

State of Michigan Retirement System

PROXY VOTING POLICY

State of Michigan Investment Board
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I. INTRODUCTION

The Bureau of Investments (the “BOI”) is the bureau within the Department of Treasury that is responsible for directing the investment of assets that make up the State of Michigan Retirement System (the “SMRS”). The SMRS includes the assets of the defined benefit plans for the Michigan Public School Employees’ Retirement System; Michigan State Employees’ Retirement System; Michigan State Police Retirement System; and Michigan Judges’ Retirement System. Executive Order 2018-10 (the “Order”) created the State of Michigan Investment Board (the “SMIB”) and pursuant to the Order, both the SMIB and the investment personnel of the BOI serve as the investment fiduciary for the SMRS.

As a fiduciary of the SMRS, the BOI is responsible for carrying out the day-to-day investment responsibilities of the SMIB in accordance with the prescribed limitations of the Public Employee Retirement System Investment Act, 1965 PA 314, MCL 38.1132 *et seq* (“Act 314”) and the SMIB’s Investment Policy Statement, as may be amended from time to time. The SMRS’s investments are managed by the BOI and are diversified across broad asset classes, with significant holdings in the securities of publicly traded companies. The ownership of these securities is generally imbued with the right to vote the SMRS’s shares on matters central to management of a given company.

Proxy voting is a critical aspect of fulfilling fiduciary duties. Given the importance that proxy voting plays in the long-term viability of companies, and how that viability can help drive investment returns for the SMRS, proxies can be viewed as an asset of the system itself. When proxy voting and its associated policies are applied prudently, it serves the interests of the members of the retirement system by advancing strong corporate governance which, by extension, ultimately serves all the shareholders in a company. As such, the BOI on behalf of the SMRS endeavors to timely vote proxies in all shareholder meetings where the SMRS is entitled to vote as a shareholder. This proxy voting policy (the “Proxy Policy”) serve as a guideline when proxy votes are cast. The statements and policies contained herein should be viewed as general guidelines that allow the BOI, acting on behalf of the SMRS, to efficiently administer its proxy voting program. However, despite the general rules discussed in this Proxy Policy, at all times the SMRS will look at (i) the particular facts and circumstances of a matter being voted upon, and (ii) what course of action is in the best interest of the members of the retirement system in light of such facts and circumstances; *in all cases, the immediately foregoing (i) and (ii) shall serve as main determining factors in how the SMRS casts any given vote.*

A. Proxy Agent

Given the volume of proxy votes cast each year, the SMRS retains the services of a third-party proxy voting agent (the “Proxy Agent”). The Proxy Agent is tasked with voting all ballot issues in accordance with this Proxy Policy. Despite the appointment of the Proxy Agent, the SMRS retains the ability to override or otherwise manually vote any proxy at all times prior to the

shareholder meeting deadline. In addition to voting the ballots, the Proxy Agent makes available detailed reports relating to the company's annual meeting, along with analysis and recommendations. With all voting decisions, the SMRS may consider the Proxy Agent's analysis and recommendation in the mix of factors behind the decision on a particular course of action.

B. Objective

This Proxy Policy is intended to hold companies accountable to the interests of shareholders and foster good corporate governance that will reduce exposure to risks, ensure sustainable performance and enhance returns. It is subject to revision as new issues arise and best practices change. The BOI will periodically review and update this Proxy Policy to reflect changes in state law and best practices in corporate governance in order to fulfill its fiduciary duties and to further the SMRS's goals as an institutional investor.

II. BOARDS

A company's board of directors has a fiduciary duty to the company and its shareholders. This entails acting in the shareholders' best interest as their representatives and taking actions in furtherance of the long-term direction/viability of a company. The board of directors are critical to the protection of shareholder interests, supervision of management and overseeing the long-term direction of the company. A strong board can also help to mitigate the conflicts that can easily arise between the short-term incentives that a company's management team may face and the long-term incentive that the SMRS and other shareholders may have. To this end, the SMRS believes that boards should be highly qualified, diligent, ethical, accountable, primarily independent, aligned with the shareholders and focused on building long-term value. Accordingly, the SMRS will evaluate these factors and circumstances when voting for directors, with the decision on how to cast its vote being determined on a case-by-case basis.

A. Director Candidates

Open communication between shareholders and directors helps facilitate a stronger understanding of governance issues in both uncontested and contested director elections. Voting on director candidates is part of that communication process. Negative or withheld votes can express discontent or disapproval with the director or deeper issues affecting the company that are not otherwise on the ballot for a shareholder vote. When voting against or withholding a vote from an individual director candidate or entire slate of directors, the SMRS may communicate with the company regarding its reasons for the vote following the company's annual meeting.

Voting against one or more directors may arise where the board has taken actions which are generally contrary to the governance best practices or which are contrary to the principles discussed in this policy. Holding directors accountable and instilling change in the composition of a board can serve as a check and balance against underperforming boards as well as insulate the long-term prospects of the company.

Company nominees are generally supported, unless factors are present which raise questions about board composition or a candidate's judgment or ability to adequately represent shareholder interests.

The SMRS may vote against or withhold its vote from a candidate, an entire board slate, or a committee member that it views as ineffectual in its role. The actions of a particular director during his or her term on the board will determine how the SMRS will cast its vote. In addition to general governance best practices, or based on the advice, of the Proxy Agent, the following non-exhaustive list is illustrative of actions that may be deemed to represent ineffectual shareholder representation by a director:

1. attended less than 75% of board and committee meetings during the previous year without a valid excuse;
2. not truly an independent director due to personal, familial or financial relationships with the company which may impact the director's decisions;
3. demonstrating an inability to remain effectively engaged in his or her duties as a director due to outside obligations, which obligations may include serving on other company boards;
4. conviction of a felony, is under investigation for a financial, corporate or securities crime or has a history of serious misconduct, regulatory sanctions or ethical violations;
5. not holding a personally significant position in the company's stock and does not have a plan in place to acquire such a position;
6. substantial related party transactions with the company or other avoidable conflicts of interest;
7. membership on the audit committee when the director candidate owns more than 20% of the company or when the company was subject to an adverse finding or action;
8. membership on the compensation committee, or serving as the CEO, and the company has poor executive compensation practices;
9. not an independent director and seeking membership on the audit, compensation, governance, or nominating committee;
10. failure to receive a majority of votes in the previous director election at the company and all reasons for the shareholder withhold vote have not been resolved;
11. failure to act on a shareholder proposal that received the support of a majority of the shares cast in the previous year;
12. the company has consistently underperformed its peers over at least the past one, three, and five-year periods, and the SMRS does not believe the company has a plan in place that will effectively address the performance issues;
13. adoption of a poison pill or other anti-takeover device designed to prevent the acquisition of the company with a term of longer than 12 months of adoption or renewal of an existing anti-takeover device without shareholder approval;
14. failure to adequately address or provide oversight of environmental and social risks;

15. a restatement of financial statements within the past year; or
16. any other consideration that the SMRS considers relevant to a company's overall performance and governance track record.

