

## SANTA BARBARA COUNTY EMPLOYEES' RETIREMENT SYSTEM

### PROXY VOTING POLICY

The following criteria deal with matters considered of a financial nature only. In most cases they are general policy guidelines to voting shares held at annual and special corporation shareholder meetings. They are not designed to substitute for analysis and judgment which should be exercised as circumstances dictate. The guidelines should not be regarded as mandatory, if local factors and prudence suggest otherwise. Exceptions may be made based on the legal requirements of the countries, local conventions or states in which the company is registered. It is recognized that, in foreign markets, there may be practical difficulties in obtaining notices of company meetings and that the timeliness and disclosure requirements which prevail in the U.S. are often not evident. In those circumstances where adequate and timely disclosure of information necessary to reach an informed and meaningful decision is not possible, the responsible party may abstain. It is also recognized that the decision to abstain by the party responsible for voting the proxy may be due to practical difficulties, to other financial criteria which outweigh the benefits to be gained by voting or to practical difficulties and circumstances beyond its control. Notwithstanding any limitations, it is expected that there will be no abstentions on issues that may affect the economic value of the shareholdings. It is expected that in all cases, the parties will make a good faith effort to get the necessary materials, but it is recognized that, in foreign markets, the means for obtaining planned company meeting notices, dates and agendas, may not be readily available. Nevertheless, a true and accurate record shall be kept of how proxies have been voted or otherwise managed. It is understood that it is the intent of the Board to exercise its voting authority, either directly or through other parties, to whom it has delegated responsibility for voting proxies, according to their judgment of its best financial interest, whenever and wherever possible, and that, while logistics or other factors may sometimes interfere with this intent and principle, it is the ultimate goal of the Board to work with the indicated parties to remove the barriers to voting all shares over time.

With respect to the delegation of proxy voting responsibility, the Board may authorize investment managers to vote shares in accord with this policy. The Board may also utilize the services of a proxy voting agent to assist it in the voting of shares. In the latter regard, SBCERS staff shall work with any such agent to ensure votes are cast in a manner consistent with this policy. To the extent that these guidelines do not address a particular issue, the Board delegates to the Retirement Administrator, the authority to direct the agent on such issues, guided by the general principles of this policy, which is directed toward maximizing shareholder value for the benefit of SBCERS's ultimate beneficiaries.

#### A. Auditors

1. When there is reason to believe the company's auditors have become complacent in the performance of their auditing duties, a vote against that auditors' continuance may be cast.

## B. Board Of Directors

1. Generally, information and circumstances permitting, votes are to be cast in favor of annual election of all directors. Exceptions may be made as circumstances dictate or when pertinent information is unavailable. Once all shareholders have decided through the voting process that the board should be staggered, nominees should be elected based on their qualifications and merits, though SBCERS's interest may argue for actions proposing the repeal of staggered terms.
2. Generally, votes are to be cast in favor of simple majority approval, of shares outstanding, as appropriate for merger proposals. Proposals seeking higher percentages may be approved only if approval is in the financial interest of SBCERS. Exceptions may be made when pertinent information is unavailable. For example, a proposal which sought to reduce the supermajority requirement from 80% to 66 2/3% would generally receive a favorable vote; whereas, a proposal to increase the vote required from a simple majority to a higher percentage would generally not receive a favorable vote.
3. It is concluded that corporate board members' primary responsibilities should be to direct the companies in the interest of all the shareholders. Any proposed director qualifications should relate to a prospective director's capacity to function on behalf of all the shareholders; to the extent that such qualifications are disclosed, votes are to be cast on this basis.
4. Generally, votes are to be cast against blanket requests for limitations of liability and indemnification protection of directors and officers. Generally, such requests allow the protected individual to escape liability even if he or she is found by the courts to have been grossly negligent in the performance of his or her duties as a director and/or officer of the corporation. It is concluded that it is not in the best interest of shareholders to grant such protection on an across-the-board basis, Exceptions may be made as circumstances and legal requirements dictate.
  - a) Legal requirements and circumstances permitting, positive votes may be cast for management sponsored proposals requesting increased indemnification of directors and officers due to damage caused by violations of the duty of care, so long as the director/officer satisfied a "good faith" standard. Broader protection may be supported, provided there is a reasonable basis for support.

