Donald C. Kendig, CPA
Retirement Administrator

DATE: October 21, 2015

TO: Board of Retirement

FROM: Donald C. Kendig, CPA
Retirement Administrator

SUBJECT: Council of Institutional Investors (CII) Membership Opportunity – RECEIVE AND FILE; APPROPRIATE ACTION

Background

"… Except as otherwise expressly restricted by the California Constitution and by law, the board may, in its discretion, invest, or delegate the authority to invest, the assets of the fund through the purchase, holding, or sale of any form or type of investment, financial instrument, or financial transaction when prudent in the informed opinion of the board. …" Cal. Gov. Code § 31595

The purpose of FCERA's Education Policy is to:

a) ensure all Board members gain the knowledge necessary to carry out their fiduciary responsibilities;
b) ensure access to relevant information is made available to all Board members;
c) ensure Board members possess shared knowledge relevant to pension administration and the investment of trust assets, to enable effective group discussion, debate, and decision-making; and
d) enable each Board member to achieve and maintain proficiency in the conduct of FCERA's business by educating himself or herself in matters central to the prudent administration of the retirement system and the investment of retirement funds.

Cal. Gov. Code § 31522.8 identifies appropriate topics for Trustee education, which may include, but are not limited to, the following pension related areas:

a) Fiduciary responsibilities
b) Ethics
c) Pension fund investments and investment program management
d) Actuarial matters
e) Pension funding
f) Benefit administration

g) Disability evaluation
h) Fair hearings
i) Pension fund governance
j) New board member orientation

At the October 7, 2015 Board meeting the Board directed Staff to place Proxy Voting and ESG education and policy options on the 2016 Board offsite agenda.

Discussion
CII is the premier international non-profit organization representing the voice of corporate governance, supporting effective corporate governance practices and strong shareowner rights. A single page write-up is attached. Staff finds that the topics covered by CII cover corporate governance, which also provides education on leading governance practices that can be applied to FCERA, fiduciary responsibilities, and investment ethics. If FCERA were to join, members are truly international and FCERA would be exposed to global opinions and best practices on the topics presented.

If FCERA were to join, FCERA would be considered a general member (information sheet attached). Membership dues are similar to CALAPRS and SACRS single organizational membership dues (as opposed to individual), except there is no charge for conference attendance. If approved, membership is estimated to be $5,000. By comparison, CALAPRS is $2,000 a year with attendance fees of $150 and above depending on the event, and SACRS is $4,000 a year with attendance fees of $120 per attendee per conference. CII has an Associate Member class for a variety of other organizations. CII presently has 153 Associate Member organizations and 125 General Member organizations.

Recognizable public fund peers include:
- Alameda County Employees' Retirement Association
- California Public Employees' Retirement System
- California State Teachers' Retirement System
- Contra Costa County Employees' Retirement Association
- Los Angeles City Employees' Retirement System
- Los Angeles County Employees Retirement Association
- Marin County Employees' Retirement Association
- Orange County Employees Retirement System
- Sacramento County Employees' Retirement System
- San Francisco City and County Employees' Retirement System
- Santa Barbara County Employees' Retirement System
- Sonoma County Employees Retirement Association

Staff includes agendas from the last 10 semiannual conferences. CII generally has two conferences a year and they are timed around April and September, although one was in May and one was in October during the last 5 years, so they would not conflict with either CALAPRS or SACRS. About three conferences in the last 5 years would have conflicted with a regular FCERA Board meeting. I participated as a trustee for approximately 8 years and have attached training reports from the Fall 2004, Spring & Fall 2005, Spring 2006, and Spring & Fall 2007 conferences. Staff would be happy to discuss the organization and my experiences with it.

At the October 7, 2015 regular board meeting, Trustee Gomez distributed an analysis (attachment 5) that discussed findings from an analysis of public pension fund activism and firm value. The report summarizes that activist shareholder investing on a social-issue bases actually resulted in reduced firm value/investor returns and that Governance activism did not appear to add statistically significant value. The Environmental, the E of ESG Investing, did not appear to be covered.

Given that CII focuses on issues of governance, including proxy voting, and Environmental and Social activist investing, and the Board would like to further explore these topics at the next retreat, membership in CII and participation in the next year's conferences would be very pertinent.

Staff recommends joining CII for a preliminary calendar year basis (2016) and revisiting membership at the end of 2016, and within the year sending three unique trustees, at a minimum, for a good assessment as to whether or not membership should be continued and CII should be added to the Board's Education policy. SBCERS, as an example, has CII on the pre-approved conference list in its travel policy and encourages trustees to attend.

Fiscal and Financial Impacts

The financial impact to joining CII would be $5,000 in dues and an additional $2,000 to 4,000 in travel costs depending on attendance. The fiscal (operational) impact would include similar business involvement comparable to SACRS with taking positions on various CII activities and voting for CII board directors.

Recommended Action(s)

1. Join CII for a preliminary calendar year basis (2016), revisit membership prior to the renewal of the membership, and within the year sending three unique trustees, at a minimum, for a good assessment as to whether or not membership should be continued and CII should be added to the pre-approved list.

Attachment(s)

1. CII Summary Page
2. CII Member Summary Page
3. CII Conference Agendas 2010-2014
4. Training Reports from Donald Kendig, Retirement Administrator from the Fall 2004, Spring & Fall 2005, Spring 2006, and Spring 2007 & Fall conferences
5. Public Pension Fund Activism and Firm Value Analysis by Tracie Woidtke, Professor of Finance, University of Tennessee, Knoxville

Council of Institutional Investors
The Voice of Corporate Governance

CII – WE HOPE YOU JOIN US

ABOUT CII:

- CII is the premier international non-profit organization representing the voice of corporate governance, supporting effective corporate governance practices and strong shareowner rights.
- Unlike many associations that only host meetings, adopt policies and send newsletters, CII is a second staff to our members. We provide expertise members might otherwise have to purchase from consultants, lawyers and others. We think of ourselves as an investment 911: When members call wanting something, we have it or find it.

EXCLUSIVE MEMBER-ONLY BENEFITS INCLUDE:

Your dues cover everything with no additional meeting attendance fees or charges for publications

Education — Stay "In the Know"

- Receive a weekly e-newsletter and weekly compilation of newsclips highlighting the hottest developments and trends
- Participate in 2-4 webinars and teleconferences monthly featuring top experts
- Access a library of plain-English reference guides covering what you need to know about corporate governance

Networking — Interact with Top Staff of Major U.S. Institutional Investors

- Enjoy complimentary attendance to CII fall and spring conferences – the best networking opportunities in the pension business with 400+ attendees
- Benefit from opportunities to host or speak at exclusive CII events and teleconferences
- Obtain full access to CII's comprehensive member directory and members-only online discussion forums

Advocacy — Gain from CII's Reputation as the Leading Advocate for Institutional Investors

- Leverage your voice through CII's testimony and prompt comment letters on pending legislation and regulation
- Participate in CII-led or member coalition efforts at specific companies and learn about members' advocacy efforts
- Benefit from CII representation on a range of key committees at the SEC, the stock exchanges and other regulators

To join or for more information, contact Bethany Murphy at 202.822.0800 or email bethany@cii.org

Who is CII?

The Council of Institutional Investors is a nonprofit association of employee benefit funds, foundations and endowments with combined assets that exceed $3 trillion. We are a leading voice for effective corporate governance and strong shareowner rights.

What is a General Member?

Employee benefit plans, state or local agencies charged with investing public fund assets and charitable tax-exempt foundations may join CII as General Members. Funds, not their employees, are considered CII members. Voting members are entitled to one vote per fund.

Each General Member belongs to one of four constituencies –public, corporate, labor or endowment/other. Public, corporate and labor constituency members elect CII's Board of Directors.

What are the benefits of membership?

Membership dues are all-inclusive. At no additional cost General Members are entitled to:

- Register an unlimited number of attendees to attend CII's semi-annual spring and fall conferences.
- Receive the weekly Governance Alert newsletter
- Access a library of plain-English guides on the nuts and bolts of governance basics
- Participate in CII hosted teleconferences on topical issues
- Get the scoop on CII analyses, comment letters and testimony on issues that have significant implications for investors.
- Shape governance policies at portfolio companies by shaping CII policies and participating in Council-led engagements with specific U.S. public companies.

What does it cost?

Membership dues are calculated annually, using a formula of $1.30 per million of asset Under management with a floor of $5,000 and a ceiling of $30,000 in annual dues.

EXAMPLE: Assets under management are $11,854,000,000. Calculation: 11,854 x 1.3 or $15,410.20/year. If you need help calculating dues, just give us a call at 202.822.0800 or email at Bethany@cii.org.

Council of Institutional Investors
888 17th Street, NW, Suite 500
Washington, DC 20006
202.822.0800
www.cii.org

Council of Institutional Investors
The Voice of Corporate Governance

Opportunity Knocks
2010 Spring Meeting
April 11-13, 2010

Omni Shoreham Hotel
2500 Calvert Street, NW
Washington, DC 20008
800.843.6664
202.234.0700

SUNDAY, APRIL 11

1:30 – 7:00 **Registration**
Group Registration Area

1:30 – 2:30 **Activism Committee** (open to Council members only)

2:30 – 3:30 **Policies Committee** (open to Council members only)

3:30 – 4:30 **International Governance Issues Committee Meeting**
(open to Council members only)

3:30 – 4:30 **Governance Committee Meeting** (Council board members only)

4:30 – 5:30 **Audit Committee Meeting** (Council board members only)

5:30 – 6:00 **New Member & First Time Attendees Welcome**

6:00 – 7:00 **Reception** (open to all conference attendees)

MONDAY, APRIL 12

8:00 – 8:45 **Registration and Continental Breakfast**

8:45 - 9:00 **Welcome**
Joe Dear, Chair, Council of Institutional Investors

9:00- 10:00 **Navigating the Markets: Views of Investors**
Mark Anson, President and Executive Director of Investment Services, Nuveen Investments
Joe Dear, Chief Investment Officer, California Public Employees' Retirement System
William R. Hambrecht, Founder, Chair and CEO, WR Hambrecht & Company

Moderator: Ira Millstein, Senior Partner, Weil, Gotshal & Manges LLP and Senior Associate Dean for Corporate Governance, Yale School of Management

10:00- 10:30 **Restoring Trust in the U.S. Financial System**
Neal Wolin, Deputy Secretary, U.S. Department of the Treasury

10:30- 11:00 **Break**

11:00- 11:30 **Banking on Banks: Views of a Regulator**
Sheila C. Bair, Chairman, Federal Deposit Insurance Corporation

11:30-12:00 **Paying for Performance**
Kenneth R. Feinberg, Special Master for TARP Executive Compensation, U.S. Department of the Treasury

12:00- 12:15 **Break**

12:15 – 1:30 **Rethinking the Free Market School of Economics**
John Cassidy, Author, *How Markets Fail: The Logic of Economic Calamities*

1:45 – 2:45 **Issue Workshops**

2:45 – 3:00 **Break**

3:00 – 4:30 **Constituency Meetings** (General Members only)

- **Corporate General Members**
- **Labor General Members**
- **Public General Members**

4:30 – 5:30 **Board Meeting** (Council board members only)

5:30 – 6:30 **Reception** (open to all conference attendees)

Tuesday April 13, 2010

8:30 – 10:00 **General Members' Business Meeting and Breakfast**

9:30 – 10:00 **Continental Breakfast**

10:15 – 10:45 **Reforming the OTC Derivatives Market**
Gary Gensler, Chairman, U.S. Commodity Futures Trading Commission

10:45 – 11:15 **Forging a Stable Financial System**
Daniel Tarullo, Board of Governors, Federal Reserve Board

11:15 – 11:45 **Looking Over the Horizon: Systemic Risk, "Debt Decoupling," and Financial Innovation**
Henry Hu, Director, Division of Risk, Strategy, and Financial Innovation, Securities and Exchange Commission

12:00 – 1:15 **Lunch Speaker**

Council of Institutional Investors
The Voice of Corporate Governance

25 Years – A Legacy of Leadership
2010 Fall Meeting
September 19-21, 2010

Hotel Del Coronado
1500 Orange Avenue
Coronado, CA 92118
800.468.3533

SUNDAY, SEPTEMBER 19***

12:00 –4:30	**Registration** *Group Registration Desk*
1:00 – 2:15	**Activism Committee** (Open to Council Members Only) *Crystal/Continental Rooms*
2:30 – 3:30	**Policies Committee** (Open to Council Members Only) *Windsor Complex*
3:45 – 4:45	**International Governance Issues Committee Meeting** (Open to Council Members Only) *Garden Room*
3:45 – 4:30	**Audit Committee Meeting** (Council Board Members Only) *Executive Room*
4:45 – 5:30	**Governance Committee Meeting** (Council Board Members Only) *Executive Room*
5:30 – 6:00	**New Member & First Time Attendees Welcome** *Windsor Complex*
6:00 – 7:00	**Reception/Registration** (Open to All Conference Attendees) *Beach*

***Dress code for the entire conference is business casual

MONDAY, SEPTEMBER 20

8:00 – 8:45 **Registration and Continental Breakfast**
Ballroom

8:45 – 9:00 **Welcome**
Joseph Dear, Chair, Council of Institutional Investors
Ballroom

9:00 – 9:45 **Investments—A New Normal?**
Neel Kashkari, Managing Director and Head of New Investment Initiatives, PIMCO
Ballroom

9:45– 10:15 **U.S. Capital Markets—The Next Challenges**
Elisse Walter, Commissioner, U.S. Securities and Exchange Commission
Ballroom

10:15 – 10:45 **Looking Ahead—U.S. Economic Outlook and Challenges Facing Small Business and Venture Capital**
Ginger Lew, Senior Advisor, White House National Economic Council, and Administrator, Small Business Administration
Ballroom

10:45– 11:15 **Break**
Garden Patio

11:15– 12:15 **Markets and Corporate Governance—The Global Landscape**
Panelists:
Peter Taylor, Head of Corporate Governance and Investment Manager, Aberdeen Asset Management
Ralph Whitworth, Founder and Principal, Relational Investors
Harlan Zimmerman, Senior Partner, Cevian Capital
Moderator:
Carl Rosén, Executive Director, International Corporate Governance Network
Ballroom

12:30– 1:45 **Luncheon Speaker**
David Wessel, Economics Editor, *The Wall Street Journal*, and Author, In Fed We Trust
Crown Room
Book signing immediately following on the Garden Patio.

MONDAY, SEPTEMBER 20 (continued)

1:45 – 2:45 **ISSUE WORKSHOPS**

Board-Shareowner Communications—Looking Ahead
Panelists:
Douglas Chia, Assistant General Counsel and Corporate Secretary, Johnson & Johnson
Eric Jackson, Founder and Managing Member, Ironfire Capital
Mark Story, Director of New Media, Securities and Exchange Commission
Moderator:
Mark Latham, Founder, Votermedia.org
Crystal/Continental Room

Aligning Executive Performance and Pay—Looking Ahead
Keynote:
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Robin Ferracone, Executive Chair, Farient Advisors, and Author, Fair Pay, Fair Play: Aligning Executive Performance and Pay

Panelists:
Michael McCauley, Senior Officer - Investment Programs & Governance, Florida State Board of Administration
Anne Sheehan, Director, Corporate Governance, California State Teachers' Retirement System
Moderator:
Abe Friedman, Managing Director and Global Head of Corporate Governance and Responsible Investment, BlackRock
Ballroom
Book signing immediately following in the Ballroom Foyer.

2:45 – 3:00 **Break**
Garden Patio

3:00 – 4:00 **Constituency Meetings**
(General Members Only)

- **Corporate General Members**
Garden Room

- **Labor General Members**
Hanover Room

- **Public General Members**
Windsor Complex

4:00 – 5:00 **Board Meeting**
(Council Board Members Only)
Crystal Room

5:00 – 6:00 **Reception/Registration**
(Open to All Conference Attendees)
Sundeck

TUESDAY, SEPTEMBER 21

8:30 – 10:00 **General Members' Business Meeting and Breakfast**
Crown Room

9:00 – 10:00 **Continental Breakfast**
Ballroom

10:15 – 10:45 **Credit Rating Agencies—Restoring Confidence**
Deven Sharma, President, Standard & Poor's
Ballroom

10:45 – 11:15 **Department of Labor Priorities**
Michael Davis, Deputy Assistant Secretary, Employee Benefits Security Administration, U.S. Department of Labor

11:15 – 12:00 **Fiduciary Duty—Looking Back and Ahead**
Panelists:
Keith Johnson, Chair, Institutional Investor Legal Services, Reinhart Boerner Van Deuren
Ian Lanoff, Principal, Groom Law Group
Moderator:
Luke Bierman, General Counsel, Office of the State Comptroller of New York
Ballroom

12:15 – 1:15 **LUNCHEON ADDRESS**
Behavioral Finance and the Post-Retirement Crisis
Shlomo Benartzi, Professor and Co-Chair, Behavioral Decision Making Group, UCLA Anderson School of Management, and Chief Behavioral Economist, Allianz Global Investors
Crown Room

--Meeting adjourned after lunch--

Council of Institutional Investors
The Voice of Corporate Governance

Looking Ahead
2011 Spring Meeting
April 3-5, 2011

Omni Shoreham Hotel
2500 Calvert Street, NW
Washington, DC 20008
202.234.0700

SUNDAY, APRIL 3, 2011

1:00 – 4:30 **Registration**
West Promenade Reception

2:00 – 3:15 **Activism Committee**
(Council Members Only)
Palladian Room

3:30 – 4:30 **Policies Committee Meeting**
(Council Members Only)
Diplomat Room

4:45 – 5:45 **International Governance Issues Committee Meeting**
(Council Members Only)
Congressional A/B

5:30 – 6:00 **New Member & First Time Attendees Welcome**
Executive Room

6:00 – 7:00 **Reception/Registration**
(All Conference Attendees)
Empire Patio
Inclement Weather – Empire Room

MONDAY, APRIL 4, 2011

8:00 – 8:45	**Registration and Continental Breakfast** Registration – *West Promenade Reception* Continental Breakfast – *Regency Ballroom*
8:45 – 9:00	**Welcome** Joseph Dear, Chair, Council of Institutional Investors *Regency Ballroom*
9:00 – 9:30	**Looking Ahead: The SEC Agenda** Luis Aguilar, Commissioner, U.S. Securities and Exchange Commission *Regency Ballroom*
9:30 – 10:30	**Looking Ahead: The Courts** The Honorable Leo Strine, Vice Chancellor, Delaware Court of Chancery The Honorable Jed Rakoff, United States District Judge for the Southern District of New York *Moderator:* Gregory Smith, General Counsel & COO, Public Employees' Retirement Association of Colorado *Regency Ballroom*
10:30 – 11:00	**Break** *Regency Foyer*
11:00 – 11:30	**Looking Ahead: Investor Constructivists** Nelson Peltz, CEO, Trian Fund Management *Regency Ballroom*
11:30 – 12:00	**Looking Ahead: Auditor Oversight** James Doty, Chair, Public Company Accounting Oversight Board *Regency Ballroom*
12:00 – 12:20	**Looking Ahead: International Corporate Governance Issues** Norman Eisen, U.S. Ambassador, Czech Republic *Regency Ballroom*
12:30 – 1:45	**Luncheon Address** **Looking Ahead: U.S. Economy** Diane Swonk, Senior Managing Director & Chief Economist, Mesirow Financial *Ambassador Ballroom*

MONDAY, APRIL 4, 2011 (continued)

2:00 – 3:00 **ISSUE WORKSHOPS**

Dodd-Frank Implementation
Kevin Edgar, Senior Counsel, Financial Services Committee, U.S. House of Representatives
Keir Gumbs, Partner, Covington & Burling
Dean Shahinian, Senior Counsel, Banking, Housing and Urban Affairs Committee, U.S. Senate
Lawranne Stewart, Deputy Chief Counsel, Financial Services Committee, U.S. House of Representatives
Maureen Thompson, Partner, The Hastings Group
Moderator: Anne Sheehan, Director, Corporate Governance, California State Teachers' Retirement System
Diplomat Room

2011 Proxy Season
Stu Dalheim, Director, Shareholder Advocacy, Calvert Investments
Edward Durkin, Director, Corporate Affairs Department, United Brotherhood of Carpenters
Michael Garland, Executive Director, Corporate Governance, New York City Pension Funds
Moderator: Carin Zelenko, Director, Capital Strategies Department, International Brotherhood of Teamsters
Palladian Room

3:00 – 3:15 **Break**
West Promenade

3:15 – 4:45 **Constituency Meetings**
(General Members Only)

- **Corporate General Members**
  Robert's Private Dining Room
- **Labor General Members**
  Cabinet Room
- **Public General Members**
  Congressional A/B

6:00 – 7:00 **Reception/Registration**
(Open to All Conference Attendees)
Empire Patio
Inclement Weather – Empire Room

TUESDAY, APRIL 5, 2011

8:30 – 10:00 **General Members' Business Meeting and Breakfast**
(General Members Only)
Ambassador Ballroom

9:30 – 10:00 **Continental Breakfast**
(All Other Attendees)
Regency Ballroom

10:00 – 10:30 **Looking Ahead: Investor Responsibilities**
Peter Montagnon, Senior Investment Advisor, Financial Reporting Council
Regency Ballroom

10:30 – 11:00 **Looking Ahead: China**
Ian Bremmer, President, Eurasia Group
Regency Ballroom

11:00 – 11:45 **Looking Ahead: A Conversation About Wall Street**
Jamie Dimon, Chair & CEO, JPMorgan Chase
Joseph Dear, Chair, Council of Institutional Investors, and CIO, California Public Employees' Retirement System
Regency Ballroom

12:00 – 1:15 **Luncheon Address:**
Looking Ahead: Capitol Hill
Rep. Spencer Bachus, Chair, Financial Services Committee, U.S House of Representatives
Ambassador Ballroom

--Meeting adjourned after lunch--

Council of Institutional Investors
The Voice of Corporate Governance

Innovators

2011 Fall Meeting
September 25-27, 2011

The Westin Boston Waterfront
425 Summer Street
Boston, MA 02210

SUNDAY, SEPTEMBER 25, 2011

1:00 – 6:30	**Registration** *Grand Ballroom Foyer*
2:00 – 3:15	**Activism Committee** (Open to All Council Members) *Grand Ballroom C-D-E*
3:30 – 4:30	**Policies Committee** (Open to All Council Members) *Grand Ballroom C-D-E*
4:45 – 5:45	**Committee on International Governance Issues** (Open to All Council Members) *Grand Ballroom C-D-E*
5:30 – 6:00	**New Members & First Time Attendees Welcome** (Open to New Members, First Time Attendees & Board Members) *Commonwealth A*
6:00 – 7:00	**Reception/Registration** (Open to All Conference Attendees) *Grand Ballroom Foyer*

MONDAY, SEPTEMBER 26, 2011

8:00 – 8:45	**Registration and Continental Breakfast** *Grand Ballroom A & B*
8:45 – 9:00	**Welcome** Joseph Dear, Chair, Council of Institutional Investors Steven Grossman, Treasurer & Receiver General of Massachusetts *Grand Ballroom A & B*
9:00 – 9:45	**Investments** Jeremy Grantham, Co-founder & Chief Investment Strategist, GMO *Grand Ballroom A & B*
9:45 – 10:45	**Accounting and Reporting** Hans Hoogervorst, Chair, International Accounting Standards Board Leslie Seidman, Chair, Financial Accounting Standards Board Moderator: Joseph Carcello, Ernst & Young Professor and Director of Research, Corporate Governance Center, University of Tennessee *Grand Ballroom A & B*
10:45- 11:15	**Break** *Grand Ballroom Foyer*
11:15 – 12:00	**Capital Formation** John Coffee, Adolf A. Berle Professor of Law, Columbia Law School Hal S. Scott, Director, Committee on Capital Markets Regulation; Nomura Professor and Director, Program on International Financial Systems, Harvard Law School Moderator: Brian Lane, Partner, Gibson Dunn *Grand Ballroom A & B*
12:30 – 1:45	**LUNCHEON ADDRESS** **Reporting** Matt Taibbi, Contributing Editor, *Rolling Stone* *(Book signing immediately following in the Grand Ballroom Foyer)* *Grand Ballroom A & B*

MONDAY, SEPTEMBER 26, 2011 (Continued)

2:00 – 3:15 **Breakout Sessions**

International Proxy Voting
Lisa Schneider, Director, U.S. Institutional Investor Affairs, Sodali
Lori Wersal, COO, State of Wisconsin Investment Board
Theresa Whitmarsh, Executive Director, Washington State Investment Board
Moderator: John Barger, Chairman, Board of Investments, Los Angeles County Employees Retirement Association
Commonwealth A & B

Mutual Fund Proxy Voting
Donald Cassidy, Director, Corporate Governance Research, Fidelity International
Michelle Edkins, Managing Director and Head of Corporate Governance & Responsible Investment, BlackRock
Chad Norton, VP – Fund Business Management Group, Capital Research and Management Company
Moderator: Carol Nolan Drake, Chief External Affairs Officer, Ohio Public Employees Retirement System
Commonwealth C

3:15 – 3:30 **Break**
Grand Ballroom Foyer

3:30 – 4:30 **General Member Meetings**
(General Members Only)

- Corporate General Members
  Otis Room
- Labor General Members
  Hancock Room
- Public General Members
  Stone Room
- Endowment/Foundation General Members
  Revere Room

6:00 – 7:00 **Reception/Registration**
(Open to All Conference Attendees)
Grand Ballroom Foyer

TUESDAY, SEPTEMBER 27, 2011

7:30 - 9:45	**Registration** *Grand Ballroom Foyer*
8:00 – 9:30	**General Members' Business Meeting and Breakfast** (Open to General Members only) *Grand Ballroom C-D-E*
9:15 – 9:45	**Continental Breakfast** (Open to all Other Conference Attendees) *Grand Ballroom A & B*
9:45 – 10:30	**Economics** Meredith Whitney, CEO, Meredith Whitney Advisory Group *Grand Ballroom A & B*
10:30 – 11:15	**Corporate Investigations** Anton Valukas, Chair, Jenner & Block *Grand Ballroom A & B*
11:15 – 12:00	**Say on Pay** Robin Ferracone, Executive Chair, Farient Advisors Dayna Harris, VP, Farient Advisors *Grand Ballroom A & B*
12:30 – 1:45	**LUNCHEON ADDRESS** **State Finances** Thomas DiNapoli, New York State Comptroller *Grand Ballroom A & B*

--Meeting adjourned after lunch--

Council of Institutional Investors
The Voice of Corporate Governance

Shaping the Future

April 1–3, 2012 • Omni Shoreham Hotel, Washington, DC

Agenda

Register Online

SUNDAY, APRIL 1, 2012

Note: Hover over underlined agenda items for more information.

