Oregon Investment Council

February 23, 2011 - 9:00 AM

PERS Headquarters
11410 S.W. 68th Parkway
Tigard, OR 97223

Oregon Investment Council

Harry Demorest
Chair

Office of The State Treasurer
Ted Wheeler
State Treasurer

Ronald Schmitz
Chief Investment Officer

OREGON INVESTMENT COUNCIL

2011 Meeting Schedule

Meetings Begin at 9:00 am
at
PERS Headquarters Building
11410 SW 68th Parkway
Tigard, OR 97223

January 7, 2011
(Special Meeting)

January 26, 2011

February 23, 2011

April 27, 2011

June 1, 2011

July 27, 2011

September 28, 2011

November 2, 2011

December 7, 2011

OREGON INVESTMENT COUNCIL

Agenda

February 23, 2011
9:00 AM

PERS Headquarters
11410 S.W. 68th Parkway
Tigard, Oregon

Time	A. Action Items	Presenter	Tab
9:00-9:05	**1. Review & Approval of Minutes** January 28, 2011 Regular Meeting	**Ron Schmitz** *Chief Investment Officer*	**1**
9:05-9:45	**2. OPERF Private Equity** *Annual Plan and Pacing Study*	**Jay Fewel** *Senior Investment Officer* **David Fann** *Pacific Corporate Group* **Sundeep Rana** *Pacific Corporate Group*	**2**
9:45-10:00	**3. OIC Proxy Voting** *4.05.06 Policy Update*	**Jennifer Peet** *Contracts & Corporate Governance Officer* **Mike Mueller** *Deputy CIO*	**3**
10:00-10:30	**4. Oregon Savings Growth Plan** *Annual Review*	**Mike Viteri** *Investment Officer* **Howard Biggs** *Arnerich Massena* **Jacob O'Shaughnessy** *Arnerich Massena*	**4**
10:30-10:45	**---------------------BREAK----------------------**		
	B. Information Items		
10:45-11:15	**5. Oregon Investment Fund Update** *OPERF Private Equity*	**David Almodovar** *Principal, Credit Suisse* *Customized Fund Investment Group* **Kelly Williams** *Managing Director, Credit Suisse* *Head of Customized Fund Investment Group*	**5**

11:15-11:30	**6. OPERF 4th Quarter 2010 Performance Review**	**John Meier** *Strategic Investment Solutions*	**6**
11:30-11:40	**7. Asset Allocations & NAV Updates** a. Oregon Public Employees Retirement Fund b. SAIF Corporation c. Common School Fund d. HIED Pooled Endowment Fund	**Ron Schmitz**	**7**
	8. Calendar—Future Agenda Items	**Ron Schmitz**	**8**
	9. Other Items	**Council** **Staff** **Consultants**	

C. Public Comment Invited

15 Minutes

TAB 1 – REVIEW & APPROVAL OF MINUTES

January 28, 2011 Regular Meeting

RONALD D. SCHMITZ
CHIEF INVESTMENT OFFICER
INVESTMENT DIVISION

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STATE OF OREGON
OFFICE OF THE STATE TREASURER
350 WINTER STREET NE, SUITE 100
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OREGON INVESTMENT COUNCIL
JANUARY 26, 2011
MEETING MINUTES

Members Present:	Paul Cleary, Harry Demorest, Katy Durant, Dick Solomon, Treasurer Ted Wheeler
Member on the Phone:	Keith Larson
Staff Present:	Darren Bond, Tony Breault, Brad Child, Jay Fewel, Sam Green, John Hershey, Julie Jackson, Perrin Lim, Tom Lofton, Mike Mueller, Kevin Nordhill, Jo Recht, Tom Rinehart, Ron Schmitz, James Sinks, Michael Viteri, Sally Wood
Consultants Present:	Allan Emkin and Mike Moy (PCA), Pete Keliuotis and John Meier (SIS), David Fann and Sundeep Rana (PCG), Nori Gerardo Lietz (Partners Group)
Legal Counsel Present:	Keith Kutler, Oregon Department of Justice Deena Bothello, Oregon Department of Justice

The OIC meeting was called to order at 9:00 am by Harry Demorest, Chair.

I. 9:00 a.m.: Review and Approval of Minutes
MOTION: Mr. Demorest brought approval of the December 1, 2010 and January 7, 2011 minutes to the table. Treasurer Wheeler moved to approve the minutes. The motion was seconded by Ms. Durant and passed by a vote of 5/0.

After approval of the minutes, Mr. Demorest read a letter from Governor Kulongoski thanking the Council for their service to Oregon.

****III. 9:02 a.m.: OPERF Alternative Portfolio Proposal *(taken out of order)***
John Hershey, Alternatives Investment Officer presented to the OIC. Staff, Strategic Investment Solutions (SIS), and PCA recommended approval of a new Alternatives Program with a five percent strategic target allocation. The purpose of this new asset class would be to:

- Increase diversification
- Provide downside protection (left tail risk mitigation)
- Inflation hedge
- Expansion potential

Background
In July 2010, the OIC met at a workshop to hear a presentation by PCA on the merits of creating a new asset class comprised of a set of diversifying assets and strategies. These assets and strategies would include infrastructure and natural resource assets (oil and gas, timberland, agriculture land, commodities), and diversifying, low correlated hedge fund strategies. This workshop was the continuation of a longer term discussion the OIC has had on the merits of adding diversifying assets to the portfolio. Staff, SIS, and PCA recommended approval of a new Alternatives Program with a five percent strategic target allocation.

There was a brief question and answer period following the presentation.

MOTION: Treasurer Wheeler moved approval of the staff recommendation of a new Alternatives Program with a five percent strategic target allocation. Mr. Larson seconded the motion. The motion was passed unanimously by a vote of 5/0.

Treasurer Wheeler made a statement regarding the overall strategy, specifically infrastructure transactions and how they affect Oregonians.

<u>IV. 9:30 a.m.: OPERF Real Estate Annual Review *(taken out of order)*</u>**

Brad Child, Senior Real Estate Investment Officer and Nori Gerardo Lietz of PCA Real Estate Advisors presented the 2010 Core Real Estate review.

In the mid 2000's the OIC approved a decision to restructure the Core Real Estate portfolio. Following are some results and actions taken since that change:

- Portfolio was subdivided into property types mirroring the NCREIF Index.
- Specialist managers were hired to manage individual property types.
  - ING Clarion – Office
  - GID – Apartments
  - Lincoln – Industrial
  - Regency – Retail
- Overall objectives were adopted.
- Outperform NPI net of fees and generate an 8.5% nominal net return.
- Each manager was given custom benchmarks.
- Managers today (other than ING Clarion) assumed management at near the peak of the market.
- Managers have not benefited from full market cycle – going from peak to trough and now back on an upward trajectory.
- ING Clarion has had full market cycle performance as their since-inception date was 2000.

ACTION: The OIC requested that this topic be brought back in April, following receipt of updated performance on the portfolio through calendar year end 2010.

<u>II. 10:00 a.m.: KKR North America XI Fund, L.P.-OPERF Private Equity *(taken out of order)*</u>**

Jay Fewel, Senior Investment Officer introduced George Roberts, Founding Member and Mike Michelson, Member of KKR North America. Staff recommended a commitment of $500 million for OPERF and $25 million for the Common School Fund to KKR North American XI Fund, L.P., an $8-10 billion target fund, to pursue equity and equity related investments, primarily in large, North American companies. The Fund will continue the strategy employed in 14 previous global private equity funds invested over the past 30 years, acquiring controlling ownership positions in mature companies, and then creating value through growth, strategic redirection, cost optimization, and deleveraging.

1. Staff recommended that the OIC authorize a $500 million commitment to the KKR North American XI Fund, L.P., on behalf of OPERF, subject to the satisfactory negotiation of terms and conditions, and completion of the requisite legal documents by DOJ legal counsel working in concert with OST staff.

2. Staff recommended that the OIC authorize a $25 million commitment to the KKR North American XI Fund, L.P., on behalf of the Common School Fund, subject to the satisfactory negotiation of terms and conditions, and completion of the requisite legal documents by DOJ legal counsel working in concert with OST staff.

There was a brief question and answer period following the presentation.

MOTION: Mr. Solomon moved approval of the staff recommendations. Ms. Durant seconded the motion. The motion was passed by a vote of 5/0.

V. 10:32 a.m.: Annual Placement Agent Summary

Mike Mueller, Deputy CIO gave a summary of the annual disclosure of placement agents in accordance to OST Policy 5.03.01 - Conflict of Interest and Code of Conduct: Staff shall present to the OIC an annual summary of any Placement Agent used by an investment firms, recommended to the OIC for approval.

VI. 10:33 a.m.: Asset Allocation and NAV Updates

Mr. Schmitz reviewed the Asset Allocations and NAV's for the period ended December 31, 2010. All asset classes are within their allocation ranges.

VII. 10:33 a.m.: Calendar – Future Agenda Items

Mr. Schmitz highlighted future agenda topics.

VIII. 10:34 a.m.: Other Business

There was no other business discussed.

10:34 a.m.: Public Comments

There were no public comments.

Deputy State Treasurer Darren Bond gave a brief update on the status of the Oregon Government Ethics Commission investigation of OST travel, as requested from Mr. Solomon.

The meeting adjourned at 10:36 a.m.

Respectfully submitted,

Julie Jackson

Julie Jackson
Executive Support Specialist

TAB 2 – OPERF PRIVATE EQUITY

ANNUAL PLAN AND PACING STUDY

OPERF Private Equity

Portfolio Review and 2011 Annual Plan

Purpose

To provide the OIC with a review of the current OPERF Private Equity portfolio, commitment pacing projections, and tentative plan for 2011 private equity activity.

Background

Staff met with Pacific Corporate Group in La Jolla, CA. on January 11-12, 2011 to perform a review of the Private Equity portfolio, update the commitment pacing and allocation model using the most recent data (9/30/10), and to formulate a plan of activity for 2011. While the results of this work are detailed in the accompanying report from PCG, staff wishes to summarize and highlight the following key take-aways:

- The portfolio continues a record of strong, long-term performance, substantially exceeding both its public market benchmark (Russell 3000 + 300 basis points), and the private equity Venture Economics Pooled IRR benchmark (all U.S. private equity), over all time periods.

- The portfolio's private equity sub-sector exposures are generally within the targeted allocation ranges, except for underweighting in venture capital, and a slight overweighting to fund-of-funds.

- Compared to both our public fund peers, and the "industry", OPERF's private equity portfolio is slightly over weighted toward buyout and international funds, and slightly under weighted toward venture capital and distressed opportunities.

- The portfolio continues to be slightly above its allocation policy range of 12-20 percent, due to the larger commitments made during the 2006-2008 timeframe, as the program "ramped-up" in response to the OIC's increased private equity allocation. This increase was compounded by the decline in value of the overall portfolio (denominator) from its peak levels prior to the "Great Recession".

- Due to the illiquid, long-term nature of private equity, staff and PCG projects that, while not increasing materially, the portfolio will remain slightly above its allocation policy range for the next two or three years. Staff and PCG are focused on "managing down" the portfolio back within policy range. As the underlying investments funded from the 2006-2008 commitments mature and are exited, and at the lower commitment levels made since 2008, we expect a "soft landing" back with policy range sometime around the 2014 timeframe.

- As part of this “managing down” process, staff and PCG have reduced our anticipated aggregate commitment level for 2011 to $2.0 billion. There is a strong pipeline of existing managers who will be fund raising in 2011, and we anticipate 2011 commitments will be primarily re-ups with existing partners, and mostly at lower amounts than in the prior fund.

Recommendations

This report is being provided for discussion and informational purposes, and no action is required.

PCG ASSET MANAGEMENT, LLC

A TRUSTED PRIVATE EQUITY
INVESTMENT ADVISOR

Oregon Public Employees Retirement Fund

2010 Portfolio Review and 2011 Outlook

February 9, 2011

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Portfolio Review

As of September 30, 2010

Overview

Authorized commitments increased from 2009 to 2010, reaching $1,870 million of closed or pending capital commitments for the year. Of that amount, almost half ($830 million) was authorized for medium and large buyout managers.

Commitments authorized in 2010 are comprised of a diversified set of managers across multiple investment strategies that have shown a proven track record of superior returns.

OPERF's private equity performance is strong and the Program continues to outperform the Venture Economics median IRR benchmark in 22 of the last 24 reported vintage years.

2010 COMMITMENTS

Buyouts

- Aquiline Financial Services Fund II
- Avista Capital Partners II
- Baring Asia Private Equity Fund V
- Blackstone Capital Partners VI
- KSL Capital Partners III
- Lion Capital Fund III
- Riverside Europe IV
- Veritas Capital Partners Fund IV

Distressed /Mezzanine Debt

- Centerbridge Capital Partners II
- GSO Capital Opportunities Fund II
- Oaktree Opportunities Funds VIII & VIIIb
- WLR Recovery Fund V

Venture Capital

- Union Square Ventures Opportunity Fund
- Caduceus Private Investment IV (OrbiMed)

Secondaries/Special Situations/FoF

- Hamilton Lane International SMID Fund (Dec'09)
- Montauk TriGuard Fund V
- Coller International Partners VI
- Community Bancorp (co-investment)

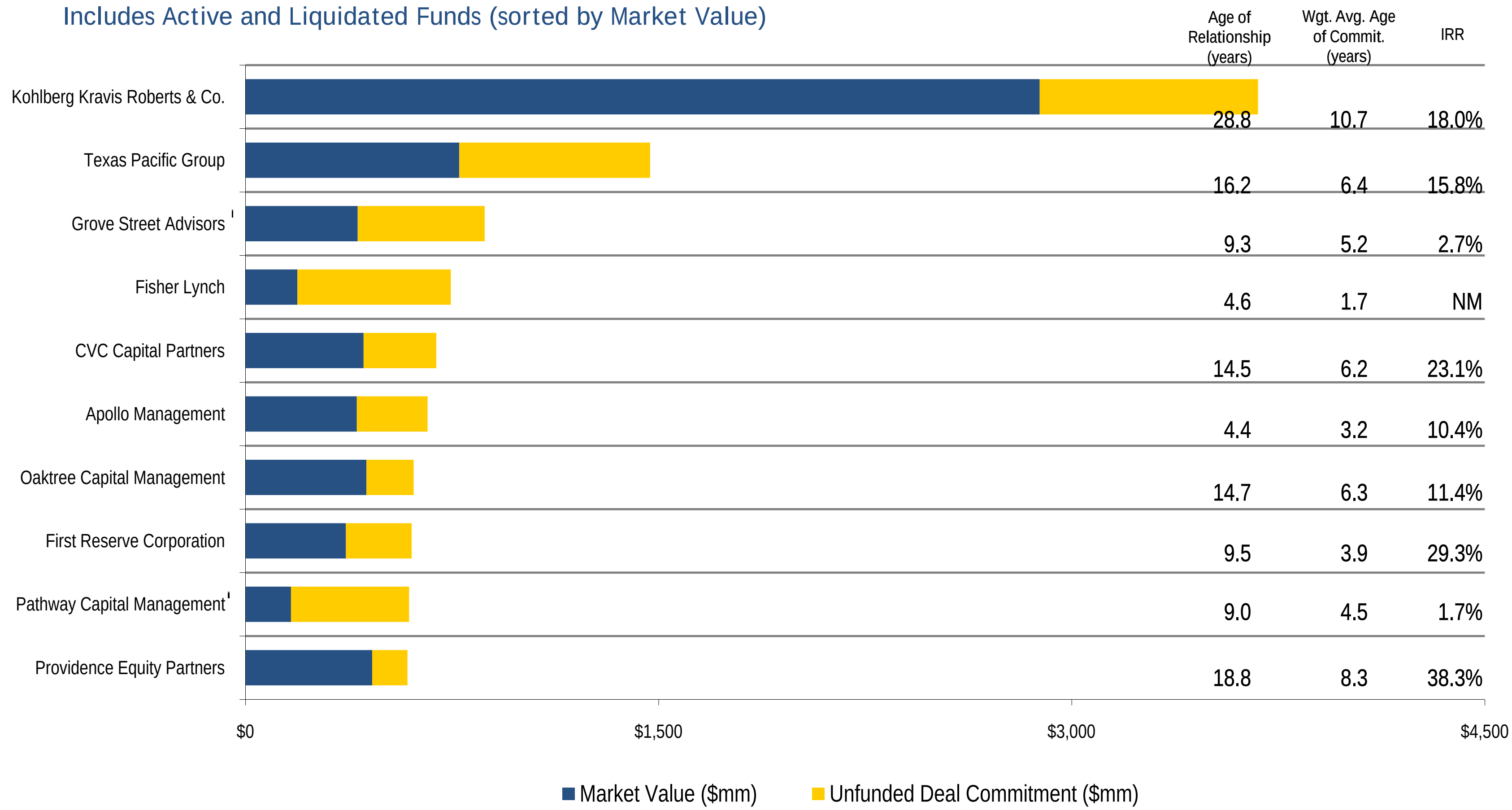
PORTFOLIO ALLOCATION AND PERFORMANCE

- OPERF's private equity sub-sector exposures are generally within the targeted allocation ranges, with venture capital slightly under-weighted and fund-of-funds slightly over-weighted on a remaining commitment basis.
- As of September 30, 2010, OPERF has achieved a portfolio IRR of approx. 16.0% (since inception), representing an excess return of approx. 490 basis points over the Venture Economics Pooled IRR for all United States private equity as of June 30, 2010.
- As of September 30, 2010, the 10-year IRR of OPERF's PE portfolio is approx. 7.6%, representing an excess return of approx. 480 basis points over the Venture Economics Pooled IRR for all United States private equity as of June 30, 2010.

Top Ten Relationships by Exposure
as of September 30, 2010

AGE OF RELATIONSHIPS AND CUMULATIVE IRR's (SINCE INCEPTION) ARE SHOWN AT THE END OF EACH BAR

Includes Active and Liquidated Funds (sorted by Market Value)



[1] Please note that Grove Street Advisors and Pathway Capital Management are Fund of Funds managers.

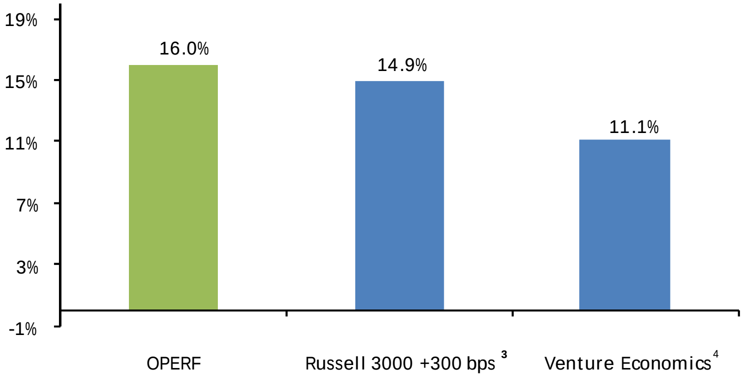
Performance Overview
As of September 30, 2010

Vintage Year Performance & Benchmarks

VINTAGE	COMMITMENT [1] ($ in millions)	IRR	TVM	MEDIAN IRR[2]	MEDIAN TVM[2]	QUARTILE RANKING
2000	$750	17.5%	1.75x	(0.8%)	1.00x	1st
2001	$847	24.0%	1.75x	1.9%	1.09x	1st
2002	$1,370	19.8%	1.56x	1.3%	1.09x	1st
2003	$515	13.5%	1.49x	3.9%	1.18x	1st
2004	$971	15.0%	1.48x	1.9%	1.06x	1st
2005	$1,922	1.6%	1.05x	1.9%	1.05x	3rd
2006	$4,556	0.8%	1.02x	(0.9%)	0.97x	2nd
2007	$3,366	2.6%	1.05x	0.3%	1.00x	2nd
2008	$3,822	NM	NM	NM	NM	NM
2009	$807	NM	NM	NM	NM	NM
2010	$2,213	NM	NM	N/A	N/A	NM

1 Vintage Year classification is based on each fund's first drawdown date.
2 Venture Economics U.S. all private equity vintage year benchmarks as of June 30, 2010.
3 Data for the Russell 3000® is a dollar-weighted Long-Nickels calculation of quarterly changes in the Russell 3000® index plus 300 basis points. Russell Investment Group is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes.
4 Venture Economics Pooled IRRs for U.S. All Private Equity as of June 30, 2010.
Please note that as of Q3 2010, Northwest Emerging Ventures Funds I, II, and III have been segregated into separate vehicles by the vintage year of their underlying fund commitments. This change has affected the Program's commitments per vintage year as reported in the table above.

Since Inception Performance & Benchmarks (09.30.10)



Periodic Performance (09.30.10) & Benchmarks (06.30.10)

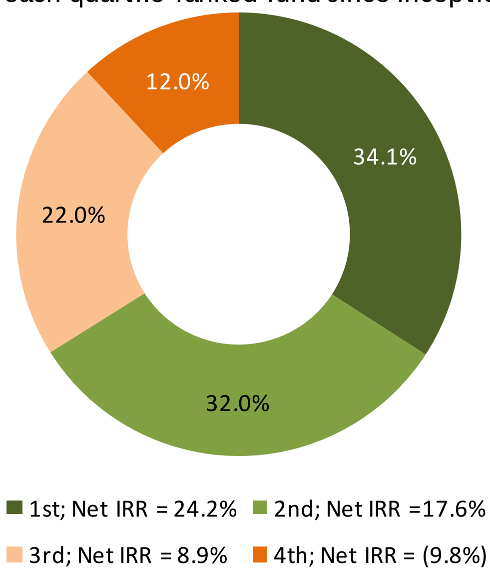
	1 YEAR	3 YEAR	5 YEAR	10 YEAR
Portfolio IRR	**16.2%**	**0.7%**	**8.3%**	**7.6%**
Venture Economics[4]	**16.0%**	**-0.4%**	**5.2%**	**2.8%**
Value Added	*+0.2%*	*+1.1%*	*+3.1%*	*+4.8%*
Russell 3000 (+ 300 bps)[3]	**14.3%**	**-0.9%**	**3.8%**	**2.9%**
Value Added	*+1.9%*	*+1.6%*	*+4.5%*	*+4.7%*

Portfolio Quartile Rankings

As of September 30, 2010

Overall Portfolio Since Inception

% of Total Capital Invested
(in each quartile-ranked fund since inception)

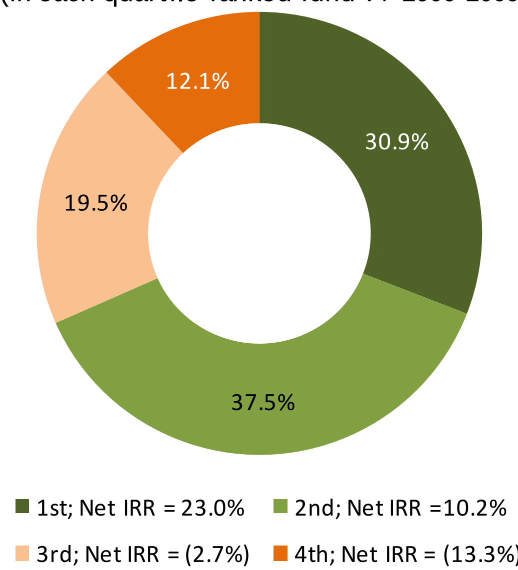


Sample Outperformers:
KKR 1986 Fund (VY 1986; 26.3% Net IRR; 4.6x TVM)
TPG Partners (VY 1994; 36.3% Net IRR; 3.5x TVM)

Sample Underperformers:
Exxel Capital Partners V (VY 1997; Net IRR is not calculable; 0.1x TVM)
Hicks, Muse, Tate & Furst Equity Fund IV (VY 1998; (8.4%) Net IRR; 0.7x TVM)

Last 10 Years

% of Total Capital Invested
(in each quartile-ranked fund VY 2000-2009)



Sample Outperformers:
CVC European Equity Partners III (VY 2001; 42.5% Net IRR; 2.6x TVM)
Endeavour Capital Fund III (VY 2000; 29.6% Net IRR; 2.7x TVM)
Union Square Ventures 2004 (VY 2004; 66.7% Net IRR; 4.3x TVM)

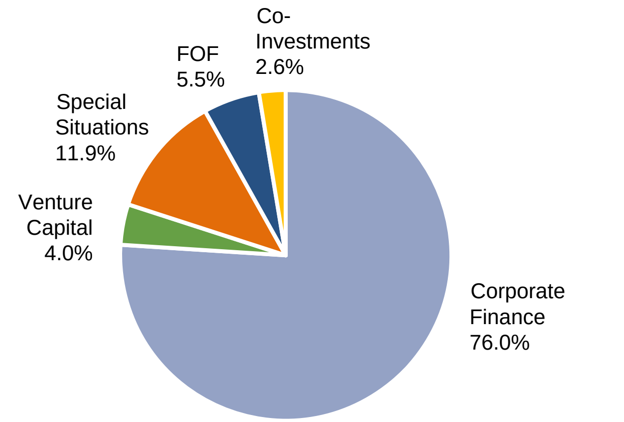
Sample Underperformers:
Terra Firma Capital Partners III (VY 2006; (41.6%) Net IRR; 0.3x TVM)
JC Flowers II (VY 2006; (37.2%) Net IRR; 0.4x TVM)

Portfolio Snapshot
as of September 30, 2010

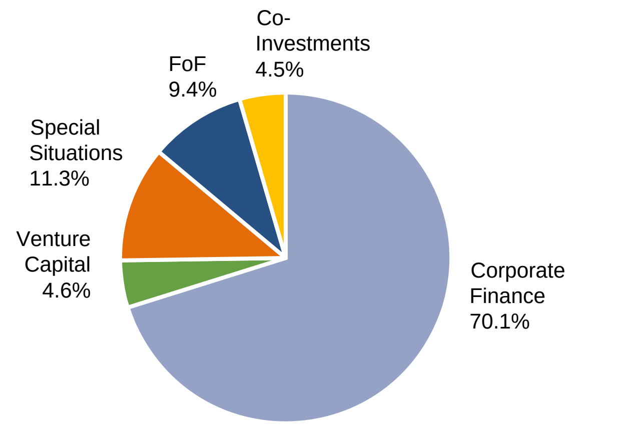
Portfolio Diversification (by Strategy and Geography) Values in Millions of USD

INVESTMENT SECTOR	TARGET	MARKET VALUE	%	UNFUNDED	%	TOTAL POTENTIAL EXPOSURE[1]	%
Corporate Finance	**65-85%**	**$9,068.2**	**76.0%**	**$5,276.1**	**61.9%**	**$14,344.3**	**70.1%**
Large Corp Finance	45-65%	$6,288.3	52.7%	$3,289.6	38.6%	$9,577.8	46.8%
Mid Corp Finance	5-25%	$2,401.4	20.1%	$1,799.0	21.1%	$4,200.4	20.5%
Small Corp Finance	0-10%	$378.5	3.2%	$187.5	2.2%	$566.0	2.8%
Venture Capital	**5-10%**	**$473.0**	**4.0%**	**$466.9**	**5.5%**	**$939.8**	**4.6%**
Special Situations	**5-15%**	**$1,421.6**	**11.9%**	**$897.4**	**10.5%**	**$2,319.0**	**11.3%**
Distressed	0-10%	$1,044.2	8.8%	$631.5	7.4%	$1,675.7	8.2%
Mezzanine	0-5%	$249.2	2.1%	$165.4	1.9%	$414.6	2.0%
Secondaries	0-5%	$128.2	1.1%	$100.5	1.2%	$228.7	1.1%
Fund-of-Funds	**5-10%**	**$655.4**	**5.5%**	**$1,273.0**	**14.9%**	**$1,928.4**	**9.4%**
Co-Investments	**0-7.5%**	**$310.7**	**2.6%**	**$614.6**	**7.2%**	**$925.4**	**4.5%**
Investment Type Total:		**$11,929.0**	**100.0%**	**$8,528.0**	**100.0%**	**$20,456.9**	**100.0%**
USA and Canada	**70-100%**	**$8,510.7**	**71.3%**	**$5,964.3**	**69.9%**	**$14,475.0**	**70.8%**
International	**0-30%**	**$3,418.2**	**28.7%**	**$2,563.7**	**30.1%**	**$5,982.0**	**29.2%**
Asia		$316.1	2.6%	$294.8	3.5%	$610.9	3.0%
Europe		$1,759.3	14.7%	$1,015.7	11.9%	$2,775.1	13.6%
Global		$1,284.9	10.8%	$1,240.7	14.5%	$2,525.5	12.3%
Rest of World		$57.9	0.5%	$12.5	0.1%	$70.5	0.3%
Geographic Focus Total:		**$11,929.0**	**100.0%**	**$8,528.0**	**100.0%**	**$20,456.9**	**100.0%**

Portfolio Composition By Market Value



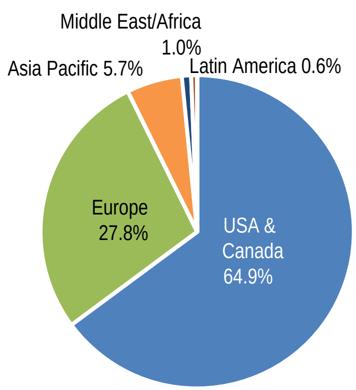
Portfolio Composition By Total Exposure[1]



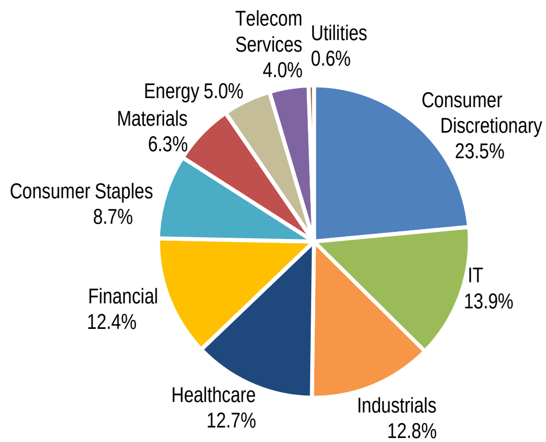
1 *Total Exposure = Fair Market Value + Unfunded Commitments*

Portfolio Company Exposures (by FMV)
as of September 30, 2010

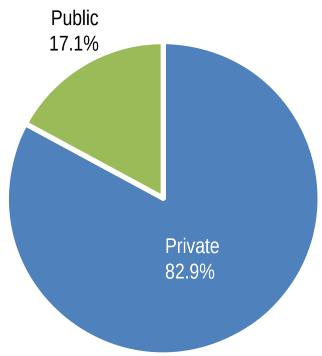
Geographic Exposure



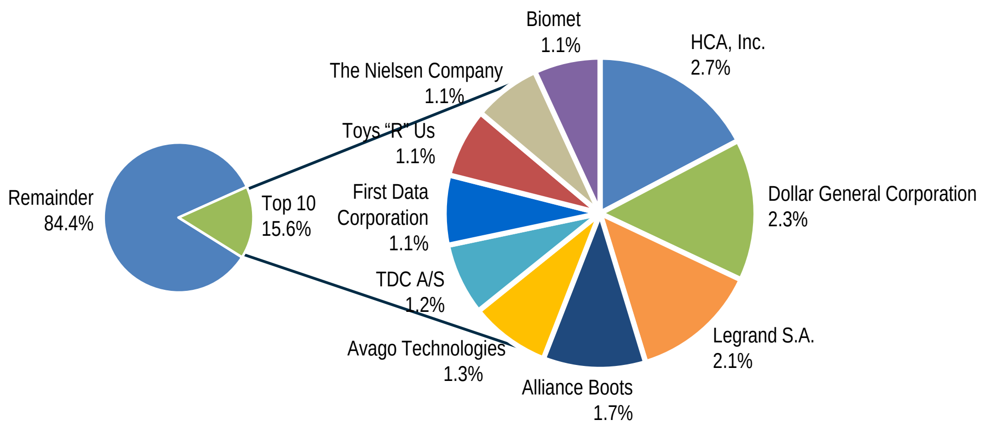
Industry Exposure



Public Market Exposure



Top 10 Exposure



*It should be noted that the above allocation break-downs do not include investments for which the general partner provides a fair market value but withholds information on other details regarding the underlying investments.

