MODEL SYSTEM-STEWARDSHIP INVESTMENT BELIEFS & PROXY-VOTING POLICY

Accounting for the Costs & Risks Portfolio Companies Externalize

MODEL SYSTEM-STEWARDSHIP INVESTMENT BELIEFS

Stewardship decisions with respect to any individual company must account for the full impact the company will have on the entire portfolio, and not just individual company value.

A. PORTFOLIO-WIDE THREATS

Economy-wide costs imposed on the environment and society create systemic costs and risks that are undiversifiable and unavoidable in our portfolio. Therefore, the actions of companies that directly or indirectly increase these risks and costs threaten the long-term value of our entire portfolio.

B. SYSTEM-STEWARDSHIP APPROACH

Our fiduciary responsibility to our beneficiaries includes taking advantage, when practicable, of opportunities to prevent companies from pursuing financial value through behavior that externalizes systemic costs and risks that are likely to harm our beneficiaries more than the isolated financial gains at a single company might benefit them.

C. LEVEL PLAYING FIELD

In a market environment, competition can drive companies to externalize costs unless they operate on a level playing field. Therefore, where there are reasonable opportunities to do so, we will use our power as shareholders to create such a level playing field if it is likely to redound to the benefit of our beneficiaries.

MODEL SYSTEM-STEWARDSHIP VOTING POLICY PROVISIONS

[Model system-stewardship text to be inserted within broader voting policies]

A. DIRECTOR VOTES FOR COMPANIES CREATING SYSTEMIC COSTS AND RISKS; LIMITS AND GUARDRAILS

Our system-stewardship approach means that, where practicable, we will work with other investors to hold boards accountable at portfolio companies when they fail to implement appropriate *guardrails*--reasonable limits on activities that externalize social and environmental costs. Among other matters, we may join other investors in voting against directors at companies that have failed to implement such guardrails in the areas of:

- Specified social and environmental impacts, including:
    - Greenhouse-gas emissions
    - Impacts on inequality created by compensation policies
    - Impacts on inequality stemming from tax practices
    - Impacts on biodiversity from manufacturing and supply chain practices
    - Contributions to antimicrobial resistance based on use of antibiotics in supply chains
    - Contributions to antimicrobial resistance based on manufacturing and sales practices
- Disclosure of externalized costs
- Elements of compensation polices necessary to ensure that executives are not rewarded for practices that externalize social and environmental costs
- Lobbying and political influence

These votes against directors may come in the form of withhold votes in uncontested elections or in votes for shareholder-nominated candidates.

B. PROXY-VOTING POLICY; SYSTEMIC COSTS, BENEFITS, AND RISKS

To implement our system-stewardship approach, we will, where practicable, vote in favor of shareholder proposals at portfolio companies that promote the proper balance of system-wide costs and risks. Among other matters, such proposals may address:

- *Gap analysis.* Disclosure of the external costs of current company activity contrasted with the likely magnitude of such costs if the company were not optimizing solely for financial return.
- *Corporate form.* Precatory proposals recommending adoption of a corporate form, such as the public benefit corporation, which allows companies to account for shareholders' portfolio interests beyond company financial returns.

- *Systemic issues*. Precatory proposals that, if implemented, would tend to protect social and environmental systems, and thereby raise returns to diversified portfolios.

- *Governance*. Binding and non-binding proposals that enable shareholder voting likely to advance beta stewardship.

C. VOTING POLICY ON CERTIFICATE AMENDMENT TO BECOME A BENEFIT CORPORATION

Conversion to a benefit corporation form gives companies a clear pathway to protect the systemic interests that may come into conflict with company-specific financial returns. However, the increased discretion may create a risk that directors fail to protect shareholder interests, so should be adopted only at companies that have strong corporate governance, including annually elected boards, a single class of stock, and effective majority voting.

To protect the value of our portfolio as a whole, we will, where practicable, vote in favor of certificate amendments to convert to benefit corporations at portfolio companies with strong corporate governance if we determine the conversion will promote optimal balance of systemic costs and risks.

D. MERGERS

To implement systems stewardship, we will, where practicable, consider available information indicating whether mergers and similar transactions impose significant costs on critical systems that impose undue burdens on diversified portfolios. Among other matters, we may vote against transactions that raise the following issues:

- *Lack of accountability.* Acquisitions by private-equity funds may rely in part on the arbitrage allowed by the less transparent operations of companies that operate outside the public markets, making it more difficult to restrain industries from externalizing costs.

- *Job loss*. Mergers that rely on “synergies” arising from lost or out-sourced jobs may only create financial value through extraction that harms the broader economy.

- *Increased inequality.* Transactions that rely on excessive leverage may promise large returns to private-equity professionals who receive a portion of the upside through their “carry,” but do not share the downside risk that potential insolvency visits upon workers, customers, communities, and investors.

- *Increased power.* Even when antitrust authorities approve a transaction, it may create a concentration of power that is harmful to workers, limits consumer choice with respect to the social or environmental footprint of a product or service, or threatens regulatory independence. Such power may disrupt economic well-being and growth through decreased investment, monopsony wages, and ineffective regulatory regimes.

We may also condition our vote on such issues being adequately addressed.