



MINUTES

Meeting of the Corporate Governance Committee of the Board of Trustees of the State Universities Retirement System

**1:45 p.m., Thursday, March 10, 2016
State Universities Retirement System
1901 Fox Drive
Main Conference Room
Champaign, IL**

The following Trustees were present: Mr. Aaron Ammons, Mr. Tom Cross, Mr. Dennis Cullen (by conference call), Dr. John Engstrom, Dr. Fred Giertz, Mr. Francis Idehen Jr., Mr. Paul R. T. Johnson Jr., Mr. Craig McCrohon, Mr. Steven Rock and Mr. Antonio Vasquez.

Others present: Mr. W. Bryan Lewis, Executive Director; Mr. Andrew Matthews, Chief Operating Officer; Ms. Bianca Green, General Counsel; Mr. Douglas Wesley, Deputy Chief Investment Officer; Ms. Allison Kushner, Compliance and Governance Officer; Ms. Lori Kern and Ms. Monique Cullotta, Executive Assistants; Ms. Mary Pat Burns of Burke, Burns & Pinelli; Mr. Douglas Moseley and Ms. Kristin Finney-Cooke of NEPC; Ms. Patti Somerville-Koulouris of the Northern Trust Company and Ms. Renaye Manley of SEIU.

Corporate Governance Committee roll call attendance was taken. Trustee Miller, absent; Trustee Ammons, present; Trustee Idehen, present.

Per the motion approved at the Investment Committee meeting on March 10, 2016, Trustees may be allowed to participate via conference call for all meetings on March 10, 2016 and March 11, 2016, pursuant to Section 7(c) of the Open Meetings Act.

APPROVAL OF MINUTES

Trustee Aaron Ammons presented the Minutes from the Corporate Governance Committee meeting of February 4, 2016 and Trustee Paul R.T. Johnson Jr., made the following motion:

- That the Minutes from the February 4, 2016 Corporate Governance Committee meeting be approved, as presented.

Trustee John Engstrom seconded and the motion carried with all Trustees present voting in favor.

CHAIRPERSON'S REPORT

Trustee Dorinda Miller was absent therefore no formal Chairperson Report was presented at the meeting.

GOVERNANCE UPDATE

Trustee Ammons discussed the importance of diversity at the board level and also at the financial managers and corporate board levels. He noted that board diversity continues to improve board performance and financial performance overall. Trustee Ammons also discussed the importance of ESG factors and incorporating these principles into the board's decisions as it is an important fiduciary duty.

Ms. Kushner discussed trends and topics in the areas of corporate governance including the emerging positions that ESG factors should be looked at in a holistic manner, rather than separately viewing or rating a company on environmental, social or governance factors independently.

Ms. Kushner presented the board with new developments in the area of SEC Rule 14a(i)(10) which provides companies the opportunity to exclude from their proxy materials shareholder proposals that ask for actions that have been "substantially implemented". Ms. Kushner explained that companies are attempting to restrict proxy access by arguing that where the company has implemented access that requires greater shares and longer holding times, that this is substantially similar to the 3% and 3 years proposals being presented by shareholders, and therefore can exclude these shareholder proposals based on the "substantially similar" language.

Ms. Kushner also presented the Q4 proxy voting summary provided by Marco Consulting Group (MCG). Ms. Kushner stated that MCG cast 2,002 proxy votes for SURS during Q4 and that approximately 60% were cast in favor of management recommendations.

There was discussion among the Board regarding the correlation of ESG factors are related to proxy voting and how the Board could use this information in its due diligence and how these factors related to proxy voting and corporate governance as a whole.

Trustee Vasquez expressed that it was important to consider ESG guidelines and make sure they are consistent with how SURS votes its proxies as a part of the fiduciary responsibilities the Board has as shareholders and keeping in mind how our members would want us to vote.

Discussion among the Board and staff continued regarding the process of proxy voting and how the proxy votes are cast at companies. Executive Director Lewis expressed the goal of updating our framework in the area of proxy voting and policy.

A copy of the staff memorandum "Governance Update" and "Marco Consulting Group Q4 Activity and Overview" are incorporated as a part of these Minutes as [Exhibit 1](#) and [Exhibit 2](#). A copy of the Marco Consulting Group Memorandum entitled "Review of Vote Summary

Report for 4th Quarter 2015” is incorporated as [Exhibit 3](#). A copy of the Marco Consulting Group document “Proxy Vote Summary Report” is incorporated as [Exhibit 4](#).

COMPLIANCE UPDATE

Ms. Kushner presented the Board with the Compliance Update which included a review of the process by which all active internal policies and procedures and a review of the process by which policies are updated has begun at SURS. Ms. Kushner stated that the goal of the review process is to shift the review onto an annual fiscal year review process. Ms. Kushner presented the process by which policies are reviewed and considered and also provided the board an update regarding the development of a forward facing Code of Conduct in an effort to provide further transparency regarding SURS core values and mission to the public in a user friendly, compact and succinct manner.

Ms. Kushner noted that a Fraud Committee had been formed since the last Board meeting. The committee members included, Executive Director, Chief Operating Officer, Director of Internal Audit, General Counsel, Director of Member Services and the Compliance Officer. Ms. Kushner explained that the formation of the Fraud Committee was in-line with SURS’s expansion of the organization-wide compliance program. Director Lewis noted that this Committee was created in order to consolidate the various fraud policies and procedures into a cohesive process headed by a Committee responsible to the Board of Trustees for updates and matters for their review in this area.

Trustee Engstrom noted that the Compliance Updated seemed to best fit in the Audit and Risk Committee. Director Lewis noted that the Compliance Officer role acted as a dual-role since the inception of the position in 2015. Director Lewis opined that SURS was approaching internal compliance as a matter of operational governance in looking to expand the compliance program as a whole.

Trustee McCrohon expressed the importance of the compliance function and questioned whether it should be in the Audit and Risk Committee or if it belonged in the Administrative Committee. Mary Pat Burns recommended that staff look at the charters of the committees and come to the Board with a recommendation as to which committee the compliance officer should report to.

Chief Operating Officer Andrew Matthews provided background to the Board regarding the process and current collaboration across operations and internal audit regarding the death match process.

A copy of the staff memorandum “Compliance Update” is incorporated as a part of these Minutes as [Exhibit 5](#).

ANNUAL REVIEW OF PRINCIPLES FOR RESPONSIBLE INVESTMENT

Ms. Kushner presented the annual review of the Principles for Responsible Investment (PRI). Ms. Kushner reported that as a signatory to the PRI, SURS must report answers to the annual

Reporting Framework as it is a mandatory requirement of membership. Ms. Kushner reported that the reporting framework for 2015 had been completed and submitted to the PRI. Ms. Kushner stated that SURS past performance grades ranged from a “B” to a “D” depending on the module. Ms. Kushner noted that at the end of the reporting period PRI will provide SURS with a private report and benchmarking against our peer group.

Ms. Kushner reported that the global support and membership of PRI is growing and that over the past year, 220 new signatories joined the PRI, making a total of 304 asset owners, 978 investment managers, and 204 professional service partners, which represent \$59 trillion in assets under management. Ms. Kushner stated that currently, fourteen financial managers are signatories, representing approximately \$8.7 billion of the total SURS pension fund.

