Capital Market Developments for Public Safety Plans

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New Orleans, LA
Public Safety Retirement Systems and Capital Market Developments

- State of the U.S. Retirement System
- The Rise of Wealth Management
- Capital Markets and Institutional Asset Allocation
- Mainstreaming of Alternative Investments
- ESG Integration
- Public Retirement Systems and Capital Stewardship
U.S. Retirement System Assets and Household Wealth
### U.S. Retirement Assets

#### U.S. Retirement System Assets ($ Trillions)

<table>
<thead>
<tr>
<th>Category</th>
<th>2010</th>
<th>Q2 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government Defined Benefit</td>
<td>4.1</td>
<td>6.2</td>
</tr>
<tr>
<td>Private Defined Benefit</td>
<td>2.5</td>
<td>3.2</td>
</tr>
<tr>
<td>Defined Contribution Plans</td>
<td>4.8</td>
<td>8.4</td>
</tr>
<tr>
<td>IRA</td>
<td>5.0</td>
<td>9.7</td>
</tr>
<tr>
<td>Annuities</td>
<td>1.6</td>
<td>2.2</td>
</tr>
</tbody>
</table>

#### Total Retirement Assets ($ Trillions)

<table>
<thead>
<tr>
<th>Period</th>
<th>Total Retirement Assets ($ Trillions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q2 2019</td>
<td>29.8</td>
</tr>
<tr>
<td>2010</td>
<td>18.0</td>
</tr>
</tbody>
</table>

#### State & Local DB Assets ($ Billions)

<table>
<thead>
<tr>
<th>Period</th>
<th>State &amp; Local DB Assets ($ Billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q2 2019</td>
<td>4,539</td>
</tr>
<tr>
<td>2010</td>
<td>2,946</td>
</tr>
</tbody>
</table>

- U.S. retirement system assets totaled approximately $29.8 trillion as of June 2019.
- Between December 2010 and June 2019 assets held in state and local defined benefit funds increased by approximately $1.6 trillion or 54%.

U.S. Retirement Plan Access

Secure Choice Public-Sponsored Retirement Savings Plan

- Workers are 15 times more likely to save for retirement if they have access to an employer-sponsored plan
- NCPERS launched the Secure Choice Pension Plan Model in to help address the retirement crisis in 2011
- Since 2012, 40 states have reportedly considered proposals to adopt state-administered savings programs for private sector workers or have considered or enacted legislation to enable them.*

“Cities and states are recognizing that millions of workers are inadequately prepared for retirement.” - Hank Kim, Esq., Executive Director, NCPERS

Percent of Americans who agree that the U.S. is facing a retirement crisis: 75%

* Sources: National Institute of Retirement Security, September 2018; Insurance Newsnet, 1/18/2019; National Conference of State Legislatures; 9/26/2018
Investment Management Industry: The Rise of Wealth Management

- Income inequality and the increase in the concentration wealth in the U.S. are contributing to the growth of the wealth management industry, which has implications for institutional investors as well as for policy makers.
- Global investible assets of high net worth are projected to hit almost $70 trillion by 2021.

“The outlook for wealth management is strong, driven by rising levels of private wealth and the threat of significantly underfunded retirement savings.”
- KPMG, Top 10 Trends in Asset Management for 2019

1. McKinsey & Company, 2018;
2. Edward N. Wolff, National Bureau of Economic Research
3. EY Wealth Management Outlook, 2018
Capital Markets and Institutional Asset Allocation
Asset Allocation & Investment Return Assumptions

- Average public pension fund allocations to alternative investments and real estate reportedly more than tripled over a period of 15 – 20 years
- As reported in the NCPERS Public Retirement Systems 2018 Study, public pension funds’ average investment return assumptions declined modestly from 2017 to 2018

1 FY 2001 Data. NASRA
2 NCPERS
Market Environment and Capital Market Assumptions

- U.S. economy projected to grow at a moderated rate
- Developed markets growth constrained by demographics, among other factors
- China and India expected to continue to contribute over 60% to global growth through 2025*
- U.S. inflation trending in line with 2% Fed target
- Public equity valuations elevated in some markets; private asset pricing consistent with late cycle
- Geopolitical risks: Trade, Brexit, China, Immigration policy.

Sample 10-Year Capital Market Assumptions

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Compound Return</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Core Fixed Income</td>
<td>3.4%</td>
<td>5.5%</td>
</tr>
<tr>
<td>U.S. Equities (Russell 3000)</td>
<td>6.6%</td>
<td>17.5%</td>
</tr>
<tr>
<td>Developed Non-U.S. Equity</td>
<td>6.9%</td>
<td>19.0%</td>
</tr>
<tr>
<td>Real Estate (Core)</td>
<td>5.7%</td>
<td>11.8%</td>
</tr>
<tr>
<td>Private Equity</td>
<td>9.8%</td>
<td>22.5%</td>
</tr>
</tbody>
</table>

Notes: Illustrative sample. Does not include 20-year sample capital market assumptions

U.S. Treasury Yields

Source: U.S. Department of Treasury.

