve the increase in authorized capital; or
- A government body has in the past year required the company to increase its capital ratios.

For companies incorporated in states that allow increases in authorized capital without shareholder approval, generally vote **withhold** or **against** all nominees if a unilateral capital authorization increase does not conform to the above policies.

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 transaction(s) (such as acquisitions, SPAC transactions, private placements, or similar transactions) on the same ballot, or disclosed in the proxy statement, that warrant support. For such transactions, the allowable increase will be the greater of:

- twice the amount needed to support the transactions on the ballot, and

- the allowable increase as calculated for general issuances above.

For U.S. domestic issuers incorporated outside the U.S. and listed solely on a U.S. exchange, SERS will generally vote **for** resolutions to authorize the issuance of common shares up to 20 percent of currently issued common share capital, where not tied to a specific transaction or financing proposal.

For pre-revenue or other early-stage companies that are heavily reliant on periodic equity financing, SERS will generally vote **for** resolutions to authorize the issuance of common shares up to 50 percent of currently issued common share capital. The burden of proof will be on the company to establish that it has a need for the higher limit.

Renewal of such mandates should be sought at each year's annual meeting.

SERS will vote **case-by-case** on share issuances for a specific transaction or financing proposal.

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** proposals to increase authorized capital on a **case-by-case** basis if such proposals do not include the authorization to issue shares from the (pre-) approved limit.

In case the proposals to increase authorized capital include the authorization to issue shares according to the (pre-)approved limit without obtaining separate shareholder approval, the general issuance policy applies.

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.

These thresholds are mutually exclusive.

When calculating the defined limits, all authorized and conditional capital authorizations are considered, including existing authorizations that will remain valid beyond the concerned shareholders' meeting.

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. PREFERRED STOCK/BLANK CHECK PREFERRED STOCK

Preferred Stock

SERS will vote **case-by-case** on proposals to increase the number of authorized shares of preferred stock that are to be used for general corporate purposes:

- If share usage (outstanding plus reserved) is less than 50% of the current authorized shares, vote **for** an increase of up to 50% of current authorized shares.
- If share usage is 50% to 100% of the current authorized, vote **for** an increase of up to 100% of current authorized shares.
- If share usage is greater than current authorized shares, vote **for** an increase of up to the current share usage.
- In the case of a stock split, the allowable increase is calculated (per above) based on the post-split adjusted authorization.
- If no preferred shares are currently issued and outstanding, vote **against** the request, unless the company discloses a specific use for the shares.

SERS will generally vote **against** proposed increases, even if within the above ratios, if the proposal or the company's prior or ongoing use of authorized shares is problematic, including, but not limited to:

- If the shares requested are blank check preferred shares that can be used for antitakeover purposes;
- The company seeks to increase a class of non-convertible preferred shares entitled to more than one vote per share on matters that do not solely affect the rights of preferred stockholders ("supervoting shares");
- The company seeks to increase a class of convertible preferred shares entitled to a number of votes greater than the number of common shares into which they're convertible ("supervoting shares") on matters that do not solely affect the rights of preferred stockholders;
- The stated intent of the increase in the general authorization is to allow the company to increase an existing designated class of supervoting preferred shares;
- On the same ballot is a proposal for a reverse split for which support is warranted despite the fact that it would result in an excessive increase in the share authorization;
- The company has a non-shareholder approved poison pill (including an NOL pill); or
- The company has previous sizeable placements (within the past 3 years) of stock with insiders at prices substantially below market value, or with problematic voting rights, without shareholder approval.

However, SERS will generally vote **for** proposed increases beyond the above ratios or problematic situations when there is disclosure of specific and severe risks to shareholders of not approving the request, such as:

- In, or subsequent to, the company's most recent 10-K filing, the company discloses that there is substantial doubt about its ability to continue as a going concern;
- The company states that there is a risk of imminent bankruptcy or imminent liquidation if shareholders do not approve the increase in authorized capital; or
- A government body has in the past year required the company to increase its capital ratios.

For companies incorporated in states that allow increases in authorized capital without shareholder approval, generally vote **withhold** or **against** all nominees if a unilateral capital authorization increase does not conform to the above policies.

Specific Authorization Requests

SERS will generally vote **for** proposals to increase the number of authorized preferred shares where the primary purpose of the increase is to issue shares in connection with transaction(s) (such as acquisitions, SPAC transactions, private placements, or similar transactions) on the same ballot, or disclosed in the proxy statement, that warrant support. For such transactions, the allowable increase will be the greater of:

- twice the amount needed to support the transactions on the ballot, and
- the allowable increase as calculated for general issuances above.

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;
 - This number can be up to 10% for high-growth companies or particularly well-designed plans (e.g., with challenging performance criteria, extended vesting/performance period, etc.);
- 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, and if applicable, should be conditioned on meeting performance targets that are measured over a minimum of three consecutive years;
- 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; or
- 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).

SERS will generally vote **withhold** for the continuing compensation committee members, (or, where no compensation committee has been identified, the board chair or full board), if the company maintains an evergreen plan (including those adopted prior to an initial public offering) and has not sought shareholder approval in the past two years and does not seek shareholder approval of the plan at the meeting.

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&P 500, 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

Problematic pay elements are generally evaluated **case-by-case** considering the context of a company's overall pay program and demonstrated pay-for-performance philosophy. 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.

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;
- Severance payments made when the termination is not clearly disclosed as involuntary (for example, a termination without cause or resignation for good reason);
- 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 CONTRIBUTION

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).

New Business

SERS Defined Contribution Plan and Deferred Compensation Plan Administration

Finance and Member and Participant Services Committee

Third Party Administrator RFP Process | April 25, 2023 | 1.800.633.5461 | www.SERS.pa.gov

Defined Contribution Plan and Deferred Compensation Plan Responsibilities

- **The Finance and Member and Participant Services Committee Charter charges the Committee with oversight of:**

“the State Employees’ Defined Contribution Plan (the “401(a) Plan”) with over 25,000 accounts and approximately \$103 million dollars in assets, and the Commonwealth’s IRC §457 Deferred Compensation Plan (the “457 Plan”) with over 56,000 accounts and approximately \$4.1 billion dollars in assets.”

- **Specifically the Committee shall:**

“Oversee the research and due diligence performed by SERS staff to identify and evaluate qualified third party administrators for the 401(a) Plan and 457 Plan; and report any findings and recommendations to the Board.”

“Review any recommendations from SERS staff regarding the engagement or termination of third party administrators and update the Board.”

Third Party Administrator

- Currently, Empower is SERS' Third Party Administrator (TPA), for both the Defined Contribution Plan and the Deferred Compensation Plan.
- For purposes of administrative and operational efficiencies, as well as providing effective member services, staff recommends seeking one TPA for the Defined Contribution Plan (401(a)) and the Deferred Compensation Plan (457(b)).
- Staff has worked to harmonize the contract dates, which are both set to expire on December 31, 2024.
- Staff has begun the preliminary planning to issue a Request For Proposals (RFP) during the fall of 2023.

RFP Consultant

- Callan, SERS' Investment Consultant, has been engaged to serve as the TPA RFP Consultant.
- Callan will assist the Board, any constituted/designated evaluation committee (Evaluation Committee), and the procurement staff at SERS with the TPA Request for Proposal (TPA RFP).
- Ben Taylor, will be leading the TPA RFP project. Ben is a senior vice president and head of tax-exempt defined contribution (DC) research at Callan. Based in Los Angeles, Ben leads research into public sector and nonprofit DC plans for the firm. He is a member of the Callan Institute Advisory Committee and a shareholder of the firm. In his career, Ben has served as the consultant to the DC plans of 13 states, and many large cities and universities.

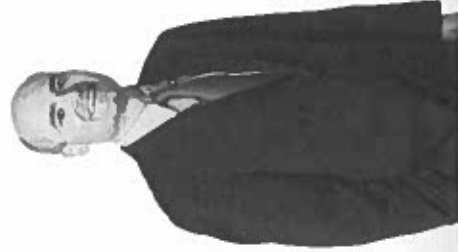
Callan Team Introductions



Ben Taylor

Defined Contribution Group

- 15 Years in the industry, 10 Years with Callan
- Senior Vice President
- Leads research into public sector and nonprofit DC plans for Callan
- Callan Shareholder



Tom Shingler

Fund Sponsor Consulting

- 23 Years in the industry, 12 Years with Callan
- Senior Vice President
- Member of Callan's Management, Manager Search Committees, and Callan Shareholder



Britt Murdoch

Fund Sponsor Consulting

- 14 Years in the industry, 8 Years with Callan
- Vice President
- Member of Callan's Defined Contribution Committee and Callan Shareholder

Finance and Member and Participant Services Committee



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STATE EMPLOYEES' PENSION SYSTEM

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Deferred Contribution and Defined Contribution Consulting

- 9 Recordkeeper searches conducted in past three years
 - 17 Years of average industry experience
 - 43 Investment structure evaluations conducted in past three years
 - 36 Fee studies/reviews conducted in past three years
- Generates thought leadership and strategic direction for DC plans
 - Manages recordkeeper searches, fee benchmarking studies, investment structure reviews, target date suitability studies, and more
 - Delivers formal testimony and commentary to regulators



• **Jamie McAllister** • **Ben Taylor** • **Patrick Wisdom**
• **Jana Steele** • **Greg Ungerman, CFA** • **Scotty Lee**

Finance and Member and Participant Services Committee



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Defined Contribution Committee

The Defined Contribution Committee reviews all DC-related projects, including recordkeeper searches, fee studies, and investment structures. This group also shares client experiences to help bring Callan's best thinking to every relationship.



