



PERA

PROXY VOTING POLICY

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PURPOSE STATEMENT

This *Proxy Voting Policy* (Policy) is unique to Colorado PERA (PERA), and is set forth by the PERA Board of Trustees and its Investment Committee to guide PERA staff in voting proxies for shares of public companies held in all separately managed public equity portfolios (Portfolios) within both the Defined Benefit and Capital Accumulation Plans (Plans), on behalf of the PERA membership. Shares held in commingled funds are voted by the fund manager. The guidance herein also serves as a statement to PERA's stakeholders regarding the Board's stance on matters that may affect long-term investment value, and may be used to guide PERA's external engagements and advocacy.

PHILOSOPHY STATEMENT

The PERA Board of Trustees believes proxy voting is a significant right and responsibility to be exercised prudently within the fiduciary capacity owed to PERA members, retirees, and their beneficiaries. As shareholders we hold the right to vote on matters that can affect the long-term financial sustainability of the investments we make on behalf of the membership. Therefore, PERA views that right, in itself, as an asset of the Plans to be managed under fiduciary duty.

Proxy voting is a formal mechanism through which corporations and their shareholders communicate about practices that can affect a company's long-term sustainability. As such, matters that come to ballot for shareholder vote encompass a broad range of issues that may have a material impact on long-term investment returns. As with any aspect of business, these may be labeled as environmental, social, and/or governance (ESG) factors.

PERA has long recognized that sound corporate governance practices can drive profitability and competitive advantages for companies, and strong returns for their long-term investors. Governance matters remain the most prevalent topics brought

to shareholder vote and those with the most empirical evidence indicating support for long-term value creation.

Within PERA's fiduciary duty, and in accord with PERA's *Statement of Investment Policy*, we pursue the best risk-adjusted returns to the Portfolios in order to meet pension obligations over a long-term horizon.¹ As such, financial sustainability remains our priority in all investment and proxy voting decisions. To the extent that other sustainability factors—such as those pertaining to the natural environment or society—are financially material to a particular investment within the PERA Portfolios, they are integrated into our decision framework.

PERA acknowledges that financial materiality is dynamic, subjective, and may vary by investment. By focusing on materiality in our proxy voting decisions, we believe we can direct PERA's resources toward issues that are most pertinent to the expected risk-adjusted returns of our investments, in line with our fiduciary duty.

As proxy issues change over time, the PERA Board of Trustees and its Investment Committee will continue to evaluate the appropriateness of the guidance set forth in this *Proxy Voting Policy*. We will continue to seek alignment of corporate management interests with PERA's investment interests, with the ultimate aim of encouraging companies to adopt sound practices in aspects of business that can enhance profitability and long-term shareholder returns.

GOALS AND OBJECTIVES

The goal of PERA's proxy voting activities is to exercise shareholder rights to encourage the alignment of corporate interests with long-term investor interests. The objectives of our proxy voting activities are aligned with our fiduciary duty and PERA's investment objectives as defined in the *Statement of Investment Policy*. Therefore, PERA's proxy voting practices will generally seek to encourage public companies to adopt operational and oversight practices expected to generate sustainable shareholder returns.

¹ PERA's *Statement of Investment Policy* covers the Combined Investment Funds (CIF), which include the Defined Benefit Trust Funds, the Life Insurance Reserve Fund, and the Health Care Trust Funds. However, all matters outlined in this Policy are also applicable to the Capital Accumulation Plans (CAP).

DUTIES AND RESPONSIBILITIES

GENERAL RESPONSIBILITIES

The PERA Board of Trustees is responsible for overseeing the investment program, including proxy voting. The Investment Committee is responsible for recommending changes to, and monitoring compliance with, PERA's corporate governance and proxy voting policies. Staff is responsible for voting and reporting proxies according to the PERA *Proxy Voting Policy*.

STATUTORY AUTHORITY

The Public Employees' Retirement Association was created by the State of Colorado. The Plans operate by the authority of the Colorado General Assembly, with benefits and administration defined under Title 24, Article 51 of the Colorado Revised Statutes. By state law, the management of the Plans is vested in the Board of Trustees of the Public Employees' Retirement Association of Colorado.

STATUTORY FIDUCIARY RESPONSIBILITY

The Trustees of the Board shall be held to the standard of conduct of a fiduciary in discharging their responsibilities. C.R.S. § 24-51-207(2) states:

As fiduciaries, such trustees shall carry out their functions solely in the interest of the members and benefit recipients and for the exclusive purpose of providing benefits and defraying reasonable expenses incurred in performing such duties as required by law. The trustees shall act in accordance with the provisions of this article and with the care, skill, prudence, and diligence in light of the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims by diversifying the investments of the association so as to minimize the risk of large losses, unless in light of such circumstances it is clearly prudent not to do so.

PERA GOVERNANCE MANUAL RESPONSIBILITIES

Although not required by statute, the *Governance Manual*, adopted November 2001, and subsequently updated and revised, identifies the duties and responsibilities of the various parties that oversee shareholder responsibility.

BOARD OF TRUSTEES

The Board of Trustees, as defined in the *Governance Manual*, will:

- » Approve any corporate governance or shareholder rights initiatives or policies with respect to any corporation or entity of which PERA is a shareholder as recommended by the Investment Committee.

Additional monitoring and reporting requirements are specified in the *Governance Manual*.

INVESTMENT COMMITTEE

The Investment Committee is responsible for assisting the Board in overseeing the PERA Investment Program. Specific responsibilities, as defined in the *Governance Manual*, include:

- » Recommend any corporate governance and proxy voting policies to the Board for approval.
- » Recommend to the Board any corporate governance or shareholder initiatives or policies with respect to any corporation or entity of which PERA is a shareholder.
- » Interact with the Executive Director, General Counsel, and the Chief Investment Officer or their designees on shareholder responsibility matters.
- » Review current policies and practices in the areas of corporate governance and shareholder responsibility at least every five years.
- » Review reports on proxy votes cast annually.

Additional monitoring and reporting requirements are specified in the *Governance Manual*.

STAFF

The overriding role of the staff is to assist the Board of Trustees in managing the PERA Investment Program. In this regard, as defined in the *Governance Manual*, staff is expected to:

- » Recommend to the Investment Committee any shareholder initiatives or policies for consideration.