Ms. Kushner presented the staff recommendation that SURS continues its support of the PRI and that staff anticipates greater guidance and involvement with PRI due to the opening of their New York office.

A copy of the staff memorandum “Principles for Responsible Investment Annual Review and Reporting Results” is incorporated as a part of these Minutes as [Exhibit 6](#).

PUBLIC COMMENT

There were no public comments presented to the Corporate Governance Committee.

Since there was no further business before the Committee, Trustee Fred Giertz moved that the meeting be adjourned. The motion was seconded by Trustee Engstrom and carried with all Trustees present voting in favor.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mr. W. Bryan Lewis".

Mr. W. Bryan Lewis
Secretary, Board of Trustees

WBL:ak



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To: Corporate Governance Committee
 From: Allison Kushner
 Date: January 15, 2016
 Re: Governance Update

Below please find an update of governance news and activity since the December 5, 2015 Corporate Governance Committee meeting.

What Can We Learn From the 2015 Volkswagen “Dieselgate” Scandal?

Overview:

On February 17, 2016 CII hosted a seminar entitled “Volkswagen Fallout-Implications for Investors”. Participants included Michael Jantzi, CEO of Sustainalytics, Darren Check, a partner at Kessler Topasz Meltzer & Check, Irwin Schwartz, a principal at Dividex Management, and Jeroen van Kwawegen, partner at Berstein Litowitz Berger & Grossman. With the governance and compliance community pointing to a lesson to be learned by Dieselgate, the webinar focused on how the scandal could have been detected prior to the loss. This staff summary will provide a background on the scandal itself as well as the investor warning signs that were detected by some, but missed by many and the important take away for investors as a result of this scandal.

The Facts and Background:

Even before the VW Dieselgate scandal became public in September, 2015 there had been warning signs of issues regarding governance at the mainly family owned company since 2014. As the second ranking car manufacturer in the United States in 2014, Volkswagen had a disappointing year including difficulties remaining profitable at their Tennessee manufacturing plant, and a 2.4.% loss of the US market share. These disappointing factors led to a two year battle of in fighting between the CEO and the Chairman of the Board. Just as the EPA was engaged in a full force investigation, the infighting continued between the CEO and the Chairman of the Board or was working to oust the CEO. This move ultimately backfired and the Chairman of the Board resigned on April 17, 2015.

Amidst the internal turmoil, on September 18, 2017, the public at large received the EPA notice of violation. The notice included that VW had lied about their emissions factors, and that previous statements blaming technological issues and engineering were fabricated and untruthful. Although the entire whistleblower report will not be released until April, 2016, the first largely felt impact as a result of the notice was that VW stock prices plummeted approximately 30% and the CEO resigned.

Without the disclosure of the whistleblower report, it is difficult to speculate on the level of involvement that the former CEO and former Chairman of the Board had in the perpetuation of the VW scandal. What is clear from industry and VW insiders is that the CEO was extremely hands on and interested in engineering. The former CEO has not been implicated at this time but governance professionals believe that once the whistleblower report is released charges may soon follow.

Critics and governance experts alike believe that at the time the CEO resigned, VW had an opportunity to go outside of the family controlled leaders to hire an independent CEO. However, VW chose the CEO of Porsche, also a member of the families of owners indicating a lack of understanding of the importance of independence and

corporate governance best practices. It is therefore not a shock to industry and compliance professionals that a second notice of violation was received at Porsche, a subsidiary of VW in November of 2015.

As concerns at VW continue to emerge and information begins to spread that the scandal actually involves gas as well as Diesel engines produced by VW, VW has committed 9 billion dollars to reserves for potential fines related to the scandal.

How Could We Have Predicted This?

The question arises among financial managers and institutional investors, of “how could we have predicted this scandal?” There are multiple corporate governance indicators that appear to lend support to some claims that the industry should have seen this kind of scandal coming. The current whistleblower report being undertaken by Jones Day has partially leaked. According to Jones Day, the whistle blower has indicated that the “secret emissions rigging devices” were not a secret at all inside the VW organization. However, to date, the new CEO is denying this widespread knowledge.

Red Flags and the Lesson Learned:

The important lesson regarding red flag warning signs in the Dieselgate scandal is that when investors have historically reviewed a company’s ESG framework, much of that information has been looked at in silos. For example an investor may look at ES and then look at G separately. This case highlights the importance of looking at the ESG factors of a company holistically, in order to receive a complete picture of a company. In the case of VW, it appeared that it was a financially sound company, but many ESG ratings also focused on the low ratings VW received in the areas of governance and the higher ratings it received for environmental and social factors. In VW’s case, weak governance resulted in one of the largest environmental scandals of all time. When VW was analyzed from a governance perspective, especially focusing on transparency and ownership, the company rates poorly. For instance, VW is more than 50% owned by the original founding owner’s heirs and family and there is only one seat on the Board of Directors which can be considered independent on the oversight committee. The Chairman of the Board is not independent, the Audit Committee has no independent members and neither does the Nominating Committee.

In analyzing the transparency culture of VW, it is relatively easy to see many governance red flags. For instance, the absence of a claw-back policy, and an increasing shift toward placing the blame for the scandal on lower level engineers. Further, there has only been a shuffling of directors and upper level executives among the family ownership in the aftermath of the scandal, rather than a real shift away from majority stakeholder operational involvement.

Conclusion:

For investors, the VW scandal underpins the “universal ownership principle” which also applies to large institutional investors as well. The universal ownership principle applies the idea that if an investor is looking at integrating ESG, it is also important to take a systems level approach in that there is never a neutral impact on the remaining portion of a portfolio where there was not a direct loss due something like Dieselgate. For instance, as of February 26, 2016 while SURS only had a nominal investment in VW as compare to our overall portfolio, the universal principle means that we look to other areas that are likely to be impacted by Dieselgate. For instance, this scandal could and in some cases is already having a negative effect on the German car industry as a whole, as well as French car makers like Renault who are now under investigation for lab testing not meeting their reported street testing levels. The spread of impact from one company’s scandal clearly can have a ripple effect among large asset owners who are invested broadly in the world marketplace. It is therefore important for asset owners and financial managers to holistically approach ESG and not silo particular portions of the ESG framework in

order to better determine where risks exist and when those risks outweigh investment in a seemingly successful corporation.

SEC Rule Guidance Will Play Major Role in Proxy Access

After the record breaking year in 2015 for proxy access proposals, many companies are now turning to the 1934 Securities Exchange Act Rule 14a-8(i)(10) which provides for companies to exclude from their proxy materials shareholder proposals that ask for actions that have been “substantially implemented”. Under proxy access, shareholders can nominate directors and have them included in the annual meeting proxy materials. In past years, companies wishing to deny proxy access to shareholders had been able to rely on another section of the Security Exchange Act which disallowed shareholder proposals where the shareholder actions “directly conflicted” the management proposals. In some cases, companies claimed there were direct conflicts where management proposed more stringent eligibility requirements than that of the shareholders. In those cases, the SEC the proposals could not be in “direct conflict” with one another if a reasonable shareholder could vote for both options. Proxy activists are asking companies not to impose additional restrictions on shareholder director nominees versus that of management nominees and are asking the SEC for guidance on the issue as to what constitutes “additional restrictions”. Companies are being advised by the legal community to work with the shareholders to negotiate the best practices for organizations seeking to adopt proxy access provisions and encouraging companies and shareholders to look to CII for guidance materials.

