



MINUTES

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

**Thursday, September 15, 2016, 3:30 p.m.
State Universities Retirement System
1901 Fox Drive
Main Conference Room
Champaign, IL**

The following trustees were present: Ms. Dorinda Miller, Chair; Mr. Aaron Ammons, Mr. Tom Cross, Mr. Dennis Cullen, Dr. John Engstrom, Mr. Francis Idehen Jr., Mr. Paul R. T. Johnson Jr., Mr. Craig McCrohon, Dr. Steven Rock and Mr. Antonio Vasquez.

Others present: Mr. William Mabe, Interim Executive Director; Mr. Andrew Matthews, Chief Operating Officer; Ms. Bianca Green, General Counsel; Ms. Kristen Houch, Legislative Liaison; Ms. Allison Kushner, Compliance and Governance Officer; Ms. Whitney Jones, Ms. Lori Kern and Ms. Diane Bradford, Executive Assistants; Mr. Brian Deloria, Investment Officer; Mr. Steve Hayward, Director of Internal Audit; Mr. Doug Steele, Director of IT Applications; Ms. Linda Brookhart of the State Universities Annuitants Association and Ms. Mary Pat Burns of Burke, Burns & Pinelli.

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

Per the motion approved at the Investment Committee meeting on September 15, 2016, trustees may be allowed to participate via conference call for all meetings on September 15, 2016, and September 16, 2016, pursuant to Section 7(c) of the Open Meetings Act.

APPROVAL OF MINUTES

Trustee Dorinda Miller presented the minutes from the Corporate Governance Committee meeting of March 10, 2016, and Trustee Aaron Ammons made the following motion:

- That the minutes from the March 10, 2016 Corporate Governance Committee meeting be approved, as presented.

Trustee Antonio Vasquez seconded and the motion carried with all trustees present voting in favor.

CHAIRPERSON'S REPORT

Trustee Miller remarked that she did not have a formal chairperson's report.

ANNUAL REVIEW OF COUNCIL OF INSTITUTIONAL INVESTORS

In the interest of time, it was decided that the scheduled presentation by Ms. Allison Kushner would not take place but the trustees would be provided with the necessary information and documents as part of the presentation to review at their convenience.

A copy of the staff memorandum "Council of Institutional Investors (CII) Annual Review" as [Exhibit 1](#) and CII's report titled "Statement House Capital Markets" as [Exhibit 2](#) are incorporated as a part of these minutes.

2016 PROXY SEASON REVIEW

In the interest of time, it was decided that the scheduled presentation by Ms. Allison Kushner would not take place but the trustees would be provided with the necessary information and documents as part of the presentation to review at their convenience.

A copy of the staff memorandum titled "2016 Proxy Season Review," Marco's report titled "Review of Vote Summary Report for Second Quarter 2016", the memo titled "Proposed Rulemakings for Benefits Administration" and the summary titled "Proxy Voting Summary Report" are incorporated as a part of these minutes as [Exhibit 3](#), [Exhibit 4](#), [Exhibit 5](#) and [Exhibit 6](#).

PROXY VOTING SERVICES PROVIDER SELECTION

Ms. Kushner provided a background of the Request for Proposal for Proxy Voting Services Provider. Ms. Kushner provided information regarding SURS current proxy voting provider, Marco Consulting Group (MCG). Ms. Kushner also informed the board that MCG had been acquired by Segal Rogers Casey and that a new entity titled Segal Marco Advisors would be formed when the acquisition was complete in January 2017.

Ms. Kushner presented the Committee with the staff recommendation that Glass Lewis be hired as the SURS proxy services provider. Ms. Kushner detailed the factors contributing to the staff's decision to recommend Glass Lewis as the proxy service provider.

There was discussion regarding the value proposition of hiring a proxy services provider to vote the international proxies rather than allow SURS non-US proxies to be voted by individual managers. Ms. Kushner and Mr. Wesley provided an overview of the benefits of using a proxy service provider for both domestic and international proxies.

Further discussion continued regarding the possible alternatives to hiring an external proxy services provider. Ms. Burns remarked on the use of proxy service providers, like Glass Lewis, by other Illinois public pension funds.

Trustee Ammons noted that the utilization of a proxy service provider achieves value for long-term shareholders and is consistent with the fund's fiduciary responsibility.

Trustee Miller then made the following motion:

- That proxy voting services provider Glass Lewis be retained contingent upon successful contract negotiations.

The motion was seconded by Trustee Ammons and carried with Trustee McCrohon opposing the motion.

A copy of the staff memorandum titled "Proxy Voting Services Provider Selection" and Marco's press release and announcement are incorporated as a part of these minutes as [Exhibit 7](#) and [Exhibit 8](#).

INFORMATIONAL ITEMS NOT REQUIRING COMMITTEE ACTION

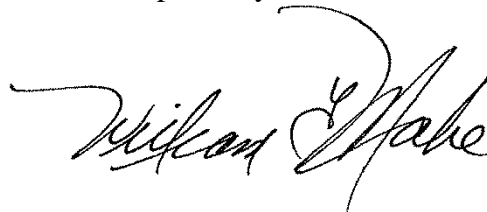
There were no informational items not requiring committee action.

PUBLIC COMMENT

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

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

Respectfully submitted,

A handwritten signature in black ink, appearing to read "William Mabe", written in a cursive style.

Mr. William Mabe
Secretary, Board of Trustees

WEM:ak



To: Corporate Governance Committee
From: Allison Kushner
Date: May 31, 2016
Re: Council of Institutional Investors (CII) Annual Review

Background:

The Council of Institutional Investors (CII) was founded in 1985 as a nonprofit organization that included twenty one mostly public pension fund officials who believed that their shareholders needed more oversight in the companies they were invested in. The founders believed that by pooling resources they could use their combined proxy power to hold companies accountable. Today, the membership includes more than 125 public, union and corporate employee benefit planes, foundations and endowments with more than \$3 trillion in assets under management. Membership in CII has grown by more than ten members in two years. SURS has been a member since 1990 and current membership dues paid in 2016 (based on AUM) were \$22,555.00, which is a marginal decrease from 2015.

Membership benefits of CII include up-to-date governance information and trends as well as multiple opportunities for research guides and reports, frequent webinar and training courses. CII also provides networking and educational forums during its fall and spring seminars. SURS staff members and trustees were present for both the fall and spring Conferences in 2015/2016 fiscal year. CII is also focused on promoting best practices regarding corporate governance to investors, and promotes CII's mission in government amicus briefs and other papers and proposals to government entities.

Organizational Update:

As of March 2016, Ken Bertsch was named Executive Director of the CII. Most recently Mr. Bertsch was a partner at CamberView Partners, and the President and CEO of Society of Corporate Secretaries & Governance Professionals and the Executive Director for corporate governance and proxy voting at Morgan Stanley. He replaced the prior Interim Director Amy Borus who stepped in when Ann Yerger, the ten year Executive Director resigned to pursue other professional opportunities.

2016 Quarterly Update from CII:

On May 25, 2016, CII released its Quarterly Update. The update informed investors that the CII offices were moving to a smaller and more cost effective space as of June 1, 2016. The update also included information that since the spring conference, senior staff had been meeting with regulators and the SEC and the DOJ regarding investor issues including shareholder company engagement.

The update mentioned that CII had recently published a guide to how shareholders without technical backgrounds can question corporate boards in the areas of cybersecurity, strategy, governance and transparency. The guide entitled, "Prioritizing Cybersecurity: Five Investor Questions for Portfolio Company Boards", can be located on CII's website, under the special reports heading.

CII also released a publication entitled “Investor Expectations for Newly Public Companies”. CII released this after noting a troubling number of companies entering the public markets with structures and practices that fundamentally compromise accountability to shareholders and give unequal footing to insiders including:

- Multi-class equity structure with unequal voting rights;
- Plurality vote requirement for uncontested director elections;
- Non-independent board leadership, whether from the chair or lead director;
- Classified board structure;
- Super-majority vote requirements for bylaw amendments and other proposals.

The CII expectation to newly public companies to have a “one-share, one vote” structure, simple majority vote requirements, independent leadership and a non-classified board”. If the newly public board does not subscribe to such provisions, it is the position of CII that it should “commit to their adoption over a reasonably limited period of time through sunset mechanisms”.

CII Statement for the Subcommittee on Capital Markets and Government Sponsored Enterprises of the Committee on Financial Services; United States House of Representatives

On May 17, 2016 Executive Director Ken Bertsch provided CII’s statement entitled “Legislative Proposals to Enhance Capital Formation, Transparency and Regulatory Accountability”, to the U.S. House of Representatives. The statement included opposition to items which were included in proposals set forth by the Committee members:

1. Proxy Advisory Firm Reform Act: as written, CII does not believe there is empirical evidence that institutional investors are abdicating or outsourcing their responsibilities and that as written the SEC guidance makes it clear that advisors have a duty to maintain sufficient oversight of third-party voting agents. CII further noted that the proposal would tend to pose a barrier to entry for new proxy advisory firms.
2. The SEC Regulatory Accountability Act: CII opposed the matter as drafted believing it would in “practice paralyze the SEC’s regulatory activities in the absence of substantially greater and assured funding”.

CII noted that its position on the above two items was also shaped by the fact that the hearing only included direct testimony from one private equity fund, and that the Committee should seek out broader information from investors before moving forward with the legislation as presented.

The full testimony of Director Bertsch follows this memorandum.

Staff Recommendation:

Staff recommends that SURS continue to support the CII as members. The CII organization continues to be a leading resource for SURS in the areas of corporate governance, specifically providing insight and information, as well as education to both staff and Trustees as to how other public pension funds are handling topics involving corporate governance. CII further supports SURS by providing news updates, emails including items to watch, and numerous educational opportunities open to all CII members and trustees. Staff and trustees continue to be actively involved in the CII organization and SURS recommend annual support for fiscal year 2017.



Statement of
Ken Bertsch
Executive Director
Council of Institutional Investors
for the
Subcommittee on Capital Markets and Government Sponsored Enterprises
of the
Committee on Financial Services
United States House of Representatives

May 17, 2016

“Legislative Proposals to Enhance Capital Formation, Transparency, and Regulatory
Accountability”

Dear Mr. Chairman Garrett and Ranking Member Maloney:

The Council of Institutional Investors (“CII”) respectfully requests that the following statement be included in the record for the May 17, 2016, hearing convened by the Subcommittee on Capital Markets and Government Sponsored Enterprises on the “Proxy Advisory Firm Reform Act of 2016” introduced by Rep. Duffy¹, and the “SEC Regulatory Accountability Act” introduced by Rep. Garrett.

As discussed below, we oppose these proposals as drafted.

- The Proxy Advisory Firm Reform Act appears to us to be a solution in search of a problem, and to overreach. We do not believe there is compelling empirical evidence that institutional investors are abdicating and outsourcing their voting responsibilities, and current SEC guidance makes it clear that investment advisors have a duty to maintain sufficient oversight of third-party voting agents. We do believe that proxy advisory firms play a useful role for institutional investors, and that the bill proposes new requirements without clarity on how proxy voting works in practice today, and without sufficient analysis of costs and benefits. Moreover, we believe the proposal could put proxy advisory firms back at the center of corporate governance, after a period of substantial increase in direct engagement between companies (including boards) and their

¹ We note that the two largest U.S. proxy advisory firms, Glass Lewis & Co. (“Glass Lewis”) and Institutional Shareholder Services (“ISS”), are non-voting members of CII, paying an aggregate of \$24,000 in annual dues—less than 1.0 percent of CII’s membership revenues. In addition, CII is a client of ISS, paying approximately \$19,600 annually to ISS for its proxy research.

shareholders. We also believe the proposal would tend to pose a further barrier to entry for new proxy advisory firms.

- The SEC Regulatory Accountability Act as drafted includes provisions we believe would in practice paralyze the Securities and Exchange Commission's (SEC) regulatory activities, at least in the absence of substantially greater and assured funding. Effective SEC regulation is critical to well-functioning capital markets. We believe the proposal is unnecessary and poses significant risks to effective regulation of capital markets.

As these proposals would have significant impacts on investors, who the SEC is charged to protect, we believe it is important before moving forward that the subcommittee seek strong and current empirical evidence, and consult more thoroughly with investors, including institutional investors who dominate U.S. markets. We understand that this hearing will include direct testimony from an officer of one private equity fund, but believe the subcommittee should seek further broader participation from investors before moving forward on the specific legislation contemplated here.

