



OPERS

Engages

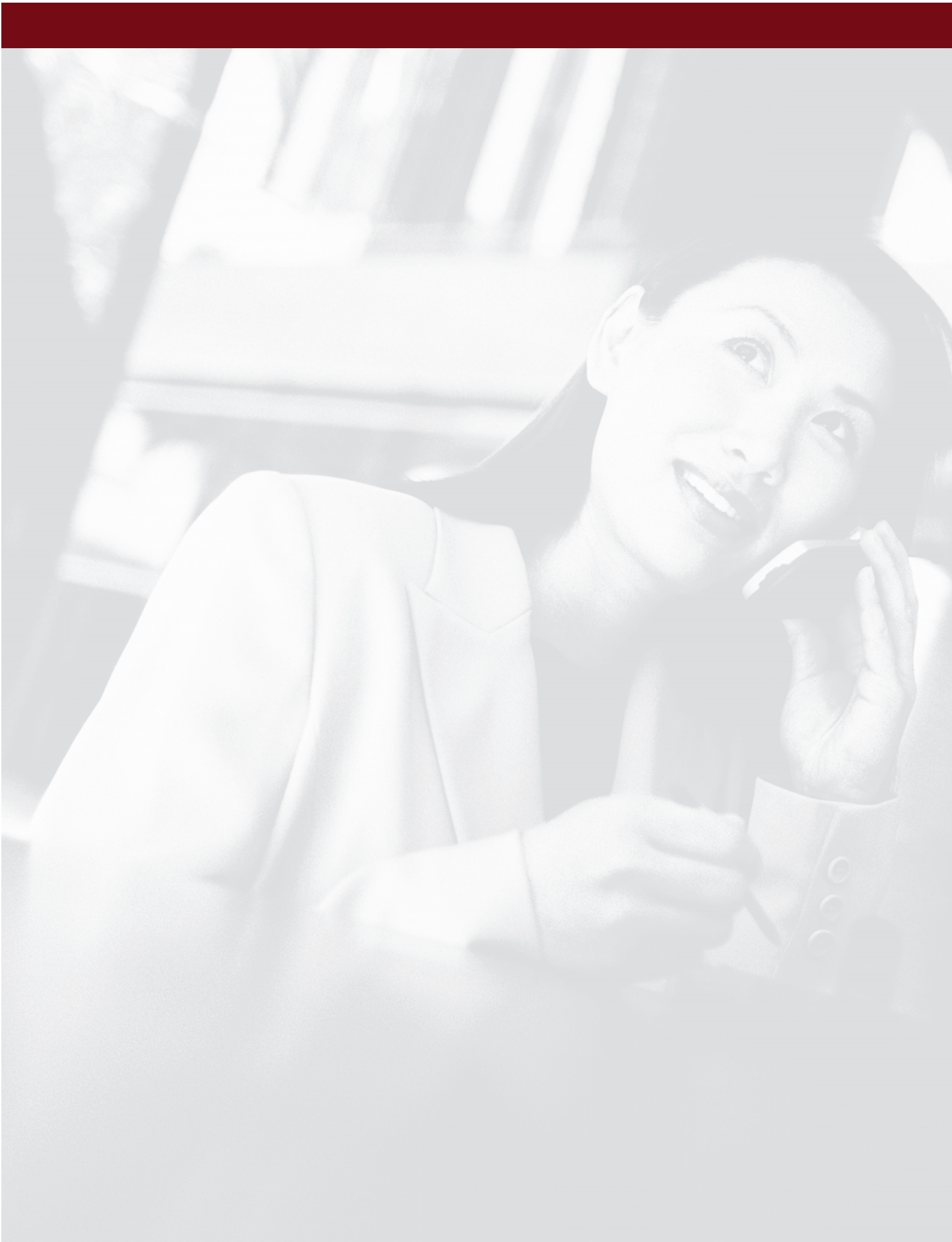
**Ohio's Largest Retirement
System Builds a Strong
Corporate Governance
Program That Enhances
the Long-Term Value of Its
Assets and Investments**

OPERS is good for Ohio.



Ohio Public Employees Retirement System

Updated October 2012



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Background

Effective corporate governance can make a contribution to the long-term financial performance of a company by encouraging corporate integrity, financial accountability, sound leadership and long-term strategic goals of growth and profitability.