NAV Allocation by Strategy versus “Industry”

OPERF VERSUS SELECTED OTHER PUBLIC PENSION PLANS[1]

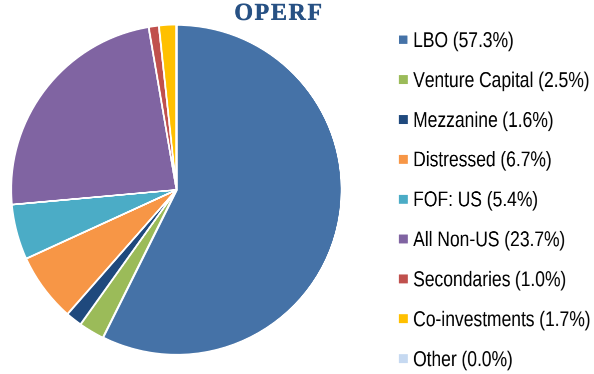
As of June’10, leveraged buyout fund investments (US only) comprised just over half of OPERF's PE portfolio, which is somewhat above “industry” average.

The Venture Capital portion of OPERF's portfolio gradually increased during the period June 2008–June 2010 as a result of recent new commitments to VC managers.

Exposure to secondary opportunities is now in line with “industry” average. In 2010 OPERF committed $75 million to Montauk TriGuard Fund IV, which will help to increase NAV exposure to the investment type in the coming years.

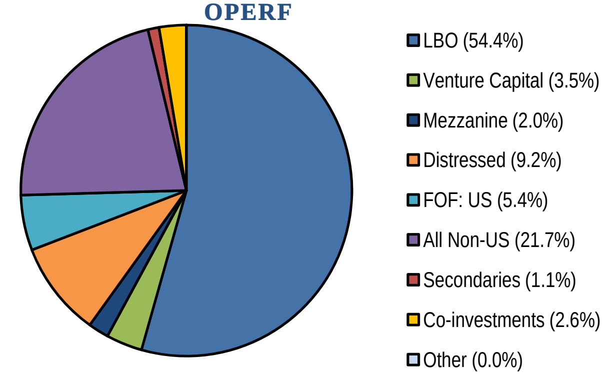
As of 30 June 2008

OPERF

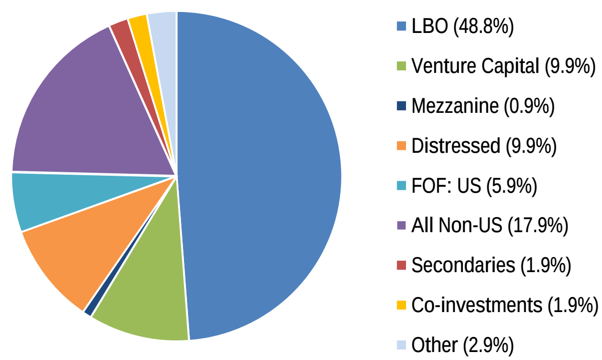


As of 31 December 2009

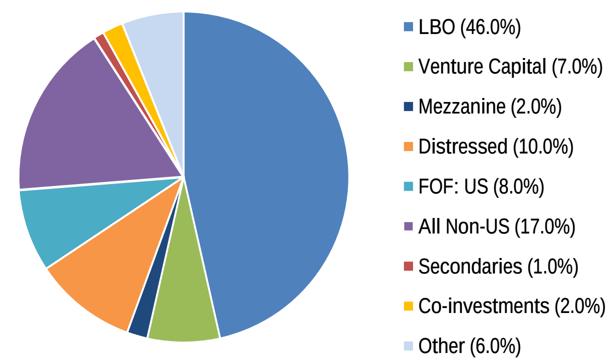
OPERF



“Industry”[1]



“Industry”[1]

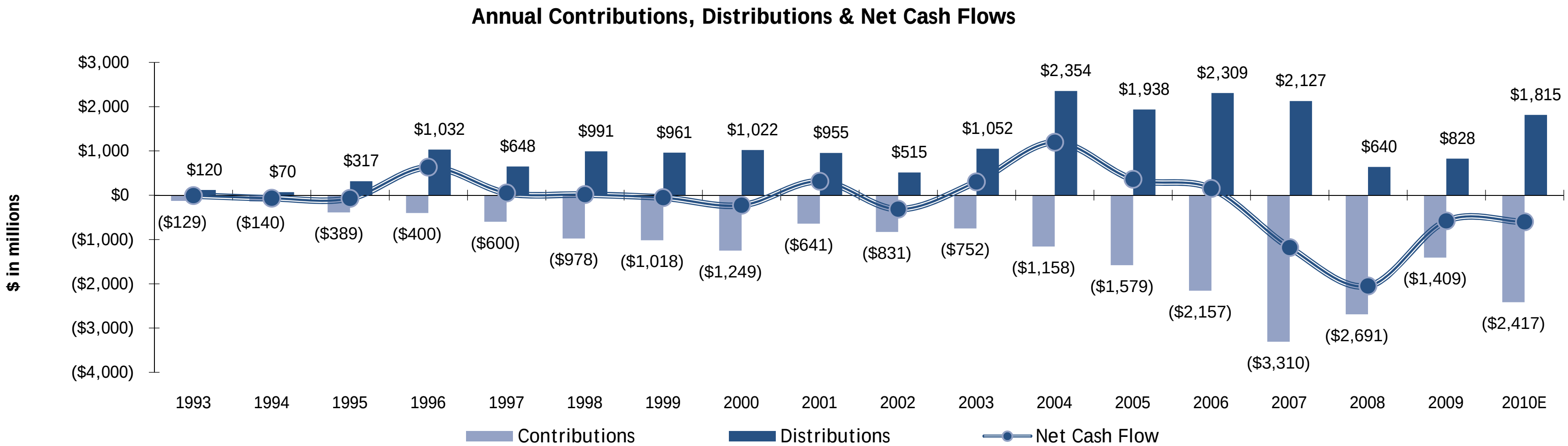


[1] *Sample is based on data as of June 30, 2008 and December 31, 2009, supplied by 33 and 35 US public pension systems (including OPERF) , respectively and compiled by CEM Benchmarking Inc. All data includes funds with VY's: 1996-2009.*

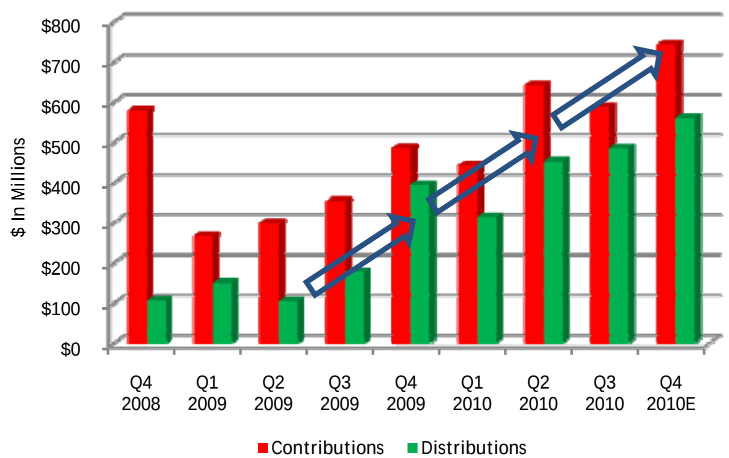
Cash Flow Trends

Estimated as of December 31, 2010[1]

Annual Contributions, Distributions & Net Cash Flows



Contribution & Distribution By Quarter $ Million[1]



Capital Called Per Vintage Year (as of December 31, 2010) $ Million

VINTAGE YEAR	COMMITMENTS	CAPITAL CALLED	PERCENT CALLED
2006	$4,555.99	$4,088.79	90%
2007	$3,366.32	$2,377.55	71%
2008	$3,821.81	$1,739.38	46%
2009	$807.04	$147.89	18%
2010	$2,012.86	$133.61	7%
TOTAL	$14,564.03	$8,487.21	58%

1 *Cash flow estimates for Q42010 are based on preliminary actual cash f low data.*

With current OPERF Relationship Deal Log

Pacing/Scenario Analysis

Overview

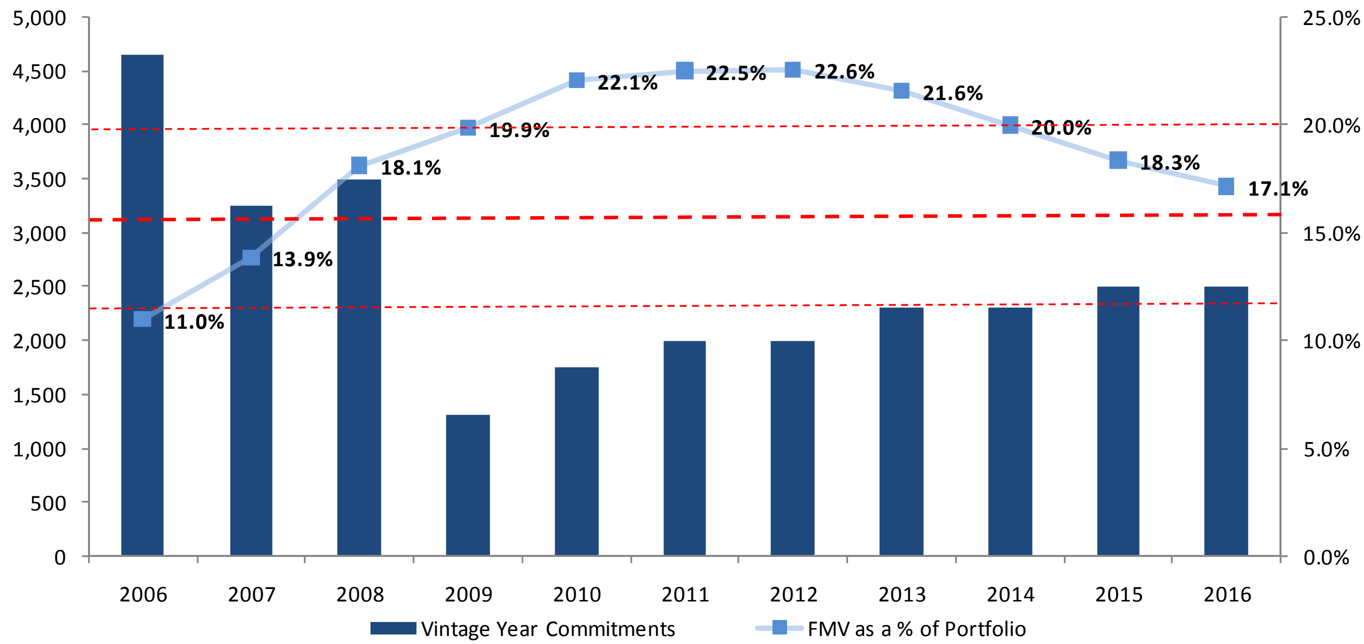
BASED ON TOTAL PENSION ASSETS OF $55.0 BILLION (Adjusted as of November 30, 2010)

Pacing FMV Data as of September 30, 2010;

**Net Contribution and Distribution Assumptions Provided by Oregon PERS*

- Annual pace of new commitments is expected to stabilize at around $2.0- 2.5 billion in the coming years.
- PCG AM forecasts OPERF's total private equity exposure to range from approximately 20% to 23% of total pension through 2014.
- OPERF reached its 16.0% target allocation in 2008. PE allocation first exceeded the 20% mark of total pension assets in 2010. It is expected to remain above 20% for the next 3-4 years.

$ in millions	2007	2008	2009	2010	2011E	2012E	2013E	2014E	2015E	2016E
Vintage Year Commitments [1]	3,253	3,493	1,313	1,749	2,000	2,000	2,300	2,300	2,500	2,500
Total FMV =	8,769	8,147	10,416	12,122	12,906	13,581	13,672	13,360	12,955	12,779
FMV as a % of Portfolio	13.9%	18.1%	19.9%	22.1%	22.5%	22.6%	21.6%	20.0%	18.3%	17.1%



1 Generally, represent vintage year of underlying funds.

Implied Net Annual Fund Growth Rates: Calculation Detail

Projected (Post-Recession):

	2011	2012	2013	2014	2015	2016
OPERF Beginning Balance	$ 54,957	$ 57,383	$ 60,217	$ 63,384	$ 66,888	$ 70,616
Employer contributions	$ 1,068	$ 1,374	$ 1,642	$ 1,923	$ 2,081	$ 2,243
Benefits paid	$ (3,400)	$ (3,597)	$ (3,800)	$ (4,011)	$ (4,229)	$ (4,451)
Net Benefit Outflow	**$ (2,332)**	**$ (2,223)**	**$ (2,158)**	**$ (2,088)**	**$ (2,148)**	**$ (2,208)**
Net increase by market*	**$ 4,758**	**$ 5,057**	**$ 5,325**	**$ 5,591**	**$ 5,876**	**$ 6,168**
OPERF Projected Ending Balance	$ 57,383	$ 60,217	$ 63,384	$ 66,888	$ 70,616	$ 74,576
Implied Net Annual Fund Growth	4.4%	4.9%	5.3%	5.5%	5.6%	5.6%
OPERF PE at FMV	$ 12,906	$ 13,581	$ 13,672	$ 13,360	$ 12,955	$ 12,779
% of total Fund	22.5%	22.6%	21.6%	20.0%	18.3%	17.1%

- PCG AM's projected net annual fund growth rates for 2011-2016 are generally more conservative than those experienced by OPERF in previous post-recession periods (2002-2007)
- However, should the economy contract going forward, growth rates could be significantly impaired as seen in 2008

Historical (Post-Recession):

	2002	2003	2004	2005	2006	2007
OPERF Beginning Balance	$ 33,374	$ 32,770	$ 34,710	$ 47,046	$ 50,015	$ 58,962
OPERF Ending Balance	$ 32,770	$ 34,710	$ 47,046	$ 50,015	$ 58,962	$ 63,266
Implied Net Annual Fund Growth	-1.8%	5.9%	35.5%	6.3%	17.9%	7.3%
OPERF PE at FMV	$ 3,758	$ 4,274	$ 4,310	$ 5,142	$ 6,473	$ 8,769
% of total Fund	11.5%	12.3%	9.2%	10.3%	11.0%	13.9%

Historical (Recession):

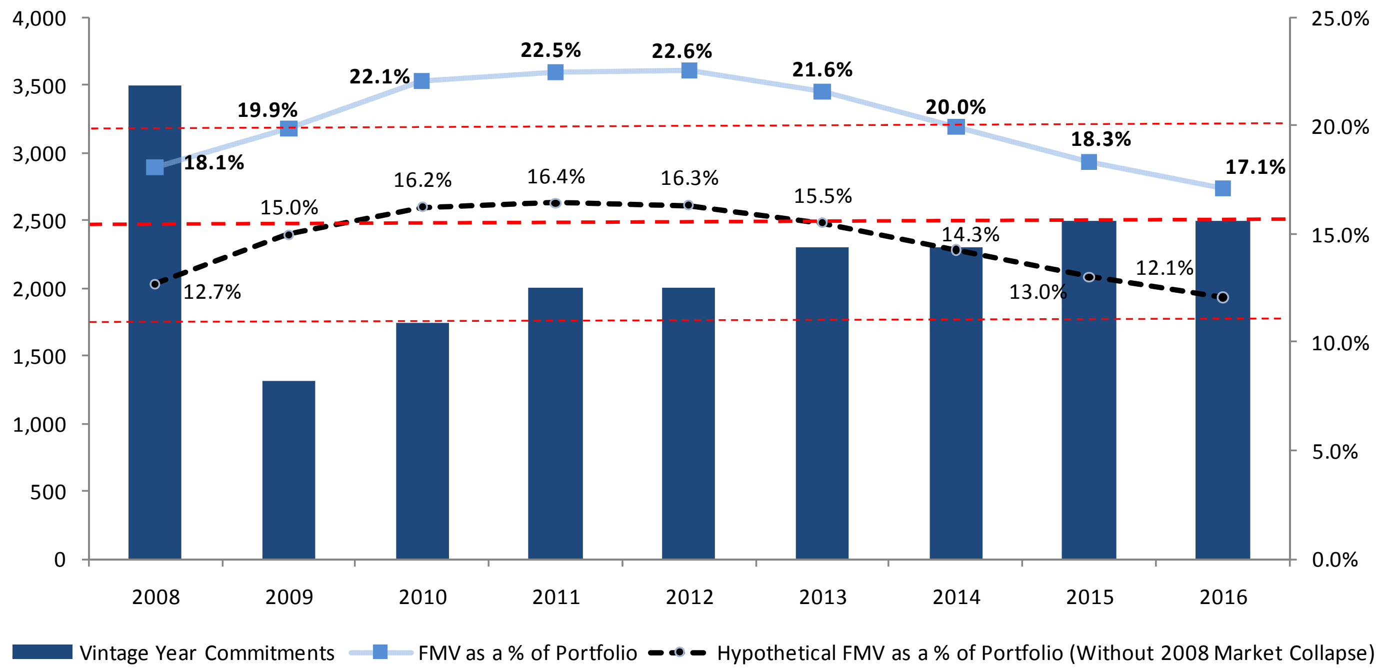
	2008	2009	2010
OPERF Beginning Balance	$ 63,266	$ 48,953	$ 52,440
OPERF Ending Balance	$ 48,953	$ 52,440	$ 54,957
Implied Net Annual Fund Growth	-22.6%	7.1%	4.8%
OPERF PE at FMV	$ 8,147	$ 10,416	$ 12,122
% of total Fund	18.1%	19.9%	22.1%

* *Estimated market returns from total pension assets (public equities, fixed income, real-estate, private equity, etc.) using various investment contribution, distribution, and return assumptions, generally inline with overall 8% stated actuarial target.*

2008/2009 Recession Effect on PE Allocation [1]

Projected PE allocation versus estimated hypothetical allocation (assuming the market collapse of 2008/2009 never occurred).

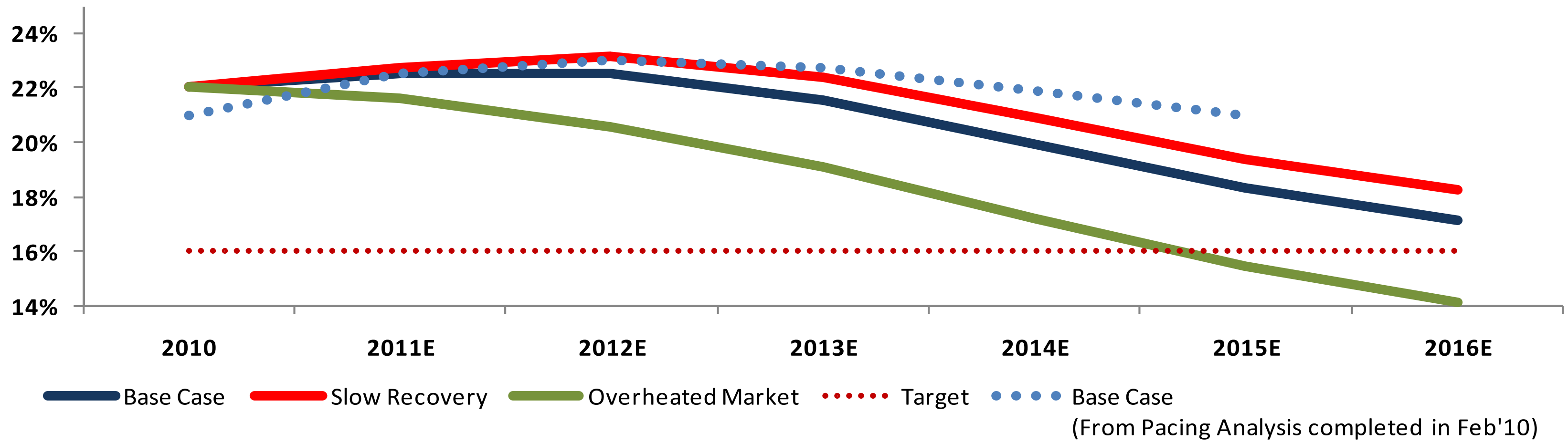
- The sudden drop in value of public equities and debt securities during 2008 and early 2009 has significantly affected OPERF's allocation to PE for the foreseeable future.



1 Please note that the above hypothetical case discussed here is based on the assumptions that public markets continued to grow at an average of 8% per annum in 2008 and thereafter. Private Equity values used in both scenarios are actual through September 30, 2010, and estimated thereafter.

Scenario Analysis: OPERF PE Exposure Sensitivity to the Public Markets

Projected Allocations Based on Hypothetical Public Market Performance Scenarios



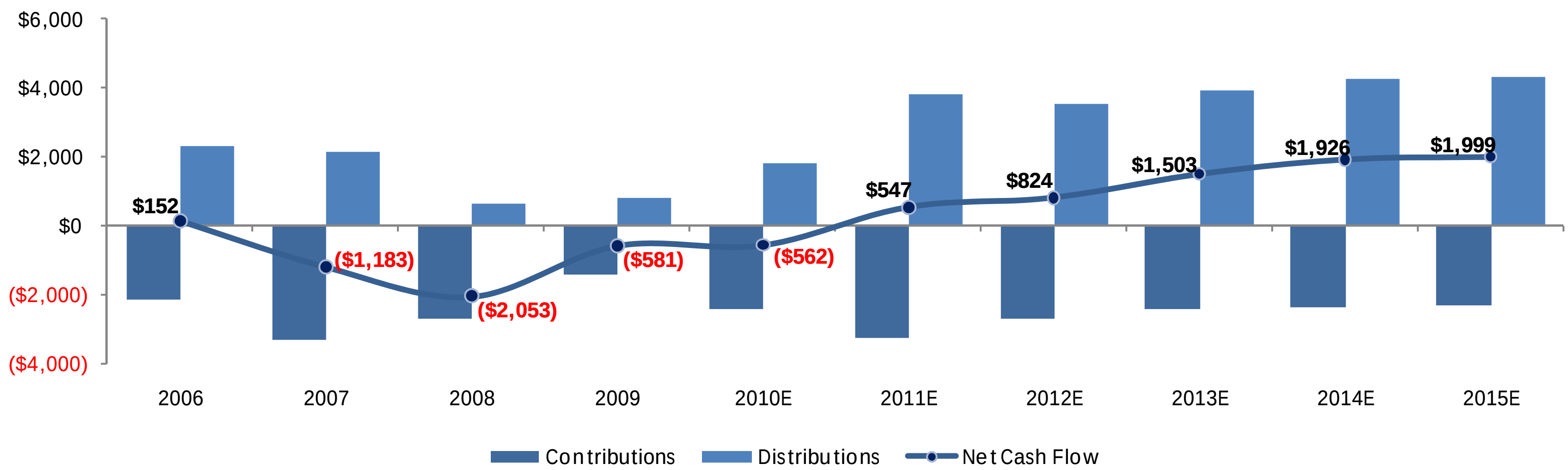
Portfolio Market Values and Allocations *Please Note: private equity return assumptions also proportionately adjusted in each scenario*

Scenarios		2010	2011E	2012E	2013E	2014E	2015E	2016E
Base Case	Public Portfolio Growth Rate	NA	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
	FMV as a % of Portfolio	**22.1%**	**22.5%**	**22.6%**	**21.6%**	**20.0%**	**18.3%**	**17.1%**
Slow Recovery	Public Portfolio Growth Rate	NA	*4.0%*	*5.0%*	8.0%	8.0%	8.0%	8.0%
	FMV as a % of Portfolio	22.1%	22.7%	23.1%	22.4%	20.9%	19.4%	18.2%
Overheated Market	Public Portfolio Growth Rate	NA	*25.0%*	*20.0%*	*0.0%*	8.0%	8.0%	8.0%
	FMV as a % of Portfolio	22.1%	21.6%	20.5%	19.1%	17.2%	15.4%	14.2%
Base Case (From Pacing Analysis completed in Feb'10)	FMV as a % of Portfolio	21.0%	22.5%	23.0%	22.7%	21.9%	21.0%	

Cash Flow Trends and Projections

Market Value & Cash Flows (Projected After 2010): Expect Positive Cash Flows After 2011

$ in millions	2006	2007	2008	2009	2010E	2011E	2012E	2013E	2014E	2015E
Total Fair Market Value	6,473	8,769	8,147	10,416	12,122	12,906	13,581	13,672	13,360	12,955
Contributions	(2,167)	(3,312)	(2,695)	(1,414)	(2,417)	(3,258)	(2,696)	(2,451)	(2,361)	(2,340)
Distributions	2,318	2,130	642	833	1,815	3,804	3,520	3,954	4,287	4,338
Net Cash Flow	152	(1,183)	(2,053)	(581)	(562)	547	824	1,503	1,926	1,999



A Message Regarding the Performance Information Presented Herein

PAST PERFORMANCE MAY NOT BE INDICATIVE OF FUTURE RESULTS. IRRs ARE CALCULATED BASED ON THE DAILY CAPITAL INFLOWS AND OUTFLOWS FROM INVESTMENTS AND MAY INCLUDE PARTNERSHIP INVESTMENTS, CO-INVESTMENTS, AND DIRECT INVESTMENTS. CERTAIN PARTNERSHIP INVESTMENTS FOR WHICH PCG DELIVERS PRUDENT PERSON OPINIONS OR FAVORABLE DUE DILIGENCE REPORTS ARE NOT INCLUDED IN THE PERFORMANCE RESULTS. UNLESS OTHERWISE INDICATED, THE INVESTMENT RATES OF RETURN SET FORTH HEREIN ARE NET OF MANAGEMENT FEES AND CARRIED INTERESTS PAID TO THE UNDERLYING FUND MANAGERS OR GENERAL PARTNERS AND NET OF MANAGEMENT FEES AND CARRIED INTERESTS CHARGED BY PCG. PLEASE REFER TO PART II OF PCG's FORM ADV FOR A MORE DETAILED PRESENTATION OF THE FEES CHARGED TO VARIOUS CLIENTS. IRRs ARE PRESENTED BY VINTAGE YEAR SO THAT THE PERFORMANCE RESULTS PRESENTED THEREIN FOR A PARTICULAR YEAR ARE THE RESULTS UP TO THE DATE INDICATED FOR ALL PARTNERSHIPS IN THAT VINTAGE YEAR AND NOT AGGREGATE PERFORMANCE RESULTS FOR PCG. THE OVERALL PARTNERSHIP TRACK RECORD REPRESENTS THE AGGREGATE PERFORMANCE OF PCG, WHICH INCLUDES ITS DIRECT INVESTMENTS AND PARTNERSHIP ADVISORY DIVISIONS, TO THE DATE INDICATED.

IRRs FOR REALIZED INVESTMENTS WITH REMAINING INTEREST, PUBLIC INVESTMENTS AND UNREALIZED INVESTMENTS HAVE BEEN CALCULATED ASSUMING THAT THE REMAINING INTEREST HAS BEEN SOLD AS OF THE DATE INDICATED AT THE PUBLIC OR UNREALIZED VALUE. THERE CAN BE NO ASSURANCE THAT THESE INVESTMENTS WILL ULTIMATELY BE REALIZED FOR SUCH VALUE. INVESTMENT RETURNS SET FORTH HEREIN MAY BE SIGNIFICANTLY AFFECTED BY THE VALUES OF UNREALIZED INVESTMENTS, PARTICULARLY IN LIGHT OF CURRENT MARKET CONDITIONS.

THE INVESTMENT RESULTS FOR ANY PARTICULAR CLIENT OF PCG MAY DIFFER SIGNIFICANTLY FROM THE INVESTMENT RESULTS PRESENTED HEREIN DUE TO DIFFERENT HOLDING PERIODS, DIFFERENT WEIGHTING OF THE PORTFOLIO, DIFFERENT ACQUISITION DATES, DIFFERENT FEES AND INCENTIVE AMOUNTS, AND A MORE LIMITED HISTORY OF INVESTMENTS, AMONG OTHER FACTORS. ACCORDINGLY, IRRs PRESENTED HEREIN ARE NOT NECESSARILY REPRESENTATIVE OF THE IRRs ACHIEVED BY PCG FOR ALL OF ITS CLIENTS AS A WHOLE OR ALL OF ITS CLIENTS WITH RESPECT TO CO-INVESTMENT TRANSACTIONS INDIVIDUALLY OR AS A WHOLE.

THE VENTURE ECONOMICS INDEX (THE "VE INDEX"): ALL PRIVATE EQUITY RESULTS PRESENTED ARE UNMANAGED AND ARE CALCULATED NET OF GENERAL PARTNER FEES (INCLUDING CARRIED INTEREST) AND ALL PARTNERSHIP EXPENSES AND DO NOT TAKE INTO ACCOUNT ADVISOR FEES NECESSARY TO REPLICATE THE INDEX. THE VE INDEX IS VIEWED AS AN INDEPENDENT REPRESENTATION OF THE PRIVATE EQUITY MARKET IN GENERAL, AND INCLUDES BUYOUT, MEZZANINE AND OTHER PRIVATE EQUITY FUNDS. THE SELECTION OF THESE RESULTS DOES NOT IMPLY SIMILAR STRATEGIES OR UNIVERSE OF SECURITIES AND PCG'S STRATEGY WHICH MAY INCLUDE DIRECT INVESTMENTS AND CO-INVESTMENTS MAY BE MATERIALLY DIFFERENT. THE VOLATILITY BETWEEN PCG AND THE VE INDEX MAY VARY MATERIALLY DUE TO THE RELATIVELY LOWER NUMBER OF EQUITY HOLDINGS BY PCG AS COMPARED TO THE VE INDEX, AS WELL AS THE DIFFERENT INVESTMENT STRATEGY FOLLOWED BY PCG AS DESCRIBED HEREIN.

