



GOVERNANCE

ISS: THE GLOBAL LEADER IN GOVERNANCE

Santa Barbara County Employees' Retirement System

January 24, 2018

Now more than ever, Governance Matters

www.issgovernance.com

A geometric diagram on the left side of the slide. It features a grid of three horizontal and three vertical lines. A triangle is formed by connecting the top-left intersection, the middle-right intersection, and the bottom-left intersection. A dashed vertical line is positioned to the left of the triangle. A solid blue horizontal bar is located below the diagram and above the agenda text.

AGENDA

- › Corporate Governance Evolution
- › Proxy Voting Policy Options at ISS
- › Trends in Governance

ISS at the Forefront of Corporate Governance Evolution



THE CORPORATE GOVERNANCE INDUSTRY HAS EVOLVED SIGNIFICANTLY IN THE LAST 30 YEARS

Industry Developments

1985 Council of Institutional Investors formed; Delaware court cases lay foundation for corporate governance

1988 DOL issues Avon Letter

1992 Cadbury Code (U.K.)

1994 General Motors Corporate Governance Guidelines

1999 OECD releases Principles of Corporate Governance

2001 Collapse of Enron

2003 SEC adopts Proxy Voting Rule under the Investment Advisers Act of 1940

2005 UN develops the Principles of Responsible Investment

2010 U.K. Stewardship Code is published

2011 SEC adopts rules for "Say on Pay" and golden parachutes (Dodd-Frank)

2013 "Say on Pay" initiatives in Switzerland & Israel

2014 Japan launches Stewardship / Governance Codes

2015 U.S. Sees Market-Wide Push To Facilitate Private Ordering On Proxy Access

2016 CalPERS' Global Governance Principles Call for Comply-Or-Explain Approach on Long-Tenured Directors

ISS Innovations

1992 First to market: Agency Voting Services

1997 ICS founded as separate business entity from ISS

2000 ISS launches Global Proxy Distribution Service (GPD)

2002 First to market: Corporate Governance Ratings and Securities Class Action Services

2003 First to market: Vote Disclosure Services

2004 Launched Governance Analytics

2008 Launched Governance Exchange

2010 Launched ISS ProxyExchange

2011 Launched ExecComp Analytics Suite

2013 Launched Governance QuickScore

2013 Launched PolicyEngine

2014 Launched Equity Plan Scorecard

2014 Acquired Incentive Lab

2015 Launch of Governance Risk Report

2015 QuickScore coverage expansion

2015 Acquired Ethix SRI Advisors to expand ESG Solutions

2016 Launch ISS Analytics, Powered by DataDesk

2016 ISS acquires iiWisdom's Interactive Governance Portal

Rigorous & Inclusive Policy Formulation Process

Balancing global principles and local market specificity, ISS brings a transparent and inclusive approach that includes ongoing market feedback, surveys, roundtables and an open industry comment period.

ISS EVOLVES ITS PROCESS

- › **Global In-person Discussion Forums** and roundtables frame the policy process.
- › **Annual Policy Survey** brings in perspectives from institutional investors, corporate issuers and governance experts. Offers all market constituents the ability to actively participate in ISS' policy development process.
- › **Numerous Viewpoints** are considered to develop guidelines that strike the right balance between shareholder interests and economic practicality.



ISS Provides More Governance Research & Policy Options

ISS covers a spectrum of shareholder interests, to align with client philosophies as they serve their underlying clients.



