UW SYSTEM TRUST FUNDS
2013 PROXY VOTING SEASON RESULTS

EXECUTIVE SUMMARY

BACKGROUND

As provided in Regent Policy 31-10, to the extent that public equity securities are held in separately managed accounts, UW System Trust Funds actively votes its shareholder proxies on “non-routine” items related to corporate governance and social issues including the environment, discrimination, and substantial social injury (as addressed in Regent Policies 31-13 and 31-16). Voting recommendations for such proxies were provided to the Business and Finance Committee for their approval earlier this year. The report given here provides information on the actual results of those specific voting efforts, as well as an overview of the year’s proxy season in its entirety.

REQUESTED ACTION

This item is for informational purposes only.

DISCUSSION

The 2013 proxy season saw the filing of 395 proposals related to social issues, up substantially from 358 last year. Through the end of June, 181 social issue proposals resulted in shareholder votes, 151 were withdrawn, 47 were allowed to be omitted by the Securities Exchange Commission (SEC), and 16 are still pending.

The categories of proposals that won strong shareholder support in 2013 included the following requests of companies: expand or report on fair employment policies; disclose and monitor political contributions; report on sustainability efforts; and, report on the environmental impact of hydraulic fracturing. Each of these categories received, on average, the support of 24 percent or more of votes cast.

In addition, proponents have withdrawn 151 resolutions so far in 2013, up from the 135 and 127 the past two years, respectively. Withdrawals accounted for over 38 percent of the total social resolutions filed, representing a strong year for shareholder advocates. Nearly all of the withdrawals in 2013 represent concessions made by the target companies, and many proponents consider them to be a more important measure of success than high votes.

UW Trust Funds submitted voting instructions for 25 proposals (including “non-routine” corporate governance proposals), compared with 17 and 38 proposals for the past two years, respectively. Of the proxies submitted for voting by the Trust Funds, 11 came to votes, 12 were
withdrawn, one was omitted, and one is pending. The full report, *2013 Proxy Voting Season Results*, giving more detail on the actual voting results and the entire proxy season, is attached.

RELATED REGENT POLICIES

Regent Policy 31-10: Proxy Voting
Regent Policy 31-13: Social Responsibility Investment Considerations
Regent Policy 31-16: Sudan Divestment
UNIVERSITY OF WISCONSIN SYSTEM TRUST FUNDS
2013 Proxy Voting Season Results

Introduction

This report summarizes the results of the shareholder proposals for the 2013 proxy season. The UW System Trust Funds actively participates in voting on issues involving “non-routine” items related to corporate governance, and social issues including the environment, discrimination, or substantial social injury as addressed in Regent Policies 31-10, 31-13, and 31-16.

An attachment to this report gives the detailed listing of the specific UW Trust Funds votes for the 2013 season, as well as the overall results for each shareholder proposal. The proxy research and voting statistics included in this report were obtained from the Institutional Shareholder Services (ISS) U.S. Proxy Season Review publication. It is worth noting that the Trust Funds can only vote proxies for shares directly owned and held within separate accounts. Currently, only 34 percent of the Long Term Fund’s equities are held in separate accounts.

Regarding the outcome for a given shareholder proposal, there are three possibilities: the resolution comes to a vote, is withdrawn, or is omitted. If the proposal comes to a vote the following guidelines apply: first-year proxy proposals must win at least three percent support to qualify for resubmission an additional year, second-year proposals must get at least six percent, and proposals in their third year or more must receive at least ten percent. Any proposal which fails these support levels may not be resubmitted at the company for another three years. It is important to note that shareholder proposals are phrased as a request and are intended to open a dialogue between shareholders and company management; that is, they are generally not binding on the company regardless of the level of support received. A withdrawn proposal generally indicates that an agreement was reached between the proponent and the company, usually in the form of a concession made by the company. For most shareholder activists, success in working out agreements that enable them to withdraw resolutions is a greater victory than a high vote of support. A proposal may be omitted by the Securities and Exchange Commission (SEC) at the request of the involved company under certain circumstances. The SEC’s shareholder proposal rule lists 13 substantive reasons why shareholder resolutions can be omitted, ranging from vagueness to irrelevance, and includes the often used “ordinary business” exclusion.