* OECD, 2018
**U.S. Monetary and Fiscal Policy**

- Accommodative monetary policy in the wake of the financial system crisis is contributing to historically low interest rates and influencing asset prices.
- According to CBO projections, the deficit is $960 billion in 2019 and will average $1.2 trillion between 2020 and 2029. Federal debt held by the public is projected to grow, from 79 percent of GDP in 2019 to 95 percent in 2029.

“The trend towards loose fiscal policy led by the US marks potentially the greatest change in economic policymaking for a generation.”

- Financial Times, April 25, 2019
The Role of Alternative Investments

Asset Allocation Modeling: Sample Portfolios

- Alternative investments may increase expected return, while reducing volatility and improving efficiency
- An effective alternative investments program requires an enhanced risk management framework

<table>
<thead>
<tr>
<th>Portfolio Type</th>
<th>60/40 Portfolio</th>
<th>Add Real Estate</th>
<th>Add Infra.</th>
<th>Add Hedge Funds*</th>
<th>Add Private Credit</th>
<th>Add Private Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>20 Year Expected Return (Arithmetic)*</td>
<td>6.8%</td>
<td>6.9%</td>
<td>7.0%</td>
<td>7.0%</td>
<td>7.1%</td>
<td>7.7%</td>
</tr>
<tr>
<td>20 Year Expected Return (Geometric)*</td>
<td>6.2%</td>
<td>6.4%</td>
<td>6.5%</td>
<td>6.6%</td>
<td>6.7%</td>
<td>7.1%</td>
</tr>
<tr>
<td>Standard Deviation</td>
<td>11.3%</td>
<td>10.2%</td>
<td>10.3%</td>
<td>10.2%</td>
<td>10.0%</td>
<td>10.9%</td>
</tr>
<tr>
<td>Sharpe Ratio</td>
<td>0.32</td>
<td>0.36</td>
<td>0.37</td>
<td>0.38</td>
<td>0.40</td>
<td>0.41</td>
</tr>
</tbody>
</table>

* Notes: 1. Model portfolios are included for illustrative purposes. Hedge Funds example is Opportunistic Hedge Fund of Funds; Expected return excludes net-of-fee alpha that may be generated by active management; 2. Abbreviations: RE: Real Estate; Infr: Infrastructure; HF: Hedge Funds.
Alternative Investments: Trending Themes

**Real Estate**
- Core Valuations
- Core plus; Value Add
- Opportunistic
- Retail distressed
- Logistics

**Infrastructure**
- Potential Legislation
- Responsible Contractor
- Renewables
- Mid Cap Sector
- Public Private Partnerships

**Private Equity / Debt**
- Continued strong demand
- Mega Funds (PE)
- Fundraising Down
- J-Curve Mitigation
- Dry Powder; Pricing

**Hedge Funds**
- Multi-Strategy Performance
- Opportunistic Credit
- Single Strategy
- Fee Structures
- Transparency
Alternative Investments and ESG Implementation

**Environmental**
- Wastewater treatment plants
- Public Transit; Renewable Energy
- Energy Efficient Properties

**Social**
- Job creation
- Responsible contractor policies (RCP)
- Affordable Housing

**Governance**
- Equity ownership rights
- Advisory Board
- General Partnership
Recent reports project continued increases to alternatives allocations including private markets.

Number of U.S. private equity-backed companies reportedly increased from approximately 4,000 in 2006 to 8,000 in 2017.*

Private markets challenges include demand in excess of supply for some private equity opportunities.

Opportunities include demand for infrastructure capital, less efficient real estate market sectors and managers who possess skill sets to generate risk-adjusted returns through late cycle environment.

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### Significant Decrease vs. Significant Increase:

<table>
<thead>
<tr>
<th>Significant Decrease</th>
<th>Institutional Investors Expected 3-Year Allocation Shifts</th>
<th>Significant Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>-21%</td>
<td>U.S. Equities – Active</td>
<td>+3%</td>
</tr>
<tr>
<td>-20%</td>
<td>U.S. Equities – Passive</td>
<td>+4%</td>
</tr>
<tr>
<td>-4%</td>
<td>Real Estate</td>
<td>+7%</td>
</tr>
<tr>
<td>-11%</td>
<td>Hedge Funds</td>
<td>+6%</td>
</tr>
<tr>
<td>-4%</td>
<td>Private Equity</td>
<td>+22%</td>
</tr>
</tbody>
</table>

Pension Fund Risk Exposures

**Market Risk***
Risk related to adverse movement in market factors such as asset prices, exchange rates or interest rates.