Mark Andersen
Janet Becker-Wold, CFA
Alex Ford
Anne Heaphy

Elizabeth Hood, CFA
Michael Joecken
Britt Murdoch
Jim O'Connor

Claire Telleen, CFA
Uvan Tseng, CFA
Greg Ungerman, CFA*
Annoesjka West

Committees



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Finance and Member and Participant Services Committee

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RFP Planning Process

■ Planning process to prepare the TPA RFP

- 1) Callan to present to and discuss with the Board record keeping industry service best practices, trends (e.g., services provided, fees and fee structure, cybersecurity, direct participant services, with objective of improving Plan administration, cost, and participant experience) in advance of issuing the TPA RFP.
- 2) Callan to provide Board with recordkeeping fee benchmarking report and analysis for government plans of comparable asset size, complexity, and number of participants.
- 3) Callan to assist the Board, Evaluation Committee, and staff in drafting an RFP for unbundled record keeping services compliant with the laws and procedures of the Commonwealth of Pennsylvania to solicit qualified bids from deferred compensation providers for record keeping, administration, communication, education, member services, onsite and virtual field support, and participant advisory services.
- 4) Callan to assist the Board, Evaluation Committee, and staff in developing minimum service requirements to ensure responses from qualified organizations are consistent with the current services provided to SERS' members and support to internal SERS' staff operations, as well as anticipated growth and future capacity requirements.
- 5) Callan to assist with and advise on the structure of the RFP, in consultation with SERS' staff, the proposed process and any recommended service enhancements.
- 6) Callan, to advise and assist the Board, Evaluation Committee, and SERS' staff on effective methods of advertising the RFP among qualified record keeper firms in addition to the Commonwealth posting requirements.
- 7) Callan to assist the Board, Evaluation Committee, and SERS' staff in determining if a pre-bid conference should be held as part of the RFP process.

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TPA RFP Process

- **Committee Chair to seek volunteers to serve on the Evaluation Committee and provide the Board Chair with names of volunteers.**
- **Board Chair to appoint members and staff to the Evaluation Committee.**
- **RFP Issued Late Fall of 2023 – Quiet Time**
 - 1) Callan to assist the Board, Evaluation Committee, and staff coordinating the question-and-answer process (Q&A) after the RFP is issued and during the pre-bid timeframe.
 - 2) If a pre-bid conference is held Callan to assist the Board, Evaluation Committee, and staff with holding a pre-bid conference for interested bidders (this could be done virtually through TEAMS or in person).

RFP TPA Reviews

▪ Responsive Bid Technical Review

- 1) Staff to receive proposals in compliance with the Commonwealth Procurement laws and requirements as set forth in the RFP. Staff will forward all responsive proposals to the Evaluation Committee and the Consultant.
- 2) Callan to review in depth all responsive TPA RFP bid proposals forwarded by staff and conduct appropriate due diligence of each proposal.
- 3) Callan to specifically identify proposals containing exceptions to contract terms and conditions contained in the RFP, and/or to any exceptions taken to providing the service/technical related requirements of the RFP and provide a summary of all exceptions to the Evaluation Committee, and staff.
- 4) Callan to advise the Evaluation Committee and staff if such exceptions impact the service levels of the respective proposals.
- 5) Callan to provide a written initial summary, analysis, and evaluation of the TPA proposals and provide an evaluation of each proposal's responsiveness and ability to provide the requested third-party administration, recordkeeping, and customer support to the Evaluation Committee in an agreed upon format for discussion by the Evaluation Committee.
- 6) Callan to present the findings in a summary format to the Evaluation Committee comparing the responsive proposals.
- 7) Callan should be prepared to answer questions from and discuss and advise the Evaluation Committee on the respective qualifications of potential respondents and any differentiators.

Final Offers and Product Demonstrations

▪ Post Technical Review/ BAFO (Best and Final Offer) REVIEW

- 1) Callan to assist with evaluation of BAFO cost proposals and potential TPA provider product demonstrations.
 - 2) Callan to assist Evaluation Committee in recognizing and analyzing record keeper conflicts of interest (e.g., proprietary funds, marketing of other services, fee surcharges, rollover practices, etc.).
 - 3) Evaluation Committee to score proposals and submit results to SERS' Staff for compilation.
 - 4) Evaluation Committee to inform Board as to its selection, prior to entering into a contract.
- Other
- 1) Advise the Board, Evaluation Committee, and staff on issues related to record keeper retention.
 - 2) Provide guidance to the Board, Evaluation Committee, and staff on record keeper transition (if applicable).
 - 3) Provide other related services to the Board, Evaluation Committee, and staff as needed.

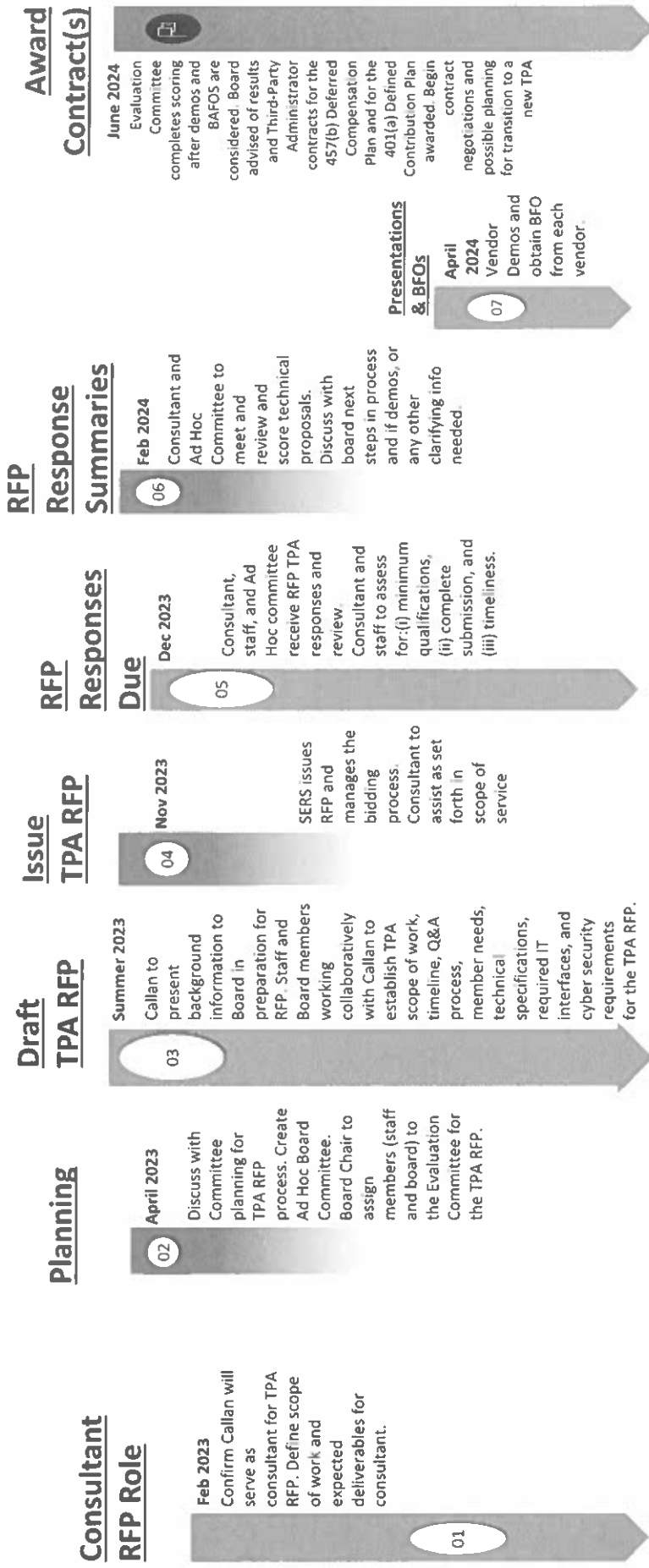
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Third-Party Administrator (TPA) RFP Process Timeline



Empower Contracts Expire in 12/24

Finance and Member and Participant Services Committee

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Questions

Thank you.

Cynthia L. Collins

Director Governance and Strategic Initiatives

Pennsylvania State Employees' Retirement System

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Harrisburg, PA 17101

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cyncollins@pa.gov

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**SERS Strategic Planning Process for
July 1, 2023 through June 30, 2027
Strategic Business Plan**

SERS Strategic Plan Framework

Effective strategic planning and oversight of the Strategic Plan is critical to SERS' success in fulfilling its responsibilities. The strategic plan:

- Ensures that strategic investment, operations and business planning occurs in a rigorous, systematic and coordinated manner across the agency;
- Keeps the planning process roles of the Board and staff clearly delineated and appropriate;
- Develops a road map that provides direction for both long-term and short-term strategies to achieve common goals and strategic initiatives;
- Facilitates the communication of SERS' strategic direction throughout the organization and to SERS' stakeholders; and
- Provides ongoing oversight, accountability, and updates throughout the entire Strategic Plan beginning on July 1, 2023 through June 30, 2027

Board Governance and Personnel Committee



SERS Strategic Business Plan – July 1, 2023 – June 30, 2027 | April 25, 2023 | 1.800.633.5461 | www.SERS.pa.gov

STRENGTHS

- Ethics and integrity
- Staff is resilient and adaptive
- Member focused
- Willing to innovate and improve

WEAKNESSES

- Staffing challenges
- Resource and time constrained
- Dependence on paper challenges
- Lack of digital member services
- Loss of institutional memory

SWOT

OPPORTUNITIES

- Enhance member and participant services with digital access
- Leverage technology
- Develop a collaborative and engaged hybrid workforce
- Implement best practices and innovative technologies and resources throughout the agency

THREATS

- Economic events
- Recruitment and retention
- Federal and State Legislation
- Data management and security

Board Governance and Personnel Committee



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Transform the SERS' Experience by expanding Digital Options while Reducing Dependence on Paper Processes

Board Governance and Personnel Committee

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MISSION & VISION

Board Governance and Personnel Committee



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STATE EMPLOYEES RETIREMENT SYSTEM

Draft SERS Mission and Vision

Mission

Prepare our members and participants to achieve financial security in retirement.

