

October 30, 2018

Mr. Brent Fields
Secretary
Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-1090
via email at rule-comments@sec.gov

RE: File Number 4-725 (Roundtable on the Proxy Process);
File Number S7-24-16 (Universal Proxy)

Dear Mr. Fields:

The Los Angeles County Employees Retirement Association (“LACERA”) welcomes the opportunity to submit comments in advance of the Securities and Exchange Commission’s (the “Commission”) November 15, 2018 Roundtable on the Proxy Process.¹ LACERA is the largest county pension system in the United States, with \$57 billion in plan assets as of September 30, 2018, including equity holdings in over 3,000 U.S. companies. LACERA’s mission is “to produce, provide, and protect the promised benefits” for nearly 170,000 beneficiaries.

LACERA believes that sound corporate governance practices and policies at the firms in which it invests help generate long-term economic performance and safeguard the fund’s economic interests. Proxy voting is a fundamental component of how LACERA encourages prudent governance practices. LACERA has developed a *Corporate Governance Principles* policy to articulate our views on sound governance practices and guide the fund’s proxy votes. Ensuring effective, fair, and orderly rules in the U.S. proxy voting system protects the sanctity of proxy voting in capital markets and may facilitate constructive, efficient market dialogue. In our view, productive communication between companies and investors helps to engender trust in our financial markets, which in turn facilitates economic stability and capital formation.

We applaud the Commission’s solicitation of investors’ views as it reviews whether the U.S. proxy voting system “operates with the accuracy, reliability, transparency, accountability, and integrity” that the marketplace expects.² In the comments below, LACERA offers its perspectives on several topics outlined in the Roundtable announcement that are pertinent to the fund’s proxy operations. In short, we believe that the Commission can enhance the U.S. proxy system by promoting reforms to facilitate end-to-end vote confirmation across the market and taking action on the Commission’s 2016 proposed universal proxy rule. These steps would fortify the investor franchise and increase integrity, accuracy, and reliability of proxy voting. Conversely, we are concerned by recent proposals and debates to revise rules governing shareholder proposals and impose additional regulatory requirements on proxy research firms, which we address in turn further below.

¹ Securities and Exchange Commission, SEC Staff to Host Nov. 15 Roundtable on the Proxy Process, September 21, 2018, available at: <https://www.sec.gov/news/press-release/2018-206>.

² Securities and Exchange Commission, Statement Announcing SEC Staff Roundtable on the Proxy Process, July 30, 2018, available at <https://www.sec.gov/news/public-statement/statement-announcing-sec-staff-roundtable-proxy-process>.

Vote Confirmation

LACERA considers proxy votes to be plan assets and seeks to manage votes consistent with our fiduciary duty and interest in economic value on behalf of plan members. The U.S., however, currently lacks market-wide assurance that proxy votes are received and tabulated. Vote confirmation is voluntarily offered by one proxy tabulator, but not available from all tabulators.

LACERA recommends that the Commission assess options to efficiently facilitate end-to-end vote confirmation. Ensuring that votes cast are properly received and counted underpins the integrity of the U.S. proxy system. New technologies may present opportunities for cost-effective methods to better facilitate stakeholder collaboration and vote confirmation.

Universal Proxy Ballot

LACERA recommends that the Commission take action on proposed amendments to federal proxy rules to require the use of universal proxy ballots in contested director elections.³ LACERA concurs with the views expressed by the Council of Institutional Investors⁴ and articulated in LACERA's *Corporate Governance Principles* that in the event of a proxy contest, investors should be able to select and vote for individual director nominees on a consolidated, or "universal," proxy ballot, regardless of whether the director nominee is put forward by management or a dissident investor.⁵

LACERA relies on corporate directors to effectively oversee the companies in which we invest and to represent investors' interests. Investors' ability to vote on directors is a core component of promoting sound governance at portfolio companies. Approximately sixty-five percent (65%) of LACERA's proxy votes pertain to director nominees and board matters. Diligently voting proxy contests is particularly important, since the competing director slates typically offer divergent visions for the company's future. Absent attending a meeting in person – which may be cost-prohibitive – investors who wish to vote among nominees listed on both the management and dissident ballots risk "wasting" votes by only being able to vote one ballot. The current system limits investor franchise. The Commission's proposed rules provide a framework to modernize the proxy system by enabling investors to prudently select among all nominees whom we consider best suited to serve us, regardless of whether they are sponsored by management or dissidents.

