

File No. 161134

Committee Item No. 1

Board Item No. _____

COMMITTEE/BOARD OF SUPERVISORS

AGENDA PACKET CONTENTS LIST

Committee: Government Audit and Oversight

Date March 2, 2017

Board of Supervisors Meeting

Date _____

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OTHER

(Use back side if additional space is needed)

- Referral FYI - 10/21/16
- SFERS Memo - 10/25/16
- SFERS Updated Policy
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Completed by: Erica Major

Date February 24, 2017

Completed by: _____

Date _____

1 [Urging the San Francisco Employees Retirement System Board to Review Executive
2 Compensation]

3 **Resolution urging the San Francisco Employees Retirement System Board to review**
4 **executive compensation, evaluate best practices on salary compensation, hold a public**
5 **hearing on the matter, and issue a report.**

6
7 WHEREAS, The average U.S. worker's pay has remained stagnant, while from
8 1978 to 2014, Chief Executive Officer ("CEO") pay has increased by 997%; and

9 WHEREAS, In 2014, according to Standard & Poor's (S&P) 500 Index companies, the
10 CEO-to-worker pay ratio was 373 to 1 and the CEO-to-minimum wage worker pay ratio which
11 was 774 to 1; and

12 WHEREAS, Executive compensation (pay plus other benefits such as stock options)
13 and accountability have been the topic of significant discussion as it pertains to being a
14 contributing factor to the 2007 financial crisis; and

15 WHEREAS, One recent and glaring example of the disparity in treatment between top
16 management and non-management workers in the corporate arena can be found in the
17 consequences imposed after the United States Senate Banking Committee conducted a
18 hearing on September 20, 2016, regarding "the widespread illegal practice of secretly opening
19 unauthorized deposit and credit card accounts [by Wells Fargo Bank]," according to the
20 Consumer Financial Protection Bureau; and

21 WHEREAS, While the 5,200 low-level Wells Fargo employees were fired for this
22 practice, the executive of the Wells Fargo retail banking unit responsible for the retail banking
23 unit and the actions of these employees will be retiring with \$124.6 million via stock, options
24 and restricted shares accrued, and the CEO of Wells Fargo Bank earned \$19.3 million in
25 2015; and

1 WHEREAS, Executive mismanagement and excessive compensation impacts
2 shareholders and the value of their stock, pension fund performance, and the confidence of
3 the general public; and

4 WHEREAS, Best practices in corporate accountability link executive compensation to
5 performance as well as racial and gender diversity; and

6 WHEREAS, The Dodd-Frank Wall Street Reform and Consumer Protection Act, which
7 was signed into law in 2010, requires transparency from public companies with their
8 shareholders by mandating that advisory votes on compensation, known as Say-on-Pay
9 votes, are held every three years by each company; and

10 WHEREAS, As of January 1, 2017, the Securities and Exchange Commission will
11 require that public companies disclose their pay ratio as it relates to the median income of
12 company employees versus the Corporate Executive Officer's income; and

13 WHEREAS, There is growing momentum by Public Pension Plan proxies and
14 representatives, such as the Ontario Teachers Pension Plan and Florida's public pension
15 fund, to vote against excessive executive compensation with their Say-on-Pay votes; and

16 WHEREAS, The California State Teachers' Retirement System (CalSTRS), the largest
17 teacher fund and the second largest public employee fund in the United States, developed a
18 policy to review their portfolio and established an evaluation process regarding the efficacy of
19 compensation programs; and

20 WHEREAS, The San Francisco Employees Retirement System ("SFERS") administers
21 two benefit programs for active and retired members; and

22 WHEREAS, The Executive Director and senior staff of SFERS, via the purview of the
23 SFERS board, manage the day-to-day activities of the system including investments; and

24 WHEREAS, SFERS Social Investment Policy states, that "The relationship of the
25 corporation to the communities in which it operates shall be maintained as a good corporate

1 citizen through observing proper environmental standards, supporting the local economic,
2 social and cultural climate;” and

