CORPORATE GOVERNANCE AND STEWARDSHIP UPDATE

October 31, 2021

LACERA

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LACERA MISSION

The Los Angeles County Employees Retirement Association (LACERA) proudly serves over 180,000 members and beneficiaries with an exclusive mission to "produce, protect, and provide the promised benefits."

LACERA encourages sound corporate governance practices at the companies in which it invests and prudent policies governing financial markets in order to promote sustainable, long-term financial value and enhance LACERA's ability to fulfill its mission, consistent with our fiduciary duties.

Moreover, LACERA recognizes that environmental, social, and governance factors ("ESG") may influence the risk-return profile and financial performance of investments. Financially material ESG factors may vary by industry, geographic exposure, business strategy, investment time horizon, and other variables. LACERA endeavors to identify, assess, and manage relevant ESG factors in its market research, portfolio construction, and throughout its investment process in furtherance of its mission and fiduciary duties. Careful consideration of ESG factors throughout LACERA's investment process aims to generate sustainable investment returns

The following report summarizse core components of LACERA's recent corporate governance and stewardship work.

GUIDING PRINCIPLES

LACERA's *Corporate Governance and Stewardship Principles* policy articulates our views on sound governance practices and guides LACERA's stewardship initiatives, such as proxy voting, corporate engagement, policy advocacy in financial markets, and ESG integration.

The *Corporate Governance and Stewardship Principles* are centered around five core concepts that collectively provide a framework aimed at promoting sustainable investment returns and responsible stewardship of fund assets:

ACCOUNTABILITY

Governance structures and practices should encourage the corporate boards of portfolio companies in which LACERA invests—as well as LACERA's external asset managers—to be accountable to those who provide the firm with capital. Accountability helps to ensure that a firm is managed in the best interests of investors.

INTEGRITY

Integrity and trust are the cornerstone of financial markets and essential for economic stability. LACERA seeks strong investor rights and protections to safeguard our economic interests and instill confidence in financial markets

ALIGNED INTERESTS

Executive compensation and incentives at portfolio companies and asset management fees should align the interests of senior executives and asset managers with those who provide the firm with capital—its investors. LACERA encourages pay-for-performance to align corporate executives' compensation with investors' interests

TRANSPARENCY

LACERA promotes timely, accurate, and comparable financial reports so that investors may have a transparent view of corporate performance.

PRUDENCE

LACERA expects companies to diligently mitigate operational risks that might jeopardize sustainable financial returns, including environmental and social factors such as resource scarcity, climate change, and human capital.

The *Corporate Governance and Stewardship Principles* are publicly available on LACERA's website at: http://www.lacera.com/accountability/corporate-governance.

TAKING ACTION

VOTE

LACERA votes proxies consistent with our *Corporate Governance and Stewardship Principles* at shareholder meetings of portfolio companies to promote and safeguard the financial value of our investments.

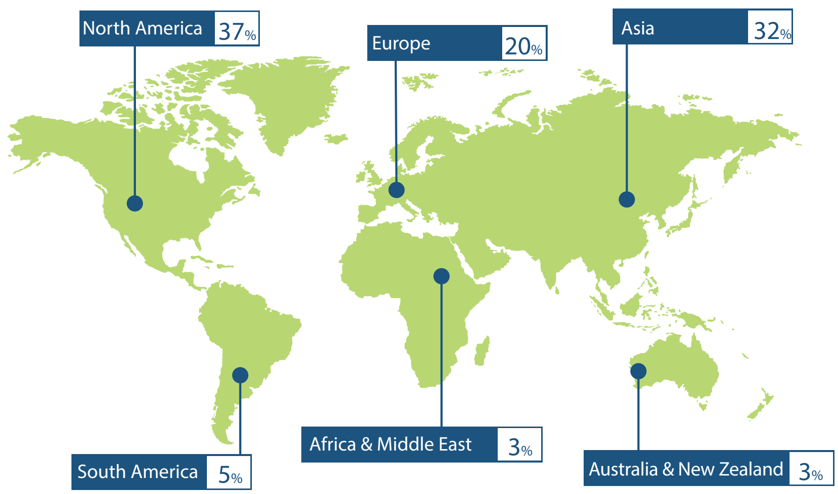
LACERA voted proxies around the globe during the fiscal year ending June 31, 2021:

8,449
shareholder meetings voted

88,798
individual ballot items

65
global markets voted in

Global Reach of LACERA Proxy Votes - Location of Shareholder Meetings by Region



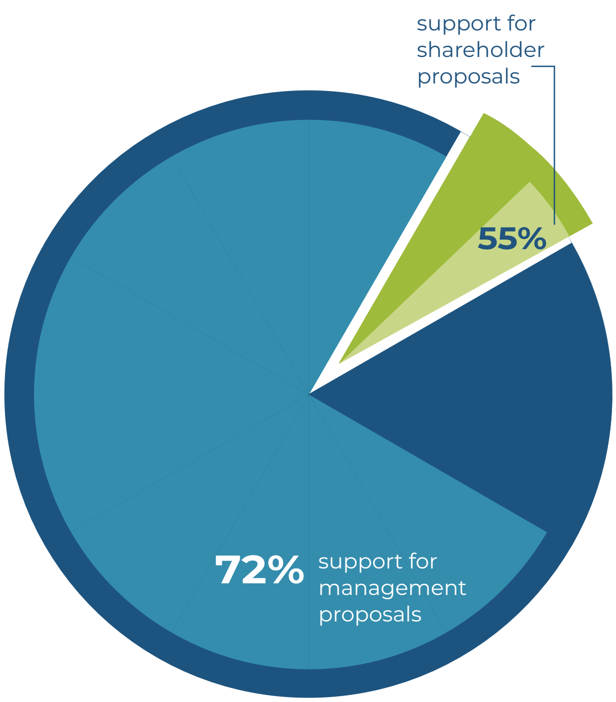
Support Levels by Proposal Sponsor

Of 88,798 individual ballot items, 98 percent were put forward by management and 2 percent were put forward by investors.

LACERA Supported:

72% **OF MANAGEMENT PROPOSALS**

55% **OF SHAREHOLDER PROPOSALS**



TAKING ACTION

VOTE

LACERA expects corporate board directors to serve investors' best interests. In determining whether to vote for or against director nominees, LACERA places particular emphasis on board quality, accountability, and performance.

65% SUPPORT OF DIRECTOR NOMINEES

LACERA may vote against director nominees for several reasons. LACERA opposes directors when there has been an egregious failure of risk oversight at the company. LACERA also examines board composition. We vote against directors if a board lacks robust independence, does not demonstrate a credible track record of inclusion of directors with diverse backgrounds, or directors serve on too many boards to adequately dedicate time to serve investors.

LACERA examines executive compensation practices to assess whether pay is aligned with performance. We vote against pay packages when executive pay is not adequately linked to, and justified by, the firm's financial performance.

OPPOSED ONE OUT OF EVERY FOUR CEO PAY PACKAGES

LACERA cast votes against 25 percent of advisory "say-on-pay" proposals because of excessive CEO pay and poor linkages between pay and performance.

VOTES FOR BOARD DIVERSITY AND INCLUSION

LACERA votes against directors at companies around the globe if a board fails to demonstrate a credible track record of inclusion, such as gender and racial diversity, using available disclosures. LACERA's voting action is driven by empirical evidence that board diversity correlates with better financial performance. Last year, LACERA's voted against directors at 502 companies for lacking gender diversity, a notable decrease from 921 companies the previous year after more companies made progress on gender inclusion.

Sample Proxy Votes

DIRECTOR ACCOUNTABILITY

Supported 4 dissident directors in a contested director election due to lack of requisite board skills and experience needed to address long-term business opportunities and risks related to climate change and a low-carbon energy transition.

ExxonMobil

PAY FOR PERFORMANCE

Voted no on the say-on-pay vote for 4th consecutive year, along with 58% of shareholders this year, after company granted CEO an extraordinary $57 million equity award.

HUMAN CAPITAL MANAGEMENT

Supported proposals requesting an annual assessment report on diversity, equity, and inclusion efforts, which received majority support at several companies.

AMERICAN EXPRESS IBM UNION PACIFIC

LONG-TERM PAY INCENTIVES

Supported requests for companies to report and reduce greenhouse gas emissions including proposals that over two-thirds of investors supported.

Chevron PHILLIPS 66

TAKING ACTION

ENGAGE

LACERA's efforts to encourage sound corporate governance go beyond voting proxies at shareholder meetings. LACERA engages portfolio companies and public policymakers to promote practices in line with our economic interests and to defend investor rights.

In recent years, LACERA has emphasized engagement initiatives that advance best practices across the market, improve quality reporting of financially relevant sustainability performance, and encourage prudent public policies that govern financial markets.

