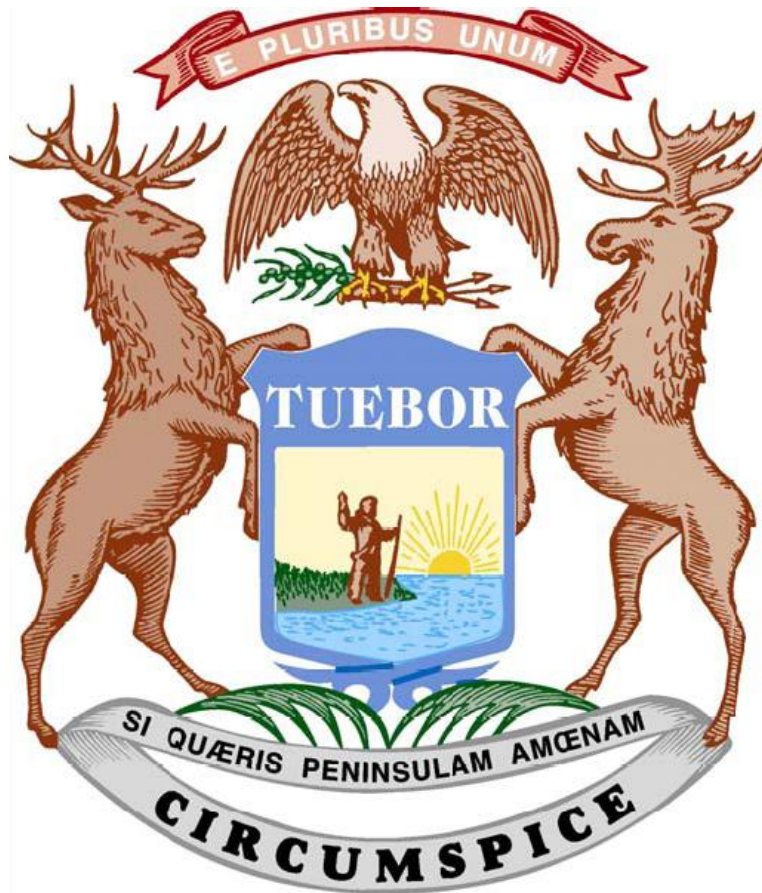


State of Michigan Retirement Systems

PROXY VOTING POLICY

Revised May 2015



Nick A. Khouri, State Treasurer

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SMRS PROXY VOTING POLICY

Revised May 2015

The State of Michigan Retirement Systems (the “SMRS”) is comprised of the defined benefit plans for the Michigan Public School Employees’ Retirement System; Michigan State Employees’ Retirement System; Michigan State Police Retirement System; and Michigan Judges’ Retirement System. The State Treasurer of the State of Michigan and his or her investment personnel serve as the investment fiduciary for the SMRS.

The Bureau of Investments (“BOI”) carries out investment responsibilities of the State Treasurer in accordance with the prescribed limitations of the Public Employee Retirement System Investment Act, 1965 PA 314, MCL 38.1132 *et seq.* Investments are diversified across asset classes with significant holdings in publicly-traded corporations managed by both internal and external managers.

The State Treasurer considers proxy voting a fiduciary duty that serves the interests of shareholders and advances good corporate governance. As such, the State Treasurer endeavors to timely vote proxies in all shareholder meetings where the SMRS is a shareholder and entitled to vote. In furtherance of this endeavor, the State Treasurer uses this Proxy Voting Policy (“Proxy Policy”) for guidance when casting proxy votes on behalf of the SMRS. This Proxy Policy is periodically reviewed and revised as needed by the BOI’s Compliance and Corporate Governance Division.

Given the volume of proxy votes cast by the SMRS each year, the State Treasurer uses Glass, Lewis & Co. (“Glass Lewis”), as its proxy voting agent. Glass Lewis is instructed to vote all ballot issues in accordance with the Proxy Policy. While Glass Lewis is designated as the SMRS’ proxy voting agent, the BOI retains the ability to manually vote any proxies at all times so that the best interests of the SMRS’ members and beneficiaries are served. Greater scrutiny may be directed to shareholder meetings with ballot issues believed to impact the long-term investment strategy of the SMRS.

I. BOARDS

The election of directors is one of the most important matters on which shareholders can vote. Given their fiduciary role as the shareholders’ representatives, directors are critical to the protection of shareholder interests, supervision of management and overseeing direction of the company. The SMRS believes that boards should be highly qualified, diligent, ethical, accountable, primarily independent, aligned with the shareholders and focused on building long-term value. Votes for directors are evaluated on a case-by-case basis taking into consideration the analysis and recommendation of the SMRS proxy voting agent.

A. Voting on Director Candidates

The SMRS welcomes and encourages communication between shareholders and directors to help facilitate a stronger understanding of governance issues in both uncontested and contested director elections. Votes on director candidates are part of that communication. Negative or withheld votes can express discontent or disapproval about issues that are not otherwise on the ballot for a shareholder vote.

Company nominees are generally supported, unless factors are present which raise questions about board composition or a candidate's judgment or ability to adequately represent shareholder interests. In making this determination, the SMRS may give weight to the analysis and recommendation of its proxy voting agent as well as that of SMRS Investment Personnel.

1. Individual Director Candidates

The SMRS may vote AGAINST or WITHHOLD its vote from a candidate who does not meet its expectations for an effective director. Without limitation, any one of the following may be seen as among the likely indicators that a candidate will not be an effective shareholder representative:

- a. The candidate attended less than 75% of board and committee meetings during the previous year without a valid excuse;
- b. The candidate is not independent (applying SMRS' proxy voting agent's definition of "independence") and
 - i. the board does not have a majority of independent directors;
 - ii. the candidate is on the nominating, audit or compensation committee (or a committee that performs similar functions); and
 - iii. the company has not established a fully independent nominating committee or designated independent directors to function as a nominating committee;
- c. The candidate (i) sits on more than three company boards and is employed in a full-time position; (ii) is CEO at another company and sits on more than one external board; or (iii) has other personal or professional obligations that may impede the candidate's ability to devote sufficient time to serving on the board. Director candidates that sit on more than three company boards, but are not employed in a full-time position will be evaluated on a case-by-case basis;
- d. The candidate has been convicted of a felony, is under investigation for a financial, corporate or securities crime or has a history of serious misconduct, regulatory sanctions or ethical violations relating to corporate responsibilities;
- e. The candidate serves as both CEO and Chairperson of the company, there is no independent lead director and the board is not at least two-thirds independent;
- f. The candidate does not hold a personally significant position in the company's stock and does not have a plan in place to acquire such a position;

- g. The candidate has substantial related party transactions with the company;
- h. The candidate is the board chair, lead independent director or on the governance committee, and the board does not engage in an annual self-evaluation process or has failed to implement a shareholder resolution approved by a majority of shareholders that asks for adoption of a majority vote standard for election of directors;
- i. The candidate is on the compensation committee or is the CEO and the company has poor executive compensation practices, as discussed herein, and taking into consideration findings of the SMRS' proxy voting agent;
- j. The candidate was on the audit committee when:
 - i. the company agreed to non-market terms indemnifying its auditor for negligence or releasing it from liability;
 - ii. the company's independent auditor was paid more for non-audit consulting than for audit services, in either of the past two years;
 - iii. material weakness in the internal controls have been reported but the company has not established an effective remedial control mechanism; or
 - iv. the committee knowingly approved accounting practices in the last five years that resulted in a significant restatement; or
- k. The candidate failed to receive a majority of votes in the previous director election at the company and all reasons for the shareholder withhold vote have not been resolved.

