

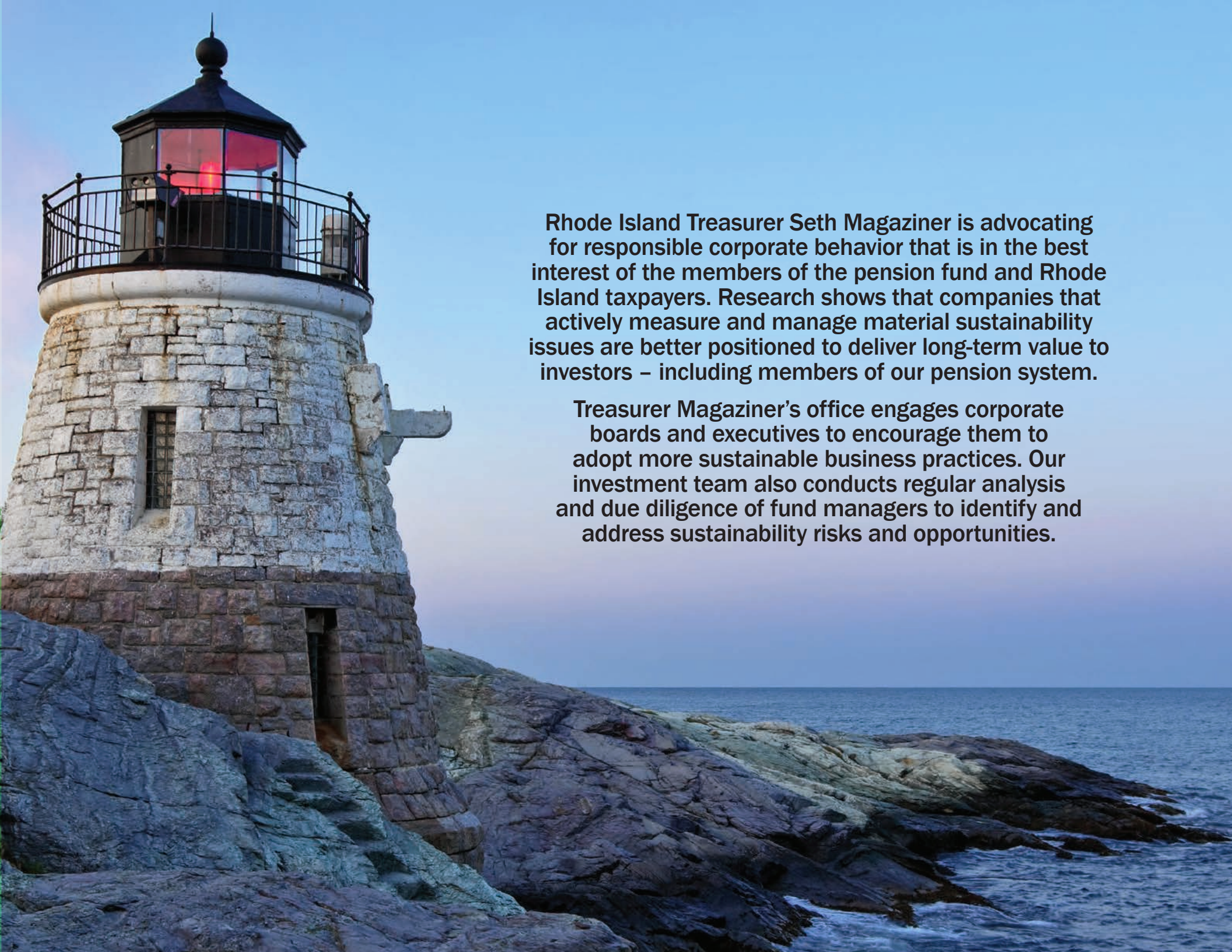


2018 Shareholder Engagement Review

State of Rhode Island

General Treasurer Seth Magaziner





Rhode Island Treasurer Seth Magaziner is advocating for responsible corporate behavior that is in the best interest of the members of the pension fund and Rhode Island taxpayers. Research shows that companies that actively measure and manage material sustainability issues are better positioned to deliver long-term value to investors – including members of our pension system.