PCG HAS EXPERIENCED CHANGES IN INVESTMENT PROFESSIONALS DURING THE PERFORMANCE TIME FRAMES SHOWN. PAST PERFORMANCE IS NO GUARANTEE OF FUTURE RESULTS. FURTHER INFORMATION AND COMPLETE REPORTS REGARDING PCG'S TRACK RECORDS AND IRRs ARE AVAILABLE UPON REQUEST. TO RECEIVE A COMPLETE LIST AND DESCRIPTION OF PCG'S INVESTMENTS INCLUDED IN THE TRACK RECORD CONTACT KARA KING AT (858) 456-6000, 1200 PROSPECT STREET, SUITE 200, LA JOLLA, CALIFORNIA 92037, KKING@PCGAM.COM.

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TAB 3 – OIC PROXY VOTING

OIC Proxy Voting Update

Purpose

To provide an update on the OIC Proxy Voting process.

Recommendation

Approve delegation of Proxy Voting authority to OST staff, and revise policy accordingly.

Background

April 2002	January 2003	March 2004	September 2006
Query of OIC managers reveals that most use ISS for proxy voting services	OIC issues an RFI and hires ISS for proxy voting services	OIC adopts ISS Taft-Hartley voting guidelines	OIC signs on with Glass Lewis for proxy voting services, to avoid potential issues of conflict at ISS

Proxy voting was the responsibility of OPERF's external equity managers until 2002. With the demise of Enron, WorldCom and other high profile corporate governance disasters, staff and the OIC began to revisit the proxy voting practices of its managers. Initially, staff issued the managers a questionnaire requesting information on their proxy voting practices. The responses indicated that most managers used a third party service to vote their proxies, if they were voting proxies at all. At that point, staff recommended that the OIC hire an independent proxy voting agent to ensure, at a minimum, a consistent vote across all holdings, and to ensure that OPERF was meeting its fiduciary duty with respect to voting its shares. The OIC approved and ultimately hired ISS to vote its proxies.

The Industry: After three years with ISS, staff issued a second RFP in the summer of 2006 as a result of unease over ISS conflicts of interest (most notably, receiving payments from corporations for providing advice on how to improve their *Corporate Governance Quotient*[1]), and to attempt to gain an understanding of other providers of services. There were two responses, one from Glass Lewis and one from ISS.

The OIC selected Glass Lewis because of its position as an independent service, providing no consulting services to public companies, and relying solely on public information; they choose not to allow corporations special access to their research staff. Additionally, their research is solely focused on the economic and financial consequences of company actions (not political or social metrics), consistent with the OIC's fiduciary duty. Attached you will find a series of resources we receive from Glass Lewis, including their voting guidelines for 2011 in full and abridged versions; a one page newsletter entitled "Deal Watch" which details M&A activity; the annual Proxy Season Preview, and a recent version of their regular newsletter. These materials provide helpful information on public companies.

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[1] This was a metric, designed by ISS, to reflect how well a corporation rated on key corporate governance issues. This information was then sold to investment managers and plan sponsors.

OST staff has been monitoring three firms in this field since the 2006 RFP: 1) ISS (now Risk Metrics), 2) Glass Lewis, and 3) Proxy Governance, which recently finalized a deal to turn its proxy voting clients over to Glass Lewis, and close its doors.

The Proxy Voting Process: The OIC retains ultimate authority over proxy votes. Glass Lewis presents a set of voting guidelines (attached as Exhibit A) which the OIC has approved, and Glass Lewis votes consistent with those guidelines. The vast majority of proxy voting issues are routine (e.g., selection of the annual auditors and board membership).

In 2010, OPERF shares were voted in 4,889 annual and special meetings, on 38,087 management and shareholder proposals. Shareholder proposals made up only two percent of that figure. The OIC voted with management proposals 75% of the time, and voted for shareholder proposals 57% of the time. The voting report for calendar year 2010 is attached as Exhibit B, for your review of individual issues.

The majority of the issues to be voted, by far, constitute the ordinary technical details of running the board. These issues include approving candidates for the board, committee composition, ratifying auditors, etc. Glass Lewis handles this mass of topics by placing them into categories, and establishing general rules for each category. One such general rule is that a loss of shareholder control of the company is detrimental to the shareholder, and therefore not supported. It is this general rule that led to the disagreement over the Glass Lewis vote concerning Massmart. However, topics not subject to general rule are handled on a case-by-case basis.

Overriding a Glass Lewis Recommendation: When a manager encounters a specific vote for which they may have a concern, they contact OST through the public equity team. Staff queries Glass Lewis to determine if their proposed vote is consistent with the managers. Until the recent Massmart question, Glass Lewis's recommendation has always matched the manager's positions. Additionally, less than a handful of queries have been made since Glass Lewis was retained.

Summary: From a resource perspective, it is difficult to justify spending staff or manager time researching these routine voting issues. The OIC adopted guidelines alone are challenging to get through, but voting on these issues is particularly time consuming. The service that Glass Lewis provides allows staff, and the external managers, to better allocate their resources and only focus on key proxy issues that may arise. When an issue arises that is important to an OIC manager, they contact staff to discuss it and it is resolved on an individual basis. Those issues number roughly two or three per year. To put that in perspective, in 2010 OPERF voted on 38,000 issues and two of them were pressing enough to involve a second level of review over Glass Lewis's recommendation. Additionally, turning the voting back to the individual managers may result in inconsistent voting or a lack of voting, in many cases.

Recommendation

Voting by a set of rules can create issues when a situation does not fit the rules; for this reason, Glass Lewis often reviews issues on a case-by-case basis. Over the years, however, the progressive adjustments noted in the timeline above have resulted in the most efficient voting program available. This system allows staff and managers to focus their time on overall investment quality. Staff requests that the OIC continue retaining Glass Lewis as its proxy voting agent, for four compelling reasons:

1) External managers have differing levels of interest and expertise in voting proxies themselves, and will often outsource the service;

2) The underlying proxies being voted are the assets of the fund, not the individual managers, as such, only by voting all proxies similarly can consistency be achieved;

3) The only other viable third-party provider, Risk Metrics, appears to have conflicts of interest;

4) The current system appears to be working well, with only one exception having been brought to the board since the decision was made to retain a third-party proxy voting agent in 2002.

Staff further requests that the OIC delegate proxy voting authority to staff, when the situation warrants it. The public equity team would review proxy voting disagreements between Glass Lewis and the manager, and make a proxy voting recommendation to the Chief Investment Officer. If an issue was particularly contentious, the decision still could be elevated to an OIC meeting for full board approval.

FUNCTION: **Equity Investments**
ACTIVITY: **Exercise of Voting Rights Accompanying Equity Securities**

POLICY: **The Council recognizes that the quality of corporate governance can affect the long-term value of investments. In general, the equity markets are highly efficient; therefore, the OIC's corporate governance philosophy anticipates that the OIC and Office of the State Treasurer (OST) staff possess no knowledge not shared by the market. The OIC therefore avoids attempts to micromanage companies in which the Fund has voting power, since boards of directors are elected to represent shareholders at this level. The OIC strives instead to ensure that corporations follow practices that advance economic value and allow the market to place a proper value on Fund assets.**

The OIC recognizes that voting rights have economic value and must be treated as such. The voting rights obtained through the holdings of the OPERF domestic and international equity portfolios shall be exercised by an independent third party specializing in proxy research and voting ("vendor") in accordance with their independent voting standards which they may revise, at their sole discretion, from time to time. Such vendor shall always vote shares as a fiduciary, based solely on the ultimate economic value of OPERF's investment.

BACKGROUND:

According to the CFA Institute~~ (formerly, the Association for Investment Management and Research (AIMR))~~:

> *Proxy Voting Policies*. The duty of loyalty, prudence, and care may apply in a number of situations facing the investment professional other than issues related directly to investing assets. Part of [that] duty of loyalty includes voting proxies in an informed and responsible manner. Proxies have an economic value to a [fund] and [investors] must ensure that they properly safeguard and maximize this value . . . Voting of proxies is an integral part of the management of investments. A cost-benefit analysis may show that voting all proxies may not benefit the [fund], so voting proxies may not be necessary in all instances. ~~Corporate governance can be generally defined as the system by which corporations are directed and controlled. Common stock shareholders have the power through voting rights to influence the management of a corporation. Actively exercising these rights through corporate governance may be an effective way of enhancing portfolio value. Not exercising these rights ignores a valuable ownership right that could be managed for the benefit of the portfolio . . . In many instances, security holders and account owners delegate their right to vote proxies to professionals who manage their investments. Investment managers must, therefore, adopt procedures to ensure that proxy issues are sufficiently noted, analyzed, and considered to meet the managers' fiduciary duty to their clients. Investment managers have an incumbent responsibility to be thoroughly familiar with the issues that arise in proxies . . . proxies have economic value and must be voted in the interest of the ultimate shareholder or plan beneficiary.~~ *Standards of Practices Handbook*, ~~1999~~2010.

PROCEDURES:

1. Vendor shall keep a record of how proxies are voted and why.

Such records may be subject to review by OST staff or other designated representatives of the OIC.

2. OST staff shall provide a calendar year-end (or more frequently if requested by the OIC) proxy voting summary to the OIC.

3. Vendor shall provide any new or revised proxy voting policies or guidelines to OST staff upon their implementation.

4. Commingled and passive account managers employed by the OIC shall vote their proxies independent of the OIC's vendor, but as a fiduciary in the best interest of plan participants.

5. In accordance with the vendor agreement, and the timelines therein, the OIC reserves the right to vote proxies directly.

6. The public equity team will prepare recommendations to override Glass Lewis' guidelines as circumstances arise that require a secondary review, generally at the request of an OPERF public equity manager. The Deputy Treasurer and the Chief Investment Officer will review and approve, or deny, these recommendations, or recommend the issue be brought before the OIC.

SAMPLE FORMS, DOCUMENTS, OR REPORTS (Attached):

None

PROXY PAPER GUIDELINES

2011 PROXY SEASON

AN OVERVIEW OF
THE GLASS LEWIS APPROACH TO
INTERNATIONAL PROXY ADVICE

GLASS LEWIS & Co.

UNITED STATES

Contents

I. A Board of Directors That Serves the Interests of Shareholders

ELECTION OF DIRECTORS

The purpose of Glass Lewis' proxy research and advice is to facilitate shareholder voting in favor of governance structures that will drive performance, create shareholder value and maintain a proper tone at the top. Glass Lewis looks for talented boards with a record of protecting shareholders and delivering value over the medium- and long-term. We believe that boards working to protect and enhance the best interests of shareholders are independent, have directors with diverse backgrounds, have a record of positive performance, and have members with a breadth and depth of relevant experience.

Independence

The independence of directors, or lack thereof, is ultimately demonstrated through the decisions they make. In assessing the independence of directors, we will take into consideration, when appropriate, whether a director has a track record indicative of making objective decisions. Likewise, when assessing the independence of directors we will also examine when a director's service track record on multiple boards indicates a lack of objective decision-making. Ultimately, we believe the determination of whether a director is independent or not must take into consideration both compliance with the applicable independence listing requirements as well as judgments made by the director.

We look at each director nominee to examine the director's relationships with the company, the company's executives, and other directors. We do this to evaluate whether personal, familial, or financial relationships (not including director compensation) may impact the director's decisions. We believe that such relationships make it difficult for a director to put shareholders' interests above the director's or the related party's interests. We also believe that a director who owns more than 20% of a company can exert disproportionate influence on the board and, in particular, the audit committee.

Thus, we put directors into three categories based on an examination of the type of relationship they have with the company:

> Independent Director – An independent director has no material financial, familial or other current relationships with the company, its executives, or other board members, except for board service and standard fees paid for that service. Relationships that existed within three to five years[1] before the inquiry are usually considered "current" for purposes of this test.
>
> In our view, a director who is currently serving in an interim management position should be considered an insider, while a director who previously served in an interim management position for less than one year and is no longer serving in such capacity is considered independent. Moreover, a director who previously served in an interim management position for over one year and is no longer serving in such capacity is considered an affiliate for five years following the date of his/her resignation or departure from the interim management position. Glass Lewis applies a

[1] NASDAQ originally proposed a five-year look-back period but both it and the NYSE ultimately settled on a three-year look-back prior to finalizing their rules. A five-year standard is more appropriate, in our view, because we believe that the unwinding of conflicting relationships between former management and board members is more likely to be complete and final after five years. However, Glass Lewis does not apply the five-year look-back period to directors who have previously served as executives of the company on an interim basis for less than one year.

three-year look-back period to all directors who have an affiliation with the company other than former employment, for which we apply a five-year look-back.

Affiliated Director – An affiliated director has a material financial, familial or other relationship with the company or its executives, but is not an employee of the company.[2] This includes directors whose employers have a material financial relationship with the company.[3] In addition, we view a director who owns or controls 20% or more of the company's voting stock as an affiliate.

We view 20% shareholders as affiliates because they typically have access to and involvement with the management of a company that is fundamentally different from that of ordinary shareholders. More importantly, 20% holders may have interests that diverge from those of ordinary holders, for reasons such as the liquidity (or lack thereof) of their holdings, personal tax issues, etc.

Definition of "Material": A material relationship is one in which the dollar value exceeds:

- $50,000 (or where no amount is disclosed) for directors who are paid for a service they have agreed to perform for the company, outside of their service as a director, including professional or other services; or
- $120,000 (or where no amount is disclosed) for those directors employed by a professional services firm such as a law firm, investment bank, or consulting firm where the company pays the firm, not the individual, for services. This dollar limit would also apply to charitable contributions to schools where a board member is a professor; or charities where a director serves on the board or is an executive;[4] and any aircraft and real estate dealings between the company and the director's firm; or
- 1% of either company's consolidated gross revenue for other business relationships (e.g., where the director is an executive officer of a company that provides services or products to or receives services or products from the company).

Definition of "Familial": Familial relationships include a person's spouse, parents, children, siblings, grandparents, uncles, aunts, cousins, nieces, nephews, in-laws, and anyone (other than domestic employees) who shares such person's home. A director is an affiliate if the director has a family member who is employed by the company and who receives compensation of $120,000 or more per year or the compensation is not disclosed.

Definition of "Company": A company includes any parent or subsidiary in a group with the company or any entity that merged with, was acquired by, or acquired the company.

Inside Director – An inside director simultaneously serves as a director and as an employee of the company. This category may include a chairman of the board who acts as an employee of the company or is paid as an employee of the company. In our view, an inside director who derives a greater amount of income as a result of affiliated transactions with the company rather than

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[2] If a company classifies one of its non-employee directors as non-independent, Glass Lewis will classify that director as an affiliate.

[3] We allow a five-year grace period for former executives of the company or merged companies who have consulting agreements with the surviving company. (We do not automatically recommend voting against directors in such cases for the first five years.) If the consulting agreement persists after this five-year grace period, we apply the materiality thresholds outlined in the definition of "material."

[4] We will generally take into consideration the size and nature of such charitable entities in relation to the company's size and industry along with any other relevant factors such as the director's role at the charity. However, unlike for other types of related party transactions, Glass Lewis generally does not apply a look-back period to affiliated relationships involving charitable contributions; if the relationship ceases, we will consider the director to be independent.

through compensation paid by the company (i.e., salary, bonus, etc. as a company employee) faces a conflict between making decisions that are in the best interests of the company versus those in the director's own best interests. Therefore, we will recommend voting against such a director.

Voting Recommendations on the Basis of Board Independence

Glass Lewis believes a board will be most effective in protecting shareholders' interests if it is at least two-thirds independent. We note that each of the Business Roundtable, the Conference Board, and the Council of Institutional Investors advocates that two-thirds of the board be independent. Where more than one-third of the members are affiliated or inside directors, we typically[5] recommend voting against some of the inside and/or affiliated directors in order to satisfy the two-thirds threshold.

However, where a director serves on a board as a representative (as part of his or her basic responsibilities) of an investment firm with greater than 20% ownership, we will generally consider him/her to be affiliated but will not recommend voting against unless (i) the investment firm has disproportionate board representation or (ii) the director serves on the audit committee.

In the case of a less than two-thirds independent board, Glass Lewis strongly supports the existence of a presiding or lead director with authority to set the meeting agendas and to lead sessions outside the insider chairman's presence.

In addition, we scrutinize avowedly "independent" chairmen and lead directors. We believe that they should be unquestionably independent or the company should not tout them as such.

Committee Independence

We believe that *only* independent directors should serve on a company's audit, compensation, nominating, and governance committees.[6] We typically recommend that shareholders vote against any affiliated or inside director seeking appointment to an audit, compensation, nominating, or governance committee, or who has served in that capacity in the past year.

Independent Chairman

Glass Lewis believes that separating the roles of CEO (or, more rarely, another executive position) and chairman creates a better governance structure than a combined CEO/chairman position. An executive manages the business according to a course the board charts. Executives should report to the board regarding their performance in achieving goals the board set. This is needlessly complicated when a CEO chairs the board, since a CEO/chairman presumably will have a significant influence over the board.

It can become difficult for a board to fulfill its role of overseer and policy setter when a CEO/chairman controls the agenda and the boardroom discussion. Such control can allow a CEO to have an entrenched position, leading to longer-than-optimal terms, fewer checks on management,

[5] With a staggered board, if the affiliates or insiders that we believe should not be on the board are not up for election, we will express our concern regarding those directors, but we will not recommend voting against the other affiliates or insiders who are up for election just to achieve two-thirds independence. However, we will consider recommending voting against the directors subject to our concern at their next election if the concerning issue is not resolved.

[6] We will recommend voting against an audit committee member who owns 20% or more of the company's stock, and we believe that there should be a maximum of one director (or no directors if the committee is comprised of less than three directors) who owns 20% or more of the company's stock on the compensation, nominating, and governance committees.

less scrutiny of the business operation, and limitations on independent, shareholder-focused goal-setting by the board.

A CEO should set the strategic course for the company, with the board's approval, and the board should enable the CEO to carry out the CEO's vision for accomplishing the board's objectives. Failure to achieve the board's objectives should lead the board to replace that CEO with someone in whom the board has confidence.

Likewise, an independent chairman can better oversee executives and set a pro-shareholder agenda without the management conflicts that a CEO and other executive insiders often face. Such oversight and concern for shareholders allows for a more proactive and effective board of directors that is better able to look out for the interests of shareholders.

Further, it is the board's responsibility to select a chief executive who can best serve a company and its shareholders and to replace this person when his or her duties have not been appropriately fulfilled. Such a replacement becomes more difficult and happens less frequently when the chief executive is also in the position of overseeing the board.

We recognize that empirical evidence regarding the separation of these two roles remains inconclusive. However, Glass Lewis believes that the installation of an independent chairman is almost always a positive step from a corporate governance perspective and promotes the best interests of shareholders. Further, the presence of an independent chairman fosters the creation of a thoughtful and dynamic board, not dominated by the views of senior management. Encouragingly, many companies appear to be moving in this direction—one study even indicates that less than 12 percent of incoming CEOs in 2009 were awarded the chairman title, versus 48 percent as recently as 2002.[7] Another study finds that 40 percent of S&P 500 boards now separate the CEO and chairman roles, up from 23 percent in 2000, although the same study found that only 19 percent of S&P 500 chairs are independent, versus 9 percent in 2005.[8]

We do not recommend that shareholders vote against CEOs who chair the board. However, we typically encourage our clients to support separating the roles of chairman and CEO whenever that question is posed in a proxy (typically in the form of a shareholder proposal), as we believe that it is in the long-term best interests of the company and its shareholders.

Performance

The most crucial test of a board's commitment to the company and its shareholders lies in the actions of the board and its members. We look at the performance of these individuals as directors and executives of the company and of other companies where they have served.

Voting Recommendations on the Basis of Performance

We disfavor directors who have a record of not fulfilling their responsibilities to shareholders at any company where they have held a board or executive position. We typically recommend voting against:

[7] Ken Favaro, Per-Ola Karlsson and Gary Neilson. "CEO Succession 2000-2009: A Decade of Convergence and Compression." Booz & Company (from Strategy+Business, Issue 59, Summer 2010).

[8] Spencer Stuart Board Index, 2010, p. 4.

1. A director who fails to attend a minimum of 75% of board and applicable committee meetings, calculated in the aggregate.[9]

2. A director who belatedly filed a significant form(s) 4 or 5, or who has a pattern of late filings if the late filing was the director's fault (we look at these late filing situations on a case-by-case basis).

3. A director who is also the CEO of a company where a serious and material restatement has occurred after the CEO had previously certified the pre-restatement financial statements.

4. A director who has received two against recommendations from Glass Lewis for identical reasons within the prior year at different companies (the same situation must also apply at the company being analyzed).

5. All directors who served on the board if, for the last three years, the company's performance has been in the bottom quartile of the sector and the directors have not taken reasonable steps to address the poor performance.

Audit Committees and Performance

Audit committees play an integral role in overseeing the financial reporting process because "[v]ibrant and stable capital markets depend on, among other things, reliable, transparent, and objective financial information to support an efficient and effective capital market process. The vital oversight role audit committees play in the process of producing financial information has never been more important."[10]

When assessing an audit committee's performance, we are aware that an audit committee does not prepare financial statements, is not responsible for making the key judgments and assumptions that affect the financial statements, and does not audit the numbers or the disclosures provided to investors. Rather, an audit committee member monitors and oversees the process and procedures that management and auditors perform. The 1999 Report and Recommendations of the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees stated it best:

> A proper and well-functioning system exists, therefore, when the three main groups responsible for financial reporting – the full board including the audit committee, financial management including the internal auditors, and the outside auditors – form a 'three legged stool' that supports responsible financial disclosure and active participatory oversight. However, in the view of the Committee, the audit committee must be 'first among equals' in this process, since the audit committee is an extension of the full board and hence the ultimate monitor of the process.

Standards for Assessing the Audit Committee

For an audit committee to function effectively on investors' behalf, it must include members with sufficient knowledge to diligently carry out their responsibilities. In its audit and accounting

[9] However, where a director has served for less than one full year, we will typically not recommend voting against for failure to attend 75% of meetings. Rather, we will note the poor attendance with a recommendation to track this issue going forward. We will also refrain from recommending to vote against directors when the proxy discloses that the director missed the meetings due to serious illness or other extenuating circumstances.

[10] Audit Committee Effectiveness – What Works Best." PricewaterhouseCoopers. The Institute of Internal Auditors Research Foundation. 2005.

recommendations, the Conference Board Commission on Public Trust and Private Enterprise said "members of the audit committee must be independent and have both knowledge and experience in auditing financial matters."[11]

We are skeptical of audit committees where there are members that lack expertise as a Certified Public Accountant (CPA), Chief Financial Officer (CFO) or corporate controller or similar experience. While we will not necessarily vote against members of an audit committee when such expertise is lacking, we are more likely to vote against committee members when a problem such as a restatement occurs and such expertise is lacking.

Glass Lewis generally assesses audit committees against the decisions they make with respect to their oversight and monitoring role. The quality and integrity of the financial statements and earnings reports, the completeness of disclosures necessary for investors to make informed decisions, and the effectiveness of the internal controls should provide reasonable assurance that the financial statements are materially free from errors. The independence of the external auditors and the results of their work all provide useful information by which to assess the audit committee.

When assessing the decisions and actions of the audit committee, we typically defer to its judgment and would vote in favor of its members, but we would recommend voting against the following members under the following circumstances:[12]

1. All members of the audit committee when options were backdated, there is a lack of adequate controls in place, there was a resulting restatement, and disclosures indicate there was a lack of documentation with respect to the option grants.

2. The audit committee chair, if the audit committee does not have a financial expert or the committee's financial expert does not have a demonstrable financial background sufficient to understand the financial issues unique to public companies.

3. The audit committee chair, if the audit committee did not meet at least 4 times during the year.

4. The audit committee chair, if the committee has less than three members.

5. Any audit committee member who sits on more than three public company audit committees, unless the audit committee member is a retired CPA, CFO, controller or has similar experience, in which case the limit shall be four committees, taking time and availability into consideration including a review of the audit committee member's attendance at all board and committee meetings.[13]

6. All members of an audit committee who are up for election and who served on the committee at the time of the audit, if audit and audit-related fees total one-third or less of the total fees billed by the auditor.

[11] Commission on Public Trust and Private Enterprise. The Conference Board. 2003.

[12] Where the recommendation is to vote against the committee chair but the chair is not up for election because the board is staggered, we do not recommend voting against the members of the committee who are up for election; rather, we will simply express our concern with regard to the committee chair.

[13] Glass Lewis may exempt certain audit committee members from the above threshold if, upon further analysis of relevant factors such as the director's experience, the size, industry-mix and location of the companies involved and the director's attendance at all the companies, we can reasonably determine that the audit committee member is likely not hindered by multiple audit committee commitments.

7. The audit committee chair when tax and/or other fees are greater than audit and audit-related fees paid to the auditor for more than one year in a row (in which case we also recommend against ratification of the auditor).

8. All members of an audit committee where non-audit fees include fees for tax services (including, but not limited to, such things as tax avoidance or shelter schemes) for senior executives of the company. Such services are now prohibited by the PCAOB.

9. All members of an audit committee that reappointed an auditor that we no longer consider to be independent for reasons unrelated to fee proportions.

10. All members of an audit committee when audit fees are excessively low, especially when compared with other companies in the same industry.

11. The audit committee chair[14] if the committee failed to put auditor ratification on the ballot for shareholder approval. However, if the non-audit fees or tax fees exceed audit plus audit-related fees in either the current or the prior year, then Glass Lewis will recommend voting against the entire audit committee.

12. All members of an audit committee where the auditor has resigned and reported that a section 10A[15] letter has been issued.

13. All members of an audit committee at a time when material accounting fraud occurred at the company.[16]

14. All members of an audit committee at a time when annual and/or multiple quarterly financial statements had to be restated, and any of the following factors apply:

- The restatement involves fraud or manipulation by insiders;
- The restatement is accompanied by an SEC inquiry or investigation;
- The restatement involves revenue recognition;
- The restatement results in a greater than 5% adjustment to costs of goods sold, operating expense, or operating cash flows; or
- The restatement results in a greater than 5% adjustment to net income, 10% adjustment to assets or shareholders equity, or cash flows from financing or investing activities.

15. All members of an audit committee if the company repeatedly fails to file its financial reports in a timely fashion. For example, the company has filed two or more quarterly or annual financial statements late within the last 5 quarters.

16. All members of an audit committee when it has been disclosed that a law enforcement agency has charged the company and/or its employees with a violation of the Foreign Corrupt Practices Act (FCPA).

[14] In all cases, if the chair of the committee is not specified, we recommend voting against the director who has been on the committee the longest.

[15] Auditors are required to report all potential illegal acts to management and the audit committee unless they are clearly inconsequential in nature. If the audit committee or the board fails to take appropriate action on an act that has been determined to be a violation of the law, the independent auditor is required to send a section 10A letter to the SEC. Such letters are rare and therefore we believe should be taken seriously.

[16] Recent research indicates that revenue fraud now accounts for over 60% of SEC fraud cases, and that companies that engage in fraud experience significant negative abnormal stock price declines—facing bankruptcy, delisting, and material asset sales at much higher rates than do non-fraud firms (Committee of Sponsoring Organizations of the Treadway Commission. "Fraudulent Financial Reporting: 1998-2007." May 2010).

17. All members of an audit committee when the company has aggressive accounting policies and/or poor disclosure or lack of sufficient transparency in its financial statements.

18. All members of the audit committee when there is a disagreement with the auditor and the auditor resigns or is dismissed.

19. All members of the audit committee if the contract with the auditor specifically limits the auditor's liability to the company for damages.[17]

20. All members of the audit committee who served since the date of the company's last annual meeting, and when, since the last annual meeting, the company has reported a material weakness that has not yet been corrected, or, when the company has an ongoing material weakness from a prior year that has not yet been corrected.

We also take a dim view of audit committee reports that are boilerplate, and which provide little or no information or transparency to investors. When a problem such as a material weakness, restatement or late filings occurs, we take into consideration, in forming our judgment with respect to the audit committee, the transparency of the audit committee report.

Compensation Committee Performance

Compensation committees have the final say in determining the compensation of executives. This includes deciding the basis on which compensation is determined, as well as the amounts and types of compensation to be paid. This process begins with the hiring and initial establishment of employment agreements, including the terms for such items as pay, pensions and severance arrangements. It is important in establishing compensation arrangements that compensation be consistent with, and based on the long-term economic performance of, the business's long-term shareholders returns.

Compensation committees are also responsible for the oversight of the transparency of compensation. This oversight includes disclosure of compensation arrangements, the matrix used in assessing pay for performance, and the use of compensation consultants. In order to ensure the independence of the compensation consultant, we believe the compensation committee should only engage a compensation consultant that is not also providing any services to the company or management apart from their contract with the compensation committee. It is important to investors that they have clear and complete disclosure of all the significant terms of compensation arrangements in order to make informed decisions with respect to the oversight and decisions of the compensation committee.

Finally, compensation committees are responsible for oversight of internal controls over the executive compensation process. This includes controls over gathering information used to determine compensation, establishment of equity award plans, and granting of equity awards. Lax controls can and have contributed to conflicting information being obtained, for example through the use of nonobjective consultants. Lax controls can also contribute to improper awards of compensation such as through granting of backdated or spring-loaded options, or granting of bonuses when triggers for bonus payments have not been met.

Central to understanding the actions of a compensation committee is a careful review of the Compensation Discussion and Analysis (CD&A) report included in each company's proxy. We review the CD&A in our evaluation of the overall compensation practices of a company,

[17] The Council of Institutional Investors. "Corporate Governance Policies," p. 4, April 5, 2006; and "Letter from Council of Institutional Investors to the AICPA," November 8, 2006.

as overseen by the compensation committee. The CD&A is also integral to the evaluation of compensation proposals at companies, such as advisory votes on executive compensation, which allow shareholders to vote on the compensation paid to a company's top executives.

In our evaluation of the CD&A, we examine, among other factors, the following:

1. The extent to which the company uses appropriate performance goals and metrics in determining overall compensation as an indication that pay is tied to performance.

2. How clearly the company discloses performance metrics and goals so that shareholders may make an independent determination that goals were met.

3. The extent to which the performance metrics, targets and goals are implemented to enhance company performance and encourage prudent risk-taking.

4. The selected peer group(s) so that shareholders can make a comparison of pay and performance across the appropriate peer group.

5. The extent to which the company benchmarks compensation levels at a specific percentile of its peer group along with the rationale for selecting such a benchmark.

6. The amount of discretion granted management or the compensation committee to deviate from defined performance metrics and goals in making awards, as well as the appropriateness of the use of such discretion.

We provide an overall evaluation of the quality and content of a company's executive compensation policies and procedures as disclosed in a CD&A as either good, fair or poor.

