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Colorado PERA Proxy Voting Policy

**Colorado
Public
Employees'
Retirement
Association**

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Statutory Authority

The Public Employees' Retirement Association was created by the State of Colorado. The Plan operates 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 public employees' retirement fund 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.

Other Fiduciary Responsibility

Although the Public Employees' Retirement Association of Colorado is not subject to ERISA (Employee Retirement Income Security Act of 1974), it is attempting to comply with the position taken by the U.S. Department of Labor in February 1988. The Department of Labor has stated that the right to vote shares of stock owned by a pension plan is, in itself, an asset of the plan, and therefore the fiduciary's responsibility to manage the assets includes proxy voting. Fiduciaries are required to develop and maintain a written proxy policy, vote in accordance with the written policy, and maintain accurate records of the proxy voting activities.

Shareholder Responsibility Committee of the Board of Trustees¹

To assist the Board of Trustees in carrying out its fiduciary responsibilities in voting proxies, the Board has established a Shareholder Responsibility Committee. The Committee is composed of members of the Board with the Chairman of the Board as an ex-officio member of the Committee. The General Counsel serves as an advisor to the Committee. The Board of Trustees and the Shareholder Responsibility Committee have delegated to its staff in the Legal Department the authority to execute and vote all proxies according to the PERA Proxy Voting Policy. All proxy issues are reviewed by staff on a case-by-case basis and then voted according to guidelines established by the Policy. Staff maintains a complete file of all proxy voting activities. At least annually the Board of Trustees is given a report of shareholder activities.

¹ Committee name changed from Proxy Committee to Shareholder Responsibility Committee pursuant to adoption by Committee on November 20, 1997 and PERA Board on November 21, 1997.

Operational Items

Description: Operational items are generally noncontroversial and are proposed by both management and shareholders. Most operational items address issues and procedural matters relating to the annual meeting process; however, there are some items that are outside the realm of the annual meeting process that are considered operational items. Many 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. While most operational items are usually considered routine, PERA believes that it has a fiduciary responsibility to vote proposals dealing with any operational item. Proposals dealing with operational items not addressed in this policy will be reviewed and voted on a case-by-case basis utilizing analyses and recommendations from staff and outside proxy consultant sources.

Adjourn Meetings

PERA generally opposes attempts to adjourn meetings by proxy vote. Adjournments are normally called for by management when insufficient votes have been received for passage of a proposal item. PERA believes this tactic does not allow for the voice of shareholders to be heard. PERA will vote *Against* adjournment proposals.

Transact Other Business

PERA opposes attempts by management to bring new proposals for a vote at meetings because of the uncertainty of items to be submitted. As such, PERA will vote *Against* proposals that seek approval to transact other business during a meeting.

Change Date, Time, or Location of Annual Meeting

PERA believes good corporate governance provides for changing the date, time, or location of annual meetings when the change is sought to allow and promote increased attendance and participation by shareholders. PERA is against proposals that seek to limit attendance as a result of a difficult location to reach or if a meeting location is changed in an attempt to avoid a majority of angry shareholders. As such, PERA will vote proposals to change the date, time, or location of annual meetings on a *Case-by-Case* basis utilizing analyses and recommendations from staff and outside proxy consultant sources.

Change of Company Name

Corporate name changes that are distinctive, or more functional than the original name, usually tend to have a positive effect on stock prices. As such, PERA will vote *For* proposals to change the corporate name.

Ratification of Auditors

Although companies are not legally required to obtain ratification of auditors by shareholders, companies have routinely submitted proposals for ratification of auditors to shareholders as a practice of good corporate governance. In light of recent scandals surrounding audit firms, PERA believes a minimum set of standards should be applied to the ratification of auditors which includes: the same firm should not perform audit and consulting services, the auditing team should be rotated every five years, an audit committee should be established if there is none, chief executive officers and chief financial officers should sign a statement certifying and verifying that all audit reports are correct, accurate, and based on the companies actual accounting records, and accounting methods used should comply with all federal and state statutes and regulatory bodies as well as accounting standards and generally accepted accounting practices. 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. As such, PERA will vote proposals to ratify auditors on a *Case-by-Case* basis utilizing analyses and recommendations from staff and outside proxy consultant sources.

Disclosure Proposals

PERA will vote *For* disclosure proposals when company disclosure has been inadequate and the shareholder request is not overly expensive or burdensome.

Board of Directors

Description: 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 and Chairman positions contain the greatest diversity for oversight and ensuring fair representation of shareholder interests. PERA believes that corporate transparency is increased by Boards of Directors that meet our policy standards, and that transparency is important in our ability to make informed investment decisions. Proposals dealing with the Board of Directors not addressed by this policy will be reviewed and voted on a case-by-case basis utilizing analyses and recommendations from staff and outside proxy consultant sources.