Shareholder Proposals

LACERA considers that investors with a reasonable ownership interest in a firm should have the right to put forward a resolution for investors' consideration and vote at the firm's annual meeting under reasonable terms and conditions.⁶ LACERA has rarely sponsored shareholder resolutions.

³ Securities and Exchange Commission, Release No. 34-79164 (File No. S7-24-16) Regarding Universal Proxy Proposed Rule, October 26, 2016, available at: <https://www.sec.gov/rules/proposed/2016/34-79164.pdf>.

⁴ Council of Institutional Investors, Comments on SEC Release No. 34-79164 – Universal Proxy (File No. S7-24-16), available at: <https://www.sec.gov/comments/s7-24-16/s72416-1450259-130101.pdf>.

⁵ LACERA *Corporate Governance Principles*, §I(C)3, p. 5. <http://www.lacera.com/BoardResourcesWebSite/BoardOrientationPdf/policies/CorpGovPrinciples.pdf>.

⁶ LACERA *Corporate Governance Principles*, §II(A)3.3, p. 10. <http://www.lacera.com/BoardResourcesWebSite/BoardOrientationPdf/policies/CorpGovPrinciples.pdf>.

However, LACERA values the opportunity to consider issues raised by shareholder resolutions and to cast a vote in line with LACERA's proxy voting policies and economic interests. Shareholder resolutions account for a small percentage of the proxy voting items that LACERA votes. Shareholder proposals represented about 2% of LACERA's total proxy votes in fiscal year 2018, and about 3% in both FY2017 and 2016.

Shareholder resolutions have provided an efficient and viable means for investors to raise concerns, and for investors and companies alike to gauge investor support for the measures. Shareholder resolutions in the United States, under the current terms and conditions of Rule 14a-8 of the Securities Exchange Act of 1934 (Shareholder Proposal Rule) and further interpreted by the Commission's Division of Corporation Finance Staff Legal Bulletin No. 14, published July 13, 2001,⁷ have enabled investors to present for consideration typically nonbinding suggestions for board consideration, through which numerous best practices in corporate governance have emerged. For example, board independence, stock option expensing, and robust recoupment policies in the event of financial restatements, all arose via nonbinding shareholder resolutions and market debate prior to listing rules and other regulation addressing the issues. Moreover, many governance practices now considered standard practice have emerged from shareholder resolutions and spread across the market, absent market regulation or legislation. Majority vote standards for director elections, annual elections, and viable bylaws enabling proxy access have been adopted by the majority of S&P 500 companies in the U.S. despite none of these provisions being mandated by laws, regulations, or listings standards.⁸

Absent a viable mechanism for introducing shareholder resolutions, investors may express concern or dissent through more assertive, less focused means, such as opposing director nominees.⁹

LACERA urges the Commission to maintain efficient and viable rules to enable investors to present proposals for consideration and a vote at annual meetings.

Proxy Research Firms

LACERA believes that investors should have access to competitive, timely, and independent market, investment, and proxy research services of their choosing. Market regulation should support, and not impede, a competitive market of service providers.¹⁰ LACERA is concerned that recent legislative proposals regarding proxy research firms may add undue costs, jeopardize independence, and introduce unnecessary delays for paying clients to access research from contracted vendors.

LACERA votes proxies according to its *Corporate Governance Principles*. LACERA contracts with two external proxy research firms to provide data and analysis that LACERA uses to inform how to vote in a manner consistent with the fund's custom proxy voting policy. Competitive, timely, and independent proxy research provides data, comparisons, and analysis used to inform,

⁷ Securities and Exchange Commission, Division of Corporation Finance, Staff Legal Bulletin No. 14, Shareholder Proposals, July 13, 2001, available at <https://www.sec.gov/interps/legal/cfs14.htm>.