12:00 – 5:45 **Registration**
West Promenade Reception

1:30 – 3:00 **Activism Commitee**
(Open to All Council Members)
Ambassador Ballroom

3:15 – 4:15 **Policies Commitee**
(Open to All Council Members)
Ambassador Ballroom

4:30 – 5:30 **International Governance Committee**
(Open to All Council Members)
Ambassador Ballroom

Special Guest:
Jamie Allen
Secretary General, Asian Corporate Governance Association

5:30 – 6:00 **New Members & First Time Attendees Welcome**
(Open to New Members, First Time Attendees & Board Members)
Executive Room

6:00 – 7:00 **Reception/Registration**
(Open to All Conference Attendees)
Empire Patio
Inclement Weather - Empire Ballroom

MONDAY, APRIL 2, 2012

7:45 – 8:45 **Registration and Continental Breakfast**
Registration - West Promenade Reception
Continental Breakfast - Regency Ballroom

8:45 – 9:00

Welcome

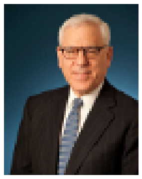
Regency Ballroom

Joseph Dear
Chair, Council of Institutional Investors

9:00 – 9:45

Global Markets

Regency Ballroom



David Rubenstein
Co-Founder & Managing Director, The Carlyle Group

Moderator:
Joseph Dear
Chair, Council of Institutional Investors

9:45 – 10:30

Securities and Exchange Commisson

Regency Ballroom

Troy Paredes
Commissioner, U.S. Securities and Exchange Commission

Moderator:
Jane Hamblen
Chief Legal Counsel, State of Wisconsin Investment Board

10:30 – 11:00

Break

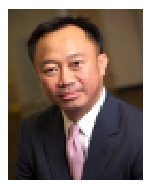
Regency Foyer

11:00 – 12:00

Corporate Boards

Regency Ballroom

Spencer Abraham
Chairman & CEO, The Abraham Group; Corporate Director



Viet Dinh
Founding Partner, Bancroft Law Firm; Corporate Director

Moderator:
Michele Hooper
President & CEO, The Directors' Council; Corporate Director

12:15 – 1:30

Luncheon Address
Pressing for Accountability

Ambassador Ballroom

Eric Schneiderman
Attorney General of New York State

1:45 – 2:30

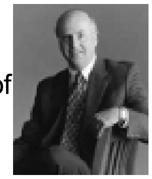
Corporate Governance in Japan

Regency Ballroom

Michael Woodford
Former CEO, Olympus

2:30 – 3:15 **Capital Formation**
Regency Ballroom

James Cox
Brainerd Currie Professor of Law, Duke University School of Law



Donald Langevoort
Thomas Aquinas Reynolds Professor of Law & Co-Director, Joint Degree in Law and Business Administration, Georgetown University Law Center

Robert Thompson
Peter P. Weidenbruch, Jr. Professor of Business Law, Georgetown University Law Center

Moderator:
Gregory Smith
General Counsel & COO, Public Employees' Retirement Association of Colorado

3:15 – 3:30 **Break**
West Promenade Reception

3:30 – 4:45 **Member Meetings**
- Corporate General Members
  Cabinet Room
- Educational Sustainers and Honorary International Participants & Endowment/Foundation Members
  Congressional A
- Labor General Members
  Executive Room
- Public General Members
  Palladian Ballroom

6:00 – 7:00 **Reception/Registration**
Empire Patio
Inclement Weather - Empire Ballroom

TUESDAY, APRIL 3, 2012

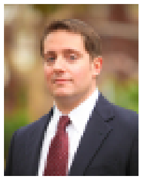
7:00 – 8:00 **Registration and Continental Breakfast**
Registration - West Promenade Reception
Continental Breakfast - Regency Ballroom

8:00 – 8:45 **Hewlett-Packard's Governance Evolution**
Regency Ballroom

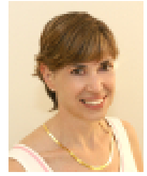
Meg Whitman
President & CEO, Hewlett-Packard

Moderator:
Anne Sheehan
Director of Corporate Governance, California State Teachers' Retirement System

8:45 – 9:30 **Focus on China**
Regency Ballroom



Carson Block
Founder & Director of Research, Muddy Waters Research



Moderator:
Meredith Miller
Corporate Governance Officer, UAW Retiree Medical Benefits Trust

9:30 – 10:00 **Break**
Regency Foyer

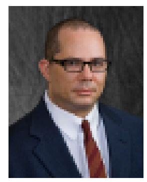
10:00 – 11:15 **Breakout Sessions:**

Securities Litigation
Ambassador Ballroom

Elaine Buckberg
SVP, NERA Economic Consulting

Roel Campos
Partner, Locke Lord; Former SEC Commissioner

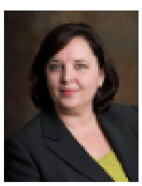
L. Adel Turki
SVP, Cornerstone Research



Christian Ward
Partner, Yetter Coleman

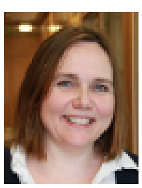
Moderator:
Carol Nolan Drake
Chief External Affairs Officer, Ohio Public Employees Retirement System

Shareowner Engagement
Palladian Ballroom

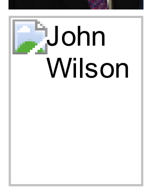


Donna Anderson
VP & Global Corporate Governance Specialist, T. Rowe Price

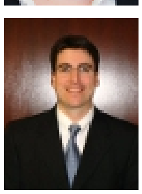
Leon Kamhi
Executive Director, Hermes Equity Ownership Services



Runa Urheim
Senior Analyst, Corporate Governance, Norges Bank Investment Management



John Wilson
Director, Corporate Governance, TIAA-CREF



Moderator:
Michael McCauley
Senior Officer, Investment Programs & Governance, Florida State Board of Administration

11:45 – 1:15 **General Members' Business Meeting and Lunch**
(Open to All General Members)
Ambassador Ballroom

The General Members' Business Meeting is for General Members only. For all other attendees, the conference ends after the breakout sessions.

Council of Institutional Investors
The Voice of Corporate Governance

Engaging for the Future

October 3–5, 2012 • The Westin Seattle, Seattle, WA

Register Online

Agenda

WEDNESDAY, OCTOBER 3, 2012

Note: Hover over underlined agenda items for more information.

12:00 – 5:45 **Registration**
Members' Lounge Opens
Grand Registration

1:30 – 3:00 **Activism Commitee**
(Open to All Council Members)
Fifth Avenue

3:15 – 4:15 **Policies Commitee**
(Open to All Council Members)
Fifth Avenue

4:30 – 5:30 **International Governance Committee**
(Open to All Council Members)
Fifth Avenue

5:30 – 6:00 **New Members & First Time Attendees Welcome**
(Open to New Members, First Time Attendees & Board Members)
Grand Crescent

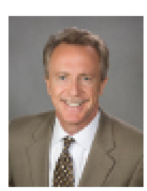
6:30 – 7:30 **Reception/Registration**
(Open to All Conference Attendees)
Olympic Sculpture Park

THURSDAY, OCTOBER 4, 2012

7:45 – 8:45 **Registration and Continental Breakfast**
Members' Lounge Opens
Registration - Grand Registration
Continental Breakfast - Grand I & II

8:45 – 9:00 **Welcome**
Grand I & II

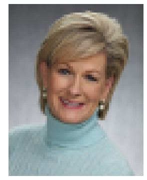
Anne Sheehan
Chair, Council of Institutional Investors



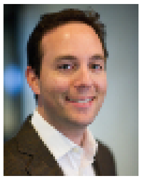
James McIntire
Washington State Treasurer

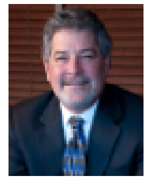
9:00 – 9:45 **Discussion: Global Economic Outlook**
Grand I & II


Laura D'Andrea Tyson
S. K. and Angela Chan Chair in Global Management, Haas School of Business, University of California Berkeley


Moderator:
Anne Sheehan
Chair, Council of Institutional Investors

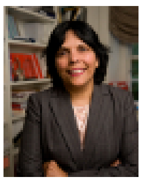
9:45 – 10:30 **Discussion: Entrepreneurship and Going Public**
Grand I & II


Spencer Rascoff
CEO, Zillow


Moderator:
David Kushner
CIO, Los Angeles County Employees Retirement Association

10:30 – 11:00 **Break**
Grand Foyer

11:00 – 12:15 **Discussion: Does Corporate Governance Add Value?**
Grand I & II


Reena Aggarwal
Robert E. McDonough Professor of Business Administration & Professor of Finance and Director, Center for Financial Markets and Policy, Georgetown University McDonough School of Business


Sanjai Bhagat
Provost Professor, Leeds School of Business, University of Colorado at Boulder


J. Robert Brown
Chauncey Wilson Memorial Research Professor of Law & Director, Corporate & Commercial Law Program, University of Denver Sturm College of Law


Moderator:
Gregory Smith
Interim Executive Director, General Counsel & COO, Public Employees' Retirement Association of Colorado

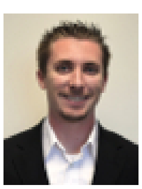
12:30 – 1:45 **Luncheon Address**
Grand III

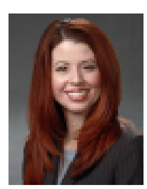

Frank Partnoy
Author, WAIT: The Art and Science of Delay and George E. Barrett Professor of Law and Finance, University of San Diego

1:45 – 2:15 **Book Signing**
Grand Foyer

2:00 – 3:15 **Breakout Sessions:**

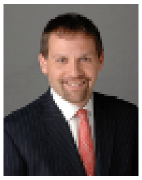
Lessons Learned: Say on Pay
Fifth Avenue


Aaron Boyd
Director of Research, Equilar


Aeisha Mastagni
Investment Officer, California State Teachers Retirement System

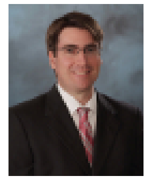
Matthew Lepore
VP, Corporate Secretary & Chief Counsel, Pfizer

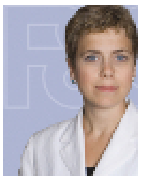
Moderator:
Jane Hamblen
Chief Legal Counsel, State of Wisconsin Investment Board



Incorporating ESG Into Investments and Proxy Voting
Cascade II


Dan Bross
Senior Director of Corporate Citizenship, Microsoft


Michael McCauley
Senior Officer of Investment Programs and Governance, Florida State Board of Administration


Elizabeth McGeveran
SVP, Governance & Sustainable Investments, F&C Asset Management


Moderator:
Gianna McCarthy
Director, Corporate Governance, New York State Common Fund

3:15 – 3:30 **Break**
Grand Foyer

3:30 – 4:30 **Member Meetings**
- Corporate General Members
  Stuart
- Educational Sustainers, Honorary International Participants
  Fifth Avenue
- Endowment & Foundation General Members
  Blakely
- Labor General Members
  Vashon
- Public General Members
  Cascade II

6:00 – 7:00 **Reception/Registration**
Grand Foyer

FRIDAY, OCTOBER 5, 2012

8:00 – 9:30 **Registration and Continental Breakfast**
Members' Lounge Opens
(Open to All Conference Attendees)
Grand I & II

8:00 – 9:30 **General Members' Business Meeting and Breakfast**
(Open to Council General Members)
Fifth Avenue

9:45 – 10:45 **Discussion: Nurturing Emerging Companies**
Grand I & II


Steven Davidoff
Associate Professor of Law and Finance, Moritz College of Law, Ohio State University and The Deal Professor, *The New York Times*


Bill Mann
CIO, Motley Fool Asset Management & Portfolio Manager, Motley Fool Independence, Great America and Epic Voyage Funds


Kate Mitchell
Co-founder & Managing Director, Scale Venture Partners


Moderator:
Jay Chaudhuri
General Counsel & Senior Policy Advisor, North Carolina Retirement Systems

10:45 – 11:30 **Sustaining the Long-Term**
Grand I & II

Daniel Fulton
President & CEO, Weyerhaeuser

Moderator:
Theresa Whitmarsh
Executive Director, Washington State Investment Board

12:00 – 1:00 **Networking Luncheon**
Grand III

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Council of Institutional Investors
The Voice of Corporate Governance

Agenda

Register Here!

Wednesday, April 17

Note: Hover over underlined agenda items for more information.

12:30 – 7:00	**Registration & Member Lounge Open** Registration: *Capital Terrace* Member Lounge: *Continental Room*
1:00 – 2:00	**Advisory Council Meeting** (Open to Advisory Council Members) *New York Room*
2:00 – 2:30	**Policies Commitee** (Open to All CII Members) *Federal A/B*
2:45 – 3:45	**International Governance Committee** (Open to All CII Members) *Federal A/B*
4:00 – 5:30	**Activism Commitee** (Open to All CII Members) *Federal A/B*
5:30 – 6:00	**New Members & First Time Attendees Welcome** (Open to New Members, First Time Attendees & Board Members) *Massachusetts Room*
6:00 – 7:00	**Reception** (Open to All Conference Attendees) *Congressional/Senate*

Thursday, April 18

7:45 – 6:30	**Registration & Member Lounge Open** Registration: *Capital Terrace* Member Lounge: *Continental Room*

7:45 – 8:45 **Continental Breakfast**
Presidential Ballroom

8:45 – 9:00 **Welcome**
Presidential Ballroom

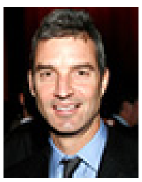

Anne Sheehan
Chair, Council of Institutional Investors

9:00 – 9:45 **Keynote Interview**
Presidential Ballroom


Ron Burkle
Founder and Managing Partner, The Yucaipa Companies


Moderator:
Patrick O'Neill
EVP, United Food and Commercial Workers International Union

9:45 – 10:45 **Discussion: Hedge Funds and Corporate Governance**
Presidential Ballroom


Daniel Loeb
Founder & CEO, Third Point


Barry Rosenstein
Founder & Managing Partner, JANA Partners


Moderator:
Anne Sheehan
Director of Corporate Governance, California State Teachers' Retirement System

10:45 – 11:15 **Break**
Presidential Foyer

11:15 – 12:15 **Discussion: CIO Roundtable**
Presidential Ballroom


Vicki Fuller
CIO, New York State Common Retirement Fund


Ash Williams
Executive Director & CIO, Florida State Board of Administration


Moderator and Panelist:
David Kushner
CIO, Los Angeles County Employees Retirement Association

12:30 – 1:45 **Luncheon Keynote**
Congressional/Senate

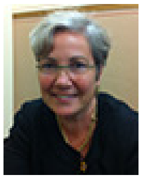

Lord Myners
Chair, Cevian Capital U.K.

2:00 – 3:00 **Breakout Sessions:**

Investing in Infrastructure
South American A/B


Sarah Clark
President & CEO, Partnerships BC


Lois Scott
CFO, City of Chicago

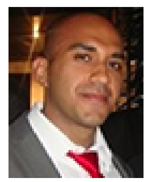

Margaret Tobin
Executive Director, NY Works Task Force


Ted Wheeler
Oregon State Treasurer


Moderator:
Randi Weingarten
President, American Federation of Teachers

Regulatory and Legislative Update
Federal A/B


Thomas Kim
Chief Counsel and Associate Director, Division of Corporation Finance, U.S. Securities and Exchange Commission


Salman Banaei
Counsel, U.S. Commodity Futures Trading Commission


Laura Swanson
Deputy Staff Director, Senate Banking Committee


Moderator:
Greg Smith
Executive Director, Public Employees' Retirement Association of Colorado

3:00 – 3:15 **Networking Break**
Foyer 2 & Upper Lobby

3:15 – 4:00 **Member Meetings**
- Corporate General Members
  Massachusetts Room
- Educational Sustainers, Honorary International Participants
  South American A/B
- Endowment & Foundation General Members
  Ohio Room
- Labor General Members
  Statler A
- Public General Members
  Federal A/B

4:00 – 5:00 **Board Meeting**
Pan American Room

4:30 – 5:00 **New Web Site Demonstration**
Continental Room

5:30 – 6:30 **Reception**
Congressional/Senate Room

Friday, April 19

7:30 – 12:00 **Registration & Member Lounge Open**
Registration: *Capital Terrace*
Member Lounge: *Continental Room*

8:00 – 9:30 **Continental Breakfast**
Presidential Ballroom

8:00 – 9:30 **General Members' Business Meeting and Breakfast**
(Open to CII General Members)
South American A/B

9:45 – 10:45 **Discussion: Does Corporate Governance Add Value?**
Presidential Ballroom

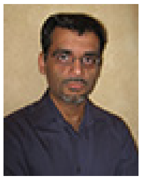

Charles Elson
Edgar S. Woolard, Jr., Chair in Corporate Governance and Director of the John L. Weinberg Center for Corporate Governance, University of Delaware


Lynn Stout
Distinguished Professor of Corporate and Business Law, Jack G. Clarke Business Law Institute, Cornell Law School


Moderator:
Anne Simpson
Senior Portfolio Manager & Director of Global Governance, California Public Employees' Retirement System

10:45 – 11:45 **Discussion: High Frequency Trading – Bane or Blessing for Long-Term Investors**
Presidential Ballroom


Andrew Brooks
VP & Head of U.S. Equity Trading, T. Rowe Price


Manoj Narang
Founder & CEO, Tradeworx


Moderator:
Theresa Whitmarsh
Executive Director, Washington State Investment Board

12:00 – 1:30 **Luncheon Keynote**
Congressional/Senate


John Kay
Visiting Professor, London School of Economics

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Council of Institutional Investors
The Voice of Corporate Governance

Agenda

Register Here!

Wednesday, September 25

Note: Hover over underlined agenda items for more information.

11:30 – 1:00 **Advisory Council Meeting**
(Open to Advisory Council Members Only)
Lake Room

12:00 – 1:00 **Policies Committee Executive Session**
(Open to CII Board Members Only)
LaSalle Room

1:00 – 2:00 **Board of Directors & Advisory Council Lunch**
(Open to CII Board Members & Advisory Council Members Only)
Florentine Restaurant Tasting Table Room

1:00 – 5:30 **Registration**
Randolph Room

1:00 – 7:00 **Member Lounge**
Randolph Room

2:00 – 2:30 **Policies Commitee**
(Open to All CII Members)
Lincoln Room

2:45 – 3:45 **International Governance Committee**
(Open to All CII Members)
Lincoln Room

4:00 – 5:30 **Activism Commitee**
(Open to All CII Members)
Lincoln Room

5:30 – 6:00 **New Members & First-Time Attendees Welcome**
(Open to New Members, First-Time Attendees and Board Members)
Jackson Room

6:00 – 7:00 **Reception & Registration**
(Open to All Conference Attendees)
Burnham Ballroom

Thursday, September 26

8:00 – 5:00 **Registration**
Grand Ballroom Foyer

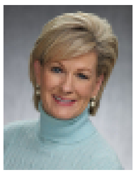
8:00 – 6:30 **Member Lounge**
Randolph Room

8:00 – 8:45 **Audit Committee Meeting**
(Open to CII Board Members Only)
Michigan Room

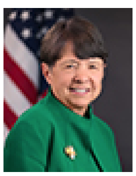
8:00 – 8:45 **Governance Committee Meeting**
(Open to CII Board Members Only)
Kelly Room

8:00 – 9:00 **Continental Breakfast**
Grand Ballroom

9:00 – 9:15 **Welcome**
Grand Ballroom


Anne Sheehan
Chair, Council of Institutional Investors

9:15 – 10:00 **Keynote Speech: SEC Priorities**
Grand Ballroom


Mary Jo White
Chair, U.S. Securities and Exchange Commission

10:00 – 10:45 **Discussion: A Director's Perspective**
Grand Ballroom


Laban Jackson, Jr.
Chair & CEO, Clear Creek Properties & Director, JPMorgan Chase


Moderator: Anne Sheehan
Chair, Council of Institutional Investors

10:45 – 11:15 **Networking Break**
Grand Ballroom Foyer

11:15 – 12:15 **Discussion: CIO Roundtable**
Grand Ballroom


Dan Allen
CIO, State Universities Retirement System of Illinois

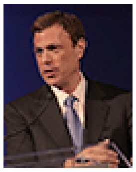

William Atwood
Executive Director, Illinois State Board of Investment


David Villa
CIO, State of Wisconsin Investment Board


Moderator/Panelist: Rome Aloise
International VP, International Brotherhood of Teamsters, and Co-Chair, Investment Committee, Western Conference of Teamsters Pension Trust

12:30 – 1:45 **Luncheon Keynote**
Burnham Ballroom

Michael Beschloss
Presidential Historian & Author



2:00 – 3:00 **Workshops:**

Small/Mid-Cap Active Investing

Madison Room

Michael Levin
Founder, The Activist Investor

Clifton Robbins
Founder & CEO, Blue Harbour Group

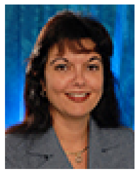
Andrew Shapiro
Founder, President & Portfolio Manager, Lawndale Capital Management

Moderator: Stephen Brown
Senior Director, Corporate Governance & Associate General Counsel, TIAA-CREF

Hedge Fund Governance

Lincoln Room

Matt Auriemma
Principal, HighWater Limited



Yolanda Banks McCoy
Head, Investments and Securities Division, Cayman Islands Monetary Authority

Jeb Burns
CIO, Municipal Employees' Retirement System of Michigan

Moderator: Michael Travaglini
Managing Director, Business Development, Grosvenor Capital Management

3:00 – 3:15 **Networking Break**

3rd Floor Foyer

3:15 – 4:00 **Member Meetings**

- Corporate General Members
Monroe Room
- Educational Sustainers, Honorary International Participants
Madison Room
- Endowment & Foundation General Members
Michigan Room
- Labor General Members
Ogden Room
- Public General Members
Lincoln Room

4:15 – 5:30 **Board Meeting**

LaSalle Room

5:30 – 6:30 **Reception & Registration**

Burnham Ballroom

Friday, September 27

8:00 – 9:30 **General Members' Business Meeting and Breakfast**

(Open to CII General Members)

Burnham Ballroom

9:00 – 12:00 **Registration & Member Lounge Open**

Registration - Grand Ballroom Foyer

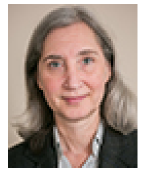
Member Lounge - Randolph Room

9:00 – 9:30 **Continental Breakfast**

(Open to All Conference Attendees)

Grand Ballroom

9:30 – 10:30 **Discussion: Corporate Governance Visionaries**
Grand Ballroom

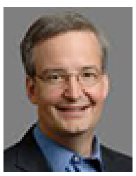

Nell Minow
Co-Owner & Board Member, GMI Ratings


Richard Koppes
Program Fellow, Rock Center for Corporate Governance, Stanford Law School & Senior Advisor, CamberView Partners


Moderator: Michael McCauley
Senior Officer of Investment Programs & Governance, State Board of Administration of Florida

10:30 – 11:00 **Networking Break**
Grand Ballroom Foyer

11:00 – 11:45 **Discussion: Private Equity**
Grand Ballroom


Mark Nunnelly
Managing Director, Bain Capital


Moderator: Theresa Whitmarsh
Executive Director, Washington State Investment Board

12:00 – 1:30 **Luncheon Keynote***
Burnham Ballroom


William Knoedelseder
Journalist, TV News Executive & Author, *Bitter Brew: The Rise and Fall of Anheuser-Busch and America's Kings of Beer*
**There will be copies of the book available for purchase and the author will autograph books before and after his remarks.*

PHOTOGRAPHY AND VIDEOGRAPHY NOTICE: Please note that portions of the conference's events may be recorded by video, audio and/or photographs (the "recordings"), and may be used by CII or its designee, and made available to the public, as part of live, delayed or archived video or audio casts; event transcripts; CII materials or publications; marketing or advertising materials or publications; and other materials or publications, in any media or format now existing or hereafter created. By attending or participating in the conference, you acknowledge and agree that CII may use, reproduce, display, perform and otherwise distribute the recordings, and any portions thereof - including as it may include or feature your name, likeness or biographical information - without any further compensation, permission, or notification to you, and that all recordings captured during the conference or at any of the CII's other events are the exclusive rights of the Council of Institutional Investors.

Building Momentum

CII 2014 Spring Conference | May 7-9, 2014

Marriott Wardman Park

2660 Woodley Road NW, Washington, DC 20008

202.328.2000 | www.marriott.com

WEDNESDAY, MAY 7, 2014

1:00 – 5:00 ***Registration Open***
Atrium Lobby – Exhibition Level

1:00 – 5:00 ***Member Lounge Open***
Jackson – Mezzanine Level

2:00 – 2:15 ***Policies Committee Update***
(Open to All CII Members)
Lincoln 5 – Exhibition Level

2:15– 3:15 ***International Governance Committee***
(Open to All CII Members)
Lincoln 5 – Exhibition Level

3:30– 5:00 ***Activism Committee***
(Open to All CII Members)
Lincoln 5 – Exhibition Level

5:15– 7:00 ***Reception & Registration***
(Open to All Conference Attendees)
National Zoo
Elephant Community Center
(Transportation Provided)

THURSDAY, MAY 8, 2014

8:00 – 5:30 ***Registration***
Thurgood Marshall Ballroom West Salon Foyer – Mezzanine Level

8:00 – 7:00 ***Member Lounge Open***
Jackson – Mezzanine Level

8:00 – 9:00 ***Continental Breakfast***
Thurgood Marshall Ballroom – Mezzanine Level

THURSDAY, MAY 8, 2014 (Continued)

9:00 – 9:15 ***Welcome***
Anne Sheehan, Chair, Council of Institutional Investors
Thurgood Marshall Ballroom – Mezzanine Level

9:15 – 10:00 ***Insights: Economic Overview***
Beth Ann Bovino, U.S. Chief Economist, Standard & Poor's Ratings Services
Moderator: **Anne Sheehan**, Chair, Council of Institutional Investors
Thurgood Marshall Ballroom – Mezzanine Level

10:00 – 10:30 ***Update: U.S. Securities Regulation***
Kara M. Stein, Commissioner, U.S. Securities and Exchange Commission
Thurgood Marshall Ballroom – Mezzanine Level

10:30 – 11:00 ***Networking Break***
Atrium – Exhibition Level

11:00 – 12:15 ***Workshop 1: Director Perspectives***
Gilbert F. Casellas, Director, Prudential Financial
Margaret M. Foran, Director, Occidental Petroleum and Chief Governance Officer, Prudential Financial
Moderator: **Suzanne Hopgood**, CEO & President, The Hopgood Group
Lincoln 2-4 – Exhibition Level

11:00 – 12:15 ***Workshop 2: Shareholder Collaboration***
Catherine Jackson, Senior Advisor, Responsible Investments, PGGM Investments
Aeisha Mastagni, Investment Officer, California State Teachers' Retirement System
Meredith Miller, Chief Corporate Governance Officer, UAW Retiree Medical Benefits Trust
Moderator: **Linsey Schoemehl**, General Counsel & Chief Compliance Officer, Illinois State Board of Investment
Lincoln 5 – Exhibition Level

12:30 – 1:45 ***Luncheon Keynote***
Michael Useem, Co-Author of *Boards That Lead*, Author of *Investor Capitalism* and *The Leadership Moment*, and Professor of Management and Director of the Center for Leadership and Change at the Wharton School of the University of Pennsylvania
Thurgood Marshall Ballroom – Mezzanine Level

1:45 – 2:15 ***Coffee Break and Book Signing***
Michael Useem, Co-Author of *Boards That Lead*
Thurgood Marshall Foyer – Mezzanine Level

2:15 – 3:00 ***Perspectives: US State Treasurers***
Janet Cowell, Treasurer, North Carolina
The Honorable **Nancy K. Kopp**, Maryland State Treasurer
Moderator: **Gail Stone**, Executive Director, Arkansas Public Employees Retirement System
Thurgood Marshall Ballroom – Mezzanine Level

THURSDAY, MAY 8, 2014 (Continued)

3:00 – 3:15 ***Networking Break***
Thurgood Marshall Ballroom Foyer- Mezzanine Level

3:15 – 4:30 ***Member Meetings***

- Corporate General Members – Congressional – Lobby Level
- Educational Sustainers, Honorary International Participants – Lincoln 6 – Exhibition Level
- Endowment & Foundation General Members – Taylor –Mezzanine Level
- Labor General Members – Wilson ABC – Mezzanine Level
- Public General Members – Lincoln 5 – Exhibition Level

4:30 – 6:00 ***Member-Hosted Session: Broadridge Financial – Regulatory Update***
(Open to All CII Members)
Maryland A/B – Lobby Level

4:30 – 5:30 ***Member-Hosted Session: GMI Ratings, iiWisdom, CalSTRS, CalPERS – Board Diversity- Why Investors Should Care***
(Open to All CII Members)
Maryland C – Lobby Level

4:30 – 5:30 ***Member-Hosted Session: LIUNA- U.S. Energy Renaissance: Mixed Investment Outcomes, Focus on the Willbros Group***
(Open to All CII Members)
Virginia C – Lobby Level

6:00 – 7:00 ***Reception & Registration***
East Lawn, Atrium as backup – Lobby Level

FRIDAY, MAY 9, 2014

7:00 – 8:00 ***Member-Hosted Session: Principles for Responsible Investing***
(Open to All CII Members)
Wilson A – Mezzanine Level

8:00 – 9:15 ***General Members’ Business Meeting & Breakfast***
(Open to CII General Members)
Madison – Mezzanine Level

9:00 – 12:00 ***Registration & Member Lounge Open***
Thurgood Marshall Ballroom West Salon Foyer- Mezzanine Level
Jackson – Mezzanine Level

9:00 – 9:30 ***Continental Breakfast***
(Open to all Conference Attendees)
Thurgood Marshall Ballroom – Mezzanine Level

FRIDAY, MAY 9, 2014 (Continued)

9:30 – 10:15 ***Perspectives: Activist Investing***
Edward P. Garden, CIO & Founding Partner, Trian Fund Management, L.P.
Moderator: **Anne Sheehan**, Chair, Council of Institutional Investors
Thurgood Marshall Ballroom – Mezzanine Level

10:15 – 11:15 ***Shareowner Perspectives: Activism***
Michael Garland, Assistant Comptroller for Environmental, Social and Governance, Office of New York City Comptroller Scott M. Stringer
Zach Oleksiuk, Head of Corporate Governance for the Americas, BlackRock
TerriJo Saarela, Corporate Governance Officer, State of Wisconsin Investment Board
Moderator: **Patrick S. McGurn**, Executive Director & Special Counsel, Institutional Shareholder Services
Thurgood Marshall Ballroom – Mezzanine Level

11:15 – 11:30 ***Networking Break***
Thurgood Marshall Ballroom Foyer – Mezzanine Level

11:30 – 12:15 ***The Future of Finance***
John Rogers, CFA, President & CEO, CFA Institute
Thurgood Marshall Ballroom – Mezzanine Level

12:30 – 1:30 ***Networking Buffet Luncheon***
Thurgood Marshall Ballroom – Mezzanine Level

CII Fall 2014 Conference

September 29 – October 1 | Millennium Biltmore Hotel
506 South Grand Avenue, Los Angeles, CA 90071
213.624.1011 | www.millenniumhotels.com