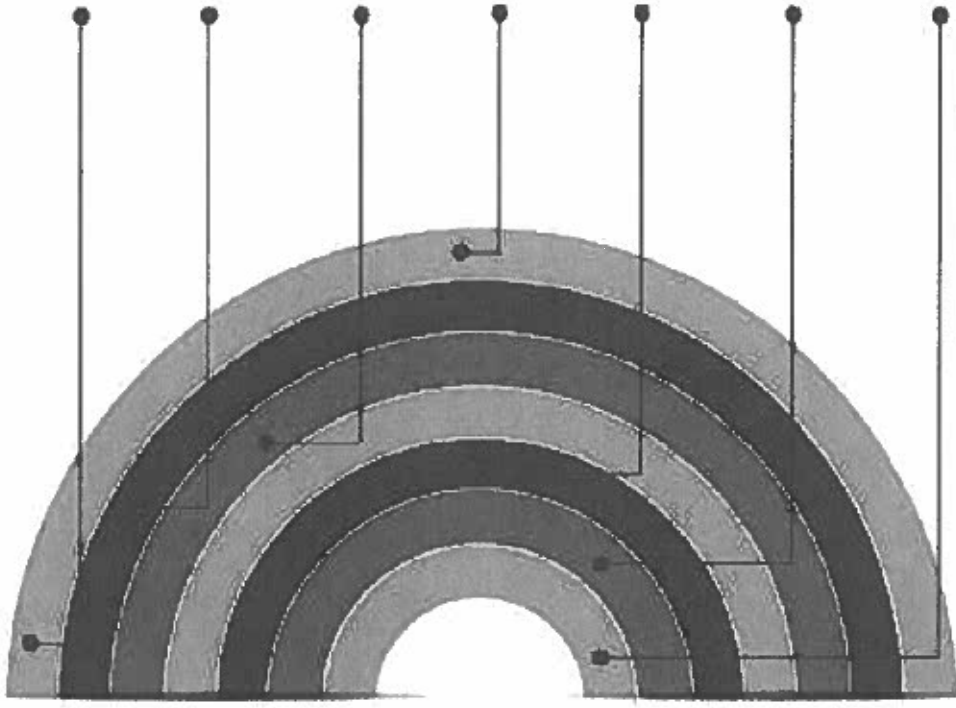
Vision

To be an employer of choice and an innovative leader among public pension organizations by providing best-in-class services and products to our members, participants, and stakeholders.

Board Governance and Personnel Committee

SERS Strategic Business Plan - July 1, 2023 - June 30, 2027 | April 25, 2023 | 1.800.633.5461 | www.SERS.pa.gov





- Champion the mission
- Act ethically and with integrity
- Empower the customer with information and tools
- Embrace innovation and change
- Foster a positive balance with life and work
- Be inclusive and respect differing opinions
- Develop and value the expertise of all team members
- Support a collaborative environment
- Find joy and be great at your job

Draft Core Values

Board Governance and Personnel Committee

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Strategic Priorities

1. Enhance the member and participant experience through automated and self-service opportunities while maintaining personalized service
2. Enhance efficiencies through streamlined processes and aligned content management practices
3. Enhance efficiencies and collaboration through a centralized repository (ies) of searchable, shareable resources
4. Enhance the overall work experience for all employees while fulfilling the SERS mission

Board Governance and Personnel Committee



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Implementing the Strategic Plan

- The working group has developed a plan to implement the Strategic Plan using a framework that focused on specific, measurable, action oriented, realistic and timely goals.
- In setting the Strategic Goals for SERS the working group has:
 - identified specific Strategic Plan objectives,
 - intentionally linked goals to strategic priorities,
 - considered how the goals would be introduced internally and externally,
 - set forth a road map to accomplish the strategic plan, and
 - intends to develop measurable milestones, metrics and reports to achieve the SERS Strategic Plan.

- **By September 30, 2023,** develop key operational metrics from strategic reports that can help with board oversight based on insights into current and historical data.
- **By June 30, 2024,** evaluate the suite of available board tools, to improve board member access to information and effectiveness.

BOARD GOALS

The ability to question, measure, manage and monitor the effectiveness and progress of the strategic plan is a primary board function. Getting strategy right is critical and oversight of the execution of that strategy is even more critical.

The Board's use of metrics to review the quantitative and qualitative reports on progress are essential to assess whether financial and non-financial metrics and milestones are being met by the organization.

Agency Foundational Goals and Measurable Accomplishments

Year One

- December 31, 2023, identify current technology solutions and platforms in use at across all SERS' business areas.
- December 31, 2023, the executive office will create and establish an agency wide project planning and governance process to include prioritization, risk management, and conflict resolution to provide appropriate resources based upon need including and beyond strategic plan initiatives.
- June 30, 2024, complete comprehensive assessment and inventory report detailing SERS technology solutions/architecture and the current platforms' functional potential and other potentially available technical enhancements or capabilities not currently be utilized.

Year Two

- September 30, 2024, complete an analysis of strategic goals contained in this plan against the technical capabilities inventory to develop a plan to leverage/expand current solutions already owned by SERS to quickly solve new problems and incorporate where appropriate in the digital transformation.
- December 31, 2024, identify gaps in the current technology architecture and develop a plan to implement and build out new technology solutions to support strategic goals.
- December 31, 2024, implement a third-party risk management framework and monitoring program.
- March 31, 2025, upgrade Member Portal (MES) security technology to include MFA and KeystoneLogin and conduct an analysis of industry best practices and solutions for supporting two-way secure transactions and delivery of confidential documents online.

Board Governance and Personnel Committee



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Overall Strategic Plan 4 Year Deliverables

- **Year One**
 - Develop Board metrics
 - Develop agency wide project planning and governance process
 - Implement new phone system
 - Begin digital newsletter distribution
 - Initial SOC audit policies & processes drafted
 - Initiate quarterly staff updates
- **Year Two**
 - Convert to digital new member packages
 - Build Member Portal (MES) security enhancements
 - Establish Digital Knowledge Management Plan
 - Complete actuarial audit
 - Implement third-party risk management framework
- **Year Three**
 - Clean network drives
 - Complete SOC audit
 - Identify data management architecture
 - Employee resource group(s) established
- **Year Four**
 - Continue member Portal (MES) enhancements
 - E-signature expansion
 - Digital workflow solutions implemented
 - Digital knowledge transfer complete

The 4 year overall deliverables will be achieved by closely following the individual departmental goals, developed by the strategic plan work groups, that are posted in Board Docs at Agenda Item 6.a.

Board Governance and Personnel Committee



STATE OF PENNSYLVANIA

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Specific Goals - Enhance the Member Experience

- December 31, 2023, map and identify (by business unit) high-volume workflows to transition each year to a digital format to better support members, participants and employees and reduce dependency on paper.
- December 31, 2023, complete the SERS telephone system migration to Microsoft Teams.
- December 31, 2023, convert current member's newsletters to digital for all Commonwealth employees.
- December 31, 2023, identify and prioritize OMPS priorities for secure member digital transactions.
- September 30, 2024, convert new member packages to digital for all new employees with links to SERS and TPA websites.
- June 30, 2025, develop and finalize the plan to identify the resources needed and initiate the necessary procurement to support the digital transition of high-volume workflow processes and expand the digital workflow solutions.
- June 30, 2025, develop and share information for members and employers to support their transition to SERS' new digital resources.
- September 30, 2026, build support into the Member Portal (MES) for secure two-way transactions and delivery of member documents online.
- December 31, 2026, implement the digital workflow solutions Plan.
- June 30, 2027, deliver enhancements of Member Portal (MES) for secure two-way transactions and delivery of member documents.

Board Governance and Personnel Committee



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Specific Goals - Enhance Operational Efficiencies

- December 31, 2023, staff to publish policy and process documents on PolicyTech to aid in the agency SOC audit.
- December 31, 2023, procure consultant and finalize plan to review current and draft additional policies and processes in preparation for the 2025 SOC audit.
- June 30, 2024, procure the consultant and finalize the plan to review current methodology and procedures of SERS actuary, Korn Ferry.
- June 30, 2024, complete gap analysis of SOC-related policies and processes.
- August 31, 2024, procure the consultant and finalize the plan to perform the agency-wide SOC audit.
- December 31, 2024, complete an independent review of SERS actuarial procedures utilized by Korn Ferry.
- March 31, 2025, identify and develop a plan for the use of e-signature to include external parties and notarization.
- December 31, 2025, complete the agency-wide SOC audit.
- September 30, 2026, implement e-signature expansion plan.

Specific Goals - Efficient Centralized Data Resources

- September 30, 2024, establish a digital knowledge management plan/methodology.
- December 31, 2025, review, evaluate, and scrub all business unit shared network drives according to the established plan.
- March 31, 2026, determine the to-be replacement architecture for storing, securing, and sharing network files, develop an implementation and migration plan, and procure any resources necessary to support in the prioritization and implementation of the identified solution.
- June 30, 2027, complete the implementation of the approved online searchable data repository solution with agency-wide access.

Board Governance and Personnel Committee



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Specific Goals - Enhance Workplace Experience

- September 30, 2023, develop and implement an Agency-wide Communication plan to support staff, members, and participants throughout the strategic plan process.
- September 30, 2023, initiate quarterly updates to all staff to inform and engage them concerning the workplace transformation and its impact on the members, participants, and employees.
- June 30, 2025, initiate on-going, training to help managers and employees develop the skills to support their work experience at SERS.
- September 30, 2025, initiate employee resource group(s) to engage employees in enhancing the work experience while fulfilling the SERS mission.

Questions

Thank you.

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Board Governance and Personnel Committee



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Pennsylvania State Employees' Retirement System Strategic Plan July 1, 2023 – June 30, 2027

SERS's DRAFT Vision

To be an employer of choice and an innovative leader among public pension organizations by providing best-in-class services and products to our members, participants, and stakeholders.

