



PROXY VOTING POLICY

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STATUTORY AUTHORITY

The Public Employees' Retirement Association was created by the State of Colorado. The Plan operates by the authority of the Colorado General Assembly, with benefits and administration defined under Title 24, Article 51 of the Colorado Revised Statutes. By state law, the management of the public employees' retirement fund is vested in the Board of Trustees of the Public Employees' Retirement Association of Colorado.

STATUTORY FIDUCIARY RESPONSIBILITY

The trustees of the Board shall be held to the standard of conduct of a fiduciary in discharging their responsibilities. C.R.S. § 24-51-207(2) states:

As fiduciaries, such trustees shall carry out their functions solely in the interest of the members and benefit recipients and for the exclusive purpose of providing benefits and defraying reasonable expenses incurred in performing such duties as required by law. The trustees shall act in accordance with the provisions of this article and with the care, skill, prudence, and diligence in light of the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims by diversifying the investments of the association so as to minimize the risk of large losses, unless in light of such circumstances it is clearly prudent not to do so.

OTHER FIDUCIARY RESPONSIBILITY

Although the Public Employees' Retirement Association of Colorado is not subject to ERISA (Employee Retirement Income Security Act of 1974), it is attempting to comply with the position taken by the U.S. Department of Labor in February 1988, in a letter addressed to Avon Products Inc. Employees' Retirement Plan. In the letter, the Department of Labor has stated that under Title I of the Employee

Retirement Income Security Act of 1974 the right to vote shares of stock owned by a pension plan is, in itself, an asset of the plan, and therefore the fiduciary's responsibility to manage the assets includes proxy voting. Fiduciaries are required to develop and maintain a written proxy policy, vote in accordance with the written policy, and maintain accurate records of the proxy voting activities.

ROLES AND RESPONSIBILITIES

Although not specifically required by statute, the *Governance Manual*, adopted November 2001, and subsequently updated and revised, identifies the roles and responsibilities of the various parties that oversee shareholder responsibility.

BOARD OF TRUSTEES

As fiduciaries, Trustees shall carry out their functions solely in the interest of PERA members and for the exclusive purpose of providing benefits and defraying reasonable expenses incurred in performing such duties. The Trustees shall act with the care, skill, prudence, and diligence in light of the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use.

The Board of Trustees, as defined in the *Governance Manual*, will:

- » Approve any corporate governance or shareholder rights initiatives or policies with respect to any corporation or entity of which PERA is a shareholder as recommended by the Investment Committee

Additional monitoring and reporting requirements are specified in the *Governance Manual*.

INVESTMENT COMMITTEE

The Investment Committee is responsible for assisting the Board in overseeing the PERA Investment Program. Specific responsibilities, as defined in the *Governance Manual*, include:

- » Recommend any corporate governance and proxy voting policies to the Board for approval
- » Recommend a securities litigation policy to the Board for approval

- » Recommend to the Board any corporate governance or shareholder initiatives or policies with respect to any corporation or entity of which PERA is a shareholder
- » Interact with the Executive Director, General Counsel, and the Chief Investment Officer or their designees on shareholder responsibility matters
- » Monitor compliance with any PERA corporate governance and proxy voting policies
- » Review current policies and practices in the areas of corporate governance, shareholder responsibility, and securities litigation at least every five years
- » Review reports on proxy votes cast annually

Additional monitoring and reporting requirements are specified in the *Governance Manual*.

STAFF

The overriding role of the staff is to assist the Board of Trustees in managing the PERA Investments Program. In this regard, as defined in the *Governance Manual*, staff is expected to:

- » Recommend to the Investment Committee any shareholder initiatives or policies for consideration
- » Execute and vote all proxies according to the *PERA Proxy Voting Policy*

Additional monitoring and reporting requirements are specified in the *Governance Manual*.

VOTING GUIDELINES— OVERVIEW OF CASTING PROXY VOTES

This policy has been developed by PERA staff with input from the Investment Committee. When developing the policy, staff reviewed governance policies that promote performance, accountability, transparency, and sound corporate governance. Key provisions of sound corporate governance policies that align with PERA’s fiduciary responsibility to ensure long-term stability of the fund for the benefit of our members have been incorporated into this policy. This policy is unique to PERA and is referred to when reviewing proxies

for voting. All domestic and non-U.S. proxies are voted in-house by PERA staff using a secure proxy voting platform.

Each annual, special, or contested meeting held by a company is unique in its own right. Proposals put before shareholders for consideration are specific to each company based upon the dynamics of that company. While companies may put a proposal on their ballot (such as “advisory vote on executive compensation”), and shareholders may put a proposal on the ballot at various companies (such as “declassify the board”), each proposal must be evaluated based upon the attributes of the company to which the proposal applies. There can be no one-size-fits-all approach to proxy voting.

Unless otherwise stated in this policy:

PERA will review proposals on a case-by-case basis when it has been determined that a meeting may be of heightened importance due to any of the following: poor performance; lack of effective oversight; poor corporate governance practices by management; and other events that may be found to be detrimental to the interests of shareholders. When a proposal is not specifically addressed in the *PERA Proxy Voting Policy* PERA will generally vote on case-by-case basis and utilize analysis from proxy advisers, staff, industry peers, company or dissident proxy materials, and other resources.

