

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

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

April 19, 2023 – 9:00 a.m.

This meeting was held at the address listed above and, absent technological disruption, was accessible via videoconference and conducted in accordance with Government Code section 54953 and 54954.2.

CALL TO ORDER

Chair Cooper called the meeting to order at 9:02 a.m.

ROLL CALL

PRESENT: Cooper, Gladstern, Jones, Silberstein

ABSENT: None

**CONSIDER ANY BOARD MEMBER REQUESTS TO TELECONFERENCE FOR
“JUST CAUSE” OR “EMERGENCY,” AS SET FORTH ON THIS AGENDA BELOW**

MINUTES

It was M/S Gladstern/Silberstein to approve the October 4, 2022 Governance Committee Meeting Minutes as submitted. The motion passed 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 December 31, 2022

Retirement Administrator Jeff Wickman presented equity manager proxy votes for July 1, 2022 through December 31, 2022. The voting rationale is included for Dimensional Fund Advisors (DFA), State Street, Morgan Stanley and TimeSquare reports. Trustee Silberstein thanked staff for providing the reporting and pointed out one company, Advanced Drainage Systems, is in three different portfolios.

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

Proxy Voting Reports on executive compensation were presented for the DFA and State Street portfolios that Institutional Shareholder Services (ISS) votes for MCERA. Trustee Silberstein appreciated having the reasons for votes on executive compensation in the reports. He said it is good to see in a few cases corporations are being responsive to shareholder no votes by making changes to executive compensation packages that result in votes for those proposals. Trustee Silberstein observed that ISS is very methodical in outlining the reasons for its proxy votes.

Trustee Jones joined the meeting at 9:08 a.m.

Trustee Gladstern also expressed appreciation to Mr. Wickman, staff and the equity managers for providing the proxy reports to the Committee. She and Mr. Wickman noted ISS has made the information accessible for the Committee. Chair Cooper asked if the amount and format of proxy voting reporting is as the Committee prefers and this was agreed.

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

Review and discuss the ISS quarterly Risk Assessment Report

Jack Ferdon, Senior Associate, Client Service and Consultants, with Institutional Shareholder Services (ISS), reviewed two Governance Risk reports, first for the quarter ending December 31, 2022 and then the quarter ending March 31, 2023. Mr. Ferdon pointed out that the Fidelity Institutional Asset Management (FIAM) emerging markets portfolio is now included in the report. Mr. Ferdon discussed companies on the Quality Score list that assesses corporate governance risk. Mr. Wickman provided a separate report showing which of MCERA's investment managers were investing in the companies on the Quality Score list along with MCERA's specific investment value. Mr. Ferdon said notable names on the Quality Score list include Oracle Corporation which has long been viewed as having excessive executive compensation plans. Another is Estee Lauder, in

part due to unequal voting structures for company founders. Trustee Silberstein pointed out that Oracle Co-CEO's together are paid \$260 million per year.

Mr. Ferdon pointed out that FIAM voted against management on 15% of proposals, less often than does MCERA through the ISS Public Fund Policy. For MCERA portfolios overall about 70% of proxy votes are aligned with management. He said most votes against management are coming from the DFA and State Street portfolios. As is common and is driven by the Public Fund Policy recommendations, most votes against management are seen in executive compensation and audit proposals.

Mr. Ferdon discussed results of shareholder proposals, reporting that Sysco had a very high level of support for a proposal seeking a report on the company's use of plastic that passed. Other shareholder proposals passed were on the topics of shareholder meeting rights and shareholder ratification of changes in control agreements by executives, which he said is unusual.

Mr. Ferdon turned to the report for the first quarter of 2023. He noted the Quality Score in both quarters lists Infosys Ltd. due to compensation concerns about nondisclosure of performance targets in the executive bonus scheme. Mr. Ferdon highlighted a shareholder proposal seeking third-party review of Starbucks' bargaining rights that passed, which is unusual. He noted that Apple had no shareholder proposals that passed, including one seeking a report on pay gaps across race and gender that received 33% of voted shares. In conclusion, Mr. Ferdon noted the Universal Proxy Card is now in use and pointed out there will be more meetings in the second quarter of 2023 to discuss at the next Committee meeting.

3. Custom ISS Proxy Voting Guideline on Say on Pay (ACTION)

Consider and take possible action on proxy voting guideline regarding CEO pay

Mr. Wickman said at its last few meetings the Committee has discussed how proxy votes were cast on executive compensation packages. These discussions have focused on the increases to Chief Executive Officer (CEO) pay as compared to the company average worker. The Committee has observed that many public pension plans are setting higher thresholds for no votes on executive compensation based on the percentage of median pay. Currently ISS votes MCERA's Dimensional Fund Advisors (DFA) and State Street portfolios in accordance with the Public Fund Policy. At its October 4, 2022 meeting, the Committee directed staff to develop guidelines on CEO pay for consideration at the April 2023 meeting.

Mr. Wickman presented a proposal for custom guidelines on voting CEO pay packages to be implemented by ISS. Three pay proposal standards that are consistent with other public sector peers are: limiting CEO pay to 50, 75, or 100 times median pay. During 2022 if MCERA used these criteria to vote on CEO pay packages it would have voted no on 68%, 61%, and 53% of CEO pay packages, respectively.

The Administrator recommended that the Committee consider from a fiduciary perspective which of the three options best represents the prudent approach that is in the overall best interest of MCERA's members and beneficiaries. If approved by the Board, then ISS

would be provided with the new guidance. Mr. Wickman also presented MCERA's Corporate Governance and Proxy Voting Policy, noting that the policy may require revisions based on action taken by the Committee.