Recent developments in shareholder engagement, responsible investing and new regulations have prompted public pension funds to become more involved in issues related to corporate governance. Legislation, company discussions and market developments have also led some funds to increase or change the nature of their corporate governance activities. Some funds are participants in corporate governance, identifying underperforming companies with poor governance practices and then working with companies to adopt best practices and improve performance. Other funds engage in activities by casting proxy votes and participating as a member in corporate governance organizations.

As a long-term investor in the U.S. and international equity markets, the Ohio Public Employees Retirement System (OPERS) strives to manage assets and risks in a prudent, timely and cost-effective manner within its investment objectives and legal authority. As a fiduciary, OPERS exercises its shareowner rights solely in the economic interests of its participants and beneficiaries.

Since 1996, OPERS' corporate governance program has sought to protect and enhance the investment returns of OPERS' assets by monitoring emerging issues and proposed rules and releases from the U.S. Congress, Securities and Exchange Commission and other regulatory bodies; effectively voting its proxies; promoting activities that ensure that management and boards of directors are acting in the best interest of shareowners and in ways that protect OPERS' assets; supporting corporate accountability, financial transparency, and responsibility; and advocating for governmental policies and regulations that are in the best interest of OPERS.

Proxy Voting

At OPERS, the right to vote shares is considered by the Board of Trustees as an important fiduciary responsibility. Adhering to Proxy Voting Guidelines established by the Board, corporate governance department members analyze issues and vote proxy ballot proposals that reflect and consider the economic best interests of the System's participants and beneficiaries.

Mergers and Acquisitions: In accordance with OPERS Proxy Voting Guidelines, staff reviews proxy issues related to mergers and acquisitions to determine the recommendations and proposals presented by company boards and OPERS' proxy-voting research provider. When recommendations are not consistent, staff may consider industry insights and other resources to determine a voting decision that is in the best interest of shareowners and that protects OPERS' assets. Lack of an independent process, undue influence by a controlling shareowner, and indications that the cost of the merger or acquisition would exceed the long-term value for shareowners are factors that have led OPERS to vote against mergers and acquisitions.

Proxy Voting (continued)

Executive compensation proposals: According to the U.S. Securities and Exchange Commission's rules, votes on executive compensation/"say-on-pay" at public companies must occur at least once every three years. Advisory votes on executive compensation give shareowners a voice on the compensation of senior executives. The advisory vote also gives corporate boards – and their compensation committee members – a way to determine if investors envision the company's compensation practices to be in alignment with the best interest of shareowners. The advisory vote by shareowners on executive compensation does not take the place of any fiduciary duty of the board of directors.

Analysis regarding the advisory vote on executive compensation proposals is centered on four major aspects of a company's executive compensation practices:

- Overall compensation structure;
- Disclosure of compensation policies and procedures;
- The amounts paid to executives; and
- The link between pay and performance.

In 2011, OPERS voted 3,523 say-on-pay proposals giving management 76.5 percent support. Advisory votes against executives' compensation at companies were cast in large part because staff noted a lack of correlation between the executives' compensation and the companies' performance.

Moreover, each company is required to hold a vote on the frequency at least once every six years to allow shareowners to decide how often they would like to be presented with the say-on-pay vote. In 2011, OPERS voted 3,490 executive compensation frequency proposals and supported annual say-on-pay frequencies at all companies, except for a triennial frequency at one company.

Ratification of auditors: After a two-year monitoring period of the tenure of audit companies and auditors serving more than 15-year tenures at individual companies, the OPERS Corporate Governance Department recommended and the Board of Trustees voted to adopt a guideline that compared the percentage of non-audit related fees to audit fees, when non-audit fees were greater than 30 percent. In 2011, OPERS voted against the ratification of auditor and withheld its vote for audit committee members on the ballot when this standard was not met.

