

**THE PUBLIC EMPLOYEES
RETIREMENT ASSOCIATION
Of
NEW MEXICO**



PROXY VOTING POLICY

Adopted by the Board of Trustees
December 10, 2013

I. INTRODUCTION	3
A. Statutory Authority	3
B. Standards of Care	3
C. Ethics and Conflicts of Interest	3
II. STATEMENT OF PURPOSE	4
A. Mission Statement	4
B. Purpose of the Proxy Voting Policy	4
III. ROLES AND RESPONSIBILITIES / DELEGATION OF AUTHORITY	4
A. Board of Trustees	4
B. Investment Committee	4
C. Executive Director.....	5
D. Chief Investment Officer and Investment Staff	5
E. General Counsel and Office of General Counsel Staff	5
IV. PROXY VOTING POLICY.....	6
Overview of Casting Proxy Votes	6
A. Board of Directors	
B. Executive Compensation	
C. Ratification of Auditors	
D. Antitakeover Defenses and Related Issues	
E. Voting Structure	
F. Shareholder Proposals	
G. Environmental and Social Risk	

THE PUBLIC EMPLOYEES RETIREMENT ASSOCIATION PROXY VOTING POLICY

I. INTRODUCTION

A. Statutory Authority

The Public Employees Retirement Association of New Mexico (PERA), created by law in 1947, is the entity established for the purpose of administering the provisions of the Public Employees Retirement Act of New Mexico, NMSA 1978, Sections 10-11-1 to 10-11-142, as amended, the Volunteer Firefighters Retirement Act, NMSA 1978, Sections 10-11A-1 to 10-11A-7, as amended, the Judicial Retirement Act, NMSA 1978, Sections 10-12B-1 to 10-12B-19, as amended, the Magistrate Retirement Act, NMSA 1978, Sections 10-12C-1 to 10-12C-18, as amended, and the Public Employees Reciprocity Act, NMSA 1978, Sections 10-13A-1 to 10-13A-4, Section 10-11-133.1, as amended, as well as other federal and State laws relating to the public employees retirement system in the State of New Mexico. As of August 2012, PERA administers thirty-one retirement plans covering state employees, municipal employees, county employees, police, firefighters, judges, magistrates, and legislators.

B. Standards of Care

Uniform Prudent Investor Act

The Uniform Prudent Investor Act (UPIA) [45-7-601 to 45-7-612 NMSA 1978] and Section 10-11-132 NMSA, 1978 govern PERA investments. In summary, the UPIA states that all persons responsible in making investment decisions for the Public Employees Retirement Fund (Fund) will exercise the care, skill, prudence and diligence under the circumstances then prevailing that a prudent investor 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. Investments are to be diversified so as to minimize the risk of large losses, unless under the circumstances, it is clearly prudent not to do so.

The statutes are the foundation for the PERA Policy. The Board adopts the following guiding principles for investment activity:

1. Preserve the long-term principal of the Fund.
2. Maximize total return within prudent risk parameters.
3. Act in the exclusive interest of PERA members, retirees and beneficiaries.

C. Ethics and Conflicts of Interest

Trustees and Staff involved in the investment process will refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions as addressed in Section III of the Board Policy and Procedures.

II. STATEMENT OF PURPOSE

A. Mission Statement

Public Employees Retirement Association of New Mexico (PERA) is governed by the Public Employees Retirement Board (Board). The Board has a fiduciary responsibility to the Retirement Fund's (Fund) members, retirees and beneficiaries. To acknowledge this responsibility, the Board has accepted the following as their Mission Statement:

The mission of the Board of the Public Employees Retirement Association is to preserve, protect, and administer the trust to meet its current and future obligations and provide quality services to Association members.

B. Purpose of the Proxy Voting Policy

The purpose of the Proxy Voting Policy (Policy) is to support proposals that maximize the value of the Fund's investments over the long term. Proxy voting guidelines have been developed to ensure that the Fund is able to provide adequate assets to pay retirement benefits to the members of the Plan. PERA believes that each portfolio's Investment Manager is in the best position to assess the financial implications presented by policy issues and the impact a particular vote may have on the value of a security. Proxy voting is considered to be a component of the investment decision process.

The Policy provides guidance for fiduciaries which include PERA's Board, Staff, and investment managers. PERA does not intend for these guidelines to be exhaustive. Hundreds of issues appear on proxy ballots every year, and it is neither practical nor productive to fashion voting guidelines and policies that attempt to address every eventuality. Rather, these guidelines are intended to cover the most significant and frequent proxy issues that arise. Issues not covered by the guidelines shall be voted in the interest of the participants and beneficiaries of the plan.

