

EMPLOYEES RETIREMENT SYSTEM OF TEXAS
PROXY VOTING POLICY

(Effective: 2/22/2011)

OBJECTIVE

The right to vote proxies for securities held by the Employees Retirement System of Texas (“ERS”) has economic value, and the fiduciary act of managing ERS’ securities includes the management of voting rights appurtenant to those securities. In voting proxies, ERS shall consider only those factors that relate to the economic value of ERS’ investment, and such votes should be cast in accordance with ERS’ economic best interest. In the case of overlapping or conflicting interests within the fund (e.g., ERS ownership of both equity and debt securities), Staff will consider *all* holdings and seek to maximize the expected value of the combined position.

The objective of this policy is to provide direction in voting proxies in a manner that gives the most benefit to the participants and beneficiaries of ERS and is consistent with the stated goals and objectives of ERS.

The objective of this policy will be accomplished by voting proxies:

- To ensure that management and boards of directors are acting in the best interest of ERS as a shareholder;
- To ensure compliance with all local laws and regulations of countries in which the company does business; and
- To ensure accountability to shareholders, board responsiveness, board independence and director competence.

SCOPE

The *ERS Proxy Voting Policy* is designed primarily to cover publicly traded securities. Other investment forms, such as privately held equity, limited liability corporations, privately held REITs, and bond indentures, are not specifically covered by this policy; although, broad application of this policy can be used for these more specialized forms of equity and debt investments when needed.

ERS maintains voting authority for proxies of both the internally managed public equity portfolios and the externally advised public equity portfolios in the External Advisor Program, which will be voted in accordance with the *ERS Proxy Voting Policy* and *ERS Proxy Voting Guidelines*. Voting authority for proxies of the public equity portfolios that are investments of a limited partnership in which ERS is the sole limited partner will be specified in the governing documents of the respective limited partnerships.

Because ERS conducts a securities lending program, securities may be on loan when proxies must be voted. Lent securities will be recalled for purposes of voting proxies only when it is determined that the proxy requires a vote on a merger, an acquisition, a reorganization or an issue that will significantly affect the rights of ERS as a shareholder. Recalling lent securities for proxy voting purposes is expected to represent the exception rather than the general rule.

Proxy voting policies will be applied to the fullest extent possible for companies domiciled in foreign countries, recognizing that differences in jurisdiction may make it impossible to follow this policy exactly.

PROXY VOTING STRATEGIES

The policy classifies management and shareholder proposals included in proxies into the following six strategies: Routine/Miscellaneous; Board of Directors; Shareholder Rights and Defenses; Capital/Restructuring; Compensation; and Social/Environmental Issues. The *ERS Proxy Voting Guidelines* are consistent with the strategies outlined below and provide further detail on voting proposals most likely to be presented in a proxy.

1. ROUTINE/MISCELLANEOUS

Routine and miscellaneous items concern company standard operating procedures including, but not limited to, the following: routine bylaw amendments, changes to the company name, changes in the date, time and location of the annual meeting, auditor ratification, adjournment of the meeting and “other business.”

Operational issues proposed by management will be supported unless ERS’ review of proposals reveals attempts to limit shareholder rights, increase takeover protections or reduce shareholder value.

Auditor independence from client firms is essential to achieve an objective and impartial review of financial statements. Independence of other professional service providers, such as actuaries and law firms, is also essential to companies receiving objective and impartial service and advice. Proposals to indemnify or limit the liability of auditors or other similar service providers will be opposed. Proposals to limit non-audit services will be supported.

2. BOARD OF DIRECTORS

The composition and structure of the board of directors of a public company (“board”) have a direct impact on its effectiveness.