SERS's DRAFT Mission

Prepare our members and participants to achieve financial security in retirement.

SERS's DRAFT Values

- Champion the mission
- Act ethically and with integrity
- Empower the customer with information and tools
- Embrace innovation and change
- Foster a positive balance with life and work
- Be inclusive and respect differing opinions
- Develop and value the expertise of all team members
- Support a collaborative environment
- Find joy and be great at your job

SERS's DRAFT Strategic Priorities

- 1 – Enhance the member and participant experience through automated and self-service opportunities while maintaining personalized service
- 2 – Enhance efficiencies through streamlined processes and aligned content management practices
- 3 – Enhance efficiencies and collaboration through a centralized repository(ies) of searchable, shareable resources
- 4 – Enhance the overall work experience for all employees while fulfilling the SERS mission

Pennsylvania State Employees' Retirement System Strategic Plan July 1, 2023 – June 30, 2027

SERS's DRAFT Goals

Board Goals:

1. By 9/30/2023, develop key operational metrics from strategic reports that can help with board oversight based on insights into current and historical data.
2. By 6/30/2024, consider governance dashboards for board member use.

Agency Goals:

Foundational Goals

1. By 12/31/2023, identify current technology solutions and platforms in use across SERS' business areas.
2. By 12/31/2023, establish an agency wide project planning and governance process to include prioritization, risk management, and conflict resolution to provide appropriate resources based upon need including and beyond strategic plan initiatives.
3. By 06/30/2024, analyze technology solutions and platforms functional potential to develop an inventory/portfolio of current and potentially available technical capabilities.
4. By 9/30/2024, complete an analysis of strategic goals contained in this plan against the technical capabilities inventory to develop a plan to leverage/expand current solutions already owned by SERS to quickly solve new problems.
5. By 12/31/2024, identify gaps in the current technology architecture and develop a plan to implement and build out new technology solutions to support strategic goals.

Pennsylvania State Employees' Retirement System Strategic Plan July 1, 2023 – June 30, 2027

6. By 12/31/2024, implement a Third-party risk management framework and monitoring program.
7. By 3/31/2025, upgrade Member Portal (MES) security technology to include MFA and KeystoneLogin and conduct an analysis of industry best practices and solutions for supporting two-way secure transactions and delivery of confidential documents online.

Goals to support Strategic Priority #1: Enhance the member and participant experience through automated and self-service opportunities while maintaining personalized service.

8. By 12/31/2023, identify and prioritize (by business unit), high-volume workflows to transition each year to a digital format to better support members, participants and employees and reduce dependency on paper.
9. By 12/31/2023, complete the SERS telephone system migration to Microsoft Teams.
10. By 12/31/2023, convert current member's newsletters to digital for all current Commonwealth employees.
11. By 12/31/2023, identify and prioritize OMPS priorities for secure member digital transactions.
12. By 9/30/2024, convert new member packages to digital for all new employees with links to SERS and TPA websites.
13. By 6/30/2025, develop and finalize the plan to identify the resources needed and initiate the necessary procurement to support the digital transition of high-volume workflow processes and expand the digital workflow solutions.
14. By 6/30/2025, develop and share information for members and employers to support their transition to SERS' new digital resources.

Pennsylvania State Employees' Retirement System Strategic Plan July 1, 2023 – June 30, 2027

15. By 9/30/2026, build support into the Member Portal (MES) for secure two-way transactions and delivery of member documents online.
16. 12/31/2026, implement the digital workflow solutions Plan.
17. By 6/30/2027 deliver enhancements of Member Portal (MES) for secure two-way transactions and delivery of member documents.

Goals to support Strategic Priority #2: Enhance efficiencies through streamlined processes and aligned content management practices.

18. By 12/31/2023, staff to publish policy and process documents on PolicyTech to aid in the agency SOC audit.
19. By 12/31/2023, procure the consultant and finalize the plan to review current and draft additional policies and processes in preparation for the 2025 SOC audit.
20. By 6/30/2024, procure the consultant and finalize the plan to review current methodology and procedures of SERS actuary, Korn Ferry.
21. By 6/30/2024, complete gap analysis of SOC-related policies and processes.
22. By 8/31/2024, procure the consultant and finalize the plan to perform the agency-wide SOC audit.
23. By 12/31/2024, complete an independent review of SERS actuarial procedures utilized by Korn Ferry.
24. By 3/31/2025, identify and develop a plan for the use of e-signature to include external parties and notarization.
25. By 12/31/2025, complete the agency-wide SOC audit.
26. By 9/30/2026, implement e-signature expansion plan.

Pennsylvania State Employees' Retirement System Strategic Plan July 1, 2023 – June 30, 2027

Goals to support Strategic Priority #3: Enhance efficiencies and collaboration through a centralized repository(ies) of searchable, shareable resources.

27. By 9/30/2024, establish a digital knowledge management plan/methodology.
28. By 12/31/2025, review, evaluate, and scrub all business unit shared network drives according to the established plan.
29. By 3/31/2026, determine the to-be replacement architecture for storing, securing, and sharing network files, develop an implementation and migration plan, and procure any resources necessary to support in the prioritization and implementation of the identified solution.
30. By 6/30/2027, complete the implementation of the approved online searchable data repository solution with agency-wide access.

Goals to support Strategic Priority #4: Enhance the overall work experience for all employees while fulfilling the SERS mission.

31. By 9/30/2023, develop and implement an Agency-wide Communication plan to support staff, members, and participants throughout the strategic plan process.
32. By 9/30/2023, initiate quarterly updates to all staff to inform and engage them concerning the workplace transformation and its impact on the members, participants, and employees.
33. By 6/30/2025, initiate on-going, training to help managers and employees develop the skills to support their work experience at SERS.
34. By 9/30/2025, initiate employee resource group(s) to engage employees in enhancing the work experience while fulfilling the SERS mission.

Pennsylvania State Employees' Retirement System Strategic Plan July 1, 2023 – June 30, 2027

Plan Deliverables by Year:

Year 1 = 1) Develop Board metrics; 2) Develop agency wide project planning and governance process; 3) Complete phone system migration; 4) Begin digital newsletter distribution; 4) Initial SOC Audit policies and processes drafted; 5) Initiate quarterly staff updates on the strategic plan progress

Year 2 = 1) Convert to digital new member packages; 2) Build Member Portal (MES) security enhancements; 3) Establish Digital Knowledge Management Plan; 4) Complete the actuarial audit; 5) Implement third-party risk management framework

Year 3 = 1) Clean network drives; 2) Complete SOC Audit; 3) Identify data management architecture; 4) Employee resource group(s) established

Year 4 = 1) Member Portal (MES) enhancements; 2) E-Signature expansion; 3) Digital workflow solutions implemented; 4) Digital knowledge transfer complete

Color Codes represent the year that the goal is expected to be completed:

Year 1 - July 1, 2023 – June 30, 2024

Year 2 - July 1, 2024 – June 30, 2025

Year 3 - July 1, 2025 – June 30, 2026

Year 4 - July 1, 2026 – June 30, 2027

SERS Board Governance Policy Manual

Policy Name:	Board Chair and Assistant Chair Position Description
Policy Number:	2023-POL-BD-01
Effective Date:	November 10, 2021, as amended May 2, 2023
Reviewed Date:	April 25, 2023
Applies To:	SERS Board Members and Designees
Contact Person:	SERS Director Governance and Strategic Initiatives

The duties of the Chair of the Board (and in the absence and inability of the Chair to participate, the Assistant Chair) include the following:

1. In consultation with the Executive Director and Board Members, establish a yearly board and committee meeting calendar to include dates, times and location for meetings the following calendar year.
2. Organize and conduct meetings in accordance with the Bylaws and other legal requirements.
3. The Chair shall appoint the Board Assistant Chair after consultation with the Board Members and may assign specific tasks or duties to the Assistant Chair. In appointing the Assistant Chair, to the extent practical, consideration shall be given to maintaining Board leadership balance between elected State official and public Members and representation of both political parties.
4. Appoint Members to committees, taking into consideration the Members' input, Member skill sets, and the goal of rotating committee membership (*i.e.*, seeking balance between refreshment of membership and retention of experienced committee members).
5. Appoint Members, and SERS Staff to RFP evaluation committees consistent with the Commonwealth of Pennsylvania Procurement Rules, taking into consideration Member's input and ability to sit on a RFP technical committee, and need for staff input as subject matter experts.
6. As part of the strategic planning process, develop an issue calendar for the Board to guide the development of agendas.
7. Set aside time at each meeting to allow other Board members to raise agenda items for the next Board meeting.
8. In consultation with the Executive Director, committee chairs and committee executive liaisons, establish and confirm an agenda and materials for each board meeting.

SERS Board Governance Policy Manual

9. In coordination with the Executive Director, seek to have the meeting agenda and relevant documents consistently circulated to the Board 14 days in advance of the committee and board meetings.
10. If requested, arrange for Board members to discuss meeting materials with SERS staff and to have any questions addressed. Ensure relevant information is shared with all members of the committee and Board.
11. Provide leadership and ensure committee chairs are aware of their obligations and that the Board complies with its responsibilities.
12. Ensure there is sufficient time during the meeting to fully discuss agenda items.
13. Ensure that discussion on agenda items is on topic, productive and professional.
14. In coordination with the Executive Director, oversee the taking of minutes that are complete, accurate, retained, reviewed, and approved at the next meeting.
15. The performance evaluation of the Executive Director shall be provided by the Board Chair.
16. Chair executive session meetings as required.
17. For procurements under the request for proposals (RFP) process of the Commonwealth Procurement Code, 62 Pa.C.S. Sections 101 et seq., approve the selection of voting members of the evaluation committees, provided that when the Board has determined a need to procure independent outside counsel, the evaluation committees shall be comprised exclusively of Board members.