2. Entire Board Slate

In addition, the SMRS may vote AGAINST or WITHHOLD its vote from an individual candidate or entire slate of candidates when it believes the candidate or slate does not meet expectations for service as effective shareholder representatives. Without limitation, any one of the following may be seen as among the likely indicators that a candidate or slate will not effectively represent shareholders:

- a. The company has consistently underperformed its peers over at least the past one-, three-, and five-year periods, and the SMRS does not believe the company has a plan in place that will effectively address the performance issues;
- b. The company has a "dead hand" poison pill, (an anti-takeover device designed to prevent the acquisition of the company even if a majority of shareholders and new board members favor the acquisition) that can only be redeemed by individuals who were directors when it was adopted or their chosen successors;
- c. The company has a classified board and has adopted or renewed a poison pill or similar anti-takeover device that is in place and did not submit it to a shareholder vote within 12 months of adoption or failed to redeem an existing anti-takeover device after it was rejected by shareholders;
- d. The board failed to implement a shareholder resolution that received two or more majority votes, including one within the previous year or at the last shareholder meeting;

- e. The company restated its financials within the past year and paid its independent auditor more in non-audit consulting fees than in audit-related fees during either of the previous two years; or
- f. The board has more than 15 or less than 5 members and otherwise exhibits influence or control by management or ineffectiveness.

3. Communication with the Company

When voting against or withholding a vote from a candidate or entire slate of directors, the SMRS may communicate with the company regarding its reasons for the vote following the company's annual meeting.

B. Majority Vote Standard

SMRS sees establishment of a majority vote standard for election of directors as central to establishing director accountability to shareholders. Given that directors serve as shareholders' representatives and are fiduciaries to them, it is imperative that shareholders have the right to elect and remove directors by a majority of votes cast (or by a plurality in a contested election). Accordingly, the SMRS will vote FOR proposals to establish a majority vote standard for election and removal (with or without cause) of directors and will vote FOR proposals that provide for resignation of directors who do not receive a majority vote. It will vote AGAINST proposals to allow only continuing directors to elect replacements to fill board vacancies.

C. Separate Chairperson and CEO

The SMRS believes that most boards benefit from having an independent leader who is not the current CEO or a former CEO of the company. In a number of other developed markets, the predominant corporate governance practice is to have different individuals serve in those positions. Given the board's responsibilities for supervision of the CEO, the presence of an independent chair or lead director can facilitate effective board oversight.

Accordingly, the SMRS will generally vote FOR proposals requiring that the positions of chairperson and CEO be held by different individuals or; where the company is performing at or above the level of its peers, that an independent lead director (who is not a former CEO of the company) be appointed where the same person holds both CEO and chairperson positions. An independent lead director should serve a minimum of one year and preside at all meetings of the board at which the chairman is not present, including executive sessions of the independent directors. The lead director should be available to meet with major shareholders and have authority to set agenda items and call meetings of the independent directors.

The SMRS retains discretion to support a combined chairperson and CEO if it believes the combination sufficiently protects shareholder interests and the combination is not continued for an extended period of time. In making this determination, SMRS will take into consideration a company's explanation, required

under the Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. 111-203, § 929-Z, 124 Stat. 1376, 1871 (2010) (codified at 15 U.S.C. § 78o) ("2010 Reform Act"), why it has elected to combine the roles. The SMRS will also consider whether the company has a strongly independent board (e.g., two-thirds independent by the SMRS' proxy voting agent's definition) that is functioning well, in which case the SMRS may support a combined CEO and chairperson at the company, even without appointment of an independent lead director.

In addition, the SMRS recognizes that it may not always be practical for smaller companies to separate the positions of Chairperson and CEO. Where this appears to be the case, the SMRS may support combination of the positions, if it believes the combination sufficiently protects shareholder interests and the combination is not continued for longer than necessary.

D. Proposals Seeking a Majority of Independent Directors

The SMRS believes that shareholders are best served when their board includes a significant number of independent, outside directors because they provide a new perspective to company problems, can draw from diverse experiences and are not susceptible to the problems that insiders often face. Accordingly, the SMRS will vote FOR proposals asking that a simple majority of directors be independent.

SMRS will vote CASE-BY-CASE, taking into consideration the analysis and recommendation of its proxy voting agent, on proposals seeking a two-thirds supermajority of directors be independent. When considering proposals to implement a two-thirds standard, the SMRS will examine among the relevant factors: (1) The current composition of the board, (2) The proponent's definition of independence, (3) The board's responsiveness to shareholder concerns, (4) The board's oversight role regarding executive and company performance, (5) Poor executive compensation practices; and (6) Past acts suggesting self-dealing to the detriment of shareholders. In addition, the SMRS will vote FOR proposals asking that audit, compensation, and nominating committees be composed exclusively of independent directors.

E. Stock Ownership Requirements

The SMRS believes that stock ownership by directors aligns interests of the board with shareholders. However, what constitutes a material stock holding for directors of different economic circumstances can vary. The board is in the best position to adopt director stockholding policies that reflect those differences. Accordingly, the SMRS will vote AGAINST proposals to impose a set of arbitrary minimum stockholding requirements on directors. However, the SMRS will vote FOR proposals for director stockholding requirements that are established by the board or that only relate to payment of director compensation in company stock.

F. Director Diversity

As a public pension fund, the SMRS and its beneficiaries are familiar with the benefits that flow from encouraging diversity. At companies, diversity on the board can provide the benefit of various perspectives and better reflect the company's workforce, customers and community. The SMRS believes this can lead to enhanced shareholder value. Accordingly, the SMRS will vote FOR resolutions to encourage board diversity, as long as it would not violate the law or other policy and qualified candidates are available.

G. Classified Boards

Classified boards or "staggered" terms for directors can serve as an entrenchment device that limits the ability of shareholders to change control of a poorly performing board. Particularly when combined with a poison pill, classified boards can be used to defend against takeovers that would benefit shareholders. Accordingly, the SMRS will vote FOR proposals to repeal classified board provisions and FOR resolutions to go to annual board elections. Conversely, the SMRS will vote AGAINST proposals to establish a classified board.

H. Term of Office

While the SMRS believes that there may be merit in limiting terms for nonperforming directors, arbitrary term limits may force valuable directors off the board based solely on length of service. Conversely, boards where the average tenure approaches or exceeds 15 years should consider whether they remain sufficiently independent from management and capable of considering new perspectives. Accordingly, the SMRS will generally vote AGAINST proposals to limit the tenure of outside directors but may vote FOR proposals that encourage boards to review director independence and effectiveness.

I. Age Limits

Much like arbitrary term limits, age limits for outside directors can force valuable directors off boards solely based on their age. Accordingly, the SMRS will generally vote AGAINST shareholder proposals to impose a mandatory retirement age for outside directors but may vote FOR proposals that allow boards to review director effectiveness based on age.

J. Board Size

Boards that are too large dilute the voice of individual members and may make a board inefficient or reduce its effectiveness. Boards that are too small may not be able to adequately discharge all of their responsibilities or may suffer from a lack of diversity in perspectives. While the best size for a board depends upon the company and the skills of the board's members, the SMRS generally prefers a board of no fewer than five and nor more than 15 members.

Accordingly, the SMRS will vote FOR proposals to fix the size of a board between five and 15 members. Proposals that would fix the size of a board outside those parameters will be supported only if a solid rationale exists as to why it is in the best interests of shareholders. The SMRS will generally vote AGAINST proposals that would allow a board to fix its own size without shareholder approval. However, because board size proposals can operate as a poison pill to discourage takeovers, additional analysis may be required in some situations.

K. Removal of Directors and Filling Vacancies

In order to maintain accountability of the board to a company's owners, shareholders should have the right to remove directors. Accordingly, the SMRS will vote AGAINST proposals which provide that directors may be removed only for cause and FOR proposals that permit shareholders to elect directors to fill vacant board seats. Proposals that restore shareholder ability to remove directors without cause will be supported.

L. Director and Officer Indemnification and Liability Protection

The SMRS believes that potential director and officer liability for breach of fiduciary duty can be a deterrent to fraud. In addition, private securities litigation is a necessary remedy since the SEC cannot be relied upon to pursue all situations where the SMRS might have lost money to securities fraud. Insurance coverage is available for non-intentional breaches of fiduciary duty, and it can protect the interests of both directors and shareholders.

Accordingly, the SMRS will generally vote AGAINST proposals to eliminate director and officer liability for monetary damages for violations of the fiduciary duty of care. Similarly, the SMRS will generally vote AGAINST proposals that authorize indemnification for willful misconduct or gross negligence. In limited circumstances where liability limitations or indemnification expansions are required to attract and retain qualified directors, the SMRS may support such proposals if it believes the board is qualified, independent, effective and not influenced or controlled by management or entrenched by anti-takeover devices.

