



Chicago Teachers' Pension Fund



2017 Proxy Voting Review & Corporate Governance Highlights

June 21, 2018

Introduction

- Proxy Voting is a way for shareholders to influence a company's corporate governance, activities of social responsibility and financial considerations.
- It is important for shareholders to participate in voting and make their decisions based on a full understanding of the information presented to them in the proxy statement.
- Proxies are considered an asset of the pension plan.

Procedure Overview

- Staff reviews CTPF's Proxy Voting Policy annually to ensure that current proxy issues are addressed. Any changes deemed necessary are submitted to the Board for approval.
- The Board approves CTPF Proxy Voting Policy each year as part of the annual policy review.
- Staff implements CTPF's proxy voting process with the Voting Fiduciaries also known as Investment Managers in accordance with CTPF's policy.

2017 Changes to Proxy Voting Policy

- Added Language- The Investment Management Agreements shall be amended to adopt and incorporate this Policy Statement by reference.
- Revised Language- Investment Managers are now referred to as “Voting Fiduciaries”.

In 2017 Voting Fiduciaries Voted in Accordance with CTPF's Proxy Voting Policy for the following accounts:

Domestic Equity

Attucks
BMO
Channing
Holland
Ivy Investments
Northern Trust
Phocas
Rhumblin
Zevenbergen

International Equity

Ariel
DFA
Earnest Partners
Lazard
Leading Edge
Morgan Stanley
Northern Trust
Strategic Global Advisors
William Blair

2017 Voting Activity

29,993 Proposals

86%

25,761 votes
in favor of
management

12%

3,576 votes
against
management

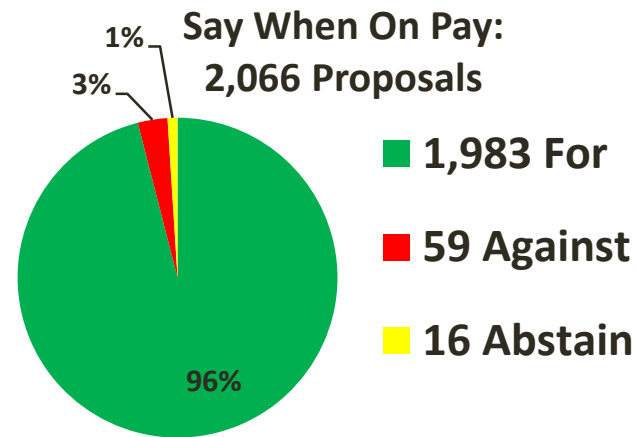
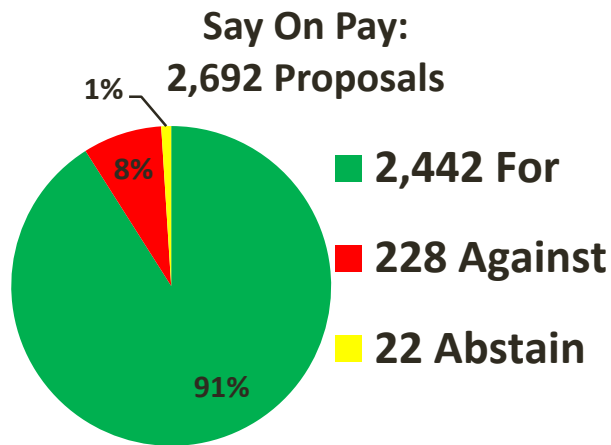
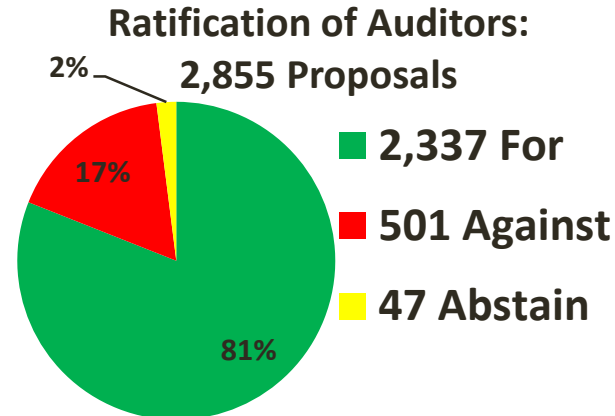
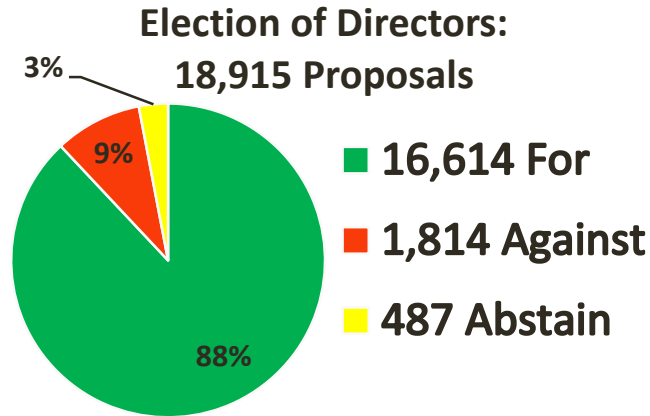
2%

656 Other
(Abstain, Non-Voting,
Withheld)



Chicago Teachers' Pension Fund

Most Common Management Proposals Voted in 2017



Getting Ahead of The Vote

The Opioid Epidemic



McKesson



CardinalHealth



AmerisourceBergen

Johnson & Johnson



In 2017 Chicago Teachers' Pension Fund performed random audits to get ahead of the vote to ensure that the Voting Fiduciaries were planning to vote in accordance with the CTPF proxy policy.