BOARD OF DIRECTORS

DESCRIPTION: The primary purpose of the board of directors is to represent shareholders, protect their interests, and maximize shareholder value. As such, the board is the focal point of corporate governance at a company. It is widely held by corporate governance experts that non-classified boards composed of a majority of independent directors with separate CEO and Chairman positions contain the greatest diversity for oversight and ensuring fair representation of shareholder interests. PERA believes that corporate transparency is increased by boards of directors that meet our policy standards, and that transparency is important in our ability to make informed investment decisions.

PERA believes that a board of directors should be composed of a majority of independent directors. PERA defines an independent director as someone who does not have any kind of significant affiliation with the company other than the directorship. Further, a director will not be considered independent if during the past five years the director is, had, or has been:

- » Employed by the corporation or employed as a director of an affiliate.
- » An employee, director, or greater-than-20-percent owner of a firm that is one of the corporation's, or its affiliates, paid advisers or consultants.
- » A five percent or greater ownership interest in a third-party that provides payments to or receives payments from the corporation.
- » Paid more than \$50,000 under a personal contract with the corporation, an executive officer, or any affiliate of the corporation.
- » An employee or director of a foundation, university or other non-profit organization that receives significant grants or endowments from the corporation.
- » Part of an interlocking directorate in which the CEO or other employee of the corporation serves on the board of a third-party entity.
- » Has a relative who is or has been an employee, a director, or a five percent or greater owner of a third-party entity that is a significant competitor of the corporation.

The preceding also applies when any family member of a director falls under these criteria. A family member is defined as: any spouse, parents, children, step-children, siblings, mothers- and fathers-in-law, sons- and daughters-in-law, brothers- and sisters-in-law, aunts, uncles, nieces, nephews, first cousins of the director, and anyone sharing the home of the director.

1. VOTING ON DIRECTOR NOMINEES IN UNCONTESTED ELECTIONS

With the additional focus placed on the performance of boards, PERA believes more scrutiny should be given to voting for individual directors, board committees and in some cases the entire board.

PERA will vote **Against** or **Withhold** votes from director nominees that:

- » Have attended less than 75 percent of board meetings and committee meetings.
- » Sit on an excessive number of boards which may prohibit effective participation on the board in question. The number of boards considered to be excessive will be dependent on the sector and other factors related to the company at issue.
- » Are affiliated with boards of failed companies, or companies under current federal, state, regulatory, or congressional investigation or review.
- » Served on boards whose governance record is indicative of a board that does not support policies expressed by PERA's *Proxy Voting Policy*.
- » Are also the CEO or Chief Financial Officer (CFO) of a company where a serious restatement has occurred after the CEO or CFO certified the pre-restatement financial statements.
- » Have sat on a board for the past three consecutive years and the company has been in the bottom quartile for performance in their industry for the past three consecutive years.

PERA will vote **Against** or **Withhold** votes from directors individually, committee members, or the entire board (except new nominees) due to:

- » Governance failures (i.e., material failures of governance, stewardship, risk oversight, fiduciary responsibilities).
- » Poor responsiveness (e.g., failure to act during the following year on majority-supported shareholder proposals, failure to act on takeover offers) including failure to engage shareholders or address concerns from the prior year for issues that received significant shareholder dissent.
- » Problematic takeover defenses (e.g. classified boards where there have been persistent governance issues, poor performance relative to peers coupled with poor accountability, adoption of poison pills not supported by shareholders).

- » Unilateral bylaw or charter amendments that have the effect of materially diminishing shareholder rights.

PERA places paramount importance on corporate audit integrity. Accordingly, PERA believes the audit committee should take proactive steps to promote auditor independence and audit quality.

- » PERA will vote **Against** or **Withhold** votes from the chair of the audit committee if the non-audit fees paid to the auditor exceed a quarter of all fees paid to the auditor. However, if the company provides explicit disclosure that the auditor is not receiving non-audit fees in excess of \$50,000 per year, then the chair of the audit committee will not receive an adverse vote (de minimis exception).
- » PERA will also vote **Against** or **Withhold** votes from the chair of the Audit Committee if poor accounting practices are identified that rise to a serious level of concern, such as: fraud; misapplication of Generally Accepted Accounting Principles (GAAP); and material weaknesses identified in Section 404 disclosures.

PERA believes the compensation committee should fully exercise its authority to provide oversight of executive pay programs and the compensation policy for the company as a whole. The committee should comprise of independent members with the appropriate skills, knowledge, experience, and a sound process for compensation decision-making. The committee should focus on compensation practices that maintain appropriate pay-for-performance alignment, with an emphasis on long-term shareholder value; avoid arrangements that reward executives for failure; provide clear, timely disclosure that allows shareholders to evaluate pay practices; and avoid pay to non-executive directors that may compromise the independence of the board and its ability to serve the interests of shareholders.

- » In the absence of an Advisory Vote on an executive compensation ballot item or in egregious situations, PERA will vote **Against** or **Withhold** votes from the members of the compensation committee and potentially the full board if: there are problematic compensation practices, pay for performance misalignment or the board fails to address

any issues in situations where previous compensation proposals received significant shareholder dissent.

PERA believes the nominating committee serves an important role and the existence of such committee is advocated as best practice by many business groups. The committee is expected to demonstrate accountability to shareholders by promoting proper competency, board diversity, appropriate director tenure, and consistent oversight on board refreshment. The nominating committee should focus on the skillset and subject matter expertise; independence; diversity of viewpoints, and succession plan for each individual director and the board as a whole.

