Scott Fitzpatrick
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CITIZENS SUMMARY

Findings in the audit of Missouri Retirement Systems' Proxy Voting Policies

Background and Methodology

A total of 129 public retirement systems exist in the State of Missouri to provide retirement benefits to public employees of the State of Missouri, public schools, and local governments. These retirement systems administer net assets of approximately $100 billion and serve approximately 661,000 public employee members.

Public retirement systems typically use internal investment staff to manage system assets. However, many systems also invest a portion of system assets in managed accounts, which are investment accounts owned by investors (the retirement systems) but actively managed by third parties. Managed accounts can result in the retirement system becoming a shareholder of a publicly traded company. As a shareholder, the retirement system may inherit the ability to vote on a variety of business actions for publicly traded companies through shareholder elections.

To simplify the process of potentially voting on a number of issues for multiple companies, shareholders can designate another individual or firm to vote on their behalf. This other individual or firm is referred to as a "proxy." The proxy voter may then vote in accordance with the shareholder's directions.

Missouri's retirements systems have varying levels of system funds invested in managed accounts, and therefore, own voting shares of various companies via external investment managers. These shares are voted by the investment managers via proxy votes pursuant to agreements between the various retirement systems and the investment managers or other proxy voting service.

Concerns over environmental, social, and governance (ESG) factors being used to make investment decisions have resulted in increased scrutiny of proxy voting policies for public investments. ESG investing is defined as the systematic consideration of environmental, social, and governance criteria in investment decisions and portfolio construction to identify risks and opportunities. The general concern regarding ESG investing is that decisions on investments are made on the basis of something other than investment risk and return objectives that may not be in the best interest of the taxpayer and retirement system members.

The SAO reviewed investment and proxy polices for state's 8 largest retirement systems based on the total amount of funds invested. The SAO also interviewed system officials regarding their procedures, requested investment manager proxy voting policies and proxy voting reports, and reviewed selected proxy votes for compliance with applicable policies.

Proxy Voting Policies and Procedures

Improvements are needed in the proxy voting policies and procedures of the majority of Missouri's retirement systems reviewed. The review determined 2 of the 8 systems reviewed included specific guidelines on how certain issues should be voted, while the remainder of the systems reviewed had policies that only included general language stating proxy votes are to be cast in the

best interest of the system and its participants without any specific guidelines on how votes should be cast. Only 1 out of the 8 systems reviewed requires a proxy voting advisor be retained and specifies which factors the proxy voting advisor shall consider. In addition, improvements are needed in the monitoring of proxy policies and procedures for retirement systems. None of the retirement systems reviewed had policies instructing personnel to review the proxy votes cast on behalf of the system, and 5 of the 8 systems did not perform a regular review of proxy voting reports to ensure compliance. As a result, the review of ESG-related votes noted multiple instances in which a retirement system's proxy votes were used inconsistently, with different investment managers voting on different sides of the same issue, essentially canceling the systems' votes.

Because of the nature of this audit, no rating is provided.

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RECOMMENDATION SUMMARY

Recommendations in the audit of the Missouri Retirement Systems' Proxy Voting Policies

Proxy Voting Policies and Procedures	Public retirement systems consider improving proxy policies by including more specific guidance on how the system wants proxy votes used, similar to the Missouri State Employees' Retirement System (MOSERS) and Public School and Education Employee Retirement Systems of Missouri (PSRS/PEERS) policies. In addition, systems should formalize policies and procedures to obtain proxy voting reports from applicable external investment managers and proxy managers and review such reports for compliance with applicable proxy voting policies.