NCPERS' KEY PROXY VOTES FOR 2018

Maureen O’Brien, VP, Corporate Governance Director
Segal Marco Advisors
312-612-8446
mobrien@segalmarco.com
Proxy Voting
Fiduciary Duty

Dec. 2016 Interpretive Bulletin 2016-01 (IB 2016-01)

➢ Updated guidance for plan fiduciaries with respect to proxy voting.

➢ The Department’s longstanding position is that the fiduciary act of

➢ managing plan assets which are shares of corporate stock includes decisions on the voting of proxies and other exercises of shareholder rights.

➢ Field Assistance Bulletin No. 2018-01

• The Department's longstanding view is that plan fiduciaries should engage in traditional and customary proxy voting activities in discharging their fiduciary obligation to prudently manage plan investments.

• The Department noted in the IB that there may be circumstances, for example involving significantly indexed portfolios and important corporate governance reform issues, or other environmental or social issues that present significant operational risks and costs to business, and that are clearly connected to long-term value creation for shareholders with respect to which reasonable expenditure of plan assets to more actively engage with company management may be a prudent approach to protecting the value of a plan's investment.
NCPERS’ 10 KEY PROXY VOTES
2018 Shareholder Meetings
Proposal: Report on Incentive Pay and Risks of Material Losses
- Proponent: New York State Common Retirement Fund
- Meeting date: April 24
- Vote result: 21.7% in favor
- Segal Marco vote: FOR

Sept. 2016—phony-accounts scandal
- 2M fake accounts
- Company paid $185M in fines
- Claw-backs on CEO ($69M) and former head of community banking ($66M)

July 2017—collateral protection insurance scandal
- 570,000 customers overcharged for auto insurance
- $80 million paid in remediation to customers

“Many witnesses believed that incentive compensation plans overly emphasized sales performance, and many complained to Community Bank leadership that incentive plan goals were too high, too focused on sales and led to bad behavior.” – April 2017 Report
Proposal: Content Governance
- Proponent: Office of the Treasurer State of Illinois
- Meeting date: May 31
- Segal Marco vote: FOR

“We didn’t take a broad enough view of our responsibility and that was a big mistake. And it was my mistake. And I’m sorry.”

– Mark Zuckerberg
Proposal: Issue report to shareholders on governance measures Co. has implemented to more effectively monitor and manage financial and reputational risks related to the opioid crisis.

- **Proponent:** Mercy Health Systems
- **Meeting date:** October
- **Segal Marco vote:** FOR

91 Americans deaths a day from Opioid overdose—a majority from prescription painkillers. —Centers for Disease Control (“CDC”)

$78.5 billion a year in economic costs from healthcare, criminal justice and lost productivity. —Medical Care Journal

CDC statistics suggest the opioid epidemic caused a drop is the life expectancy rate in America for 2016 and 2015. —The Economist

780 million prescription opioids distributed to West Virginia in six years, enough for about 433 pills for every man, woman and child. 1,728 people fatally overdosed. Legal costs: DEA settlements, 100s of lawsuits by counties and cities across the country.
Johnson & Johnson/McKesson

PROPOSAL: EXCLUSION OF LEGAL COSTS FROM EXECUTIVE COMPENSATION

Johnson & Johnson
• Proponent: City of Philadelphia Public Employees Retirement System
• Meeting date: April 26
• Segal Marco vote: FOR

McKesson
• Proponent: AFL-CIO Equity Index Fund
• Meeting date: July
• Segal Marco vote: FOR

Earnings Per Share
- Legal Costs
Adjusted Earnings Per Share

Adjusted Earnings Per Share = CEO Incentive Pay
Proposal: Approve $2.6 Billion Stock Option Grant to CEO Elon Musk

- Proponent: Management
- Meeting date: March 21
- Vote result: 80% in favor
- Segal Marco vote: AGAINST

CEO PAY COMPARISON

- CEO Peer Median: $9,310,000
- Average CEO Pay: $13,000,000
- Elon Musk: $2,600,000,000
Proposal: Amend Clawback Policy

- Proponent: Trowel Trades S&P 500 Fund
- Meeting date: June 6
- Segal Marco vote: FOR
Proposal: Majority Voting

- Proponent: AFL-CIO Reserve Fund
- Meeting date: May 4
- Segal Marco vote: FOR
Proposal: Adopt Policy to Increase Diversity of Board of Directors

- Proponent: The City of Philadelphia Public Employees Retirement System
- Meeting date: April 25
- Vote result: 25% in favor
- Segal Marco vote: FOR

Feb. 2016 report by the Peterson Institute for International Economics found “Firms with More Women in the C-Suite Are More Profitable.”

Credit Suisse’s 2014 study, “Women’s Positive Impact on Corporate Performance” found “Greater gender diversity in companies’ management coincides with improved corporate financial performance and higher stock market valuations.”

Jan. 2015 study by McKinsey & Company, “Why Diversity Matters,” found companies in the top quartile for gender or racial and ethnic diversity tend to report financial returns above their national industry medians.
Proposal: Proxy Contest
- Proponent: Starboard
- Meeting date: May 15

Starboard Value’s Jeff Smith vies for four board seats on the heels of Carl Icahn’s deal for five board seats.