**Liquidity Risk**
Risk of loss resulting from an asset owner’s inability to sell an asset in a timely manner and for its actual value.

**Operational Risk**
Risk resulting from inadequate or failed internal processes, people and systems of from external events.

**Credit Risk**
Risk of loss due to failure of obligors (e.g. bond issuers, tenants) to honor their payments.

* Note: Sample for Illustrative Purposes. Market risk types include, but are not limited to equity, inflation, currency and interest rate risk. Asset / Liability Risk: Risk that liquidity will not be adequate to meet operational requirements or financial obligations.
Public Funds: Governance & Risk Oversight Trends

- Enterprise Risk Management (ERM)
- Chief Risk Officer Role (CRO)
- Asset Liability Modeling (ALM) Integration

Global Public Pension Funds: Changes to Investment Policies

- Began Applying ESG Criteria: 57%
- Enhanced Focus on Liabilities: 62%
- Enhanced Measurement of Fees: 69%
- Enhanced Risk Analytics: 71%

Public Pension Funds: Trends in Oversight Practices

- Use formal ERM Framework: 18% (2012) to 35% (2018)
- Receipt of GFOA Award for Excellence: 47% (2012) to 59% (2018)
Model Risk Management Framework

### Governance
- Committee Structures
- Policy Targets
- Investment Guidelines
- Portfolio Rebalancing

### Assessments
- Asset-Liability Modeling
- Liquidity Tier Analysis
- Portfolio Stress Testing
- Manager Due Diligence

### Measures
- Funded Ratio
- Standard Deviation
- Sharpe Ratio
- Value at Risk (VaR)

### Reporting
- Actuarial Report
- Custodial Reports
- Annual Financial Audit
- Investment Performance

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**Stochastic Modeling**

**Liquidity Tier Analysis**

<table>
<thead>
<tr>
<th>Allocation of Assets by Tier</th>
<th>Tier 1*</th>
<th>Tier 2</th>
<th>Tier 3</th>
<th>Tier 4</th>
<th>Tier 5</th>
<th>Tier 6*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Terms</td>
<td>Daily</td>
<td>Monthly</td>
<td>Only to 1 year</td>
<td>1 to 3 years</td>
<td>3 to 7 years</td>
<td>7+ years</td>
</tr>
<tr>
<td>Current Liquidity</td>
<td>$318.8</td>
<td>$30.0</td>
<td>$70.0</td>
<td>$10.0</td>
<td>$10.0</td>
<td>$61.2</td>
</tr>
<tr>
<td>Allocated %</td>
<td>63.8%</td>
<td>6.0%</td>
<td>14.0%</td>
<td>2.0%</td>
<td>2.0%</td>
<td>12.2%</td>
</tr>
<tr>
<td>Aggregate Available %</td>
<td>63.8%</td>
<td>69.8%</td>
<td>83.8%</td>
<td>85.6%</td>
<td>87.8%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Indexing helps investors in implementing cost-effective investment programs. However, large scale asset flows to passive management have raised concerns about unintended impacts to the financial system and corporate governance.

“..in August the investment industry reached one of the biggest milestones in its modern history, as assets in U.S. index-based equity mutual funds and ETFs topped those in active stock funds for the first time.”

_Bloomberg, September 11, 2019_

<table>
<thead>
<tr>
<th>Risk Type</th>
<th>Impact to Financial System Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liquidity &amp; Redemptions</td>
<td>Reduces</td>
</tr>
<tr>
<td>Investing Strategies that Amplify Volatility</td>
<td>Increases</td>
</tr>
<tr>
<td>Financial Industry Concentration</td>
<td>Increases</td>
</tr>
<tr>
<td>Changes in Valuations, Volatility and Co-movements</td>
<td>Unclear</td>
</tr>
</tbody>
</table>

Sources: Federal Reserve Bank of Boston; August 27, 2018. Moody; Morningstar.
Public Pension Funds and Capital Stewardship
Institutional Ownership
Pension Funds Ownership of U.S. Equities

- Public and private pension funds collectively own an estimated 17% of the U.S. equity market.
- Pension funds’ estimated equity ownership does not include equities held indirectly by public and private defined contribution plans in mutual funds and other commingled vehicles.
- Public funds take a proactive capital stewardship approach through corporate governance and other mechanisms designed to maximize the value of shares for the benefit of members and beneficiaries.

Source: Federal Reserve Board, Lionshares and Goldman Sachs Global ECS Research.
Rising Interest in ESG/SRI

- Sustainable Investing Growth in the United States saw an increase of 38% from 2016-2018.
- Net total of SRI assets under management in 2018 was $12 trillion (of $46.6 trillion U.S. professionally managed assets).
- Since 1995, US SRI assets have a compound annual growth rate of 13.6%
- Top reported issues for institutional investors were: conflict risk; tobacco; climate change; board issues and executive pay.

