

AGENDA

A REGULAR MEETING OF THE CORPORATE GOVERNANCE

COMMITTEE AND THE BOARD OF INVESTMENTS*

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

300 N. LAKE AVENUE, SUITE 810, PASADENA, CALIFORNIA 91101

8:00 A.M., WEDNESDAY, OCTOBER 10, 2018**

*The Committee may take action on any item on the agenda,
and agenda items may be taken out of order.*

- I. CALL TO ORDER
- II. APPROVAL OF MINUTES
 - A. Approval of the Minutes of the Special Committee Meeting of July 10, 2018.
- III. PUBLIC COMMENT
- IV. NON-CONSENT ITEMS
 - A. Recommendation as submitted by Jonathan Grabel, Chief Investment Officer: That the Committee recommend for Board of Investments approval a nomination from LACERA for election to the Council of Institutional Investors (CII) board of directors. (Memo dated September 19, 2018)
 - B. Memo as submitted by Scott Zdrazil, Senior Investment Officer: That the Committee discuss recommending for Board of Investments approval that LACERA formally sign the Global Investor Statement to Governments on Climate Change. (Memo dated September 19, 2018)

V. REPORTS

- A. Review of FY2018 Proxy Voting Results and Trends
Scott Zdrazil, Senior Investment Officer
Dale Johnson, Investment Officer
(Report dated September 19, 2018)

- B. Review of LACERA's 2018 Principles for Responsible Investment (PRI) Assessment
Scott Zdrazil, Senior Investment Officer
Dale Johnson, Investment Officer
(Report dated September 19, 2018)

- C. 2018 Principles for Responsible Investment (PRI) Board Elections (For Information Only)
Scott Zdrazil, Senior Investment Officer
(Memo dated September 21, 2018)

VI. REPORT ON STAFF ACTION ITEMS

VII. GOOD OF THE ORDER (For Information Purposes Only)

VIII. ADJOURNMENT

*The Board of Investments has adopted a policy permitting any member of the Board to attend a standing committee meeting open to the public. Members of the Board of Investments who are not members of the Committee may attend and participate in a meeting of a Committee but may not vote, make a motion, or second on any matter discussed at the meeting. The only action the Committee may take at the meeting is approval of a recommendation to take further action at a subsequent meeting of the Board.

**Although the meeting is scheduled for 8:00 a.m., it can start anytime thereafter, depending on the length of the Board of Investment meeting preceding it. Please be on call.

Documents subject to public disclosure that relate to an agenda item for an open session of the Board of Investments that are distributed to members of the Board of Investments less than 72 hours prior to the meeting will be available for public inspection at the time they are distributed to a majority of the Board of Investments Members at LACERA's offices at 300 N. Lake Avenue, Suite 820, Pasadena, CA 91101, during normal business hours of 9:00 a.m. to 5:00 p.m. Monday through Friday.

Persons requiring an alternative format of this agenda pursuant to Section 202 of the Americans with Disabilities Act of 1990 may request one by calling Cynthia Guider at (626) 564-6000, from 8:30 a.m. to 5:00 p.m. Monday through Friday, but no later than 48 hours prior to the time the meeting is to commence. Assistive Listening Devices are available upon request. American Sign Language (ASL) Interpreters are available with at least three (3) business days notice before the meeting date.

MINUTES OF THE SPECIAL MEETING OF THE CORPORATE
GOVERNANCE COMMITTEE AND THE BOARD OF INVESTMENTS
LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION
LOEWS SANTA MONICA BEACH HOTEL
1700 OCEAN AVENUE SANTA MONICA, CA 90401

9:00 A.M., TUESDAY, JULY 10, 2018

PRESENT: Shawn Kehoe, Chair
 David Muir, Vice Chair
 Joseph Kelly
 Herman Santos
 Gina Sanchez, Alternate

MEMBERS AT LARGE: Michael Schneider
 Wayne Moore
 David Green
 Vivian Gray
 Thomas Walsh
 JP Harris

STAFF, ADVISORS, PARTICIPANTS

Jonathan Grabel, Chief Investment Officer
Jude Perez, Principal Investment Officer

STAFF, ADVISORS, PARTICIPANTS

Scott Zdrazil, Senior Investment Officer

Dale Johnson, Investment Officer

Meketa Investment Group

Tim Filla, Vice President

Andrea Light, Investment Analyst

I. CALL TO ORDER

The Meeting was called to order by Chair Kehoe at 12:17 p.m., in the Arcadia Room of Loews Santa Monica Beach Hotel.

II. APPROVAL OF MINUTES

- A. Approval of the Minutes of the Regular Meeting of the Corporate Governance Committee of April 11, 2018.

Mr. Santos made a motion, seconded by Mr. Kelly, to approve the Minutes of the Regular Meeting of April 11, 2018. The motion carried by unanimous vote.

III. PUBLIC COMMENT

There were no requests from the public to speak.

IV. NON-CONSENT ITEMS

- A. Recommendation as submitted by Scott Zdrazil, Senior Investment Officer: That the Committee Affirm a Strategic Initiative Regarding Diversity on Corporate Boards.
(Report dated May 17, 2018)

July 10, 2018

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IV. NON-CONSENT ITEMS (Continued)

Messrs. Grabel, Zdrazil and Mr. Filla were present and answered questions from the Committee.

Mr. Muir made a motion, Mr. Santos seconded, to approve staff's recommendation that the Committee Affirm a Strategic Initiative Regarding Diversity on Corporate Boards. The motion carried by unanimous vote.

- B. Recommendation as submitted by Scott Zdrazil, Senior Investment Officer: That the Committee recommend for Board of Investments approval that LACERA Formally Sign onto the Climate Action 100+ Initiative as a Supporter.
(Memo dated May 17, 2018)

Messrs. Grabel and Zdrazil answered questions from the Committee.

Mr. Kehoe made a motion, seconded by Mr. Kelly, to approve the agenda item that LACERA Formally Sign onto the Climate Action 100+ Initiative as a Supporter. The motion carried by unanimous vote.

- C. Request for Direction as submitted by Jonathan Grabel, Chief Investment Officer, and Scott Zdrazil, Senior Investment Officer: That Committee provide direction regarding the Analysis and Exposure to Civilian Firearms and Ammunitions Investments.
(Memo dated June 18, 2018)

Messrs. Grabel and Zdrazil answered questions from the Committee.

Members of the Committee expressed interest in periodic reporting of LACERA's exposures to civilian firearms manufacturers.