RECENT INITIATIVES

Advancing Corporate Board Diversity

LACERA wants the best talent to represent investors on corporate boards and expects companies to cast a wide net to find qualified directors. Empirical research finds a correlation between boards comprised of directors with diverse backgrounds and better financial performance.

ABOUT 250 DIRECTORS OF DIVERSE BACKGROUNDS APPOINTED

For several years, LACERA has engaged companies lacking board diversity. We urge boards to identify requisite skills for board nominees and then cast a wide net for directors, inclusive of diverse backgrounds, such as gender, race, and the LGBTQ community. LACERA has been joined in these efforts with the California Public Employees Retirement System, the California State Teachers Retirement System, and the San Francisco Employees Retirement System.

In the past three years, the investor coalition engaged 174 companies, sending letters and often discussing board refreshment and recruitment practices with independent directors serving on the companies' boards. Over this time period, 247 directors have been appointed to 141 of the targeted company boards, adding gender and racial diversity. In the past year in particular, the investor coalition contacted 74 of the largest U.S. companies, based upon a lack of any disclosed racial or ethnic diversity on their boards, and encouraged boards to seek directors of diverse backgrounds, inclusive of diverse gender and racial backgrounds, and the LGBTQ community. Fifty-four (54) of the companies have added 76 directors, 35 of whom are women and 65 of whom represent underrepresented racial and ethnic backgrounds.

Beyond the appointment of new directors, the investor coalition has encouraged boards to incorporate into governing documents, such as nominating committee charters, their commitment to diversity inclusive of gender, race, ethnicity, and the LGBTQ community and to ensure that any director search encompasses a diverse slate of candidates for consideration. Companies have improved disclosure of the skills and diversity attributes represented on their boards, as reported by directors on a voluntary, self-disclosed basis, such as gender, race, and the LGBTQ community. These disclosures are increasingly presented in a "skills matrix" of nominated board directors.

TAKING ACTION

ENGAGE *Continued*

Encouraging Sound Financial Market Policy

LACERA advocates financial market policies that ensure strong investor rights and help safeguard its investments. As part of LACERA's recent efforts, we:

- Joined an investor statement to the U.S. Securities and Exchange Commission organized by the Institutional Limited Partners Association to enhance fee transparency from asset managers in private asset classes.
- Discussed concerns about transparency and the market impact of Special Purpose Acquisition Vehicles (SPAC's) with the Council of Institutional Investors, which produced a fulsome report related to SPAC's and investor rights.
- Provided a comment letter to the U.S. Securities and Exchange Commission ("SEC") in support of improved corporate disclosures of financial risks and opportunities related to climate change, human capital management, and political spending.
- Supported a joint investor letter to urge consistent market rules for the regulation and reduction of methane emissions in the oil and gas industry.
- Submitted a letter to the U.S. House of Representatives Financial Services Committee to support proposed legislation to advance equal voting rights at multi-class share companies and other corporate governance reforms.
- Submitted formal comment letters and met with U.S. Securities and Exchange Commission commissioners and staff on numerous occasions to protect investor access to timely, independent corporate governance and proxy research.

Sustainability Reporting

LACERA recognizes that environmental, social, and governance ("ESG") factors can impact the risk-return profile of our investments. We encourage timely, relevant, and comparable disclosures of how companies are managing material ESG factors.

To advance clear market information of sustainability data, LACERA supports the Sustainability Accounting Standards Board ("SASB"). SASB is an industry-led initiative to define and encourage corporate reporting of sustainability practices that are financially material to companies in 77 industries. By improving corporate reporting of clear, comparable, consistent information about sustainability risks and performance, investors have better information to take into account in our own investment decisions.

Through focused investor dialogues, more than half of the S&P Global 1200 now disclose sustainability performance data using SASB's reporting standards, as of this year.

LACERA is a member of the SASB Investor Advisory Group to provide input and support SASB's focused work to improve ESG reporting quality in financial markets.

TAKING ACTION

ENGAGE *Continued*

Promoting Inclusive Workplaces

LACERA recognizes that portfolio companies' success relies, in part, on how well they recruit, manage, and retain talent. Equal employment opportunity and workplaces free of harassment of any kind are integral to constructive workplace practices. Effectively harnessing diversity can lead to improved performance and benefit companies, their workforces, and investors alike.

In the last year, LACERA engaged several leading multinational portfolio companies to advance governance practices that we consider promote inclusive and equitable workplace practices.

Board Oversight: We encouraged corporate boards to oversee key performance indicators, trendlines, and risks related to talent management, including diversity, equity, and inclusion.