Separate Positions for Chief Executive Officer and Chairman

PERA believes a Board that has separate positions for Chief Executive Officer and Chairman promotes greater management accountability, helps create a board atmosphere of independent leadership, and allows for an unbiased evaluation of the performance of the Chief Executive Officer by the Board. PERA will vote *For* proposals that seek the separation of Chief Executive Officer and Chairman positions and *Against* proposals that seek to present such separation or impair the independence of the Chief Executive Officer and Chairman positions.

Establish Nominating, Compensation, Audit and Governance Committees

PERA believes good corporate governance requires companies to establish nominating, compensation, audit and governance committees. PERA will vote *For* proposals that seek to establish any or all of these committees.

Withhold Votes for Individual Directors in Uncontested Elections

With the additional focus placed on the performance of boards, PERA believes more scrutiny should be given to voting for individual directors. In uncontested elections, PERA will ordinarily vote *For* the director nominees. However, based upon analyses and recommendations from staff and outside consulting sources, PERA will review individual directors on a *Case-by-Case* basis and *Withhold* votes from individuals who have attended less than 75% of board meetings and committee meetings, sit on an excessive number of boards 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, or whose governance record is indicative of a board member who does not support policies expressed by PERA's Proxy Voting Policy.

Declassified Boards

Corporate governance experts believe boards that are not classified are more effective than classified boards as they do not lead to entrenchment of management, do not insulate directors from being accountable to shareholders, and they allow for greater ease to change control of a company through a proxy contest. Although many U.S. companies have classified boards, recent trends have shown more and more proposals have been submitted and received substantial votes to repeal classified boards. 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. *

* It is acknowledged that PERA is 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 by-laws, and subject to change only through state legislation. Further, PERA Board members are selected by an open election and placed on the election ballot by petition rather than a ratification vote of a predetermined slate.

Stock Ownership Requirements

PERA is opposed to minimum stock ownership requirements if they create a financial barrier for qualified individuals serving as directors. PERA maintains that it is desirable but not mandatory that directors hold their stock in the company until one year after their term expires.

Board and Committee Composition

PERA has adopted the Council of Institutional Investor's definition of an independent director. Basically, an independent director is a person who does not have any kind of significant affiliation with a company other than the directorship. Management-affiliated and management directors are presumed not to be independent directors and the audit, compensation, nominating and governance committees should be comprised of a majority of independent directors. PERA will vote *Against* proposals that do not provide for the board and committees to be composed of a majority of independent directors.

Proxy Contests

Description: Proxy contests are the result of an unsatisfied or dissident shareholder, or group of shareholders, who believe current management has not done a viable job of protecting and increasing shareholder value and profits. Proxy contests can be directed towards directors and corporate policy. Proposals dealing with proxy contests not addressed by this policy will be reviewed and voted on a case-by-case basis utilizing analyses and recommendations from staff and outside proxy consultant sources.

Cumulative Voting

PERA will generally vote *For* proposals that allow for cumulative voting since cumulative voting provides more opportunity for shareholders to change management in contested elections. However, PERA will evaluate proposals on a *Case-by-Case* basis utilizing analysis and recommendations from staff and outside proxy consultant sources.

Confidential Voting

PERA is in favor of confidential voting systems and believes only vote tabulators and inspectors of elections should be allowed to view individual proxy ballots. Dissemination of proxy voting information to management and shareholders should apply to the number of votes cast only.* PERA will vote *For* proposals that provide for confidential voting.

* Disclosure of PERA proxy voting records will be reviewed on a case-by-case basis and subject to Colorado law.

Director Nominees in Contested Election

PERA will vote proxy contests for board seats on a *Case-by-Case* basis utilizing analyses and recommendations from staff and outside proxy consultant sources.

Antitakeover Defenses and Voting Related Issues

Description: Various methods of antitakeover defenses have been adopted by companies to prevent hostile takeovers. Additionally, state governments have adopted statutes to support companies in antitakeover defenses in an attempt to be more attractive as a location for incorporation. The result has been a lessening of shareholders' abilities to effect 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. Proposals dealing with antitakeover defenses and voting related issues not addressed by this policy will be reviewed and voted on a case-by-case basis utilizing analyses and recommendations from staff and outside proxy consultant sources.

Blank Check Preferred Stock

PERA does not support the creation or addition of blank check preferred stock and will vote *Against* proposals which attempt to add this provision.

Bundled Proposals

PERA will vote bundled proposals on a *Case-by-Case* basis utilizing analyses and recommendations from staff and outside proxy consultant sources.

Mergers and Corporate Restructuring

Description: Good financial health of companies is essential for maximizing shareholder value. In an effort to ensure financial success, companies will look to mergers, acquisitions, and the sale or purchase of assets. Each proposal is complex and composed of many factors that must be considered when reviewing proposals. Proposals dealing with mergers and corporate restructuring issues not addressed by this policy will be reviewed and voted on a case-by-case basis utilizing analyses and recommendations from staff and outside proxy consultant sources.

