



# Scott Fitzpatrick

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Missouri State Auditor

## Missouri Retirement Systems' Proxy Voting Policies

Report No. 2024-060

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[auditor.mo.gov](http://auditor.mo.gov)



## 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 retirement 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 policies 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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# Missouri Retirement Systems' Proxy Voting Policies

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**SCOTT FITZPATRICK**  
MISSOURI STATE AUDITOR

Honorable Mike Parson, Governor  
and  
Board of Trustees  
County Employees' Retirement Fund  
and  
Board of Trustees  
Kansas City Public School Retirement System  
and  
Board of Trustees  
Local Government Employees Retirement System  
and  
Board of Trustees  
Missouri State Employees' Retirement System  
and  
Board of Trustees  
Missouri Department of Transportation and Missouri Highway Patrol Employees' Retirement System  
and  
Board of Trustees  
Public School and Education Employee Retirement Systems of Missouri  
and  
Board of Trustees  
Public School Retirement System of the City of St. Louis  
and  
Mun Y. Choi, President, University of Missouri  
University of Missouri System Retirement

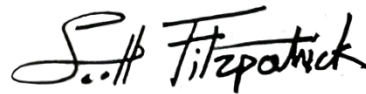
We have audited certain aspects of the proxy voting policies for the 8 largest Missouri public retirement systems as authorized under Chapter 29, RSMo. Due to the increased attention on taxpayer funded retirement system proxy voting policies and concerns related to proxies potentially not meeting their fiduciary responsibilities to the retirement systems, the proxy voting policies of the state's various public retirement systems are a significant issue to taxpayers and state employees. Due to my role on the MOSERS Board of Trustees as State Treasurer during the audit period, I recused myself from all portions of the audit involving MOSERS. For those portions of the audit, the Audit Director oversaw procedures performed by the professional audit staff of the State Auditor's Office, as appropriate. The scope of the audit included, but was not limited to, the fiscal year ended June 30, 2022. The objectives of our audit were to:

1. Evaluate certain Missouri public retirement systems' policies and procedures regarding proxy voting.
2. Evaluate certain Missouri public retirement systems' monitoring of proxy voting agreements with service providers.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

For the areas audited we identified (1) deficiencies in policies and procedures regarding proxy voting, and (2) deficiencies in the monitoring of proxy voting agreements with service providers.

The accompanying Management Advisory Report presents our finding arising from our audit of the Missouri Retirement Systems' Proxy Voting Policies.

A handwritten signature in black ink that reads "Scott Fitzpatrick". The signature is written in a cursive, flowing style.

Scott Fitzpatrick  
State Auditor

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# Missouri Retirement Systems' Proxy Voting Policies

## Introduction

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### Background

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.<sup>1</sup> These retirement systems are considered fiduciaries and may invest system funds according to the prudent person standard. As such, retirement systems invest system assets in a variety of investment types, including publicly traded funds, government securities, and private equity investments.

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. These elections generally occur during the company's annual meeting, and are used to make decisions on a variety of issues; including board placements, executive salaries and benefits, and significant changes in the company's goals. Ownership of the voting stock typically allows the owner one vote for each share of voting stock owned.

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. Shareholders receive a proxy ballot in the mail, or electronically, along with an information booklet, called a proxy statement, that describes the issues to be voted on during the meeting.

External investment managers may also cast proxy votes on behalf of mutual fund shareholders or high net worth investors in separately managed accounts. 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.

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<sup>1</sup> Reflects pension system data for plan year 2021. Joint Committee on Public Employee Retirement, 2023 Annual Report to the Missouri General Assembly, p. 8 <[www.jeper.org/2023AnnualReport.pdf](http://www.jeper.org/2023AnnualReport.pdf)>, accessed February 26, 2024.



## Missouri Retirement Systems' Proxy Voting Policies Introduction

### ESG Concerns

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. Environmental criteria consider how a company safeguards the environment, including, for example, corporate policies addressing climate change. Social criteria examine how a company manages relationships with employees, suppliers, customers, and the communities where it operates. Governance pertains to a company's leadership, executive pay, audits, internal controls, and shareholder rights.

Examples of ESG issues being voted on with retirement system proxy votes during the audit include: (1) a vote to establish an "Environmental Sustainability Board Committee," (2) a vote to procure a report on the "impacts of reproductive healthcare legislation," (3) a vote to procure a report on the "congruency of political spending with company values," (4) a vote to procure a report on "steps to improve gender and racial equity on the board," and (5) a vote to procure a third party "racial equity audit."

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.

Our audit focused on a sample of Missouri's public retirement systems and their respective proxy voting policies and procedures.