Transparency: We recommended greater transparency of workforce demographics, such as disclosing EEO-1 reports and voluntary, self-identified diversity attributes that enable investors to assess companies' track records against stated commitments.

Pay Equity: We encouraged conducting pay equity analyses to ensure employees performing similar work are paid equitably, regardless of gender, race, or other diversity attributes. Proactively assessing pay equity may strengthen employee engagement and mitigate prospective legal, operational, and reputational risks in the event of any disparate pay levels.

Executive Compensation and Clawback Provisions: We encouraged companies to have policies in place by which senior executives' pay may be recouped in the event of workplace misconduct or violation of anti-harassment or equal opportunity employment commitments. Clear clawbacks help establish the tone at the top and incentives for compliance at portfolio companies and enable a company to take action in the event that misconduct occurs.

Engaged companies continue to enhance both practices and disclosures to encourage workforces of diverse backgrounds are managed in an equitable and inclusive manner. LACERA continues to monitor and encourage leading practices to protect and promote sustainable financial performance at portfolio companies.

TAKING ACTION

COLLABORATE

LACERA works with other pension fund systems and institutional investors to amplify our voice and advance common interests in sound corporate governance practices and public policies. We are affiliated with numerous institutional investor associations.

COUNCIL OF INSTITUTIONAL INVESTORS

CII is a nonprofit, nonpartisan association that is the leading voice for effective corporate governance, strong shareowner rights and vibrant, transparent, and fair capital markets. CII promotes policies that enhance long-term value for U.S. institutional asset owners and beneficiaries. Its members include U.S. asset owners with combined assets of $4 trillion and asset managers with more than $35 trillion in assets under management.

PRINCIPLES FOR RESPONSIBLE INVESTMENT

The PRI is a global investor initiative, affiliated with the United Nations, comprised of investors representing over $80 trillion who commit to understand the investment implications of environmental, social, and governance (ESG) factors and incorporate these factors in their investment and ownership practices.

SUSTAINABILITY ACCOUNTING STANDARDS BOARD

SASB helps businesses around the world identify, manage, and report on the sustainability topics that matter most to their investors. Its Investor Advisory Group includes leading asset owners and asset managers representing over $34 trillion who are committed to improving the quality and comparability of sustainability-related disclosures to investors.

INSTITUTIONAL LIMITED PARTNERS ASSOCIATION

With over 500 member institutions representing more than $2 trillion of private equity assets under management, ILPA is the only global organization dedicated exclusively to advancing the interests of limited partners (LPs) and their beneficiaries through best-in-class education, research, advocacy, and events.

CLIMATE ACTION 100+

Climate Action 100+ is an investor initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. Its members include more than 615 investors with more than $55 trillion in assets under management.

INTERNATIONAL CORPORATE GOVERNANCE NETWORK

Led by investors responsible for assets under management in excess of $54 trillion, the ICGN is a leading authority on global standards of corporate governance and investor stewardship. It promotes high standards of professional practice among companies and investors alike in their pursuit of long-term value creation contributing to sustainable economies worldwide.

ASIAN CORPORATE GOVERNANCE ASSOCIATION

The ACGA is an independent, nonprofit membership organization dedicated to working with investors, companies, and regulators in the implementation of effective corporate governance practices throughout Asia.

LEADERSHIP

LACERA serves in a leadership capacity in a number of organizations to encourage sustainable business practices and sound governance practices in financial markets.

- **Council of Institutional Investors**
  - Board of Directors
- **Institutional Limited Partners Association**
  - Diversity and Inclusion Advisory Council
- **Sustainability Accounting Standards Board**
  - Investor Alliance
  - Investor Advisory Group
- **UN Principles for Responsible Investment**
  - Asset Owners Technical Advisory Committee
  - Western North America Advisory Committee
  - Private Equity Advisory Committee
- **International Corporate Governance Network**
  - North American Conference Planning Committee

PRI AND ESG INCORPORATION

As an integral part of fulfilling our mission to LA County employees, LACERA has adopted leading practices to diligently and pragmatically consider environmental, social, and governance ("ESG") factors that might impact the risk/return profile of our investments and ultimately our ability to generate sustainable returns.

