

# DST POLICIES AND PROCEDURES

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<b>DST Reference:</b>	<b>OST-POL-4005-MUL</b>
<b>Title:</b>	<b>Proxy Voting Guidelines</b>
<b>Chapter:</b>	<b>Corporate Governance</b>
<b>Current Effective Date:</b>	<b>January 17, 2020</b>
<b>Original Effective Date:</b>	<b>March 23, 2012</b>

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**Applies to:** NC Department of State Treasurer – IMD and SRP Divisions

**Keywords:** Corporate Engagement; Corporate Governance; Director Elections’ Director Independence; Equity; Executive Compensation; Mergers and Acquisitions; Proxies; Proxy Ballots; Proxy Voting; Say on Pay; Shareholder; Stock Authorization; Application; NCRS; SRP

## **Purpose**

The North Carolina Department of State Treasurer (“DST”) is charged with establishing, maintaining, administering, and operating one or more investment programs for the deposit and investment of assets pursuant to N.C.G.S § 147-69.1 and N.C.G.S § 147-69.2 (the “Funds”). See N.C.G.S. § 147-69.3(a). In addition, DST, in conjunction with the North Carolina Supplemental Retirement Board of Trustees (the “Board”), administers the NC 401(k) Plan and the NC 457 Plan (the “Supplemental Retirement Plans” or “SRP”). See N.C.G.S § 135-91(a). The NC 403(b) Program, which is also jointly administered by DST and the Board, is not covered by this Policy; the investments in the NC 403(b) Program consist solely of mutual funds, which vote their own shares.

The North Carolina Retirement Systems (“NCRS”) consists of the consolidated assets of seven public funds: (1) the Teachers’ and State Employees’ Retirement System (“TSERS”); (2) Consolidated Judicial Retirement System; (3) the Firefighters’ and Rescue Workers’ Pension Fund; (4) the Local Governmental Employees’ Retirement System; (5) the Legislative Retirement System; (6) the North Carolina National Guard Pension Fund; and (7) the Retiree Health Benefit Fund. DST assumes a fiduciary responsibility to vote proxies in the best interest of the participant and beneficiaries of NCRS and SRP. So that it may fulfill these fiduciary responsibilities, DST has adopted and implemented these written policies and procedures reasonably designed to ensure that it votes proxies in the best interest of the participant and beneficiaries of NCRS and SRP.

The Proxy Voting Guidelines are designed to guide DST in its proxy voting and shareholder engagement. DST believes the responsibility of shareholders within the corporate governance system is limited but critical. Boards of directors are shareholders’ interface with companies, and shareholders entrust directors with setting strategic plans and overseeing companies’ managers. In turn, shareholders oversee companies’ directors and have a right to voice their ideas to those directors. DST is committed to fulfilling its duties as a shareholder as one way to maximize the value of investments on behalf of NCRS’s and SRP’s members and beneficiaries.

## **Scope and Application**

These guidelines apply to all publicly-traded equity securities that the Treasurer or Board holds in trust, including the securities of U.S. companies and those from outside of the U.S., except as otherwise noted. Some of the issues addressed in this Policy arise only in certain foreign markets.

DST invests in these holdings directly or through an external investment manager. Proxy voting may be an integral part of particular external managers’ investment strategies and, when DST expressly delegates

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these votes by contract for reasons related to investment strategy or DST's internal capacity, these Guidelines shall not apply directly.<sup>1</sup> DST will share these Guidelines with the external investment managers to serve as guidance in these cases.

DST works in partnership with a vetted proxy advisory service provider (Proxy Advisor), currently Glass Lewis & Co. LLC ("GL"), to implement this Policy and ensure that DST's votes are cast in a timely manner in line with this Policy. Some voting issues that are especially infrequent and/or likely to be less material to a company's performance may not be covered within this Policy, and DST's general policy in these instances will be to cast its vote based on the position that the Proxy Advisor recommends in light of the Proxy Advisor's own research and evaluation. In the unusual event that limitations on the time available to make a decision or resource constraints prevent DST from being able to direct a vote, the votes will be cast based on the position that the Proxy Advisor recommends in light of their own research and evaluation.

The Proxy Voting Guidelines address a broad range of issues, including independent boards, shareholder rights, and executive compensation. In many instances, the Proxy Voting Guidelines set forth general rules. DST does not expect that the board of directors of each company will address every issue found in the Proxy Voting Guidelines. DST acknowledges that each company has differing business plans and competitive needs. As such, voting proposals will be reviewed on a company-by-company basis, as necessary. When implementing these Guidelines, DST will consider the specific circumstances, including all related investment positions in equity or any other asset class. DST has the discretion to deviate from the Proxy Voting Guidelines based on the totality of the circumstances when doing so is in the best interest of the overall portfolio.