We evaluate compensation committee members on the basis of their performance while serving on the compensation committee in question, not for actions taken solely by prior committee members who are not currently serving on the committee. At companies that provide shareholders with non-binding advisory votes on executive compensation ("Say-on-Pay"), we will use the Say-on-Pay proposal as the initial, primary means to express dissatisfaction with the company's compensation polices and practices rather than recommending voting against members of the compensation committee (except in the most egregious cases).

When assessing the performance of compensation committees, we will recommend voting against for the following:[18]

1. All members of the compensation committee who are up for election and served at the time of poor pay-for-performance (e.g., a company receives an F grade in our pay-for-performance analysis) when shareholders are not provided with an advisory vote on executive compensation at the annual meeting.[19]

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[18] Where the recommendation is to vote against the committee chair and the chair is not up for election because the board is staggered, we do not recommend voting against any members of the committee who are up for election; rather, we will simply express our concern with regard to the committee chair.

[19] Where there are multiple CEOs in one year, we will consider not recommending against the compensation committee but will defer judgment on compensation policies and practices until the next year or a full year after arrival of the new CEO. In addition, if a company provides shareholders with a Say-on-Pay proposal and receives an F grade in our pay-for-performance model, we will recommend that shareholders only vote against the Say-on-Pay proposal rather than the members of the compensation committee, unless the company exhibits egregious practices. However, if the company receives successive F grades, we will then recommend against the members of the compensation committee in addition to recommending voting against the Say-on-Pay proposal.

2. Any member of the compensation committee who has served on the compensation committee of at least two other public companies that received F grades in our pay-for-performance model and who is also suspect at the company in question.

3. The compensation committee chair if the company received two D grades in consecutive years in our pay-for-performance analysis, and if during the past year the Company performed the same as or worse than its peers.[20]

4. All members of the compensation committee (during the relevant time period) if the company entered into excessive employment agreements and/or severance agreements.

5. All members of the compensation committee when performance goals were changed (i.e., lowered) when employees failed or were unlikely to meet original goals, or performance-based compensation was paid despite goals not being attained.

6. All members of the compensation committee if excessive employee perquisites and benefits were allowed.

7. The compensation committee chair if the compensation committee did not meet during the year, but should have (e.g., because executive compensation was restructured or a new executive was hired).

8. All members of the compensation committee when the company repriced options or completed a "self tender offer" without shareholder approval within the past two years.

9. All members of the compensation committee when vesting of in-the-money options is accelerated or when fully vested options are granted.

10. All members of the compensation committee when option exercise prices were backdated. Glass Lewis will recommend voting against an executive director who played a role in and participated in option backdating.

11. All members of the compensation committee when option exercise prices were spring-loaded or otherwise timed around the release of material information.

12. All members of the compensation committee when a new employment contract is given to an executive that does not include a clawback provision and the company had a material restatement, especially if the restatement was due to fraud.

13. The chair of the compensation committee where the CD&A provides insufficient or unclear information about performance metrics and goals, where the CD&A indicates that pay is not tied to performance, or where the compensation committee or management has excessive discretion to alter performance terms or increase amounts of awards in contravention of previously defined targets.

14. All members of the compensation committee during whose tenure the committee failed to implement a shareholder proposal regarding a compensation-related issue, where the proposal received the affirmative vote of a majority of the voting shares at a shareholder

[20] In cases where the company received two D grades in consecutive years, but during the past year the company performed better than its peers or improved from an F to a D grade year over year, we refrain from recommending to vote against the compensation chair. In addition, if a company provides shareholders with a Say-on-Pay proposal in this instance, we will consider voting against the advisory vote rather than the compensation committee chair unless the company exhibits unquestionably egregious practices.

meeting, and when a reasonable analysis suggests that the compensation committee (rather than the governance committee) should have taken steps to implement the request.[21]

Nominating and Governance Committee Performance

The nominating and governance committee, as an agency for the shareholders, is responsible for the governance by the board of the company and its executives. In performing this role, the board is responsible and accountable for selection of objective and competent board members. It is also responsible for providing leadership on governance policies adopted by the company, such as decisions to implement shareholder proposals that have received a majority vote.

Consistent with Glass Lewis' philosophy that boards should have diverse backgrounds and members with a breadth and depth of relevant experience, we believe that nominating and governance committees should consider diversity when making director nominations within the context of each specific company and its industry. In our view, shareholders are best served when boards make an effort to ensure a constituency that is not only reasonably diverse on the basis of age, race, gender and ethnicity, but also on the basis of geographic knowledge, industry experience and culture.

Regarding the nominating and or governance committee, we will recommend voting against the following:[22]

1. All members of the governance committee[23] during whose tenure the board failed to implement a shareholder proposal with a direct and substantial impact on shareholders and their rights - i.e., where the proposal received enough shareholder votes (at least a majority) to allow the board to implement or begin to implement that proposal.[24] Examples of these types of shareholder proposals are majority vote to elect directors and to declassify the board.

2. The governance committee chair,[25] when the chairman is not independent and an independent lead or presiding director has not been appointed.[26] We note that each of the Business Roundtable, The Conference Board, and the Council of Institutional Investors advocates that two-thirds of the board be independent.

[21] In all other instances (i.e. a non-compensation-related shareholder proposal should have been implemented) we recommend that shareholders vote against the members of the governance committee.

[22] Where we would recommend to vote against the committee chair but the chair is not up for election because the board is staggered, we do not recommend voting against any members of the committee who are up for election; rather, we will simply express our concern regarding the committee chair.

[23] If the board does not have a governance committee (or a committee that serves such a purpose), we recommend voting against the entire board on this basis.

[24] Where a compensation-related shareholder proposal should have been implemented, and when a reasonable analysis suggests that the members of the compensation committee (rather than the governance committee) bear the responsibility for failing to implement the request, we recommend that shareholders only vote against members of the compensation committee.

[25] If the committee chair is not specified, we recommend voting against the director who has been on the committee the longest. If the longest-serving committee member cannot be determined, we will recommend voting against the longest-serving board member serving on the committee.

[26] We believe that one independent individual should be appointed to serve as the lead or presiding director. When such a position is rotated among directors from meeting to meeting, we will recommend voting against as if there were no lead or presiding director.

3. In the absence of a nominating committee, the governance committee chair when there are less than five or the whole nominating committee when there are more than 20 members on the board.

4. The governance committee chair, when the committee fails to meet at all during the year.

5. The governance committee chair, when for two consecutive years the company provides what we consider to be "inadequate" related party transaction disclosure (i.e. the nature of such transactions and/or the monetary amounts involved are unclear or excessively vague, thereby preventing an average shareholder from being able to reasonably interpret the independence status of multiple directors above and beyond what the company maintains is compliant with SEC or applicable stock-exchange listing requirements).

Regarding the nominating committee, we will recommend voting against the following:[27]

1. All members of the nominating committee, when the committee nominated or renominated an individual who had a significant conflict of interest or whose past actions demonstrated a lack of integrity or inability to represent shareholder interests.

2. The nominating committee chair, if the nominating committee did not meet during the year, but should have (i.e., because new directors were nominated or appointed since the time of the last annual meeting).

3. In the absence of a governance committee, the nominating committee chair[28] when the chairman is not independent, and an independent lead or presiding director has not been appointed.[29]

4. The nominating committee chair, when there are less than five or the whole nominating committee when there are more than 20 members on the board.[30]

5. The nominating committee chair, when a director received a greater than 50% against vote the prior year and not only was the director not removed, but the issues that raised shareholder concern were not corrected.[31]

Board-level Risk Management Oversight

Glass Lewis evaluates the risk management function of a public company board on a strictly case-by-case basis. Sound risk management, while necessary at all companies, is particularly important at financial firms which inherently maintain significant exposure to financial risk. We

[27] Where we would recommend to vote against the committee chair but the chair is not up for election because the board is staggered, we do not recommend voting against any members of the committee who are up for election; rather, we will simply express our concern regarding the committee chair.

[28] If the committee chair is not specified, we will recommend voting against the director who has been on the committee the longest. If the longest-serving committee member cannot be determined, we will recommend voting against the longest-serving board member on the committee.

[29] In the absence of both a governance and a nominating committee, we will recommend voting against the chairman of the board on this basis.

[30] In the absence of both a governance and a nominating committee, we will recommend voting against the chairman of the board on this basis.

[31] Considering that shareholder discontent clearly relates to the director who received a greater than 50% against vote rather than the nominating chair, we review the validity of the issue(s) that initially raised shareholder concern, follow-up on such matters, and only recommend voting against the nominating chair if a reasonable analysis suggests that it would be most appropriate. In rare cases, we will consider recommending against the nominating chair when a director receives a substantial (i.e., 25% or more) vote against based on the same analysis.

believe such financial firms should have a chief risk officer reporting directly to the board and a dedicated risk committee or a committee of the board charged with risk oversight. Moreover, many non-financial firms maintain strategies which involve a high level of exposure to financial risk. Similarly, since many non-financial firm have significant hedging or trading strategies, including financial and non-financial derivatives, those firms should also have a chief risk officer and a risk committee.

Our views on risk oversight are consistent with those expressed by various regulatory bodies. In its December 2009 Final Rule release on Proxy Disclosure Enhancements, the SEC noted that risk oversight is a key competence of the board and that additional disclosures would improve investor and shareholder understanding of the role of the board in the organization's risk management practices. The final rules, which became effective on February 28, 2010, now explicitly require companies and mutual funds to describe (while allowing for some degree of flexibility) the board's role in the oversight of risk.

When analyzing the risk management practices of public companies, we take note of any significant losses or writedowns on financial assets and/or structured transactions. In cases where a company has disclosed a sizable loss or writedown, and where we find that the company's board-level risk committee contributed to the loss through poor oversight, we would recommend that shareholders vote against such committee members on that basis. In addition, in cases where a company maintains a significant level of financial risk exposure but fails to disclose any explicit form of board-level risk oversight (committee or otherwise)[32], we will consider recommending to vote against the chairman of the board on that basis. However, we generally would not recommend voting against a combined chairman/CEO except in egregious cases.

Experience

We find that a director's past conduct is often indicative of future conduct and performance. We often find directors with a history of overpaying executives or of serving on boards where avoidable disasters have occurred appearing at companies that follow these same patterns. Glass Lewis has a proprietary database of every officer and director serving at 8,000 of the most widely held U.S. companies. We use this database to track the performance of directors across companies.

Voting Recommendations on the Basis of Director Experience

We typically recommend that shareholders vote against directors who have served on boards or as executives of companies with records of poor performance, inadequate risk oversight, overcompensation, audit- or accounting-related issues, and/or other indicators of mismanagement or actions against the interests of shareholders.[33]

Likewise, we examine the backgrounds of those who serve on key board committees to ensure that they have the required skills and diverse backgrounds to make informed judgments about the subject matter for which the committee is responsible.

[32] A committee responsible for risk management could be a dedicated risk committee, or another board committee, usually the audit committee but occasionally the finance committee, depending on a given company's board structure and method of disclosure. At some companies, the entire board is charged with risk management.

[33] We typically apply a three-year look-back to such issues and also research to see whether the responsible directors have been up for election since the time of the failure, and if so, we take into account the percentage of support they received from shareholders.

Other Considerations

In addition to the three key characteristics – independence, performance, experience – that we use to evaluate board members, we consider conflict-of-interest issues in making voting recommendations.

Conflicts of Interest

We believe board members should be wholly free of identifiable and substantial conflicts of interest, regardless of the overall level of independent directors on the board. Accordingly, we recommend that shareholders vote against the following types of affiliated or inside directors:

1. A CFO who is on the board: In our view, the CFO holds a unique position relative to financial reporting and disclosure to shareholders. Because of the critical importance of financial disclosure and reporting, we believe the CFO should report to the board and not be a member of it.

2. A director who is on an excessive number of boards: We will typically recommend voting against a director who serves as an executive officer of any public company while serving on more than two other public company boards and any other director who serves on more than six public company boards typically receives an against recommendation from Glass Lewis. Academic literature suggests that one board takes up approximately 200 hours per year of each member's time. We believe this limits the number of boards on which directors can effectively serve, especially executives at other companies.[34] Further, we note a recent study has shown that the average number of outside board seats held by CEOs of S&P 500 companies is 0.6, down from 0.9 in 2005 and 1.4 in 2000.[35]

3. A director, or a director who has an immediate family member, providing consulting or other material professional services to the company: These services may include legal, consulting, or financial services. We question the need for the company to have consulting relationships with its directors. We view such relationships as creating conflicts for directors, since they may be forced to weigh their own interests against shareholder interests when making board decisions. In addition, a company's decisions regarding where to turn for the best professional services may be compromised when doing business with the professional services firm of one of the company's directors.

4. A director, or a director who has an immediate family member, engaging in airplane, real estate, or similar deals, including perquisite-type grants from the company, amounting to more than $50,000: Directors who receive these sorts of payments from the company will have to make unnecessarily complicated decisions that may pit their interests against shareholder interests.

[34] Our guidelines are similar to the standards set forth by the NACD in its "Report of the NACD Blue Ribbon Commission on Director Professionalism," 2001 Edition, pp. 14-15 (also cited approvingly by the Conference Board in its "Corporate Governance Best Practices: A Blueprint for the Post-Enron Era," 2002, p. 17), which suggested that CEOs should not serve on more than 2 additional boards, persons with full-time work should not serve on more than 4 additional boards, and others should not serve on more than six boards.

[35] Spencer Stuart Board Index, 2010, p. 8.

5. Interlocking directorships: CEOs or other top executives who serve on each other's boards create an interlock that poses conflicts that should be avoided to ensure the promotion of shareholder interests above all else.[36]

6. All board members who served at a time when a poison pill was adopted without shareholder approval within the prior twelve months.

Size of the Board of Directors

While we do not believe there is a universally applicable optimum board size, we do believe boards should have at least five directors to ensure sufficient diversity in decision-making and to enable the formation of key board committees with independent directors. Conversely, we believe that boards with more than 20 members will typically suffer under the weight of "too many cooks in the kitchen" and have difficulty reaching consensus and making timely decisions. Sometimes the presence of too many voices can make it difficult to draw on the wisdom and experience in the room by virtue of the need to limit the discussion so that each voice may be heard.

To that end, we typically recommend voting against the chairman of the nominating committee at a board with fewer than five directors. With boards consisting of more than 20 directors, we typically recommend voting against all members of the nominating committee (or the governance committee, in the absence of a nominating committee).[37]

Controlled Companies

Controlled companies present an exception to our independence recommendations. The board's function is to protect shareholder interests; however, when an individual or entity owns more than 50% of the voting shares, the interests of the majority of shareholders *are* the interests of that entity or individual. Consequently, Glass Lewis does not apply our usual two-thirds independence rule and therefore we will not recommend voting against boards whose composition reflects the makeup of the shareholder population.

Independence Exceptions

The independence exceptions that we make for controlled companies are as follows:

1. We do not require that controlled companies have boards that are at least two-thirds independent. So long as the insiders and/or affiliates are connected with the controlling entity, we accept the presence of non-independent board members.

2. The compensation committee and nominating and governance committees do not need to consist solely of independent directors.

a. We believe that standing nominating and corporate governance committees at controlled companies are unnecessary. Although having a committee charged with the duties of searching for, selecting, and nominating independent directors can be

[36] We do not apply a look-back period for this situation. The interlock policy applies to both public and private companies. We will also evaluate multiple board interlocks among non-insiders (i.e. multiple directors serving on the same boards at other companies), for evidence of a pattern of poor oversight.

[37] The Conference Board, at p. 23 in its report "Corporate Governance Best Practices, Id.," quotes one of its roundtable participants as stating, "[w]hen you've got a 20 or 30 person corporate board, it's one way of assuring that nothing is ever going to happen that the CEO doesn't want to happen."

beneficial, the unique composition of a controlled company's shareholder base makes such committees weak and irrelevant.

b. Likewise, we believe that independent compensation committees at controlled companies are unnecessary. Although independent directors are the best choice for approving and monitoring senior executives' pay, controlled companies serve a unique shareholder population whose voting power ensures the protection of its interests. As such, we believe that having affiliated directors on a controlled company's compensation committee is acceptable. However, given that a controlled company has certain obligations to minority shareholders we feel that an insider should not serve on the compensation committee. Therefore, Glass Lewis will recommend voting against any insider (the CEO or otherwise) serving on the compensation committee.

3. Controlled companies do not need an independent chairman or an independent lead or presiding director. Although an independent director in a position of authority on the board – such as chairman or presiding director – can best carry out the board's duties, controlled companies serve a unique shareholder population whose voting power ensures the protection of its interests.

4. Where an individual or entity owns more than 50% of a company's voting power but the company is not a "controlled" company as defined by relevant listing standards, we apply a lower independence requirement of a majority of the board but keep all other standards in place. Similarly, where an individual or entity holds between 20-50% of a company's voting power, but the company is *not* "controlled" and there is not a "majority" owner, we will allow for proportional representation on the board and committees (excluding the audit committee) based on the individual or entity's percentage of ownership.

Size of the Board of Directors

We have no board size requirements for controlled companies.

Audit Committee Independence

We believe that audit committees should consist solely of independent directors. Regardless of a company's controlled status, the interests of all shareholders must be protected by ensuring the integrity and accuracy of the company's financial statements. Allowing affiliated directors to oversee the preparation of financial reports could create an insurmountable conflict of interest.

Exceptions for Recent IPOs

We believe companies that have recently completed an initial public offering ("IPO") should be allowed adequate time to fully comply with marketplace listing requirements as well as to meet basic corporate governance standards. We believe a one-year grace period immediately following the date of a company's IPO is sufficient time for most companies to comply with all relevant regulatory requirements and to meet such corporate governance standards. Except in egregious cases, Glass Lewis refrains from issuing voting recommendations on the basis of corporate governance best practices (eg. board independence, committee membership and structure, meeting attendance, etc.) during the one-year period following an IPO.

However, in cases where a board implements a poison pill preceding an IPO, we will consider voting against the members of the board who served during the period of the poison pill's adoption if the board (i) did not also commit to submit the poison pill to a shareholder vote within 12 months of the IPO or (ii) did not provide a sound rationale for adopting the pill and the pill does not expire in three years or less. In our view, adopting such an anti-takeover device unfairly penalizes future shareholders who (except for electing to buy or sell the stock) are unable to weigh in on a matter that could potentially negatively impact their ownership interest. This notion is strengthened when a board adopts a poison pill with a 5-10 year life immediately prior to having a public shareholder base so as to insulate management for a substantial amount of time while postponing and/or avoiding allowing public shareholders the ability to vote on the pill's adoption. Such instances are indicative of boards that may subvert shareholders' best interests following their IPO.

Mutual Fund Boards

Mutual funds, or investment companies, are structured differently from regular public companies (i.e., operating companies). Typically, members of a fund's adviser are on the board and management takes on a different role from that of regular public companies. Thus, we focus on a short list of requirements, although many of our guidelines remain the same.

The following mutual fund policies are similar to the policies for regular public companies:

1. Size of the board of directors: The board should be made up of between five and twenty directors.

2. The CFO on the board: Neither the CFO of the fund nor the CFO of the fund's registered investment adviser should serve on the board.

3. Independence of the audit committee: The audit committee should consist solely of independent directors.

4. Audit committee financial expert: At least one member of the audit committee should be designated as the audit committee financial expert.

The following differences from regular public companies apply at mutual funds:

1. Independence of the board: We believe that three-fourths of an investment company's board should be made up of independent directors. This is consistent with a proposed SEC rule on investment company boards. The Investment Company Act requires 40% of the board to be independent, but in 2001, the SEC amended the Exemptive Rules to require that a majority of a mutual fund board be independent. In 2005, the SEC proposed increasing the independence threshold to 75%. In 2006, a federal appeals court ordered that this rule amendment be put back out for public comment, putting it back into "proposed rule" status. Since mutual fund boards play a vital role in overseeing the relationship between the fund and its investment manager, there is greater need for independent oversight than there is for an operating company board.

2. When the auditor is not up for ratification: We do not recommend voting against the audit committee if the auditor is not up for ratification because, due to the different legal structure of an investment company compared to an operating company, the auditor for the investment company (i.e., mutual fund) does not conduct the same level of financial review for each investment company as for an operating company.

3. Non-independent chairman: The SEC has proposed that the chairman of the fund board be independent. We agree that the roles of a mutual fund's chairman and CEO should be separate. Although we believe this would be best at all companies, we recommend voting against the chairman of an investment company's nominating committee as well as the chairman of the board if the chairman and CEO of a mutual fund are the same person and the fund does not have an independent lead or presiding director. Seven former SEC commissioners support the

appointment of an independent chairman and we agree with them that "an independent board chairman would be better able to create conditions favoring the long-term interests of fund shareholders than would a chairman who is an executive of the adviser." (See the comment letter sent to the SEC in support of the proposed rule at http://sec.gov/rules/proposed/s70304/s70304-179.pdf)

DECLASSIFIED BOARDS

Glass Lewis favors the repeal of staggered boards and the annual election of directors. We believe staggered boards are less accountable to shareholders than boards that are elected annually. Furthermore, we feel the annual election of directors encourages board members to focus on shareholder interests.

Empirical studies have shown: (i) companies with staggered boards reduce a firm's value; and (ii) in the context of hostile takeovers, staggered boards operate as a takeover defense, which entrenches management, discourages potential acquirers, and delivers a lower return to target shareholders.

In our view, there is no evidence to demonstrate that staggered boards improve shareholder returns in a takeover context. Research shows that shareholders are worse off when a staggered board blocks a transaction. A study by a group of Harvard Law professors concluded that companies whose staggered boards prevented a takeover "reduced shareholder returns for targets ... on the order of eight to ten percent in the nine months after a hostile bid was announced."[38] When a staggered board negotiates a friendly transaction, no statistically significant difference in premiums occurs.[39] Further, one of those same professors found that charter-based staggered boards "reduce the market value of a firm by 4% to 6% of its market capitalization" and that "staggered boards bring about and not merely reflect this reduction in market value."[40] A subsequent study reaffirmed that classified boards reduce shareholder value, finding "that the ongoing process of dismantling staggered boards, encouraged by institutional investors, could well contribute to increasing shareholder wealth."[41]

Shareholders have increasingly come to agree with this view. In 2010 approximately 72% of S&P 500 companies had declassified boards, up from approximately 51% in 2005.[42] Clearly, more shareholders have supported the repeal of classified boards. Resolutions relating to the repeal of staggered boards garnered on average over 70% support among shareholders in 2008, whereas in 1987, only 16.4% of votes cast favored board declassification.[43]

Given the empirical evidence suggesting staggered boards reduce a company's value and the increasing shareholder opposition to such a structure, Glass Lewis supports the declassification of boards and the annual election of directors.

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[38] Lucian Bebchuk, John Coates IV, Guhan Subramanian, "The Powerful Antitakeover Force of Staggered Boards: Further Findings and a Reply to Symposium Participants," 55 *Stanford Law Review* 885-917 (2002), page 1.

[39] Id. at 2 ("Examining a sample of seventy-three negotiated transactions from 2000 to 2002, we find no systematic benefits in terms of higher premia to boards that have [staggered structures].").

[40] Lucian Bebchuk, Alma Cohen, "The Costs of Entrenched Boards" (2004).

[41] Lucian Bebchuk, Alma Cohen and Charles C.Y. Wang, "Staggered Boards and the Wealth of Shareholders: Evidence from a Natural Experiment," SSRN: http://ssrn.com/abstract=1706806 (2010), p. 26.

[42] Spencer Stuart Board Index, 2010, p. 14

[43] Lucian Bebchuk, John Coates IV and Guhan Subramanian, "The Powerful Antitakeover Force of Staggered Boards: Theory, Evidence, and Policy," *54 Stanford Law Review* 887-951 (2002).

MANDATORY DIRECTOR RETIREMENT PROVISIONS

Director Term and Age Limits

Glass Lewis believes that director age and term limits typically are not in shareholders' best interests. Too often age and term limits are used by boards as a crutch to remove board members who have served for an extended period of time. When used in that fashion, they are indicative of a board that has a difficult time making "tough decisions."

Academic literature suggests that there is no evidence of a correlation between either length of tenure or age and director performance. On occasion, term limits can be used as a means to remove a director for boards that are unwilling to police their membership and to enforce turnover. Some shareholders support term limits as a way to force change when boards are unwilling to do so.

While we understand that age limits can be a way to force change where boards are unwilling to make changes on their own, the long-term impact of age limits restricts experienced and potentially valuable board members from service through an arbitrary means. Further, age limits unfairly imply that older (or, in rare cases, younger) directors cannot contribute to company oversight.

In our view, a director's experience can be a valuable asset to shareholders because of the complex, critical issues that boards face. However, we support periodic director rotation to ensure a fresh perspective in the boardroom and the generation of new ideas and business strategies. We believe the board should implement such rotation instead of relying on arbitrary limits. When necessary, shareholders can address the issue of director rotation through director elections.

We believe that shareholders are better off monitoring the board's approach to corporate governance and the board's stewardship of company performance rather than imposing inflexible rules that don't necessarily correlate with returns or benefits for shareholders.

However, if a board adopts term/age limits, it should follow through and not waive such limits. If the board waives its term/age limits, Glass Lewis will consider recommending shareholders vote against the nominating and/or governance committees, unless the rule was waived with sufficient explanation, such as consummation of a corporate transaction like a merger.

REQUIRING TWO OR MORE NOMINEES PER BOARD SEAT

In an attempt to address lack of access to the ballot, shareholders sometimes propose that the board give shareholders a choice of directors for each open board seat in every election. However, we feel that policies requiring a selection of multiple nominees for each board seat would discourage prospective directors from accepting nominations. A prospective director could not be confident either that he or she is the board's clear choice or that he or she would be elected. Therefore, Glass Lewis generally will vote against such proposals.

SHAREHOLDER ACCESS

Shareholders have continuously sought a way to have a significant voice in director elections in recent years. While most of these efforts have centered on regulatory change at the SEC, Congress and the Obama Administration have successfully placed "Proxy Access" in the spotlight of the U.S. Government's most recent corporate-governance-related financial reforms.

In July 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"). The Dodd-Frank Act provides the SEC with the authority to adopt rules permitting shareholders to use issuer proxy solicitation materials to nominate director candidates.

The SEC received over 500 comments regarding its proposed proxy access rule, some of which questioned the agency's authority to adopt such a rule. Nonetheless, in August 2010 the SEC adopted final Rule 14a-11, which under certain circumstances, gives shareholders (and shareholder groups) who have collectively held at least 3% of the voting power of a company's securities continuously for at least three years, the right to nominate up to 25% of a boards' directors and have such nominees included on the company's ballot and described (in up to 500 words per nominee) in its proxy statement.

While final Rule 14a-11 was originally scheduled to take effect on November 15, 2010, on October 4, 2010, the SEC announced that it would delay the rule's implementation following the filing of a lawsuit by the U.S. Chamber of Commerce and the Business Roundtable on September 29, 2010. As a result, it is unlikely shareholders will have the opportunity to vote on access proposals during the 2011 proxy season.

MAJORITY VOTE FOR THE ELECTION OF DIRECTORS

In stark contrast to the failure of shareholder access to gain acceptance, majority voting for the election of directors is fast becoming the *de facto* standard in corporate board elections. In our view, the majority voting proposals are an effort to make the case for shareholder impact on director elections on a company-specific basis.

While this proposal would not give shareholders the opportunity to nominate directors or lead to elections where shareholders have a choice among director candidates, if implemented, the proposal would allow shareholders to have a voice in determining whether the nominees proposed by the board should actually serve as the overseer-representatives of shareholders in the boardroom. We believe this would be a favorable outcome for shareholders.

During 2010, Glass Lewis tracked just under 35 proposals to require a majority vote to elect directors at annual meetings in the U.S., a slight decline from 46 proposals in 2009, but a sharp contrast to the 147 proposals tracked during 2006. The general decline in the number of proposals being submitted was a result of many companies adopting some form of majority voting, including approximately 71% of companies in the S&P 500 index, up from 56% in 2008.[44] During 2009 these proposals received on average 59% shareholder support (based on for and against votes), up from 54% in 2008.

The plurality vote standard

Today, most US companies still elect directors by a plurality vote standard. Under that standard, if one shareholder holding only one share votes in favor of a nominee (including himself, if the director is a shareholder), that nominee "wins" the election and assumes a seat on the board. The common concern among companies with a plurality voting standard was the possibility that one or more directors would not receive a majority of votes, resulting in "failed elections." This was of particular concern during the 1980s, an era of frequent takeovers and contests for control of companies.

Advantages of a majority vote standard

If a majority vote standard were implemented, a nominee would have to receive the support of a majority of the shares voted in order to be elected. Thus, shareholders could collectively vote to reject a director they believe will not pursue their best interests. We think that this minimal amount of protection for shareholders is reasonable and will not upset the corporate structure nor reduce the willingness of qualified shareholder-focused directors to serve in the future.

[44] Spencer Stuart Board Index, 2010, p. 14

We believe that a majority vote standard will likely lead to more attentive directors. Occasional use of this power will likely prevent the election of directors with a record of ignoring shareholder interests in favor of other interests that conflict with those of investors. Glass Lewis will generally support proposals calling for the election of directors by a majority vote except for use in contested director elections.

In response to the high level of support majority voting has garnered, many companies have voluntarily taken steps to implement majority voting or modified approaches to majority voting. These steps range from a modified approach requiring directors that receive a majority of withheld votes to resign (e.g., Ashland Inc.) to actually requiring a majority vote of outstanding shares to elect directors (e.g., Intel).

We feel that the modified approach does not go far enough because requiring a director to resign is not the same as requiring a majority vote to elect a director and does not allow shareholders a definitive voice in the election process. Further, under the modified approach, the corporate governance committee could reject a resignation and, even if it accepts the resignation, the corporate governance committee decides on the director's replacement. And since the modified approach is usually adopted as a policy by the board or a board committee, it could be altered by the same board or committee at any time.

II. Transparency and Integrity of Financial Reporting

AUDITOR RATIFICATION

The auditor's role as gatekeeper is crucial in ensuring the integrity and transparency of the financial information necessary for protecting shareholder value. Shareholders rely on the auditor to ask tough questions and to do a thorough analysis of a company's books to ensure that the information provided to shareholders is complete, accurate, fair, and that it is a reasonable representation of a company's financial position. The only way shareholders can make rational investment decisions is if the market is equipped with accurate information about a company's fiscal health. As stated in the October 6, 2008 Final Report of the Advisory Committee on the Auditing Profession to the U.S. Department of the Treasury:

"The auditor is expected to offer critical and objective judgment on the financial matters under consideration, and actual and perceived absence of conflicts is critical to that expectation. The Committee believes that auditors, investors, public companies, and other market participants must understand the independence requirements and their objectives, and that auditors must adopt a mindset of skepticism when facing situations that may compromise their independence."

