

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

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

October 25, 2021 – 9:00 a.m.

This meeting was held via videoconference pursuant to MCERA Board of Retirement Resolution 2021-22/01, which invoked Government Code section 54953(e) for all MCERA Board and standing committee meetings through November 12, 2021. The public was able to listen to and observe the meeting and provide comment through Zoom.

CALL TO ORDER

Chair Cooper called the meeting to order at 9:00 a.m.

ROLL CALL

PRESENT: Cooper, Gladstern, Jones, Silberstein

ABSENT: None

MINUTES

It was M/S Gladstern/Silberstein to approve the April 21, 2021 Governance Committee Meeting Minutes as submitted. The motion was approved by a vote of 4-0 as follows:

AYES: Cooper, Gladstern, Jones, Silberstein

NOES: None

ABSTAIN: None

ABSENT: 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 June 30, 2021

Retirement Administrator Jeff Wickman presented proxy votes from equity managers for the first and second quarters of 2021. Trustee Silberstein pointed out that because MCERA has engaged Institutional Shareholder Services (ISS) to vote its proxies for the first time the Board is receiving the reasons why we are voting one way or another for Dimensional Fund Advisors (DFA) and State Street Global Advisors (SSGA) accounts. He called attention to Artisan's votes against several directors and against audit fees that included more than 25% in non-audit business. Trustee Silberstein suggested bringing MCERA's Proxy Voting and Corporate Governance Policy in alignment with the Public Fund Policy regarding restricting non-audit expenditures to 25% and limiting auditor engagements to seven years. In addition, Trustee Silberstein noted that the Bank of Marin has a non-shareholder-approved poison pill for non-independent directors. He highlighted differences in manager votes regarding non-independent directors and the stock option plan for one company: MCERA voted against this proposal in the DFA portfolio based on the Public Fund Policy, whereas KBI approved those items following the ISS Sustainability Policy. In summary, Trustee Silberstein said ISS is doing an excellent job for MCERA, adding he appreciates the additional details in the proxy voting reports.

b. Proxy Voting Reports – Executive Compensation

Review and discuss the ISS executive compensation proxy voting reports for the Dimensional Fund Advisors and State Street Global Advisors portfolios

Mr. Wickman said because this Committee has discussed Executive Compensation, staff selected two reports that include details on that topic produced using the ISS system available to MCERA staff for the DFA and SSGA portfolios. The first report isolates proxy votes on Executive Compensation, and the second is a summary report and analysis of abstain, against or withheld votes on Executive Compensation. The Administrator stated these reports are good examples of the kind of information staff can present based on the interests of the Committee.

Trustee Silberstein said he appreciates the reports which extract executive compensation details from the main proxy voting report. He noted MCERA's proxy votes for the DFA portfolio are for CEO pay packages to be voted on every year, whereas previously DFA voted for every three years. MCERA voted against about 21% of CEO pay packages in the DFA account and about 24% in the SSGA account; compared to the way State Street was voting previously, this is a much better implementation of MCERA policies, he said. Chair Cooper agreed that pulling the additional details from proxy reports is helpful. Trustee Gladstern suggested that staff share our experience

with ISS proxy voting with SACRS, for example. Trustee Silberstein said he will relay our experience with voting our own shares through ISS at the CalAPRS Trustees' Roundtable.

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

Review and discuss the ISS quarterly Risk Assessment Report

Jack Ferdon, Senior Associate, Client Service & Consultants, with Institutional Shareholder Services (ISS) reviewed the ISS Governance Risk Report for the quarter ending June 30, 2021. Mr. Ferdon pointed out the main difference in the report is having DFA and SSGA accounts voted by ISS in accordance with the Public Fund Policy. The report begins with the ISS Quality Score, a quantitative analysis highlighting companies with governance risk. For example, Facebook and Amazon fair poorly on the Quality Score due to excessive executive compensation and dual class share structures giving founders outsized voting rights.

The Investment Manager Summary shows MCERA is voting against management proposals more frequently than in the past. The Meeting Overview shows over 99% of meetings were voted, and out of 2663 votable meetings there were 2232 meetings with at least one vote against management. Mr. Ferdon pointed out the Public Fund Policy is significantly more aggressive than the ISS Benchmark Policy in recommending votes against management almost 30% of the time. The report lists proxy votes by categories, such as Executive Compensation and Reorganizations and Mergers. In general support for Directors has gone down due to diversity factors. Mr. Ferdon indicated it is evident that the Public Fund Policy is in favor of most Shareholder Proposals related to health, environmental, and social-related proposals, such as having boards report on diversity and inclusion policies.