### Acronyms

The following acronyms were commonly used in the body of this report:

CERF	County Employees' Retirement Fund
KC PSRS	Kansas City Public School Retirement System
LAGERS	Local Government Employees Retirement System
MOSERS	Missouri State Employees' Retirement System
MPERS	Missouri Department of Transportation and Missouri Highway Patrol Employees' Retirement
PSRS/PEERS	Public School and Education Employee Retirement Systems of Missouri
PSRSSTL	Public School Retirement System of the City of St. Louis
UM RET	University of Missouri System Retirement

Table 1 documents the retirement systems reviewed, the total dollar amount under investment for each of these systems, the amount of investment in active management that would be subject to proxy votes, and the number of investment managers used to invest this money. Additional information





## Missouri Retirement Systems' Proxy Voting Policies Introduction

regarding the proxy policies and procedures for each system reviewed is located in Appendix A.

**Table 1: Retirement systems reviewed, and investment information**

Retirement System	Total Investments	Investments In Managed Accounts	Managed Accounts as Percent of Total	Number of Voting Investment Managers
PSRS/PEERS*	\$ 53,544,736,958	\$ 10,695,229,176	20.0%	22
MOSERS*	12,239,716,310	2,488,904,813	20.3%	5
LAGERS**	9,996,600,000	1,212,700,000	12.1%	8
STL PSRS**	806,957,220	408,596,974	50.6%	14
UM RET*	4,285,483,954	239,250,844	5.6%	2
MPERS*	3,058,469,276	94,700,000	3.1%	1
CERF**	667,440,722	77,875,314	11.7%	2
KC PSRS**	626,740,371	18,812,000	3.0%	1
<b>Totals</b>	<b>\$ 85,226,144,811</b>	<b>\$ 15,236,069,121</b>	<b>17.9%</b>	<b>55</b>

\* Total Investments and Investments in Managed Accounts as of June 30, 2022.

\*\* Total Investments and Investments in Managed Accounts as of December 31, 2022.

Source: Compiled by the State Auditor's Office using the retirement systems' annual reports and discussions with retirement systems' personnel.

### **Scope and Methodology**

The scope of our audit included, but was not limited to, the year ended June 30, 2022. We obtained an understanding of internal control that is significant to the audit objectives and planned and performed procedures to assess internal control to the extent necessary to address our audit objectives.

To gain an understanding of proxy voting policies in place at Missouri's public retirement systems, we selected 8 of the state's largest retirement systems based on the total amount of funds invested. See the retirement systems listed in Table 1. Investment and proxy policies for the selected retirement systems were obtained and reviewed.

To evaluate certain Missouri public retirement systems' policies and procedures regarding proxy voting, we requested proxy voting policies of each selected retirement system, and interviewed system officials involved in proxy voting policy development and approval, implementation, and monitoring. We then compared this information across retirement systems. In addition, we performed procedures to compare a judgmentally selected sample of ESG-related proxy votes by each systems' investment managers to determine compliance with existing policies. The results of our sample cannot be projected to the entire populations from which the items were selected. A summary of this information is located in Appendix B.



## Missouri Retirement Systems' Proxy Voting Policies Introduction

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To evaluate certain Missouri public retirement systems' monitoring of proxy voting agreements with service providers, we interviewed system officials regarding their procedures, requested investment manager agreements, proxy voting policies and proxy voting reports, and reviewed selected proxy votes for compliance with applicable policies.

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# Missouri Retirement Systems' Proxy Voting Policies Management Advisory Report State Auditor's Finding

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## **Proxy Voting Policies and Procedures**

Improvements are needed in the proxy voting policies and procedures of the majority of Missouri's retirement systems reviewed. Our review determined 2 of the 8 systems reviewed (MOSERS and PSRS/PEERS) 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 (MOSERS) 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, our 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.

## **Proxy policies do not contain specific guidance**

The majority of Missouri's public retirement systems have proxy voting policies with language requiring proxy votes be cast in the economic best interest of the system and its members, or other language to that effect. Policies of this nature do not provide any specific guidance on how certain ESG-related votes should be cast and are subjective. While system personnel indicated they monitor the investment return earned through the investment managers to ensure they are meeting investment goals, only MOSERS and PSRS/PEERS have adopted policies<sup>2</sup> that provide proxy managers a specific framework on how the system wants its proxy votes used for certain issues when what is in the best interest of the system may be in question, and only MOSERS requires a proxy voting advisor be retained.

The lack of clear guidelines for how votes should be cast has resulted in proxy votes for public retirement systems being cast in an inconsistent manner. For example, our review of 7 ESG-related proxy votes across the 8 retirement systems during our audit period noted 5 instances in which proxy votes for a system were made both for, and against, the same proposal. While both of the systems in question had a policy to vote in the best financial interest of the system, the lack of specific guidance on how the system's votes on these types of issues should be cast allowed different investment managers to reach opposing conclusions about which vote complied with the policy, and also highlights the subjectivity of the policy. According to several retirement system representatives, it may not be possible to eliminate inconsistent proxy

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<sup>2</sup> MOSERS adopted *Egan-Jones Proxy Services Wealth Focused Principles and Guidelines*, 2023, as its proxy voting policy, while PSRS/PEERS adopted the *Glass Lewis Governance-Focused Thematic Policy* in December 2022 as its proxy policy.