Environmental, Social and Governance (EGS) Challenges

- No universal application of ESG standards
- Metrics and measurements are inconsistent
- ESG issues are complex and constantly evolving
- ESG disclosure inconsistent; often voluntarily
- Materiality varies by geography and investor interests
- Value driven market segment may be conflated with profit driven segment
ESG Performance: Morningstar Report

• 41 of 56 unique Morningstar ESG indexes outperformed their non-ESG screened equivalent, a 73% success rate.

• Morningstar's ESG indexes tend to select companies that are less volatile and possess stronger competitive advantages and healthier balance sheets than their non-ESG equivalents.

• 48 of 56 ESG indexes exhibited superior exposure to financial health (86%), meaning they are less likely to experience financial distress.

Strength in Numbers: Collective Action Engagement
Segal Marco’s Issue-Focused Coalition Networks
Segal Marco Advisors: Executive Pay Advocacy

Say-on-Pay Working Group

AFL-CIO Equity Index Fund
As You Sow
CtW Investment Group
City of Philadelphia Public Employees Retirement System
Connecticut Retirement Plans and Trust Funds
Firefighters’ Pension System of Kansas City, Missouri, Trust
Hitchcock Law Firm PLLC
IBEW Pension Benefit Trust
International Brotherhood of Teamsters General Fund
Laborers International Union Pension Fund
Segal Marco Group Trust
Service Employees International Union Master Trust
Miami Firefighters’ Relief and Pension Fund
Nathan Cummings Foundation
New York City Pension Funds
New York State Common Retirement Fund
Office of the State Treasurer of Illinois
Trowel Trades S&P 500 Index Fund
SHARE – Shareholder Association for Research & Education
UAW Retiree Medical Benefits Trust
Trillium Asset Management

Source: Segal Marco, 2019
Case Study: Oracle

Say-on-Pay Working Group Targets Oracle for Investor Action on CEO Pay

<table>
<thead>
<tr>
<th>Year</th>
<th>Proposal</th>
<th>Votes in Favor</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>Stock Retention/Holding Period</td>
<td>20%</td>
</tr>
<tr>
<td>2012</td>
<td>Adopt Multiple Performance Metrics Under Executive Incentive Plans</td>
<td>31%</td>
</tr>
<tr>
<td>2012</td>
<td>Adopt Retention Ratio for Executives/Directors</td>
<td>42%</td>
</tr>
<tr>
<td>2012</td>
<td>Pro-rata Vesting of Equity Awards</td>
<td>28%</td>
</tr>
<tr>
<td>2013</td>
<td>Adopt Multiple Performance Metrics Under Executive Incentive Plans</td>
<td>37%</td>
</tr>
<tr>
<td>2013</td>
<td>Require Shareholder Approval of Quantifiable Performance Metrics</td>
<td>21%</td>
</tr>
<tr>
<td>2014</td>
<td>Adopt Multiple Performance Metrics Under Executive Incentive Plans</td>
<td>27%</td>
</tr>
<tr>
<td>2014</td>
<td>Adopt Specific Performance Standards</td>
<td>24%</td>
</tr>
</tbody>
</table>

Source: yahoofinance.com; Oracle SEC filings
Segal Marco Advisors: Executive Pay Advocacy

2020 Initiatives:

- **Outreach to** S&P500 on ESG metrics for incentive compensation; adjusted GAAP metrics and executive stock sales tied to share repurchases announcements. Also, prompts Company implementation of the purpose of a corporation as articulated by the business roundtable August announcement.

- **Shareholder proposals to companies on** adjusted GAAP metrics

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**Business Roundtable Statement on the Purpose of a Corporation (excerpt)**

We commit to:

Delivering value to our customers.

**Investing in our employees.**

Dealing fairly and ethically with our suppliers.

**Supporting the communities in which we work.**

Generating long-term value for shareholders, who provide the capital that allows companies to invest, grow and innovate.