M. Director Standards and Education

SMRS supports director standards that are designed to make directors more effective shareholder representatives and align their interests with shareholders. In addition, shareholders are best served when directors provide effective oversight of management, as well as of each other. Shareholder interests are enhanced when directors have a peer review process, a director training process and an executive review process in place. SMRS will vote FOR proposals to improve the professionalism of their board with training, education and review.

N. Establishment of Board Committees

In general, SMRS will vote on a CASE-BY-CASE basis, taking into consideration the analysis and recommendation of its proxy voting agent, regarding shareholder proposals to establish a new standing board committee or a new temporary committee to investigate a particular issue. Such proposals should be considered by balancing the benefits of additional oversight with the drawbacks of decreased flexibility and increased costs to the company. The following factors will be considered:

1. Existing oversight mechanisms (including current committee structure) regarding the issue for which board oversight is sought;
2. Level of disclosure regarding the issue for which board oversight is sought;
3. Company performance related to the issue for which board oversight is sought;
4. Board committee structure compared to that of other companies in its industry sector; and/or
5. The scope and structure of the proposal.

II. PROXY CONTESTS

Proxy contests are one of the methods for removing ineffective management and directors that have destroyed shareholder value or failed to maximize it. They can provide an opportunity where shareholder votes unlock value. However, careful evaluation is required, and the SMRS looks to analyses by its proxy voting agent and other market participants on implications of a proxy contest for portfolio holdings.

A. Voting for Director Nominees in Contested Elections

Contested elections provide shareholders with alternatives for future direction of the company. In these situations, the SMRS evaluates the potential for creation of sustainable long-term value associated with the alternative candidates. Accordingly, votes in a contested election are evaluated on a CASE-BY-CASE basis taking into consideration the analysis and recommendation of the SMRS proxy voting agent.

The following factors are amongst those that may be considered by the SMRS:

1. Long-term financial performance of the target company relative to its peers;
2. Management's track record;
3. Background to the proxy contest;
4. Qualifications of director nominees (both sides);
5. Strategic plan of dissident slate and quality of critique against management or the board;
6. Evaluation of what each side is offering shareholders;
7. The likelihood that the proposed objectives and goals can be met;
8. Sustainability of any value creation; and
9. Stock ownership positions.

B. Reimburse Proxy Solicitation Expenses

Mounting a proxy solicitation can be expensive. In many cases, a proxy solicitation can generate increases in shareholder value. In other situations, it may involve efforts to benefit short-term owners at the expense of long-term investors.

The SMRS will analyze reimbursement of proxy solicitation expenses on a CASE-BY-CASE basis, taking into consideration the analysis and recommendation of its proxy voting agent and whether the solicitation was consistent with the best interests of the SMRS. However, the SMRS also recognizes that a majority shareholder vote provides a *de-facto* determination of the shareholders' best interests. Accordingly, the SMRS will generally vote FOR resolutions mandating reimbursement of reasonable solicitation expenses, where at least one candidate on a proxy has received a majority of votes cast.

III. AUDITORS

Shareholders rely on independent auditors to confirm reliability of company information used in the investment process. Consistent with Title II of the Sarbanes Oxley Act of 2002 (SOX) 15 USC 78J-1 *et seq*, SMRS believes that independence of auditors is necessary to ensure integrity of the audit process and protect investors.

A. Ratifying Auditors

The SMRS favors use of independent auditors that do not perform substantial non-audit consulting work for the company. Generation of large fees from non-audit work can create a conflict of interest that undermines confidence in the auditor's independence. Where non-audit consulting fees comprise a substantial portion of total audit fees, the SMRS believes that a serious question exists regarding the auditor's independence.

Accordingly, the SMRS will vote FOR proposals to ratify auditors, unless non-audit fees received from the company during the preceding fiscal year represent 25% or more of the total fees. SMRS may review the company's classification of non-audit consulting fees to ensure fees that could be considered audit-related are classified correctly. Tax compliance and filing work is generally considered audit related, though tax advice, planning or consulting are not. Where there is good reason to believe that the auditor has rendered an opinion which is neither accurate nor indicative of the company's true financial position, the SMRS will also vote AGAINST ratification of the auditor.

B. Auditor Indemnification and Limitation of Liability

The Council of Institutional Investors has adopted a policy opposing limitations on the liability of outside auditors as a practice that is not in the best interests of shareholders. The SMRS and other investors rely heavily on the integrity of auditors and believe they play a key role in the financial markets.

Accordingly, the SMRS will generally vote AGAINST proposals to extend indemnification to auditors or otherwise limit their liability, unless the SMRS determines that such provisions are necessary to obtain quality audit services and are consistent with prevailing market practices.

IV. VOTING RIGHTS

Voting shareholder proxies is a valuable right. The SMRS believes that proxy voting rights should be subject to safeguards, as are voting rights in any other election setting. Shareholders should have voting rights in accordance with their economic stake in the company, and the voting process should be structured to express the will of the shareholders.

A. Unequal Voting Rights

Unequal voting rights can give control or excessive influence to a minority group of shareholders, often at the expense of all other shareholders. This can result in entrenchment of interests and diversion of corporate assets. Accordingly, the SMRS will vote AGAINST proposals to authorize dual-class shares with superior voting rights or to increase the number of shares with superior voting rights.

B. Confidential Voting

Confidential voting ensures that shareholders are not subjected to real or perceived coercion in casting proxy votes. The SMRS will vote FOR proposals to adopt confidential voting and AGAINST proposals to eliminate it.

C. Supermajority Voting

The SMRS believes that the will of the shareholders should be expressed on all matters by a majority vote of the disinterested shares that vote. Supermajority vote requirements can facilitate efforts by insiders or minority block holders to frustrate the will of the shareholders. Consequently, the SMRS will vote AGAINST proposals to require a supermajority vote and FOR proposals to eliminate supermajority vote requirements.

D. Cumulative Voting for Directors

Cumulative voting entitles a shareholder to aggregate all of its director votes and cast them for a single candidate or split them between more than one candidate. It can help a minority block of shares obtain representation on a board and make it easier to place an independent voice at an unresponsive boardroom table. However, when abused, it can result in election of directors that pursue a single agenda at the expense of the welfare of all shareholders. In addition, cumulative voting may not be needed where a company is performing well and has been responsive to shareholders, the board is independent, management is not insulated from the market for corporate control, and the company already uses a majority vote standard for election of directors or has a viable proxy access mechanism for shareholders.

As a result, the SMRS will generally vote FOR cumulative voting proposals, but retains the flexibility to vote AGAINST such proposals when it appears they would allow a minority to block a takeover or exert undue influence that is not in the best interests of all shareholders.

E. Shareholder Action by Written Consent and Call Special Meetings

The right to act by written consent and call special meetings allows shareholders to raise issues of concern and to act between annual meetings. Therefore, the SMRS will generally vote FOR proposals that support the shareholders' ability to act by written consent or call a special meeting or that would remove restrictions on such shareholder rights. Proposals to restrict such rights will generally be opposed. However, the SMRS recognizes that a low threshold for invoking such rights could leave the company open to disruption by the holders of a small minority interest. To protect against harassment, the SMRS will generally support establishing a threshold at about 10 percent.

F. Charter Amendments

The SMRS believes that shareholders are the owners of a company and should be able to vote on allocation of power between the board and shareholders. The SMRS will vote FOR all proposals which would require shareholder approval of any amendments to the company's charter or bylaws.

G. Access to the Proxy

The SMRS sees the right of significant long-term shareholders to place director candidates on the company's proxy as a fundamental protection against ineffective boards and management entrenchment. Accordingly, the SMRS will vote FOR proposals to give significant long-term shareholders the right to place director candidates on the company's proxy.

H. Bundled Proposals

Shareholders should have the right to vote separately on each proxy issue. Bundling of proposals or making a proposal conditional upon passage of another undermines the ability of shareholders to express their will on each item and can affect voting results. Consequently, the SMRS will vote AGAINST proposals that are bundled with or conditioned upon other items, unless it believes a favorable vote on the combined items is in the best interests of shareholders.