B. Independent Chair and Committees

Given the board's responsibilities for supervision of the CEO, the presence of an independent chairperson or lead director who is not a current or former CEO (or, more rarely, another Named Executive Officer) of that company can facilitate effective executive oversight and set a pro-shareholder agenda. Accordingly, the SMRS will generally vote for proposals requiring that the positions of Chairperson and CEO be held by different individuals except in circumstances where such an arrangement is in existence and has been economically beneficial to, and protective of the rights of, shareholders.

Where the company has exhibited strong economic performance and has a combined Chairperson/CEO position, the SMRS will generally vote for an independent lead director (who is not a former CEO of the company) to be appointed for additional board oversight. The SMRS will also consider whether the company has a strong independent board (e.g., two-thirds independent by the Proxy Agent's definition) that is functioning well, in which case the SMRS may support a combined CEO and Chairperson at the company, even without appointment of an independent lead director.

Additionally, the SMRS will generally vote for proposals requiring that only independent directors serve on a company's audit, compensation, governance, and nominating committees.

C. Proposals Seeking a Majority of Independent Directors

In most instances, the interests of shareholders and independent, outside directors typically align on matters put before a company's board. An independent, outside director is an individual who does not have any affiliation with the company other than through his or her position as a director. Shareholder interests are served when a board includes enough independent, outside directors to effectively represent shareholders. Accordingly, the SMRS will vote for proposals asking that at least for a majority of directors be independent.

The SMRS will vote for proposals asking that audit, compensation, and nominating committees be composed exclusively of independent directors.

Further, where the company has neither an independent chair nor independent lead director, the SMRS will generally vote against the chair of the governance committee. If there is no chairperson, the SMRS will vote against the longest-serving committee member or longest-serving board member, as applicable.

D. Stock Ownership Requirements

Generally, stock ownership by the independent directors can allow for an alignment of interests between the board and the shareholders – provided that the directors' stock ownership is structured in a manner to mitigate the inherent tension arising from short-term and long-term ownership viewpoints and incentives. Material stock holding for directors of different

economic circumstances, is suspect and the SMRS believes the board is in the best position to adopt director stockholding policies that reflect appropriate stock holding requirements commensurate with each director's role, engagement, performance, and the size and complexity of the company – provided that the policies align with the shareholders' interests. Accordingly, the SMRS will vote against shareholder proposals to impose minimum stockholding requirements on directors. However, the SMRS will vote for proposals for director stockholding requirements that are established by the board or that only relate to payment of director compensation in company stock.

E. Board Diversity

An inclusive and diversified board of directors can provide the benefit of various perspectives and may reflect the company's diverse stakeholders, such as its workforce, customers and community. A commitment to board diversity can help to promote a company's competitive advantage by reflecting the demographics within its market, talent-pool, and/or customer base. Considering all relevant factors, the SMRS will vote for resolutions that encourage board diversity, taking into account whether (i) such action would violate applicable law or other policy, (ii) candidates for directorship are qualified to serve in that role, (iii) the specifics of a given company or its industry, market, or geography, or (iv) other factors that the SMRS may consider relevant.

F. Classified Boards

Classified boards or "staggered" terms for directors can serve as an entrenchment device that limits the ability of shareholders to change control of a poorly performing board. Particularly when combined with a poison pill, classified boards can be used by the board to defend against takeovers, even if those takeovers may have the potential to benefit shareholders. Accordingly, the SMRS will vote for proposals to repeal classified board provisions and for resolutions to establish annual board elections. Conversely, the SMRS will vote against proposals to establish a classified board.

G. Term of Office

A board's approach to the terms of its directors should balance the need to retain experienced directors with the value a fresh perspective from new directors can bring to the board and the company. Arbitrary term limits may force valuable directors off the board based solely on length of service. Conversely, boards where the average tenure approaches or exceeds 10 years run the risk of losing (i) independence from management or (ii) the capability of considering new perspectives. Accordingly, the SMRS will vote in a manner that limits continuous turnover while fostering the opportunity for new perspectives.

H. Age Limits

Much like arbitrary term limits, age limits for directors can have the effect of forcing valuable directors off boards solely based on their age. Accordingly, the SMRS will generally vote against shareholder proposals to impose inequitable age limits for directors but may vote for proposals that allow boards to review director effectiveness based on age.

I. Board Size

Boards that are too large dilute the voice of individual members and may make a board inefficient or reduce its effectiveness. Boards that are too small may not be able to adequately discharge all responsibilities or may suffer from a lack of diversity in perspectives. While the best size for a board depends upon the company and the skills of the board's members, the SMRS generally prefers a board of no fewer than five (5) and not more than twenty (20) members. Accordingly, the SMRS will vote for proposals to fix the size of a board between five (5) and twenty (20) members. Proposals that will fix the size of a board outside those parameters will be supported only if a solid rationale exists as to why it is in the best interests of shareholders. Additionally, the SMRS will generally vote against proposals that allow the company's management to fix the size of a board outside those parameters without shareholder approval.

The SMRS will generally vote against proposals that would allow a board to fix its own size without shareholder approval. However, because board size proposals can also operate as a poison pill to discourage takeovers, the SMRS may require additional analysis, including a review of the Proxy Agent's recommendation, to fully understand the rationale behind the proposal.

J. Removal of Directors and Filling Vacancies

In order to maintain accountability of the board to a company's owners, shareholders should have the right to remove directors. Accordingly, the SMRS will vote against proposals which provide that directors may be removed only for cause and vote in favor of proposals that permit shareholders to elect directors to fill vacant board seats. Proposals that restore shareholder ability to remove directors without cause will be supported.

K. Director and Officer Indemnification and Liability Protection

The SMRS believes that potential director and officer liability for breach of fiduciary duty can be a deterrent to fraud, while private securities litigation can provide a necessary remedy. Insurance coverage is available for non-intentional breaches of fiduciary duty, and it may provide better alignment of interest between directors and shareholders.

Accordingly, the SMRS will generally vote against proposals to eliminate director and officer liability for monetary damages for violations of their fiduciary duty. Similarly, the SMRS will generally vote against proposals that authorize shareholder indemnification for a director's willful misconduct or gross negligence. In limited circumstances where liability limitations or indemnification expansions are required to attract and retain qualified directors, the SMRS may support such proposals if it believes the board is qualified, independent, effective and not influenced or controlled by management or entrenched by anti-takeover devices.

L. Director Standards and Education

Policies that encourage effective oversight of management, implement peer review processes, require director training or education standards, and provide for executive review process will promote director effectiveness as shareholder representatives and better align directors' interests with that of the shareholders. The SMRS will vote for proposals that promote policies

that fall under these general tenets.