Each of our stakeholders is essential.
Shareholder Engagement: Opioid Supply Chain

54 Members with $3.5 Trillion in assets under management and advisement

- Aberdeen Standard
- Adrian Dominican Sisters
- Aegon Asset Management
- Æquo Shareholder Engagement Services
- American Federation of Teachers Pension Plan
- Aquinas Association
- Bailard, Inc.
- Benedictine Coalition for Responsible Investment
- Bon Secours Mercy Health
- Boston Common Asset Management
- Bricklayers & Trowel Trades International Pension Funds
- California State Teachers' Retirement System
- California State Treasurer's Office*
- Calvert Research and Management
- Catholic Health Initiatives
- CTW Investment Group
- City of Philadelphia Public Employees' Retirement System
- Congregation of St. Joseph
- Connecticut State Treasurer's Office
- Daughters of Charity, Province of St. Louise
- Dignity Health
- Diocese of Springfield, IL
- Domini Impact Investments
- Dominican Sisters of Springfield, IL
- Guidestone Financial Resources of the Southern Baptist Convention
- Hermes Equity Ownership Services
- Illinois State Treasurer's Office*
- Interfaith Center on Corporate Responsibility
- International Brotherhood of Teamsters*
- Jlens Investor Network
- Mercy Investment Services*
- NEI Investments
- Neuberger Berman
- New York State Common Retirement Fund
- Northwest Coalition for Responsible Investment
- OIP Trust / Missionary Oblates
- Office of the New York City Comptroller
- Pennsylvania State Treasurer's Office*
- Region VI Coalition for Responsible Investment
- Rhode Island State Treasurer's Office
- School Employees Retirement System of Ohio
- Segal Marco Advisors*
- Seventh Generation Interfaith Coalition for Responsible Investment
- Sisters of St. Francis of Philadelphia
- The Socially Responsive Investing Group of 1919 Investment Counsel
- Socially Responsible Investment Coalition
- Trinity Health
- UAW Retiree Medical Benefits Trust*
- United Church Funds
- Vermont State Treasurer's Office
- Walden Asset Management
- Wespath Benefits and Investments
- West Virginia State Treasurer’s Office*
- Zevin Asset Management, LLC


*Founders of IOA
Case study: Assertio Therapeutics (1 of 2)

**Problem:** Assertio Therapeutics (formerly Depomed) manufacturers opioids and is accused of turning a blind eye to a spiraling drug crisis that will impact the Company’s financial performance.

**Investor Lens on a Solution:** Company needs to adopt better governance practices that would force the board of directors to take accountability. If they are informed and still feeding a crisis, investors will vote out directors.

**Proposal:** Report to investors on governance measures Company has implemented since 2013 to more effectively monitor and manage financial and reputational risks related to the opioid crisis in the United States...including whether Depomed has assigned responsibility for such monitoring to the Board or Board committee, revised senior executive compensation metrics or policies, adopted or changed mechanisms for obtaining input from stakeholders, or altered policies or processes regarding company political activities.
Case study: Assertio Therapeutics (2 of 2)

Result: Company responds

- August: Company issues public report detailing its opioid business and oversight. The report and establishes a “Opioid Oversight Committee” of the Board with a separate charter and at least quarterly meetings. Committee has authority to have independent access to the Company’s internal staff and has authority to retain outside counsel and any other advisors as the Committee may deem appropriate. Committee has sole authority to approve related fees and retention terms.
- Responsibilities include overseeing management’s risk monitoring and mitigation activities.
- Established a performance metric for annual bonus for executives in 2019 of “positive resolutions of opioid-related litigation and investigations.”
Shareholder Engagement: Corporate Policy Changes

As outlined in the Two-Year Progress Report available at:
https://www.iccr.org/sites/default/files/page_attachments/ioa_two_year_summary_report.pdf, the IOA results are:

- A majority (52%) of shareholder proposals led to agreements with the companies;
- Of the shareholder resolutions filed, seven resolutions at Rite Aid, Walgreens, Mallinckrodt, Mylan, and Assertio Therapeutics received majority votes and an additional two resolutions received majority support at AmerisourceBergen from independent voters, leading to reforms;
- Twelve companies agreed to conduct risk assessments of opioid-related business practices including governance, compliance, compensation and political lobbying and to report these findings publicly. Two of these companies (Cardinal Health and Assertio) established special board-level committees on opioids;
- Ten companies agreed to adopt misconduct clawback policies to recoup executive pay, including the public disclosure of the use of the clawback;
- Three companies agreed to separate their chair and CEO positions (McKesson, Cardinal Health and AmerisourceBergen), and;
- Two companies agreed to disclose when they adjusted metrics to exclude legal costs when calculating their executive pay awards.
## Shareholder Engagement—Board Diversity Work 2018