Governance Highlight 2016:

“Institutional Investors in 2016 Seek to “Trust, But Verify” on Governance” Dina Medland, Forbes, January 2, 2016.

While proxy access continues to dominate the headlines, another major development for 2016 is the institutional investor focus on better corporate governance. The article entitled above, explains the reasons for this shift in importance for 2016.

Out of the shadows of the U.K financial crisis which gave rise to a new “investor stewardship code” and countries such as Japan looking to implement similar codes, institutional investors are turning an eye inward to review and declare their intentions related to their fiduciary duties to fulfilling their responsibilities to manage their investments and vote their shares in a transparent manner. The PRI to which many institutional investors are signatories, (including SURS), are now signed by almost 1500 institutional investors representing almost 60 trillion in assets under management and it appears to be gaining increased momentum.

As institutional investors continue to reel from corporate scandals, which ultimately affect their bottom line, these investors have become increasingly aware of their responsibilities as investors in a world market. A research study performed by Russell Reynolds Associates, published in December 2015, of governance professionals at the world’s largest pension funds, proxy advisory and activist investors found that as a result of the numerous scandals, institutional investors are starting to demand more “accurate tools to promote accountability and transparency” from companies they directly or indirectly invest in and their boards of directors.

Some of the increasing scrutiny according to the research published by Russell Reynolds includes the following four items:

1. Increased focus on the factors making up an effective Board including independence, composition, diversity and board leaders roles.
2. Increased scrutiny of individual directors by investors or their advisors and a demand for internal and/or external board and director assessments.

3. Increased regulatory revisions to corporate governance codes and disclosure requirements in many countries.
4. Increase in shareholder engagement, especially in the areas of ESG and activist investor interventions, absent shareholder engagement.

Council of Institutional Investors (CII) 2016 Spring Conference

The CII Spring Conference is scheduled for March 21-23, 2016 at the Mandarin Oriental in Washington, DC. Registration is currently on-going and staff recommends that Trustees attend if they are interested in Corporate Governance issues. Currently, the schedule of the conference includes the keynote speaker Antoine van Agtmael, co-author, “The Smartest Places on Earth: Why Rustbelts are the Emerging Hotspots of Global Innovation”. Other speakers include:

- **John Chiang**, California State Treasurer
- **James Doty**, Chair, Public Company Accounting Oversight Board
- **Michelle Edkins**, Managing Director, BlackRock
- **David Giroux**, Vice President & Portfolio Manager, T.Rowe Price
- **Michael Mauboussin**, Managing Director & Head of Financial Strategies, Credit Suisse
- **John Rogers Jr.**, Director, Exelon, McDonald’s
- **Deborah Wright**, Director, Time Warner, Voya Financial
- **George Zinn**, Corporate VP & Treasurer, Microsoft Corp.
- **Ian Lanoff**, Principal, The Groom Law Group
- **TerriJo Saarela**, Director of Corporate Governance, State of Wisconsin Investment Board
- **Peter Freire**, CEO, Institutional Limited Partners Association

Later in the year, CII’s Fall Conference will be held at the Palmer House Hilton in Chicago, on September 28-30, 2016.



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To: Corporate Governance Committee
From: Allison Kushner
Date: February 25, 2016
Re: Marco Consulting Group Q4 Activity and Overview

For your review, the SURS Proxy Vote Summary Report for the fourth quarter of 2015 is attached to this memorandum. Marco Consulting Group (MCG) cast 2,002 individual proxy votes for SURS during the fourth quarter, approximately 60% of which were cast in favor of management's recommendations. MCG's Review of Vote Summary Report provides further detail on the quarter's activity and the report contains a summary of votes cast which are organized according to issue topic, and is provided immediately following this document.



TO: State Universities Retirement System (“SURS”)
FROM: Maureen O’Brien, Director of Corporate Governance
DATE: February 24, 2016
RE: Review of Vote Summary Report for Fourth Quarter 2015

The Vote Summary Report for the Fourth Quarter, 2015, summarizes Marco Consulting Group’s (“MCG”) votes for the State Universities Retirement System of Illinois (SURS), which are organized in the 13 major categories listed below. The report provides summaries for each major category of management and shareholder-sponsored proposals. The shareholder proposals are identified as such in the title; all other categories are management proposals. The report covers votes at US and Canadian firms as well as global companies where SURS’ investment was pursuant to American Depository Receipts.

1. [Anti-Takeover Related](#)
2. [Capitalization](#)
3. [Directors Related](#)
4. [Non-Salary Compensation](#)
5. [Preferred/Bondholder](#)
6. [Reorganization and Mergers](#)
7. [Routine/Business](#)
8. [Shareholder Proposals: Compensation](#)
9. [Shareholder Proposals: Corporate Governance](#)
10. [Shareholder Proposals: Directors Related](#)
11. [Shareholder Proposals: Health/Environment](#)
12. [Shareholder Proposals: Other/Miscellaneous](#)
13. [Shareholder Proposals: Routine/Business](#)

Overview

MCG voted 2,002 proposals on behalf of SURS for the Fourth Quarter of 2015. Overall, the votes followed management’s recommendations on 1,203 proposals (60%).

We supported a majority of management-sponsored proposals in all categories except non-salary compensation. The proposals in this category largely seek shareholder approval for individual compensation plans or are advisory votes on overall compensation policies and procedures. MCG supports plans where pay is aligned with performance, is not excessive and follows best practice in corporate governance. MCG voted with management on 41% of non-salary compensation proposals.

Summaries by Issue Category

Management Proposals

1. Anti-Takeover Related

MCG voted with management on 48 of 62 proposals (77%) in this category.

Most proposals in this category (53) requested approval to adjourn a meeting. Companies trying to assure passage of important votes sometimes seek approval to adjourn the meeting to solicit more votes if needed. MCG votes in favor of these proposals when the connected proposal is supported and likewise votes against when the associated proposal is opposed. This quarter, MCG voted in favor of adjourning on 43 proposals (81%).

This quarter saw two proposals on traditional poison pills, one of which we opposed because it acted as an anti-takeover defense against potential mergers that would benefit shareholders. We voted for the item at Cracker Barrel Old Country Store because the board adopted the poison pill in response to a particular threat. Biglari Holdings owns 19.7% of the company and waged four consecutive unsuccessful proxy contests at the Company. An overwhelming and increasing majority of unaffiliated shareholders have elected not to support Biglari's numerous campaigns. We voted in favor of the pill to protect shareholders from Biglari's creeping acquisitions of control.

Three additional proposals this year sought approval for a special type of poison pill that was designed to protect a tax benefit. The net operating loss poison pill ("NOL pill") preserves the Company's ability to use certain tax assets, such as NOLs, to offset future income and thereby reduce potential future federal income tax obligations. We supported all three proposals.

We voted for a proposal to opt out of a state acquisition law at Famous Dave's of America that could discourage takeovers that may be beneficial to shareholders. We opposed a proposal at Perceptron to permit the board to amend bylaws without shareholder consent and against another proposal that would have made it more difficult for shareholder to nominate directors. Likewise, at Forest City Enterprises we voted against a proposal that would make it more difficult for shareholders to call a special meeting.

