

### How is SWIB working to protect its investments?

SWIB's Corporate Governance Program, which involves working with directors and management of a company with a goal of increasing economic value, began in 1986. It is one way SWIB works to fulfill its fiduciary obligation to the Wisconsin Retirement System (WRS) trust fund beneficiaries.

The program includes three main areas: **corporate governance activities**, **corporate citizenship activities** and **litigation**. Its strategy is developed by SWIB's governance and investment staff working together within parameters approved by SWIB's Trustees.

SWIB's program has two primary goals:

- (a) to protect and increase SWIB's long-term returns,
- (b) to meet SWIB's fiduciary obligation to manage shareholder rights as an asset of the trust funds.

**Corporate governance** -- the relationship between the shareholders, directors and management of a company, as defined by the corporate charter, bylaws, formal policy and rule of law -- makes up the largest part of our program. Governance issues are considered when voting our proxies and evaluating investments. Issues may be brought to the attention of the Trustees if they have a significant financial impact.

Each year, SWIB identifies key issues based on staff's recommendations and national governance trends. In addition, portfolio managers take the quality of a company's corporate governance profile into consideration when buying or selling holdings.

SWIB works to further program goals by:

- researching holdings in the national and



international investment management arena, supporting and promoting effective corporate governance policies.

- corresponding with companies held in WRS portfolios that it believes could benefit from improvement in corporate governance practices and encourages those companies to address issues.
- participating in and monitoring legal claims to recover losses from corporate fraud and related corporate governance failures.

#### WORKING TOGETHER

SWIB is one of 20 founding members of the Council of Institutional Investors (CII) a US shareowner-rights organization. CII is a nonprofit association of public, union and corporate pension funds with combined assets that exceed \$3 trillion. Its objectives are to help member funds take an active role in protecting plan assets and to serve as a voice for shareholders in Washington.

#### WORKING WITH MANAGEMENT

After identifying key corporate governance issues, SWIB identifies companies within its portfolios that could benefit from improvements

in the identified areas. SWIB determines ways to work with company management, corporate boards and other shareholders to make changes that have a positive impact.

Our first approach is to communicate with company management and company directors to resolve concerns. If companies are non-responsive, SWIB may use proxy voting rights against certain director candidates. We may also seek adoption of a shareholder resolution or decide to sell the stock. SWIB's proxy votes are posted on the Internet after votes are filed at [www.proxymaster.com/swib/](http://www.proxymaster.com/swib/).

Policies for voting **corporate citizenship** resolutions also reinforce our investment goals to enhance returns. Making investments or using proxy votes for the sole purpose of promoting social or political causes or goals is contrary to our fiduciary duties. SWIB's investment analysis takes into account the impact of corporate citizenship on the prospects for a company's long-term financial success.

We believe companies with socially unacceptable products or practices will feel the economic consequences of public disapproval or imposition of liability under laws protecting the public health and welfare. The result: negative aspects of a company's behavior will be felt on the economic bottom line over the long term.

## RECOVERING LOSSES

As a large investor it is impossible to avoid losses to corporate governance failure and fraud. It is our fiduciary duty to take reasonable steps to recover such losses, including through **litigation**. The Board has guidelines to identify cases where

SWIB could add value by actively managing its legal claims. If a governance failure creates a legal claim, SWIB considers legal action - often class action suits with other investors - to uphold shareholder rights. In some cases, we work with other large pension funds to protect shareholders through regulatory changes and other actions.

### Key Corporate Governance Issues

- 1. Effective corporate boards.** SWIB supports effective boards with a majority of independent directors who are willing to act in the best interest of shareholders. An independent director has no conflicts of interest with shareholders and is one whose only connection to the corporation is as a director and shareholder.
- 2. Director elections.** SWIB supports election of directors with a majority vote of shareholders. Although shareholders can currently withhold a vote for a director, the company can decide if the director will remain in office.
- 3. Executive compensation plans.** SWIB supports effective compensation committees that establish plans to compensate executives at reasonable levels but believes compensation should be strongly correlated with performance. SWIB supports increased transparency and disclosure of compensation components including the goal setting process and method of attainment. SWIB also supports advisory votes on pay practices.

**For more information about investor relations:**

**<http://www.swib/governance.asp> • <http://www.cii.org/>**

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