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## Missouri Retirement Systems' Proxy Voting Policies Management Advisory Report - State Auditor's Finding

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votes across investment managers, and such inconsistencies could potentially be seen as an indication of diversity within the plan's portfolio. However, the proxy votes are the responsibility of the individual plan, and should be voted in a way that maximizes return to plan members, rather than representing diversity of thought among hired investment managers. If plans are voting their proxies on both sides of an issue, they are essentially canceling out their vote(s). A policy to provide investment managers or proxy managers specific guidance on how proxies should be voted would provide clarity to how the system wants its voting power used regarding certain issues and would reduce the likelihood that proxy votes would be cast in an inconsistent manner.

See Appendix B for a summary of judgmentally selected ESG-related proxy votes made by each system's investment managers.

### Improvements needed in proxy vote monitoring

Based on interviews of personnel of the 8 retirement systems reviewed, 5 did not perform a regular review of proxy voting reports to ensure compliance with their proxy voting policies. In addition, a representative of CERF stated the system did not receive reports of proxy votes made on the system's behalf. Representatives of LAGERS, MOSERS, PSRS/PEERS, and UM RET stated that while they do receive reports of their proxy votes, there is no regular review of those reports. LAGERS passed a new policy in June of 2023, requiring its investment team to monitor proxy voting reports. In addition, PSRS/PEERS implemented a new policy in December 2022 establishing guidelines for proxy voting, and further revised the policy in December 2023 detailing the implementation of staff's ability to provide direct input to the system's proxy voting as well as the ability to monitor proxy activity. In addition, MOSERS indicated it is in the process of establishing policies to monitor future proxy voting.

Based on interviews with system representatives, proxy reports were not being reviewed because system personnel (1) delegated this duty to their investment managers, (2) did not believe the review of these reports was important, and/or (3) did not believe these reviews were critical because they were actively monitoring the returns of the applicable investments. Additionally, none of the 8 retirement systems' policies required a review of the proxy voting reports. A representative of a smaller retirement system expressed concerns that smaller systems with less administrative resources may not be capable of monitoring all proxy votes by their investment managers.

Without proper monitoring of proxy voting reports and activity, retirement systems have less assurance proxy votes are being cast in the best interest of system members as required by policy. Formalizing the review of proxy votes in policies and procedures would allow each system's leadership to establish the parameters of the review in a clear manner for future implementation.



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## Missouri Retirement Systems' Proxy Voting Policies Management Advisory Report - State Auditor's Finding

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### Conclusion

Improving proxy policies to include guidelines by which proxy votes should be cast would provide clarity to proxies, as well as staff, evaluating such votes. In addition, improving proxy policies to require reports of proxy votes be reviewed by staff would provide assurance votes are being cast in compliance with policy.

### Recommendation

Public retirement systems consider improving proxy policies by including more specific guidance on how the system wants proxy votes used, similar to the MOSERS and 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.

### Auditee's Responses

Formal written responses were requested from the 8 Missouri retirement systems included in this report. The written responses received indicated LAGERS (Appendix E), MOSERS (Appendix F), MPERS (Appendix G), PEERS/PSRS (Appendix H), and UM RET (Appendix J) agreed with the recommendation in the report. The written responses received from CERF (Appendix C), KC PSRS (Appendix D), and PSRSSTL (Appendix I) either do not clearly indicate agreement/disagreement or indicate partial agreement.

### Auditor's Comment

CERF's response (Appendix C) does not clearly indicate the system agrees or disagrees with the recommendation, but indicates fund personnel would discuss the recommendations with investment consultants and investment managers to determine if any changes in current policy are needed. The CERF's response indicates the fund has subsequently obtained proxy voting reports and reviewed for compliance with the proxy policy, which had not been obtained previously. Our report provides support for the recommendation and why a more specific policy is necessary, as well as why reviewing proxy reports is necessary to ensure compliance.

KC PSRS's response (Appendix D) indicates the system partially agrees with the recommendations, but essentially states that its current policy is sufficient and that it may consider the recommendation to enhance its policy in the future. The report provides support for the recommendations and why KC PSRS should implement them.