As such, shareholders should demand an objective, competent and diligent auditor who performs at or above professional standards at every company in which the investors hold an interest. Like directors, auditors should be free from conflicts of interest and should avoid situations requiring a choice between the auditor's interests and the public's interests. Almost without exception, shareholders should be able to annually review an auditor's performance and to annually ratify a board's auditor selection. Moreover, in October 2008, the Advisory Committee on the Auditing Profession went even further, and recommended that "to further enhance audit committee oversight and auditor accountability ... disclosure in the company proxy statement regarding shareholder ratification [should] include the name(s) of the senior auditing partner(s) staffed on the engagement."[45]

Voting Recommendations on Auditor Ratification

We generally support management's choice of auditor except when we believe the auditor's independence or audit integrity has been compromised. Where a board has not allowed shareholders to review and ratify an auditor, we typically recommend voting against the audit committee chairman. When there have been material restatements of annual financial statements or material weakness in internal controls, we usually recommend voting against the entire audit committee.

Reasons why we may not recommend ratification of an auditor include:

1. When audit fees plus audit-related fees total less than the tax fees and/or other non-audit fees.

[45] "Final Report of the Advisory Committee on the Auditing Profession to the U.S. Department of the Treasury." p. VIII:20, October 6, 2008.

2. Recent material restatements of annual financial statements, including those resulting in the reporting of material weaknesses in internal controls and including late filings by the company where the auditor bears some responsibility for the restatement or late filing.[46]

3. When the auditor performs prohibited services such as tax-shelter work, tax services for the CEO or CFO, or contingent-fee work, such as a fee based on a percentage of economic benefit to the company.

4. When audit fees are excessively low, especially when compared with other companies in the same industry.

5. When the company has aggressive accounting policies.

6. When the company has poor disclosure or lack of transparency in its financial statements.

7. Where the auditor limited its liability through its contract with the company or the audit contract requires the corporation to use alternative dispute resolution procedures.

8. We also look for other relationships or concerns with the auditor that might suggest a conflict between the auditor's interests and shareholder interests.

We typically support audit-related proposals regarding mandatory auditor rotation when the proposal uses a reasonable period of time (usually not less than 5-7 years).

PENSION ACCOUNTING ISSUES

A pension accounting question often raised in proxy proposals is what effect, if any, projected returns on employee pension assets should have on a company's net income. This issue often arises in the executive-compensation context in a discussion of the extent to which pension accounting should be reflected in business performance for purposes of calculating payments to executives.

Glass Lewis believes that pension credits should not be included in measuring income that is used to award performance-based compensation. Because many of the assumptions used in accounting for retirement plans are subject to the company's discretion, management would have an obvious conflict of interest if pay were tied to pension income. In our view, projected income from pensions does not truly reflect a company's performance.

[46] An auditor does not audit interim financial statements. Thus, we generally do not believe that an auditor should be opposed due to a restatement of interim financial statements unless the nature of the misstatement is clear from a reading of the incorrect financial statements.

III. The Link Between Compensation and Performance

Glass Lewis carefully reviews the compensation awarded to senior executives, as we believe that this is an important area in which the board's priorities are revealed. Glass Lewis strongly believes executive compensation should be linked directly with the performance of the business the executive is charged with managing. We believe the most effective compensation arrangements provide for an appropriate mix of performance-based short- and long-term incentives in addition to base salary.

Glass Lewis believes that comprehensive, timely and transparent disclosure of executive pay is critical to allowing shareholders to evaluate the extent to which the pay is keeping pace with company performance. When reviewing proxy materials, Glass Lewis examines whether the company discloses the performance metrics used to determine executive compensation. We recognize performance metrics must necessarily vary depending on the company and industry, among other factors, and may include items such as total shareholder return, earning per share growth, return on equity, return on assets and revenue growth. However, we believe companies should disclose why the specific performance metrics were selected and how the actions they are designed to incentivize will lead to better corporate performance.

Moreover, it is rarely in shareholders' interests to disclose competitive data about individual salaries below the senior executive level. Such disclosure could create internal personnel discord that would be counterproductive for the company and its shareholders. While we favor full disclosure for senior executives and we view pay disclosure at the aggregate level (e.g., the number of employees being paid over a certain amount or in certain categories) as potentially useful, we do not believe shareholders need or will benefit from detailed reports about individual management employees other than the most senior executives.

ADVISORY VOTE ON EXECUTIVE COMPENSATION ("SAY-ON-PAY")

On July 21, 2010, President Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), providing for sweeping financial and governance reforms. One of the most important reforms is found in Section 951(a) of the Dodd-Frank Act, which requires companies to hold an advisory vote on executive compensation at the first shareholder meeting that occurs six months after enactment (January 21, 2011). Further, since section 957 of the Dodd-Frank Act prohibits broker discretionary voting in connection with shareholder votes with respect to executive compensation, beginning in 2011 a majority vote in support of advisory votes on executive compensation may become more difficult for companies to obtain.

This practice of allowing shareholdes a non-binding vote on a company's compensation report is standard practice in many non-US countries, and has been a requirement for most companies in the United Kingdom since 2003 and in Australia since 2005. Although Say-on-Pay proposals are non-binding, a high level of "against" or "abstain" votes indicate substantial shareholder concern about a company's compensation policies and procedures.

Given the complexity of most companies' compensation programs, Glass Lewis applies a highly nuanced approach when analyzing advisory votes on executive compensation. We review each company's compensation on a case-by-case basis, recognizing that each company must be examined in the context of industry, size, maturity, performance, financial condition, its historic pay for performance practices, and any other relevant internal or external factors.

We believe that each company should design and apply specific compensation policies and practices that are appropriate to the circumstances of the company and, in particular, will attract and retain competent executives and other staff, while motivating them to grow the company's long-term shareholder value.

Where we find those specific policies and practices serve to reasonably align compensation with performance, and such practices are adequately disclosed, Glass Lewis will recommend supporting the company's approach. If, however, those specific policies and practices fail to demonstrably link compensation with perfomance, Glass Lewis will generally recommend voting against the say-on-pay proposal.

Glass Lewis focuses on four main areas when reviewing Say-on-Pay proposals:

- The overall design and structure of the Company's executive compensation program including performance metrics;
- The quality and content of the Company's disclosure;
- The quantum paid to executives; and
- The link between compensation and performance as indicated by the Company's current and past pay-for-performance grades

We also review any significant changes or modifications, and rationale for such changes, made to the Company's compensation structure or award amounts, including base salaries.

Say-on-Pay Voting Recommendations

In cases where we find deficiencies in a company's compensation program's design, implementation or management, we will recommend that shareholders vote against the Say-on-Pay proposal. Generally such instances include evidence of a pattern of poor pay-for-performance practices (i.e., deficient or failing pay for performance grades), unclear or questionable disclosure regarding the overall compensation structure (e.g., limited information regarding benchmarking processes, limited rationale for bonus performance metrics and targets, etc.), questionable adjustments to certain aspects of the overall compensation structure (e.g., limited rationale for significant changes to performance targets or metrics, the payout of guaranteed bonuses or sizable retention grants, etc.), and/or other egregious compensation practices.

Although not an exhaustive list, the following issues when weighed together may cause Glass Lewis to recommend voting against a say-on-pay vote:

- Inappropriate peer group and/or benchmarking issues
- Inadequate or no rationale for changes to peer groups
- Egregious or excessive bonuses, equity awards or severance payments, including golden handshakes and golden parachutes
- Guaranteed bonuses
- Targeting overall levels of compensation at higher than median without adequate justification
- Bonus or long-term plan targets set at less than mean or negative performance levels
- Performance targets not sufficiently challenging, and/or providing for high potential payouts
- Performance targets lowered, without justification
- Discretionary bonuses paid when short- or long-term incentive plan targets were not met

- Executive pay high relative to peers not justified by outstanding company performance
- The terms of the long-term incentive plans are inappropriate (please see "Long-Term Incentives" below)

In the instance that a company has simply failed to provide sufficient disclosure of its policies, we may recommend shareholders vote against this proposal solely on this basis, regardless of the appropriateness of compensation levels.

In the case of companies that maintain poor compensation policies year after year without any showing they took steps to address the issues, we may also recommend that shareholders vote against the chairman and/or additional members of the compensation committee. We may also recommend voting against the compensation committee based on the practices or actions of its members, such as approving large one-off payments, the inappropriate use of discretion, or sustained poor pay for performance practices.

Short-Term Incentives

A short-term bonus or incentive ("STI") should be demonstrably tied to performance. Whenever possible, we believe a mix of corporate and individual performance measures is appropriate. We would normally expect performance measures for STIs to be based on internal financial measures such as net profit after tax, EPS growth and divisional profitability as well as non-financial factors such as those related to safety, environmental issues, and customer satisfaction. However, we accept variations from these metrics if they are tied to the Company's business drivers.

Further, the target and potential maximum awards that can be achieved under STI awards should be disclosed. Shareholders should expect stretching performance targets for the maximum award to be achieved. Any increase in the potential maximum award should be clearly justified to shareholders.

Glass Lewis recognizes that disclosure of some measures may include commercially confidential information. Therefore, we believe it may be reasonable to exclude such information in some cases as long as the company provides sufficient justification for non-disclosure. However, where a short-term bonus has been paid, companies should disclose the extent to which performance has been achieved against relevant targets, including disclosure of the actual target achieved.

Where management has received significant STIs but short-term performance as measured by such indicators as increase in profit and/or EPS growth over the previous year *prima facie* appears to be poor or negative, we believe the company should provide a clear explanation why these significant short-term payments were made.

Long-Term Incentives

Glass Lewis recognizes the value of equity-based incentive programs. When used appropriately, they can provide a vehicle for linking an executive's pay to company performance, thereby aligning their interests with those of shareholders. In addition, equity-based compensation can be an effective way to attract, retain and motivate key employees.

There are certain elements that Glass Lewis believes are common to most well-structured long-term incentive ("LTI") plans. These include:

- No re-testing or lowering of performance conditions
- Performance metrics that cannot be easily manipulated by management
- Two or more performance metrics

- At least one relative performance metric that compares the company's performance to a relevant peer group or index
- Performance periods of at least three years
- Stretching metrics that incentivize executives to strive for outstanding performance
- Individual limits expressed as a percentage of base salary

Performance measures should be carefully selected and should relate to the specific business/industry in which the company operates and, especially, the key value drivers of the company's business.

Glass Lewis believes that measuring a company's performance with multiple metrics serves to provide a more complete picture of the company's performance than a single metric, which may focus too much management attention on a single target and is therefore more susceptible to manipulation. External benchmarks should be disclosed and transparent, such as total shareholder return ("TSR") against a well-selected sector index, peer group or other performance hurdle. The rationale behind the selection of a specific index or peer group should be disclosed. Internal benchmarks (e.g. earnings per share growth) should also be disclosed and transparent, unless a cogent case for confidentiality is made and fully explained.

We also believe shareholders should evaluate the relative success of a company's compensation programs, particularly existing equity-based incentive plans, in linking pay and performance in evaluating new LTI plans to determine the impact of additional stock awards. We will therefore review the company's pay-for-performance grade, see below for more information, and specifically the proportion of total compensation that is stock-based.

Pay for Performance

Glass Lewis believes an integral part of a well-structured compensation package is a successful link between pay and performance. Therefore, Glass Lewis developed a proprietary pay-for-performance model to evaluate the link between pay and performance of the top five executives at US companies. Our model benchmarks these executives' pay and company performance against four peer groups and across seven performance metrics. Using a forced curve and a school letter-grade system, we grade companies from A-F according to their pay-for-performance linkage. The grades guide our evaluation of compensation committee effectiveness and we generally recommend voting against compensation committee of companies with a pattern of failing our pay-for-performance analysis.

We also use this analysis to inform our voting decisions on say-on-pay proposals. As such, if a company receives a failing grade from our proprietary model, we are likely to recommend shareholders to vote against the say-on-pay proposal. However, there may be exceptions to this rule such as when a company makes significant enhancements to its compensation programs.

Recoupment ("Clawback") Provisions

Section 954 of the Dodd-Frank Act requires the SEC to create a rule requiring listed companies to adopt policies for recouping certain compensation during a three-year look-back period. The rule applies to incentive-based compensation paid to current or former executives if the company is required to prepare an accounting restatement due to erroneous data resulting from material non-compliance with any financial reporting requirements under the securities laws.

These recoupment provisions are more stringent than under Section 304 of the Sarbanes-Oxley Act in three respects: (i) the provisions extend to current or former executive officers rather than only to the

CEO and CFO; (ii) it has a three-year look-back period (rather than a twelve-month look-back period); and (iii) it allows for recovery of compensation based upon a financial restatement due to erroneous data, and therefore does not require misconduct on the part of the executive or other employees.

Frequency of Say-on-Pay

The Dodd-Frank Act also requires companies to allow shareholders a non-binding vote on the frequency of say-on-pay votes, i.e. every one, two or three years. Additionally, Dodd-Frank requires companies to hold such votes on the frequency of say-on-pay votes at least once every six years.

We believe companies should submit say-on-pay votes to shareholders every year. We believe that the time and financial burdens to a company with regard to an annual vote are relatively small and incremental and are outweighed by the benefits to shareholders through more frequent accountability. Implementing biannual or triennial votes on executive compensation limits shareholders' ability to hold the board accountable for its compensation practices through means other than voting against the compensation committee. Unless a company provides a compelling rationale or unique circumstances for say-on-pay votes less frequent than annually, we will generally recommend that shareholders support annual votes on compensation.

Vote on Golden Parachute Arrangements

The Dodd-Frank Act also requires companies to provide shareholders with a separate non-binding vote on approval of golden parachute compensation arrangements in connection with certain change-in-control transactions. However, if the golden parachute arrangements have previously been subject to a say-on-pay vote which shareholders approved, then this required vote is waived.

Glass Lewis believes the narrative and tabular disclosure of golden parachute arrangements will benefit all shareholders. Glass Lewis will analyze each golden parachute arrangement on a case-by-case basis, taking into account, among other items: the ultimate value of the payments, the tenure and position of the executives in question, and the type of triggers involved (single vs double).

EQUITY-BASED COMPENSATION PLAN PROPOSALS

We believe that equity compensation awards are useful, when not abused, for retaining employees and providing an incentive for them to act in a way that will improve company performance. Glass Lewis evaluates option- and other equity-based compensation plans using a detailed model and analytical review.

Equity-based compensation programs have important differences from cash compensation plans and bonus programs. Accordingly, our model and analysis takes into account factors such as plan administration, the method and terms of exercise, repricing history, express or implied rights to reprice, and the presence of evergreen provisions.

Our analysis is quantitative and focused on the plan's cost as compared with the business's operating metrics. We run twenty different analyses, comparing the program with absolute limits we believe are key to equity value creation and with a carefully chosen peer group. In general, our model seeks to determine whether the proposed plan is either absolutely excessive or is more than one standard deviation away from the average plan for the peer group on a range of criteria, including dilution to shareholders and the projected annual cost relative to the company's financial performance. Each of the twenty analyses (and their constituent parts) is weighted and the plan is scored in accordance with that weight.

In our analysis, we compare the program's expected annual expense with the business's operating metrics to help determine whether the plan is excessive in light of company performance. We also compare the option plan's expected annual cost to the enterprise value of the firm rather than to market capitalization because the employees, managers and directors of the firm contribute to the creation of enterprise value but not necessarily market capitalization (the biggest difference is seen where cash represents the vast majority of market capitalization). Finally, we do not rely exclusively on relative comparisons with averages because, in addition to creeping averages serving to inflate compensation, we believe that academic literature proves that some absolute limits are warranted.

We evaluate equity plans based on certain overarching principles:

1. Companies should seek more shares only when needed.

2. Requested share amounts should be small enough that companies seek shareholder approval every three to four years (or more frequently).

3. If a plan is relatively expensive, it should not grant options solely to senior executives and board members.

4. Annual net share count and voting power dilution should be limited.

5. Annual cost of the plan (especially if not shown on the income statement) should be reasonable as a percentage of financial results and should be in line with the peer group.

6. The expected annual cost of the plan should be proportional to the business's value.

7. The intrinsic value that option grantees received in the past should be reasonable compared with the business's financial results.

8. Plans should deliver value on a per-employee basis when compared with programs at peer companies.

9. Plans should not permit re-pricing of stock options.

10. Plans should not contain excessively liberal administrative or payment terms.

11. Selected performance metrics should be challenging and appropriate, and should be subject to relative performance measurements.

12. Stock grants should be subject to minimum vesting and/or holding periods sufficient to ensure sustainable performance and promote retention.

Option Exchanges

Glass Lewis views option repricing plans and option exchange programs with great skepticism. Shareholders have substantial risk in owning stock and we believe that the employees, officers, and directors who receive stock options should be similarly situated to align their interests with shareholder interests.

We are concerned that option grantees who believe they will be "rescued" from underwater options will be more inclined to take unjustifiable risks. Moreover, a predictable pattern of repricing or exchanges substantially alters a stock option's value because options that will practically never expire deeply out of the money are worth far more than options that carry a risk of expiration.

In short, repricings and option exchange programs change the bargain between shareholders and employees after the bargain has been struck. Re-pricing is tantamount to re-trading.

There is one circumstance in which a repricing or option exchange program is acceptable: if macroeconomic or industry trends, rather than specific company issues, cause a stock's value to decline dramatically and the repricing is necessary to motivate and retain employees. In this circumstance, we think it fair to conclude that option grantees may be suffering from a risk that was not foreseeable when the original "bargain" was struck. In such a circumstance, we will recommend supporting a repricing only if the following conditions are true:

(i) officers and board members cannot not participate in the program;

(ii) the stock decline mirrors the market or industry price decline in terms of timing and approximates the decline in magnitude;

(iii) the exchange is value-neutral or value-creative to shareholders using very conservative assumptions and with a recognition of the adverse selection problems inherent in voluntary programs; and

(iv) management and the board make a cogent case for needing to motivate and retain existing employees, such as being in a competitive employment market.

Option Backdating, Spring-Loading, and Bullet-Dodging

Glass Lewis views option backdating, and the related practices of spring-loading and bullet-dodging, as egregious actions that warrant holding the appropriate management and board members responsible. These practices are similar to re-pricing options and eliminate much of the downside risk inherent in an option grant that is designed to induce recipients to maximize shareholder return.

Backdating an option is the act of changing an option's grant date from the actual grant date to an earlier date when the market price of the underlying stock was lower, resulting in a lower exercise price for the option. Glass Lewis has identified over 270 companies that have disclosed internal or government investigations into their past stock-option grants.

Spring-loading is granting stock options while in possession of material, positive information that has not been disclosed publicly. Bullet-dodging is delaying the grants of stock options until after the release of material, negative information. This can allow option grants to be made at a lower price either before the release of positive news or following the release of negative news, assuming the stock's price will move up or down in response to the information. This raises a concern similar to that of insider trading, or the trading on material non-public information.

The exercise price for an option is determined on the day of grant, providing the recipient with the same market risk as an investor who bought shares on that date. However, where options were backdated, the executive or the board (or the compensation committee) changed the grant date retroactively. The new date may be at or near the lowest price for the year or period. This would be like allowing an investor to look back and select the lowest price of the year at which to buy shares.

A 2006 study of option grants made between 1996 and 2005 at 8,000 companies found that option backdating can be an indication of poor internal controls. The study found that option backdating was more likely to occur at companies without a majority independent board and with a long-serving CEO; both factors, the study concluded, were associated with greater CEO influence on the company's compensation and governance practices.[47]

Where a company granted backdated options to an executive who is also a director, Glass Lewis will recommend voting against that executive/director, regardless of who decided to make the award. In

[47] Lucian Bebchuk, Yaniv Grinstein and Urs Peyer. "LUCKY CEOs." November, 2006.

addition, Glass Lewis will recommend voting against those directors who either approved or allowed the backdating. Glass Lewis feels that executives and directors who either benefited from backdated options or authorized the practice have breached their fiduciary responsibility to shareholders.

Given the severe tax and legal liabilities to the company from backdating, Glass Lewis will consider recommending voting against members of the audit committee who served when options were backdated, a restatement occurs, material weaknesses in internal controls exist and disclosures indicate there was a lack of documentation. These committee members failed in their responsibility to ensure the integrity of the company's financial reports.

When a company has engaged in spring-loading or bullet-dodging, Glass Lewis will consider recommending voting against the compensation committee members where there has been a pattern of granting options at or near historic lows. Glass Lewis will also recommend voting against executives serving on the board who benefited from the spring-loading or bullet-dodging.

162(m) Plans

Section 162(m) of the Internal Revenue Code allows companies to deduct compensation in excess of $1 million for the CEO and the next three most highly compensated executive officers, excluding the CFO, upon shareholder approval of the excess compensation. Glass Lewis recognizes the value of executive incentive programs and the tax benefit of shareholder-approved incentive plans.

We believe the best practice for companies is to provide robust disclosure to shareholders so that they can make fully-informed judgments about the reasonableness of the proposed compensation plan. To allow for meaningful shareholder review, we prefer that disclosure should include specific performance metrics, a maximum award pool, and a maximum award amount per employee. We also believe it is important to analyze the estimated grants to see if they are reasonable and in line with the company's peers.

We typically recommend voting against a 162(m) plan where: a company fails to provide at least a list of performance targets; a company fails to provide one of either a total pool or an individual maximum; or the proposed plan is excessive when compared with the plans of the company's peers.

The company's record of aligning pay with performance (as evaluated using our proprietary pay-for-performance model) also plays a role in our recommendation. Where a company has a record of setting reasonable pay relative to business performance, we generally recommend voting in favor of a plan even if the plan caps seem large relative to peers because we recognize the value in special pay arrangements for continued exceptional performance.

As with all other issues we review, our goal is to provide consistent but contextual advice given the specifics of the company and ongoing performance. Overall, we recognize that it is generally not in shareholders' best interests to vote against such a plan and forgo the potential tax benefit since shareholder rejection of such plans will not curtail the awards; it will only prevent the tax deduction associated with them.

Director Compensation Plans

Glass Lewis believes that non-employee directors should receive reasonable and appropriate compensation for the time and effort they spend serving on the board and its committees. Director fees should be competitive in order to retain and attract qualified individuals. But excessive fees represent a financial cost to the company and threaten to compromise the objectivity and independence of non-employee directors. Therefore, a balance is required. We will consider recommending supporting compensation plans that include option grants or other equity-based awards that help to align the interests of outside directors with those of shareholders. However, equity grants to directors should not be performance-based to ensure directors are not incentivized in the same manner as executives but rather serve as a check on imprudent risk-taking in executive compensation plan design.

Glass Lewis uses a proprietary model and analyst review to evaluate the costs of equity plans compared to the plans of peer companies with similar market capitalizations. We use the results of this model to guide our voting recommendations on stock-based director compensation plans.

ANTI-TAKEOVER MEASURES

Poison Pills (Shareholder Rights Plans)

Glass Lewis believes that poison pill plans are not generally in shareholders' best interests. They can reduce management accountability by substantially limiting opportunities for corporate takeovers. Rights plans can thus prevent shareholders from receiving a buy-out premium for their stock. Typically we recommend that shareholders vote against these plans to protect their financial interests and ensure that they have an opportunity to consider any offer for their shares, especially those at a premium.

We believe boards should be given wide latitude in directing company activities and in charting the company's course. However, on an issue such as this, where the link between the shareholders' financial interests and their right to consider and accept buyout offers is substantial, we believe that shareholders should be allowed to vote on whether they support such a plan's implementation. This issue is different from other matters that are typically left to board discretion. Its potential impact on and relation to shareholders is direct and substantial. It is also an issue in which management interests may be different from those of shareholders; thus, ensuring that shareholders have a voice is the only way to safeguard their interests.

In certain circumstances, we will support a poison pill that is limited in scope to accomplish a particular objective, such as the closing of an important merger, or a pill that contains what we believe to be a reasonable qualifying offer clause. We will consider supporting a poison pill plan if the qualifying offer clause includes the following attributes: (i) The form of offer is not required to be an all-cash transaction; (ii) the offer is not required to remain open for more than 90 business days; (iii) the offeror is permitted to amend the offer, reduce the offer, or otherwise change the terms; (iv) there is no fairness opinion requirement; and (v) there is a low to no premium requirement. Where these requirements are met, we typically feel comfortable that shareholders will have the opportunity to voice their opinion on any legitimate offer.

NOL Poison Pills

Similarly, Glass Lewis may consider supporting a limited poison pill in the unique event that a company seeks shareholder approval of a rights plan for the express purpose of preserving Net Operating Losses (NOLs). While companies with NOLs can generally carry these losses forward to offset future taxable income, Section 382 of the Internal Revenue Code limits companies' ability to use NOLs in the event of a "change of ownership."[48] In this case, a company may adopt or amend a poison pill ("NOL pill") in order to prevent an inadvertent change of ownership by multiple investors purchasing small chunks of stock at the same time, and thereby preserve the ability to carry the NOLs forward. Often such NOL pills have trigger thresholds much lower than the common 15% or 20% thresholds, with some NOL pill triggers as low as 5%.

Glass Lewis evaluates NOL pills on a strictly case-by-case basis taking into consideration, among other factors, the value of the NOLs to the company, the likelihood of a change of ownership based on the size

48 Section 382 of the Internal Revenue Code refers to a "change of ownership" of more than 50 percentage points by one or more 5% shareholders within a three-year period. The statute is intended to deter the "trafficking" of net operating losses.

of the holding and the nature of the larger shareholders, the trigger threshold and whether the term of the plan is limited in duration (i.e., whether it contains a reasonable “sunset” provision) or is subject to periodic board review and/or shareholder ratification. However, we will recommend that shareholders vote against a proposal to adopt or amend a pill to include NOL protective provisions if the company has adopted a more narrowly tailored means of preventing a change in control to preserve its NOLs. For example, a company may limit share transfers in its charter to prevent a change of ownership from occurring.

Furthermore, we believe that shareholders should be offered the opportunity to vote on any adoption or renewal of a NOL pill regardless of any potential tax benefit that it offers a company. As such, we will consider recommending voting against those members of the board who served at the time when an NOL pill was adopted without shareholder approval within the prior twelve months and where the NOL pill is not subject to shareholder ratification.

Fair Price Provisions

Fair price provisions, which are rare, require that certain minimum price and procedural requirements be observed by any party that acquires more than a specified percentage of a corporation’s common stock. The provision is intended to protect minority shareholder value when an acquirer seeks to accomplish a merger or other transaction which would eliminate or change the interests of the minority stockholders. The provision is generally applied against the acquirer unless the takeover is approved by a majority of ”continuing directors” and holders of a majority, in some cases a supermajority as high as 80%, of the combined voting power of all stock entitled to vote to alter, amend, or repeal the above provisions.

The effect of a fair price provision is to require approval of any merger or business combination with an “interested stockholder” by 51% of the voting stock of the company, excluding the shares held by the interested stockholder. An interested stockholder is generally considered to be a holder of 10% or more of the company’s outstanding stock, but the trigger can vary.

Generally, provisions are put in place for the ostensible purpose of preventing a back-end merger where the interested stockholder would be able to pay a lower price for the remaining shares of the company than he or she paid to gain control. The effect of a fair price provision on shareholders, however, is to limit their ability to gain a premium for their shares through a partial tender offer or open market acquisition which typically raise the share price, often significantly. A fair price provision discourages such transactions because of the potential costs of seeking shareholder approval and because of the restrictions on purchase price for completing a merger or other transaction at a later time.

Glass Lewis believes that fair price provisions, while sometimes protecting shareholders from abuse in a takeover situation, more often act as an impediment to takeovers, potentially limiting gains to shareholders from a variety of transactions that could significantly increase share price. In some cases, even the independent directors of the board cannot make exceptions when such exceptions may be in the best interests of shareholders. Given the existence of state law protections for minority shareholders such as Section 203 of the Delaware Corporations Code, we believe it is in the best interests of shareholders to remove fair price provisions.

REINCORPORATION

In general, Glass Lewis believes that the board is in the best position to determine the appropriate jurisdiction of incorporation for the company. When examining a management proposal to reincorporate to a different state or country, we review the relevant financial benefits, generally related to improved corporate tax treatment, as well as changes in corporate governance provisions, especially those relating to shareholder rights, resulting from the change in domicile. Where the financial benefits are *de minimis* and there is a decrease in shareholder rights, we will recommend voting against the transaction.

However, costly, shareholder-initiated reincorporations are typically not the best route to achieve the furtherance of shareholder rights. We believe shareholders are generally better served by proposing specific shareholder resolutions addressing pertinent issues which may be implemented at a lower cost, and perhaps even with board approval. However, when shareholders propose a shift into a jurisdiction with enhanced shareholder rights, Glass Lewis examines the significant ways would the Company benefit from shifting jurisdictions including the following:

1. Is the board sufficiently independent?

2. Does the Company have anti-takeover protections such as a poison pill or classified board in place?

3. Has the board been previously unresponsive to shareholders (such as failing to implement a shareholder proposal that received majority shareholder support)?

4. Do shareholders have the right to call special meetings of shareholders?

5. Are there other material governance issues at the Company?

6. Has the Company's performance matched or exceeded its peers in the past one and three years?

7. How has the Company ranked in Glass Lewis' pay-for-performance analysis during the last three years?

8. Does the company have an independent chairman?

We note, however, that we will only support shareholder proposals to change a company's place of incorporation in exceptional circumstances.

AUTHORIZED SHARES

Glass Lewis believes that adequate capital stock is important to a company's operation. When analyzing a request for additional shares, we typically review four common reasons why a company might need additional capital stock:

(i) Stock Split – We typically consider three metrics when evaluating whether we think a stock split is likely or necessary: The historical stock pre-split price, if any; the current price relative to the company's most common trading price over the past 52 weeks; and some absolute limits on stock price that, in our view, either always make a stock split appropriate if desired by management or would almost never be a reasonable price at which to split a stock.

(ii) Shareholder Defenses – Additional authorized shares could be used to bolster takeover defenses such as a "poison pill." Proxy filings often discuss the usefulness of additional shares in defending against or discouraging a hostile takeover as a reason for a requested increase. Glass Lewis is typically against such defenses and will oppose actions intended to bolster such defenses.

(iii) Financing for Acquisitions – We look at whether the company has a history of using stock for acquisitions and attempt to determine what levels of stock have typically been required to accomplish such transactions. Likewise, we look to see whether this is discussed as a reason for additional shares in the proxy.

(iv) Financing for Operations – We review the company's cash position and its ability to secure financing through borrowing or other means. We look at the company's history of capitalization and whether the company has had to use stock in the recent past as a means of raising capital.

Issuing additional shares can dilute existing holders in limited circumstances. Further, the availability of additional shares, where the board has discretion to implement a poison pill, can often serve as a deterrent to interested suitors. Accordingly, where we find that the company has not detailed a plan for use of the proposed shares, or where the number of shares far exceeds those needed to accomplish a detailed plan, we typically recommend against the authorization of additional shares.

