

MINUTES
GOVERNANCE COMMITTEE MEETING
MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION (MCERA)

One McInnis Parkway, 1st Floor
Retirement Board Conference Room
San Rafael, CA

December 17, 2019 – 9:00 a.m.

The Board of Retirement for the Marin County Employees' Retirement Association encourages a respectful presentation of public views to the Board. The Board, staff and public are expected to be polite and courteous, and refrain from questioning the character or motives of others. Please help create an atmosphere of respect during Board and Committee meetings. If members of the public wish to speak on any agenda items, please alert the Retirement Administrator to that request prior to the matter being called.

CALL TO ORDER

Chair Cooper called the meeting to order at 9:01 a.m.

ROLL CALL

PRESENT: Cooper, Gladstern, Jones, Silberstein

ABSENT: Thomas

MINUTES

It was M/S Gladstern/Silberstein to approve the April 24, 2019 Governance Committee meeting Minutes as submitted.

AYES: Cooper, Gladstern, Jones, Silberstein

NOES: None

ABSTAIN: None

ABSENT: Thomas

A. OPEN TIME FOR PUBLIC EXPRESSION

Note: The public may also address the Committee regarding any agenda item when the Committee considers the item.

Open time for public expression, from three to five minutes per speaker, on items not on the Committee Agenda. While members of the public are welcome to address the Committee during this time on matters within the Committee's jurisdiction, except as otherwise permitted by the Ralph M. Brown Act (Government Code Sections 54950 et seq.), no deliberation or action may be taken by the Committee concerning a non-agenda item. Members of the Committee may (1) briefly respond to statements made or questions posed by persons

addressing the Committee, (2) ask a question for clarification, or (3) provide a reference to staff for factual information.

No members of the public provided comment.

B. NEW BUSINESS

1. Proxy Voting

a. Proxy Voting Reports

Proxy voting records of public equity managers for June 30, 2019

Retirement Administrator Jeff Wickman presented proxy voting reports as of June 30, 2019. He pointed out that some of the managers are highlighting no votes and asked for comments. Trustee Silberstein expressed appreciation for the consistent formatting of the reports and commented on specific managers, comparing and contrasting their votes to the guidelines in MCERA's Proxy Voting and Corporate Governance Policy. Dimensional Fund Advisors (DFA) votes for pay packages being reviewed every three years, whereas management almost always recommends annual review which aligns with MCERA's policy. DFA votes on CEO pay are better than ISS recommendations as it votes against a fair number of CEO pay packages and many Directors. Trustee Silberstein commended KBI for comparing proxy votes to ISS recommendations and for voting for the shareholder resolution to disclose political lobbying at Tyson.

Trustee Silberstein expressed dissatisfaction with State Street Global Advisors (State Street) with respect to its abstaining policy and votes against only 3% of pay packages. Also, State Street votes very few times for shareholder resolutions and against many that ISS recommends voting for, including those on political contributions and diversity. For these reasons Trustee Silberstein said the Committee should address State Street's proxy voting not aligning with MCERA's policy and ISS recommendations. Trustee Gladstern indicated these are pertinent observations that can lead to further questions for the related managers.

b. Manager Responses on Proxy Voting Policy Alignment

Mr. Wickman presented responses from the three managers the Committee identified at its April meeting for follow up. The Administrator observed the DFA response was not a surprise given their previous responses to MCERA's inquiries. Parametric addressed the question on board composition and provided additional details on proxy votes in this period. State Street responded to inquiries on voting on CEO pay packages and litigation over opioids with articles they have published that cover both issues.

Mr. Wickman asked if there is any follow up the Committee would like to do. Trustee Silberstein said we should look at taking over proxy voting for the DFA and State Street accounts. Chair Cooper asked whether other '37 Act systems vote their own proxies and the Administrator replied he was not aware of any '37 Act systems that voted their own proxies. Trustee Silberstein said the Los Angeles City Employees' Retirement System (LACERS) has internal proxy voting.

Trustee Jones asked who would do the work, and Trustee Silberstein explained that MCERA could select a model from a service provider such as ISS and vote proxies with minimal staff effort. Mr. Wickman agreed that the mechanics of proxy voting can be managed but said the Investment Committee would need to review all the potential items that could be voted and agree on which items it would want to vote and how it wants to vote. Upon further discussion Mr. Wickman recommended following up with more questions for DFA and State Street before the Committee asks the Investment Committee to consider voting proxies. Trustee Silberstein views State Street as the more important manager to follow up with because their voting record is worse than DFA's. Chair Cooper directed staff to follow up as noted and then determine the character of the conversation.

2. Governance Risk Report – Institutional Shareholder Services (ISS) – Nathan Worthington and Jack Ferdon

Review and discuss the ISS quarterly Risk Assessment Report

Mr. Wickman introduced Jack Ferdon of Institutional Shareholder Services (ISS) who presented the quarterly ISS Governance Risk Report for proxy voting. The Administrator explained this new ISS service is another way for the Committee to analyze our managers' proxy votes on key matters.