PSRSSTL's response (Appendix I) indicates the system partially agrees with the recommendations. The system agrees with the recommendation that its proxy policy should include more specific guidance on proxy votes, but disagrees that it is necessary for the fund to review proxy reports since the system does not have the sufficient staff to perform this duty and it uses a third party proxy manager to monitor proxy voting activity. If the fund does not have sufficient staff to review proxy votes made on its behalf, the need for a more specific proxy voting policy becomes particularly important to provide proxy managers specific criteria by which to evaluate proxy votes cast.



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Appendix A  
Missouri Retirement Systems' Proxy Voting Policies  
Summary of Proxy Voting Policies and Procedures by Retirement System

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The proxy voting policies and procedures for each of the retirement systems reviewed are summarized below:

**CERF**

The County Employees' Retirement Fund (CERF) has an investment policy that is reviewed and updated annually by its Board of Directors. CERF uses 2 investment managers that exercise proxy voting rights on its behalf on 13 percent of its investment portfolio as of December 31, 2022. CERF has not contracted with any proxy advisors and instead lets its investment managers decide whether to use the services of a proxy advisor and allows them to choose and oversee the proxy advisor of choice. CERF's investment managers prepare voting reports annually showing all voting activity for the previous year. CERF meets with its investment managers regularly. CERF receives reports on a monthly basis showing the returns that the investment managers made on CERF's investments. The board then evaluates these returns on a quarterly basis to ensure that expected investment thresholds are being met.

**KC PSRS**

The Kansas City Public School Retirement System (KC PSRS) has an investment policy that is reviewed and updated annually by its investment committee. KC PSRS uses 1 investment manager that exercises proxy voting rights on its behalf on approximately 3 percent of system assets as of December 31, 2022. KC PSRS is not contracted with any proxy advisors and instead lets its investment manager decide whether to use a proxy advisor and allows the investment manager to choose and oversee the proxy advisor of choice. KC PSRS's investment manager prepares voting reports quarterly showing all voting activity for the previous quarter. KC PSRS meets with its investment manager multiple times a year and ensures that its returns are meeting expected investment thresholds.

**LAGERS**

The Missouri Local Government Employees Retirement System (LAGERS) has an investment policy that is reviewed and updated annually by the investment team and approved by the Board of Trustees. LAGERS uses 8 investment managers that exercise proxy voting rights on its behalf on approximately 12 percent of system assets as of December 31, 2022. LAGERS has not contracted with any proxy advisors and instead lets its investment managers decide whether to use the services of a proxy advisor and allows them to choose and oversee the proxy advisor of choice. LAGERS meets with its investment managers quarterly and ensures that its returns are meeting expected investment thresholds.

**MOSERS**

The Missouri State Employees' Retirement System (MOSERS) implemented a new investment policy in December 2022, which will be reviewed and updated by the advisor and approved by the Board of Trustees on an annual basis. MOSERS uses 5 investment managers that exercises proxy voting rights on its behalf on approximately 20 percent of system assets as of June 30, 2022. MOSERS currently uses the service of a proxy advisor Egan-Jones and its "Wealth Focused" proxy policy when casting votes. MOSERS meets



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Appendix A  
Missouri Retirement Systems' Proxy Voting Policies  
Summary of Proxy Voting Policies and Procedures by Retirement System

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with its investment managers quarterly and ensures that its returns are meeting expected investment thresholds.

## MPERS

The Missouri Department of Transportation and Missouri State Highway Patrol Employees' Retirement System (MPERS) has a policy that is reviewed and updated regularly by the Board of Trustees. MPERS uses 1 investment manager that exercises proxy voting rights on its behalf on approximately 3 percent of system assets as of June 30, 2022. MPERS has not contracted with any proxy advisors and instead lets its investment manager decide whether to use the services of a proxy advisor and allows the investment manager to choose and oversee the proxy advisor of choice. MPERS investment manager prepares voting reports annually showing all voting activity for the previous year. MPERS meets with its investment manager regularly and receives reports at least annually showing the returns that the investment manager made on MPERS's investments. The board then evaluates these returns to ensure that expected investment thresholds are being met.

## PSRS/PEERS

The Public School and Education Employee Retirement Systems of Missouri (PSRS/PEERS) implemented a new policy in December 2022, and revised in 2023. This policy will be updated annually and all changes will be approved by the Board of Trustees. PSRS/PEERS uses 22 investment managers that exercises proxy voting rights on its behalf on approximately 20 percent of system assets as of June 30, 2022. Staff meet with investment managers on an as-needed basis, and are provided with voting reports and return information on at least a quarterly basis. Staff bring this information before the Board of Trustees at each of its meetings. PSRS/PEERS uses a proxy advisor third-party platform to implement the Board-approved proxy voting policy, which allows PSRS/PEERS to determine how proxy votes are cast, monitor the votes, and ensure all votes are cast in accordance with Board-approved policy. Investment managers no longer have discretion on how proxy votes are cast. PSRS/PEERS also evaluates all of its investment managers to ensure that they are meeting expected returns.