IV. NON-CONSENT ITEMS (Continued)

Mr. Santos made a motion, seconded by Mr. Kehoe, to receive and file the report.

Mr. Kelly made a substitute motion, seconded by Mr. Muir to conduct further performance analysis of related exposures and to monitor LACERA's exposures to civilian firearms on a semiannual basis. The motion failed with Messrs. Kelly and Muir voting yes, and Messrs. Santos and Kehoe voting no.

The Committee voted on the original motion made by Mr. Santos, seconded by Mr. Kehoe, to receive and file the staff report. The motion passed unanimously.

- D. Request for Direction as submitted by Jonathan Grabel, Chief Investment Officer: that the Committee provide direction regarding the Analysis and Exposure to Automobile Manufactures.
(Memo dated June 18, 2018)

Messrs. Grabel and Zdrazil answered questions from the Committee.

Mr. Kehoe made a motion, seconded by Mr. Santos to receive and file the agenda item. The motion passed unanimously.

V. REPORTS

- A. Status Update of Assessment of ESG Integration at LACERA Public Markets Managers
Scott Zdrazil, Senior Investment Officer
(Memo dated June 18, 2018)

The item was presented with staff available for questions.

July 10, 2018

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VI. REPORT ON STAFF ACTION ITEMS

There were no items to report.

VII. GOOD OF THE ORDER
(For information purposes only)

There was nothing to report.

VIII. ADJOURNMENT

There being no further business to come before the Committee, the meeting was adjourned at 1:05 p.m.

September 19, 2018

TO: Each Member
Corporate Governance Committee

FROM: Jonathan Grabel 
Chief Investment Officer

FOR: October 10, 2018 Corporate Governance Committee Meeting

SUBJECT: **COUNCIL OF INSTITUTIONAL INVESTORS BOARD NOMINATION**

RECOMMENDATION

That the Corporate Governance Committee recommend for Board of Investments approval a nomination for election or re-election to the Council of Institutional Investors board of directors.

BACKGROUND

LACERA is a member of several corporate governance associations, including the Council of Institutional Investors (“CII”). CII bylaws provide that public fund CII members elect nine members to its board each year. Scott Zdrazil, Senior Investment Officer, is currently serving a first term on the CII board. CII board members are permitted to serve five consecutive one-year terms. In accordance with CII’s stated governance principles for public companies, CII holds annual elections for all board members who generally serve five terms to provide consistent vision and oversight. There are no sitting CII board members who are terming off the board this year. CII has respectfully requested six-month notice from any incumbent member of the board who will not be nominated for re-election.

LACERA Board of Investment members have on occasion expressed interest in putting forward a trustee nominee for CII board elections. I would therefore suggest that the Committee consider nominating LACERA board member Mr. David Muir for CII’s 2019 board elections.

CII board nominations are anticipated to be due in January 2019 for consideration and a vote by all public fund CII members at the Spring CII Conference, scheduled to take place in Washington, D.C., March 4-6, 2019. LACERA’s *Corporate Governance Policy* provides that the Board of Investments, “[a]pproves LACERA representatives for nomination to governing bodies of the corporate governance associations to which LACERA is affiliated, as recommended by the Corporate Governance Committee...” (pages 1-2). This item is being presented for Committee consideration in order to allow for timely consideration by the Board of Investments, should the Committee take action on the item.



Documents not attached are exempt from disclosure under the California Public Records Act and other legal authority.

**For further information, contact:
LACERA
Attention: Public Records Act Requests
300 N. Lake Ave., Suite 620
Pasadena, CA 91101**

September 19, 2018

TO: Each Member
Corporate Governance Committee

FROM: Scott Zdrazil 
Senior Investment Officer – Corporate Governance

Dale Johnson 
Investment Officer

FOR: October 10, 2018 Corporate Governance Committee Meeting

SUBJECT: **REVIEW OF FY2018 PROXY VOTING RESULTS AND TRENDS**

Please find attached a presentation of LACERA's proxy voting results and trends for Fiscal Year 2018, covering votes cast from July 1, 2017 to June 30, 2018.

Staff notes two items for the Committee's attention:

1. **Move to custom voting policy:** The reporting period covers LACERA's move from voting proxies according to an external vendor's benchmark policy to voting according to LACERA's own custom *Corporate Governance Principles*, as adopted by the Board of Investments in February 2018. Staff has integrated policy parameters into a proxy voting platform and reviews individual voting items to ensure alignment with the *Principles*.
2. **Expansion of proxy voting authority:** As the Committee is aware, LACERA casts proxies only for public equities accounts where LACERA has retained proxy voting authority. Following Board approval in January 2018, LACERA is expanding its voting authority in the public equities portfolio. Staff completed conversion of certain domestic funds to a Russell 3000 Index separate account in late June 2018, resulting in expanded proxy voting rights heading into FY2019. Conversion of designated non-U.S. equities accounts is currently in process.

This FY2018 report provides an opportunity to review trends since the adoption of a refreshed policy and as LACERA assumes a greater volume of proxy voting authority.

Attachment

Noted and Reviewed:



Jonathan Grabel
Chief Investment Officer

Proxy Voting Results and Trends

Fiscal Year 2018

(July 1, 2017 through June 30, 2018)

Corporate Governance Committee

October 10, 2018

Scott Zdrazil, Senior Investment Officer

Dale Johnson, Investment Officer



Discussion Outline

1. Review of FY 2018 Proxy Voting Results and Trends
2. Public Policy Developments Related to Proxy Voting
3. Looking Forward: Expanded Voting Volume