Sale or Purchase of Company Assets

PERA will vote all proposals regarding the sale or purchase of company assets on a *Case-by-Case* basis utilizing analyses and recommendations from staff and outside proxy consultant sources.

Mergers and Acquisitions

PERA realizes that each proposal for a merger and/or acquisition is unique, and many factors must be considered in each merger and/or acquisition. As such, PERA will vote all proposals on a *Case-by-Case* basis utilizing analyses and recommendations from staff and outside proxy consultant sources.

Poison Pills

PERA is not in favor of poison pills and 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.

Stock Authorizations

Stock authorizations include a wide variety of issues. PERA will vote all proposals for stock authorizations on a *Case-by-Case* basis utilizing analyses and recommendations from staff and outside proxy consultant sources.

Preemptive Rights

PERA will vote *For* shareholder proposals that provide shareholders preemptive rights, but will vote *Against* new issues of stock representing five percent or less of existing capital.

Unequal Voting Rights

PERA will vote *Against* all proposals to institute new classes of common or preferred stock with unequal voting rights. If voting rights are equal, PERA will not oppose the proposal unless it is used as an anti-takeover device, which would reduce the value of the outstanding stock.

State of Incorporation and Charters/Bylaws

Description: Proposals to change the state of incorporation or charters and bylaws of a company are common and normally without controversy. Recent trends have shown a tendency by some companies to reincorporate as an attempt to circumvent tax laws or amend charters/bylaws in a manner that could diminish shareholder value. PERA believes good corporate governance requires careful evaluation of proposals to ensure the protection of shareholder's value and rights when addressing these proposals. Proposals dealing with state of incorporation and charters/bylaws issues not addressed by this policy will be reviewed and voted on a case-by-case basis utilizing analyses and recommendations from staff and outside proxy consultant sources.

Offshore Reincorporation Proposals

PERA will vote all offshore reincorporation proposals on a *Case-by-Case* basis utilizing analyses and recommendations from staff and outside proxy consultant sources.

State of Incorporation

PERA will vote *For* proposals to change the state of incorporation whenever the change supports shareholder interests and will vote *Against* a change if it results in limiting rights of shareholders.

Supermajority Vote Requirement for Amending Charter/Bylaws

Good corporate governance practices require only a simple majority of voting shares to pass proposals effecting corporate governance provisions. Requiring a supermajority of voting shares could permit management to become entrenched and allow amendments that are in the interest of shareholders to fail on the ballot. PERA will vote *Against* proposals that provide for a supermajority vote.

Capital Structure

Description: Overseeing the capital structure of a company calls for the practice of good corporate governance as capital structure involves many important issues that include, but are not limited to, dividend policy, taxes, types of assets, and growth opportunity. While many aspects should be handled by the board and/or senior management, there are issues that can have an impact on shareholder value, especially those that deal with the issuance of stock. Proposals dealing with capital structure issues not addressed by this policy will be reviewed and voted on a case-by-case basis utilizing analyses and recommendations from staff and outside proxy consultant sources.

Common Stock Authorization

Common stock authorizations include a wide variety of issues. PERA will vote on common stock authorizations on a *Case-by-Case* basis utilizing analyses and recommendations from staff and outside proxy consultant sources.

Executive and Director Compensation

Description: PERA believes that determining executive and director compensation is one of the most important, and difficult, functions facing companies. With the spotlight on recent corporate failures and the perceived excess of corporate executives, it is imperative that critical attention be given when analyzing the many facets of executive and director compensation. Because each company is unique, PERA believes that compensation committees, when composed of independent directors, are capable of making sound decisions concerning compensation. They should be allowed to utilize all available tools—such as stock plans 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. 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. Proposals dealing with executive and director compensation not addressed by this policy will be reviewed and voted on a case-by-case basis utilizing analyses and recommendations from staff and outside proxy consultant sources.

Director Retirement Plans

Nonemployee director retirement plans 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. Additionally, director retirement plans are often times redundant because many nonemployee 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 favors proposals that eliminate nonemployee director retirement plans and will vote *For* proposals that eliminate nonemployee director retirement plans.

Employee Stock Purchase Plans

Due to the uniqueness and needs of each company, PERA will vote for employee stock purchase plans on a *Case-by-Case* basis utilizing analyses and recommendations from staff and outside proxy consultant sources.

Incentive Bonus Plans

PERA generally favors, and will vote *For*, proposals that add performance goals to incentive bonus plans, or place a cap on the annual grants any one participant may receive. PERA will vote on a *Case-by-Case* basis utilizing

analyses and recommendations from staff and outside proxy consultant sources regarding any proposal that amends existing plans to increase shares reserved to qualify for favorable tax treatment under the Internal Revenue Service regulations.