<table>
<thead>
<tr>
<th>Shareholder Proponent</th>
<th>Diverse Search Policy Adopted</th>
<th>Female Director(s) Added</th>
</tr>
</thead>
<tbody>
<tr>
<td>The City of Philadelphia Public Employees Retirement System</td>
<td>Cognex Corporation</td>
<td>Cognex Corporation</td>
</tr>
<tr>
<td></td>
<td>Cypress Semiconductor Corporation</td>
<td>First Hawaiian</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Getty Realty</td>
</tr>
<tr>
<td></td>
<td>Hub Group</td>
<td>HollyFrontier Corporation</td>
</tr>
<tr>
<td></td>
<td>Oceaneering International</td>
<td>Oceaneering International</td>
</tr>
<tr>
<td>The Office of the Illinois State Treasurer Michael Frerichs</td>
<td>FCB Financial Holdings</td>
<td>CACI International</td>
</tr>
<tr>
<td>SEIU MasterTrust</td>
<td>Amazon.com</td>
<td></td>
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<tr>
<td></td>
<td>CME Group</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Facebook</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Thor Industries</td>
<td>Thor Industries</td>
</tr>
<tr>
<td>Midwest Diversity Initiative</td>
<td>Century Aluminum</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Ferro</td>
<td>Ferro</td>
</tr>
<tr>
<td></td>
<td>First Industrial Realty Trust</td>
<td>First Industrial Realty Trust</td>
</tr>
<tr>
<td></td>
<td>Gogo Inflight</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Marathon Petroleum</td>
<td></td>
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<tr>
<td></td>
<td>Taubman Centers</td>
<td>Taubman Centers</td>
</tr>
<tr>
<td></td>
<td>United Continental</td>
<td></td>
</tr>
</tbody>
</table>

Source: Segal Marco Advisors, 2019
# Proxy Voting: As You Sow’s 100 Most Overpaid CEOs List

Percentage of Votes Against

<table>
<thead>
<tr>
<th>10 Largest Fund Managers by AUM</th>
<th>10 Largest Pension Funds by AUM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Blackrock ($6.4T)</td>
<td>Norges Bank</td>
</tr>
<tr>
<td>Vanguard ($4.8T)</td>
<td>CalPERS</td>
</tr>
<tr>
<td>Fidelity ($2.7T)</td>
<td>Quebec Pension Fund</td>
</tr>
<tr>
<td>SSGA ($2.7T)</td>
<td>PGGM Investments</td>
</tr>
<tr>
<td>Allianz Life ($2T)</td>
<td>Canada Pension Plan Investment Board</td>
</tr>
<tr>
<td>BNY Mellon ($1.9T)</td>
<td>CalSTRS</td>
</tr>
<tr>
<td>JP Morgan ($1.7T)</td>
<td>Florida SBA</td>
</tr>
<tr>
<td>PIMCO ($1.7T)</td>
<td>New York City Pension Funds</td>
</tr>
<tr>
<td>American Funds/Capital Group ($1.7T)</td>
<td>New York State Common Retirement Fund</td>
</tr>
<tr>
<td>Goldman Sachs ($1.5T)</td>
<td>Teachers Retirement System of Texas</td>
</tr>
<tr>
<td>11%</td>
<td>32%</td>
</tr>
<tr>
<td>14%</td>
<td>74%</td>
</tr>
<tr>
<td>7%</td>
<td>41%</td>
</tr>
<tr>
<td>15%</td>
<td>97%</td>
</tr>
<tr>
<td>9%</td>
<td>38%</td>
</tr>
<tr>
<td>51%</td>
<td>40%</td>
</tr>
<tr>
<td>18%</td>
<td>80%</td>
</tr>
<tr>
<td>49%</td>
<td>54%</td>
</tr>
<tr>
<td>30%</td>
<td>53%</td>
</tr>
<tr>
<td>28%</td>
<td>36%</td>
</tr>
</tbody>
</table>

Source: The 100 Most Overpaid CEOs, As You Sow, available at: [https://static1.squarespace.com/static/59a706d4f5e2319b70240ef9/t/5c6edf92971a180d1ef1597/1550770069046/100MostOverpaidCEOs_2019.pdf](https://static1.squarespace.com/static/59a706d4f5e2319b70240ef9/t/5c6edf92971a180d1ef1597/1550770069046/100MostOverpaidCEOs_2019.pdf)
AFL-CIO Key Proxy Votes List 2018

<table>
<thead>
<tr>
<th>Percent alignment on Key Votes</th>
<th>Sample Key Votes</th>
<th>Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>Blackrock</td>
<td>CEO Pay Target Amounts</td>
<td>3M</td>
</tr>
<tr>
<td>Vanguard</td>
<td>One Vote Per Share</td>
<td>Alphabet</td>
</tr>
<tr>
<td>Fidelity</td>
<td>Report on Drug Pricing</td>
<td>Amgen</td>
</tr>
<tr>
<td>SSGA</td>
<td>Independent Board Chair</td>
<td>Boeing</td>
</tr>
<tr>
<td>JP Morgan</td>
<td>Report on EEO Metrics</td>
<td>Charles Schwab</td>
</tr>
<tr>
<td>Goldman Sachs</td>
<td>Proxy Access</td>
<td>Charter Communications</td>
</tr>
<tr>
<td></td>
<td>Report on Lobbying</td>
<td>Citigroup</td>
</tr>
<tr>
<td></td>
<td>Board Diversity</td>
<td>Discovery</td>
</tr>
<tr>
<td></td>
<td>Report on Content Governance</td>
<td>Facebook</td>
</tr>
<tr>
<td></td>
<td>Amend Clawback Policy</td>
<td>Hasbro</td>
</tr>
<tr>
<td></td>
<td>Simple Majority Voting</td>
<td>Marriott</td>
</tr>
<tr>
<td></td>
<td>Report on Cyber Security</td>
<td>Verizon</td>
</tr>
</tbody>
</table>

- Key Proxy Votes submitted by Taft-Hartely, union, and public employee pension funds
- Key Proxy Votes represent a worker-owner view of value that emphasize management accountability and good corporate governance.