In the Contested Meetings Overview Mr. Ferdon pointed to a notable difference in one year in the number of proxy contests that went to a vote. For the nine proxy contests MCERA voted the report lists how MCERA voted, a summary of the meeting, and the ISS vote rationale. He said the most notable proxy contest was brought by an ExxonMobil dissident on the issue of how climate change can impact shareholders. MCERA supported the dissident and the election of three new nominees for the Board of Directors. Trustee Silberstein observed that most votes against management are against directors because they are not independent. He stated a basic principle of good governance is that Directors should not be family members of the CEO. MCERA's policy is that 2/3 of Directors should be independent, as should the members of committees such as audit and governance.

Mr. Wickman discussed companies with high Quality Scores indicating governance risk. MCERA has four managers invested in these companies. He explained that for commingled funds MCERA's position is significantly less than shown in the report. For example, AVEVA Group Plc, held in the Artisan portfolio is valued at \$20 million in the report, but MCERA's market value is about \$3 million. There are similar examples of firms in the Parametric portfolio where the value of MCERA's holding is less than shown in the report. Alternatively, for MCERA's separate accounts, Dimensional Fund Advisors

or State Street Global Advisors, the holdings listed in the report, such as Microchip Technology Incorporated, Constellation Brands, Inc., and DXC Technology Company, reflect MCERA's position. Going forward the Administrator will provide a report on companies flagged for governance risk for the Committee.

In summary, Chair Cooper commended staff, saying the ISS Governance Risk report is very helpful for the Committee and will be a good tool to keep MCERA within its policies. Trustee Jones expressed appreciation for the new, illuminating reporting.

3. New Policies

a. MCERA Funding Policy

Consider and discuss a potential standalone Funding Policy for MCERA

Mr. Wickman said the Board had a previous discussion about creating a unique funding policy that would be a separate document from the annual Actuarial Valuation. He presented a draft Funding Policy and requested the Committee's feedback. Mr. Wickman recommended that the Committee provide comments on the policy but not take any action until the Actuary had provided information on the June 30, 2021 Actuarial Valuation at the December Board meeting.

Mr. Wickman reviewed the different areas of the draft policy. He noted the policy addresses surplus funding when in excess of 120% of the actuarial accrued liability but did not address funding between 100% and 120%. The Administrator said the Board may want to consider adding additional language to cover this area. In addition the Policy provides detail around the history of the Plan and its sponsor, the County of Marin, and the special districts which have been allowed to join the Plan. There is additional information on when the three main employer groups joined and what the conditions were when they joined the Plan.

The Administrator invited comments on the draft Funding Policy. Trustee Gladstern was supportive, saying the Policy brings concepts together in a single place. She asked about the three-year cycle for the Experience Study and Mr. Wickman agreed that would be good to include this information in the Policy. Trustee Silberstein supported having a standalone policy, especially the provisions to minimize volatility of employer contribution rates by phasing in changes over time. Chair Cooper noted the information in the policy is familiar and asked if it is redundant. Mr. Wickman said this is not an issue because the primary source of the information in the Policy is the Actuarial Valuation. He noted this Policy would be reviewed concurrent with the annual Actuarial Valuation.

Chair Cooper said the draft Funding Policy can be presented to the Board for discussion. Mr. Wickman agreed the Board can provide input at its November meeting, and he will consult with Counsel Dunning on how to agendize the matter.

4. Existing Policies – Standard Review with Potential Updates

a. Election and Duties of Board Officers Policy (Action)

Consider and discuss potential updates to policy to recommend to Board

Mr. Wickman presented an outline of discussions at the October Board meeting on the Election and Duties of Board Officers Policy. He also provided a summary of officer election processes from CERL system websites which has not been affirmed by the systems

Mr. Wickman highlighted several election policies. Some systems employ a Nominating Committee and have mandatory rotations, and some in addition retain the authority to reelect prior officers. Most systems have a process similar to MCERA's in electing officers for one-year terms or until new officers are elected. Mr. Wickman noted in many systems the Administrator serves as Secretary.

Trustee Gladstern expressed appreciation for the Administrator's research on methods of electing board officers. She prefers MCERA's Policy because it values experience and lends flexibility by allowing an officer to serve for three years. Trustee Silberstein also prefers the current Policy since it provides ample opportunity for trustees to express interest in serving as an officer well in advance of the election.

Chair Cooper said based on the discussion at the October Board meeting trustees want a new method of nominating officer candidates rather than during a meeting. He does not feel there is a need to limit officer terms further than the current Policy. Mr. Wickman noted some systems employ a Nominating Committee to address the method of nominating officer candidates. Counsel Dunning advised a formal Nominating Committee would likely need to be a standing committee, depending upon how it was structured. Chair Cooper asked if Board members will have the opportunity to discuss changes to the policy if the Committee does not propose any. Mr. Wickman will consult with Ms. Dunning to agendize the matter to allow the Board to have a discussion.

