NCPERS’ KEY PROXY VOTES FOR 2017

Maureen O’Brien
312-612-8446
mobrien@segalmarco.com
NCPERS’ 10 KEY PROXY VOTES
2017 SHAREHOLDER MEETINGS
Alphabet and Facebook—Fake News

- **Sponsor:** Arjuna Capital
- **Dates:** Facebook June 1, 2017
  Alphabet (new Google) June 7, 2017
- **Vote Recommendation:** FOR
- **Proposal:** Issue a report reviewing the impact of current fake news flows and management systems on the democratic process, free speech, and a cohesive society, as well as reputational and operational risk from potential public policy developments.
McDonald’s Franchise Director

- **Sponsor:** Segal Marco
- **Proposal:** Allow franchisees the opportunity to elect a board representative
- **Vote Recommendation:** FOR
- **Date:** May 24, 2017

McDonald’s aims for 95% of its stores to be franchise-owned (up from 85% now). It is passing on significant costs to the franchisees and has no representative with authority to convey challenges to the Board.
Swift Transportation—Eliminate Dual Class Stock

- **Sponsor:** The International Brotherhood of Teamsters General Fund
- **Proposal:** Develop a plan for recapitalization to result in one vote per share for all outstanding common stock
- **Vote Recommendation:** FOR
- **Date:** May 24, 2017
  - 2016 Result: 98% unaffected v. 37% reported
- CEO owns a minority of shares but retains majority voting power
- **10-K Disclosure:** the dual-class structure “makes it difficult for the board to oversee Moyes’ stewardship of the company for the benefit of all shareholders.”
- **IRRC Institute 2016:** companies with dual-class capital structures underperformed non-controlled companies over three-year, five-year, and ten-year periods.
SL Green Realty Corp.—CEO Target Pay

➢ **Sponsor:** Trowel Trades S&P 500

_Say-on-Pay Investor Working Group Public Fund Participants:_

- City of Philadelphia Public Employees Retirement System
- Connecticut Retirement Plans and Trust Funds
- Firefighters’ Pension System of Kansas City, Missouri, Trust
- Miami Firefighters’ Relief and Pension Fund
- New York City Pension Funds
- New York State Comptroller’s Office

➢ **Proposal:** Consider pay throughout the firm when setting CEO pay

➢ **Vote Recommendation:** FOR

➢ **Date:** June 1, 2017

Companies that agreed to policy:
Chevron—Lobbying Disclosure

➤ Sponsor: The City of Philadelphia Public Employees Retirement System

➤ Proposal: Political Spending Disclosure

➤ Vote Recommendation: FOR

➤ Date: May 31, 2017

- Consistent vote support year over year has led to incremental improvements in disclosure:
  - Board Oversight of political spending ✓
  - Global donations in 2016 (non-U.S.): $12M ✓

- Gaps in disclosure however remain:
  - State by state lobbying disclosure: unknown
  - Spending through trade associations: unknown
  - Spending through the American Legislative Exchange Council (ALEC): unknown
Cognex Corporation—Board Diversity

- **Sponsor:** The City of Philadelphia Public Employees Retirement System
- **Proposal:** Rooney Rule—make sure nominee pool is diverse
- **Vote Recommendation:** FOR
- **Date:** April 27, 2017  **Result:** 62%

- **McKinsey & Company 2015:** companies in the top quartile for gender or racial and ethnic diversity tend to report financial returns above their national industry medians.

- **Credit Suisse 2016:** Greater gender diversity in companies’ management coincides with improved corporate financial performance and higher stock market valuations.
Tesla—Declassify the Board of Directors

- **Sponsor:** Connecticut Retirement Plans and Trust Fund
- **Proposal:** Every director subject to shareholder vote each year
- **Vote Recommendation:** FOR
- **Date:** May 31, 2017

- **A 2004 Harvard study by Lucian Bebchuk and Alma Cohen:** staggered boards are associated with a lower firm value (as measured by Tobin’s Q) and found evidence that staggered boards may contribute to, not merely reflect, that lower value.

- **Board plagued by conflicts of interest; entrenchment concerns**
  - Tesla founder and CEO Elon Musk is also Tesla’s board chair.
  - The lead independent director of Tesla’s board, Antonio Gracias, serves on the board of SpaceX, also led by Musk, and served on the board of SolarCity, another Musk-founded firm that was recently acquired by Tesla.
  - Gracias is the CEO and majority owner of a limited partnership in which both Musk and his brother are limited partners.
IBM—Proxy Access

- **Sponsor:** New York City Pension Funds
- **Proposal:** Allow shareholders with a 3% stake held for 3 years to nominate a candidate to the board.
- **Vote Recommendation:** FOR
- **Date:** April 27, 2017
- **Result:** 59.4%
- **Since 2014 half of the S&P500 has adopted proxy access, 342 companies in total.**

CFA Institute found proxy access would:
- benefit both the markets and corporate boardrooms, with little cost or disruption.
- has the potential to raise overall US market capitalization by up to $140.3 billion if adopted market-wide.
Phony-accounts scandal in September:
- 2M fake accounts
- 5,300 people fired for ethics violations, board told of only 230
- Division head ran group like a sales organization, not a financial institution
- Company paid $185M in fines

Claw-backs on CEO ($69M) and former head of community banking ($66M). Neither is currently employed at Wells Fargo

Date: April 25, 2017

Result: Four director nominees received less than 60% support