M. Establishment of Board Committees

In general, the SMRS will vote on shareholder proposals seeking to establish a new standing or temporary board committee on a case-by-case basis. Such proposals shall be considered by balancing the benefits of additional oversight with the drawbacks of decreased flexibility and increased costs to the company. The following non-exhaustive list of factors may be considered in any determination:

1. Existing oversight mechanisms (including current committee structure) regarding the issue for which board oversight is sought;
2. Level of disclosure regarding the issue for which board oversight is sought;
3. Company performance related to the issue for which board oversight is sought;
4. Board committee structure relative to that of other comparable companies in its industry sector;
5. The scope and structure of the proposal; or
6. Any other factor that the SMRS considers relevant or material to its decision.

III. VOTING RIGHTS

As a matter of course and sound governance practice, shareholders' voting rights should reflect their economic stake in the company, and the voting process should be structured to express the will of the shareholders.

A. Unequal Voting Rights

Each share of common stock should have one vote (the "One Share-One Vote" principal). Where a dual- or multi-class share structure exists such that certain classes of stock have superior voting rights, those unequal voting rights can allow a minority group of shareholders to exercise control or exert excessive influence upon a company, often at the expense of all other shareholders. This can result in entrenchment of interests and diversion of corporate assets. Accordingly, the SMRS will vote against proposals to authorize multi-class shares with superior voting rights or to increase the number of shares with superior voting rights. Additionally, if the SMRS holds shares in a company that has an existing multi-class structure described in this paragraph, the SMRS will vote for One Share-One Vote and proposals that seek to deauthorize or eliminate the multi-class structure, or which otherwise reduces the unequitable dispersion of voting rights thereunder.

B. Confidential Voting

Confidential voting ensures that shareholders are not subjected to real or perceived coercion in casting proxy votes and can be supported by the company adopting policies which include, but are not limited to, (i) providing that vote tabulators should be independent and not be employees of the company, or (ii) shareholder identity will not be disclosed unless required by

law. The SMRS will vote for proposals to adopt or support confidential voting and against proposals to eliminate or restrict confidential voting practices.

C. Supermajority Voting

The SMRS believes that the will of the shareholders should be expressed on all matters, including amendments to bylaws or charter provisions, by a majority vote of the disinterested shares that vote. Supermajority vote requirements can facilitate efforts by insiders or minority block holders to frustrate the will of the shareholders. The SMRS support proposal seeking to reduce or eliminate supermajority requirements to amend bylaws or charter provisions. Consequently, the SMRS will vote against proposals to require a supermajority vote and for proposals to eliminate supermajority vote requirements.

D. Voting for Directors

1. *Majority Vote Standard*: A majority vote standard for election of directors is central to establishing director accountability to shareholders. Given directors' corporate fiduciary duties and their role serving as shareholders' representatives, it is imperative that shareholders' rights to elect and remove directors is meaningful. Accordingly, the SMRS will vote for proposals to establish a majority vote standard for the election and removal (with or without cause) of directors; additionally, the SMRS will vote for proposals that provide for resignation of directors who do not receive a majority vote. Generally, the SMRS will vote against proposals to allow only continuing directors to elect replacements to fill board vacancies.
2. *Cumulative Voting*: Cumulative voting entitles a shareholder to aggregate all director votes and cast them for a single candidate or split them between more than one candidate. It can help a minority block of shares obtain representation on a board and make it easier to place an independent voice at an unresponsive boardroom table. It can also result in election of directors that pursue a single agenda at the expense of the welfare of all shareholders. Other factors, including a sound and viable proxy access mechanism, may make cumulative voting proposals unwarranted. As a result of the various pros and cons of cumulative voting, the SMRS will vote case-by-case on cumulative voting proposals based on the facts and circumstance of a given proposal and the company requesting such.

In the case where a company faces both a shareholder proposal to establish a majority vote standard and a shareholder proposal to adopt cumulative voting, the SMRS will generally vote in favor of only the majority voting proposal.

E. Shareholder Action by Written Consent and Call Special Meetings

The right to act by written consent and call special meetings allows shareholders to raise issues of concern and to act between annual meetings. Therefore, the SMRS will generally vote for proposals that support the shareholders' ability to act by written consent or call a special meeting or that would remove restrictions on such shareholder rights. Proposals to restrict such rights will generally be opposed. However, the SMRS recognizes that a low threshold for invoking such rights could leave the company open to disruption by the holders of a small minority interest. To protect against harassment, the SMRS will generally support establishing thresholds centered around ten percent (10%) of shareholders for permitting action by written

consent or calling special meetings. In instances where there are conflicting management and shareholder proposals, the SMRS will generally vote for the proposal with the lower threshold.

F. Charter Amendments

The SMRS believes that shareholders are the owners of a company and should be able to vote on allocation of power between the board and the shareholders. The SMRS will vote for proposals which would require shareholder approval of any amendments to the company's articles, charter, or bylaws, provided that such proposals do not also include a supermajority vote requirement.

G. Access to the Proxy

The SMRS sees the right of significant long-term shareholders to place director candidates on the company's proxy as a fundamental protection against ineffective boards and management entrenchment. Accordingly, the SMRS will vote for proposals to give significant long-term shareholders the right to place director candidates on the company's proxy.

H. Bundled Proposals

Shareholders should have the right to vote separately on each proxy issue. Bundling of proposals or making a proposal conditional upon passage of another undermines the ability of shareholders to express their will on each item and can affect voting results. Consequently, the SMRS will vote against proposals that are bundled with or conditioned upon other items, unless it believes a favorable vote on the combined items is in the best interests of shareholders.

I. Shareholder Advisory Committees

Establishment of a shareholder advisory committee can be helpful if it represents the interests of all shareholders. However, advisory committees that are not representative of the shareholder base or that pursue an agenda not in all shareholders' best interests can facilitate destruction of value. Therefore, the SMRS will vote case-by-case on proposals to establish a shareholder advisory committee, based upon the circumstances surrounding the company and the proposed committee structure.

J. Advance Notice Requirements

Some companies require extended advance notice before shareholders can place proposals on the ballot. Notice requirements may go beyond what is administratively required, such as those that mandate three-to six-months' notice prior to the annual meeting. These excessive notice requirements make it very difficult for shareholders to present a proposal or a director nominee, even if that proposal is in the best interests of the company or the shareholders. The SMRS will vote against proposals that would require an extended notice period for shareholders to place proposals on the ballot.

K. In-Person, Hybrid and Virtual Shareholder Meetings

In-person shareholder meetings offer a company's shareholders the ability to meaningfully communicate with the company's management. Virtual meeting technology can be a useful tool to complement traditional, in-person shareholder meetings by increasing the number of

shareholders who are able to attend a meeting (i.e., a “hybrid meeting”). However, virtual-only meetings, which do not give shareholders the option to attend in-person, have the potential to limit shareholder’s ability to have meaningful communication a company’s executives and directors. Adequate disclosure in a company’s proxy statement can provide assurance that shareholders who attend a meeting virtually will be afforded the same rights and opportunities to participate as they would at an in-person meeting. Adequate disclosure would include but is not limited to: (i) the ability of, and the rules for, shareholders to ask questions and submit comments; (ii) the technical and logistical issues relating to shareholder’s accessing the meeting; and (iii) whether technical support will be available to assist with accessing the meeting. Therefore, the SMRS will vote on a case-by-case basis on any proposal seeking to allow a company to hold hybrid or virtual-only shareholder meetings and will consider whether the shareholders will be afforded the same rights and opportunities to participate in a virtual-only meeting as they would at an in-person meeting.