III. ROLES AND RESPONSIBILITIES / DELEGATION OF AUTHORITY

The Board relies on both internal Staff and external contractors to properly administer the Fund and implement its investment strategies. Because of the number of parties involved, their roles as fiduciaries must be clearly identified. Such identification increases operational efficiency, ensures clear lines of responsibility, and reduces or eliminates duplication of effort.

A. Board of Trustees

The primary fiduciary responsibility of the Board is to ensure prudent investment and expenditure of the Fund's assets. It is the responsibility of the Board to administer the investments of PERA at reasonable cost, being careful to avoid diminishing quality. These costs include, but are not limited to, management and custodial fees, consulting fees, transaction costs and other administrative costs chargeable to PERA. The Board will operate the investment program in compliance with all applicable federal and State laws and regulations concerning the investment of pension assets. The Board is responsible for establishing and maintaining all policies and guidelines by which the Fund is managed, and by which the Board operates.

B. Proxy Voting Committee

To assist the Board in carrying out its duties, it has established a Proxy Voting Committee (Committee).

Through New Mexico Administrative Code Rules (NMAC), the Board establishes the Committee and the Board Chair appoints the members of the Committee as well as the Committee Chair. The Committee makes recommendations to the Board on proxy voting.

The Committee will meet as necessary to address and implement this Policy. Staff and Consultant(s) will brief the Committee on any topics or issues pertinent to PERA's investment operations, and make recommendations to the Committee for appropriate courses of action. The Committee Chair will have the duty and the authority to set Committee meeting agenda and request specific analysis and reports from the Staff and Consultants.

C. Executive Director

The Executive Director (Director) is appointed by, and serves at the pleasure of the Board. The Director is responsible for planning, organizing, and administering the operations of PERA under broad policy guidance and direction from the Board. The Director, with assistance of Staff (his/her designee), monitors the performance of the investment portfolio; ensures that funds are invested in accordance with Board policies; communicates with the Board, its Officers and Committee Chairs; studies, recommends, and ensures the implementation of policy and operational procedures that will enhance the investment program of PERA; and ensures that proper internal controls are developed to safeguard the assets of PERA. In fulfilling these investment responsibilities, the Director relies heavily on the Investment Staff and Consultant(s).

D. Chief Investment Officer and Investment Staff

The Internal Investment Staff (Staff) reports directly to the Chief Investment Officer (CIO) who in turn reports to the Director. The CIO has primary responsibility for the implementation of the investment program. The CIO, with the assistance of Staff, has the responsibility and authority to advise the Board and its committees on the establishment of investment and administrative policy, to implement the policies and programs established by the Board, to report to the Board on the status of the Fund, and to carry out such other duties the Director, Board or Committee delegate to him/her.

The Staff exercises the same fiduciary responsibility under applicable law as the Board. The CIO and the Staff shall manage the portfolio according to the Board's policies.

E. General Counsel and Office of General Counsel Staff

The Office of General Counsel staff (OGC Staff) reports directly to the General Counsel who in turn reports to the Director. The General Counsel is primarily responsible for legal compliance of the investment program and advises the Board on investment-related legal matters. The General Counsel, with the assistance of OGC Staff, coordinates legal due diligence by external legal counsel for alternative investments, including transactional, regulatory and federal tax matters. OGC Staff exercise the same fiduciary responsibility under applicable law as the Board.

G. External Investment Managers

The external Investment Managers (Managers) are selected by, and serve at the pleasure of, the Board. Each Manager will be a registered adviser under the Investment Advisers Act of 1940 (or appropriately exempt from registration) and operate under a formal contract that sets investment guidelines and administrative requirements and defines responsibilities and performance expectations for management of each mandate. Full discretion in regards to investment of the account and the voting of proxies, consistent with this policy and contractual guidelines, is granted to all investment managers with the understanding that the duty of loyalty requires that the voting fiduciary exercise proxy voting authority solely in the interests of members and beneficiaries of PERA.

