

Los Angeles Fire & Police Pension System

7.0 - PROXY GUIDELINES

PROXY ISSUES

The Board delegates to the General Manager the voting of normally routine proxy solicitation matters, such as election of directors and appointment of independent auditors. Exceptions shall be brought to the Board's attention at the General Manager's discretion.

The Board authorizes the General Manager to vote accordingly on the following proxy issues:

- 7.1 **Election of Directors** – Withhold votes from director nominees if 40% or more of the directors are (1) employees or (2) have financial ties to the company, if 33% or more serving on the nominating committee are employees or have ties, if any director nominee attends less than 75% of the board and committee meetings during the previous fiscal year, if the company does not have an independent chair or lead director, or from audit committee member nominees if non-audit services exceed 40% of fees. In a contested election, vote for all management nominees.
- 7.2 **Ratify Selection of Auditors** – Vote for unless the non-audit services exceed 40% of fees.
- 7.3 **Name Change** – Always vote for a management proposal to change the company name.
- 7.4 **Other Business** – Always vote for a management proposal to approve other business.
- 7.5 **Adjourn Meeting** – Always vote for a management proposal to adjourn the meeting.
- 7.6 **Technical Amendments** – Always vote for a management proposal to make technical amendments to the charter and/or bylaws.
- 7.7 **Financial Statements** – Always vote for a management proposal to approve financial statements.
- 7.8 **Increase Authorized Common Stock** – Vote against if the increase is not intended to effect a merger, stock split, or recapitalization.
- 7.9 **Decrease or Amend Authorized Common Stock** – Always vote for a management proposal to decrease or amend authorized common stock.
- 7.10 **Issuance or Exercise of Stock Warrants** – Always vote for a management proposal to approve the issuance or exercise of stock warrants.

- 7.11 **Authorize or Increase Preferred Stock** – Vote against if the board has unlimited rights to set the terms and conditions of the shares.
- 7.12 **Decrease or Amend Authorized or Cancel Series of Preferred Stock** – Always vote for a management proposal to decrease or amend authorized preferred stock or to cancel a class or series of preferred stock.
- 7.13 **Issuance or Conversion of Preferred Stock** – Vote against if the dilution represents more than 20% of the total voting power.
- 7.14 **Preemptive Rights** – Vote for a management proposal to create or restore preemptive rights, and vote against a management proposal to eliminate preemptive rights.
- 7.15 **Dual Class Stock** – Always vote for a management proposal to eliminate authorized dual or multiple classes of common stock. Always vote against a management proposal to amend authorized or to increase authorized shares of one or more multiple classes of dual or multiple class common stock.
- 7.16 **Share Repurchase** – Always vote for a management proposal to approve a stock repurchase program.
- 7.17 **Stock Splits** – Always vote for a management proposal to approve or reverse a stock split.
- 7.18 **Recapitalization & Restructuring** – Always vote for a management proposal to approve recapitalization or to restructure the company.
- 7.19 **Reincorporation** – Always vote for a management proposal to reincorporate in a different state.
- 7.20 **Spin-offs** – Always vote for a management proposal to spin off certain company operations or divisions.
- 7.21 **Sale of Assets** – Always vote for a management proposal to approve the sale of assets.
- 7.22 **Cumulative Voting** - Always vote for a management proposal to adopt cumulative voting and against a management proposal to eliminate cumulative voting.
- 7.23 **Director Liability Provisions** – Always vote for a management proposal to limit the liability of directors or to amend director liability provisions.
- 7.24 **Indemnification Provisions** - Always vote for a management proposal to indemnify directors or officers or to amend provisions concerning the indemnification of directors and officers.

- 7.25 **Board Size** – Vote for a management proposal to set the board size unless the board will consist of more than 12 directors or if there is a proposal to give the board the authority to set the size of the board as needed without shareholder approval.
- 7.26 **Filling Vacancies** - Always vote for a management proposal to allow the directors to fill vacancies on the board without shareholder approval.
- 7.27 **Director Removal** – Always vote for a management proposal regarding the removal of directors.
- 7.28 **Non-Technical Charter Amendments** - Always vote for a management proposal to approve non-technical amendments to the company’s certificate of incorporation.
- 7.29 **Non-Technical Bylaw Amendments** – Vote for a management proposal to approve non-technical amendments to the company’s bylaws unless the amendment would have the effect of reducing shareholders’ rights.
- 7.30 **Classified Board** - Always vote for a management proposal to repeal or amend a classified board and against a management proposal to adopt a classified board.
- 7.31 **Poison Pills** - Always vote for a management proposal to redeem a shareholder rights plan (poison pill), and against a management proposal to ratify or adopt a shareholder rights plan (poison pill).
- 7.32 **Special Meetings** - Always vote for a management proposal to restore shareholders’ right to call a special meeting, and against a management proposal to limit or eliminate shareholders’ right to call a special meeting.
- 7.33 **Written Consent** - Always vote for a management proposal to restore shareholders’ right to act by written consent, and against a management proposal to limit or eliminate shareholders’ right to act by written consent.
- 7.34 **Supermajority Requirement** - Always vote for a management proposal to eliminate a supermajority vote provision to approve merger or other business combinations, and against a management proposal to amend or establish a supermajority vote provision to approve merger or other business combinations.
- 7.35 **Supermajority Lock-In** - Always vote for a management proposal to eliminate supermajority vote requirements (lock-ins) to change certain bylaw or charter provisions, and against a management proposal to adopt or amend a supermajority lock-in if the changes would result in a complete lock-in on all of the charter and bylaw provisions.
- 7.36 **Non-Financial Effects of Merger** - Always vote against a management proposal to expand or clarify the authority of the board of directors to consider factors other than the interests of shareholders in assessing a takeover bid.

