

10-015 Corporate Governance

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Purpose

This Policy describes the State Board of Administration's approach to improving the governance structures at identified companies in which the State Board of Administration owns significant shares in an attempt to enhance the value of State Board of Administration equity holdings.

This Policy also defines the roles and responsibilities of staff for corporate governance and related activities.

Policy

It is the policy of the Executive Director & CIO of the State Board of Administration (SBA) that:

The SBA shall promote changes in corporate governance structures which align the interests of shareholders and those of the company's Board of Directors and senior managers consistent with the duties of a fiduciary. The primary objective of SBA corporate governance strategies will be to improve the governance structures at companies in which the SBA owns significant shares. The secondary objective of SBA corporate governance strategies will be to enhance the value of SBA equity holdings.

Background and Implementation

The two primary obligations of shareholders are to monitor the performance of the companies and to protect their right to act when necessary. The SBA has neither the resources, nor the expertise, to micromanage companies in which it holds publicly traded stock. Furthermore, the legal duties of care and loyalty rest with the corporate Board of Directors, not with the shareholders. For these reasons, the SBA views its role as confined to fostering improved management and accountability within the companies in which we own shares. Other recent SBA corporate governance activities have included dealing with conflicts of interest within organizations with which we do business.

The SBA Trustees, along with the SBA's management staff and employees, function as fiduciaries. As such, they must discharge their responsibilities in accordance with the twin duties of loyalty and care. This is analogous to the duties owed by the directors of a corporation to its shareholders. The duty of loyalty is sometimes referred to as the "sole purpose" doctrine. This means the Board and other SBA fiduciaries must act solely in the interest of members and beneficiaries. For this reason, the SBA cannot base its corporate governance activities on social or political causes. Instead, it must focus on

the "bottom line" of enhanced shareholder value.

Interpretive Bulletin #94-2 (ERISA) states that voting proxies is a fiduciary act of asset management and proxies should be treated like any other financial asset, executed in the best interest of beneficiaries in accordance with written guidelines. Stock ownership rights, which include proxy votes, participation in corporate bankruptcy proceedings and shareholder litigation should be managed with the same care, skill, prudence, and diligence as any other asset, and should be exercised to protect and enhance long-term portfolio value.

Additionally, Florida Law sometimes prohibits investment in companies or mandates reporting on certain investments due to geopolitical, ethnic, religious, or other factors. Compliance with these laws and any related reporting requirements have similarities to corporate governance issues and will be consolidated organizationally.

Consistent with prudent and responsible investment policy, all or some of the following measures may be instituted when a corporation is found by the SBA to be under-performing market indices or in need of corporate governance reform:

- The SBA will discuss the corporate governance deficiency(s) with a representative and/or the Board of Directors of the company in question for the purpose of expressing the view that, as a significant shareholder, the SBA is opposed to such activity and/or policies. Additionally, the SBA may request to be informed of the progress in ameliorating such deficiencies.
- Under SEC Rule 14(a)8, shareholder proposals may be submitted to companies with identified performance deficiencies. Shareholder proposals will be used to place significant issues on a company's meeting ballot in order to allow all shareholders to approve or disapprove of significant issues and voice the collective displeasure of company owners.
- Any other strategies to achieve desired corporate governance improvements as necessary.

Under-performing companies are defined by the SBA as those having total returns in the bottom tiers as compared to market indices. Performance of specific companies will be evaluated on rolling 1, 3 and 5 year periods and will be compared relative to other companies in their own industry group. Target firms may also be selected based on the ability to gain successful shareholder support, the size of the SBA's holdings and/or the type(s) of corporate governance issues.

The Corporate Governance Manager, under the supervision of the Senior Officer – Investment Programs and Governance (SOIPG), shall be responsible for the following:

- Developing SBA proxy voting guidelines and maintaining proxy voting records.
- Developing performance and other criteria to be utilized in identifying companies where deficiencies exist.

- Identifying the courses of action to be taken with the companies and/or developing shareholder proposals.
- Identifying any statutory restrictions on investments and monitoring compliance with same.
- Preparing an annual report on corporate governance and complying with any other reporting requirements associated with corporate governance and related activities.
- Representing the SBA as an “active shareholder” in all relevant areas, including coordination with the Council of Institutional Investors (CII) as well as other significant shareholders or shareholder groups.

The SOIPG shall structure corporate governance processes and procedures in such a manner as to ensure the adequate and appropriate coordination and involvement of asset class staff, interested SBA employees and/or other shareholders.

Disclosure of Proxy Voting Decisions

The SBA does not disclose proxy voting decisions prior to the dates such votes are to take effect (e.g., prior to the date an annual shareholder meeting occurs). This policy does not restrict the disclosure of proxy votes, per se, but does preclude their distribution prior to their effective date. Disclosure of proxy voting decisions may selectively impact a stock’s value and/or negatively impact the discharge of a vote under specialized circumstances.

Proxy Voting and Securities Lending

The SBA conducts various securities lending practices in order to enhance the return on its investment portfolios. In the process of lending securities, the legal rights attached to those shares are transferred to the borrower of the securities during the period that the securities are on loan. As a result, the SBA’s right to exercise proxy voting on loaned securities is forfeited unless those affected shares have been recalled from the borrower in a timely manner (i.e. on—or prior to—the share’s record date).

The SBA’s fiduciary duty to exercise its right to vote proxies is an asset of the fund and needs to be weighed against the incremental returns of the securities lending program. Although the SBA shall reserve the right to recall the shares on a timely basis prior to the record date for the purpose of exercising voting rights for domestic as well as international securities, the circumstances required to recall loaned securities are expected to be extraordinary.

Compliance

The SOIPG shall assume primary responsibility for compliance with this Policy. The SOIPG may develop additional policies or guidelines as necessary to implement this Policy and shall maintain adequate records to demonstrate compliance with this Policy.

The Inspector General and/or Risk Management and Compliance may review and test

corporate governance processes for compliance with this Policy as deemed necessary.