1. Review of Proxy Voting Results and Trends



Fiscal Year 2018 Proxy Votes by the Numbers

1,610

annual meetings voted

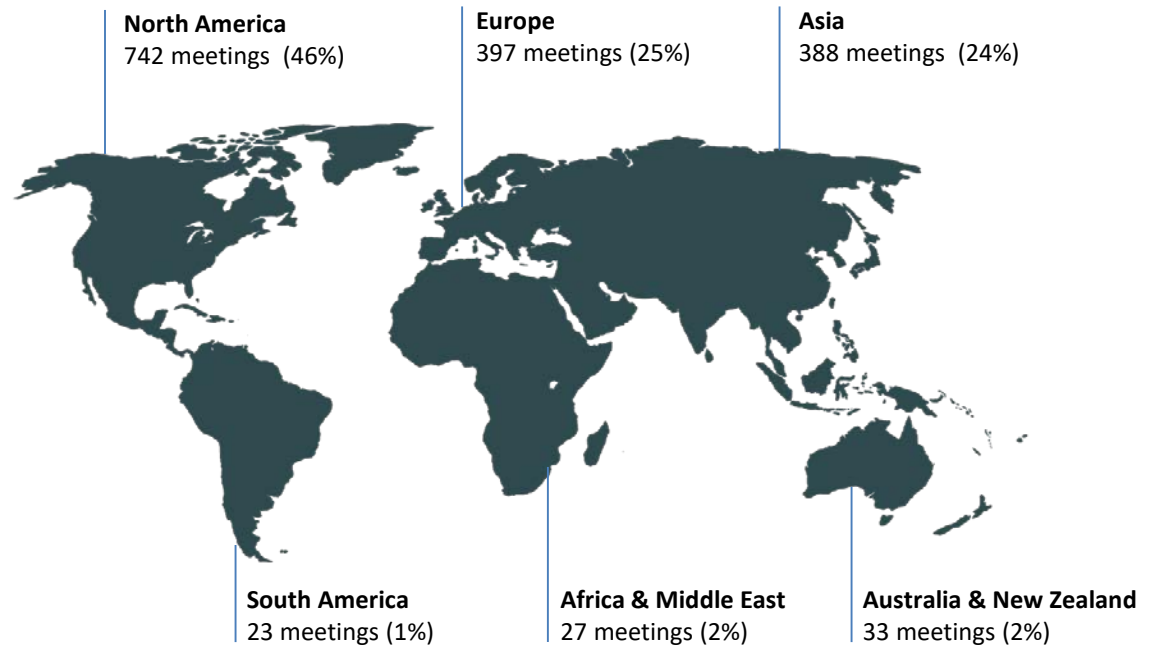
18,131

individual ballot items

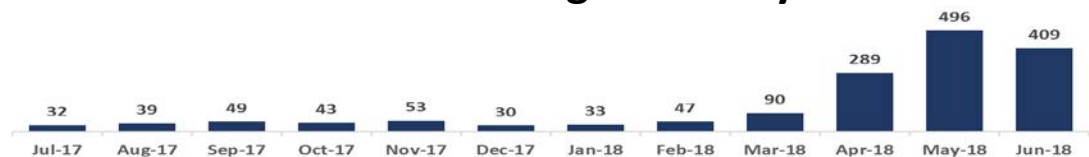
48

global markets voted in

Number of Shareholder Meetings Voted By Region

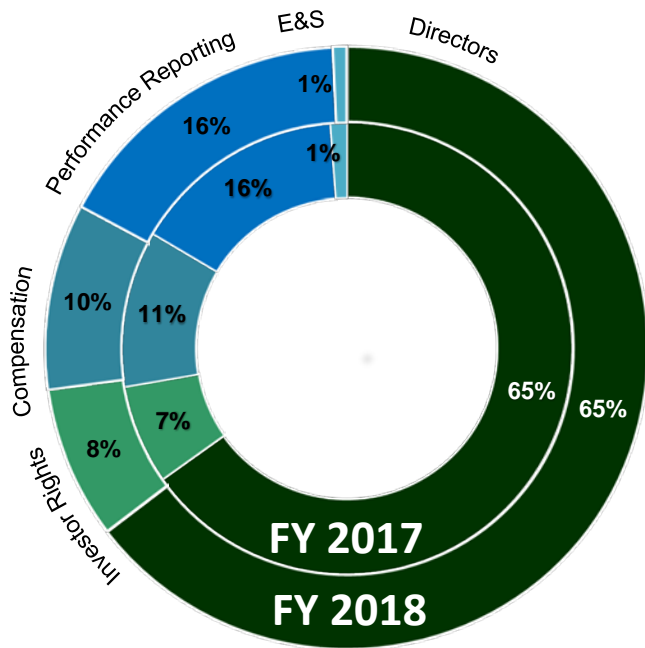


Number of Meetings Voted By Month



Key Topics Voted

**Proxy Votes By Subject
FY 2017 versus FY 2018**



- 65% of votes address *director elections* – the most common topic.
- 1% of votes addressed *environmental and social (“E&S”) matters*.

LACERA casts proxy votes at shareholder meetings in order to promote and protect sustainable shareholder value, per policy and fiduciary duty.

Votes are cast in adherence to LACERA’s [Corporate Governance Principles](#), which address five common subjects appearing on corporate proxies. Each of the five sections is guided by the five core principles outlined below.

LACERA Core Guiding Corporate Governance Principles



Accountability from directors to investors who provide capital

LACERA advocates policies and practices that encourage directors to be accountable to investors. Accountability ensures that a firm’s operations and reporting are managed in the best interests of investors.

Integrity in capital markets and fair and equitable treatment of investors

Integrity and trust are the cornerstones of capital markets and essential for economic stability. Core investor rights ensure fair and equitable treatment of investors and help instill investor confidence.

Aligned interests between executives and the investors who provide the firm with capital

Compensation and incentives should align the interests of senior executives with investors who provide the firm with capital. Pay plan design, structure, and goals should be fundamentally derived from and relevant to a firm’s core business objectives and collectively promote sustainable value creation. Pay should promote performance.

Transparency in reporting of key financial and operating performance

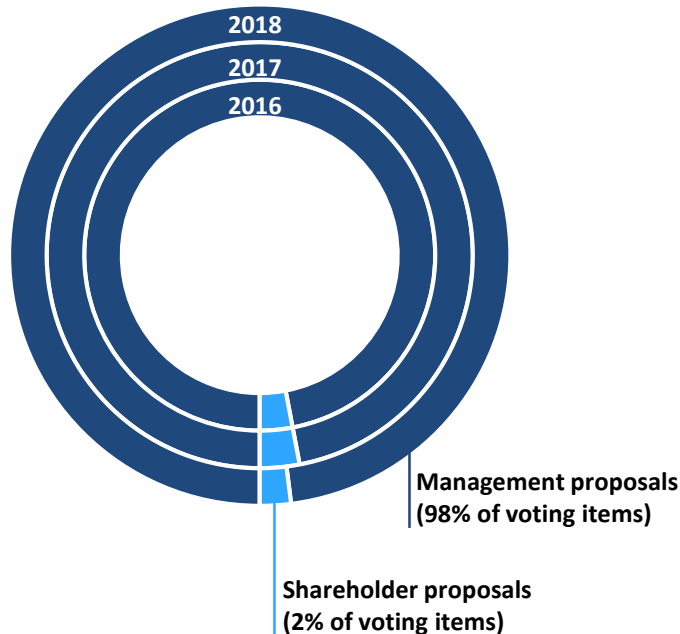
Transparency of a firm’s key financial and operating performance is critical. Financial markets work most efficiently when investors have timely, reliable, and comparable information about material aspects of a firm’s performance.