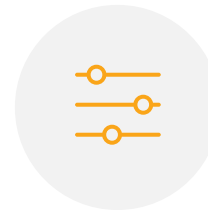
ISS Benchmark Research

- Global coverage and principles, ISS market specific policies and expertise
- Cover 39,000 company meetings annually, across 115+ markets
- Viewed as the industry standard and market best practice



Specialty Research

- 5 thematic policies, including Sustainability, SRI, Faith-based, Taft-Hartley, Public Fund
- Designed to fill specific investor needs and mandates (e.g. meet PRI requirements)



Custom Research

- Bespoke implementation of client philosophy
- High-touch approach where custom analyst partners with client
- Fastest growing area of research, as governance matters globally



Special Situations Research

- Comprehensive, independent research on high-profile economic proposals, including M&A and contests for corporate control

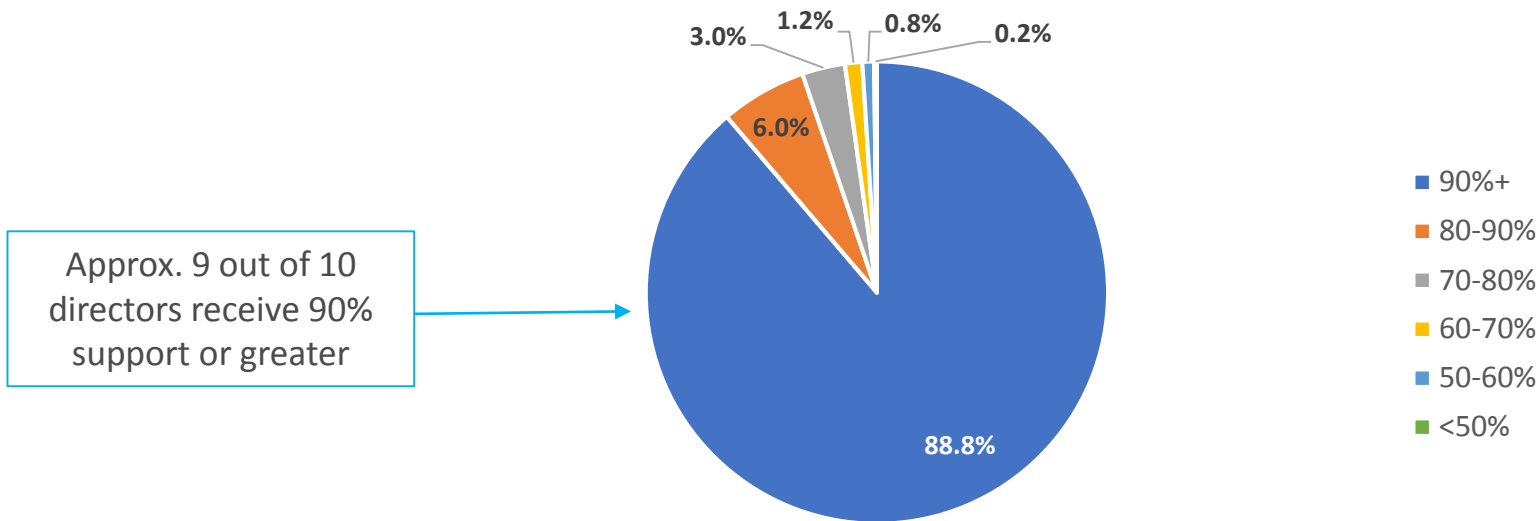
	ISS Policy	Sustainability Policy	SRI Policy	Catholic Policy	Public Fund Policy	Taft-Hartley Policy
Policy Focus	Investment firms and large institutional investors	UN PRI Signatories or similarly aligned investment managers & asset owners	SRI investment firms, religious groups, charitable foundations & university endowments	Catholic faith-based investors, including dioceses & Catholic healthcare systems	Public pension fund managers & public plan sponsors/trustees	Taft-Hartley pension funds & investment managers (ERISA)
Orientation	"Best practice" standards that promote total shareholder value & risk mitigation	United Nations Principles for Responsible Investment (UN PRI)	The "triple bottom line" value creation	Economic gain, social justice, environmental stewardship, ethical conduct & teachings of the Catholic Church (USCCB)	Long-term best interests of public plan participants & beneficiaries	Worker-owner view of long-term corporate value based on the AFL-CIO proxy voting guidelines
Key Policy Highlights: 1. <u>Board</u>	Board competence, performance, and independence (50%)	Board competence, performance - including on ESG topics, and independence (50%)	Board competence, performance - including on ESG topics, diversity, and independence (50%)	Board competence, performance - including on ESG topics, diversity and independence (50%)	Board competence, performance, & independence (50%)	Board competence, performance, & independence (67%)
2. <u>Compensation</u>	Alignment of pay and performance, presence of problematic compensation practices, shareholder value transfer (SVT)	Alignment of pay and performance, presence of problematic compensation practices, shareholder value transfer (SVT)	Alignment of pay and performance including on ESG topics, presence of problematic compensation practices, shareholder value transfer (SVT)	Alignment of pay and performance - including on ESG topics, presence of problematic compensation practices, shareholder value transfer (SVT)	Alignment of pay & performance, presence of problematic compensation practices, voting power dilution (15%)	Alignment of pay & performance, presence of problematic compensation practices, voting power dilution (10%)
3. <u>Social & Environmental</u>	Consider shareholder proposals on social, environmental and labor/human rights issues on a case-by-case basis	Generally support shareholder proposals advocating ESG disclosure or universal norms/codes of conduct	Generally support shareholder proposals on social, environmental and labor/human rights issues	Generally support shareholder proposals on social, environmental and labor/human rights issues	Generally support shareholder proposals on social, environmental & labor/human rights issues	Generally support shareholder proposals on social, environmental & labor/human rights issues
Board Opposition	3%	3%	4%	4%	32%	39%
Auditor Ratification Opposition	0%	0%	9%	9%	87%	87%
Equity Pay Plans	6%	6%	6%	6%	69%	75%
Say on Pay Opposition	9%	9%	11%	11%	18%	18%
Gov. Shareholder Proposal Support	78%	79%	90%	90%	91%	91%
E&S Shareholder Proposal Support	69%	81%	96%	96%	91%	91%