### NCPERS 10 Key Proxy Votes to Watch 2019

<table>
<thead>
<tr>
<th>Company</th>
<th>Issue</th>
<th>Proponent</th>
<th>Meeting Date</th>
<th>Vote Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alphabet</td>
<td>Inequitable Employment Practices</td>
<td>New York City Pension Funds</td>
<td>June 19</td>
<td>12.4% (Dual Class)</td>
</tr>
<tr>
<td><strong>Ask:</strong> Avoid mandatory arbitration of employment-related claims, non-compete agreements, no-poaching pacts, and involuntary non-disclosure agreements in connection with settlement for discrimination or harassment.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AmerisourceBergen</td>
<td>Executive Compensation A la cart accounting</td>
<td>City of Philadelphia Public Employees Retirement System</td>
<td>Feb 28</td>
<td>11.6%</td>
</tr>
<tr>
<td><strong>Ask:</strong> Avoid insulating executives from opioid litigation by excluding costs from calculations for incentive pay for executives.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Charter Communications</td>
<td>Proxy Access</td>
<td>New York City Pension Funds</td>
<td>April 23</td>
<td>39%</td>
</tr>
<tr>
<td><strong>Ask:</strong> Provide qualified shareholders with the ability to nominate candidates to the board of directors.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exxon Mobil</td>
<td>Board Matrix</td>
<td>New York City Pension Funds</td>
<td>May 29</td>
<td>7.4%</td>
</tr>
<tr>
<td><strong>Ask:</strong> Disclose a skills matrix for the board outlining skills, experiences, attributes, gender and race.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Facebook</td>
<td>Independent Chair</td>
<td>Illinois State Treasurer + co-filers</td>
<td>May 30</td>
<td>20% (Dual Class)</td>
</tr>
<tr>
<td><strong>Ask:</strong> Zuckerberg to step down as board chair and the appointment on an independent director in his place.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## NCPERS 10 Key Proxy Votes to Watch 2019

<table>
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<tr>
<th>Company</th>
<th>Issue</th>
<th>Proponent</th>
<th>Meeting Date</th>
<th>Vote Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mallinckrodt</td>
<td>Board Risk Report</td>
<td>Mercy Investment Services</td>
<td>May 15</td>
<td>78%</td>
</tr>
<tr>
<td>McKesson</td>
<td>Lobbying Disclosure</td>
<td>SHARE</td>
<td>July</td>
<td>45%</td>
</tr>
<tr>
<td>Mylan</td>
<td>Misconduct Clawback</td>
<td>UAW Medical Benefits Trust</td>
<td>June</td>
<td>Majority</td>
</tr>
<tr>
<td>Sinclair Broadcast Group</td>
<td>Diversity</td>
<td>City of Philadelphia Public Employees Retirement System</td>
<td>June 6</td>
<td>13.5% (Dual Class)</td>
</tr>
<tr>
<td>XPO Logistics</td>
<td>Sexual Harassment</td>
<td>SEIU MasterTrust</td>
<td>May 15</td>
<td>18% (Dual Class)</td>
</tr>
</tbody>
</table>

**Ask:**
- Report on governance measures Mallinckrodt has implemented since 2012 to more effectively monitor and manage financial and reputational risks related to the opioid crisis, including whether Mallinckrodt has assigned responsibility for such monitoring to the Board or one or more Board committees, revised senior executive compensation metrics or policies, adopted or changed mechanisms for obtaining input from stakeholders, or altered policies or processes regarding company lobbying activities.
- Publicly report the Company’s political and lobbying allocations, particularly in light of the company’s role in the opioid supply chain.
- Adopt a policy to enable the board to recoup compensation in response to misconduct by the executive.
- Include diverse nominees in terms of race and gender in every pool of candidates for director placements.
- Strengthen prevention of workplace sexual harassment by formalizing board oversight role.
I. Introduction