LACERA seeks to steward its investments in a responsible manner that promotes sound corporate governance and sustainability practices and mitigates the downside risks that governance failures present. In doing so, LACERA aims to achieve stable financial returns and fulfill our mission. ESG factors include the corporate governance practices of companies we invest in, environmental risks such as climate change and resource scarcity, and social factors like how companies access and manage human capital. LACERA recognizes that such ESG factors may present investment risks and opportunities and, in line with our fiduciary duty, should be prudently assessed.

LACERA maintains an A+ assessment by the United Nations-affiliated Principles for Responsible Investment (PRI) for our overall approach to responsible investing and ESG integration. LACERA has been committed to the PRI for twelve years, having become a signatory to the PRI in 2008.

ESG is a core component of LACERA's due diligence and active monitoring of all external asset managers who manage investment mandates on our behalf. We seek to understand how external managers identify, assess, and incorporate ESG factors that may impact the financial performance of the mandate in which LACERA is invested. The extent to which a manager incorporates ESG factors that may impact the financial performance of our investments is integrated into a "Manager Scorecard," by which we assess and monitor manager quality.

ESG is one pillar of the scorecard, alongside other aspect such as fees, performance, and operational due diligence, to promote a holistic, multivariate view of manager quality. The assessment is incorporated into our recommendations whether to award an investment mandate to an asset manager and may inform whether we increase or decrease investments with the manager.

Monitoring of External Assets Managers Includes ESG as One of 5 Core Components

LACERA uses ESG data and analytics tools from multiple service providers, including carbon and climate data. These tools help inform and evaluate ESG risks and exposures in investment portfolios managed by external asset managers, as well as across LACERA's public market investments.

A+ PRI Principles for Responsible Investment

The United Nations Principles for Responsible Investment (PRI) has scored LACERA's ESG efforts an A+ for overall strategy and governance.

The combination of qualitative and quantitative approaches to ESG integration is intended to provide a comprehensive view of ESG factors that can affect LACERA's ability to fulfill its mission to pay benefits. LACERA recognizes that our ESG integration will evolve with improved ESG data and disclosures from companies. Our efforts to advance clear, consistent, and comparable reporting of ESG – through collaboration with SASB, policy advocacy, and other engagement initiatives – are aimed at enhancing our access and use of meaningful ESG analytics.

LACERA Assesses Asset Managers' Capacity to Assess and Integrate ESG Factors

APPROACH TOWARDS CLIMATE RESILIENCE

LACERA recognizes that climate change presents far-reaching consequences, including shaping and influencing the business prospects of individual companies in our portfolio and the broader economy in which we invest. LACERA has sought to pursue a prudent and deliberate approach to assess climate change impacts and inform LACERA's investment decisions. LACERA's efforts aim to consider financial risks and opportunities related to climate change and facilitate an orderly transition to a low-carbon future. Consideration of climate change is a core, consistent component of investment analysis across the fund and is part of our efforts to promote sustainable, long-term value that enhances LACERA's ability to fulfill its mission.

LACERA endorsed the Task Force on Climate-related Financial Disclosures ("TCFD") in 2019 as part of the fund's focus on climate change. The TCFD was established by the Financial Stability Board and co-chaired by Mary Shapiro (former Chair of the U.S. Securities and Exchange Commission) and Michael Bloomberg (Co-founder of Bloomberg, L.P., and former Mayor of New York). The TCFD encourages corporate analysis and reporting of climate risks for investor use and aims to improve focus, availability, and reliability of data related to the financial impacts of climate change in the global economy.

The TCFD recommended guidelines for climate risk reporting center around four core elements of how organizations operate and are intended to be applicable to organizations across sectors and jurisdictions.[1]

CORE ELEMENTS OF THE TCFD'S RECOMMENDED DISCLOSURES

Governance
The organization's governance around climate-related risks and opportunities

Strategy
The actual and potential impacts of climate-related risks and opportunities on the organization's business, strategy, and financial planning

Risk Management
The processes used by the organization to identify, assess, and manage climate-related risks

Metrics and Targets
The metrics and targets used to assess and manage relevant climate-related risks and opportunities

Consistent with LACERA's commitment to transparency and prudence—which are two of the core concepts of LACERA's own *Corporate Governance and Stewardship Principles*—LACERA has applied the TCFD's framework to provide insight into the fund's approach to address climate-related risks and opportunities in its investments.

[1]See www.tcfdhub.org.

APPROACH TOWARDS CLIMATE RESILIENCE

Governance

LACERA's Board of Investments oversees all aspects of LACERA›s investment program, including setting the fund's strategic asset allocation through a climate-aware lens and developing policies addressing ESG factors like climate change. The Board has a dedicated Corporate Governance Committee to oversee specific corporate governance and sustainable investment initiatives. LACERA management and staff develop, recommend, and implement policies and initiatives for assessing and managing climate-related risks and opportunities.