CII and CII Member's Approaches to Proxy Voting

Founded in 1985, CII is a nonpartisan, not-for-profit association of public, labor and corporate employee benefit funds with assets collectively exceeding \$3 trillion. CII is a leading advocate for strong investor rights and for effective corporate governance standards for U.S. public companies.

CII members are diverse. Our voting members – who vote on CII’s corporate governance policies – include a wide range of public, labor and corporate pension funds. Non-voting members include a range of asset managers with more than \$20 trillion in assets under management.

CII voting members are responsible for investing and safeguarding assets used to fund retirement benefits for millions of participants and beneficiaries throughout the United States. They have a significant commitment to the U.S. capital markets. The average CII member invests nearly 60 percent of its entire portfolio in U.S. stocks and bonds.

CII voting members are long-term, patient investors due to the long investment horizons for their pension obligations, and commitment of most to passive investment strategies, which involve investing in the shares making up indexes designed to represent some portion of the capital markets. These passive strategies restrict CII members from exercising the “Wall Street walk” and selling their shares when they are dissatisfied. This puts particular emphasis on corporate governance oversight and accountability to shareholders through the proxy vote.

Owning stock in a company gives CII members and other investors the right and responsibility to vote on important matters concerning corporate strategic decisions, such as significant mergers or acquisitions, and important governance issues, such as the election of directors.

Because of the significance of the issues addressed on corporate ballots, the proxy vote is considered part of the underlying value of a stock. For CII members and others with fiduciary duties, proxy voting is an obligation.

CII's corporate and labor fund members are subject to the 1974 Employee Retirement Income Security Act ("ERISA"), which requires fund fiduciaries to act solely in the best interests of plan participants and beneficiaries. While CII's public pension plan members are not subject to ERISA, many state and local legislatures have adopted standards closely modeled on ERISA rules. And CII member funds sponsored by private trusts and tax-exempt institutions (such as universities and churches) also tend to follow ERISA fiduciary standards.

As fiduciaries, CII members have a variety of specific duties regarding proxy voting, including:

- They must not vote based on their private interests, but rather to maximize the economic value of plan holdings;
- Votes must be cast on each issue that has an impact on the economic value of the stock;
- Voting decisions should be based on a careful analysis of the vote's impact on the economic value of the investment; and
- If proxy voting is delegated, plan fiduciaries have a duty to monitor proxy voting procedures and votes.

The Proxy Advisory Firm Reform Act

Proxy advisory firms have been in business for decades. Today, two firms—ISS and Glass Lewis & Co.—dominate the business, and several other smaller firms provide proxy advice and voting services. Many CII voting and non-voting members are clients of one or more of these firms, which provide research on proxy voting, as well as “back office” support for complex tasks involved in voting at hundreds or thousands of companies globally.

We believe proxy advisory firm influence has been overstated, particularly now, after several years of rapidly enhanced direct engagement between companies, including board members, and institutional investors. Boards have become better at engaging shareholders directly, and the mandates in the proposed bill could potentially reverse some of that progress, putting proxy advisory firms at the center of engagement.

We note that the European Securities and Markets Authority (ESMA) found no clear evidence of market failure in relation to proxy advisors’ interaction with investors and issuers.² ESMA did suggest development of a code of conduct, which led a group of proxy advisors that includes ISS and Glass Lewis to establish a set of Best Practice Principles in March 2014.³ ISS published a principles compliance statement in June 2014, and Glass Lewis did so in August 2014.⁴ ESMA said in December 2015 that the principles generally meet ESMA expectations, although the principles would benefit

² ESMA, “Final Report: Feedback statement on the consultation regarding the role of the proxy advisory industry,” February 2013, at <https://www.esma.europa.eu/sites/default/files/library/2015/11/2013-84.pdf>.

³ See <http://bppgrp.info/>.

⁴ See <http://bppgrp.info/wp-content/uploads/2014/06/BPP-ISS-ComplianceStatement-1406010.pdf> and http://bppgrp.info/wp-content/uploads/2014/05/2014_22-August_Glass-Lewis-Statement.pdf

from better governance and clarity over monitoring.⁵ We believe this type of initiative will be more effective than the requirements included in the proposed Proxy Advisory Firm Reform Act.

We question the rationale for the Proxy Advisory Firm Reform Act, as indicated below.

The view that ISS and Glass Lewis dictate proxy voting results is simply counter-factual.

- For example, ISS recommended against “say on pay” proposals at 12 percent of Russell 3000 companies in 2015, according to Semler Brossy (an independent compensation consulting firm).⁶ But only 2.8 percent of “say on pay” proposals at Russell 3000 companies that year received less than majority support from shareholders.
- To cite another example: fewer than 4 percent of shareholder proposals requesting an independent board chair at 2015 shareholder meetings received majority support, even though ISS recommended in favor of these proposals 36.5 percent of the time and Glass Lewis supported most of the proposals.

⁵ ESMA, “Proxy Advisors Take Steps Towards Increased Transparency,” Dec. 18, 2015; and ESMA, “Follow-up Report on the Development of the Best Practices Principles for Providers of Shareholder Voting Research and Analysis”, Dec. 18, 2015. Both reports are available at <https://www.esma.europa.eu/press-news/esma-news/esma-publishes-report-proxy-advisors%E2%80%99-best-practice-principles>.

⁶ Semler Brossy, “2015 Say on Pay Results: End of Year Report,” January 26, 2016 (<http://www.semlebrossy.com/say-on-pay/entire-2015-proxy-season/>).

Proxy advisory firm influence can be exaggerated by analyses that confuse correlation with causation.

- ISS and Glass Lewis tend to follow investors on governance policy, not lead them. In setting their policy frameworks, the two firms work hard to be in tune with investors (their clients), in part through extensive consultative processes, and to consider empirical evidence. Their franchises are built on credibility with investors. As a result, advisors' views tend to be consistent with those of many funds. Indeed, if there were a sharp divergence, we would expect to see advisors punished in the marketplace.
- Investors and proxy advisory firms that seek to take an investor perspective may tend to come to similar conclusions on some issues. They may do so based on empirical evidence, as well as broader social context. For example, a 2014 study showed that public opinion influences both the voting behavior of investors—as measured by mutual fund voting—and proxy advisors' recommendations.
- That said, as discussed further below, there is diversity of viewpoint among investors on many issues, and the proxy advisory work of ISS and Glass Lewis is dominated by custom policies geared to specific clients.
- On the large majority of votes, ISS, Glass Lewis and investors are in agreement with board recommendations, along with the large majority of shareholder

opinion. Among the minority of proposals that arouse some substantial measure of debate, there are significant differences between the proxy advisory firms and their clients, and indeed between the two proxy advisory firms.

- In areas of convergence of investor views that are in tension with those that tend to be held by corporate managers, we see little evidence for the proposition that ISS and Glass Lewis “advocacy” is the driver.
 - For example, we do not believe that the frequent, overwhelming votes supporting annual election of all directors (and opposing staggered elections) has much to do with the proxy advisory firms. A substantial majority of institutional asset owners and asset managers decided some time ago that they prefer director accountability to shareholders through an annual vote.
 - There are even significant areas of relative convergence among investors in looking at executive pay, a more complex topic. Holders of a large majority of shares in most U.S. public companies have a strong preference that executive compensation structures align pay with performance, and that has tended to create sensitivity to special awards unrelated to performance, and large awards on departure to CEOs who do not have successful performance records.

Discussions of proxy advisory firms often assume that a proxy advisor makes a single recommendation for each ballot item, and clients follow in lockstep. That is not the case.

- Many funds vote internally using their own staff, and proxy advisor research and recommendations are among the data considered in making proxy voting decisions. Even funds that delegate their voting to a proxy advisor are not “outsourcing” their voting. Funds are generally notified of proxy advisors’ recommendations and retain the ability to change the vote cast on their behalf. The client may perform a case-by-case review of certain highly complex proposals, such as a proposed merger, while instructing the advisor to vote in accordance with the fund’s customized proxy voting guidelines for other proposals. These guidelines are fund-driven, not advisor-driven, and have the sophistication to take into account numerous factors relevant to the vote.
- Funds that delegate are not all voted according to the advisory firms’ “benchmark” recommendations, those based on the firms’ own standard voting guidelines. A survey of CII members revealed that more than three-quarters of funds delegating voting to third-party advisors had their own guidelines; thus, the advisors’ recommendations reflected the funds’ judgments regarding the appropriate way to analyze various types of ballot items.
- Each of CII’s 10 largest voting members, with total assets exceeding \$1.2 trillion, votes based on fund-developed proxy voting guidelines, whether they vote

internally or delegate to a manager or voting agent. Similarly, at least 18 of the 20 largest asset management firms, with more than \$26 trillion in assets under management, have their own proxy voting guidelines. There are some areas of significant agreement, and other areas of difference. Most of these investors have internal teams dedicated to governance that inform proxy voting decisions, in tandem with proxy voting committees and/or portfolio managers and analysts.

We believe that the proxy advisory firms' role is less central than it was 10 years ago, as direct engagement of investors and companies (increasingly including corporate board members) has stepped up substantially.

- Asset managers, pension funds and others have taken greater interest in proxy voting, and have developed much greater in-house expertise to address proxy-related issues. For example, BlackRock Chairman and CEO Larry Fink has remarked on the commitment of his firm to “consistent and sustained” engagement with portfolio companies.⁷
- Moreover, investors have become much more active in engaging their portfolio companies on governance issues. Vanguard CEO Bill McNabb said in 2015: “At Vanguard, we’ve been on a journey toward increased engagement over the past decade or so. Our peers in the mutual fund industry have as well.”⁸ And companies and boards have become much more active in seeking engagement

⁷ Letter to leading global company CEOs, including the S&P 500, as reported in the BlackRock blog, April 14, 2015.

⁸ F. William McNabb, “Getting to Know You: The Case for Significant Shareholder Engagement,” Harvard Law School Forum on Corporate Governance and Financial Regulation, June 24, 2015.

with their shareholders on governance matters, leading to many more substantive discussions directly between companies and their shareholders, without intermediaries.

- As a May 2013 article in *The Wall Street Journal* (entitled “For Proxy Advisers, Influence Wanes”) summarized:

The landscape for proxy advisers is getting rockier.

Big firms that sell recommendations on how to vote in corporate elections are losing some of their relevance, as companies more aggressively court key investors ahead of big votes and those investors handle more of the voting analysis themselves.⁹

The bill seeks to micromanage both the SEC and proxy advisory firms.

- The attempt to regulate proxy advisory firms directly by statute, and in some detail, appears to us to be unwise. The draft bill¹⁰ would require each proxy advisory firm to provide draft recommendations to companies in advance of publication of the reports, in “a reasonable time” and with the opportunity for the company to lobby the report writer(s) on the recommendations. Aside from First Amendment issues likely raised by this provision, we note that in the context of financial analyst reports, Financial Industry Regulatory Authority (FINRA) rules specifically prohibit the same type of pre-review – precisely the opposite policy. ISS does share drafts with larger U.S. companies, and we respect ISS’s decision to do so as part of its methodology. But we would urge Congress not to mandate this step. Aside from general concerns on overreach, we believe such a

⁹ *The Wall Street Journal*, May 22, 2013.

¹⁰ As published on the House Financial Services Committee web site page for this hearing (as of May 16, 2016).

mandate could significantly increase proxy advisory firm costs, posing a significant barrier to entry.

- The bill mandates a particular approach to handling concerns from management at subject companies. Each firm would be required to employ an ombudsman to receive complaints on the accuracy of voting recommendations from “the subjects of the proxy advisory firm’s voting recommendations,” and resolve those complaints prior to the vote date. This would appear to make the proxy advisory firms highly vulnerable to ill-founded, trivial, and even mischievous complaints from issuers. This includes issuers that may seek to disrupt the firms, particularly amidst the highly concentrated spring “proxy season,” when time constraints that are dictated by corporate reporting requirements and state law rules prescribe when annual meetings must take place. It is notable that there apparently is no requirement for the ombudsman to hear complaints from investors, who pay for the service, unless and to the extent the “subjects...of the recommendations” (as the proposal frames this) is interpreted to include shareholder proponents. We have concern that this provision would substantially tilt influence in proxy voting toward management, at least in the absence of a proxy fight and direct independent solicitation by a shareholder.

The SEC has been intelligent and effective in its approach to proxy advisory firms, under existing authority.