A. This document sets forth guidelines regarding the voting of proxies for the equity investments of the [Plan name] ("Plan").
B. These guidelines reflect the Plan’s determination of what positions are in the best economic interests of its beneficiaries on the most common and recurring proxy issues.
C. The Plan directs its proxy voting agent ("agent") to follow these guidelines unless the agent, using the care, skill, prudence and diligence that a prudent person would under the prevailing circumstances, believes that the agent should depart from these guidelines to protect the best economic interest of the Plan’s beneficiaries. In such circumstances, the agent should advise the Plan, in advance of the proxy vote deadline, of the agent’s intentions to depart from these guidelines and the agent’s specific reasons for doing so. The Plan reserves the authority to direct the agent to vote the Plan’s proxies in accordance with these guidelines.
D. If these guidelines do not apply, either directly or by reasonable interpretation, to a proxy issue, or if the guidelines acknowledge that the issue must be decided on a case-by-case basis, the agent is directed to use the care, skill, prudence and diligence that a prudent person would under the prevailing circumstances to cast a vote in the economic best interests of the Plan’s beneficiaries.

Available under “Corporate Governance” on NCPERS website, www.ncpers.org
Takeaways
Takeaways (1 of 2)

- Capital market developments include rising asset values in the wake of the financial crisis, modest traditional asset class return expectations, improved diversification and proactive capital stewardship.

- Lack of small private company employee coverage raises the risk of a future retirement crisis. Secure Choice, launched by NCPERS, is expanding coverage through state and local government adoptions.

- An increasing share of assets in the capital markets are owned by private wealth investors, an industry segment that is growing due in part to rising disparities in income and wealth.

- Public funds continue to increase allocations to alternative investments to position their portfolios for risk-adjusted returns, while implementing new practices to manage alternative investment risk exposures.

- Passive management helps investors implement cost-effective investment programs. However, the magnitude of shifts to passive management are raising concerns about unintended systemic impacts.
Takeaways (2 of 2)

• ESG implementation takes many forms, including investment policy development, manager selection, proxy voting and engagement, and may be implemented across multiple asset classes.

• NCPERS members can find a model proxy voting policy under Corporate Governance on the NCPERS’ website.

• Proxy votes impact how companies are run and which priorities are addressed.

• While investors’ proxy votes vary across investor type and market, public funds take a proactive, programmatic approach to maximize shareholder value for the benefit of members and beneficiaries.
National Conference on Public Employee Retirement Systems

Presenters

Julian Regan  
Senior Vice President and  
Public Sector Market Leader  
jregan@segalmarco.com

Expertise

Mr. Regan joined Segal Marco Advisors in 2009 as part of the firm’s continued commitment to public and multi employer benefit plans. Prior to joining the firm, Mr. Regan served in leadership, investment and risk oversight roles in the private and public sectors. Between 2001 and 2006, Mr. Regan served as Executive Director for the New York State Deferred Compensation Board, where he ran the state’s then $8 billion supplemental retirement plan and administered regulations that governed 250 local plans. Mr. Regan also served as Vice President, Risk Governance and Strategy for Fidelity Investments, Assistant General Manager and Budget Director for the Mass. Bay Transportation Authority and as Deputy Secretary for Capital and Transportation Planning for the Commonwealth of Massachusetts.

Professional Background

From 2005 to 2008, Mr. Regan was a member of the U.S. Internal Revenue Service (IRS) Advisory Committee on Tax Exempt and Government Entities. He is co-author of the NCPERS Best Governance Practices for Public Retirement Systems, and contributing author to the IFEBP Trustee Handbook, among other publications.

Education/Professional Designations

Mr. Regan received his M.B.A and B.S.B.A. from Suffolk University and studied at Georgetown University. Mr. Regan is a 2008 recipient of the IRS TE / GE “Commissioner's Award” and a 2004 “Plan Sponsor of the Year” award recipient.

Maureen O’Brien  
Vice President  
Corporate Governance Director  
mobrien@segalmarco.com

Expertise

Maureen joined Segal Marco Advisors in 2011 and currently serves as Vice President, Corporate Governance Director where she leads corporate engagements on behalf of SMA’s clients and analyzes proxy voting issues. Maureen’s work in shareholder advocacy began in 2003 as a Research Analyst for the Investor Responsibility Research Center. Since then, she has specialized in engaging companies on behalf of investors. Most recently, Maureen was Head of Engagement at Conflict Risk Network, where she held dialogues with companies operating in Sudan and other conflict zones.

Professional Background

Maureen also served as Research Director at the Center for Political Accountability, a non-profit, non-partisan organization, where she promoted transparency in corporate political spending. Maureen co-founded LINC Negotiations, a Washington, D.C.-based consultancy that provides training in negotiation and mediation. In 2015, Maureen was appointed to the Council of Institutional Investors Corporate Governance Advisory Council.

Education/Professional Designations

Maureen received her M.A. from American University in Washington, D.C. and her B.A. from the University of Missouri-Columbia.