I. Shareholder Advisory Committees

Establishment of a shareholder advisory committee can be helpful if it represents the interests of all shareholders. However, advisory committees that are not representative of the shareholder base or that pursue an agenda not in all shareholders' best interests can facilitate destruction of value. Therefore, the SMRS will vote CASE-BY-CASE on proposals to establish a shareholder advisory

committee, based upon the circumstances, the committee structure, and the analysis and recommendation of its proxy voting agent.

J. Advance Notice Requirements

Some companies require extended advance notice before shareholders are allowed to place proposals on the ballot. Notice requirements may go beyond what is administratively required, such as those that mandate three-to six-months' notice prior to the annual meeting. These proposals make it very difficult for shareholders to present a proposal or a director nominee, even if that proposal is in the best interests of the company or the shareholders. SMRS will vote AGAINST proposals that would require an extended notice period for shareholders to place proposals on the ballot.

V. ANTI-TAKEOVER DEFENSES

Changes in corporate control can have a significant impact on the value of shares. In many instances, takeovers can free up shareholder value and remove entrenched management. However, in other situations, takeovers may be targeted to provide short-term payoffs that will ultimately diminish the company's long-term success. Anti-takeover defenses are a double-edged sword. They can protect companies from value-destroying takeovers and help boards negotiate a better price for shareholders in good takeovers. However, they can also diminish value by allowing entrenched management to fight off proposals that are in the best interests of shareholders.

Because of the conflicting interests of players involved in takeover situations, the SMRS takes a CASE-BY-CASE approach, taking into consideration the analysis and recommendation of its proxy voting agent, to proxy votes on takeovers. However, the SMRS also favors provisions that allow shareholders to serve as a check on management and exercise their ultimate control over sale of the company as its owners.

A. Poison Pills

A poison pill is a tactic often used to avoid a takeover bid by a potential acquirer that wishes to obtain a controlling block of shares in the target company. When triggered by the acquisition of a set level of shares by a potential acquirer, poison pills generally result in the issuance of rights to other shareholders allowing them to purchase shares from, or sell shares back to, the target company or the potential acquirer at a price far above fair market value. This strategy dilutes the percentage of the target owned by the acquirer, and makes it prohibitively expensive to acquire control of the target. It insulates the target from the threat of an unfriendly change in control and can position the target to negotiate a higher price for its shareholders. Because poison pills greatly alter the balance of power between shareholders, the board and management, the SMRS believes that shareholders should be allowed to evaluate the need for anti-takeover devices and make their own decisions.

Accordingly, the SMRS will vote FOR proposals that ask a company to submit its poison pill to the shareholders for approval. The SMRS will also vote FOR

submission of a company's poison pill to a shareholder vote within a year of adoption and at least every three years thereafter. The SMRS will generally vote AGAINST poison pills that unduly insulate management from the market for corporate control. Among other things, the SMRS objects to poison pills that (a) would become effective when a shareholder has acquired less than 20 percent of the stock, or (b) have a "dead hand" provision (which could be redeemed only by individuals who were directors when it was adopted or are those directors' chosen successors), or (c) have a term of more than three years without a shareholder approval vote, or (d) do not include a mechanism to allow shareholder redemption of the pill where the board has not redeemed it within a reasonable time after receiving a qualified takeover offer.

The SMRS reserves the right to vote CASE-BY-CASE, taking into consideration the analysis and recommendation of its proxy voting agent, when deciding whether to approve a poison pill or redeem one. Among other things, it may take into consideration performance of the company, likelihood that an acquisition would benefit shareholders, vulnerability to undesirable takeover threats, business plans of management and any acquirer, presence of other potential bidders, equal treatment of shareholders, adequacy of price, sustainability of company performance, corporate governance provisions, and independence of the company's board.

B. Net Operating Losses

A company with net operating losses ("NOLs") can carry losses forward to reduce its future taxable income. As such, NOLs may be viewed as an asset. However, Section 382 of the Internal Revenue Code limits a company's ability to use its NOLs if the company undergoes "change of ownership" of more than 50 percentage points by one or more 5% shareholders within a three-year period. Consequently, some companies have adopted poison pills that are triggered when a shareholder becomes a 5% shareholder to forestall possible changes in ownership. Difficult market conditions stemming from the global credit crisis have resulted in widespread losses in several industries. As a result, a greater number of companies, including larger, formerly profitable companies, have considered adopting proposals to adopt a poison pill for the stated purpose of preserving a company's net operating losses ("NOL pills") to preserve their tax assets.

For management proposals to adopt NOL pills, SMRS will vote on a CASE-BY-CASE basis taking into consideration the analysis and recommendation of its proxy voting agent. SMRS may consider the trigger (NOL pills generally have a trigger slightly below 5%), the value of the NOLs, the term, and the shareholder protection mechanisms in place (e.g. sunset provision, causing expiration of the pill upon exhaustion or expiration of NOLs).

C. Fair Price Provisions

Fair price provisions force an acquirer to pay remaining minority shareholders at least as much as was paid to acquire its control position. Such provisions usually

contain a requirement that the acquisition be approved by a vote of the shareholders and set forth a mechanism for determining a fair price. While they can guard against coercive two-tiered tender offers, they can also affect whether an acquisition is consummated and on what terms.

The SMRS generally votes AGAINST fair price provisions that require shareholder approval by more than a majority of disinterested shares. Otherwise, fair price provisions are evaluated on a CASE-BY-CASE basis, taking into consideration the expected impact on the value of SMRS' holdings and the analysis and recommendation of its proxy voting agent.

D. Greenmail

Greenmail is the practice of the company repurchasing a large block of company stock at a premium from a potential unfriendly acquirer. Since other shareholders do not receive the same offer, greenmail is discriminatory and can protect entrenched management from a takeover. Accordingly, the SMRS will vote FOR proposals that restrict a company's ability to make greenmail payments.

VI. CAPITAL STRUCTURE

Corporate financing and management of a company's capital structure can have a significant impact on shareholder value. Proxy voting decisions on capital structure issues require consideration of the intended use, costs involved, company performance, affect on existing shareholders, consistency with the company's business plan, degree of control shareholders will have in the future, corporate governance and other issues. Votes are guided by a determination of what is in the best interests of SMRS as a shareholder.

A. Capital Stock Authorizations

When voting on authorization of additional capital stock, stock splits, stock distributions or payment of dividends, the SMRS considers the rationale for the increase and the effect that issuance will have on shareholders. Shares are voted on a CASE-BY-CASE basis taking the evaluation and recommendation of SMRS' proxy voting agent into consideration. If a company's shares are in danger of being delisted or if a company's ability to continue to operate as a going concern is uncertain, SMRS generally votes FOR proposals to increase authorized shares beyond the required market capitalization.

The SMRS will generally vote FOR proposals to require shareholder approval of authorization to increase authorized capital stock.

B. Preferred Stock

Preferred stock can be an important financing vehicle but can also disadvantage common shareholders or be used as an anti-takeover device. How the preferred stock will be used, impact on voting rights and the amount of dilution it has on

common shareholder interests must be evaluated. Accordingly, the SMRS will vote AGAINST proposals authorizing the creation of new classes of preferred stock with unspecified voting, conversion, dividend distribution or other rights (i.e., "blank check preferred stock"). The SMRS will vote FOR proposals to authorize preferred stock where its terms are specified and found to be in the best interests of the SMRS. However, the SMRS will generally vote against proposals to authorize dual-class shares with superior voting rights or to increase the number of shares with superior voting rights. The evaluation and recommendation of its proxy voting agent will be taken into consideration.

C. Preemptive Rights

Preemptive rights can protect shareholders against dilution of their interests. The SMRS will vote AGAINST proposals to eliminate its preemptive rights or to place limits on them.

D. Debt Restructuring

Debt restructurings are situation specific. The SMRS will consider the evaluation and recommendation of its proxy voting agent in voting on a CASE-BY-CASE basis for restructuring proposals. Factors to be considered include self-dealing, dilution, change in control, bankruptcy and management capabilities.