While we think that having adequate shares to allow management to make quick decisions and effectively operate the business is critical, we prefer that, for significant transactions, management come to shareholders to justify their use of additional shares rather than providing a blank check in the form of a large pool of unallocated shares available for any purpose.

ADVANCE NOTICE REQUIREMENTS FOR SHAREHOLDER BALLOT PROPOSALS

We typically recommend that shareholders vote against proposals that would require advance notice of shareholder proposals or of director nominees.

These proposals typically attempt to require a certain amount of notice before shareholders are allowed to place proposals on the ballot. Notice requirements typically range between three to six months prior to the annual meeting. Advance notice requirements typically make it impossible for a shareholder who misses the deadline to present a shareholder proposal or a director nominee that might be in the best interests of the company and its shareholders.

We believe shareholders should be able to review and vote on all proposals and director nominees. Shareholders can always vote against proposals that appear with little prior notice. Shareholders, as owners of a business, are capable of identifying issues on which they have sufficient information and ignoring issues on which they have insufficient information. Setting arbitrary notice restrictions limits the opportunity for shareholders to raise issues that may come up after the window closes.

VOTING STRUCTURE

Cumulative Voting

Cumulative voting increases the ability of minority shareholders to elect a director by allowing shareholders to cast as many shares of the stock they own multiplied by the number of directors to be elected. As companies generally have multiple nominees up for election, cumulative voting allows shareholders to cast all of their votes for a single nominee, or a smaller number of nominees than up for election, thereby raising the likelihood of electing one or more of their preferred nominees to the board. It can be important when a board is controlled by insiders or affiliates and where the company's ownership structure includes one or more shareholders who control a majority-voting block of company stock.

Glass Lewis believes that cumulative voting generally acts as a safeguard for shareholders by ensuring that those who hold a significant minority of shares can elect a candidate of their choosing to the board. This allows the creation of boards that are responsive to the interests of all shareholders rather than just a small group of large holders.

However, academic literature indicates that where a highly independent board is in place and the company has a shareholder-friendly governance structure, shareholders may be better off without cumulative voting. The analysis underlying this literature indicates that shareholder returns at firms with good governance structures are lower and that boards can become factionalized and prone to evaluating the needs of special interests over the general interests of shareholders collectively.

We review cumulative voting proposals on a case-by-case basis, factoring in the independence of the board and the status of the company's governance structure. But we typically find these proposals on ballots at companies where independence is lacking and where the appropriate checks and balances favoring shareholders are not in place. In those instances we typically recommend in favor of cumulative voting.

Where a company has adopted a true majority vote standard (i.e., where a director must receive a majority of votes cast to be elected, as opposed to a modified policy indicated by a resignation policy only), Glass Lewis will recommend voting against cumulative voting proposals due to the incompatibility of the two election methods. For companies that have not adopted a true majority voting standard but have adopted some form of majority voting, Glass Lewis will also generally recommend voting against cumulative voting proposals if the company has not adopted antitakeover protections and has been responsive to shareholders.

Where a company has not adopted a majority voting standard and is facing both a shareholder proposal to adopt majority voting and a shareholder proposal to adopt cumulative voting, Glass Lewis will support only the majority voting proposal. When a company has both majority voting and cumulative voting in place, there is a higher likelihood of one or more directors not being elected as a result of not receiving a majority vote. This is because shareholders exercising the right to cumulate their votes could unintentionally cause the failed election of one or more directors for whom shareholders do not cumulate votes.

Supermajority Vote Requirements

Glass Lewis believes that supermajority vote requirements impede shareholder action on ballot items critical to shareholder interests. An example is in the takeover context, where supermajority vote requirements can strongly limit the voice of shareholders in making decisions on such crucial matters as selling the business. This in turn degrades share value and can limit the possibility of buyout premiums to shareholders. Moreover, we believe that a supermajority vote requirement can enable a small group of shareholders to overrule the will of the majority shareholders. We believe that a simple majority is appropriate to approve all matters presented to shareholders.

TRANSACTION OF OTHER BUSINESS AT AN ANNUAL OR SPECIAL MEETING OF SHAREHOLDERS

We typically recommend that shareholders not give their proxy to management to vote on any other business items that may properly come before the annual meeting. In our opinion, granting unfettered discretion is unwise.

ANTI-GREENMAIL PROPOSALS

Glass Lewis will support proposals to adopt a provision preventing the payment of greenmail, which would serve to prevent companies from buying back company stock at significant premiums from a certain shareholder. Since a large or majority shareholder could attempt to compel a board into purchasing its shares at a large premium, the anti-greenmail provision would generally require that a majority of shareholders other than the majority shareholder approve the buyback.

MUTUAL FUNDS: INVESTMENT POLICIES AND ADVISORY AGREEMENTS

Glass Lewis believes that decisions about a fund's structure and/or a fund's relationship with its investment advisor or sub-advisors are generally best left to management and the members of the board, absent a showing of egregious or illegal conduct that might threaten shareholder value. As such, we focus our analyses of such proposals on the following main areas:

- The terms of any amended advisory or sub-advisory agreement;
- Any changes in the fee structure paid to the investment advisor; and
- Any material changes to the fund's investment objective or strategy.

We generally support amendments to a fund's investment advisory agreement absent a material change that is not in the best interests of shareholders. A significant increase in the fees paid to an investment advisor would be reason for us to consider recommending voting against a proposed amendment to an investment advisory agreement. However, in certain cases, we are more inclined to support an increase in advisory fees if such increases result from being performance-based rather than asset-based. Furthermore, we generally support sub-advisory agreements between a fund's advisor and sub-advisor, primarily because the fees received by the sub-advisor are paid by the advisor, and not by the fund.

In matters pertaining to a fund's investment objective or strategy, we believe shareholders are best served when a fund's objective or strategy closely resembles the investment discipline shareholders understood and selected when they initially bought into the fund. As such, we generally recommend voting against amendments to a fund's investment objective or strategy when the proposed changes would leave shareholders with stakes in a fund that is noticeably different than when originally contemplated, and which could therefore potentially negatively impact some investors' diversification strategies.

V. Compensation, Environmental, Social and Governance Shareholder Initiatives

Glass Lewis typically prefers to leave decisions regarding day-to-day management and policy decisions, including those related to social, environmental or political issues, to management and the board, except when there is a clear link between the proposal and value enhancement or risk mitigation. We feel strongly that shareholders should not attempt to micromanage the company, its businesses or its executives through the shareholder initiative process. Rather, we believe shareholders should use their influence to push for governance structures that protect shareholders and promote director accountability. Shareholders should then put in place a board they can trust to make informed decisions that are in the best interests of the business and its owners, and then hold directors accountable for management and policy decisions through board elections. However, we recognize that support of appropriately crafted shareholder initiatives may at times serve to promote or protect shareholder value.

To this end, Glass Lewis evaluates shareholder proposals on a case-by-case basis. We generally recommend supporting shareholder proposals calling for the elimination of, as well as to require shareholder approval of, antitakeover devices such as poison pills and classified boards. We generally recommend supporting proposals likely to increase and/or protect shareholder value and also those that promote the furtherance of shareholder rights. In addition, we also generally recommend supporting proposals that promote director accountability and those that seek to improve compensation practices, especially those promoting a closer link between compensation and performance.

The following is a discussion of Glass Lewis' approach to certain common shareholder resolutions. We note that the following is not an exhaustive list of all shareholder proposals.

COMPENSATION

Glass Lewis carefully reviews executive compensation since we believe that this is an important area in which the board's priorities and effectiveness are revealed. Executives should be compensated with appropriate base salaries and incentivized with additional awards in cash and equity only when their performance and that of the company warrants such rewards. Compensation, especially when also in line with the compensation paid by the company's peers, should lead to positive results for shareholders and ensure the use of appropriate incentives that drives those results over time.

However, as a general rule, Glass Lewis does not believe shareholders should be involved in the approval and negotiation of compensation packages. Such matters should be left to the board's compensation committee, which can be held accountable for its decisions through the election of directors. Therefore, Glass Lewis closely scrutinizes shareholder proposals relating to compensation to determine if the requested action or disclosure has already accomplished or mandated and whether it allows sufficient, appropriate discretion to the board to design and implement reasonable compensation programs.

Disclosure of Individual Compensation

Glass Lewis believes that disclosure of information regarding compensation is critical to allowing shareholders to evaluate the extent to which a company's pay is based on performance. However, we recognize that the SEC currently mandates significant executive compensation disclosure. In some cases, providing information beyond that which is required by the SEC, such as the details of individual employment agreements of employees below the senior level, could create internal personnel tension or put the company at a competitive disadvantage, prompting employee poaching by competitors. Further, it is difficult to see how this information would be beneficial to shareholders. Given these concerns, Glass Lewis typically does not believe that shareholders would benefit from additional disclosure of individual compensation packages beyond the significant level that is already required; we therefore typically recommend voting against shareholder proposals seeking such detailed disclosure. We will, however, review each proposal on a case by basis, taking into account the company's history of aligning executive compensation and the creation of shareholder value.

Linking Pay with Performance

Glass Lewis views performance-based compensation as an effective means of motivating executives to act in the best interests of shareholders. In our view, an executive's compensation should be specific to the company and its performance, as well as tied to the executive's achievements within the company.

However, when firms have inadequately linked executive compensation and company performance we will consider recommending supporting reasonable proposals seeking that a percentage of equity awards be tied to performance criteria. We will also consider supporting appropriately crafted proposals requesting that the compensation committee include multiple performance metrics when setting executive compensation, provided that the terms of the shareholder proposal are not overly prescriptive. Though boards often argue that these types of restrictions unduly hinder their ability to attract talent we believe boards can develop an effective, consistent and reliable approach to remuneration utilizing a wide range (and an appropriate mix) of fixed and performance-based compensation.

Retirement Benefits & Severance

As a general rule, Glass Lewis believes that shareholders should not be involved in the approval of individual severance plans. Such matters should be left to the board's compensation committee, which can be held accountable for its decisions through the election of its director members.

However, when proposals are crafted to only require approval if the benefit exceeds 2.99 times the amount of the executive's base salary plus bonus, Glass Lewis typically supports such requests. Above this threshold, based on the executive's average annual compensation for the most recent five years, the company can no longer deduct severance payments as an expense, and thus shareholders are deprived of a valuable benefit without an offsetting incentive to the executive. We believe that shareholders should be consulted before relinquishing such a right, and we believe implementing such policies would still leave companies with sufficient freedom to enter into appropriate severance arrangements.

Following the passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank"), the SEC proposed rules that would require that public companies hold advisory shareholder votes on compensation arrangements and understandings in connection with merger transactions, also known as "golden parachute" transactions. However, the SEC has not finalized the rules in time for the 2011 proxy season and therefore we expect to continue to see shareholder proposals on merger-triggered severance agreements as well as those not related to mergers.

Bonus Recoupments ("Clawbacks")

We believe it is prudent for boards to adopt detailed and stringent policies whereby, in the event of a restatement of financial results, the board will review all performance related bonuses and awards made to senior executives during the period covered by a restatement and will, to the extent feasible, recoup such bonuses to the extent that performance goals were not achieved. While the Dodd-Frank Act mandates that all companies adopt clawback policies that will require companies to develop a policy to recover compensation paid to current and former executives erroneously paid during the three year prior to a restatement, the SEC has yet to finalize the relevant rules. As a result, we expect to see shareholder proposals regarding clawbacks in the upcoming proxy season.

When examining proposals requesting that companies adopt recoupment policies, Glass Lewis will first review any relevant policies currently in place. When the board has already committed to a proper course, and the current policy covers the major tenets of the proposal, we see no need for further action. Further, in some instances, shareholder proposals may call for board action that contravenes legal obligations under existing employment agreements. In other cases proposals may excessively limit the board's ability to exercise judgment and reasonable discretion, which may or may not be warranted, depending on the specific situation of the company in question. We believe it is reasonable that a mandatory recoupment policy should only affect senior executives and those directly responsible for the company's accounting errors.

We note that where a company is entering into a new executive employment contract that does not include a clawback provision and the company has had a material restatement in the recent past, Glass Lewis will recommend voting against the responsible members of the compensation committee. The compensation committee has an obligation to shareholders to include reasonable controls in executive contracts to prevent payments in the case of inappropriate behavior.

Golden Coffins

Glass Lewis does not believe that the payment of substantial, unearned posthumous compensation provides an effective incentive to executives or aligns the interests of executives with those of shareholders. Glass Lewis firmly believes that compensation paid to executives should be clearly linked to the creation of shareholder value. As such, Glass Lewis favors compensation plans centered on the payment of awards contingent upon the satisfaction of sufficiently stretching and appropriate performance metrics. The payment of posthumous unearned and unvested awards should be subject to shareholder approval, if not removed from compensation policies entirely. Shareholders should be skeptical regarding any positive benefit they derive from costly payments made to executives who are no longer in any position to affect company performance.

To that end, we will consider supporting a reasonably crafted shareholder proposal seeking to prohibit, or require shareholder approval of, the making or promising of any survivor benefit payments to senior executives' estates or beneficiaries. We will not recommend supporting proposals that would, upon passage, violate existing contractual obligations or the terms of compensation plans currently in effect.

Retention of Shares until Retirement

We strongly support the linking of executive pay to the creation of long-term sustainable shareholder value and therefore believe shareholders should encourage executives to retain some level of shares acquired through equity compensation programs to provide continued alignment with shareholders. However, generally we do not believe that requiring senior executives to retain all or an unduly high percentage of shares acquired through equity compensation programs following the termination of their employment is the most effective or desirable way to accomplish this goal. Rather, we believe that restricting executives' ability to exercise all or a supermajority of otherwise vested equity awards until they leave the company may hinder the ability of the compensation committee to both attract and retain executive talent. In our view, otherwise qualified and willing candidates could be dissuaded from accepting employment if he/she believes that his/her compensation could be dramatically affected by financial results unrelated to their own personal performance or tenure at the company. Alternatively, an overly strict policy could encourage existing employees to quit in order to realize the value locked in their incentive awards. As such, we will not typically recommend supporting proposals requiring the retention of significant amounts of equity compensation following termination of employment at target firms.

Tax Gross-Ups

Tax gross-ups can act as an anti-takeover measure, as larger payouts to executives result in larger gross-ups, which could artificially inflate the ultimate purchase price under a takeover or merger scenario. Additionally, gross-ups can result in opaque compensation packages where shareholders are unlikely to be aware of the total compensation an executive may receive. Further, we believe that in instances where companies have severance agreements in place for executives, payments made pursuant to such arrangements are often large enough to soften the blow of any additional excise taxes. Finally, such payments are not performance based, providing no incentive to recipients and, if large, can be a significant cost to companies.

Given the above, we will typically recommend supporting proposals requesting that a compensation committee adopt a policy that it will not make or promise to make to its senior executives any tax gross-up payments, except those applicable to management employees of the company generally, such as a relocation or expatriate tax equalization policy.

Linking Executive Pay to Environmental and Social Criteria

We recognize that a company's involvement in environmentally sensitive and labor-intensive industries influences the degree to which a firm's overall strategy must weigh environmental and social concerns. However, we also understand that the value generated by incentivizing executives to prioritize environmental and social issues is difficult to quantify and therefore measure, and necessarily varies among industries and companies.

When reviewing such proposals seeking to tie executive compensation to environmental or social practices, we will review the target firm's compliance with (or contravention of) applicable laws and regulations, and examine any history of environmental and social related concerns including those resulting in material investigations, lawsuits, fines and settlements. We will also review the firm's current compensation policies and practice. However, with respect to executive compensation, Glass Lewis generally believes that such policies should be left to the compensation committee.

GOVERNANCE

Declassification of the Board

Glass Lewis believes that classified boards (or "staggered boards") do not serve the best interests of shareholders. Empirical studies have shown that: (i) companies with classified boards may show a reduction in firm value; (ii) in the context of hostile takeovers, classified boards operate as a takeover defense, which entrenches management, discourages potential acquirers and delivers less return to shareholders; and (iii) companies with classified boards are less likely to receive takeover bids than those with single class boards. Annual election of directors provides increased accountability and requires directors to focus on the interests of shareholders. When companies have classified boards shareholders are deprived of the right to voice annual opinions on the quality of oversight exercised by their representatives.

Given the above, Glass Lewis believes that classified boards are not in the best interests of shareholders and will continue to recommend shareholders support proposals seeking their repeal.

Right of Shareholders to Call a Special Meeting

Glass Lewis strongly believes that shareholders should have the ability to call meetings of shareholders between annual meetings to consider matters that require prompt attention. However, in order to prevent abuse and waste of corporate resources by a small minority of shareholders, we believe that shareholders representing at least a sizable minority of shares must support such a meeting prior to its calling. Should the threshold be set too low, companies might frequently be subjected to meetings whose effect could be the disruption of normal business operations in order to focus on the interests of only a small minority of owners. Typically we believe this threshold should not fall below 10-15% of shares, depending on company size.

In our case-by-case evaluations, we consider the following:

- Company size
- Shareholder base in both percentage of ownership and type of shareholder (e.g., hedge fund, activist investor, mutual fund, pension fund, etc.)
- Responsiveness of board and management to shareholders evidenced by progressive shareholder rights policies (e.g., majority voting, declassifying boards, etc.) and reaction to shareholder proposals
- Company performance and steps taken to improve bad performance (e.g., new executives/directors, spin-offs, etc.)
- Existence of anti-takeover protections or other entrenchment devices
- Opportunities for shareholder action (e.g., ability to act by written consent)
- Existing ability for shareholders to call a special meeting

Right of Shareholders to Act by Written Consent

Glass Lewis strongly supports shareholders' right to act by written consent. The right to act by written consent enables shareholders to take action on important issues that arise between annual meetings. However, we believe such rights should be limited to at least the minimum number of votes that would be necessary to authorize the action at a meeting at which all shareholders entitled to vote were present and voting.

In addition to evaluating the threshold for which written consent may be used (e.g. majority of votes cast or outstanding), we will consider the following when evaluating such shareholder proposals:

- Company size
- Shareholder base in both percentage of ownership and type of shareholder (e.g., hedge fund, activist investor, mutual fund, pension fund, etc.)
- Responsiveness of board and management to shareholders evidenced by progressive shareholder rights policies (e.g., majority voting, declassifying boards, etc.) and reaction to shareholder proposals
- Company performance and steps taken to improve bad performance (e.g., new executives/directors, spin offs, etc.)
- Existence of anti-takeover protections or other entrenchment devices
- Opportunities for shareholder action (e.g., ability and threshold to call a special meeting)
- Existing ability for shareholders to act by written consent

Board Composition

Glass Lewis believes the selection and screening process for identifying suitably qualified candidates for a company's board of directors is one which requires the judgment of many factors, including the balance of skills and talents, the breadth of experience and diversity of candidates and existing board members. Diversity of skills, abilities and points of view can foster the development of a more creative, effective and dynamic board. In general, however, we do not believe that it is in the best interests of shareholders for firms to be beholden to arbitrary rules regarding its board, or committee, composition. We believe such matters should be left to a board's nominating committee, which is generally responsible for establishing and implementing policies regarding the composition of the board. Members of this committee may be held accountable through the director election process. However, we will consider supporting reasonable, well-crafted proposals to increase board diversity where there is evidence a board's lack of diversity lead to a decline in shareholder value.

Reimbursement of Solicitation Expenses

Where a dissident shareholder is seeking reimbursement for expenses incurred in waging a contest or submitting a shareholder proposal and has received the support of a majority of shareholders, Glass Lewis generally will recommend in favor of reimbursing the dissident for reasonable expenses. In those rare cases where a shareholder has put his or her own time and money into organizing a successful campaign to unseat a poorly performing director (or directors) or sought support for a shareholder proposal, we feel that the shareholder should be entitled to reimbursement of expenses by other shareholders, via the company. We believe that, in such cases, shareholders express their agreement by virtue of their majority vote for the dissident (or the shareholder proposal) and will share in the expected improvement in company performance.

Majority Vote for the Election of Directors

If a majority vote standard were implemented, shareholders could collectively vote to reject a director they believe will not pursue their best interests. We think that this minimal amount of protection for shareholders is reasonable and will not upset the corporate structure nor reduce the willingness of qualified shareholder-focused directors to serve in the future.

We believe that a majority vote standard will likely lead to more attentive directors. Further, occasional use of this power will likely prevent the election of directors with a record of ignoring shareholder interests. Glass Lewis will generally support shareholder proposals calling for the election of directors by a majority vote, except for use in contested director elections.

Cumulative Vote for the Election of Directors

Glass Lewis believes that cumulative voting generally acts as a safeguard for shareholders by ensuring that those who hold a significant minority of shares can elect a candidate of their choosing to the board. This allows the creation of boards that are responsive to the interests of all shareholders rather than just a small group of large holders. However, when a company has both majority voting and cumulative voting in place, there is a higher likelihood of one or more directors not being elected as a result of not receiving a majority vote. This is because shareholders exercising the right to cumulate their votes could unintentionally cause the failed election of one or more directors for whom shareholders do not cumulate votes.

Given the above, where a company (i) has adopted a true majority vote standard; (ii) has simultaneously proposed a management-initiated true majority vote standard; or (iii) is simultaneously the target of a true majority vote standard shareholder proposal, Glass Lewis will recommend voting against cumulative voting proposals due to the potential incompatibility of the two election methods.

For companies that have not adopted a true majority voting standard but have adopted some form of majority voting, Glass Lewis will also generally recommend voting against cumulative voting proposals if the company has not adopted antitakeover protections and has been responsive to shareholders.

Supermajority Vote Requirements

We believe that a simple majority is appropriate to approve all matters presented to shareholders, and will recommend that shareholders vote accordingly. Glass Lewis believes that supermajority vote requirements impede shareholder action on ballot items critical to shareholder interests. In a takeover context supermajority vote requirements can strongly limit the voice of shareholders in making decisions on crucial matters such as selling the business. These limitations in turn may degrade share value and can reduce the possibility of buyout premiums for shareholders. Moreover, we believe that a supermajority vote requirement can enable a small group of shareholders to overrule the will of the majority of shareholders.

Independent Chairman

Glass Lewis views an independent chairman as better able to oversee the executives and set a pro-shareholder agenda in the absence of the conflicts that a CEO, executive insider, or close company affiliate may face. Separating the roles of CEO and chairman may lead to a more proactive and effective board of directors. The presence of an independent chairman fosters the creation of a thoughtful and dynamic board, not dominated by the views of senior management. We believe that the separation of these two key roles eliminates the conflict of interest that inevitably occurs when a CEO, or other executive, is responsible for self-oversight. As such, we will typically support reasonably crafted shareholder proposals seeking the installation of an independent chairman at a target company. However, we will not support proposals that include overly prescriptive definitions of "independent."

ENVIRONMENT

There are significant financial, legal and reputational risks to companies resulting from poor environmental practices or negligent oversight thereof. We believe part of the board's role is to ensure that management conducts a complete risk analysis of company operations, including those that have environmental implications. Directors should monitor management's performance in mitigating environmental risks attendant with operations in order to eliminate or minimize the risks to the company and shareholders.

When management and the board have displayed disregard for environmental risks, have engaged in egregious or illegal conduct, or have failed to adequately respond to current or imminent environmental risks that threaten shareholder value, we believe shareholders should hold directors accountable. When a substantial environmental risk has been ignored or inadequately addressed, we may recommend voting against responsible members of the governance committee, or members of a committee specifically charged with sustainability oversight.

With respect to environmental risk, Glass Lewis believes companies should actively consider their exposure to:

Direct environmental risk: Companies should evaluate financial exposure to direct environmental risks associated with their operations. Examples of direct environmental risks are those associated with spills, contamination, hazardous leakages, explosions, or reduced water or air quality, among others. Further, firms should consider their exposure to environmental risks emanating from systemic change over which they may have only limited control, such as insurance companies affected by increased storm severity and frequency resulting from climate change.

Risk due to legislation/regulation: Companies should evaluate their exposure to shifts or potential shifts in environmental regulation that affect current and planned operations. Regulation should be carefully monitored in all jurisdictions within which the company operates. We look closely at relevant and proposed legislation and evaluate whether the company has responded appropriately.

Legal and reputational risk: Failure to take action on important issues may carry the risk of damaging negative publicity and potentially costly litigation. While the effect of high-profile campaigns on shareholder value may not be directly measurable, in general we believe it is prudent for firms to evaluate social and environmental risk as a necessary part in assessing overall portfolio risk.

If there is a clear showing that a company has inadequately addressed these risks, Glass Lewis may consider supporting appropriately crafted shareholder proposals requesting increased disclosure, board attention or, in limited circumstances, specific actions. In general, however, we believe that boards and management are in the best position to address these important issues, and will only rarely recommend that shareholders supplant their judgment regarding operations.

Climate Change and Green House Gas Emission Disclosure

Glass Lewis will consider recommending a vote in favor of a reasonably crafted proposal to disclose a company's climate change and/or greenhouse gas emission strategies when (i) a company has suffered financial impact from reputational damage, lawsuits and/or government investigations, (ii) there is a strong link between climate change and its resultant regulation and shareholder value at the firm, and/or (iii) the company has inadequately disclosed how it has addressed climate change risks. Further, we will typically recommend supporting proposals seeking disclosure of greenhouse gas emissions at companies operating in carbon- or energy- intensive industries, such basic materials, integrated oil and gas, iron and steel, transportation, utilities, and construction. We are not inclined, however, to support proposals seeking emissions reductions, or proposals seeking the implementation of prescriptive policies relating to climate change.

Sustainability Report

When evaluating requests that a firm produce a sustainability report, we will consider, among other things:

- The financial risk to the company from the firm's environmental practices and/or regulation;
- The relevant company's current level of disclosure;
- The level of sustainability information disclosed by the firm's peers;
- The industry in which the firm operates;
- The level and type of sustainability concerns/controversies at the relevant firm, if any;
- The time frame within which the relevant report is to be produced; and
- The level of flexibility granted to the board in the implementation of the proposal.

In general, we believe that firms operating in extractive industries should produce sustainability reports, and will recommend a vote for reasonably crafted proposals requesting that such a report be produced; however, as with all shareholder proposals, we will evaluate sustainability report requests on a case by case basis.

Oil Sands

The procedure required to extract usable crude from oil sands emits significantly more greenhouse gases than do conventional extraction methods. In addition, development of the oil sands has a deleterious effect on the local environment, such as Canada's boreal forests which sequester significant levels of carbon. We believe firms should strongly consider and evaluate exposure to financial, legal and reputational risks associated with investment in oil sands.

We believe firms should adequately disclose their involvement in the oil sands, including a discussion of exposure to sensitive political and environmental areas. Firms should broadly outline the scope of oil sands operations, describe the commercial methods for producing oil, and discuss the management of greenhouse gas emissions. However, we believe that detailed disclosure of investment assumptions could unintentionally reveal sensitive information regarding operations and business strategy, which would not serve shareholders' interest. We will review all proposals seeking increased disclosure of oil sands operations in the above context, but will typically not support proposals seeking cessation or curtailment of operations.

Sustainable Forestry

Sustainable forestry provides for the long-term sustainable management and use of trees and other non-timber forest products. Retaining the economic viability of forests is one of the tenets of sustainable forestry, along with encouraging more responsible corporate use of forests. Sustainable land use and the effective management of land are viewed by some shareholders as important in light of the impact of climate change. Forestry certification has emerged as a way that corporations can address prudent forest management. There are currently several primary certification schemes such as the Sustainable Forestry Initiative ("SFI") and the Forest Stewardship Council ("FSC").

There are nine main principles that comprise the SFI: (i) sustainable forestry; (ii) responsible practices; (iii) reforestation and productive capacity; (iv) forest health and productivity; (v) long-term forest and soil productivity; (vi) protection of water resources; (vii) protection of special sites and biodiversity; (viii) legal compliance; and (ix) continual improvement.

The FSC adheres to ten basic principles: (i) compliance with laws and FSC principles; (ii) tenure and use rights and responsibilities; (iii) indigenous peoples' rights; (iv) community relations and workers' rights; (v) benefits from the forest; (vi) environmental impact; (vii) management plan; (viii) monitoring and assessment; (ix) maintenance of high conservation value forests; and (x) plantations.

Shareholder proposals regarding sustainable forestry have typically requested that the firm comply with the above SFI or FSC principles as well as to assess the feasibility of phasing out the use of uncertified fiber and increasing the use of certified fiber. We will evaluate target firms' current mix of certified and uncertified paper and the firms' general approach to sustainable forestry practices, both absolutely and relative to its peers but will only support proposals of this nature when we believe that the proponent has clearly demonstrated that the implementation of this proposal is clearly linked to an increase in shareholder value.

SOCIAL ISSUES

Non-Discrimination Policies

Companies with records of poor labor relations may face lawsuits, efficiency-draining turnover, poor employee performance, and/or distracting, costly investigations. Moreover, as an increasing number of companies adopt inclusive EEO policies, companies without comprehensive policies may face damaging recruitment, reputational and legal risks. We believe that a pattern of making financial settlements as a result of lawsuits based on discrimination could indicate investor exposure to ongoing financial risk. Where there is clear evidence of employment practices resulting in negative economic exposure, Glass Lewis may support shareholder proposals addressing such risks.

MacBride Principles

To promote peace, justice and equality regarding employment in Northern Ireland, Dr. Sean MacBride, founder of Amnesty International and Nobel Peace laureate, proposed the following equal opportunity employment principles:

1. Increasing the representation of individuals from underrepresented religious groups in the workforce including managerial, supervisory, administrative, clerical and technical jobs;
2. Adequate security for the protection of minority employees both at the workplace and while traveling to and from work;
3. The banning of provocative religious or political emblems from the workplace;
4. All job openings should be publicly advertised and special recruitment efforts should be made to attract applicants from underrepresented religious groups;
5. Layoff, recall, and termination procedures should not, in practice, favor particular religious groupings;
6. The abolition of job reservations, apprenticeship restrictions, and differential employment criteria, which discriminate on the basis of religion or ethnic origin;
7. The development of training programs that will prepare substantial numbers of current minority employees for skilled jobs, including the expansion of existing programs and the creation of new programs to train, upgrade, and improve the skills of minority employees;
8. The establishment of procedures to assess, identify and actively recruit minority employees with potential for further advancement; and
9. The appointment of senior management staff member to oversee the company's affirmative action efforts and setting up of timetables to carry out affirmative action principles.

Proposals requesting the implementation of the above principles are typically proposed at firms that operate, or maintain subsidiaries that operate, in Northern Ireland. In each case, we will examine the company's current equal employment opportunity policy and the extent to which the company has been subject to protests, fines, or litigation regarding discrimination in the workplace, if any. Further, we will examine any evidence of the firm's specific record of labor concerns in Northern Ireland.