- CII welcomed the SEC staff’s 2014 guidance on proxy advisors, which was largely consistent with CII’s views. The staff affirmed that registered investment

advisors are not required to vote all proxies, a view that CII has long shared. CII welcomed the staff's reminder that investment advisors have a duty to maintain sufficient oversight of third-party voting agents. CII believes many investment advisors were already doing this, but the guidance may be prompting some to be more diligent about their oversight processes. We believe the guidance was positive and we do not see the need for further action by the commission.

The SEC Regulatory Accountability Act

We believe the "SEC Regulatory Accountability Act" is not necessary, and would risk significant damage to the SEC's ability to regulate U.S. capital markets.

The proposal is not necessary.

With a membership of long-term shareholders interested in maximizing share values, CII believes it is vital to avoid unnecessary regulatory costs that could hinder the capital markets and the economy. However, we also believe that at best it is not clear how the provisions of the SEC Regulatory Accountability Act would improve the cost-effectiveness of the SEC's existing rulemaking process or benefit long-term investors, the capital markets, or the overall economy. We note in this regard the proposal does not include any provision that would explicitly require the SEC to consider the costs and benefits of a proposal or rule from the perspective of long-term investors.

The commission's rulemaking process is already governed by a number of legal requirements, including those under the federal securities laws, the Administrative

Procedure Act, the Paperwork Reduction Act of 1980, the Small Business Regulatory Enforcement Fairness Act of 1996, and the Regulatory Flexibility Act.¹¹ Moreover, under the federal securities laws the SEC is generally required to consider whether its rulemakings are in the public interest and, in addition to the protection of investors, whether the action will promote efficiency, competition and capital formation.¹² Since the 1980s, the commission has conducted, to the extent possible, an analysis of the costs and benefits of its proposed rules.¹³

The SEC has further enhanced the SEC rulemaking process in recent years.¹⁴ That process is, and has long been, far more extensive than that of any other federal financial regulator.

The proposal would pose substantial risk of damage to the SEC's regulatory capacity and to U.S. capital markets.

We believe the bill is based on a faulty premise that a generally accepted methodology currently exists that allows the SEC in a cost-effective manner to reliably measure and then balance the costs and benefits of its proposals or rules consistent with its mandate to protect investors. We note it is well established that while some of the costs of some

¹¹ Financial Services and Bailouts of Public and Private Programs: Hearing Before the H. Comm. on Oversight and Gov't Reform, 112th Cong. 2 (2012) (testimony of Chairman Mary L. Schapiro, U.S. SEC), <http://www.sec.gov/news/testimony/2012/ts041712mls.htm>.

¹² *Id.*

¹³ *Id.* at 3.

¹⁴ See for example guidance from the SEC Division of Risk, Strategy, and Financial Innovation (RSFI) and the Office of the General Counsel (OGC) issued in 2012.

SEC proposals or rules can be reliably estimated, the same is generally not true for the benefits.¹⁵

In most instances, the benefits of a commission proposal or rule relating to the financial markets, particularly a proposal or rule designed to protect investors, cannot be reliably measured. Thus, the proposal would appear to impose on the SEC a costly, one-sided, incomplete analysis in which the commission would be hard pressed to satisfy the required determination that the benefits of a proposal or rule “justify the costs of the regulation.” As a result, the proposal could, for all practical purposes, prohibit the SEC from issuing any substantive proposals or rules in furtherance of its mission to protect investors—the element of its mission that, in our view, is most critical to maintaining and enhancing a fair and efficient capital market system.

Moreover, the proposal’s requirement that the SEC review existing regulations within one year of passage, and at least every five years thereafter, in our view would consume the SEC’s existing regulatory resources and likely require substantial additional dedicated resources. We believe this likely would paralyze SEC regulatory capacity.

We urge the subcommittee to thoroughly study the potential unintended consequences and costs from this proposal to effective financial regulation, and to capital markets.

¹⁵ See, e.g., U.S. Government Accountability Office, GAO-13-101, Dodd-Frank Act: Agencies’ Efforts to Analyze and Coordinate Their Rules 18 (Dec. 2012), <http://www.gao.gov/assets/660/650947.pdf> (“As we have reported, the difficulty of reliably estimating the costs of regulations to the financial services industry and the nation has long been recognized, and the benefits of regulation generally are regarded as even more difficult to measure.”).



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To: Corporate Governance Committee
From: Allison Kushner
Date: May 25, 2016
Re: 2016 Proxy Season Review

Overview: The 2016 Proxy season saw a considerable number of developments at US annual shareholder meetings. The dominant trend continued to be focused on proxy access with a total of approximately 200 companies adopting proxy access bylaws; resulting in approximately 190 of the S&P 500 companies adopting proxy access. The results of the proxy votes also led to a general “market standard” for proxy access in line with the SEC staff view of 3 years/3% and allowing for groups of up to 20 holders and limiting access to 20% of the overall board.

Another area of shareholder focus during the 2016 proxy season was say-on-pay proposals. Public companies continued to perform strongly on say-on-pay with support leveling at 90% and less than 1% of companies getting less than majority support.

Proxy Season Spotlight: Exxon Mobil and Chipotle

Exxon Mobil:

Dominating the proxy season headlines this year is the Exxon Mobil annual shareholder meeting. Particular attention has been given to this specific vote as shareholders determined whether the oil companies should do more to address climate change with the presentment of two environmentally based and a vote proposal regarding proxy access.

The Paris Agreement, COP21 which was signed in December, 2015 by 195 countries created a universal, legally binding climate agreement which is due to enter into force in 2020. The agreement requires governments, including the United States, to keep the increase in global average temperature well below two degrees C above pre-industrial levels, in part. Encouraged by the Agreement, activist investors and asset owners believed that this was the impetus to garner support for two environmental proposals set forth at the annual shareholder meeting on May 25, 2016.

The first environmental proposal would have required ExxonMobil to publish the results of an annual climate “stress test” of how changing their policies would affect their assets and long-term business prospects. The second proposal stipulated that Exxon Mobil be directed to enact policies to ensure that the global temperatures did not rise more than two degrees Celsius in line with the COP21 Agreement. Backers of the proposals insist that climate change is a significant risk that needs to be addressed by companies such as Exxon Mobil for bottom line returns in the future.

Although there was support for the proposals on climate measures from more than fifty asset owners with over \$10 trillion in assets, the votes failed to pass at the annual meeting. The proposals were rejected by 61.8% of shareholders present at the meeting. However, in a press conference held by Thomas P. DiNapoli, the New York State Comptroller and sole trustee to the state pension fund, Mr. DiNapoli noted



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that the proposals received 38.2% of shareholder support which was a record level of support for any climate change resolution at Exxon Mobil.

The proxy access proposal which will enable shareholders with three percent or more of outstanding shares and 3 years holding to nominate for the board directly on the company's ballot for up to twenty-five percent of the fourteen member board of directors was approved by 61.9% of the shareholders. Exxon Mobil contested the proposal stating that the change would "undermine a business model that has long served the interest of shareholders well". The Exxon vote makes the company the largest yet to see investors approve a proxy access policy during the 2016 proxy season.

The change at Exxon Mobil is indicative of the overall push by investors for increasing control at the board level. ISS reports that in 2014 less than one percent of S & P 500 companies provided candidates to put their own candidates on the company's ballot. At this point in the proxy season, approximately thirty-six percent of companies are poised to tackle this proposal during this proxy season.

The importance of the Exxon Mobil proxy access vote is best understood in terms of what it means for other companies and asset owners moving forward. Prior to proxy access proposals shareholders needed to wage costly proxy contests requiring investors to spend millions to send out separate ballots, buy shareholder lists and pay attorneys; for asset owners such as pension funds, this was not a realistic option. Through proxy access policies proposals regarding the election of independent board members provide an opportunity to asset owners and shareholders to be heard on the same ballot as those board members inside a corporation.

Presently, a total of two hundred proxy access proposals have been filed this year. However, a Washington Post article noted that to date, no directors have been named through the proxy access.¹

Chipotle:

In the wake of numerous E-Colli outbreaks and what was seen as an ineffectual response during 2016 by board members the proxy season for Chipotle Inc. promised to be difficult. Public pension plans including Canada Pension Plan Investment Board (\$225B AUM), CalSTRS (\$186.8B AUM) and Ontario Teachers' Pension Plan (\$171.4B AUM) coordinated their shares against increases in executive compensation. The same pension funds and Glass Lewis & Co. further recommended their own proxy access proposal. Chipotle's plan included access for shareholders holding a combined five percent for three years for up to twenty percent of the board, while shareholders proposed access at three percent and three years for up to twenty-five percent of board elections.

Shareholders including CtW Investment Group and proxy providers such as ISS called for no votes against two long term board members based on the chain's disappointing reaction to the food related crisis. NYC Pension Funds also called for no votes on at least four board members citing length of service and the loss in stock of approximately thirty percent since October, 2015.

¹ McGregor, Jenna, "Exxon Mobil shareholders just approved a powerful new measure that could reshape investors' influence on company boards; Washington Post, digital edition, May 25, 2016 pg. 1-5



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At the annual shareholder meeting on May 11, 2016, shareholders approved their proxy access approval with fifty-seven percent of the votes for the popular three percent three year proposal, over the direct objection of the Chipotle board. However, all current board members retained their seats despite an all-time record low of support from shareholders. For two board members in particular, withhold votes topped twenty-nine percent a stunning number given that last year only one percent of all S & P 500 directors received that level of opposition.

Statements released by Chipotle's spokesperson indicate that as a company, "Chipotle has a history of taking action in response to the outcome of shareholder votes", but did not clarify or expand on what those actions will be.

Included immediately following this update are the Marco Consulting Q2 proxy voting statistics for your review.



TO: State Universities Retirement System (“SURS”)
FROM: Maureen O’Brien, Director of Corporate Governance
DATE: August 30, 2016
RE: Review of Vote Summary Report for Second Quarter 2016

The Vote Summary Report for the Second Quarter, 2016, summarizes Marco Consulting Group’s (“MCG”) votes for the State Universities Retirement System of Illinois (SURS), which are organized in the 15 major categories listed below. The report provides summaries for each major category of management and shareholder-sponsored proposals. The shareholder proposals are identified as such in the title; all other categories are management proposals. The report covers votes at US and Canadian firms as well as global companies where SURS’ investment was pursuant to American Depository Receipts.

1. [Anti-Takeover Related](#)
2. [Capitalization](#)
3. [Directors Related](#)
4. [Non-Salary Compensation](#)
5. [Reorganization and Mergers](#)
6. [Routine/Business](#)
7. [Shareholder Proposals: Compensation](#)
8. [Shareholder Proposals: Corporate Governance](#)
9. [Shareholder Proposals: Directors’ Related](#)
10. [Shareholder Proposals: General Economic Issues](#)
11. [Shareholder Proposals: Health/Environment](#)
12. [Shareholder Proposals: Other/Miscellaneous](#)
13. [Shareholder Proposals: Routine/Business](#)
14. [Shareholder Proposals: Soc./Human Rights](#)
15. [Shareholder Proposals: Social Proposal](#)

Overview

MCG voted 22,061 proposals on behalf of SURS for the Second Quarter of 2016. Overall, the votes followed management’s recommendations on 14,633 proposals (66%). We supported a majority of management-sponsored proposals in all categories except non-salary compensation.

Summaries by Issue Category

Management Proposals

1. Anti-Takeover Related

MCG voted with management on 109 of 146 proposals (75%) in this category.

Most proposals in this category (63) requested approval to adjourn a meeting. Companies trying to assure passage of important votes sometimes seek approval to adjourn the meeting to solicit more votes if needed. MCG votes in favor of these proposals when the connected proposal is supported and likewise votes against when the associated proposal is opposed. This quarter, MCG voted in favor of adjourning on 43 proposals (68%).

We supported all 11 proposals voted that sought approval for a special type of poison pill that was designed to protect a tax benefit. The net operating loss poison pill ("NOL pill") preserves the Company's ability to use certain tax assets, such as NOLs, to offset future income and thereby reduce potential future federal income tax obligations. MCG opposed all four proposals seeking shareholder approval for poison pills that would discourage potential take-overs that may be in shareholders' interest.

MCG also supported 30 of 32 proposals (94%) to reduce supermajority voting requirements because a simple majority is sufficient to convey shareholders' preferences. We voted against a similar item to increase supermajority vote requirement.

We supported several other good corporate governance measures, such as giving shareholders the right to call a special meeting and to act by written consent. We oppose these measures in cases where the right would only benefit one shareholder that could use the right to strengthen board control to the detriment of common shareholders. The remaining items in this category are procedural items.

2. Capitalization

MCG voted with management on 165 of 270 proposals (61%) dealing with how companies capitalize their operations.