E. Share Repurchase Programs

Where companies establish a share repurchase plan because management believes the stock is undervalued, it can benefit shareholders. However, repurchase programs can also be used as an anti-takeover defense and to reduce dilution from employee stock option programs, even when the stock is overvalued. Accordingly, the SMRS will generally vote FOR proposals to institute an open-market share repurchase plan if all shareholders may participate on equal terms, unless it determines that the program is not in the best interests of shareholders.

F. Tracking Stock

Tracking stock voting decisions require an analysis of the impact it will have on existing shareholders. The SMRS will vote on a CASE-BY-CASE basis on proposals to create tracking stock, taking the analysis and recommendation of its proxy voting agent into consideration.

VII. EXECUTIVE AND DIRECTOR COMPENSATION

The legislative reforms that followed the 2008 financial crisis provided shareholders with more access to information relating to executive and director compensation. The SMRS believes that this increased transparency assists shareholders in evaluating whether a company is implementing "pay for performance" principles.

The SMRS also believes that the board has ultimate responsibility for establishing

compensation principles that attract, retain, and motivate executives in a way that aligns their interests with long-term shareholders. Members of the compensation committee, in particular, should be held accountable for a company's compensation practices. Therefore, in addition to the following, the SMRS Proxy Policy on voting for directors includes provisions that authorize withholding votes from, or voting against, directors at companies with serious executive compensation problems.

Generally, the SMRS believes that total compensation of executives and directors should be driven by long-term stock performance and the underlying value of executives to the company.

A. Equity Compensation Plans

Equity compensation plans should be based on pay-for-performance principles. They should require retention of company equity by executives, be aligned with the company's strategic plan and interests of shareholders, reward only sustained performance, not be overly dilutive of outside shareholders, reflect long-term shareholder returns, be integrated with the executive succession plan, avoid gratuitous and duplicative perks or compensation awards, be reasonable in cost and be consistent with compensation for executives performing comparable responsibilities at peer companies.

The SMRS votes on a CASE-BY-CASE basis on issues relating to shareholder approval of stock option, restricted stock and other equity compensation plans, taking into consideration the analysis and recommendation of its proxy voting agent and BOI Investment Personnel. The SMRS will vote AGAINST plans that provide excessive transfer of shareholder value or voting power to insiders, award options at less than fair market value, allow re-pricing without shareholder approval, include an evergreen provision to automatically reload options in place of those granted from the authorized award pool, result in excessive compensation or have a pay for performance disconnect.

B. Option Re-pricing

Re-pricing of options undermines the basis upon which options are granted. The SMRS generally votes AGAINST proposals seeking approval of option re-pricing, especially if the company is re-pricing underwater options after a recent precipitous drop in the company's stock price. Market deterioration, in and of itself, is not an acceptable reason to re-price stock options. Nonetheless, SMRS will consider unique competitive considerations, historic trading patterns, the rationale for the re-pricing, whether it is a value-for-value exchange, and the terms of the re-pricing, such as exercise price, length of term and who may participate.

C. Employee Stock Purchase Plans

The SMRS votes on stock purchase plan proposals on a CASE-BY-CASE basis, taking into consideration the SMRS proxy voting agent's analysis and the amount of dilution to outside shareholders, discount to fair market price and length of offering

period.

D. Employee Stock Ownership Plans (ESOPs)

The SMRS will vote FOR proposals relating to establishment of or authorization of shares for Employee Stock Ownership Plans (ESOP), provided that the ESOP requires: (1) The senior executives hold a minimum amount of stock; (2) The senior executives hold the stock for a certain period of time; (3) The ESOP must be used as a substitute for cash in delivering total pay; and (4) The number of shares allocated to the ESOP is not excessive (generally, more than about 10% of outstanding shares) or would otherwise unnecessarily dilute outside shareholders or serve as a *de facto* anti-takeover device.

E. Performance-Based Awards

When proposals are put forward advocating the use of performance-based equity awards, such as indexed options, premium-priced options, performance-vested awards, or otherwise seeking alignment of pay with performance, the SMRS will usually vote FOR such proposals. However, the SMRS reserves the right to vote AGAINST such proposals where they contain requirements that would unduly tie the hands of the board, provided that the company is already using a rigorous performance-based equity program for which full disclosure is made.

F. Limits on Executive and Director Compensation

The SMRS will vote on proposals to cap compensation on a CASE-BY-CASE basis, taking into account the SMRS' proxy voting agent's analysis, company performance and compensation practices, competitive market factors, internal pay equity, employee retention needs and impact on pay for performance.

G. Golden Parachutes and Termination Payouts

Golden or tin parachutes provide payments to executives in the event of a change in control. They often amount to pay for underperformance that caused the change in control. The SMRS generally votes AGAINST such parachutes or termination payouts when they exceed two times base salary and bonus. The SMRS will vote FOR proposals to require shareholder ratification of golden parachutes.

H. Golden Coffins

Golden coffins are lucrative death benefit packages paid to survivors of executives who die while still employed with a company. Benefits may include unearned salary, accelerated stock options, and insurance proceeds.

SMRS will generally vote FOR proposals calling companies to adopt a policy of obtaining shareholder approval for any future agreements and corporate policies obliging the company to make payments or awards following the death of a senior executive that exceed those offered to employees and management. SMRS will also vote FOR proposals requesting the removal of such lucrative death benefits from

compensation packages. SMRS opposes death benefit packages that are excessive and have no benefit to shareholders.

I. Independent Compensation Consultants

In order to avoid conflicts of interest, executive compensation consultants should be retained directly by and report to the compensation committee. They should also not work for company management. The SMRS will vote FOR proposals to require retention of a non-conflicted and independent executive compensation consultant by the compensation committee. The SMRS will also vote FOR proposals to require shareholder approval of the executive compensation consultant.

The SMRS will vote FOR proposals that seek disclosure of all compensation paid by the company to the compensation committee consultant so that shareholders are aware of all potential conflicts of interest.

J. Advisory Shareholder Votes on Compensation

The 2010 Reform Act addressed executive compensation by giving shareholders two advisory votes: (1) One vote approving executive compensation, and (2) A second vote saying how often shareholders wanted to be presented with the vote approving executive compensation (see below).

The advisory vote allows shareholders the opportunity to communicate their views on executive compensation. The SMRS will vote FOR advisory votes on compensation as this provides the most clear communication vehicle for shareholders to communicate concerns about executive pay programs.

K. Frequency of Shareholder Votes on Compensation

Under the 2010 Reform Act, shareholders have the option of voting on executive compensation annually, biennially, or triennially. The SMRS will vote FOR proposals requiring advisory votes on compensation on an annual basis, as this allows shareholders to consistently communicate shareholder views and respond to changes in executive compensation plans.

L. Additional Disclosure

The SMRS believes that the fullest practicable disclosure on executive compensation is required to protect the interests of shareholders due to the direct conflict of interest between management and outside shareholders on compensation issues. Accordingly, the SMRS will generally vote FOR proposals that seek additional disclosure of executive and director compensation information, except where the SMRS has determined that disclosure would not be in the best interests of shareholders.

M. Director Compensation

The SMRS favors payment of a substantial portion of outside director compensation in performance shares and restricted stock, a significant portion of which should be retained throughout service on the board, in order to align interests with long-term shareholders. Director compensation should be reasonable in amount and not include retirement benefits. Therefore, the SMRS will vote on proposals to establish outside director compensation policies on a CASE-BY-CASE basis, taking the analysis of its proxy voting agent as to reasonableness into consideration.

The SMRS will vote FOR proposals requesting a shareholder vote on director retirement plans. The SMRS generally views director retirement plans as not in shareholders' best interests because they provide an incentive for directors to align with management and will vote AGAINST such plans.

N. Bailout Bill/Executive Compensation Resolutions

SMRS will vote on a CASE-BY-CASE basis, taking into consideration the analysis and recommendation of its proxy voting agent, on shareholder proposals that call for the imposition of compensation limits at companies. Proposals may include caps on bonus compensation, an emphasis on performance-vested equity awards, equity retention requirements, and limits on retirement and severance benefits. SMRS will consider the following:

1. Evidence that the Compensation Committee has taken substantial steps to revise the company's compensation practices to better reflect the current economic environment; and
2. Problematic pay practices, current and past, particularly those which shareholders believe may have promoted a risk-taking environment that was ultimately to the detriment of shareholders' long-term interests.

