

*State of Rhode Island*



# 2019 Shareholder Engagement Overview

*Seth Magaziner,  
General Treasurer*

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“ *Shareholder engagement strengthens oversight of companies, allowing everyday investors, like the public employees served by the Rhode Island pension system, to have a voice at the table and hold corporate management and boards accountable. It is vital that companies in which the pension fund invests adopt sustainable business practices, as the pension system has members who will be counting on it to provide benefits for decades to come.*

*Rhode Island’s pension system owns shares in thousands of the world’s largest companies. We believe that companies should provide disclosure on –and take steps to mitigate– financial and reputational risks and put in place responsible environmental, social and governance practices and policies.*

*During the 2018-2019 shareholder season, through a combination of shareholder advocacy tools including voting proxies, filing shareholder proposals, and direct dialogue with corporate executives, our office has successfully engaged with many companies in our investment portfolio, resulting in many commitments by those companies to adopt more sustainable business practices.”*

**Seth Magaziner**  
**General Treasurer**  
**State of Rhode Island**



## Overview

Rhode Island Treasurer Seth Magaziner is using the influence of the state's \$8.4 billion state pension fund to compel companies to adopt more responsible and sustainable corporate behavior.

Research shows that companies that actively measure and manage material sustainability issues are better positioned to deliver long-term value to investors – including members of the pension system and all Rhode Island taxpayers.

Treasurer Magaziner's office has successfully engaged with members of corporate boards and senior executives to encourage them to develop more sustainable business practices across a range of environmental, social and corporate governance issues. Our investment team also conducts regular analysis and due diligence of fund managers to identify and address sustainability risks and opportunities.

## Proxy Voting & Shareholder Engagement

Each year, shareholders of publicly-traded companies have the opportunity to vote on items that are pending on the company's annual proxy ballot. The items that shareholders can vote on range from the approval of board of directors and executive pay packages to proposals submitted by investors requesting changes to company policies.

Treasurer Magaziner has adopted and implemented proxy voting guidelines which reflect the fiduciary duty of the Rhode Island Treasurer's Office to vote proxies in the best interest of our members and constituents. Rhode Island has also begun introducing its own proxy proposals at companies where corporate behavior is a cause for concern.

These proxy voting guidelines and information on our proxy votes for the most recent shareholder season can be viewed at: [investments.treasury.ri.gov](https://investments.treasury.ri.gov)

In addition to participating in the proxy voting process, the Rhode Island Treasury also frequently engages company leadership directly on a range of issues, including limiting excessive executive compensation packages, protection of shareholder voting rights, mitigation of environmental impact, avoidance of negative legal and reputational risks, and other matters that may impact long term shareholder value.



## Executive Compensation

*In the past year, Rhode Island strengthened its policy for voting on executive compensation packages.*

Executive compensation at publicly traded companies has risen dramatically in the last three decades, especially when compared to the average salary of workers at the same company. The current ratio for CEO-to-worker compensation is estimated to be in excess of 300-to-1. CEO compensation has also grown faster than stock prices or corporate profits.

It is in the best interest of members of the Rhode Island pension system that executive compensation incentivize management to focus on long term, sustainable corporate growth, rather than rewarding short-term risk taking, which was a significant factor in the 2008-2009 financial crisis.

In the past year, Rhode Island strengthened its policy for voting on executive compensation packages.

*“At a time when income inequality has grown to alarming levels in our country, investors like the pension fund should not be paying enormous salaries to corporate executives at companies that are performing poorly,” said Treasurer Magaziner. “Executive compensation must be closely tied to long-term performance and structured in a manner that keeps corporate executives accountable to investors, including members of our pension system.”*

In 2019, Rhode Island voted against executive compensation proposals at dozens of companies, including Walt Disney Company, JP Morgan Chase, and General Motors, where proposed pay packages were not justified by company performance.

### **Rhode Island opposes executive compensation plans when:**

- CEO pay is more than 4 times the average pay for the company's other top executives;
- Performance-based pay is less than 50% of total CEO pay;
- CEO pay is in the top 25% of peer companies, but performance is below average; or
- More than 4% of the company's outstanding shares are paid to a CEO.