2. Capitalization

MCG voted with management on 41 of 63 proposals (65%) dealing with capitalization this quarter.

These proposals seek to increase or decrease authorized common stock, issue warrants, preferred or common shares and consider stock splits. MCG voted for 11 of 27 proposals (41%) to adjust upward or downward the authorized stock. Increases are supported where the amount sought is not excessive (i.e., not more than 50% of the current authorizations) or is necessary for a specific purpose. Stock splits adjust the quantity of shares to encourage larger purchases of stock and reverse stock splits

increase the price per share. MCG voted for all 14 items to reverse a stock split and against one to split the stock.

On issuing shares, MCG voted for three of five proposals (60%) to issue shares with or without pre-emptive rights. We supported: all three proposals to issue shares for a private placement; one resolution to approve a new class of stock; and one to eliminate a class of stock. On the three items to authorize a repurchase program, we supported two (67%) and abstained on one where the company did not provide an explanation for the repurchase. We supported several routine items, including three to convert securities and two to adjust the par value of stock.

MCG opposed a going dark transaction at Kansas City Life Insurance Company because large shareholders would wind up holding a less liquid stock in a non-reporting company with less transparency into its performance. The proposal was structured as a 1-for-250 reverse stock split with a cash payment equal to the fair market value of any fractional shares. The Company aimed to reduce the number of holders of the common stock to fewer than 300 to enable it to deregister. The transaction would have resulted in some cost savings to the Company and represented a significant premium for shareholders owning fewer than 250 shares, but larger shareholders were excluded from receiving the premium other than for fractional shares.

3. Directors Related

MCG voted with management on 743 of 1,227 proposals (61%) related to directors this quarter.

The vast majority of these proposals dealt with the election of the directors to the board. We voted in favor of 732 of 1,204 proposals (61%) to elect directors. Nominees are opposed if a company significantly underperformed its peers for five years or directors had poor attendance records, served as insider nominees on boards that lacked independence, or sat on too many other boards, which threatens effectiveness. We also cast a vote against two proposals to eliminate cumulative voting, which allows shareholders to pool their votes in favor of select nominees.

This quarter, dissident shareholders waged proxy contests at two companies: Casella Waste Systems and Ethan Allen Interiors. At Casella Waste Systems, MCG supported two dissident candidates put forward by dissident shareholder JCP Investment Management LLC. The waste services firm had a five-year total shareholder return of 0.10% compared to 12.36% for its peer group and the share price at the time of the contest was one-third of the 1997 IPO price. The firm lacked basic good corporate governance standards such as simple majority vote requirement, majority voting, and ability to call a special meeting. The dual class vote structure provided the CEO and his brother and co-director voting power well in excess of their economic stake.

At Ethan Allen Interiors, MCG also supported two dissident nominees put forward by Sandell Asset Management. On a five year basis, the Company's TSR underperformed its peer group at 140.4% below peer median. The Company's stock at the time of the contest was trading lower than it did a decade ago, and had remained below a \$35 stock price for nearly eight years. Sandell argued the Company's lack of a robust e-commerce presence (5% of sales) prevented it from keeping up with its more forward thinking peers.

Given the support of the two dissident ballots, MCG cast a “do not vote” selection on the management ballots for the combined 10 management candidates.

MCG voted for two proposals to approve the remuneration of directors because the amounts were not excessive. We supported both proposals to approve majority voting because it is the most appropriate standard in an uncontested election and in favor of two proposals to declassify the board of directors to ensure each director stands for election annually. We voted in favor of all three proposals related to changing the size of the board. Size adjustments warrant approval unless the result is fewer independent directors. We also voted to remove an age restriction for director elections and voted to confirm lack of a personal conflict of interest in a voting item.

4. Non-Salary Compensation

MCG voted with management on 135 of the 330 proposals (41%) in this category.

MCG voted in favor of 93 of 177 (53%) advisory proposals on executive compensation, popularly known as “say-on-pay.” We evaluate compensation by assessing whether pay aligns with performance and examining other practices to identify red flags for potential misuses of shareholders’ funds. The future timing of say-on-pay proposals accounted for another nine resolutions and MCG elected for an annual vote in all cases, as opposed to voting on the issue every two or three years.

We voted on other items related to compensation, including in favor of 16 of 40 on golden parachutes (40%). We oppose severance arrangements where the recipients receive payments even if they do not lose their job. We also oppose in cases where the severance pay-out exceeds 2.99 times salary and bonus or provides for the gross-ups on excise taxes. We supported two proposals to increase a compensation ceiling for directors, against one to approve an additional share grant that appeared excessive and for an employment agreement.

The other major items in this category seek approval to create or amend individual compensation plans for employees, executives and directors. MCG voted in favor of 14 of 99 proposals (14%). MCG generally opposes equity or cash compensation plans that are exclusive to top-tier management and lack rigorous performance standards. We also oppose stock plans that cause excessive dilution to current shareholder equity.

5. Preferred/Bondholder

MCG voted as required to confirm at Twenty-First Century Fox that the voting investor was a U.S. stockholder.

6. Reorganizations and Mergers

MCG voted with management on 54 of 60 proposals (90%) in this category.

MCG supported 37 of 39 merger proposals (95%), and 10 of 12 proposals (83%) to issue shares to fund an acquisition. Similarly, we voted for a scheme of arrangement and to approve a spin-off. We supported both proposals to approve a reorganization plan, one to liquidate, one to approve a sale of company assets and another to approve an investment in another company. We opposed an amendment to company articles on one proposal.

We opposed a proposal at Dataram Corporation to change the company's jurisdiction of incorporation. The proposed reincorporation to Nevada did not warrant support because shareholders would be subject to an additional state anti-takeover provision and the governing documents of the company after the reincorporation would require super-majority votes to remove directors and amend the bylaws.

7. Routine/Business

MCG voted with management on 175 of 236 proposals (74%) in this category.

The ratification of auditors accounts for more than 88% of the routine matters voted on at companies this quarter. MCG supported 158 of 208 (76%) of these proposals. We voted in favor of three of four (75%) bundled proposals to approve auditors and their remuneration. Votes are cast in favor unless auditors receive excessive amounts for non-audit services because auditors that receive hefty fees for non-audit work may be conflicted when conducting audit work. We abstained in cases where the company did not disclose the fees. We voted for four of eight (50%) of non-routine changes to articles of incorporation or bylaws. We opposed when the changes were adverse to shareholders' interest. For example, at Forest City Enterprises, the board sought powers to have unilateral control to amend future bylaws, which is not in shareholders' interest.

We supported several routine items: one to adopt new articles of incorporation; four to change the company name; and five to elect members of the audit committee. MCG voted against two proposals to adopt an exclusive forum provision, which makes it more difficult for shareholders to bring lawsuits. We also opposed four proposals to approve other business because companies should provide shareholders detailed information on voting items rather than expecting blanket approval for unspecified items.

Shareholder Proposals

8. Shareholder Proposals: Compensation

MCG voted for all three shareholder proposals related to compensation.

We supported policies to improve the alignment of pay with performance and encourage long-term sustainable growth. We supported two proposals seeking to limit change in control agreements that allow time or performance hurdles on outstanding equity awards to lapse when the company faces an ownership change. MCG also voted in favor of a proposal at Oracle that sought more detail on the metrics the company uses for its incentive pay programs.