Employee Stock Ownership Plans

Employee Stock Ownership Plans (“ESOPs”) 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 ESOP or increase authorized shares for an existing ESOP provided the number of allocated shares are not excessive (more than five percent of outstanding shares).

Long-term Incentive Plans

PERA favors the use of stock options for compensation and bonus plans because they are long-term incentives. PERA will vote proposals regarding long-term incentive plans on a *Case-by-Case* basis utilizing analyses and recommendations from staff and outside proxy consultant sources.

Public Disclosure of Director Compensation Packages

PERA is in favor of, and will vote *For* proposals, which call for the public disclosure of director compensation packages.

Minimum Stock Ownership Requirements

PERA generally opposes minimum stock ownership requirements if they create a financial barrier for qualified individuals serving as directors. However, because of increased shareholder scrutiny, PERA will vote proposals opposing minimum stock ownership requirements on a *Case-by-Case* basis utilizing analyses and recommendations from staff and outside proxy consultant sources.

Stock Ownership Requirements

PERA believes it is desirable, but not mandatory, that directors hold their stock for a minimum of one year after their term expires. However, because of increased shareholder scrutiny, PERA will vote these proposals on a *Case-by-Case* basis utilizing analyses and recommendations from staff and outside proxy consultant sources.

Golden Parachutes

PERA will vote *Against* proposals which would enrich management excessively or that would result in unreasonable costs for the company.

Other Proxy Issues Regarding Corporate Governance

Description: Many issues dealing with corporate governance have not been addressed in this policy. PERA believes good corporate governance practices are essential to maximize and protect shareholder value and interests. Corporate governance issues that are not addressed with the Proxy Voting Policy will be voted on a case-by-case basis utilizing analyses and recommendations from staff and outside proxy consultant sources.

Corporate governance issues that are not addressed within the Proxy Voting Policy will be voted on a *Case-by-Case* basis utilizing analyses and recommendations from staff and outside proxy consultant sources.

Social and Environmental Issues

Description: Social and environmental proposals include a broad spectrum of shareholder issues that deal with subjects ranging from genetically modified foods to human rights and labor issues. Such proposals are becoming more commonplace at annual meetings and it is not unusual to see public pension funds, institutional investors, and individual investors submitting shareholder proposals for consideration.

PERA will *Abstain* on all social issues, and will only vote on financial issues.

Morgan Stanley Real Estate Special Situations Fund

The provisions of Section I through Section X of the Policy shall not apply to voting stock acquired by Morgan Stanley Asset Management, Inc. (MSAM) for PERA in the Real Estate Special Situations Fund. PERA delegates to MSAM the authority to vote such proxies in its discretion subject to MSAM's obligation to vote such proxies as a fiduciary to PERA, to develop and maintain a written proxy policy, to vote in accordance with that policy, and to maintain and provide to PERA accurate records of proxy votes. To the extent feasible, MSAM's Proxy Voting Policy shall be consistent with the principles set out in PERA's Proxy Voting Policy.

International Proxy Voting

Description: Proxy voting for international companies is not currently handled by internal PERA staff. The Board of Trustees has determined that the best method for voting international proxies at this time is to continue having the international equity managers vote international proxies.

Shares of stock with associated voting rights, which are purchased by international equity managers for PERA, shall be voted by the purchasing international equity manager subject to the following requirements and standards:

- Each manager shall have a written proxy voting policy which shall be submitted to PERA. Changes or amendments to this policy shall be submitted to PERA when implemented. This policy shall not conflict with the principles set out in PERA's general Proxy Voting Policy unless for good reason, communicated to PERA in writing.
- The manager shall vote all proxies unless it documents in writing that the cost/benefit ratio of voting in that case is unfavorable.
- The manager shall report quarterly in writing all proxy votes. Any exceptions from the manager's proxy voting policy shall be documented.

Domestic Proxy Voting

Description: Proxy voting for domestic companies is handled by internal PERA staff. The Board of Trustees has determined that the best method for voting domestic proxies at this time is to continue having internal PERA staff vote domestic proxies.

Shares of stock with associated voting rights, which are purchased by PERA internal investment staff and domestic equity managers for PERA, shall be voted internally by PERA staff subject to the following requirements and standards:

- PERA staff shall vote all domestic proxies pursuant to the written proxy voting policy adopted by the PERA Board of Trustees.
- PERA staff shall report quarterly in writing all domestic proxy votes.

Revised and adopted by the PERA Board of Trustees and Shareholder Responsibility Committee (formerly Proxy Committee) in January 2003. Previous versions of the Proxy Voting Policy were revised and adopted by the PERA Board of Trustees and/or Shareholder Responsibility Committee (formerly Proxy Committee) in November 2002, November 1997, March 1997, November 1993, 1990, 1987, 1985, 1984, 1980, and 1979.