## Global Climate Crisis

The Rhode Island Treasurer's Office exercises its right as a shareholder to encourage companies to adopt more sustainable business practices, including practices related to climate.

Our office regularly collaborates with Ceres, a non-profit sustainability advocate, and its members. Additionally, we are members of CDP (formerly, the Climate Disclosure Project) and the Climate Action 100+, a five-year initiative led by investors to engage with the world's largest corporate greenhouse gas emitters to improve governance on climate change, curb emissions and strengthen climate-related financial disclosures.

As long-term investors, full disclosure of a company's direct and indirect lobbying activities and expenditures is critical to assess whether the company's lobbying is consistent with its expressed goals and in the best interests of shareholders.

Some companies that have publicly expressed concern about the risks that climate change pose to their operations and financial health have, at the same time, funded organizations that actively lobby against strong climate policies and in some cases fund misleading research meant to promote denial of climate change.

During the 2018-2019 shareholder season, Rhode Island filed or co-filed lobbying disclosure shareholder proposals with AT&T, IBM, and Mastercard. Each of these proposals was successfully withdrawn follow-

ing commitments provide significant additional public disclosure of their respective lobbying practices and procedures.

In addition to directly engaging with companies on climate issues, Treasurer Magaziner lobbied the U.S. Environmental Protection Agency and the National Highway Transportation Safety Administration in opposition to proposed revisions that would weaken federal standards for corporate average fleet efficiency (CAFE) and greenhouse gas (GHG) emission standards for passenger cars and light trucks.



**Mindy Lubber**  
CEO & President, Ceres

*"While creating long term value for members of the retirement system, Treasurer Magaziner's leadership on climate risk has led to corporate action that will help to protect Rhode Island's economy and residents from increasingly severe weather events and rising sea levels,"*

### **CASE STUDY:**

#### ***Archer Daniels Midland to Review the Impact of its Greenhouse Gas Emissions***

In early 2019, following shareholder engagement led by Treasurer Magaziner, Archer Daniels Midland (ADM), one of largest agricultural processors in the world, agreed to assess the feasibility of adopting quantitative, company-wide goals for reducing the company's greenhouse gas emissions, including increasing its use of renewable energy.

"Pension funds are long-term investors," said Treasurer Magaziner. "Companies, especially those as large as Archer Daniels Midland, must have a plan to adapt their business model

to reduce dependence on fossil fuels. A transition to renewable energy can help stabilize and reduce energy costs – freeing up corporate resources that can be invested for sustainable growth."

Beyond decreasing price volatility, increasing the use of renewable energy can help companies proactively prepare for the implementation of energy-efficiency standards and carbon-reduction regulations. Increased use of clean technologies and renewable energy may also reduce business continuity risk.

# Data Privacy



## Corporate Accountability

Under Treasurer Magaziner's administration, Rhode Island's position has been that the Chair of a corporate board of directors should always be an independent member of the board. The positions of CEO and Board Chair should be separate in order to free the CEO to focus on managing the Company and enable the Chair to focus on oversight and strategic guidance.

When Boards are controlled by CEOs instead of shareholders, accountability and oversight are often lax, and the interests of management are often given precedence over the interests of shareholders and the broader public.

### CASE STUDY:

#### *Majority of Independent Facebook Shareholders Want Zuckerberg to Step Down as Chair*

The demand for greater oversight and accountability at Facebook continues to grow as a series of controversies, ranging from Facebook's revelation that as many as thirty million users had their information stolen, to Russian meddling in U.S. elections, to the proliferation of fake news.

Shareholders filed a proposal asking Facebook to strengthen its corporate governance by adopting a policy requiring that the Chair of the Board be an independent director; effectively separating the role of CEO and Board Chair.

The proposal was co-filed by Treasurer Magaziner, who joined the New York City Comptroller and the treasurers of Illinois,

Connecticut, Massachusetts, Pennsylvania, Oregon.