BOARD DIVERSITY: PERA believes a diverse board has benefits that can enhance corporate financial performance, particularly in today's global market place. Nominating committee charters, or equivalent, ought to reflect that boards should be diverse, including such considerations as background, experience, age, race, gender, ethnicity, and culture. PERA will consider supporting proxies with goals and strategies that can help attain board diversity. PERA believes that boards of directors should be selected based on the best quality leadership available; this overarching goal should not be impeded through diversity quota measures.

BOARD TENURE: The nominating committee should evaluate director tenure as part of the analysis of a director's independence and overall performance. PERA believes the average tenure of the entire board should generally be capped at 12 years, especially in those instances where the company exhibits:

- » Poor corporate financial performance
- » Excessive risk taking
- » Failure to adopt best corporate governance practices such as; majority vote, proxy access, declassified boards, and strong independent board leadership
- » Failure to adopt majority supported shareholder proposals

BOARD REFRESHMENT: The board should have a mechanism to evaluate and refresh itself to ensure the relevance of the skills, experience, and attributes of each director to the work of the board.

- » In cases where the board does not reflect a commitment to these nominating practices, specifically when the board lacks competency, diversity, or has a board-level tenure that suggests entrenchment, PERA will vote **Against** or **Withhold** votes from the chair of the nominating committee.
- » PERA will also vote **Against** or **Withhold** votes from the chair of the nominating committee when the board and/or key committees do not meet independent standards as defined in PERA's *Proxy Voting Policy*.

This list is not all inclusive. PERA will consider all material facts when determining if an **Against** or **Withhold** vote should be cast for a director nominee.

2. SEPARATE POSITIONS FOR CHIEF EXECUTIVE OFFICER AND CHAIRMAN

PERA believes a board that has separate positions for CEO and Chairman promotes greater management accountability, helps create a board atmosphere of independent leadership, and allows for an unbiased evaluation of the performance of the CEO by the board. PERA will vote **For** proposals that seek the separation of CEO and Chairman positions and **Against** proposals that seek to prevent such separation or impair the independence of the CEO and Chairman positions.

3. ESTABLISH AUDIT, COMPENSATION, NOMINATING AND GOVERNANCE COMMITTEES

PERA believes good corporate governance requires companies to establish nominating, compensation, audit and governance committees. PERA will vote **For** proposals that seek to establish any or all of these committees.

4. COMMITTEE COMPOSITION

PERA believes the board of directors should be composed of a majority of independent directors. Key committees including the audit, compensation, governance, and nominating committees should be comprised of only

independent directors. PERA will vote **Against** proposals that do not provide for key committees to be composed of independent directors.

5. MAJORITY VOTING FOR THE ELECTION OF DIRECTORS

PERA believes all directors should be elected by a majority vote of shareowners. As such, PERA will generally vote **For** all proposals that require a majority vote for the election of directors. However, PERA will vote **Against** if no carve-out for a plurality vote standard in contested elections is included in such proposals.

6. DECLASSIFIED BOARDS

Corporate governance experts believe boards that are not classified are more effective than classified boards as they do not lead to entrenchment of management, do not insulate directors from being accountable to shareholders, and they allow for greater ease to change control of a company through a proxy contest. Although many U.S. companies have classified boards, recent trends have shown more and more proposals have been submitted and received substantial votes to repeal classified boards. In addition to shareholder proposals calling for the repeal of classified boards, some companies have voluntarily submitted proposals to repeal their classified boards. PERA believes declassified boards provide a valuable avenue toward director responsibility and accountability to shareholders and will vote **For** proposals to repeal classified boards.¹

AUDITOR

1. AUDIT COMMITTEE'S RESPONSIBILITIES

PERA believes the audit committee should fully exercise its authority to hire, compensate, oversee and, if necessary, terminate the company's independent auditor. In doing so, the committee should take proactive steps to promote auditor independence and audit quality. Even in the absence of egregious reasons, the committee should consider the

¹ It is acknowledged that PERA has a classified Board and voting for the repeal of classified boards may appear to be a double standard. However, PERA's Board structure is mandated by state statute, not corporate bylaws, and subject to change only through state legislation. Further, PERA Board members are selected by an open election and placed on the election ballot by petition rather than a ratification vote of a predetermined slate.

appropriateness of periodically changing the auditor, bearing in mind factors that include, but are not limited to:

- » The auditor's tenure as independent auditor of the company.
- » The presence of former audit partners, managers, or senior officers in financial reporting or executive positions at the company, or former financial executives of the company in lead offices performing audit work on the company.
- » Directors' relationships with the auditor, including through directors' employer and service on other audit committees.
- » The proportion of total fees attributable to non-audit services, and a determination of why these services could not have been provided by another party to safeguard the auditor's independence.
- » The completeness, timeliness, and clarity of the annual letter to the audit committee discussing the independence of the auditor.
- » The significance of the audit and total fees to the lead office and engagement partner performing the independent audit.
- » The quality and frequency of communication from the auditor to the audit committee.
- » The experience, expertise, and professional skepticism of the audit partner, manager, and senior personnel assigned to the audit, and the extent of their involvement in performing the audit.
- » The incidence and circumstances surrounding a financial restatement, whether at the company or at another company, audited by the same firm.
- » The incidence and circumstances surrounding the reporting of a material weakness in internal controls by the auditor.
- » The clarity, utility, and insights provided in the auditor's report and the auditor's letter to management in relation to the audit.
- » The level of transparency and robustness of the audit firm with the audit committee and investors, including with respect to audit quality indicators, governance practices and underlying principles, and the financial stability of the audit firm.
- » Inspection results and fines levied by the Public Company Accounting Oversight Board or other regulators.
- » The track record of the lead partners and the extent of their professional commitments, as provided upon request or observable through disclosure or signature of the lead partner on the auditor's report.
- » Reasons cited by other companies for discontinuing their engagement of the same audit partner and/or auditor.
- » The results of annual auditor performance reviews by audit committee members.
- » The availability of a replacement for the existing auditor with the requisite experience and staffing required by professional standards to perform a quality audit.
- » The auditor's position on whether it requires the inclusion of an arbitration clause that would place limitations on investors' ability to recover damages they have incurred.