## PSRSSTL

The Public School Retirement System of the City of St. Louis (PSRSSTL) has an investment policy that is reviewed and updated annually. All changes to the investment policy are reviewed and approved by its Board of Trustees. PSRSSTL uses 14 investment managers that exercise proxy voting rights on its behalf on approximately 51 percent of system assets as of December 31, 2022. PSRSSTL has not contracted with any proxy advisors and instead lets its investment managers decide whether to use the services of a proxy advisor and allows them to choose and oversee the proxy advisor of choice. PSRSSTL works with an investment consultant that receives all investment and voting reports. The investment consultant ensures that investment managers are meeting their expected returns on investments and presents updated financial data to the board monthly.



Appendix A  
Missouri Retirement Systems' Proxy Voting Policies  
Summary of Proxy Voting Policies and Procedures by Retirement System

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UM RET

The University of Missouri Retirement System (UM RET) has an investment policy that is reviewed and updated regularly. This policy was last updated in 2022. UM RET uses 2 investment managers that exercises proxy voting rights on its behalf on approximately 6 percent of system assets as of June 30, 2022. UM RET has not contracted with any proxy advisors and instead let its investment managers decide whether to use the services of a proxy advisor and allows them to choose and oversee the proxy advisor of choice, with the expectation that the investment manager acts in accordance with UM RET's investment policy. UM RET regularly meets with its investment managers and ensures that they are meeting expected returns on investments.





## Appendix B Missouri Retirement Systems' Proxy Voting Policies Summary of Selected ESG-related Proxy Votes by Retirement System and Investment Manager

The table below includes the results of our review of a judgmentally selected sample of ESG-related proxy votes. We obtained records of how each retirement system included in our audit voted on these resolutions. The systems all had varying levels of exposure to the investments in question depending largely on how much money they have in managed accounts and how many investment managers they use. Four systems (CERF, MPERS, KC PSRS, and UM RET) were not involved in the 7 votes reviewed. For the 4 systems that had proxy votes cast for any of these votes, we noted conflicting votes on 5 of the 7 votes across all systems. Within systems, there were 4 examples of conflicting votes involving 2 systems. Votes for each resolution are shaded green, with votes against each resolution shaded red to make the conflicts in the votes easier to identify. PSRS/PEERS staff indicated conflicting votes are no longer possible given proxy voting policy changes since these votes occurred. The SAO made no attempt to evaluate each vote and makes no judgement of the propriety of the votes presented.

**Table 2: Summary of Reviewed ESG-related Proxy Votes, by Retirement System and Investment Manager**

Investment Manager	Retirement System	Date	4/28/2022	5/19/2022	5/19/2022	5/25/2022	6/1/2022	6/1/2022	6/1/2022
		Company	Johnson & Johnson	The Home Depot, Inc.	The Home Depot, Inc.	Chevron Corp.	Alphabet Inc.	Comcast Corp	Walmart Inc.
Resolution Details		Third Party Racial Equity Audit	Report on Steps to Improve Gender and Racial Equity on the Board	Report on Congruency of Political Spending with Company Values and Priorities	Adopt Medium & Long-term Greenhouse Gas Reduction Targets	Establishment of an Environmental Sustainability Board Committee	Report on Retirement Plan Alignment with Climate Goals	Report on Impacts of Reproductive Healthcare Legislation	
		Vote 1	Vote 2	Vote 3	Vote 4	Vote 5	Vote 6	Vote 7	
1	LAGERS	Against	Against	Against	Against	N/A	N/A	N/A	
2	LAGERS	N/A	N/A	N/A	N/A	Against	N/A	N/A	
3	MOSERS	For	Against	Against	Against	Against	Against	Against	
4	MOSERS	N/A	N/A	N/A	N/A	Against	Against	N/A	
5	PSRS/PEERS	Against	Against	For	N/A	N/A	Against	Abstained	
6	PSRS/PEERS	For	N/A	N/A	N/A	Against	Against	For	
7	PSRS/PEERS	For	N/A	N/A	N/A	Against	N/A	For	
8	PSRS/PEERS	For	Against	For	For	Against	Against	For	
9	PSRS/PEERS	For	Against	For	N/A	N/A	N/A	N/A	
10	PSRS/PEERS	For	N/A	N/A	For	N/A	N/A	N/A	
11	PSRS/PEERS	N/A	N/A	N/A	N/A	N/A	Against	N/A	
12	PSRS/PEERS	N/A	N/A	N/A	N/A	Against	N/A	N/A	
13	PSRS/PEERS	N/A	N/A	N/A	N/A	Against	N/A	N/A	
14	PSRS/PEERS	For	Against	For	N/A	Against	N/A	For	
15	PSRS/PEERS	For	N/A	N/A	For	N/A	N/A	N/A	
16	PSRS/PEERS	For	Against	Against	For	Against	N/A	Against	
17	PSRSSTL	For	N/A	N/A	For	N/A	N/A	N/A	
18	PSRSSTL	N/A	For	For	N/A	N/A	N/A	N/A	
19	PSRSSTL	For	Against	Against	For	Against	Against	Against	
Count of For		11	1	5	6	0	0	4	
Count of Against		2	8	4	2	11	7	3	
Count of Abstained		0	0	0	0	0	0	1	

Source: Prepared by the SAO using proxy voting data provided by each retirement system.