Treasurer Magaziner’s office engages corporate boards and executives to encourage them to adopt more sustainable business practices. Our investment team also conducts regular analysis and due diligence of fund managers to identify and address sustainability risks and opportunities.



“Shareholder engagement strengthens oversight of companies, allowing everyday investors, like the public employees served by the Rhode Island pension system, to have a voice at the table and hold corporate management and boards accountable.

The long-term sustainability of companies in which the pension fund invests is an important factor, as the pension system has members who are in their 20s and will be counting on the pension system to still be strong decades from now.

As a multibillion-dollar investor in the U.S. and Global stock markets, Rhode Island’s pension fund holds shares in thousands of the world’s largest companies. We believe that companies should provide disclosure on –and the steps to mitigate– financial and reputational risks, including environmental, social and governance practices and policies, which provide useful information to investors and consumers.

During the 2018 shareholder season, through a combination of shareholder advocacy tools including voting proxies, filing shareholder proposals, and direct dialogue with corporate executives, our office has engaged with many companies in our investment portfolio urging them to adopt more sustainable business practices.”

**Seth Magaziner
General Treasurer
State of Rhode Island**



Proxy Voting

Each year, publicly traded companies seek votes from shareholders on items that are pending on their annual proxy ballots. The items that shareholders can vote on range from the approval of board of directors and executive pay packages to proposals submitted by investors requesting changes to company policies.

Since taking office in 2015, Treasurer Magaziner –for the first time in Rhode Island history– adopted a proxy voting policy and voted on shareholder proposals with hundreds of large companies, asking them to implement more sustainable business practices and improve disclosure to shareholders.

The proxy voting guidelines reflect the fiduciary duty of the Rhode Island Treasurer’s office to vote proxies in the best interest of our members and constituents.

These proxy voting guidelines and information on our proxy votes for the most recent shareholder season can be viewed at: investments.treasury.ri.gov

Board Composition and Diversity

There are many factors that the Rhode Island Treasurer's office considers when determining whether to vote for or against a nominee to a corporate board. Experience, absence of conflicts, and independence from management are all important considerations, as is the diversity of the board as a whole.

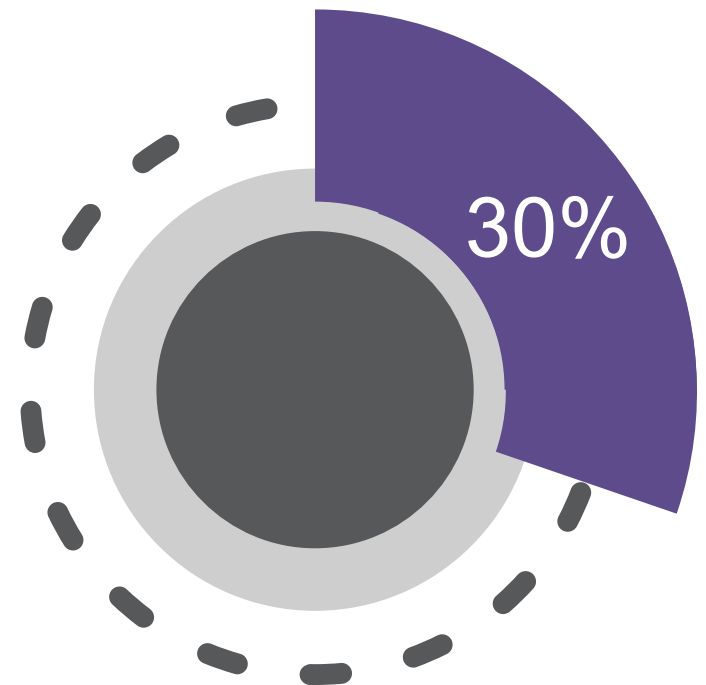
Although an increasing body of research shows that companies with stronger diversity at the senior level tend to outperform those companies that lack diverse leadership teams, less than 20% of board seats at S&P 1500 companies are held by women and less than 20% by racial minorities. As policy, Rhode Island votes against all director nominees sitting on boards with less than 30% diversity. It was only the second state to adopt such a policy.