3 WHEREAS, The increasing racial and gender diversity on corporate boards has been
4 recognized by leading institutional investors such as Blackrock, and the Business Roundtable
5 as essential to “[S]trengthen the performance of a board of directors and promote the creation
6 of long-term shareholder value;” now therefore, be it

7 RESOLVED, That the San Francisco Board of Supervisors urges SFERS to define
8 “excessive” executive compensation, which should include the total summary compensation
9 for any individual and not be limited to salary alone; and, be it

10 FURTHER RESOLVED, That the Board of Supervisors urges SFERS to develop
11 guidelines and/or best practices regarding comprehensive evaluation of executive
12 compensation and include a review of the pay ratios between CEO-to-worker and CEO-to-
13 minimum wage worker of public companies within the current SFERS portfolio as well as a
14 review of racial and gender diversity; and, be it

15 FURTHER RESOLVED, That the Board of Supervisors urges SFERS to make this
16 report available and to discuss the report at a public meeting during which SFERS Board
17 members and members of the public are able to discuss the issue of executive compensation;
18 and, be it

19 FURTHER RESOLVED, That the Board of Supervisors urges SFERS to have its
20 investment staff work with the Institutional Shareholder Services, consultants, and others to
21 review Proxy Voting Policies and encourage proxy power in voting against any Board of
22 Directors of companies in which there are excessive pay increases for executives and that the
23 SFERS staff provide a list to the Board of Supervisors of companies that are in violation of the
24 SFERS guidelines on excessive pay for top executives of companies in which SFERS owns
25 shares.



SFERS
San Francisco Employees' Retirement System

City and County of San Francisco
Employees' Retirement System
Office of the Executive Director

161134

October 25, 2016

Angela Calvillo
Clerk of the Board
Board of Supervisors
Room 244, City Hall
1 Dr. Carlton B. Goodlett Pl.
San Francisco, CA 94102

Erica Major
Assistant Committee Clerk, Government Audit and Oversight Committee
Board of Supervisors
Room 244, City Hall
1 Dr. Carlton B. Goodlett Pl.
San Francisco, CA 94102

Re: File No. 161134 – Resolution urging the San Francisco Employees' Retirement System Board to review executive compensation, evaluate best practices on salary compensation, hold a public hearing on the matter, and issue a report.

Dear Ms. Calvillo and Ms. Major,

The Retirement System acknowledges receipt of your referral of the above referenced proposed resolution urging the San Francisco Employees' Retirement System (SFERS) Board to review how SFERS votes its proxies related to executive compensation.

To assist the Committee in its consideration of the proposed resolution, I am attaching the newly-adopted *SFERS Environmental, Social and Governance Investment Policies and Procedures* which replaces the Retirement Board's previous *Social Investment Policies and Procedures*. The new policy, adopted by the Retirement Board at its October 12, 2016 regular meeting, reinforces the Retirement Board's commitment to address environmental, social and governance (ESG) issues that impact the sustainability, value and performance of SFERS' investments. Related to the proposed resolution, the new policy provides for SFERS to maintain an active corporate governance program for SFERS' publicly traded equity investments with due consideration to ESG issues, including issues of executive compensation.

Representatives of SFERS will appear at the Government Audit and Oversight Committee hearing on this subject and be available to address any questions of the Committee members.

Best regards,



Jay Hujish
Executive Director
San Francisco Employees' Retirement System

Attachment: *SFERS Environmental, Social and Governance Investment Policies and Procedures*

cc: President London Breed
Board of Supervisors
Room 244, City Hall
1 Dr. Carlton B. Goodlett Pl.
San Francisco, CA 94102

Supervisor Jane Kim
Board of Supervisors
Room 244, City Hall
1 Dr. Carlton B. Goodlett Pl.
San Francisco, CA 94102

Supervisor Aaron Peskin
Board of Supervisors
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Supervisor Norman Yee
Board of Supervisors
Room 244, City Hall
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San Francisco, CA 94102