Prudent risk mitigation and management of social and environmental factors

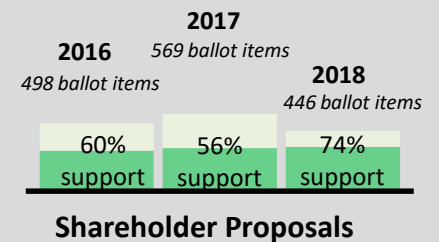
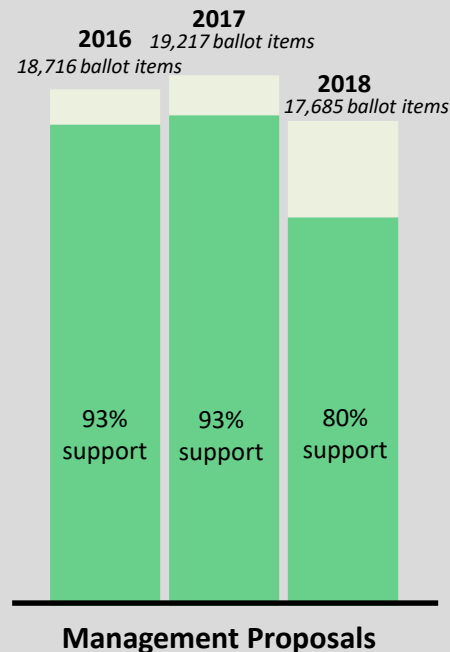
Environmental and social factors may shape and impact a firm’s ability to generate and sustain value. Firms should identify and prudently manage social and environmental factors relevant to the firm’s business strategy, industry, and geographic markets.

Proxy Proposals By Sponsor and Support Levels

Percentage of Proposals By Sponsor

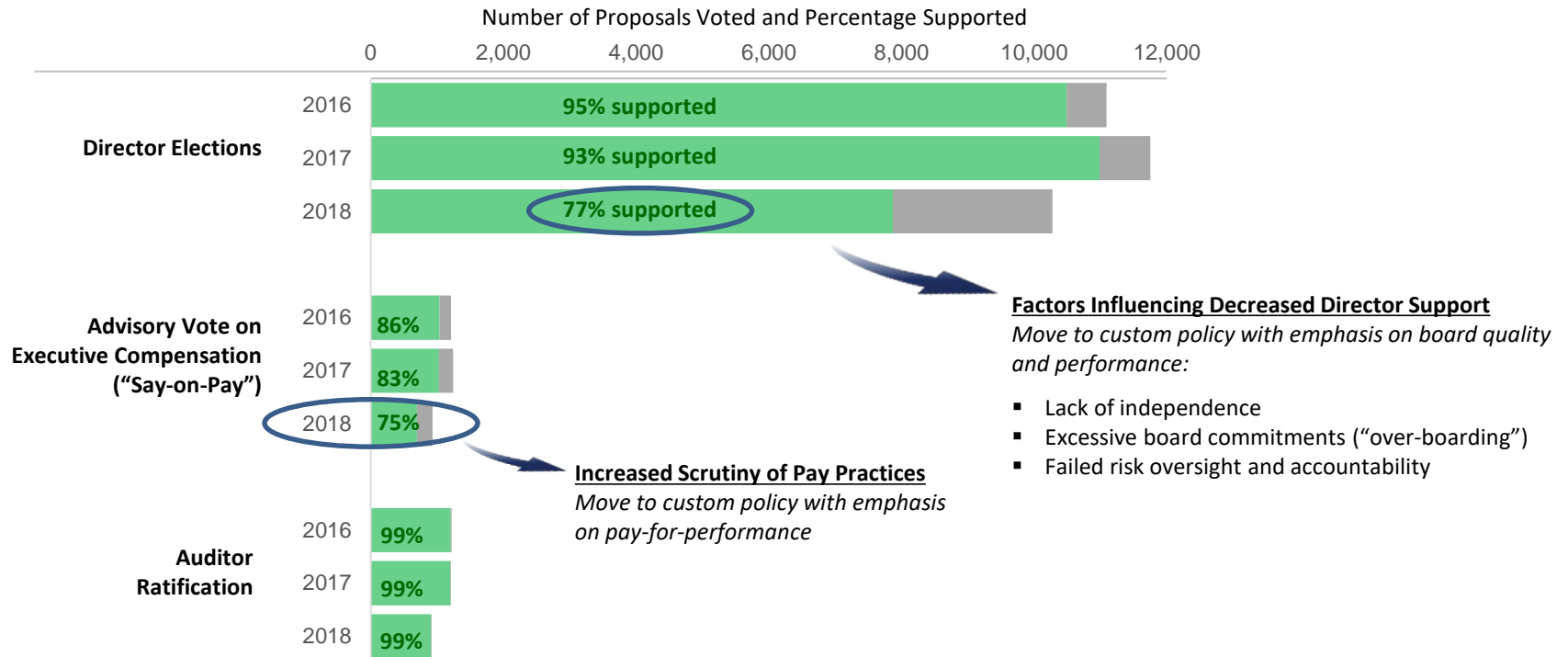


- Nearly all proxy items are sponsored by management (97%-98%)
- Shareholder proposals typically represent 2%-3% of total votes
- LACERA support for management proposals moderately decreased
- Support for shareholder proposals moderately increased



Management Proposal Voting Trends

Key Management Proposal Support Levels



Select Sample Votes

Director Accountability

Opposed select directors for failed cybersecurity oversight in wake of data breach impacting 147.9 million consumers.



Director Accountability

Supported shareholder proposal requesting Board oversight of data privacy risks and regulatory liabilities, prompting modification of Committee structures.



Pay-for-Performance

Opposed say-on-pay vote due to pay above peer group and \$100 million CEO equity grant lacking performance criteria. Company failed vote.