Document Properties

- a. **Document Owner:** Executive Office
- b. **Document Author:** Director Governance and Strategic Initiatives
- c. **Summary of Changes:**

Date	Version	Author	Summary
November 10, 2021		Deputy Executive Director Admin.	Description of the duties of the Chair and Assistant Chair positions.
May 2, 2023	2023-POL-BD-01	Director Governance and Strategic Initiatives	Biennial review. Added a policy number and updated to reflect current duties and obligations of the Chair and Assistant Chair positions.

SERS Board Governance Policy Manual

Policy Name:	Board Member Position Description
Policy Number:	2023-POL-BD-02
Effective Date:	November 10, 2021, as amended May 2, 2023
Reviewed Date:	April 25, 2023
Applies To:	SERS Board Members and Designees
Contact Person:	SERS Director Governance and Strategic Initiatives

The duties of Board members and designees ("Members") shall include the following:

1. Read meeting materials, be prepared for, and attend substantially all Board and committee meetings.
2. Request assistance from SERS staff to understand meeting materials, as necessary.
3. Work constructively with other Members in a policy role to set SERS' strategic direction and oversee SERS' Strategic Planning process.
4. Participate in discussions and decision-making by the Board, sharing experience, relevant information, judgment, and expertise so the decision reflects the best judgment of the body as a whole.
5. Make informed decisions, seeking expertise from staff and consultants as necessary.
6. Discharge duties solely in the interest of the members and beneficiaries and for their exclusive benefit.
7. Vote as a fiduciary in the interest of SERS as a whole and not as an advocate for the interests of a constituent group or appointing authority.
8. Be informed about SERS' vision, mission, values, and strategic initiatives.
9. Incur only necessary and reasonable expenses in carrying out duties.
10. Respect other Members (and avoid non-compliance with the Sunshine Act) by not conducting meetings with or among a quorum of fellow Members to discuss SERS business outside of properly noticed meetings.

SERS Board Governance Policy Manual

11. Live up to high ethical standards and avoid conflicts of interest and the appearance of impropriety that could damage SERS' reputation.
12. Disclose and recuse themselves if they have a relationship, interest, or incentive that gives rise to a conflict of interest regarding a deliberation or a vote.
13. Refrain from acting outside a Board or committee meeting to inappropriately instruct staff or direct their work, to maintain a professional work environment, foster transparency, and protect Board authority.
14. Refer vendors or others seeking SERS business to appropriate executive staff.
15. Refer questions from employers, members, retirees, beneficiaries, and others to appropriate executive staff.
16. Comply with applicable laws as well as SERS Bylaws, committee charters, and board policies and procedures.
17. Maintain confidentiality of member records and certain investment information.
18. Be mindful of fiduciary responsibility and the duty to take action if breaches by another Member occur.
19. Participate on RFP Evaluation Committees as assigned by the Chair and comply with Commonwealth of Pennsylvania Procurement Rules.
20. Participate in self-assessments and Board training.
21. Keep up to date on developments in the public retirement field.
22. Adopt actuarial assumptions with the goal of properly funding SERS.
23. Adopt rules, regulations, policies, and procedures necessary to administer SERS.
24. Provide input into the annual performance review of the Executive Director and Chief Investment Officer, Chief Counsel, Internal Auditor and Chief Compliance Officer

SERS Board Governance Policy Manual

consistent with the provisions contained in the Standing Committee Charters and applicable Board Resolutions.

Unless otherwise authorized by the Board, individual Board Members do not have the responsibility to and generally should not:

1. Advise SERS members on their personal benefits.
2. Negotiate transactions, contracts, or legal disputes for SERS.
3. Solicit potential investments or vendors for SERS, but refer such investments or vendors to appropriate executive staff.
4. Direct SERS' vendors or external investment managers' course of action or priorities regarding SERS business.
5. Perform formal due diligence on investments on behalf of the Board, where such due diligence has been delegated to staff or consultants.
6. Supervise staff or direct decisions that have been delegated to staff.
7. Handle member and press inquiries on behalf of the Board, but refer such inquiries to a designated SERS spokesperson.

Document Properties

- a. **Document Owner:** Executive Office
- b. **Document Author:** Director Governance and Strategic Initiatives
- c. **Summary of Changes:**

Date	Version	Author	Summary
November 10, 2021		Deputy Executive Director for Administration	Description of the duties of Board members and designees.
May 2, 2023	2023-POL-BD-02	Director Governance and Strategic Initiatives	Biennial review. Added a policy number and updated to reflect current duties and obligations of Board members and designees.

SERS Board Governance Policy Manual

Policy Name:	Board Committee Chair and Assistant Committee Chair Position
	Description
Policy Number:	2023-POL-BD-03
Effective Date:	November 10, 2021, as amended May 2, 2023
Reviewed Date:	April 25, 2023
Applies To:	SERS Board Members and Designees
Contact Person:	SERS Director Governance and Strategic Initiatives

The duties of the Committee Chair (and in the absence of the Committee Chair, the Committee Assistant Chair) include the following:

1. In consultation with the Executive Director, Board Chair, and other committee members, establish a yearly board and committee meeting calendar to include dates, times, and location for meetings the following calendar year.
2. Organize and conduct meetings in accordance with the terms of reference and Bylaws.
3. The Committee Chair shall appoint an Assistant Committee Chair in consultation with and the approval of Committee members.
4. Annually, with input from the Executive Director and the committee executive liaison, establish a committee work plan to guide the development of agendas, factoring in SERS strategic plan priorities and goals, which are within the purview of the committee, after approval of the work plans by the Committee the work plan should be submitted to the Board for approval.
5. In consultation with the Executive Director and committee executive liaison, establish and confirm an agenda and materials for each meeting.
6. In coordination with the Executive Director, seek to have the meeting agenda and relevant documents circulated to the members of the committee 14 days in advance of the committee meeting.
7. If requested, arrange for committee members to discuss meeting materials with SERS staff and have any questions addressed. Ensure relevant information is shared with all members of the committee and Board.
8. Share planned meeting agendas and relevant documents with the full Board at least 14 days prior to the committee meeting.

SERS Board Governance Policy Manual

9. Provide leadership and ensure that the committee performs its responsibilities described in the committee charter.
10. Ensure there is sufficient time during the meeting to fully discuss agenda items.
11. Ensure that discussion on agenda items is on topic, productive and professional.
12. In coordination with the Executive Director, oversee the taking of minutes that are complete, accurate, retained, reviewed, and approved at the next meeting.
13. Keep the Board Chair and Board informed of committee actions. During the next Board meeting following the committee meeting, present a committee report and any recommended actions to be taken by the Board.
14. Chair executive session meetings as required.

Document Properties

- a. **Document Owner:** Executive Office
- b. **Document Author:** Director Governance and Strategic Initiatives
- c. **Summary of Changes:**

Date	Version	Author	Summary
November 10, 2021		Deputy Executive Director for Administration	Description of the duties of the Committee Chair and Assistant Committee Chair positions.
May 2, 2023	2023-POL-BD-03	Director Governance and Strategic Initiatives	Biennial review. Added a policy number and updated to reflect current duties and obligations of the Committee Chair and Assistant Committee Chair positions.

SERS Board Governance Policy Manual

Policy Name:	Strategic Planning Process
Policy Number:	2019 POL-BD-01
Effective Date:	July 31, 2019, as amended May 2, 2023
Reviewed Date:	April 25, 2023
Applies To:	SERS Board Members and Board Member Designees
Contact Person:	Director Governance and Strategic Initiatives

I. Purpose

As fiduciaries, the Board of the Pennsylvania State Employees' Retirement System ("SERS") has obligations to active members and annuitants to systematically plan for SERS' challenges and needs. The Board and SERS staff must engage in a robust and forward-looking strategic planning process. This policy describes the procedure which the Board has established to guide SERS' development and renewal of strategic plans. For purposes of this policy, "Board" and "Board member(s)" include designee(s).

II. Strategic Planning Objectives

The Board believes that effective strategic planning is critical to SERS' success in fulfilling its responsibilities. The objectives of this policy are:

- A. To ensure that strategic investment, operations and business planning occurs in a rigorous, systematic and coordinated manner across the agency;
- B. To keep the planning process roles of the Board and staff clearly delineated and appropriate;
- C. To help develop a road map that provides direction for both long-term and short-term strategies to achieve common goals and strategic initiatives; and
- D. To facilitate the communication of SERS' strategic direction throughout the organization and to SERS' stakeholders.

SERS Board Governance Policy Manual

III. Board, Committee and Staff Roles

- A. The Executive Director and staff are responsible for:
1. Initiating the strategic planning process, developing proposals and working with the Board Governance and Personnel Committee to develop recommendations that are brought to the Board;
 2. The Executive Director and Director Governance and Strategic Initiatives will oversee a unified plan development process and involve all agency functions through the heads of the respective offices;
 3. Outside advisors and consultants may be involved as appropriate. Each of the SERS office function heads shall also have the opportunity to participate in committee and Board strategic planning deliberations; and
 4. Quarterly, the Executive Director and Director Governance and Strategic Initiatives shall develop and provide to the Board Governance and Personnel Committee a review of the goals in furtherance of the strategic initiatives.
- B. The Board Governance and Personnel Committee will be responsible for:
1. Providing SERS staff with input on the proposed strategic plan, including goals and strategic initiatives;
 2. Approving strategic plan recommendations for presentation to the Board, along with any related budget and other approvals needed to support the plan;
 3. Monitoring implementation of the strategic plan on an ongoing basis;
 4. Provide input on the progress toward the goals and make recommendation and approval of changes; and
 5. Reporting to the Board regarding progress toward goals and recommended changes.