These proposals seek shareholder approval to authorize and issue stock as well as related matters. MCG supported 26 of 65 proposals (40%) to increase authorized common stock where the amount sought was not excessive (i.e., not more than 50% of the current authorizations) or was necessary for a specific purpose. On issuing shares, MCG voted for 32 of 52 proposals (62%) to issue shares with or without pre-emptive rights. The remaining proposals concern stock splits, warrants, bonds, preferred stock, share repurchases and other capitalizing issues.

3. Directors Related

MCG voted with management on 11,133 of 15,364 proposals (72%) related to directors this quarter.

The vast majority of these proposals dealt with the election of the directors and leaders to the board; we voted in favor of 10,993 of 15,187 proposals (72%). Nominees are opposed if a company significantly underperformed its peers for five years or directors had poor attendance records, served as insider nominees on boards that lacked independence, or sat on too many other boards, which threatens effectiveness. Proposals in this category also deal with the standard by which directors are elected, the discharging of company leaders and term limits.

4. Non-Salary Compensation

MCG voted with management on 1,154 of 3,009 proposals (38%) in this category.

MCG voted in favor of 935 of 1,873 proposals (50%) on executive compensation, known in the United States as “say-on-pay” proposals. We evaluate compensation by assessing whether pay aligns with performance and examining other practices to identify red flags for potential misuses of shareholders’ funds. The future timing of say-on-pay proposals accounted for another 105 resolutions and MCG elects for an annual vote to hold the board accountable on a more regular basis than every two or three years.

We voted on other items related to compensation, including 18 of 34 advisory votes on golden parachutes (53%). We oppose severance arrangements where the recipients receive payments even if they do not lose their job. We also oppose in cases where the severance pay-out exceeds 2.99 times salary and bonus or provides for the gross-ups on excise taxes.

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

5. Reorganizations and Mergers

MCG voted with management on 52 of 62 proposals (84%) in this category.

MCG supported 31 of 32 merger proposals (97%) and 14 of 16 proposals (88%) to issue shares to fund an acquisition. We opposed a merger at Apollo Education Group, Inc. because the potential upside of a standalone strategy appeared more compelling than the merger. At Ashford Inc. and Shire plc, votes were cast against issuing shares to fund acquisitions because terms were likewise less attractive than allowing the firms to remain standalone entities. Other items covered in the category deal with changing the jurisdiction of incorporation, reorganizing, selling company assets and other related transactions.

6. Routine/Business

MCG voted with management on 1,928 of 2,649 proposals (73%) in this category.

The ratification of auditors accounts for more than 86% of the routine matters voted on at companies this quarter. MCG supported 1,650 of 2,272 (73%) of these proposals. We also voted for 25 of 40 proposals (63%) to approve auditors and their remuneration. Votes are cast in favor unless auditors receive excessive amounts for non-audit services

because auditors that receive hefty fees for non-audit work may be conflicted when conducting audit work. We abstained in cases where the company did not disclose the fees.

MCG voted on several other routine matters including: adopting financial statements and related reports; issuing dividends; electing audit committee members and changing the date/location of the annual meeting.

Shareholder Proposals

7. Shareholder Proposals: Compensation

MCG voted for 50 of 51 shareholder proposals (98%) related to compensation.

We supported proposals that tighten the link between executive pay and performance and eliminate excessive perquisites. Such proposals include measures to limit change in control agreements that allow time or performance hurdles on outstanding equity awards to lapse when the company faces an ownership change. They also include policies to require executives hold a significant amount of stock until they retire and that eliminate companies paying the personal taxes of executives.

8. Shareholder Proposals: Corporate Governance

MCG supported 30 of 54 shareholder proposals (56%) on corporate governance.

We vote in favor of proposals that improve corporate governance, such as recapitalizing the company to provide equal voting rights for shareholders, reducing supermajority voting requirements and providing shareholders with votes on severance agreements and poison pills.

9. Shareholder Proposals: Directors' Related

MCG supported 163 of 219 proposals (74%) in this category.

Most of the proposals in this subcategory center on how the board is structured. MCG supports proposals to give shareholders more options to engage firms, such as the right to call a special meeting or to act by written consent. This quarter MCG supported 18 dissident candidates in proxy contests. We support items to enhance accountability at the board level, including majority voting standards and cumulative voting.

10. Shareholder Proposals: General Economic Issues

MCG supported two of four proposals (50%). We supported items to consider the hiring of a financial advisor and considering the sale of assets or the company where a compelling rationale was provided.

11. Shareholder Proposals: Health/Environment

MCG supported 70 of 79 proposals (89%) in this category. The majority of proposals in this category ask for reporting on health and environmental issues. We oppose where proposals ask for action that does not appear warranted or would be adverse to shareholders, such as requiring a nuclear energy provider eliminate its nuclear energy operations.

12. Shareholder Proposals: Other/Miscellaneous

MCG supported 78 of 81 proposals (96%) in this category. Reporting on political spending comprises the majority of these items and we support companies' voluntary disclosure of corporate political spending.

13. Shareholder Proposals: Routine/Business

MCG supported 45 of 53 proposals (85%) in this category, all but eight of which requested the companies appoint an independent chairman to the board of directors. MCG supports an independent board chair.

14. Shareholder Proposals: Soc./Human Rights

MCG voted for nine of 10 proposals (90%) in this category. The issues addressed here concern companies reporting on their impacts on human rights as well as internet censorship and plant closures.

15. Shareholder Proposals: Social Proposals

MCG voted for two of nine proposals (22%) in this category. We opposed the six anti-social proposals that disingenuously seek reporting on charitable giving, renewable energy investments and anti-discriminatory principles as a tool to criticize company support of gay rights, environmental efforts and diversity efforts. We opposed a proposal that created too weak a link between the Zika Virus and the proposed changes to the controls for primates. We voted for two proposals that sought reporting on country selection standards related to operations in contentious regions of the world.

MEMORANDUM

To: Legal & Legislative Committee

From: Albert J. Lee, Associate General Counsel

Date: August 31, 2016

Re: Proposed Rulemakings for Benefits Administration

The proposed rulemakings enclosed with this memorandum make the following changes to Title 80, Part 1600 of the Illinois Administrative Code. The Board approved the subject matter of the proposed rulemakings at the June 2016 Board meetings as part of the July 1, 2016 Regulatory Agenda.

I. Retirement and *Bona Fide* Termination of Employment – Section 1600.100

The proposed change to Section 1600.100 inserts a definition of the terms "retirement" and "retires". The definition for "retirement" and "retires" states that retirement occurs upon the commencement of the annuity payment period and must be preceded by a *bona fide* termination of employment in which neither the participant nor an employer has entered into an oral or written understanding that the participant will return to employment with any SURS-covered employer following retirement.

The Illinois Pension Code and SURS regulations require that SURS be administered as a qualified plan (*e.g.*, Illinois Pension Code Sections 1-106, 1-116, 1-116.1, and 1-117; 80 Ill. Adm. Code §§ 1600.140, 1600.145, and 1600.150). The proposed changes seek to ensure that SURS complies with IRS regulations concerning *bona fide* retirements that require a true separation from service. Section 1.401-1(b) of the IRS regulations provides that a "pension plan within the meaning of section 401(a) [of the Internal Revenue Code of 1986] is a plan established and maintained by an employer primarily to provide systematically for the payment of definitely determinable benefits to his employees over a period of years, usually for life, after retirement." (emphasis added). Accordingly, these regulations generally do not permit in-service distributions whereupon distributions are made to an active participant. If SURS were to provide inadvertent in-service distributions to a participant, the plan risks violating the terms of the plan and/or also must comply with additional regulations concerning the definition of "normal retirement age" applicable to plans that permit in-service distribution prior to age 62.

In a private letter ruling issued to another taxpayer, the IRS has indicated that "if both the employer and employee know at the time of 'retirement' that the employee will, with reasonable certainty, continue to perform services for the employer, a termination of employment has not occurred upon 'retirement' and the employee has not legitimately retired." IRS PLR 201147038 (Nov. 18, 2011). Although private letter rulings are binding only to the parties to which they are issued, they can be instructive as to the legal analysis that the IRS will employ in similar situations.

II. Vacation Payments and Disability Benefit Commencement – Section 1600.550

The proposed change to Section 1600.550 adds a new subsection (h) that provides that if an employee receives payment for unused vacation accrued under the employment from which he or she becomes disabled, then the disability commencement date will be delayed by the number of work days attributable to the payment. Employer policies on whether an employee is required to use up vacation benefits before going on disability leave may differ. This codifies the longstanding SURS practice of treating a member who opts to use vacation benefits before going on disability leave the same as a member who opts to take a cash payout for unused vacation. The proposed change permits SURS to treat all members equally regarding disability benefit commencement, regardless of the differences in the employer's disability leave policy.

III. Posthumous QILDROs and Alternative to QILDRO Consent – Section 1600.605

The proposed change to Section 1600.605(a)(10) permits SURS to deem a posthumous QILDRO or QILDRO Calculation Court Order as if it were validly entered prior to the member's death if (1) the order was entered no later than 6 months after the member's death and (2) either all applicable consent requirements were met before the member's death or the order is accompanied by a certified copy of a divorce decree that incorporates a written marital settlement agreement signed by both parties that directs for the division of SURS benefits under a QILDRO. This proposed change is intended to provide relief to an alternate payee should a member die before a QILDRO could be entered pursuant to a divorce decree that directed that SURS benefits be divided under agreement by both parties. This equitable approach has been upheld in the ERISA context by the United States Courts of Appeals of the Second Circuit in *Yale-New Haven Hospital v. Nicholls*, 788 F.3d 79 (2nd Cir. 2015).

Under Section 1-119(m)(1) of the Illinois Pension Code, a QILDRO cannot divide the benefits of a member who entered SURS prior to July 1, 1999, unless the member signs a QILDRO Consent. The proposed change to Section 1600.605(b)(1) codifies a Third District Appellate Court decision, *Plunkett v. Plunkett*, 392 Ill. App 3d 100 (2009), that required SURS to honor a QILDRO despite not having received a valid QILDRO Consent because the parties had entered into a marital settlement agreement that stipulated the division of retirement benefits under a QILDRO. The court held that the divorce decree's incorporation of the terms of such a marital settlement agreement substantially complied with the QILDRO consent requirement under the Illinois Pension Code. The proposed change provides that in the event that an alternate payee is unable to obtain a signed consent from a member who became a SURS member prior to July 1, 1999, SURS will accept a certified copy of a decree of marital dissolution that incorporates the terms of a written marital settlement agreement signed by both parties that directs the division of SURS benefits under a QILDRO.

PROPOSED RULEMAKINGS
80 Ill. Adm. Code Part 1600

Section 1600.100 Definitions

Certain terms used frequently throughout this Part are defined in this Section. Unless the context requires a different meaning, other terms used in this Part shall be defined and interpreted in accordance with Article 15 of the Illinois Pension Code [40 ILCS 5/Art. 15]. The definition of a term under a specific Section or Subpart shall supercede, for the purposes of that Section or Subpart, this Section.

"Annuitant" – *A person receiving a retirement, reversionary, survivors or beneficiary annuity or disability retirement annuity from the System.* [40 ILCS 5/15-119]

"Annuity Payment Period" – *The period beginning on the date specified by the participant or the recipient of a disability retirement annuity submitting a written application, which shall not be prior to termination of employment or more than one year before the application is received by the Board; however, if the participant is not an employee of an employer participating in SURS or in a participating system as defined in Article 20 of the Code on April 1 of the calendar year next following the calendar year in which the participant attains age 70½, the annuity payment period shall begin on that date regardless of whether an application has been filed.* [40 ILCS 5/15-135(b)]

"Board" – The Board of Trustees of the State Universities Retirement System as constituted under Section 15-159 of the Code.

"Chairperson" – The chairperson of the Board.

"Claims Panel" – The quasi-adjudicative body constituted under the Board's bylaws that hears all administrative contested matters as fiduciaries pursuant to Section 1600.500.

"Code" or "Pension Code" – The Illinois Pension Code [40 ILCS 5].

"Effective Rate of Interest" – *The interest rate for all or any part of a fiscal year that is determined by the Board based on factors including the System's past and expected investment experience; historical and expected fluctuations in the market value of investments; the desirability of minimizing volatility in the effective rate of interest from year to year; and the provision of reserves for anticipated losses upon sales, redemptions, or other disposition of investments and for variations in interest experience.* [40 ILCS 5/15-125(2)] See Section 15-125(2) of the Code for the effective rate of interest set by the State Comptroller for purposes of Rule 2 of Section 15-136(a) of the Code (i.e., the Money Purchase Formula).