Additional monitoring and reporting requirements are specified in the *Governance Manual*.

PROXY ADVISORS

Proxy advisors are third-party agents that act on behalf of shareholders in aiding the fulfillment of their fiduciary duties by providing products and services that facilitate timely, informed, and efficient proxy voting.

PERA contracts proxy advisors to obtain access to independent and objective proposal research and recommendations, utilize electronic vote submission mechanisms, and report on voting analytics. As with all external partnerships, PERA staff conduct due diligence in selecting and retaining proxy advisors, and monitor their services on an ongoing basis to assess the realization of anticipated benefits and their cost-effectiveness.

VOTING PROXIES

There can be no one-size-fits-all approach to proxy voting. Each annual, special, or contested meeting held by a company is unique in its own right. Proposals put before shareholders for consideration are specific to each company based upon the dynamics of that company. Each proposal should be evaluated based upon the attributes of the company to which the proposal applies, and within the context of materiality to PERA's investments, with consideration to appropriate and cost-effective resource allocation.

Staff will refer to the Policy when reviewing proposals and instructing votes for shares of domestic and international stocks held in all internally and externally managed public equity Portfolios within the Plans.

VOTE DECISIONS

Under the parameters of this Policy, staff may make voting decisions in one of three ways: Prescribed Voting, Case-By-Case Voting, or Guideline Voting.

PRESCRIBED VOTING

This Policy sets forth prescriptions for how staff should vote proxies regarding certain matters that may come to ballot. The prescriptions to vote *For* or *Against* a proposal are based on generally accepted best practices expected to be accretive to long-term shareholder value.

CASE-BY-CASE VOTING

In some instances, staff should perform case-by-case analysis before deciding how to vote a proposal. Such analysis may include additional inputs from company or shareholder filings, meetings with corporate management or their representatives, proxy advisor research and recommendations, and internal and external public equity portfolio managers.

Unless otherwise stated in this policy, PERA staff will generally review proposals on a case-by-case basis when it has been determined that a meeting may be of heightened importance due to any of the following:

- » Poor financial performance.
- » Lack of effective governance.
- » Poor management.
- » Relevance to PERA's investment thesis.
- » Other events or practices that are expected to be especially beneficial or detrimental to PERA's shareholder interests.

GUIDELINE VOTING

This Policy cannot anticipate nor address all proposal topics that may come to ballot. When voting proposals for which the Policy does not prescribe a specific vote decision or case-by-case analysis, staff must utilize expertise and discretion in deciding how to vote proxies in a manner that is consistent with the philosophy and objectives of this Policy.

In so doing, staff may vote with consideration to recommendations provided by proxy advisors, where they are aligned with the intentions of this Policy and the maximization of long-term shareholder value. Alternatively, staff may perform case-by-case analysis as described above.

VOTE SUBMISSION

PERA casts votes via electronic vote submission platforms provided by proxy advisors. Staff provides voting instructions to the proxy advisor based on the guidance in this Policy, and monitors the advisor's application of PERA's instructions. The proxy advisor maintains records of PERA's electronically executed votes for disclosure and reporting purposes.

VOTE IMPEDIMENTS

There are certain circumstances in which PERA's ability to vote may be limited due to the status of our holdings or jurisdictional ruling.

JURISDICTIONAL RULES

In certain markets, proxy voting involves logistical issues which may affect PERA's ability to vote such proxies. These issues include but are not limited to: untimely notice of shareholder meetings, restrictions on a foreigner's ability to exercise votes, share blocking, requirements to vote proxies in person, and requirements to provide local agents with unrestricted powers of attorney to facilitate voting instructions.

PERA staff may consider differing conventions, laws and regulations that may impede proxy voting when determining how to vote in global markets.

SHARE BLOCKING

Share blocking refers to a rule prohibiting shareowners from trading or loaning shares that they intend to vote for some period of time leading up to, and sometimes following, the annual meeting date for companies under that jurisdiction.

PERA may withhold votes, or take no action, on proposals for companies under share blocking rules if voting could compromise PERA's trading or securities lending activities.

SECURITIES LENDING

PERA lends securities to generate and enhance returns to the Portfolios. When stock shares are loaned, proxy voting rights are transferred with the securities to the borrowing party for the duration of the loan. Therefore, PERA forfeits the right to vote shares of securities on loan unless those shares are recalled before the record date of ownership for proxy voting purposes.

There may be instances wherein PERA deems a particular event brought to vote to be of heightened importance and materiality to the long-term shareholder value expected to result from the voting outcome. In such cases, PERA reserves the right to recall shares on loan prior to record date in order to vote those shares by proxy.

DISCLOSURE OF PROXY VOTES

PERA staff will:

- » Make timely public disclosures regarding proxy votes cast by PERA, which are published following each company meeting.²
- » Report proxy voting activity to the Investment Committee on an annual basis.

PROXY PROPOSAL MATTERS

PERA staff will vote proposals according to this Policy. The proposal matters described in this Policy are not all-inclusive, but are intended to be representative of the various topics that may be brought to vote.

CORPORATE BOARDS

The primary purpose of the board of directors is to represent shareholders, protect their interests, and maximize shareholder value. As such, the board is the focal point of corporate governance at a company. It is widely held by corporate governance experts that non-classified boards composed of a majority of independent directors with separate Chief Executive Officer (CEO) and Chair positions contain the greatest diversity for oversight and ensuring fair representation of shareholder interests.

PERA believes that transparency into corporate boards and their governance structures is essential to our ability to make informed investment decisions.

BOARD DECLASSIFICATION

Classified boards allow for board seats to be turned over only once every few years, and often stagger the elections, thereby reducing board refreshment.

On declassified boards, directors must re-run for election annually. Corporate governance experts believe boards that are declassified are more effective than classified boards as they mitigate

² The link to PERA's proxy voting record and more information regarding PERA's investment stewardship can be found at: <https://www.copera.org/investments/investment-stewardship>

entrenchment of management, allow shareholders to hold directors accountable more readily, and, if necessary, they allow for greater ease to change control of a company through a proxy contest

In addition to shareholder proposals calling for the repeal of classified boards, some companies have voluntarily submitted proposals to repeal their classified boards.