As a result of this policy, Rhode Island voted in opposition to proposed directors at more than 200 companies in 2018. These votes led to dozens of positive conversations with leadership at these companies, where we made the case that board diversity must be a priority.

The Rhode Island Treasurer's Office is an active member of the Thirty Percent Coalition, a national organization that is working to increase diversity in corporate boardrooms to reflect the gender, racial and ethnic diversity of the United States workforce. The Coalition has over 100 members including public and private companies, pension funds, investment managers, religious investors, and mutual funds that are actively advocating for board diversity.

“The Rhode Island Treasurer’s office continues to play a strong leadership role in advocating for sound corporate governance practices regarding board diversity. We look to their stewardship in the Coalition as we work together to promote gender diversity, including women of color, on corporate boards and executive teams.”

Charlotte Laurent-Ottomane
Executive Director, The Thirty Percent Coalition





THE WALL STREET JOURNAL.

CEO Pay and Performance Often Don't Match Up

The S&P 500 CEOs who received the biggest pay increases scored middling shareholder returns

Executive Compensation

Executive compensation at publicly traded companies has risen at a significantly faster pace than median household income in recent decades. Following the passage of the Consumer Protection Act of 2010, companies are required to disclose the ratio between their median paid employee and the company's CEO. Using 2018 data, it is estimated that the median pay ratio is 66:1, meaning that, on average, CEOs of publicly traded companies are paid 66 times more than their average employee makes .

The Treasurer's office believes that executive compensation must be closely tied to performance and structured in a manner that keeps corporate executives accountable to shareholders.

This year, Rhode Island voted against executive compensation proposals at dozens of companies, including IBM, Aflac, and American Express, where proposed pay packages were not justified by company performance.

Along with International Brotherhood of Teamsters, our Office co-filed a shareholder proposal with Cardinal Health, urging the Board of Directors to adopt a policy ensuring that legal or compliance costs be considered when evaluating performance and compensation for senior executives. We don't believe that senior executives should be insulated from their company's legal risks.

Consumer Protection: *Wells Fargo*

The millions of Wells Fargo customers who were harmed by the bank's actions deserve transparency from the Bank regarding the corporate culture and actions that allowed and rewarded corrupt behavior. This scandal not only hurt customers, but also shareholders of the bank who have a right to expect that management will behave in a responsible manner.

The Rhode Island Treasurer's office collaborated with a coalition of investors, including the Interfaith Center on Corporate Responsibility (ICCR), to demand Wells Fargo produce a transparent and comprehensive assessment of all the penalties, fines, and litigation related to the fraudulent activities. Investors also requested a plan to strengthen governance structures and oversight to prevent these practices in the future.



Treasurer Magaziner met personally with Wells Fargo CEO Tim Sloan in support of these efforts.

Following a series of meetings with Rhode Island and other investors, Wells Fargo agreed to publish a report on the root causes of destructive, unethical and illegal behavior at the bank and its impact on customers and investors.

Treasurer Magaziner, on behalf of the members of the Rhode Island pension system, also voted in favor of a shareholder proposal which requests additional disclosure about employee incentive compensation programs, incorporating social responsibility performance measures as a broader component of executive compensation, as well as a proposal to reduce the ownership threshold for shareholders to call a special meeting.