"Employee" – A person defined as an "employee" under Section 15-107 of the Code.

"Employer" – An entity defined as an "employer" under Section 15-106 of the Code.

"Executive Director" – The chief administrative officer of SURS, appointed by the Board.

"FOIA" – Freedom of Information Act [5 ILCS 140].

"General Counsel" – In-house legal counsel for SURS.

"IRS" – Internal Revenue Service of the U.S. Department of the Treasury.

"IRC" – Internal Revenue Code of 1986, as amended (26 USC 1 et seq.).

"Member" – A SURS participant or annuitant.

"Participant" – A person participating in SURS under Section 15-134 of the Code.

"Participating Employee" – A participant who at the time is an employee under Section 15-107 of the Code.

"Prescribed Rate of Interest" – *The rate of interest to be used in actuarial valuation and in development of actuarial tables. The prescribed rate of interest is determined by the Board on the basis of the probable average effective rate of interest on a long term basis.* [40 ILCS 5/15-125(1)]

"Principal Office of SURS" – State Universities Retirement System, 1901 Fox Drive, Champaign IL 61820.

"Retirement" or "Retires" – A participant "retires", and his or her "retirement" begins, when his or her annuity payment period begins. [40 ILCS 5/15-132.2]. The retirement shall be preceded by a bona fide termination of employment under which neither the retiree nor an employer has an oral or written understanding that the retiree will return to employment with any SURS-covered employer following retirement in any capacity.

"SURS" or "System" – State Universities Retirement System created by Article 15 of the Code [40 ILCS 5/Art. 15].

"Tier 1 Member" – A SURS participant or annuitant defined under Section 15-108.1 of the Code.

"Tier 2 Member" – A SURS participant or annuitant defined under Section 15-108.2 of the Code.

"USERRA" – Uniformed Services Employment and Reemployment Rights Act of 1994 (38 USC 4301 et seq.).

Section 1600.550 Disability Claims Procedure

- a) Pursuant to Section 15-150 of the Code, a participant may be granted a disability benefit if, while a participating employee, he or she becomes physically or mentally incapacitated and unable to perform the duties of his or her assigned position for any period exceeding 60 consecutive calendar days and the employee had completed 2 years of service at the time of disability, unless the disability is a result of an accident. An employee shall be considered disabled only during the period for which the Board determines, based upon the evidence listed in this Section, that the employee is unable to reasonably perform the duties of his or her assigned position as a result of a physical or mental disability. This determination shall be based upon:
 - 1) a written certificate from one or more licensed and practicing physicians appointed by or acceptable to the Board, stating that the employee is disabled and unable to reasonably perform the duties of his or her assigned position;
 - 2) a written certificate from the employer stating that the employee is unable to perform the duties of his or her assigned position; and
 - 3) any other medical examinations, hospital records, laboratory results, or other information necessary for determining the employment capacity and condition of the employee.
- b) **Application Filing Requirements**
 - 1) An application for disability benefits must include the certifications described in subsections (a)(1) and (a)(2), and supporting documentation described in subsection (a)(3), all as explained in more detail in this Section, for each disabling condition as well as for the entire period of disability.
 - 2) The application must be filed within one calendar year after the date on which the disability occurred. This limitation may be waived upon a showing of good cause, including, but not limited to, circumstances in which the applicant was under some physical, mental or medical infirmity or legal status that prevented the applicant from filing within the time period.
- c) **Certification By Physicians.** For purposes of subsection (a)(1), the following shall apply:
 - 1) Physicians acceptable to the Board are attending physicians, physicians designated by the participant and physicians to whom the participant was referred by the attending or designated physician. Physicians appointed by SURS staff to examine the participant are deemed to be physicians appointed by the Board. The physician must be licensed to practice and be

currently practicing in the field of expertise related to the underlying physical or mental condition for which disability benefits are sought.

- 2) The certification must be signed by a physician described in subsection (c)(1) or an authorized representative of the physician and must state the following:
 - A) the medical diagnosis of the physical or mental condition;
 - B) the prognosis of the physical or mental condition;
 - C) the physical or mental limitations to which the participant should adhere; and
 - D) that the participant is disabled and is unable to reasonably perform the duties of his or her assigned position as a result of the physical or mental disability.
- 3) The certification must be accompanied by a report containing the following:
 - A) the date of examination;
 - B) the medical history of the participant;
 - C) the results of any diagnostic tests used;
 - D) the diagnosis of the physical or mental condition;
 - E) the plan of treatment for the physical or mental condition and prognosis in response to the treatment plan;
 - F) an evaluation of the physical or mental condition as it bears upon the participant's ability to reasonably perform the duties of his or her assigned position; and
 - G) any existing documentation of objective medically demonstrable anatomical, physiological or psychological abnormalities manifested as test results or laboratory findings apart from self-reported symptoms.
- d) Certification by Employers. For purposes of subsection (a)(2), the certification must be signed by an officer authorized by the employer and must state the following:
 - 1) the physical or mental performance requirements for the reasonable performance of the participant's assigned position;

- 2) whether the participant is able to satisfy each physical or mental performance requirement for the reasonable performance of his or her assigned position to the best of the employer's knowledge or belief and the reason for that knowledge or belief; and
 - 3) whether the participant is able to reasonably perform the duties of his or her assigned position based on the provisions of subsections (d)(1) and (d)(2).
- e) **Determination of Disability.** If the participant establishes, by a preponderance of the evidence, that he or she is physically or mentally disabled and unable to perform the duties of his or her assigned position as a result of the disability, the participant shall be determined eligible for disability benefits under Section 15-150 of the Code.
- 1) SURS staff shall determine whether certifications made under subsections (a)(1) and (a)(2) and supporting documentation described in subsection (a)(3) establish eligibility for disability benefits.
 - 2) At the discretion of SURS staff, the participant may be required to submit to additional examinations by staff appointed physicians or specialists to aid in the determination process.
 - 3) Physical or mental conditions resulting from self-inflicted injuries, substance abuse, or any act for which the participant was convicted of a misdemeanor or felony are not the result of an accident for purposes of Section 15-150 of the Code.
- f) **Subsequent Re-examination of Disabled Participants**
- 1) SURS staff shall secure from one or more physicians, periodically, re-evaluation reports concerning the continued disability of the participant. The date of re-evaluation shall be determined by SURS staff on the basis of the medical reports received previously, the nature of the disability, and other relevant information.
 - 2) In the re-evaluation of disability claims, the examining physician shall be the attending physician or the physician designated by the participant, but, if the nature of the disability or other circumstances justifies the appointment of someone other than the participant's attending physician or designated physician as the examining physician, SURS staff shall make the appointment. All other procedures that may be applicable in processing the initial claim for disability benefits shall be followed in re-evaluation of the claim.
- g) **Release of Medical Information.** The participant may be required to authorize the release of all medical or other information related to the disability claim, including but not limited to medical reports, hospital records, Department of

Employment Security earnings statements, income tax records, unemployment records, and any record deemed necessary to the administration of the disability claim. The failure of the participant to submit to a re-evaluation examination or a treatment plan, to produce records, or to approve release of information required may result in the suspension of disability benefit payments.

h) Vacation Payments and Disability Benefit Commencement. If an employee receives payment for unused vacation leave accrued under the employment from which the employee is disabled, the date of the "termination of payment of salary or sick leave benefits" under Section 15-151 of the Code shall be delayed by the number of work days attributable to the vacation payment.

(Source: Section 1600.550 renumbered from Section 1600.320 at 38 Ill. Reg. 16375, effective July 17, 2014)

Section 1600.605 Requirements for a Valid Qualified Illinois Domestic Relations Order

SURS will accept a court order as a valid QILDRO or QILDRO Calculation Court Order if it meets all of the following requirements:

- a) The following requirements apply to the QILDRO and the QILDRO Calculation Court Order:
 - 1) The order must be accompanied by a \$50 non-refundable processing fee, by check or money order payable to the State Universities Retirement System.
 - 2) The order must be a certified copy of the original.
 - 3) The order must have been issued by an Illinois court of competent jurisdiction in a proceeding for declaration of invalidity of marriage, legal separation or dissolution of marriage that provides for the distribution of property, or any proceeding to amend or enforce the property distribution. A judgment, order or notice of income withholding for support under a support enforcement mechanism under Title IV-D of the Social Security Act (42 USC 666) or any other state law that purports to divide or garnish the member's retirement benefit under any proceeding for the declaration of invalidity of marriage, legal separation or dissolution of marriage will not be honored by SURS unless the judgment, order or notice is accompanied by a QILDRO (and if applicable, a QILDRO Calculation Court Order) issued by an Illinois court.
 - 4) The order must contain the name, residence address and Social Security number of the member.
 - 5) The order must contain the name, residence address and Social Security number of the alternate payee.
 - 6) The order must identify the State Universities Retirement System as the retirement system to which it is directed.
 - 7) The order must identify the court that issued it.
 - 8) The order must apply only to benefits that are statutorily subject to QILDROs, as provided in Section 1-119(b)(1) of the Pension Code.
 - 9) The orders and, if applicable, the Consent to Issuance of QILDRO, must be in the form adopted by SURS as of the date the order is received. Any alterations will invalidate the order.
 - 10) The effective date of the order must be after July 1, 1999, and before the date of death of the member. If the effective date of the order is on or after the member's date of death, SURS shall deem the effective date of

the posthumous order as if it had been entered on the day immediately prior to the member's date of death if the order is dated no later than 6 months after the date of death and—

- i) any applicable consent requirements under subsection (b)(1) were met prior to the member's date of the death; or
- ii) the order is accompanied by a certified copy of a decree of dissolution of marriage that is dated before the date of death of the member and incorporates the terms of a written marital settlement agreement that was signed by both parties before the date of death of the member and provides direction for the division of the member's SURS benefits under a QILDRO.

b) The following additional requirements apply only to the QILDRO:

- 1) If the QILDRO applies to a person who became a SURS member before July 1, 1999, it must be accompanied by the original Consent to Issuance of QILDRO form signed by the member, or a certified copy of the original. The consent cannot be signed by a judge, sheriff or any person other than the member. A QILDRO issued on or after July 1, 2006 that modifies a QILDRO issued prior to July 1, 2006 must be accompanied by an original Consent to Issuance of QILDRO signed by the member on or after July 1, 2006. If the alternate payee is unable to obtain a signed consent from the member, the required consent can be established if the QILDRO is accompanied by a certified copy of a decree of dissolution of marriage that incorporates the terms of a written marital settlement agreement that was signed by both parties and provides direction for the division of the member's SURS benefits under a QILDRO.
- 2) The QILDRO must specify each benefit to which it applies, and it must specify only one method by which the benefit shall be paid to the alternate payee.
- 3) If any benefit is to be paid using the Marital Portion Benefit Calculation, the QILDRO must comply with Section 1-119(n)IX of the Pension Code and the QILDRO must contain language in conformance with Section 1-119(n)IX(1) and (2) properly completed. The "other" option must only be checked for the purpose of using a combination of permissive service and regular service. If the "other" option is checked, a supplemental order stating the details of the combination must accompany the QILDRO. The supplemental order must not purport to establish a formula differing from the ones appearing under Section 1-119(n) of the Pension Code or purport to create new classes of service credit.
- 4) If the member is a participant of the Traditional or Portable Benefit Package, the order must designate whether the alternate payee will receive

automatic annual increases as provided under Section 1-119(n)IV of the Pension Code.

- 5) If the member is a participant of the Self-Managed Plan who has an account balance, then the QILDRO may only provide for the division of the account balance as of a certain date. If the Self-Managed Plan member is receiving benefits under an annuity contract, then the QILDRO may only divide the member's retirement benefit or death benefit, if any, or both.
- c) The following additional requirements apply only to the QILDRO Calculation Court Order:
- 1) The QILDRO Calculation Court Order must allocate benefits consistent with the underlying QILDRO. Benefits that will never become payable on or after the date the QILDRO Calculation Court Order is filed need not be allocated under the QILDRO Calculation Court Order
 - 2) Benefits allocated using a calculation method on the QILDRO Calculation Court Order must contain a clear result of the equation. SURS is not obligated to review or verify the equations or assist in the calculations to determine the benefits.