SERS Board Governance Policy Manual

IV. Time Frames and the Planning Process

- A. An updated strategic plan should be brought to the Board by the Executive Director, the Director Governance and Strategic Initiatives and the Board Governance and Personnel Committee at least every four years.
- B. The planning cycle may be several years in duration, depending on the nature of the goals and initiatives involved in the strategic plan.
- C. The planning meetings should include members of the Board Governance Committee and any other interested Board Members, senior leadership of SERS and other SERS staff as determined by the Executive Director.
 - 1. The strategic plan should cover an analysis of internal and external strengths, weaknesses, opportunities and threats, goals, deliverables, and resource needs.
 - 2. The process should start with review of SERS' mission, vision statement, core values and strategic priorities.
 - 3. It should also ensure that strategic investment, operations and business planning occurs in a rigorous, systematic and coordinated manner across the agency;
 - 4. The plan should develop a road map that provides direction for both long-term and short-term strategies to achieve common goals and strategic initiatives;
 - 5. Create a plan to facilitate the communication of SERS' strategic direction throughout the organization and to SERS' stakeholders; and
 - 6. Provide ongoing oversight, accountability, and updates throughout the entire Strategic Plan.

SERS Board Governance Policy Manual

V. Plan Components

The functional areas addressed in the plan should include, but are not limited to:

- A. Investments;
- B. Funding;
- C. Human resources and administration;
- D. Operations and information systems;
- E. Governance; and
- F. Stakeholder relations.

VI. Business Case

Proposed new initiatives or projects should be presented with supporting information and planning parameters. For example, these may include:

- A. Reasons for undertaking the project;
- B. Timelines for completion;
- C. Assignment of responsibilities for implementation;
- D. Budget, personnel and back office implications;
- E. Criteria (including metrics) for assessing the success of the initiative;
- F. Risk management implications, including cons and what could go wrong; and
- G. Provisions for committee monitoring and reporting to the Board.

SERS Board Governance Policy Manual

VII. Board. Approval and Monitoring

With support from the Executive Director and the Director Governance and Strategic Initiatives, the Board Governance and Personnel Committee shall bring its strategic plan recommendations to the Board for approval. The committee report should include an executive summary that includes explanations of:

- A. Background on development of the report and the issues it addresses;
- B. Pros and cons, including any options provided;
- C. Risks involved, as well as the downside of inaction; and
- D. The committee's recommendations, with supporting explanations.

Strategic planning is intended to be a continuous process. The strategic plan is a living document and may be modified with approval of the Board as needed. Accordingly, the Executive Director, and Director Governance and Strategic Initiatives should report quarterly to the Board Governance and Personnel Committee the status, and progress of the Strategic Plan.

Document Properties

- a. **Document Owner:** Executive Office
- b. **Document Author:** Cynthia Collins, Director Governance and Strategic Initiatives
- c. **Summary of Changes:**

Date	Version	Author	Summary
July 15, 2019	2019 POL-BD-01	SERS Legal Office	The procedure the Board has established to guide SERS' development and renewal of strategic plans.
May 2, 2023	2019 POL-BD-01 (rev. 5/2/2023)	Cynthia Collins	Biennial review. Updated policy to reflect current strategic planning process.

SERS Board Governance Policy Manual

Policy Name: Board Education Policy
Policy Number: 2017 POL-BD-06
Effective Date: July 26, 2017, as amended April 25, 2018, as amended September 12, 2018, as amended February 24, 2021, as amended May 2, 2023.
Reviewed Date: April 25, 2023
Applies To: SERS Board Members and Board Member Designees
Contact Person: Director Governance and Strategic Initiatives

I. Purpose

Board members, as the trustees of the Pennsylvania State Employees' Retirement Fund (the "Fund"), and their designees are governing fiduciaries of the Fund and are subject to the exercise of that degree of judgment, skill, and care that a prudent investor would observe under similar circumstances. It is the purpose of this policy to provide for the educational training of Board members and their designees, in order for them to fulfill their fiduciary obligations. All Board members and their designees are required to successfully complete a specified number of hours of training as specified in the State Employees' Retirement Code ("Retirement Code") and identified below.

Pursuant to Act 2020-128 and amendments made to the Retirement Code, Board members appointed to the Audit, Risk, and Compliance Committee are also required to complete a specified number of hours of training in risk assessments, internal controls, and auditing standards, as identified below. Designees shall also be required to successfully complete the number of hours of training as required of the Board member for whom they serve as designee. In addition, Board members and designees are also required to receive one hour of ethics training annually.

Board members and designees should also individually and collectively aspire to develop an understanding of peer practices and the issues involved in managing large pools of assets. This policy sets forth the process for Board members and designees to receive such training, education, and professional development. For purposes of this policy, "Chairperson" includes the Chairperson's designee.

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II. Core Competencies

Board members and designees should aspire to develop a collective understanding of the following areas ("Core Competencies"). This policy does not contemplate that every member or designee become fully competent in each of these areas or that all Core Competencies must be represented on the Board. Rather, the Board should engage in a biennial evaluation and planning process focused on (a) identifying member skill sets and interests, (b) aspiring to foster development of individual and combined member Core Competencies that are as complete as practical, and (c) prioritizing development of any Core Competencies which are expected to be most needed over the next two to four years. The following nonexclusive list is merely for demonstration purposes and is not intended to reflect minimum competencies.

- A. Fiduciary Responsibilities and Laws Relevant to the Board
- B. Governance Structure, Practices and Policies
- C. Regulatory and Legal Issues (e.g., public records and open meetings law compliance, budget, state government oversight, tax law and plan qualification features, non-tax legal requirements etc.)
- D. Investment Strategies, Asset Allocation, Risk Assessment, and Retirement Portfolio Management (e.g., Benchmarks, performance measurement, investment risk, reporting standards, economic principles, and related concepts)
- E. Standards of Conduct, Confidentiality, Conflicts of Interest, Ethics Code Provisions,
- F. Personal Investments and Related Disclosure Requirements
- G. Internal Controls, Auditing Standards, and Financial and Accounting Standards and Practice (e.g., financial controls, audits, and compliance functions)
- H. Benefits Design and Administration (e.g., benefit plan features, risks inherent in benefits administration, basic administrative operations, and processes).
- I. Actuarial Cost Analysis, Funding and Asset-Liability concepts
- J. Communications and Stakeholder relations

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- K. Best Practices for Governing Board and the Conduct of Meetings
- L. Selection, Contracting, Monitoring and Evaluation of Advisors, Managers, Consultants and Other Service Providers
- M. Materiality of Sustainability, Environmental, Societal and Corporate Governance Factors
- N. Enterprise Risk Management and Oversight
- O. Strategic Planning Processes
- P. Pension Plan and Investment Industry Issues and Trends
- Q. Other Topics Related to Particular Issues that Arise

III. Skills Inventory and Education Plan

- A. The Board has been charged by the General Assembly with the interpretation and application of the Retirement Code. The Board is authorized to interpret the Retirement Code liberally to effectuate the intention of the General Assembly. Accordingly, the Board construes the General Assembly's mandated educational requirements to cover broad instead of narrow fields of expertise and that topics and subject matter reasonably related to or included in the named categories satisfy the education requirements established in the Retirement Code. (e.g., because the Board acts in a fiduciary capacity and there is a fiduciary overlay in many of the Board's functions, training in fiduciary duties, responsibilities, or standards, in the context of institutional investing, satisfies the statutory education requirements although not explicitly contained in the Retirement Code).
- B. Pursuant to the Retirement Code, each Board member and designee is required to obtain mandatory training, as follows:
 - 1. Pursuant to Act 2020-128, effective January 1, 2022, and annually thereafter, ten (10) hours of mandatory training in investment strategies, actuarial cost analysis, asset allocation, risk assessment, fiduciary responsibilities, and retirement portfolio management on an annual basis ("Post-2021 Mandatory Core Competency Training").
 - 2. One hour of ethics training annually ("Ethics Training") (hereafter, the Pre-2022 Mandatory Core Competency Training, Post-2021 Mandatory Core Competency Training, and Ethics Training are cumulatively referred to as the "Mandatory Board Training").

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- B. Pursuant to the Retirement Code, each Audit, Risk and Compliance Committee Board member and designee is required to obtain mandatory training, as follows:
1. Pursuant to Act 2020-128, effective February 24, 2021, in order to be newly appointed to the Audit, Risk and Compliance Committee as a voting member, a Board member must complete at least sixteen (16) hours of training in risk assessments, internal controls, and auditing standards within ninety (90) days of an initial appointment to the committee. Notwithstanding a Board member having satisfied the sixteen (16) training requirement, any new designees of that Board member must satisfy this training requirement within ninety (90) days of the designee's appointment to serve as a designee. The sixteen (16) hours of training are inclusive of the hours indicated for Mandatory Board Training. The Committee on Sponsoring Organizations enterprise risk management guidelines may be considered as a guide to the training.
 2. To continue serving as a voting member of the Audit, Risk and Compliance Committee following initial appointment, a Board member and designee must complete at least eight (8) hours of continuing education in risk assessments, internal controls, and auditing standards each calendar year thereafter. (The training required for members of the Audit, Risk, and Compliance Committee is hereinafter referred to as the "Mandatory Committee Training").
- C. The Board should undertake, in conjunction with receipt of any Board self-assessment results and in consideration of the Mandatory Training requirement, a biennial planning process to identify and prioritize those Core Competencies on which training is desired and required and those which are expected to be particularly important over the following two to four years. The Chairperson may request individual member preferences for participation in future training. A proposed education plan that contains Board and individual member educational goals and Mandatory Training requirements shall be developed for Board approval. The plan shall include an education budget to cover costs associated with authorized attendance at outside conferences, classes, or training sessions.
- D. In addition to the required Mandatory Training requirements listed above, each Board member and designee and designee should attempt to receive an additional five hours of mandatory training on an annual basis for the period between January 1 and December 31 following. Board members and designees shall have the opportunity to carryover a maximum of five credit hours in the following calendar year. Training hours earned for any Mandatory Training shall be determined annually on December 31.
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- E. For any new members or designees, the Mandatory Board Training requirements shall commence on January 1 of the calendar year following their being seated on the Board or, in the case of designees, upon their designation as designee. Relevant training received through attendance at presentations approved by the Pennsylvania Public School Employees' Retirement System, may be counted toward the Mandatory Training requirements. Relevant training received for or through other entities may be counted toward the annual requirement including carryover credits if applicable, upon approval of the Chairperson.

