



# Preliminary Texas Permanent School Fund Proxy Vote Review

## Overview

This review included the following actions:

- Tracing Bowyer Research vote recommendations against board members of companies which severely underperform in investment returns to actual vote execution.
- Tracing in opposite direction, from actual vote execution back to Bowyer Research Vote Recommendations for board member elections.
- Tracing from Bowyer Research vote recommendations prior to annual meeting season list of Environmental & Social proposals to actual vote execution per ISS Meeting Details Report.
- Review of discrepancies between beginning of annual meeting season list of E&S proposals and ISS Meeting Details Report.
- Review of 'hot button' issues voted upon such as anti and pro fossil fuel proposals and abortion promotion by companies.



## Board Elections

### Worst Performing Companies

In 100% of cases in which BR recommended against reelection of a board due to severe underperformance, ISS executed a vote against those board members. Severe underperformance is defined by being first or second worst in class for investor returns or one standard deviation below the mean for peer group. Prominent examples include Target and Boeing.

The worst performers list had instructions to vote against 152 board members. ISS did not vote for any of those candidates.

### Companies not on worst performer list

Regarding those companies not on the worst performers list:

- 7139 "For" votes for endorsed board members
- 2 "Against", both for the proposal "Elect a Shareholder-Nominee to the Board (Proxy Access Nominee)" which refers to board members nominated typically by outside activist groups, which is the proper policy application of Bowyer Research.
- It is noteworthy that PSF voted for reelection of the board of Exxon during the battle between the company and anti-fossil fuel activist groups and California, Illinois and New York pension funds which were opposed to board reelection.



## E&S Proposals

At the beginning of the shareholder season, Bowyer Research furnished ISS with specific instructions on environmental and social proposals which were scheduled to be on ballots later in the year. This was done in order to take a belt plus suspenders approach. The belt is a detailed set of rules, and the suspenders is giving even more specific instructions for individual proposals at specific companies on specific dates. Unfortunately, that list changes as the season goes on which proposals being dropped by shareholders in negotiation with the company or new proposals being filed late in the season. In addition, proposals are frequently challenged by the company by an appeal to the SEC, and often those appeals are pending at the time we give our instructions to ISS.

After a detailed analysis accounting for proposals which were eventually cut from final ballot, we found that the instructions we gave to ISS on individual ballot proposals were followed with 100% fidelity by ISS after May 2<sup>nd</sup>.

Before May 2<sup>nd</sup>, ISS was following PSF custom policy. PSF custom policy called for a high proportion of abstentions. The policy appears to be a 'when in doubt, don't vote' approach, which is understandable given the complexity and opacity of the proxy voting policy.

Bowyer Research analyzed the votes on May 2<sup>nd</sup> and before and found that the majority of times (57%) that PSF Custom policy differed from what the Bowyer Research votes would have been, PSF were abstentions. And a significant majority (75.3%) of the times PSF voted "abstain", the Bowyer Research votes would have been "against".

Preliminary analysis of the period before Bowyer Research Guidelines were implemented indicates that PSF Custom Policy abstained in 100% of the E&S related proposals which is a combination of mostly pro-ESG proposals and a minority of proposals from groups attempting to counter ESG activism.



However, in the period after May 2<sup>nd</sup>, when Bowyer Research Guidelines were in effect, the voting pattern was against ESG proposals and generally for proposals seeking to oppose ESG activism.

For example, here is an analysis of some high-profile categories of votes. The votes described were in the period after the phase-in period, May 2<sup>nd</sup>.

Proposals	Total	Votes Against	Votes For	Abstentions	% Support
Abortion Advocacy	3	3	0	0	0%
Abortion Neutrality	2	0	2	0	100%
Fossil Fuel Opposition	32	32	0	0	0%
Pro-Fossil Inclusion	5	0	5	0	100%

## Conclusion

Before adoption of Bowyer Research Guidelines, PSF voted overwhelmingly to abstain from voting on Environmental & Social proposals. In most of the cases, the Bowyer Research Guidelines would have been a vote against.

After May 2<sup>nd</sup>, the Bowyer Guidelines were followed to a very high degree of fidelity by ISS. Those policies were to vote against attempts to pressure companies away from fossil fuels. Those policies were also in favor of proposals sought to counter efforts to exclude fossil fuels. Those policies also voted against attempts to politicize companies by attempting to draw them into abortion advocacy.