ISS: THE GLOBAL LEADER IN GOVERNANCE

Los Angeles City Employees’ Retirement System
Investment Committee

January 10, 2017

Now more than ever, Governance Matters

www.issgovernance.com
AGENDA

ISS Governance Services Overview

2016 Proxy Season Review / 2017 Proxy Season Preview
ISS: The Global Leader in Governance & Responsible Investment

**Quality & Service**
- Over 900 professionals, committed to client success
- Global staff with local market knowledge & service
- 94% client retention rate
- Support for your unique corporate governance views

**Coverage**
- 18 offices, 25 languages spoken
- Proxy research & vote recommendations on 39,000+ meetings globally
- ESG research coverage of 13,000+ companies worldwide

**Expertise**
- Experienced leadership team with average 15-year tenure
- 375+ research professionals located in 10 markets
- Analysts provide insight on ESG landscape, local market voting practices, and regulatory requirements
- Advanced degrees in business, finance & law

**Innovation**
- Independently profitable and growing
- Pursuing new opportunities in adjacent markets
- Robust technology & operational infrastructure
Solutions to Meet Your Evolving Requirements

Recognizing that no two clients are alike, ISS offers a range of services to meet client needs across the full spectrum of Environmental, Social & Governance.

**Governance Advisory & Voting**
Combining ISS’ leading research, proven voting and disclosure services, and advanced ProxyExchange platform to meet your proxy voting needs.

**ISS-Ethix**
Powered by DataDesk

Develop and integrate responsible investing policies and practices into your strategy, research, analyze and screen for company performance, and support engagement and communication.

**ISS Analytics**
Powered by DataDesk

Support investment decision-making using global data and analytics, covering director, compensation, voting records and meeting results, and ISS Governance QuickScore.

**Securities Class Action Services**

Turnkey securities class action services and RecoverMax platform to maximize recoveries from litigation settlements.
ISS Services for LACERS

➢ **US Voting**
  ➢ In 2016: 3,496 ballots voted for 1,843 US meetings

➢ **Global Voting**
  ➢ In 2016: 6,583 ballots voted for 5,410 global meetings in 61 markets

➢ **ISS Benchmark Policy**
  ➢ Global staff with local market knowledge ensure coverage of nearly 39,000 companies

➢ **Automated Voting Policy customized to LACERS proxy voting guidelines**
  ➢ Dedicated Research Analyst, available for ad-hoc consultation and policy maintenance support

➢ **ProxyExchange**
  ➢ Best-in-class applications on an integrated platform supporting the proxy voting process at the organization level

➢ **ISS Governance QuickScore**
  ➢ A scoring and screening solution designed to help institutional investors identify governance risk within portfolio companies, covering over 5,500 companies in 30 markets; accessible via a web-based platform

➢ **ISS Governance Publications, Webcasts and Client Events**
ISS covers a spectrum of shareholder interests, to align with client philosophies as they serve their underlying clients.

ISS Benchmark Research
- Global coverage and principles, ISS market specific policies and expertise
- Cover 39,000 company meetings annually, across 115+ markets
- Viewed as the industry standard and market best practice

Specialty Research
- 5 thematic policies, including Sustainability, SRI, Faith-based, Taft-Hartley, Public Fund
- Designed to fill specific investor needs and mandates (e.g. meet PRI requirements)

Custom Research
- Bespoke implementation of client philosophy
- High-touch approach where custom analyst partners with client
- Fastest growing area of research, as governance matters globally

Special Situations Research
- Comprehensive, independent research on high-profile economic proposals, including M&A and contests for corporate control
Rigorous & Inclusive Policy Formulation Process

A transparent and inclusive approach that includes ongoing market feedback, surveys, roundtables and an open industry comment period.

**Annual Policy Survey** brings in perspectives from institutional investors, corporate issuers and governance experts. Offers all market constituents the ability to actively participate in ISS’ policy development process.

**Extensive In-person Discussion Forums** and roundtables augment the policy process.

**Balanced Viewpoints** through guidelines that strike the right balance between shareholder interests and economic practicality.

**Engagement with Issuers** on behalf of shareholders ensures a full understanding of the facts and enriches our analysis.
AGENDA

ISS Governance Services Overview

2016 Proxy Season Review / 2017 Proxy Season Preview

› Proxy Access
› Responsible Investment
› Boards of Directors
› Executive Compensation
› Activism
Proposal submissions set all-time record (>200 SPs)
- New York City funds lead charge w/72 (50% old/50% new)
- More than half are withdrawn in wake of settlements
- Individual proponents play larger role (100+ proposals)
- New battles over “substantially implemented” (i)(10)
- Fewer dueling proposal pairs (five vs. seven in 2015)

Voting Support Splits Based on Board Actions
- Overall support: 48.2 percent of votes cast w/30 majorities
  - Proposals at “Have Nots” average 59.1 percent; 27 majorities
  - Line-item veto proposals at “Haves” average 36.7 percent
    - SEC clone rules (3%/three years) drop average support (32.1 percent)
    - Outliers (5%/three years) attract veto (58.9 percent)
Proxy access continued its second year as the dominant shareholder proposal. Approximately 40% of the S&P 500 companies currently provide a proxy access right, a large increase since campaigns for proxy access gained prominence in 2015.