PERA believes declassified boards provide a valuable avenue toward director responsibility and accountability to shareholders and will vote *For* proposals to repeal classified boards.³

BOARD INDEPENDENCE

PERA believes that a board of directors should be composed of a majority of independent directors.⁴ PERA defines an independent director as someone who does not have any kind of significant affiliation with the company other than the directorship.

Further, a director will not be considered independent if during the past five years the director is, had, or has been:

- » Employed by the corporation or employed as a director of an affiliate.
- » An employee, director, or greater-than 20% owner of a firm that is one of the corporation's, or its affiliates', paid advisers or consultants.
- » A 5% or greater ownership interest in a third-party that provides payments to or receives payments from the corporation.
- » Paid more than \$50,000 under a personal contract with the corporation, an executive officer, or any affiliate of the corporation.
- » An employee or director of a foundation, university or other non-profit organization that receives significant grants or endowments from the corporation.
- » Part of an interlocking directorate in which the CEO or other employee of the corporation serves on the board of a third-party entity.

- » Has a relative who is or has been an employee, a director, or a 5% or greater owner of a third-party entity that is a significant competitor of the corporation.

The preceding also applies when any family member of a director falls under these criteria. A family member is defined as: any spouse, parents, children, step-children, siblings, mothers- and fathers-in-law, sons- and daughters-in-law, brothers- and sisters-in-law, aunts, uncles, nieces, nephews, first cousins of the director, and anyone sharing the home of the director.

SEPARATION OF CEO AND CHAIRPERSON ROLES

PERA believes a board that has separate positions for CEO and Chairperson promotes greater management accountability, helps create a board atmosphere of independent leadership, and allows for an unbiased evaluation of the performance of the CEO by the board.

PERA will vote *For* proposals that seek the separation of CEO and Chairperson positions.

PERA will vote *Against* proposals that seek to prevent such separation or impair the independence of the CEO and Chairperson positions.

CORPORATE BOARD COMMITTEES

PERA believes good corporate governance requires companies to establish nominating/governance, compensation, and audit committees within their boards of directors.

PERA will vote *For* proposals that seek to establish any or all of these committees.

PERA also believes that only independent directors should serve on the company's nominating/governance, compensation, and audit committees.

PERA will generally vote *Against* a non-independent or affiliated director on the nominating/governance, compensation, or audit committee.

³ It is acknowledged that PERA has a classified Board and voting for the repeal of classified boards may appear to be a double standard. However, PERA's Board structure is mandated by state statute, not corporate bylaws, and subject to change only through state legislation. Further, PERA Board members that are selected by an open election are placed on the election ballot by petition rather than a ratification vote of a predetermined slate.

⁴ It is acknowledged that PERA's Board structure and practices may be different than those of public corporations. As such, guidance in this policy may appear to be a double standard. However, PERA's Board structure is mandated by state statute, and includes elected representatives of PERA's membership bodies as well as appointees of the Colorado Governor. The Board structure may be changed only through state legislation. The PERA Board must act in the fiduciary care with which they are entrusted. As such, some practices that may be advantageous for corporate boards to adopt may be inappropriate for the PERA Board.

NOMINATING/GOVERNANCE COMMITTEE

PERA believes the nominating/governance committee serves an important role and the existence of such committee is advocated as best practice by many business groups. The committee is expected to demonstrate accountability to shareholders by promoting proper competency, consistent oversight on board refreshment, board diversity, and appropriate director tenure.

The nominating/governance committee should focus on the skillset and subject matter expertise, independence, diversity of viewpoints, and succession plan for each individual director and the board as a whole.

BOARD REFRESHMENT

The board should have a mechanism to evaluate and refresh itself to ensure the relevance of the skills, experience, and attributes of each director to the work of the board.

Furthermore, appropriate board refreshment oversight may mitigate real or perceived conflicts of interest or dependencies that may arise from entrenched boards that are classified or otherwise unrefreshed.

BOARD TENURE

The nominating/governance committee should evaluate director tenure as part of the analysis of a director's independence and overall performance.

PERA believes the average tenure of the entire board should generally be capped at 12 years, especially in those instances where the company exhibits:

- » Poor corporate financial performance.
- » Excessive risk taking.
- » Failure to adopt best corporate governance practices including, but not limited to: majority vote, proxy access, declassified boards, and strong independent board leadership.
- » Failure to adopt majority supported shareholder proposals.

BOARD DIVERSITY

PERA believes a diverse board has benefits that can enhance corporate financial performance, particularly in today's global market place. Nominating/governance committee charters, or equivalent, ought to reflect that boards should

be diverse, including such considerations as background, experience, age, race, gender, ethnicity, and culture.

Companies should include a skills matrix in their proxy statements. It should outline items such as the skills, experiences, background, and qualifications of individual directors, providing shareholders with a clear understanding of the board's collective capabilities. The skills matrix should be accompanied by written narrative describing how the board expects its composition to benefit shareholders.

PERA will vote *For* proposals asking the company to disclose a board skills matrix.

PERA believes that boards of directors should be selected based on the best quality leadership available, and this overarching goal should not be impeded through diversity quota measures.

See the Corporate Diversity, Equity, and Inclusion section of this Policy for more information on PERA's stance regarding talent within corporations.

AUDIT COMMITTEE

PERA places paramount importance on corporate audit integrity. Accordingly, PERA believes the audit committee should take proactive steps to promote auditor independence and audit quality.

AUDITOR SELECTION AND ROTATION

PERA believes the audit committee should fully exercise its authority to hire, compensate, oversee and, if necessary, terminate the company's independent auditor. In doing so, the committee should take proactive steps to promote auditor independence and audit quality.

Even in the absence of egregious reasons, the committee should consider the appropriateness of periodically changing the auditor, bearing in mind factors that include, but are not limited to:

- » The auditor's tenure as independent auditor of the company.
- » The presence of former audit partners, managers, or senior officers in financial reporting or executive positions at the company, or former financial executives of the company in lead offices performing audit work on the company.