Mr. Ferdon discussed his background which includes reviewing proxies and making vote recommendations for ISS. He stated that ISS shares views expressed in an article in the New York Times and by John Vogel of Vanguard indicating that shareholders are leaving money on the table as a result of the way proxies are voted. Mr. Ferdon highlighted two features of the ISS Governance Risk Report: the quality score indicator and identifying proxy voting records. The quality score gives an idea which managers are holding governance risk, and which are paying attention to governance matters. It is a relative assessment of companies that held a meeting in the quarter ending September 30, 2019. Scores range from 1, indicating lowest risk, to 10, indicating highest risk. Mr. Ferdon reported that 15 companies have low quality scores in the 8 to 10 range. As an example, FedEx is on the list due to votes on compensation and say-on-pay; in addition, the firm has no women in leadership positions. The quality score takes into account whether managers have the support of shareholders at shareholder meetings. Staff will look into Trustee Gladstern's request for more detail on which of MCERA's managers hold specific investments with the companies.

Further statistics on managers' proxy voting records are summarized in the Investment Manager Summary. Mr. Ferdon pointed out that for managers in the smaller equity markets, such as emerging markets, there are additional factors affecting proxy voting. These include onerous requirements before a manager can vote that some managers do not exert time or resources to meet. Another is that local banks may not segregate votes, or if they get different voting instructions on the same topic from one source, they can reject that ballot. Furthermore, in China issuers have the ability to reject a vote with no explanation.

Trustee Silberstein observed that active managers like TimesSquare have less governance risk than the passive State Street Global Investors' S&P 500 portfolio. Mr. Ferdon noted

the data can vary from quarter to quarter depending on when shareholder meetings are held. Mr. Ferdon referred to a public fund proxy voting policy that Parametric votes in line with. Trustees Gladstern and Silberstein expressed an interest in the ISS public fund policy and Mr. Ferdon said he would share the policy with the Committee.

Mr. Ferdon stated the most widely used metric on proxy voting is the percentage of votes cast against the ISS benchmark policy for those who do not want to customize proxy voting. This reflects best practices that incorporate public and regulator comments every year. He indicated that the public fund policy can be customized.

Metrics in the Governance Risk Report include how many meetings were voted and votes against management on at least one policy. The analysis may include assessments of voting on management proposals including say-on-pay, director elections, votes on mergers or spinoffs, anti-takeover related measures, and capitalization. Shareholder proposal vote assessments may have to do with gun sales, human rights, health and environmental topics, and diversity, for example. Trustee Silberstein noted most shareholder proposals are typically presented from January to May.

3. Existing Policies – Standard Review with Proposed Updates

a. Actuarial Economic Assumptions Policy (Action)

Consider possible recommendation to Board on update to policy

Mr. Wickman stated there are no changes to actuarial economic assumptions and the only update to the Policy Regarding Adoption of Actuarial Economic Assumptions is to change the effective date of the assumptions to June 30, 2019.

It was M/S Gladstern/Silberstein to adopt the update to the Policy Regarding Adoption of Actuarial Economic Assumptions.

AYES: Cooper, Gladstern, Jones, Silberstein
NOES: None
ABSTAIN: None
ABSENT: Thomas

4. Existing Policies – Standard Review without Proposed Updates

Mr. Wickman said the policies scheduled for standard review below have no recommended updates.

It was M/S Gladstern/Jones to accept the review of the policies listed below as Agenda Items B.4.a - f.

Trustee Silberstein asked if the language in the Proxy Voting and Governance Policy on commingled accounts could be clarified as to domestic versus international accounts. Trustee Gladstern noted this policy aligns with CII's governance policy and she suggested reviewing the policy more broadly. Mr. Wickman recommended revising the motion to remove the Proxy Voting and Corporate Governance Policy and have staff review it and report back to the Committee.

It was M/S Gladstern/Jones to accept the review of the policies listed below as Agenda Items B.4.a – e.

AYES: Cooper, Gladstern, Jones, Silberstein
NOES: None
ABSTAIN: None
ABSENT: Thomas

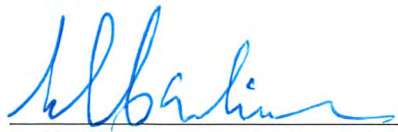
- a. Portable Electronic Device Policy (Action)
Conduct standard policy review
- b. Code of Fiduciary Conduct, Ethics and Governance (Action)
Conduct standard policy review
- c. Due Diligence Policy (Action)
Conduct standard policy review
- d. Interest Crediting Policy (Action)
Conduct standard policy review
- e. Unrestricted Earnings Policy (Action)
Conduct standard policy review
- f. Proxy Voting and Corporate Governance Policy (Action)
Conduct standard policy review

The Proxy Voting and Corporate Governance Policy will undergo further review by staff based on the discussion above and will be returned to the Committee for further discussion or possible action at a later meeting.

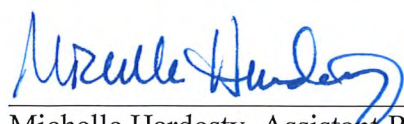
5. Next Committee Meeting

Mr. Wickman stated at the request of Investment Committee Chair Klein, the Governance Committee should look at governance practices for MCERA's private equity investments including Institutional Limited Partners Association (ILPA) standards. Trustee Silberstein noted one concern is with managers dismantling companies versus those that are developing companies. Chair Cooper directed that the matter be considered at the next Governance Committee meeting. There was discussion about customizing data in the ISS quarterly Governance Risk Report.

There being no further business, Chair Cooper adjourned the meeting at 10:15 a.m.



Jeff Wickman, Retirement Administrator



Michelle Hardesty, Assistant Retirement Administrator

On behalf of:
Chris Cooper, Committee Chair

On behalf of:
Jeff Wickman, Retirement Administrator