A geometric diagram consisting of a grid of three horizontal and three vertical lines. A triangle is formed by connecting the top-left, middle-right, and bottom-left vertices of the grid. A dashed vertical line is positioned to the left of the triangle.

TRENDS IN GOVERNANCE

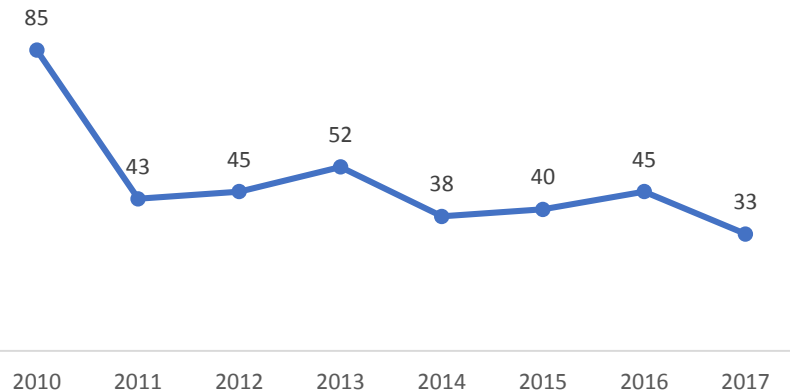
- › Director Elections
- › Executive Compensation
- › “ESG” Considerations
- › One Share, One Vote