MONDAY, SEPTEMBER 29

1:30 – 4:00 ***Member-Hosted Meeting***
Hosted by LA Trustees Network: Why and How We Manage Investment Costs at Pension Funds
Corinthian Room – Mezzanine Level

1:30 – 3:30 ***Member-Hosted Meeting***
Hosted by PRI & ISS: Getting the Right People on the Board – How Can Investors Improve the Director Nomination Process?
Bernard Room – Galeria Level

3:30 – 5:00 ***Registration and Member Lounge Open***
Registration – Biltmore Bowl Foyer
Member Lounge – Heinsbergen Room – Galeria Level

4:15 – 5:00 ***Exploring U.S. Market Structure***
Brad Katsuyama, President & Chief Executive Officer, IEX Group
Moderator: Jay Chaudhuri, General Counsel & Senior Policy Advisor to the State Treasurer, North Carolina Retirement Systems
Via Remote Studio
Biltmore Bowl

5:00 -5:30 ***New Member/First Time Attendee Reception***
Moroccan Room – Mezzanine Level

5:15– 6:30 ***Reception***
Crystal Ballroom – Galeria Level

TUESDAY, SEPTEMBER 30

8:00– 8:30 ***Continental Breakfast***
Biltmore Bowl

8:00 – 5:00 ***Registration & Member Lounge Open***
Registration – Biltmore Bowl Foyer
Member Lounge – Heinsbergen Room – Galeria Level

8:30 – 8:45 ***Welcome***
Jay Chaudhuri, Chair, Council of Institutional Investors

Biltmore Bowl

TUESDAY, SEPTEMBER 30 (Continued)

8:45 – 9:30 ***Constructivist Investing***
G. Mason Morfit, President, ValueAct Capital
Biltmore Bowl

9:30 – 10:30 ***Panel Discussion: IPO and Silicon Valley Governance***
Anne Chapman, VP of Capital Research and Management, Capital Group
F. Daniel Siciliano, Faculty Director, Arthur and Toni Rembe Rock Center for Corporate Governance, Stanford Law School
Anne Simpson, Senior Portfolio Manager & Director of Global Governance, California Public Employees' Retirement System
Moderator: Donna Anderson, VP & Global Corporate Governance Analyst, T. Rowe Price
Biltmore Bowl

10:30 – 11:00 ***Networking Break***
Biltmore Bowl Foyer

11:00 – 12:00 ***Panel Workshops***

Understanding the Legal Landscape
Vincent Cappucci, Founding Partner & Head, Securities Litigation Practice, Entwistle & Cappucci
Stacey Slaughter, Partner, Robins, Kaplan, Miller & Ciresi
Joseph Tabacco, Partner, Berman DeValerio
Moderator: Brian Bartow, General Counsel, California State Teachers' Retirement System
Gold Room – Galeria Level

Managing Asset Manager Fees
David Kushner, CIO, Los Angeles County Employees Retirement Association
Girard Miller, CIO, Orange County Employees' Retirement System
Timothy Stark, Director, Investments, Casey Family Programs
Moderator: Liz Smith, Senior Managing Director, Public Funds, AllianceBernstein
Emerald Room – Galeria Level

12:15 – 1:30 ***Luncheon Keynote: Thinking Long Term***
Tim Koller, Partner, McKinsey
Biltmore Bowl

1:30 – 2:00 ***Networking Break***
Biltmore Bowl Foyer

TUESDAY, SEPTEMBER 30 (Continued)

2:00 – 3:00	***Perspectives of State Treasurers*** **Bill Lockyer**, California State Treasurer **Jim McIntire**, Washington State Treasurer **Ted Wheeler**, Oregon State Treasurer **Moderator: Henry Jones**, Board Member, California Public Employees' Retirement System Biltmore Bowl
3:00– 4:00	***Constituency Meetings*** Labor General Members' Meeting – Roman Room – Mezzanine Level Public General Members' Meeting – Gold Room – Galeria Level Corporate General Members' Meeting – Tiffany Room – Mezzanine Level Endowment General Members' Meeting – Moroccan Room – Galeria Level Educational Sustainers Members and Honorary International Participants' Meeting – Corinthian Room – Mezzanine Level
4:00 – 5:30	***Member- Hosted Meeting*** ***Hosted by CalPERS, CalSTRS, New York City Pension Funds and North Carolina Retirement Systems: Board Diversity – New Initiatives*** Emerald Room – Galeria Level
5:30 – 7:00	***Reception*** Crystal Ballroom – Galeria Level

WEDNESDAY, OCTOBER 1

8:00– 12:30	***Registration and Member Lounge Open*** Registration – Biltmore Bowl Foyer Member Lounge – Heinsbergen Room – Galeria Level
8:00 – 9:15	***General Members' Business Meeting & Breakfast*** Gold Room – Galeria Level
8:45 – 9:15	***Continental Breakfast*** Biltmore Bowl
9:30 – 9:45	***Policies Committee Update*** **Meredith Miller**, Chief Corporate Governance Officer, UAW Retiree Medical Benefits Trust Biltmore Bowl

WEDNESDAY, OCTOBER 1 (Continued)

9:45 – 10:45 ***International Governance Committee: Focus on Emerging Markets***

James Donald, Managing Director/Portfolio Manager, Lazard Asset Management
David Loevinger, Managing Director, Emerging Markets Group, TCW
Mike Lubrano, Co-Founder & Managing Director, Corporate Governance, Cartica Management
Moderator and Committee Co-Chair: John Barger, Trustee, Los Angeles County Employees Retirement Association
Biltmore Bowl

10:45 – 11:00 ***Networking Break***

Biltmore Bowl Foyer

11:00 – 12:30 ***Activism Committee: Focus on the Activism Landscape***

Con Hitchcock, Principal, Hitchcock Law Firm
Aeisha Mastagni, Investment Officer, California State Teachers' Retirement System
Meredith Miller, Chief Corporate Governance Officer, UAW Retiree Medical Benefits Trust
Moderator and Committee Co-Chair: Michael Garland, Assistant Comptroller, New York City Comptroller's Office
Moderator and Committee Co-Chair: John Keenan, Corporate Governance Analyst, AFSCME
Biltmore Bowl

12:30 – 1:30 ***Networking Buffet Lunch***

Biltmore Bowl

SANTA BARBARA COUNTY
EMPLOYEES' RETIREMENT SYSTEM

3916 State Street, Suite 210
Santa Barbara, CA 93105

Phone (805) 568-2940
Fax (805) 560-1086

Oscar Peters
Retirement Administrator

http://www.countyofsb.org/sbcers/

AGENDA ITEM # _________

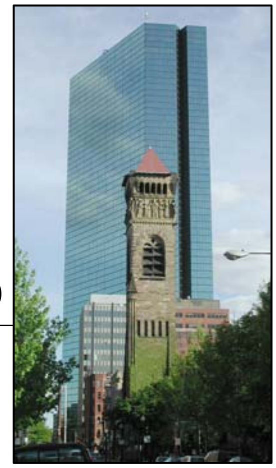
AGENDA DATE: November 17, 2004

PREPARED ON: November 3, 2004

TO: Board of Retirement

FROM: Oscar Peters & Donald Kendig, Trustees

SUBJECT: Report from CII's Annual Fall Meeting, Held September 2004



(Hancock Building, Boston)

Recommendation:
That the Retirement Board accepts and files this report.

Executive Summary and Discussion:
Oscar Peters and Donald Kendig attended the 3-day meeting in Boston. A brief summary of events precedes a more detailed discussion. Accompanying this report is also a Members Manual that gives a great overview of the organization and what it has to offer (Publications, On-Line Member-Only Services, and Council Meetings). In addition to offerings outlined in the manual, it was emphasized that the best way to realize value from membership was to forward System questions to Council staff for research and resolution.

Summary of Events

Sunday, 09/26/04

- New member orientation

Monday, 09/27/04

- Senator Bob Kerry on Terrorism and Global Security Information for Investors.
- HealthSouth Chairman of the Board and Former Interim-CEO, Robert May, on How a Board Responds to Major Fraud.
- Graef (Bud) Crystal on Executive Compensation Heroes and Anti-Heroes
- Due Diligence and Manager Hiring/Monitoring Changes in Light of Recent Frauds Panel Discussion.
- Soft Dollars

Tuesday, 09/28/04

- Council Business Meeting and Vote on 2005 Policy Focus and Budget
- SEC Commissioner Cynthia Glassman on Market Structure Issues
- Market Structure Issues Panel with Questions and Answers
- Former Disney Director Andrea Van de Kamp on CEO/Board Dynamics
- Council Annual Meeting for Operational and Policy Feedback and Discussion

Detail of Events

Sunday, 09/26/04

- New member orientation

  There are three meetings a year encapsulated in two conference dates. Fall has the Business meeting with policy and budget adoption and the Annual meeting for members to voice concerns and provide feedback to staff on operations. Spring has the Business meeting to elect board members and officers and report on activities.

  <u>Council decisions are not binding on members</u>, who may have dissenting views. The Council offers a collective voice, focusing on corporate governance issues, which is very strong in light of the Breadth and diversity of its members. Direct benefits of membership are hard to quantify, except when forwarding member questions to Council staff for research and resolution. <u>Benefits are received when the Council is successful at implementing industry wide policies and regulations that improve corporate governance</u> and "raise the market performance" above what would take place absent the Council.

Monday, 09/27/04

- Senator Bob Kerry on Terrorism and Global Security Information for Investors.

  Highlighted key findings of the 9/11 commission. The market's sensitivity terrorism and security alerts is becoming muted, but concluded that there is substantial danger by radicals who do not want globalism.

- HealthSouth Chairman of the Board and Former Interim-CEO, Robert May, on How a Board Responds to Major Fraud.

  Monetarily speaking, it was a thankless job; however, the personal rewards of turning around the corporate culture of the company, saving it from extinction, and protecting the employees, physicians, patients, & investors is immeasurable.

  Mr. May advocated hiring the best professional consultants attainable and facing problems head on. Honesty with, and participation by, all involved was essential to the success of the turnaround. He also emphasized that the health and welfare or patients were never in danger; however, they may have lost this resource and the staff and physicians would have been out of work.

  Lastly, May imparted 8 lessons from his experience: 1.) Good governance is good business, 2.) Good governance can be the lever of change, 3.) If leadership's focus is on employees and customers, investors will benefit, 4.) Corporate governance, good or bad, reflects the specific corporate culture, 5.) While a board or management cannot absolutely protect against fraud, it can influence the environment so that fraud cannot take root, 6.) Control the things you can control, 7.) Crisis response is separate and different from running a business, and 8.) Hire the best and the brightest, but know that their agendas and views may conflict, and the Board needs to stay in control.

- Graef (Bud) Crystal on Executive Compensation Heroes and Anti-Heroes
  Mr. Crystal gave a witty and cynical presentation of Executive Compensation in America. For every rule the SEC puts forth there are several creative executives scheming to skirt them. He gave examples of compensation packages that work and packages that don't. There is a push for making pay for performance a reality, but getting there will be an uphill battle. He also debunked the findings of numerous studies related to executive compensation. One was that male executives earn 24% more than female executives. Upon closer look, the real problem is that there are not nearly enough female executives. Female executives are being compensated equitably well (or dysfunctionally, depending on how you look at it).
- Due Diligence and Manager Hiring/Monitoring Changes in Light of Recent Frauds Panel Discussion (breakout attended by Donald).

  The panel emphasized the importance of due diligence site visits and questionnaires. They did; however, disagree on who should perform the site visits. Milwaukee ERS has Trustees attend the full day site visits and sees it as a way to provide quality, hands-on, training and exposure to the structure and operation of investment management organizations. Texas ERS, countered that they felt it was best handled by system staff. A number of managers in the audience concurred with Texas stating that it reduces confusion of who to answer to. Apparently having trustees attend clouds who should be satisfied with the visit. Donald's thought is that everyone should be comfortable after the visit. Everyone agreed that it is an essential verification of what was presented at the interview and on the RFP response.

  One panel member advocated the benefits of fast termination clauses. Another panel member indicated how the site visit changes the outcome of the initial decision to hire an investment manager. Lastly, due diligence visits of the consultants, of systems that rely heavily on their services was recommended.

  In SBCERS' case, if we are not going to provide direct due diligence of our managers, we need to be embarking on due diligence with our consultants (our agents). The frequency and depth of the due diligence is open to debate.
- Soft Dollars The panel provided a history of soft dollars.

  Based on current commissions of five cents per share there were about seven billion dollars of soft dollars available to be used each year. Most of this is not accounted for and used in ways that are not closely audited. The primary focus of the presentations was on how to address this issue. One of the problems is that neither the brokerage community nor the investment managers have an economic incentive to change. Second is that while the SEC does a periodic audit of managers use of soft dollars, it uses a liberal interpretation of the law allowing for any research or research like services. A narrow interpretation would significantly reduce the availability of soft dollars. Another suggestion was that whenever a plan sponsor entered a contract with a new manager the fee would have an offset provision for the amount of soft dollars the manager used from the commissions paid by the sponsor. The other option would be for sponsors to pay a higher fee and prohibit the use of soft dollars by its investment managers. The chairman of MFS presented his firm's position on soft dollars. He noted that they directly paid multiple millions of dollars for services which using a liberal interpretation of the law his competitors were purchasing with soft dollars. While his firm did get a slight performance benefit because they saved two or three cents per share, the performance enhancement benefited the sponsor more than the firm. During the question an answer period it was suggested that the soft dollars available was grossly over estimated because in the current environment much of the trading is being done by hedge funds that trade at the lowest cost or through programs where the commission is risk spread amount. One of the other comments was that the availability of soft dollars let emerging manager firms compete with large well capitalized firms by giving them access to research that they could not purchase from their operating budget. Finally it was brought out that plan sponsor need to be more aware of the use of soft dollars in their fund both internally and by the outside investment managers. In fact, the GFOA certificate of achievement checklist requires reporting commissions paid and soft dollars or commissions recaptured.

Tuesday, 09/28/04

- Council Business Meeting and Vote on 2005 Policy Focus and Budget

  The policy focus for 2005 will be the requirement of <u>independent board chairs/lead directors</u>, corporations' alignment with the Councils policies on <u>reasonable executive compensation</u>. Membership <u>dues will stay flat</u> relative to 2004. <u>Reserves are healthy</u> at $5.5 million at the end of 2003. Substantial reserves are intended as litigation costs have the potential to spike in any given year as a result of defending a policy or enforcing a policy.
- SEC Commissioner Cynthia Glassman on Market Structure Issues

  The SEC is currently reviewing three market structure rules.
  - The trade through rule
  - The fees for access to electronic communications networks (ECN's)
  - The revenue sharing rules for the self regulating organizations

  The trade through rule was established to protect all participants in the market. It requires that every trade of listed securities cross the exchange and trade through the exchange at the listed counter party offer for the position. Because counter party positions may not match the size of the order managers are placing the trade through rule requires breaking a trade into components, and may delay execution. In addition the establishment of NASDAC and other electronic trading networks makes this rule obsolete. Therefore institutional traders are requesting that they be allowed to opt out of the trade through rule. On trades that they opt out of they can execute at a price other than the exchange listed price.

  ECN's are communications networks. They currently offer a subscriber access fee. However, smaller traders that do not have the volume can not afford the access fee therefore large institutional traders have a significant price advantage. The SEC is considering a different fee structure.

  The various market regulatory groups capture data and sell it to third party vendors. The SEC is being asked to review the revenue sharing arrangements.

  Ms. Glassman speaking on her own behalf believed that the opt out provisions would be allowed in some form. She did not believe it was the SEC's place to set fees for ECN's or to decide how the agencies would share the revenue from the data that they capture.

Tuesday, 09/28/04 – continued

- Market Structure Issues Panel with Questions and Answers

  This panel looked at the future structure of the markets from the perspective of two members currently participating in electronic trading businesses. Steve Wallman is a former SEC commissioner that had been involved in moving market quotes from 1/8ths to decimals. This narrowed the bid ask spread reduced profits for specialists and brokers trading as principals in the transaction. He suggested that small investors going through a traditional brokerage continue to be disadvantaged. Therefore in the future developing trading tools that allowed small investors to build diversified portfolios with less cost would greatly increase market efficiency. The president of Instinet discussed the progress being made in improving electronic trading technology and suggested that the major exchanges were going to have to establish electronic networks to continue to compete. The biggest hurtle going forward would be regulatory agencies as the established exchanges to protect their business model.

- Former Disney Director Andrea Van de Kamp on CEO/Board Dynamics

  Mrs. Kamp shared her interesting story how she became a Disney Director and how she left. As part of her story, she shared how <u>one CEO can destroy a company and erode what it stands for</u>. She also gave a glimpse of how a typical Corporate Board of Directors operates (with Disney not being so atypical). It was almost scary, what she went through.

  Mrs. Kamp was the one and only trustee that would question what the CEO and management placed before the Board. She equated it to being on the freeway, going the right direction, with everyone else driving in the opposite. She encouraged trustees to keep driving the right direction and to <u>speak up when things to not seem right, even in the face of adversity, and the majority</u>.

- Council Annual Meeting for Operational and Policy Feedback and Discussion

  The subject matters of discussion involved how to best structure meetings, how to coordinate vendor participation, and many other organization issues. Both Donald and Oscar's perspective is that <u>CII is going through a stage of Growth that SACRS had experienced many years earlier</u>. The maturing process will probably involve growing pains; however, since many members of CII are also members of SACRS, that experience will most likely transfer over to the younger CII organization.

  Donald requested that CII staff consider providing performance and activity indicators as part of the budget process. If there is ever a time when to programs would be competing for the same dollars, members could make an informed decision on which to fund.

Conclusion

The event was informative and thought provoking. While it is difficult to put a dollar amount on the direct benefits received, we recommend continued membership at this time.

After the spring meeting, and during our one-year review, Donald and Oscar will come back to the Board with a report on the cost of membership and attending the meetings. In conjunction with the report, trustees can discuss their opinions of the publications and on-line content. Also, the Board may decide to cancel the membership or continue the membership with or without the intent of attending the meetings.

The difference between managers and leaders is, doing things right and doing the right things.

-Robert May

<u>Accompaniment</u>:

Council of Institutional Investors Members' Manual, September 2004

SANTA BARBARA COUNTY
EMPLOYEES' RETIREMENT SYSTEM

3916 State Street, Suite 210
Santa Barbara, CA 93105

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Oscar Peters
Retirement Administrator

http://www.countyofsb.org/sbcers/

AGENDA ITEM # _________

AGENDA DATE: May 4, 2005

PREPARED ON:	April 23, 2005
TO:	Board of Retirement
FROM:	Donald Kendig, Trustee
SUBJECT:	Report from the Council of Institutional Investors Spring Meeting (20th Anniversary) April 10 to 12, 2005

Washington D.C. Cherry Blossoms

Recommendation:
That the Retirement Board accepts and files this report.

Executive Summary and Discussion:
The Council of Institutional Investors (CII) is an organization of large public, labor and corporate pension funds which seeks to address investment issues that affect the size or security of plan assets. Its objectives are to encourage member funds, as major shareholders, to take an active role in protecting plan assets and to help members increase return on their investments as part of their fiduciary obligations.

Founded in 1985 in response to controversial takeover activities that threatened the financial interests of pension fund beneficiaries, the group began with 20 member funds. Today the Council has over 140 pension fund members whose assets exceed $3 trillion, and more than 130 educational sustainers. CII is recognized as a significant voice for institutional shareholder interests.

Oscar Peters and Donald Kendig attended the 3-day CII meeting and conference at Washington, D.C. The *summary of events* puts what was attended in a timeline. (Both Donald and Oscar attended, unless otherwise noted.) The *detail of events* heads a report written by CII, which is included by permission.

Summary of Events

Sunday, 04/10/05

- Activism Committee Meeting. Donald is not an official committee member, but was welcomed to attend.
- Defined Benefit – Defined Contribution Issues. Donald attended.
- 20th Anniversary Gala Reception and Dinner.

Monday, 04/11/05

- 20th Anniversary in Review
- Harvey J. Goldsmid, SEC Commissioner

Monday, 04/11/05 (cont'd)

- SEC Staff Panel
- Lunch Keynote Speaker: Jack Bogle, Founder, Vanguard.
- Workshops: Executive Pay Activism. Oscar and Donald did not attend.
  Climate Change Issues for Investors. Oscar attended.
  International Corporate Governance Issues. Donald attended.
  Health Care Issues for State and Local Governments. Oscar and Donald did not attend.
- General Member Constituency Meetings (Labor, Public, and Corporate). Donald and Oscar attended the Public Member meeting.

Tuesday, 04/12/05

- General Members' Business Meeting and Breakfast
- The Honorable Jack Jacobs, Justice, Delaware Supreme Court.
- Panel Discussion: What's next for Corporate Governance?
- Lunch Keynote Speaker: William J. McDonough, Chairman, Public Company Accounting Oversight Board (PCAOB).

Detail of Events

ALERT

COUNCIL RESEARCH SERVICE

Volume 10 No. 12 April 22, 2005

1730 Rhode Island Ave. NW, Suite 512, Washington, DC 20036
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Editor: Peg O'Hara (peg@cii.org)

ISSUE: IN THIS ISSUE: A summary of the Council's 20th anniversary meeting is attached.

WITH SPEAKERS PRAISING ITS ACCOMPLISHMENTS in improving corporate governance in the U.S. and warning about the hard road and pitfalls ahead, the Council celebrated its 20th anniversary in style at its spring meeting in Washington April 10-12.

The meeting, held amid cherry blossoms at the Mandarin Oriental Hotel, featured a gala anniversary dinner, sessions with SEC staffers, workshops on key governance and investment issues and a sometimes touchy discussion of issues between top business and shareholder representatives.

Featured speakers included Council co-founder Jay Goldin; SEC Commissioner Harvey Goldschmid; Jack Bogle, founder of the Vanguard Group; Delaware Supreme Court Justice Jack Jacobs and William J. McDonough, chairman of the Public Company Accounting Oversight Board.

At their business meeting, Council members elected new [directors and] officers [(Officers are: Chair—Jack Ehnes (California State Teachers' Retirement System); Co-Chairs—William Boarman (CWA/ITU Negotiated Pension Plan), Peggy Foran (Pfizer Retirement Annuity Plan), Coleman Stipanovich (State Board of Administration of Florida); Secretary—Bruce Raynor (UNITE HERE National Retirement Fund); Treasurer—Gail Stone (Arkansas Public Employees Retirement System). Directors are Mary Collins (The District of Columbia Retirement Board), Peter Gilbert (Pennsylvania State Employees' Retirement System), Benny Hernandez (Sheet Metal Workers' National Pension Fund), Richard Metcalf (LIUNA Local Union & District Council Pension Fund), Kathy-Ann Reissman (Employees Retirement System of Texas), Cynthia Richson (Public Employees Retirement System of Ohio), Shelley Smith (LACERS-Los Angeles City Employees' Retirement System), Meredith Williams (Public Employees' Retirement Association of Colorado) and Susan Wolf (Schering-Plough Employees' Savings Plan).]; adopted a new policy calling for corporate directors to be elected by majority rather than plurality votes; and approved a statement and action plan in support of defined benefit pension plans, which are now under attack in a number of states. All actions were taken by unanimous voice votes. (See details below.)

SPEAKERS ADDRESSED A WIDE RANGE OF ISSUES, but three topics were prominent in formal and informal discussions: the unity among Council members in standing up for shareowner rights and good corporate governance; concerns over board accountability and excessive executive pay; and the question of how much, or how little, has changed since passage of the Sarbanes-Oxley Act of 2002.

Jay Goldin led off the meeting by noting that when the Council began, the founders agreed that for it to succeed in harnessing the collective voting power of pension funds to "recapture the prerogatives of owners for owners," it had to focus on "issues that would unite members—the core issues of shareholder democracy and corporate governance—and leave other issues, such as social issues and labor issues, outside." Consensus and unity on the Council's central agenda of corporate governance issues will continue to keep the Council strong, he said.

While the main issues of the 1980s and '90s—greenmail, one share one vote, poison pills—have properly given way to newer concerns, such as executive compensation, director independence and majority voting, the former New York City comptroller urged Council members to keep fighting to improve corporate governance and, quoting Winston Churchill, to "never give up, never, never, never."

VANGUARD FOUNDER JACK BOGLE HAILED THE COUNCIL as a true pioneer for shareowner rights and corporate governance. Tracing the sea change in share ownership from the 1930s, when there were no institutional owners, to the present, when institutions hold 66 percent of all stocks, Bogle noted the special role pension plan fiduciaries play as active owners of public companies. In contrast to private funds and mutual funds, which have been largely passive, public and union funds have led the corporate governance movement and fought to hold down administrative costs of ownership and trading, he said.

Bogle urged all funds to exercise their rights and responsibilities as owners: vote their shares, communicate with boards, prevent corporations from being looted by their executives, and take the lead in promoting good corporate governance. Shareowners should have fair access to the company's proxy to nominate directors, he added. And they should try to get mutual funds to follow their lead.

Managers of private and mutual funds have the same fiduciary obligation as public funds to manage plan assets solely in the interest of plan participants, but they don't, Bogle said, because of conflicts of interest. He warned public and labor funds not to fall into the same trap. Since they are subject to the control of legislatures, elected officials and unelected managers, they are not immune from conflicts of interest, he said. He also said that, in his view, active investors should not undercut their public support and thus jeopardize progress in corporate governance by engaging in controversial activities such as recent campaigns against Safeway directors, Warren Buffett and Social Security reform.

SEC COMMISSIONER HARVEY GOLDSCHMID WORRIED about corporate pushback on post-Enron reforms, and particularly on issues that will face the SEC after he leaves the Commission this summer.

Goldschmid said he believes that proxy access—"the single most dramatic way to improve corporate governance in the U.S."—is not dead, though it currently is stalled at the SEC because of opposition from business groups. He said the blockage "represents the worst instincts of the CEOs of the U.S." He hopes for a breakthrough before he leaves, but in any event, he said, he expects it to succeed ultimately because CEOs will not be able to defend the current system for long. He said the SEC's original proxy access proposal ran into problems because of its complexity, but added that he could support a simpler version and that complaints by business that boards would be open to capture by special interests are "absurd."

Goldschmid said he is concerned about the adequacy of future budgets for the SEC and advised investors to keep an eye on its resources. He also said he is concerned about partisanship on the commission, and urged Council members to insist on a new commissioner who is independent and will work well with Chairman William Donaldson.

Goldschmid reviewed the huge rise in the number and size of enforcement actions taken by the SEC since passage of the Sarbanes-Oxley Act, which gave the agency new tools and powers of enforcement. He said penalties, both civil and criminal, "must sting" if they are to serve as a deterrent to wrongdoing, but he said the SEC must strive not to frighten good people away from becoming directors or interfere with corporate risk-taking.

BUSINESS AND SHAREOWNER REPRESENTATIVES ENGAGED in a highly charged discussion of corporate governance issues during a panel moderated by *The Wall Street Journal*'s Joann Lublin. Two issues dominated the discussion: Has anything changed in corporate governance since passage of the Sarbanes-Oxley Act? And what is the proper role of business executives and pension plan fiduciaries with regard to various economic and social issues?

The business spokesmen—Business Roundtable president John J. Castellani and U.S. Chamber of Commerce president and CEO Thomas J. Donohue—generally argued that substantial reforms have taken place, with their groups working together to restore public confidence in business and business ethics. Castellani cited increases in the number of independent directors and shortened CEO tenure as evidence that a lot has changed. He and Donohue said no more laws or rules are needed and warned against discouraging qualified individuals from serving on boards or deterring entrepreneurship. Donohue said due process is being "thrown out the window" when the SEC settles cases without ever proving alleged violations, and suggested "labor and other special interests" are using the proxy process to engage in "rampant activism on social issues that do not benefit shareholders."

The shareholder representatives—AFL-CIO associate general counsel Damon Silvers and Relational Investors principal Ralph Whitworth—strongly disagreed that much reform has actually occurred in corporate America. The issue isn't whether directors meet someone's definition of independence, Silvers said (what is needed is "psychological independence" from the CEO, he said) or whether average CEO tenure has fallen; without proxy access, shareowners still don't have the ability to hire and fire directors to hold them accountable and to affect the direction of a company.

The real issue today is the political attack on the governance reforms that have already been made, Silvers warned. Sarbanes-Oxley, internal controls, option expensing and shareholder rights all are under attack, he said, and the business groups have fought them every step of the way.

Whitworth agreed that post-Enron reforms haven't really changed much. He said directors should be called shareowners' representatives, although there are many indications, such as skyrocketing executive pay, that they don't think of themselves as such. He said shareholders already have the tools to change corporations, by "putting directors on the hot seat." He suggested "making a list of directors you won't vote for, write them a letter, go to see them, look at directors who served on Enron and other bad companies and over time get rid of them." He also noted that it is easy for a company to adopt a proxy access bylaw or charter amendment, so shareholders should push for them to do so.

