STATE OF WISCONSIN INVESTMENT BOARD

CORPORATE GOVERNANCE POLICY

Revised as of

June 12, 2024

I. PURPOSE

The State of Wisconsin Investment Board (SWIB) corporate governance policy serves to guide its corporate governance program and is approved by the Board of Trustees for staff implementation.

II. STRATEGIC OBJECTIVES

1. SWIB seeks to mitigate risks of its investments in a manner that responsibly promotes and protects its long-term economic interests.
2. SWIB seeks to exercise its right as an owner to appropriately fulfill its fiduciary duty.
3. SWIB seeks dialogue and strategic engagement to build long-term relationships.

III. GOVERNING PRINCIPLES

As a long-term asset owner, SWIB focuses its corporate governance principles on accountability, transparency, and disclosure. SWIB generally follows the recommendation of its proxy advisor unless it has developed custom proxy guidelines that address the principles described below.

Board of Directors

The election of the Board of Directors is the most significant, exercisable shareholder right. Directors are elected to represent shareholder interests. SWIB believes directors should be independent and free from conflicts or direct relationships with the company. Directors serve as fiduciaries, and as such SWIB believes director accountability aligns with long-term shareholders' interests and mitigates potential risks.

Executive Compensation

SWIB supports compensation plans that are aligned with business strategy, long-term shareholder interests and the performance of the company. SWIB further believes that disclosure on compensation plans should be clear and transparent.

Audit

The Audit Committee plays a key role in ensuring a good governance structure within the company. SWIB believes the Audit Committee should have the authority to select and retain external auditors, determine the scope of their duties, and hold them accountable for their actions. To limit the potential for conflicts of interest, SWIB prefers external auditors perform primarily audit activities and not serve in the capacity of tax advisor or other roles.

ESG

SWIB's fiduciary duty, dictated by state statute, drives SWIB to maximize long-term investment returns with a prudent level of risk. SWIB views companies through an economic lens, as considerations not driven by pecuniary interests can be inconsistent with this duty. When consideration of ESG factors can lead to improved risk-adjusted returns, SWIB's fiduciary duty allows for such consideration. SWIB incorporates material ESG factors into its investment process at the individual security level to enhance its understanding of a company's long-term growth, value, and risk profile, including the quality of its management. SWIB encourages standardized reporting on material ESG issues and their impact on company performance to help inform its investment process, as relevant factors vary across companies, sectors, geographies, and asset classes.

Shareholder Engagement

SWIB believes in the importance of building relationships through dialogue. Ongoing discussions provides insight and deepens mutual understanding on a company's long-term business strategy and corporate governance practices. The engagements are also beneficial for better-informed decision-making regarding investments.

Divestment

See Appendix A for SWIB's Statement on Divestment

APPENDIX A

Statement on Divestment

The State of Wisconsin Investment Board (SWIB) – both its staff and its independent Board of Trustees – is entrusted with the responsibility of managing the assets of the Wisconsin Retirement System (WRS) and other trust funds. In this Statement, we outline our investment approach to the concept of divestment, which is driven by our guiding principles and fiduciary duty.

In the investment context, divestment involves selling all investments in a group of companies that share a certain identified characteristic. Divestment movements motivated by social or political goals have, in one form or another, existed for almost 80 years. As discussed further below, divestment, as a tool to address social or political issues, falls outside the scope of SWIB's legal mandate and operational framework.

Section 25.15 of the Wisconsin Statute sets forth SWIB's standard of responsibility for managing the assets of the WRS and other trust funds. The mandate is clear: (1) to manage assets with the care, skill, prudence and diligence of a prudent investor (known as the prudent investor standard); (2) to diversify investments to minimize the risk of large losses; and (3) to pursue the purpose of each trust fund and no other purpose. This commitment directs every facet of our investment decisions and operations toward the sole purpose of fulfilling the financial objectives of the funds under our management.

Divestment and Public Policy

Divestment is often proposed as a means to exert economic pressure on industries or companies to encourage change in practices deemed socially or politically detrimental. While the motives behind such proposals may be well-intentioned, it is important to understand that divestment, as a strategy to effect social or political change, is inherently a form of public policy.