2017 Average Support for R3k Nominees: 95.8% (Votes Cast)



Majority Withhold/Against Director Votes

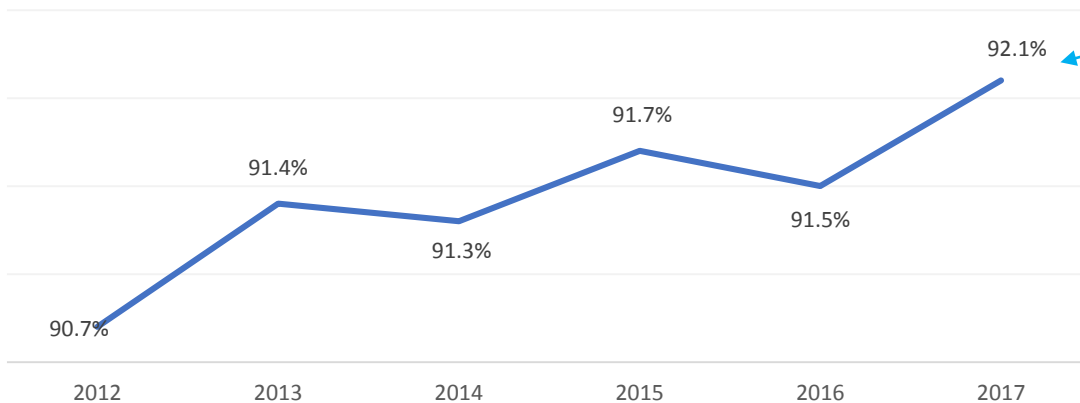
Elections held January-June of each year



Concerns Raised by ISS	Number of Directors Receiving <50% Support
Board Responsiveness	13
Poor Attendance	10
Unilateral Board Action	6
Overboarded	4
Non-Independent Member of Key Committee	4
Shareholder Inability to Amend Bylaws	4
Poison Pill Concerns	4
Compensation Concerns	3
Risk Oversight Issue	1

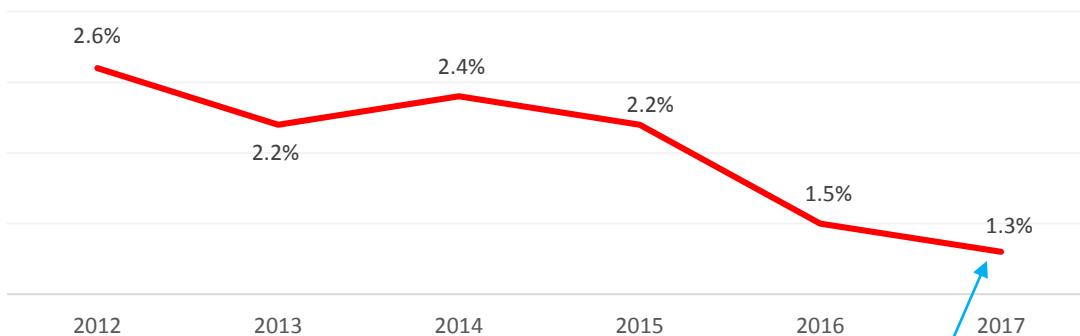
**All statistics on slide for Russell 3000*

Average Say-on-Pay Support Level - Russell 3000



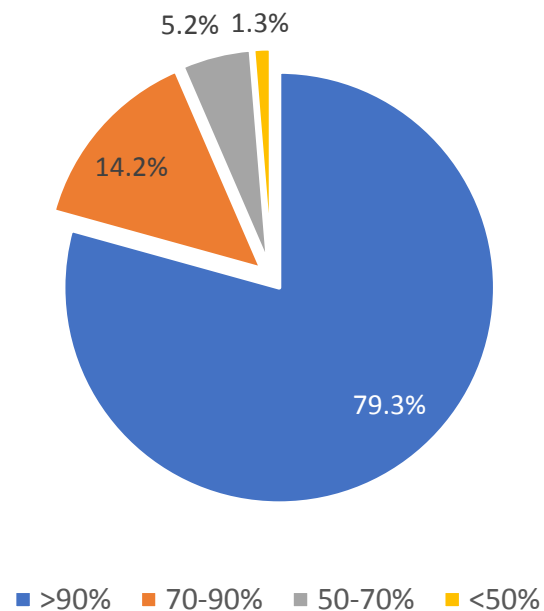
Average shareholder support at an all-time high