DELAWARE SUPREME COURT JUSTICE JACK JACOBS focused on three governance issues that may come before the Delaware courts in the next year: directors' fiduciary duty of good faith—an area that didn't exist until the last 10 years; the question of whether state courts are an appropriate forum for challenging executive compensation; and director independence and director and officer liability. The courts can only act if cases are brought to the courts for decision, he noted.

Good faith has broader boundaries than the duty of loyalty, which mostly covers self-dealing, and the duty of care, which covers gross negligence, Jacobs said. It applies to the need for a director to monitor activities and be informed before making decisions, and has become the basis for lawsuits, including the pending Disney/Ovitz litigation, in part because most corporations protect directors from financial risk related to the duty of care while those guilty of good-faith violations are not entitled to have the company pay their legal costs.

As for executive compensation, also an issue in the Disney case, Jacobs said the courts are an appropriate place to decide if the process of determining executive compensation was right but not to decide the level of pay. The history of Delaware court cases under the “business judgment rule” is that the court will not second-guess on the substance unless there is clear evidence of waste, but concern over the process is a legitimate concern of the courts, Jacobs said.

On the issue of director independence, Jacobs noted that until recently, a bright line was used to define it: whether directors were beholden to the corporation. But since the *Oracle* case, Delaware courts have held that directors can be judged as not independent based on non-financial ties, such as ties to non-profits or university foundations that can impair impartiality. The courts are looking at a wider definition of independence, which has arisen in special litigation committees investigating derivative shareowner complaints at Oracle and at Martha Stewart Living Omnimedia.

Jacobs noted that the issue of how to amend Delaware law to accommodate majority vote requirements for directors is under consideration by an American Bar Association task force headed by former Delaware Supreme Court Justice Norman Veasey. On shareowner access to the proxy, he emphasized that the issue could be resolved by amending state law. He said he viewed the SEC proposal as too complexly worded and unable to generate a national consensus.

DESPITE PASSAGE OF THE SARBANES-OXLEY ACT, which aimed to clean up the corporate scandals of 2001-2002, problems still exist in U.S. corporations, said William McDonough, chair of the Public Company Accounting Oversight Board. He compared the two-year-old agency with the 20-year-old Council by emphasizing their shared goal of maintaining investor confidence.

Sarbanes-Oxley created the PCAOB, an independent, private-sector regulatory agency, to oversee auditors and protect investors’ interests. The agency has registered 1,486 accounting firms, about two-thirds from the U.S. and one-third from abroad. McDonough said the PCAOB will engage in regular inspections of audit firms to ensure they are using best practices and “doing the right thing.” Obvious flags that will draw attention are deviations from GAAP and partner switching due to the toughness of an audit. Although serious violations will be disciplined, PCAOB will not single out companies or clients in public reports. The bottom line is to restore investor confidence in the accuracy of corporate financial statements and to end unethical and illegal practices, McDonough said.

IN ADDITION TO ELECTING NEW OFFICERS, Council members at their business meeting adopted a new policy in favor of majority voting in director elections, as follows:

> ***Director Elections****: When permissible under state law, companies’ charters and by-laws should provide that directors are to be elected by a majority of the votes cast. If state law requires plurality voting (or prohibits majority voting) for directors, boards should adopt policies asking that directors tender their resignations if the number of votes withheld from the candidate exceeds the votes for the candidate, and providing that such directors will not be re-nominated after expiration of their current term in the event they fail to tender such resignation.*

At a post-meeting forum on the merits of adopting a majority vote standard, hosted by Proxy Governance, a proxy voting and advisory firm, Ed Durkin, director of corporate affairs for the United Brotherhood of Carpenters Pension Fund, noted that building trades funds filed roughly

80 shareholder proposals in 2005 asking companies to adopt such a standard and called majority voting a way to "inject accountability into corporate governance." Sponsors withdrew resolutions at ***ChevronTexaco*** and 12 other firms after those companies agreed to join a majority vote working group.

Lydia I. Beebe, corporate secretary of ChevronTexaco, and Shelley J. Dropkin, general counsel of corporate governance at ***Citigroup***, said their companies were "philosophically open" to the idea of majority voting but were concerned about implementation. ChevronTexaco worries that the restrictiveness of bylaw changes could hurt efforts to attract and retain quality directors, while Citigroup sees a lack of shareholder education on majority voting as a potential stumbling block.

John C. Wilcox, vice chair of Georgeson Shareholder Communications, said the "time is right" for majority voting, but raised implementation questions of his own. He said the role of uninstructed shares held in the name of brokers needs clarification. Currently, in uncontested elections, brokers may vote uninstructed shares as they see fit. Uninstructed shares are usually voted pro-management.

Participants agreed that the SEC is not the appropriate forum to handle majority voting. Durkin said state corporation law is the proper arena, while Beebe thought the issue would best be decided on a company-by-company basis. All agreed companies should maintain a degree of flexibility in tackling situations where directors don't receive majority votes

COUNCIL MEMBERS ALSO ADOPTED A STATEMENT supporting defined benefit pension plans. The full statement is available on the Council's website (www.cii.org). In short, it says:

The Council of Institutional Investors supports defined benefit plans as a critical component of the nation's retirement system and advocates the retention of defined benefit plans as the central element of retirement programs offered to workers.

Members also approved allocating funds to publicize the Council's position and undertake other activities to further it. Council Secretary Bruce Raynor described the statement as one of the most important resolutions the Council has ever adopted.

A pre-meeting forum on the issue provided Council members with background on the history of defined benefit plans and the recent shift toward defined contribution plans. Of particular interest was the role that vendors and political backers, such as the American Legislative Exchange Council (ALEC) and Grover Norquist of Americans for Tax Reform, have played in promoting the shift of public funds from DB to DC plans.

Dallas Salisbury, head of the Employee Benefit Research Institute (EBRI), said that in 1974, there were 174,000 private and 3,000 public defined benefit pension plans (90 to 95 percent of public employees were covered by such plans). Now only 17 to 20 percent of private-sector employees have DB plans and the number continues to fall for both public and private plans.

One state where the public plans are under attack is California. Although Gov. Arnold Schwarzenegger announced April 7 he will delay his effort to eliminate public employees' option to enroll in a defined benefit plan, CalPERS CEO Fred Buenrostro described the announcement as just a pause in the political battle. Two constitutional amendments and two initiatives are still before the legislature.

Terri Bierdeman, director of governmental affairs for the State Teachers Retirement System of Ohio, described the efforts in that state over the last decade to bring about a switch to DC plans. Seeing it coming, the STRS board designed a plan itself; employees now may join the DB plan, a DC plan run by STRS, or a combined plan. Eighty-six percent of the employees have opted to stay in the defined benefit plan, she said.

FOUR WORKSHOPS FOCUSED ATTENTION ON KEY ISSUES of concern to shareholders: executive compensation, climate change, international corporate governance and health care.

EXECUTIVE PAY ACTIVISM IS TAKING MANY FORMS. CalPERS CIO Mark Anson said executive compensation is that fund's No. 1 corporate governance focus this year. Noting that average CEO pay has continued to soar regardless of company performance, he said CalPERS votes against equity grants not tied to performance and against any option repricing not approved by shareholders.

With companies finally beginning to treat options as if they have value, Pat McGurn, ISS senior VP and special counsel, said 2005 is a “crossroads year,” when there will finally be some linkage between pay and performance. ISS recommends withholding votes from compensation committee members where there is bad plan administration—for example, where companies have destroyed shareholder value over one, three and five years and still gave the CEO big raises. He said boards need to be pressed to improve the compensation process—to hire an independent comp consultant who reports directly to the comp committee, look at the entire spectrum of pay at a large number of firms, disclose full performance criteria and tie at least half of option awards to performance.

Shirley Westcott of the proxy advisory firm Proxy Governance argued that shareholder attention has been “misdirected” and shareholders have become too prescriptive. In compensation, no one size fits all, she said; it is the board’s responsibility to design plans and shareholders’ to monitor what the board does. She said disclosure has improved and that that will be the answer to bad pay practices.

Greg Taxin, CEO of Glass, Lewis, described how his firm analyzes company pay practices, compares peer group compensation and figures how much each firm spends on stock options. He said he thinks the chances of getting mandatory stock option expensing are “as low now as they ever were,” with both the SEC and Congress poised to delay or roll back the Financial Accounting Standards Board’s rule requiring expensing.

Steven Schulman, a partner at Milberg Weiss Bershad & Schulman and chief trial counsel in the *Disney* case in Delaware, said improved disclosure won’t change things. “If you really want to deter corporate misconduct and get control of excessive compensation, you must use the tools at hand: get the company’s books and records and then file a derivative suit,” he said. That can result in “therapeutic changes” and send a powerful message to corporations, he said.

But McGurn said “you can’t fight the issue one lawsuit at a time.” He suggested pension funds each target just one aspect of the compensation issue to go after, such as TIAA-CREF focusing on option repricing.

CLIMATE CHANGE HOLDS SIGNIFICANT CONSEQUENCES for portfolio value, members of that panel agreed. Weather pattern changes caused by greenhouse gas emissions will leave “no business sector untouched,” said moderator Meredith Miller, assistant treasurer of policy of the Office of the State Treasurer of Connecticut. The panel concluded that the risks and opportunities presented by climate change will affect company bottom lines sooner rather than later.

The climate change problem is “real, broad and far-reaching,” said Mindy Lubber, CEO of the CERES coalition of investors and environmental leaders. She said the regulatory, environmental and legal implications of global warming pose a “major economic risk.” Shareowner value will be created or destroyed depending on the speed and appropriateness of a company’s response to climate risk, she said.

The role of industry is to “advocate for efficient solutions” to the climate change problem, said Bob Fri, a visiting scholar at Resources for the Future. As policy committee chair of the ***American Electric Power*** board, Fri oversaw the company’s August 2004 report on the financial and business implications of climate change. The report was produced in response to a 2004 shareowner resolution sponsored by the Connecticut Retirement Plans and Trust Funds.

Matthew Kiernan, CEO of environmental investment research advisory firm Innovest Strategic Value Advisors, said climate change has “morphed into a fiduciary and investment issue very quickly.” He offered insights into the opportunities provided by climate change, saying early movers in addressing climate risk are “already gaining competitive advantage” through energy savings and perceived responsiveness to shareowner wishes.

Shareowner resolutions requesting greenhouse gas emissions reporting are increasingly finding acceptance, said Leslie Lowe, director of the Interfaith Center on Corporate Responsibility’s program on energy and the environment. Of 30 global warming resolutions filed by institutional shareowners in 2005, over a dozen have been withdrawn following company agreements to disclose intended responses to climate risk. Most recently, ***Ford*** announced March 31 that it will issue a climate change report by the end of the year.

THE PANEL ON INTERNATIONAL CORPORATE GOVERNANCE, moderated by Alan MacDougall, managing director of PIRC Ltd., focused on three issues: the relevance to U.S. investors, the efforts needed by foreign investors to secure their rights, and what it takes to invest successfully in emerging markets.

Ira M. Millstein, a partner at Weil, Gotshal & Manges, said people should be interested in international corporate governance because the agency problem between shareowners and managers, central to corporate governance everywhere, is particularly important in emerging markets, where economic growth is key to eliminating poverty that breeds terrorism and terrorists. U.S. capital investment in developing countries allows the U.S. system to spread, acts as a model to follow and provides an incentive to play by our rules, Millstein said. He added that we should start by getting things right in the U.S., by backing SEC regulations and enforcement and Sarbanes-Oxley reforms.

Andrew Clearfield, director of international corporate governance for TIAA-CREF, said foreign countries mostly welcome U.S. capital, but often a key issue is to make sure U.S. companies will be treated fairly compared to domestic firms. He cited examples in Europe, where local practices left U.S. investors feeling they had been treated poorly. These were expensive lessons learned about the difficulty of protecting the rights of foreign investors, he said.

Anne Simpson, executive director of the International Corporate Governance Network, noted that many countries lack the strong regulatory systems found in the U.S. and have filled the gap with codes of best practice. More than 50 countries have such codes, which has led to a consensus on issues and a common language about corporate governance and transparency. However, in some cases, such as in China, detailed codes can be overwhelmed by the lack of human capacity to carry them out. Simpson said each region or country needs to work on overcoming its unique problems: the U.S. on improving shareowner rights, Europe on improving transparency and Asia on capacity and other issues.

Manish Singhai, principal portfolio manager at Alliance Capital in Singapore, agreed that many Asian countries have capacity problems and pointed out that the structure and ownership of corporations are different in Asia than in the West. Asian firms tend to be dominated either by family groups or by current or former state ownership. Ultimately, countries need to develop stronger rules of law and government enforcement and more effective civil remedies to protect investors, he said.

Since it is difficult to find safe investments in emerging markets, because companies often engage in negative practices that are difficult to uncover, investors asked how they could screen to find good targets for investment. Singhai said his firm, other money managers and rating services and the World Bank have extensive data and experience in emerging markets, and suggested investors look to various types of ratings and reports to gain information about opportunities in developing countries.

Millstein emphasized that investors need to put in both money and effort when investing in emerging markets. He said countries that need foreign capital will improve governance practices to attract investors. Global capital is an effective change agent, he noted; it will go to where it is most productive and away from where it is least safe.

Local investors are often more key to change than foreign investors, Simpson added, since they typically are already trying to change things but need support from the international investor community. The process of change will take time, she noted. Cultural differences needn’t be an impediment over the long term, Singhai added, but perseverance and engagement with local investor activists will be needed. All agreed there is wide variation in investment opportunities in developing countries and that investor engagement is as key to success as the capital provided. Strengthening the voice and effectiveness of investors needs to be part of the process.

THE HEALTH CARE CRISIS: PROBLEMS AND SOLUTIONS was presented by Henry E Simmons, president of the National Coalition on Health Care (NCHC), the largest health care reform coalition in the U.S.

Health care reform and the fast-growing crisis surrounding it is developing into a near "threat to the national security of the U.S.," Simmons said. He spoke passionately about issues plaguing both the health care industry and the growing number of people that it must support in the coming years. Skyrocketing health care costs, an increase in people without coverage and an epidemic of substandard medical care are causing dangerous problems for the U.S. health care system and U.S. competitiveness in global markets, according to the NCHC.

The NCHC is calling on political leaders to push the health care reform debate to center stage. Simmons stressed that both corporations and institutional shareowners share the risk of a failing health care system. And that risk, he said, is heightened by lower wages for employees, an alarming shortage of medical research and development funds and the loss of market value by the largest American firms. The unprecedented increase in health care costs has a direct impact on retiree and mutual fund accounts. Higher living costs, an aging population and the demands placed on Medicare and Medicaid are causing a decrease in available funds for retiree and mutual fund accounts.

Simmons said he supports a rapid, vast reform of the health care system, and "reform must happen quickly, must be systemic and must be system wide." He said the issue must be addressed ahead of Social Security issues and become a number one priority for families, political leaders and members of the Council.

ANOTHER PANEL OF INTEREST to Council members was the annual appearance of the heads of sections of the SEC whose activities impact shareholders. Moderated by Commissioner Goldschmid, the panel consisted of Marty Dunn, director of the Division of Corporate Finance; Cecelia Blye, director of the Office of Global Security Risk; Annette Nazareth, director of the Division of Market Regulation; and Bob Plaze, associate director of the Division of Investment Management. (A briefing book for the session is available in the members-only section of the Council's website.)

Dunn said the staff was not trying to be controversial by allowing companies to omit shareholder proposals on such issues as proxy access and stock option expensing. He suggested some were omitted because they were poorly worded. He advised shareowners to be careful with the wording of proposals and to follow closely the language of past proposals that SEC staff had allowed. He also defended the SEC policy of not allowing shareowners to "cure" their proposals if they are slightly misworded. Allowing such cures would overwhelm staff resources by opening the process to successive rounds of appeals, he said. His advice was to get it right the first time.

Dunn advised shareholders conducting "just vote no" campaigns against corporate board members to file 13-D disclosure forms. He said the division's agenda for 2005 includes working on improving disclosures of executive and director compensation, which he called a huge task.

Blye described the work of the Office of Global Security Risk, formed about a year ago as part of a centralized effort on disclosure and monitoring of such risks. Companies must disclose "material" risk, but there is no specific disclosure requirement. Blye said corporations should use a "reasonable investor" standard for disclosure of material events, and should consider the risk of reputational harm as well as the dollar value involved in doing business in countries identified by the State Department as sponsoring terrorism. She offered little help, however, to questioners who asked the SEC to step up its efforts to examine companies that have been accused of investing in countries on the State Department list. Without such help, said Connecticut assistant treasurer Meredith Miller, public pension funds might be forced by state legislatures to divest stock of accused companies.

THE DIVISION OF MARKET REGULATION has been busy with the newly approved Regulation NMS, a rulemaking proposal on SRO governance and reporting and a concept release on the future of the SRO system, Nazareth said.

The new rule, approved April 7, was needed to modernize trading rules, which had not kept up with technology and market changes since last revised in 1975, she said. She also said that although most attention has been paid to the trade-through rule, which requires that trades be executed at the best price displayed over various markets, other regulatory changes, such as a prohibition on sub-penny quotes and a cap on access fees, were also important. She said that although the NASDAQ market objected most to the trade-through rule, calling it unnecessary, the most important effects would probably be felt in the NYSE because it would have to move faster towards automated trading.

With regard to the SRO rulemaking and concept paper, Nazareth said governance and transparency reforms were taken to align SRO operations and disclosures with those required of public companies by the Sarbanes-Oxley Act and revised exchange listing standards. The concept paper is designed to look at longer-term questions, such as how the SEC should deal with the conversion of non-profit SROs to for-profit status.

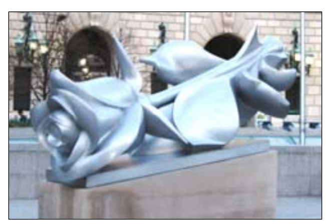
COMPLETING THE REGULATORY REFORMS OF THE MUTUAL FUND INDUSTRY is the highest priority of the Division of Investment Management, said Plaze. He reviewed the regulatory changes that have been made following abuses uncovered in the industry. New requirements call for funds to have an independent board chair and majority independent directors. These and other changes, such as requiring that funds have a code of ethics, are designed to ensure that funds are run for the benefit of clients rather than for the benefit of the funds themselves, Plaze said, Part of the unfinished agenda includes whether to impose a hard 4 p.m. close on trading and additional measures to discourage frequent trading.

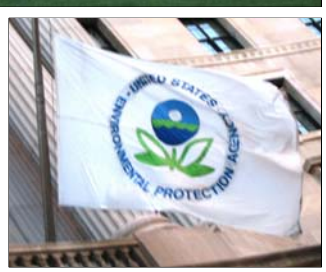
Plaze noted that an SEC task force has been working on revisions to "soft dollar" rules, but said the outcome of the review is still under consideration. The task force is trying to come up with neutral recommendations on third-party research, he said.

A GALA DINNER KICKED OFF THE SPRING MEETING, as members celebrated the Council's 20th anniversary. The Council gives special thanks to the dinner sponsors: Ariel Capital Management, Barclays Global Investors, Brown Capital Management, Capital Guardian Trust, Fidelity Investments, Franklin Templeton Institutional, Goldman Sachs, Merrill Lynch, State Street, UBS Global Asset Management and the Yucaipa Companies.

Conclusion

Continued SBCERS participation and representative attendance is recommended.





Some of the things Donald saw while in Washington.

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AGENDA ITEM # _________

AGENDA DATE: November 2, 2005

PREPARED ON:	October 24, 2005
TO:	Board of Retirement
FROM:	Donald Kendig, Trustee
SUBJECT:	Report from the Counsel of Institutional Investors (CII) 2005 Fall Meeting: Reflections on Four Years of Reform (September 28 - 30, 2005 in Beverly Hills, CA)

Recommendation:
That the Retirement Board accepts and files this report.

Executive Summary and Discussion:
The Council of Institutional Investors (CII) is an organization of large public, labor and corporate pension funds, which seeks to address investment issues that affect the size or security of plan assets. Its objectives are to encourage member funds, as major shareholders, to take an active role in protecting plan assets and to help members increase return on their investments as part of their fiduciary obligations.

Founded in 1985 in response to controversial takeover activities that threatened the financial interests of pension fund beneficiaries, the group began with 20 member funds. Today the Council has over 140 pension fund members whose assets exceed $3 trillion, and more than 130 educational sustainers. CII is recognized as a significant voice for institutional shareholder interests.

Shawn, Bob, Oscar, and I attended the 2/3-day conference in Beverly Hills, CA, which covered various aspects of corporate governance and recent reforms. With three trustees and our Retirement Administrator in attendance, I have provided just the agenda outline below, as a guide for trustee discussion. Further, since CII membership up for renewal, and is under review at this meeting, I hope that each of the four SBCERS representatives in attendance will share what education and value they gained, if any, from this last meeting that warrants continued membership and attendance.

Meeting Agenda

Wednesday, 9/28/2005
- **Registration**
- **Subcommittee Meetings:** I attended the activism committee meeting, which brainstormed outreach opportunities and issue development. The focus list, survey data distribution vehicles, and executive pay were top priorities.

Thursday, 9/29/2005

- **Registration**
- **Opening Remarks:** Jack Ehnes, Council Chair, Ann Yerger, Council Executive Director, and guest speaker Antonio Villaraigoso, LA City Mayor started the meeting.
- **Review of the 2001-2005 Reforms and Their Impact:** Rich Copus, pinch-hitter for Ira Millstein, Senior Partner, Weil, Gotshal & Manges, who could not be in attendance, looked back and looked forward upon existing reforms and reforms still needed.
- **The Role of Executives During a Time of Rebuilding:** Stephen Cooper, Interim CEO at Enron, CEO at Krispy Crème, and Eric Pillmore, senior VP for Corporate Governance, Tyco International shared stories and introspection of what their roles have been in rebuilding Enron and Tyco.
- **Redefining the Roles of Auditors and Audit Committees:** Panel discussion comprised of Cynthia Richson, Corporate Governance Officer, Ohio Public Employees Retirement System, James Turley, Chair & CEO, Ernst & Young, and Peter Ueberroth, Chair, Contrarian Group, with George Goldsmith, CEO, Tapestry Networks moderating.
- **Executive Pay (luncheon presentation):** Graef (Bud) Crystal, *Columnist*, Bloomberg News talked about executive pay trends and reviewed litigation of Disney's executive compensation legal battles.
- **The Role of the Director During a Time of Change:** Raymond Troubh, Former Chair, Enron presented.
- **The Role of the Press and a Look Back at Enron:** Bethany Mclean, co-author of *The Smartest Guys in the Room: The Amazing Rise and Scandalous Fall of Enron* shared here experiences of being caught in the craze and eventually questioning the numbers.
- **Movie Presentation (*The Smartest Guys in the Room*):** Rated R for language, scenes and political content that may be offensive to some viewers.

Friday, 9/30/2005

- **General Members Business Meeting:** Minutes transmitted via a CII alert.
- **The New Role of the Director:** Frank Zarb, Interim Chair, AIG presented his perspective on corporate governance and what his role has been in his own position.
- **Investor Behavior – Lessons from Enron:** A panel comprised of Professor John Brousard, Rutgers University, Professor Lynne Dallas, University of San Diego, and Jeffrey Diermeier, President & CEO, CFA Institute shared their insights.
- **The Perspective of a Whistleblower (luncheon presentation):** Noreen Harrington, managing Partner, Alternative Institutional Partners, gave a moving recount of her experience as the whistleblower that brought the mutual fund scandals to light.

Conclusion

Continued SBCERS participation and representative attendance is recommended. Two slots are a base for all of the meetings. If the Board approves continued membership, I would like to encourage one slot to be filled by a trustee that will attend all meetings, for consistency, and the other slot to be open and filled by interested trustees when in fits with their schedules. If I understand correctly, two is the base allotment and arrangements can be made for more to attend.

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Oscar Peters
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AGENDA ITEM # ________

AGENDA DATE: May 3, 2006

PREPARED ON:	April 21, 2006
TO:	Board of Retirement
FROM:	Donald Kendig, Trustee
SUBJECT:	Report from the Council of Institutional Investors Spring Meeting (March 29-31, 2006 in Washington, DC)

Recommendation:
That the Retirement Board accepts and files this report.

Executive Summary and Discussion:
Oscar and I attended the 3-day conference in Washington, DC.

The Council of Institutional Investors (CII) is an organization of large public, labor and corporate pension funds, which seeks to address investment issues that affect the size or security of plan assets. Its objectives are to encourage member funds, as major shareholders, to take an active role in protecting plan assets and to help members increase return on their investments as part of their fiduciary obligations.

Founded in 1985 in response to controversial takeover activities that threatened the financial interests of pension fund beneficiaries, the group began with 20 member funds. Today the Council has over 140 pension fund members whose assets exceed $3 trillion, and more than 130 educational sustainers. CII is recognized as a significant voice for institutional shareholder interests.

Instead of writing a report, I have attached the Council's detailed notes from the session, as well as a CII Member Manual. Below, I provide a few highlights not contained in the notes.

Highlights
Attendees staying in the hotel were awoken at around midnight to flashing lights, sirens, and a voice saying to evacuate the building. You could tell the diehard net-workers who were still in their suits, as well as everyone else that had already gone to bed. Very disruptive.

The last speaker, Paul McNulty, Deputy Attorney General appeared to have a canned presentation and the CIA made me nervous. I was just waiting for someone to flinch wrong.

Please mark your calendar, the next meeting will be September 17-19, 2006 in Chicago, Illinois.

Attachments:
Excerpts from CII, Alert # 14 (Report from the Spring 2006 Meeting)
CII Member Manual (5.5" by 8.5" green brochure)

Volume 11 No. 14 April 13, 2006

EXCERPTS FROM THE ALERT:

General members approved three new policies and elected a new board at the Council's 2006 Spring Meeting.

Many of the new faces of corporate governance spoke to Council members about the new investing environment at the 2006 Spring Meeting.

POLICIES APPROVED, DIRECTORS ELECTED AT 2006 SPRING MEETING. General members approved the following policies at the Council's 2006 Spring Meeting:

- Charitable and Political Contributions—a new corporate governance policy calling for disclosure of corporate charitable/political contributions.
- Provisions Limiting Auditor Liability—a new corporate governance policy calling on companies to avoid consenting to liability limitations for outside auditors.
- Shareowner Meeting Best Practices—a policy that updates existing policies on shareowner-director communications and shareowner meetings.

The text of these policies can be found on the Council's website at http://members.cii.org/dcwascii/web.nsf/doc/meeting_policies.cm.

In addition to approving policies, members elected the following directors to serve on the Council's board:

Chair: Jack Ehnes, CEO of the California State Teachers' Retirement System

Co-Chairs: Margaret (Peggy) M. Foran, Esq., SVP-corporate governance, associate general counsel & corporate secretary of Pfizer; Bruce Raynor, chair of UNITE HERE National Retirement Fund; and Shelley Smith, board president of LACERS

Secretary: Warren Mart, general secretary treasurer for I.A.M. and Aerospace Workers

Treasurer: Cynthia Richson, corporate governance officer for the Ohio Public Employees' Retirement System

Board Members: Mary A. Collins, trustee for the District of Columbia Retirement Board; Peter M. Gilbert, chief investment officer for the Pennsylvania State Employees' Retirement System; Matthew (Benny) Hernandez, corporate governance advisor for the Sheet Metal Workers' National Pension Fund; Richard Metcalf, director of corporate affairs for the LIUNA Staff Pension Plan; D. Craig Nordlund, SVP, general counsel & secretary for Agilent Technologies Benefit Plans; Kathy-Ann Reissman, director of investments for the Employees Retirement System of Texas; Coleman Stipanovich, executive director of the State Board of Administration of Florida; Gail Stone, executive director of the Arkansas Public Employees Retirement System; and Meredith Williams, executive director of the Colorado Public Employees' Retirement Association.

CORPORATE GOVERNANCE THEN AND NOW SHOULD REFLECT MOM'S ADVICE. Editor of the Corporate Library Nell Minow set the stage for the Council's Spring 2006 Meeting focusing on the "New Environment, New Faces" of corporate governance when she said, "Many of our wildest dreams have come true and many of the things we thought were bad turned out to be so much worse." As an example of how bad things can be in the corporate world she cited the example of ***Fogcutter*** where the CEO went to jail for financial fraud but still received a bonus. "This was OK under SOX, so it really doesn't really get us where we need to be. We need to demand better behavior," Minow clarified. She also noted the effort to rollback Section 404 of SOX. "Companies are complaining about this provision when they already had to conduct internal controls. Now they just have to attest to the fact that it works. As long as they have to do it, don't they want to know if it works?" Referring to the growing number of companies that award their executives gross ups to cover the taxes that they owe on their excessive compensation, she said: "We should make it humiliating for companies to do this. We should start voting no now on compensation committee members who approve these arrangements." Mi-now concluded that companies and investors should heed her mother's advice to "Take the high road and do the right thing. The good guys will respect you and it will drive the bad guys crazy."