Appendix C  
Missouri Retirement Systems' Proxy Voting Policies  
County Employees' Retirement Fund Response



2121 Schotthill Woods Drive  
Jefferson City, MO 65101

June 12, 2024

Honorable Scott Fitzpatrick  
Missouri State Auditor  
301 West High Street, Room 880  
P.O. Box 869  
Jefferson City, MO 65102

Dear Auditor Fitzpatrick:

The County Employees' Retirement Fund has prepared the following response to your office's report "Missouri Retirement Systems' Proxy Voting Policies." For the purpose of providing a response, CERF has divided the recommendation into two parts and comments on each part separately.

**Part 1:** Public retirement systems consider improving proxy policies by including more specific guidance on how the system wants proxy votes used, similar to the MOSERS and PSRS/PEERS policies.

**Response:**

CERF will work with its investment consultant and investment managers to consider and determine whether to add more specific guidance on how proxy votes would be used and how any potential changes would be in the best interest of CERF plan participants.

**Part 2:** In addition, systems should formalize policies and procedures to obtain proxy voting reports from all investment managers and proxy managers and review such reports for compliance with applicable proxy voting policies.

**Response:**

CERF will review its investment policy and engage its investment consultant to consider and determine what updates are necessary relating to CERF's review of investment manager proxy voting reports and policies and procedures for compliance with CERF's investment policy. This may include, but not be limited to, annually requiring the investment managers to provide CERF their policies and procedures used to determine how to vote proxies relating to securities in the portfolios. At its December 2023 meeting, the Board began discussing how to update its investment policy to include additional oversight of the proxy voting process. Since then, CERF



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Appendix C  
Missouri Retirement Systems' Proxy Voting Policies  
County Employees' Retirement Fund Response

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has obtained the most recent proxy voting reports from its investment managers. The CERF Investment & Planning Committee met in March and discussed the issue and investment manager proxy voting reports with its investment consultant. CERF and its investment consultant believe that the investment managers' proxy voting policies are in line with CERF's investment policy and the managers have properly voted the proxies in compliance with CERF's investment policy. CERF's investment policy complies with current state law. CERF will continue to monitor and review its investment policy on an annual basis.

Sincerely,

Michael Ruff  
Executive Director



Appendix D  
Missouri Retirement Systems' Proxy Voting Policies  
Kansas City Public Schools Retirement System Response



3100 Broadway, Suite 1211  
Kansas City, MO 64111  
816.472.5800  
Fax: 816.472.5909  
Email: [kcpsrs@kcpsrs.org](mailto:kcpsrs@kcpsrs.org)  
Website: [www.kcpsrs.org](http://www.kcpsrs.org)

Honorable Scott Fitzpatrick

Missouri State Auditor  
301 West High Street, Room 880  
P.O. Box 869  
Jefferson City Missouri

We have reviewed the findings from your office's audit of the proxy voting policies. Below you will find our responses to the audit findings.

**Recommendation: Public retirement systems consider improving proxy policies by including more specific guidance on how the system wants proxy votes used, similar to the MOSERS policy. In addition, systems should formalize policies and procedures to obtain proxy voting reports from all investment managers and proxy managers and review such reports for compliance with applicable proxy voting policies.**

Kansas City Public School Retirement System (KCPSRS) partially agrees with the State Auditor recommendation as stated above.

Current KCPSRS investment policy regarding proxy voting procedures requires investment managers shall exercise its proxy voting authority acting solely in the interest of and for the exclusive purpose of providing benefits to participants and beneficiaries, and always acting in the best interests of participants and beneficiaries.

While KCPSRS current policy language indicates proxy votes for economic reasons, the KCPSRS Board may consider adding more specific guidelines regarding proposals regarding social, governance, or environmental proposals and on election of board of directors, votes will be based solely on enhancing or protecting long-term economic value, and not on establishing or endorsing social policy.

Sincerely,

A handwritten signature in cursive script that reads "Laura J. Oswald".

Laura J. Oswald  
Fiscal Manager



Appendix E  
Missouri Retirement Systems' Proxy Voting Policies  
Local Government Employees Retirement System Response



Honorable Scott Fitzpatrick  
Missouri State Auditor  
301 West High Street, Room 880  
P.O. Box 869  
Jefferson City Missouri

We have reviewed the findings from your office's audit of the proxy voting policies. Below you will find our responses to the audit findings.