Strategy

LACERA has sought to assess the prospective range of impacts from climate change on its investment strategy and portfolio to identify potential areas of concentrated risk as well as investment opportunities. LACERA recognizes that climate change's impact may vary by the geography or locations where a portfolio company operates, its industry, the investment time horizon, and the specific nature of the business strategy of a portfolio company. Government policies to mitigate climate change—both current and prospective future measures and regulations—also vary by market and may have different impacts on different industries and companies.

In 2021, LACERA undertook a comprehensive analysis to revisit and refine its strategic asset allocation. For the first time, LACERA strived to incorporate emerging data and analyses so that the capital market assumptions and estimations that inform the strategic asset allocation would consider prospective risks and opportunities related to climate change. In doing so, LACERA aimed to establish a refined strategic asset allocation that is "climate aware." LACERA uses "climate aware" to mean an analytical process by which the fund deliberately, prudently, and systematically accesses available information to inform investment decisions with insights regarding how climate change may impact investment performance and LACERA's ability to fulfill its mission.

Central to the strategic asset allocation climate study, LACERA incorporated climate-related analysis to inform the potential prospective impact on return and risk (volatility) of the fund, individual asset classes and strategies. The process evaluated the potential future growth trajectory of various macroeconomic factors based upon climate-related scenarios (prospective temperature changes, policy changes, and technology innovations). The conventional macroeconomic factor analyses were "shocked" by introducing various climate-related scenarios through multiple simulations to derive modified sets of macroeconomic factors relevant to each climate-related scenario. Finally, numerous asset allocation simulations were applied to each of the climate-related scenarios to extrapolate a range of climate-related impacts on the return and risk profile of an unmodified asset allocation. This exercise provided information to compare to the baseline macroeconomic analyses for non-climate aware asset allocation returns and risk. By adding these scenarios, LACERA incorporated a broader range of returns and risk expectations as informed by the various climate-related scenarios.

Building a "Climate-Aware" Investment Portfolio

Several observations emerged from the exercise. The analysis revealed both prospective decreased long-term expected returns and increased volatility across all asset allocation mixes related to various climate change scenarios. The combination of lower expected returns and increased volatility, while appearing to be relatively small individually, could result in a prospective 10% to 20% reduction in risk-adjusted returns, as measured by the Sharpe ratio. The range of return and volatility outcomes also reflects the variability of impacts of future climate change and highlights the importance of employing a climate-aware approach to understand prospective implications of various investment exposures going forward on the fund's performance.

APPROACH TOWARDS CLIMATE RESILIENCE

Strategy *continued*

LACERA identified several key points to monitor and manage as it implements the climate-aware strategic asset allocation:

1. Available modelling indicates that climate change may result in prospective lower-than-expected returns across nearly all asset classes, as well as increased volatility, particularly in select asset classes such as global equity
2. Climate change is not all downside risk: Being attentive to climate change in investment decisions may also provide attractive investment opportunities
3. Prospective lower equity returns and increased volatility will likely require more effort to identify higher expected return opportunities in other asset classes
4. Beyond the strategic asset allocation, strategy selection and portfolio construction within asset classes is an important component of mitigating climate risk and pursuing related opportunities
5. Precise climate change impacts are not easily identifiable and the modeling may vary depending upon the assumptions incorporated, future policy developments, availability of high-quality data, and other variables

In addition to informing LACERA's strategic asset allocation research, LACERA uses data and analytical tools to inform careful analysis of climate-related financial impacts and opportunities within asset classes. As a starting point, LACERA completed an inaugural carbon footprint of its public markets exposures in 2020, which account for about 48% of the total fund. LACERA conducted the analysis in public markets because data is more readily available for publicly listed companies than is presently available in private market asset classes. LACERA continues to track its public markets carbon emission exposures and pursue opportunities to access data on private markets, such as collaborating with the Global Real Estate Sustainability Benchmark to access data on private real estate investments.