IV. PROXY CONTESTS

Proxy contests refer to a situation in which a shareholder or group of shareholders attempt to oppose and vote out the current management or board of directors. Proxy contests may serve as means for dealing with ineffective management and directors, which requires a careful evaluation based of market factors and the SMRS’s fiduciary duties.

A. Voting for Director Nominees in Contested Elections

Contested elections provide shareholders with alternative director nominees for future oversight of the company. In these situations, the SMRS evaluates the potential for creation of sustainable long-term value associated with the alternative director nominees. Accordingly, votes in a contested election are evaluated by the SMRS on a case-by-case basis taking into consideration the following non-exhaustive list of factors:

1. Long-term financial performance of the target company relative to its peers;
2. Current management’s track record;
3. Qualifications of director nominees (both sides);
4. Strategic plan of dissident slate and quality of critique against management or the board;
5. Evaluation of the value that each side is offering the shareholders;
6. The likelihood that the proposed objectives and goals can be met;
7. Sustainability of any value creation;
8. Stock ownership positions; or
9. Additional background and factors surrounding the proxy contest.

B. Reimburse Proxy Solicitation Expenses

Mounting a proxy solicitation can be expensive. In many cases, a proxy solicitation can generate increases in shareholder value. In other situations, it may involve efforts to benefit

short-term owners at the expense of long-term investors.

The SMRS will analyze reimbursement of proxy solicitation expenses on a case-by-case basis, taking into consideration whether the solicitation was consistent with the best interests of the SMRS. However, the SMRS also recognizes that a majority shareholder vote provides a *de-facto* determination of the shareholders' best interests. Accordingly, the SMRS will generally vote for resolutions mandating reimbursement of reasonable solicitation expenses, where at least one candidate on a proxy has been elected by majority vote.

V. AUDITORS

Shareholders rely on independent audit committees and auditors to confirm the reliability of company information used by the SMRS in the investment process, while helping to ensure the integrity of the audit process and protect shareholders.

A. Ratifying Auditors

The use of independent auditors (i.e., firms that do not perform substantial non-audit consulting work for the company) help to mitigate potential conflicts of interests inherent in audit work. Generation of large fees from consulting based, non-audit work can create or foster particularly dangerous conflicts of interest that undermines confidence in the auditor's independence. Where non-audit consulting fees comprise a substantial portion of total audit fees, the SMRS believes that a serious question exists regarding the auditor's independence. Annual review of an auditor's performance and annual ratification of the board's selection of auditor can ensure that an auditor meets these criteria.

Accordingly, the SMRS will generally vote for proposals to ratify auditors on an annual basis, unless non-audit fees received from the company during the preceding fiscal year represent 25% or more of the total audit fees, in which case, the SMRS will take a close review of the company's prior years' fees to gauge the situation. As part of this review process, the SMRS, in conjunction with the Proxy Agent, may discuss with management, or otherwise review, the company's classification of non-audit consulting fees to ensure fees that could be considered audit-related are classified correctly.

Alternatively, where there is good reason to believe that the auditor has rendered an opinion which is neither accurate nor indicative of the company's true financial position, the SMRS will vote against ratification of the auditor.

B. Auditor Indemnification and Limitation of Liability

The Council of Institutional Investors, an industry association of pension funds and other asset managers, has adopted a policy opposing limitations on the liability of outside auditors as a practice that is not in the best interests of shareholders. The SMRS and other investors rely heavily on the integrity of auditors and believe they play a key role in the financial markets. Indemnification rights for auditors, if structured inappropriately, can have a chilling effect on an auditor's independence.

Accordingly, the SMRS will generally vote against proposals to extend indemnification to auditors or otherwise limit their liability, unless the SMRS determines that such provisions are

necessary to obtain quality audit services and are consistent with prevailing market practices and applicable law.

VI. ANTI-TAKEOVER DEFENSES

Change in corporate control can impact the value of shares, where it can serve to free up shareholder value or diminish the company's long-term success. Anti-takeover defenses can be used on either side of this issue: they can protect companies from value-destroying takeovers and help boards negotiate a better price for shareholders during justifiable takeover bids, or they can be used to diminish value by allowing entrenched management to fight off proposals that are in the best interests of shareholders.

Because of the conflicting interests of players involved in takeover situations, the SMRS will evaluate anti-takeover defenses and vote on a case-by-case basis, taking into consideration the specific circumstances of a particular matter put to vote.

A. Poison Pills

A poison pill is a tactic often used to avoid a takeover bid by a potential acquirer that wishes to obtain a controlling block of shares in the target company. When triggered by the acquisition of a set level of shares by a potential acquirer, poison pills generally result in the issuance of rights to other shareholders allowing them to purchase shares from the target company at a discount to the fair market value. This strategy dilutes the percentage of the target owned by the acquirer and makes it prohibitively expensive to acquire control of the target. It insulates the target from the threat of an unfriendly change in control and can position the target to negotiate a higher price for its shareholders. Because poison pills greatly alter the balance of power among shareholders, the board and management, the SMRS believes that shareholders should be allowed to evaluate the need for anti-takeover devices and make their own decisions.

Accordingly, the SMRS will vote for proposals that ask a company to submit its poison pill to the shareholders for approval. The SMRS will also vote for submission of a company's poison pill to a shareholder vote within a year of adoption and at least every three years thereafter. The SMRS will generally vote against poison pills that unduly insulate management from the market for corporate control. Among other things, the SMRS objects to poison pills that (i) would become effective when a shareholder has acquired less than 20 percent of the stock; (ii) have a "dead hand" provision (which could be redeemed only by individuals who were directors when it was adopted or are those directors' chosen successors); (iii) have a term of more than three years without a shareholder approval vote; or (iv) do not include a mechanism to allow shareholder redemption of the pill where the board has not redeemed it within a reasonable time after receiving a qualified takeover offer.

The SMRS reserves the right to vote on a case-by-case basis when deciding whether to approve a poison pill or redeem one. Among other things, the SMRS may consider (i) performance of the company; (ii) likelihood that an acquisition would benefit shareholders; (iii) vulnerability to undesirable takeover threats; (iv) business plans of management and any acquirer; (v) the presence of other potential bidders; (vi) equal treatment of shareholders; (vii) adequacy of price; (viii) sustainability of company performance; (ix) corporate governance provisions; and (x) independence of the company's board.

Additionally, poison pills may be built around certain tax events. Section 382 of the United States Internal Revenue Code (the “Code”) limits a company’s ability to carry forward Net Operating Losses (“NOL”) if that company undergoes certain ownership changes, as detailed in that section of the Code. When such poison pills are put to a vote, the SMRS will vote on a case-by-case basis in light the facts and circumstances of the particular poison pill, the performance of the company, and the effectiveness of the particular board and management team.