CITY AND COUNTY OF SAN FRANCISCO
EMPLOYEES' RETIREMENT SYSTEM
RETIREMENT BOARD POLICY

SFERS ENVIRONMENTAL, SOCIAL, AND GOVERNANCE INVESTMENT POLICIES AND PROCEDURES

SFERS ENVIRONMENTAL, SOCIAL AND GOVERNANCE VALUES STATEMENT

As a significant institutional investor with a very long-term investment horizon and expected life, SFERS' success is linked to global economic growth and prosperity. Actions and activities that detract from the likelihood and potential of global growth are not in the long-term interests of the Fund. SFERS considers environmental, social and governance (ESG) factors in its investment process because they do influence both risk and return. ESG issues impact the sustainability, value and performance of SFERS' investments. The relevance of particular ESG issues may differ and vary in degree across companies, sectors, regions, asset classes and over time. Accordingly, consistent with the Retirement Board and staff's fiduciary responsibilities to act in the best interests of the members, retirees and beneficiaries of the Retirement System and with SFERS' role as a prudent long-term investor:

- 1) Retirement Staff will incorporate relevant ESG issues in SFERS' investment analyses and decision-making processes;
- 2) Retirement Staff will vote SFERS' US shareholder proxies and will maintain an active corporate governance program for SFERS' publicly traded equity investments with due consideration to ESG issues;
- 3) Investment recommendations in all asset classes will include information on and consideration of the manager's ESG policies and practices, weighing and balancing both qualitative and quantitative risks and standards relevant to the investment under consideration;
- 4) SFERS will seek appropriate disclosure on ESG issues by the entities in which it invests; and
- 5) SFERS will promote acceptance and implementation of its ESG values within the investment industry.

SFERS ENVIRONMENTAL, SOCIAL, AND GOVERNANCE INVESTMENT PROCEDURES

Since it is necessary for adequate recognition to be given to the environmental, social and governance consequences of corporate actions and security and portfolio investment decisions to achieve maximum long term investment returns from Retirement System assets, and since the individual decisions of Staff, Managers, Consultants, and other System fiduciaries have to be made within a framework that reflects the particular environmental, social or governance situation and concerns of the participants and the Retirement System, the following procedures shall be followed when investing, managing, or reviewing Retirement System assets. Environmental, social and governance concerns to be addressed through investment policy shall follow the order of action as outlined in I, II, and III except where the Board has determined that action contemplated in an earlier

step has been initiated prior to the adoption of these policies and found to be ineffective or non-relevant. In no event shall these policies take precedent over the fiduciary responsibility of producing investment returns for the exclusive benefit of the members, retirees and beneficiaries of the Retirement System.

I. Shareholder Voting

The ownership of equity interests in many corporations as an investment of Retirement System assets includes the right to vote on the initiation, approval, or denial of major company policies and actions. These voting rights shall be exercised in accordance to Retirement Board proxy voting policies and in consideration of environmental, social and governance issues identified by the Retirement Board and Retirement Staff.

- A. Issues likely to come before shareholders in a proxy "season" will be reviewed by Retirement Staff and the SFERS proxy consultant prior to the "season" to ensure that the Retirement Board's policies, including this policy, address all issues that will be considered during the proxy season.
- B. New and non-standard corporate proposals will be specifically reviewed by Retirement Staff and the SFERS proxy consultant, with Retirement Staff developing and recommending an appropriate proxy voting policy for such proposals to be approved by the Retirement Board.
- C. Determination of the environmental, social and governance concerns that should be addressed through exercise of voting rights and subsequent implementation of the balance of these procedures will be made by the Retirement Board in full consideration of its responsibilities as fiduciaries of the Retirement System and only after Retirement Staff's review and analysis of the investment and environmental, social or governance implications. Additional information from investment managers and other outside sources will be sought when necessary.

II. Actively Promoting Environmental, Social Governance Interests – Direct Engagement

Generally, the ownership of equity interests, and to some extent of fixed income interests, in many corporations provides an opportunity to act individually or in concert with other shareholders to assure proper recognition of environmental, social and governance interests.