- » Directors' relationships with the auditor, including through a directors' employer and service on other audit committees.
- » The proportion of total fees attributable to non-audit services, and a determination of why these services could not have been provided by another party to safeguard the auditor's independence.
- » The completeness, timeliness, and clarity of the annual letter to the audit committee discussing the independence of the auditor.
- » The significance of the audit and total fees to the lead office and engagement partner performing the independent audit.
- » The quality and frequency of communication from the auditor to the audit committee.
- » The experience, expertise, and professional skepticism of the audit partner, manager, and senior personnel assigned to the audit, and the extent of their involvement in performing the audit.
- » The incidence and circumstances surrounding a financial restatement, whether at the company or at another company, audited by the same firm.
- » The incidence and circumstances surrounding the reporting of a material weakness in internal controls by the auditor.
- » The clarity, utility, and insights provided in the auditor's report and the auditor's letter to management in relation to the audit.
- » The level of transparency and robustness of the audit firm with the audit committee and investors, including with respect to audit quality indicators, governance practices and underlying principles, and the financial stability of the audit firm.
- » Inspection results and fines levied by the Public Company Accounting Oversight Board or other regulators.
- » The track record of the lead partners and the extent of their professional commitments, as provided upon request or observable through disclosure or signature of the lead partner on the auditor's report.

- » Reasons cited by other companies for discontinuing their engagement of the same audit partner and/or auditor.
- » The results of annual auditor performance reviews by audit committee members.
- » The availability of a replacement for the existing auditor with the requisite experience and staffing required by professional standards to perform a quality audit.
- » The auditor's position on whether it requires the inclusion of an arbitration clause that would place limitations on investors' ability to recover damages they have incurred.

See the Auditor Ratification section of this Policy for more information regarding PERA's stance on auditor quality and independence.

See the Mandatory Arbitration Provisions section of this Policy for more information regarding PERA's stance on forced arbitration provisions.

AUDIT COMMITTEE REPORT

Investors are the "customers" and end users of financial statements and disclosures in the public capital markets. Both the audit committee and the auditor should recognize this principle.

The audit committee report should provide meaningful information to investors about how the committee carries out its responsibilities.

The report should include:

- » A fact-specific explanation for not changing the company's auditor if the committee chooses to renew the engagement of the auditor with more than 10 years of consecutive service, or if the auditor is retained despite knowledge of substantive deficiencies identified during the committee's review of the considerations described above.
- » An explanation of how the committee carries out its auditor compensation responsibilities in consideration of audit quality objectives.

PERA believes the audit committee should also publicly disclose the following:

- » The tenure of the auditor.
- » The reasons for an auditor, audit team or partner change, if the change occurred prior to the end of a standard rotation period.

- » Inspection results and fines levied by the Public Company Accounting Oversight Board or other regulators.
- » Whether a restatement is announced and the company received a qualified report on internal controls, unless there is transparent disclosure that clearly articulated that the material weakness in internal controls occurred subsequent to the unqualified report on controls issued by the auditor.
- » Whether the auditor has violated auditor independence rules.
- » A statement signed by the CEO and Chief Financial Officer (CFO) certifying that the company's financial statements and disclosures are accurate, complete and based on the company's actual accounting records.
- » Fees paid for non-audit services, such as tax fees, which should be reasonable when compared as a percentage to all fees paid.

COMPENSATION COMMITTEE

PERA believes the compensation committee should be comprised of independent members with the appropriate skills, knowledge, experience, and a sound process for compensation decision-making.

The committee should fully exercise its authority to provide oversight of executive pay programs and the compensation policy for the company as a whole, including utilization of all available tools—such as stock arrangements or bonus incentives—to attract and maintain individuals who possess the vision and leadership necessary to promote corporate growth and profits, and protect shareholder rights and value.

In general, PERA believes the committee should focus on compensation practices that:

- » Maintain appropriate pay-for-performance alignment, with an emphasis on long-term shareholder value.
- » Avoid arrangements that reward executives for failure.
- » Provide clear, timely disclosure that allows shareholders to evaluate pay practices.
- » Avoid pay to non-executive directors that may compromise the independence of the board and its ability to serve the interests of shareholders.

See the *Compensation* section of this Policy for more information regarding PERA's stance on corporate pay practices.

DIRECTOR ELECTIONS

With the additional focus placed on the performance of boards, PERA believes appropriate scrutiny should be applied when voting for individual directors, board committees and in some cases the entire board.

PERA will vote *Against* or *Withhold* votes from director nominees, committee members, or the entire board (except new nominees) due to:

- » Governance failures (i.e., material failures of governance, stewardship, risk oversight, fiduciary responsibilities).
- » Poor responsiveness (e.g., failure to act during the following year on majority-supported shareholder proposals, failure to act on takeover offers) including failure to engage shareholders or address concerns from the prior year for issues that received significant shareholder dissent.
- » Problematic takeover defenses (e.g. classified boards where there have been persistent governance issues, adoption of poison pills not supported by shareholders).
- » Unilateral bylaw or charter amendments that have the effect of materially diminishing shareholder rights.

MAJORITY VOTE FOR DIRECTOR ELECTIONS

PERA believes all directors should be elected by a simple majority (50% minimum threshold) vote of shareowners.

As such, PERA will generally vote *For* proposals that require a majority vote for the election of directors.

However, PERA will vote *Against* such proposals if no carve-out for a plurality vote standard in contested elections is included.

DIRECTOR NOMINEES IN COMMITTEE ROLES

Nominees in committee roles, particularly chairperson positions, should be held accountable to shareholders in their oversight duties. In instances where director nominees in committee chairperson roles are not adequately performing their duties, PERA may oppose the election of those nominees.

DIRECTOR ELECTIONS—NOMINATING/ GOVERNANCE COMMITTEE

In cases where the board does not reflect a commitment to the nominating practices in this Policy, specifically when the board lacks competency, diversity, skills matrix disclosure, or has a board-level tenure that suggests entrenchment, PERA will generally oppose election of the chairperson of the nominating/governance committee.

PERA will also vote *Against* or *Withhold* votes from the chairperson of the nominating/governance committee when the board and/or key committees do not meet independent standards as defined in this Policy.

DIRECTOR ELECTIONS—AUDIT COMMITTEE

PERA will generally vote *Against* or *Withhold* votes from the chairperson of the audit committee if the non-audit fees paid to the auditor exceed a quarter of all fees paid to the auditor. However, if the company provides explicit disclosure that the auditor received less than \$50,000 in non-audit fees per year, then the chairperson of the audit committee will not receive an adverse vote (i.e., *de minimis* exception).