Trustee Silberstein observed that executive compensation keeps going up, last year increasing about 20% on average, whereas median worker pay was up 4%, which was less than inflation. This increased executive compensation detracts from shareholder returns. He pointed out the University of California pension fund votes against 83% of executive pay packages and CalPERS votes against 46% of executive pay packages. According to MCERA's Proxy Voting and Corporate Governance Policy, executive pay should not be excessive and should be considered in relation to the compensation of other employees. Therefore, he believes that it is within MCERA's policy to instruct ISS to look at relative pay. Trustee Silberstein pointed out the ratio of executive compensation to worker pay used to be about 30 times and now it is in the thousands. He noted compensation varies from company to company, with the average employee wage being \$60,000 per year. Trustee Silberstein suggested limiting executive compensation to 50 times median worker pay for smaller companies valued under \$2 billion, and 100 times the median worker pay for companies larger than \$2 billion. Trustee Gladstern supported this approach, noting that CEO pay is a major corporate governance issue in discussions at recent Council of Institutional Investors (CII) Conferences.

Chair Cooper asked for more detail on how peer systems handle executive compensation. In response, Mr. Wickman said a coalition of public pension systems including the California Public Employees' Retirement System (CalPERS), the California State Teachers' Retirement System (CalSTRS), and the San Francisco Employees' Retirement System (SFERS), are working together on these types of issues. In addition, it is common for County Employees Retirement Law of 1937 (CERL) systems to utilize ISS proxy voting recommendations. Whether or not CERL systems have added this level of detail to proxy voting is uncertain.

Chair Cooper discussed with Mr. Wickman the best approach for providing guidance to ISS on executive compensation and aligning that with the Corporate Governance and Proxy Voting Policy. Chair Cooper asked if custom guidelines for ISS would have a cost, and Mr. Wickman replied there would be additional cost for a custom policy.

It was M/S Silberstein/Gladstern to direct Institutional Shareholder Services to vote against Chief Executive Officer (CEO) pay packages that are more than 100 times the pay of the median worker in the corporation.

Discussion ensued, with Trustee Silberstein relating that Whole Foods raised wages for workers and narrowed the gap from executive pay, which was a boost for worker morale. Mr. Wickman noted the current Public Fund Policy bases executive compensation only on performance. Chair Cooper spoke to the importance of tying executive pay to performance and also considering the pay level for lower end workers. Trustee Silberstein noted some companies are adjusting pay according to shareholder views, and pension funds are looking at how tightly pay is related to performance. He indicated there is some kind of progress on this that will have an influence over time. He concluded that as fiduciaries, this guidance on executive pay is a step in the right direction.

Trustee Jones said there should be more criteria to judge CEO compensation, adding CEO's are obtaining compensation based on the efforts of the employees. Trustee Silberstein agreed, explaining that the main criterion for executive pay is performance; considering the median worker pay is adding an additional dimension. Chair Cooper asked if 100 is the appropriate multiple of median pay and Trustee Silberstein indicated less than 100 may not be a suitable multiple in today's environment.

The motion passed by a vote of 4-0 as follows:

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

4. Existing Policies – Standard Review with Proposed Updates

a. Conflict of Interest Code (ACTION)

Consider possible recommendation to Board on updates to policy

Mr. Wickman said the update to the Conflict of Interest Code is a new Form 700 designated filing position of Security Consultant as a Category 2 filer.

It was M/S Silberstein/Gladstern to recommend that the Board adopt updates to the Conflict of Interest Code as presented. The motion passed by a vote of 4-0 as follows:

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

b. Actuarial Funding Policy (ACTION)

Consider possible recommendation to Board on updates to policy

Mr. Wickman stated updates to the Actuarial Funding Policy are based on the June 30, 2022 Actuarial Valuation to align amortization periods and dates.

It was M/S Jones/Silberstein to adopt updates to the Actuarial Funding Policy as submitted. The motion passed by a vote of 4-0 as follows:

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

5. Existing Policies – Standard Review without Proposed Updates

It was M/S Gladstern/Silberstein to recommend that the Board accept the review of the policies listed below as Agenda Items B.5.a and B.5.b. The motion passed by a vote of 4-0 as follows:

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

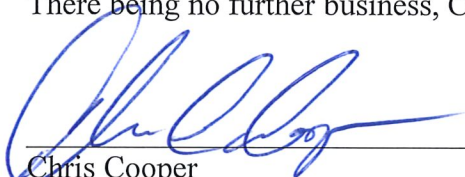
- a. Policy Regarding Implementation of Felony Forfeiture Laws (ACTION)
Conduct standard policy review
- b. Travel and Expense Policy (ACTION)
Conduct standard policy review

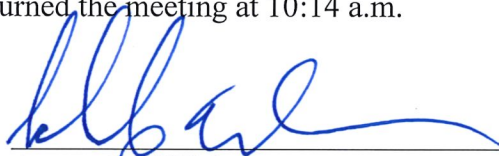
6. Next Committee Meeting
Consider and discuss agenda items for future meetings

Trustee Gladstern requested that the Committee have a discussion about joining the collaboration among large California public pensions to pressure companies around corporate governance.

Trustee Silberstein mentioned a bill in the state legislature to divest from fossil fuels which CalPERS opposes. Mr. Wickman said the SACRS Legislative Committee is tracking that bill and will likely have an update at the SACRS Conference in May.

There being no further business, Chair Cooper adjourned the meeting at 10:14 a.m.


Chris Cooper
Governance Committee Chair


Attest: Jeff Wickman
Retirement Administrator