IV. New Member and Designee Orientation

- A. A formal orientation program, covering the Core Competencies outlined above as well as any other pertinent topics, shall be developed by the Executive Director for the benefit of new members and designees. The orientation may consist of a single session or multiple sessions. It should be scheduled and completed as soon as reasonably practical. The orientation may be conducted by SERS staff or outside experts, or both, and may include attendance at conference sessions, classes, or seminars. Members and designees participating in an orientation shall receive credit for participation in Non-Mandatory Training.
- C. Prior to attending their first meeting of the Board as a trustee or as a designee, and to the extent practicable, new members and designees shall be invited by the Chair or Executive Director to attend a meeting of the Board or a standing committee as an observer.
- D. New members and designees shall, as soon as possible, and under the direction of the Executive Director, be:
1. Briefed on the history, background, and structure of the Pennsylvania State Employees' Retirement System ("SERS").
 2. Briefed on current issues before the Board;
 3. Introduced to senior management;
 4. Briefed on their fiduciary duties, conflict of interest guidelines, financial disclosure requirements, public records and open meetings laws, and other pertinent laws, policies, and regulations; and
 5. Provided with all relevant information and documentation deemed appropriate by the Chair or the Executive Director.

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- E. The Executive Director shall periodically review and, if necessary, update all orientation material and supply each member with those updates, but in any event shall at a minimum shall review and update all orientation material biennially.
- F. Participation in orientation sessions shall be open to all Board members and designees.

V. Mentorship

A new member may request assignment of a mentor to assist in becoming familiar with Board responsibilities. If requested, the Chairperson shall assign an experienced Board member to provide mentorship for up to a year.

VI. Regular Ongoing Educational Opportunities and Budget

- A. Training on many Core Competencies may be effectively taught by staff or experts from the Office of State Treasurer, Office of Attorney General, Office of General Counsel, Pennsylvania State Ethics Commission, or other local sources. To assist Board members and designees in identifying quality educational opportunities that provide relevant training, the Executive Director, with assistance from the Board Education and Training Manager, shall compile and maintain a list of pre-approved educational events, based on the feedback of SERS members and SERS staff who have attended such events. The list shall be distributed to the Board at each regular meeting. Board members and designees may also suggest educational events for the Executive Director to consider in developing the list. Such training and educational events for Core Competencies may satisfy other professional development requirements (e.g., continuing legal education credits for attorneys).
- B. SERS may, with approval of the Board, record education sessions presented outside of public meetings to the Board to preserve them for future viewing by Board members. All education sessions open to the public presented as part of regularly scheduled Committee or Board meetings may be accessed through the public Committee and Board meeting recordings.
- C. Members and designees may submit requests to the Executive Director for educational credit approval for attendance at outside educational events not listed on the list of pre-approved educational events.
- D. Attendance at outside educational events shall be done in compliance with all applicable travel, business expense, budget, ethics code and standards of

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conduct limitations. Members and designees attend events as fiduciary representatives of the Board and should avoid even the appearance of impropriety.

- E. The Board with input from the Executive Director shall establish a budget to allow attendance at approved outside educational opportunities on a fair and impartial basis, pursuant to its education plan.
- F. On a periodic basis throughout the year, members and designees shall be provided with updates as to credit received for Mandatory Training and Non-Mandatory Training.
- G. The Executive Director shall provide regular opportunities for Board members and designees to receive industry periodicals, books and other materials that are relevant to development and maintenance of Core Competencies.
- H. The Executive Director shall ensure that refresher training sessions are offered on a regular basis, in Board meetings or otherwise, with attention to specific Core Competencies and ethics training in the education plan. Board members may request scheduling of training on specific relevant topics. The Chair may also arrange for special educational presentations in coordination with the Executive Director.
- I. Instructional materials for outside educational events received by the Executive Director from members or designees shall be made readily available for review by all members and designees.

VII. Approval to Attend Outside Training with All or Part of Costs Paid for by the Board

Approval to attend an educational event with all or part of the costs paid being paid for by the Board must be obtained from the Chair and from the Board member for his/her designees, in advance of attending the event. Approval requests should include a reference to how the training fits the current Board education plan and specify whether the event is on the list of recommended educational events developed by the Executive Director.

VIII. Receiving Credit for Training Hours

The Executive Director shall establish the process by which members and designees shall follow in order to receive credit for attending Mandatory and Non-Mandatory Training.

SERS Board Governance Policy Manual

Document Properties

- a. **Document Owner:** Executive Office
- b. **Document Author:** Don Bell
- c. **Document Appendices:** SERS Educational Training Plan for Board Members and Designees (February 2022).
- d. **Summary of Changes:**

Date	Version	Author	Summary
July 26, 2017	2017 POL-BD-06	SERS Legal Office	The policy the Board established setting forth the process for Board members to receive training, education, and professional development.
April 25, 2018		SERS Legal Office	Revised policy to allow for carryover of Mandatory Training credit hours and for utilization of Pennsylvania Public School Employees' Retirement System board training to satisfy Mandatory Training requirements.
August 2, 2018		SERS Legal Office	Revised policy to include: (1) One hour ethics training requirement, (2) Mandatory training requirements for designees, (3) Providing updates to members and designees on credits received, and (4) Credit being given for participation in member/designee orientation.
January 7, 2021		SERS Office of Administration	Revised policy to include: (1) New Mandatory Board Training hour requirements (2) New Mandatory Board Training topics, and (3) New Mandatory Committee Training requirements.
May 2, 2023	2017 POL-BD-06 (Rev. 05/02/2023)	Don Bell	Biennial Review. Updated policy to reflect inclusion of fiduciary duty in the mandatory requirements, current practices and legislative requirements.

SERS Board Governance Policy Manual

Policy Name: SERS Board Communication Policy
Policy Number: 2018 POL-BD-09
Effective Date: September 12, 2018; as amended May 2, 2023.
Reviewed Date: April 25, 2023
Applies To: SERS Board Members and Board Member Designees
Contact Person: Thomas Derr, Director of Communications and Policy

I. Purpose

To facilitate effective communication between and among the State Employees' Retirement System board ("Board") members, agency staff, system members, and other stakeholders and external parties.

II. Communication among Board Members and Board Member Designees

- A. The Board shall carry out its activities in the spirit of open governance and in accordance with relevant law. The Board may conduct certain business in executive (closed) session in accordance with relevant law.
- B. Board members and Board member designees shall communicate in an open, constructive, straightforward, and timely manner during meetings of the Board and committees.

III. Board Communication with System Members

- A. Board members and Board member designees shall be aware of the risk of communicating inaccurate information to members and the potential exposure to liability and possible harm to a participant that may result from such miscommunications. Board members and Board member designees shall mitigate this risk by refraining from providing specific advice, counsel or education with respect to the rights or benefits a member may be entitled to under the State Employees' Retirement Code ("SERC").
- B. In the event a member requests that a Board member or Board member designee provide explicit advice with respect to system policy on benefits, the Board member or Board member designee should refer the member to the Executive Director or his or her designee, or have the Executive Director or his or her designee contact the member. The Board member or the Board Member designee shall be informed of the outcome.

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IV. Board Communication with System Management

- A. Board members and Board member designees shall direct questions regarding specific aspects of the system's administrative operations to the Executive Director or appropriate senior staff member.
- B. Board members and Board member designees may direct questions to agency staff for information; however, Board members and Board member designees shall clearly indicate that the request is being made in their capacity as Board members.
- C. Requests for information that require a significant expenditure of staff time or the use of external resources should be:
 - 1. Formally requested and approved at a Board or committee meeting;
 - 2. Directed to the Executive Director; and
 - 3. Consistent with the policy role of the Board.
- D. In the spirit of open communication, individual Board members and Board member designees shall share any information pertinent to the agency with the Executive Director in a timely manner. The Executive Director shall similarly share with the Board any information pertinent to the Board in a timely manner.
- E. The Executive Director shall ensure that information that has been requested by the Board or by a Board member is made available to all Board members and Board member designees as appropriate.

V. Board Member and Board member designees Communication with External Parties

- A. The Executive Director, the Chair or their designee shall serve as the spokesperson for the system, unless the Board designates the Chair or another member of the Board to serve as spokesperson on a specific issue. The following guidelines shall apply with respect to the spokesperson:
 - 1. If time permits, and to the extent permitted by relevant State law, the spokesperson shall address sensitive, high-profile issues with as many members of the Board as possible, prior to engaging in external communications. At a minimum, the Chair and Executive Director shall be contacted.
 - 2. To the extent possible, in situations where Board policy concerning an issue has not been established, the Board or an appropriate committee shall meet to discuss the issue prior to the spokesperson's engaging in external communications.

