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

DATE: February 14, 2020

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
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At the March 5, 2020 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.

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. We also support governance structures that assert management's accountability to its shareholders.

There are specific voting issues that show how PSERS applies this principle 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:

- Glass Lewis has expanded the list of reasons they may recommend voting against director nominees based on key committee performance in 2020. While typically recommending voting in favor of independent directors, they will now recommend voting against directors for the following additional reasons:
    - When fees paid to the company's external auditor have not been disclosed in the past year, Glass Lewis will recommend voting against the chair of the audit committee.
    - Glass Lewis will generally recommend voting against the governance committee chair when the company does not disclose directors' attendance records for board and committee meetings in the past year or where disclosure is too vague to determine if a specific director's attendance was lacking.
    - Glass Lewis will recommend voting against governance committee members when a company excludes a shareholder proposal without receiving explicit guidance from the SEC stating that SEC agrees with the company's argument to exclude a proposal or when there is no publicly-available disclosure that permission was verbally given by the SEC to the company.
    - Glass Lewis will generally recommend voting against the compensation committee members when a company does not address shareholder concerns following majority shareholder rejection of the say-on-pay proposal the previous year. If the say-on-pay proposal received 20-50% shareholder opposition the previous year and concerns regarding executive compensation practices are continuing, Glass Lewis will consider recommending voting against the chair or the members of the compensation committee depending on the severity and history of compensation problems and the level of shareholder opposition.
    - Glass Lewis will generally recommend voting against the compensation committee members when a company adopts a frequency for future advisory votes on executive compensation that differs from the frequency approved by shareholders.

Glass Lewis provided clarification on the following items in the International Proxy Paper Policy Guidelines:

- The International Guidelines are a summary of Glass Lewis' global policy approach. Detailed implementation can be found in the policy guidelines for the relevant countries.
- Glass Lewis generally considers a director representing a shareholder who owns more than 10% of a company's issued share capital to be affiliated except where local regulations or best practices set a different ownership threshold.
- Glass Lewis typically recommends voting against the entire slate of directors when the board proposes to elect the directors as a slate due to concerns regarding independence of the board or any key committees in this circumstance.
- Glass Lewis does not usually recommend voting against a say-on-pay proposal solely based on the absence of a clawback provision. However, clawback provisions are generally viewed as best practice provisions and the absence may contribute to a negative recommendation.

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

- Glass Lewis may recommend voting against the chair of a nominating committee when the chair and CEO roles are combined, and the board has not appointed an independent presiding or lead director.
- Glass Lewis will support proposals to issue shares (with pre-emption rights) when the requested increase is equal to or less than the current issued share capital. In some countries, if a proposal seeks to issue shares exceeding 33% of the issued share capital, the company should explain the specific rationale, which Glass Lewis will then analyze on a case-by-case basis. This policy also applies to proposals to increase authorized capital when such proposals authorize the issue of new shares without requiring additional shareholder approval.
- Glass Lewis will generally recommend voting against say-on-pay proposals when reliance on short-term (i.e. less than two-year) performance targets is excessive.

A link to Glass Lewis' detailed 2020 Proxy Paper Guidelines is included in your Diligent Package. If questions arise, please contact me at 717-720-4687.