O. Supplemental Executive Retirement Plans (SERPs)

As a public pension plan, the SMRS supports retirement plans that treat employees equitably. However, "Top Hat" or Supplemental Executive Retirement Plans ("SERPs") are separate from retirement programs made available to other employees and have been used to continue the escalation of special compensation for executives. The SMRS will vote FOR proposals to require shareholder approval of SERPs and AGAINST plans that provide excessive benefits that are beyond what is offered to other employees.

P. Deferred Compensation and 401(k) Employee Benefit Plans

The SMRS will vote FOR proposals to implement 401(k) plans for employees. However, 401(k) and deferred compensation plans for executives should not provide above-market investment guarantees not afforded to all employees. The SMRS will generally vote AGAINST plans with such provisions.

Q. Derivative or Speculative Transactions

The SMRS will vote FOR proposals that prohibit senior executives from entering into derivative or speculative transactions involving company stock, including but not limited to trading in puts, calls, covered calls or other derivative products; engaging in hedging or monetization transactions with respect to company stock; holding company stock in a margin account; or pledging company stock as collateral for a loan.

R. Compensation Recoupment

The SMRS will vote FOR proposals that require the recoupment of incentive compensation paid to senior executives if the company restates its financial statements for a previous reporting period, or if it is later determined that the performance metrics upon which the incentive compensation was earned are incorrect.

S. Poor Pay Practices

When the SMRS is afforded an opportunity to vote on executive compensation, it will evaluate whether the company's practices incorporate pay-for-performance principles and align compensation with the interests of long-term shareholders. The SMRS will generally vote AGAINST compensation plans with poor pay practices, especially those practices that could incentivize excessive risk taking, taking into consideration the recommendation of its proxy voting agent. Among the other factors identified in these policies, the SMRS considers the following to be indicators of poor pay practices:

1. Option plans with excessive shareholder value transfer, voting dilution impact, or insufficient holding periods;
2. Perks that constitute a substantial portion of pay packages or perks to former executives;
3. Disproportionate supplemental pensions;
4. Severance or change-in-control payments that reward poor performance or that are not related to job loss or diminution of duties;
5. Bonus or incentive awards without appropriate performance links or disclosure;
6. Gratuitous retirement payouts or deferred compensation/retirement plan sweeteners;
7. Performance metrics that are waived or changed without justification or explanation;
8. A single performance metric for short- and long-term plans;
9. Overly generous new hire packages;
10. Egregious employment contracts (multi-year guaranties for salary increases, bonuses and equity compensation);
11. Excessive equity incentive awards (mega-grants);
12. High pay opportunities relative to appropriate industry peers;
13. Use of inappropriate peer comparisons;

14. Internal pay disparity that indicates CEO succession or domination risk;
15. Option award backdating;
16. The CEO being in the top total compensation quartile while the company has been in the bottom performance quartile over the past one-, three- and five-year periods, in comparison with peers;
17. Significant use of tax gross-ups in executive contracts;
18. Failure to comply with SEC disclosure requirements relating to executive compensation;
19. Other compensation payouts or practices that are inconsistent with a pay-for-performance approach to executive compensation;
20. Payment in stock options or cash bonuses; or
21. Establishment or authorization of ESOPs that are excessive (generally, more than about 10% of outstanding shares) or would otherwise unnecessarily dilute outside shareholders or serve as a de facto anti-takeover device. ESOPs should also provide for minimum stock holding amounts and time and be used as a substitute for cash in delivering total pay.

VIII. PLACE OF INCORPORATION

The state or country of incorporation, and application of the corporate laws of that jurisdiction, can have a large impact on the rights of shareholders and operations of the company. Shareholders must consider the long-term value of investor rights and the costs or disadvantages associated with the company's place of incorporation, including tax, regulatory, liability, stakeholder laws, control share acquisition statutes, anti-takeover protections, and other factors.

A. Reincorporation Proposals

Because of the comprehensive protections available to shareholders in the United States, the SMRS generally votes AGAINST proposals to move a company's domicile from the United States to another country. Nevertheless, where the benefits to shareholders of a reincorporation elsewhere are determined to outweigh the disadvantages, the SMRS may vote in favor of a reincorporation. The SMRS will generally vote FOR proposals to move a company's domicile to the United States, unless the associated disadvantages to shareholders are determined to outweigh the advantages.

When considering proposals to move incorporation from one state to another, the SMRS will also consider the relevant state laws and assess whether the reincorporation would decrease shareholder rights at the company. The SMRS will vote CASE-BY-CASE on state reincorporation proposals, taking into consideration the analysis and recommendation of its proxy voting agent.

B. State Anti-Takeover Statutes

As with poison pills, state law anti-takeover protections generally serve to insulate entrenched management from an acquisition that could free up shareholder value. However, in some instances, a takeover may not be in the best interests of shareholders. The SMRS will generally vote FOR opting out of state anti-takeover statutes but, taking into account considerations identified in the anti-takeover policies above, may vote against an opt out where it determines shareholders would benefit from the protections.

IX. MERGERS AND ACQUISITIONS

Votes on mergers and acquisitions involve an evaluation of the merits and drawbacks of the proposed transaction. This can include consideration of the following:

- Valuation. Is the value to be received by the target shareholders (or paid by the acquirer) reasonable? While the fairness opinion may provide an initial starting point for assessing valuation reasonableness, emphasis is placed on the offer premium, market reaction, and strategic rationale.
- Market Reaction. How has the market responded to the proposed deal? A negative market reaction should cause closer scrutiny of a deal.
- Strategic Rationale. Does the deal make sense strategically? From where is the value derived? Cost and revenue synergies should not be overly aggressive or optimistic, but reasonably achievable. Management should also have a favorable track record of successful integration of historical acquisitions.
- Negotiations and Process. Were the terms of the transaction negotiated at arm's length? Was the process fair and equitable? A fair process helps to ensure the best price for shareholders. Significant negotiation "wins" can also signify the deal makers' competency. The comprehensiveness of the sales process (e.g., full auction, partial auction, no auction) can also affect shareholder value.
- Conflicts of Interest. Are insiders benefiting from the transaction disproportionately and inappropriately as compared to non-insider shareholders? As the result of potential conflicts, the directors and officers of the company may be more likely to vote to approve a merger than if they did not hold these interests. Consider whether these interests may have influenced these directors and officers to support or recommend the merger.
- Governance. Will the combined company have a better or worse governance profile than the current governance profiles of the respective parties to the transaction? If the governance profile is to change for the worse, the burden is on the company to prove that other issues (such as valuation) outweigh any deterioration in governance.

A. Individual Transactions

The SMRS will vote on merger and acquisition proposals on a CASE-BY-CASE basis, taking into account the recommendation of its proxy voting agent, and the merits and drawbacks of the proposed transaction in determining what it believes

will be in the best interests of the SMRS.

B. Restructurings, Spin Offs, Privatizations, Asset Sales and Liquidations

The SMRS will vote on proposed transactions on a CASE-BY-CASE basis, taking into account the recommendation of its proxy voting agent, in determining what it believes will be in the best interest of the SMRS.

C. Appraisal Rights

Appraisal rights help to protect shareholders from unfair pricing in corporate transactions. The SMRS will vote FOR proposals to provide shareholders with, restore or otherwise support rights of appraisal.

X. SECURITIES LENDING

SMRS has a fiduciary duty to pursue optimal financial returns to its beneficiaries. To that effect, SMRS has developed a securities lending program to generate income, primarily from fees derived from lending its equity in portfolio companies to qualified borrowers. However, the SMRS also has a fiduciary duty to protect the beneficiaries' long-term interests and manage proxy voting rights as a trust fund asset. In some instances, that might preclude lending equities because the SMRS cannot vote shares that are on loan. These competing responsibilities must be balanced to maximize value for the beneficiaries. This policy seeks to strike that balance.