B. Fair Price Provisions

Fair price provisions force an acquirer to pay remaining minority shareholders at least as much as was paid to acquire its control position. While these provisions can guard against coercive two-tiered tender offers, they can also potentially limit gains to shareholders by affecting the terms and final disposition of acquisitions.

The SMRS will generally vote against fair price provisions that require greater than majority shareholder approval. Otherwise, fair price provisions are evaluated on a case-by-case basis, taking into consideration the expected impact on the value of the SMRS’s holdings.

C. Greenmail

Greenmail is the practice of a company repurchasing a large block of company stock at a premium from a potential unfriendly acquirer. Since other shareholders do not receive the same offer, greenmail is discriminatory and can protect entrenched management from a takeover. Accordingly, the SMRS will vote for proposals that restrict a company’s ability to make greenmail payments.

VII. CAPITAL STRUCTURE

Corporate financing and management of a company’s capital structure can have a significant impact on shareholder value. Proxy voting decisions on capital structure-related issues require consideration of a myriad of issues and the analysis is typically fact intensive based on the particulars of the company. Such votes are guided by a determination of what is in the best interests of the SMRS.

A. Capital Stock Authorizations

When voting on authorization of additional capital stock, stock splits, stock distributions or payment of dividends, the SMRS considers the rationale for the increase and the effect that issuance will have on shareholders. Accordingly, shares involving this issue are voted on a case-by-case basis. If a company’s shares are in danger of being delisted or if a company’s ability to continue to operate as a going concern is uncertain, the SMRS will normally vote for proposals to increase authorized shares beyond the required market capitalization.

The SMRS will generally vote for proposals to require shareholder approval of authorization to increase authorized capital stock.

B. Preferred Stock

Preferred stock can be an important financing vehicle, but it can also disadvantage common

shareholders or be used as an anti-takeover device. How the preferred stock will be used, the impact on voting rights and the amount of dilution it has on common shareholder interests must be evaluated. Accordingly, the SMRS will vote against proposals authorizing the creation of new classes of preferred stock with unspecified voting, conversion, dividend distribution or other rights (i.e., "blank check preferred stock"). The SMRS will vote for proposals to authorize preferred stock where its terms are specified and found to be in the best interests of the SMRS. However, the SMRS will generally vote against proposals to authorize multi-class shares with superior voting rights or to increase the number of shares with superior voting rights.

C. Preemptive Rights

Preemptive rights can protect shareholders against dilution of their interests. The SMRS will vote against proposals to eliminate its preemptive rights or to place limits on them.

D. Debt Restructuring

Debt restructurings are situation specific and the SMRS will vote on a case-by-case basis for debt restructuring proposals. Factors to be considered include self-dealing, dilution, change in control, bankruptcy and management capabilities.

E. Share Repurchase Programs

Where companies establish a share repurchase plan because management believes the stock is undervalued, it can benefit shareholders. However, repurchase programs can also be used as an anti-takeover defense and to reduce dilution from employee stock option programs, even when the stock is overvalued. Accordingly, the SMRS will generally vote for proposals to institute an open-market share repurchase plan if all shareholders may participate on equal terms, unless it determines that the program is not in the best interests of the shareholders.

F. Tracking Stock

Tracking stock voting decisions require an analysis of the impact it will have on the existing shareholders. The SMRS will vote on a case-by-case basis on proposals to create tracking stock.

VIII. EXECUTIVE AND DIRECTOR COMPENSATION

The legislative reforms that followed the 2008 global financial crisis provided shareholders with more access to information relating to executive and director compensation. The SMRS believes that this increased transparency assists shareholders in evaluating whether a company is implementing "pay-for-performance" principles.

The SMRS also believes that the board has ultimate responsibility for establishing compensation principles that attract, retain, and motivate executives in a way that aligns their interests with long-term shareholders. The members of the compensation committee should be held accountable for a company's compensation practices. Generally, the SMRS believes that total compensation of executives and directors should be driven by long-term stock performance and the underlying value of executives to the company. Therefore, in addition to the following, the SMRS may

withholding votes from, or vote against, directors at companies with poor executive compensation practices.

A. Equity Compensation Plans

Equity compensation plans should be based on pay-for-performance principles. These principles should require retention of company equity by executives, be aligned with the company's strategic plan and interests of shareholders, reward only sustained performance, not be overly dilutive of outside shareholders, reflect long-term shareholder returns, be integrated with the executive succession plan, avoid gratuitous and duplicative perks or compensation awards, be reasonable in cost and be consistent with compensation for executives performing comparable responsibilities at peer companies.

The SMRS will vote on a case-by-case basis on issues relating to shareholder approval of stock option, restricted stock and other equity compensation plans. The SMRS will vote against plans that provide excessive transfer of shareholder value or voting power to insiders, award options at less than fair market value, allow re-pricing without shareholder approval, include an evergreen provision to automatically reload options in place of those granted from the authorized award pool, result in excessive compensation or have a pay-for-performance disconnect.

B. Option Re-pricing

Re-pricing of options undermines the basis upon which options are granted. The SMRS will generally vote against proposals seeking approval of option re-pricing, especially if the company is re-pricing underwater options after a recent precipitous drop in the company's stock price. Market deterioration, in and of itself, is not an acceptable reason to re-price stock options. Nonetheless, the SMRS will consider unique competitive considerations, historic trading patterns, the rationale for the re-pricing, whether it is a value-for-value exchange, and the terms of the re-pricing, such as exercise price, length of term and who may participate.

C. Employee Stock Purchase Plans

The SMRS will vote on employee stock purchase plan proposals on a case-by-case basis, taking into consideration several factors including, but not limited to: (i) the amount of dilution to outside shareholders, (ii) discount to fair market price, and (iii) length of the offering period.

D. Employee Stock Ownership Plans (ESOPs)

The SMRS will vote for proposals relating to establishment of or authorization of shares for Employee Stock Ownership Plans (ESOP) for senior executives or other senior management, provided that the ESOP requires: (i) the senior executives hold a minimum amount of stock; (ii) the senior executives hold the stock for a certain period of time; (iii) the ESOP must be used as a substitute for cash in delivering total pay; and (iv) the number of shares allocated to the ESOP is not excessive (generally, no more than 10% of outstanding shares) or would otherwise unnecessarily dilute outside shareholders or serve as a *de facto* anti-takeover device.

E. Broad Based Employee Ownership Plans

The SMRS supports broad based employee ownership plans or grants that are aimed at increasing access to and participation in shared ownership for all employees of the company. The SMRS will vote in favor of such programs or grants where they are designed in a manner that serves to engage and empower employees by allowing an effective means to share in the financial success of the company, while maintaining balance with the overall interest of all shareholders and the long-term financial well-being of the company.

F. Performance-Based Awards

When proposals are put forward advocating the use of performance-based equity awards, such as indexed options, premium-priced options, performance-vested awards, or otherwise seeking alignment of pay with performance, the SMRS will usually vote for such proposals. However, the SMRS reserves the right to vote against such proposals where they contain requirements that would unduly tie the hands of the board, provided that the company is already using a rigorous performance-based equity program for which full disclosure is made.