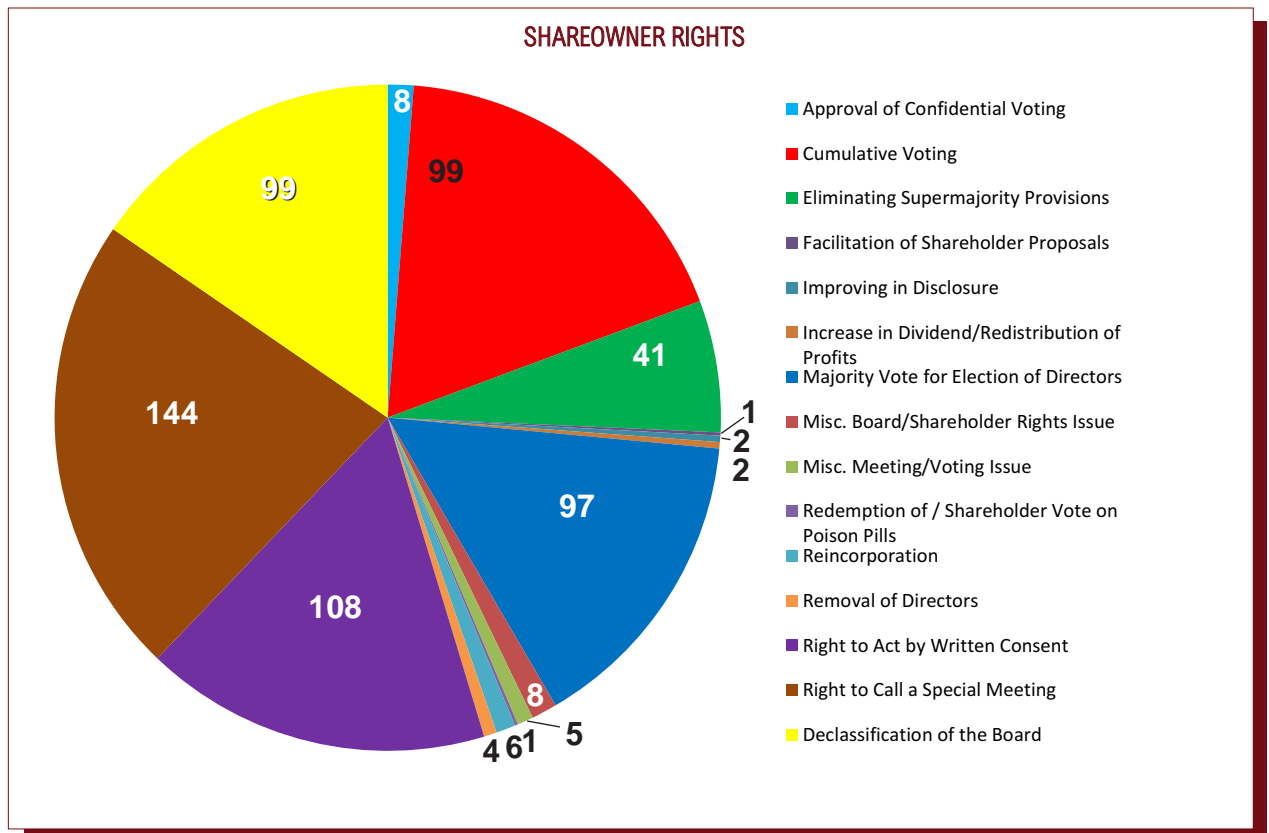
Shareowner proposals: Shareowners rely on the board of directors they elect to act in the best long-term economic interests of the company and its shareowners. From time to time, shareowners file proxy proposals in accordance with the Securities and Exchange Commission Act of 1934, Section 14, which gives the SEC the authority to write regulations covering proxy statement disclosures. The SEC adopted criteria that limit the types of proposals that can be submitted for inclusion in companies' proxy materials and provides procedural details for shareowners.

Proxy Voting
(continued)

OPERS exercises the same due care when analyzing and voting shareowner proposals as they apply to management proposals. In 2011, OPERS voted 642 shareowner rights proposals that addressed a number of issues, including:

- Declassification of the board
- Majority vote for election of directors
- Eliminating supermajority provisions
- Right to call a special meeting
- Right to act by written consent
- Redemption of poison pills
- Improving disclosure
- Confidential voting
- Cumulative voting
- Facilitation of shareowner proposals
- Dividend/redistribution of profits
- Reincorporation, and
- Removal of directors

Shareowner rights: OPERS promotes effective corporate governance practices at the companies in which it invests. OPERS votes its proxies to promote shareowner rights and enhance shareowner value based on the principles outlined in its Proxy Voting Guidelines.



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Proxy Voting (continued)

Social responsibility proposals: Social responsibility is often viewed by shareowners through sustainability issues that management and boards of directors should consider as part of their risk assessment. Social responsibility proposals usually address environmental issues, labor standards and human rights, political and military matters, or health-related topics.