- b) Legal requirements and circumstances permitting, positive votes may be cast for increased indemnification proposals where a director/officer defense is unsuccessful, unless there is a final legal/court determination that the director/officer acted in bad faith and not for a purpose that he or she could reasonably believe was in the best interest of the company. Broader protection may be supported, provided there is a reasonable basis for such support.
  - c) Legal requirements and circumstances permitting, votes may be cast against company proposals that request the elimination or limitation of directors' liability for acts evolving from negligence, or other violations of the duty of care that go beyond reasonable standards, except in markets where local conventions suggest otherwise.
5. Votes on the payment of fees to inside (or corporate) directors will be cast in consideration of the average fee per director relative to other companies in the same industry or country. Votes are generally to be cast against proposals granting retirement benefits to outside directors, except in markets where local conventions suggest otherwise. Proposals that seek to pay outside directors' fees in stock instead of cash will receive a positive vote. In the absence of adequate or definitive information, SBCERS will cast its vote based on the surrounding circumstances and the judgment of the responsible party.
  6. Generally, votes should be withheld for the entire slate of proposed directors when management is proposing a series of defensive measures, which serve to insulate incumbent management and hinder the ability of mergers or takeovers to proceed. In the absence of adequate or definitive information, SBCERS will cast its vote based on the surrounding circumstances and the judgment of the responsible party.
  7. Where director candidate(s) are employed by a company having a 20% or greater interest in the subject company, the director candidate(s) will be considered affiliated outsiders, unless they have worked directly for the company in the past, in which case they are classified as insiders. Support shall not routinely be withheld for boards composed solely of such directors, unless relative corporate performance is markedly bad.
  8. Generally, shareholder proposals requesting the board of directors to establish a nominating committee for the selection of director candidates are to receive a favorable vote. SBCERS believes that all important review committees such as nominating, audit or compensation should be staffed by a majority of independent directors. Proposals and/or actions which seek to have such a structure established may be initiated or supported by SBCERS. In the absence of adequate or definitive information, SBCERS

will cast its vote based on the surrounding circumstances and the judgment of the responsible party.

9. Proposals which seek to limit the tenure of directors should receive a negative vote. Proposals which require directors to own a minimum amount of company stock in order to qualify as a director or to remain on the board should receive a negative vote. In the absence of adequate or definitive information, SBCERS will cast its vote based on the surrounding circumstances and the judgment of the responsible party.

#### C. EXECUTIVE COMPENSATION

1. Stock options and incentive compensation plans must have the overriding purpose of motivating corporate personnel. To ensure that such plans are cost and performance effective, attention should be paid to corporate performance. Exceptions may be made when pertinent information is unavailable or when legal requirements do not permit execution of this principle.
2. Votes are generally to be cast against executive incentive stock option plans if the minimum potential dilution of all company plans, including the proposal, is more than 15% of the total outstanding voting power. This figure includes shares proposed for a new plan or amendment plus shares reserved under all existing plans, plus all shares under option but not yet exercised. Typically, no greater than 1 percent dilution per year for the life of the plan should be experienced by shareholders. Exceptions may be made when pertinent information is unavailable or when legal requirements do not permit execution of this principle.
3. Votes are generally to be cast against executive incentive stock option plans which would sell shares to executives at any discount to market value at the time of grant, unless a lower value may be legally offered.
4. Votes are generally to be cast against Restricted Stock Option Plans, outright stock grants or other arrangements to such as pyramiding, stock appreciation rights and cashless exercise. Votes are generally to be cast against proposals which would allow the board to replace or reprice underwater options without shareholder approval. Exceptions may be made when pertinent information is unavailable or when legal requirements do not permit execution of this principle.
5. Executives are defined as the five most highly compensated executive officers of a company and its subsidiaries, and such other senior-level executive and management employees who are designated to receive executive incentive compensation, apart from that which is given to general employees. Exceptions may be made when pertinent information

is unavailable or when legal requirements do not permit execution of this principle.

6. It is the responsibility of the companies to clearly, understandably, and adequately explain the plans and their effects with examples where necessary in order to fully define intent. However, where time permits, inquiry may be made about corporate proposals which are not clear. If the information available and/or obtained is not considered clear or adequate, votes cast will be based on the surrounding circumstances and the judgment of the responsible parties.
7. Generally, any attempt to create an unusually favorable compensation structure in advance of sale of a company should be opposed; however, such proposals will be considered on a case-by-case basis.

E. EMPLOYEE COMPENSATION

1. Generally, employee stock purchase plans, savings and investment plans, or thrift plans are to receive a positive vote, so long as exercise or purchase price is not less than 85% of fair market value on the date of grant or purchase, and no loans are made for the purpose of settling payment for shares or any tax liability arising from exercise or purchase of such shares. Shares issued and reserved with respect to such plans shall only be done when necessary and for the specific uses of the plans. However, such proposals will be considered on a case-by-case basis.

Generally, ESOP's which are funded by the debt of the corporation and/or which represent large percentages of the outstanding shares or cause substantial dilution to ownership and voting power are to be given a careful review. In the absence of any extraordinary or beneficial (to SBCERS) circumstances, these plans should not be approved. Shareholder proposals which seek to have a vote on all such plans should receive a positive vote.

