

FOR IMMEDIATE RELEASE

DATE: October 10, 2008

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Florida SBA Highlights Corporate Governance Voting Record and Program Enhancements

TALLAHASSEE - The Florida State Board of Administration (SBA), the investment management organization of the state of Florida, manages 37 investment funds including the Florida Retirement System Pension Plan (FRS). The SBA's fiduciary responsibilities extend beyond direct investment decisions to issues of corporate governance. Under the guidance of the SBA's Corporate Governance office, the SBA casts over 30,000 proxy votes per year. To ensure that proxies are voted consistently and reliably, the SBA maintains a comprehensive set of guidelines and procedures covering a wide range of corporate governance issues.

In an effort to increase the transparency of its voting record and voting intentions, the SBA has begun posting historical and current proxy voting records, as well as other information about investments and corporate governance activities on its website www.sbafla.com/corpgov.aspx. The effort goes beyond that of most other institutional and public investment funds by disclosing votes as they are made and in advance of the meeting, typically 10 days prior to the company meeting. Voting information is fully searchable based on date, calendar range, company name, and SBA portfolio. Voting data covers every publicly-traded equity security for which the SBA retains voting authority. The SBA expects this leadership in the disclosure of its voting will assist other investor groups challenged with fewer governance resources and enable them to make more informed voting decisions.

The SBA also began a partnership with a new nonprofit project called ProxyDemocracy (www.ProxyDemocracy.org/data/funds/81) which allows stakeholders to analyze and even compare the voting decisions of the SBA to those of a large universe of institutional investors and mutual funds. The ProxyDemocracy site provides information about how some institutional investors plan to vote at upcoming shareowner meetings and provides additional historical profiles covering the funds' corporate governance and proxy voting activities.

During the 2008 fiscal year ending June 30, the SBA executed votes on 3,534 public company proxies covering over 30,373 individual voting items, including director elections, audit firm ratification, executive compensation plans, merger approval, and other management and shareowner proposals. The SBA voted for, against, or abstain on 73.2 percent, 26.0 percent, and 0.8 percent of all ballot items, respectively. Of all votes cast, 28.2 percent opposed the management-recommended vote, up 3 percent from last year. Michael McCauley, Senior Corporate Governance Officer of the SBA, commented, "While we are not pre-disposed to disagree with management recommendations, we do recognize that some management recommendations may not be in the best interests of all stockholders. On behalf of our participants, we take the fiduciary responsibility to analyze and evaluate all management recommendations very seriously. We are particularly attentive to decisions related to: director elections, executive compensation

structure, environmental & sustainability reporting, and global corporate governance issues.”

Board elections represent one of the most critical areas in voting since shareowners rely on the board to monitor management. The SBA supported 74 percent of individual nominees for boards of directors, voting against the remaining portion of directors primarily due to concerns about the candidate’s independence, attendance, or overall board performance. The SBA also withholds votes from directors who fail to observe good corporate governance practices or demonstrate a disregard for the interests of shareowners.

The SBA supported over 98 percent of ballot items to ratify the board of directors’ selection of external auditor. Votes against auditor ratification are cast in instances where the audit firm has demonstrated a failure to provide appropriate oversight, significant financial restatements have occurred, or when significant conflicts of interest exist, such as the provision of outsized non-audit services.

The SBA considers on a case-by-case basis whether a company's board has implemented equity-based compensation plans that are excessive relative to other peer companies or those that may not have an appropriate performance orientation. As a part of this analysis, the SBA reviews the level and quality of a company's compensation disclosure. McCauley said, “We believe strongly that shareowners are entitled to comprehensive disclosures of compensation practices in order to make efficient investment decisions. We find quality disclosure to be severely lacking at many companies, raising hard questions about the transparency of their compensation practices.” Over the last fiscal year, the SBA supported only 27% of all non-salary (equity) compensation items—while supporting 98% of shareowner resolutions asking companies to adopt an advisory vote on executive compensation, 55% of executive incentive bonus plans, and 39% of management proposals to adopt or amend restricted stock plans in which company executives or directors would participate.

Increasingly, the SBA has supported general sustainability reporting requirements and improved environmental disclosures. The SBA supported 55% of shareowner resolutions asking companies to publish sustainability reports, 38% of shareowner proposals dealing with climate change and global warming, and 55% of shareowner resolutions asking companies to produce reports assessing the impact on local communities.

International shareowner issues have become increasingly important and the SBA has continued to seek meaningful international standards for corporate governance, fair treatment of foreign and minority shareowners, equal access to information, and corporate transparency. Over the past year, the SBA’s international efforts included advocating for greater shareowner voting rights in various capital markets and continuing to improve corporate governance and regulatory standards in the European Union (EU). The SBA also works through international shareowner organizations to seek and develop better corporate governance standards.

As part of the on-going enhancements to public disclosure the SBA also recently joined RiskMetrics Group’s “Policy Exchange”, a developing new policy database that allows interested parties to access and compare the corporate governance and proxy voting policies across a large and growing segment of the institutional investor community. The Policy Exchange features U.S. and international corporate governance

policies and commentary from leading institutional investors including public pension systems, investment managers, and socially focused investors. The exchange breaks down participants' U.S. policies into six issue areas and more than 100 sub-categories, allowing users to easily compare and contrast the views of various participants.

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