(Source: Amended at 33 Ill. Reg. 10757, effective July 1, 2009)

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Antitakeover Related											
"Adopt, Renew or Amend NOL Rights Plan (NOL Pill)"	12	11	0	0	0	1	0	0	0	11	0
"Adopt, Renew or Amend Shareholder Rights Plan (Poison Pill)"	4	0	4	0	0	0	0	0	0	1	3
Add Antitakeover Provision(s)	1	1	0	0	0	0	0	0	0	1	0
Adjourn Meeting	63	43	19	0	0	1	0	0	0	43	19
Adopt/Increase Supermajority Vote Requirement for Amendment	1	0	1	0	0	0	0	0	0	0	1
Amend Articles/Charter Governance-Related	4	3	1	0	0	0	0	0	0	3	1
Amend Right to Call Special Meeting	3	2	1	0	0	0	0	0	0	2	1
Authorize Share Issuance/Tender Offer/Share Exchange	1	0	1	0	0	0	0	0	0	0	1
Authorize the Company to Call EGM with Two Weeks Notice	4	4	0	0	0	0	0	0	0	4	0
Company-Specific--Organization-Related	2	2	0	0	0	0	0	0	0	2	0
Eliminate/Restrict Right to Act by Written Consent	1	0	1	0	0	0	0	0	0	0	1
Permit Board to Amend Bylaws Without Shareholder Consent	3	0	3	0	0	0	0	0	0	0	3
Provide Right to Act by Written Consent	3	2	1	0	0	0	0	0	0	2	1
Provide Right to Call Special Meeting	8	7	1	0	0	0	0	0	0	7	1
Reduce Supermajority Vote Requirement	32	30	1	0	0	1	0	0	0	30	1
Require Advance Notice for Shareholder Proposals/Nominations	3	2	1	0	0	0	0	0	0	2	1
Rescind Fair Price Provision	1	1	0	0	0	0	0	0	0	1	0
Totals for Antitakeover Related :	146	108	35	0	0	3	0	0	0	109 (74.7%)	34 (23.3%)
Capitalization											
Approve Cancellation of Capital Authorization	1	1	0	0	0	0	0	0	0	1	0
Approve Change-of-Control Clause	3	3	0	0	0	0	0	0	0	3	0
Approve Issuance of Equity with or without Preemptive Rights	5	2	3	0	0	0	0	0	0	2	3
Approve Issuance of Equity without Preemptive Rights	28	22	5	1	0	0	0	0	0	22	6
Approve Issuance of Shares Below Net Asset Value (NAV)	1	1	0	0	0	0	0	0	0	1	0
Approve Issuance of Shares for a Private Placement	19	11	8	0	0	0	0	0	0	11	8
Approve Issuance of Warrants/Bonds without Preemptive Rights	1	1	0	0	0	0	0	0	0	1	0
Approve Issuance of Warrants/Convertible Debentures	4	3	1	0	0	0	0	0	0	3	1
Approve Reduction in Share Capital	9	9	0	0	0	0	0	0	0	9	0
Approve Reverse Stock Split	29	28	0	0	0	1	0	0	0	28	0
Approve/Amend Conversion of Securities	5	4	1	0	0	0	0	0	0	4	1
Approve/Amend Securities Transfer Restrictions	5	5	0	0	0	0	0	0	0	5	0
Authorize Board to Increase Capital	3	1	2	0	0	0	0	0	0	1	2
Authorize Capital Increase for Future Share Exchange Offers	1	0	1	0	0	0	0	0	0	0	1
Authorize Capital Increase of up to 10 Percent	2	2	0	0	0	0	0	0	0	2	0
Authorize Issuance of Equity with Preemptive Rights	19	8	10	1	0	0	0	0	0	8	11
Authorize New Class of Preferred Stock	1	0	1	0	0	0	0	0	0	0	1

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Authorize Reissuance of Repurchased Shares	4	3	1	0	0	0	0	0	0	3	1
Authorize Share Repurchase Program	31	10	4	17	0	0	0	0	0	10	21
Authorize Share Repurchase Program/Cancellation of Shares	1	1	0	0	0	0	0	0	0	1	0
Capitalize Reserves for Bonus Issue/Increase in Par Value	1	1	0	0	0	0	0	0	0	1	0
Company Specific - Equity Related	15	10	4	1	0	0	0	0	0	10	5
Eliminate Class of Common Stock	2	2	0	0	0	0	0	0	0	2	0
Eliminate Preemptive Rights	5	5	0	0	0	0	0	0	0	5	0
Eliminate/Adjust Par Value of Stock	2	2	0	0	0	0	0	0	0	2	0
Increase Authorized Common Stock	65	26	39	0	0	0	0	0	0	26	39
Increase Authorized Preferred Stock	2	0	2	0	0	0	0	0	0	0	2
Reduce Authorized Common and/or Preferred Stock	5	4	0	0	0	1	0	0	0	4	0
Set Limit for Capital Increases	1	0	1	0	0	0	0	0	0	0	1
Totals for Capitalization :	270	165	83	20	0	2	0	0	0	165 (61.1%)	103 (38.1%)
Directors Related											
Adopt Majority Voting for Uncontested Election of Directors	22	21	0	0	0	1	0	0	0	21	0
Amend Articles Board-Related	1	1	0	0	0	0	0	0	0	1	0
Amend Quorum Requirements	1	1	0	0	0	0	0	0	0	1	0
Appoint Alternate Internal Statutory Auditor(s)	1	1	0	0	0	0	0	0	0	1	0
Appoint Internal Statutory Auditors	1	0	1	0	0	0	0	0	0	0	1
Approve Director/Officer Liability and Indemnification	1	0	0	1	0	0	0	0	0	0	1
Approve Discharge of Auditors	1	0	1	0	0	0	0	0	0	0	1
Approve Discharge of Board and President	10	8	2	0	0	0	0	0	0	8	2
Approve Discharge of Directors and Auditors	2	1	1	0	0	0	0	0	0	1	1
Approve Discharge of Management Board	15	8	6	1	0	0	0	0	0	8	7
Approve Discharge of Supervisory Board	8	7	0	1	0	0	0	0	0	7	1
Approve Executive Appointment	3	3	0	0	0	0	0	0	0	3	0
Approve Remuneration of Directors and/or Committee Members	16	11	1	4	0	0	0	0	0	11	5
Change Range for Size of the Board	3	2	1	0	0	0	0	0	0	2	1
Classify the Board of Directors	2	0	2	0	0	0	0	0	0	1	1
Company Specific--Board-Related	17	9	6	0	0	2	0	0	0	9	6
Declassify the Board of Directors	38	37	0	0	0	1	0	0	0	36	1
Elect Board Chairman/Vice-Chairman	6	2	4	0	0	0	0	0	0	2	4
Elect Director	14965	10875	1414	14	2662	0	0	0	0	10875	4090
Elect Directors (Bundled)	5	0	4	0	1	0	0	0	0	0	5
Elect Directors (Management Slate)	72	36	0	0	14	22	0	0	0	36	14
Elect Representative of Employee Shareholders to the Board	3	1	2	0	0	0	0	0	0	3	0
Elect Subsidiary Director	123	68	22	0	33	0	0	0	0	68	55
Elect Supervisory Board Member	13	11	2	0	0	0	0	0	0	11	2
Eliminate Cumulative Voting	3	0	3	0	0	0	0	0	0	0	3
Establish Range for Board Size	4	4	0	0	0	0	0	0	0	4	0

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Fix Number of Directors and/or Auditors	5	4	1	0	0	0	0	0	0	4	1
Indicate Personal Interest in Proposed Agenda Item	2	0	2	0	0	0	0	0	0	2	0
Provide Proxy Access Right	20	17	3	0	0	0	0	0	0	17	3
Remove Age Restriction for Directors	1	1	0	0	0	0	0	0	0	1	0
Totals for Directors Related :	15364	11129	1478	21	2710	26	0	0	0	11133 (72.5%)	4205 (27.4%)
Non-Salary Comp											
Advisory Vote on Golden Parachutes	34	18	16	0	0	0	0	0	0	18	16
Advisory Vote on Say on Pay Frequency	105	1	2	0	0	1	101	0	0	88	16
Amend Articles/Charter Compensation-Related	2	0	0	2	0	0	0	0	0	0	2
Amend Executive Share Option Plan	5	0	5	0	0	0	0	0	0	0	5
Amend Non-Employee Director Omnibus Stock Plan	10	0	10	0	0	0	0	0	0	0	10
Amend Non-Employee Director Restricted Stock Plan	7	0	7	0	0	0	0	0	0	0	7
Amend Non-Employee Director Stock Option Plan	4	0	4	0	0	0	0	0	0	0	4
Amend Non-Qualified Employee Stock Purchase Plan	4	3	1	0	0	0	0	0	0	3	1
Amend Omnibus Stock Plan	439	0	436	1	0	2	0	0	0	1	436
Amend Qualified Employee Stock Purchase Plan	56	56	0	0	0	0	0	0	0	56	0
Amend Restricted Stock Plan	11	1	10	0	0	0	0	0	0	1	10
Approve Annual Bonus Pay for Directors/Statutory Auditors	1	0	1	0	0	0	0	0	0	0	1
Approve Bundled Remuneration Plans	1	0	1	0	0	0	0	0	0	0	1
Approve Executive Share Option Plan	11	0	11	0	0	0	0	0	0	0	11
Approve Increase Compensation Ceiling for Directors	1	0	0	1	0	0	0	0	0	0	1
Approve Issuance of Warrants Reserved for Founders	2	0	2	0	0	0	0	0	0	0	2
Approve Non-Employee Director Omnibus Stock Plan	12	0	12	0	0	0	0	0	0	0	12
Approve Non-Employee Director Restricted Stock Plan	4	0	4	0	0	0	0	0	0	0	4
Approve Non-Employee Director Stock Option Plan	1	0	1	0	0	0	0	0	0	0	1
Approve Non-Qualified Employee Stock Purchase Plan	6	2	3	1	0	0	0	0	0	2	4
Approve Omnibus Stock Plan	188	0	186	0	0	2	0	0	0	0	186
Approve Outside Director Stock/Options in Lieu of Cash	3	3	0	0	0	0	0	0	0	3	0
Approve Qualified Employee Stock Purchase Plan	34	34	0	0	0	0	0	0	0	33	1
Approve Remuneration Policy	3	2	1	0	0	0	0	0	0	2	1
Approve Remuneration Report	1873	935	913	14	0	11	0	0	0	939	923
Approve Remuneration of Directors	9	3	6	0	0	0	0	0	0	3	6
Approve Repricing of Options	6	1	5	0	0	0	0	0	0	1	5
Approve Restricted Stock Plan	7	0	7	0	0	0	0	0	0	0	7
Approve Share Plan Grant	3	0	3	0	0	0	0	0	0	0	3
Approve Stock Option Plan Grants	1	0	1	0	0	0	0	0	0	0	1

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Approve or Amend Severance/Change-in-Control Agreements	1	0	1	0	0	0	0	0	0	0	1
Approve/Amend All Employee Option Schemes	1	0	1	0	0	0	0	0	0	0	1
Approve/Amend Deferred Share Bonus Plan	1	1	0	0	0	0	0	0	0	1	0
Approve/Amend Employment Agreements	2	0	2	0	0	0	0	0	0	0	2
Approve/Amend Executive Incentive Bonus Plan	152	0	150	0	0	2	0	0	0	0	150
Company-Specific Compensation-Related	9	3	5	1	0	0	0	0	0	3	6
Totals for Non-Salary Comp. :	3009	1063	1807	20	0	18	101	0	0	1154 (38.4%)	1837 (61.1%)
Preferred/Bondholder											
Certification of Citizen Share Representation	1	1	0	0	0	0	0	0	0	1	0
Totals for Preferred/Bondholder :	1	1	0	0	0	0	0	0	0	1 (100.0%)	0 (0.0%)
Reorg. and Mergers											
Acquire Certain Assets of Another Company	1	0	1	0	0	0	0	0	0	0	1
Approve Merger Agreement	32	31	1	0	0	0	0	0	0	31	1
Approve Reorganization/Restructuring Plan	1	1	0	0	0	0	0	0	0	1	0
Approve Sale of Company Assets	2	2	0	0	0	0	0	0	0	2	0
Approve Scheme of Arrangement	2	2	0	0	0	0	0	0	0	2	0
Approve Transaction with a Related Party	3	1	2	0	0	0	0	0	0	1	2
Change Jurisdiction of Incorporation	5	1	4	0	0	0	0	0	0	1	4
Issue Shares in Connection with Acquisition	16	14	2	0	0	0	0	0	0	14	2
Totals for Reorg. and Mergers :	62	52	10	0	0	0	0	0	0	52 (83.9%)	10 (16.1%)
Routine/Business											
Accept Consolidated Financial Statements/Statutory Reports	10	10	0	0	0	0	0	0	0	10	0
Accept Financial Statements and Statutory Reports	39	38	0	1	0	0	0	0	0	38	1
Adopt Jurisdiction of Incorporation as Exclusive Forum	17	0	17	0	0	0	0	0	0	0	17
Adopt New Articles of Association/Charter	1	1	0	0	0	0	0	0	0	1	0
Allow Electronic Distribution of Company Communications	1	1	0	0	0	0	0	0	0	1	0
Amend Articles/Bylaws/Charter -- Non-Routine	78	64	10	0	0	4	0	0	0	64	10
Amend Articles/Bylaws/Charter -- Routine	44	44	0	0	0	0	0	0	0	44	0
Amend Investment Advisory Agreement	1	1	0	0	0	0	0	0	0	1	0
Appoint Appraiser/Special Auditor/Liquidator	2	2	0	0	0	0	0	0	0	2	0
Approve Allocation of Income and Dividends	18	18	0	0	0	0	0	0	0	18	0
Approve Auditors and their Remuneration	40	25	13	0	2	0	0	0	0	25	15
Approve Dividend Distribution Policy	1	1	0	0	0	0	0	0	0	1	0
Approve Dividends	8	8	0	0	0	0	0	0	0	8	0
Approve Financials/Income Allocation/Director Discharge	5	5	0	0	0	0	0	0	0	5	0
Approve Political Donations	4	3	0	1	0	0	0	0	0	3	1
Approve Special Auditors Report	2	1	1	0	0	0	0	0	0	1	1