As described above, SWIB operates under a legal and fiduciary framework that does not grant the authority to determine public policy or advance public policy goals using the pension's assets. Our role is to manage the investments of the WRS and other trust funds to achieve the best financial returns for beneficiaries within acceptable risk tolerances. The decision to divest solely based on social or political considerations would require SWIB, a nonpartisan agency, to act beyond its statutory authority and engage in the determination of public policy, a role we are neither designed nor permitted to fulfill.

Divestment is inconsistent with SWIB's fiduciary duty for several reasons:

- Divestment seeks to select investments based on criteria other than investment risk and return.
- Divestment lessens portfolio diversification by limiting investment options.
- Divestment increases costs, both upfront and ongoing, that are borne by participants, including for screening, monitoring, trading, and customization of products and strategies.

Further, divestment treats all companies of a particular sector, industry, or geography as if they are the same. In reality, every company is different. Acknowledgement and understanding of these differences creates investment opportunities for investors like SWIB.

For these reasons, SWIB does not take part in divestment efforts regardless of the underlying companies that are targeted.

Our Commitment

SWIB remains dedicated to its mission of managing the WRS assets prudently and effectively, in accordance with our legal mandate. Our focus is on financial performance and the long-term sustainability of the WRS, ensuring that we meet our obligations to its beneficiaries. For more than 70 years, state legislatures, governors and SWIB's trustees and staff have aligned on the principle that investment decisions should be based on economic and financial factors and not motivated by political or policy-making agendas. This collective wisdom has resulted in a model pension system that is stable, fully funded, and a pillar of the Wisconsin economy. We will continue to navigate the complexities of the investment landscape and conduct our operations with a deep sense of duty to Wisconsin's public employees, mindful of the trust placed in us to support their financial futures.

For additional resources addressing divestment:

https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3909166

"When calibrated to current data, we demonstrate that the impact [of a divestiture strategy] on the cost of capital is too small to meaningfully affect real investment decisions."

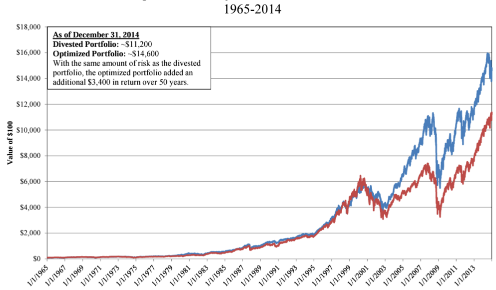
https://www.icpmnetwork.com/wp-content/uploads/2023/07/Counterproductive-Sustainable-Investing-the-Impact-Elasticity-of-Brown-and-Green-Firms.pdf

"We show empirically that … increasing financing costs for brown firms leads to large negative changes in firm impact. Thus, sustainable investing that directs capital away from brown firms and toward green firms may be counterproductive, in that it makes brown firms more brown without making green firms more green."

https://www.realclearpublicaffairs.com/public_affairs/2020/05/04/fossil_fuel_divestment_a_costly_and_ineffective_ investment_strategy_490742.html

"Before divesting, however, the potential costs for portfolios and the likelihood of divesture contributing to desirable environmental goals must be considered. Fossil fuel divestment simply does not pass a cost-benefit analysis and can deliver a 25% reduction in portfolio growth."

Exhibit B: Optimal Risk-Adjusted Portfolio vs. Divested Portfolio
1965-2014



Notes:
[1] The indices are value-weighted by market capitalization.
[2] The Optimal Risk-Adjusted Portfolio is comprised of the energy index and 1-month Treasury bill, optimized by matching the standard deviation of the Divested Portfolio.
[3] The Divested Portfolio is comprised of only the non-energy index.
Sources: CRSP; Kenneth R. French.

https://papers.ssrn.com/sol3/papers.cfm?abstract_id=10203

“Governments and vocal institutional shareholders have been exerting pressure on companies they deem to have objectionable operations (such as tobacco or chemical producers). This paper studies the effect of the most important legislative and shareholder boycott to date, the boycott of the South Africa's apartheid regime. We find that the announcement of legislative/shareholder pressure of voluntary divestment from South Africa had little discernible effect either on the valuation of banks and corporations with South African operations or on the South African financial markets."

www.calpers.ca.gov/docs/board-agendas/202211/invest/item06b-01_a.pdf

Overall, divestment programs have cost CalPERS $9.9 billion in lost profits through FY 2022, with the longest-lasting divestment initiative (tobacco) contributing $4.3 billion in losses.