PENSION SYSTEM IN FLUX AND UNDER PRESSURE, SAYS PBGC EXECUTIVE DIRECTOR. Bradley Belt, executive director of the Pension Benefit Guaranty Corporation, explained that his organization is a $56 billion asset management organization that is "neither fish nor fowl." He said that al-though it has no shareowners, it has many stakeholders and is a self-financing entity. Belt said the organization grew by 20 percent last year, but he would prefer it to shrink. He also noted that the PBGC is now the owner of many companies that have entered into Chapter 11, but turns its proxy votes at those companies over to independent money managers. Belt emphasized the "tectonic plate shift" in retirement plans from defined benefit to defined contribution, saying that just 20 percent of U.S. workers are now covered by defined benefit plans. He said workers should be setting aside enough funds to live for 32 years after retirement and they are not. Companies and state pension funds with underfunded pension plans are compounding a problem that will have to be faced in the future, Belt said. He also warned investors that the current accounting rules do not provide enough information to determine which companies may end up owing millions of dollars in pension obligations. "It's important that we have good information to make good investment decisions," he said. Bills pending in Congress would reduce the information that has to be reported to the PBGC, he warned. "Certain firms and individuals have used ERISA and the bankruptcy code to their advantage," Belt added.

WHITWORTH ANTICIPATES NEXT STEPS AT SOVEREIGN. Managing member of Relational Investors Ralph Whitworth offered some background information about the bitter battle between Relational and ***Sovereign Bancorp*** that recently was settled. Relational had threatened to launch a proxy fight at Sovereign because the bank was planning to seal a deal with Banco Santander without first getting shareowner approval. The resulting interplay between the investment group and the bank produced three lawsuits in three different courts. Relational agreed to suspend the proxy fight and drop the lawsuits after Sovereign agreed to give the investment group two board seats. "Now the real work starts," said Whitworth. "It's no longer about personalities, now it's about performance. It's no longer about rhetoric or recrimination, it's about results." He said Relational would not have agreed to settle if it had not received board representation. He also noted that it is very important for investors to maintain their integrity because Sovereign "left no stone unturned" during the dispute. "This is a very expensive game and it's rough and tumble," he warned.

STOCK EXCHANGES UNDERGOING MAJOR CHANGES. When introducing New York Stock Exchange Chief Regulatory Officer Richard Ketchum and NASDAQ Executive VP and General Counsel Edward Knight, New York City Comptroller William Thompson emphasized the need for robust oversight of the stock exchanges in light of their recent mergers and transformations into public companies. In his presentation, Knight said to ensure quality regulation of NASDAQ, the exchange separated its regulatory function to be a truly independent market regulator. He also said NASDAQ has focused on independence in its structure, transparency in its operations and limiting the exercise of staff discretion. To accomplish this, he said, NASDAQ established legal separation of its regulation and market functions, especially in the key area of discipline of listed companies. “We simply do not believe that a market regulator should also be selling to members of an exchange. Sooner or later that kind of inherently contradictory relationship undermines investor confidence and eventually erodes standards of trust,” he said. Now NASD is a separate, non-for-profit organization with a separate board that will serve as NASDAQ’s truly independent board regulator, he explained. NASDAQ’s listing and delisting function is housed in its regulatory group outside the business of NASDAQ and it is overseen by its listing council, a standing 11-member committee independent of NASDAQ appointed by the board and the regulatory oversight committee of the board. He said that underscoring the independence of this function is the fact that in the last five years, said Knight, over 1,000 companies have been delisted from NASDAQ for regulatory purposes.

In terms of transparency, Knight noted that NASDAQ has 240 frequently asked questions and more than 50 written interpretations of its listing standards on its website. “Last year we had more than 1.2 million hits on our legal compliance web pages, reflecting the practical benefits of transparency,” he said.

To limit subjective discretion in the day-to-day regulation of the markets, NASDAQ made voluntary material changes. Specifically, NASDAQ put time limits on how long any company can remain out of compliance on NASDAQ requirements without being delisted.

Knight also said because they are listed on both the NASD and the NYSE approximately 200 companies now have dual rule books, dual examinations, dual enforcements and dual fees, but this number may increase substantially under the NYSE’s latest restructuring. “We believe the best solution would be an agreement between the NYSE and the NASD regarding the regulation of all firms that are members of both organizations. We would like to see firms regulated under one rule book instead of two,” he said.

Knight said the NASD supports the latest recommendations of the SEC’s Small Business Advisory Committee to grant some microcap and smallcap companies “full Section 404 exemptive relief.” Knight said the burden of compliance is getting worse, the cost is significant and “these fall disproportionately on smaller companies that are less able to pay.”

Richard Ketchum, who previously served as the chief regulatory officer of the NYSE and now is the chief executive of NYSE Regulation, the nonprofit regulatory arm of the newly formed NYSE Group, spoke about recent changes at his exchange and some governance issues the NYSE is contemplating. He pointed to the “revolutionary” governance changes that the exchange affected a couple of years ago. Since that time and after the NYSE became a public company, he said, the exchange has grappled with taking those changes a step further and making the regulatory side of the exchange a separate entity. When considering this step, the NYSE questioned whether a board that is committed to enhancing shareowner value and to understanding listing requirements also can address the concerns about conflicts of interest, Ketchum explained. After careful examination, “the NYSE made NYSE Regulation a discreet, nonprofit corporation albeit owned by the exchange, but governed by a board of which a majority of members are unaffiliated in any way to the NYSE,” he said. (See related story below about the appointment of five members to NYSE Regulation’s board.) “NYSE Regulation oversees listing standard compliance because with a public company it makes great sense to ensure that people making decisions with respect to compliance receive no incentives with respect to the profitability of that area nor in any way have any stock incentive," Ketchum commented. He explained that employees of NYSE Regulation own no stock in the NYSE and their bonuses are not keyed to NYSE stock performance. NYSE Regulation is funded by long-time fees from the industry and long-time contracts from the market side of the NYSE, Ketchum explained. In addressing governance issues, he acknowledged Knight's concerns about duplication of fees and oversight for companies listed on both exchanges and said the NYSE is "working on a harmonization process," and he said the exchange plans to revisit the controversial issue of 'broker non votes.'

SEC CHAIR COMPARES EXECUTIVE COMP DISCLOSURE TO A PUBLIC UNDRESSING. SEC Chairman Christopher Cox said the Commission is working on improving the executive compensation disclosure rules because, "Executive compensation matters—not only because if moral hazards inherent in these conflicts of interest are unchecked, executives will be paid too much, but also because it can play a valuable role in disciplining management across the board, and in protecting the entire range of shareholder interests." He emphasized that the proposed rules are meant only to improve disclosure. "By improving the total mix of information available to the marketplace, we can help shareholders and compensation committees of boards to assess information themselves, and reach their own conclusions," Cox noted. Shareowners and directors must use this new information "to determine how to best align executive compensation with corporate performance, to determine the appropriate levels of executive pay and to decide on the metrics for attaining it," he said. Although Cox said it still needs to be determined what impact these disclosure rules would have, he mused: "I have a feeling that when people are forced to undress in public, they'll pay more attention to their figures." The SEC's proposal to improve pay disclosure is just one part of its overall effort to empower investors by giving them better tools to look after their interests. "From my point of view, it's all but impossible to give investors too much power. Empowering investors is what the SEC is all about. We are, after all, the investor's advocate," he concluded. A full text of Cox's speech is available on the Council's website at
http://members.cii.org/dcwascii/web.nsf/doc/meeting_speeches_2006.cm.

EXECUTIVE COMP DISCLOSURE, E-PROXY, HEDGE FUND REGISTRATION AND SOFT DOLLARS DISCUSSED. SEC staffers discussed several areas that the commission has been focusing on recently at a workshop on SEC issues. David Lynn, chief counsel for the SEC's Division of Corporation Finance, discussed reaction so far to the Commission's proposal to improve executive compensation disclosure. He said the SEC had received about 60 letters and the deadline still was several days out. Overall, Lynn said reaction was positive with some comments disagreeing with specific aspects. "We wanted to make disclosure more approachable and less jargony so you don't have to be a compensation expert to read it or prepare it," he said.

Elizabeth Murphy, chief of the SEC's Office of Rulemaking, said the Commission undertook its e-Proxy proposal to lower the cost of proxy solicitations for shareowners and to lower the cost of distributing proxy materials for companies. She said the SEC has received about 135 comments, with about half supporting and half opposing the proposal. Murphy noted that a considerable number of those comments expressing opposition were from firms that would be adversely affected by a new method of distributing proxy materials. From the evaluation of the comments that the SEC has done so far, she said staff is considering allowing shareowners to make their preference for paper proxies known just once instead of once a year. Murphy also noted that the SEC is considering if keeping the proxy statement and the ballot together would work in the model currently proposed. She cited a long list of statistics on computer access from a Forester Survey, but pointed out that access is not the only consideration because lengthy proxy materials require a broad band connection.

Robert E. Plaze, associate director for regulation for the SEC's Division of Investment Management, spoke about the new rules that required hedge fund managers to register with the SEC by February 1. Overall, Plaze said, 2,200 managers have registered, with about half of those registering after the SEC rule went into effect. "More and more investors are considering avoiding those that are not registered," he noted. The Commission put this law into effect because it was concerned with the growing amount of fraud at these types of funds. To combat this, the SEC is focusing on internal compliance, examinations and enforcement. In the area of internal compliance, the Commission is requiring funds to maintain records and appoint a compliance officer. "Many funds grew very quickly and did not have the type of internal controls that other investment firms have," Plaze said. He added that the chief compliance officer of a fund "protects investors in a hyper aggressive environment." In terms of examinations, he admitted the SEC cannot examine every fund every year, but compared the threat of an SEC exam to the threat of an IRS audit. To oversee enforcement, the Commission's goal is to be there before the fund is depleted. "All hedge funds are subject to anti-fraud provisions regardless of whether they are registered," Plaze commented.

Jo Anne Swindler, assistant director of the SEC's Division of Market Regulation, discussed the SEC's proposal clarifying how money managers may spend soft dollars. She said the Commission received about 70 comments, half of which supported and half of which opposed the proposal. She said debate centered around whether market data, mass marketed publications and proxy voting services should be included in the safe harbor. The Council's SEC Issues Briefing Book, which discusses these and other issues being considered by the Commission can be found on the Council's website at
http://members.cii.org/dcwascii/web.nsf/doc/2006_meeting_materials.cm.

PRACTICAL ADVICE ON DIVESTING OFFERED. Kathy-Ann Reissman, director of the Employees Retirement System of Texas, set the scene for the workshop on Fiduciary Duties and Divestment and Other Issues by stressing recent developments and challenges in keeping with the "new environment" theme of the Council's meeting. Lonie Hassel, a principal with Groom Law Group, then highlighted legal issues facing fiduciaries when it comes to divestment, providing some basic guidelines to ensure that fiduciary responsibilities are addressed during considerations and referring to a memo produced by Groom Law Group for the Council (available at http://members.cii.org/dcwascii/web.nsf/doc/2006_meeting_materials.cm). Each participant then provided a brief description of their new state laws on divestment from Sudan and what is happening in terms of implementing these laws. Dan Allen, CIO of the Illinois State Universities Retirement System, discussed key components of Illinois' new law and stressed the challenges that the Illinois funds are confronting in trying to implement this type of very broadly worded divestment. William Clark, director of the New Jersey Division of Investment, discussed recent developments in his state, noting how the division is tackling divestment through first researching and appraising the funds' exposure. Kate Richardson, chief of staff for the Oregon Treasury, provided insights into how Oregon simplified implementation of its law by drafting it to help the funds there focus on specific companies.

Following these remarks, Don Kirshbaum, an investment officer for policy for the Connecticut Retirement Plans and Trust Funds, spoke about efforts by the Connecticut Treasurer's Office to introduce legislation to empower the funds to engage with companies doing business in Sudan and possibly divest from firms deemed to be supporting the Sudanese government. The panel then took questions from the floor on such issues as how do fund managers protect themselves from lawsuits alleging a violation of fiduciary duties; what impact Illinois' law has had on exposure to private equity; what the cost has been of implementing Oregon's law; how these laws might open the gates for future country- or issue-specific divestment; whether divestment really will lead to improvements in Sudan; how to obtain reasonable lists of companies that are supporting genocide in Sudan; whether independent advisors should be hired to measure the costs and impacts of divestment; and whether state-level divestment was redundant with federal sanctions or violated the larger issue of fiduciary obligations.

IMPACT OF MAJORITY VOTING DEBATED. The workshop on legal issues featured a lively and informative dialogue centered on the issue of majority voting for director elections. Majority voting is a timely topic with approximately 140 shareowner resolutions filed for the 2006 proxy season, and both the American Bar Association and the Delaware State Bar Association submitting proposals on the issue (see 2006 Alert 13). The panel of three legal experts and practitioners was moderated by Damon Silvers, associate general counsel for the AFL-CIO.

John Olson, partner at the law firm of Gibson, Dunn & Crutcher, said the battle to get majority voting recognized as a legitimate principle of corporate governance is won. Olson predicted that the majority voting issue would "work its way through all major companies in the next 24 months," but raised implementation concerns regarding contested elections and holdover provisions. Also, for all its benefits, majority voting does not address the fundamental issue of director accountability to share-owners because it does not speak to how director candidates are nominated, said Olson.

Charles Elson, director of the Weinberg Center for Corporate Governance at the University of Delaware agreed with Olson, and compared majority voting to chewable aspirin: "It makes you feel better, but doesn't get to the heart of the problem." Elson suggested corporate reimbursement of dissidents' proxy contest costs as a viable way of fostering greater board accountability through vibrant elections.

While agreeing with much of the analysis of the other panelists, attorney Con Hitchcock called the majority voting movement "a very great grassroots success" with significant potential to increase director accountability by providing shareowners a meaningful vote in the election of their representatives. A Council primer on majority voting for directors can be found on the website at:
http://members.cii.org/dcwascii/web.nsf/doc/2006_meeting_materials.cm.

EXPERTS DISCUSS CHALLENGES PRESENTED BY INVESTING ABROAD. In the International Corporate Governance Issues Workshop, leading voices in cross-border investor affairs led a dialogue on some of the factors driving major changes in the markets abroad. Anne Simpson, executive director of the International Corporate Governance Network (ICGN), discussed current trends and new challenges facing the global investment community. She noted these trends and challenges are fueled by a marked increase in the volume of assets invested abroad, and, she said, as governments continue to "follow the money," it is especially crucial that investors themselves take the lead in shaping the debate.

Daniel Summerfield, corporate governance advisor for the Universities Superannuation Scheme said investors should develop a global strategy for the following reasons: the globalization of investment portfolios, the impact foreign entities have in domestic markets, and the willingness of governance advocates in the United States to turn to the United Kingdom for guidance on issues such as executive compensation and majority vote standards.

Christian Strenger, chair of ICGN offered his insights on the recent developments in European corporate governance, especially in Germany. He compared the regulatory schemes of the United Kingdom (listing standards) and Germany (codified law) and spoke at length about the difficulties facing the Continent as it transitions to unified standards. He was especially concerned about the increasing nationalization of company ownership in Europe.

Phil Armstrong, head of the Global Corporate Governance Forum, spoke about emerging markets and economies in “loosely transitioned” countries, which are new hot zones for investor involvement. He discussed the following five major challenges facing those investors today: the massive size of the market; a lack of concrete information about regulatory structures and conditions of individual markets; the extraterritorial effect of laws and standards of developed markets on emerging markets; the impact of the Sarbanes-Oxley Act on emerging markets; and the inconsistent application of governance activism across the globe.

Sarah Wilson, founder and managing director of Manifest, discussed the role of service providers as advocates for investors. She listed the following key challenges for vendors that have developed over the past few years: barriers to investor communication across the globe; the inherent flaw in a one-size-fits-all approach to regulatory policies; the difficulties in navigating disparate shareowner meeting policy schemes (including the lack of data cross-border and the absence of standards on proxy voting processes); and the “delicate balancing act” vendors face in the wake of rapid technological advancement and regulatory regime changes.

SOVEREIGN CEO EXPLAINS REASONS DRIVING CONTROVERSIAL DEAL. Jay Sidhu, chairman, president and CEO of Sovereign Bancorp, said the whole story behind his company’s controversial deal with Banco Santander has not been told because “sensational stuff sells newspapers.” He said his company sees a huge market to serve ethnic minorities and it is seizing this opportunity. Specifically, by partnering with Banco Santander, Sovereign hopes to serve the growing Hispanic population in New York. “We plan to take advantage of emerging markets and the changing social fabric,” commented Sidhu. When questioned about director independence and related party transactions on Sovereign’s board, Sidhu said all but one director is independent, the board has a lead independent director and executive sessions are held regularly. He pointed out that the Sarbanes-Oxley Act has a special carve out that allows banks to make loans to their directors, and added that Sovereign has only made loans to one of its directors, who pays a high interest rate on those loans. He said a director’s son has the contract to do the landscaping for 20 of Sovereign’s branches, but his fee for this work is considerably below market at $4,000 per year.

EXPERT OFFERS ADVICE TO INVESTORS CONTEMPLATING HEDGE FUNDS. Kurt Schacht, managing director of the Centre for Financial Market Integrity of the CFA Institute, delivered a tutorial on hedge funds. He explained that they are investment pools that charge high fees and can deliver high returns. Schacht noted that at the end of 2005 there was $1.1 trillion invested in approximately 8,600 hedge funds, and the average size of a hedge fund was $200 million. He estimated that 28 percent of U.S. public pension funds now invest in hedge funds. He said the SEC is concerned about the following issues related to hedge funds: timeliness of client reporting; trading tactics; valuation; directed brokerage and soft dollar usage; late trading; highly concentrated positions; highly leveraged portfolios; large incentive fees that induce excessive risk taking and/or questionable valuations; and side deal letters. Schacht said the new rule requiring hedge fund managers to register with the SEC by February 1 opens managers up for inspection and insures a certain level of operational and compliance structure, but does not guarantee ethics or performance and does not reduce investment risk.

He advised those considering investing in hedge funds to ask the following questions before doing so.

- What is the background of the fund managers?
- What is the level of risk involved in the fund's investment strategy?
- What is the fee structure and how are the managers compensated?
- How is the value of the fund determined?
- Are there limitations to one's right to redeem their shares?

Materials from Schacht's presentation can be found on the Council's website at http://members.cii.org/dcwascii/web.nsf/doc/meeting_speeches_2006.cm.

ACTIVIST HEDGE FUND MANAGERS STRESS IMPORTANCE OF GOVERNANCE. A panel of managers of activist hedge funds discussed how they view corporate governance as part of their long-term investment strategy and debunked the prevailing opinion that all funds are short-term investors. Wilbur Ross, chair and CEO of WL Ross & Company, said if he finds a company that is priced low he will talk with the company to see if it is agreeable to changing its corporate governance practices, and only then will he buy. "We don't engage in hostile bids. We try to reason with managers who have a predisposition for reforming their governance," he explained. Ross said the process of agreeing on reforms often takes six to 12 months and the process of actually implementing the reforms takes 12 to 24 months. "Corporate governance is the fundamental way that a business looks at itself and the outside world," said Ross. Patrick Dewez, principal at Knight Vinke Asset Management, said his fund looks for Western European companies that have a good source of value, which sometimes can be a governance structure in need of improvement. He noted that to bring about changes in governance at these firms, his fund depends on the backing of institutional investors. "We don't have the resources to do it any other way, we influence management by bringing in institutional investors," he explained. Jeffrey Ubben, a managing partner with ValueAct Capital, said it is dangerous for funds to use activism to improve companies' short-term performance. "Sometimes we have to buy an entire company to turn it around if the managers are unwilling, and we go liquid to do this, so this is not short termism," he said. Steve Klinsky, managing director and CEO of New Mountain Capital, explained that "most of the time we are working together to grow capital for everyone; we're not quick buck artists."

NEW DEPUTY ATTORNEY GENERAL DESCRIBES GOVERNMENT'S EFFORT TO COMBAT CORPORATE FRAUD. Paul McNulty, the new deputy attorney general of the U.S. Department of Justice, spoke about the federal government's efforts to eradicate corporate fraud. He said the Corporate Fraud Task Force created by the president in 2002 continues to meet on a regular basis to coordinate and improve its mission and discuss policies to protect the marketplace from emerging threats. In addition a 10-point plan enacted by the president in 2002 and the provisions of the Sarbanes-Oxley Act are being used to fight fraud. These efforts are producing results, he said, pointing out that between 2002 and 2005, a total of 85 presidents, 82 CEOs, 40 CFOs, 14 COOs, 98 vice presidents and 19 controllers were convicted of corporate fraud. In addition, McNulty pointed out, the Enron Task Force had charged 34 individuals, obtained 21 convictions and obtained $162 million for distribution to its victims. He emphasized the need for institutional investors to invest only in companies that offer good governance and are known to encourage a culture of integrity. He said that to do that, they should do the following:

- Look out for red flags if you see a company with a history of regulatory problems, sanctions or prosecutions;
- Review the information given on each investment opportunity—do not rely on consultants and money managers who may be tempted to spoon-feed the information; and
- Ask those who consult or manage the fund money what kind of fees their money managers charge and if their money managers have any affiliation with the investments they are recommending.

McNulty said that in more and more of the cases involving corporate fraud, prosecutors are using deferred prosecution agreements under which companies establish and adhere to a compliance program. Federal sentencing guidelines reward companies for compliance at sentencing hearings. He said effective compliance programs include the following elements:

- Standards and procedures to prevent criminal conduct;
- Oversight by a high-level person (e.g. a chief compliance officer);
- Due diligence in delegation of discretionary authority to individuals (e.g. background checks);
- Effective communication of standards and procedures;
- Reporting systems and whistle blower hotlines;
- Consistent enforcement of disciplinary mechanisms; and
- Appropriate response after detection of an offense.

“A company’s standard of integrity should not be idealistic irrelevancies, they must be a working, dog-eared guidebook for every corporate officer, a guidebook for every corporate employee,” said McNulty. An outline of McNulty’s remarks can be found on the Council website at http://members.cii.org/dcwascii/web.nsf/doc/meeting_speeches_2006.cm.

PCAOB STAFF OFFERS TUTORIAL ON SECTION 404. The staff of the Public Company Accounting Oversight Board (PCAOB) gave a tutorial on Section 404 of the Sarbanes-Oxley Act dealing with internal controls over financial reporting. Laura Phillips, deputy chief auditor of the PCAOB, said the objective of the internal controls provisions in the Act is for companies to prepare fairly stated financial statements that can provide investors with a high degree of insurance. She pointed out that last year there were 1,300 financial restatements at U.S. companies and at about half of those companies the auditors had detected and indicated material weaknesses in their internal control over financial reporting. “A material weakness exists if there is a flaw in the company’s control procedures such that it is reasonably possible that their financial statements are materially misstated,” explained Phillips. Only material weaknesses are reported publicly, less severe deficiencies are reported only to a company’s management and audit committee, she clarified. Often in situations where material weaknesses are detected, said Phillips, the auditors find the problem and the company corrects it. “That’s new information that you didn’t have before that gives you a window into the process,” said Phillips. She said the problems at these companies often are related to income taxes or lease accounting. Phillips also noted that often these firms that have worked themselves into a complex accounting situation and have not dedicated enough resources to oversee it, or they find themselves in situations in which the same people who served as CFOs when the firms were small shops now are overseeing huge operations.

“The process of going through an internal control of financial reporting audit has brought to the surface what has might have been buried for a while, which is the fact that companies had been relying on their ‘independent’ auditors to help them do their bookkeeping and a lot of other things,” pointed out PCAOB Commissioner Kayla Gillan. “With these internal controls that’s a weakness that has to be evaluated, but they can’t turn a blind eye to it anymore and auditors are not participating in that activity anymore,” she added.

Phillips emphasized that companies have been required to have internal controls over financial reporting since the 1970s, but under Sarbanes-Oxley management has to publicly report on the results of an assessment of these controls. “What has made this new requirement costly and time consuming is deferred maintenance because even though they were required to do this, they really were not,” she explained. “Before they could perform an assessment and publicly report on the results many companies had a lot of housekeeping to do,” she added. This occurred because in the past, auditors were not required to test or to rely on internal controls. “Implementation of Section 404 forces auditors to test controls directly, understand management’s assessment process of the controls, confront weaknesses and evaluate the severity,” she explained.

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OSCAR PETERS
RETIREMENT ADMINISTRATOR

DATE: May 23, 2007 Agenda Item #

To: Board of Retirement

From: Donald Kendig, Trustee and Oscar Peters, Retirement Administrator

RE: REPORT OF THE COUNCIL OF INSTITUTIONAL INVESTORS SPRING MEETING

Recommendation: That the Board receive and file this report

Discussion:
The Council Spring meeting was held in Washington DC March 18-20, 2007.

The major discussion points were the looking at the impact of Sarbanes Oxley Act off 2002 on United States on the ability of American business to compete in a global environment. The perspective of the enforcement agencies, the private equity managers, and other interested affected parties was presented. The following are excerpted summaries sessions of the meeting.

To ensure that the United States continues to be a major competitor in the global marketplace, investors have to accept "the grand bargain," which means accepting regulatory reforms that must come hand in hand with reforms to shareowners' rights, said corporate governance godfather Ira Millstein as he set the stage for the Council's annual spring conference. "Now is the perfect moment, everything is up for grabs," said Millstein referring to the recent push to re-examine the regulations adopted post-Enron. The so-called 'Paulson Report' issued November 30 contains an example of "the grand bargain," he said. "As imperfect as the report was on making specific recommendations, it did recognize that if it was going to advocate regulatory reform, it had to contain shareholder reforms as well," he told conferees. Millstein said the current debate must no longer focus on box ticking and numbers, but instead must move toward looking at what is going to make companies perform better, more efficiently and more responsibly. "We need to think about what works in terms of corporate performance, which regulations inhibit that and which shareholder rights bolster that."

Pozen refutes argument that over-regulation has harmed U.S. competitiveness. Bob Pozen, chair of MFS management and a member of the 'Paulson Committee,' as well as of a Chamber of Commerce committee looking at regulation, refuted the argument that regulations associated with the Sarbanes-Oxley Act are choking the nation's competitiveness. Using statistics, he pointed out that the number of IPOs in the United States began declining in 1992, 10 years before SOX was enacted. Pozen also said data shows that as overseas markets mature, more and more foreign companies are choosing to list in the markets closest to them. "The reasons for the migration of these IPOs are irreversible. Although they can't be attributed to regulations related to SOX, there is a perception in the global market that the regulatory and legal barriers are too high," he acknowledged. Pozen added that a New York Stock Exchange rule allowing companies listed elsewhere to access the U.S. market is contributing to this trend, and that Nasdaq is planning to put a similar rule in place. Pozen also said an SEC regulation that makes it difficult for companies to delist in the United States is an obstacle for foreign companies considering listing in this country. (SEC Commissioner Annette Nazareth later told conferees that the commission is proposing to change the provisions in this regulation to allow foreign companies more flexibility.)

Pozen also refuted the argument that foreign companies were choosing to list in London because of that country's principles-based approach to regulation. "The notion that the U.K. is principles based is a myth," he said. "The rules are just more general in the U.K. than they are in the U.S. because the U.K. is smaller. If we went to a principles-based approach it would lead to regulatory chaos. We just need to write the rules more intelligently and [provide] more flexibility," he told conferees.

Pozen also said the U.S. markets could be improved by eliminating quarterly earnings reports that prompt management to forego long-term projects in favor of short-term undertakings and to manipulate financials. "We can solve this problem if groups of good companies agree to just make annual assessments," he said. "The Council can move this change forward," Pozen added. Increasing the savings rate in the United States is the single most essential reform needed to maintain U.S. competitiveness, he emphasized. To help move in this direction, he suggested requiring small employers to connect with financial institutions to offer employees retirement plans. Employees would automatically be enrolled in such plans unless these chose to opt out. "To help rectify the global imbalance we must increase personal savings," he concluded.

CEO describes corporate turnaround. Fred Hassan, chair and CEO of ***Schering-Plough***, said his company was under tremendous stress when he came on board in 2003. He explained that the company was experiencing cash flow problems, it had lost its patent on one of its major drugs, Claritin, and it was under federal investigation for its sales and marketing practices. To turn the company around, Hassan said he exercised "organizational health," starting with a tone of honesty and transparency at the top. When the federal investigation was completed, the company signed a corporate integrity agenda with the inspector general and went beyond the provisions in that agenda, eliminating the company's poison pill, terminating its supermajority voting requirements, adopting majority voting and declassifying its board, he explained. "Governance cannot be one-size-fits-all because business models are so different. This is where board and CEO responsibility comes in, they must walk the talk," he told conferees.

Enforcer, litigator find common ground. Linda Chatman Thomsen, director of the SEC's Division of Enforcement, said 'covering the map' and giving the appearance that her SEC division is everywhere the securities markets are is one of her top priorities. "We want all sectors to think that the cops are everywhere," she explained. Thomsen said the SEC is taking a multi-divisional approach to its investigations into stock options backdating. In addition to the more than 160 investigations into backdating that her division has initiated, the Division of Corporation Finance's new disclosure rules require companies to provide more information about how and when companies grant these options.