## Policy

DST acknowledges it has a duty of care that requires it to monitor corporate events and vote proxies of the companies held in the portfolio. DST has determined that the best and most efficient way to exercise this duty is to engage the services of a third-party proxy advisory and voting service. To that effect, DST has engaged GL to provide research on proxy issues and to recommend how DST should vote on the specific issues contained in the proxies for the companies held in the portfolio. DST believes that GL has the capacity and competency to adequately analyze proxy issues based on DST's review of GL's policies and procedures and experience with GL's professional staff.

DST has determined that GL's Proxy Voting Policies and Guidelines represent a reasoned approach to the primary goal of enhancing long-term shareholder value and ensuring, as best as possible, that the companies owned by the portfolio are adhering to recognized corporate governance best practices. In light of this determination, DST has adopted GL's Proxy Voting Policies and Guidelines as its own. These policies and guidelines are not rigid policy positions and some issues are decided on a case-by-case basis. GL's detailed Proxy Voting Policies and Guidelines, both domestic and international, are incorporated into this policy. See <http://www.glasslewis.com/guidelines/>

Glass Lewis will review and update the Proxy Voting Policies and Guidelines annually. In addition, DST's Corporate Governance Committee will conduct an annual review of the policies and guidelines.

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<sup>1</sup> These guidelines do not apply to equity positions for which DST does not vote the proxies due to reasons of capacity, feasibility, contractual restrictions, or other exclusions.

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## Nature of the Policy

This Policy concerns only the internal management of the Department of State Treasurer. If this Policy directly or substantially affects any procedural or substantive rights or duties, it does so only for persons who are (or were) Department employees or contractors.

## Definitions

**Types of Voting:** DST's voting positions are carried out through the Proxy Advisor across all the company ballots in which DST has the right to vote in proportion to its shares. As set forth in these guidelines, DST may vote For or Against any given vote, and may also Abstain on votes.

**FOR:** A "For" vote means that DST will vote systematically in favor of specified issues and will have the voting carried out automatically by the Proxy Advisor.

**AGAINST:** An "Against" vote means that DST will systematically vote against a specific type of proposal and will have the voting carried out automatically by the Proxy Advisor.

**ABSTAIN:** An "Abstain" vote means that DST will mark the ballot item to indicate that it has chosen not to cast a For or Against vote. DST indicates its abstentions proactively and will not abstain by nonvoting.

**MANUAL:** A "Manual" vote triggers review by DST to determine how to vote in a specific instance. In cases that DST casts no vote, the Proxy Advisor will cast the vote in accordance with its guidelines.

## Roles and Responsibilities

SRP Compliance Officer is responsible for ensuring votes are being cast daily including manual votes. SRP Compliance Officer will also perform a periodic review of votes to ensure votes are in line with the guidelines set forth by the Proxy Advisor.

IMD Compliance Analyst supports SRP Compliance Officer for daily mandatory voting as needed. IMD Compliance Analyst will also interface with Custodian Banks and Proxy Advisor to resolve any issues.

The Chief of Staff, as Chair of Corporate Governance Committee, is responsible for compliance with this policy and the overall proxy voting program. Additional DST staff will support proxy voting as directed and/or requested by the Chief of Staff.

Members of the Corporate Governance Committee, including the Director of Risk and Asset Allocation, Deputy Director SRP, Director of Equity, and Assistant General Counsel will provide strategic guidance and support as requested by the Chief of Staff to support the proxy voting program.

## Related Statutes, Rules, and Policies

N.C.G.S. §§ 147-69.2, 147-69.3, 147-69.7

Investment Policy Statement for NCRS, Policy [IMD-POL-1000-ALL]

Hold Policy for Shareholder Action, Policy [IMD-POL-2001-IMD]

Corporate Governance Committee Charter [OST-POL-4000-ALL]

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## References

2017 Proxy Paper Guidelines, by Glass Lewis

## Revision/Review History

Version	Date Approved	Description of Changes
1.0	3/23/2012	First Version
2.0	8/13/2013	Revised
3.0	12/4/2014	Revised
4.0	2/10/2015	Revised
5.0	12/16/2016	Revised. Including change in ownership from IMD to OST and now being applicable to all divisions
6.0	3/16/2018	Revised. Adopted Glass Lewis' house policies and guidelines
6.1	1/17/2020	Technical changes to clarify wording, removed reference to rescinded Long-Term Stewardship Policy

*For questions or clarification on any of the information contained in this policy, please contact the policy owner or designated contact point: [Compliance Analyst, Deana Moore-Solomon at 814-4321](#) or [Deana.Moore-Solomon@nctreasurer.com](mailto:Deana.Moore-Solomon@nctreasurer.com). For general questions about department-wide policies and procedures, contact the [DST Policy Coordinator](#).*