A. Shares Subject to Recall or Restricted Lending

Shares shall not be lent for the purpose of conveying voting rights to a third party. SMRS will restrict securities available to loan, or recall securities currently on loan, on a CASE-BY-CASE basis, as may be necessary to maximize the long-term value of the investment. The SMRS may prevent shares from being lent or recall securities currently on loan upon the occurrence of certain circumstances including, without limitation, pending approval of mergers, acquisitions, bylaw or charter amendments or shareholder proposals that might affect the company's governance practices and executive compensation programs that might affect shareholder value.

In determining whether to lend or recall shares, the SMRS may consider the following factors:

1. Income generated from lending fees as compared to the anticipated value or potential investment risks that could result from passing voting rights to the borrower;
2. The cumulative value of the SMRS's interests in the company;
3. Items that are likely to be on the proxy;
4. Potential for abuse of long-term shareholder interests if the shares were not voted in accordance with SMRS policies; and
5. Other effects on the value of SMRS holdings in the company.

Company meeting dates and lending activity will be monitored to the extent practicable in order to allow shares to be removed from the lending pool or be recalled if the SMRS believes that the exercise of voting rights may be necessary to maximize the long-term value of the investment. SMRS recognizes that the timing of company meeting notices and record dates often preclude implementation of this policy. Accordingly, SMRS will generally vote FOR resolutions that would require companies to provide sufficient advance notice of annual meeting agenda items so that SMRS has sufficient time to recall the loaned securities before the record date.

STATEMENT REGARDING RESPONSIBLE INVESTING, SUSTAINABLE PERFORMANCE AND ENVIRONMENTAL ISSUES

In reviewing responsible investment, sustainable performance and environmental issues, the SMRS may take into consideration the long-term impact on shareholder value, company exposure to risks or liability and the welfare of beneficiaries. It will balance expected benefits, reductions in portfolio risk exposure and company performance ramifications with associated costs, financial impact and competitive issues. While consideration of social policy or political issues alone generally falls outside the SMRS standard of fiduciary responsibility, they can have significant long-term financial and risk ramifications that should be monitored and evaluated by shareholders.

The SMRS will generally support reporting proposals which would provide information of use to investors in evaluating risks and sustainability of corporate performance over the long term (such as from potential exposure to future liability, reputation risk or regulatory restrictions).

It is recognized that many of these proposals present circumstances-specific issues that must be evaluated on a case-by-case basis. In such instances, the SMRS will generally support management unless it determines that management's position is not in the best interests of long-term shareholders. The analysis and recommendation of SMRS' proxy voting agent will be taken into consideration when voting on these issues.

XI. CONSUMER ISSUES AND PUBLIC SAFETY

A. Genetically Modified Foods

Vote CASE-BY-CASE, taking into consideration the analysis and recommendation of the SMRS' proxy voting agent, on proposals to voluntarily label genetically modified organisms (GMO) ingredients in the company's products, or alternatively to provide interim labeling and eventually eliminate GMOs. Vote FOR proposals that ask for a report on the feasibility of labeling products that contain GMOs.

Generally vote AGAINST proposals to completely phase out GMOs from the company's products, except where substantial regulatory, financial, health or reputation risks are present. Such resolutions often presuppose that there are proven health risks to GMOs—an issue on which the SMRS prefers to defer to regulators—which outweigh the economic benefits derived from biotechnology.

Vote CASE-BY-CASE, taking into consideration the analysis and recommendation of the SMRS proxy voting agent, on reports outlining the steps necessary to eliminate GMOs from the company's products.

Generally vote CASE-BY-CASE, taking into consideration the analysis and recommendation of the SMRS proxy voting agent, on proposals seeking a report on the health effects of GMOs. The SMRS generally defers to studies undertaken by regulators and the scientific community on such issues.

B. Pandemics

Vote CASE-BY-CASE, taking into consideration the analysis and recommendation of the SMRS proxy voting agent, on requests for reports outlining the impact of a health pandemic (for example, HIV/AIDS, malaria and tuberculosis) on the company's sub-Saharan operations and how the company is responding to it, taking into account the nature and size of the company's operations in sub-Saharan Africa, the number of local employees, the company's existing health care policies (including benefits and health care access for local workers), impact of the diseases on company costs, employee turnover and absenteeism, and company donations to health care providers operating in the region.

C. Tobacco

Vote CASE-BY-CASE, taking into consideration the analysis and recommendation of the SMRS proxy voting agent, on tobacco related proposals, considering whether the company complies with federal, state and local laws, whether the company is in line with peers, whether the proposal will affect the economic status of the company and potential future liabilities.

Vote AGAINST proposals seeking stronger product warnings. These decisions are better left to public health authorities.

Vote AGAINST proposals prohibiting investment in tobacco equities. These decisions are better left to portfolio managers and could have investment performance ramifications.

D. Toxic Chemicals

Generally vote FOR resolutions requesting that a company disclose its policies related to toxic chemicals.

Vote CASE-BY-CASE, taking into consideration the analysis and recommendation of the SMRS proxy voting agent, on resolutions requesting that companies evaluate and disclose the potential financial and legal risks associated with using certain chemicals, considering current regulations in the markets in which the company operates, litigation or fines stemming from toxic chemicals or ingredients at the company, future exposure to regulatory or legal risks, and the current level of disclosure on this topic.

E. Predatory Lending and Sub-Prime Exposure

Vote CASE-BY-CASE, taking into consideration the analysis and recommendation of the SMRS proxy voting agent, on requests for reports on the company's procedures for preventing predatory lending, including the establishment of a board committee for oversight, considering among other things, the company's historical record, the cost/benefit of preparing reports and establishing an advisory committee.

Similarly, the SMRS generally votes CASE-BY-CASE on resolutions asking for reports on sub-prime exposure or for changes in company risk management practices. Past company practices, market developments, proposed company strategies for managing related risks, investor expectations, and the analysis and recommendation of its proxy voting agent are among factors that may be taken into consideration.

F. Product Liability

Vote CASE-BY-CASE on resolutions relating to reports on employee or customer health and safety issues or to changing company product risk management or manufacturing practices. Among other things, the SMRS may take the historical record, legal requirements, associated costs, potential exposure to liability or other risks, and the analysis and recommendation of its proxy voting agent into consideration.

XII. ENVIRONMENT AND ENERGY

A. Arctic National Wildlife Refuge

Vote CASE-BY-CASE on reports outlining potential environmental damage from drilling in the Arctic National Wildlife Refuge (ANWR) considering, among other things, the cost/benefit of preparing such reports, and the analysis and recommendation of the SMRS' proxy voting agent.

B. Coalition for Environmentally Responsible Economics (CERES) Principles

Vote FOR proposals to adopt the CERES Principles, a 10-point code of corporate environmental conduct to be publicly endorsed by companies as an environmental mission statement or ethic. The CERES Principles have been adopted by a sufficient number of companies to establish their viability as a prudent code of conduct for managing and reporting on environmental and related reputation risks and business opportunities.

C. Climate Change

Vote FOR resolutions requesting that a company disclose information on the impact of climate change on the company's operations (which may include reporting pursuant to the Global Reporting Initiative developed by the United Nations), unless the company already provides current, publicly-available information on the perceived impact that climate change and related regulatory developments might

have on the company (including associated policies and procedures to address such risks and/or business opportunities), the company's level of disclosure is comparable to or better than information provided by industry peers and there are no significant fines, controversies, penalties or litigation associated with the company's environmental performance.

D. Land Use

Vote AGAINST resolutions that request the disclosure of detailed information on a company's policies related to land use or development unless the company has been the subject of recent, significant fines or litigation relating to its land use or is exposed to related significant liability or reputation risk.

E. Nuclear Safety

Vote AGAINST resolutions requesting that companies report on risks associated with their nuclear reactor designs and/or the production and interim storage of irradiated fuel rods, unless the company does not have publicly disclosed guidelines describing its policies and procedures for addressing risks associated with its operations, the company is noncompliant with Nuclear Regulatory Commission requirements or the company has significant problems with safety or environmental performance related to its nuclear operations compared to its peers or competitors.

