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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.

The following pages summarize core components of LACERA’s recent corporate governance and stewardship work.
GUIDING PRINCIPLES

LACERA has established Corporate Governance and Stewardship Principles to articulate our views and guide LACERA’s corporate governance initiatives, such as proxy voting and corporate engagement. The Corporate Governance and Stewardship Principles are centered around five core concepts that collectively provide a framework by which we aim to promote sustainable investment returns and responsible stewardship of fund assets:

ACCOUNTABILITY
LACERA supports independent, highly-qualified, and diverse directors to serve on corporate boards and encourages corporate policies that promote accountability from corporate directors to investors.

INTEGRITY
LACERA seeks strong investor rights and protections to safeguard our economic interests and instill confidence in financial markets.

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

ALIGNED INTERESTS
LACERA encourages pay-for-performance to align corporate executives’ compensation with investors’ interests.

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.

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

LACERA voted proxies around the globe during the fiscal year ending June 30, 2020:

**Support Levels by Proposal Sponsor**

Of 77,379 individual ballot items, 98 percent were put forward by management and 2 percent were put forward by investors.

**LACERA Supported:**

- **73% of management proposals**
- **55% of shareholder proposals**

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**Taking Action**

- 7,179 shareholder meetings voted
- 77,379 individual ballot items
- 65 global markets voted in
TAKING ACTION

LACERA relies on the directors it elects onto corporate boards 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 opposes certain director nominees if a board lacks robust independence, directors serve on too many boards to adequately dedicate time to serve investors, or there has been an egregious failure of risk oversight at the company.

LACERA scrutinizes executive compensation practices to promote alignment between the incentives that pay programs create for executives and our interests as long-term investors. LACERA believes that executive pay and incentives should be adequately linked to, and justified by, the firm’s financial performance.

OPPOSED ONE OUT OF EVERY FOUR CEO PAY PACKAGES

LACERA cast votes against 26 percent of advisory “say-on-pay” proposals because of excessive CEO pay and poor linkages between pay and performance.

LACERA encourages corporate boards to be comprised of directors of diverse backgrounds, inclusive of gender, race and ethnicity, and the LGBTQ community. LACERA uses its voting power to encourage board diversity, where disclosures indicate a poor track record of inclusive board nomination practices. LACERA voted against certain nominated directors at 921 companies around the globe for failing to nominate any female directors to their boards. LACERA’s policy is driven by empirical evidence that indicates board diversity correlates with better long-term financial performance.

Sample Proxy Votes

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<tr>
<th>DIRECTOR ACCOUNTABILITY</th>
<th>PAY FOR PERFORMANCE</th>
<th>HUMAN CAPITAL MANAGEMENT</th>
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<td>Voted against three directors for repeatedly preventing investors from voting on a shareholder proposal to mitigate climate change risks.</td>
<td>Opposed Qualcomm CEO pay package after board granted an excessive bonus related to company litigation.</td>
<td>Voted yes on shareholder proposal for company to provide investors more information on its workforce practices.</td>
<td>Supported proposal to incorporate risks related to drug pricing in executives’ compensation incentives.</td>
</tr>
<tr>
<td>ExxonMobil</td>
<td>Qualcomm</td>
<td>O’Reilly Auto Parts</td>
<td>Lilly</td>
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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.

**RECENT INITIATIVES**

**CORPORATE BOARDROOM DIVERSITY**
LACERA wants the best talent to represent investors on corporate boards. We therefore expect companies to cast a wide net to find qualified directors. Empirical research finds a correlation between boards comprised of directors with diverse backgrounds and long-term financial performance.

LACERA engages companies lacking board diversity to encourage robust self-evaluations and expansive recruitment strategies aimed at promoting access to directors of diverse backgrounds, inclusive of diverse genders, race and ethnicity, and the LGBTQ community.

Over the past two years, LACERA—partnering with peer funds CalSTRS and CalPERS—engaged 101 California based companies lacking gender diversity to encourage board recruitment reforms and more inclusive board nomination practices. These companies have added 114 female directors to date, including at least 14 women of color. Numerous companies have revised their governing documents to incorporate diversity into their formal recruitment policies and commitments.

LACERA and its allied California pension funds—joined by the San Francisco Employees Retirement System—recently expanded the initiative to a national focus. The funds have initiated an engagement targeting 74 of the largest U.S. companies that lack any apparent racial or ethnic diversity on their boards. Again, LACERA and its partner funds encourage boards to seek directors of diverse backgrounds, inclusive of diverse gender and racial backgrounds, and the LGBTQ community.

**SOUND FINANCIAL MARKET POLICY**

LACERA advocates financial market policies that help safeguard its investments. In the past year, LACERA:

- Provided a comment letter to the U.S. Securities and Exchange Commission (“SEC”) in support of investors’ right to file non-binding shareholder resolutions that may strengthen investor rights and accountability when needed.
- Urged the SEC to enact regulatory reforms to provide for a “universal proxy card,” enabling investors to elect nominees across slates in contested director elections.
- Sent a comment letter urging the SEC to protect investor access to independent and timely proxy research.
- Formally signed an amicus brief developed by the Council of Institutional Investors in support of an Institutional Shareholder Services, Inc. lawsuit challenging new SEC regulations finalized in July 2020 that impact investors’ access to high-quality, independent, and timely proxy and corporate research on portfolio companies.