PERA will also vote *Against* or *Withhold* votes from the chairperson of the audit committee if poor accounting practices are identified that rise to a serious level of concern, such as: fraud; misapplication of generally accepted accounting standards in corporate disclosures and material weaknesses.

DIRECTOR ELECTIONS— COMPENSATION COMMITTEE

In the absence of an Advisory Vote on an executive compensation ballot item or in egregious situations, PERA will vote *Against* or *Withhold* votes from the members of the compensation committee and potentially the full board if there are:

- » Problematic compensation practices.
- » Pay for performance misalignment.
- » Failure of the Board to address any issues in situations where previous compensation proposals received significant shareholder dissent.

DIRECTOR NOMINEES IN UNCONTESTED ELECTIONS

PERA will vote *Against* or *Withhold* votes from director nominees that:

- » Have attended less than 75% of board meetings and committee meetings.
- » Are overcommitted, meaning they sit on an excessive number of boards (the quantity of which may be dependent upon various factors specific to the company and nominee), which may prohibit effective participation on the board in question.
- » Are affiliated with boards of failed companies, or companies under current federal, state, regulatory, or congressional investigation or review.
- » Have served on boards whose governance record is indicative of a board that does not support policies expressed by PERA's *Proxy Voting Policy*.
- » Are also the CEO or CFO of a company where a serious restatement has occurred after the CEO or CFO certified the original financial statements.
- » Have sat on a board for the past five consecutive years and the company has been in the bottom quartile for financial performance among industry peers for the past five consecutive years.

DIRECTOR NOMINEES IN CONTESTED ELECTIONS

Proxy contests are the result of an unsatisfied or dissident shareholder, or group of shareholders, who may believe the current board and management have not done a viable job of protecting and increasing shareholder value and profits. Proxy contests are usually directed towards director nominees who dissidents believe to be responsible for perpetuating poor business practices. Contests can include terms such as cumulative voting and confidential voting.

PERA will vote proposals dealing with proxy contests on a case-by-case basis.

CORPORATE CHARTER AND BYLAW PROVISIONS

Provisions in corporate bylaws and charters may deal with a number of issues that can affect shareholder rights including proxy access, arbitration, special meetings, and reincorporation. PERA believes that sound corporate governance includes maintaining provisions whereby shareholders can voice concerns over practices that may jeopardize long-term shareholder value.

SUPER MAJORITY VOTE FOR AMENDMENTS TO CHARTER AND BYLAW PROVISIONS

A simple majority (50% minimum threshold) of voting shares should be sufficient to pass proposals affecting corporate governance provisions. Requiring a supermajority (>50% minimum threshold) of voting shares could permit management to become entrenched and allow amendments that are in the interest of shareholders to fail on the ballot. There may be other factors to consider such as ownership structure, quorum requirements, and vote requirements.

PERA is generally in favor of proposals seeking to reduce or eliminate supermajority requirement provisions, and will vote *Against* proposals that provide for a supermajority vote.

PROXY ACCESS PROVISIONS

Proxy access gives shareholders the ability to place alternative, independent board director candidates on the ballot. If structured properly, proxy access can provide shareholders with a means of affecting change without incurring the expense of launching a proxy contest.

PERA generally supports proxy access proposals that require an investor or group of investors to meet an ownership threshold of at least 3% of the company's shares continuously for at least the prior three years in order to nominate directors (up to 25% of the company's board) at public companies.

PERA will vote *Against* proxy access proposals—including those introduced by management—that are more restrictive than the guidelines in this Policy.

EXCLUSIVE FORUM PROVISIONS

Exclusive forum provisions for "intra-entity" disputes may include claims asserting directors' and officers' breaches of fiduciary duty, claims seeking to overturn directors' business judgments on mergers, and other matters.

While a single court forum may bring greater predictability to the process of ruling on such claims, it is logical to expect that given a choice, management would choose a forum where rulings are consistently advantageous to management rather than shareholders.

PERA believes that clauses establishing one court as the sole venue for shareowner claims could potentially limit shareowners' ability to succeed in the pursuit of compensation for meritorious claims.

PERA will vote *Against* any proposal requesting exclusive forum for intra-entity disputes.

MANDATORY ARBITRATION PROVISIONS

Mandatory arbitration clauses in bylaws or other corporate documents can diminish the rights of shareholders in pursuing legal action against a company with respect to fraud and other securities claims. At the same time, mandatory arbitration clauses used by companies in contracts or as a condition of employment can also diminish the rights of other stakeholders in pursuing actions on the basis of employment issues, product safety, breach of contract, etc.

In both instances, eliminating the option for class action suits and forcing individuals or investors into the arbitration process may be seen as an attempt to curb litigation and related financial and reputational risks to a company.

While arbitration proceedings may attempt to cover such risks, mandatory arbitration provisions may actually expose the company to more risks if challenged by company stakeholders and legislative or regulatory bodies. These risks can be costly to companies and their shareholders and cause reputational harm.

PERA opposes the adoption of mandatory arbitration bylaws in restricting shareholder access to courts, and will generally oppose any such proposals.

PERA will generally support proposals asking for material disclosures pertaining to associated risks, and how a company is managing those risks—and will support proposals calling for the removal of mandatory arbitration provisions where appropriate.

FEE-SHIFTING BYLAW PROVISIONS

Fee-shifting bylaw provisions require shareholders who sue a company unsuccessfully to pay all litigation expenses of the defendant corporation.

PERA is generally opposed to such provisions and may take into account factors such as rationale, overall disclosure, breadth of application, and general governance features when voting as outlined under the Guideline Voting parameters.

RIGHT TO CALL A SPECIAL MEETING

The right to call a special meeting allows a shareholder to present certain matters for vote before the next annual meeting.

When evaluating proposals pertaining to the right to call a special meeting, factors such as consent threshold, shareholders' current right to act by written consent, investor ownership structure, previous proposal outcomes, and the inclusion of exclusionary or prohibitive language may be considered.

PERA will vote *Against* proposals that prohibit shareholders' ability to call special meetings.

ABILITY TO ACT BY WRITTEN CONSENT

Written consent is the right for shareholders to take action on governance matters such as electing directors or adopting a shareholder resolution, without waiting for an annual or special meeting. PERA may consider factors such as consent threshold, shareholders' current right to act by written consent, investor ownership structure, previous proposal outcomes, and the inclusion of exclusionary or prohibitive language when voting on such proposals.