Say-on-Pay Failure Rate - Russell 3000



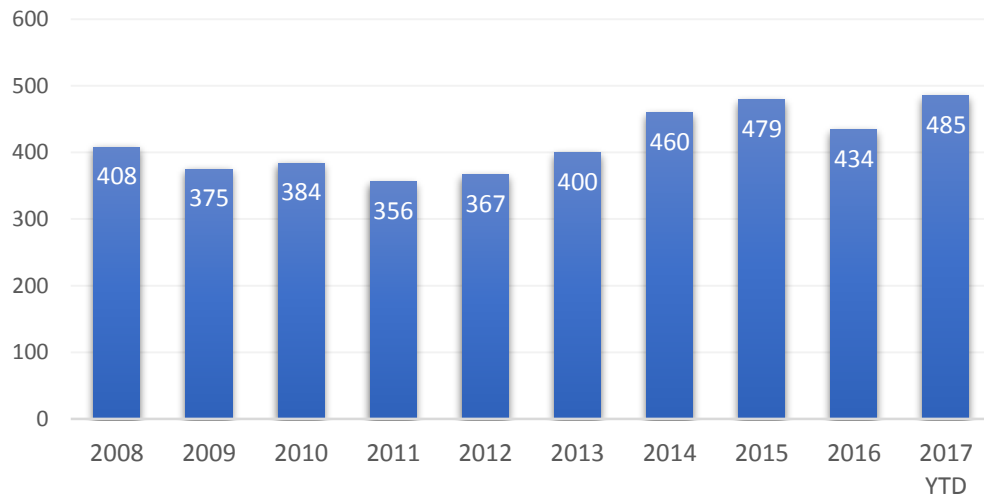
Failed say-on-pay votes at an all-time low