9. Shareholder Proposals: Corporate Governance

MCG supported the one shareholder proposal related to corporate governance this quarter.

The item appeared on the Oracle ballot and asked to exclude votes to abstain in the vote tally. We opposed because a vote to abstain may be cast in cases where the investor wishes to convey slight disapproval that falls short of a vote against.

10. Shareholder Proposals: Directors' Related

MCG supported 9 of 14 proposals (64%) in this category. Most of the proposals in this subcategory center on how the board is structured.

MCG supported one proposal to establish a board committee on social/environmental issues and for four proposals on proxy access, which provides shareholders with the ability to nominate their own candidates to the board. This quarter, MCG voted in favor of four of nine (44%) dissident or shareholder-nominee candidates.

11. Shareholder Proposals: Health/Environment

MCG supported the one proposal in this category, which asked for a report on renewable energy use at Oracle.

12. Shareholder Proposals: Other/miscellaneous

MCG supported all three proposals in this category.

We voted in favor of two proposals on disclosure on political spending and lobbying. We also supported an anti-discrimination proposal at Cisco Systems.

13. Shareholder Proposals: Routine/Business

MCG supported the one proposal in this category at Oracle, which asked the board to engage with shareholders in a more deliberate manner given the extensive corporate governance concerns at the firm.

Proxy Vote Summary Report

Votes in Meetings Held Between October 1, 2015 and December 30, 2015

Number Voted

2015 Quarterly SURS Statistical Report	Proposals	For	Against	Abstain	Withhold	DNV	1YR	2YRS	3YRS	With Mngt	Against Mngt
Antitakeover Related											
"Adopt, Renew or Amend NOL Rights Plan (NOL Pill)"	3	3	0	0	0	0	0	0	0	3	0
"Adopt, Renew or Amend Shareholder Rights Plan (Poison Pill)"	2	1	1	0	0	0	0	0	0	1	1
Adjourn Meeting	53	43	9	0	0	1	0	0	0	43	9
Opt Out of State's Control Share Acquisition Law	1	1	0	0	0	0	0	0	0	1	0
Permit Board to Amend Bylaws Without Shareholder Consent	1	0	1	0	0	0	0	0	0	0	1
Provide Right to Call Special Meeting	1	0	1	0	0	0	0	0	0	0	1
Require Advance Notice for Shareholder Proposals/Nominations	1	0	1	0	0	0	0	0	0	0	1
Totals for Antitakeover Related :	62	48	13	0	0	1	0	0	0	48 (77.4%)	13 (21.0%)
Capitalization											
Approve Cancellation of Capital Authorization	1	1	0	0	0	0	0	0	0	1	0
Approve Issuance of Equity without Preemptive Rights Value (NAV)	1	0	1	0	0	0	0	0	0	0	1
Approve Issuance of Shares Below Net Asset	1	1	0	0	0	0	0	0	0	1	0
Approve Issuance of Shares for a Private Placement	3	3	0	0	0	0	0	0	0	3	0
Approve Reverse Stock Split	14	14	0	0	0	0	0	0	0	14	0
Approve Stock Split	1	0	1	0	0	0	0	0	0	0	1
Approve/Amend Conversion of Securities	3	3	0	0	0	0	0	0	0	3	0
Authorize Directed Share Repurchase Program	1	1	0	0	0	0	0	0	0	1	0
Authorize Issuance of Equity with Preemptive Rights	1	0	1	0	0	0	0	0	0	0	1
Authorize New Class of Preferred Stock	1	1	0	0	0	0	0	0	0	1	0
Authorize Reissuance of Repurchased Shares	2	2	0	0	0	0	0	0	0	2	0
Authorize Share Repurchase Program	2	1	0	1	0	0	0	0	0	1	1
Company Specific - Equity Related	2	1	1	0	0	0	0	0	0	1	1
Eliminate Class of Common Stock	1	1	0	0	0	0	0	0	0	1	0
Eliminate/Adjust Par Value of Stock	2	2	0	0	0	0	0	0	0	2	0
Going Dark Transaction	1	0	1	0	0	0	0	0	0	0	1
Increase Authorized Common Stock	22	8	14	0	0	0	0	0	0	8	14
Increase Authorized Preferred Stock	1	0	1	0	0	0	0	0	0	0	1
Increase Authorized Preferred and Common Stock	1	0	1	0	0	0	0	0	0	0	1
Reduce Authorized Common and/or Preferred Stock	2	2	0	0	0	0	0	0	0	2	0
Totals for Capitalization :	63	41	21	1	0	0	0	0	0	41 (65.1%)	22 (34.9%)

Proxy Vote Summary Report

Votes in Meetings Held Between October 1, 2015 and December 30, 2015

Number Voted

2015 Quarterly SURS Statistical Report	Proposals	For	Against	Abstain	Withhold	DNV	1YR	2YRS	3YRS	With Mngt	Against Mngt
Directors Related											
Adopt Majority Voting for Uncontested Election of Directors	2	2	0	0	0	0	0	0	0	2	0
Approve Remuneration of Directors and/or Committee Members	2	2	0	0	0	0	0	0	0	2	0
Declassify the Board of Directors	2	2	0	0	0	0	0	0	0	2	0
Elect Director	1204	732	99	0	373	0	0	0	0	732	472
Elect Directors (Management Slate)	10	0	0	0	0	10	0	0	0	0	0
Eliminate Cumulative Voting	2	0	2	0	0	0	0	0	0	0	2
Fix Number of Directors and/or Auditors	3	3	0	0	0	0	0	0	0	3	0
Indicate Personal Interest in Proposed Agenda Item	1	0	1	0	0	0	0	0	0	1	0
Remove Age Restriction for Directors	1	1	0	0	0	0	0	0	0	1	0
Totals for Directors Related :	1227	742	102	0	373	10	0	0	0	743 (60.6%)	474 (38.6%)
Non-Salary Comp.											
Advisory Vote on Golden Parachutes	40	16	23	0	0	1	0	0	0	16	23
Advisory Vote on Say on Pay Frequency	9	0	0	0	0	0	9	0	0	9	0
Amend Non-Employee Director Omnibus Stock Plan	2	0	2	0	0	0	0	0	0	0	2
Amend Non-Qualified Employee Stock Purchase Plan	1	1	0	0	0	0	0	0	0	1	0
Amend Omnibus Stock Plan	55	3	51	0	0	1	0	0	0	2	52
Amend Qualified Employee Stock Purchase Plan	8	8	0	0	0	0	0	0	0	8	0
Approve Increase Compensation Ceiling for Directors	2	2	0	0	0	0	0	0	0	2	0
Approve Non-Qualified Employee Stock Purchase Plan	1	0	1	0	0	0	0	0	0	0	1
Approve Omnibus Stock Plan	18	0	18	0	0	0	0	0	0	0	18
Approve Qualified Employee Stock Purchase Plan	2	2	0	0	0	0	0	0	0	2	0
Approve Remuneration Report	177	93	82	0	0	2	0	0	0	95	80
Approve Share Plan Grant	1	0	1	0	0	0	0	0	0	0	1
Approve/Amend Employment Agreements	2	1	0	0	0	1	0	0	0	0	1
Approve/Amend Executive Incentive Bonus Plan	11	0	11	0	0	0	0	0	0	0	11
Approve/Amend Profit Sharing Plan	1	0	1	0	0	0	0	0	0	0	1
Totals for Non-Salary Comp. :	330	126	190	0	0	5	9	0	0	135 (40.9%)	190 (57.6%)
Preferred/Bondholder											
Certification of Citizen Share Representation	1	1	0	0	0	0	0	0	0	1	0
Totals for Preferred/Bondholder :	1	1	0	0	0	0	0	0	0	1 (100.0%)	0 (0.0%)