PERA will vote *Against* proposals that prohibit shareholders' ability to act by written consent.

REINCORPORATION

Proposals to change the state of incorporation or charters and bylaws of a company are common and normally without controversy. However, there is a notable tendency among some companies to

reincorporate as an attempt to amend charters/bylaws in a manner that could potentially diminish shareholder value.

PERA believes good corporate governance requires the protection of shareholder's value and rights when formulating these proposals.

Regarding offshore reincorporation proposals, PERA will vote *Against* off shore reincorporation proposals if it is shown the reincorporation is an attempt to dilute shareholder rights.

Regarding state of incorporation proposals, PERA will vote *For* proposals to change the state of incorporation whenever the change supports shareholder interests.

However, PERA will vote *Against* proposals where the expected outcome would be a limitation on shareholder rights.

ANTI-TAKEOVER DEFENSES

Various methods of anti-takeover defenses have been adopted by companies to prevent hostile takeovers. Additionally, state governments have adopted statutes to support companies in anti-takeover defenses in an attempt to be more attractive as a location for incorporation. The result has been a lessening of shareholders' abilities to affect change in companies when there is a belief that management may not be protecting and promoting the best interests of the shareholders in a hostile takeover situation.

POISON PILLS

PERA opposes the use of poison pill anti-takeover defenses, as they offer shares to current shareholders at a discount to market price in an effort to dissuade an acquiring firm, diluting owned shares in the process.

PERA will vote *For* proposals that call for companies to submit poison pills to shareholder votes, or proposals calling for companies to rescind or redeem poison pills.

PERA will vote *Against* management proposals to create poison pills even when they are submitted to a vote.

NET OPERATING LOSS PILL

Companies may propose the adoption of a poison pill for the stated purpose of protecting its net operating losses (NOL). While PERA acknowledges the tax value of NOLs may be beneficial to shareholders, the ownership acquisition limitations contained in an NOL pill could serve as an anti-takeover device that could exacerbate a problematic governance structure.

PERA will vote *Against* such proposals if the term of the pill could be deemed excessive.

CORPORATE RESTRUCTURING

Good financial health of companies is essential for maximizing shareholder value. In an effort to ensure financial success, companies may look to mergers, acquisitions, and the sale or purchase of assets. The anticipated outcomes of such proposals may have far-reaching outcomes for the sustainability of the firms involved.

MERGERS AND ACQUISITIONS

PERA realizes that each proposal for a merger and/or acquisition is unique, with a variety of discrete factors and potential implications to be considered in evaluating each deal brought to shareholder vote.

PERA will vote proposals dealing with mergers and acquisitions as outlined under Guideline Voting.

CAPITAL STRUCTURE

Sound corporate governance includes prudent oversight of capital structure. While some aspects of capital structure should be handled by the board and/or senior management, other issues such as common stock authorization, dividend policy, taxes, types of assets, and growth opportunity can have an impact on shareholder value and should be put to a vote by shareholders.

STOCK AUTHORIZATION

Stock authorizations include a wide variety of circumstances under which companies may issue shares, including, but not limited to preemptive rights for shareholders and blank check preferred stock issuance.

PREEMPTIVE RIGHTS

Preemptive rights provide current shareholders the right to purchase new issuance of stock (proportional to the amount and class they own) before the shares are available to the public.

PERA will vote *For* proposals that would provide preemptive rights, unless the new issuance would dilute existing shares by more than 5%.

BLANK CHECK PREFERRED STOCK

The terms of blank check preferred stock give the board the power to issue shares of preferred stock at its discretion, with voting rights, conversion, distribution, and other rights to be determined by the board at time of issue.

PERA will vote *Against* such issuance if its use is intended to be for anti-takeover purposes.

UNEQUAL VOTING RIGHTS

Companies may issue multiple classes of stock with differential voting rights. In general, PERA favors "one share, one vote" structures which provide for voting rights equal to a shareholder's economic interest in a company.

PERA will vote *Against* proposals to institute new classes of common or preferred stock with unequal voting rights.

If voting rights are equal, PERA will not oppose a proposal to issue new classes of stock unless it is used as an anti-takeover device intended to reduce the value of the outstanding stock.

SUNSET PROVISIONS FOR MULTI-CLASS EQUITY STRUCTURES IN INITIAL PUBLIC OFFERINGS (IPOS)

Multi-class share structures may financially benefit IPOs and their shareholders for a period of time after the company goes public. However, over longer time periods, these multi-class share structures may have the inverse effect, with companies utilizing these structures underperforming industry peers. This reversion may be due to disparities between economic ownership and voting power that can become problematic through an over-concentration of power to founders and management in longer periods following the initial offering.

PERA will generally support shareholder proposals asking a company that has recently gone public to include a sunset provision on multi-class share

structures.

OPERATIONAL ITEMS

Operational items are generally non-controversial and may be proposed by both management and shareholders. Most operational items address issues and procedural matters relating to the annual meeting process. However, there are some operational items that fall beyond the realm of the annual meeting process.

Many operational proposals do not require shareholder approval pursuant to the charter or bylaws of the company, but will be submitted to shareholders for ratification as a practice of good corporate governance.

RIGHT TO ADJOURN MEETING

Adjournments are normally called for by management when insufficient votes have been received for passage of a proposal item. However, there may be instances where management proposes adjournment with neither intention nor effect of restricting shareholder rights.

PERA will generally oppose adjournment proposals that would diminish shareholder voice.

TRANSACT OTHER BUSINESS

Management may attempt to bring new proposals to vote during an annual meeting. Unless a shareholder attends the meeting, there is no method by which a shareholder can ask questions or voice opposition to a proposal presented at the meeting.

Due to shareholder unfamiliarity with items brought to vote during a meeting, PERA will generally vote *Against* proposals that seek approval to transact other business during a meeting.

CHANGE OF COMPANY NAME

Corporate name changes that are distinctive, or more functional than the original name, may have a positive effect on stock prices.

As such, PERA will generally vote *For* proposals to change the company name.

AUDITOR

The auditor's role is crucial in ensuring the integrity and transparency of the information necessary for protecting shareholder value. However, companies are not legally required to allow shareowners to ratify the selection of auditors.