- A. Shareholder resolutions may be initiated upon review by Retirement Staff of previous shareholder votes, discussion with the corporation, and Retirement Board determination that the proposed resolution is a reasonable vehicle to influence corporate activities.
- B. Other interested shareholders may be actively sought to express common concerns, join in resolutions, and solicit proxy votes.
- C. Alternative investment opportunities that meet the goals and objectives of this policy and benefit the members, retirees and beneficiaries may be considered provided that expected investment returns are at least equivalent to available alternatives of similar risk.

III. Investment Restrictions

When environmental, social and governance concerns have not been or cannot be addressed adequately through exercise of shareholder voting rights, direct engagement of the investment manager, promotion of shareholder initiatives, or investment in alternative opportunities, it may be necessary to restrict Retirement System investment activities in specific areas to promote the interests of the members, retirees and beneficiaries. In general, investment restrictions will be adopted in accordance with the following considerations:

- A. Investment restrictions will be consistent with the Retirement Board's fiduciary duties and responsibilities, including the Department of Labor's requirements with respect to consideration of ESG factors when making investment decisions.
- B. Recognizing that substantial investment flexibility is necessary to maximize returns at an acceptable level of risk, investment restrictions will be adopted only when Retirement Board actions detailed in Levels I and II above have not been or, as determined by the Retirement Board, would not be successful and alternatives to the restricted securities that address the environmental, social and governance issues detailed in this policy are available which do not compromise potential long-term investment return.
- C. Investment restrictions will be applied at the lowest possible investment level, either specific issuers or securities, to protect against adverse investment effects, implementation risks and facilitate amendment in response to corporate action or changes in investment, environmental, social or governance climate.
- D. Investment restrictions will be analyzed periodically for environmental, social, governance and financial consequences and amended or repealed as appropriate.
- E. Investment restrictions will be applied only upon specific decision of the Retirement Board based on available information as evaluated by Retirement Staff and consultants, and after full consideration of its fiduciary duty, as well as the investment risks and ramifications.

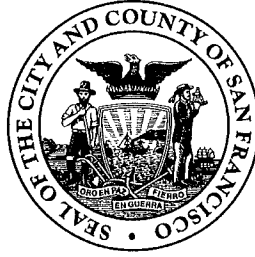
RETIREMENT BOARD ACTIONS TAKEN UNDER THE ENVIRONMENTAL, SOCIAL AND GOVERNANCE INVESTMENT POLICIES

Since its adoption by the Retirement Board on September 27, 1988, the Retirement Board has taken the following actions under its Environmental, Social and Governance Investment Policies (previously known as Social Investment Policies):

| Engagement | Level | Dated adopted by Retirement Board |
|--|------------------------------|-----------------------------------|
| 1. Corporate activities of companies whose securities are owned by the System shall be conducted in compliance with all applicable laws and regulations. | Level I - Shareholder Voting | 9/27/88 |
| 2. <u>Employment Standards</u> Active measures shall be taken to assure that the corporation meets fair employment standards including non-discrimination in hiring, transfer, pay and promotion, decent working facilities and conditions, and the recognition of all legal employee rights of organization and political expression. | Level I - Shareholder Voting | 9/27/88 |
| 3. <u>Community Relations</u> The relationship of the corporation to the communities in which it operates shall be maintained as a good corporate citizen through observing proper environmental standards, supporting the local economic, social and cultural climate, conducting acquisitions and reorganizations to minimize adverse effects and not discriminate in making loans or writing insurance. | Level I - Shareholder Voting | 9/27/88 |
| 4. <u>Corporate Governance and Internal Affairs</u> The Bylaws of the corporation shall be maintained to permit full expression of shareholder voting rights in corporate affairs and to prevent entrenchment of management. Executive compensation shall be fair and reasonable. Reports and data shall be made available to shareholders concerning social issues to the extent possible without jeopardizing business interests. | Level I - Shareholder Voting | 9/27/88 |

