



Ohio Public Employees Retirement System

June 14, 2016

Dear Member of Congress,

We are writing on behalf of the Ohio Public Employees Retirement System ("OPERS") to share our concerns with HR 5311, the Corporate Governance Reform and Transparency Act of 2016, a bill that could have a significant cost impact on the ability of OPERS to effectively vote its proxies and fulfill its fiduciary obligation. According to the sponsors, Representatives Duffy (R-WI) and Carney (D-DE), the bill purports to improve the quality of proxy advisory firms for the protection of investors by fostering accountability, transparency, responsiveness, and competition in the proxy advisory firm industry.

OPERS is the 11th largest public retirement system in the country, with more than one million active, inactive and retired members. This means that almost one out of every 12 Ohioans – your constituents – has some connection to our System. OPERS has invested more than \$78 billion in the capital markets across the world and significant portions of these assets are held through our ownership in public equities. OPERS is a long-term investor and, as such, holds its interest in public companies for many years. We develop relationships with company directors and senior management that foster a constructive dialogue that adds to shareowner value.

OPERS recognizes that accountability, transparency, responsiveness and competition in this industry are important. After our initial review, however, we are concerned that the bill could ultimately weaken the reporting of corporate governance best practices at public companies in the United States, impact the contractual obligations that already exist between proxy advisory firms and their investor clients, and harm investors who rely, in part, on research to aid in their voting decisions. The best practices, rules and regulations that have been developed in the corporate governance arena in the past 20 years are based upon the accountability of boards of directors to their shareholders. The OPERS Board of Trustees has recognized that proxy voting is a fiduciary duty, one that it takes seriously because it is the ultimate way in which shareowners hold boards of directors accountable.

OPERS has developed a Corporate Governance Policy and Proxy Voting Guidelines that staff members use to cast proxy ballots. Given the nature of our investment portfolio, OPERS has ownership in almost 13,000 public companies in the U.S. and non-U.S. markets. Staff members use proxy research and reports to

help analyze proxy voting in relation to the Board's Proxy Voting Guidelines. Staff members make voting decisions based upon the totality of the circumstances and the application of the Guidelines. Proxy advisory research is simply another tool for us.

Reporting

During our engagement with company directors and senior management, we ask questions as long-term shareowners of the company. If a company representative has a point of view about the proxy research that was conducted on the company's performance or whether a director should be elected to the board, staff members are interested in discussing the company's perspective. We take this feedback into account when deciding how to implement the proxy vote. Staff members apply the Proxy Voting Guidelines when voting. We do not rely solely on proxy advisory research or reports to make these decisions. Staff members review thousands of proxy reports and research during each proxy season. The reports simply help give staff additional research points or considerations prior to voting.

What would be troubling to OPERS would be a requirement that company management have a right to edit or make changes to proxy reports that OPERS has paid to receive from an independent proxy advisory firm. Staff members already have access to the company's proxy materials and any supplemental information that the company shares with us prior to a vote. Such a requirement would have a chilling effect on the independence of these reports and cause a delay in their timely issuance. Companies already have avenues of engagement with shareowners if they wish to express alternative views on the proxy advisory firms' research. They know who their registered shareholders are and would not encounter any difficulty reaching out to OPERS staff to discuss proxy issues.

Contractual obligations

OPERS has a procurement policy that requires staff members to competitively bid certain contracts in order to obtain the best value for the fund. The reality of the situation is that there are few proxy advisory firms that compete for this work. The contract is between OPERS and the proxy advisory firm, not with any public companies.

The language in HR 5311 could limit the interest in new or even existing proxy advisory firms from providing services to investors. If staff members are not able to procure additional research and reports, then OPERS will need to make the decision whether to add staff to the Corporate Governance Program, at added cost, or forgo a robust analysis prior to voting. As already mentioned, OPERS takes its proxy voting seriously as a fiduciary duty and would be required to take steps at additional cost to its members in order to vote its proxies.

Proxy research to aid in voting

Any contract for research and reports entered into between an investor such as OPERS and a public company would create a conflict of interest. We are shareowners of that company and in accordance with our fiduciary duty, we should

be able to acquire whatever research and reports we need to review. Clearly, public companies have vast resources in place to generate proxy statements, financial records and annual reports. We should have tools at our disposal to offer summary or alternative views prior to voting. Proxy advisory firms provide us that level of detail and support.

For more than 80 years, OPERS has always endeavored, through prudent management and administration, to be good stewards of the funds entrusted to us by our members and employers. We depend on the returns we receive from our investments in public equities and other investment vehicles to fund our benefit payments to our members. As such, we have a substantial interest in the long-term health and vitality of the companies in which we invest.

We are also pleased to report that Ohio's state and local economies have benefitted greatly from their investment in OPERS. The benefits we provide are returned to help sustain the Ohio economy, preserving jobs and generating economic activity.

Your support of OPERS is appreciated. Thank you for your review of HR 5311 and for considering the concerns that we have expressed. Should you have any questions, you can contact me directly at 614-222-0011, or you can contact Carol Drake at 614-222-0398. We will also follow up with staff on this issue.

Sincerely,



Karen E. Carraher
Executive Director



Carol N. Drake
Chief External Affairs Officer