Human Rights

Glass Lewis believes explicit policies set out by companies' boards of directors on human rights provides shareholders with the means to evaluate whether the company has taken steps to mitigate risks from its human rights practices. As such, we believe that it is prudent for firms to actively evaluate risks to shareholder value stemming from global activities and human rights practices along entire supply chains. Findings and investigations of human rights abuses can inflict, at a minimum, reputational damage on targeted companies and have the potential to dramatically reduce shareholder value. This is particularly true for companies operating in emerging market countries in extractive industries and in politically unstable regions. As such, while we typically rely on the expertise of the board on these important policy issues, we recognize that, in some instances, shareholders could benefit from increased reporting or further codification of human rights policies.

Military and US Government Business Policies

Glass Lewis believes that disclosure to shareholders of information on key company endeavors is important. However, we generally do not support resolutions that call for shareholder approval of policy statements for or against government programs, most of which are subject to thorough review by the federal government and elected officials at the national level. We also do not support proposals favoring disclosure of information where similar disclosure is already mandated by law, unless circumstances exist that warrant the additional disclosure.

Foreign Government Business Policies

Where a corporation operates in a foreign country, Glass Lewis believes that the company and board should maintain sufficient controls to prevent illegal or egregious conduct with the potential to decrease shareholder value, examples of which include bribery, money laundering, severe environmental violations or proven human rights violations. We believe that shareholders should hold board members, and in particular members of the audit committee and CEO, accountable for these issues when they face reelection, as these concerns may subject the company to financial risk. In some instances, we will support appropriately crafted shareholder proposals specifically addressing concerns with the target firm's actions outside its home jurisdiction.

Health Care Reform Principles

Health care reform in the United States has long been a contentious political issue and Glass Lewis therefore believes firms must evaluate and mitigate the level of risk to which they may be exposed regarding potential changes in health care legislation. Over the last several years, Glass Lewis has reviewed multiple shareholder proposals requesting that boards adopt principles for comprehensive health reform, such as the following based upon principles reported by the Institute of Medicine:

- Health care coverage should be universal;
- Health care coverage should be continuous;
- Health care coverage should be affordable to individuals and families;
- The health insurance strategy should be affordable and sustainable for society; and
- Health insurance should enhance health and well-being by promoting access to high-quality care that is effective, efficient, safe, timely, patient-centered and equitable.

In general, Glass Lewis believes that individual corporate board rooms are not the appropriate forum in which to address evolving and contentious national policy issues. The adoption of a narrow set of principles could limit the board's ability to comply with new regulation or to appropriately and flexibly respond to health care issues as they arise. As such, barring a compelling reason to the contrary, we typically do not support the implementation of national health care reform principles at the company level.

Tobacco

Glass Lewis recognizes the contentious nature of the production, procurement, marketing and selling of tobacco products. We also recognize that tobacco companies are particularly susceptible to reputational and regulatory risk due to the nature of its operations. As such, we will consider supporting uniquely tailored and appropriately crafted shareholder proposals requesting increased information or the implementation of suitably broad policies at target firms on a case-by-case basis. However, we typically do not support proposals requesting that firms shift away from, or significantly alter, the legal production or marketing of core products.

Reporting Contributions and Political Spending

While corporate contributions to national political parties and committees controlled by federal officeholders are prohibited under federal law, corporations can legally donate to state and local candidates, organizations registered under 26 USC Sec. 527 of the Internal Revenue Code and state-level political committees. There is, however, no standardized manner in which companies must disclose this information. As such, shareholders often must search through numerous campaign finance reports and detailed tax documents to ascertain even limited information. Corporations also frequently use trade associations, which are not required to report funds they receive for or spend on political activity, as a means for corporate political action.

Further, in 2010 the Citizens United v. Federal Election Commission decision by the Supreme Court affirmed that corporations are entitled to the same free speech laws as individuals and that it is legal for a corporation to donate to political causes without monetary limit. While the decision did not remove bans on direct contributions to candidates, companies are now able to contribute indirectly, and substantially, to candidates through political organizations. Therefore, it appears companies will enjoy greater latitude in their political actions by this recent decision.

When evaluating whether a requested report would benefit shareholders, Glass Lewis seeks answers to the following three key questions:

- Is the Company's disclosure comprehensive and readily accessible?
- How does the Company's political expenditure policy and disclosure compare to its peers?
- What is the Company's current level of oversight?

Glass Lewis will consider supporting a proposal seeking increased disclosure of corporate political expenditure and contributions if the firm's current disclosure is insufficient, or if the firm's disclosure is significantly lacking compared to its peers. We will also consider voting for such proposals when there is evidence of inadequate board oversight. Given that political donations are strategic decisions intended to increase shareholder value and have the potential to negatively affect the company, we believe the board should either implement processes and procedures to ensure the proper use of the funds or closely evaluate the process and procedures used by management. We will also consider supporting such proposals when there is verification, or credible allegations, that the company is mismanaging corporate funds through political donations. If Glass Lewis discovers particularly egregious actions by the company, we will consider recommending voting against the governance committee members or other responsible directors.

Animal Welfare

Glass Lewis believes that it is prudent for management to assess potential exposure to regulatory, legal and reputational risks associated with all business practices, including those related to animal welfare. A high profile campaign launched against a company could result in shareholder action, a reduced customer base, protests and potentially costly litigation. However, in general, we believe that the board and management are in the best position to determine policies relating to the care and use of animals. As such, we will typically vote against proposals seeking to eliminate or limit board discretion regarding animal welfare unless there is a clear and documented link between the board's policies and the degradation of shareholder value.

Internet Censorship

Legal and ethical questions regarding the use and management of the Internet and the worldwide web have been present since access was first made available to the public almost twenty years ago. Prominent among these debates are the issues of privacy, censorship, freedom of expression and freedom of access. Glass Lewis believes that it is prudent for management to assess its potential exposure to risks relating to the internet management and censorship policies. As has been seen at other firms, perceived violation of user privacy or censorship of Internet access can lead to high-profile campaigns that could potentially result in decreased customer bases or potentially costly litigation. In general, however, we believe that management and boards are best equipped to deal with the evolving nature of this issue in various jurisdictions of operation.

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2011 PROXY SEASON
U.S. PROXY PAPER POLICY GUIDELINES

Summary of Significant Modifications/Clarifications

1. We clarified our policy regarding related party transactions involving charitable entities and their impact on director independence. We will generally take into consideration the size and nature of such charitable entities in relation to the company's size and industry along with any other relevant factors such as the director's role at the charity. **However, unlike for other types of related party transactions, Glass Lewis generally does not apply a look-back period to affiliated relationships involving charitable contributions; if the relationship ceases, we will consider the director to be independent.**

2. In regards to staggered boards, if the affiliates or insiders that we believe should not be on the board are not up for election, we will express our concern regarding those directors, but we will not recommend voting against the other affiliates or insiders who are up for election just to achieve two-thirds independence. **However, we will consider recommending voting against the directors subject to our concern at their next election if the concerning issue is not resolved.**

3. We clarified our policy regarding proportional board representation for large beneficial owners. Where more than one-third of members are affiliated or inside directors, we typically recommend voting against some of the inside and/or affiliated directors in order to satisfy the two-thirds independent threshold. **However, where a director serves on a board as a representative (as part of his or her basic responsibilities) of an investment firm with greater than 20% ownership, we will generally consider him/her to be affiliated but will not recommend voting against unless (i) the investment firm has disproportionate board representation or (ii) the director serves on the audit committee.**

4. We clarified our policy regarding director attendance. We typically recommend voting against a director who fails to attend a minimum of 75% of board and applicable committee meetings, **calculated in the aggregate**.

5. We modified our policy regarding excessive audit committee memberships. We recommend voting against any audit committee member who sits on more than three public company audit committees, unless the audit committee member is a retired CPA, CFO, controller or has similar experience, in which case the limit shall be four committees, taking time and availability into consideration including a review of the audit committee member's attendance at all board and committee meetings. However, **Glass Lewis may exempt certain audit committee members from the above threshold if, upon further analysis of relevant factors such as the director's experience, the size, industry-mix and location of the companies involved and the director's attendance at all the companies, we can reasonably determine that the audit committee member is likely not hindered by multiple audit committee commitments.**

GLASS LEWIS & Co.

6. We modified our policy regarding stock option repricings. We will recommend to vote against all members of the compensation committee when the company repriced options **or completed a "self tender offer" without shareholder approval within the past two years.**

7. In regards to board diversity: **Consistent with Glass Lewis' philosophy that boards should have diverse backgrounds and members with a breadth and depth of relevant experience, we believe that nominating and governance committees should consider diversity when making director nominations within the context of each specific company and its industry. In our view, shareholders are best served when boards make an effort to ensure a constituency that is not only reasonably diverse on the basis of age, race, gender and ethnicity, but also on the basis of geographic knowledge, industry experience and culture.**

8. We clarified our policy on interlocking directorships (when CEOs or other top executives serve on each other's boards). **We do not apply a look-back period for this situation. The interlock policy applies to both public and private companies. We will also evaluate multiple board interlocks among non-insiders (i.e. multiple directors serving on the same boards at other companies), for evidence of a pattern of poor oversight.**

9. We clarified our policy regarding proportional board representation for large beneficial owners. Where an individual or entity holds between 20-50% of a company's voting power, but the company is not "controlled" and there is not a "majority" owner, we will allow for proportional representation on the board **and committees (excluding the audit committee)** based on the individual or entity's percentage of ownership.

10. We enhanced our policies regarding companies that have recently completed an initial public offering in a section labeled **"Exceptions for Recent IPOs."**

11. We enhanced our policies regarding executive compensation and added a comprehensive section labeled **"Advisory Vote on Executive Compensation ("Say-on-Pay")."** The new section includes a detailed overview of the Glass Lewis approach to **Say-on-Pay Voting Recommendations; Short-Term Incentives; Long-Term Incentives; Pay for Performance; Recoupment ("Clawback") Provisions; Frequency of Say-on-Pay;** and **Vote on Golden Parachute Arrangements**.

12. We enhanced our policy with respect to shareholder proposals seeking greenhouse gas emissions disclosure at firms operating in carbon- or energy-intensive industries. **Glass Lewis is further inclined to support reasonable proposals seeking disclosure of greenhouse gas emissions at companies operating in carbon- or energy- intensive industries, such basic materials, integrated oil and gas, iron and steel, transportation, utilities, and construction. We are not, however, inclined to support proposals seeking emissions reductions or proposals seeking the implementation of prescriptive policies relating to climate change.**

Deal Watch

M&A Activity around the globe

February 1, 2011

Kresta (ASX:KRS) February 14, 2011 Kresta has called a special meeting requisitioned by Hunter Hall, the beneficial owner of approximately 19.7% of Kresta's issued shares, to elect two nominees to the board and remove two directors. The Dissident believes the Company is experiencing poor profitability and excessive share price declines and requires better management. The board states that the appointment of two nominees would give Hunter Hall majority representation on the board and effective control. Kresta is facing challenging times, including significant management turnover, financial restatements and inadequate board independence. Nevertheless, upon review, we do not believe that the Hunter Hall nominees would provide the necessary board oversight, nor would they address outstanding independence concerns. Further, we do not believe Hunter Hall deserves the right to control the Company absent a proper takeover. While we remain highly critical of the current board, in the absence of a more compelling case, we believe that the interests of shareholders are best protected by the preservation of the current board.

Del Monte (NYSE:DLM) February 15, 2011 Del Monte Foods Co. has agreed to be taken private in a $3.8 billion deal. In responding to an initial bid by a private equity firm, the board contacted other firms to solicit competing offers, but determined that the Company's best option was to continue to execute its long-range plan. We believe that the board acted in what it believed to be the best interests of shareholders, as opposed to quickly accepting a potentially low bid. However, when Del Monte's operating environment changed six months later, the board became more receptive to KKR's buyout offer. Financially, the $19.00 purchase price offers shareholders substantial premium and a higher value than Del Monte's previous all-time high stock price. Further, the implied multiples, both trailing and forward, compare favorably to the peer trading and precedent transactions.

Molopo Energy Limited (ASX:MPO) February 15, 2011 Molopo has called a meeting at the request of shareholders seeking to remove two directors and elect two new directors. The Dissidents have become frustrated with a perceived lack of direction and urgency demonstrated by management and believe Molopo's share price does not reflect the value of its assets, and that it has a track record of falling short of expectations. The board believes Molopo's existing strategy is appropriate and that its implementation of such strategy is proceeding well. In our analysis, we observed consistent underperformance and outstanding corporate governance concerns. We believe these issues warrant a change to the current board. The Dissidents appear to be long-term shareholders, and one of their nominees, Mr. Lewin, appears to be the most qualified to serve on Molopo's board, given his 34 years of experience with Royal Dutch Shell.

Upcoming M&A Activity

Avoca Resources
ASX:AVO
February 1, 2011

L-1 Identity Solutions, Inc.
NYSE:ID
February 3, 2011

A.D.A.M., Inc.
NASDAQ:ADAM
February 4, 2011

Uralkaliy OAO
MCX:URKA
February 4, 2011

Crucell NV
AMS:CRXL
February 8, 2011

Hochschild Mining
LON:HOC
February 8, 2011

Also Holding AG
SWF:ALSN
February 8, 2011

Stornoway Diamond
TSE:SWY
February 10, 2011

CPI International
NASDAQ:CPII
February 10, 2011

Cerro Resources
ASX:CJO
February 11, 2011

Avanquest Software
EPA:AVQ
February 11, 2011

SEI Investments
NASDAQ:SEIC
February 14, 2011

Zhongda International
HKG:0909
February 14, 2011

Sino-Ocean Land
HKG:3377
February 15, 2011

PROXY SEASON PREVIEW

2011

A GLOBAL LOOK AT THE UPCOMING PROXY SEASON

GLASS LEWIS & Co.

ASIA
EUROPE
LATIN AMERICA
NORTH AMERICA
EMERGING MARKETS

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United States

OVERVIEW

In July 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), effectively making proxy season 2011 in the U.S. a landmark season for governance initiatives and regulatory reforms. The Act focuses heavily on new regulations regarding executive compensation, especially with respect to increased shareholder input regarding compensation programs and policies. Below, we provide some highlights of the Dodd-Frank Act as well as some of Glass Lewis’ updated policies for the coming season.

SHAREHOLDER ACCESS

Shareholders have continuously sought a way to have a significant voice in director elections in recent years. While most of these efforts have centered on regulatory change at the SEC, Congress and the Obama Administration have successfully placed “Proxy Access” in the spotlight of the U.S. Government’s most recent corporate-governance-related financial reforms.

The Dodd-Frank Act provides the SEC with the authority to adopt rules permitting shareholders to use issuer proxy solicitation materials to nominate director candidates. The SEC received over 500 comments regarding its proposed proxy access rule, some of which questioned the agency’s authority to adopt such a rule. Nonetheless, in August 2010 the SEC adopted final Rule 14a-11, which under certain circumstances, gives shareholders (and shareholder groups) who have collectively held at least 3% of the voting power of a company’s securities continuously for at least three years, the right to nominate up to 25% of a boards’ directors and have such nominees included on the company’s ballot and described (in up to 500 words per nominee) in its proxy statement.

While final Rule 14a-11 was originally scheduled to take effect on November 15, 2010, on October 4, 2010, the SEC announced that it would delay the rule’s implementation following the filing of a lawsuit by the U.S. Chamber of Commerce and the Business Roundtable on September 29, 2010. As a result, it is unlikely shareholders will have the opportunity to vote on access proposals during the 2011 proxy season.

COMPENSATION REFORMS

Many of the key provisions of the Dodd-Frank Act relate to regulatory requirements surrounding executive compensation. Most notably, the Dodd-Frank Act requires the following:

- An advisory vote on executive compensation at the first annual or other shareholder meeting that occurs six-months after the date of enactment (“Say-on-Pay”);
- A separate shareholder vote on the frequency of future advisory votes on compensation to determine whether such votes will occur every one, two or three years (“Say-When-on-Pay”);
- A non-binding shareholder vote to approve golden parachute arrangements with any named executive officer in connection with any merger, acquisition, consolidation or certain asset sales

in which shareholders are asked to approve;

• Adoption of a recoupment policy providing for the clawback of any payments to current or former executive officers that were awarded as incentive-based compensation during a three-year look back period if the company is required to prepare an accounting restatement due to erroneous data due to a material non-compliance with any financial reporting requirements under the securities laws;

• Additional proxy disclosure related to pay-for-performance, internal pay equity, and hedging by executives and directors;

• A stricter standard for the independence of a listed company's compensation committees, which must be comprised solely of independent directors; and

• An independence standard for compensation consultants and other compensation committee advisors, considering, among other things, the amount of fees received from the issuer by such advisor, as a percentage of the total revenue of the consultant or advisor.

How Compensation Regulatory Reforms Impact Glass Lewis' Proxy Voting Analysis

Say-on-Pay

Given the complexity of most companies' compensation programs, Glass Lewis applies a highly nuanced approach when analyzing advisory votes on executive compensation. We review each company's compensation on a case-by-case basis, recognizing that each company must be examined in the context of industry, size, maturity, performance, financial condition, its historic pay for performance practices, and any other relevant internal or external factors.

Where we find those specific policies and practices serve to reasonably align compensation with performance, and such practices are adequately disclosed, Glass Lewis will recommend supporting the company's approach. If, however, those specific policies and practices fail to demonstrably link compensation with performance, Glass Lewis will generally recommend voting against the say-on-pay proposal.

Glass Lewis focuses on four main areas when reviewing say-on-pay proposals:

- The overall design and structure of the executive compensation program including performance metrics;
- The quality and content of disclosure;
- The amount paid to executives; and
- The link between compensation and performance as indicated by the Company's current and past pay-for-performance grades

We also review any significant changes or modifications, and rationale for such changes, made to the compensation structure or award amounts, including base salaries.

In cases where we find deficiencies in a company's compensation program's design, implementation or management, we will recommend that shareholders vote against the say-on-pay proposal. Generally such instances include evidence of a pattern of poor pay for performance practices (i.e., deficient or failing pay-for-performance grades), unclear or questionable disclosure regarding the overall compensation structure (e.g., limited information regarding benchmarking processes, limited rationale for bonus performance metrics and targets, etc.), questionable adjustments to certain aspects of the overall compensation structure (e.g., limited rationale for significant changes to performance targets or metrics, the payout of guaranteed bonuses or sizable retention grants, etc.), and/or other egregious compensation practices.

Say-When-on-Pay

We believe companies should submit say-on-pay votes to shareholders every year. We believe that the time and financial burdens to a company with regard to an annual vote are relatively small and incremental and are outweighed by the benefits to shareholders through more frequent accountability. Implementing biannual or triennial votes on executive compensation limits shareholders' ability to hold the board accountable for its compensation practices through means other than voting against the compensation committee. Unless a company provides a compelling rationale or unique circumstances for say-on-pay votes less frequent than annually, we will generally recommend that shareholders support annual votes on compensation.

ENVIRONMENTAL AND SOCIAL UPDATES

Glass Lewis expects a similar number and distribution of shareholder proposals relating to governance issues as we saw in 2010. A few exceptions include: an expected increase in the number of proposals regarding CEO succession planning; (ii) an expected increase in proposals regarding risk management; and (iii) a potential increase in proposals regarding board composition.

Regarding compensation, the 2011 proxy season will likely see a marked decrease, if not an altogether cessation, of shareholder proposals relating to say-on-pay following the mandatory inclusion of such proposals at the vast majority of US publicly traded companies. We expect to analyze a significant number of proposals regarding restricting executive compensation, in addition to a number of proposals regarding share retention by executives.

As for environmental issues, we expect an up tick in the number of proposals relating to hydraulic fracturing and natural gas development, due to the recent high-profile political and media attention surrounding the issue and the relatively high level of support seen at 2010 annual meetings. In addition we expect to weigh in on a number of proposals regarding the financial risks of coal. Further, we anticipate a number of proposals relating to climate change, particularly given the release of the SEC's January 27, 2010 interpretive guidance designed to encourage disclosure of climate change-related risk at publicly traded companies in the United States.

Regarding social issues, we believe that proposals relating to political accountability will continue to feature prominently in 2011, as these proposals received record support in 2010.

Canada

REVISED BOARD INDEPENDENCE POLICY FOR ELECTION OF DIRECTORS

Glass Lewis policy has historically required companies listed on the Toronto Stock Exchange ("TSX") to maintain a majority independent board. However, based on the policies of many institutional shareholders and the desire to further improve board structure and governance, we have increased our board independence requirement to two-thirds. Given that many TSX-listed companies already comply with this requirement, we do not expect the number of withhold recommendations for this reason to increase substantially. It should be noted that our requirement for companies listed on the TSX Venture Exchange – two independent directors comprising not less than one-third of the total board – has not changed.

Slate elections remain prevalent among TSX-listed companies, with 40% of all TSX firms covered by Glass Lewis in 2010 employing this methodology. Over the past two years, our policy for evaluating slate elections has become increasingly stricter. In 2009 we interpreted the use of slate elections as a tipping point in formulating our recommendations and overall perception of a board's approach to corporate governance. In 2010 we tightened our policy on slate elections, recommending that shareholders withhold votes from slates with significant issues related to board structure and/or composition, unless the concerns are related to an excessive number of total directorships and/or failing to attend a sufficient number of board and/or committee meetings.

It should be noted that the number of slates opposed by Glass Lewis increased from 20% to 58% between 2009 and 2010. While we expect the number of slates opposed in 2011 to remain consistent, we also anticipate that more issuers will adopt individual elections in an effort to comply with best practices in Canada.

COMPENSATION ISSUES

Say-on-Pay gained significant traction in 2010 following a number of shareholder proposals on the subject in 2009. For 2011, over 43 companies have confirmed their intention to provide shareholders with a non-binding vote on executive compensation policies and practices. Whereas Glass Lewis evaluated a substantial number of shareholder proposals in 2009 requesting the adoption of Say-on-Pay, only three shareholder proposals on the matter went to vote during 2010, reflecting issuers' willingness to comply with emerging best practices, as well as pressure applied by institutional investors to protect the rights of shareholders. We expect this trend to continue in 2011.

PROXY PAPER FEATURES

Starting in early 2011, the board table will be updated to include a listing of all directorships held by board members. We have also updated our analysis of the election of directors to include a biography for any director appointed since the last annual meeting for issuers listed on the S&P TSX/Composite Index. Further, page two of each Proxy Paper now includes a list of the top 20 institutional shareholders and their respective ownership as a percentage of issued share capital.

In 2010, we expanded our compensation analysis to provide coverage of approximately 400 Canadian companies. This extended coverage will continue for the 2011 proxy season. We will also continue to provide our clients with a thorough qualitative analysis of executive compensation policies and practices for the TSX-60, with updated analysis on any notable changes or issues. Our analysis will continue to provide insight on the clarity and comprehensiveness of an issuer's disclosure, as well as the structure and quantum amounts of pay received and/or awarded relative to peers.

SEASON PRECURSOR

Each year the major Canadian banks hold their respective annual meetings in February and March. The large institutional shareholder base at each of these banks, combined with the global focus on financial institutions, results in a substantial number of shareholder proposals at these companies' annual meetings. The frequency and intentions of these shareholder proposals typically serves as a precursor to shareholder activism during the subsequent proxy season.

There are currently indications that shareholder proposals will be put forth requesting reports on the costs associated with free, prior and informed consent from aboriginal peoples potentially affected by clients operating in the oil & gas industry. Given the willingness of many large issuers' to adopt say-on-pay in 2010, we expect that the majority of the shareholder proposals will address more environmental and social-related issues in 2011.

POTENTIAL REGULATORY DEVELOPMENTS

In July 2010, the Canadian Securities Transition Office released a transition plan for creating a single national securities regulator, the Canadian Securities Regulatory Authority ("CSRA"), which would replace the current territory-based regulatory bodies. To date, ten provinces and territories have opted in, with Alberta and Québec actively opposing the plan and Manitoba remaining noncommittal. If the proposed CSRA receives all the necessary approvals, it is expected to begin operating in July 1, 2012.

In November 2010, the CSA released proposed amendments to form 51-102F6 regarding executive compensation disclosure requirements, which will remain open for comment until February 17, 2011. The CSA states that these amendments have been recommended in response to the Dodd-Frank Wall Street Reform and Consumer Protection Act that was recently passed in the United States. Some of the proposed amendments include: (i) a requirement to explicitly state if and why a company is relying on an exemption from the requirement to disclose performance goals or similar conditions on the basis that the disclosure would "seriously prejudice the interests of the company"; and (ii) clarification that a company may not alter the presentation of the summary compensation table by adding columns or other information. It is intended that these amendments will be in effect for the 2012 proxy season, and will require companies to comply for financial years ending on or after October 31, 2011.

Europe

OVERVIEW

In Europe, the 2010 proxy season was defined by a momentous shift in governance practices that had the effect of empowering institutional and minority shareholders, addressing deficiencies in risk management and restraining reckless executive compensation practices. Say on pay was introduced in Germany and Portugal for the first time, while an increased number of Spanish and Swiss companies voluntarily provided shareholders with a say on pay vote. In the UK and Ireland in 2010, shareholders were kept busy commenting on new corporate governance codes and a trailblazing stewardship code for investors that have reshaped best practice in those markets. Shareholders in Austrian, Finnish and Eastern European companies found themselves suddenly provided with more and earlier information needed to make informed voting decisions at annual meetings. Shareblocking was eliminated wholesale in some countries, while being phased out in others. Across the continent, minority, institutional and foreign investors wielded increasing clout to effect unprecedented victories in governance reform at troubled companies, or short of outright victory, to at least catch the attention of more than a few boards.

The experiences of the 2010 proxy season are indicative of what shareholders should expect for the 2011 season for a number of reasons. First, ongoing legal and corporate governance reforms at the EU level will continue to produce notable change across the continent. For example, shareholders' experience in Austria with earlier access to better information will be replicated in France, Greece, Italy, Portugal and Scandinavian countries, among others. Second, as regulatory authorities continue to debate appropriate responses to the global financial crisis, they will continue to focus reform efforts on compensation practices, risk management and board-level oversight. In 2010, many companies independently attempted to assuage shareholder anger over executive compensation ahead of say on pay votes, whereas in 2011, new binding rules and concrete recommendations will cause even more companies to sharply reform bonus and long-term incentive plans to promote better risk management. Lastly, while the EU has certainly instituted far-reaching governance reforms in recent years, it appears to have accelerated efforts to unify the reform process in EU member states leading into the 2011 proxy season. Since Michael Barnier took over as commissioner for internal markets at the European Commission in February 2010, he has initiated five public consultations on corporate governance practices, and more are sure to follow.

In summary, we do not expect the 2011 proxy season to be a repeat of the 2010 season. Rather, we believe the same underlying issues that most affected shareholders in 2010 will continue to drive substantial change in 2011. Below are a summary of a few themes that will affect Europe as a whole in 2011, followed by a country-by-country breakdown of some key developments that shareholders should be aware of in 2011, and finally a summary of planned changes to the Glass Lewis Proxy Paper.

EUROPE-WIDE DEVELOPMENTS

Focus on Remuneration Issues

In response to the global financial crisis, the European Union has advanced numerous initiatives to address the issue of flawed remuneration practices, which have generally been viewed as a contributing factor to the significant losses suffered by many financial institutions. In Europe, stringent rules on remuneration policies in the banking sector were introduced with the adoption of a regulation amending Directive 2006/48/EC ("Capital Requirements Directive"). The new rules, which were approved by the EU Parliament in July 2010 and by the EU Council in October 2010, impose a binding obligation on credit institutions and investment firms to abide by remuneration practices that are deemed consistent with sound and effective risk management.

Guidelines aimed at assisting companies in the implementation of the principles outlined in the amended Capital Requirements Directive were released by the Committee of European Banking Supervisors ("CEBS") in December 2010 and are effective as of January 1, 2011. Key provisions of the new regulation with respect to variable remuneration paid to executives include the following requirements: (i) minimum **deferral period of three to five years**; (ii) minimum of **40% to 60% of variable pay subject to deferral**; and (iii) minimum of **50% of variable pay to be paid in equity or equity-linked instruments**. Financial institutions are required to apply many of the new rules across the entire organization, while for certain provisions, the implementation will be limited to those categories of staff that have a material impact on the company's risk profile ("identified staff"). The size and the internal organization of an entity, as well as the nature, scope and complexity of its activities are recognized as mitigating factors and can lead to the "neutralization" of some of the principles set in the regulation either at the institution or at the identified staff level. As a result of these requirements, we expect to see some dramatic changes to the pay practices at financial institutions in all EU member states.

Though the abovementioned requirements apply only to financial institutions, companies in other industries have not been ignored. A non-legislative resolution on remuneration of directors of listed companies and remuneration policies in the financial sector was also approved by the EU Parliament in July 2010. In addition to recommending balanced remuneration packages with variable pay strictly tied to both quantitative and quality-linked performance criteria, the resolution recommends that shareholders should be given the opportunity to express their views through a **non-binding vote on the company's remuneration report**. Moreover, the resolution suggests, among other things, extending the provisions on the minimum deferral period and the minimum portion of variable remuneration subject to deferral to all listed companies.

Implementation of the Shareholder Rights Directive

During the 2011 proxy season, barriers to proxy voting will continue to fall as a result of increased compliance with the legally binding Directive 2007/36/EC of the European Parliament and of the Council of July 11, 2007 ("Shareholders Rights Directive," or "Directive"). As of late 2010, nearly all EU members were finally set to be fully compliant with the directive before the 2011 proxy season, though the Directive was originally due to be implemented by August 3, 2009. We have been touting the expected benefits of the Directive for well over a year now, but we expect 2011 to be the first year in which shareholders finally experience broad consistency in its application across European markets.

As of March 2010, the following EU members had verified compliance with the Directive, with at least some provisions taking effect in time for the 2010 proxy season: **Austria**, **Bulgaria**, the **Czech Republic**, **Denmark**, **Estonia**, **Finland**, **Germany**, **Hungary**, **Ireland**, **Latvia**, **Lithuania**, **Malta**, **Poland**, **Romania**, **Slovakia**, **Slovenia** and the **UK**. While shareholders already noticed many improvements in these markets in 2010, some key legal revisions included grace periods that allowed companies to delay compliance until after the 2010 proxy season in a number of markets. Additionally, some companies struggled to comply with sometimes drastically increased notice periods, disclosure requirements, or improvements to the proxy voting process in 2010. As grace periods expire and companies iron out the details of compliance with new regulations, shareholders should see improvements even in some markets, particularly **Denmark** and **Eastern European** markets, where the Directive was transposed into national law before the 2010 proxy season.

A second group of countries has since wholly or partially implemented the Directive with legal changes to take effect for the 2011 proxy season, including: **Belgium**, **Cyprus**, **France**, **Greece**, **Italy**, the **Netherlands**, **Portugal** and **Sweden**. As of October 2010, the European Commission had not received confirmation of total compliance from **Belgium**, **France**, **Luxembourg**, **Spain** or **Sweden**. Even some non-EU members, including **Norway** and **Croatia**, have harmonized their laws with the Directive at this point. Among the markets covered by this preview, **Russia**, **Serbia** and **Switzerland**, which are not members of the EU, have *not* implemented the Directive.