- 7.37 **Fair Price Provision** - Always vote for a management proposal to repeal a fair price provision, and against a management proposal to adopt or amend a fair price provision.
- 7.38 **Anti-Greenmail Provision** - Always vote for a management proposal to limit the payment of greenmail.
- 7.39 **Advance Notice Requirement** – Vote against a management proposal to adopt advance notice requirements if the provision requires advance notice of more than 60 days.
- 7.40 **State Takeover Law** – Always vote for a management proposal seeking to opt out of a state takeover statutory provision, and against a management proposal seeking to opt into a state takeover statutory provision.
- 7.41 **Stock Option Plans** – Vote for a management proposal to adopt, amend, or add shares to a stock option plan for employees except if:
1. The plan dilution is more than 25% of outstanding common stock.
 2. The minimum equity overhang of all plans is more than 25% of outstanding common stock.
 3. The plan permits pyramiding.
 4. The plan allows for the repricing or replacement of underwater options.
 5. The plan allows for non-qualified options to be priced at less than 90% of the fair market value on the grant date.
 6. The plan has a share replenishment feature (evergreen plan) – that is, it adds a specified number or percentage of outstanding shares for awards each year.
 7. The plan allows for multiple awards and does not set a limit on non-option awards.
 8. The plan permits time-lapsing restricted stock awards.
 9. The company's equity overhang exceeds the 75th percentile of its peer group.
 10. The plan contains change-in-control provisions.
 11. The plan administrator may provide loans to exercise awards.
 12. The plan administrator may accelerate the vesting of outstanding awards.
 13. The plan administrator may grant reloaded stock options.
 14. The company allowed the repricing or replacement of underwater options in past fiscal year.
 15. The options granted to the top 5 executives exceed 15% of options granted in the past fiscal year.
- 7.42 **Limit Annual Awards** – Always vote for a management proposal to limit per-employee annual option awards.
- 7.43 **Extend term of Stock Option Plan** – Always vote against a management proposal to extend the term of a stock option plan for employees.
- 7.44 **Director Stock Option Plan** - Vote for a management proposal to adopt or amend a stock option plan for non-employee directors except if:

1. The plan allows non-qualified options to be priced at less than 95% of the fair market value.
2. The plan dilution is more than 5% of the outstanding common equity.
3. The minimum potential dilution of all plans is more than 20% of the outstanding common equity.
4. The plan or amendment authorizes 5 or more types of awards.
5. The plan or amendment allows for non-formula discretionary awards.
6. The amendment increases the size of the option awards.

Always vote against a management proposal to add shares to a stock option plan for non-employee directors.

- 7.45 **Employee Stock Purchase Plan** - Vote for a management proposal to adopt, amend, or add shares to an employee stock purchase plan except if:
1. The plan, amendment, or additional shares allow employees to purchase stock at less than 85% of the fair market value.
 2. The plan or additional shares cause dilution of more than 25% of the outstanding common equity.
 3. The minimum potential dilution of all plans, including the proposal, is more than 25% of the outstanding common equity.
- 7.46 **Stock Award Plan** – Vote against a management proposal to adopt, amend, or add shares to a stock award plan for executives, unless the company beat the return of the S&P 500 and an appropriate peer group.
- 7.47 **Director Stock Award Plan** - Vote against a management proposal to adopt, amend, or add shares to a stock award plan for non-employee directors, unless the company beat the return of the S&P 500 and an appropriate peer group.
- 7.48 **Annual Bonus Plan** – Vote against a management proposal to approve an annual bonus plan unless the company beat the return of the S&P 500 and an appropriate peer group.
- 7.49 **Option/Stock Awards** - Vote against a management proposal to grant a one-time option/stock award unless the company beat the return of the S&P 500 and an appropriate peer group.
- 7.50 **Long Term Bonus Plan** - Vote against a management proposal to approve or amend a long-term bonus plan unless the company beat the return of the S&P 500 and an appropriate peer group.
- 7.51 **Employment Agreements** – Always vote for a management proposal to approve an employment agreement or contract.
- 7.52 **Deferred Compensation Plan Amendments** – Always vote for a management proposal to amend a deferred compensation plan.
- 7.53 **Exchange Underwater Options** – Always vote against a management proposal to exchange underwater options (options with a per-share exercise price that exceeds the underlying stock's current market price).