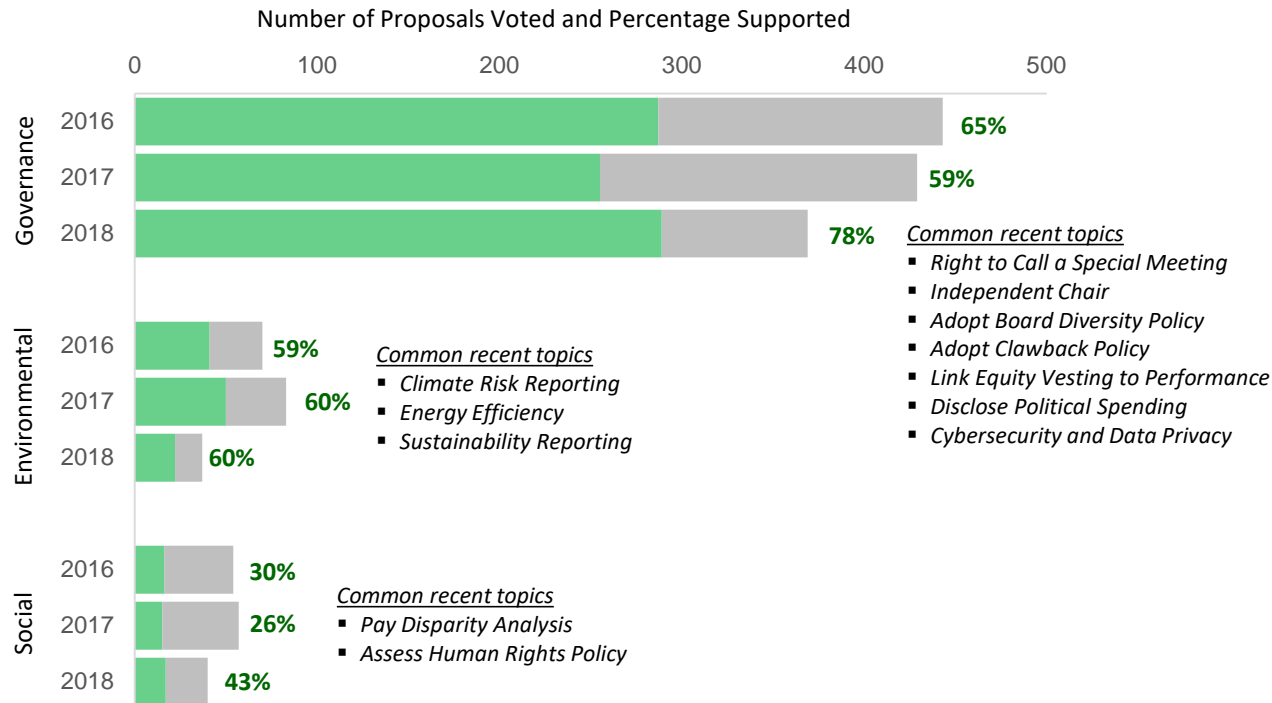
Performance Reporting

Opposed long-time auditor (KPMG, in place for 109 years) after accounting irregularities on undisclosed liabilities prompted federal probes.



Shareholder Proposal Voting Trends

Support Levels By Shareholder Proposal Subject



- Typically non-binding requests of a board to take a certain action
- Governance topics are most common
- LACERA policy generally supports proposals related to sound governance practices and material risks
- LACERA policy may oppose a proposal if it might undermine shareholder value, is overly prescriptive, or has already been adopted by the company
- Emerging issues include:
 - Data privacy
 - Internal controls for controlled substance distribution (e.g. opioids)
 - Pay disparity analysis
 - Weighted voting rights/IPO governance profiles
 - Focus on “Big Tech” companies

Select Sample Votes

Proxy Access

Supported a proposal requesting the right for long-term investors to present alternative board nominees under defined terms, which received 57% support.



Clawback Policy

Supported a proposal requesting a recoupment policy by which executive pay may be recouped due to a financial restatement or misconduct.



Climate Risk Reporting

Supported request to assess impact of climate risks on business model, which received 60% support.



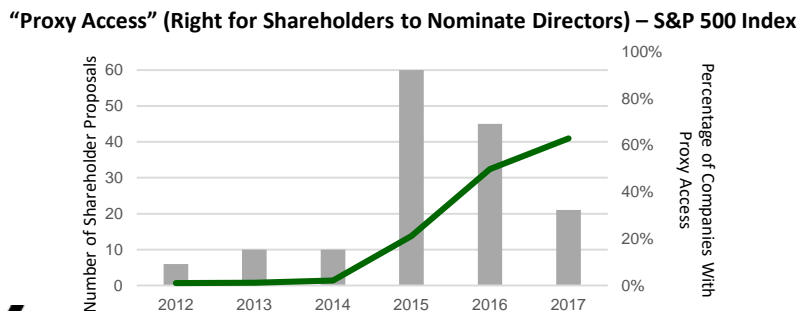
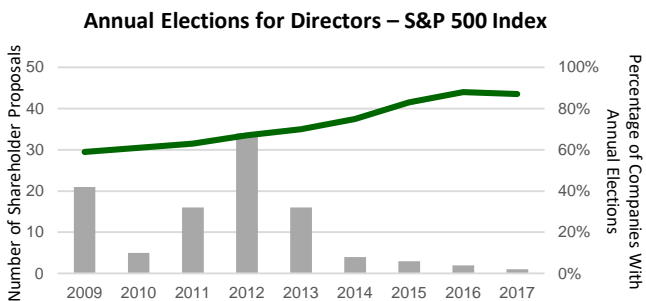
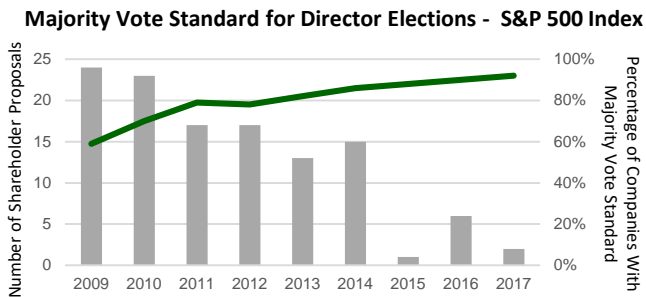
Gender Pay Disparity

Supported requests to assess gender pay disparities.