PERA believes shareowners should have the right to vote annually to ratify the auditors.

AUDITOR RATIFICATION

In addition to the considerations outlined under the *Audit Committee* section of the Policy, a minimum set of standards should be applied to the ratification of auditors:

- » The auditing team should be rotated every five years.
- » The contract between the company and audit firm should not allow for alternative dispute resolution.
- » Accounting methods used should comply with federal and state statutes and regulatory bodies as well as accounting standards and generally accepted accounting practices (and/or applicable local standards).

While PERA believes a vote should be cast against such auditor proposals when companies do not comply with these standards, it can be difficult to determine if certain standards are met due to a lack of available information.

PERA will vote *Against* the ratification of the auditor if any of the above standards are not met, if the auditor's independence or audit integrity has been compromised, or when financial statements previously submitted are found to be inaccurate and have to be restated.

AUDIT FEES

Generally, when non-audit fees represent more than a quarter of all fees paid to the auditor, PERA considers the fees excessive and will vote *Against* auditor ratification, unless adequate explanation is provided, such as the fees being related to a major transaction.

If the company provides explicit disclosure that the auditor received less than \$50,000 in non-audit fees per year, then PERA will vote *For* the auditor ratification (*de minimis* exception).

See the Audit Committee section of this Policy for more information regarding PERA's stance on auditor selection and rotation.

COMPENSATION

Compensation is one of the most important and difficult functions facing companies. It is imperative that critical attention be given to analyzing the many facets of executive, director, and employee compensation.

EXECUTIVE COMPENSATION

While compensation committees should have the flexibility to determine executive compensation, it is also imperative that executives not be given preference over shareholders when non-cash awards are being considered as a means of compensation, and shareholders should approve all non-cash awards.

PERA strongly believes that compensation packages should be performance-based and allow for an annual advisory shareholder vote. However, because of the complexity of compensation packages, it is difficult, if not impossible, to subscribe to a one-size-fits-all method when analyzing compensation packages.

PERA believes the following factors should be taken into consideration when evaluating a compensation package proposal:

- » Performance-based salary and incentives that take into account long term goals and strategies.
- » Stock option awards, including provisions for holding options past retirement.
- » Clawback provisions.
- » Incentive bonus arrangements.
- » Long-term incentive arrangements.
- » Minimum stock ownership and holding requirements.
- » Stock ownership requirements.
- » Golden parachutes.

Such factors may be considered by PERA when voting on proposals pertaining to executive compensation under Guideline Voting.

ACCELERATED VESTING OF UNVESTED EQUITY

Payouts to corporate executives, including accelerated vesting of stock options during changes-in-control without loss of job or

substantial diminution of job duties, are considered a poor pay practice.

PERA generally opposes the acceleration of the vesting of equity awards to senior executives in the event of a change in control (except for pro rata vesting considering the time elapsed and attainment of any related performance goals between the award date and the change in control).

PERA may consider factors such as the company's current treatment of equity in change-of-control situations; and current employment agreements, including potential poor pay practices such as gross-ups embedded in those agreements.

RECOUPMENT OF EXECUTIVE COMPENSATION

Clawback provisions should enable companies to recoup executive incentive compensation due to actions such as fraud or restatement of financial statements, including personal misconduct or ethical lapses that could harm the company's reputation. Companies must publicly disclose these policies and decisions.

When evaluating recoupment or clawback proposals, PERA may consider the following factors:

- » Whether the company has adopted a formal recoupment policy.
- » The rigor of the recoupment policy focusing on how and under what circumstances the company may recoup incentive or stock compensation.
- » Whether the company has a chronic restatement history or material financial problems.
- » Whether the company's policy substantially addresses the concerns raised by the proponent.
- » Disclosure of recoupment of incentive or stock compensation from senior executives or lack thereof.
- » Any additional relevant factors.

HOLDING PERIOD

Holding period proposals require executive officers to retain all or a significant portion of the shares acquired through compensation arrangements, either while employed and/or for at least two years following the termination of their employment; or for a substantial period following the lapse of all other vesting requirements for the award (lock-up period), with ratable release of a portion of the shares annually during the lock-up period.

PERA generally favors stock ownership on the part of directors and believes executive stock ownership is essential for aligning management's interests with those of shareholders. PERA may consider factors including, but not limited to:

- » The required holding period and the retention ratio or officer ownership requirements.
- » Actual officer stock ownership and the degree to which it meets or exceeds the proposal's suggested holding period/retention ratio or the company's own stock ownership or retention requirements.
- » Post-termination holding requirement policies or any policies aimed at mitigating risk-taking by senior executives.

Problematic pay practices, current and past, which may promote a short-term versus a long-term focus.

HEDGING SHARES

Hedging is a strategy to offset or reduce the risk of price fluctuations for an asset. The practice involves risk-minimizing or transferring by trading various financial instruments related to the asset to be hedged, such as the purchase of options contracts on underlying stocks.

Stock-based compensation or open market purchases of company stock should serve to align executives' or directors' interests with shareholders. Directors or executives that hedge their own shares of the company may be putting their personal financial interests above the interests of the company's shareholder base.

PERA will generally vote *For* proposals that would prohibit executives and directors from hedging equity-based awards granted as long-term incentive compensation or other stock holdings in the company.

OTHER COMPENSATION ARRANGEMENTS

PERA believes that non-employee directors and employees should be rewarded for their efforts when those efforts promote corporate growth and profits. There are various arrangements that can be used for rewarding such efforts.

As with executive compensation, PERA believes that an independent board should be capable of making sound decisions concerning other compensation plans.

Other compensation plans should focus on the following attributes:

- » Attracting and retaining highly qualified candidates and employees.
- » Aligning directors' interests with the interests of long-term shareholders.
- » Providing complete plan disclosure to shareholders.

NON-DIRECTOR EMPLOYEE RETIREMENT ARRANGEMENTS

Non-employee director retirement arrangements can create conflicts of interest because of their high value and flexible terms that could lead to a lifetime benefit for not only the director, but also a director's surviving spouse (i.e., golden coffins). Additionally, director retirement plans are often times redundant because many non-employee directors receive pension benefits from their primary or previous employer.

Faced with the increase of scrutiny by shareholders in the arena of director compensation, many companies are seeking shareholder approval to eliminate director retirement plans.