- 7.54 **Amend Annual Bonus Plan** – Always vote for a management proposal to amend an annual bonus plan.
- 7.55 **Reapprove Option/Bonus Plan for OBRA** - Always vote for a management proposal to reapprove a stock option plan or bonus plan for purposes of OBRA.
- 7.56 **Executive Bonus Plans** – Vote for if the company’s stock performance in the last calendar year has exceeded the returns of both the Standard & Poors 500 Index and an appropriate peer group index.

SHAREHOLDER PROPOSALS

- 7.57 **Shareholder Approval of Auditors** – Always vote for a shareholder proposal calling for stockholder ratification of auditors.
- 7.58 **Auditors Must Attend Annual Meeting** - Always vote for a shareholder proposal calling for the auditors to attend the annual meeting.
- 7.59 **Limit Consulting by Auditors** - Always vote for a shareholder proposal calling for limiting consulting by auditors.
- 7.60 **Rotate Auditors** - Always vote for a shareholder proposal calling for the rotation of auditors.
- 7.61 **Restore Preemptive Rights** - Always vote for a shareholder proposal to restore preemptive rights.
- 7.62 **Study Sale or Spin-Off** - Always vote for a shareholder proposal asking the company to study sales, spin-offs or other strategic alternatives.
- 7.63 **Adopt Confidential Voting** - Always vote for a shareholder proposal asking the board to adopt confidential voting and independent tabulation of the proxy ballots.
- 7.64 **Counting Shareholder Votes** - Always vote for a shareholder proposal asking the company to refrain from counting abstentions and broker non-votes in vote tabulations.
- 7.65 **No Discretionary Voting** - Always vote for a shareholder proposal to eliminate the company’s discretion to vote unmarked proxy ballots.
- 7.66 **Equal Access to the Proxy** - Always vote for a shareholder proposal to provide equal access to the proxy materials for shareholders.
- 7.67 **Improve Meeting Reports** – Always vote against a shareholder proposal to improve annual meeting reports.
- 7.68 **Change Annual Meeting Location** – Always vote against a shareholder proposal to change the annual meeting date.

- 7.69 **Board Inclusiveness** – Always abstain from voting for a shareholder proposal asking the board to include more women and minorities as directors.
- 7.70 **Increase Board Independence** - Always vote for a shareholder proposal seeking to increase board independence.
- 7.71 **Director Tenure/Retirement Age** – Always abstain from voting for a shareholder proposal seeking to limit the period of time a director can serve by establishing a retirement or tenure policy.
- 7.72 **Minimum Stock Ownership by Directors** – Vote for a shareholder proposal to require minimum stock ownership by directors unless the minimum level of ownership required is more than 500 shares.
- 7.73 **Allow Union/Employee Representatives on the Board** - Always vote against a shareholder proposal that seeks to provide for union or employee representatives on the board of directors.
- 7.74 **Directors’ Role in Corporate Strategy** - Always vote for a shareholder proposal seeking to increase disclosure regarding the board’s role in the development and monitoring of the company’s long-term strategic plan.
- 7.75 **Increase Nominating Committee Independence** - Always vote for a shareholder proposal to increase the independence of the nominating committee.
- 7.76 **Create Nominating Committee** - Always vote for a shareholder proposal to create a nominating committee of the board.
- 7.77 **Create Shareholder Committee** – Always abstain from voting for a shareholder proposal urging the creation of a shareholder committee.
- 7.78 **Independent Board Chairman** - Always vote for a shareholder proposal asking that the chairman of the board of directors be chosen from among the ranks of the non-employee directors.
- 7.79 **Lead Director** - Always vote for a shareholder proposal asking that a lead director be chosen from among the ranks of non-employee directors.
- 7.80 **Adopt Cumulative Voting** - Always vote for a shareholder proposal calling for the adoption of cumulative voting.
- 7.81 **Nominee Statement in Proxy** – Always abstain from voting for a shareholder proposal to require directors to place a statement of candidacy in the proxy statement.
- 7.82 **Double Board Nominees** - Always abstain from voting for a shareholder proposal to nominate two director candidates for each open board seat.
- 7.83 **Director Liability** - Always abstain from voting for a shareholder proposal to make directors liable for acts or omissions that constitute a breach of fiduciary care resulting from a director’s gross negligence and/or reckless or willful neglect.