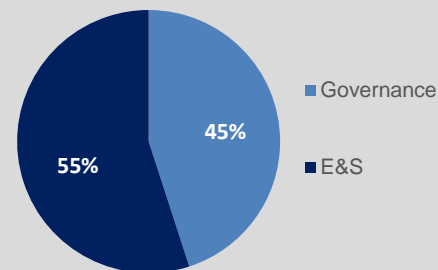
U.S. Shareholder Proposal Market Trends

Investor Support for Shareholder Proposals Prompted Majority of U.S. Large Cap Companies to Adopt Key Governance Reforms; Recent Increasing Market Focus on Environmental and Social (“E&S”) Topics

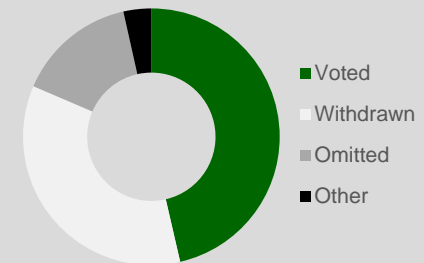


- ✓ U.S. companies have largely adopted previously popular governance shareholder resolutions
- ✓ Several common governance practices have been adopted without market regulation or legislation, but rather based on resolutions and investor support levels (“private ordering”)
- ✓ Most filed E&S proposals do not go to a vote, as companies either negotiate a withdrawal or seek permission from the Securities and Exchange Commission to exclude the proposal under regulatory guidelines

2017 Filed Resolutions by Subject



Status of 2017 E&S Resolutions



Sources: ISS Voting Analytics Database; ISS. “2017 U.S. Proxy Season Review Environmental & Social Issues.” September 27, 2017. No link available.



2. Public Policy Developments



Public Policy Developments Related to Proxy Voting

Recent legislative and regulatory items addressing proxy voting system:

1. Proxy research firms

The U.S. House of Representatives bill 4015 passed the House on December 20, 2017. The bill, if it became law, would:

- Grant companies the right to review proxy research firms' reports before paying customers, such as LACERA, receive the reports
 - Introduce an ombudsman to mediate disputes between companies and research providers regarding their research
 - Require registration with the SEC as investment advisors (ISS currently complies)
 - Require SEC assessment of proxy firms' resource capacity to fulfil their roles
- LACERA joined other institutional investors on joint letters* organized by the Council of Institutional Investors (CII) to the House and Senate expressing concerns that the legislation, if approved, would undermine the independence of proxy research, jeopardize the timeliness of report delivery in order to cast votes ahead of meetings, and prospectively increase research costs to paying customers.

2. Shareholder proposal filing requirements

HR 5756 House bill that would revise resubmission thresholds by which a proposal presented one year may be submitted again.

- LACERA is working with CII to monitor and develop appropriate responses to proposals regarding the shareholder proposal process.

3. "Proxy plumbing" system

The Securities and Exchange Commission has announced** it will host a roundtable in November 2018 and seeks public comment regarding the U.S. proxy process, including the following topics:

- Proxy voting process (vote confirmation, etc.)
 - Retail shareholder participation
 - Shareholder proposals
 - Universal proxy ballots
- LACERA is working with CII to develop public comment and is assessing a separate comment submission reflecting LACERA's *Corporate Governance Principles* on select topics to echo and support the Council's formal comment, once submitted.

* See November 9, 2017 Council of Institutional Investors joint investor letter to U.S. House of Representatives Committee on Financial Services regarding proposed legislation related to proxy research firms and institutional investors (https://www.cii.org/files/issues_and_advocacy/correspondence/2017/Attachment%20to%20December%2012,%202017%20Letter.pdf); and February 27, 2018 Council of Institutional Investors joint investor letter to the U.S. Senate Committee on Banking, Housing, and Urban Affairs regarding proposed legislation relating to proxy research firms and institutional investors (https://www.cii.org/files/issues_and_advocacy/correspondence/2018/Feb%2027-18%20Final%20Letter%20CII%20on%20proxy%20advisor%20legislation.pdf).

** Securities and Exchange Commission. July 30, 2018. "Statement Announcing SEC Staff Roundtable on the Proxy Process." (<https://www.sec.gov/news/public-statement/statement-announcing-sec-staff-roundtable-proxy-process>); Securities and Exchange Commission. September 21, 2018. "SEC Staff to Host Nov 15 Roundtable on the Proxy Process." (<https://www.sec.gov/news/press-release/2018-206>)

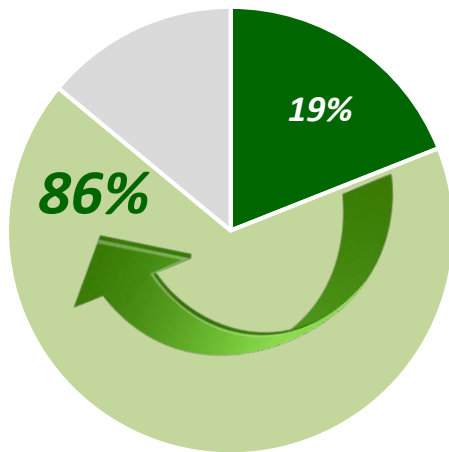


3. Looking Forward



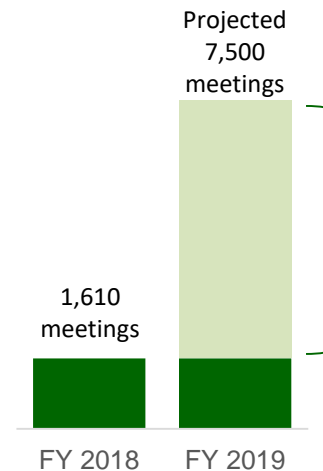
Looking Forward: Expanded Voting Volume

Recent account conversion of LACERA's passive equities funds significantly expands LACERA's proxy voting activity going forward



86%

LACERA's voting authority will increase from 19% in FY 2018 to 86% of global equities holdings



Over 4x

Projected increase in number of meetings voted

Timeline of Proxy Policy Refreshment and Expanded Voting Rights

February 2018	April – June 2018	Late June 2018	October 2018	Q4 2018	Q1 2019	April – June 2019
Board adopts revised <i>Corporate Governance Principles</i>	LACERA begins implementation of new policy in proxy season	Complete account conversion of U.S. index fund, adding vote authority for >2,000 U.S. companies	Corporate Governance Committee reviews voting results and trends	Complete account conversion of non-U.S. index fund, adding vote authority for >3,000 additional companies (excluding emerging market exposures)	Corporate Governance Committee annual affirmation of <i>Corporate Governance Principles</i>	Vote expanded voting authority for full 2019 proxy season