Investors are the "customers" and end users of financial statements and disclosures in the public capital markets. Both the audit committee and the auditor should recognize this principle.

The audit committee report should provide meaningful information to investors about how the committee carries out its responsibilities. The report should include an explanation of how the committee carries out its auditor compensation responsibilities in consideration of audit quality objectives. The report should include a fact specific explanation for not changing the company's auditor if the committee chooses to renew the engagement of an auditor with more than 10 consecutive years of service, or if the auditor is retained despite knowledge of substantive deficiencies identified during the committee's review of the considerations described above.

2. RATIFICATION OF AUDITORS

The auditor's role is crucial in ensuring the integrity and transparency of the information necessary for protecting shareholder value. However, companies are not legally required to allow shareowners to ratify the selection of auditors. PERA believes shareowners should have the right to vote annually to ratify the auditors. A minimum set of standards should be applied to the ratification of auditors

which includes but is not limited to:

- » An audit committee should be established if there is none.
- » The auditing team should be rotated every five years.
- » The audit committee should publicly disclose the reasons for the audit team or partner change, if the change occurred prior to the end of the five-year rotation period.
- » The audit committee should disclose the tenure of the auditor.
- » The contract between the company and audit firm should not allow for alternative dispute resolution.
- » Appropriate disclosure should be made regarding fees. Fees paid for non-audit services, such as tax fees, should be reasonable when compared as a percentage to all fees paid. Generally, when non-audit fees represent more than a quarter of all fees paid to the auditor, PERA will consider the fees excessive unless adequate explanation is provided, such as the fees being related to a major transaction. However, if the company provides explicit disclosure that the auditor is not receiving non-audit fees in excess of \$50,000 per year, then PERA will support the ratification of the auditor (de minimis exception).
- » CEOs and CFOs must sign a statement certifying and verifying that the company's financial statements and disclosures are accurate and complete and based on the companies' actual accounting records.
- » Accounting methods used should comply with all federal and state statutes and regulatory bodies as well as accounting standards and generally accepted accounting practices.
- » The audit committee should publicly disclose inspection results and fines levied by the Public Company Accounting Oversight Board or other regulators.
- » The audit committee should publicly disclose if a restatement is announced and the company received a qualified report on internal controls, unless there is transparent disclosure that clearly articulated that the material weakness in internal controls

occurred subsequent to the unqualified report on controls issued by the auditor.

- » The audit committee should disclose if the auditor has violated auditor independence rules.

While PERA believes a vote should be cast against such auditor proposals when companies do not comply with these standards, it can be difficult to determine if certain standards are met due to a lack of available information.

PERA will vote **Against** the ratification of the auditor if any of the above standards are not met, if the auditor's independence or audit integrity has been compromised, or when financial statements previously submitted are found to be inaccurate and have to be restated.

CORPORATE GOVERNANCE

1. ANTITAKEOVER DEFENSES AND VOTING RELATED ISSUES

DESCRIPTION: Various methods of antitakeover defenses have been adopted by companies to prevent hostile takeovers. Additionally, state governments have adopted statutes to support companies in antitakeover defenses in an attempt to be more attractive as a location for incorporation. The result has been a lessening of shareholders' abilities to affect change in companies when there is a belief that management may not be protecting and promoting the best interests of the shareholders in a hostile takeover situation. Proposals will be voted as outlined in the Voting Guidelines.

A. POISON PILLS

PERA is not in favor of poison pills and will vote **For** proposals that call for companies to submit poison pills to shareholder votes, or proposals calling for companies to rescind or redeem poison pills. PERA will vote **Against** management proposals to create poison pills even when they are submitted to a vote.

B. NET OPERATING LOSS PILLS

PERA does not support proposals to adopt a poison pill for the stated purpose of protecting a company's net operating losses (NOL) and will vote **Against** if the term of the pill could be deemed excessive. While PERA acknowledges the tax value of NOLs,

which benefit shareholders, the ownership acquisition limitations contained in an NOL pill coupled with a company's problematic governance structure could serve as an antitakeover device.

2. CHARTER/BYLAWS & OTHER GOVERNANCE ISSUES

C. SHAREHOLDER ACCESS TO THE PROXY

Proxy access, if structured properly, is an important shareholder right. A well-crafted proxy access right can provide shareholders with a means of affecting change without incurring the expense of launching a proxy contest. Following the striking down of a 2010 Securities and Exchange Commission (SEC) ruling, shareholder proponents have become more active in this area under SEC Rule 14a-8, which will require companies to include in their proxy materials shareholder proposals for the inclusion of one or more shareholder director nominees in the company's proxy materials. The SEC rule would have required an investor or group of investors to meet an ownership threshold of at least 3 percent of the company's shares continuously for at least the prior three years in order to nominate directors (up to 25 percent of the company's board) at public companies.