IV. PROXY VOTING POLICY

Overview of Casting Proxy Votes and Principals

PERA Staff developed this policy at the direction of the Board. When developing the policy recommendations, Staff reviews best practice governance policies that promote accountability, transparency, and sound corporate governance. This document outlines key provisions and principals of sound corporate governance policies that protect PERA's interest as shareholders and ultimately fulfils, in part, PERA's fiduciary responsibility to its membership.¹

PERA acknowledges that each annual, special or contested meeting held by a company is unique in its own right. Proposals put before shareholders are specific to each company based upon the dynamics of that company and that there can be no one-size fits all approach to proxy voting. Below are select best practices and beliefs that PERA directs its external asset managers to consider and vote PERA shares accordingly when practicable.

A. Board of Directors

Corporate Boards serve shareholders and protect their interests. PERA seeks Boards with a proven record of protecting shareholders and delivering value over the medium- and long-term. PERA believes that Boards working to protect and enhance the best interests of shareholders are independent, have directors with diverse backgrounds, have a record of positive performance, and have members with a breadth and depth of relevant experience. PERA expects managers to hold directors to a high standard when voting on their election, qualifications, and compensation. PERA managers should evaluate directors fairly and objectively, rewarding them for significant contributions and holding them ultimately accountable to shareholders for corporate performance.

PERA believes that a Board should be composed of a majority of independent directors. PERA defines an independent director as someone who does not have any kind of significant affiliation with the company other than the directorship. A director is defined as independent if he or she either has only one nontrivial connection to the corporation--that of his or her directorship. A director generally will not be considered independent if:

- currently or previously employed by the company or an affiliate in an executive capacity;
- employed by a present or former auditor of the company in the past five years;
- employed by a firm that is one of the company's paid advisors or consultants;
- employed by a customer or supplier with a nontrivial business relationship;
- employed by a foundation or university that receives grants or endowments from the company;
- the person has any personal services contract with the company;
- related to an executive or director of the company; or
- an officer of a firm on which the company's chairman or chief executive officer also is a board member.

¹ Much of this document is directly sourced from *Proxy Paper Guidelines: A Summary Overview of The Glass Lewis Approach to Proxy Advice* and *ISS: 2011 U. S. Proxy Voting Guidelines Summary*.

PERA further believes that separating the roles of corporate officers and the chairman of the Board is a better governance structure than a combined executive/chairman position. The role of executives is to manage the business on the basis of the course charted by the board. Executives should be in the position of reporting and answering to the Board for their performance in achieving the goals set out by such Board. This becomes much more complicated when management actually sits on, or chairs, the Board.

We view an independent chairman as better able to oversee the executives of the company and set a pro-shareholder agenda without the management conflicts that a CEO and other executive insiders often face. This, in turn, leads to a more proactive and effective Board of Directors that is looking out for the interests of shareholders above all else.

In the absence of an independent chairman, we support the appointment of a presiding or lead director with authority to set the agenda for the meetings and to lead sessions outside the presence of the insider chairman. PERA managers should:

- Generally vote FOR shareholder proposals calling for an independent board chair or separation of the two positions

PERA believes good corporate governance requires companies to establish nominating, compensation, audit and governance committees, all of which should be comprised of only independent directors. PERA managers should:

- Generally vote AGAINST or WITHHOLD votes from any non-independent director who serves on a key board committee.

The performance of the key board committees is also a factor for consideration in the election of directors. PERA managers should consider specific actions of the committees in upholding the general principles of these guidelines. For example:

- Votes against the members of the compensation committee should be considered if the committee has approved excessive executive compensation;
- Votes against members of the nominating committee should be considered when a board fails to implement a reform that was approved by a majority of shareholders; or
- Votes against members of the audit committee should be considered if an auditor receives more than half its fees from non-audit services.

Lastly, PERA believes strongly that all directors should be elected by a majority vote of shareowners and that Boards be declassified, which allows for greater ease to change control of a company through a proxy contest, a valuable avenue toward director responsibility and accountability to shareholders.

B. Executive Compensation

PERA believes executive compensation is of utmost importance and critical determinant of any company's performance. A well-designed executive compensation plan aligns the interests of senior management with the long-term interests of the company and its shareholders. PERA believes that executive pay programs should be fair, competitive, reasonable and appropriate, and pay for performance should be the major theme for executive compensation. The compensation committee has a duty to represent the interests of shareholders when setting executive pay. As required by

Dodd-Frank, companies are required to give shareholders an advisory vote on executive compensation (aka management “say on pay” or MSOP). This non-binding shareholder vote on compensation must be included in a proxy at least once every 3 years.