LACERA's public market carbon footprint analysis and monitoring continue to reveal a number of insights, including that emissions are driven across several prominent sectors and concentrated among key companies within the public markets portfolios:

- Three emissions-intense sectors—energy, materials, and utilities—account for 78% of Scope 1 & 2 emissions
- 50 companies accounted for approximately 54% of the Scope 1 & 2 weighted average carbon intensity

Energy, utilities, and materials sectors represent about three quarters of LACERA's Scope 1 & 2 carbon footprint

LACERA also conducted scenario analyses to identify and assess forward-looking financial risks and opportunities and the global public market portfolio's alignment with the Paris Agreement goals. These exercises evaluate future developments and impacts related to:

- **Policy Risks** - Changes to the regulatory framework that could prompt a reassessment of the value of an asset or investment in LACERA's portfolio.
- **Physical Risks** - Impact on the value of a portfolio holding that might arise from climate-related events that damage property or disrupt trade, such as flooding, drought, or extreme weather events.
- **Technology Opportunity** – Possible innovations and technological advances resulting from the process of adjustment towards a lower-carbon economy that could prompt revaluation of assets.

Scenarios vary by the timing and scale of policy constraints on emissions, the severity of physical impacts, and the pace of technological innovations. They can be a tool to assess and inform investment decisions.

These analyses identified areas of concentrated risks as well as prospects for investment opportunity. Downside risks—similar to the carbon footprint exercise—are concentrated in the energy, materials and utilities sectors, which represent approximately 60% of the portfolio value at risk from climate change. Upside opportunities exist across the portfolio, including in information technology and industrial sectors, such as construction, engineering, and manufacturing.

APPROACH TOWARDS CLIMATE RESILIENCE

Risk Management

LACERA is pursuing a multi-faceted strategy to address climate-related risks and opportunities in its portfolio, as informed by ongoing analysis and leading investment practices:

1. **Public Policy** – LACERA is a formal signatory to the Global Investor Statement to Governments on Climate Change. As a signatory, LACERA joins with 733 global investors representing $52 trillion in assets (about 50% of global invested assets). The statement, released in advance of the Global COP26 Climate Change Convention held in Glasgow, Scotland, urges governments to achieve the Paris Agreement goals and to pursue measures to facilitate a low-carbon economic transition.

2. **Corporate Engagement to Mitigate Climate Risks** – Recognizing that a concentrated number of industries and companies account for significant portions of the climate-related risks in LACERA's portfolio, LACERA has joined a global investor effort named the Climate Action 100+. Climate Action 100+ is a global network of 615 investors with $55 trillion in assets. Affiliated investors are engaging 167 of the most carbon intensive companies. Collectively, these companies account for an estimated 80% of global industrial emissions. The targeted companies also account for approximately half of LACERA's carbon footprint of Scope 1 & 2 emissions.

   To date, over half (87) of the targeted companies have committed to net zero emissions by 2050 in line with the Paris Agreement. Over a third have adopted specific targets that, if achieved, make progress towards that goal.

   In the utility sector—where LACERA participates in numerous company dialogues—each target company has committed to net zero emissions by 2050 and is pursuing short-term business strategies to reduce the carbon intensity of their energy mix. Through dialogue, investors are encouraging companies to provide greater clarity of their pathways towards net zero and disclose how their business strategies align with their stated climate goals. For example, investors welcome utility companies to disclose interim pathways and targets; describe how their capital allocation, executive pay incentives, and lobbying efforts align with their stated climate objectives; and explain how their climate mitigation efforts take into account their employees and other stakeholders to support a "just transition."

   By engaging the most emissions-intense companies, LACERA supports mitigating climate risks at both individual companies as well as in the broader economy into which LACERA invests.

3. **Prudent Investment Due Diligence** - LACERA's due diligence and active monitoring of all external asset managers is focused on understanding how extensively external managers identify, assess, and incorporate ESG factors, including climate change, that may impact the financial performance of the mandate. Asset managers' consideration of ESG factors, including climate factors, is integrated into a "Manager Scorecard," by which we assess and monitor manager quality. LACERA uses carbon and climate data and analytics as part of its review of externally-managed investment portfolios. The data and tools help inform evaluation of the portfolio and integration of ESG factors.