OPERS' Proxy Voting Guidelines generally support social responsibility issues if they either contribute to, or have no adverse effect on, the long-term economic best interests of plan participants and beneficiaries. Social responsibility issues are also supported if they ensure compliance with all U.S. laws or the local laws of the country in which the company does business. OPERS generally supports proposals asking for reporting related to social causes that are in the interest of the general public, provided the proposals do not require the disclosure of proprietary information, cause an undue financial burden on the company, or cause the company duplicate reporting.

Issues on which OPERS cast proxy votes during 2011 include:

HIGHLIGHTS FOR THE YEAR	
<p>VOTED 3,843 company meetings</p>	<p>CAST 763 votes Against the ratification of auditors¹ (15.7 percent)</p>
<p>VOTED 72,042 proposals on company ballots</p>	<p>SUPPORTED 514 shareowner rights proposals</p>
<p>SUPPORTED 142 majority vote for election of directors proposals, of which 45 were management proposals</p>	<p>SUPPORTED 186 social responsibility proposals</p>
<p>VOTED 369 merger and acquisition proposals with 90.5 percent support for managements' position on the M&A</p>	<p>Provided the OPERS Board with a monthly interesting votes memo, covering a company's proxy ballot proposals and the application of the Policy and Guidelines for the votes</p>
<p>CAST 829 votes Against advisory votes on executive compensation (23.5 percent)</p>	<p>CAST 78 percent of OPERS' votes in support of management</p>

¹ Includes ratification of auditor for U.S. proposals and appointment of auditor and appointment of auditor and authority to set fees for non-U.S. proposals.

Note: Proposals voted reflect the number of individual proposals at company meetings multiplied by the number of funds in which OPERS owned an equity stake.

Corporate engagement

OPERS engages in public company educational outreach with its top U.S. equity holdings, reaching out to company directors and senior management to provide information on best practices and recommendations to consider on their corporate governance activities. Its major areas of focus for engagement include:

- Director accountability, independence, experience and qualifications
- Independent board chair
- “Overboarded” directors
- Advisory vote and frequency of advisory vote on executive compensation
- Shareowners rights to act by written consent and call a special meeting
- Cumulative voting
- Reporting, transparency and disclosure
- Independent reviews of internal controls

Following a “quiet diplomacy” standard under which staff encourages company representatives to speak directly about corporate governance matters through open and transparent discussions, OPERS staff not only receive calls from company representatives to discuss corporate governance issues, but also attend company annual meetings to meet in person with company directors and management. Furthermore, when OPERS withheld its votes from director nominees, voted contrary to management recommendations, or needed to communicate its voting decision despite supporting management’s recommendations, OPERS mailed educational outreach engagement letters to its top U.S. equity holdings.

As a result of these engagement efforts, OPERS has received corporate commitments to:

- Take note of best practices in OPERS proxy voting guidelines during the company’s next review of corporate governance standards;
- Adopt annual frequency for the advisory vote on executive compensation;
- Provide more disclosure regarding director independence in the proxy statement;
- Adopt shareowner proposals when majority support is received;
- Increase reporting, transparency and disclosure regarding sustainability issues and risk assessments; and
- Consider OPERS’ recommendations regarding structure and disclosure when revising executive compensation programs.

OPERS Engages

Other activities OPERS participates in corporate governance organizations, works with public and other pension funds, and communicates with legislative and regulatory bodies to educate, inform and ultimately protect OPERS' assets in a difficult market environment.

To support the system's operational excellence, the Corporate Governance Department provides the OPERS Board of Trustees with proxy voting trends, as well as education and discussion of proposed legislation and regulations. It also collaborates with the system's Investment Division, Investment Accounting Department, Government Relations Department, Legal Department and Communications Department on coordinating high-profile, merger, and acquisition proxy votes; providing corporate governance alerts and board of directors' analysis for investment review; offering corporate governance information for securities litigation; and participating in investment account openings and transitions.

OPERS is an active member of corporate governance-related organizations. For example, it coordinated filing shareowner proposals with the Harvard Law School Shareholder Rights Project (SRP), a clinical program through which Harvard Law School faculty, staff and students assist public pension funds and charitable organizations to improve corporate governance at publicly traded companies in which these funds and organizations own shares.