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Approve Special/Interim Dividends	1	1	0	0	0	0	0	0	0	1	0
Approve Stock Dividend Program	1	1	0	0	0	0	0	0	0	1	0
Authorize Board to Fix Remuneration of External Auditor(s)	14	5	7	2	0	0	0	0	0	5	9
Authorize Board to Ratify and Execute Approved Resolutions	2	2	0	0	0	0	0	0	0	2	0
Change Company Name	8	8	0	0	0	0	0	0	0	8	0
Designate X as Independent Proxy	6	6	0	0	0	0	0	0	0	6	0
Elect Chairman of Meeting	1	1	0	0	0	0	0	0	0	1	0
Elect Members of Remuneration Committee	26	22	4	0	0	0	0	0	0	22	4
Miscellaneous Proposal: Company-Specific	1	1	0	0	0	0	0	0	0	1	0
Other Business	40	0	39	0	1	0	0	0	0	1	39
Ratify Alternate Auditor	2	2	0	0	0	0	0	0	0	2	0
Ratify Auditors	2272	1650	603	5	0	14	0	0	0	1652	606
Receive/Approve Report/Announcement	3	3	0	0	0	0	0	0	0	3	0
Receive/Approve Special Report	1	1	0	0	0	0	0	0	0	1	0
Totals for Routine/Business :	2649	1925	694	9	3	18	0	0	0	1928 (72.8%)	703 (26.5%)
SH-Compensation											
Adjust Executive Compensation Metrics for Share Buybacks	3	3	0	0	0	0	0	0	0	0	3
Claw-back Compensation in Specified Circumstances	6	6	0	0	0	0	0	0	0	0	6
Company-Specific--Compensation-Related	1	1	0	0	0	0	0	0	0	0	1
Limit/Prohibit Accelerated Vesting of Awards	17	17	0	0	0	0	0	0	0	0	17
Link Executive Pay to Social Criteria	9	8	1	0	0	0	0	0	0	1	8
Performance-Based and/or Time-Based Equity Awards	1	1	0	0	0	0	0	0	0	0	1
Report on Pay Disparity	2	2	0	0	0	0	0	0	0	0	2
Stock Retention/Holding Period	12	12	0	0	0	0	0	0	0	0	12
Totals for SH-Compensation :	51	50	1	0	0	0	0	0	0	1 (2.0%)	50 (98.0%)
SH-Corp Governance											
Approve Recapitalization Plan for all Stock to Have One-vote	9	9	0	0	0	0	0	0	0	0	9
Company-Specific--Governance-Related	18	1	16	1	0	0	0	0	0	16	2
Provide for Confidential Vote Tally	7	0	7	0	0	0	0	0	0	7	0
Reduce Supermajority Vote Requirement	14	14	0	0	0	0	0	0	0	1	13
Remove Antitakeover Provisions	2	2	0	0	0	0	0	0	0	0	2
Submit Severance Agreement to Shareholder Vote	3	3	0	0	0	0	0	0	0	0	3
Submit Shareholder Rights Plan to Shareholder Vote	1	1	0	0	0	0	0	0	0	0	1
Totals for SH-Corp Governance :	54	30	23	1	0	0	0	0	0	24 (44.4%)	30 (55.6%)

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SH-Dirs' Related											
Adopt Proxy Access Right	69	68	0	0	0	1	0	0	0	6	62
Amend Articles Board-Related	2	0	1	0	0	1	0	0	0	1	0
Amend Articles/Bylaws/Charter - Call Special Meetings	18	17	1	0	0	0	0	0	0	1	17
Amend Vote Requirements to Amend Articles/Bylaws/Charter	1	1	0	0	0	0	0	0	0	0	1
Appoint Preferred Stock Internal Statutory Auditor(s) [and A	1	1	0	0	0	0	0	0	0	1	0
Auditor Rotation	1	1	0	0	0	0	0	0	0	0	1
Board Diversity	6	6	0	0	0	0	0	0	0	2	4
Declassify the Board of Directors	5	5	0	0	0	0	0	0	0	1	4
Elect Directors (Opposition Slate)	68	18	1	0	2	47	0	0	0	18	3
Establish Environmental/Social Issue Board Committee	4	4	0	0	0	0	0	0	0	0	4
Establish Other Board Committee	2	1	1	0	0	0	0	0	0	1	1
Provide Right to Act by Written Consent	17	17	0	0	0	0	0	0	0	1	16
Require Environmental/Social Issue Qualifications for Direct	3	3	0	0	0	0	0	0	0	0	3
Require a Majority Vote for the Election of Directors	21	20	0	0	0	1	0	0	0	9	11
Restore or Provide for Cumulative Voting	1	1	0	0	0	0	0	0	0	0	1
Totals for SH-Dirs' Related :	219	163	4	0	2	50	0	0	0	41 (18.7%)	128 (58.4%)
SH-Gen Econ Issues											
Hire Financial Advisor Maximize Value	1	1	0	0	0	0	0	0	0	1	0
Seek Sale of Company/Assets	3	1	2	0	0	0	0	0	0	2	1
Totals for SH-Gen Econ Issues :	4	2	2	0	0	0	0	0	0	3 (75.0%)	1 (25.0%)
SH-Health/Environ.											
Climate Change	20	18	2	0	0	0	0	0	0	3	17
Climate Change Action	2	0	2	0	0	0	0	0	0	2	0
Community -Environmental Impact	6	6	0	0	0	0	0	0	0	0	6
Facility Safety	2	2	0	0	0	0	0	0	0	0	2
GHG Emissions	13	12	1	0	0	0	0	0	0	1	12
Genetically Modified Organisms (GMO)	2	1	1	0	0	0	0	0	0	1	1
Hydraulic Fracturing	4	4	0	0	0	0	0	0	0	0	4
Phase Out Nuclear Facilities	1	0	1	0	0	0	0	0	0	1	0
Product Toxicity and Safety	2	2	0	0	0	0	0	0	0	0	2
Recycling	3	3	0	0	0	0	0	0	0	0	3
Reduce Tobacco Harm to Health	1	1	0	0	0	0	0	0	0	0	1
Renewable Energy	11	10	1	0	0	0	0	0	0	1	10
Review Foreign Military Sales	1	1	0	0	0	0	0	0	0	0	1
Sustainability Report	11	10	1	0	0	0	0	0	0	1	10
Totals for SH-Health/Environ. :	79	70	9	0	0	0	0	0	0	10 (12.7%)	69 (87.3%)

Proxy Voting Summary Report

Exhibit 6

Votes in Meetings Held Between April 1, 2016 and June 30, 2016

Number Voted

<u>2016 Quarterly SURS Statistical Report</u>	<u>Proposals</u>	<u>For</u>	<u>Against</u>	<u>Abstain</u>	<u>Withhold</u>	<u>DNV</u>	<u>1YR</u>	<u>2YRS</u>	<u>3YRS</u>	<u>With Mngt</u>	<u>Against Mngt</u>
Adopt Holy Land Principles	7	7	0	0	0	0	0	0	0	0	7
Adopt Sexual Orientation Anti-Bias Policy	1	1	0	0	0	0	0	0	0	0	1
Animal Welfare	1	0	1	0	0	0	0	0	0	1	0
Gender Pay Gap	5	5	0	0	0	0	0	0	0	0	5
Political Activities and Action	5	3	2	0	0	0	0	0	0	2	3
Political Contributions and Lobbying	22	22	0	0	0	0	0	0	0	0	22
Political Lobbying Disclosure	36	36	0	0	0	0	0	0	0	0	36
Report on EEO	4	4	0	0	0	0	0	0	0	0	4
Totals for SH-Other/misc. :	81	78	3	0	0	0	0	0	0	3 (3.7%)	78 (96.3%)
SH-Routine/Business											
Company-Specific -- Miscellaneous	8	0	0	8	0	0	0	0	0	0	8
Require Independent Board Chairman	45	45	0	0	0	0	0	0	0	0	45
Totals for SH-Routine/Business :	53	45	0	8	0	0	0	0	0	0 (0.0%)	53 (100.0%)
SH-Soc./Human Rights											
Human Rights Risk Assessment	2	2	0	0	0	0	0	0	0	0	2
Improve Human Rights Standards or Policies	7	6	1	0	0	0	0	0	0	1	6
Internet Censorship	1	1	0	0	0	0	0	0	0	0	1
Totals for SH-Soc./Human Rights :	10	9	1	0	0	0	0	0	0	1 (10.0%)	9 (90.0%)
Social Proposal											
Anti-Social Proposal	6	0	6	0	0	0	0	0	0	6	0
Social Proposal	3	2	1	0	0	0	0	0	0	2	1
Totals for Social Proposal :	9	2	7	0	0	0	0	0	0	8 (88.9%)	1 (11.1%)
Totals for the report :	22061	14892	4157	79	2715	117	101	0	0	14633 (66.3%)	7311 (33.1%)



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William E. Mabe, Interim Executive Director

To: Corporate Governance Committee
From: Allison Kushner
Date: August 31, 2016
Re: Proxy Voting Services Provider Selection

Overview: On February 4, 2016 the Board of Trustees approved an RFP for Proxy Voting Providers. The RFP was issued in February and responses were received by Broadridge, Glass Lewis, Marco Consulting (MCG), Egan Jones, and ISS prior to the April 30, 2016 response deadline. SURS has utilized the domestic proxy services of Marco Consulting since 2007. Due to organizational changes, the responders agreed to extend the time of their bids through the minimum of September 2016.

A review committee comprised of various department Directors and staff as well as the Interim Executive Director was formed to determine the finalists, and ultimately agree on a finalist recommendation to bring to the Board at the September 2016 meeting of the Corporate Governance Committee. Each member of the committee was asked to rank their choices ultimately based on reporting/research/benchmarking, conflicts of interests and lawsuits, value/cost, and diversity of management. Each committee member ranked Glass Lewis as the first choice for proxy service provider.

Evaluation of Current Vendor: SURS current proxy services provider is MCG. MCG provides SURS with US proxy voting services and an annual update of our Proxy Policy. MCG reports to SURS on a quarterly basis after voting has taken place and provides an annual detailed review of the proxy topics of interest. The current contract is \$48,000.00 through September 31, 2016. The RFP response provided by MCG proposed \$55,000.00 for domestic and \$30,000.00 for international proxy voting.

SURS completed its annual due diligence of MCG in November 2015, and presented its findings to the Board in December 2015. The due diligence report noted that the Executive Director had recently retired and that there had been a sizeable shift in the number of employees from 80 to 59 employees at the end of calendar year 2015. In response to the RFP issued by SURS, MCG noted that they relied on research provided by ISS. Further, MCG noted that 98% of their proxy services clients are Taft-Hartley Funds, 2% public pension funds, including Illinois SURS as its only Illinois public pension fund, and that overall corporate governance including proxy voting services provided 4% of their overall business services offered, approximately 60% of their business generated from investment consulting and approximately 40% business generated from fiduciary services. MCG also noted losing six clients in the past five years including the Chicago Public Teachers Retirement Fund. Diversity disclosures noted an overall 78% Caucasian, with 30% Caucasian female.