4. **Proxy Voting** – LACERA uses its legal rights as an investor to vote proxies in support of resolutions requesting companies to assess, report on, and mitigate climate-related risks. These proposals are presented across a wide range of industries, not only in the most emissions-intense sectors. LACERA voted in support of numerous climate-related shareholder proposals in the last year, such as requests for:

   - Disclosure and reduction of Scope 3 emissions at Chevron (Proposal passed)
   - Climate risk reporting at oil and gas company Phillips 66 (Proposal passed)
   - Climate risks evaluation at General Electric

APPROACH TOWARDS CLIMATE RESILIENCE

Risk Management *continued*

(Proposal passed)

- Alignment of lobbying by Norfolk Southern with Paris Agreement (Proposal passed)
- Report on efforts to reduce the use of plastics at DuPont de Nemours (Proposal passed)

5. **Better Market Data and Corporate Reporting** – To evaluate and address climate risks, investors need reliable and widely available information. LACERA is one of over 1,000 endorsers of the Financial Stability Board's Task force on Climate-related Financial Disclosures (TCFD), a global framework to guide companies to report how they are addressing climate risks. Efforts such as the TCFD aim to address shortcomings in currently available data. For example, only about half of the public companies in LACERA's portfolio disclose their carbon emissions, requiring LACERA and other investors to access tools to estimate and model emissions and climate risks. Expanding clear and reliable information about company facilitates investors' ability to take such information into account in investments.

Metrics and Targets

Prudent investment decisions are rooted in sound data and analysis. LACERA is aware that the data and tools around climate changes are nascent and evolving. As such, LACERA is actively advocating clear market reporting of climate risks and is committed to incorporating data and tools into our own analysis. LACERA continues to incorporate available data and conduct analyses to identify areas of concentrated risks and lean into investment opportunities related to climate. Such analysis helps to inform investment decisions and portfolio construction. LACERA has not yet set metrics or targets.

In the near-term, LACERA intends to further build out its data and tracking of investment exposures. Clear data and analysis help inform and evaluate investment opportunities, portfolio positioning, and ultimately LACERA's climate resiliency.

LACERA actively pursues deliberate and pragmatic approaches to identify climate-related investment risks and opportunities and position our investment portfolio for long-term resiliency and success. We recently conducted "top-down" stress testing of the capital market assumptions that underlie our strategic asset allocation. And we conduct "bottom-up" assessment of portfolio climate change impacts and consider climate change in investment due diligence and portfolio positioning. We remain active in global investor initiatives and policy advocacy to address the negative externalities that climate change presents to LACERA's investments and facilitate a market-wide transition to low-carbon future.

LACERA's consideration of climate-related investment risks and opportunities is an ongoing and iterative process. It will evolve and be refined as data disclosures and analytical tools also evolve and become more refined. In the short-term, LACERA endeavors to continue pursuing a total fund approach to climate resiliency by encouraging better information tools in private asset classes, such as private equity and real assets, to complement information available from publicly listed companies, and tracking total fund exposures to both climate-related upside investment opportunities and concentrated risks.

LACERA's attention to climate change remains rooted in our commitment to responsibly steward investments in a manner that promotes and safeguards the economic interests of LACERA and its members, consistent with LACERA's mission to "produce, protect, and provide the promised benefits."

TIMELINE

LACERA has a lengthy history of advocating sound corporate governance practices in financial markets.

2001	Joined Council of Institutional Investors
2003	Adopted LACERA *Corporate Governance Principles*
2007	Established dedicated Corporate Governance Committee of LACERA's Board of Investments
2008	Became signatory to the United Nations-affiliated Principles or Responsible Investment
2012	Joined investor initiative advocating annual elections for corporate board directors, prompt sharp increase in declassified boards in U.S. market
2014	Joined International Corporate Governance Network and Asian Corporate Governance Association
2017	Expanded LACERA's *Corporate Governance Principles* to address investment risks related to environmental and social factors such as climate change, human rights, and human capital
2018	Endorsed the Stewardship Principles of the International Corporate Governance Network
2018	Signed the Global Investor Statement to Governments on Climate Change
2018	Formally joined the global Climate Action 100+ investor initiative
2019	Endorsed the Financial Stability Board's Task force on Climate-related Financial Disclosures
2019	Affiliated to the Sustainability Accounting Standards Board's Investor Advisory Group
2020	Completed expansion of proxy voting authority from 19% to over 90% of global public equity portfolio
2020	Conducted first climate analysis and carbon foot printing of public markets investments
2020	Expanded *Corporate Governance Principles* to incorporate fund-wide stewardship activities in new *Corporate Governance and Stewardship Principles* policy
2021	Conducted climate-aware strategic asset allocation study

A COMMITMENT TO CONTINUOUS IMPROVEMENT

LACERA remains committed to a deliberate and pragmatic approach to responsibly integrating ESG and other sustainability strategies into our investment process. In doing so, we maintain a steadfast view towards our fiduciary duties to pursue and advance leading investment practices that strengthen our ability to deliver a secure retirement to LACERA members.