- 7.84 **Repeal Classified Board** – Always vote for a shareholder proposal to repeal a classified board.
- 7.85 **Redeem or vote on Poison Pill** - Always vote for a shareholder proposal asking the board to redeem or to allow shareholders to vote on a shareholder rights plan (poison pill).
- 7.86 **Eliminate or Reduce Supermajority Provision** - Always vote for a shareholder proposal that seeks to eliminate supermajority provisions.
- 7.87 **Repeal Fair Price Provision** - Always vote for a shareholder proposal that seeks to repeal fair price provisions.
- 7.88 **Restore Right to Call a Special Meeting** - Always vote for a shareholder proposal to restore shareholders’ right to call a special meeting.
- 7.89 **Restore Right to Act by Written Consent** - Always vote for a shareholder proposal to restore shareholders’ right to act by written consent.
- 7.90 **Prohibit Targeted Share Placement** - Always vote for a shareholder proposal to limit the board’s discretion to issue targeted share placements or to require shareholder approval before such block placements can be made.
- 7.91 **Opt Out of State Takeover Statute** - Always abstain from voting for a shareholder proposal seeking to force the company to opt out of a state takeover statutory provision.
- 7.92 **Re-incorporation** - Always abstain from voting for a shareholder proposal to reincorporate the company in another state.
- 7.93 **Anti-Greenmail Provision** - Always vote for a shareholder proposal to limit greenmail payments.
- 7.94 **Restrict or Disclose Executive Compensation** - Always abstain from voting for a shareholder proposal to restrict or to enhance the disclosure of executive compensation.
- 7.95 **Restrict Director Compensation** - Always abstain from voting for a shareholder proposal to restrict director compensation.
- 7.96 **Cap Executive Pay** - Always abstain from voting for a shareholder proposal to cap executive pay.
- 7.97 **Pay Directors in Stock** – Vote against if the resolution would require directors to receive their entire compensation in the form of company stock.
- 7.98 **Approve Executive Compensation** - Always abstain from voting for a shareholder proposal calling for shareholder votes on executive pay.

- 7.99 **Restrict Director Pensions** - Always vote for a shareholder proposal calling for the termination of director retirement plans.
- 7.100 **Review/Report on/Link Executive Pay to Social Performance** - Always abstain from voting for a shareholder proposal that asks management to review, report on and/or link executive compensation to non-financial criteria, particularly social criteria.
- 7.101 **No Repricing of Underwater Options** - Always vote for a shareholder proposal seeking shareholder approval to reprice or replace underwater stock options.
- 7.102 **Golden Parachutes** - Always vote for a shareholder proposal calling for a ban or shareholder vote on future golden parachutes.
- 7.103 **Award Performance-Based Stock Options** - Always vote for a shareholder proposal seeking to award performance-based stock options.
- 7.104 **Expense Stock Options** - Always vote for a shareholder proposal establishing a policy of expensing the costs of all future stock options issued by the company in the company's annual income statement.
- 7.105 **Pension Fund Surplus** - Always vote for a shareholder proposal that requests future executive compensation be determined without regard to any pension fund income.
- 7.106 **Create Compensation Committee** - Always abstain from voting for a shareholder proposal to create a compensation committee.
- 7.107 **Hire Independent Compensation Consultant** - Always abstain from voting for a shareholder proposal to require that the compensation committee hire its own independent compensation consultants – separate from the compensation consultants working with corporate management – to assist with executive compensation issues.
- 7.108 **Committee Independence** – Always vote for a shareholder proposal to increase the independence of the compensation, audit, or key committees.
- 7.109 **Social Issues** – Abstain from voting on all social issues. The General Manager shall present exceptional issues to the Board.
- 7.110 **General Manager Authority** - The Board instructs the General Manager to use his or her discretion as to whether or not proxy issues may be voted by Staff for the purpose of protecting the Pension System's economic interest, when such issues are not covered in the existing guidelines or timing does not allow the issue to be brought to the Board. The General Manager will report to the Board on all votes cast in this manner.

In researching potentially significant proxy issues, the General Manager is also instructed to obtain and consider recommendations from the applicable

investment advisor(s) on proxy issues which may have an economic impact on the corporation or on the value of its stock.

As to proxy matters for non-U.S. securities, the Board delegates to the international equity advisors the authority to vote the Board's proxies in accordance with the guidelines set forth above for the General Manager on U.S. proxy matters.

- 7.111 **Report on Climate Change Issues** - Always vote for shareholder proposals that request management to "Report on Climate Change" issues.

HISTORY

- 7.112 Adopted: June 20, 1985; Revised: 04/27/89, 04/13/95, 06/05/03, 09/06/07

REVIEW

- 7.113 This policy shall be revised as necessary.