



DEPARTMENT OF FIRE AND POLICE PENSIONS

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SUBJECT: REPORT ON THE 2008 PROXY SEASON

Proxy season refers to the period of time when shareholders have the opportunity to elect directors of public companies and vote on governance and social proposals during companies' annual meetings. The Securities and Exchange Commission (SEC) requires that companies send annual reports to its shareholders when they hold annual meetings to elect directors. Most companies' fiscal years coincide with the calendar year and due to SEC report filing deadlines and annual meeting notice requirements, most companies hold their annual meetings in the spring. Therefore, the top proxy season period is usually April-May-June.

LAFPP exercises a voice on behalf of its members in matters of corporate governance through the proxy voting process and utilizes the services of RiskMetrics Group/ISS Governance Services (RMG/ISS) to vote proxies on LAFPP's behalf in accordance with our Proxy Voting Guidelines.

On October 1, 2007, the Board of Fire and Police Pensions joined the Council of Institutional Investors (CII) and, along with leading U.S. and international pension funds, wrote letters to the SEC urging the withdrawal of proposals that would deny or limit shareholder access to the proxy. Despite widespread objection, on November 28, 2007, the SEC voted to deny proxy access to shareholders by allowing corporations to omit shareholder proposals seeking to use corporate proxy materials to nominate directors.

On January 10, 2008, the Board asked Staff to network with other public pension plans so that the LAFPP could participate in the recent movement among institutional investors to leverage their collective influence to advocate for proxy access and strong governance standards.

2008

The following corporate governance issues are receiving special attention during the 2008 proxy season:

- Shareowner access to the proxy for director nominations
- Majority voting in the election of directors at annual meetings
- Independence of boards and the consultants who advise boards on executive pay
- Performance-based executive compensation
- Shareholder Say-on-Pay
- Holding directors accountable for their company's subprime exposure
- Affordable health care
- Reporting on climate change issues

On March 13, 2008, Staff participated in a national institutional investor conference call focused on subprime director accountability. Directors from six banks that suffered the largest losses (Citigroup, Merrill Lynch, Wachovia, Bank of America, Washington Mutual and Morgan Stanley) were asked what they did to assess their firm's mortgage-related risk and ensure that management was properly controlling such exposure. Director responses were reviewed and CtW Investment Group, a shareholder activist organization affiliated with the Change to Win labor coalition, urged institutional investors to vote against, or withhold votes from, three of Morgan Stanley's directors because its risk management reporting structure is inconsistent with best practice and because Morgan Stanley's Chief Executive Officer also serves as Chairman. LAFPP, along with the California State Teachers' Retirement System (CalSTRS), the State Universities Retirement System of Illinois (SURS) and the State of Connecticut Retirement Plans & Trust Funds (CRPTF), voted against the Morgan Stanley director nominees, consistent with the institutional investor conference call recommendations. The votes will be tabulated at Morgan Stanley's annual meeting on April 8, 2008.

On March 20, 2008, Staff attended the Institutional Investor Forum on Corporate Governance Initiatives for the 2008 Proxy Season, hosted by the Los Angeles Area Public Fund Trustees Roundtable. Participants were encouraged to invite clients from a list of top 50 investment managers, ranked by their holdings in companies on the working group's focus list. Staff invited AllianceBernstein, Fisher Group and Northern Trust to the Forum. Presentations on Say-on-Pay, Independent and Responsible Executive Pay Practices, The Mortgage Meltdown and Director Accountability were given by representatives from CalPERS, Florida State Board of Administration (SBA), Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF), AFL-CIO Office of Investment and CtW Investment Group.