Thomsen said to reduce any arbitrariness regarding penalties, her division last year released new guidelines for how it would impose penalties on companies that violate federal securities laws. She said the egregiousness of the violation and the level of management involvement are big factors that the division considers. "We try to treat people on a scale that makes sense," she said. Thomsen noted that many of the least remorseful companies fight the longest so her division makes an extra effort to pursue those cases to their conclusion. She also said the division has returned more than $1 billion to defrauded investors as part of the Fair Funds provision in the Sarbanes-Oxley Act. She said the division wins most of the cases it brings against individuals and companies. "This demonstrates that we know what we're doing when we bring cases and that we have the tools necessary to go up against the best trial attorneys," she said.

One of those attorneys, Reid Weingarten, who defended players in some of the most publicized corporate fraud trials in recent history, such as former WorldCom CEO Bernie Ebbers, Enron Chief Accountant Richard Causey and ousted Tyco International Counsel Mark Belnick, said "show trials" are harming investors. He explained that the high profile trials of CEOs in recent headlines hurt investors because the resources devoted to them are taken from elsewhere and because they create injustices and distortions. He said the Tyco trial distorted the truth by making the company's board members appear to be victims when, actually, they did whatever CEO Dennis Kozlowksi told them to do. He also said the WorldCom trial created injustices when CEO Bernie Ebbers received a sentence of 25 years and CFO Scott Sullivan received just five years in prison. "Show trials should be put aside because the real enforcement takes place at the SEC with its systematic cases," said Weingarten. "I would be happy if the SEC were involved in all cases," he added. He did note, however, that sometimes when companies accused of violating securities laws are negotiating with the SEC, the firms agree to pay fines and to hand over lower level employees who do not have legal representation. "Employees are thrown under the bus without any legal representation and this creates another distortion," he said.

Rep. Frank warns that congress may have to intervene on governance issues. U.S. Rep. Barney Frank (D-Mass.) said it is remarkable that some view as "radical" his bill to allow shareowners to cast advisory votes on executives' pay packages. "It is odd that the people who own shares in the company can't decide how much the head of the company should make," he commented. Frank said he would work to see that the measure clears Congress and becomes law. He also said Section 404 of the Sarbanes-Oxley Act was "over written" by accountants. "It's along the same lines as never asking your barber if you need a haircut,'" he joked. He said he does not plan on any legislative action on Section 404 because he believes the Public Company Accounting Oversight Board and the SEC "will appropriately scale it back."
Frank also cautioned against taking an overall philosophical view against regulation. "I think it's important not to have a predetermined bias against regulation, but instead to look at everything case by case and issue by issue," he told conferees. He said the SEC's choice not to repeal the

decision in the *AIG v. AFSCME* case allowing proxy access proposals in proxy statements is a good sign, but added that if the commission comes out against the inclusion of these types of proposals, Congress may need to look at the situation.

Frank also explained that if advisory votes on executive pay become law and companies ignore them, Congress would have to act on other governance issues. The Congressman told conferees he was opposed to the changes that the SEC made in December to the executive compensation disclosure rules, and said if Congress hears that disclosure under the new rules is too opaque it will hold oversight hearings.

SEC staffers address executive comp disclosure, hedge funds and mutual funds' governance. Speaking at a session about SEC issues, John White, director of the commission's Division of Corporation Finance, said his division will be monitoring companies' executive compensation disclosure throughout the 2007 proxy season. White said his staff will select hundreds of companies to do targeted reviews of their proxy disclosures and will send comments to companies at which they see deficiencies. At the end of the proxy season, division staff will write a comprehensive review of what they saw in the disclosures. In addition, the division plans to tag the data from the summary compensation tables of the 500 largest U.S. companies and make the results available to the public in June. "The game is in the process of being played. After the proxy season we will have to look to see if we need to provide more guidance and/or recommend to the commission any revisions or changes," he said.

Jennifer McHugh, senior adviser to the director of the SEC's Division of Investment Management, discussed hedge fund registration and mutual fund governance. She said ever since the D.C. Circuit Court invalidated the rules requiring hedge funds to register with the SEC, about 450 funds have withdrawn their registrations. To fill the void left by the invalidation of those rules, the SEC proposed new rules to govern pooled investments. Among other things, these rules would raise the financial sophistication standards for those investing in certain hedge funds by requiring them to have at least $2.5 million in investable assets. She noted that both the Investment Company Institute and the American Bar Associate have questioned whether the SEC has the ability to adopt this type of rule. Another rule that was invalidated by the courts set out governance standards for mutual funds. An April 2006 court ruling on the issue directed the SEC to propose the rules for comment again, which it began doing in June 2006. McHugh said her division has received about 20 letters reiterating previous positions expressed when the original mutual fund governance rules were proposed in 2004.

Prominent private equity CEOs explain why private equities are strengthening U.S. competitiveness. In a session entitled "Insights on the Private Equity Marketplace," William Conway, founding partner and managing director of the Carlyle Group, Stephen Schwarzman, chair, CEO and co-founder of the Blackstone Group, and Richard Breeden, chair and CEO of Breeden Capital Management, discussed the dramatic rise in the popularity of private equity pools in recent years.

Schwarzman explained that investments in private equities have risen due to the increase in mergers and acquisitions throughout the global marketplace and to the decrease in the cost of capital as a result of global liquidity. Given the surge in private equity investing and the impressive returns that these investments have been producing Breeden questioned why private equity pools recently have been the target of sharp criticism. Private equity pools are currently doing exactly what they have been for many years, but they have grown much larger and, as a result, they are receiving much more scrutiny in the press, said Schwarzman. Conway acknowledged that private equity firms have not done a good job with the press. “A large part of this is a public relations issue,” Schwarzman admitted. “Private equities have not organized themselves and have not communicated because they did not feel the need to, but that is changing and now the need is there.” Looking at the larger picture, private equity firms are good for the economy because they produce jobs and give companies the freedom to grow through privatization, Conway and Schwarzman said. “The amount of job creation is significant because when we buy companies we will make more money if we grow them as fast as we can,” said Schwarzman. He also said going private allows companies more flexibility to focus on long-term performance. “Many managers are thinking, ‘We will hurt quarterly earnings and the stock price will go down if we do innovative things and grow the company in the long-term.’ But, if their companies go private, they will have more freedom to do this,” he said. Conway agreed, noting that, “Some boards have taken governance in the wrong direction not thinking about how they are going to make more money for shareholders in the long term, but instead focusing on compliance with Section 404 or on making quarterly earnings.” Schwarzman emphasized that when his firm buys companies it has detailed plans aimed at increasing the long-term value of those companies.

Gore urges integration of sustainability issues into investment decisions. Former Vice President Al Gore urged investors to fully integrate sustainability issues into decisions about how they invest their portfolios. “Integrating sustainability factors into long-term investment decisions is more important now than ever before,” he said. “If you have long-term liabilities, such as climate change, then you have to match the performance of your assets to these liabilities.” He said the markets are now designed to focus on short-term performance with an emphasis on quarterly earnings. “Companies shouldn’t be penalized for taking into account sustainability factors and perhaps missing quarterly earnings,” he said. The analytical tools used by investors to measure performance need to be changed to reflect the new focus on sustainability factors such as environmental impact and corporate values and ethics, he told conferees. “These are often outside of the view of the lens of financial reporting so this change must be done systematically,” Gore recommended. He urged conferees to “help move the business sector toward a rational, more sustainable approach.”

SEC commissioner recommends steps to protect U.S. competitiveness. SEC Commissioner Annette Nazareth said to ensure that the U.S. markets continue to be an attractive, cost-effective venue for raising capital, while at the same time maintaining a high level of market integrity and investor protection, the SEC, working with others, must “identify the key causes of inefficiencies in our capital markets and then recommend effective ways to address them.” Specifically she said the following actions would help eliminate some of these inefficiencies:

- Improving Sarbanes-Oxley Section 404 implementation through SEC guidance, The PCAOB’s new Auditing Standard Number 5 and the commission’s oversight of PCAOB inspections.

- Streamlining regulations that apply to foreign issuers by instituting the SEC's foreign private issuer deregistration proposal, converging the sets of accounting standards of the Financial Accounting Standards Board and the International Accounting Standards Board and eliminating the requirement that private issuers reconcile their financial statements to U.S. GAAP if they filed financial statements using International Financial Reporting Standards.

- Reforming the U.S. regulatory structure to eliminate "jurisdictional murkiness" by considering such changes as consolidating the SEC and the Commodity Futures Trading Commission.

- Re-examining restrictive immigration and visa laws that may be hampering the ability of the U.S. financial markets to attract and retain the most talented professionals.

CII APPROVES NEW POLICIES. In addition to the informative discussions by experts on competitiveness issues at the spring meeting, Council members also conducted some business, approving three new policies, which address advisory shareowner votes on executive pay, pay consultant independence and liability, and the independence of accounting/auditing standard setters.

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OSCAR PETERS
RETIREMENT ADMINISTRATOR

DATE: November 9, 2007 Agenda Item # ___________

To: Board of Retirement

From: Donald Kendig, Trustee

RE: Report of the Council of Institutional Investors (CII) Fall Meeting

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Recommendation: That the Board receive and file trustee Kendig's CII Fall Meeting report.

Executive Summary:
The Council's Fall Meeting offered investors advice on how to respond to a global marketplace in flux. Speakers at the Council's 2007 fall meeting on "Transforming Companies and the Capital Markets," in Coronado, CA, September 16-18, 2007 discussed the transitory nature of today's marketplace and the need for investors, as well as companies, to stay on top of constantly evolving developments.

CII Activism and Policy committees, as well as the CII Board, met on Sunday. Monday had presentations by the CEO and President of United Health Group, Stephen Hemsley; former CEO and Chair of Hewlett Packard, Carleton Fiorina; several representatives from the accounting profession (FASB Chair, Robert Herz; PCAOB Chair, Mark Olson; and, IASB Vice-Chair, Thomas Jones); issues workshops covering country divestment, the four P's of executive pay, and directors views on 'hot' governance issues; and, constituency meetings of the corporate, labor, and public members. Tuesday started with the usual and customary General Members' business meeting, followed by reflections by the honorable William Jefferson Clinton, 42nd President of the Unites States, and then a venture capital presentation. Tuesday concluded with a lunch presentation by Alan Murray, the author of *Revolt in the Boardroom: The New rules of Power in Corporate America*.

Discussion:
I arrived just in time on Sunday to join the <u>Public Fund Trustees' Roundtable</u> which involved the review of the national landscape for public pensions; corporate governance and accountability, with a sample comment letter on proxy access and a sample shareholder proposal; and, private equity and hedge funds, with presentations by investment consultants (Alan Emkin was one) on

how to align the investment managers' interests when these types of firms (i.e. Fortress, Blackstone, KKR, and Och-Ziff).

Regarding private equity and hedge fund shops, concerns are elevating regarding these new giants because they are no longer niche players, but are significant owners of major companies in our neighborhoods. The wave of public offerings is primarily due to concentrated ownership of extreme value, with going public about the only way to cash in. The less obvious reality is the increasing ages of the controlling interests of these firms, which should make institutional investors wonder whether or not these principals are thinking of successful private equity deals 10 to 15 years down the road. This should at least make you wonder where lay their loyalties and focus. Alan indicated that the world has changed and the door has closed on funds going public, in some part due to the then recent credit market crisis. But, does that resolve the issues regarding loyalty and longevity? There was also discussion about the proposed tax legislation on the manager profits, and there was a sense that there wouldn't be a negative impact on investor returns. For instance, will manager do worse they only net 200 million dollars instead of 400?

The group also discussed engagement opportunities with the Bank of America, Wal-Mart analyst to discuss his findings; Homebuilders and the mortgage meltdown, Verizon, and others.

The roundtable was excellent, and I was very luck to attend, since it was not on the draft agenda I had printed out. Its time extended over the <u>activism committee</u>, so I made it to the tail end of the committee meeting, which appeared to be discussing similar corporate engagement and proxy issues to the roundtable.

The <u>policy committee</u> discussed the new disclosure of reason for auditor replacement policy, revisions to the existing clawback of executive pay policy, and the new disclosure of record date and ballot items. Apparently, there is a lot of "monkey business" when it comes to setting a meeting and getting ballot items added. A number of corporations apparently attempt to limit shareholder involvement in this process through some dubious ways.

Monday started with the <u>CEO and President of United Health Group, Stephen Hemsley</u>, discussing its transformation from corporate scandal to corporate governance. He said that in 2006 after the company's stock options scandal, a federal investigation and the forced ouster of former chairman and CEO William McGuire, the company realized it needed to take a meaningful, evolutionary step forward. Referring to this step as the company's "cultural coming of age," Hemsley explained it encompasses the following actions:

- dramatically improving its corporate governance and accounting practices;
- meeting with shareowners this fall and winter to work on tying its executive compensation more closely to performance;
- adding five new independent directors;
- declassifying the board;
- adopting majority voting in director elections;
- removing its supermajority voting requirements;
- adding a clawback provision under which executives must surrender their cash bonuses and equity compensation in the event of a restatement;
- standardizing the timing of stock option grants;

- establishing stock ownership guidelines for executives and directors; and
- creating a new position to oversee the board.

He emphasized that throughout the company's engagement with shareowners it was important to view the process as continuous because otherwise it can easily be dropped when things go well for the company. "We see the work we've done in the evolutionary process as crucial to becoming a great company," Hemsley said.

Following, was departing SEC Commissioner, Roel Campos, who gave parting opinions on the current SEC proposals and the Chairman Christopher Cox. He said people from all sides seem to dislike everything about the SEC's two proxy access proposals. He called the short proposal "impossible" and the long one "very bad," and recommended that investors assess if there is anything to work with in the long proposal. If they find something in that version that they believe is workable, they should engage in a negotiating process with the SEC.

Campos also explained that with his departure from the SEC, the short proposal could be approved by the remaining commissioners. However, he said he believes SEC Chairman Christopher Cox cares too much about his legacy to allow passage of such an anti-investor proposal. "Voting with a short commission is not good for optics," Campos said. He predicted that if his replacement is not named by November or December, the SEC might not act on either proposal. Inaction would not be harmful to shareowners, he said, because when the proxy access proposals originally were presented by the SEC, staff from the Division of Corporation Finance and the general counsel's office said publicly that until a final rulemaking is in place, the status quo stands and SEC staff does not support excluding proxy access proposals.

I was particularly delighted by the arcane and technical, yet witty, discussion of the convergence of accounting and financial reporting standards by the Financial Accounting Standards Board (FASB) Chair, Robert Herz, the International Accounting Standards Board (IASB) Vice-Chair, Thomas Jones, and the Public Company Accounting Oversight Board (PCAOB) Chair, Mark Olson. Important takeaways:

"Accounting is just a language to describe business transactions so there is no reason for it to be different in all geographic areas," said Jones. "Virtually every country will eventually use the International Accounting Standards Board's accounting standards," he predicted. Olson continued Jones's analogy and commented, "If accounting is a language, then it's the auditor's job to make sure the grammar is correct, so we can audit any type of accounting standards."

We are moving towards convergence of the standards and Herz estimated that progress toward convergence stands at about 40 percent. He said the convergence toward International Financial Reporting Standards (IFRS) in Europe has been quite successful although each country still has its own national flavor integrated into the standards. Maybe we will have ours.

Olson said the differences in accounting standards are much more pronounced than the differences in auditing standards, and he said auditors could work with any one of the standards that the SEC proposed in its concept releases.

I enjoyed the technical discussion, but thought the audience might have enjoyed it more if some of the specific standards were discussed and applied to how an investor interprets the value or potential of a company.

After the accounting discussion we broke for lunch and listened to Carleton Fiorina's views on board responsibilities in today's marketplace. The former Chair and CEO of Hewlett-Packard offered her views on the composition and operations of boards during this transformative period in the capital markets. In the competitive global marketplace only strong companies can compete and survive so it is the board's role to create strong companies, Fiorina said. To do that, boards must focus on four constituencies: customers, employees, members of the local community and shareowners. "A board has to make judgments about whether these four interests are being balanced," she advised.

In addition to globalization, technology has dramatically changed the competitive landscape because it has lowered the barriers to entrance and accelerated the pace of business, she said. Fiorina also cautioned that technology can alter the landscape of an industry overnight.

Fiorina said the leading indicators of a company's success include the following:

- Customer satisfaction metrics (which tell if customers are seeking alternatives);
- The rate of innovation (which measures if new products and patents being produced); and
- Diversity on the board and in the workforce (which indicates whether the company is willing to consider new ideas or just focus on consensus).

She emphasized that board members should focus on the larger good of the institution and put their parochial interests aside. In addition, they should consider diverse viewpoints but strive for unanimity. Their deliberations should be confidential, but once a decision is made it should be totally transparent. "Problems get solved and successful change happens when people find common ground," Fiorina said.

In terms of board members' qualifications, she said directors should have good judgment to know the limits of their power **and** ethics to make the right choices over the long term. But beyond those two very important qualifications, she emphasized that there is no checklist for determining who would be an effective director.

After lunch attendees had a choice of three issues workshops: Country Divestment, Directors' Views on Hot Governance Issues and the Four Ps of Executive Pay: Perks, Performance Metrics, Pay Consultants and Pay Votes.

I attended the Four Ps of Executive Pay and had a panel comprised of the CEO and Founder of Equilar David Chun, Director of Corporate Governance and Pension Investment for the American Federation of State, County and Municipal Employees (AFSCME) Richard Ferlauto; and Executive Compensation Counsel for Watson Wyatt Worldwide Steven Seelig.

The panel was moderated by Meredith Miller, assistant treasurer for policy for the Connecticut Retirement Plans and Trust Funds. Key takeaways:

Executive compensation has become incredibly significant for all aspects of corporate governance. “It is a window through which investors can look into the quality and effectiveness of board decision making,” Miller said.

Seelig said the recent letters that SEC staff has sent to companies about deficiencies in the executive compensation disclosure in their 2007 proxy statements focus on extracting more information about how pay decisions were made and the metrics that are tied to them. “The SEC wants shareholders to see what performance metrics were set out, such as earnings per share or return on investment, as well as the more specific goals, such as a 5 percent increase in earnings per share,” he explained. Staff also is looking for more details about how the benchmarking process worked, how management was involved in that process, which peers were being used for comparison as well as how and why the CEO was paid differently than the other named executive officers, he said. Seelig predicted that by 2009 investors will really be able to determine if executives are being paid for performance. “I think the changes might be slow in coming, but they will come.”

Regulatory disclosure of executive compensation can only progress so far because the SEC is already overburdened, said Ferlauto. Allowing shareowners to cast an advisory vote on executives’ pay packages “motivates a constructive dialogue and that dialogue drives much more performance-based pay,” he said. Seelig said Watson Wyatt is educating its corporate clients on ‘say on pay’ and warning them that they should make their disclosures extremely descriptive and transparent because at some point they could be put up for a shareowner vote.

Chun said the new disclosure has prompted companies to “over disclose,” and, as a result, the information in the proxy statements has become more difficult to understand. “To expect this all to change in one proxy season is unreasonable, but I’m hopeful that we’re seeing the needle move in the right direction,” he said. Less is more was emphasized by the panel, and it is quality as opposed to quantity that is needed.

Tuesday started with the business meeting, where I attended the general members’ meeting. We heard reports from the Chair, Jack Ehnes, Treasurer, Gail Stone, Staff, Anne Yerger, Activism Committee Chair, Steve Albretch, and Policies Committee Chair, Mary Collins. The membership adopted the proposed policy on Disclosure of Reasons for Auditor Replacement, amendments to the Council Policy on Clawbacks, and policy on disclosure of record date and ballot items. Council policies can be found here: http://www.cii.org/policies/. Additional actions included approving the 2008 operating budget, the excess reserve budget, bylaw amendments, and staff’s comment letter to the SEC on its proposals on shareowner access.

After the business meeting we heard from Former President William Clinton on developments in the global economy that investors should consider when making investment decisions. He said that to break out of the nation’s current economic rut in which median wages are flat, the number of people with health insurance is falling and the number of workers with defined benefit plans is declining, a source of good new jobs has to be uncovered every five to eight years. “No government policy can compensate for not having that source of economic growth,” Clinton emphasized.

He said investors should look at the current threats to the nation's economy—the persistent inequality in education and health care, widespread insecurity due to terrorism and epidemics and the threats posed by global warming and depleting natural resources—as opportunities, not imparities. Specifically, he said there is gold in an alternative energy economy and that jobs tied to this type of economy cannot be outsourced. He pointed to a dramatic growth in the Danish economy after that nation stabilized its energy use.

Clinton said the issue of providing healthcare to all U.S. citizens has to be tackled because it is hurting U.S. companies' ability to compete in the global marketplace. "Companies here can go bankrupt over healthcare costs," he cautioned. He noted that an emphasis on primary and preventive care can go a long way to lower costs.

He said the nation's vast network of universities, community colleges, vocational schools and apprenticeship programs represents a significant competitive advantage over other nations in the global marketplace, and that advantage must be preserved.

In terms of international investments, Clinton recommended investors focus on countries that are still poor but have growing economies. He noted that several African nations have economies that are growing between 3 percent and 6 percent each year. He also emphasized the importance of the United States eliminating its debt to other countries. "We are losing money because we can't enforce our trade laws because we have borrowed from the countries with which we have the largest trade deficits," he explained.

Clinton also advised that investments in the defense industry will continue to produce healthy returns even if the U.S. withdraws from Iraq because the next president will have to re-equip the military. The equipment is being used up now and will need to be replaced or repaired.

After a break for security reasons we heard from Venture capitalists Alan Salzman, co-founder and managing partner of VantagePoint Venture Partners and Scott Sandell, general partner of New Enterprise Associates discussed emerging venture capital investment opportunities in the global marketplace in a panel moderated by Christopher Ailman, chief investment officer for the California State Teachers' Retirement System.

Both Salzman and Sandell agreed with Clinton that the alternative energy sector will prove to be a great source of job creation and investment opportunity. Speculating on the prospects of this sector, Salzman said: "we're in the equivalent of the first inning of a nine inning baseball game." He identified five main "durable" drivers that will create significant long-term investment opportunities within the industry: cost spikes, energy security, global warming, increased awareness of limited resources, and worldwide demand.

With demand issues laid out by Salzman, Sandell tackled issues concerning supply. While the oil crisis in the 1970s brought about an enthusiasm for alternative energy, the low gas prices of the 1980s stymied the movement and research funds evaporated. He said the recent rise in oil prices has reinvigorated this movement and he predicted that the research that carried over from the 1970s will come to fruition in the next couple of years in ways that don't require subsidies, that don't require extra carbon credits or tax credits.

The recent surge in solar IPOs in the United States and China represents the first generation in solar energy technology, Sandell reported. The 50 percent growth in the industry per year shows that the subsidies in Spain and other parts of the world can make this a good business. However, this puts a strain on polycrystalline solar cell production. The solar energy industry is at a competitive disadvantage for obtaining polycrystalline silicon, the same ingredient used in computer chips which carry a higher value than solar cells. Moreover, the silicon costs about $1 per watt before it is transformed into a module. The cost of building the next coal-fired power plant and filling it with coal for the rest of its useful life is $1 per watt. Today the price of a solar module is approximately $2.50 per watt. "Unless we can find a way to make solar cells that don't use polycrystalline silicon, we're not going to get very far," Sandell stressed. "We must find technologies that will take advantage of the subsidies that exist today to refine processes and build the volume necessary to achieve economics below $1 per watt," he said.

In the past, as new technologies developed with companies in the United States, "we thought of our markets as U.S. domestic markets. If the companies matured to a certain point you would think of Europe and Japan as the rest of the world." Today, however, Salzman and other venture capitalists must "think immediately in terms of global markets."

With the rapid development of new companies in the alternative energy field, it is important that these fledgling firms have responsible corporate governance practices. Sandell explained his process of developing a solid and balanced board of directors starts with five seats, two of which are held for venture capitalists, two for management (including the CEO), and one mutually agreeable independent director. By the time the company is ready to go public, in general, Sandell said he aims for a board size of seven to eight. He said he has found that maintaining two management seats, one for the initial founder and one for the CEO, and one to three independent seats works well. As a venture capitalist on a board of directors, Sandell's rule of thumb is to leave the board when he no longer has stock in a company, typically two or three years after the IPO.

Salzman noted that in a private company governance is relatively simple: the owners hire a management team that runs the company's day-to-day operations. He said the problem is finding the right balance in oversight. With Salzman's companies, board power is shared equally. There is no position of chair and CEO but rather president and CEO. In fact, his companies see the title of chair as strictly ceremonial, given to a former founder who has relinquished the position of CEO or to distinguish a member of the board.

Compensation issues also become simple when the owners are represented on the board said Salzman. When it is the owner's money being spent, management teams will not receive higher compensation than necessary, he asserted. "We do surveys. We study. We know what comparable compensation is for each position in the company. We monitor that with great care because if you're in the business of making investments, of looking after capital for other people, it's fiduciary. You have to think of it as your money."

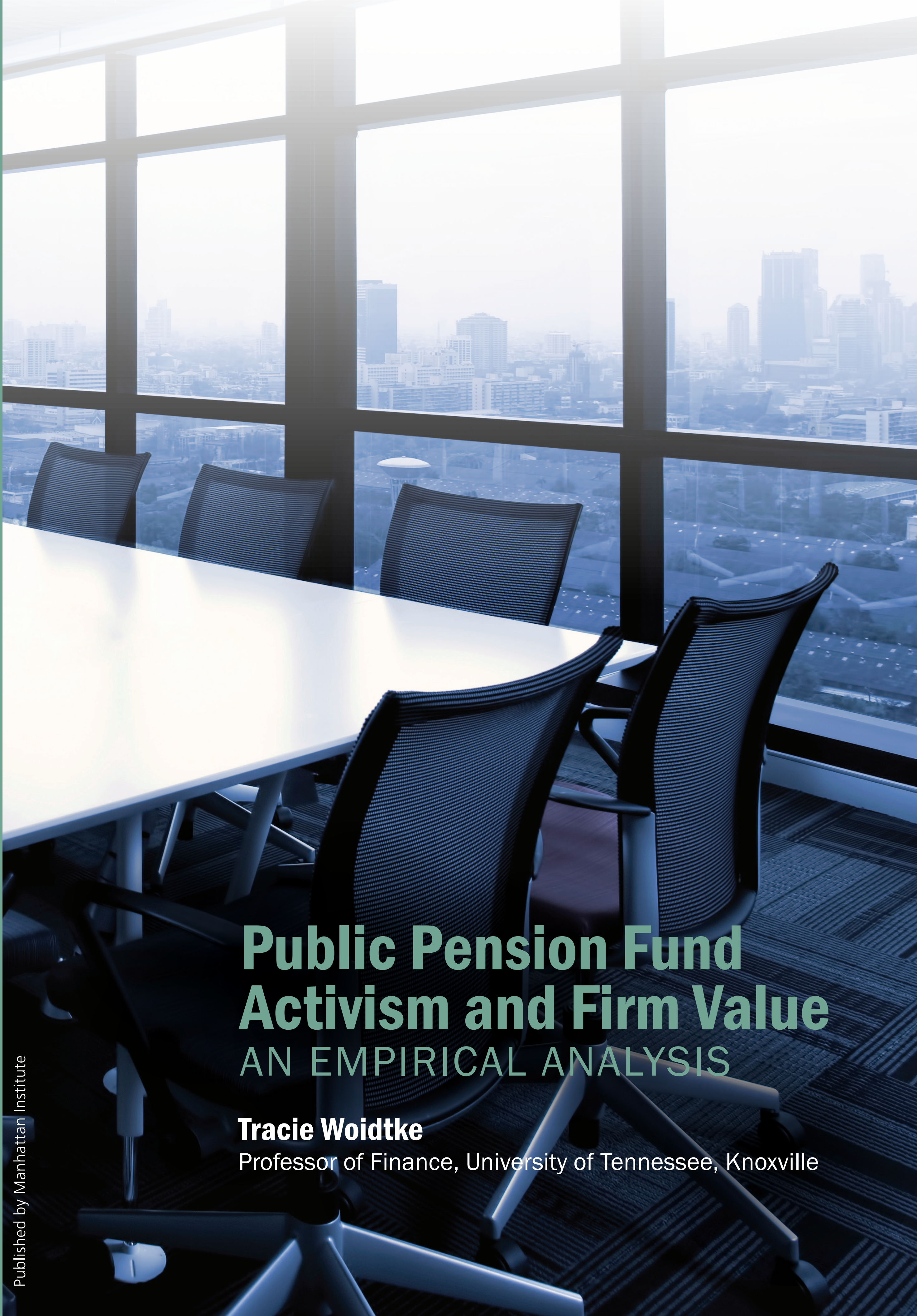
Last but not least was Assistant Managing Editor of The Wall Street Journal Alan Murray telling Council members you don't have to be a financial genius to have seen disasters like that one coming (Pointing at the recent collapse of the subprime mortgage lending industry). “Now we’re saying that we’re going to make sure another Enron never happens again and yet at the same time we’re shoveling money into private equity funds that we don’t know much about,” he warned. He urged Council members to call for more disclosure about the governance practices at private equity groups and hedge funds.