5. Existing Policies – Standard Review with Proposed Updates

a. Proxy Voting and Corporate Governance Policy (Action)

Consider possible recommendation to Board on updates to policy

Mr. Wickman said revisions to the Proxy Voting and Corporate Governance Policy provide clarity and bring the Policy in alignment with current practice regarding proxy voting delegated to a third-party provider. Trustee Silberstein suggested modifying the Policy to be more consistent with the Public Fund Policy; specifically, non-audit fees should not be greater than 25% of total fees paid to the auditor, and secondly auditors should be changed every 7 years.

It was M/S Silberstein/Gladstern to adopt updates to the Proxy Voting and Corporate Governance Policy and incorporate amendments in Section 3.1.2 per the above discussion. The motion was approved by a vote of 4-0 as follows:

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

b. Facility Use and Reservation Policy (Action)

Consider possible recommendation to Board on updates to policy

The Administrator said updates bring the Facility Use and Reservation Policy in line with how it is being administered. Revisions regarding facility availability are pandemic related, since he has not allowed any facility use under pandemic conditions. Secondly, policy amendments clarify fees. The Training Room is no longer available as it has become part of Suite 150.

It was M/S Silberstein/Gladstern to adopt updates to the Facility Use and Reservation Policy as submitted. The motion was approved by a vote of 4-0 as follows:

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

c. Portable Electronic Device Policy (Action)

Consider possible recommendation to Board on updates to policy

Mr. Wickman said the Portable Electronic Device Policy is updated to indicate the devices “may” be rotated since some older devices cannot be updated. Then in Section IV there are administrative corrections.

It was M/S Gladstern/Jones to adopt updates to the Portable Electronic Device Policy as submitted. The motion was approved by a vote of 4-0 as follows:

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

d. Trustee Education Policy (Action)

Consider possible recommendation to Board on updates to policy

Updates to the Trustee Education Policy align with the requirement for new Board members to complete initial ethics training within one year.

It was M/S Silberstein/Gladstern to adopt updates to the Trustee Education Policy as submitted. The motion was approved by a vote of 4-0 as follows:

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

- e. Compensation Earnable and Pensionable Compensation Policy (Action)
Consider possible recommendation to Board on updates to policy

Mr. Wickman stated the only change to the Compensation Earnable and Pensionable Compensation Policy is adding language on page 3 clarifying the application of the *Alameda* and *Marin* decisions that had been addressed by the courts. At the April 2022 Committee meeting staff will bring the policy back with more substantive changes to Pensionable Compensation and Compensation Earnable. Counsel Dunning added now that litigation is over it is appropriate to reference the courts' decisions.

It was M/S Silberstein/Jones to adopt updates to the Compensation Earnable and Pensionable Compensation Policy as submitted. The motion was approved by a vote of 4-0 as follows:

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

6. Existing Policies – Standard Review without Proposed Updates

Chair Cooper introduced policies for standard review without updates. Mr. Wickman said standard review policies can be taken as a single motion and the Chair so directed.

It was M/S Gladstern/Silberstein to accept the review of the policies and charters listed in Agenda Items B.6.a-f below. The motion was approved by a vote of 4-0 as follows:

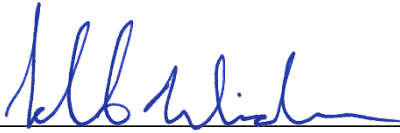
AYES: Cooper, Gladstern, Jones, Silberstein
NOES: None
ABSTAIN: None
ABSENT: None

- a. Audit Committee Charter (Action)
Conduct standard charter review
- b. Finance and Risk Management Committee Charter (Action)
Conduct standard charter review
- c. Key Service Provider Performance Evaluation Policy (Action)
Conduct standard policy review
- d. Procedures for Hearings on Matters Other Than Disability Retirement (Action)
Conduct standard policy review

- e. Records Retention Policy and Guidelines (Action)
Conduct standard policy review
 - f. Timing of Employer Payment of Required Contributions to MCERA Policy (Action)
Conduct standard policy review
7. Next Committee Meeting
Consider and discuss agenda items for future meetings

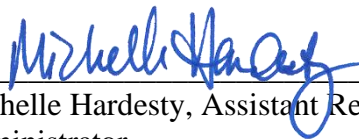
Chair Cooper invited Committee members to suggest topics for future meetings. Mr. Wickman said the next Committee meeting will be held on April 20, 2022.

There being no further business, Chair Cooper adjourned the meeting at 10:11 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