



Board of Retirement Regular Meeting

Sacramento County Employees' Retirement System

Agenda Item 17

MEETING DATE: October 16, 2019

SUBJECT: Proxy Voting Policy

SUBMITTED FOR: Consent **Deliberation and Action** **Receive and File**

RECOMMENDATION

Staff recommends the Board approve the Proxy Voting Policy.

PURPOSE

The Proxy Voting Policy establishes procedures to meet SCERS' requirements relating to the voting of proxies for public equity securities. This item, along with Agenda Item 16 – Proxy Voting Education, supports an objective of the 2019 Annual Investment Plan, to provide an update to the Board on proxy voting services for SCERS' investment portfolio.

BACKGROUND

SCERS has a regulatory requirement, under California Government Code Sections 7450 and 7451, to vote the proxies related to the ownership of public equity common stock. Proxy voting rights are considered valuable plan assets and should be managed in a manner consistent with the fiduciary duties and responsibilities assigned to the management of plan assets. Public pension plan fiduciaries are required to vote proxies solely in the best interests of plan participants and beneficiaries.

The SCERS Board adopted a "Proxy Voting & Corporate Governance Policy" on October 14, 1999. The Policy was designed to provide general direction and voting guidelines to SCERS Staff and any authorized proxy voting service provider. However, it has not been examined thoroughly since its adoption 20 years ago.

The updated Proxy Voting Policy establishes procedures to meet SCERS' fiduciary duty and regulatory requirements related to voting proxies. The procedures in the new Policy include:

- Board approval and selection of a third-party proxy voting service provider, and relevant proxy voting guidelines, to vote proxies on behalf of SCERS.

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- Authorization for Investment Staff to vote proxies in the rare instances when the established proxy voting guidelines are not applicable.
 - Quarterly reporting by Investment Staff to the Board, to provide a summary of the results of the proxy voting process and any deviations from established voting guidelines.

Due to the resource costs involved and the significant economies of scale, many institutional investors employ the use of third-party proxy voting service providers (also known as proxy advisory firms). These firms specialize in providing proxy voting advice, establishing proxy voting guidelines, providing tools and resources for institutional investors to vote proxies, casting ballots on behalf of institutional investors, and offering post-vote reporting services. Third-party proxy advisory firms satisfy the market need by centralizing these costs. The use of proxy advisory firms has therefore become a cost-effective means of meeting fiduciary and regulatory voting obligations for institutional investors.

As shown in the existing policy, a detailed and prescriptive corporate governance policy can become outdated based on changing views on relevant governance issues, and can be difficult to manage and maintain. The updated Proxy Voting Policy provides effective and efficient procedures to meet SCERS' requirements to vote proxies.

ATTACHMENT

- Proxy Voting Policy
- Old Policy

Prepared by:

/S/

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Reviewed by:

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PROXY VOTING POLICY

PURPOSE

The purpose of this policy is to establish procedures to ensure the voting of proxies for public equity securities, to meet the fiduciary duties required by California Government Code Sections 7450 and 7451.

POLICY

The voting of proxies, as is required by California Government Code Sections 7450 and 7451, is integral to the ownership of public equities. Proxy voting rights are valuable plan assets and should be managed in a manner consistent with the fiduciary duties and responsibilities assigned to the management of plan assets. Public pension plan fiduciaries are required to vote proxies solely in the best interests of plan participants and beneficiaries. The Sacramento County Employees' Retirement System (SCERS) Board authorizes the use of third-party proxy voting service provider to vote proxies for public equity securities, in a manner consistent with the fiduciary duty and long-term interests of plan participants and beneficiaries.

APPLICATION

To meet the requirements of the Policy, the following procedures will be followed:

1. Investment Staff will review outside proxy voting service providers and the relevant proxy voting guidelines, and make a recommendation to the Board. The SCERS Board will approve the selection of the proxy voting service provider and the appropriate proxy voting guidelines. The proxy voting service provider will vote all proxies on behalf of SCERS, based on established and approved proxy voting guidelines, to comply with SCERS' regulatory requirements and in the best interests of plan participants and beneficiaries.
2. As necessary, Staff will review proxy ballots to ensure votes are cast accurately and in accordance with approved proxy voting guidelines. While established proxy voting guidelines cover the majority of issues, there may be certain matters that require Staff to take action to ensure proxy ballots are voted, such as when established guidelines are not able to make a voting recommendation on a specific issue. The SCERS Board delegates to Investment Staff (Staff) the authority to vote proxies in instances when the established guidelines are not applicable and additional action is necessary.
3. Staff will report to the Board, at least quarterly, a summary of the results of the proxy voting process. The quarterly report should contain summary details on how votes were cast and any deviations from established voting guidelines, including proxy votes by Staff.