While PERA supports access to the proxy, PERA does not believe it is necessarily in the best interest of shareowners and companies to allow access on a "by company" basis. Access to the proxy should be an all-inclusive rule promulgated by the SEC providing, but not limited to, the same standards of ownership and longevity of ownership. Allowing access under Rule 14a-8 has the potential to create access proposals that differ from company to company that may not be in the best interests of shareowners. PERA will review all access proposals on a case-by-case basis taking into account the proposed ownership threshold, ownership duration, aggregation provision, and cap on shareholder nominees.

PERA will vote *Against* proxy access proposals—including those introduced by management—that are more restrictive than the SEC's original proposed rule. PERA will review for reasonableness any other restrictions on the right of proxy access.

D. EXCLUSIVE FORUM PROVISIONS

In March 2010, the Delaware Court of Chancery issued an opinion allowing for any Delaware corporation to establish the Delaware Court of Chancery as the exclusive forum for "intra-entity" disputes, which include claims asserting director's and officer's breaches of fiduciary duty, claims seeking to overturn director's business judgments on mergers, and other matters.

PERA believes that clauses establishing one court as the sole venue for shareowner claims could potentially limit shareowners' ability to succeed in the pursuit of compensation for meritorious claims. While a single forum may bring greater predictability to the process, it is logical to expect that given a choice, management would choose a forum where rulings are consistently advantageous to management. Most companies that have adopted an exclusive forum provision did so without seeking shareowner approval. PERA will vote *Against* any proposal requesting exclusive forum for intra-entity disputes.

E. FEE-SHIFTING BYLAW PROVISIONS

Fee-shifting bylaw provisions require shareholders who sue a company unsuccessfully to pay all litigation expenses of the defendant corporation. PERA will vote *Against* such proposals while taking into account factors such as rationale, overall disclosure, breadth of application, and general governance features.

F. REINCORPORATION

DESCRIPTION: Proposals to change the state of incorporation or charters and bylaws of a company are common and normally without controversy. Recent trends have shown a tendency by some companies to reincorporate as an attempt to circumvent tax laws or amend charters/bylaws in a manner that could diminish shareholder value. PERA believes good corporate governance requires careful evaluation of proposals to ensure the protection of shareholder's value and rights when addressing these proposals.

Proposals dealing with state of incorporation and charters/bylaws not addressed by this policy will be voted as outlined in the Voting Guidelines.

» **Offshore Reincorporation Proposals**

PERA will vote **Against** all off shore reincorporation proposals if it is shown the reincorporation is an attempt to dilute shareholder rights.

» **State Of Incorporation**

PERA will vote **For** proposals to change the state of incorporation whenever the change supports shareholder interests and will vote **Against** a change if it results in limiting rights of shareholders.

G. SUPERMAJORITY VOTE REQUIREMENT FOR AMENDING CHARTER/BYLAWS

Good corporate governance practices require only a simple majority of voting shares to pass proposals effecting corporate governance provisions. Requiring a supermajority of voting shares could permit management to become entrenched and allow amendments that are in the interest of shareholders to fail on the ballot. PERA will vote **Against** proposals that provide for a supermajority vote. However, PERA will consider such proposals on a case-by-case basis when the companies have shareholder(s) with significant ownership levels. PERA will consider factors such as ownership structure, quorum requirements, and vote requirements.

H. RIGHT TO CALL A SPECIAL MEETING

PERA will vote **Against** proposals that restrict or prohibit shareholders' ability to call special meetings. PERA will consider factors such as consent threshold, shareholders' current right to act by written consent, investor ownership structure, previous proposal outcomes, and the inclusion of exclusionary or prohibitive language when voting on such proposals.

I. ACT BY WRITTEN CONSENT

PERA will vote **Against** proposals that restrict or prohibit shareholders' ability to act by written consent. PERA will consider factors such as consent threshold, shareholders' current right to act by written consent,

investor ownership structure, previous proposal outcomes, and the inclusion of exclusionary or prohibitive language when voting on such proposals.

3. OTHER PROXY ISSUES REGARDING CORPORATE GOVERNANCE

DESCRIPTION: Many issues dealing with corporate governance have not been addressed in this policy. PERA believes good corporate governance practices are essential to maximize and protect shareholder value and interests. Corporate governance issues that have not been addressed within the *Proxy Voting Policy* will be voted as outlined in the Voting Guidelines.

CAPITAL STRUCTURE

DESCRIPTION: Overseeing the capital structure of a company calls for the practice of sound corporate governance. While some aspects of capital structure should be handled by the board and/or senior management, other issues such as common stock authorization, dividend policy, taxes, types of assets, and growth opportunity can have an impact on shareholder value and should be put to a vote by shareholders. Proposals dealing with capital structure issues will be voted as outlined in the Voting Guidelines.

1. STOCK AUTHORIZATIONS

Stock authorizations include a wide variety of issues. Proposals dealing with stock authorizations will be voted as outlined in the Voting Guidelines.

2. PREEMPTIVE RIGHTS

PERA will vote **For** shareholder proposals that provide shareholders preemptive rights, but will vote **Against** new issues of stock representing 5 percent or less of existing capital.