Proxy Vote Summary Report

Votes in Meetings Held Between October 1, 2015 and December 30, 2015

Number Voted

2015 Quarterly SURS Statistical Report	Proposals	For	Against	Abstain	Withhold	DNV	1YR	2YRS	3YRS	With Mngt	Against Mngt
Reorg. and Mergers											
Amend Articles/Bylaws/Charter -- Organization-Related	1	0	1	0	0	0	0	0	0	0	1
Approve Investment in Another Company	1	1	0	0	0	0	0	0	0	1	0
Approve Merger Agreement	39	37	1	0	0	1	0	0	0	37	1
Approve Plan of Liquidation	1	1	0	0	0	0	0	0	0	1	0
Approve Reorganization/Restructuring Plan	2	2	0	0	0	0	0	0	0	2	0
Approve Sale of Company Assets	1	1	0	0	0	0	0	0	0	1	0
Approve Scheme of Arrangement	1	1	0	0	0	0	0	0	0	1	0
Approve Spin-Off Agreement	1	1	0	0	0	0	0	0	0	1	0
Change Jurisdiction of Incorporation	1	0	1	0	0	0	0	0	0	0	1
Issue Shares in Connection with Acquisition	12	10	2	0	0	0	0	0	0	10	2
Totals for Reorg. and Mergers :	60	54	5	0	0	1	0	0	0	54 (90.0%)	5 (8.3%)
Routine/Business											
Adopt Jurisdiction of Incorporation as Exclusive Forum	2	0	2	0	0	0	0	0	0	0	2
Adopt New Articles of Association/Charter	1	1	0	0	0	0	0	0	0	1	0
Amend Articles/Bylaws/Charter -- Non-Routine	8	4	3	0	0	1	0	0	0	4	3
Approve Auditors and their Remuneration	4	3	1	0	0	0	0	0	0	3	1
Change Company Name	4	4	0	0	0	0	0	0	0	4	0
Elect Members of Audit Committee	5	5	0	0	0	0	0	0	0	5	0
Other Business	4	0	4	0	0	0	0	0	0	0	4
Ratify Auditors	208	158	48	0	0	2	0	0	0	158	48
Totals for Routine/Business :	236	175	58	0	0	3	0	0	0	175 (74.2%)	58 (24.6%)
SH-Compensation											
Company-Specific--Compensation-Related	1	1	0	0	0	0	0	0	0	0	1
Limit/Prohibit Accelerated Vesting of Awards	2	2	0	0	0	0	0	0	0	0	2
Totals for SH-Compensation :	3	3	0	0	0	0	0	0	0	0 (0.0%)	3 (100.0%)
SH-Corp Governance											
Provide for Confidential Vote Tally	1	0	1	0	0	0	0	0	0	1	0
Totals for SH-Corp Governance :	1	0	1	0	0	0	0	0	0	1 (100.0%)	0 (0.0%)
SH-Dirs' Related											
Adopt Proxy Access Right	4	4	0	0	0	0	0	0	0	1	3
Elect Directors (Opposition Slate)	9	4	0	0	5	0	0	0	0	4	5
Establish Environmental/Social Issue Board Committee	1	1	0	0	0	0	0	0	0	0	1
Totals for SH-Dirs' Related :	14	9	0	0	5	0	0	0	0	5 (35.7%)	9 (64.3%)

Proxy Vote Summary Report

Votes in Meetings Held Between October 1, 2015 and December 30, 2015

Number Voted

2015 Quarterly SURS Statistical Report	Proposals	For	Against	Abstain	Withhold	DNV	1YR	2YRS	3YRS	With Mngt	Against Mngt
SH-Health/Environ.											
Renewable Energy	1	1	0	0	0	0	0	0	0	0	1
Totals for SH-Health/Environ. :	1	1	0	0	0	0	0	0	0	0 (0.0%)	1 (100.0%)
SH-Other/misc.											
Anti-Discrimination Miscellaneous	1	1	0	0	0	0	0	0	0	0	1
Political Contributions and Lobbying	1	1	0	0	0	0	0	0	0	0	1
Political Lobbying Disclosure	1	1	0	0	0	0	0	0	0	0	1
Totals for SH-Other/misc. :	3	3	0	0	0	0	0	0	0	0 (0.0%)	3 (100.0%)
SH-Routine/Business											
Amend Articles/Bylaws/Charter -- Non-Routine	1	1	0	0	0	0	0	0	0	0	1
Totals for SH-Routine/Business :	1	1	0	0	0	0	0	0	0	0 (0.0%)	1 (100.0%)
Totals for the report :	2002	1204	390	1	378	20	9	0	0	1203 (60.1%)	779 (38.9%)



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To: Corporate Governance Committee
From: Allison Kushner
Date: February 22, 2016
Re: Compliance Update

Below please find an update from the Compliance Officer as of December 2015:

Current Compliance Implementation Actions:

In response to Board member inquiries regarding SURS current policies and their most recent revisions, staff has determined that a majority of operational policies have not been updated in approximately 5 years or in some cases, policies have existed in original form without changes since its inception. Further, staff has determined there are multiple duplicative policies addressing the same areas or concerns and that a redesigned repository for all operational policies is necessary. This process by which all policies will be revised, updated and reformatted will take place over the next fiscal year. Staff will shift the review process for all policies onto a one year review period which staff anticipates being in step with the SURS fiscal year.

As of February, 2016, staff has completed the streamlining process for policy writing/revision and approvals for operational internal policies. The process implemented includes a process by which the proposed new/proposed amended policies are first addressed through the individual manager/director for the area which the policy is intended to cover. The draft policy proposal is then reviewed and provided to the Executive Leadership Team members, as well as the Compliance Officer and Executive Director. Executives are given approximately one week to suggest changes, ask questions or raise concerns. Final drafts of internal operations policies are then reviewed by the Executive Director, additional changes are made if necessary and then signed by the Executive Director before they are considered operational.

Each policy is numbered by section, revision version and provides a responsible party for compliance with the policy. Each policy clearly indicates whom the policy is intended to cover, additional authority in law for the policy and a brief policy statement outlining the reasons for the policy. Policies are posted to the internal SURS website and training periods for new or revised policies will be scheduled with the affected employees relatively soon after the implementation of the new/revised policy becomes operational.

Staff is now working to reformat and update the Code of Conduct into a more user-friendly and forward facing document which outlines the well- established SURS mission and core values and provides insight and information to the public about our efforts in the areas of transparency, our commitment to ethics and our commitment to serving the annuitants and their family members. Staff anticipates the completion of the newly designed and revised Code of Conduct by the April 2016 Board Meeting.