Votes on the composition of the board, including director nominees and slates of directors, will be evaluated on a case-by-case basis considering the following important elements of an effective board:

- **Board Accountability:** The board should be accountable to shareholders. Policies that promote accountability include transparency of governance practices, annual board elections, shareholder ability to remove problematic directors and shareholder vote on takeover defenses and other charter/bylaw amendments.
- **Board Responsiveness:** The board should be responsive to shareholders, particularly in regard to shareholder proposals that receive a majority vote and to tender offers where a majority of shares are tendered.
- **Director Independence:** The board should be independent from management and should be, therefore, willing and able to effectively set company strategy and scrutinize performance and executive compensation. The audit, compensation and nominating/corporate governance committees should be composed entirely of independent directors.
- **Director Competence:** Directors should have specific skills or expertise that add value to the board and should devote sufficient time and resources to oversight of the company. Directors

who are unable to attend board and committee meetings or who are overextended (i.e., serving on too many boards) raise concern on their ability to effectively serve shareholder interest. Arbitrary limits such as age or term limits may not be effective measures of director performance.

Votes on management and shareholder proposals regarding board structure will be cast to promote board accountability, responsiveness to shareholders, board independence and director competence.

3. SHAREHOLDER RIGHTS AND DEFENSES

Shareholder rights and defenses items pertain to anti-takeover devices and the proxy voting process.

The majority of historical evidence regarding individual corporate anti-takeover devices indicates that companies with management teams more accountable to shareholders and the market outperform companies with heavily entrenched management teams. Proposals designed to instate or increase takeover protection or that eliminate, restrict or inhibit shareholder rights will be opposed.

Proposals that promote a one-share, one-vote standard and the equal treatment of all shareholders will be supported.

The integrity of the proxy voting process depends on a voting system that protects voters from potential coercion and reduction of voting power. Proposals that provide a shield against management pressure, re-solicitation and fraudulent vote tabulation will be supported.

4. CAPITAL/RESTRUCTURING

Proposals involving capital raises, debt restructurings, spin-offs, asset sales and purchases and mergers and acquisitions will be evaluated on a case-by-case basis.

Financing decisions can have a significant impact on shareholder value when they involve the issuance of additional common stock, preferred stock or debt facilities. Financing proposals will be opposed that dilute investment value or include potential anti-takeover measures.

Restructuring proposals where the disadvantages of dilution of future earnings and/or change of control outweigh the prospective survival of the company will be opposed.

Proposals relating to real or potential mergers and acquisitions, asset sales and purchases, spin-offs and tender offers will be scrutinized to determine if they are detrimental to ERS. Any proposal, response by management or outside interests deemed to be detrimental to ERS will be opposed. Those management proposals where existing shareholders receive fair remuneration or shareholder value is increased will be supported.

5. COMPENSATION

Proposals involving executive and director compensation programs will be evaluated on a case-by-case basis for adherence to the following five global principles:

- **Maintain appropriate pay-for-performance alignment, with emphasis on long-term shareholder value.** Compensation should be designed to attract, retain and appropriately

motivate key employees. The link between pay and performance, the mix between fixed and variable pay, performance goals and equity-based plan costs should all be considered.

- **Avoid arrangements that risk “pay for failure.”** Long or indefinite contracts, excessive severance packages and guaranteed compensation should be avoided.
- **Maintain an independent and effective compensation committee.**
- **Provide shareholders with clear, comprehensive compensation disclosures.**
- **Avoid inappropriate pay to non-executive directors.** Excessive compensation could potentially compromise an outside director’s independence and ability to make appropriate judgments with respect to management pay and performance.

Management and shareholder proposals that fail to meet these guiding principles will be opposed.

6. SOCIAL/ENVIRONMENTAL ISSUES

Intangible factors such as social and environmental issues are increasingly being incorporated into valuation models to better quantify the risks and opportunities of long-term investing in a company.

ERS’ voting of social and environmental proposals will be based solely on enhancing or protecting long-term value to ERS and not on establishing or endorsing social policy. As part of its fiduciary duty, ERS shall consider only those factors that relate to the economic value of ERS’ investment and shall not subordinate the interests of ERS’ participants and beneficiaries to unrelated objectives.