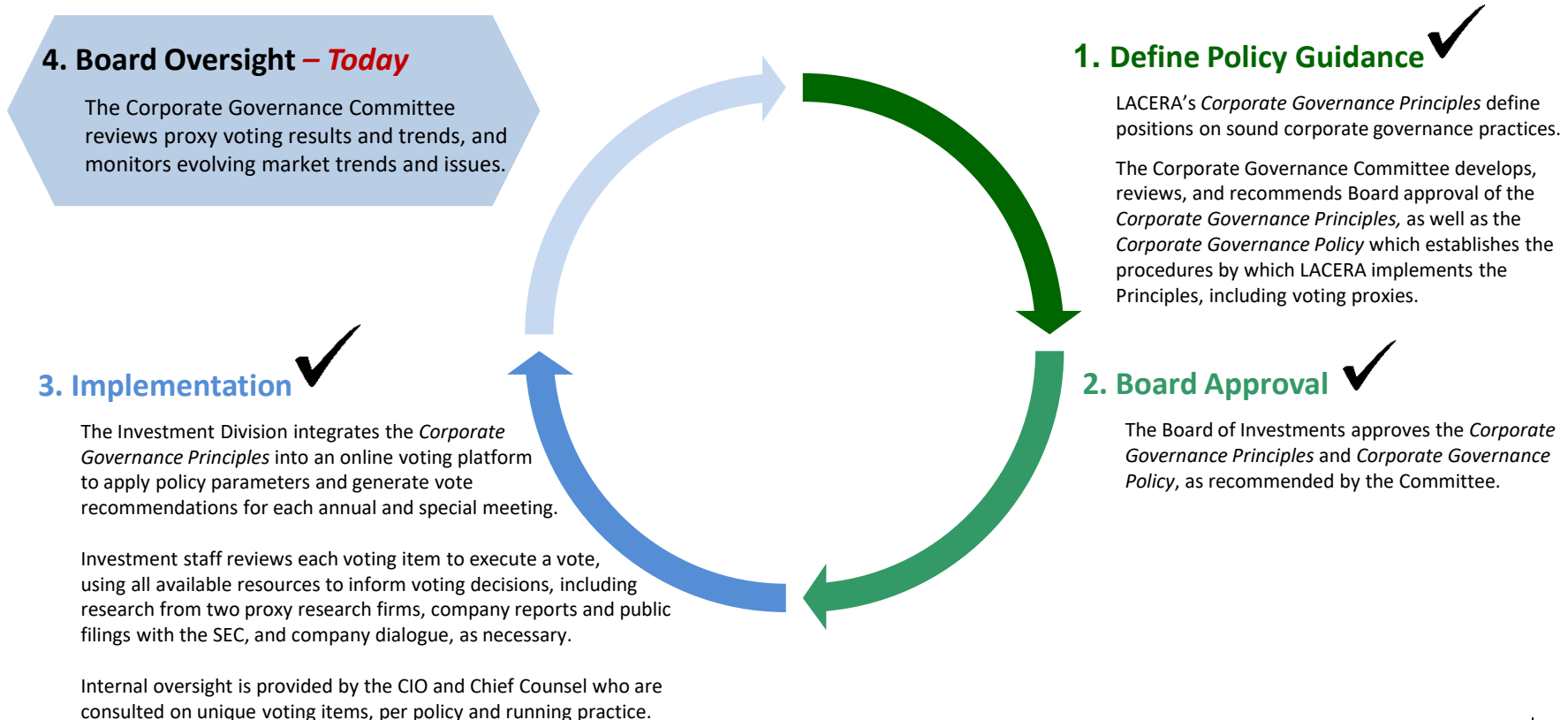


Appendix




Proxy Voting Process


LACERA votes proxies in adherence to its *Corporate Governance Principles* in order to support practices that safeguard and enhance shareholder value.



September 19, 2018

TO: Each Member
Corporate Governance Committee

FROM: Scott Zdrazil 
Senior Investment Officer – Corporate Governance

Dale Johnson 
Investment Officer

FOR: October 10, 2018 Corporate Governance Committee Meeting

SUBJECT: **REVIEW OF LACERA’s 2018 PRINCIPLES FOR RESPONSIBLE INVESTMENT (PRI) ASSESSMENT**

Please find attached a brief overview of LACERA’s 2018 annual assessment report, conducted by the United Nations-affiliated Principles for Responsible Investment (“PRI”), covering LACERA’s activities for calendar year 2017.

BACKGROUND

LACERA became a PRI signatory in 2008. As a signatory, LACERA committed to align its practices with the six defined PRI principles (see slide 2). LACERA reports on an annual basis on its progress to adhere to the PRI principles and receives an assessment report scoring and benchmarking its activities LACERA’s work.

As the Committee will note, the PRI assessment report indicates broad improvement in LACERA’s alignment to the principles in activities reported through yearend 2017. Staff anticipates that current projects underway will continue to position LACERA to improve its score in future reporting.

Attachment

Noted and Reviewed:



Jonathan Grabel
Chief Investment Officer

**Review of LACERA's 2018
Principles for Responsible Investment (PRI)
Assessment**

**Corporate Governance Committee
October 10, 2018**

Scott Zdrazil, Senior Investment Officer
Dale Johnson, Investment Officer



LACERA's Commitment to the PRI

United Nations-affiliated Principles for Responsible Investment (PRI)

- LACERA became a PRI signatory in 2008
- Each PRI signatory completes an annual assessment survey conducted by PRI regarding signatories' activities and progress in implementing the six PRI principles
- LACERA's 2018 PRI Assessment covers the reporting period January through December 2017

- 1 We will incorporate ESG issues into investment analysis and decision-making processes.
- 2 We will be active owners and incorporate ESG issues into our ownership policies and practices.
- 3 We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- 4 We will promote acceptance and implementation of the Principles within the investment industry.
- 5 We will work together to enhance our effectiveness in implementing the Principles.
- 6 We will each report on our activities and progress towards implementing the Principles.