LEGAL BACKGROUND

The voting of proxies is required by California Government Code Sections 7450 and 7451. These code sections stipulate as follows:

Government Code Section 7450:

Every local agency in this state owning common stock and whose stock is by contract managed by a fiduciary shall request such fiduciary to forward any proxies for shares owned by the agency which are to be voted in a corporate election to the governing body of such local agency.

Government Code Section 7451:

Notwithstanding any other provision of the law, every local agency in this state owning common stock shall, when returning proxies to a corporation, vote each proxy that is returned to the corporation. Nothing in this section shall prohibit a local agency in this state owning common stock from abstaining on a corporate or shareholder proposal and notifying the corporation in writing of the local agency's desire to abstain on a corporate or shareholder proposal.

Local agency includes every county, city, city and county, district, and authority, and each department, division, bureau, board, commission, agency, instrumentality or pension or retirement system of any of the foregoing.

In addition to the California requirements, most public sector pension plans have adopted the views of the U.S. Department of Labor on fiduciary duties related to proxy voting. The Department of Labor's Employee Benefit Security Administration has stated that the voting rights related to shares of stock held by pension plan are plan assets. Therefore, according to the Department, "the fiduciary act of managing plan assets which are shares of corporate stock would include the voting of proxies appurtenant to those shares of stock." Consistent with Department of Labor opinion, the voting of proxies may be delegated to an investment manager or service provider, and the Securities and Exchange Commission (SEC) has issued guidance that explicitly allows institutional investors to rely on voting guidelines of third-party proxy advisory firms to satisfy this obligation.

RESPONSIBILITIES

Executive Owner: Chief Investment Officer

POLICY HISTORY

Date	Description
10-16-2019	Staff recommended Board approve revised Proxy Voting Policy
10-14-1999	Proxy Voting and Corporate Governance Policy Approved

SCERS
Sacramento County
Employees' Retirement System

Proxy Voting
&
Corporate Governance Policy

Adopted by the Board of Retirement on October 14, 1999

AUTHORITY

The Sacramento County Employees' Retirement System (SCERS) Board of Retirement (Board) is responsible for the management of the assets of SCERS in accordance with the Article 16, Section 17 of the California Constitution. The purpose of the proxy voting and corporate governance policy is to establish voting guidelines for the ownership of common stock. The goal of SCERS corporate governance is to meet the goal and objectives established in the SCERS Investment Policy.

POLICY STATEMENT

SCERS invests in excess of \$2.0 billion in the ownership of over 1400 U.S. corporations and over 200 non-U.S. corporations. SCERS has been a long-term investor in the common stock of U.S. corporations for over 50 years and an investor in non-U.S. corporations for over 15 years. SCERS supports shareholder rights and the principle of one share/one vote. As a common stock investor, SCERS is a direct owner in the corporations. Numerous studies of active corporate ownership and other public pension plans have revealed that active participation in corporate governance as a shareholder can improve the investment performance of the corporation and thereby enhance SCERS' beneficiaries.

The Board of Retirement establishes this Policy to provide proxy voting directions and general corporate governance guidelines to SCERS chief investment officer, investment staff and any authorized proxy voting service. This Policy will be amended, as needed, prior to the proxy season to establish particular procedures for the following calendar year.

SCERS has retained the right to vote all proxy matters affecting the assets of each of its investment manager's Accounts. Each Manager is asked to report to the SCERS in a timely manner on all matters with respect to the exercises of voting or other shareholder rights which significantly affect the investment return of the assets.

The Board retains the right to review the investment managers' information and in accordance with its independent judgment and its discretion vote all materials.

