

Commonwealth of Pennsylvania Public School Employees' Retirement System

DATE: February 16, 2018

SUBJECT: PSERS' Proxy Voting and Modifications to the U.S. and Non-U.S. Proxy Voting Policies

TO: Members of the Corporate Governance Committee

FROM: Lenann T. Engler
Manager of Investment Processes

At the March 8, 2018 Corporate Governance Committee Meeting, we will request that the Committee adopt the U.S. Proxy Voting Policy and the Non-U.S. Proxy Voting Policy. These policies adopt the standard Glass, Lewis & Co., Inc. (Glass Lewis) U.S. and International Proxy Paper Policy Guidelines.

Glass Lewis has provided PSERS with analysis of proxy voting issues, vote recommendations, and vote execution since January 2006. The most recent contract renewal was effective January 1, 2016, following a successful RFP bid.

When voting proxies, PSERS reviews Glass Lewis' recommendations, conducts research, and, if necessary, consults with our investment managers to reach a voting decision. We generally support resolutions that empower boards of directors to act in the best interests of the company and we support governance structures that assert management's accountability to its shareholders.

There are specific voting issues that illustrate how PSERS applies this principle of accountability. Those issues include: elections of directors, director performance and compensation, majority standard in director elections, staggered boards/annual election of directors, responsiveness of directors, conflicts of interest, cumulative voting, routine business matters, and ESG (environmental, social and governance) issues.

PSERS' proxy voting policy incorporates the Glass Lewis policy guidelines with overrides for certain shareholder initiatives including reincorporation proposals and MacBride Principles. PSERS' Chief Investment Officer has the authority to interpret the proxy voting policies to meet PSERS' fiduciary responsibilities. On significant policy issues, the Chief Investment Officer and/or the Executive Director, in conjunction with the Chair of the Corporate Governance Committee

and/or Chair of the Board, will evaluate and determine any proxy vote. The vote on such matters will then be reported to the Corporate Governance Committee at its next regularly scheduled meeting.

For your reference attached are the following documents:

- U.S. Proxy Voting Policy;
- Glass Lewis U.S. Proxy Paper Policy Guidelines;
- Non-U.S. Proxy Voting Policy; and,
- Glass Lewis International Proxy Paper Policy Guidelines.

Revisions to the Glass Lewis U.S. Proxy Paper Policy Guidelines include:

- Glass Lewis recognizes the importance of boards having diversity of skills, thoughts, and experiences. Glass Lewis will continue to monitor board composition and will note instances where they believe a board is lacking in diverse director candidates, including a lack of female directors. In 2018, recommendations will not be made solely on the diversity of a board; but will be one of many factors considered when evaluating companies' oversight structures. Beginning in 2019, however, Glass Lewis will generally recommend voting against the nominating committee chair of a board that has no female members unless the board has provided sufficient reasoning for not having any female board members or has provided a plan to address its lack of diversity.
- An increasing number of companies have elected to hold shareholder meetings by virtual means only. While virtual meetings can be a useful supplement to traditional, in-person meetings by allowing shareholders to participate in a meeting they would otherwise be unable to attend in person, but virtual-only meetings can also restrict the ability of shareholders to have meaningful interaction with company management. In 2018, Glass Lewis will not make voting recommendations based solely on whether a company chooses to hold a virtual-only meeting. Glass Lewis will review company policies for assurances that shareholders have the same rights and opportunities at a virtual-only meeting as they do at an in-person meeting. Beginning in 2019, Glass Lewis will generally recommend voting against members of a board governance committee where the board is planning to hold a virtual-only meeting if the assurances of those rights and opportunities are not provided.
- Beginning in 2018, companies are required to disclose the median annual total compensation of all employees except the CEO, the total annual compensation of the CEO or equivalent position, and the ratio between

those two amounts. Glass Lewis will include pay ratio, when available, in its Proxy Papers but it will not be a determining factor in voting recommendations.

A noteworthy revision to the Glass Lewis International Proxy Paper Policy Guidelines is as follows:

- Generally, it is the position of Glass Lewis that shareholders should not micromanage executive compensation plans. Election of directors to the company's compensation committee is the proper means to guide policy on this issue. Providing a company with the discretion to implement performance-based compensation plans is an effective way to motivate executives to act in the best interests of the company's shareholders.

The following revisions apply to both the U.S. and International Proxy Paper Policy Guidelines:

- Any time 20% or more of shareholders vote against the recommendation of management, depending on the issue, the board should address the concerns of the shareholders, especially in response to proposals relating to compensation and director elections. Breaching the 20% threshold will not automatically result in a negative vote recommendation, but it will be a consideration.
- Dual-class share structures are generally not in the best interest of shareholders, and as such, no small group of shareholders should have different voting rights than other shareholders. The economic stake of each shareholder should determine its voting power; one vote per share best protects the interests of shareholders. Glass Lewis will recommend shareholders vote in favor of proposals to eliminate dual-class share structures.
- Day-to-day management and policy decisions, including social, environmental, or political issues, of a company should remain in the hands of the company and the board. However, if there is evidence of a link between a shareholder proposal and value enhancement or risk mitigation, Glass Lewis will recommend in favor of the proposal if the company has not sufficiently addressed the issue.

If questions arise, please contact me at 717-720-4687.