**Recommendation: Public retirement systems consider improving proxy policies by including more specific guidance on how the system wants proxy votes used, similar to the MOSERS and 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.**

LAGERS Response: The Missouri Local Government Employees Retirement System agrees with the findings presented by the Missouri State Auditor regarding LAGERS' proxy voting policy. LAGERS intends to present a revised proxy voting policy to the Board of Trustees at their September 2024 meeting.



Appendix F  
Missouri Retirement Systems' Proxy Voting Policies  
Missouri State Employees' Retirement System Response



PO Box 209, Jefferson City, MO 65102-0209  
(573) 632-6100 or (800) 827-1063  
Fax (573) 632-6103 | [www.mosers.org](http://www.mosers.org)

June 3, 2024

Honorable Scott Fitzpatrick  
Missouri State Auditor  
301 West High Street, Room 880  
P.O. Box 869  
Jefferson City Missouri

We have reviewed the findings from your office's audit of the proxy voting policies. Below you will find our responses to the audit findings.

**Recommendation: Public retirement systems consider improving proxy policies by including more specific guidance on how the system wants proxy votes used, similar to the MOSERS and 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.**

MOSERS Response: MOSERS agrees with the finding.

Sincerely,

A handwritten signature in black ink, appearing to read "Abby Spieler".

Abby Spieler  
Executive Director



Appendix G  
Missouri Retirement Systems' Proxy Voting Policies  
Missouri Department of Transportation and Missouri Highway Patrol  
Employees' Retirement System Response



MoDOT & Patrol Employees' Retirement System

Honorable Scott Fitzpatrick  
Missouri State Auditor  
301 West High Street, Room 880  
P.O. Box 869  
Jefferson City Missouri

We have reviewed the findings from your office's audit of the proxy voting policies. Below you will find our responses to the audit findings.

**Recommendation: Public retirement systems consider improving proxy policies by including more specific guidance on how the system wants proxy votes used, similar to the MOSERS and PSRS/PEERS policies. In addition, systems should formalize policies and procedures to obtain proxy voting reports from all investment managers and proxy managers and review such reports for compliance with applicable proxy voting policies.**

MoDOT and Highway Patrol Employees' Retirement System (MPERS) Response: The MPERS agrees with the finding.

MPERS has a robust and comprehensive set of governance policies necessary for maintaining fiduciary standards and for optimal administration of system responsibilities. That said, these policies are in perpetual evolution with updates and revisions occurring routinely to be sure best and prevailing practices are utilized. Proxy policies, of course, are included in these policies. Staff will share this report with the Board of Trustees and consider improving this policy to be sure it fully reflects the Board's intentions and is administered in the best financial interests of plan beneficiaries.

Much like the governing statutes for the state of Missouri, the policies of MPERS are often best understood when read together and not in isolation. The proxy voting policy appears to lack some specificity in the eyes of the SAO as it relates to ESG considerations. While it is true the policy does not specifically identify these considerations, other policies do. For example, Section XI of the investment policy addresses Environmental, Social, and Governance Considerations along with other Economically Targeted Investments. When read together, it is apparent that the investment of system assets is completed with one specific goal—the best economic interests of plan beneficiaries, period. The following criteria may be useful in understanding this goal:

- The fiduciary principles of prudence and exclusive interest of participants will not be abrogated or modified in order to increase the attractiveness of ESG or ETI investments.
- There will be no concession on rate of return. This means there will be no hidden subsidies and that the classic "efficient frontier" test is applicable; a commensurate unit of return will be received for each unit of risk incurred.
- All participation in such investments should be voluntary on the part of the System and should not stem from a legal or policy mandate.
- Each ESG or ETI investment will be evaluated using an integral, objective process, that is, each will be meticulously analyzed solely on its own risk/return characteristics. No weight will be given to redeeming social, economic, and/or political interests.
- The System will participate only if at least one other comparable investor is participating.
- When evaluating an investment, appropriate consideration must be given to the role that the investment or investment course of action plays (i.e., diversification, liquidity, risk, and return) with respect to the entire

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Telephone Number: (573) 298-6080 • Toll Free: 1-800-270-1271 • Fax: (573) 522-6111  
Website: [www.mpers.org](http://www.mpers.org) • E-Mail: [mpers@mpers.org](mailto:mpers@mpers.org)



Appendix G  
Missouri Retirement Systems' Proxy Voting Policies  
Missouri Department of Transportation and Missouri Highway Patrol  
Employees' Retirement System Response

February 22, 2024

Page 2

investment portfolio of the System. Consideration should also be given to alternative investments with similar risks available to the System.

