

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

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

May 13, 2020 – 9:00 a.m.

This meeting was held via teleconference pursuant to Executive Order N-25-20, issued by Governor Newsom on March 12, 2020, Executive Order N-29-20, issued by Governor Newsom on March 17, 2020, and Executive Order N-35-20, issued by Governor Newsom on March 21, 2020. The meeting was accessible to the public via livestream on MCERA's YouTube channel.

CALL TO ORDER

Retirement Administrator Jeff Wickman called the meeting to order at 9:03 a.m.

ROLL CALL

PRESENT: Thomas, Gladstern, Cooper, Silberstein, Jones

ABSENT: None

MINUTES

It was M/S Silberstein/Gladstern to approve the December 17, 2019 Governance Committee Meeting Minutes as submitted. The motion was approved by unanimous vote as follows:

AYES: Cooper, Gladstern, Jones, Silberstein, Thomas

NOES: None

ABSTAIN: None

ABESENT: None

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 December 31, 2019

Mr. Wickman presented proxy reports of public equity managers for the six months ending December 31, 2019. Trustees Silberstein and Gladstern complimented staff for their work in putting together the information for the Committee. Trustee Silberstein noted that Dimensional Fund Advisors (DFA) voted against raising the pay of the Chief Executive Officer (CEO) of American Outdoor Brands. DFA also voted against a shareholder resolution to treat gun companies like tobacco companies by holding them financially responsible for deaths resulting from their guns. He expressed disappointment that State Street abstained on numerous CEO pay matters and various shareholders resolutions.

b. Manager Responses on Proxy Voting Policy Alignment

Follow up to discussion had in December

The discussion on proxy votes focused on the voting practices of State Street (SSGA) and DFA. Mr. Wickman communicated with both managers to identify the items that the Committee had discussed in the previous meeting. He requested that the managers review the items of concern and provide a written response to the Board.

In response, DFA offered to adjust proxy voting practices on annual “say on pay” with a corresponding fee as cost would be incurred for them to deviate from their current policy. Mr. Wickman clarified that the cost is a base for one change and would likely increase if additional customization was implemented. Therefore, it would be important to understand costs before making any changes. Trustee Silberstein noted that DFA’s current policy is always to vote against any shareholder resolutions on disclosure. If the Board asked them to vote for those resolutions following MCERA policies, it would probably initiate another charge of \$2,500. Mr. Wickman will follow up with DFA to ask about cost structure.

Mr. Worthington of ISS noted that by making a sub policy, there is cost to ISS to maintain it and make sure it is in line. Expense is driven by the complexity and level of effort as well as a charge per meeting voted, he said. Anything that requires a custom data set will cost more depending on whether the data is readily available. The alternative would be the Board take back the voting for DFA.

SSGA’s response to the request was that the Board would need to take over proxy voting if more customization was required.

Trustee Silberstein appreciated DFA's willingness to work with the Board and disappointment with the SSGA response. Chair Cooper suggested addressing the issue comprehensively by requesting an estimate for ISS to run the entire proxy voting program following Board policies. Mr. Worthington said ISS could offer off-the-shelf policy customization, such as the Public Fund Policy, SRI Policy, and Sustainability Policy covered under one cost. Any additional customizations desired could be quoted for consideration and reviewed annually for adjustment. Trustee Silberstein asked ISS to review off-the-shelf policies to see which might be in alignment Board policies on proxy voting. He added that the policies are also on their website.

Mr. Wickman suggested that, before formally requesting this quote from ISS, the Board be consulted. There was general agreement for the Committee to agendize the discussion and take action to make a recommendation to the Board at the next Committee meeting. Mr. Wickman will engage ISS to do a refresh of what has been done previously with the intention that it will be agendized at the next Governance Committee meeting.

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

Review and discuss the ISS quarterly Risk Assessment Report

Jack Ferdon and Nathan Worthington presented the Institutional Shareholder Services (ISS) Risk Assessment Report. Mr. Ferdon explained that the report indicates the largest portfolio positions with high governance risk. At least one of the managers is voting assets within a comingled fund, which means that the position value column does not represent MCERA's specific investment value in a company.

Mr. Ferdon stated Oracle jumps out as having long-running compensation and governance concerns. Another company with highly compensated executives that stands out is TransDigm Group, Inc. MCERA equity managers Artisan Partners and TimesSquare are most often backing management proposals. Parametric, which follows the Public Fund Policy, is the most aggressive in voting contrary to management recommendations. Trustee Silberstein noted Artisan and TimesSquare hold selective portfolios that invest in companies according to some criteria, whereas Dimensional and State Street invest in every company. Mr. Ferdon noted that more active portfolio managers take a more pro-management stance in voting proxies.