G. Limits on Executive and Director Compensation

The SMRS will vote on proposals to cap compensation on a case-by-case basis, taking into account company performance and compensation practices, competitive market factors, internal pay equity, employee retention needs and impact on pay for performance.

H. Golden Parachutes and Termination Payouts

Golden or tin parachutes provide payments to executives in the event of a change in control. They often amount to compensation for underperformance that caused the change in control. The SMRS will generally vote against such parachutes or termination payouts when they exceed two times base salary and bonus. The SMRS will vote for proposals to require shareholder ratification of golden parachutes.

I. Golden Coffins

Golden coffins are lucrative death benefit packages paid to survivors of executives who die while still employed with a company. Benefits may include unearned salary, accelerated stock options, and insurance proceeds.

The SMRS will generally vote for proposals calling on companies to adopt a policy of obtaining shareholder approval for any future agreements and corporate policies obliging the company to make payments or awards following the death of a senior executive that exceed those offered to employees and management. The SMRS will also vote for proposals requesting the removal of such lucrative death benefits from compensation packages. The SMRS opposes death benefit packages that are excessive and have no benefit to shareholders.

J. Independent Compensation Consultants

In order to avoid conflicts of interest, independent executive compensation consultants should be retained directly by and report to the compensation committee. The SMRS will vote for proposals to require retention of a non-conflicted and independent executive compensation

consultant by the compensation committee. The SMRS will also vote for proposals to require shareholder approval of the executive compensation consultant.

The SMRS will vote for proposals that seek disclosure of all compensation paid by the company to the compensation committee consultant so that shareholders are aware of all potential conflicts of interest.

K. Advisory Shareholder Votes on Compensation (“Say on Pay”)

The 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) addressed executive compensation by giving shareholders two advisory votes:

1. One vote approving executive compensation (“Say on Pay proposals”); and
2. A second vote saying how often shareholders wanted to be presented with the vote approving executive compensation (see below).

The advisory vote for Say on Pay proposals allows shareholders the opportunity to communicate their views on executive compensation. The SMRS will vote for Say on Pay proposals on a case-by-case basis as this provides the clearest communication vehicle for shareholders to communicate concerns about executive pay programs.

L. Frequency of Shareholder Votes on Compensation

Under the Dodd-Frank Act, shareholders have the option of voting on executive compensation annually, biennially, or triennially. The SMRS will vote for proposals requiring advisory votes on compensation on an annual basis, as this allows shareholders to consistently communicate shareholder views and respond to changes in executive compensation plans.

M. Additional Disclosure

The SMRS believes that the fullest practicable disclosure on executive compensation is required to protect the interests of shareholders due to the direct conflict of interest between management and outside shareholders on compensation issues. Accordingly, the SMRS will generally vote for proposals that seek additional disclosure of executive and director compensation information, except where the SMRS has determined that disclosure would not be in the best interests of shareholders.

N. Director Compensation

The SMRS favors payment of a substantial portion of outside director compensation in performance shares and restricted stock, a significant portion of which should be retained throughout service on the board, in order to align interests with long-term shareholders. Director compensation should be reasonable in amount and not include retirement benefits. Therefore, the SMRS will vote on proposals to establish outside director compensation policies on a case-by-case basis, taking into consideration the reasonableness of the compensation.

O. Executive Compensation Resolutions

The SMRS will vote on a case-by-case basis on shareholder proposals that call for the

imposition of compensation limits at companies. Proposals may include caps on bonus compensation, an emphasis on performance-vested equity awards, equity retention requirements, and limits on retirement and severance benefits. The SMRS will consider the following:

1. Evidence that the compensation committee has taken substantial steps to revise the company's compensation practices to better reflect the current economic environment; and
2. Problematic pay practices, current and past, particularly those which shareholders believe may have promoted a risk-taking environment that was ultimately to the detriment of shareholders' long-term interests.

P. Director Retirement Plans and Supplemental Executive Retirement Plans (SERPs)

The SMRS will vote for proposals requesting a shareholder vote on director retirement plans. The SMRS generally views director retirement plans as not in shareholders' best interests because they provide an incentive for directors to align with management. Accordingly, the SMRS will vote against such plans if there appears to be a misalignment of interests.

As a public pension plan, the SMRS supports retirement plans that treat employees equitably. However, "Top Hat" or Supplemental Executive Retirement Plans ("SERPs") are separate from retirement programs made available to other employees and have been used to continue the escalation of special compensation for executives. The SMRS will vote for proposals to require shareholder approval of SERPs and against plans that provide excessive benefits that are beyond what is offered to other employees.

Q. Deferred Compensation and 401(k) Employee Benefit Plans

The SMRS will vote for proposals to implement 401(k) plans for employees. However, 401(k) and deferred compensation plans for executives should not provide above-market investment guarantees not afforded to all employees. The SMRS will generally vote against plans with such provisions.

R. Derivative or Speculative Transactions

The SMRS will vote for proposals that prohibit senior executives from entering into derivative or speculative transactions involving company stock, including but not limited to trading in puts, calls, covered calls or other derivative products; engaging in hedging or monetization transactions with respect to company stock; holding company stock in a margin account; or pledging company stock as collateral for a loan. The SMRS generally believes that these transactions are short-sighted and create a misalignment of interest between the executive and the company's long-term shareholders.

S. Compensation Recoupment or Clawback

The SMRS will vote for proposals that require the recoupment of incentive compensation paid to senior executives if the company restates its financial statements for a previous reporting period, if the incentive compensation was based on fraud, or if it is later determined that the performance metrics upon which the incentive compensation was earned are incorrect.

In addition to situations involving financial misrepresentation, the SMRS will vote for proposals to amend a company's clawback policy to permit recoupment where an executive's conduct results in a material violation of the law or company policy that causes significant financial or reputational harm to the company or where the executive was found to have failed to satisfy his or her responsibility of effective risk management or that they engaged in deceptive or unethical business practices.

T. Poor Pay Practices

When the SMRS is afforded an opportunity to vote on executive compensation, it will evaluate whether the company's practices incorporate pay-for-performance principles and align compensation with the interests of long-term shareholders. The SMRS will generally vote against compensation plans with poor pay practices, especially those practices that could incentivize excessive risk taking. When considering executive compensation proposals, the SMRS will generally consider factors described in more detail in Article III along with general governance best practices and other factors that it deems relevant, including the recommendation of the Proxy Agent.

IX. PLACE OF INCORPORATION

The state or country of incorporation, and application of the corporate laws of that jurisdiction, can have a large impact on the rights of shareholders and operations of the company. The long-term value of investor rights and the costs or disadvantages associated with the company's place of incorporation are important factors that play into any voting decision on this issue.

A. Reincorporation Proposals

Because of the comprehensive protections available to shareholders in the United States, the SMRS will generally vote against proposals to move a company's domicile from the United States to another country. Nevertheless, where the benefits to shareholders of a reincorporation elsewhere are determined to outweigh the disadvantages, the SMRS may vote in favor of a reincorporation. The SMRS will generally vote for proposals to move a company's domicile to the United States, unless the associated disadvantages to shareholders are determined to outweigh the advantages.

When considering proposals to move incorporation from one state to another, the SMRS will also consider the relevant state laws and assess whether the reincorporation would decrease shareholder rights at the company. The SMRS will vote case-by-case on state reincorporation proposals.

B. State Anti-Takeover Statutes

As with poison pills, state law anti-takeover protections generally serve to insulate entrenched management from an acquisition that could free up shareholder value. However, in some instances, a takeover may not be in the best interests of shareholders. The SMRS will generally vote for opting out of state anti-takeover statutes but, taking into account considerations identified in the anti-takeover policies above, may vote against an opt out where it determines shareholders would benefit from the protections.

X. CORPORATE ACTIONS AND TRANSACTIONS

A. Mergers and Acquisitions

Votes on mergers and acquisitions involve an evaluation of the merits and drawbacks of the proposed transaction. This evaluation can include consideration of the following non-exhaustive list of factors:

1. *Valuation*: Is the value to be received by the target shareholders (or paid by the acquirer) reasonable? While the fairness opinion may provide an initial starting point for assessing valuation reasonableness, emphasis is placed on the offer premium, market reaction, and strategic rationale.
2. *Market Reaction*: How has the market responded to the proposed deal? A negative market reaction should cause closer scrutiny of a deal.
3. *Strategic Rationale*: Does the deal make sense strategically? From where is the value derived? Cost and revenue synergies should not be overly aggressive or optimistic, but reasonably achievable. Management should also have a favorable track record of successful integration of historical acquisitions.
4. *Negotiations and Process*: Were the terms of the transaction negotiated at arm's length? Was the process fair and equitable? A fair process helps to ensure the best price for shareholders. Significant negotiation "wins" can also signify the deal makers' competency. The comprehensiveness of the sales process (e.g., full auction, partial auction, no auction) can also affect shareholder value.
5. *Conflicts of Interest*: Are insiders benefiting from the transaction disproportionately and inappropriately as compared to non-insider shareholders? As the result of potential conflicts, the directors and officers of the company may be more likely to vote to approve a merger than if they did not hold these interests. Consider whether these interests may have influenced these directors and officers to support or recommend the merger.
6. *Governance*: Will the combined company have a better or worse governance profile than the current governance profiles of the respective parties to the transaction? If the governance profile is to change for the worse, the burden is on the company to prove that other issues (such as valuation) outweigh any deterioration in governance.

B. Company Transactions

The SMRS will vote on upcoming merger and acquisition, restructuring, spin-off, spin-out, privatizations, asset sale, liquidation, and any other such transaction-based proposals (collectively "Company Transactions") on a case-by-case basis, taking into account the merits and drawbacks of the proposed transaction to determine what it believes will be in the best interests of the SMRS.

For Company Transactions that occurred within the past year but where the applicable governing documents adopted by the board significantly restrict the rights of shareholders indefinitely, the SMRS will generally vote against the members of the governance committee

or other director nominees, as applicable.

C. Appraisal Rights

Appraisal rights are intended to help protect shareholders from unfair pricing in corporate transactions. The SMRS will vote for proposals that (i) provide shareholders with appraisal rights, (ii) restore rights of appraisal, or (iii) which otherwise support rights of appraisal.

XI. SECURITIES LENDING

The Michigan Legislature provided the SMRS with the right to implement a securities lending program to allow it to seek additional return profiles in furtherance of its fiduciary duty to its beneficiaries. This authorization and the program are subject to further limitations in the SMIB's Investment Policy Statement. The program is underwritten to allow the SMRS to generate income, primarily from fees derived from lending its equity in portfolio companies to qualified borrowers, while taking steps to appropriately manage attendant risks with securities lending. This includes, but is not limited to, restrictions on the ability to vote shares that are on loan. This situation can create tension when considering the SMRS's goal of protecting the beneficiaries' long-term interests. These competing responsibilities must be balanced to maximize value for the beneficiaries.

A. Shares Subject to Recall or Restricted Lending

Shares shall not be lent for the purpose of conveying voting rights to a third party. The SMRS will restrict securities available to loan, or recall securities currently on loan, on a case-by-case basis, as may be necessary to maximize the long-term value of the investment. The SMRS may prevent shares from being lent or recall securities currently on loan upon the occurrence of certain circumstances including, without limitation, pending approval of mergers, acquisitions, bylaw or charter amendments or shareholder proposals to alter the company's governance practices and executive compensation programs that might affect shareholder value.

B. Lend/Recall Decision Factors

The SMRS may consider, but shall not be limited to, the following factors to determine whether to lend or recall shares:

1. Income generated from lending fees as compared to the anticipated value or potential investment risks that could result from passing voting rights to the borrower;
2. The cumulative value of the SMRS's interests in the company;
3. The significance of the proposals that are likely to be on the proxy;
4. Potential for abuse of long-term shareholder interests if the shares were not voted in accordance with the SMRS policies; and
5. Other effects on the value of the SMRS's holdings in the company.

Company meeting dates and lending activity will be monitored to the extent practicable in

order to allow shares to be removed from the lending pool or be recalled if the SMRS believes that the exercise of voting rights may be necessary to maximize the long-term value of the investment. The SMRS recognizes that the timing of company meeting notices and record dates often preclude implementation of this policy. Accordingly, the SMRS will generally vote for resolutions that would require companies to provide sufficient advance notice of annual meeting agenda items so that the SMRS has sufficient time to recall the loaned securities before the record date.

XII. ENVIRONMENTAL, SOCIAL AND GOVERNANCE ISSUES

The Michigan Legislature has set the mandate with respect to environmental and social issues. The SMRS will vote all Environmental, Social and Governance (ESG) matters in a manner which complies with its obligations under Act 314. Generally, environmental and social issues alone fall outside the scope of the SMRS's fiduciary responsibility, however, the SMRS will analyze all environmental and social matters generally on a case-by-case basis by taking into consideration the long-term impact on shareholder value, company exposure to risks or liability (and the potential impact to the company's long-term financial wellbeing), stakeholder impact, and the welfare of beneficiaries. It will balance expected benefits, reductions in portfolio risk exposure and company performance ramifications with associated costs, financial impact and competitive issues.

Considering the foregoing, the SMRS fully expects a company to identify, manage, and disclose environmental and social issues that pose material business risks in a manner that (i) supports the long-term viability of the company, and (ii) is in the best interest of the shareholders. This includes transparency with shareholders with respect to the areas representing opportunities and/or risks to the company and contain a comprehensive mitigation strategy. There should be adequate mechanisms for the review and verification of these opportunities and risks, which should include the ability or means to measure performance. The SMRS will generally support proposals that require the reporting or disclosure of information to allow investors to adequately evaluate risks and sustainability of corporate performance over the long term.