3. UNEQUAL VOTING RIGHTS

PERA will vote **Against** all proposals to institute new classes of common or preferred stock with unequal voting rights. If voting rights are equal, PERA will not oppose the proposal unless it is used as an anti-takeover device, which would reduce the value of the outstanding stock.

4. BLANK CHECK PREFERRED STOCK

The terms of blank check preferred stock give the board the power to issue shares of preferred stock at its discretion, with voting rights, conversion, distribution, and other rights to be determined by the board at time of issue. PERA will vote *Against* such issuance if its use is intended to be for anti-takeover purposes. Otherwise, proposals dealing with stock authorizations will be voted as outlined in the Voting Guidelines.

COMPENSATION

1. EXECUTIVE COMPENSATION

DESCRIPTION: PERA believes that determining executive compensation is one of the most important, and difficult, functions facing companies. With the spotlight on the 2008 market meltdown and the perceived excess of corporate executives, it is imperative that critical attention be given when analyzing the many facets of executive compensation. Because each company is unique, PERA believes that compensation committees, when composed of independent directors, should be capable of making sound decisions concerning compensation. They should be allowed to utilize all available tools—such as stock plans or bonus incentives—to attract and maintain individuals who possess the vision and leadership necessary to promote corporate growth and profits, and protect shareholder rights and value. While compensation committees should have the flexibility to determine executive compensation, it is also imperative that executives not be given preference over shareholders when non-cash awards are being considered as a means of compensation, and shareholders should approve all non-cash awards.

PERA strongly believes that compensation packages should be performance-based and allow for an annual advisory shareholder vote. However, because of the complexity of compensation packages it is difficult, if not impossible, to subscribe to a one-size-fits-all method when analyzing compensation packages. PERA does believe the following factors should be taken into consideration when evaluating a compensation package:

- » Performance-based salary and incentives that take into account long term goals and strategies.
- » Stock option awards, including provisions for holding options past retirement.
- » Clawback provisions.
- » Incentive bonus plans.
- » Long-term incentive plans.
- » Minimum stock ownership and holding requirements.
- » Stock ownership requirements.
- » Golden parachutes.

Proposals dealing with executive compensation will be voted as outlined in the Voting Guidelines.

2. OTHER COMPENSATION PLANS

DESCRIPTION: PERA believes that nonemployee directors and employees should be rewarded for their efforts when those efforts promote corporate growth and profits. There are many different plans that can be used for rewarding such efforts. As with executive compensation, PERA believes that an independent board should be capable of making sound decisions concerning other compensation plans. Other compensation plans should focus on the following attributes:

- » Attract highly qualified candidates and employees
- » Retain highly qualified candidates and employees
- » Align directors' interests with the interests of long-term shareholders
- » Provide complete plan disclosure to shareholders

J. NON-EMPLOYEE DIRECTOR RETIREMENT PLANS

Nonemployee director retirement plans can create conflicts of interest because of their high value and flexible terms that could lead to a lifetime benefit for not only the director, but also a director's surviving spouse (golden coffins). Additionally, director retirement plans are often times redundant because many nonemployee directors receive pension benefits from their primary or previous employer. Faced with the increase of scrutiny by shareholders in the arena of director compensation, many companies

are seeking shareholder approval to eliminate director retirement plans. PERA favors proposals that eliminate nonemployee director retirement plans and will vote *For* proposals that eliminate nonemployee director retirement plans.

K. EMPLOYEE STOCK PURCHASE PLANS

Due to the uniqueness and needs of each company, proposals will be voted as outlined in the Voting Guidelines.

L. EMPLOYEE STOCK OWNERSHIP PLANS

Employee stock ownership plans (ESOP) have become a popular method in which a company rewards employees for their commitment and hard work to ensure the success of the company. PERA will vote *For* proposals to implement an ESOP or increase authorized shares for an existing ESOP provided the number of allocated shares are not excessive (more than 5 percent of outstanding shares).

Proposals dealing with other compensation plans not addressed by this policy will be voted as outlined in the Voting Guidelines.

3. COMPENSATION PROPOSALS

DESCRIPTION: Compensation proposals include a broad spectrum of issues that deal with subjects ranging from equity holding requirements to tax gross-up proposals. Executive compensation related shareholder proposals have been some of the most frequently filed types of resolutions over the past decade and a half. With the advent of Management say-on-pay vote under the Dodd-Frank Act, shareholder compensation proposals have increasingly been focused on the new elements of executive pay.

M. LIMIT ACCELERATED VESTING OF UNVESTED EQUITY (PRO-RATA VESTING)

Shareholder proponents of proposals regarding accelerated vesting of unvested equity believe that change-in-control payouts without loss of job or substantial diminution of job duties are considered a poor pay practice. PERA supports such proposals that seek to implement a policy that prohibits acceleration of the vesting of equity awards to senior executives in the event of a change in control (except for pro rata vesting considering the time elapsed and attainment of any related performance goals between the award date and the change in control).

PERA will review on a case-by-case basis such proposals and consider factors such as (1) the company's current treatment of equity in change-of-control situations; and (2) current employment agreements, including potential poor pay practices such as gross-ups embedded in those agreements.