Many of Facebook's corporate peers, including Alphabet, Apple, Autodesk, and Microsoft have already updated governance policies to provide more robust and effective risk oversight, including separating the roles of Chair and CEO.

At Facebook's 2019 Annual Meeting, Facebook shareholders sent a powerful message when 68% of independent shareholders voted for the shareholder proposal and against management.





## Pharmaceutical Companies & the Opioid Crisis

Opioid misuse and abuse remain a serious national crisis that affects public health as well as social and economic welfare. The National Institute of Health estimates that, on average, 130 people die of an opioid overdose each day in the U.S.

In addition to the devastation that opioid addiction has inflicted on families and communities across America, the total “economic burden” of prescription opioid misuse in the United States is \$78.5 billion a year, including the costs of healthcare, lost productivity, addiction treatment, and criminal justice involvement.

Pharmaceutical companies must take responsibility for misleading healthcare providers and the general public regarding opioid medications as well as their role in the ongoing opioid epidemic. Manufacturers and distributors of opioids must also update their policies, products, and business practices in order to reverse the widespread damage of the opioid crisis.

The Rhode Island Treasurer’s office is an active member of Investors for Opioid and Pharmaceutical Accountability (IOPA), a coalition of 53 institutional investors with over \$3.4 trillion in assets. Since its inception in 2017, the IOPA has engaged with manufacturers, distributors and retail pharmacies on board oversight issues related to opioid business risks.

In corporate engagements with these companies, the IOPA investors have asked boards to assess and report on how governance practices, compensation incentives and compliance controls have changed since 2012, the height of the opioid epidemic, and what measures are now in place to mitigate future legal, reputational and financial risks.

Senior executives at pharmaceutical companies should not be insulated from legal risks, particularly when they pertain to the performance of one of the company’s core compliance risks – the safe and secure distribution of drugs.



**Meridith Miller**  
**Chief Corporate Governance Officer**  
**UAW Retiree Medical Benefits Trust**

*“As a key partner of Investors for Opioid and Pharmaceutical Accountability, Treasurer Magaziner’s Office continues to be instrumental in pressing for independent board chairs at opioid companies.”*



## Opioid crisis *cont.*

### CASE STUDY:



#### *Treasurer teams with IBT to hold Cardinal execs accountable*

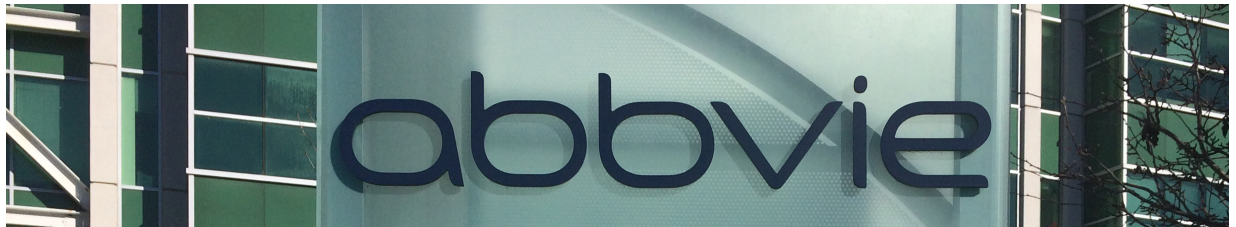
Treasurer Magaziner, in collaboration with the International Brotherhood of Teamsters, co-filed a shareholder proposal with Cardinal Health, requesting that the company's board of directors adopt an executive compensation policy which includes legal or compliance costs when evaluating the performance of senior executives.

Cardinal is facing hundreds of lawsuits related to the opioid epidemic and other matters, and has already been fined tens

of millions of dollars. As investors, we are concerned that the material risks from core compliance challenges are not adequately factored into CEO pay at the company.

The proposal was voted on by shareholders in November 2018 and while it did not receive a majority vote, it did receive enough votes for it to be resubmitted next year.

