


**Commonwealth of Pennsylvania  
Public School Employees' Retirement System**

DATE: February 16, 2019  
SUBJECT: 2019 Proxy Season Preview  
TO: Members of the Corporate Governance Committee  
FROM: Lenann T. Engler   
Manager of Investment Processes

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At the March 7, 2019 Corporate Governance Committee meeting, Glass Lewis will provide a preview of the upcoming proxy season.

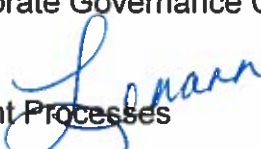
If you have any questions, please contact me at 717-720-4687.

**Commonwealth of Pennsylvania  
Public School Employees' Retirement System**

DATE: February 16, 2019

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

TO: Members of the Corporate Governance Committee

FROM: Lenann T. Engler  
Manager of Investment Processes 

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At the March 7, 2019 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.

Glass Lewis has provided PSERS with analysis of proxy voting issues, vote recommendations, and vote execution since January 2006. The most recent contract renewal was effective January 1, 2016, following a successful RFP bid.

PSERS believes that good corporate governance enhances long-term shareholder value. Proxy voting is one component of the corporate governance process, enabling shareholders such as PSERS to express their views on a variety of issues. Proxy voting decisions are considered in the context of a company's governance practices as a whole rather than assessing ballot items solely in isolation.

When voting proxies, PSERS reviews Glass Lewis' recommendations, conducts research, and, if necessary, consults with our investment managers to reach a voting decision. We support resolutions that empower boards of directors to act in the best interests of the company, including maximizing a company's shareholder value. We also support governance structures that assert management's accountability to its shareholders, and are uninfluenced by conflicts of interest.

There are specific voting issues that show how PSERS applies these principles of accountability. Those issues include: elections of directors, director performance and compensation, majority standard in director elections, staggered boards/annual election of directors, responsiveness of directors, conflicts of interest, cumulative voting, routine business matters, and ESG (environmental, social and governance) issues.

PSERS' proxy voting policy includes the Glass Lewis policy guidelines with overrides for certain shareholder initiatives including reincorporation proposals and MacBride

Principles. PSERS' Chief Investment Officer has the authority to interpret the proxy voting policies to meet PSERS' fiduciary responsibilities. On significant policy issues, the Chief Investment Officer and/or the Executive Director, in conjunction with the Chair of the Corporate Governance Committee and/or Chair of the Board, will evaluate and determine any proxy vote. Votes on such matters are then reported to the Corporate Governance Committee at its next regularly scheduled meeting.

For your reference attached are the following documents:

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

Revisions to the Glass Lewis U.S. Proxy Paper Policy Guidelines include:

- Effective for meetings held after January 1, 2019, Glass Lewis will generally recommend voting against the nominating committee chair of a board that has no female members. Glass Lewis may also recommend voting against other nominating committee members unless the company's board has provided sufficient reasoning for not having any female board members. This reasoning includes a timetable for addressing the board's lack of diversity and restrictions on board composition such as director nomination agreements with significant investors. (In a similar revision to its international guidelines, Glass Lewis will *consider* recommending voting against the chair of a nominating committee if the board fails to address material concerns regarding the diversity of directors.)
- Also for meetings held after January 1, 2019, Glass Lewis will review company policies for assurances that shareholders have the same rights and opportunities at a virtual-only meeting as they do at an in-person meeting. Glass Lewis will generally recommend voting against members of a board governance committee where the board is planning to hold a virtual-only meeting and does not provide such assurances.
- Glass Lewis believes that special meetings are preferable to action by written consent as the meetings give more protection for minority shareholders and better safeguard that management is able to respond to concerns raised by shareholders. If a company has adopted a special meeting right of 15% or below and has adopted acceptable proxy access provisions, Glass Lewis will generally recommend that shareholders vote against shareholder proposals asking companies to amend their bylaws to provide shareholders with the right to action by written consent.

- Glass Lewis has updated its discussion on director compensation plans to align more closely with its international guidelines. Non-employee directors should receive appropriate compensation for the time and effort spent serving on boards and committees. Director fees should be reasonable to keep and attract qualified candidates. Glass Lewis supports compensation plans that include nonperformance-based equity awards.

Noteworthy revisions to the Glass Lewis International Proxy Paper Policy Guidelines are as follows:

- When providing voting recommendations on executive pay proposals, Glass Lewis will consider excessive increases (e.g. over 10%) in fixed pay entitlements (such as salaries and pensions). Boards should be able to provide a compelling argument for such pay increases.

The following revisions apply to both the U.S. and International Proxy Paper Policy Guidelines:

- While typically supporting the election of independent directors, Glass Lewis may recommend voting against affiliated directors where boards are not sufficiently independent in keeping with market best practice standards.
- Glass Lewis supports routine director evaluation, including independent external reviews, and periodic board refreshment. Boards should evaluate the need for changes to composition based on a review of skills and experience as well as director evaluations as opposed to relying solely on age or tenure limits. Shareholders can address concerns relating to board composition through director elections. Glass Lewis may consider recommending voting against directors with lengthy tenure (e.g. over 12 years) when significant performance or governance concerns have been identified, yet exhibit no evidence of board refreshment.
- When making recommendations on the reappointment of an auditor, Glass Lewis will consider lengthy auditor tenure (e.g. over 10 years) along with ongoing litigation and significant controversies that may challenge the quality of the audit.
- While continuing to support simple majority voting requirements, Glass Lewis has clarified that they may recommend supporting supermajority voting requirements when specifically intended to protect minority shareholder rights in a controlled company.

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