Vote Results for 2017 Season

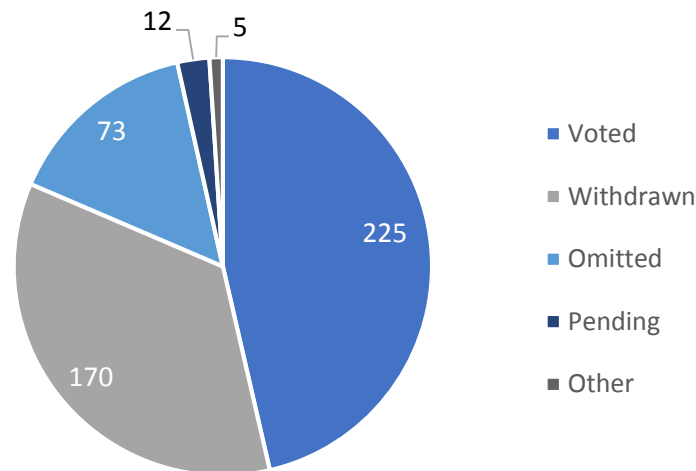


*All statistics on slide for Russell 3000

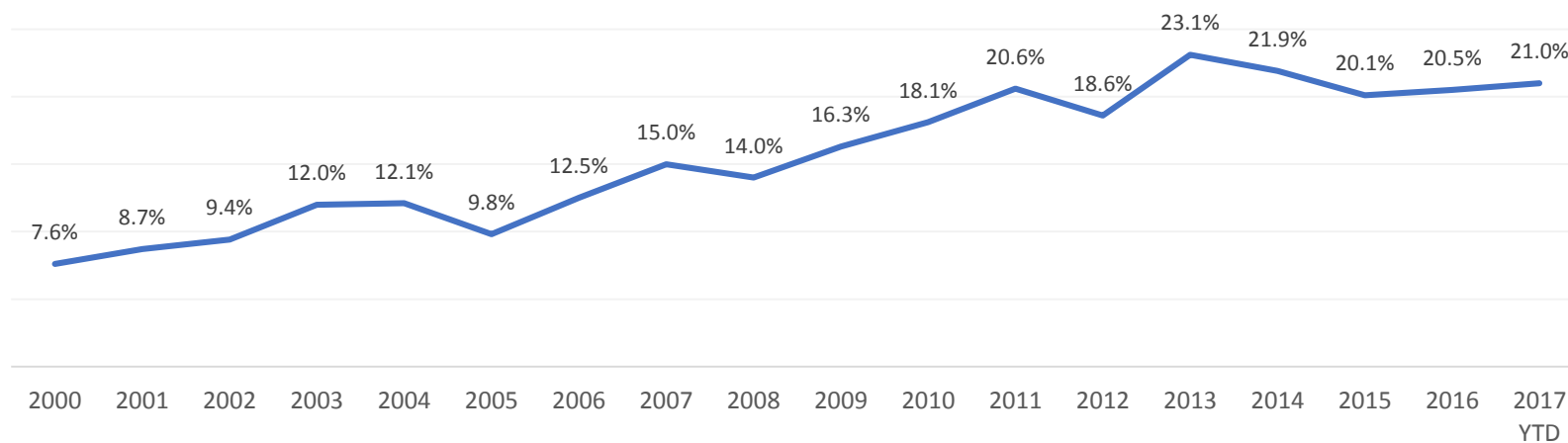
Total E&S Resolutions Filed



Status of E&S Resolutions in 2017



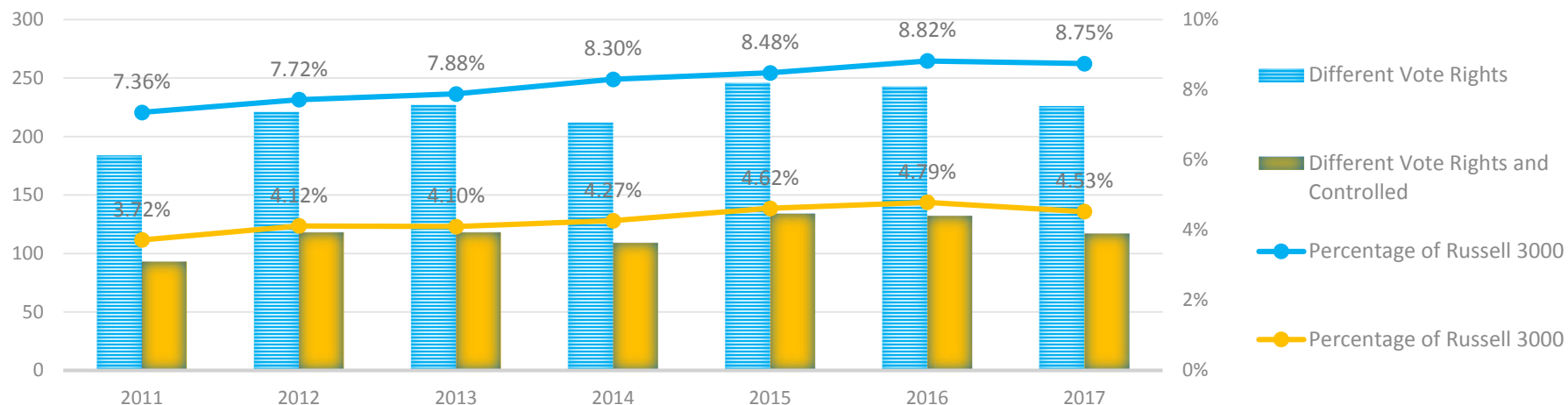
Average Vote Results for E&S Proposals



Trend in Dual or Multi-Class Capital Structures

- Facebook, Under Armour
- Snap – Parent Company of the SnapChat app

DIFFERENT VOTING RIGHTS AND CONTROLLED COMPANIES



Who will address the gap?

- Regulators
- Index Providers: S&P Composite 1500, FTSE Russell, MSCI (?)
- Shareholders

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THANK YOU

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