⁸ ISS Voting Analytics Database.

⁹ Dechert LLP. "OnPoint: A Legal Update from Dechert's Corporate Governance Practice." May 2017. Available at: [https://info.dechert.com/10/8636/may-2017/shareholder-proposal-reform-under-the-financial-choice-act-of-2017--a-welcome-development-for-companies-or-a-trojan-horse-\(1\).asp?sid=45fff908-ffb8-4889-9feb-0a5fb8b5eda5](https://info.dechert.com/10/8636/may-2017/shareholder-proposal-reform-under-the-financial-choice-act-of-2017--a-welcome-development-for-companies-or-a-trojan-horse-(1).asp?sid=45fff908-ffb8-4889-9feb-0a5fb8b5eda5).

¹⁰ LACERA *Corporate Governance Principles*, §II(A)6, p. 10. <http://www.lacera.com/BoardResourcesWebSite/BoardOrientationPdf/policies/CorpGovPrinciples.pdf>.

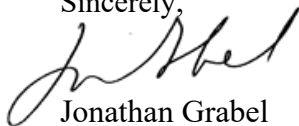
interpret, and apply LACERA's proxy policy. Expediently accessing proxy research is particularly crucial during the April to June "proxy season" when seventy-four percent (74%) of shareholder meetings voted by LACERA occur.

Recent legislative proposals, such as the U.S. House of Representatives H.R. 4015, suggest new regulatory requirements that may result in undue corporate influence over proxy research, lengthy delays in research delivery to paying clients, higher costs to investors for proxy research, and decreased competition among proxy firms. Investors typically have two weeks to review proxy research reports prior to finalizing a vote determination. Proposed legislation includes provisions enabling companies to review proxy research and dispute disagreements via a newly-formed regulatory ombudsman. We are concerned that such provisions may create opportunities for companies that receive unfavorable research to pursue regulatory recourse in order to delay the issuance of the research or otherwise create improper pressure for the research to be revised. As a result, paying clients may suffer delayed access to research addressing a range of core governance matters about which companies may be sensitive, such as executive compensation analysis, attendance records of board nominees, unscrupulous accounting practices, or other governance risks and failures. LACERA concurs with the views of the Council of Institutional Investors that such proposals are detrimental to institutional investors' interests and, "would appear to result in higher costs for pension plans and other institutional investors – potentially much higher costs if investors seek to maintain current levels of scrutiny and due diligence around proxy voting." Moreover, such proposals risk reducing competition among an already limited number of proxy research firms in the U.S. market and impose new barriers for entry for any additional proxy research firms, to the detriment of paying clients.¹¹

As the end users of proxy research, we believe that clients of proxy research firms are well positioned to assess the quality of the firms' services. LACERA is not aware of any investor clients of proxy research firms that have endorsed the regulatory measures proposed by recent legislation. Similar to other investment research in the marketplace, investors should be able to access proxy research that is free from undue influence from the companies that are the subject of the research.

LACERA commends the Commission for convening a timely discussion and welcoming public comments on the integrity, effectiveness, and accuracy of the proxy process in the United States. If you would like to further discuss any of the above remarks, please contact the undersigned.

Sincerely,



Jonathan Grabel
Chief Investment Officer

¹¹ Council of Institutional Investors, April 29, 2017, Letter to United States House of Representatives Committee on Financial Services re: Mark-up of H.R. 10, the Financial CHOICE Act of 2017, available at http://www.cii.org/files/issues_and_advocacy/correspondence/2017/04_29_17_letter_cmte_fin_serv.pdf; Council of Institutional Investors, September 6, 2016, Letter to United States Senate Committee on Banking, Housing, and Urban Affairs re: Proposed Legislation Relating to Proxy Advisory Firms, available at http://www.cii.org/files/issues_and_advocacy/correspondence/2016/September%206%20Letter%20to%20Senate%20Banking%20on%20Proxy%20Advisory%20Firms.pdf.