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## **SBA Active in Corporate Governance**

Tallahassee, FL—During the fiscal year ended June 30, 2009, the State Board of Administration (SBA) executed votes on 3,383 public company proxies covering approximately 29,000 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 71.3 percent, 28.5 percent, and 0.1 percent of all ballot items, respectively. Of all votes cast, 31.1 percent were against the management-recommended vote, up 3 percent from last year.

“Through active support of corporate governance reforms and prudent voting of company proxies, the SBA works to enhance shareowner value and support its long-term investment objectives. The SBA strives to responsibly vote proxies and engage corporations on behalf of the Florida Retirement System (FRS) and other client accounts to foster accountability, good corporate governance and sensible business practices,” said Ash Williams, Executive Director & CIO 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. Emphasis was placed on:

- ✓ **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 71 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.
- ✓ **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. Although improvements have been made over the last year, we continue to observe reporting deficiencies at a majority of companies, raising hard questions about the integrity of their compensation practices. Over the last fiscal year, the SBA supported 26 percent of all non-salary

(equity) compensation items—while supporting 99 percent of shareowner resolutions asking companies to adopt an advisory vote on executive compensation (a.k.a., “Say-on-Pay”), 50 percent of executive incentive bonus plans, and 28 percent of management proposals to adopt restricted stock plans in which company executives or directors would participate (58 percent for the amendment of such plans). The SBA co-filed four shareowner proposals in an effort to promote more effective compensation practices. The proposals encouraged bonus structures with greater orientation to long-term performance and discouraged the excessive use of tax gross-ups (reimbursements to senior executives paid by the company to cover an executive’s tax liability) and “golden coffins” (posthumous benefit payments covering severance, bonuses, and perquisites awarded after an executive dies).

- ✓ Audit Ratification—The SBA supported over 96 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 or when significant conflicts of interest exist, such as the provision of a large monetary amount of non-audit services.
- ✓ Environmental & Sustainability Reporting—Increasingly the SBA has supported general sustainability reporting requirements and improved environmental disclosures issued by companies in its portfolio. The SBA supported 62 percent of shareowner resolutions asking companies to publish sustainability reports, 32 percent of shareowner proposals dealing with climate change and global warming, 100 percent of shareowner resolutions asking companies to produce reports assessing the impact on local communities, and 74 percent of shareowner resolutions regarding greenhouse gas emissions. This fiscal year, the SBA co-filed one shareowner proposal requesting the company prepare a report on the feasibility of adopting quantitative greenhouse gas emission goals.

In an effort to increase transparency to beneficiaries, invested companies and investor peers, the SBA posts 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 eight asset classes: Domestic Equities, Foreign Equities (both developed and emerging markets), Fixed Income, High Yield, Private Equity, Strategic Investments, Real Estate and Cash.

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