Mr. Ferdon reported that the overall vote casts with management were between 85-90%. Proposals related to executive compensation, including "say on pay" and equity compensation, had the lowest backing of managers. Managers were uniform in supporting shareholder proposals related to health, environment or social-related topics. He highlighted at Oracle and Microsoft meetings a proposal for the Boards of Directors to produce a report on the companies' gap between pay received by male and female employees. ISS and Public Fund supported the proposal which did not achieve the 50% vote threshold but received high support for a shareholder proposal. Trustee Silberstein

noted State Street voted against those resolutions. Mr. Ferdon observed that these proposals were relatively new and may gain support over the years.

There were three proxy contests in the fourth quarter of 2019. Carl Icahn made a notable failed attempt to solicit 20% of additional shares of Occidental Petroleum to request that the Board of Directors hold an actual proxy contest. This is a company that makes it difficult for outside shareholders to take action at a shareholder meeting, Mr. Ferdon said. In another proxy contest Voce Capital quickly achieved the 10% threshold of outside shareholders to call a special meeting of Argo Group International Holding Ltd.

Mr. Ferdon reported on the quarter ending March 31, 2020. Disney has long-running compensation concerns but has been a good performer for shareholders. ISS and others have called attention to the CEO's pay package and have similar concerns with Qualcomm. State Street proxy votes were most often aligned with management. The number of unvoted meetings ticked up to 3%, which reflects that certain markets that require onerous documentation, such as Brazil, Sweden and Egypt, had more meetings during the quarter.

A notable shareholder proposal supported by ISS and Public Fund Policy came out of Apple around their stance on freedom of expression. The proposal requested that Apple disclose any steps they take in the Chinese market limiting access to the internet or phone-based applications. Another noteworthy shareholder proposal took place at the Disney meeting to request better reporting regarding their lobbying expenditures. Management opposed that one as expected, but it received relatively high support in the 40% range.

Two proxy contests requested outside shareholders sit on boards of directors. In both cases MCERA's managers voted in favor of the dissidents who prevailed. In conclusion, Mr. Worthington said the quarter ending June 30, 2020 is the high voting season which will give a better picture of how our managers vote on a variety of scenarios.

3. Existing Policies – Standard Review with Proposed Updates

a. Conflict of Interest Code (Action)

Consider possible recommendation to Board on update to Code

The Administrator stated the only change proposed to the Conflict of Interest Code is to update the gift limit from \$470 to \$500 to align with the Fair Political Practices Commission (FPPC). Minor administrative edits to the draft Code noted will be incorporated into the Code.

It was M/S Gladstern/Silverstein to recommend that the Board adopt the change in the gift limit to the Conflict of Interest Code. The motion was approved by unanimous vote as follows:

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

4. Existing Policies – Standard Review without Proposed Updates

a. Proxy Voting and Corporate Governance Policy (Action)

Conduct standard policy review

Trustee Silberstein proposed the following changes to the Proxy Voting and Governance Policy:

1. Clarify the introductory section as it is confusing.
2. Delete Section 1.1, Nature and Purpose.
3. In Section 1.2, Disclosed Governance Policies and Ethics Code, change “meet or exceed these standards” to “adhere to these policies.”
4. In Section 1.3, Accountability to Shareholders, add the word “all” in front of shareholders. In the last section replace the words “an action” with “a corporate action.”
5. 2.1 add commingled accounts.
6. In the following paragraph, remove “Mutual Funds and” from the header. Mutual funds are a type of comingled funds vehicles.
7. In the following section revise to have a general discussion about comingled accounts.
8. Delete the “International Proxy Voting and Market Differences” section. Trustee Silberstein thinks it is unnecessary in that it does not describe policy but is rather a statement on reality.

Trustee Gladstern asked for Counsel Dunning’s opinion on the changes proposed above. Ms. Dunning said the language is appropriate and she is agnostic on removing the International Proxy Voting and Market Differences section.

It was M/S Gladstern/Cooper to accept proposed updates to the Proxy Voting and Corporate Governance Policy as discussed above. The motion was approved by unanimous vote as follows:

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

b. Trustee and Staff Travel Expense Policy (Action)

Conduct standard policy review

It was M/S Silberstein/Gladstern to reaffirm the Trustee and Staff Travel Expense Policy with no changes. The motion was approved by unanimous vote as follows:

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

c. Policy Regarding Implementation of Felony Forfeiture Laws (Action)
Conduct standard policy review

It was M/S Gladstern/Cooper to reaffirm the Policy Regarding Implementation of Felony Forfeiture Laws with no changes. The motion was approved by unanimous vote as follows:

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

5. Next Committee Meeting


The Committee will meet next on October 7, 2020.

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



Jeff Wickman, Retirement Administrator

On behalf of:
Chris Cooper, Committee Chair



Michelle Hardesty, Assistant Retirement Administrator

On behalf of:
Jeff Wickman, Retirement Administrator