CORE POLICIES

- I. Directors should be elected annually by confidential ballots counted by independent tabulators. Confidentiality should be automatic and permanent. Rules and practices concerning the casting, counting and verifying or shareholder votes should be clearly disclosed.
- II. At least two-thirds of a corporation's directors should be independent. A director is deemed independent if his or her only non-trivial professional, personal or financial connection to the corporation or its CEO is his or her directorship.
- III. A corporation should disclose information necessary for shareholders to determine whether each director qualifies as independent, whether or not the disclosure is required by state or federal law. To assist shareholders in making these determinations, corporations should disclose all financial or business relationships with and payments to directors and their families and all significant payments to companies, non-profits, foundations and other organizations where company directors serve as employees, officers or directors.
- IV. Companies should have audit, nominating and compensation committees. All members of these committees should be independent. Committees should have the opportunity to select their own chairs and service providers. Some regularly scheduled committee meetings should be held with only the committee members and the committee's independent consultant, if appropriate, present. The process by which committee members and chairs are selected should be disclosed to shareholders.
- V. A majority vote of common shares outstanding should be required to approve major corporate decisions concerning the sale or pledge of corporate assets which would have a material effect on shareholder value. A sale or pledge of assets will automatically be deemed to have a material effect on shareholder value if the value of the assets at the time of sale or pledge exceeds 10% of the assets of the company and its subsidiaries on a consolidated basis.

SHAREHOLDER VOTING RIGHTS

- I. Each share of common stock, regardless of its class, should have one vote. Corporations should not have classes of common stock with disparate voting rights. Authorized unissued common shares that have voting rights to be set by the board should not be issued without shareholder approval. The right to vote is inviolate and should not be abridged.
- II. Each share of common stock, regardless of its class, shall be treated equally in proportion to its relative share in the total common stock equity of the corporation, with respect to any dividend, distribution, redemption, tender or exchange offer. In matters reserved for shareholder action, procedural fairness and full disclosure is required.
- III. Shareholders should be allowed to vote on unrelated issues individually. Individual voting issues, particularly those amending a company's charter, bylaws or anti-takeover provisions, should not be bundled.
- IV. A majority vote of common shares outstanding should be sufficient to amend company by-laws or take other action requiring or receiving a shareholder vote.

- V. Broker non-votes and abstentions should be counted only for purposes of a quorum.
- VI. A majority vote of common shares outstanding should be required to approve major corporate decisions including:
- (a) the corporation's acquiring, other than by tender offer to all shareholders, 5% or more of its common shares at a price above market prices;
 - (b) provisions resulting in or being contingent upon an acquisition other than by the corporation of common shares having on a pro forma basis 20 percent or more of the combined voting power of the outstanding common shares, or a change in the ownership of 20 percent or more of the assets of the corporation, or other provision commonly known as shareholder rights plans, poison pills;
 - (c) abridging or limiting the rights of common shares to (i) vote on the election or removal of directors or the timing or length of their term of office, or (ii) make nominations for directors or proposes other action to be voted on by shareholders, or (iii) call special meetings of shareholders or take action by written consent or affect the procedure for fixing the record date for such action;
 - (d) permitting or granting any executive or employee of the corporation upon termination of employment, any amount in excess of two times that person's average annual compensation for the previous three years; and
 - (e) provisions resulting in the issuance of debt to a degree that would excessively leverage the company and imperil the long-term viability of the corporation.

SHAREHOLDER MEETING RIGHTS

- (I) Corporations should make shareholders' expense and convenience primary criteria when selecting the time and location of shareholder meetings.
- (II) Appropriate notice of shareholder meetings, including notice concerning any change in meeting date, time, place or shareholder action, should be given to shareholders in a manner and within time frames that will ensure that shareholders have a reasonable opportunity to exercise their franchise.
- (III) Directors should attend the annual shareholders' meeting and make themselves available to answer shareholder questions at annual meetings.
- (IV) Polls should remain open at shareholder meetings until all agenda items have been discussed and shareholders have had an opportunity to ask and receive answers to questions concerning them.

(V) Shareholders' rights to call a special meeting or act by written consent should not be eliminated or abridged without the approval of the shareholders. Shareholders' rights to call special meetings or to act by written consent are fundamental ones; votes concerning either should not be bundled with votes on any matters.

(VI) Corporations should not deny shareholders the right to call a special meeting if such a right is guaranteed or permitted by state law and the corporation's articles of incorporation.

BOARD ACCOUNTABILITY TO SHAREHOLDERS

(I) Boards should review the performance and qualifications of any director from whom at least 10 percent of the votes cast are withheld.

(II) Corporations and/or states should not give former directors who have left office (so-called "continuing directors") the power to take action on behalf of the corporation.