| Engagement | Level | Dated adopted by Retirement Board |
|---|-------------------------------------|-----------------------------------|
| <p>5. <u>MacBride Principles</u></p> <p>The corporation shall affirm and adhere to the MacBride Principles concerning operations in Northern Ireland.</p> | Level I – Shareholder Voting | 2/25/92 |
| <p>6. <u>Tobacco Divestment</u></p> <p>Due to the existing litigation, proposed legislation and probable governmental restrictions relating to the tobacco industry, the System will not invest in the equity and fixed income securities of companies manufacturing tobacco products.</p> | Level III – Investment Restrictions | 10/03/98 |
| <p>7. <u>Sudan Investments</u></p> <p>The Retirement Board directed staff to engage in constructive dialogue with companies doing business in Sudan because the U.S. Congress and the State Department have found the Sudanese Government to be complicit in genocide in the Darfur region.</p> | Level II – Direct Engagement | 6/13/06 |
| <p>8. <u>Carbon Tracker 200 Companies</u></p> <p>The Retirement Board directed staff to engage the SFERS public portfolio companies which are listed on the Carbon Tracker 200 list at Level I due to their role in climate risk activities.</p> | Level II – Direct Engagement | 3/11/15 |
| <p>9. <u>Firearms and Ammunition Manufacturers and Retailers</u></p> <p>The Retirement Board directed staff to restrict investment in certain manufacturers of firearms and ammunition and retail companies which are active in the sale of firearms and ammunition.</p> | Level III – Investment Restrictions | 10/12/16 |

BOARD of SUPERVISORS



City Hall
1 Dr. Carlton B. Goodlett Place, Room 244
San Francisco 94102-4689
Tel. No. 554-5184
Fax No. 554-5163
TDD/TTY No. 554-5227

MEMORANDUM

TO: Jay Huish, Executive Director, Retirement Board

FROM: Erica Major, Assistant Clerk, Government Audit and Oversight Committee,
Board of Supervisors

DATE: October 21, 2016

SUBJECT: LEGISLATION INTRODUCED

The Board of Supervisors' Government Audit and Oversight Committee has received the following proposed legislation, introduced by Supervisor Kim on October 18, 2016:

File No. 161134

Resolution urging the San Francisco Employees Retirement System Board to review executive compensation, evaluate best practices on salary compensation, hold a public hearing on the matter, and issue a report.

If you have any comments or reports to be included with the file, please forward them to me at the Board of Supervisors, City Hall, Room 244, 1 Dr. Carlton B. Goodlett Place, San Francisco, CA 94102.

c: Darlene Armanino

RECEIVED
IN BOARD
10/18/16 @ 5:22pm
[Signature]
Time stamp
or meeting date

Introduction Form

By a Member of the Board of Supervisors or the Mayor

I hereby submit the following item for introduction (select only one):

- 1. For reference to Committee. (An Ordinance, Resolution, Motion, or Charter Amendment)
- 2. Request for next printed agenda Without Reference to Committee.
- 3. Request for hearing on a subject matter at Committee.
- 4. Request for letter beginning "Supervisor [] inquires"
- 5. City Attorney request.
- 6. Call File No. [] from Committee.
- 7. Budget Analyst request (attach written motion).
- 8. Substitute Legislation File No. []
- 9. Reactivate File No. []
- 10. Question(s) submitted for Mayoral Appearance before the BOS on []

Please check the appropriate boxes. The proposed legislation should be forwarded to the following:

- Small Business Commission Youth Commission Ethics Commission
- Planning Commission Building Inspection Commission

Note: For the Imperative Agenda (a resolution not on the printed agenda), use a Imperative Form.

Sponsor(s):

Kim

Subject:

Resolution Urging San Francisco Employees Retirement System Board to Review Executive Compensation

The text is listed below or attached:

Please see attached

Signature of Sponsoring Supervisor: [Signature]

For Clerk's Use Only: