

**NORTH CAROLINA DEPARTMENT OF STATE TREASURER  
CORPORATE GOVERNANCE COMMITTEE CHARTER**

**I. Background**

The North Carolina Retirement Systems include the Teachers' and State Employees' Retirement System, the Consolidated Judicial Retirement System, the Firemen's and Rescue Workers' Pension Fund, the Local Governmental Employees' Retirement System, the Legislative Retirement System, the North Carolina National Guard Pension Fund, and the Retiree Health Benefit Fund (collectively, the "Retirement Systems" or the "NCRS"). The Treasurer of the State of North Carolina ("Treasurer") maintains the investment programs for the Retirement Systems and other ancillary investments ("investments"). The Treasurer of the State of North Carolina and the North Carolina Supplemental Retirement Board of Trustees provide oversight for the investment programs of the North Carolina Supplemental Retirement Plans ("SRP"), which include the Supplemental Retirement Income Plan of North Carolina ("NC 401(k)"), North Carolina Public Employee Deferred Compensation Plan ("NC 457"), and North Carolina Public School Teachers' and Professional Educators' Investment Plan ("NC 403(b)"). The Treasurer of the State of North Carolina and North Carolina ABLE Program Board of Trustees provide oversight for the investment programs of the North Carolina ABLE Program Trust ("NC ABLE").

The North Carolina Department of State Treasurer ("DST") believes that adoption of and advocacy for well-recognized and sound corporate governance principles will maximize long-term value for the assets entrusted to its management and oversight. Acting on behalf of members, beneficiaries, and retirees DST's Corporate Governance program works to strengthen shareowner rights and promote leading corporate governance practices at U.S. and international companies in which DST has investments. DST's corporate governance activities are focused on ensuring that investee companies' business practices and policies protect and enhance the value of DST investments.

**II. Committee Purpose**

The DST Corporate Governance Committee (the "Committee") is created by the Treasurer to provide oversight and policy guidance to DST's Corporate Governance program. The Committee's scope of oversight includes, but is not limited to, the following funds: the Retirement Systems, the Supplemental Retirement Plans, the ABLE Program Trust, Escheat Fund, and investments held in the Long-Term Investment Fund, Bond Investment Fund, Equity Index Fund, and Short-Term Investment Fund. The Committee's scope does not include the Bond Proceeds Fund or Capital Management Trust Fund, which are externally managed pools, or any securities escheated to the state and awaiting disposition to the property owner under the State's unclaimed property laws.

The Committee's scope of oversight includes, but is not limited to, the following corporate governance matters:

1. Corporate Governance annual workplan and strategic priorities
2. Proxy Voting Guidelines
3. Specific proxies, engagements, advocacy positions, and "signatories" reasonably deemed controversial, requiring material amendments to the annual workplan, or with material impact across multiple Divisions of DST

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4. Interactions with regulators, lawmakers, or other public officials related to specific corporate governance issues or general public policies.
5. Corporate Governance partnerships with other asset owners, asset managers, and nonprofit organizations
6. Annual external reports regarding DST's corporate governance activities
7. Divestment processes, asset freezes, and new legal requirements thereon
8. Audit or quality assurance deficiencies related to the Corporate Governance program
9. Any other investment policies and procedures, projects, strategies, and tactics designated by the Chief of Staff, General Counsel, or Chief Investment Officer that impact corporate governance matters

### **III. Committee Membership**

The Committee consists of the following professional staff of the Department of State Treasurer:

1. Chief of Staff (Chair)
2. General Counsel
3. Chief Investment Officer
4. Public Equity Asset Class Director
5. Deputy Director of the Supplemental Retirement Plans
6. Policy Analyst for Corporate Governance and Investments (Staff Director)
7. Investment and Corporate Governance Counsel (Staff Counsel to the Committee)

Other persons regularly attending meetings, although not part of the Committee, include legal contract staff as needed and Office of State Treasurer staff such as the Program Office Director.

From time to time, the Chief of Staff, General Counsel, or Chief Investment Officer may require other members of their staff to participate in the Committee's deliberations and may form subcommittees to develop and submit analysis to the Committee. The Chief of Staff, General Counsel, and Chief Investment Officer are encouraged to designate regular delegates who are empowered to attend meetings if they cannot personally attend.

In the case that one of the above positions is vacant, the Treasurer will appoint a temporary replacement to serve during the absence.

### **IV. Committee Member Duties**

All Committee members shall proactively discharge the following duties in accordance with applicable statutory fiduciary standards of care as described in N.C.G.S. § 147-69.7:

1. Provide independent technical advice within their areas of expertise and span of control
2. Understand, evaluate, and advise on cross-functional corporate governance issues

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3. Engage in constructive, fair, open and critical deliberations within the Committee
4. Engage in a collaborative and cooperative consensus-building process that promotes excellence within the Department of State Treasurer investment programs

## V. Committee Roles and Responsibilities

The Committee is an oversight body. Day-to-day management of the Corporate Governance program and the Corporate Governance staff has been assigned by the Treasurer to the Chief of Staff. The Treasurer will attend Committee meetings approximately twice per year. The Chair may also raise particular issues with the Treasurer on an ad hoc basis, but shall inform the Committee on a timely basis.

The Chair and Corporate Governance staff will be in active partnership with the Department's other business units, including but not limited to Financial Operations, Risk, and Operations. The Chief of Staff, Chief Investment Officer, and General Counsel will work with their respective business units to have resources from their business units available as necessary to meet program goals. The following list indicates major functions of the Corporate Governance Committee and Corporate Governance staff.

1. Meeting as needed and reviewing the following items as regular business (i.e., typically on a quarterly basis) to discuss and evaluate:
  - a. Summary progress reports related to inter-meeting Corporate Governance program activity
  - b. Specific proxies, engagements, advocacy positions, and "signatories" reasonably deemed:
    - i) Controversial
    - ii) Requiring material amendments to the annual workplan, or
    - iii) With material impact across multiple Divisions
  - c. Proposed material amendments to the annual workplan
  - d. Maintenance/updates to the divestment scrutinized lists, substantial positive action exception list, and delisted companies
  - e. Legal, regulatory, and policy developments related to the Corporate Governance program
  - f. Investment Management Division and Supplemental Retirement Plans initiatives impacting the Corporate Governance program
  - g. Risk issues, compliance exceptions, audit recommendations or findings, or conflicts of interest deemed material by the Chair, General Counsel, Chief Investment Officer, Internal Audit and Compliance Director, or other control functions
  
2. Reviewing on at least an annual basis:
  - a. Corporate Governance annual workplan and strategic priorities
  - b. Corporate Governance Proxy Voting Guidelines
  - c. Annual external reports regarding DST's Corporate Governance programs, including to the General Assembly
  - d. Divestment processes and new legal requirements thereon
  - e. Potential corporate governance program process enhancements, including internal and external resourcing, and strategic initiatives
  - f. Legislative proposals
  - g. This charter and a member self-assessment of Committee effectiveness
  
3. Instituting a governance structure that separates, to the extent practicable, oversight functions from management functions as it relates to the Corporate Governance Program (and in instances where a clear separation of duties is not feasible, developing well-defined roles and

responsibilities and implementing compensating controls to reduce the risk of potential control weaknesses).

4. Approving corporate governance processes, including proxy voting, and routinely assessing relevant risks identified through formal risk assessments and/or by group members on an ad-hoc basis.
5. The Chief of Staff approves final agendas, tabling of issues, requests for further study, and designation of sub-committees. The Policy Analyst for Corporate Governance and Investments, as Staff Director, has the responsibility for preparing and distributing work papers, as necessary, prior to each scheduled meeting.
6. Notwithstanding the foregoing, the Chief of Staff, General Counsel, or Chief Investment Officer, may request an ad hoc Committee meeting to consider risk issues, compliance exceptions related to this charter, or conflicts of interest that they deem a material event requiring immediate review.

## **VI. Committee Operation**

1. The Committee meetings will be a cooperative and collaborative venue for Department of State Treasurer staff to develop consensus advice for the Chief of Staff, General Counsel, Chief Investment Officer, and Treasurer. A majority of the members of the Committee will typically be present in order to develop a consensus. The Committee will strive to work in a consensus-based manner, but the final decision-maker is the Chair. The Committee's power is limited to making recommendations that would be adopted and implemented, or rejected, by the Treasurer or other authorized person. The Chair has the authority to formally poll the members on a specific issue or pending decision, but any such poll shall remain advisory in nature. If a formal poll is taken, the results shall be noted in the minutes. From time to time, the Committee's work may overlap with the IMD Investment Committee; staff assigned to both the Corporate Governance Committee and the IMD Investment Committee will coordinate efforts to ensure consistency.
2. The Staff Director, or their designee, shall develop minutes of the Committee meetings. Minutes may describe items taken up for discussion, open items requiring additional follow-up, and any Committee consensus, or lack thereof. Minutes should also include any recommendations with regard to policy exceptions, policy changes, Corporate Governance program process changes, etc.

### **REVISION HISTORY**

<b>Version/Revision</b>	<b>Date Approved</b>	<b>Description of Changes</b>
1	9/9/14	Initial version
2	8/30/2016	Updated for changes in staff; committee structure clarified; relationship to Supplemental Plans clarified; section on staff responsibilities removed and incorporated in job descriptions as appropriate; formerly IMD policy.