OPERS also works with the SRP on encouraging public companies to repeal classified board structures and move to annual elections, a move widely viewed as corporate governance best practice. During the fourth quarter of 2011, the SRP partnered with OPERS in submitting shareholder proposals to S&P 500 companies for a vote at the companies' 2012 annual meetings. Four of the companies that received declassification proposals have entered into agreements committing them to bring management proposals to declassify their boards of directors.

Maintaining a Public Fund membership in the Council of Institutional Investors allows OPERS to attend and participate at conferences and meetings and to meet with peers to discuss shareowner issues, engagement and proxy voting matters. Moreover, a Corporate Governance Department staff member was elected to the board of directors in the past two years.

Corporate Governance staff members participated in a panel discussion held during the Future of Fiduciary Responsibility conference, covering topics such as corporate governance standards and their application by board members and staff as fiduciaries. Staff members have also participated in a panel discussion held during the Institutional Investor Conference, discussing fiduciary considerations in securities litigation cases and corporate governance in settlement discussions. For the Securities and Exchange Commission, OPERS Corporate Governance staff participated on a proxy voting education initiative and commented on proposed rules regarding listing standards for compensation committees.

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Finally, OPERS co-sponsored the Diverse Director DataSource (3D), a clearinghouse for potential corporate director candidates with a special emphasis on a more diverse range of backgrounds, perspectives, skills and experience.

Current Initiatives

According to an update from MSCI ESG Research, a firm providing in-depth research, ratings and analysis of the environmental, social and governance-related business practices of thousands of companies worldwide, ten trends are likely to affect government and corporate policy profits, as well as market sentiments, during 2012¹:

- Accounting for social value: Do banks generate enough value to society to be worth the cost?
- Civil Liberties Post-Arab Spring: Monitoring potential outbursts in popular discontent and high-risk communications products and services that potentially violate civil liberties and could trigger consumer backlash, negative headlines, and regulatory inquiries and actions in the US and Europe.
- Accounting for natural capital: How investment decisions are affected by rapid degradation of ecosystems and depletion of natural resources affect the long-term sustainability of major economies around the world, as well as how countries are able to protect their resources.
- Shifting debate on climate change: How a global economy driven by processes that generate substantial emissions will impact the issue of climate change and companies offering products based on energy efficiency or renewable energy.
- Bridging the gap in food safety infrastructure: How food manufacturers and retailers are instituting internal systems to offset weaknesses in global food safety.
- Closing corporate tax havens and loopholes to more fully disclose tax strategies and contributions.
- Regulating shale gas and hydraulic fracturing (“fracking”), a well stimulation process used to extract natural gas from rock formations that would otherwise not be commercially viable.
- How labor strife in China is encouraging stronger attention to labor management .
- Conflicting water demands: How the effect of acute water shortages places stress on the utilities, food, beverages, steel, and semiconductor industries.
- Broadening threats to privacy and data security are posing a risk for a wider range of companies beyond the information technology sector.

During the 2012 proxy season, the OPERS Corporate Governance Department is monitoring these emerging environmental, social and governance trends. Staff are also tracking various sustainability issues, such as political spending, evaluating risks with global business, and communicating effective sustainability policies with shareholders.

¹ Lee, Linda-Eling. 2012 ESG Trends to Watch. MSCI. December 20, 2011.
http://www.msci.com/insights/responsible_investing/2012_esg_trends_to_watch.html

Conclusion

Public pension funds are well-situated to engage companies about corporate governance best practices. Their monitoring and promoting best practices can act as a catalyst for positive change in company policies.

By monitoring emerging issues and proposed rules, effectively voting its proxies, and promoting activities that ensure that a company is acting in the best interest of its shareowners, OPERS protects and enhances not only the investment returns of its assets, but also the financial security of its members.

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Hess, David. Public Pensions and the Promise of Shareholder Activism for the Next Frontier of Corporate Governance: Sustainable Economic Development. University of Michigan - Stephen M. Ross School of Business. March 2007.

OPERS Board of Trustees

The 11-member OPERS Board of Trustees is responsible for the administration and management of OPERS. Seven of the 11 members are elected by the groups that they represent (i.e., college and university non-teaching employees, state, county, municipal, and miscellaneous employees, and retirees); the Director of the Department of Administrative Services for the State of Ohio is a statutory member, and three members are investment experts appointed by the Governor, the Treasurer of State, and jointly by the Speaker of the Ohio House of Representatives and the President of the Ohio Senate.

For a current listing of OPERS Board members, please visit www.opers.org

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