(III) Boards should take actions recommended in a shareholder proposal receiving a majority of votes cast for and against unless the board communicates compelling reasons for not doing so.

(IV) Shareholder proposals that receive a majority of votes cast for and against for two consecutive years should be put up by the company for a binding shareholder vote at the following year's annual meeting. This policy does not apply if the resolution requested the sale of the company and within the past six months the board retained an investment banker to seek buyers and no potential buyers were found.

(V) Directors should respond to communications from shareholders and should seek shareholder views on important governance, management and performance matters.

(VI) Companies should disclose individual director attendance figures for board and committee meetings. Disclosure should distinguish between in-person and telephonic attendance. Excused absences should not be categorized as attendance.

DIRECTOR AND MANAGEMENT COMPENSATION

(I) Annual approval of at least a majority of a corporation's independent directors should be required for the CEO's compensation, including any bonus, severance, equity-based and/or extraordinary payment.

(II) Absent unusual and compelling circumstances, all directors should own company common stock, in addition to any options and unvested shares granted by the company.

(III) Directors should be compensated only in cash or stock, with the majority of the compensation in stock.

(IV) Boards should award chief executive officers no more than one form of equity-based compensation.

(V) Unless submitted to shareholders for approval, no “underwater” options should be repriced or replaced, and no discount options should be awarded.

GENERAL GUIDELINES

Common Interest of Corporations and Investors

SCERS recognizes that owners and other investors and corporations share the long-term goals of corporate growth and stability, and improving corporate competitiveness in a global economy. Within this context SCERS recognizes that good corporate citizenship is in the best financial interests of long-term shareholders.

Board of Directors

Corporate Boards have historically included members from various interests who are closely related to the corporation, including lawyers, accountants, bankers, and managers. SCERS believes that it is in the interest of public companies to include independent directors on these Boards, who are not affiliated with the company. Directors should receive training from independent sources on their fiduciary responsibilities and liabilities. Directors have an affirmative obligation to become and remain independently familiar with company operations; directors should not rely exclusively on information provided to them by the CEO to do their jobs.

Definition of an Independent Director

A majority of the Directors of a corporation should be independent. An independent director is someone whose only non-trivial connection to the corporation is that person’s directorship. A director will not be considered independent if he or she:

- (a) has been employed by the corporation or an affiliate in an executive capacity;
- (b) is an employee or owner of a firm that is one of the corporation’s or its affiliates paid advisors or consultants;
- (c) is employed by a significant customer or supplier;
- (d) has a personal services contract with the corporation or one of its affiliates;
- (e) is employed by a foundation or university that receives significant grants or endowments from the corporation or one of its affiliates;
- (f) is a relative of an executive of the corporation or one of its affiliates;
- (g) a person with past or present personal or financial ties to the company or its top management;
- (h) is part of an interlocking situation in which two executives sit on each other’s board.

Social, Environmental, and Political Issues

The Board may establish a particular policy on any specific social, or environmental or political issue. In general, SCERS will vote to abstain on all social, environmental, and political issues. However, SCERS believes that good social and environmental corporate citizenship are key components to achieving the long term goals of corporate growth, stability, and improving corporate competitiveness in a global economy.

Focus List

Annually, the Board will adopt of Focus List of companies, which have been selected due to their poor corporate governance and poor stock price performance. These firms will receive a letter from SCERS, noting its interest working as an active shareholder to help improve the performance of the company.

IMPLEMENTATION

The Board of Retirement has delegated the authority to vote the SCERS proxies to the SCERS Chief Investment Officer (CIO) and staff and under the CIO's supervision a proxy voting agency. All proxies will be voted in accordance with the intent of this policy. Positions recommended on several issues from prior proxy votes are described in the next section titled Voting Practices. Any issue which this Policy does not specifically address or where the investment manager has provided a recommendation contrary to the intent of this Policy will be voted on a case by case basis in a manner consistent with the intent of this policy considering the recommendation of the proxy voting agency. The CIO will retain information on all proxies voted. Such information shall contain the corporation name, number of shares voted, issues voted, and votes against corporate management's recommendation.

VOTING PRACTICES

Access to Proxy Ballot

Cast votes in favor of larger shareholder access to the proxy ballot, equal access for opposing directors, allow shareholders to counter management's comments, and equal access to proxy materials.