2013 Proxy Season Summary

The 2013 proxy season saw the filing of 395 proposals related to social issues, up substantially from 358 last year. Of the resolutions filed this year, 181 social issue proposals resulted in shareholder votes, 151 were withdrawn, 47 were allowed to be omitted by the SEC, and 16 are still pending (a summary table is included below).
The following chart shows the overall number of proposals filed for the past three years along with the top six categories:

Proxy Resolutions Withdrawn

Proponents have withdrawn 151 resolutions so far in 2013, up from the 135 and 127 the past two years, respectively. Withdrawals accounted for over 38 percent of the total social resolutions filed, representing a strong year for shareholder advocates. Nearly all of the withdrawals in 2013 represent concessions made by the target companies and many proponents consider them to be a more important measure of success than high votes.
Most notable among the withdrawal categories were proposals regarding board diversity, sustainability, and animal welfare. The highest proportion of negotiated withdrawals involved board diversity requests: these proposals generally ask companies to take steps to ensure that women and minority candidates are in the pool from which board nominees are chosen. Twenty of the 24 board diversity proposals resulted in negotiated withdrawals. Similarly, 26 of the 44 proposals in the sustainability category and nine of the 15 proposals in the animal welfare category resulted in successful withdrawal agreements.

The majority of the sustainability withdrawals involved a promise by the company to produce a detailed sustainability report. The animal welfare withdrawals generally involved a promise by the company to review or report on animal treatment or specific welfare practices. Other notable withdrawals occurred in the environmental category on resolutions relating to sustainable palm oil, where six of the seven proposals were withdrawn. Palm oil has been the topic of much controversy due to the widespread deforestation associated with the plantations. The palm oil proposals asked companies to implement a “comprehensive sustainable palm oil policy.” All of the palm oil withdrawals represented negotiated agreements with the companies.

Proxy Resolutions Coming to Votes

Final or preliminary vote results are in for 181 voted proposals through June. Support for shareholder resolutions on social issues averaged a record 21.7 percent, nearly triple the support levels from fifteen years ago. The chart below depicts average support levels over this timeframe.

One primary reason for the higher level of shareholder support is that in recent years, resolutions have increasingly moved away from specific “call to action” issues, such as those targeting tobacco and animal rights, to requests asking for better disclosure on issues relating to business risk. In addition, mainstream investors seem more willing to vote in favor of certain “hot-topic” social issues that tie to companies’ bottom line, such as proposals related to hydraulic fracturing.
The 2013 proposal categories that won strong shareholder support included the following requests of companies: expand or report on their fair employment policies; disclose and monitor their political contributions; report on sustainability efforts; and, report on the environmental impact of hydraulic fracturing. Each of these categories received, on average, the support of 24 percent or more of votes cast.

In contrast, the proposal category that received the lowest shareholder support for the 2013 proxy was “that companies end animal testing or adopt humane testing standards.” This category averaged less than three percent support.

The following chart depicts a summary of the voting results for the past four proxy seasons by major social issue category.

<table>
<thead>
<tr>
<th>Subject</th>
<th>2013 Resolutions</th>
<th>Average Support 2013</th>
<th>Average Support 2012</th>
<th>Average Support 2011</th>
<th>Average Support 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Political Contributions</td>
<td>126</td>
<td>24.3%</td>
<td>21.2%</td>
<td>28.3%</td>
<td>26.0%</td>
</tr>
<tr>
<td>Environment: Pollutants/Other</td>
<td>79</td>
<td>14.1%</td>
<td>17.4%</td>
<td>21.9%</td>
<td>19.2%</td>
</tr>
<tr>
<td>Sustainability Reporting</td>
<td>44</td>
<td>33.0%</td>
<td>30.0%</td>
<td>30.7%</td>
<td>28.6%</td>
</tr>
<tr>
<td>Board Diversity</td>
<td>24</td>
<td>35.8%</td>
<td>28.4%</td>
<td>24.7%</td>
<td>22.5%</td>
</tr>
<tr>
<td>Human Rights Issues</td>
<td>23</td>
<td>15.8%</td>
<td>13.6%</td>
<td>15.9%</td>
<td>17.6%</td>
</tr>
<tr>
<td>Equal Employment Opportunity</td>
<td>19</td>
<td>29.0%</td>
<td>32.3%</td>
<td>29.5%</td>
<td>33.6%</td>
</tr>
<tr>
<td>Environment: Global Warming</td>
<td>17</td>
<td>22.8%</td>
<td>25.9%</td>
<td>17.0%</td>
<td>21.1%</td>
</tr>
<tr>
<td>Animal Welfare</td>
<td>15</td>
<td>2.4%</td>
<td>4.6%</td>
<td>4.8%</td>
<td>4.1%</td>
</tr>
<tr>
<td>Internet Issues</td>
<td>5</td>
<td>15.1%</td>
<td>5.7%</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Executive Pay and Social Performance</td>
<td>5</td>
<td>7.2%</td>
<td>6.3%</td>
<td>6.9%</td>
<td>6.4%</td>
</tr>
<tr>
<td>Tobacco Production and Marketing</td>
<td>5</td>
<td>0.0%</td>
<td>2.5%</td>
<td>2.4%</td>
<td>3.4%</td>
</tr>
<tr>
<td>Health Issues</td>
<td>1</td>
<td>8.1%</td>
<td>5.3%</td>
<td>4.0%</td>
<td>9.7%</td>
</tr>
<tr>
<td>Labor Issues</td>
<td>1</td>
<td>5.7%</td>
<td>18.2%</td>
<td>17.7%</td>
<td>17.9%</td>
</tr>
</tbody>
</table>

