SBA FLORIDA
STATE BOARD OF ADMINISTRATION
At A Glance

Corporate Governance Investment Activities and ESG Risks

For more information, please visit the SBA's Corporate Governance website by clicking here.

As a long-term investor with a fiduciary duty to our beneficiaries, we have a responsibility to monitor and promote the success of companies in which we invest. To ensure appropriate returns for our beneficiaries, we support the adoption of internationally-recognized governance structures for public companies. This includes a basic and unabridged set of shareowner rights: strong independent boards, performance-based executive compensation, accurate accounting and audit practices, and transparent board procedures and policies covering issues such as succession planning and meaningful shareowner participation. The SBA believes that good corporate governance practices serve to protect and enhance our long-term portfolio values, and each year we vote as an investor at more than 10,000 company meetings in support of these interests.

The manner in which companies conduct business can result in a variety of risks such as product safety, environmental impact, and human rights—areas where investors have occasionally experienced significant share value losses due to missteps in management of these risks. It is our fiduciary duty to engage companies and make prudent voting decisions in the presence of substantial risks by staying informed, supporting reasonable proposals and maintaining a dialogue with companies on these topics. When an issue arises that represents a risk to one of our portfolio companies, we assess its materiality to our investment and evaluate the response of the company. When voting or engaging with companies, the SBA generally encourages a high quality of disclosure of a company's risks and mitigation plans.

These are some of the areas in which SBA commonly votes, engages, and advocates for improved handling of risks and disclosure:

1. Environment and sustainability—SBA generally supports greater disclosure of a company's environmental practices and contingency plans. We also tend to support greater disclosure of a company's environmental risks and liabilities, as well as company opportunities and strengths in this area. We are generally in favor of reasonable proposals for companies taking actions toward energy conservation and environmental solutions. We generally vote in favor of proposals that ask companies to disclose historical, current, or projected levels of pollutants emitted into the environment and to disclose any control measures to shareowners.
2. Greenhouse gas emissions—Companies are already required by the Securities and Exchange Commission (SEC) to disclose material, expected capital expenditures when operating in locales with greenhouse gas emission standards. Companies may also be required to disclose risk factors regarding existing or pending legislation that relates to climate change and assess whether such regulation will likely have any material effect on the company's financial condition or results, the impact of which is not limited to negative consequences but should include new opportunities as well.
3. Energy efficiency—SBA considers the current level of company disclosure in relation to energy efficiency policies, initiatives, and performance measures; the company's level of participation in voluntary energy efficiency programs and initiatives; the company's compliance with applicable legislation and/or regulations regarding energy efficiency; and the company's energy efficiency policies and initiatives relative to industry peers.

4. Water supply and conservation—Companies should disclose crucial water supply issues, as well as contingency planning to ensure adequate supply for anticipated company demand levels. SBA often supports proposals seeking disclosure of water supply dependency or preparation of a report pertaining to sustainable water supply for company operations.
5. Political contributions and expenditure—Companies should disclose the amount and rationales for making donations to political campaigns, political action committees (PACs), and other trade groups or special interest organizations. SBA typically considers the following factors: recent significant controversy or litigation related to the company's political contributions or governmental affairs; the public availability of a company policy on political contributions and trade association spending, including the types of organizations supported; the business rationale for supporting political organizations; and the board oversight and compliance procedures related to such expenditures of corporate assets.
6. Operations in protected or sensitive areas—Such operations may expose companies to increased oversight and the potential for associated risk and controversy. The SBA generally supports requests for reports outlining potential environmental damage from operations in protected regions unless operations in the specified regions are not permitted by current laws or regulations, the company does not currently have operations or plans to develop operations in protected regions, or the company provides appropriate disclosure on its operations and environmental policies in these regions comparable to industry peers.
7. Community impact assessments—Controversies, fines, and litigation can have a significant negative impact on a company's financials, public reputation, and even ability to operate. Companies operating in areas where potential impact is a concern often develop internal controls aimed at mitigating exposure to these risks by enforcing, and in many cases, exceeding local regulations and laws. SBA considers proposals to report on company policies in this area by evaluating the company's current disclosures, industry norms, and the potential impact and severity of risks associated with the company's operations.
8. Supply chain risks—Often investors seek information for better understanding risks to the company through their materials purchasing and labor practices. For example, allegations of sweatshop labor or child labor can harm sales and reputation, so knowledge of the company's policies for preventing these practices are highly relevant to shareowners. SBA considers the terms of the proposal against the current company disclosures and industry standards, as well as the potential severity of risks.
9. Corporate diversity—SBA will generally support requests for additional information and disclosures at companies where diversity across members of the board, management and employees lags those of peers or the population. Board members, management and employees with differing backgrounds, experiences and knowledge will enhance corporate performance.
10. Human rights risks—Shareowners of companies operating in regions that are politically unstable, including terrorism-sponsoring states, sometimes propose ceasing operations or reporting on operations in high-risk markets. Such concerns are focused over how these business activities or investment may, in truth or by perception, support potentially dangerous and/or oppressive governments, and further, may lead to potential company reputational, regulatory, or supply chain risks. In accordance with Florida Statutes, the SBA is prohibited from investing in companies involved in proscribed activities in Iran and Sudan. The SBA also complies with statutory requirements covering investments in companies that boycott, divest, or sanction Israel or operate in countries such as Cuba, Northern Ireland, Syria and Venezuela.

As a shareowner, SBA works to ensure that companies are taking prudent action in response to material risks. We are long-term investors, and we understand that shareowner value can be harmed substantially by short-term focus on profits, corporate malfeasance, or ignoring or under-responding to social and environmental risks. In our view, responsible investing means taking adequate consideration of all of the costs and potential risks of doing business and planning for prudent, risk-appropriate growth in long-term shareowner value. We vote and engage with companies and other investors and stakeholders in pursuit of this goal.

August 10, 2018