F. Sustainability Reports

Vote FOR proposals requesting the company to report on policies and initiatives related to social, economic and environmental sustainability, unless the company already discloses similar information through existing reports or policies or the company has formally committed to the implementation of a reporting program based on Global Reporting Initiative guidelines or a similar standard within a specified timeframe.

G. Report of Greenhouse Gas (GHG) Emissions

Greenhouse gas emissions create the potential for the most imposing and widespread environmental dangers. SMRS will vote FOR proposals requesting a report on GHG emissions from company operations, unless:

1. The company already provides current, publicly-available information on the impacts that GHG emissions may have on the company as well as associated company policies and procedures to address related risks and/or opportunities;
2. The company's level of disclosure is comparable to that of industry peers; and
3. There are no significant controversies, fines, penalties, or litigation associated with the company's GHG emissions.

H. Adopt GHG Reduction Targets

Proposals requesting that companies adopt GHG reduction goals for operational emissions may be problematic, as adopting GHG reduction goals may not be possible for companies that sell carbon-based products (such as oil or coal) or for companies where the product may depend on consumer energy conservation (such as utilities or homes). SMRS will vote CASE-BY-CASE on such proposals, taking into account:

1. Overly prescriptive requests for the reduction of GHG emissions by specific amounts within a specific timeframe;
2. Whether company disclosure lags behind industry peers;
3. Whether the company has been the subject of recent, significant violations, fines, litigation or controversy related to GHG emissions;
4. The feasibility of reduction of GHGs;
5. Whether the company already provides meaningful disclosure on GHG emissions from its products and operations; and
6. The analysis and recommendation of its proxy voting agent.

I. Other Environmental Reports - Recycling, Renewable Energy, Global Warming

Shareholder proposals regarding other environmental reports will be voted on a CASE-BY-CASE basis, considering among other things the cost/benefit of the reporting, the company's potential exposure, recent practices, potential reputation or other risk, and the analysis and recommendation of the SMRS' proxy voting agent.

XIII. GENERAL CORPORATE ISSUES

A. Link Executive Compensation to Social Performance

Vote CASE-BY-CASE on proposals to review ways of linking executive compensation to extra-financial factors taking into consideration, among other things, potential impact of the factors on company performance, reputation risk exposure, liability, and the analysis and recommendation of the SMRS' proxy voting agent.

B. Charitable/Political Contributions

Generally vote FOR proposals supporting efforts to make shareholders aware of the firm's position regarding Political Action Committees (PACs) and contributions to PACs or other organizations that devote substantial resources to issue ads or otherwise attempt to influence elections. Political contributions can involve significant benefits, as well as reputation and regulatory risks, which might have ramifications for shareholder value.

Vote CASE-BY-CASE on proposals requesting information on a company's lobbying initiatives, considering any significant controversy or litigation surrounding

a company's public policy activities, the current level of disclosure on lobbying strategy, the impact that the policy issue may have on the company's reputation and business operations, and the analysis and recommendation of the SMRS proxy voting agent.

Generally vote AGAINST proposals restricting the company from making charitable contributions. Charitable contributions can be generally useful for assisting worthwhile causes and for creating goodwill in the community. In the absence of bad faith, self-dealing, or gross negligence, management should be in the best position to determine which contributions are in the best interests of the company. Where there are indications that such factors are present, the SMRS may vote FOR proposals that ask for reports or restrictions on charitable contributions.

C. Outsourcing/Offshoring

Vote CASE-BY-CASE on proposals calling for companies to report on the risk associated with outsourcing, considering risks associated with the relevant international markets, reputation concerns, the utility of such a report to shareholders, the existence of a publicly available code of corporate conduct that applies to international operations, and the analysis and recommendation of the SMRS' proxy voting agent.

XIV. LABOR STANDARDS AND HUMAN RIGHTS

A. China Principles

Vote AGAINST proposals to implement the China Principles, unless there are serious controversies surrounding the company's China operations and the company does not have a code of conduct with standards similar to those promulgated by the International Labor Organization.

B. MacBride Principles

In compliance with MCL 38.1133a, vote FOR proposals supporting the adoption of the MacBride Principles for companies doing business in Northern Ireland and vote for proposals to end employment discrimination contained in any agreement between the government of the Republic of Ireland and the government of the United Kingdom. Such proposals reduce exposure to liability, workforce issues and reputation risk for companies operating in Northern Ireland.

C. Other Country-Specific Human Rights Reports

Vote CASE-BY-CASE on requests for reports detailing the company's operations in a particular country and steps to protect human rights, considering risks associated with the relevant countries, the company's history on human rights, potential liability and reputation exposure, and the analysis and recommendation of the SMRS' proxy voting agent. Generally vote FOR resolutions asking for reports on operations in or restrictions on business with countries that are included in United

States or United Nations sanctions lists as perpetrators of genocide or serious human rights violators.

D. International Codes of Conduct/Vendor Standards

Vote CASE-BY-CASE on proposals to implement human rights standards at company facilities or those of its suppliers and/or provide for related independent monitoring, considering among other things company adherence to global standards, agreements with foreign suppliers to meet certain workplace standards, whether company and vendor facilities are monitored, company participation in fair labor organizations, proportion of business conducted in countries with known human rights abuses, recent involvement in significant labor and human rights controversies or violations, peer company standards and practices, union presence in the company's international factories, and the analysis and recommendation of the SMRS' proxy voting agent.

XV. MILITARY BUSINESS

A. Landmines and Cluster Bombs

Vote CASE-BY-CASE on proposals asking a company to renounce future involvement in antipersonnel landmine production, considering whether the company has in the past manufactured landmine components, whether the company's peers have renounced future production, the percentage of revenues derived from landmine manufacture, potential liability exposure, reputation risk, and the analysis and recommendation of the SMRS' proxy voting agent.

Vote CASE-BY-CASE on proposals asking a company to renounce future involvement in cluster bomb production, taking into account what weapon classifications the proposal views as cluster bombs, whether the company currently or in the past has manufactured cluster bombs or their components, the percentage of revenue derived from cluster bomb manufacture, whether the company's peers have renounced future production, potential liability exposure, reputation risk, and the analysis and recommendation of the SMRS' proxy voting agent.

B. Nuclear Weapons

Vote AGAINST proposals asking a company to cease production of nuclear weapons components and delivery systems, including disengaging from current and proposed contracts. Components and delivery systems developed legally serve multiple military and nonmilitary uses and withdrawal from these contracts would be likely to have a negative impact on the company's business.

C. Operations in Nations Sponsoring Terrorism

Generally vote FOR requests for a review and report on the company's financial and reputation risks from its operations in a terrorism-sponsoring state, considering among other things, current disclosures on the nature and purpose of the operations,

the amount of business involved that could be affected by political disruption, and compliance with United States or United Nations sanctions and laws.

XVI. WORKPLACE DIVERSITY

A. Equal Employment Opportunity (EEO)

Generally vote FOR reports outlining the company's equal employment opportunity initiatives and compliance with applicable laws.

Generally vote AGAINST proposals seeking information on the diversity efforts of suppliers and service providers. Such reports can pose a significant cost and administration burden that could impact the company's access to and pricing of supplier contracts.

B. Glass Ceiling

Generally vote FOR reports outlining the company's progress toward the Federal Glass Ceiling Commission's 21 business recommendations aimed at increasing representation and utilization of women and minorities at the highest levels of corporate America.

C. Equal Employment

Proposals to amend a company's equal employment opportunity policy should be considered in accordance with the State of Michigan's own equal employment opportunity policies. The SMRS will vote FOR proposals that are consistent with the Elliott-Larsen Civil Rights Act, 1976 PA 453, MCL 37.2101 *et seq.*

XVII. OTHER ISSUES

Votes on issues not addressed in this policy will be cast in accordance with SMRS analysis of the relevant issues, taking into consideration the standard proxy guidelines of SMRS' proxy voting agent and those used by similar investors. This policy is intended to hold companies accountable to the interests of shareholders and foster good corporate governance that will reduce exposure to risks, ensure sustainable performance and enhance returns. It is subject to revision as new issues arise and best practices change. The SMRS will periodically review and update the policy to further its goals as an institutional investor.