### CASE STUDY:



#### *Shareholders pressure Abbvie to disclose opioid business plans*

Members of the IOPA have been in ongoing engagement with Abbvie and had requested that the company provide greater disclosure and transparency on their website regarding their opioid business.

During a meeting with investors led by Treasurer Magaziner, Abbvie publicly confirmed that they do not "own, manufacture or distribute any opioid products". Specifically, the company has discontinued marketing and sales of Vicodin and has no plans for including opioids in their business plans.

To ensure strong oversight of risks related to pharmaceutical marketing at the company going forward, Rhode Island joined with the State of Vermont in 2018 to file a shareholder proposal with Abbvie, requesting that the board adopt a policy of having the chair of the board of directors be an independent member.



## Board Composition & Diversity

There are many factors that the Rhode Island Treasurer's office considers when determining whether to vote for or against a nominee to a corporate board. Experience, absence of conflicts, and independence from management are all important considerations, as is the diversity of the board as a whole.

An increasing body of research shows that companies with stronger diversity at the senior level tend to outperform those companies that lack diverse leadership teams, yet less than 20% of board seats at S&P 1500 companies are held by women and less than 20% by racial minorities. As policy, Rhode Island votes against all director nominees that would cause boards to be less than 30% gender or racially diverse. Rhode Island was only the second state to adopt such a policy.

As a result of this policy, Rhode Island voted in opposition to over 200 proposed directors at more than two dozen companies over the past year. These votes led to dozens of positive conversations with leadership at these companies, where we made the case that board diversity must be a priority.

Since Rhode Island launched this policy in 2016, the percentage women nomi-

nated to open board seats has increased dramatically.

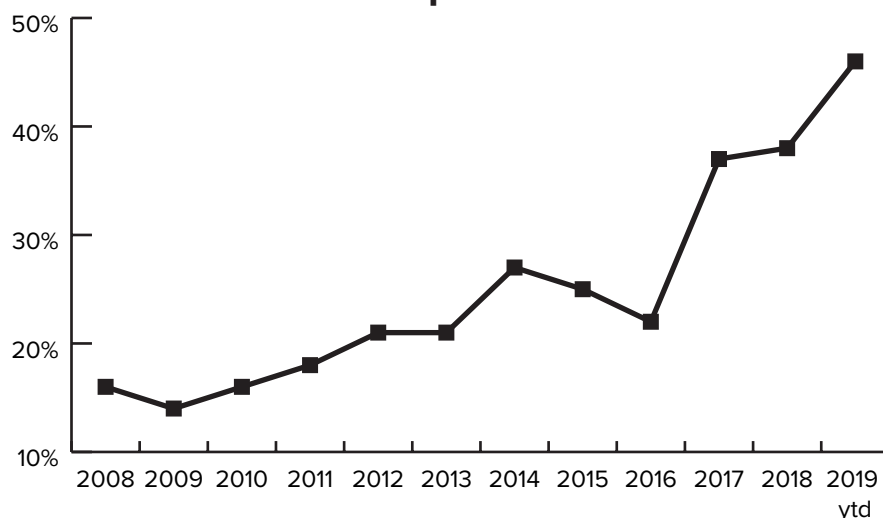
The percentage of women joining boards reaches a new record high, with 45 percent of new Russell 3000 board seats filled by women in 2019 (compared to only 12 percent in 2008) and 19 percent of all Russell 3000 seats held by women.

The Rhode Island Treasurer's Office is an active member of the Thirty Percent Coalition, a national organization that is

working to increase diversity in corporate boardrooms to reflect the gender, racial and ethnic diversity of the United States workforce.

In April 2019, the Coalition launched the first-ever national campaign to promote women of color to corporate boards, bringing attention to the small percentage (3.5%) of women of color on S&P 1500 boards.

### Women Hired to Open S&P500 Board Seat





*At the Rhode Island Treasurer's Office, we take seriously our responsibility to develop and communicate our proxy voting policies.*

*Information on our proxy voting guidelines, as well as our proxy votes for the most recent shareholder season can be found at:*

*<http://investments.treasury.ri.gov/meetings-reports/proxy-voting/>*