PERA managers should evaluate executive pay and practices on a CASE-BY-CASE basis. In general, votes should support compensation that provides challenging performance objectives and properly align executives with long-term growth and value, and oppose compensation that adversely affect shareholders, are excessively generous or lack clear and challenging performance goals.

PERA managers should vote AGAINST management say on pay (MSOP) proposals if:

- There is a misalignment between CEO pay and company performance (pay for performance, i.e., one- and three-year alignment between company performance and CEO pay);
- The company maintains problematic pay practices (e.g., excessive perks, guaranteed bonuses, tax gross-ups);
- Dodd-Frank also requires an advisory vote to determine whether an MSOP vote by shareholders to approve compensation should occur every one, two, or three years. The MSOP is at its essence a communication vehicle, and communication is most useful when it is received in a consistent and timely manner. PERA managers should vote FOR annual advisory votes on compensation, which provide the most consistent and clear communication channel for shareholder concerns about companies' executive pay programs.

Analyzing Equity and Pay Plans. Stock-based incentive plans and grants can be among the most economically significant issues placed before shareholders for a vote. Approval of these plans can result in large transfers of shareholder equity out of the company as awards vest and are exercised. The cost associated with such transfers must be measured if incentive plans are to be managed properly. And when misused, stock options can give executives an incentive to inflate earnings, take excessive risks, or make misleading forecasts in order to keep stock prices high. In general, PERA managers should evaluate executive and director compensation plans on a CASE-BY-CASE basis. When evaluating equity-based compensation items on ballot, PERA managers should consider whether the plans are:

- Performance-based (including performance-vesting for restricted stock awards)
- Dilution (where new plans do not overly dilute the earning and voting power of shares outstanding)
- Grant rates (i.e., are the grants distributed broadly, or concentrated to a select group of executives)

C. Ratification of Auditors

PERA believes that role of the auditor is crucial in protecting shareholder value. In our view, shareholders should demand the services of objective and well-qualified auditors at every company in which they hold an interest. Like directors, auditors should be free from conflicts of interest and should assiduously avoid situations that require them to make choices between their own interests and the interests of the shareholders.

We generally support management’s recommendation regarding the selection of an auditor. However, we recommend voting against the ratification of auditors for any of the following reasons:

- When audit fees added to audit-related fees total less than one-half of total fees.
- When there have been any recent restatements or late filings by the company where the auditor bears some responsibility for the restatement or late filing (e.g., a restatement due to a reporting error).
- When the company has aggressive accounting policies.
- When the company has poor disclosure or lack of transparency in financial statements.
- When there are other relationships or issues of concern with the auditor that might suggest a conflict between the interest of the auditor and the interests of shareholders.
- When the company is changing auditors as a result of a disagreement between the company and the auditor on a matter of accounting principles or practices, financial statement disclosure or auditing scope or procedures.

D. Antitakeover Defenses and Related Issues

PERA believes that poison pill plans generally are not in the best interests of shareholders. Specifically, they can reduce management accountability by substantially limiting opportunities for corporate takeovers. Rights plans can thus prevent shareholders from receiving a buy-out premium for their stock.

We believe that Boards should be given latitude in directing the activities of the company and charting the company's course. However, on an issue such as this where the link between the financial interests of shareholders and their right to consider and accept buyout offers is so substantial, we believe that shareholders should be allowed to vote on whether or not they support such a plan's implementation.

In certain limited circumstances, we can support a limited poison pill to accomplish a particular objective, such as the closing of an important merger, or a pill that contains what we believe to be a reasonable 'qualifying offer' clause.

Proposals to increase the number of authorized shares should be evaluated on a case-by-case basis. Adequate capital stock is important to the operation of a company. When analyzing a request for additional shares, one should typically review four common reasons why a company might need additional capital stock beyond what is currently available:

- Stock split
- Shareholder defenses
- Financing for acquisitions
- Financing for operations

Unless the company has not disclosed a detailed plan for use of the proposed shares, or where the number of shares far exceeds those needed to accomplish a detailed plan, we typically recommend in favor of the authorization of additional shares.

E. Voting Structure

PERA supports cumulative voting, which is a voting process that maximizes the ability of minority shareholders to ensure representation of their views on the Board. Cumulative voting generally

operates as a safeguard by ensuring that those who hold a significant minority of shares are able to elect a candidate of their choosing to the board.

PERA also favors a simple majority voting structure. Supermajority vote requirements act as impediments to shareholder action on ballot items that are critical to shareholders interests. One key example is in the takeover context where supermajority vote requirements can strongly limit shareholders' input in making decisions on such crucial matters as selling the business.