N. RECOUPMENT OF INCENTIVE OR STOCK COMPENSATION IN SPECIFIED CIRCUMSTANCES

A number of companies have adopted policies that permit or even require recoupment in cases where fraud, misconduct, or negligence significantly contributed to a restatement of financial results that led to the awarding of unearned incentive compensation. Best practice provides for the board to consider recoupment in such cases even when there is no indication of outright fraud or misconduct. New concerns about "risk motivating" incentives have put focus on the potential of robust claw-back policies to mitigate that effect. Incentive-based compensation should be subject to recovery for a period of time of at least three years following discovery of the fraud or cause forming the basis for the recovery. The mechanisms and policies should be publicly disclosed.

PERA generally supports such recoupment proposals and will vote on such proposals on a case-by-case basis while considering factors such as (1) if the company has adopted a formal recoupment policy; (2) the rigor of the recoupment policy focusing on how and under what circumstances the company may recoup incentive or stock compensation; (3) whether the company has a chronic restatement history or material financial problems; (4) whether the company's policy substantially addresses the concerns raised by the proponent; (5) disclosure of recoupment of incentive or stock compensation from senior executives or lack thereof; and (6) any other relevant factors.

O. HOLDING PERIOD

Holding period proposals require executive officers to retain all or a significant portion of the shares acquired through compensation plans, either (1) while employed and/or for two years following the termination of their employment; or (2) for a substantial period following the lapse of all other vesting requirements for the award (lock-up period), with ratable release of a portion of the shares annually during the lock-up period.

PERA favors stock ownership on the part of directors and believes executive stock ownership is essential for aligning management's interests with those of shareholders. However, PERA will consider factors including, but not limited to (1) the company's holding period, retention ratio or officer ownership requirements; (2) actual officer stock ownership and the degree to which it meets or exceeds the proponent's suggested holding period/retention ratio or the company's own stock ownership or retention requirements; (3) post-termination holding requirement policies or any policies aimed at mitigating risk taking by senior executives; and (4) problematic pay practices, current and past, which may promote a short-term versus a long-term focus.

P. HEDGING SHARES

Hedging is a strategy to offset or reduce the risk of price fluctuations for an asset or equity. Stock-based compensation or open market purchases of company stock should serve to align executives' or directors' interests with shareholders.

PERA will generally vote *For* proposals seeking a policy that prohibits executives and directors from hedging (by buying puts and selling calls or employing other risk-minimizing techniques) equity-based awards granted as long-term incentive compensation or other stock holdings in the company.

PROXY CONTESTS

DESCRIPTION: Proxy contests are the result of an unsatisfied or dissident shareholder, or group of shareholders, who believe current management has not done a viable job of protecting and increasing shareholder value and profits. Proxy contests can be directed towards directors and corporate policy and can include proposals such as cumulative voting and confidential voting. Proposals dealing with proxy contests will be voted as outlined in the Voting Guidelines.

MERGERS AND CORPORATE RESTRUCTURING

DESCRIPTION: Good financial health of companies is essential for maximizing shareholder value. In an effort to ensure financial success, companies will look to mergers, acquisitions, and the sale or purchase of assets. Each proposal is complex and composed of many factors that must be considered when reviewing proposals. Proposals dealing with mergers and corporate restructuring not addressed by this policy will be voted as outlined in the Voting Guidelines.

1. MERGERS AND ACQUISITIONS

PERA realizes that each proposal for a merger and/or acquisition is unique, and many factors must be considered in each merger and/or acquisition. Proposals dealing with mergers and acquisitions will be voted as outlined in the Voting Guidelines.

2. SALE OR PURCHASE OF COMPANY ASSETS

PERA will vote all proposals regarding the sale or purchase of company assets—as outlined in the Voting Guidelines.

OPERATIONAL ITEMS

DESCRIPTION: Operational items are generally noncontroversial and are proposed by both management and shareholders. Most operational items address issues and procedural matters relating to the annual meeting process. However, there are some items that are outside the realm of the annual meeting process that are considered operational items. Many proposals do not require shareholder approval pursuant to the charter or bylaws of the company, but will be submitted to shareholders for ratification as a practice of good corporate governance. While most operational items are usually considered routine, PERA believes that it has a fiduciary responsibility to vote proposals dealing with any operational item. Proposals dealing with operational items not addressed in this policy will be voted as outlined in the Voting Guidelines.

1. ADJOURN MEETINGS

PERA generally opposes attempts to adjourn meetings by proxy vote. Adjournments are normally called for by management when insufficient votes

have been received for passage of a proposal item. PERA believes this tactic does not allow for the voice of shareholders to be heard. PERA will vote **Against** adjournment proposals.

2. TRANACT OTHER BUSINESS

PERA opposes attempts by management to bring new proposals for a vote at meetings because of the uncertainty of items to be submitted. Unless a shareholder attends the meeting, there is no method by which a shareholder can ask questions or voice opposition to a proposal presented at the meeting. As such, PERA will vote **Against** proposals that seek approval to transact other business during a meeting.

3. CHANGE OF COMPANY NAME

Corporate name changes that are distinctive, or more functional than the original name, usually tend to have a positive effect on stock prices.

As such, PERA will vote **For** proposals to change the corporate name.

SHAREHOLDER PROPOSALS

1. CORPORATE GOVERNANCE PROPOSALS

DESCRIPTION: Governance proposals include a broad spectrum of issues that deal with matters ranging from advisory votes on executive pay to the multiple aspects of director nominations and elections. Shareholder proposals can be an effective way to affect change at companies where a board has been unresponsive to the concerns of shareholders. All proposals will be voted as outlined in the Voting Guidelines.