In a further step to ensure compliance with the State Ethics Act, Illinois statutes and industry best practices, SURS has formed a Fraud Committee. This committee is headed by the Director of Member Services, General Counsel, Chief Operating Officer, Compliance Officer and the Executive Director. In creating the Fraud Committee, SURS is streamlining the awareness and reporting of fraud, particularly external attempts to defraud the Fund. The Fraud Committee will also work to consolidate the current multiple "fraud policies" in force into a cohesive fraud policy that will address matters of how to operate when fraud is suspected, the procedures required by law in reporting fraud and attempted fraud and further providing employees with the tools necessary to identify, prevent, track, and report any attempted fraud on the system.

Compliance in the News:

OCIE Examination Priorities for 2016

On January 11, 2016 the SEC Office of Compliance Inspections and Examinations released its Examination Priorities for 2016. The OCIE document lays out the practices and products the OCIE views as potentially heightened risks to investors and/or the integrity of the capital markets. The purpose of the OCIE is to perform examinations of regulated entities “to promote compliance, prevent fraud, risk and inform policy”. One of the top three areas of concern and focus includes “examining matters of importance...including investors saving for retirement”. The following six examination initiatives are being conducted in 2016 with an eye toward protecting retirement fund investors at risk:

1. **ReTIRE:** A multi-year exam initiative focused on SEC registered investment advisors and the services offered to investors with retirement accounts. The exam will continue in 2016 with a bent toward recommendations made to investors, conflicts of interest, supervision and compliance controls and marketing and disclosure practices.
2. **Exchange-Traded Funds “ETFs”:** The OCIE will focus this exam on ETF’s for compliance with the SEC Act of 1934 and other regulations. The OCIE will look at trading practices, risk disclosure adequacy and sustainability.
3. **Branch Offices:** The OCIE will also focus attention on branch offices of SEC-registered investment advisers in order to identify individuals in branches that are engaged in inappropriate trading.
4. **Fee Selection and Reverse Churning:** Examinations will continue of registered investment advisers that use asset based fees and other commissions. The OCIE will focus on the recommendations the advisers/brokers are making to determine if they are the right choices for their investors.
5. **Variable Annuities:** The OCIE will assess the sustainability of sales of variable annuities to investors and the adequacy of their disclosure and supervision of the sales.
6. **Public Pension Advisors:** Finally, the OCIE will focus on advisers to public pension funds and municipalities focusing on pay-to-play and other key risk areas related to the advisers of public pensions, including gifts and entertainment.

Top 5 Compliance Trends around the Globe in 2016

In conjunction with the Wall Street Journal’s Compliance Journal, Thompson Reuters “Top 5 Compliance Trends around the Globe in 2016”; is presented in the lens of a survey by Consero Group which found that 58% of respondents said the compliance function is not integrated sufficiently into corporate decision-making and strategy. According to Thompson Reuters the top 5 compliance trends around the globe in 2016 include the following:

1. **Creating a culture of compliance:** Research indicates that there are positive financial correlations between investing in organizational culture and the overall returns an asset owner/company sees year over year. By engaging in a corporate wide compliance culture, firms, companies and organizations are able to bolster awareness around their company or brand, which can lead to increased transparency and trust. Finally, in the case of violations of law and/or government induced fines, sentencing credit would be awarded to companies that have a strong compliance culture. Thompson Reuters believes that in 2016 organizations will continue to focus on building a culture of compliance including fostering the tone at the top, active training and education and

assessment and evaluation of current efforts within the corporation/organization in the areas of oversight as well as discussion centered on how policies can be adapted to encourage compliance.

2. Increased investment in compliance operations: In the area of compliance operations, last year 71% of company executives expected the cost of senior compliance professionals to increase due to the demand for skilled/knowledgeable staff. The trend of increased spending on compliance appears to be significant again in 2016 with 60% of companies in North America anticipating a “significant increase” in compliance spending. Furthermore a majority of compliance leaders expect management will require more attention including an increased amount of resources going to processing compliance policies and procedures.

3. Keeping pace with a changing regulatory landscape: As regulators are increasing their attention and reach across regional, national and international borders, there has been a steady increase in regulatory initiatives including the FATCA, and FCPA in the United States. As conduct related infractions are projected to exceed 20B globally, compliance professionals expect personal liability to continue to increase both in the United States and around the world.

4. Monitoring third party risk: Third party risk was responsible for 75% of corruption cases analyzed by the Foreign Bribery Report of the intergovernmental OECD. Thompson Reuters sees a large exposure to risk of corporations who utilize third parties as a result of insufficient detection of risks posed by third parties as well as a lack of monitoring and reporting surrounding the compliance activities of third parties.

5. Encouraging whistleblower activity: Worldwide, whistleblowing protections are increasing including draft guidelines presented by OSHA in the United States to establish effective whistleblower programs. Central to increasing whistleblower protection include reviewing any current whistleblowing initiatives within in the organization, create a “speak up” policy and implement an independent concern reporting and case management system to mediate and monitor reports, and provide anti-retaliation training for employees in order for them to understand their protections and to empower them to speak up if necessary.

SCCE 2016 Compliance and Ethics Hot Topics Survey Results

On February 22, 2016 the Society and Corporate Compliance Ethics released a bulletin entitled; “Cybersecurity and social media compliance risks are chief concerns of compliance and ethics professionals”. The bulletin provided an overview of the SCCE 2016 Compliance and Ethics Hot Topics Survey which was compiled during January, 2016.

Authors of the survey noted that the compliance concerns among professionals ran the spectrum but that these topics shifted when the responses were broken down by respondent types. For example, cybersecurity and social media compliance top the concerns for small companies, privately held companies, and non-profits. While for governmental employers, which SURS most closely resembles among respondent categories, indicated that the chief concern for 41% of those asked was creating and maintain an ethical culture, followed by more effective internal investigations, social media compliance risks, cybersecurity and crime, and increasing the breadth of skills of the compliance team.



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To: Corporate Governance Committee
 From: Allison Kushner
 Date: February 25, 2016
 Re: Principles for Responsible Investment (PRI) Annual Review and Reporting Results

Background:

The Principles for Responsible Investment (PRI) is an international investor initiative created in partnership with the United Nations Environment Programme Finance Initiative (UNEP FI) and the UN Global Compact. The Principles, which were launched by the UN Secretary-General at the New York Stock Exchange in April 2006, set forth global standards for best practices for responsible investment.

The mission of PRI is rooted in the belief that “an economically efficient, sustainable global financial system is a necessity for long-term value creation (and that) such a system will reward long-term, responsible investment and benefit the environment and society as a whole”. PRI works to help investors integrate consideration of environmental, social and governance (ESG) factors into investment decisions and ownership practices and in so doing contribute to the development of a sustainable global financial system and the betterment of society. The PRI Initiative understand that responsible investment is a process that is unique for each organization and provides strategies, approaches and resources to help asset owners, institutional investors, investment managers and service providers to incorporate the principles within their own organizations.