More regulation and litigation are not the way to ensure that collapses like the one in the subprime mortgage sector do not occur, he said. Instead, capitalism should work the way it is supposed to work and the owners of the capital should make sure the managers of the capital fulfill their responsibilities. He said activist institutional investors, the Sarbanes-Oxley Act and proxy advisory firms have made huge strides toward ensuring that happens. Murray also said executive sessions in which directors meet without management present (joking about Fiorina’s comments, that appeared to conflict with her behavior, the day before), court rulings determining that D&O insurance will not cover directors when they do not act in the best interests of shareowners and government investigations into managers’ conflicts of interest also have prompted those overseeing shareowners’ capital to take their responsibilities more seriously.

The above report was enhanced by the Council’s *Meeting Wrap-up* notes for the conference. In addition to the staff notes, the agenda, and attendees, among many other valuable sources of information, can be viewed on-line at: http://www.cii.org/.

I support continued membership in the Council and encourage attendance by trustees and staff.

Legal Policy Report | No. 20 September 2015



Public Pension Fund Activism and Firm Value

AN EMPIRICAL ANALYSIS

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Published by Manhattan Institute

ABOUT THE AUTHOR

Tracie Woidtke is the David E. Sharp/Home Federal Bank of Tennessee Professor in Banking and Finance; the Charles and Dorothy Duggan Faculty Research Fellow; and a Neel Corporate Governance Center Research Fellow at the University of Tennessee, Knoxville. Previously, she served on the faculty at Texas A&M University.

Woidtke's research focuses on issues related to corporate governance. Her research has been published in leading finance and accounting journals, including the *Journal of Financial Economics, Journal of Financial and Quantitative Analysis, Journal of Accounting and Economics, Journal of Banking and Finance, Journal of Corporate Finance,* and *Journal of Financial Intermediation;* has been presented at the U.S. Securities and Exchange Commission; and has been referenced in numerous reports and articles on corporate governance. Woidtke has served as a panelist at the Financial Management Association Meetings in Chicago and New York, as well as at the CFO Forum on Shareholder Activism at the University of Washington.

She won the University of Tennessee, Knoxville's 2007 Allen H. Keally Outstanding Teacher Award and the university's 2008 Southern-Peters Outstanding Research Award. Woidtke holds a B.A. in math and computer science and an MBA, all from Millsaps College, and a Ph.D. in finance from Tulane University. As a Rotary Scholar, she attended Queen's University in Canada.

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EXECUTIVE SUMMARY

This paper examines the relationship between public pension funds engaged in shareholder activism—specifically, that involving corporate-governance rules or social/policy concerns—and firm value during 2001–13: consistent with the author's previous research, the paper finds that public pension fund ownership is associated with lower firm value, as measured by Tobin's Q and industry-adjusted Q.

The paper further explores this relationship across two time subsets, 2001–07 and 2008–13; it examines two data samples, the Fortune 250 and S&P 500; and looks separately at the major state pension funds engaged in such activism—principally the California Public Employees Retirement System (CalPERS), California State Teachers Retirement System (CalSTRS), New York State Common Retirement System (NYSCR), and Florida State Board of Administration (FSBA). Key findings include:

1. **Ownership by public pension funds engaged in social-issue shareholder-proposal activism is negatively related to firm value.** This relationship is significant for the 2008–13 period—when the two large funds focused on social-issue activism, CalSTRS and the NYSCR, were engaged in shareholder-proposal activism—in both the Fortune 250 and S&P 500 samples.
2. **Ownership by NYSCR is negatively related to firm value during the period in which the fund was actively engaged in sponsoring shareholder proposals related to social issues.** This relationship is significant for 2008–13, at the 1 percent level, for both the Fortune 250 and S&P 500 firm samples, as well as for the overall 2001–13 period for the broader S&P 500 sample. There is no statistically significant relationship between NYSCR ownership and firm value in the earlier 2001–07 period, when the fund was not as active in sponsoring shareholder proposals. Overall, S&P 500 firms targeted by NYSCR with social-issue shareholder proposals subsequently had a 21 percent lower Tobin's Q and a 91 percent lower industry-adjusted Q than all other firm-years in the sample.
3. **There is no significant relationship between public pension fund ownership and firm value for funds engaging in shareholder-proposal activism focused on corporate governance rules.** For the full 2001–13 period, 2001–07 period, and 2008–13 period, there is no statistically significant relationship between firm value and ownership by public pension funds engaged in corporate-governance-related shareholder-proposal activism, in either the Fortune 250 or S&P 500 sample. Certain funds engaged in such activism—notably the FSBA and the Ohio pension funds—show significant positive relationships between their ownership and firm value for certain periods or samples.

These findings suggest that public pension funds' shareholder activism influences companies but that such influence is not generally associated with positive valuation effects; when influence is associated with social-issue activism, valuation effects tend to be negative. In contrast, private pension fund ownership—driven by the Teachers Insurance and Annuity Association–College Retirement Equities Fund (TIAA–CREF), which engages in strategies designed to influence corporate behavior in its portfolio—is associated with higher firm value, at least in some sample study periods.

These findings are also consistent with the hypothesis that performance-based compensation for administrators of private pension funds generally results in a convergence of their interests with other shareholders', whereas public pension fund administrators' actions may be motivated more by political or social influences than by firm performance, leading to a conflict of interest. Policymakers overseeing state and municipal pension plans need to consider carefully the shareholder-activism strategies employed by their funds.

INTRODUCTION

Many credit the increase in institutional shareholder activism during the 1990s, at least in part, to intense lobbying efforts by institutional investors to allow greater shareholder involvement in the proxy voting process (e.g., Eisenhofer and Bany 2013). For example, the U.S. Securities and Exchange Commission (SEC) initiated a comprehensive reexamination of the federal proxy regulations, which culminated in the 1992 proxy-rule amendments, after receiving a series of letters from some of the most activist institutional investors, spearheaded by the California Public Employees Retirement System (CalPERS) (Fisch 1994).

The aim of the expansive reforms was to increase the ability of investors to communicate with one another on how to respond to a proxy-issue proposal. Among others, the 1992 proxy reforms enabled activist investors to broadcast their voting positions on a website (CalPERS began to broadcast its voting positions on a new website), potentially enhancing their influence over shareholder voting and company management.

Several pension funds continue to be among the most active institutional investors by broadcasting their stance on proxy voting for certain issues, publishing focus lists, sponsoring proxy proposals, and supporting reforms that increase shareholders' power to influence company management (e.g., proxy access and say on pay). Even though public pension funds do not tend to face the same potential conflicts of interests stemming from either short-term investment horizons or business ties with their portfolio companies as other types of institutions do, they are frequently criticized for being influenced more by social and political issues than by shareholder wealth.

In its July 22, 2011 decision invalidating the SEC's proposed mandatory proxy-access rule, the U.S. Court of Appeals declared: "By ducking serious evaluation of the costs that could be imposed upon companies from use of the [proxy access] rule by shareholders representing special interests, particularly union and government pension funds, we think the [Securities and Exchange] Commission acted arbitrarily."

In an earlier study (Woidtke 2002), this author examined the potential influence that different institutional investors' incentive structures had over their portfolio companies during the early onset of institutional-investor activism (1989–93) by studying the valuation effects associated with the different incentive structures of public and private pension funds for a sample of Fortune 500 firms. In particular, the author tested whether other shareholders in a firm benefit from the relationship between a firm's management and certain institutional investors, when ownership in a firm by the group of institutions is used as a proxy for the institutions' influence with management.

The author found that firm value is positively related to ownership by private pension funds and negatively related to ownership by activist public pension funds after controlling for other determinants of ownership. However, the results suggested that not all public pension fund activism is associated with negative valuation effects. Instead, the results suggested that the actions of public pension funds that focus on social or "poor" corporate governance issues were associated with negative valuation effects during 1989–93.

The author concluded that the positive effect associated with private pension fund ownership is consistent with the larger, more performance-based compensation for administrators of private pension funds, resulting in a convergence of interests with other shareholders. The negative effect associated with the ownership of public pension funds that focus on social or "poor" corporate governance issues is consistent with the argument that these administrators' actions may be motivated more by political or social influences than by firm performance, leading to a conflict of interest.

This paper examines the valuation effects associated with the different incentive structures of public and private pension funds for a sample of firms, in both the Fortune 250 and S&P 500 Index, during a more recent period (2001–13). The study aims to see if the valuation effects associated with pension fund influence, measured through ownership, have altered as the regulatory environment has changed and institutional investor activism has evolved. This paper also takes a more granular look at specific shareholder-proposal activist strategies, drawn from the Manhattan Institute's ProxyMonitor.org database and other available information, as associated with sponsoring public pension funds.

Following Woidtke (2002), the paper uses a firm's industry-adjusted Tobin's Q—the ratio of the market value of a firm's assets to the book value of its assets—to measure the expected valuation effects from observable and unobservable aspects of the relationships between pension funds and their portfolio firms. As with Woidtke (2002), the paper finds that industry-adjusted Q is negatively related to public pension fund ownership and positively related to private pension fund ownership during 2001–13.

However, interesting differences arise when different activist strategies—and how such strategies vary over time—are examined. The positive valuation effect for private pension fund ownership is driven by the ownership of TIAA–CREF, the most well-known private pension fund activist throughout the sample period. In contrast, the valuation effect for public pension fund ownership is not confined to a particular public pension fund during the entire period. Instead, the relation varies with public pension fund strategy over time.

The negative valuation effect in the more recent period (2008–13) is driven by ownership of public funds that sponsor social-issue proposals, especially the New York State Common Retirement System (NYSCR), and coincides with active sponsoring of social-issue proposals during this period. Ownership by these funds is not associated with negative valuation effects during the earlier period (2001–07) when they were not as active in sponsoring social–issue proposals.

Consistent with social–issue activism having negative valuation effects, Tobin's Q is 22 percent lower (1.42 vs. 1.83) and industry-adjusted Tobin's Q is 141 percent lower (-0.12 vs. 0.29) for companies targeted by NYSCR with a social-issue proposal than for other companies in the Fortune 250. These results are robust for companies in a larger dataset, the S&P 500, for which Tobin's Q is 21 percent lower (1.59 vs. 2.02) and industry-adjusted Tobin's Q is 91 percent lower (0.04 vs. 0.45) for companies targeted by NYSCR with a social-issue proposal than for other companies.

The negative valuation effect for public-pension fund ownership during the earlier period (2001–07) is less clear. Across the narrower Fortune 250 sample, the effect appears to be driven by the State of Wisconsin Investor Board (SWIB), which, despite being considered among the most active public pension funds in earlier studies, did not sponsor proxy proposals during this paper's sample period. However, SWIB's negative valuation effect is not statistically significant in the broader S&P 500 sample.

Conversely, the California State Teachers Retirement System (CalSTRS), which focuses its shareholder-proposal activism on social issues, has a directionally negative but statistically insignificant relationship with firm value in the narrower Fortune 250 sample—but a negative, significant relationship with firm value for the entire period of the broader S&P 500 sample. That negative relationship is only significant for the earlier period, when the fund was not sponsoring shareholder proposals.

There is no significant evidence of a negative valuation effect overall for ownership by public pension funds that sponsor corporate governance proposals (CalPERS and the Florida State Board of Administration (FSBA)). Overall, the results suggest that pension funds continue to influence companies, but pension fund influence is not always associated with positive valuation effects. In particular, negative valuation effects are found when influence is associated with social-issue activism.

I. RELATIVE FIRM VALUE

Assuming that financial markets are efficient and that a firm's market value is an unbiased estimate of the present value of its future cash flows, Tobin's Q is a measure of the contribution of the firm's intangible assets to its market value. Management's actions directly affect the value of intangible assets. Tobin's Q should therefore include any adjustments that the market has made to incorporate expected valuation effects associated with the relationship between institutional shareholders and their portfolio firms.[1]

In particular, a positive valuation effect would be incorporated if the market perceives that the objective function of an institution's administrator will result in a relationship that aligns management's incentives with those of other shareholders. On the other hand, if the objective function of an institution's administrator is perceived to result in a relationship that does not align incentives between managers and other shareholders, a negative valuation effect would be incorporated. Thus, a firm's Q less the median Q for its industry (industry-adjusted Q) provides a measure of the influence of private and public pension funds on the shareholder wealth of a firm, relative to its industry.

This measure avoids the problems of pinpointing when new information is released and of introducing a possible sample-selection bias from studying only firms that have been publicly targeted. Industry-adjusted Q will capture all valuation effects that are expected to result when pension funds are present in a firm's ownership structure. Industry-adjusted Q is calculated as a firm's Q, less the median Q for firms with the same two-digit SIC code. Financial data are obtained from Compustat.

II. PENSION FUND OWNERSHIP

To measure the influence of pension fund ownership on industry-adjusted Q, this paper uses lagged pension fund ownership—calculated as the number of shares held by a pension fund, as a proportion of shares outstanding at the end of the quarter before industry-adjusted Q is calculated. The numbers of shares owned in a firm by pension funds are collected from Thomson 13f ownership data.[2]

One data limitation is that ownership data are not available for all pension funds. For example, pension funds managing less than $100 million in assets and pension funds delegating investment decisions to outside money managers are not required to disclose their holdings. However, to the extent that pension funds with 13f filings are the largest pension funds that are most likely to monitor corporate behavior, most of the pension funds most likely to affect shareholder value are included in this paper.

Likewise, ownership data are available for most of the pension funds that have been documented as having relations with portfolio firms' valuations in earlier studies on pension fund activism—public (CalPERS, CalSTRS, FSBA, NYSCR, and SWIB) and private (CREF).[3] One notable group of public pension funds not included in this paper are those associated with New York City public employees, which are among the most-active sponsors of shareholder proposals and collectively among the five-largest state or municipal pension plans. Because these funds do not file 13f reports, their ownership data are unavailable.

Average ownership in this paper's sample by the group of pension funds with 13f filings is 3.75 percent for the Fortune 250 and 3.98 percent for the S&P 500. When classifying pension fund ownership according to whether funds are private or public, average ownership is 1.27 percent for private pension funds and 2.48 percent for public pension funds for the Fortune 250; and 1.45 percent for private pension funds and 2.53 percent for public pension funds for the S&P 500. Average ownership by TIAA–CREF represents approximately 60 percent of private pension fund ownership for the Fortune 250 and 53 percent of private pension fund ownership for the S&P 500.

Average ownership by public pension funds that sponsor proxy proposals during this paper's sample period is approximately 44 percent of public pension fund ownership for the Fortune 250 and 43 percent of private pension fund ownership for the S&P 500. CalPERS (average ownership: 0.35 percent for the Fortune 250 sample; 0.34 percent for the S&P 500 sample) was the only public fund to actively sponsor corporate-governance proxy proposals throughout the 2001–13 period.

FSBA (average ownership: 0.23 percent for both the Fortune 250 and S&P 500 samples) also sponsored corporate-governance proxy proposals, but their sponsorship was confined to the latter half of the 2001–13 period. CalSTRS (average ownership: 0.12 percent for the Fortune 250 sample; 0.11 percent for the S&P 500 sample) and NYSCR (average ownership: 0.38 percent for the Fortune 250 sample; 0.40 percent for the S&P 500 sample) were not active sponsors during the first half of the 2001–13 period, but became active sponsoring social issue proposals during the second half of the period.

SWIB (average ownership: 0.09 percent for the Fortune 250 sample; 0.10 percent for the S&P 500 sample) was not active sponsoring proxy proposals at any point during the 2001–13 period, though it was during earlier periods. Finally, Ohio only sponsored a corporate governance proposal during the latter part of the period, and only for the S&P 500 sample.

III. EMPIRICAL ANALYSIS

To measure the valuation effects of pension fund influence, this paper regresses Tobin's Q and industry-adjusted Q on lagged ownership by public pension funds and private pension funds, controlling for other factors found to influence industry-adjusted Q in Woidtke (2002). The paper uses robust standard errors clustered at the firm level to compute statistical significance. Specifications (1) and (4) present results for the full sample period; specifications (2) and (5) present results for the 2001–07 early period; and specifications (3) and (6) present results for the 2008–13 later period (**Figure 1** and **Figure 2**).

Figure 1. Pooled Regression Analysis of Tobin's Q and Industry-Adjusted Q on Lagged Ownership by U.S. Public Pension Funds and Private Pension Funds: Fortune 250*

Sample Period:	2001–2013	2001–2007	2008–2013	2001–13	2001–07	2008–13
	Tobin's Q	Tobin's Q	Tobin's Q	Industry-Adjusted Q	Industry-Adjusted Q	Industry-Adjusted Q
Constant	6.16*** (0.000)	7.06*** (0.000)	4.96*** (0.000)	3.97*** (0.000)	4.65*** (0.000)	3.03*** (0.000)
Lagged Ownership by U.S. Public Pension Funds	-13.51*** (0.009)	-13.13* (0.061)	-13.12** (0.015)	-12.91** (0.025)	-14.66** (0.046)	-8.73 (0.193)
Lagged Ownership by Private Pension Funds	19.77*** (0.001)	16.90** (0.012)	20.38*** (0.004)	12.40** (0.026)	11.31* (0.063)	11.34 (0.112)
Lagged Ownership by Other Institutions	-1.41*** (0.000)	-1.56*** (0.000)	-1.22*** (0.000)	-1.03*** (0.003)	-1.15*** (0.009)	-0.86*** (0.006)
Leverage	-0.98*** (0.004)	-1.62*** (0.000)	-0.34 (0.388)	-1.40*** (0.000)	-1.90*** (0.000)	-0.97** (0.014)
R&D Expense Scaled by Assets	11.32*** (0.000)	13.47*** (0.000)	7.19*** (0.000)	7.20*** (0.000)	9.63*** (0.000)	2.26 (0.310)
Missing R&D Indicator Variable	-0.07 (0.353)	-0.14 (0.113)	-0.03 (0.782)	0.19** (0.033)	0.14 (0.146)	0.19* (0.061)
Advertising Expense Scaled by Assets	8.10*** (0.001)	9.59*** (0.002)	6.10** (0.034)	6.27*** (0.005)	8.33*** (0.007)	3.80 (0.120)
Missing Advertising Indicator Variable	-0.20* (0.060)	-0.19 (0.157)	-0.23** (0.029)	-0.23** (0.050)	-0.22 (0.141)	-0.24** (0.026)
Member of S&P 500 Index	0.16 (0.234)	0.10 (0.587)	0.29* (0.053)	0.18 (0.297)	0.07 (0.744)	0.39** (0.034)
Natural Log of Assets	-0.31*** (0.000)	-0.37*** (0.000)	-0.27*** (0.000)	-0.25*** (0.000)	-0.29*** (0.000)	-0.22*** (0.000)
Prior Year Positive Income Indicator Variable	0.04 (0.606)	0.00 (0.990)	0.09 (0.142)	0.03 (0.748)	-0.02 (0.909)	0.09 (0.221)
Estimated Stock Transaction Costs	-0.71*** (0.000)	-1.01*** (0.000)	-0.57*** (0.000)	-0.47*** (0.000)	-0.65*** (0.009)	-0.38*** (0.001)
Insider Ownership	0.03* (0.091)	0.04* (0.086)	0.02 (0.243)	0.03** (0.037)	0.05** (0.037)	0.03 (0.130)
Insider Ownership Squared	-0.00** (0.026)	-0.00** (0.041)	-0.00* (0.082)	-0.00** (0.013)	-0.00** (0.016)	-0.00* (0.070)
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Observations Adjusted R-squared	2326 0.50	1153 0.54	1173 0.44	2326 0.33	1153 0.40	1173 0.25

*The sample contains 2,326 observations for a sample of Fortune 250 firms during 2001–13. Tobin's Q proxies for firm value and is equal to a firm's market value of assets scaled by its book value of assets, where market value of assets equal book value of assets less book value of equity plus market value of equity. Book values are taken at fiscal year-end and market values are taken at calendar year-end. Industry-adjusted Q controls proxies for relative firm value in a given year and is equal to a firm's Tobin's Q less the median Tobin's Q for all firms in the same two-digit SIC code. Lagged ownership by U.S. public pension funds equal the aggregate number of shares held by U.S. public pension funds which file 13f reports, divided by the total number of shares outstanding—all measured for the most recent quarter with data available prior to the calendar year-end. Lagged ownership by private pension funds equal the aggregate number of shares held by CREF and corporate pension funds which file 13f reports, divided by the total number of shares outstanding—all measured for the most recent quarter with data available prior to the calendar year-end. Robust standard errors are clustered at the firm level. The corresponding p-values are given in parentheses. Statistical significance at the 1 percent, 5 percent, and 10 percent level is indicated by ***, **, and *, respectively.

A negative valuation effect is found for public pension fund ownership and a positive valuation effect is found for private pension fund ownership. The negative valuation effect for public pension fund ownership is statistically significant for the entire sample period and early sample period, for Tobin's Q and industry-adjusted Q—and for both the Fortune 250 and the S&P 500 samples. However, the results are only statistically significant for Tobin's Q in the later period. The positive valuation for private pension fund ownership is only statistically significant for both samples for the 2001-07 early period.

The paper next measures valuation effects associated with public pension fund ownership based on whether the public

Figure 2. Pooled Regression Analysis of Tobin's Q and Industry-Adjusted Q on Lagged Ownership by U.S. Public Pension Funds and Private Pension Funds: S&P 500*

Sample Period:	2001–2013	2001–2007	2008–2013	2001–13	2001–07	2008–13
	Tobin's Q	Tobin's Q	Tobin's Q	Industry-Adjusted Q	Industry-Adjusted Q	Industry-Adjusted Q
Constant	6.59*** (0.000)	8.02*** (0.000)	5.23*** (0.000)	4.30*** (0.000)	5.64*** (0.000)	3.23*** (0.000)
Lagged Ownership by U.S. Public Pension Funds	-16.02*** (0.005)	-18.93*** (0.006)	-15.38** (0.024)	-10.10* (0.072)	-13.24* (0.053)	-9.62 (0.162)
Lagged Ownership by Private Pension Funds	1.03 (0.548)	9.83** (0.021)	-0.01 (0.987)	1.62 (0.421)	10.03*** (0.010)	0.69 (0.548)
Lagged Ownership by Other Institutions	-0.30 (0.199)	-0.77** (0.011)	-0.02 (0.944)	-0.22 (0.330)	-0.76** (0.013)	0.13 (0.590)
Leverage	-0.85*** (0.003)	-1.66*** (0.000)	-0.37 (0.253)	-0.93*** (0.001)	-1.62*** (0.000)	-0.53* (0.086)
R&D Expense Scaled by Assets	7.87*** (0.000)	9.76*** (0.000)	5.92*** (0.000)	5.13*** (0.000)	6.75*** (0.000)	3.45** (0.013)
Missing R&D Indicator Variable	-0.02 (0.850)	0.01 (0.944)	-0.02 (0.774)	0.23*** (0.006)	0.28** (0.041)	0.21*** (0.009)
Advertising Expense Scaled by Assets	5.67*** (0.002)	4.23** (0.021)	6.99*** (0.001)	3.33* (0.057)	2.01 (0.239)	4.57** (0.038)
Missing Advertising Indicator Variable	-0.20** (0.016)	-0.17* (0.077)	-0.20** (0.027)	-0.27*** (0.001)	-0.28*** (0.005)	-0.25*** (0.005)
Natural Log of Assets	-0.40*** (0.000)	-0.49*** (0.000)	-0.34*** (0.000)	-0.33*** (0.000)	-0.42*** (0.000)	-0.28*** (0.000)
Prior Year Positive Income Indicator Variable	0.24*** (0.000)	0.19* (0.079)	0.21*** (0.003)	0.21*** (0.001)	0.20** (0.042)	0.15** (0.021)
Estimated Stock Transaction Costs	-0.65*** (0.000)	-1.09*** (0.000)	-0.50*** (0.000)	-0.49*** (0.000)	-0.85*** (0.000)	-0.36*** (0.001)
Insider Ownership	-0.34 (0.624)	-0.80 (0.380)	-0.28 (0.737)	0.28 (0.699)	-0.29 (0.738)	0.47 (0.608)
Insider Ownership Squared	0.16 (0.763)	0.53 (0.392)	0.18 (0.799)	-0.36 (0.535)	-0.01 (0.984)	-0.39 (0.633)
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Observations Adjusted R-squared	4672 0.40	2045 0.42	2627 0.41	4672 0.28	2045 0.31	2627 0.27

*The sample contains 4,672 observations for a sample of S&P 500 firms during 2001–13. Tobin's Q proxies for firm value and is equal to a firm's market value of assets scaled by its book value of assets, where market value of assets equal book value of assets less book value of equity plus market value of equity. Book values are taken at fiscal year-end and market values are taken at calendar year-end. Industry-adjusted Q controls proxies for relative firm value in a given year and is equal to a firm's Tobin's Q less the median Tobin's Q for all firms in the same two-digit SIC code. Lagged ownership by U.S. public pension funds equal the aggregate number of shares held by U.S. public pension funds who file 13f reports, divided by the total number of shares outstanding—all measured for the most recent quarter with data available prior to the calendar year-end. Lagged ownership by private pension funds equal the aggregate number of shares held by CREF and corporate pension funds who file 13f reports, divided by the total number of shares outstanding—all measured for the most recent quarter with data available prior to the calendar year-end. Robust standard errors are clustered at the firm level. The corresponding p-values are given in parentheses. Statistical significance at the 1 percent, 5 percent, and 10 percent level is indicated by ***, **, and *, respectively.

pension fund sponsors a proxy proposal during 2001–13 and whether it tends to sponsor proposals on corporate governance or social issues. CalPERS and FSBA sponsor proposals principally or only on corporate governance issues. CalSTRS and NYSCR sponsor proposals mostly on social issues.

The first three specifications in **Figure 3** and **Figure 4** present results for ownership by public funds, based on corporate governance proposal sponsorship; the last three specifications present results for ownership by public funds based on social issue proposal sponsorship—for the Fortune 250 and S&P 500. No significant valuation effect is found for ownership by public pension funds that sponsor corporate governance proposals during any period.

