Rhode Island Treasury Engagement Overview
2017 Shareholder Season

Summary
Rhode Island Treasurer Seth Magaziner has strengthened the state’s shareholder voting policy to better advocate for the pension fund and its members. For the first time in the State’s history, Treasurer Magaziner filed and co-filed shareholder proposals with companies in our investment portfolio, asking them to implement more sustainable business practices and improve disclosure to shareholders.

During the 2017 shareholder season, through a combination of shareholder advocacy tools including voting proxies, filing shareholder proposals, and direct dialogue with corporate executives, Rhode Island Treasury engaged with companies in our investment portfolio urging them to adopt more sustainable business practices.

Voting on proxy issues provides an opportunity for shareholders to communicate directly with the boards of publicly traded companies. Rhode Island Treasury’s proxy voting guidelines reflect the fiduciary duty of the Rhode Island Treasurer’s Office to vote proxies in the best interest of our members and constituents.

The rights of shareholders to have their voices heard is currently under attack. The “Financial CHOICE Act”, recently passed by the U.S. House of Representatives, would drastically reduce corporate accountability by making it impossible for all but the wealthiest shareholders to submit proposals at a company’s annual meetings. Treasurer Magaziner has joined with other treasurers and investors in calling on the U.S. Senate to reject this measure.

About Shareholder Engagement
Each year, publicly-traded companies seek votes from shareholders on items that are pending on their annual proxy ballots. The items that shareholders can vote on range from the approval of boards of directors and executive pay packages to proposals submitted by investors requesting changes to company policies.

As a multi-billion-dollar investor in the US and Global stock markets, Rhode Island’s pension fund holds shares in thousands of the world’s largest companies. The Retirement System has members who are in their 20s and will be members of the fund 60 years from now. As a fiduciary, Treasurer Magaziner has an obligation to encourage companies to adopt sustainable business practices that are in the long-term interests of all of our members.

Shareholder engagement strengthens oversight of companies, allowing every day investors, like the public employees served by the Rhode Island pension system, to have a voice at the table and hold management and boards accountable.

For more information visit: treasury.ri.gov
Corporate Governance

Board Diversity and Independence

Rhode Island Treasury voted against management-proposed directors at 199 companies, due to lack of independence, expertise or diversity. This includes votes at Continental Resources, and NuStar Energy Corporation; companies with no women or minorities represented on the board of directors.

Diversity, inclusive of gender and race, is a critical attribute of a well-functioning board and a measure of sound corporate governance. As policy, Rhode Island votes against all director nominees sitting on boards with less than 30% diversity on their board of directors. With women holding only 16% of board seats at S&P 1500 companies, Rhode Island Treasury will continue to engage companies on this issue.

Gender Diversity on Corporate Boards

Women only hold 16% of board seats at S&P 1500 companies.

Executive Compensation

Executive compensation at publicly traded companies has risen at a significantly faster pace than median household income in recent decades. The Rhode Island Treasury believes that executive compensation must be closely tied to performance, and structured in a manner that keeps corporate executives accountable to shareholders.

This year, Rhode Island Treasury voted against executive compensation proposals at 59 companies, including Wal-Mart, American Express, and Charter Communications, where company performance wasn’t aligned with the proposed pay package.

In the case of insurance provider Aflac, the State voted against a proposal to raise the CEO’s compensation more than $20 million, a 70% increase from the previous year. The State also voted against a proposed $850,000 retirement bonus for the CEO of railway company Kansas City Southern, as well as a proposal to give $20 million in company stock to Johnson Controls’ CEO for “severance” as he leaves the CEO position to become the company’s board chairman.

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Wells Fargo Customer Scam
Rhode Island also joined a group of institutional investors filing a shareholder proposal demanding that Wells Fargo transparently address the widespread consumer fraud that was perpetrated on its own customers.

During an in-person meeting with the bank’s CEO Tim Sloan, Treasurer Magaziner strongly asserted that shareholders are entitled to know exactly what happened. The Treasurer also requested that the bank publicly share information about steps it is taking to ensure that customers and shareholders are protected from illegal and predatory banking practices.

Unsatisfied with Wells Fargo’s response to the widespread fraud at their company, Rhode Island voted against reelecting all members of the Wells Fargo Board of Directors.

Student Loan Crisis
Treasurer Magaziner filed a shareholder proposal with Navient, the nation’s largest student loan servicer, requesting that the company provide shareholders with information regarding its ability to service customers in default, or at risk of defaulting on their student loans.

The proposal was filed amid growing concerns over what the Consumer Financial Protection Bureau describes as Navient’s “systemically and illegally failing borrowers at every stage of repayment”. Navient ultimately blocked shareholders from voting on the proposal by claiming that record borrower defaults are part of “ordinary business” for the company.

“The student loan crisis continues to threaten the financial security of millions of Americans. As shareholders, we have a responsibility to ensure that Navient is interacting with customers in a fair and sustainable manner.”

--Treasurer Seth Magaziner
Energy Lobby Disclosure

Full disclosure of a company’s direct and indirect lobbying activities and expenditures to are critical to assess whether the company’s lobbying is consistent with its expressed goals and in the best interests of shareholders.

Treasurer Magaziner joined shareholders across the country in demanding that energy companies disclose information about climate change policies, risks, and lobbying expenses that they use to influence lawmakers and regulations.

Rhode Island Treasury filed or co-filed lobbying disclosure shareholder proposal at Chevron, Exxon Mobil, ConocoPhilips and Devon Energy, requesting that the companies disclose to shareholders how and where they are spending corporate funds on lobbying.

Rhode Island was among 62% of ExxonMobil shareholders who voted in favor of a proposal requesting the board of directors provide a detailed analysis of the risks to the company from climate change.

“Our Rhode Island pension fund, managed by our treasurer, Seth Magaziner, is pushing for greater transparency on political and lobbying spending at large energy companies like Exxon, Chevron, ConocoPhillips, and Devon.”

-- U.S. Senator Sheldon Whitehouse (D-RI)