Consumer Protection: *Equifax Data Breach*

In September 2017, Equifax disclosed that hackers had stolen highly confidential information belonging to more than 145 million Americans, the biggest corporate data breach in history. Despite taking six weeks to publicly disclose the information, Equifax made the situation worse with its bungled response, which lacked an effective plan to work with a confused and vulnerable public – people who are not the company's customers and do not choose whether the company can hold their records.

The Rhode Island Treasurer's office, as part of a large coalition of concerned investors, filed a shareholder proposal asking Equifax to report on governance measures the company has implemented to more effectively manage risks related to cybersecurity incidents.

Following a series of meetings, Equifax agreed to make all disclosures requested in the shareholder proposal. These disclosures were included in the company's 2018 Annual Report. Equifax also hired a new CEO, replaced members of its board of directors, and broadened its compensation clawback policy to include a "financial and reputational harm" standard.

“Treasurer Magaziner’s office and the AFL-CIO put forward a ‘kick-ass’ shareholder proposal that would require the Navient Board of Directors to be far more transparent about the governance measures it has taken to monitor the business practices related to the student loan debt crisis.”

Randi Weingarten, President
American Federation of Teachers

Consumer Protection: Student Loan Crisis

The growing student loan crisis poses a threat to the nation’s long-term economic prospects and should be a concern to every investor.

An estimated 44 million borrowers have accumulated nearly \$1.5 trillion in student loan debt. It is the second largest source of household debt – larger than credit card debt. Only mortgage debt is greater. The U.S. Department of Education estimates that eight million Americans are currently in default on more than \$178 billion in student loans.

Two years of obstruction and tactical maneuvering weren’t enough to keep a large coalition of shareholders, led by Rhode Island General Treasurer Seth Magaziner, from taking Navient Corp., the nation’s largest student loan servicer, to task over its role in the growing national student debt crisis.

This year shareholders had the opportunity to vote on Treasurer Magaziner’s proposal, which would require the company to provide shareholders with an analysis of risks and potential governance failures related to the student loan crisis.

It is highly unusual for more than a small percentage of investors to vote against management in a shareholder proposal. However, at Navient’s 2018 annual meeting, more than 40 percent of votes cast were voted against management and in favor of Treasurer Magaziner’s proposal.

As Navient faces multiple lawsuits alleging that the company systematically and illegally failed borrowers at every stage of repayment, shareholders sent a strong message to company management that it must publicly address the risks associated with its business model and practices.



AFT President, Randi Weingarten (right) and Treasurer’s office official Randall Rice prepare to deliver a ‘kick-ass’ shareholder proposal to Navient

Opioid Crisis

Opioid misuse and abuse is both a public health crisis and a financial crisis. Drug overdoses killed about 72,000 Americans in 2017, a 10% jump since 2016, according to early estimates from the U.S. Centers for Disease Control.

The Rhode Island Treasurer's Office is a member of Investors for Opioid Accountability, an investor coalition with a combined \$1.4 trillion in assets. Our Office also works in collaboration with state treasurers from Illinois, California, Pennsylvania and West Virginia to engage with companies in the opioid distribution industry.

Investor group presses U.S. drug companies on opioid control



CEO's pay is under fire amid opioid epidemic

Over the past year Rhode Island, in collaboration with a growing number of concerned investors, have asked naloxone manufacturers, including Invidior, Alkermes, Mylan and Amphastar, to meet to discuss how their respective boards are responding to and overseeing opioid-related risks. Specifically, we would like more information on how each company's board of directors evaluates risks posed by the sales and pricing of naloxone-containing products.

During the past year, Treasurer Magaziner also filed two shareholder proposals related to the distribution of opioids.

Cardinal Health

In December 2016, Cardinal Health agreed to pay a \$44 million penalty to the Department of Justice to resolve allegations that it violated the federal Controlled Substances Act regarding the distribution of opioids. The settlement follows a \$34 million penalty paid by Cardinal Health in 2008 for similar violations.