PERA will vote *For* proposals that would eliminate non-employee director retirement plans.

EMPLOYEE STOCK OWNERSHIP ARRANGEMENTS

Employee stock ownership arrangements have become a popular method in which a company rewards employees for their commitment and hard work to ensure the success of the company.

PERA will vote *For* proposals to implement an employee stock ownership arrangement or increase authorized shares for an existing arrangement provided the number of allocated shares are not excessive (i.e., more than 5% of outstanding shares).

See the Compensation Committee section of this Policy for more information regarding PERA's stance on pay practices.

DISCLOSURE OF SUSTAINABILITY METRICS

As with traditional financial metrics, investors seek reliable, decision-useful, and business-specific disclosures on non-financial metrics that may have financially material impacts. Non-financial metrics include those pertaining to various ESG factors.

Where possible, PERA encourages disclosure of standardized metrics for non-financial factors that can impact financial performance. Standardization allows investors to compare performance among company peers to better understand how non-financial metrics may impact competitive advantages and shareholder return over the long run.

Independent standard setters, such as the Sustainable Accounting Standards Board (SASB), work with companies and their investors to develop metrics for voluntary disclosure of financially material ESG factors. Other bodies, such as the Financial Stability Board's Taskforce for Climate-Related Disclosures (TCFD), focus on developing frameworks for firms to voluntarily disclose the environmental impacts of business, which may be met through standardized metrics such as those recommended by SASB.

PERA will generally support well-targeted shareholder proposals that ask a company to disclose standardized metrics on ESG matters that may be financially material, such as those prescribed by SASB.

CLIMATE-RELATED RISKS AND OPPORTUNITIES

Material climate risks and opportunities that may impact long-term shareholder value should be adequately disclosed to investors. PERA encourages companies to use standardized metrics for financially material climate-related disclosure, such as those developed by SASB. Such disclosures may also be integrated within the TCFD framework, which can provide further information as to a company's environmental impacts.

PERA will generally support well-targeted proposals seeking disclosure of financially material climate-related metrics, risks and opportunities such as those prescribed by SASB and TCFD.⁵

GREENHOUSE GAS EMISSIONS

The Paris Agreement has spurred global ambitions to reduce greenhouse gas (GHG) emissions in an effort to limit global temperature rise. As country signatories issue legislation and regulation to measure and curb emissions, companies may be required to report on their emissions and material risks and opportunities associated with them. Companies may also voluntarily disclose emissions, reduction targets, and reduction progress as part of their strategy for managing risks and opportunities related to the transition to a lower carbon economy.

PERA will generally support well-targeted proposals seeking enhanced disclosure of material risks and opportunities related to GHG emissions.

MANAGEMENT OF STAKEHOLDER RELATIONSHIPS AND HUMAN CAPITAL

A company's ability to maintain strong relationships with its many stakeholders can have long-term effects on profitability. Suppliers and employees support a company's value chain to deliver products and services to consumers. Companies must compete for consumer dollars by maintaining relevant offerings to meet changing demands and societal needs.

As companies compete in the market, they also attract capital from investors. Companies should be responsive to investors and align their practices with shareholder interests to maximize long-term investment returns.

Labor is a significant input into economic activity and many firms recognize human capital as their biggest asset. Companies should disclose workforce metrics that give investors insight into how the company's human capital management may impact its financial performance. Such metrics should be presented in a manner that demonstrates a clear connection to audited financial statements.

PERA will generally support well-targeted proposals requesting financially material disclosures about a company's management of stakeholder relationships and human capital.

PERA will vote *For* proposals asking the company to disclose its workforce size and turnover rates.

⁵ In 2021 the International Sustainability Standards Board (ISSB) was created to develop a global baseline of sustainability standards to be utilized in conjunction with accounting standards in audited financial statements. SASB standards inform and uphold ISSB standards, which are still being developed. The TCFD framework also serves as a basis for the developing standards.

CORPORATE DIVERSITY, EQUITY, AND INCLUSION

Shareholder proponents of proposals regarding a company's board diversity policy believe that the best indicator of a company's commitment to workplace diversity is reflected in the composition of its board and senior management. These advocates maintain that the board should mirror the diversity of the workforce and marketplace, thereby ensuring that a variety of viewpoints are heard and factored into corporate decision-making.

PERA recognizes that diversity, equity, and inclusion matters are complex, with no universally-accepted parameters for defining diversity and inclusion metrics or meeting related targets. Likewise, the expected benefits of diverse backgrounds, experiences, skillsets, and representation are not limited to the board level.

PERA believes company culture that fosters inclusion and values diversity of talent in the workplace may fuel innovation and competitive advantages in the marketplace. In turn, these may translate into outperformance and shareholder value.

PERA will vote proposals pertaining to diversity, equity, and inclusion as outlined under Guideline Voting.

PERA will generally support well-targeted proposals seeking financially material disclosures about a company's practices for recruiting, retaining, and representing talent across the organization.

See the Board Diversity section of this Policy for more information on PERA's stance regarding inclusive talent within corporations.

POLITICAL EXPENDITURES AND LOBBYING ACTIVITIES

Companies may make political contributions or other expenditures related to lobbying activities as individual entities or through trade associations operating on their behalf. Such spending is increasingly tied to various environmental, social, or governance related issues which may or may not be aligned with the company's stated objectives or shareholder interests.

PERA believes that political expenditures should be approved by the board of directors and disclosed to shareholders. There should also be sufficient board oversight of trade association spending and lobbying activities (including direct, indirect, and grassroots lobbying).

PERA will vote *For* reasonably-structured and properly-targeted proposals that require board approval and disclosure of all political expenditures, such as political contributions, trade association spending policies and activities as well as lobbying activities, policies, or procedures.

PERA will generally vote *Against* proposals that ask companies to:

- » Cease making political contributions.
- » Publish in newspapers and other media a company's political contributions.

DOCUMENT HISTORY

PERA's *Proxy Voting Policy* was adopted in November 1979. It was amended in November 1980, 1984, 1985, 1987, 1990, 1993, March 1997, November 1997, November 2002, January 2003, September 2010, March 2012, March 2013, June 2013, March 2014, March 2016, November 2018, January 2020, February 2021, and January 2025.