

# Commonwealth of Pennsylvania Public School Employees' Retirement System

DATE: February 25, 2011

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

TO: Members of the Corporate Governance Committee

FROM: Lenann T. Engler  
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At the March 10, 2011 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.

For your reference I have attached black-lined versions of the following documents:

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

Significant revisions to the Glass Lewis U.S. Proxy Paper Policy Guidelines are as follows:

- In cases in which a director serves on a board as a representative of an investment firm with greater than 20% ownership (down from 25%), the director will generally be considered an affiliate, but Glass Lewis will not recommend voting against such director unless (i) the investment firm has disproportionate board representation or (ii) the director serves on the audit committee.
- Glass Lewis recommends voting against the ratification of auditors when audit fees and audit-related fees together total less than one-half (up from one-third) of total fees.

- Glass Lewis enhanced its policies regarding executive compensation and added a comprehensive section labeled “Advisory Vote on Executive Compensation (“Say-on-Pay”)”, specifically including an overview of the Glass Lewis approach to Frequency of Say-on-Pay. Glass Lewis believes companies should submit say-on-pay votes to shareholders every year and therefore will support annual votes on executive compensation absent a convincing reason.
- Glass Lewis is inclined to support rational, well-crafted shareholder proposals seeking disclosure and/or mitigation of environmental or social risks. In particularly blatant cases in which a company fails to alleviate environmental or social risks, Glass Lewis will recommend shareholders vote against directors.

Significant revisions to the Glass Lewis International Proxy Paper Policy Guidelines are identical to those detailed above for the Glass Lewis U.S. Proxy Paper Policy Guidelines with the exception of Frequency of Say-on-Pay votes. The Frequency of Say-on-Pay proposal is unique to the United States.

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