Lastly, Board procedures require staff to review and report proxy votes to the Board annually. This is done at the September board meeting and is based on the proxy votes from the last fiscal year. Including this practice in policy would be an obvious improvement to the investment policy.

Sincerely,

A handwritten signature in cursive script, appearing to read "Scott Simon".

Scott Simon  
Executive Director





Appendix H  
Missouri Retirement Systems' Proxy Voting Policies  
Public School and Education Employee Retirement Systems of Missouri  
Response



May 29, 2024

Honorable Scott Fitzpatrick  
Missouri State Auditor  
301 West High Street, Room 880  
P.O. Box 869  
Jefferson City, Missouri 65102

Auditor Fitzpatrick,

We have reviewed the findings from your office's audit of the proxy voting policies. Below you will find our responses to the audit findings.

**Recommendation: Public retirement systems consider improving proxy policies by including more specific guidance on how the system wants proxy votes used, similar to the MOSERS and 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.**

PSRS/PEERS agrees with the recommendation. As indicated in the audit, the Systems implemented revised proxy voting policies in December 2022, and again in December 2023, that align with the recommendation.

Sincerely,

A handwritten signature in black ink that reads "Dearld Snider".

Dearld Snider  
Executive Director



Appendix I  
Missouri Retirement Systems' Proxy Voting Policies  
Public School Retirement System of the City of St. Louis Response



Public School Retirement System of the City of St. Louis

Office of the Executive Director

Honorable Scott Fitzpatrick  
Missouri State Auditor  
301 West High Street, Room 880  
P.O. Box 869  
Jefferson City Missouri

We have reviewed the findings from your office's audit of the proxy voting policies. Below you will find our responses to the audit findings.

**Recommendation:** Public retirement systems consider improving proxy policies by including more specific guidance on how the system wants proxy votes used, similar to the MOSERS and 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.

**Response:** Public School Retirement System of the City of St. Louis (PSRSSTL) **partially agrees** with the findings.

Recommendation 1:

PSRSSTL agrees with the first recommendation that public retirement systems consider improving proxy policies by including more specific guidance on how the system wants proxy votes used and specifically provide that proxies should be voted in the monetary interests of retirees, similar to the MOSERS and PSRS/PEERS policies.

Recommendation 2:

PSRSSTL disagrees that all systems should obtain and review proxy voting reports for compliance with applicable proxy voting policies.

PSRSSTL finds that obtaining and reviewing proxy voting reports places an undue burden on systems with less infrastructure, staff, and financial resources.

PSRSSTL's Board of Trustees is primarily made up of current and retired teachers and school administrators. Additionally, PSRSSTL has only seven staff members. This differs from Boards of other systems, such as MOSERS, which includes highly sophisticated business individuals and has many staff. While well-educated, many of PSRSSTL's Trustees work tirelessly to run classrooms and have less investment acumen. As such, the Trustees and staff have neither the time nor sufficient knowledge base to obtain and review a plethora of proxy voting records and determine whether such votes were in the best monetary interest of the retirees.

To properly execute their fiduciary duties, the Trustees have made it a practice to hire specialized third-party managers who vote proxies. PSRSSTL conducts thorough reviews of its third-party managers to manage assets in a way that prioritizes the maximum possible returns.

PSRSSTL wishes to reaffirm its commitment to prioritizing the economic interest of its pensioners and does not take lightly its fiduciary obligations to them.

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Appendix J  
Missouri Retirement Systems' Proxy Voting Policies  
University of Missouri System Retirement Response



University of Missouri System

July 7, 2024

Honorable Scott Fitzpatrick  
Missouri State Auditor  
301 West High Street, Room 880  
P.O. Box 869  
Jefferson City, Missouri

We have reviewed the findings from your office's audit of the proxy voting policies. Below you will find our responses to the audit findings.

**Recommendation: Public retirement systems consider improving proxy policies by including more specific guidance on how the system wants proxy votes used, similar to the MOSERS and 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.**

The Curators of the University of Missouri ("Curators") generally agrees with the recommendation in that specific guidance and compliance monitoring are generally appropriate, but that the extent and/or complexity of policies and procedures should be sized according to the relative significance of the affected plan assets. At May 31, 2024, UM RET had one remaining account subject to the scope of this audit, representing just 4.2% of total plan assets; the audit report identifies no specific deficiencies or concerns with its proxy votes. As such, we continue to believe that our current proxy voting policy is in compliance.

However, to remove any doubt as to intent, the Curators have already clarified its proxy voting policy to better reflect actual practice, through the addition of the following language: "*Voting shares for the sole purpose of furthering noneconomic environmental, social, political, ideological, or other goals is prohibited.*"

Respectfully,

Ryan D. Rapp  
Executive Vice President for Finance & Operations