An area of concern mentioned in the 2015 due diligence report provided to the board was the level of detailed proxy research provided by MCG as well as the limited reports received by SURS.

On September 9, 2016 staff received notice that MCG was being acquired by the Segal Group, and that operations would be combined with Segal Group's investment consulting subsidiary, Segal Rogerscasey, (SRG). MCG informed staff that the new private entity would be called Segal Marco Advisors when the

transaction closes on January 1, 2017. The MCG Press release is attached immediately following this memorandum.

Evaluation of Finalists: The committee reviewed the responses from the five responders and narrowed the providers down to the same top three, eliminating Egan Jones and Marco Consulting. Egan Jones was primarily eliminated due to their lack of complete and comprehensive responses to the RFP. Egan Jones did not provide information requested such as references and current public pension fund clients or diversity information. Marco Consulting was eliminated from the finalists due to the value of the information and services provided compared to the services, independent research and reports offered for a near or slightly higher cost. Below please find the table for comparisons between Glass Lewis, ISS and Broadridge based in large part on five key factors which shaped staffs decision:

Provider	Team	Diversity of Management	Reporting/Research/Benchmarking	Conflicts Lawsuits	Value/Cost
ISS	Total Staff: 907, 195 research, 139 operations, 131 tech development. Research staff have minimum education standards of BA but many have graduate degrees and professional certifications (JD, MA, CPA, CFA)	US Team: 37% female, 9 Asian, 6% AA, 4% female. SURS team would be 60% female. Senior Staff: Minority 29, Female 48, Disabled 0; represents 19% senior staff minority and 31% female; 6 member team assigned specifically to SURS 3male/3 female; inclusion and diversity policy	Benchmarking (additional cost) to compare across other asset owners, fact based independent research focused on shareholder value, Proxy Exchange Reporting Module offers ranges of reports can pull reports or can set up automatic reports in multiple formats. Voting dashboard shows statistics of votes needed to take action etc. Provides ESG rankings and profiles through Governance Quickscore Product, Proxy Exchange also allows for automated, part automated or manual vote execution of ballots based on policy created by client	2012 SEC investigation led to SEC order under violation of 204A of IASA for not enforcing sufficient policies SEC imposed sanctions and a cease and desist, censure and civil money penalty	D &I: \$143,818 (includes 15,000.00 time fee)
Glass Lewis	Total Staff: 248; US research 92, European Research 92; African 16; German 9. Approximately 10 clients per client relation manager, each researcher publishes approx. 200 proxy papers. Can email the writer/researcher directly; professional backgrounds with most having advanced degrees	Senior Staff disclosures: 55 minority, 33 female, N/A disability (CEO, CAO, VP Product Management are female), inclusion policy, EEO policy	pre/post research and reports available, peer benchmarking using Equilar's model, independently research, shareholder proposals through their ESG Proxy Research Group, M&A research team, all reports are available to clients. Reports can be pulled at any time and pushed to be delivered on an auto basis. Client can customize exported data through Viewpoint. Use P4P quantitative models for compensation of execs v.	Does not interact with publically traded companies, and engage other than to sell their own independent research to them. no SEC orders; no lawsuits other than "ordinary in the course of business lawsuits" disclosed. Charter signatory to the Best Practice Principles for Shareholder Voting Research	Domestic & Foreign Total: \$113,320.00

Broadridge	Total Staff 7400 Note: Broadridge uses research provided by ISS or Egan Jones, and the Fund is required to vote the proxies themselves using their integrated platform	Have inclusion policy but will not disclose ethnic backgrounds as a publically traded company until later in process:	other companies, research factors and provide grades for various areas pre-meeting budget analysis and notice, complete proxy planner & timelines of meetings, on demand reports for annual reports, 10ks, benchmarking with peers on votes versus industry trends, NPX data benchmarking to provide voting trends for institutions based on proposal type, and how institutions voted on an issue, custom reports real time access to voting records, ability to analyze available data" utilizes EJ research or GL research, Proxy Edge allows clients to be alerted for case by case situations.	and Analysis agreement, and the Best Practice Principles Group. No SEC orders; do not trade hold positions custody, borrow recommend securities to clients, or derive revenue streams from anything other than processing ballots for financial industry. Have a COI policy	Domestic & Foreign: 3K+56,146+ \$22,290= \$81,436

Evaluation of Recommended Vendor: After careful review of the responders submissions, SURS staff recommends retaining the proxy policy and voting services of Glass Lewis (GL). Glass Lewis (GL) provides proxy services to 1200 institutional investors with an addition of 100 in the past year. GL retention rate over five years was 95% with 97% renewal in 2015, and a total loss of approximately 20 clients in five years. Proxy services are 90% of GL’s business lines with 60% using integrated proxy research and voting services and 30% utilizing research only services. Some of GL’s large institutional investor clients include ISBI, CalPERS, CalSTRS, NY State Common Fund, NY State Teachers and North Carolina State Treasurer. Diversity disclosures pursuant to ILPC Sec 1-113.2 indicate senior staff 55% and 33% female.

High points of GL proposed service includes a significantly knowledgeable research team, comprised of professionals with advanced degrees and a research staff of more than half the total GL staff. GL began using its “Proxy Paper”; which provides a detailed report on each annual meeting in the client portfolio and assigns an analyst who can be contacted directly to discuss any items or questions that may arise.

The reporting provided by GL includes the ability to pull reports at any time through their web portal, review reports regarding meetings and their subjects, detailed voting analytics on specific accounts over time, proposal levels by issues and region, and the ability for clients to customize exported data through GL Viewpoint. GL further provides benchmarking using Equilar’s model and independently research issues related to Boards of Directors, M& A, ESG issues and individual shareholder proposals. GL is also Charter signatory to the Best Practice Principles for Shareholder Voting Research and Analysis agreement, and the Best Practice Principles Group.

GL also provides proxy policy drafting and revision, as well as a specifically tailored Public Pension Policy, which GL can add additional items or minor changes without increasing the proposed fees. The Public Pension Policy can be found immediately following this memo.

GL is further proposing comprehensive proxy policy and voting services at a discount of 64%. Best estimates using SURS estimated 2015 figures for ballots casts and meetings attended, the total cost of GL's proposals including Proxy guideline and development, ballots and all voting both domestic and international is \$113,320.00; which is approximately (\$57K for domestic and \$25K for international plus ballot costs, guideline review and development and web based interactive platform use.)

Additional Considerations: Discussion at various Board meetings has included questions surrounding the benefits to using a proxy services provider versus allowing the financial managers to vote SURS proxies based on SURS proxy policy. Multiple reasons for utilizing the services of a provider include the following:

1. **Continuity:** Using a proxy provider for both domestic and international votes ensures across-the-board continuity for all votes. Utilizing both a proxy provider and then allowing the financial managers to vote the international proxies, regardless of utilizing SURS policy, could result in contrary votes due to recommendations by the financial managers or their own proxy provider and SURS domestic proxy provider. For instance, if MCG were to vote based on the recommendation of their research as provided by ISS and a financial manager using Glass Lewis as their provider voted on their international proxies, the result while utilizing the same SURS policy guidelines could be different and incongruous based on the recommendation. This concept was well publicized regarding a heated argument between a fertilizer company and an activist group, Janus Partners, who were looking for seats on the Agrium board of directors. In the Agrium fertilizer case, Glass Lewis recommended a vote of full confidence in Agrium's board while ISS recommended that shareholder elect two outside shareholder's as board members. The case highlights the possibility that depending on the utilization of recommendations by different sources may result in an unclear position and proxy vote history which emphasizes the benefit that a single proxy voting provider for domestic and international proxies can provide.

2. **Reporting:** Currently, reporting of the proxies voted domestically at SURS is provided by MCG on a quarterly basis after votes are cast. There is no ability to pull votes from MCG's system at this time, and the reporting capabilities are generally limited to requests made to MCG for additional information. Reporting offered by other service providers include the ability to determine vote recommendations prior to votes being cast, an ability to run reports through provider interfaces online, the ability to create benchmark reports across peer groups as well as other report types. Reports currently received by our financial managers are sporadic provided to SURS by the financial managers at their discretion, with some financial managers providing their reports on a more frequent basis. Further, the kinds of reports provided by the financial managers regarding SURS proxies voted are inconsistent across report types.

3. **Accuracy of Information available to the Public:** Recent increases in FOIA requests have included additional requests seeking SURS votes on a variety of proxies throughout various time frames. Utilizing a single proxy service provider with consistent and accurate reports provides additional assistance to staff in timely and accurately completing these requests.

Recommendation: While staff appreciates the long standing relationship with its current proxy services provider, MCG, both the acquisition of MCG by Segal and the added value proposed by GL by providing both domestic and international voting, extensive research and experience, a large public pension base for clients and a heavily discounted rate, staff does not recommend continuing the relationship with MCG. Rather, SURS staff recommends Glass Lewis to provide domestic and international proxy services after the successful negotiation of terms and contract. It is also important to note that contacts at Northern Trust anticipate that a switch of providers would take approximately two weeks.

FOR IMMEDIATE RELEASE
September 12, 2016

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Segal Rogerscasey to Acquire The Marco Consulting Group

Combined entity will have investment advisory assets exceeding \$500 billion

(NEW YORK) – **Joseph A. LoCicero**, President and CEO of The Segal Group, Inc. announced today that Segal Rogerscasey, the firm’s SEC registered investment consulting business, has signed an asset purchase agreement to acquire the business of The Marco Consulting Group (MCG) effective January 1, 2017. MCG is one of the premier investment consulting firms to multiemployer benefit plans in the U.S. The combined firm will be known as Segal Marco Advisors.

“The acquisition of The Marco Consulting Group represents a significant enhancement to the already deep expertise of Segal Rogerscasey,” commented Mr. LoCicero. “It is also a major move in The Segal Group’s continuing commitment to its clients to provide the highest level of actuarial, retirement, health, investment, administration, compliance, communications, and HR and compensation consulting services.”

Segal Marco Advisors will have a staff of more than 150 investment, consulting and research professionals serving more than 400 clients with advisory assets exceeding \$500 billion. **John DeMairo**, Segal Rogerscasey’s President and CEO, will continue in the same role at Segal Marco Advisors. MCG co-founders, **Jack Marco** and **Tom Mitchell, Sr.**, will serve as advisors to the organization.

“The multiemployer market is a key market for Segal Consulting and Segal Rogerscasey, and the sole focus of MCG,” commented Mr. DeMairo. “This combination will provide trustees with unprecedented resources and talent, and make us the undisputed leader for multiemployer investment consulting.”

Mr. DeMairo continued, “In the many years we’ve competed with MCG, we have always been impressed with their people and investment solutions. Combining our strengths will not only be good for our clients, but will also make us more competitive in our chosen markets.”

Mr. Marco added, “Segal Rogerscasey has industry-leading research capabilities, particularly in the areas of manager due diligence, alternative investments and asset-liability modeling. We look forward to working with their research teams and bringing those additional capabilities to our existing clients.”

The actuarial expertise provided by Segal Consulting will also play a major role for clients of Segal Marco Advisors. “Today’s multiemployer funds seek assistance managing their assets and liabilities to help ensure their participants’ retirement readiness,” said Mr. LoCicero. “Trustees will find Segal Marco Advisor’s investment consulting and Segal Consulting’s actuarial experience to be unmatched in the market.”

“Coming together makes even more sense because both firms are privately held,” noted Mr. Mitchell. “This allows the continuation of a laser-like focus on our clients not often seen in publicly held corporations. Client service will continue to be our first priority.”

Segal Marco Advisors will be headquartered in New York, but will continue to have a significant presence in Chicago operating out of the current MCG office. In addition, it will have offices in Atlanta, Boston, Chicago, Cleveland, Darien (CT), Dallas, Denver, Los Angeles, Seattle, Toronto and Dublin, Ireland.

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Segal Rogerscasey, a member of The Segal Group, is a leading global investment solutions firm that provides innovative, client-driven consulting advice and outsourcing solutions. The firm has been in operation for 47 years and is one of the largest U.S.-based investment consultants. Clients include corporations, non-profit organizations, endowments, foundations, state and local governments and joint boards of trustees administering benefit plans under the Taft-Hartley Act. The firm works with financial services firms through Rogerscasey, a Division of Segal Advisors, and with Canadian clients through Segal Rogerscasey Canada. The firm is also a founding member of the Global Investment Research Alliance.