More information available at www.unpri.org

LACERA PRI Scorecard: Year-Over-Year Change

Broad and notable improvements in individual reporting modules

2017 LACERA PRI Assessment Covering Calendar Year 2016

2018 LACERA PRI Assessment Covering Calendar Year 2017

Summary Scorecard

AUM	Module Name	Your Score	Your Score	Median Score
	01. Strategy & Governance	B		A
Indirect - Manager Sel., App. & Mon				
10-50%	02. Listed Equity	C		B
<10%	03. Fixed Income - SSA	C		C
<10%	04. Fixed Income - Corporate Financial	C		C
<10%	05. Fixed Income - Corporate Non-Financial	C		C
<10%	06. Fixed Income - Securitised	C		E
<10%	07. Private Equity	E		B
<10%	08. Property	B		C
Direct & Active Ownership Modules				
0	11. Listed Equity - Active Ownership	D		B
10-50%	17. Property	C		B



Summary Scorecard

AUM	Module Name	Your Score	Your Score	Median Score
	01. Strategy & Governance	A		A
Indirect - Manager Sel., App. & Mon				
10-50%	02. Listed Equity	B		B
<10%	03. Fixed Income - SSA	B		B
<10%	04. Fixed Income - Corporate Financial	B		B
<10%	06. Fixed Income - Corporate Non-Financial	B		B
<10%	08. Fixed Income - Securitised	B		B
<10%	07. Private Equity	Not reported		
<10%	08. Property	B		B
Direct & Active Ownership Modules				
0	11. Listed Equity - Active Ownership	B		B
10-50%	17. Property	C		B

* LACERA did not complete the 2018 reporting module for private equity. Reporting is voluntary for asset classes with less than a 10% asset allocation.



Key Drivers of Improved LACERA PRI Score

1. Clarified overarching policy framework (from module score of B to A)

- *Corporate Governance Principles* refreshed and expanded to address “E” and “S” topics (e.g. environmental risks, human capital, etc.)
- *Corporate Governance Policy* revised, defining core stewardship and engagement activities
- Dedicated education for board and investment staff on ESG research, trends, and approaches

2. Integrated ESG into manager due diligence (generally from C’s to B’s)

- 2017 survey and assessment of LACERA’s public markets managers’ ESG integration practices
- ESG due diligence incorporated into recent manager searches
- ESG reporting incorporated into manager agreements

3. Increased active ownership/engagement activities (from D to B)

- Switched proxy voting to customized LACERA *Corporate Governance Principles* from external vendor
- Expanded collaboration with Council of Institutional Investors on regulatory matters

In line with program objectives to establish guiding principles in foundational policies and build from that foundation in a deliberate and thoughtful manner.

Captures LACERA activities through December 2017.

Next Steps:

From “Establish Foundation” to “Execute and Expand”

Several current initiatives may further improve LACERA’s PRI assessment scores:

- **Increase transparency**

- ✓ Update LACERA website to reflect refreshed policies, approach, and recent initiatives
See http://www.lacera.com/investments/corporate_governance.html
- ✓ Post brief summary of proxy voting results to LACERA website

- **Execute on “active ownership” and defined engagement priorities**

- ✓ Execute proxy votes consistent with LACERA’s custom *Corporate Governance Principles*
- ✓ Implement expanded voting authority across passive equities strategies
- ✓ Continue regular engagements on public policy matters with Council of Institutional Investors and others
- ✓ Climate Action 100+ initiative
- ✓ California initiative on corporate board diversity

- **Expand enhanced manager due diligence to consultants and private markets**

- ✓ Incorporate standardized due diligence of material ESG factors in private market asset classes
- ✓ Integrate capacity to advise on ESG integration in upcoming asset class consultant searches

- **Broaden ESG integration to Total Fund view**

- ✓ Integrate ESG data analytics into portfolio-wide performance and risk analysis and monitoring
- ✓ Assess broad ESG megatrends for impact on portfolio risk and growth opportunities
(e.g. demographic change, technological changes, climate)



Steady, Deliberate Governance Program Progress

Progression consistent with recent Board and Committee discussions

Portfolio Total Fund View

Integrate ESG into Total Fund view for monitoring and enhanced decision-making:

- Incorporate ESG data analytics into risk and performance monitoring
- Integrate ESG into asset class consultant search due diligence
- Explore assessing ESG megatrends for portfolio risk and opportunity (e.g. demographics/population growth; technology change; climate)

Practices and Procedures

Putting principles into practice in adherence with approved policies:

- ✓ Execute proxy votes aligned with custom LACERA policy
- ✓ Expand proxy voting authority across passive equities portfolio
- ✓ Advocate public policy in line with *Principles*
- ✓ Engage portfolio companies on defined priorities (e.g., diversity, Climate Action 100+)
- ✓ Incorporate ESG assessment into public market manager due diligence and monitoring
- Expand ESG manager due diligence to private markets

Principles and Policy

Defined principles and overarching policy framework based in value and fiduciary duty established in:

- ✓ *Investment Beliefs* address ESG
- ✓ *Corporate Governance Committee Charter* articulates oversight
- ✓ *Corporate Governance Principles* sets guiding principles
- ✓ *Corporate Governance Policy* defines program components

✓ Black text denotes projects that are completed or in progress

* Blue text denotes prospective upcoming projects and program development




Questions



FOR INFORMATION ONLY

September 19, 2018

TO: Each Member
Corporate Governance Committee

FROM: Scott Zdrazil 
Senior Investment Officer – Corporate Governance

FOR: October 10, 2018 Corporate Governance Committee Meeting

SUBJECT: **2018 PRINCIPLES FOR RESPONSIBLE INVESTMENT (PRI) BOARD ELECTIONS**

This memo provides an update regarding the 2018 Principles for Responsible Investment (PRI) board elections.

BACKGROUND

Asset owner signatories to the PRI elect seven of the eleven PRI board seats (other board members are elected by asset managers and service provider signatories; the board chair is elected by the full signatory base). In 2018, three of the asset owner seats are up for election. Staff provided the opportunity for LACERA to nominate a candidate at the scheduled June 2018 meeting of the Corporate Governance Committee and the July 2018 Board of Investments meeting.

PRI has announced four candidates for election to three available asset owner board seats:

- Angela Emslie, independent chair, HESTA Super Fund (Australia) – *incumbent*
- Renato Proença Lopes, equity director, PREVI (Brazil)
- Laetitia Tankwe, advisor to the President of the Board of Trustees, Ircantec (France)
- Xander den Uyl, trustee, ABP (the Netherlands) – *incumbent*

PRI expects voting to commence the week of October 1, 2018 and close the week of November 19. As ballots are not yet available, this item is being reported for informational purposes to the Committee. Staff will review materials, once available, and provide the opportunity for the full Board of Investments to review the vote at the November 2018 Board of Investments meeting, per LACERA's *Corporate Governance Policy*. In the meantime, election information and candidate videos are available at <https://www.unpri.org/pri/pri-governance/board-elections> for your review.

Noted and Reviewed:



Jonathan Grabel
Chief Investment Officer