As a result of this CTPF was able to join other pension pension funds and unions in the fight against the opioid epidemic.

Chicago Teachers' Pension Fund Board Passes Unanimous Resolution Supporting Opioid Lawsuit

On May 17, 2018, Chicago Teachers' Pension Fund adopted a formal resolution, resolved as follows:

1. Its support of lawsuits brought by Health & Welfare funds and other plaintiffs against the pharmaceutical manufacturers, wholesalers, distributors, and pharmacy benefit managers who have helped to create and to perpetuate this crisis.
2. To continue to be conscious of these issues and to continue to protect CTPF's members in administering and contracting for the healthcare program that CTPF statutorily provides to its retirees.

"Educators, administrators, and school support personnel face the opioid epidemic every day, providing front-line intervention in schools and bearing witness to the devastation this epidemic has on children, families, and communities,"

"This action demonstrates our Board's recognition of the scope of this problem and offers our support for the local governments and Health and Welfare Funds working to secure greater accountability from the companies who contribute to and perpetuate this devastating crisis."

Jay C. Rehak, President of the CTPF Board of Trustees

CHICAGO TEACHERS' PENSION FUND MAINTAINS POLICY TO DIVEST FROM ALL INVESTMENTS IN RETAIL ASSAULT WEAPONS MANUFACTURERS

April 19, 2018 – The Chicago Teachers' Pension Fund (CTPF) applauds the American Federation of Teachers (AFT) for its report issuing a call to action asking investors to hold gun manufacturers accountable for risks to society.

"We have a responsibility to protect our teachers and students as well as to act as fiduciaries. A pension fund weighs and balances investment risk, and the bottom line is that investing in weapons manufacturers involves intolerable reputational, regulatory, and statutory risks."

Jay C. Rehak, President of the CTPF Board of Trustees

2017 Corporate Governance Highlights

Board Composition and Diversity

Investors continue to pressure boards to demonstrate that they are taking a strategic and proactive approach to board refreshment. Investors are looking for indicators that boards are adding directors with the skills necessary to complement to company's strategic direction and ensuring diversity of backgrounds and perspectives to guide that strategy.



Executive Compensation and Say on Pay

- Executive Compensation remains a focus for shareholders, management teams and boards alike. Many investors believe there needs to be a better alignment of compensation with individual and company performance.
- Current SEC rules require most public companies begin disclosing the CEO pay ratio in their proxy statements starting in 2018.



Proxy Access

- Proxy access is a mechanism that allows shareholders to nominate directors and have those nominees listed in the company's proxy statement and on the company's proxy card.
- In 2015, proxy access was just starting to become widespread on a company-by-company basis. In 2016 CTPF voiced its support for proxy access by adding factors to consider to the proxy policy.
- As of June 2017 more than 400 companies have adopted proxy access bylaws.
- At least of 17 companies that have been targeted for inadequate board diversity over the past two years have added a minimum of one female and/or minority director.



Shareholder Engagement

- Boards have become more comfortable with direct investor communication around corporate governance issues and are making significant strides in establishing protocols and practices to structure their communication with investors.
- Shareholders are exerting more influence on how boards and management teams operate. Institutional investors and shareholder activist demand greater transparency, including more engagement with independent directors.



Looking Ahead at 2018

Board and Governance	Compensation	Environmental & Social Issues	Activism and Mergers & Acquisitions
Gender Diversity on Boards	Pay for Performance	Climate Change Risk	Contested Mergers
Risk Oversight	Clawbacks	Human Capital Management	Contested Votes
Shareholders Rights	162(m) Changes	Curbing Shareholder Proposals	New Types of Activism

Appendix

- **162(m) Changes-** Code Section 162(m) imposed a \$1M limit on publicly- traded company tax deductions for most compensation paid by a company to its “covered employees” in a fiscal year. In 2018 it will cost companies more to pay the same compensation that they paid in 2018. A covered employee is an employee who on the last day of a fiscal year was either the Chief Executive Officer (or equivalent) or one of the highest three paid officers whose compensation was required to be reported in the summary compensation table of the company's proxy. The bill changed the definition of a “covered employee” to include the CFO.
- **Human Capital Management-** Concerns involving harassment will focus more on corporate culture, behaviors, gender pay gaps, along with other human capital management issues.
- **New Types of Activism-** Unions and activist groups continue to experiment with diverse tactics that set the level of aggressiveness for proxy contests. Due to these groups often having great influence over pension funds they are able to pressure companies by having the funds write letters and even offer shareholder resolutions at corporate annual meetings. More and more companies find themselves dealing with aggressive union-sponsored shareholder resolutions.
- **Risk Oversight-** Joining cyber threats, sexual harassment may be at the top of the list of shareholder-director engagement topics in 2018. It is expected that shareholders will come hard on directors who do not address problematic corporate cultures.

Appendix

Opioid Company Target List

Manufacturer	Manufacturer of Opioid Treatments	Distributors
Johnson & Johnson	Amphastar Pharmaceuticals Inc.	Cardinal Health Inc.
Mylan NV	Valeant Pharmaceuticals	Amerisource Bergen Corp
Endo International PLC	Indivior PLC	McKesson Corp
Depomed Inc.	Astrazeneca PLC	
Insys	Alkermes PLC	
Pernix Therapeutic		
Mallinckrodt PLC		