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- B. When asked to be interviewed or otherwise approached by the media for substantive information concerning the affairs of the system, the Board member should generally refer the matter to the Executive Director or spokesperson, and shall make no commitments on behalf of the Board or the system.
- C. In their external communications, the Board member and the Board member designee shall:
 - 1. Speak on behalf of the Board only when explicitly authorized to do so by the Chair;
 - 2. Respectfully indicate
 - a) when they are representing a personal position, opinion, or analysis, whether the same or different from a Board-approved position,
 - b) when their position, opinion, or analysis does not represent the official position of the Board, and
 - c) when their position is in opposition to the position of the Board;
 - 3. Indicate if they are speaking in a capacity other than that of a member of the Board; and
 - 4. Make known to the Executive Director in a timely fashion if a personal position, opinion, or analysis was publicly communicated, such that it could receive media coverage. The Board member shall advise as to whom the communication was made and what was discussed.
- D. Board members and board member designees may indicate publicly that they disagree with a policy or decision of the Board, but shall abide by the policy or decision to the extent this is consistent with their fiduciary duties.
- E. Communications by Board members and Board member designees, when acting in their capacity as a Board member, should be consistent with their fiduciary duty to represent the interests of all system participants.
- F. Written press releases concerning the business of the system shall be the responsibility of the Executive Director and shall clearly and accurately reflect the provisions of the SERC and the policies of the Board. The Executive Director shall submit to the Chair for approval all press releases of a sensitive or high profile nature, or pertaining to Board policy.

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- G. To ensure the accuracy of any Board-prepared materials for publication or general distribution, which are related to the affairs of the system, and to ensure that the system is not inadvertently placed at risk, Board members and Board member designees agree to provide such material in a timely manner to the Executive Director, or his or her designee, for review prior to distribution or publication.

Document Properties

- a. **Document Owner:** Executive Office
- b. **Document Author:** Thomas Derr
Director of Communications and Policy
- c. **Document Appendices:** *SERS Communications Plan; SERS Crisis Communications Plan*
- d. **Summary of Changes:**

Date	Version	Author	Summary
January 9, 2018	2018 POL-BD-09	Jay Pagni	The policy established by the Board to facilitate effective communication between and among the Board members, agency staff, system members, and other stakeholders and external parties.
May 2, 2023	2018 POL-BD-09 (Rev. 05/02/2023)	Thomas Derr	Biannual review. Updated to reflect Board member designees.

SERS Board Governance Policy Manual

Policy Name: SERS Board Self-Assessment Policy
Policy Number: 2018 POL-BD-13
Effective Date: December 5, 2018; as amended May 2, 2023.
Reviewed Date: April 25, 2023
Applies To: SERS Board Members and Board Member Designees
Contact Person: Director of Governance and Strategic Initiatives

I. Purpose

The purpose of this policy is to provide a process by which the Board can regularly review and assess its performance and to identify subject areas that may be appropriate for educational/training sessions, pursuant to the Board Education Policy. This policy is based on a determination that self-assessment is necessary to maintain a high functioning Board and to foster a culture of continuous improvement. For purposes of this policy, "Board" and "Board member(s)" include designee(s).

II. Procedures

The Board as a whole is responsible for evaluating its own performance. All Board members are responsible for assessing their knowledge in relevant subject areas and are expected to participate in the Board self-assessment process. The Board Governance and Personnel Committee will oversee coordinating the implementation of this policy.

- A. The Board self-assessment shall be initiated by the Director of Governance and Strategic Initiatives and the Board Governance and Personnel Committee to evaluate performance through the end of the biennial or annual evaluation period, as established by the Board Governance and Personnel Committee (the "Evaluation Period"). Subject to the Commonwealth Attorney's Act, and budget and procurement requirements, the Board Governance and Personnel Committee may, with Board authorization, engage the services of either in-house or external legal counsel or a third-party consultant, as it determines is appropriate to facilitate the self-assessment and follow-up improvement planning.
- B. When a Board self-assessment is undertaken, the Director of Governance and Strategic Initiative shall collaborate with the Board Governance and Personnel Committee to establish and facilitate the board self-assessment process. and to review the evaluation questionnaires being used and make modifications, as appropriate. The evaluation questionnaires shall provide Board members with a

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framework for evaluating the performance of the Board and Committees and identifying subject areas that may be appropriate for improvement or educational/training sessions.

- a. The questions contained in the evaluation questionnaires may be in any format deemed appropriate, but the evaluation questionnaires must allow Board members to provide written comments or suggestions.
 - b. The evaluation questionnaires shall be designated as "confidential," and responses to the evaluation questionnaires shall remain anonymous and confidential.
- C. Copies of the evaluation questionnaires shall generally be distributed to each Board member in the first month of the first calendar quarter following the end of the Evaluation Period.
 - D. All Board members shall be asked to complete the evaluation questionnaire and return it to the chairman of the Board Governance and Personnel Committee or designated third party within two weeks of receipt.
 - E. The Board Governance and Personnel Committee may include evaluations from senior staff and peer-to-peer member (*i.e.*, Board member-to-Board member) evaluations in the process.
 - F. The chairman of the Board Governance and Personnel Committee or designated third party shall prepare a summary report without attribution of responses and discuss it with the Board Governance and Personnel Committee members by the close of the first calendar quarter following the end of the Evaluation Period.
 - G. At the next regularly scheduled meeting of the Board, the chairman of the Board Governance and Personnel Committee or designated third party shall report to the Board, in executive session, on the conclusions and recommendations of the Board Governance and Personnel Committee. The Board shall consider results of the process in planning future training, education and skills development. Completed evaluation questionnaires shall be destroyed after completion of Board discussions.
 - H. The evaluation process and subsequent actions on the part of the Board shall be recorded in the minutes of the Board meeting.

III. Review

The Board Governance and Personnel Committee shall review this policy and recommend any changes to the Board at least every two years to ensure that it remains relevant and appropriate.

SERS Board Governance Policy Manual

Document Properties

- a. **Document Owner:** Executive Office
- b. **Document Author:** , Director Governance and Strategic Initiatives
- c. **Summary of Changes:**

Date	Version	Author	Summary
January 9, 2018	2018 POL-BD-13	SERS Legal Office	The process the Board has established by which the Board can regularly review and assess its performance and to identify subject areas that may be appropriate for educational/training sessions.
May 2, 2023	2018 POL – BD-13	Director Governance and Strategic Initiatives	Biennial Review. Updates to recognize changes in process and organizational structure.

*Commonwealth of Pennsylvania
State Employees' Retirement System*



COMMENDATION

***WHEREAS**, Mary A. Soderberg has served the citizens of the Commonwealth of Pennsylvania in a number of roles, including as Secretary of the Budget, beginning July 7, 2008, and previously as Executive Deputy Secretary of the Budget and Chief Financial Officer of the Commonwealth; and*

***WHEREAS**, Mary A. Soderberg became a member of the State Employees' Retirement Board effective June 7, 2016, by appointment of Governor Tom Wolf; and*

***WHEREAS**, Mary A. Soderberg has, throughout her career, served the best interests of the citizens of Pennsylvania, as well as SERS and its members and participants by providing conscientious leadership, astute insights and high levels of professionalism in her role as an annuitant representative; and*

***WHEREAS**, Mary A. Soderberg also served on a variety of Board committees during her tenure, most recently as a member of the Investment Committee, the Audit, Risk and Compliance Committee, and as Chair of the Finance and Member Services Committee, where she was a reliable voice for accountability, transparency and public integrity; now therefore be it*

***RESOLVED**, That the Pennsylvania State Employees' Retirement Board expresses its sincere appreciation to Mary A. Soderberg for her professional excellence and dedication to the System and its members, and wishes her the best of health, happiness and success in all her future endeavors; and be it further*

***RESOLVED**, That the original resolution be transmitted to Mary A. Soderberg and a copy included in the minutes.*

A handwritten signature in black ink, appearing to read 'D. Fillman', written over a horizontal line.

David R. Fillman, Chairman



May 2, 2023
Harrisburg, Pennsylvania

*Commonwealth of Pennsylvania
State Employees' Retirement System*



COMMENDATION

WHEREAS, Glenn E. Becker became a member of the State Employees' Retirement Board effective May 7, 2013, by appointment of Governor Tom Corbett; and

WHEREAS, Glenn E. Becker has, throughout his tenure, served the best interests of the System and its members with insights and perspectives derived from his long career as a knowledgeable and respected investment professional; and

WHEREAS, Glenn E. Becker also served on a variety of Board committees during his tenure, most recently as Assistant Chair of the Audit, Risk and Compliance Committee and as Chair of the Investment Committee, where he provided steady guidance to our investment team on vital concerns such as investment policy and asset allocation; now therefore be it

RESOLVED, That the Pennsylvania State Employees' Retirement Board expresses its sincere appreciation to Glenn E. Becker for his professional excellence and dedication to the System and its members, and wishes him the best of health, happiness and success in all his future endeavors; and be it further

RESOLVED, That the original resolution be transmitted to Glenn E. Becker and a copy included in the minutes.

A handwritten signature in black ink, appearing to read 'D. Fillman', written over a horizontal line.

David R. Fillman, Chairman



May 2, 2023
Harrisburg, Pennsylvania

**Commonwealth of Pennsylvania
State Employees' Retirement System**



COMMENDATION

WHEREAS, David R. Fillman was appointed a member of the State Employees' Retirement Board September 26, 2001 by Governor Tom Ridge, and was subsequently appointed Board Chair on August 13, 2015 by Governor Tom Wolf; and

WHEREAS, David R. Fillman, throughout his more than two decades of service to SERS, has had a profound and positive impact on the System and its members through his unfailing focus on protecting their interests, their needs and their futures; and

WHEREAS, David R. Fillman's diligence and devotion to the activities of the Board during his term of office have exemplified a high level of competency, wisdom and responsiveness in regard to managing the challenges faced by SERS over the years; and

WHEREAS, David R. Fillman has demonstrated extraordinary leadership, loyalty and political acumen during his tenure as a Board member and Chair, now therefore be it

RESOLVED, That the Pennsylvania State Employees' Retirement Board and staff, on behalf of the entire SERS membership, expresses their sincere appreciation to David R. Fillman for his long-term commitment, professional excellence and dedicated service to the Board, the System and its members, and wishes him the best of health, happiness and success in all his future endeavors; and be it further

RESOLVED, That the original resolution be transmitted to David R. Fillman and a copy included in the minutes.

May 2, 2023
Harrisburg, Pennsylvania


Joseph A. Torta,
Secretary/Executive Director