This year, the Rhode Island Treasurer's office joined the International Brotherhood of Teamsters in filing a shareholder proposal with Cardinal Health, that

would require that the Board of Directors consider this type of legal and regulatory cost when evaluating performance and compensation for senior executives at the company. We believe that the Board must hold senior executives responsible for the actions taken by the company. Shareholders will have the opportunity to vote on the shareholder proposal at the Cardinal Health's annual meeting, which is expected to take place in November 2018.

McKesson Corp

Along with the UAW Retiree Medical Benefits Trust, Rhode Island co-filed a proposal with McKesson Corp., which is one of the largest pharmaceutical distributors in the United States, requesting full disclosure of the pharmaceutical giant's direct and indirect lobbying activities and expenditures.

"As investors, we have a right to know if pharmaceutical executives are using our money to influence lawmakers," said Treasurer Magaziner. "I am particularly concerned with the possibility that McKesson is using investors' dollars to block common-sense public health policies related to the opioid epidemic."



Global Climate Crisis

Energy Company Lobbying Disclosure

As oil and gas companies begin to publicly acknowledge that the burning of fossil fuels contributes to the rising concentration of greenhouse gases and increasing global temperatures, we know these energy companies have spent tens of millions of shareholder dollars to promote climate-change denial. Long after energy companies understood that humans are causing global warming, they were funding contrarian scientists and think tanks to spread denial and doubt about climate change science.

As long-term investors, we believe that full disclosure of a company's direct and indirect lobbying activities and expenditures is critical to assess whether the company's lobbying is consistent with its expressed goals and in the best interests of shareholders. A company's reputation is an important component of shareholder value.

Energy companies should disclose and seek to mitigate climate-related risks, instead of spending shareholder money on misinformation campaigns.

Rhode Island is a member of Climate Action 100+, a five-year initiative led by investors to engage with the world's largest corporate greenhouse gas emitters to improve governance on climate change, curb emissions and strengthen climate-related financial disclosures.

We believe that engaging and working with the companies in which we invest –to communicate the need for greater disclosure around climate change risk and company strategies– is consistent with our fiduciary duty.

Global Climate Crisis

ConocoPhillips, Chevron and Devon Energy

This year, the Rhode Island Treasurer's Office filed and co-filed lobbying disclosure shareholder proposals at Chevron, ConocoPhillips and Devon Energy requesting that the companies disclose to shareholders how and where they are spending corporate funds on lobbying and membership fees to climate-denying organizations.

Over the past year, the Rhode Island Treasurer's office and Devon Energy had a series of negotiations following our filing a shareholder proposal in 2017.

Devon as since declined to renew its membership with the American Legislative Exchange Council, an organization that drafts climate denial legislation.

The company also recently formed an internal, high-level environmental, social and governance steering committee, and published a lobbying report for the first time. While the report doesn't contain all the information investors would like, it is an important first step toward lobbying transparency.

Devon also made a commitment to continuing dialogue about the reporting of the company's lobbying policies and activities over the next year.

Investors, including Rhode Island, have been in dialogue with Chevron and ConocoPhillips on environmental, social, and governance issues, including disclosure of lobbying and public policy.

In 2018, following years of engagement from investors, ConocoPhillips announced that it will add more information on its lobbying activities to the company's website.

ConocoPhillips publicly acknowledged that its lobbying activities can affect its business and deserve careful oversight by management and the Board - along with expanded transparency.





At the Rhode Island Treasurer's Office, we take seriously our responsibility to develop and communicate our proxy voting policies.

Information on our proxy voting guidelines, as well as our proxy votes for the most recent shareholder season can be found at:

<http://investments.treasury.ri.gov/meetings-reports/proxy-voting/>

The Rhode Island Treasurer's Office voted on nearly 6,500 unique management and shareholder proposals from July 1, 2017 – June 30, 2018. We voted in favor of 5,059 proposals, while voting against 1,381 proposals.