OPERS

Ohio Public Employees Retirement System

May 7, 2019

Dalia Blass, Esq., Director
Division of Investment Management
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-0609

Dear Ms. Blass:

We are writing on behalf of the Ohio Public Employees Retirement System (OPERS) to share our experience as an institutional investor and client of a proxy advisory firm, and also offer our thoughts regarding the on-going debate over proxy advisory firm independence and transparency.

OPERS is the largest public retirement system in Ohio, with more than one million active, inactive, and retired members. Almost one out of every 12 Ohioans has some connection to our System. In order to provide secure retirement benefits for our members, OPERS invests more than $100 billion in capital markets around the world, including holdings in more than 9,300 public companies. As a fiduciary, OPERS is required to act in the best interest of its members, and this responsibility extends to the prudent management of the investments we make with our members' retirement contributions. More than two-thirds of OPERS' annual benefit payments are funded through investment returns. As a result, OPERS is focused on maximizing value across its investment portfolio.

We firmly believe that positive shareholder engagement is an integral part of maximizing shareholder value. As such, we consider effective engagement to be a key component of our fiduciary duty to our members. OPERS regularly engages with public companies in order to establish a dialogue with boards of directors and management. Through this engagement, our goal is to better understand the viewpoints of the public companies in which we are invested, and to more effectively convey our thoughts and concerns regarding the maximization of shareholder value.

Effective shareholder engagement requires that we are aware of, and able to address the many governance issues that can arise in any given year. However, with limited staff and resources, it is extremely difficult to devote the necessary time and attention to the thousands of proxies we receive each proxy season. Consequently, OPERS has chosen to partner with a proxy advisory firm, which allows us to fulfill our engagement and governance obligations in a more productive and efficient manner.

<u>OPERS Utilizes the Services Provided by its Proxy Advisory Firm to Improve the Efficiency and Effectiveness of its Shareholder Engagement</u>

Like many institutional investors, OPERS has its own corporate governance policy and proxy voting guidelines to govern voting decisions and ensure that we are maintaining an appropriate balance between maximizing shareholder value and upholding our principles as a trusted public institution.

OPERS receives in excess of 10,000 proxies in any given proxy season. We have determined it is more operationally efficient to use the workflow of our proxy advisory firm to cast votes on these

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matters. However, as part of our contractual relationship with our proxy advisory firm, we have insisted that our corporate governance policy and proxy voting guidelines be integrated with their voting platform, so that all votes made on OPERS' behalf are made in accordance with *our* policies and guidelines, as opposed to the proxy advisory firm's recommendations. In this way, OPERS maintains complete control over its proxy votes, though in most cases they are functionally being cast by the proxy advisory firm. This practice – called "robo-voting" – is often misunderstood, leading some observers to believe that clients of proxy advisory firms simply defer to their proxy advisor's voting recommendations, or otherwise abdicate their responsibilities regarding governance decisions. In our experience, nothing could be further from the truth. In fact, there are many instances where we choose to manually review proposals based on our corporate governance program's focus areas.

In practice, we have observed that a significant percentage of our votes are cast with management (79.5%). Last proxy season, OPERS' proxy votes tracked those of its proxy advisory firm 86.1% of the time, a mere 6.6% difference from alignment with management recommendations.

In addition to the customized proxy advisory firm voting platform, OPERS also depends heavily on the research reports we receive from our proxy advisory firm. These reports are critical to the internal analyses we perform before any vote is submitted. Without access to the timely and independent research provided by our proxy advisor, it would be virtually impossible to effectively vote each of our proxies and fulfill our duty to our members.

OPERS is Satisfied that its Proxy Advisory Firm Adequately Discloses Conflicts of Interest and is Responsive to Concerns Regarding Errors in Research Reports

As described above, OPERS has not ceded any decision-making authority to its proxy advisory firm. Rather, each of our proxy votes is made in accordance with our own corporate governance policy and proxy voting guidelines, which are reviewed at least annually and approved by our Board of Trustees. That being said, as responsible investors, we are interested in our partners' business practices and operational controls, and we need to know if there is a specific conflict of interest that could impact the independence of the research we receive. In the case of our proxy advisory firm, that information is listed prominently on the first page and in the appendix of the research reports provided to us. With that information, we are able to make informed decisions regarding the nature of our proxy advisor's conflicts and business interactions.

Additionally, we have an interest in ensuring that we are receiving complete and accurate information from our proxy advisory firm. We have internal controls in place to identify and mitigate proxy advisory firm errors, including a comprehensive annual review of our custom vote policy, an individual review of ballots containing manual vote items, and monthly auditing procedures.