2. SOCIAL/ENVIRONMENTAL PROPOSALS

DESCRIPTION: Environmental and social factors not only can have an impact on the reputation of companies; they may also represent significant operational risks and costs to business. Environmental, Social, and Government (ESG) issues may significantly affect the financial performance and value of a company over the long term.

A. ENVIRONMENTAL/SUSTAINABILITY

PERA believes it is important for companies to consider ESG issues to ensure they are financially sustainable companies over the long term and have considered and addressed all risks that could affect the success of the business.

PERA will generally support proposals seeking greater disclosure of a company's environmental/sustainability risks and practices. PERA will vote proposals requesting reports on sustainability issues pursuant to the Voting Guidelines.

B. CLIMATE CHANGE/GREENHOUSE GAS EMISSIONS

Companies are already required by the Securities and Exchange Commission (SEC) to disclose material commitments for capital expenditures when operating in locales with greenhouse gas emission (GHG) standards. Companies may also be required to disclose risk factors regarding existing or pending legislation that relates to climate change and assess whether such regulation will likely have any material effect on the company's financial condition or results, such as emission reduction scenarios (including the two degree scenario).

PERA will generally support proposals seeking greater transparency and disclosure of climate change/GHG emission regulations and risks. PERA will generally vote proposals requesting reports on these issues pursuant to the Voting Guidelines.

C. HYDRAULIC FRACTURING

Hydraulic fracturing (fracking) is a method used to extract natural gas from rock formations which involves a mix of water, chemicals, and particles injected under high pressure into a bore hole to create openings in rock formations through which natural gas can flow. Fracking has become the subject of increasing attention by investors, environmentalists, regulators, and the media. Potential risks allegedly associated with fracking include environmental, health, regulatory, and reputational.

Shareholder proponents have argued that companies have not provided adequate disclosure, transparency, and sufficient information to address potential risks. Boards generally contend that there is no need for further disclosure and transparency of fracking operations citing the frequent use and long history of fracking operations, strict adherence to current laws and regulations, and proprietary business concerns.

PERA will review all fracking disclosure proposals on a case-by-case basis and vote pursuant to the Voting Guidelines.

D. POLITICAL EXPENDITURES AND LOBBYING ACTIVITIES

PERA believes that all political expenditures should be approved by the board of directors and disclosed to shareholders. There should also be sufficient board oversight of trade association spending and lobbying activities (including direct, indirect, and grassroots lobbying).

PERA will vote **For** reasonably-structured and properly-targeted proposals that require board approval and disclosure of all political expenditures, such as political contributions, trade association spending policies and activities as well as lobbying activities, policies, or procedures.

PERA will generally vote **Against** proposals that ask companies to:

- » Cease making political contributions.
- » Publish in newspapers and other media a company's political contributions.
- » Align political contributions made with company values and policies.

E. DIVERSITY

Shareholder proponents of proposals regarding a company's board diversity policy believe that the best indicator of a company's commitment to workplace diversity is reflected in the composition of its board. These advocates maintain that the board should mirror the diversity of the workforce and marketplace, thereby ensuring that a variety of viewpoints are heard and factored into corporate decision-making.

Board diversity policy disclosure was also the subject of a 2010 SEC Final Rule, which requires companies to discuss their board diversity process and disclose whether they have a diversity policy for nominating candidates to the board of directors. Although the SEC Final Rule affords companies the flexibility to define diversity, many have specifically included ethnicity and gender as criteria when considering board candidates.

PERA will review all board diversity proposals on a case-by-case basis and vote pursuant to the Voting Guidelines.

F. ALL OTHER SOCIAL PROPOSALS

PERA will only vote a social responsibility proposal if there is a clear, evident, and demonstrable economic impact to the company and shareholder.

DOMESTIC AND NON-U.S. PROXY VOTING

DESCRIPTION: Proxy voting for domestic and non-U.S. companies is handled by internal PERA staff. The Board of Trustees has determined that the best method for voting domestic and non-U.S. proxies is to have internal PERA staff vote all proxies.

Shares of stock with associated voting rights, which are purchased by PERA's internal investment staff, and shares of stock with associated voting rights which are purchased by external equity managers for PERA, shall be voted internally by PERA staff subject to the following requirements and standards:

1. PERA staff shall vote all domestic and non-U.S. proxies pursuant to the written *Proxy Voting Policy* adopted by the PERA Board of Trustees.
2. PERA staff shall report monthly all domestic and non-U.S. proxy votes to the Shareholder Responsibility Committee.

In certain markets, proxy voting involves logistical issues which can affect PERA's ability to vote such proxies. These issues include but are not limited to: untimely notice of shareholder meetings, restrictions on a foreigner's ability to exercise votes, share blocking; requirements to vote proxies in person, and requirements to provide local agents with unrestricted powers of attorney to facilitate voting instructions. Share blocking refers to a rule prohibiting shareowners from trading or loaning shares that they intend to vote for some period of time leading up to, and sometimes following, the annual meeting date.

PERA staff shall evaluate non-U.S. proxies on a case-by-case basis and take into consideration differing laws and regulations, and other impediments to proxy voting when determining how to vote.

DOCUMENT HISTORY

PERA's Proxy Voting Policy was adopted in November 1979. It was amended on November 1980, 1984, 1985, 1987, 1990, 1993, March 1997, November 1997, November 2002, January 2003, September 2010, March 2012, March 2013, June 2013, March 2014, March 2016, November 2018, and January 2020.