F. Shareholder Proposals

PERA generally favors proposals that are likely to increase shareholder value and/or promote and protect shareholder rights. PERA managers should generally support the following shareholder proposals unless there are extraordinary circumstances involved:

- Remove or submit poison pill plans (anti-takeover devices) to a shareholder vote;
- Repeal classified (staggered terms) boards of directors;
- Submit future golden parachutes to a shareholder voter;
- Reduce supermajority votes;
- Expense stock options;
- Cumulative voting;
- Separate the offices of chair and CEO and/or install independent director as chair;
- Confidential voting;
- Allow shareholders access to the company's proxy materials to nominate directors ("Proxy Access");
- Provide for an independent lead director;
- Provide that all stock plans be performance-based;
- Require that auditors only do audit and legitimate audit-related work;
- Report on or adopt commonly accepted principles of conducts (e.g., Ceres Principles on the environment, UN International Labor Organizations Fundamental Conventions, fair lending practices, U.S. Equal Employment Opportunity Commission).
- Disclose political contributions and/or lobbying expenditures;
- Majority vote standard for director elections; and
- Allow shareholders to call special meetings.

All other shareholder proposals shall be considered by PERA managers on a case-by-case basis, with reference to the generally stated principles in these guidelines.

G. Environmental and Social Risk

PERA believes companies should actively evaluate risks to long-term shareholder value stemming from poor governance practices. In addition, we believe companies should consider their exposure to environmental and social risk, including changes in environmental or social regulation with respect to their operations, as well as related legal and reputational risks and should incorporate this exposure into their overall business risk profile. Companies should disclose to shareholders both the nature and magnitude of such risks as well as steps they have taken or will take to mitigate those risks.

When situations where shareholder value is at risk, we recommend voting in favor of a reasonable and well-targeted shareholder proposal if it is believed supporting the proposal will promote disclosure of and/or mitigate significant risk exposure. In egregious cases where a company has

failed to adequately mitigate risks stemming from environmental or social practices, we recommend shareholders vote against directors.

- PERA managers should generally vote FOR proposals that ask for disclosure reporting of information that is not available outside the company that is not proprietary in nature. Such reporting is particularly most vital when it appears that a company has not adequately addressed shareholder concerns regarding social, workplace, environmental and/or other issues.
- Other proposals should be evaluated on a CASE-BY-CASE basis, taking into consideration whether the request is relevant to the company's core business, overall industry practice and the proponent's rationale.

By signing this Proxy Voting Policy the Board through its Chair, indicates its agreement therewith.

Adopted: December 17, 1992

Amended: December 10, 2013

By: 

Patricia (Patty) French, Chairperson
Public Employees Retirement Association of New Mexico

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
PROXY VOTING POLICY**

REVISED: DECEMBER 17, 1992

FINDINGS:

In response to a report from the Proxy Voting Subcommittee and the Investment Committee, the Board adopts the following as its policy on proxy voting:

1. The Board, as trustee of the PERA funds, has the fiduciary duty to vote proxies unless it has delegated this authority to an investment manager.
2. By contractual agreement, the Board has delegated its authority and obligation to vote its proxies to its equity investment managers.
3. In executing this fiduciary responsibility delegated to them by the Board, the investment managers must exercise the same care, skill prudence and diligence with respect to proxy voting as they exercise with the financial management of the funds assets.
4. Although it has delegated the authority to vote its proxies to the investment managers, the Board retains the fiduciary responsibility to monitor the proxy voting process.

RECOMMENDATIONS:

The primary responsibility of the Board is to insure that the returns to the fund are maximized to maintain the present and future actuarial soundness of the PERA fund. With this in mind, the Subcommittee makes the following recommendations:

1. All PERA investment managers should be required to keep accurate records documenting their proxy voting process with respect to PERA funds.
2. All PERA investment managers should provide to PERA copies of their proxy voting policies, procedures and guidelines. Copies of these procedures should be maintained in the PERA Investment Division.
3. The PERA staff, working with the investment consultant, should develop a procedure to maintain oversight of the investment manager's exercise of their proxy voting authority.
4. The Board should refrain from directing the investment managers on how to vote particular proxies or from taking any action that could be construed as an attempt to influence the manager's vote.
5. The PERA staff, working with the investment consultant, shall provide the Board with annual reports in July of each year of the proxy voting activity related to PERA funds.