As a result of our own research, we have, on very few occasions, identified errors in the research reports we receive from our proxy advisory firm. In one example, the research report listed an incorrect name for a director candidate, and was quickly addressed following communication from OPERS. On another occasion, we had questions regarding the correct application of our proxy voting rules, which was also addressed to our satisfaction. In both cases, our proxy advisory firm was responsive and acted immediately to rectify the problem. While these few experiences underscore the importance of engagement and internal review on the part of the investor/client, we continue to be satisfied with the quality and independence of the research we receive from our proxy advisory firm.

OPERS

OPERS Does Not Believe Additional Regulation of Proxy Advisory Firms is Necessary

OPERS has contracted with its proxy advisory firm in an effort to more effectively engage with the companies in which it has invested. This relationship helps us to fulfill our fiduciary responsibility to our members. We do not believe the relationship between proxy advisory firms and their clients should be further regulated or restricted.

However, if the SEC is convinced that additional regulation or guidance is necessary, we respectfully request that the Commission consider the potential impact of such regulation or guidance on the investors who pay for and depend on these services for timely, independent, and comprehensive research and analyses. Any change that lengthens the timeline to receive reports, or erodes our confidence in the quality or independence of those reports will materially impact our ability to appropriately fulfill our responsibility to the many public employees, retirees, and others who depend on us to manage their contributions in an effective and cost-efficient manner.

As the SEC contemplates whether and how to address concerns regarding proxy advisory firms, it may be instructive to consider recent legislative efforts to regulate these entities, as well as the potential impact of those efforts on the contractual relationships between proxy advisors and their clients. For example, the Corporate Governance Reform and Transparency Act of 2017 (H.R. 4015), which passed the U.S. House of Representatives last December, would have mandated that proxy advisory firms make significant changes to their business models in an effort to foster "accountability, transparency, responsiveness, and competition in the proxy advisory firm industry."[1] Specifically, the bill would have required, among other things, that proxy advisory firms hire an ombudsman to receive and address issuer concerns, and offer issuers the opportunity to preview and provide recommendations on research reports.[2] In so doing, the legislation would have increased the time and cost of receiving proxy advisory firm research reports, while also increasing the likelihood that the edited research reports would be less independent and more unreliable for the institutional investors that depend on them.

Issuer concerns regarding proxy advisory firm methodologies and decision-making processes notwithstanding, OPERS must be able to rely on the independence and objectivity of the information it receives from its proxy advisory firm. For these reasons, OPERS opposes solutions like H.R. 4015, and would respectfully request that the SEC avoid taking similar actions that would increase our costs, compress the timelines for receiving research reports, or diminish the independence of the research we receive from our proxy advisory firm.

Conclusion

Proxy advisory firms provide a necessary and valuable service to investors that wish to fully participate in the governance process and more effectively engage as shareholders. The relationship we have with our proxy advisory firm has allowed us to more effectively and efficiently fulfill our fiduciary duty to our members. The administrative costs of attempting to recreate or duplicate the research we receive from our proxy advisory firm would be prohibitive for a public institution like OPERS.

As described above, OPERS does not believe additional regulation of proxy advisory firms is warranted. If however, the SEC believes that some intervention is necessary, we urge the

[1] Corporate Governance Reform and Transparency Act of 2017, H.R. 4015, 115th Congress (2017).

[2] *See id.*, Section 15H(g).

Commission to carefully consider the consequences of any potential changes, particularly for the investors that pay for and depend on the information provided by proxy advisory firms. To the extent that a regulatory change increases our costs, delays the information we need, or erodes the confidence we have in the independence of the research reports we receive, there will be a negative impact on our members – the law enforcement officers, university employees, librarians, road workers, and others who depend on us for their retirement security. We respectfully request that the SEC preserve our access to efficient, timely, and independent information from our proxy advisory firm.

If you have questions or comments regarding OPERS' submission, please do not hesitate to contact us.

Sincerely,

Karen E Carraher

Karen Carraher
Executive Director

Patti Brammer

Patti Brammer
Corporate Governance Officer

cc: The Honorable Jay Clayton, Chairman, U.S. Securities and Exchange Commission

The Honorable Commissioner Robert J. Jackson, Jr., U.S. Securities and Exchange Commission

The Honorable Commissioner Hester M. Peirce, U.S. Securities and Exchange Commission

The Honorable Commissioner Elad L. Roisman, U.S. Securities and Exchange Commission