Signatories to PRI acknowledge that environmental, social, and corporate governance (ESG) issues can impact the performance of investment portfolios and strive toward fulfilling the following goals or principles:

- 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.**

Organizational Update:

SURS has been a signatory to the PRI since 2009 and as such joins 23 other asset owners in the United States, 198 Investment Managers and 40 Professional Service Partners who are active members. Globally, 304 asset owners, 978 investment managers and 204 professional service partners are signatories, representing 59 trillion dollars in assets under management. In 2014 the PRI Initiative saw 220 new signatories to the PRI representing an additional 11 trillion dollars of assets under management by PRI signatories. Further, 2016 marks the ten year anniversary of the existence of the PRI which PRI views as a time for the second phase of the PRI Initiative.

The PRI 10 includes a series of initiatives to review the PRI’s progress in mainstreaming responsible investing to date and shape the future direction of the organization and the broader financial industry. Included in these plans are a global signatory and stakeholder survey, the commission of an independent evaluation of the PRI’s impact and hosting two major consultations on strengthening signatory accountability, systemic risks and sustainability challenges. In addition to conferences in New York and Singapore, PRI will host more than 20 regional workshops, roundtables and webinars in 2016. By March 2017, the PRI expects to publish their RI Blueprint

including final recommendations, implementation plan, timeline and measures of success for the next ten year period.

Implementation

After joining PRI in 2009, SURS implemented several systematic steps to increase awareness and to encourage current investment managers and those seeking to do business with the fund to become signatories. Prospective investment managers must respond to questions in requests for proposal regarding whether or not they are signatories to PRI. Additional questions are tailored for specific searches particularly at the semi-finalist level, to gain insight into the investment manager's approach to integrating consideration of ESG factors into the investment decision-making process.

Currently, the following U.S. public pension funds are signatories to PRI:

U.S. Public Pension Fund Signatories	Approximate Market Value	PRI Signatory Signatory since
CalPERS	\$279B 2/1/16	April 2006
CalSTRS	\$179.4B 1/31/16	November 2007
Connecticut Retirement Plans and Trust Funds	\$29.7B 6/30/15	April 2006
Illinois State Board of Investment	\$15B 9/30/15	December 2006
Los Angeles County Employees Retirement Association	\$48.8B 6/30/15	November 2008
Maryland State Retirement and Pension System	\$43.6B 9/30/15	2011
New York City Employees Retirement System	\$53B 9/30/15	April 2006
New York State & Local Retirement System	\$189.4B 3/31/15	April 2006
State Universities Retirement System	\$16.7 11/30/15	March 2009
Teachers Retirement System of the City of New York	\$59B 6/30/15	unknown
University of California	\$95.7B 12/31/15	September 2014

As of February 19, 2016, the number of SURS' investment managers that are PRI signatories has increased from fourteen to eighteen:

PRI Investment Managers		Asset Class	Approximate Market Value as of 12/31/14
1.	Adams Street Partners	Private Equity	\$488M
2.	BlackRock	Structured Active Non-U.S. Equity	\$432M

		Passive Non-U.S. Equity	\$1,592M
		U.S. REITs	\$130M
		Global REITs	\$322M
3.	BlueBay	Emerging Markets	\$163M
4.	CBRE Clarion Real Estate Securities CBRE Clarion Global REIT (CBRE Global Investors)	U.S. REITs	\$159M
		Global REITs	\$105M
5.	Earnest Partners	US Equity-Mid Market	\$109M
6.	Franklin Templeton Real Estate Advisors	Direct Real Estate	\$54M
	Glovista Investments	Non-U.S. Equity-Emerging Markets	\$11M
7.	JPMCB Strategic Property Fund (JPMorgan Asset Management)	Direct Real Estate	\$180M
8.	Longfellow Investment Management	Fixed Income TIPS	\$163M
9.	Macquarie Asset Management	Cash Overlay Infrastructure	\$87M \$87
10.	Neuberger Berman Group	Core Plus Fixed Income	\$319M
11.	Northern Trust Asset Management	Passive U.S. Equity	\$1,635M
12.	Pantheon Ventures	Private Equity	\$436M
13.	PIMCO	Structured Active U.S. Equity	\$260M
		Total Core Fixed Income	\$876M
		U.S. TIPS	\$323M
		Direct Real Estate	\$11M
14.	RREEF America III Fund (Deutsche Asset Management)	Direct Real Estate	\$4M
15.	State Street Global Advisors	Structured Active U.S. Equity	\$330M
16.	T. Rowe Price	Global Equity	\$388M
17.	UBS Trumbull Property Fund (UBS Global Asset Management)	Direct Real Estate	\$337M
18.	Wellington Management Company	Global Equity	\$372M

These fourteen firms managed approximately \$8.98 billion, (-620M from 2014) or 53.8% as of November, 2015, (-2.4% from 2014) of the \$16.7 billion dollar total fund as of November 31, 2015. In comparison, as of December 31, 2013, approximately \$9.2 billion, or 56.4%, of the \$16.3 billion total fund was managed by PRI signatories. In addition, TIAA-CREF is also a PRI signatory and oversees nearly \$679 million in assets as of November 31, 2015, as a service provider for the Self-Managed Plan.

Reporting Framework

The annual PRI Reporting Framework is a mandatory membership requirement, which is undertaken to reveal common processes and procedures used by signatories to implement the six Principles. The Reporting framework also includes optional portions which allow for more in-depth and accurate assessment benchmarks which are used to benchmark against all other signatories, as well as by asset owner/class/and peer size group metrics. The Reporting Framework currently in progress has been completed by SURS staff for submission prior to the March

31, 2016, deadline. After the March 31 close, the public portion of the responses of each signatory will be published on the PRI website in order to provide transparency and to enable signatories to satisfy the last Principle, which states that signatories will each report on their progress toward implementing the Principles.

At the end of the year, signatories receive a private assessment report from PRI for use as a learning and development tool which range from an A+ (highest band) to E (lowest band) rating. In 2014 SURS overall scores included a B in Overarching Approach Module, D in the Indirect Module, and a C in the Direct and Active Ownership Module. In 2015, the overarching module score dropped to a C, the Indirect Module increased to a B and the Direct/Active Ownership Module remained stationary.

PRI Support

PRI provides support to signatories to help them implement best practices in responsible investment, including education on pertinent topics via periodic newsletters and webinars, a database of the latest ESG research and the annual Reporting Framework. The PRI further provides regional networks throughout the world including a U.S. network which serves approximately 15% of all signatories, including 8.5% of asset owners as well as 17% of investment managers.

In February, 2016 PRI assisted the SURS Board in providing a roundtable discussion with the U.S. Managing Representative of PRI, Carol Jeppesen at its Annual Trustee Educational Forum. With the addition of its New York Office in September 2015, SURS staff anticipates a greater working relationship between U.S. based asset owners and new signatories to the PRI.

Staff Recommendation

Staff recommends that SURS continue to support the PRI as signatories to the principles. The continued growth of asset owners and financial managers that are signatories to the PRI is indicative of the future of PRI through the next ten years as well as the overall importance of ESG factors as related to the financial markets, and more particularly to the public pension sphere. The latest direction from the Department of Labor, outlined and discussed in the March Corporate Governance Update, entitled “Fiduciary-duty in the 21st Century”, hailed as the landmark piece in the global dialogue on the relevance of sustainability to fiduciary duty, clearly establishes that failing to consider long-term investment value drivers, which include environmental, social and governance issues in investment practice is a “failure of fiduciary duty”. For an in depth review of the report, please see the March Corporate Governance Update.