The basic features of proxy access bylaws are largely standardized along the “3/3/20/20” structure, which enables a group of up to 20 shareholders who have held 3 percent of a company’s stock for 3 years to nominate up to 20 percent of the board.

The focus in proxy access proposals has begun to shift to secondary features, such as the treatment of loaned shares, nominees’ conflicts of interest, and re-nomination restrictions. These are likely to receive increasing attention since the SEC’s decision in July to allow a shareholder proposal seeking to modify secondary features of H&R Block’s existing proxy access bylaw.
AGENDA

RESPONSIBLE INVESTMENT
ESG Proposal Volume on the Rise

Total E&S Proposals Filed
(as October 1, 2016)

# of E&S Proposals Receiving Significant Support

Status of E&S Proposals

- Voted
- Withdrawn
- Omitted
- Pending
- Other

12.7%
2.1%
1.1%
44.1%
40.1%
Political spending debate heats up during contentious campaign season

- Majority votes at Fluor (61.9% of votes cast) and NiSource (50.3%)
  - Four others with support in excess of 40 percent
  - Also 40%-plus support for lobbying disclosure at Travelers and NRG Energy

Climate change votes rise in wake of COP21

- “2 degree scenario” stress test proposal receives strong support
  - Occidental Petroleum (49%), AES (42.2%) and ExxonMobil (38.1%)

Calls for greenhouse gas and other emissions goals draw support

- CLARCOR (60.8%) holder request sustainability report with GHG goals
- Fluor (42.9%) and HD Supply (41.5%) holders urge setting GHG goals
- Methane emission proposal scores majority (50.8%) at WPX Energy
- Call for “stranded carbon” risk report backed by 42% at Anadarko

Diversity

- Call for diverse board nets majority support (52.4%) at Joy Global
- Proposal for gender pay gap report wins bid (51.2%) at eBay
- Holders back (54.7%) banning sexual orientation/gender identity bias at JB Hunt
Director Support Remains High

2016 Average Support for R3K* Nominees: 95.9% (Votes Cast)

- 92.1% of votes cast
- 6.2%
- 2.1%
- 1.1%
- 0.5%
- 0.3%

More than 90% of nominees have drawn support of 90% or more

Voting Support:
- 90%+
- 80%-90%
- 70%-80%
- 60%-70%
- 50%-60%
- <50%

*Based on results for 17,388 nominees at meetings of Russell 3000 firms As of Oct. 15, 2016

Data does not include abstentions
Source: ISS Voting Analytics
Settlements Slow Contest Pace; Size Drops


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<tr>
<th>Dissident &quot;Win Rate&quot;</th>
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<th>$100M-$1B</th>
<th>&gt; $1B</th>
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<td>2016 YTD</td>
<td>67%</td>
<td>44%</td>
<td>40%</td>
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<td>2015</td>
<td>60%</td>
<td>46%</td>
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$ Amounts above represent Market Capitalization
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<tr>
<th>QUESTIONS</th>
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Vice President  
Sales  
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Vice President, Regional Manager  
Custom Research  
301-556-0288  
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APPENDIX

- ISS Presenters
- ISS Workforce Composition
Joshua Russell is Vice President, Sales and works with Asset Owners located throughout the West, Mid-West and Southern United States. In his role, Joshua works as a team with LACERS Client Consultant (Day to Day contact) Corina Florea to facilitate dialogue between LACERS and relevant ISS staff. Prior to joining ISS in 2013, Josh served as a Senior Account Executive at Dow Jones for 10 years. Joshua is a graduate of The University of California at Davis with a Bachelor of Arts degree in Political Science.

Andrew Linberg is a Regional Manager for ISS’ Custom Research team, servicing institutional investor clients located in the Northeast, South and Western U.S., as well as Socially-Responsible Investment (SRI) funds. In this role, he and his teams provide clients with individualized proxy voting policy support and expertise on global corporate governance issues. He also oversees implementation of clients’ individualized proxy voting guidelines and voting recommendations. Andrew is a graduate of the University of Delaware and received a Juris Doctor from the University of Baltimore School of Law.
### ISS Workforce Composition

**Vendor**  
Institutional Shareholder Services  
**Address**  
702 King Farm Boulevard, Rockville, MD 20850  
**Date Completed**  
December 29, 2016

#### TOTAL COMPOSITION OF WORK FORCE (US)\(^1\)

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<th>African American</th>
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<th>Asian or Pacific Islander</th>
<th>American Indian/Alaskan Native</th>
<th>Caucasian (Non Hispanic)</th>
<th>Race/Ethnicity Unreported(^2)</th>
<th>Total Employees</th>
<th>Percent (%)</th>
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<td>19.60%</td>
<td>194</td>
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\(^1\)Data refers to US component of ISS workforce  
\(^2\)Of 301 ISS US employees, race/ethnic classifications is not available for 136 (left blank, declined to report, race unknown, two or more races)
ISS Staff Development and Mentoring Programs

- Various professional development programs, tailored to each team/department
- New hire training program
- “Buddy” system to help acquaint new hires with the firm and the firm’s culture
- First-time manager training program