F. MERGERS, ACQUISITIONS, TAKEOVERS

1. SBCERS wants all offers evaluated on its behalf, which are presented for any company in which it invests. To the extent that adequate information is available and legal requirements, and investment practices permit, defensive tactics should be opposed. Each proposal should be reviewed on its own merit, as nothing written here should be constructed as a substitute for the judgment of the responsible party. These defensive tactics may be, but are not limited to:
  - a) Golden parachutes.

- b) Poison-pill preferred.
- c) Lock-up options.
- d) Supermajority voting provision, with the exceptions noted above in Section B (2).
- e) Fair price or minimum price provisions.
- f) Unequal voting rights based on length of ownership of stock.
- g) Requiring that shareholders only be allowed to act at meetings rather than by written consent.
- h) Requiring that all offers be approved by the company's management and/or board of directors before offers are submitted to shareholders.
- i) Requiring that only the board of directors be allowed to increase its size, or that a supermajority of all outstanding shares is necessary to create a larger board of directors, and allowing the board of directors to fill vacancies on the board of directors in between meetings, without shareholder approval.
- j) Requiring that all directors may only be removed for cause, usually on the basis of a supermajority vote, and that directors be allowed to fill vacancies for full terms rather than the remainder of unexpired terms.
- k) Providing for a set of designated "alternate" directors to be appointed to any mid-term vacancy.
- l) Requiring that the power to call a special meeting of the shareholders be vested in the board of directors and/or the chairman exclusively, or providing that such a meeting can only be called after a demand by a supermajority of stockholders, or increasing the number of shareholders necessary to constitute a quorum at an annual or special meeting.
- m) Adopting supermajority voting provisions for transactions between the target company and an "interested shareholder."
- n) Requiring that the percentage vote requirement be based on all outstanding shares entitled to vote and not on votes actually cast.

- o) Enacting redemption provisions where if any person owns a certain percentage of stock pursuant to a hostile tender offer, which is opposed by the management and/or board of directors, the other shareholders have the right to have their shares redeemed by the company at a specified price.
  - p) Requiring the board and/or senior management to consider social, economic and “other factors” when evaluating a bid for the company, rather than basing its decision solely on the price being offered.
  - q) Granting a director who is the chairman or chief executive officer a second or tie-breaking vote.
  - r) Reincorporating in other states solely for the purpose of seeking protection against tender offers and takeovers.
  - s) Issuance of new common and preferred shares and placing the issues in so called “friendly” hands, sympathetic to management.
  - t) Assuming large amounts of debt which will impair the capital position of the corporation, in order to repurchase the corporation’s stock and avoid a tender offer.
2. Each proposal will be evaluated on its merits, but if it is determined that the sole aim of the proposal is to entrench management, and wrest authority and control from shareholders, a vote is to be cast against such proposals. However, this guideline is no substitute for the judgment of the responsible party.
  3. SBCERS also opposes so-called “Omnibus Resolutions”, where management offers one item which is beneficial to shareholders, such as anti-greenmail, and attaches a “rider” or other items such as the ones described above, which are not in the best interest of shareholders. In this situation, a vote will be cast against the entire proposal. A letter (where appropriate) to management may be written by the designated party indicating displeasure with this “lumping” and requesting that the issues be separated.
  4. Generally, votes are to be cast against proposals which adopt or give the board of directors discretionary power to adopt measures designed to deter takeover attempts or other attempts to obtain control of the corporation by making such attempts extremely financially unattractive or impossible, unless such action has received the prior approval of the shareholders of that company. However, such actions will be reviewed on a case-by-case

basis, and legal requirements and circumstances will dictate SBCERS's vote on this matter.

5. Reincorporation proposals will be examined on a case-by-case basis.

G. CORPORATE FINANCING PROPOSALS

1. Authorization of increased shares shall generally be limited to that amount which may be necessary for financing within the next twelve months unless the corporation sets forth other compelling reasons. It is deemed advisable to exercise some control over authorized stock and issuance thereof to allow shareholders input on acquisitions which could change the fundamental characteristics of the company held. Support will generally be given for proposals to increase authorized shares if the proposed increase represents potential dilution of no more than 150%. However, such actions will be reviewed on a case-by-case basis, and legal requirements and circumstances will influence SBCERS's vote on this matter.
2. In general, all shareholder proposals on financial matters are to be given due consideration by SBCERS and/or its advisers. It is incumbent on the companies to respond adequately to these proposals. An inadequate or casual response may affect the responsible party's deliberation and weigh in favor of voting for the shareholder proposal.