



### Proxy Voting Highlight

In 2022-23, the SBI continued its long history of engagement by voting proxies for approximately 2,100 U.S. corporations. The SBI, along with many other U.S. public pensions and institutional investors, plays an important role in encouraging improved ESG practices that are material to the long-term sustainability of the world’s largest corporations. The SBI continues to support a significant number of ESG-related shareholder proposals. Executive compensation alignment with shareholders is a key area of focus for SBI proxy voting activities. In general, the SBI supports efforts to have executive compensation linked to a company’s long-term performance and to encourage full disclosure of compensation packages for key executives. The SBI has high standards for alignment and transparency. This resulted in votes against approximately 68% of advisory votes on executive compensation in the most recent fiscal year. Other key areas of activity, where appropriate, included fair labor practices, decarbonization, board composition, and reporting/disclosure practices.

In recent years, the number of proxy votes on proposals concerning ESG-related issues has increased. With the increase in the number of important issues related to proxy voting, more staff time dedicated to this area is required. We addressed this in 2023 by elevating the full-time position dedicated to Stewardship and ESG integration to report directly to the Executive Director and Chief Investment Officer. Additional hiring efforts are in progress to provide sufficient resources to support this important work and create a Corporate Governance division within the SBI.

### Company Engagement

As a long-term shareholder of publicly traded companies, the SBI is committed to exercising its proxy voting rights and engaging directly with companies to enhance the long-term value of its investments. This September, SBI staff participated in the Engagement Exchange at the Council of Institutional Investors (CII) 2023 Fall Conference. The Engagement Exchange is designed as an efficient way for CII members to meet corporate representatives, build constructive working relationships and engage on a variety of ESG issues. SBI staff met with representatives from multiple companies and discussed a wide range of issues including executive compensation, board diversity, and a just transition for workers in carbon-intensive industries.

### United Nations Principles of Responsible Investment (UNPRI) Highlight

This fall the SBI submitted its second UNPRI report. Much of the reporting is focused on incorporating relevant ESG principles into the investment process and the stewardship activities of asset owners. This year, the SBI Senior Leadership used this reporting exercise as a framework to continue to develop and refine the SBI’s approach to addressing ESG investment risks and opportunities throughout its investment portfolio. As SBI engages external managers for all retirement fund assets, we are focused on integrating appropriate ESG evaluation frameworks into the investment due diligence process for new and existing external managers. These efforts will leverage industry standards developed by organizations such as the UNPRI, ILPA, and CFA to evaluate investment managers in all asset classes.



## Diversity, Equity, and Inclusion

The SBI recognizes the impact that maximizing talent, opportunity, and investment culture has on generating long-term investment returns for the retirement funds under management. To that end, in 2022 the SBI augmented its Investment Beliefs with the following:

***Best Practices are developed by the best teams.***

*There is no merit-based explanation for the lack of racial and gender diversity in the investment industry. In fact, research indicates that such diversity adds value. The SBI must ensure that non-financial biases do not prevent it from working with the best teams. In this diverse and changing world, organizations that demonstrate a commitment to diversity are more likely to succeed.*

In furtherance of our commitment to talent, opportunity, and investment culture, we recognize that continuously examining and improving our internal practices is fundamental. We have undertaken a number of efforts, including: 1) creation of an internal committee, composed of key investment staff, empowered to review current practices and identify continuous improvement pathways; 2) refined our job postings to reflect core skill elements that are aligned with long-term success; 3) expanded our recruiting pipeline; 4) created an internship program; 5) modified our interview process; and 6) expanded our external investment manager interactions around these important topics.

## Climate Change

We recognize that complex and evolving issues regarding the risks and opportunities inherent in climate change and the energy transition are among those that must be considered as fiduciaries of long-term pools of capital. Our broad engagement efforts continued in 2023 and expanded to include more extensive engagement with our underlying external managers.

As part of our ongoing efforts to analyze the complex issues associated with climate change and the associated investment landscape, in May 2023, Meketa Investment Group (“Meketa”) led an all-staff education session discussing key investment considerations related to the Inflation Reduction Act and the developing opportunities in carbon markets. The SBI is currently engaged, with the support of Meketa and other external advisors, in the next phase of our efforts, which focus principally on 1) continued integration throughout our investment process and 2) constructing our investment roadmap for climate change and the energy transition.



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