

Proxy Voting Guidelines

SERS staff continually refines its proxy voting process. The following guidelines, drafted by staff, outline SERS' approach to specific proxy voting issues. These guidelines follow the Corporate Governance Principles adopted by the SERS Retirement Board in January 2012. The list is not all-inclusive and is subject to review and updates on at least an annual basis.

Director Elections

SERS considers director elections to be the most important vote a shareholder casts. Several factors considered for director elections include:

- **Board independence** – SERS supports boards that are majority independent and acknowledges that key committees must be entirely independent. These include the Audit Committee, the Compensation Committee and the Corporate Governance/Nominating Committee. SERS will vote against non-independent directors who sit on any of these key committees. Also, SERS considers a director to be non-independent after serving as a member of the board for more than 10 years.
- **Independent Board Chair** – SERS supports board chairpersons who are independent from the management of the company. SERS will vote against a director in cases where the board chair and CEO roles are combined.
- **Compensation Committee Members** – The compensation committee should be comprised of only independent directors. SERS will vote against all members of the compensation committee at a company that has demonstrated poor compensation practices. Poor compensation practices are defined as those that are excessive, lack transparency, or do not exhibit a strong link between pay and performance. SERS will vote against all members of a compensation committee when it has failed to respond to a say-on-pay proposal that has received support from a majority of shareholders in the previous year.
- **Audit Committee Members** – The audit committee should be comprised of only independent directors. SERS will vote against all members of the audit committee in instances where we are already voting against the ratification of the company's auditors, or if non-audit related fees exceed 25% of all fees paid to the audit firm.
- **Frequency of elections** – SERS supports annual director elections. SERS will vote against all directors who are part of a classified board structure.
- **Majority vote** – Directors generally should be elected by a majority of votes cast. In instances where the number of candidates exceeds the number of board seats, directors may be elected by a plurality vote.
- **Meeting attendance** – Attendance at scheduled board and committee meetings is a critical responsibility for directors. SERS will vote against directors who have missed more than 25% of scheduled board and committee meetings, with considerations made for extenuating circumstances.

Responsiveness to shareholder votes – SERS will vote against the entire board of directors when the directors fail to act following a shareholder proposal that received the support of a majority of the shares cast in the previous year. SERS also will vote against the entire board of directors when a director, who received more than 50% withhold/against votes of the shares cast in the previous election, did not subsequently resign.

- **Outside board commitments** – SERS will vote against directors who are deemed “overboarded.” SERS considers a director to be overboarded when the CEO of a public company sits on more than 2 outside public company boards, or, when a non-CEO sits on more than 4 public company boards.
- **Diversity** – SERS recognizes that corporate boards benefit from having a diversity of skills, perspectives and experience. SERS will generally oppose all directors up for election unless the board would have at least one female and one racial minority following the meeting. SERS is also generally supportive of shareholder resolutions related to board diversity, including those requesting a report on existing or plans to increase diversity, as well as proposals requesting the company adopt certain policies or take steps to increase board diversity.

Advisory Votes on Compensation (“Say on pay” votes)

SERS supports executive compensation packages that exhibit a strong link between pay and performance and is transparent to shareholders. Executive compensation includes the total pay package, not just cash and equity. SERS will vote against say on pay proposals that:

- Include incentive pay that lacks clearly measurable goals
- Are not disclosed to the public
- Do not exhibit a strong link between executives' pay and the company's performance
- Contain inappropriate components such as tax gross-ups, excessive perquisites, supplemental retirement plans, golden parachutes, and other overly generous change in control provisions
- Lack of an effective clawback policy or meaningful stock ownership/holding requirements
- Are above the median level pay of the peer group, without further explanation

Additionally, SERS will vote against say on pay proposals when there has been a significant level of poor communication or a lack of responsiveness to shareholder concerns by management or the board of directors.

Mergers and Acquisitions

Support for all merger and acquisitions is determined on a case-by-case basis. The staff Proxy Committee considers the following criteria for all mergers and acquisitions:

- Strategic rationale of the transaction and whether any alternatives are available.
- The nature of the transaction (cash, stock, or some combination thereof) and the certainty of the offered price.
- Information regarding whether or not costs exceed the projected long term value of the transaction.
- Market reaction following the announcement of the proposed transaction and up until the meeting date.

- The independence and transparency with which the process was conducted.
- The impact of golden parachutes and unreasonable termination fees. SERS votes against all golden parachute payments.
- Any litigation that is relevant to the transaction.
- Other pertinent information that is generally available for consideration.

Environmental, Social and Governance (ESG) Issues

Support for all ESG issues is determined on a case-by-case basis. The staff proxy committee carefully considers the specific nature of each issue to ensure SERS' votes are consistent with SERS' Corporate Governance Principles and SERS' investment policies.