Blank Check Preferred Stock

Only vote for additional stock issuance when it is clearly defined and the terms are established. Oppose any issue that is undefined or where the structure is incomplete.

Director Compensation

Vote for fair and reasonable compensation of directors in cash or stock. Vote in favor of granting stock options to outside directors unless the options are excessive. Repricing of out-of-the-money, underwater options, should be opposed. Oppose non-employee director retirement benefits. No discount options should be awarded.

Board of Director Qualifications

Support stock ownership requirements for directors of a meaningful position in common stock, appropriate to their personal circumstances. Oppose age restrictions, and maximum terms for outside directors.

Board Size

Absent compelling, unusual circumstances, a board should have no fewer than 5 and no more than 15 members. Shareholders should be allowed to vote on any major change in board size.

Board Service

Companies should publish guidelines specifying on how many other boards their directors can serve. Absent good justification, directors with full-time jobs should not serve on more than two other boards. No person should serve on more than five boards.

Elections of Board of Directors

Vote for all independent directors. Vote with management unless a majority of the board is not independent, in which case, votes maybe withheld from non-independent directors or the entire board. Vote for the separation of the job of chairman and CEO.

Classified / Staggered Boards

Oppose all attempts to classify or stagger the term of Board Members. Support any measure to eliminate staggered Boards.

Cumulative Voting

Support measure to continue or create cumulative voting rights. Oppose motions to remove cumulative voting.

Employee Stock Ownership Plans (ESOP's)

Vote in favor of creating or continuing ESOP's, except in cases where dilution is a concern.

Executive Compensation

Vote in favor of shareholder plans for an independent committee of the Board, comprised of the independent directors. Vote in favor of full disclosure of executive compensation. Oppose golden parachutes or plans that award large sums based upon change in corporate ownership. Oppose low limits on executive compensation or limits arbitrarily tied to other positions. Oppose the award of stock options at levels below market price. Pay for managers should be indexed to peer or market groups, absent unusual and specified reasons for not doing so. Boards should consider options with forward contracts to align manager interests with those of shareholders'. Repricing of out-of-the-money, underwater options, should be opposed. No discount options should be awarded.

Fair Price Amendments

Oppose any Fair Price amendment or any requirement for a super majority vote (66% or more requirement).

Greenmail

Oppose any proposal to pay a shareholder an above market price. Vote in favor of any proposal to require full disclosure of such activity or requiring a shareholder vote.

Issuance of Additional Shares

Vote for the issuance of additional shares unless the number of shares are excessively dilutive.

Liability and Indemnification of Directors

Support reducing, but not eliminating director liability. Support creating or expanding director indemnification, but not to the extent of blanket coverage for all acts or omissions.

Mergers and Acquisitions

All mergers and acquisitions should be considered on a case-by-case basis. For any merger or major acquisition that is contested by another party, staff will seek the recommendation of the respective investment manager.

Poison Pills & Shareholder Rights Plans (Anti-takeover measures)

All shareholder rights plans should be subject to shareholder votes. Plans should be evaluated on a case-by-case basis and opposed unless determined to contain provisions benefiting shareholders. Generally, oppose shareholder rights plans except some "chewable" rights plans determined to be beneficial or some "dissolvable" rights plans. Oppose dual classification of common stock, where one issue has greater voting rights. Support shareholder votes on shareholder rights plans or motions to rescind such rights plans.

Preemptive Rights

Oppose retention of preemptive rights, support elimination of such rights.

Shareholder Advisory Committee

Generally support plans to create shareholder advisory committees. Review on a case by case basis.

Special Meeting

Oppose limiting the shareholders ability to call a special meeting. Oppose any requirement for a super majority vote to call a special meeting. Support and maintain the shareholders right and ability to call a special meeting.

Stakeholders

Stakeholders are defined as corporations or persons with strong business ties to the corporation, such as, major suppliers or major customers. Oppose any motion to place stakeholders interests ahead of the interest of the shareholders. Oppose any motion to create a special interest group, other than the stockholders (owners), on the Board of Directors.

Super Majority Vote

Oppose any amendment to require a super majority, anything greater than 50% plus one vote, of the shareholders to pass a proxy proposal. Support rescinding any super majority requirements.

Votes to Abstain

Support the view that votes to abstain are counted as just that, abstentions, and not counted as a vote in favor or excluded from counting as votes cast. Oppose any motion to counts abstentions and/or non-voting shares as votes in favor of the motion.