Figure 3. Pooled Regression Analysis of Industry-Adjusted Q on Lagged Ownership by U.S. Public Pension Funds According to Focus of Proxy Proposal Sponsorship and Private Pension Funds: Fortune 250*

Public Fund Activism Focus	Corporate Governance Focus			Social Issues Focus		
Sample Period:	**2001–2013**	**2001–2007**	**2008–2013**	**2001–13**	**2001–07**	**2008–13**
	Industry-Adjusted Q	Industry-Adjusted Q	Industry-Adjusted Q	Industry-Adjusted Q	Industry-Adjusted Q	Industry-Adjusted Q
Constant	3.87*** (0.000)	4.52*** (0.000)	3.04*** (0.000)	3.99*** (0.000)	4.77*** (0.000)	3.14*** (0.000)
Lagged Ownership By Public Pension Fund Corporate Governance Proposal Sponsors	22.79 (0.351)	26.84 (0.346)	-13.30 (0.738)			
Lagged Ownership by Public Pension Fund Non-Corporate Governance Proposal Sponsors	-16.54** (0.012)	-18.73** (0.023)	-8.18 (0.303)			
Lagged Ownership by Public Pension Fund Social Issue Proposal Sponsors				-0.24 (0.982)	20.86 (0.104)	-80.79** (0.010)
Lagged Ownership by Public Pension Fund Non-Social Issue Sponsors				-16.72** (0.017)	-28.13*** (0.003)	1.09 (0.888)
Lagged Ownership by Private Pension Funds	11.82** (0.035)	10.37* (0.090)	11.33 (0.112)	12.76** (0.023)	12.41** (0.045)	10.72 (0.129)
Lagged Ownership by Other Institutions	-1.05*** (0.002)	-1.16*** (0.008)	-0.86*** (0.007)	-1.05*** (0.002)	-1.19*** (0.007)	-0.78** (0.012)
Leverage	-1.39*** (0.000)	-1.88*** (0.000)	-0.98** (0.014)	-1.41*** (0.000)	-1.94*** (0.000)	-0.97** (0.014)
R&D Expense Scaled by Assets	7.21*** (0.000)	9.60*** (0.000)	2.25 (0.312)	7.23*** (0.000)	9.76*** (0.000)	2.24 (0.314)
Missing R&D Indicator Variable	0.18** (0.036)	0.13 (0.159)	0.19* (0.060)	0.19** (0.033)	0.14 (0.119)	0.20** (0.047)
Advertising Expense Scaled by Assets	6.11*** (0.007)	8.11*** (0.009)	3.81 (0.120)	6.33*** (0.005)	8.41*** (0.006)	3.55 (0.153)
Missing Advertising Indicator Variable	-0.23* (0.051)	-0.21 (0.154)	-0.24** (0.026)	-0.23* (0.050)	-0.22 (0.140)	-0.24** (0.024)
Member of S&P 500 Index	0.15 (0.384)	0.03 (0.897)	0.39** (0.032)	0.18 (0.292)	0.06 (0.758)	0.38** (0.032)
Natural Log of Assets	-0.26*** (0.000)	-0.29*** (0.000)	-0.22*** (0.000)	-0.25*** (0.000)	-0.29*** (0.000)	-0.22*** (0.000)
Prior Year Positive Income Indicator Variable	0.02 (0.774)	-0.02 (0.865)	0.09 (0.224)	0.02 (0.766)	-0.02 (0.881)	0.10 (0.165)
Estimated Stock Transaction Costs	-0.49*** (0.000)	-0.66*** (0.009)	-0.37*** (0.001)	-0.47*** (0.000)	-0.70*** (0.006)	-0.37*** (0.001)
Insider Ownership	0.04** (0.032)	0.05** (0.031)	0.03 (0.130)	0.03** (0.036)	0.05** (0.034)	0.03 (0.140)
Insider Ownership Squared	-0.00** (0.011)	-0.00** (0.013)	-0.00* (0.070)	-0.00** (0.013)	-0.00** (0.014)	-0.00* (0.068)
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Observations	2326	1153	1173	2326	1153	1173
Adjusted R-squared	0.33	0.40	0.25	0.33	0.40	0.25

*The sample contains 2,326 observations for a sample of Fortune 250 firms during 2001–13. Tobin's Q proxies for firm value and is equal to a firm's market value of assets scaled by its book value of assets, where market value of assets equal book value of assets less book value of equity plus market value of equity. Book values are taken at fiscal year-end and market values are taken at calendar year-end. Industry-adjusted Q controls proxies for relative firm value in a given year and is equal to a firm's Tobin's Q less the median Tobin's Q for all firms in the same two-digit SIC code. Lagged ownership by U.S. public pension funds equal the aggregate number of shares held by U.S. public pension funds which file 13f reports, divided by the total number of shares outstanding—all measured for the most recent quarter with data available prior to the calendar year-end. Public pension fund Corporate Governance proposal sponsors are defined as public funds that only sponsor corporate governance proposals at a sample firm during 2001–13 and include CalPERS and FSBA. Public pension fund Social Issue proposal sponsors are defined as public funds that primarily sponsor social issue proposals at a sample firm during 2001–13 and include CalSTRS and NYSCR. Lagged ownership by private pension funds equal the aggregate number of shares held by CREF and corporate pension funds which file 13f reports, divided by the total number of shares outstanding—all measured for the most recent quarter with data available prior to the calendar year-end. Robust standard errors are clustered at the firm level. The corresponding p-values are given in parentheses. Statistical significance at the 1 percent, 5 percent, and 10 percent level is indicated by ***, **, and *, respectively.

Figure 4. Pooled Regression Analysis of Industry-Adjusted Q on Lagged Ownership by U.S. Public Pension Funds According to Focus of Proxy Proposal Sponsorship and Private Pension Funds: S&P 500*

Public Fund Activism Focus	Corporate Governance Focus			Social Issues Focus		
Sample Period:	**2001–2013**	**2001–2007**	**2008–2013**	**2001–13**	**2001–07**	**2008–13**
	Industry-Adjusted Q	Industry-Adjusted Q	Industry-Adjusted Q	Industry-Adjusted Q	Industry-Adjusted Q	Industry-Adjusted Q
Constant	4.19*** (0.000)	5.42*** (0.000)	3.30*** (0.000)	4.32*** (0.000)	5.63*** (0.000)	3.32*** (0.000)
Lagged Ownership By Public Pension Fund Corporate Governance Proposal Sponsors	16.62 (0.399)	32.40 (0.186)	-39.17 (0.210)			
Lagged Ownership by Public Pension Fund Non-Corporate Governance Proposal Sponsors	-13.83** (0.033)	-20.82** (0.015)	-6.47 (0.369)			
Lagged Ownership by Public Pension Fund Social Issue Proposal Sponsors				-45.51*** (0.005)	-18.27 (0.310)	-92.05*** (0.000)
Lagged Ownership by Public Pension Fund Non-Social Issue Sponsors				-4.03 (0.468)	-12.07 (0.105)	-0.38 (0.957)
Lagged Ownership by Private Pension Funds	1.74 (0.399)	10.85*** (0.005)	0.61 (0.594)	1.49 (0.437)	9.99** (0.010)	0.43 (0.664)
Lagged Ownership by Other Institutions	-0.23 (0.314)	-0.74** (0.015)	0.16 (0.524)	-0.17 (0.476)	-0.75** (0.016)	0.27 (0.282)
Leverage	-0.92*** (0.001)	-1.55*** (0.000)	-0.53* (0.082)	-0.96*** (0.000)	-1.62*** (0.000)	-0.57* (0.061)
R&D Expense Scaled by Assets	5.13*** (0.000)	6.69*** (0.000)	3.41** (0.014)	5.17*** (0.000)	6.76*** (0.000)	3.50** (0.011)
Missing R&D Indicator Variable	0.23*** (0.007)	0.27** (0.044)	0.21*** (0.009)	0.24*** (0.005)	0.28** (0.041)	0.23*** (0.005)
Advertising Expense Scaled by Assets	3.17* (0.075)	1.51 (0.407)	4.66** (0.032)	3.36* (0.053)	2.01 (0.238)	4.60** (0.031)
Missing Advertising Indicator Variable	-0.27*** (0.001)	-0.28*** (0.005)	-0.25*** (0.005)	-0.27*** (0.001)	-0.28*** (0.005)	-0.25*** (0.004)
Natural Log of Assets	-0.33*** (0.000)	-0.42*** (0.000)	-0.28*** (0.000)	-0.34*** (0.000)	-0.42*** (0.000)	-0.28*** (0.000)
Prior Year Positive Income Indicator Variable	0.21*** (0.001)	0.19** (0.050)	0.15** (0.023)	0.21*** (0.000)	0.20** (0.042)	0.17*** (0.010)
Estimated Stock Transaction Costs	-0.49*** (0.000)	-0.84*** (0.000)	-0.36*** (0.001)	-0.47*** (0.000)	-0.84*** (0.000)	-0.35*** (0.001)
Insider Ownership	0.32 (0.658)	-0.18 (0.831)	0.43 (0.638)	0.20 (0.779)	-0.30 (0.734)	0.20 (0.833)
Insider Ownership Squared	-0.38 (0.518)	-0.07 (0.910)	-0.38 (0.647)	-0.33 (0.581)	-0.02 (0.978)	-0.18 (0.825)
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Observations	4672	2045	2627	4672	2045	2627
Adjusted R-squared	0.28	0.31	0.27	0.28	0.31	0.27

*The sample contains 4,672 observations for a sample of S&P 500 firms during 2001–13. Tobin's Q proxies for firm value and is equal to a firm's market value of assets scaled by its book value of assets, where market value of assets equal book value of assets less book value of equity plus market value of equity. Book values are taken at fiscal year-end and market values are taken at calendar year-end. Industry-adjusted Q controls proxies for relative firm value in a given year and is equal to a firm's Tobin's Q less the median Tobin's Q for all firms in the same two-digit SIC code. Lagged ownership by U.S. public pension funds equal the aggregate number of shares held by U.S. public pension funds who file 13f reports, divided by the total number of shares outstanding—all measured for the most recent quarter with data available prior to the calendar year-end. Public pension fund Corporate Governance proposal sponsors are defined as public funds that only sponsor corporate governance proposals at a sample firm during 2001–13 and include CalPERS and FSBA. Public pension fund Social Issue proposal sponsors are defined as public funds that primarily sponsor social issue proposals at a sample firm during 2001–13 and include CalSTRS and NYSCR. Lagged ownership by private pension funds equal the aggregate number of shares held by CREF and corporate pension funds who file 13f reports, divided by the total number of shares outstanding—all measured for the most recent quarter with data available prior to the calendar year-end. Robust standard errors are clustered at the firm level. The corresponding p-values are given in parentheses. Statistical significance at the 1 percent, 5 percent, and 10 percent level is indicated by ***, **, and *, respectively.

For the narrower Fortune 250 sample, ownership by public pension funds that sponsor social–issue proposals has a negative valuation effect only during the later sample period (2008–13), when CalSTRS and NYSCR actively engaged in sponsoring social issue proposals. In the broader S&P 500 sample, ownership by public pension funds that sponsor social-issue proposals has a negative valuation effect during the entire sample period and the later period—significant at the 1 percent level.

No significant valuation effect is found for aggregate ownership by these funds during the early period when they are not actively engaged in sponsoring social issue proposals. The insignificant valuation effects for ownership by public pension funds that sponsor corporate governance or social issue proposals during the early period indicates that the significant negative valuation effect during this period is driven by ownership of public pension funds that do not sponsor a proxy proposal.

The paper further breaks down ownership for individual pension funds that have been classified as activist funds, whether through sponsoring proxy proposals or some other form of activism, in previous research (**Figure 5** and **Figure 6**). When examining ownership at the individual fund level, the paper continues to find no significant valuation effect for ownership by CalPERS, but finds some evidence of a positive valuation effect for ownership by FSBA. The paper finds no significant effect for ownership by CalSTRS in the Fortune 250 sample, but a significant negative valuation for CalSTRS in the broader S&P 500 sample—for the overall sample period and for the earlier period when CalSTRS did not actively sponsor shareholder proposals.

Figure 5. Pooled Regression Analysis of Industry-Adjusted Q on Lagged Ownership by Individual Activist U.S. Pension Funds and Corporate Pension Funds: Fortune 250*

Sample Period:	2001–2013	2001–2007	2008–2013
	Industry-Adjusted Q	Industry-Adjusted Q	Industry-Adjusted Q
Constant	3.69*** (0.000)	4.35*** (0.000)	2.87*** (0.000)
Public Funds – Corporate Governance Focus			
Lagged Ownership by CalPERS	-13.38 (0.628)	-25.84 (0.424)	-4.70 (0.905)
Lagged Ownership by FSBA	145.39* (0.080)	144.96* (0.097)	171.90 (0.247)
Public Funds – Social Issues Focus			
Lagged Ownership by CalSTRS	-10.21 (0.432)	-6.39 (0.631)	-221.16 (0.307)
Lagged Ownership by NYSCR	-18.99 (0.307)	10.83 (0.614)	-104.28*** (0.007)
Public Funds – Other Focus			
Lagged Ownership by SWIB	-48.71** (0.027)	-70.36*** (0.005)	-5.61 (0.912)
Private Funds			
Lagged Ownership by CREF	16.82** (0.021)	13.58 (0.130)	21.95** (0.014)
Lagged Ownership by Corporate Pension Funds	3.67 (0.653)	3.66 (0.701)	0.57 (0.954)
Lagged Ownership by Other Institutions	-1.15*** (0.002)	-1.41*** (0.003)	-0.79** (0.011)
Leverage	-1.41*** (0.000)	-1.90*** (0.000)	-0.99** (0.012)
R&D Expense Scaled by Assets	7.23*** (0.000)	9.80*** (0.000)	2.30 (0.300)
Missing R&D Indicator Variable	0.17* (0.052)	0.11 (0.230)	0.20** (0.045)
Advertising Expense Scaled by Assets	6.37*** (0.006)	8.86*** (0.006)	3.67 (0.132)
Missing Advertising Indicator Variable	-0.22* (0.056)	-0.19 (0.195)	-0.23** (0.029)
Member of S&P 500 Index	0.19 (0.267)	0.11 (0.572)	0.33** (0.046)
Natural Log of Assets	-0.26*** (0.000)	-0.30*** (0.000)	-0.22*** (0.000)
Prior Year Positive Income Indicator Variable	0.03 (0.693)	-0.01 (0.971)	0.10 (0.141)
Estimated Stock Transaction Costs	-0.46*** (0.001)	-0.67*** (0.009)	-0.36*** (0.002)
Insider Ownership	0.04** (0.028)	0.05** (0.024)	0.03 (0.127)
Insider Ownership Squared	-0.00** (0.014)	-0.00*** (0.010)	-0.00* (0.080)
Year Fixed Effects	Yes	Yes	Yes
Observations	2326	1153	1173
Adjusted R-squared	0.33	0.40	0.26

Figure 6. Pooled Regression Analysis of Industry-Adjusted Q on Lagged Ownership by Individual Activist U.S. Pension Funds and Corporate Pension Funds: S&P 500*

Sample Period:	2001–2013	2001–2007	2008–2013	2001–13	2001–07	2008–13
	Industry-Adjusted Q	Industry-Adjusted Q	Industry-Adjusted Q	Industry-Adjusted Q	Industry-Adjusted Q	Industry-Adjusted Q
Constant	4.22*** (0.000)	5.45*** (0.000)	3.24*** (0.000)	4.22*** (0.000)	5.42*** (0.000)	3.28*** (0.000)
Public Funds – Corporate Governance Focus						
Lagged Ownership by CalPERS	-7.48 (0.733)	-16.39 (0.562)	-49.69 (0.116)	-5.73 (0.794)	-11.58 (0.683)	-51.92 (0.101)
Lagged Ownership by FSBA	108.98** (0.030)	98.10** (0.042)	157.71 (0.116)	90.72* (0.072)	78.48 (0.114)	141.02 (0.160)
Lagged Ownership by Ohio				25.10** (0.043)	27.32 (0.258)	24.18** (0.046)
Public Funds – Social Issues Focus						
Lagged Ownership by CalSTRS	-52.98*** (0.004)	-49.01** (0.017)	-60.75 (0.662)	-55.43*** (0.003)	-52.08** (0.013)	-55.38 (0.693)
Lagged Ownership by NYSCR	-68.07*** (0.003)	-26.15 (0.381)	-109.51*** (0.000)	-71.71*** (0.002)	-29.62 (0.318)	-113.96*** (0.000)
Public Funds – Other Focus						
Lagged Ownership by SWIB	-22.24 (0.304)	-31.72 (0.382)	-8.22 (0.752)	-22.21 (0.305)	-31.84 (0.379)	-7.97 (0.760)
Private Funds						
Lagged Ownership by CREF	20.03*** (0.001)	30.23*** (0.001)	10.36 (0.156)	19.06*** (0.002)	29.62*** (0.001)	9.17 (0.203)
Lagged Ownership by Corporate Pension Funds	0.43 (0.689)	2.28 (0.552)	0.20 (0.782)	0.12 (0.895)	1.12 (0.776)	-0.04 (0.941)
Lagged Ownership by Other Institutions	-0.34 (0.145)	-0.93*** (0.003)	0.15 (0.559)	-0.37 (0.116)	-0.96*** (0.002)	0.12 (0.642)
Leverage	-0.97*** (0.000)	-1.56*** (0.000)	-0.60** (0.046)	-0.98*** (0.000)	-1.56*** (0.000)	-0.61** (0.043)
R&D Expense Scaled by Assets	5.02*** (0.000)	6.57*** (0.000)	3.29** (0.018)	5.05*** (0.000)	6.54*** (0.000)	3.35** (0.016)
Missing R&D Indicator Variable	0.25*** (0.004)	0.28* (0.051)	0.22*** (0.004)	0.26*** (0.003)	0.28** (0.050)	0.24*** (0.002)
Advertising Expense Scaled by Assets	3.04* (0.096)	1.66 (0.370)	4.40** (0.043)	3.09* (0.089)	1.64 (0.377)	4.46** (0.038)
Missing Advertising Indicator Variable	-0.27*** (0.001)	-0.27*** (0.006)	-0.25*** (0.004)	-0.27*** (0.001)	-0.27*** (0.006)	-0.25*** (0.003)
Natural Log of Assets	-0.35*** (0.000)	-0.44*** (0.000)	-0.29*** (0.000)	-0.35*** (0.000)	-0.44*** (0.000)	-0.29*** (0.000)
Prior Year Positive Income Indicator Variable	0.20*** (0.001)	0.19** (0.048)	0.16** (0.016)	0.20*** (0.001)	0.19* (0.051)	0.16** (0.015)
Estimated Stock Transaction Costs	-0.48*** (0.000)	-0.85*** (0.000)	-0.34*** (0.001)	-0.48*** (0.000)	-0.85*** (0.000)	-0.34*** (0.001)
Insider Ownership	0.44 (0.533)	0.02 (0.978)	0.44 (0.634)	0.37 (0.600)	0.01 (0.994)	0.34 (0.712)
Insider Ownership Squared	-0.54 (0.365)	-0.38 (0.531)	-0.35 (0.667)	-0.49 (0.415)	-0.36 (0.554)	-0.28 (0.733)
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Observations Adjusted R-squared	4672 0.28	2045 0.31	2627 0.28	4672 0.28	2045 0.31	2627 0.28

Figure 5. Footnote

*The sample contains 2,326 observations for a sample of Fortune 250 firms during 2001–13 period. Tobin's Q proxies for firm value and is equal to a firm's market value of assets scaled by its book value of assets, where market value of assets equal book value of assets less book value of equity plus market value of equity. Book values are taken at fiscal year-end and market values are taken at calendar year-end. Industry-adjusted Q controls proxies for relative firm value in a given year and is equal to a firm's Tobin's Q less the median Tobin's Q for all firms in the same two-digit SIC code. Lagged ownership by U.S. public pension funds equal the aggregate number of shares held by U.S. public pension funds which file 13f reports, divided by the total number of shares outstanding—all measured for the most recent quarter with data available prior to the calendar year-end. Lagged ownership by private pension funds equal the aggregate number of shares held by CREF and corporate pension funds which file 13f reports divided by the total number of shares outstanding—all measured for the most recent quarter with data available prior to the calendar year-end. Robust standard errors are clustered at the firm level. The corresponding p-values are given in parentheses. Statistical significance at the 1 percent, 5 percent, and 10 percent level is indicated by ***, **, and *, respectively.

Figure 6. Footnote

*The sample contains 4,672 observations for a sample of S&P 500 firms during 2001–13. Tobin's Q proxies for firm value and is equal to a firm's market value of assets scaled by its book value of assets, where market value of assets equal book value of assets less book value of equity plus market value of equity. Book values are taken at fiscal year-end and market values are taken at calendar year-end. Industry-adjusted Q controls proxies for relative firm value in a given year and is equal to a firm's Tobin's Q less the median Tobin's Q for all firms in the same two-digit SIC code. Lagged ownership by U.S. public pension funds equal the aggregate number of shares held by U.S. public pension funds which file 13f reports, divided by the total number of shares outstanding—all measured for the most recent quarter with data available prior to the calendar year-end. Lagged ownership by private pension funds equal the aggregate number of shares held by CREF and corporate pension funds which file 13f reports, divided by the total number of shares outstanding—all measured for the most recent quarter with data available prior to the calendar year-end. Robust standard errors are clustered at the firm level. The corresponding p-values are given in parentheses. Statistical significance at the 1 percent, 5 percent, and 10 percent level is indicated by ***, **, and *, respectively.

Ownership by NYSCR had a significantly negative valuation effect only in the later period for the Fortune 250 sample, a significantly negative effect overall, and for the later period in the broader S&P 500 sample. We find a negative valuation effect for ownership by SWIB during the early period, but only in the narrower Fortune 250 sample (this result is not confirmed in the broader S&P 500 sample). SWIB does not sponsor proxy proposals in our sample. However, according to its website, SWIB actively administers its own proxy votes on corporate governance and social issues. The website also discusses guidelines used by SWIB to consider other actions, such as sponsoring a proposal or participating in shareholder litigation.

In the broader S&P 500 sample, the Ohio pension funds, which are relatively new in sponsoring shareholder proposals oriented around corporate governance, are associated with higher firm valuations—overall and for the latter period, when those funds sponsored proposals. When examining ownership separately for TIAA–CREF, which is known to hold private communications with portfolio firms and sponsor shareholder proposals when necessary, the paper finds a significantly positive valuation effect for TIAA–CREF ownership. There is no observed significant effect for ownership by corporate pension funds.

Next, this paper compares proxies for firm value and relative firm value—between sample firms at the end of the year in which they are targeted by a public pension fund in the paper's sample—with a corporate governance (social issue) proposal and all firm-year observations in which a firm is not targeted by a public pension fund in the paper's sample with a corporate governance (social issue) proposal. Next, the paper presents a comparison of ownership, in terms of percentage of outstanding shares and market value of the ownership stake by the public pension fund sponsor.

Figure 7 and **Figure 8** show that CalPERS targets ten firms in the Fortune 250 sample with a corporate-governance proposal, and 14 firms in the S&P 500 sample. FSBA targets three sample firms in the Fortune 250 sample and 6 sample firms in the S&P 500 sample. CalSTRS targets four firms in the Fortune 250 sample and 11 firms in the S&P 500 sample. NYSCR targets 27 firms and 42 firms in the S&P 500 sample.

Firms targeted by CalPERS do not vary consistently from other firms: in the Fortune 250 sample, such firms have a *higher* Tobin's Q (industry-adjusted Q)—2.04 (0.44), compared with 1.82 (0.29) for all other firm-year observations. But CalPERS-targeted firms have *lower* Q's in the broader S&P 500 sample—1.78 (0.23)—compared with 2.02 (0.45) for all other firm-year observations. However, FSBA-targeted firms have higher Tobin's Q in both samples—2.00 for the Fortune 250 and 2.16 for the S&P 500—and higher industry-adjusted Q in the Fortune 250 sample (0.47). (For the S&P 500 sample, industry-adjusted Q for firms targeted by FSBA is the same as for other firm-year observations.)

In contrast, for the Fortune 250 sample, Tobin's Q (industry-adjusted Q) averages 1.17 (-0.34) for firms after being targeted by CalSTRS and 1.42 (-0.12) for firms after being targeted by NYSCR with a social issue proposal—much lower when compared with 1.83 (0.29) for all other firm-year observations. These results hold true for the broader S&P 500 sample, when firms targeted by CalSTRS have Tobin's Q (industry-adjusted Q) averaging

Figure 7. Summary Statistics According to Types of Public Pension Fund Activism: Fortune 250

Panel A. Comparison Between Firms Targeted with a Corporate Governance Proposal Sponsored by and Those Not Targeted by CalPERS or FSBA

	Targeted by CalPERS	Not Targeted by CalPERS	Targeted by FSBA	Not Targeted by FSBA
	Mean (N=10)	Mean (N=2571)	Mean (N=3)	Mean (N=2578)
Value measures				
Tobin's Q	2.04	1.82	2.00	1.82
Industry-Adjusted Tobin's Q	0.44	0.29	0.47	0.29
% Shares Owned by				
U.S. Public Pension Funds	2.40	2.49	2.12	2.49
CalPERS	0.33	0.36	0.32	0.36
FSBA	0.22	0.24	0.18	0.24
CalSTRS	0.00	0.14	0.00	0.14
NYSCR	0.40	0.38	0.37	0.38
Market Value of Shares Owned by ($M)				
CalPERS	313.42	140.12	120.83	140.81
FSBA	214.87	95.52	77.62	96.01

Panel B. Comparison Between Firms Targeted with a Social Issue Proposal Sponsored by and Those Not Targeted by CalSTRS or NYSCR

	Targeted by CalSTRS	Not Targeted by CalSTRS	Targeted by NYSCR	Not Targeted by NYSCR
	Mean (N=4)	Mean (N=2577)	Mean (N=27)	Mean (N=2554)
Value measures				
Tobin's Q	1.17	1.82	1.42	1.83
Industry-Adjusted Tobin's Q	-0.34	0.29	-0.12	0.29
% Shares Owned by				
U.S. Public Pension Funds	2.39	2.49	1.72	2.50
CalPERS	0.30	0.36	0.29	0.36
FSBA	0.22	0.24	0.16	0.24
CalSTRS	0.05	0.13	0.08	0.14
NYSCR	0.48	0.38	0.31	0.38
Market Value of Shares Owned by ($M)				
CalSTRS	17.84	45.00	51.45	44.89
NYSCR	143.94	145.76	287.66	144.26

Figure 8. Summary Statistics According to Types of Public Pension Fund Activism: S&P 500

Panel A. Comparison Between Firms Targeted with a Corporate Governance Proposal Sponsored by and Those Not Targeted by CalPERS or FSBA

	Targeted by CalPERS	Not Targeted by CalPERS	Targeted by Florida	Not Targeted by Florida
	Mean (N=14)	Mean (N=4669)	Mean (N=6)	Mean (N=4677)
Value measures				
Tobin's Q	1.78	2.02	2.16	2.02
Industry-Adjusted Tobin's Q	0.23	0.45	0.45	0.45
% Shares Owned by				
U.S. Public Pension Funds	2.39	2.45	2.03	2.45
CalPERS	0.35	0.35	0.28	0.35
FSBA	0.23	0.24	0.18	0.24
CalSTRS	0.06	0.12	0.00	0.12
NYSCR	0.38	0.39	0.39	0.39
Market Value of Shares Owned by ($M)				
CalPERS	348.93	91.16	74.40	91.96
FSBA	247.05	63.10	49.49	63.67

Panel B. Comparison Between Firms Targeted with a Social Issue Proposal Sponsored by and Those Not Targeted by CalSTRS or NYSCR

	Targeted by CalSTRS	Not Targeted by CalSTRS	Targeted by NYSCR	Not Targeted by NYSCR
	Mean (N=11)	Mean (N=4672)	Mean (N=42)	Mean (N=4641)
Value measures				
Tobin's Q	1.86	2.02	1.59	2.02
Industry-Adjusted Tobin's Q	0.26	0.45	0.04	0.45
% Shares Owned by				
U.S. Public Pension Funds	1.93	2.45	1.99	2.46
CalPERS	0.26	0.35	0.31	0.35
FSBA	0.18	0.24	0.19	0.24
CalSTRS	0.04	0.12	0.15	0.12
NYSCR	0.39	0.39	0.35	0.39
Market Value of Shares Owned by ($M)				
CalSTRS	10.12	30.67	66.53	30.30
NYSCR	76.40	98.43	211.54	97.36

1.86 (0.26) and firms targeted by NYSCR average 1.59 (0.04)—compared with 2.02 (0.45) for all other firm-year observations. The comparison is similar when the comparison sample is restricted to the same period when the shareholder proposals are filed.

When comparing ownership stakes across groups, the average percentage ownership by sponsor funds in target firms tends to be slightly lower; but the market value of the ownership stake by the public pension fund sponsor tends to be much higher in firms they target for CalPERS ($313.42M vs. $140.12M) and NYSCR ($287.66M vs. $144.26M).

For the less active sponsors FSBA and CalSTRS, average percentage ownership in the firm and average market value of their ownership stake are lower. For example, the market value of the ownership stake by CalSTRS averages $17.84M in targets, compared with $45M in non-targets. The market value of the ownership stake by FSBA averages $77.62M in targets, compared with $96.01M in non-targets.

CONCLUSION

This paper, consistent with earlier research, finds that public pension funds' ownership is associated with lower firm value, as measured by Tobin's Q and industry-adjusted Q. The negative valuation effect for public pension fund ownership is not, however, confined to a particular public pension fund during the entire period scrutinized. Instead, this effect varies, depending on whether funds are engaged in shareholder activism and on whether their activism is focused on corporate-governance concerns or social issues.

Social-issue shareholder-proposal activism appears to be negatively related to firm value. In this paper, the negative relationship between public pension fund ownership and firm value is significant for firms targeted by public pension funds engaging in social-issue activism—across two different firm samples—in 2008–13, when the two large funds focused on social-issue activism, CalSTRS and the NYSCR, were engaged in shareholder-proposal activism. For S&P 500 firms, the negative relationship between pension-fund ownership and firm value is significant at the 1 percent level, both for ownership by all social-issue shareholder-proposal sponsoring pension funds and for the NYSCR in particular—in the full 2001–13 period and in the more recent period, but not for the earlier 2001–07 period, when neither CalSTRS nor NYSCR actively sponsored shareholder proposals.

State and municipal pension plans are among the largest institutional owners in the U.S. stock market. The largest such plans manage more than $3 trillion in assets, and the four public pension funds principally studied in this paper—CalPERS, CalSTRS, NYSCR, and FSBA—collectively manage more than $800 billion (Kozlowski 2015). Such plans' management, and shareholder activism, is thus of significant public-policy relevance.

ENDNOTES

[1] Several studies use Tobin's Q as a proxy for firm value. For example, Woidtke (2002) uses industry-adjusted Q to measure the relationship between relative firm value and pension fund ownership. Morck, Shleifer, and Vishny (1988) use Q to measure the relationship between firm value and insider ownership. McConnell and Servaes (1990) use Q to measure the relationship between firm value and institutional ownership. Lang and Stulz (1994) use Q to measure the relation between firm value and corporate diversification.

[2] Institutions managing at least $100 million in investments must disclose their holdings through 13f filings.

[3] See, for example, Carlton, Nelson, and Weisbach (1998), Del Guercio and Hawkins (1999), Wahal (1996), and Woidtke (2002).

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