

**THE CORPORATE GOVERNANCE COMMITTEE  
OF THE  
BOARD OF TRUSTEES  
MARYLAND STATE RETIREMENT AND PENSION SYSTEM**

**MINUTES OF MEETING**

**June 19, 2018**

The Corporate Governance Committee met on Tuesday, June 19, 2018, following the Board of Trustees meeting. The meeting was held in the Board Room on the 16<sup>th</sup> floor of the State Retirement Agency, 120 E. Baltimore Street, Baltimore, MD 21202.

Members Attending:	David Brinkley James Harkins Sheila Hill, Chairman	Charles Johnson Treasurer Nancy Kopp
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Also Attending:	Phillip Anthony (MLIS) Susanne Brogan Rachel Cohen (OAG) Anne Gawthrop Michael Golden	R. Dean Kenderdine Andrew Palmer Jody Shaw (OAG) Toni Voglino
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Ms. Hill called the meeting to order at 11:13 a.m.

**Minutes**

On a motion made by Mr. Brinkley and seconded by Ms. Kopp, the minutes from the February 20, 2018 meeting were ratified by the Committee.

**Investment Policy Manual Update-Engagement and Proxy Disclosure**

The Committee considered the recommendation by staff to update the Investment Policy Manual to include language outlining the System's policy on corporate governance engagement activities and the disclosure of proxy voting records.

Ms. Voglino explained to the Committee that during the 2018 legislative session House Bill 993 was passed. The bill required the System to include in the Investment Policy Manual policies outlining its engagement guidelines and that proxy votes are published on the Agency's website. Ms. Voglino outlined the proposed Investment Policy Manual language to the Committee, highlighted that types of engagement activities included in the policy, and explained that any

governance activities executed shall be in agreement with the System's proxy voting policies or reviewed by the Corporate Governance Committee.

Mr. Brinkley asked when the System would engage with lawmakers without prior approval from the Board. Ms. Voglino responded that the System would do so if, for example, it were being asked to join a statement and that statement was consistent with the Board's proxy voting policies in the Investment Policy Manual. Otherwise, the issue would be brought to the Board.

Ms. Kopp questioned the language of the proposed policy as outlined in the memorandum from staff. A discussion occurred regarding amendments, and a consensus was reached to include the following amended language in the Investment Policy Manual:

The Board of Trustees, on its own or in concert with other institutional investors, may engage with corporations, regulatory agencies, lawmakers, or associations to support the corporate governance principles outlined in the proxy voting guidelines. Engagement may include, but not be limited to, advocacy letters, direct contact with stakeholders, and shareholder resolutions.

On a motion by Ms. Kopp, and seconded by Mr. Johnson, the Committee voted, all in favor, to approve staff's recommended changes as outlined in the memorandum from staff, with amendments as noted above, to the System's Investment Policy Manual.

The Investment Policy Manual changes approved by the Committee will be presented at the Board of Trustees meeting on July 17, 2018, for approval.

### **Investment Policy Manual Update-Recall of Stocks for Proxy Voting**

The Committee reviewed staff's memorandum and the recommended changes to the System's Investment Policy Manual regarding the recall of U.S. stocks under the securities lending program. Ms. Voglino discussed the recommendation, detailed the revenue associated with the securities lending program, and outlined the estimated cost associated with recalling loaned U.S. stocks to vote proxies at shareholder meetings. Ms. Voglino explained that when stocks are on loan the System transfers certain ownership rights to the borrower, including the right to vote at shareholder meetings. In order to vote, the System must recall the stocks.

Ms. Voglino explained the System's current policy on recalling stocks and detailed that the policy does not require the System to recall international stocks on loan, but does require U.S. stocks on loan to be recalled for voting purposes. In addition, Ms. Voglino explained that staff expects the securities lending program to grow in the coming year, which would increase the lost revenue associated with recalling U.S. stocks. Given the potential for increased lost revenue, staff has recommended to the Committee that the System no longer recall U.S. stocks for voting purposes, but retain the right to recall stocks if approved by the Chief Investment Officer and reported to the Corporate Governance Committee.

Ms. Kopp asked whether the System would be fulfilling its fiduciary responsibilities if the Board decided not to recall U.S. stocks. Mr. Palmer responded that such a decision was consistent with fiduciary responsibilities because the System would still be voting all of the shares that had not been loaned to a borrower and that the System would retain the right to recall loaned shares. He and Ms. Voglino also noted that such a decision would be consistent with the approach of other

public pension plans with securities lending programs. Ms. Kopp stated that she expects a report to the Committee on all recalled stocks and the justification. Mr. Palmer indicated that he would consider recalling a company stock if the System was involved in an engagement activity with the company.

The Committee discussed the proposed update to the language of the Investment Policy Manual and amendments to the proposed language. A consensus was reached on the last sentence in the proposed language of the Investment Policy Manual, as noted in the memorandum by staff, to be amended to:

The decision to recall a stock shall be made by the Chief Investment Officer and the Chief Investment Officer shall report all recall activity to the Corporate Governance Committee.

On a motion by Mr. Johnson, and seconded by Ms. Kopp, the Committee voted, all in favor, to approve staff's recommended changes to the System's Investment Policy Manual as outlined in the memorandum with the above noted amendment

The Investment Policy Manual changes approved by the Corporate Governance Committee will be presented at the Board of Trustees meeting on July 17, 2018 for approval.

### **Adjournment**

There being no further business before the Committee, on a motion made by Mr. Brinkley and seconded by Ms. Kopp, the meeting adjourned 11:34 a.m.

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Toni Voglino