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SBA Protects Beneficiaries with Proxy Voting

Tallahassee, FL—During the fiscal year ended June 30, 2010, the State Board of Administration (SBA) executed votes on 3,568 public company proxies covering 28,284 individual voting items, including director elections, audit firm ratifications, executive compensation plans, mergers, acquisitions, and other management and shareowner proposals. The SBA voted for, against, or abstain on 73.3 percent, 24.8 percent, and 0.1 percent of all ballot items, respectively. Of all votes cast, 26.1 percent were against the management-recommended vote, down from 31.1 percent during the same period ending in 2009.

“The SBA supports the adoption of internationally recognized governance practices for well-managed public companies. Of particular interest are independent boards, performance-based executive compensation, accurate accounting and audit practices, transparent board procedures, and policies covering issues such as succession planning and meaningful shareholder participation,” said Ash Williams, Executive Director & Chief Investment Officer of the SBA.

The (SBA) continued its shareowner stewardship activities, enhanced its corporate governance program, and cast proxy votes that serve to protect its investments. The SBA’s focus has been to take steps on behalf of its participants, beneficiaries, retirees, and other clients to strengthen shareowner rights and promote leading corporate governance practices among its equity investments in both U.S. and international capital markets. Key voting items are detailed below:

- ✓ **Director Elections**—Board elections represent one of the most critical areas in voting since shareowners rely on the board to monitor management. The SBA supported 73.2 percent of individual nominees for boards of directors, voting against the remaining portion of directors primarily due to concerns about candidate independence, attendance, or overall board performance. The SBA policy is to withhold votes from directors who fail to observe good corporate governance practices or demonstrate a disregard for the interests of shareowners. Some of the highest director opposition in 2010 occurred at the following companies: AGCO Corporation (Francisco Gros received 68 percent withhold vote), Helix Energy Solutions Group (Bernard Duroc-Danner received 71 percent withhold vote), Interline Brands (Gideon Argov received 60 percent withhold vote), Kopin Corporation (David Brook received 68 percent withhold vote), and Skywest, where three directors received a majority of opposition votes (including Ralph Atkin with 76 percent against, Ian Cumming with 63%, and Steven Udvar-Hazy with 55% opposition). The Board reelection at Massey Energy was notable, with three individual directors narrowly receiving majority support after harsh examination by a large group of the company’s investors. The SBA voted to withhold support for each of the directors mentioned above.

- ✓ **Executive Compensation**—The SBA considers on a case-by-case basis whether a company's board has proposed or implemented equity-based compensation plans that are excessive relative to other peer companies or plans that may not have an appropriate performance orientation. As a part of this analysis, the SBA reviews the level and quality of a company's compensation disclosure—believing strongly that shareowners are entitled to comprehensive disclosures of compensation practices in order to make efficient investment decisions. Over the last fiscal year, the SBA supported 32.7 percent of all non-salary

(equity) compensation items—while supporting 93.8 percent of shareowner resolutions asking companies to adopt an advisory vote on executive compensation (a.k.a., “Say-on-Pay”), 61.6 percent of executive incentive bonus plans, and 38.9 percent of management proposals to adopt restricted stock plans in which company executives or directors would participate (33.3 percent for the amendment of such plans). Compensation-related votes of interest in 2010 included the shareowner proposal to adopt say-on-pay at Chesapeake Energy, which received 56.0 percent support, including that of the SBA. In contrast, a management proposal to ratify executive pay at Motorola received only 45.7% support, with the SBA voting against the compensation structure. The Motorola vote was historic because it was the first advisory compensation vote at a U.S. company to fail to achieve majority investor support. At Comerica Incorporated, the SBA supported the proposal to recoup unearned management bonuses (i.e., adopt “clawback” provisions), which received 54 percent shareowner support.

- ✓ **Audit Ratification**—Auditors are responsible for safeguarding investor interests and assuring financial statements are presented fairly; therefore, auditor independence and impartiality are paramount in maintaining public trust. The SBA supported over 96.0 percent of ballot items to ratify the board of directors’ selection of external auditor. Votes against auditor ratification are cast in instances where the audit firm has demonstrated a failure to provide appropriate oversight, when there have been significant restatements in the financial statements, or when significant conflicts-of-interest exist, such as the provision of outsized non-audit services.
- ✓ **Environmental & Sustainability Reporting**— Companies have begun developing policies to improve their environmental sustainability in order to implement new environmental regulations, achieve cost savings, ensure safe operations, and use their resources as efficiently as possible. Increasingly, the SBA has supported general sustainability reporting requirements and improved environmental disclosures issued by companies in its portfolio. Improved corporate reporting allows investors to better gauge a firm’s potential environmental risks and business practices. The SBA supported 93.3 percent of shareowner resolutions asking companies to publish sustainability reports and 72.2 percent of shareowner resolutions asking companies to produce reports assessing the impact on local communities.

In order to increase transparency to beneficiaries, invested companies and other institutional investors, the SBA continues to post proxy voting records on its website. This real-time vote disclosure occurs in advance of all annual shareowner meetings, normally within a few hours of the proxy vote being cast. Voting information is fully searchable based on date, calendar range, company name, and SBA portfolio. Voting data covers every publicly traded equity security for which the SBA retains voting authority (which excludes most foreign securities). The SBA’s current and historical proxy votes can be viewed [here](#).

The State Board of Administration is an agency of Florida state government that provides a variety of investment services to various governmental entities. These include managing the assets of the Florida Retirement System Trust Fund, the Lawton Chiles Endowment Fund, the Local Government Surplus Funds Trust Fund (Florida PRIME), the Hurricane Catastrophe Fund, and a variety of other mandates. The SBA currently invests in six asset classes: Global Equities (both U.S. and non-U.S. companies), Fixed Income, Private Equity, Strategic Investments, Real Estate and Cash.

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