*Includes only those resolutions which came to votes.

Proxy Resolutions Omitted

The SEC agreed companies could omit 47 resolutions this year, down slightly from 49 in 2012. The omissions came after companies filed requests for SEC “no-action” letters. The no-action letters allow proposals to be omitted because they violate some portion of the SEC’s shareholder proposal rule (which includes various substantive or technical grounds). By far the most common of these SEC exclusions is “ordinary business,” in which the company claims that the resolution should be omitted as it addresses ordinary business. The SEC considers ordinary business matters too routine to be governed by shareholders.

Notable “ordinary business” exclusions came on resolutions at Dentsply International Inc. and Danaher Co., asking the companies to report on their plans to ensure that the mercury in dental
amalgams is not released into the environment. The companies successfully argued that the proposal raised ordinary business questions because it related to product development and a choice of technologies.

This year also included several company challenges to the SEC based on the proposed issue being moot (another of the SEC exclusion rules), in which the company claims that they are already implementing what the resolution requests. The SEC allowed omissions for two resolutions at Dominion Inc., one asking the company to report on plans to achieve a ten percent increase in energy efficiency and the other requesting a report on the company’s offshore wind turbine plans. In this case, the SEC ruled that Dominion’s publicly disclosed annual reports and filings already satisfied the guidelines of the two proposals. In a related “mootness” ruling, Teco Energy was allowed to omit a resolution asking the company to “report on measures to mitigate environmental impacts resulting from mountain top coal mining.” The SEC ruled that the company’s sustainability report already indicated that the proposal had been “substantially implemented.”

Proxy Resolutions By Issue

A brief discussion of the major social issue proposals, by issue category, for the 2013 season is provided below.

Political Contributions

For the second straight year, resolutions relating to political contributions were the largest social issues category. The category has seen an explosion in proposals (126 this year and 118 in 2012). The typical resolution asks companies to disclose corporate lobbying expenditures in addition to political contributions. Of the total political contribution resolutions, 84 were voted, 30 were withdrawn, and 12 were omitted. The 84 political contributions resolutions which came to votes averaged 24 percent support, up from 21 percent last year.

The Environment and Global Warming

Investors this year filed 96 environment-related proposals, up from the 88 filed last year. The diverse proposals ranged from global warming, to hydraulic fracturing, to mountaintop mining concerns.

Global warming was again the most prominent single concern among environmental issues, though there has been a considerable drop in the number of proposals the past two years. Only 17 specific global warming resolutions were filed in both 2012 and 2013, down from 41 and 30 in 2011 and 2010. The decrease appears to be coming from an evolution of approaches to the topic, which shareholders are now addressing through an increasingly diverse set of proposals going beyond global warming and into broader environmental and sustainability concerns. In fact, most of the resolutions requesting sustainability reports (a separate category covered later in the report) now include greenhouse gas emissions goals and other global warming language in the proposals. One notable global warming resolution was at Exxon Mobil. The proposal asked the company to “create a climate consensus task force to study how the company should factor global warming into its models for measuring, pricing, and distribution risk” under its current
business model. This resolution was withdrawn after an agreement was reached. Of the total global warming resolutions, eleven were voted, five were withdrawn, and one was omitted. The global warming proposals which came to votes averaged 23 percent support in 2013, down from 26 percent in 2012.

The high-profile environmental campaign involving hydraulic fracturing saw a decrease in the number of resolutions filed, with five proposals in 2013 as compared to ten in 2012. The decrease seems to be attributable to the high volume of withdrawal agreements that were achieved during the campaign’s first three years. Two of the hydraulic fracturing proposals achieved withdrawal agreements. The remaining three came to votes, averaging 34 percent support, up from 28 percent in 2012.

Another notable environmental campaign addressed concerns with the health effects from the manufacturing and recycling of lead batteries. Of the five lead battery-related resolutions, three were withdrawn and two were voted, averaging 18 percent support.