**OVER 100 DIRECTORS OF DIVERSE BACKGROUNDS APPOINTED**

LACERA engages companies lacking board diversity to encourage robust self-evaluations and expansive recruitment strategies aimed at promoting access to directors of diverse backgrounds, inclusive of diverse genders, race and ethnicity, and the LGBTQ community.

**SUSTAINABILITY REPORTING**

LACERA supports the Sustainability Accounting Standards Board, 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 their own investment decisions.
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 540 investors with more than $52 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**
  Western North America Advisory Committee
  Private Equity Advisory Committee

- **International Corporate Governance Network**
  Annual 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.

This past year, LACERA maintained 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 extensively external managers’ identify, assess, and incorporate ESG factors that may impact the financial performance of the mandate. The extent to which a manager incorporates ESG factors that may impact the financial performance of our investments is integrated into a 5-point “Manager Scorecard,” by which we assess and monitor manager quality.

During the past year, LACERA procured additional ESG data and analytics tools from multiple service providers, including carbon and climate data. These tools help to further inform and evaluate ESG risks and exposures in investment portfolios managed by external asset managers, as well as across LACERA’s public market investments. The combination of qualitative and quantitative approaches to ESG integration provides for a comprehensive, thorough view of asset managers’ efforts to identify, assess, and incorporate ESG factors and how that may impact the portfolio construction process and resultant performance of the mandate.
**APPROACH TOWARDS CLIMATE RESILIENCE**

LACERA recognizes that climate change presents far-reaching consequences, including impacts that are shaping and influencing individual companies in our portfolio and the broader economy in which we invest. LACERA has sought to pursue a prudent, judicious, 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.

¹See www.tcfdhub.org.
APPROACH TOWARDS CLIMATE RESILIENCE

Governance

LACERA’s Board of Investments oversees all aspects of LACERA’s investment program, including 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.

To inform careful analysis of various impacts and opportunities, LACERA uses multiple portfolio data sets and analytical tools. As a starting point, LACERA this year completed its first-ever carbon footprint exercise of its global public equities portfolio. The analysis revealed a number of insights, including that emissions are driven across several prominent sectors and concentrated among key companies:

- Four emissions-intensive sectors—industrials, energy, materials, and utilities—account for 75% of Scope 1 & 2 emissions
- 50 companies account for approximately 50% of Scope 1 & 2 emissions

LACERA conducted the analysis in public equities because data is more readily available for publicly listed companies than is presently available in private market asset classes.

LACERA also conducted scenario analyses to identify and assess forward-looking financial risks and opportunities and the global public equity 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 financial value at risk in the portfolio from climate change. Upside opportunities exist across the portfolio, including in information technology and industrial sectors, such as construction, engineering, and manufacturing.
LACERA is pursuing a five-part 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 630 global investors representing $37 trillion in assets in urging governments to achieve the Paris Agreement goals and to pursue measures to facilitate a low-carbon economic transition.

2) **Corporate Engagement** – 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+ to promote emissions reductions and changes in business strategies to mitigate climate change risks. Climate Action 100+ is a global network of 540 investors with $54 trillion in assets. Affiliated investors are engaging 161 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 46% of our carbon footprint of Scope 1 & 2 emissions. To date, over 60 of the targeted companies have committed to net zero emissions by 2050 in line with the Paris Agreement and over a third have adopted specific targets that, if achieved, make progress towards that goal. By engaging the most emissions-intensive 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. Managers’ consideration of ESG factors, including climate factors, is integrated into a 5-point “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 manager’s representation of its portfolio construction process 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:

   - Climate risk reporting at trucking company JB Hunt (Proposal passed)
   - Climate risks evaluation of the loan portfolio at JP Morgan (Proposal nearly passed: 49.6%)
   - Alignment of lobbying by Chevron with Paris Agreement (Proposal passed)
   - Adopt more aggressive emissions reduction at Royal Dutch Shell and Total SA

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, less than 40% of 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 climate risks and performance facilitates investors’ ability to take such information into account in investments.
APPROACH TOWARDS CLIMATE RESILIENCE

Metrics and Targets

Prudent investment decisions are rooted in sound data and analysis. LACERA is aware that the data and tools around climate change continue to evolve and improve. 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 is incorporating available data and analysis into its forthcoming Strategic Asset Allocation. While LACERA has not yet set metrics or targets, we will continue to evaluate the efficacy of the data and analytical tools and, where prudent, evaluate prospective opportunities to improve LACERA's climate resiliency.

LACERA evaluates portfolio climate change impacts, considers climate change in investment due diligence, and takes pragmatic and deliberate actions to address climate risks at portfolio companies and in the wider economy. LACERA's efforts support a transition to a low-carbon economy, promote clear corporate disclosures of climate-related risks and opportunities to improve data breadth and depth, and urge portfolio companies to manage climate risks.

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 improve. Looking forward, LACERA endeavors to incorporate climate analysis into the portfolio wide capital market expectations that guide LACERA's strategic asset allocation and to develop and encourage better information tools in private asset classes, such as private equity and real assets, to complement information available from publicly listed companies.

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 fiduciary duties and mission to “produce, protect, and provide the promised benefits.”
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 of 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 footprinting of public markets investments
- **2020** Expanded Corporate Governance Principles to incorporate fund-wide stewardship activities in new Corporate Governance and Stewardship Principles policy

**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.