



COMMONWEALTH OF PENNSYLVANIA PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

Date: March 4, 2024

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

To: Members of the Investment Committee

From: Lenann T. Engler, Senior Counsel

Background:

The shareholder rights arising out of PSERS' investments in companies are assets of the Fund, and as a fiduciary PSERS must exercise such rights for the exclusive benefit of PSERS' members and beneficiaries. 24 Pa. C. S. §8521(e). 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. In voting proxies, PSERS considers the factors affecting the value of the investment and votes in the manner that, in its view based on research and experience, will most likely protect and promote the long-term economic value of the Fund for PSERS' members and beneficiaries.

Since 2006, PSERS has engaged Glass Lewis & Co. ("Glass Lewis") as its independent proxy consultant to provide vote execution services, proxy research, analysis, and recommendations, and automation of certain aspects of PSERS' voting policy. The most recent contract renewal was effective January 1, 2021, following a successful RFP bid.

Intersection of PSERS Policies and Glass Lewis Policy Guidelines:

The PSERS U.S. and Non-U.S. Proxy Voting Policies (the "PSERS Policies"), which are modeled after standard guidelines recommended by Glass Lewis (the Glass Lewis Benchmark Policy Guidelines" or "GLBM Policy") with PSERS' specific policies as an overlay, provide PSERS and Glass Lewis guidance to analyze and consistently vote PSERS' US and Non-US proxies.

The directives outlined in PSERS Policies are largely consistent with the GLBM Policy as both are based on voting instructions that serve to advance the pecuniary interest of shareholders. Pecuniary Interest refers to a financial interest or advantage that a person has in a particular matter or decision. As noted above, PSERS Policies require PSERS to vote its proxies in a manner that best serves the economic interests of PSERS' members. Likewise, the purpose of Glass Lewis' proxy research and advice is to facilitate shareholder voting in favor of governance structures that will drive performance and create shareholder value. With only two exceptions detailed below (Reincorporation Proposals, and Northern Ireland Resolutions), the PSERS Policies and the GLBM Policy are comparable in the projected vote outcome. Note that the following exceptions arise due to a statutory requirement or fulfillment of a specific PSERS' objective unrelated to pecuniary interest.

Reincorporation Proposals: PSERS will generally vote FOR reincorporation proposals that are likely to increase shareholder value and/or promote and protect shareholder rights; otherwise, will generally vote against reincorporation proposals. PSERS will vote FOR all proposals to reincorporate in Pennsylvania, and AGAINST all proposals to reincorporate Pennsylvania companies outside of Pennsylvania.

The GLBM Policy in general advocates voting for proposals that are likely to increase shareholder value and protect shareholder rights. Normally, the board is in the best position to determine the appropriate jurisdiction of incorporation for the company. Glass Lewis reviews the relevant financial benefits, generally related to improved corporate tax treatment, as well as changes in corporate governance provisions, especially relating to shareholder rights. Where the financial benefits are di minimus and there is a decrease in shareholder value Glass Lewis will recommend a vote AGAINST reincorporation. Glass Lewis will only support shareholder proposals to change a company's place of incorporation in exceptional circumstances.

Northern Ireland Resolutions: PSERS will vote FOR resolutions pertaining to Northern Ireland that advocate adoption of the affirmative actions measures set forth in 24 Pa. C.S. §8527(b), including adopting or reporting on MacBride Principles. The MacBride Principles are a set of nine equal opportunity/affirmative action principles aimed at fighting religious discrimination in employment in Northern Ireland.

The GLBM Policy does not evaluate the MacBride Principles or Northern Ireland Resolutions as no shareholder proposals related to these concepts have been offered in many years.

While the GLBM Policy reflects the current, predominant views of Glass Lewis' institutional investor clients on corporate governance best practices, Glass Lewis also offers various thematic policy options for an efficient method to apply Glass Lewis' expertise to meet clients' particular proxy voting goals. For example, the Glass Lewis Corporate Governance Focused Policy Guidelines (the "GL-CGF Policy") is designed to ensure compliance with the fiduciary duty to solely act in the financial best interest of plan participants. The GL-CGF Policy accomplishes this through its emphasis on widely accepted corporate governance best practices that drive long-term economic shareholder value, without taking strong positions on other issues such as environmental and social considerations. The GL-CGF Policy will generally recommend in line with management on environmental and social issues.

Please see the chart attached as Exhibit A noting comparison of the specific voting guidelines adopted by the current PSERS' Policies with the GLBM Policy, and the GL-CGF Policy.

Recommendation 1:

Except for carveouts related to Reincorporation Proposals and Northern Ireland Resolutions, PSERS recommends that the Board adopt in full either the Glass Lewis Benchmark Policy Guidelines, or the Glass Lewis Corporate Governance Focused Policy Guidelines.

Implementation Automation:

The Board has delegated responsibility for implementation of the PSERS Policies to Investment Office Professionals. Implementation delegation is a necessity as nearly 35,000 ballot items are voted on in each calendar year, with the majority of votes cast during proxy season which generally progresses March to June.

Glass Lewis performs the underlying research, including in-depth and impartial research and financial and economic analysis with emphasis on shareholder value for each U.S. and global public security PSERS owns, and formulates clear definitive voting recommendations, customized when warranted, to enable PSERS to vote with certainty pursuant to the PSERS Policies. Glass Lewis currently performs straight through processing of votes for PSERS' non-U.S. public securities. In the case of U.S. public securities only, PSERS' staff thoroughly reviews the supplied research, analysis, ballots and recommendations and for each item on the ballot either votes for, against, or registers an abstention via the Glass Lewis proprietary voting platform. PSERS notifies Glass Lewis of its vote preferences via the voting platform and Glass Lewis then casts PSERS' votes accordingly and provides disclosure of PSERS' proxy votes no more than two business days after the date of each proxy meeting.

Recommendation 2:

Considering the alignment of PSERS Policies with the GLBM Policy and the GL-CGF Policy, and the ability of Glass Lewis to effortlessly automate comprehensive vote implementation of PSERS' domestic securities without added cost, PSERS recommends full delegation of the vote implementation function to Glass Lewis with continued oversight by PSERS' staff and the Board.

Recommendation 3:

We further recommend periodic, rather than annual, review of PSERS Policies to address emerging or evolving governance issues that may negatively impact PSERS' efforts as a long-term shareholder to protect and enhance the value of PSERS' investments.

Glass Lewis' detailed 2024 Proxy Guidelines can be accessed here: [Glass Lewis Detailed Guidelines 2024](#). If questions arise, please contact me at 717-720-4687.