**Sustainability**

Sustainability is generally defined as “meeting the needs of the present without compromising the ability of future generations to meet their needs.” Advocates of sustainability reporting contend that companies which focus on and manage sustainability will improve their long-term shareholder value. Many sustainability resolutions now mention global warming as an element to be directly addressed in the company’s sustainability reports or plans.

The number of sustainability resolutions has fluctuated over the years, with a high of 46 proposals in 2010 and a low of 28 in 2011. This year, 40 resolutions were filed, up from 35 in 2012. The issue has received strong shareholder support since it first appeared in 2002. The average support for the 2013 voted sustainability proposals was 33 percent, up slightly from 31 percent in 2012. In addition, the sustainability category continued to produce a high percentage of withdrawals, with 26 of the total 40 resolutions reaching withdrawal agreements. The withdrawals generally involved the target company’s agreement to write a detailed sustainability report.

**Board Diversity**

The board diversity category saw a significant increase in the number of resolutions this year, with 24 proposals as compared to just eight in 2012. The typical resolution asks companies to “take every reasonable step to ensure that women and minority candidates are in the pool from which board nominees are chosen.” The category is also notable this year for producing a high percentage of withdrawals. Of the total resolutions, 20 were withdrawn, three came to votes, and one was omitted. The resolutions which came to votes averaged 36 percent support, up from 28 percent last year.

**Human Rights**

The human rights resolutions vary each year from general proposals asking companies to review and strengthen their human rights policies to specific resolutions, such as those asking for the
establishment of a board committee on human rights or others that address country-specific human rights issues. Although there was an uptick in the number of these proposals in 2013, the trend over recent years has been a decreasing number of resolutions. The category had 24 resolutions this year, up from 18 in 2012. Of the total resolutions on human rights, 16 came to votes, five were withdrawn, and three were omitted. The resolutions which came to votes averaged 15 percent support, the same as last year.

Two notable human rights resolutions were at Expedia and Choice Hotels; these proposals focused on sex trafficking and exploitation of minors in American-owned hotels all over the world. The resolutions asked the firms to adopt human rights policies which included a commitment to the education and prohibition of sexual exploitation of minors. Both resolutions were withdrawn after the companies agreed to address the issue.

*Equal Employment Opportunity*

The equal employment opportunity category was once again dominated by proposals asking companies to put in place workplace policies ensuring there is no discrimination on the grounds of sexual orientation or gender identity. However, there was a significant drop in the number of resolutions, likely attributable to an increase in the number of companies that have expanded their equal employment policies. Nineteen proposals were filed on equal employment opportunity, down from the 28 and 29 the past two years, respectively. In some cases, proposals are directed at companies that already mention sexual orientation in their equal employment opportunity statement but have not added gender identity language. Of the total resolutions, 10 came to votes, eight were withdrawn, and one was omitted. The resolutions which came to votes averaged 29 percent support, roughly the same as last year.

*Animal Welfare*

The animal welfare category included 15 proposals in 2013, down from 19 last year. A typical resolution asks firms to review or report on animal treatment or welfare practices, including slaughter methods, with the ultimate objective being to ensure more humane treatment of animals. Of the total resolutions, five came to votes, nine were withdrawn, and one was omitted. Historically, the animal welfare resolutions which have come to votes have received very low levels of support. The 2013 resolutions which came to votes averaged just two percent support.

*Executive Pay*

The number of resolutions on linking executive pay to social performance measures continued its multi-year drop, falling from nine proposals in 2012 to five this year. Of the total executive pay resolutions, four were voted and one was withdrawn. The resolutions which came to votes received seven percent average support, roughly the same as in recent years.

*Labor Issues*

Only one labor resolution was filed this year, down from 12 and eight the past two years, respectively. The proposal asked Family Dollar to amend its code of conduct to include International Labor Organization standards. The resolution received 6 percent support.
2013 UW Trust Funds Proxy Results Summary

UW Trust Funds submitted voting instructions for 25 proposals (including “non-routine” corporate governance proposals), compared with 17 and 38 proposals for the past two years, respectively. Of the proxies submitted for voting by the Trust Funds, 11 came to votes, 12 were withdrawn, one was omitted, and one is pending.

The primary submissions for the UW Trust Funds on social issues involved the environment and global warming (nine) and human rights (two). For corporate governance issues, the UW’s primary submissions involved political donations (eleven) and board diversity (two).

The highest support vote on an individual social issue came at Halliburton. The resolution, asking the company to report on the company’s process for evaluating human rights risks in their direct operations and supply chains, received 40 percent support.

The UW Trust Funds 2013 Proxy Season Voting List, providing details on the individual voting results, is attached.

REFERENCES