The items addressed below provide a framework around which certain issues come before a vote; however, the SMRS's determination on any particular vote will be largely based on the facts and circumstances of a given matter, where a vote will be cast based on what is in the best interests of long-term shareholders.

A. General Governance Issues

1. *Link Executive Compensation to Social Performance*: The SMRS will vote case-by-case on proposals to review ways of linking executive compensation to extra-financial factors taking into consideration, among other things, potential impact of the factors on company performance and reputation, risk exposure, and liability, and whether the inclusion of such factors reflects a meaningful link between pay and performance.
2. *Political Contributions*: Generally, the SMRS will vote for proposals supporting efforts to make shareholders aware of the company's position regarding Political Action Committees (PACs) and contributions to PACs or other organizations that devote substantial resources to create or issue politically charged advertisements or otherwise attempt to influence elections. Although political contributions can involve significant benefits, they may also

involve significant reputation and regulatory risks, which might have ramifications for shareholder value.

3. *Lobbying*: The SMRS will vote case-by-case on proposals requesting information on a company's lobbying initiatives, considering any significant controversy or litigation surrounding a company's public policy activities, the current level of disclosure on lobbying strategy, and the impact that the policy issue may have on the company's reputation and business operations.
4. *Charitable Contributions*: Generally, the SMRS will vote against proposals restricting the company from making charitable contributions. Charitable contributions can be generally useful for assisting worthwhile causes and for creating goodwill in the community. In the absence of bad faith, self-dealing, or gross negligence, management should be in the best position to determine which contributions are in the best interests of the company. Where there are indications that such negative factors are present, the SMRS may vote for proposals that ask for reports or restrictions on charitable contributions.

B. Corporate Sustainability, Environment, and Social Responsibility

1. *Sustainability Reporting*:
 - a. Corporate ESG performance and effective reporting can be relevant factors in investment decisions and can also allow investors to appropriately engage with companies in which they own shares. A high-quality sustainability report can demonstrate a company's thoughts and position with respect to material ESG risks and opportunities it may face. Such reporting and disclosure, when completed in a consistent and well-developed manner, can help inform investment decision making by providing investors with a thorough picture of materials risks and opportunities facing the company. Effective reporting and disclosure can be accomplished through adhering to recognized standards for disclosure, such as guidelines promulgated by the Global Reporting Initiative (GRI) and the Sustainability Accounting Standards Board (SASB). For reports and disclosures to be of use in the investment decision making process, they should provide clarity about a company's (i) understanding, definition, and reporting of the risks and opportunities arising from its relationships with stakeholders and the impact on economic performance and shareholder value, (ii) governance policies for addressing relevant issues, and (iii) ESG performance data. The SMRS generally supports the incorporation of material sustainability information into a company's disclosures and/or regulatory filings.
 - b. In accordance with the above principals, the SMRS will generally:
 - i. support proposals asking companies to prepare sustainability reports, including those requesting disclosure consistent with SASB, GRI, or other internationally recognized sets of guidelines.
 - ii. support proposals requesting that companies conduct social and/or environmental

audits and/or risk assessments of their performance.

2. Environment:

- a. Companies' business activities depend on and effect the natural environment, to varying degrees dependent on factors such as type of business, location, industry, or workforce. Physical changes in ecosystems, the associated effects on human health and the availability of natural resources, and national and international efforts to mitigate environmental harm will have a profound impact on corporate and investor outcomes. Research has shown that companies whose strategies and operations understand and account for negative or beneficial environmental impact tend to exhibit higher economic performance over the long-term. Additionally, trends are showing that companies across all industries and sectors are taking environmental issues into account at a strategic level, which includes (but is not limited to) the implementation of (i) environmental management systems; (ii) business strategies that anticipate risks and opportunities related to corporate environmental sustainability; and (iii) quantitative targets for reducing environmental impacts from operations and supply chains.
- b. The SMRS will generally:
 - i. support reasonable proposals to reduce negative environmental impacts and a company's overall environmental footprint, including any threats to biodiversity in ecologically sensitive areas.
 - ii. support proposals asking companies to report on their environmental practices, policies and impacts, including environmental damage and health risks resulting from operations, and the impact of environmental liabilities on shareholder value.
 - iii. support proposals requesting that companies disclose information on greenhouse gas emissions (including carbon, methane, and all other recognized greenhouse gases) and mitigation targets.
 - iv. support proposals asking companies to adopt greenhouse gas reduction targets.
 - v. support proposals asking for the preparation of a report on a company's efforts to increase its use of renewable energy sources.
- c. As with all matters discussed in this Proxy Policy, the determinative factors that SMRS shall rely upon with respect to votes involving environmental issues shall be (i) the particular facts and circumstances of the matter being voted upon, and (ii) what course of action is in the best interest of the members of the retirement system in light of such facts and circumstances. These two factors may result in the SMRS casting a vote that does not align with the principles described in this section.

C. Labor Standards and Human Rights

1. Generally: Due to the global nature of corporations today, human rights and labor standards are increasingly important issues for companies to recognize and take the appropriate steps to mitigate the risks involved. Human rights and labor violations are

detrimental to the company's reputation and can potentially have a negative impact on the company's value. Accordingly, the SMRS will generally vote for proposals supporting fair labor standards and human rights where it is demonstrated that the proposal will have no adverse effect upon the long-term economic wellbeing of the company and in the best interests of the shareholders. The SMRS will also support proposals requiring enhanced reporting requirements on a company's human rights and labor standards where the disclosure does not cause a competitive disadvantage or impose a significant financial burden on the company.

2. *MacBride Principles*: The Michigan Legislature formally adopted the MacBride Principles for doing business in Northern Ireland through Section 13a of Act 314, being MCL 38.1133a. Pursuant to this mandate, the SMRS will vote for proposals supporting the adoption of the MacBride Principles for companies and vote for proposals to end employment discrimination contained in any agreement between the government of the Republic of Ireland and the government of the United Kingdom. Such proposals reduce exposure to liability, workforce issues and reputation risk for companies operating in Northern Ireland.

D. Business with State Sponsors of Terror

Divestment from Terror: The SMRS is subject to the State of Michigan's Divestment from Terror Act, 2008 PA 234, MCL 129.291, *et seq*, and Sections 13c and 13d of Act 314, which prohibits the SMRS from holding the securities of companies that have active business operations involving any government that is currently designated as a "state sponsor of terror" by the United States Department of State. Due to this obligation, the SMRS will generally vote for requests for a review and report on the company's financial and reputation risks from its operations in a terrorism-sponsoring state, taking into consideration, (i) the SMRS's own obligations under its divestment from terror mandates; (ii) current disclosures on the nature and purpose of the operations; (iii) the amount of business involved that could be affected by political disruption; (iv) compliance with United States or United Nations sanctions and laws; and (v) other factors deemed relevant by the SMRS.

XIII. OTHER ISSUES

Votes on issues not addressed in this Proxy Policy will be cast in accordance with the SMRS analysis of the relevant issues, taking into consideration the standard proxy guidelines of the Proxy Agent and those used by similar investors.