What does this mean for shareholders in the affected markets? In 2011, shareholders should notice more universal basic standards across Europe aimed at engaging and protecting the interests of institutional and minority shareholders, including:

1. *Availability of Meeting Materials Online at least 21 Days before an Annual Meeting:* In some markets, such as **Germany**, all necessary documents are required to be made available much earlier. In others, such as **Bulgaria**, **Greece** and **Poland**, details of some proposals will occasionally not be made available on company websites prior to the meeting. However, as a general standard, shareholders can finally expect access to all information relevant to voting decisions at least 21 days before an annual meeting at the click of a mouse across Europe. In a number of markets, notably the **UK** and **Norway**, meeting materials may be available only 14 days before an extraordinary general meeting if shareholders have approved the shorter notice period.

2. *Elimination of Shareblocking/Setting a Record Date:* Countries in full compliance with the Directive have now established record date systems and no longer allow shareblocking. This will be a major change for the 2011 proxy season in **Italy**, **Greece**, the **Netherlands** and **Portugal**. In **Austria**, **Belgium** and **Norway**, blocking may still be applied in practice under limited circumstances and shareholders should continue to verify whether their shares could potentially be blocked for each meeting. In **Luxembourg** and **Switzerland**, shareblocking will continue to be a concern in 2011.

3. *Fewer Restrictions on Appointing a Proxy:* Where relevant laws have already taken effect, in 2011, shareholders will be able to appoint their choice of a third party proxy, ending the days of submitting proxy voting instructions to a company designee. Additionally, with few exceptions, companies are required to accept the appointment or revocation of a proxy agent by electronic means. Overall, voting by proxy has been firmly cemented as a fundamental shareholder right into EU member states' laws.

4. *Electronic Voting and Remote Meeting Participation:* While companies are not legally required to offer the opportunity to vote or to actually participate in meetings electronically, there will not be any legal barriers to doing so. In markets where the Directive was implemented in 2010, many companies amended their articles of association to allow for the future possibility of electronic voting and remote participation—in 2011, we will see how many companies actually intend to use this newfound flexibility. We expect that a number of companies with broad international shareholder bases will begin offering these electronic services, especially if investors make a point of requesting them well in advance of the annual meeting.

5. *Ownership Threshold for Submitting Shareholder Proposals set at no Higher than 5% of Issued Share Capital:* Shareholders who collectively represent at least 5% of a Company's issued share capital may request that additional items be placed on the agenda within a specified timeframe. In some markets, such as the **Netherlands** and **Italy**, lower ownership thresholds are already set

by law. Additionally, companies may set lower thresholds in their articles of association in most markets. However, in other markets, the 5% ownership threshold represents an improvement over current or recently nullified provisions.

6. *Availability of Voting Results:* The voting results from general meetings, with actual numbers or percentages of votes cast, will be made available online within 15 days of a meeting. In some cases, more detailed results may only be available if requested by a shareholder, but there will always be some form of results easily accessible. For the 2011 proxy season, this will represent a major improvement in **Nordic markets**, where voting results have typically not been publicly disclosed, and in **Eastern Europe**, where availability of results has been inconsistent to date.

Investor and Stakeholder Engagement

As mentioned above, the European Commission ("EC") has produced an abundance of public consultations on corporate governance-related issues, with the ultimate goal of involving shareholders and other stakeholders in an accelerated reform process. The recently concluded consultation on corporate governance in financial institutions, the most comprehensive of the consultations, produced some results that should be of particular interest to shareholders. The EC's Green Paper prepared for the consultation tackled a variety of difficult topics, including:

• Inadequate board oversight of risk-taking executives, possibly as a result of directors' insufficient time, a lack of diversity on boards, inadequate review of individual directors' work, and poor understanding of companies' risk exposure

• Shareholders' sometimes short-term view of their investments, which can cause them to push for excessive risk for quick returns in contradiction to the interests of other stakeholders

• Inadequate shareholder participation in governance, caused by the costs of participating in the governance process, lack of effective shareholder rights, and barriers to cross-border voting

• Auditors' reluctance to challenge companies' financial reporting, which could endanger their primary revenue sources or have wide-ranging repercussions in financial markets

The Green Paper proposed an extensive list of potential reforms to address these issues, which were then posed to the public. When the responses were tallied, the EC found the following themes, which will be incorporated into developing recommendations and regulations:

•Respondents generally favor more regulatory oversight of corporate governance practices, in addition to more regulatory response to corporate governance failures

• Respondents largely believe that governance reform should be "principle-based and proportionate," allowing for a nuanced approach based on a variety of factors

• Respondents cited the need for the EC to broadly oversee implementation of better transparency initiatives and supervision of comply-or-explain principles at the national level

As a result of the consultation, we expect new regulations or recommendations to be formed at the EU level in 2011 that further improve transparency, engage shareholders and other stakeholders, and emphasize the importance of extensive, nuanced comply-or-explain principles that should be applied to all listed firms, and particularly financial institutions. Based on the results of the consultation, some particular topics of focus for the EC will likely be reducing overboarding, increasing board diversity, improving board and auditor oversight of risk and financial reporting, the development of stewardship codes for investors, and improving corporate engagement with a broad range of stakeholders.

While regulatory authorities begin debating the Europe-wide responses to the aforementioned issues, some countries have already begun to address these issues on a national level. On the issue of board diversity, for example, **France**, **Germany**, **Poland** and **Sweden** have recently implemented some form of a concrete recommendation for female representation on boards. **Norway** legally requires a minimum level of female board representation and **France** and the **Netherlands** are contemplating similar legislative approaches. Although Glass Lewis applauds initiatives to increase board diversity, we do not expect that shareholders will be able to define measurable standards that are broadly applicable across Europe in 2011. Nevertheless, we expect boards, particularly in the markets listed above, to gradually begin the process of including more women, international representatives, and minorities in the boardroom in anticipation of required or recommended changes at the EU level.

While board diversity initiatives have been developing in Europe for some time, the idea of creating investor stewardship codes is decidedly more novel, though rather popular according to the results of the consultation. The **UK** clearly leads the way with a new Stewardship Code, which was released by the Financial Reporting Council in July 2010. The Stewardship Code, which includes seven principles encouraging investors to take an active role and disclose their policies for engaging with investees, is intended to stand alongside the revised UK Corporate Governance Code for issuers. While the Stewardship Code is non-binding, we consider it a useful framework for investors to improve their engagement and disclosure, as well as monitor the companies in which they invest. The idea of the Stewardship Code has proved quite popular among member states in the EU, and we expect other countries to follow the UK's lead in 2011.

COUNTRY-BY-COUNTRY DEVELOPMENTS

Below, we have provided a country-by-country snapshot of significant internal developments. Where the changes expected in a market align with the issues discussed above and are not particularly groundbreaking, we have not provided a separate commentary on them.

Belgium

Future Belgian corporate governance practices will undoubtedly be deeply impacted by the passage, in April 2010, of the Law on the Reinforcement of Corporate Governance in Listed Companies (the "Law"). Pursuant to the Law, Belgian companies must now publish a corporate governance declaration, in which they present their compliance with the provisions of the applicable corporate governance code, a description of their internal control and risk management systems, their major shareholders, and the composition and functioning of the board of directors and its committees. A royal order in June 2010 imposed the Belgian Code on Corporate Governance Code, last updated in March 2009, as the reference code for all listed companies. As a result, it is likely Belgian companies will provide better disclosure of their corporate governance practices in the coming year.

The aforementioned Law also creates a number of significant requirements for the fiscal years starting after its publication. Most notably, companies will be required to establish a remuneration committee and publish a remuneration report, which will need to be approved by shareholders at the annual general meeting. Shareholders will also have to approve any severance agreement exceeding 12 months of an executive's salary, or 18 months if the remuneration committee provided a reasoned opinion on the deal. While, for the vast majority of companies, these noteworthy provisions increasing executive compensation disclosure and oversight will only become mandatory for the 2012 proxy season, we expect that a number of companies will begin implementing them this year on a voluntary basis.

Denmark

Shareholders and companies alike will benefit as the new Danish Companies Act comes fully into effect. Companies will be given the option to choose from among three different governance structures under the new law, providing more flexibility in establishing appropriate oversight mechanisms. Shareholders will benefit from the notice period for general meetings, which has been increased from 8 days to 21 days prior to the meeting date. Voting results, which previously only indicated whether a proposal was approved, will also be disclosed in significantly more detail.

The Danish Recommendations on Corporate Governance have been updated in light of the new Companies Act. The new recommendations focus on improving the dialogue between stakeholders and the management of the company and an increase in transparency both in terms of corporate governance structure and remuneration schemes. We expect that these changes to both the Companies Act and the Recommendations will improve the benchmark for good disclosure in Denmark, which has historically suffered from inconsistent disclosure practices among listed companies.

France

As is typically the case in France, the 2011 proxy season will undoubtedly feature a large number of proposals related to capital issues, executive severance pay and retirement benefits, and director elections, which usually come up annually due to the common practice of staggering boards. We may also encounter follow-ups to some of the main shareholder proposals from 2010, such as Guy Wyser-Pratte's unsuccessful efforts to alter Lagardère's structure as an SCA and gain a seat on the Company's supervisory board, or Phytrust Active Investors' attempt to include the disassociation of the positions of chairman and CEO on the meeting agenda. Shareholders should also keep an eye on Renault's 2011 annual meeting, which could include a shareholder proposal submitted by the Proxy Active Investors SICAV, requiring disclosure of the compensation paid to Renault's executives by Nissan Motor.

In addition to the above, it is important to note several legal developments over the past year that are certain to have tangible repercussions for the coming season. On June 23, 2010, the French government issued a decree that partially implemented EU Directive 2007/26/EC on the rights of shareholders of listed companies. Most notably, French companies are now required to have a website on which they must disclose, during the 21 days preceding the meeting (or 15 days in the case of a public offer): (i) the notice of meeting, (ii) the total number of shares and voting rights comprising their share capital, (iii) the documents to be presented at the meeting, (iv) proxy voting materials, and (v) the text of any draft proposal submitted by shareholders. In the past, electronic disclosure of meeting materials was not always timely or complete; for instance, during the 2010 proxy season, Glass Lewis recommended that shareholders "abstain" from voting on nearly 20% of proposals to approve the annual accounts due to untimely or poor disclosure. As a result of the new legislation, we expect to issue fewer "abstain" recommendations.

Another important legal development is the pending legislation to impose quotas for female representation on the boards of French companies. Pursuant to the proposed text, 20% of a company's directors would have to be women within three years of the law's adoption, and 40% within 6 years. While the law is expected to be adopted imminently, the AFEP-MEDEF incorporated these quotas into its corporate governance code last April. Consequently, we anticipate a significant increase in the number of female nominees during the 2011 season.

Germany

As the central focus of the 2010 proxy season, we expect that executive compensation will again be a leading issue for shareholders in 2011, as firms attempt to comply with amendments to the German Stock Corporations Act passed in 2009. In 2010, many German companies presented their compensation policies to shareholders for a consultative vote, a number of whom concurrently announced that shareholders would be asked to approve revised policies at 2011 annual meetings. We anticipate particular scrutiny to be focused on HeidelbergCement AG, whose plan was rejected by shareholders in 2010, and Deutsche Bank AG, whose policy was approved but with widespread shareholder discontent. In addition to remuneration issues, lingering effects of the financial crisis will likely be on display during the 2011 season. Most notably, Commerzbank AG has expressed its desire to reduce and end the German government's participation as soon as such steps are feasible.

Reflecting pressure from the German government, the German Corporate Governance Code ("Code") was amended in 2010 to include the recommendation that supervisory boards set "concrete goals" for promoting diversity in leadership positions. The Code instructs companies to direct particular attention to achieving an "appropriate" level of female representation in upper management and on supervisory boards. Deutsche Telekom AG has become the first DAX30 company to voluntarily introduce a gender quota, requiring that women occupy at least 30% of management positions by the end of 2015.

Greece

Greece's recent implementation of the Shareholder Rights' Directive, as well as the draft of its first "comply or explain" corporate governance code, should produce a demonstrable change in company policy and disclosure for the 2011 proxy season. As a result of this progressive overhaul of the Greek company law and governance system, we expect to see more comprehensive and timely disclosure policies and additional measures which will facilitate shareholder participation. Furthermore, extensive guidance regarding remuneration policies, board committees, and independence criteria has been provided in the Greek draft code on corporate governance. We find the amendments to the Greek law and governance recommendations to be a positive step in transforming Greek company policy; however, we recognize that many of these changes will have a more gradual impact in practice.

For more details on governance reforms in Greece, please see the December 2010 issue of the Glass Lewis World Governance Focus newsletter.

Hungary

No noteworthy developments occurred in the sphere of Hungarian corporate governance over the course of 2010 beyond those discussed above. Even so, in 2011, shareholders should keep an eye on the general meetings of two Hungarian companies that have had ongoing governance struggles.

Mol Hungarian Oil and Gas (MOL) has been mired in controversy after consistently barring one of its major shareholders, Russia's Surgutneftegaz (21.2%), from exercising its ownership rights, based on fears of an increased Russian influence in the country. Most recently, the Hungarian government has announced its potential interest in purchasing the stake currently held by Surgutneftegaz, which, if realized, would effectively bring an end to the conflict. To date, however, the two sides have not been able to reach an agreement.

On November 11, 2010, Magyar Telekom, the leading Hungarian telecommunications service provider, delisted its ADRs from the New York Stock Exchange, citing excessive complexity in financial reporting and administrative costs. The move comes amid investigations into what the company has called "immaterial" misstatements in its filings relating to its operations in several neighboring countries – since the revelations of potential misconduct two years ago, authorities in Montenegro, Macedonia, Hungary and the United States have all launched investigations into the matter. Though investigators in Hungary and Montenegro have concluded that there are no grounds to bring charges against the company, the investigation relating to the company's operations in Macedonia is still in progress.

Ireland

After a difficult year in 2010, Ireland's economy faces an uphill battle in 2011. An €85 billion bail-out by the International Monetary Fund and EU in late November has so far failed to quell investor concern that bank overexposure to other troubled EU states (e.g., Portugal, Greece and Spain) will necessitate additional capital in the event that these economies further crumble. Irish banks are among the leading lenders to Portugal, Greece and Spain, despite the fact that its own economy is the 15th largest. Shareholders will have plenty of time between now and the mid-year meetings of Bank of Ireland, Allied Irish Banks and Irish Life & Permanent to determine whether the existing board has done enough to strengthen risk management and internal controls to weather any further economic downturn.

Following the June 2010 publication of the UK Corporate Governance Code, the Irish Stock Exchange ("ISE") began consultation on a separate corporate governance code for ISE-listed companies. A final version of the draft released in July was originally expected to come into effect in late 2010; however, due to substantial negative feedback from respondents, the ISE announced in September that it would not introduce an Irish-specific code.

The ISE did, however, introduce the Irish Corporate Governance Annex, which addresses recommendations made by the ISE and the Irish Association of Investment Managers and will operate on a similar comply-or-explain basis as that of the UK Code. The Annex addresses issues relating to board composition, appointments, evaluations, re-election and board committees, and is intended to encourage issuers to provide explanations that more clearly reflect the environment in which they operate rather than replicating the wording of the UK Code. This, in turn, should provide shareholders with greater insight into the listed companies in which they invest.

In November the Irish Central Bank ("ICB") published the Corporate Governance Code for Credit Institutions and Insurance Firms. It sets out minimum standards for existing boards and directors with effect from January 1, 2011, though issuers will have until December 31, 2011 to comply with certain requirements. The code will not operate on a comply-or-explain basis; rather, failure to comply may result in supervisory or disciplinary action by the ICB including the refusal to appoint directors or to suspend, remove or prohibit directors under authority granted by the Central Bank Reform Act 2010.

The bail-out of the Irish economy by the IMF and EU has significantly increased scrutiny of executive remuneration practices at Irish companies. The Irish Central Bank recently released a review of remuneration policies and practices in retail banks and building societies, which concluded that: (i) there is still a poor link between risk management and incentive pay; (ii) governance and oversight of remuneration practices is poor; (iii) overall disclosure of remuneration procedures is poor; and (iv) implementation of European requirements and guidance on remuneration, effective January 1, 2011, appears to be behind schedule for many issuers. Given the already highly publicized problems of Allied Irish Banks, which recently came under fire for attempting to make €40 million in bonus payments in spite of taking €3.5 billion in state support, we expect that scrutiny of financial institutions will remain strong in 2011.

Italy

Recent changes made to Italy's Consolidated Law on Finance and the Civil Code, the majority of which apply to all general shareholders' meetings called after October 31, 2010, will redefine minority shareholders' role in the notoriously short and chaotic Italian proxy season. Most notably, requirements involving the timeframe for filing and disclosure of information have been amended and will result in earlier disclosure of relevant documents. For example, explanatory statements for all the agenda items for a general meeting must now be published along with the notice of meeting at least 30 calendar days prior to the meeting date. Additional deadlines may apply depending on the agenda items put forward for shareholder approval. Furthermore, annual reports and financial statements, including the independent auditor's report, and lists of candidates for the board, must be made available at least 21 calendar days before the date of the shareholders' meeting. In addition to the improved disclosure requirements, provisions involving record date, electronic voting, shareholder identification, dividend distribution, and shareholders' rights have been introduced or modified. Overall, these legislative changes implement the Shareholders' Rights Directive and represent a concerted effort to improve disclosure, increase transparency, modernize the voting process, and enhance minority shareholders' rights in Italy. As the majority of these requirements have already taken effect, these changes should facilitate shareholders' informed participation in the 2011 proxy season.

For more details on governance reforms in Italy, please see the October 2010 issue of the Glass Lewis World Governance Focus newsletter.

Netherlands

Three bills are currently under discussion in the Dutch parliament, which, if passed in their current form, could have a significant effect on the governance of Dutch companies.

Bill on Management and Supervision – This bill will introduce a statutory basis for a one-tier board structure. Previously, such a structure was neither explicitly prohibited nor provided for by law. Further changes envisioned by this bill include a limitation on the number of memberships on the boards of other companies that directors may hold, as well as a temporary stipulation that the board of directors or supervisory board be comprised of at least 30% women. This will apply through January 1, 2016. Lastly, severance pay for an executive of a listed company will be limited to up to one year's salary.

Act to Amend the Securities Giro Transfer Act and Civil Code – this bill, which has not been without controversy, will increase the threshold for shareholders to add items to meeting agendas from 1% to 3% of a company's issued share capital. Further, the bill will enable companies to require custodians and sub-custodians to disclose the identity of direct beneficial owners whose shares are held through an intermediary.

Bill on Clawback and Revision of Bonuses – this bill will give the supervisory board statutory powers to revise executive bonuses in cases where proposed bonuses are deemed unacceptable according to criteria of "reasonableness and fairness," or claw back all or part of a bonus if its grant was based on incorrect information.

These bills may be subject to change prior to being passed. As of December 2010, none are expected to come into force in time to affect the 2011 proxy season. Nevertheless, public companies in the Netherlands are certainly aware of the proposed changes and will prepare for them, possibly implementing some of the aforementioned provisions on a voluntary basis. Notably, as we saw in 2010, we believe companies will continue to seek transitional amendments to their articles of association that would increase the ownership threshold for adding agenda items for a general meeting if the Civil Code is amended to allow it. We are typically opposed to such amendments.

Lastly, we expect to continue to see companies propose amendments to their remuneration policies in order to comply with the new Corporate Governance Code, especially with regard to severance packages, clawback provisions and added emphasis on long-term incentive plans.

Norway

Several changes have been made to the Norwegian Code of Practice for Corporate Governance that will cause companies to provide shareholders with more information on issues of corporate social responsibility, share issuances, takeovers and the responsibilities of nomination committees. In addition, the Code now recommends that companies set an absolute limit on performance-related compensation, further aligning with European standards. As a result of these changes, as well as the implementation of the Shareholder Rights Directive, we expect better disclosure from Norwegian companies across the board.

Poland

On May 19, 2010, the Warsaw Stock Exchange ("WSE") introduced the first amendment to the Code of Best Practice for WSE Listed Companies ("the Code") since 2007. The Code is enforced on a comply-or-explain basis. Major changes include the introduction of a recommendation to enable shareholders to participate in a general meeting via electronic means. In order to fully comply with the recommendation, a company must provide shareholders with the following: (i) the real-time broadcast of a meeting; (ii) a live bilateral communication channel whereby a shareholder may remotely take the floor during a general meeting; and (iii) the ability to vote by proxy. The WSE has extended the deadline for compliance with this recommendation until January 1, 2012. In the 2011 proxy season, we expect to see companies propose article amendments to comply with this recommendation. We believe that allowing shareholders to vote or appoint a proxy by electronic means will greatly improve international shareholders' ability to participate in general meetings.

In addition, the amendment includes a change to the Code's recommendation regarding the remuneration of members of the supervisory and management boards. The Code now recommends that a company follow the Commission Recommendation of 14 December 2004 as well as that of 30 April 2009 regarding remuneration of directors of listed companies. The Commission Recommendations stipulate that directors (members of supervisory and management boards) receive performance-based remuneration. We are generally opposed to the introduction of variable performance-based fees for supervisory boards, as these fees may align the interests of supervisory board members with those of management; however, given the Code's recommendation, we will accept the presence of variable fees in supervisory board remuneration policies, so long as the variable fees are not excessive and have a quantifiable cap.

Lastly, the amended Code recommends that a company ensure a balanced proportion of men and women on the supervisory and management boards. Though this will most likely be a slow process, in

2011 we expect to see companies begin to attempt to foster balanced gender representation on their boards.

Russia

Though Russia does not truly fall under the sphere of European corporate governance, some promising reforms are attempting to bring market standards in Russia closer to those of Europe. The Russian government has recently approved a plan to privatize stakes in approximately 900 partially or wholly state-owned companies over the span of the next five years, including stakes in many publicly traded companies. The companies involved operate in a wide range of industries, including agriculture, transportation, banking and energy. Though the state has announced its intention to sell considerable stakes in certain companies – in some cases as large as 25% – it has made clear that it does not intend to give up its status as controlling shareholder as a result of the sales. A key exception to this may be VTB Bank; the government has stated that it will consider lowering its ownership of the bank even to the point of a non-controlling stake "if serious investors emerge." Consequently, in the coming proxy season(s), we expect to see a number of board elections with many new faces, with nominees reflecting the change in ownership that is poised to take place as a result of this large-scale privatization program.

Further, pursuant to amendments introduced to the Federal Law on Securities Market on October 4, 2010, which will take effect on April 2, 2011, preliminary information regarding the convocation of a shareholder meeting will be made publicly available on a company's website no later than two calendar days after the decision to convene a meeting has been made. In addition, the amendment will significantly expand the list of mandatory disclosures that fall under the category of "material fact," which must be made publicly available on a company's website. Although the amendment does not obligate a company to disclose all relevant meeting materials on its website, it is likely that the general level of disclosure among Russian companies will improve, in some measure, in the 2011 proxy season.

Lastly, we will be watching out for MMC Norilsk Nickel's 2011 AGM, following a heated EGM in October 2010 that pit the Company's two major shareholders, Oleg Deripaska's UC Rusal and Vladimir Potanin's Interros, against one another in a battle for board representation. Because UC Rusal, the dissident shareholder in October's meeting, was unable to secure the additional board seat it was seeking, we expect to see yet another battle for control unfold as the Norilsk Nickel AGM draws closer.

Spain

Two key legislative reforms effecting corporate governance practices were passed during the first half of 2010, which may have a notable effect on the 2011 proxy season. Ley 12/2010, known as the Auditing Law, introduced stricter provisions regarding the composition of the audit committee. The committee must now be solely comprised of non-executive directors, one of which must be independent and possess expertise in either accounting or auditing. Real Decreto Legislativo 1/2010, implemented the new Spanish Companies Law. The primary purpose of the new law was to create a single set of rules for limited liability partnerships, corporations and joint stock corporations. Although the reform left the corporate governance regime largely intact, one of the more polemic provisions in the law prohibited the use of voting caps. Further, the Spanish congress continues to debate the Sustainable Economy Bill. The bill calls for a mandatory advisory vote on the remuneration report that companies publish regarding their executive remuneration policy. Companies will be required to break down executive remuneration on an individual basis. Further, the definition of independence as it applies to directors will be formalized. It is still uncertain whether all of the proposed changes will be in full force and effect by the 2011 proxy season.

Sweden

More than a year after the EU's deadline for implementation of the Shareholder Rights Directive, the Swedish Companies Act (the "Act") has been amended to implement it. The revised Act, which fully entered into force on January 1, 2011, serves to further enhance shareholders' ability to exercise ownership rights for companies incorporated in Sweden. As one of the last countries to implement the Directive, and one of the earliest proxy seasons in Europe, it may be difficult for all companies to fully comply.

Late last year, the Swedish Corporate Governance Code was modified in an effort to clarify a recommendation on vesting periods for share-based and share-related compensation. With effect from November 16, 2010, the wording of the Code is amended such that, in addition to share-based programs, synthetic options as well as other share-related incentive programs that do not involve the acquisition of shares should have a vesting period of no less than three years. According to the Swedish Corporate Governance Board, the original wording of the recommendation did not effectively capture the Board's intention to include such programs under the recommendation. This is particularly noteworthy given that a large number of Swedish companies use such incentive plans, with typical vesting periods of only one or two years, and in some cases, immediate vesting. We expect this relatively minor change to further enhance the alignment of shareholder and management interests through a more comprehensive definition of components of remuneration packages that should be subject to the recommendation on vesting periods of at least three years.

Switzerland

The 2010 proxy season saw shareholders express disapproval at the annual meetings of Switzerland's two largest banks, UBS AG and Credit Suisse Group AG. In both cases, shareholders clearly voiced reservations about the companies' compensation practices, which we anticipate could again be controversial at the 2011 meetings. Additionally, as a result of UBS shareholders' refusal to ratify the board and management's acts for fiscal year 2009, we expect that the bank may once more be required to defend its handling of individuals who served in leadership roles before and during the financial crisis. While we do not believe the 2011 Swiss proxy season will feature substantial legal and/or procedural departures from the previous year, the promulgation of the Minder Initiative, which would require binding say on pay votes and substantially limit boards' flexibility to determine compensation, or a less severe counterproposal, carries the possibility to greatly expand shareholders' powers and responsibilities in 2011 or beyond.

United Kingdom

Following the recent overhaul of the UK's regulatory structures, 2011 will be the first proxy season under the new UK Corporate Governance Code (the "UK Code"), which is set to replace the existing Combined Code for companies with reporting periods beginning June 30, 2010. While the UK Code will not affect all companies until the 2012 proxy season, it's most consequential recommendation, that FTSE 350 companies submit all directors for annual reelection, has already been implemented by many companies, including smaller firms outside of the FTSE 350. The 2011 season should see annual elections become substantially more widespread, giving shareholders the ability to vote on a much greater number of directors than was previously possible.

Despite early adoption by a variety of issuers, annual reelections remain divisive not only among board members and executives, but also investor groups that are concerned the new measure will promote short-termism and undermine collective decision-making. While we recognize that this opposition reflects a commitment to active, ongoing engagement between companies and investors, rather than an opposition to good governance, we continue to believe that annual reelections will promote such engagement and benefit shareholders by increasing director accountability. As such, we will carefully consider individual companies' explanations for non-compliance when making voting recommendations.

During the 2010 proxy season, the Financial Services Agency ("FSA"), which acts as the UK's listing authority, introduced a revised two-tier listing regime – premium and standard – with different compliance requirements for each listing. Under the new regime, the FSA requires overseas companies with premium listings on the LSE to "comply or explain" their adherence to the UK Code, and to safeguard existing shareholders' pre-emption rights to the same extent as UK-incorporated companies. As a result, overseas companies seeking a premium listing status will need to review their corporate governance policies and board structures in order to ensure compliance with the new requirements.

We expect a significant number of companies to put forth proposals to be in compliance with or eligible for a premium listing during the 2011 proxy season. A premium listing carries noteworthy benefits for companies, such as enhanced investor protections that may assist in raising the business profile of companies and increasing their attractiveness to a wider group of investors, which in turn may result in increased interest, liquidity and support for future strategic objectives.

Reflecting the EU's amended Capital Rights Directive, the FSA also released an updated Remuneration Code in December 2010. Whereas its predecessor applied only to large banks, building societies and broker dealers, the new Remuneration Code will apply to over 2,700 firms, including all banks and building societies and many investment firms. However, the impact on smaller entities will be tempered by a proportional implementation. Institutions that were subject to the previous code, such as large banks, will be required to comply with revisions from January 1, 2011. However, smaller banks and other institutions will not have to comply immediately, and hedge funds and asset managers will be able to opt out from the rules. The updated UK Code includes a number of remuneration-related changes that will apply to most domestic and foreign issuers listed on the LSE as well.

There are some key annual meetings to keep an eye on during the 2011 season. Following the worst oil spill in US history, BP is likely to face extraordinary shareholder pressure at its AGM this May. Despite the resignation of CEO Tony Hayward, a group of shareholders are currently contemplating filing a resolution demanding a review of BP's risk management, including emergency response plans, at its North American operations.

Global banking giant HSBC has recently completed an overhaul at the top of its board, with the surprise resignation of executive chairman Stephen Green, who is to take up a government job as the UK trade minister. The ensuing fight for position amongst the executive directors was anything but orderly. After learning that he was to be passed over to succeed Mr. Green as chairman, chief executive Michael Geoghegan announced that he would be stepping down at the year's end. The highly coveted chairmanship of the bank will be assumed by finance director Douglas Flint, while Stuart Gulliver, the heard of HSBC's investment banking unit has been appointed chief executive.

The board is likely to face tough questions from shareholders regarding the less than orderly succession process. Some may wonder why John Thornton, a non-executive director who was widely expected to succeed Mr. Green was overlooked, particularly given the poor view taken of executive chairmen.

Questions regarding the ongoing viability of the UK as the headquarters of the global bank also linger. While many UK-based multinationals have threatened to relocate in light of increased regulation, particularly regarding remuneration, HSBC is uniquely positioned for such a move with substantial portions of its operations located in Hong Kong.

CHANGES TO THE GLASS LEWIS PROXY PAPER

Beyond increased content and analysis in Proxy Papers for meetings in markets with recently improved disclosure requirements, Glass Lewis will make several other improvements to our reports in 2011, including:

1. *A revamped presentation and analysis of* ***say on pay*** *proposals:* The new layout will allow the reader to quickly identify key problems with a company's compensation policy, Glass Lewis' ratings of a company's compensation disclosure and structure, and the reasons behind those ratings. Additionally, we will provide more details of company compliance with best practice recommendations for compensation in each market.

2. *An expanded presentation of European* ***compensation data****:* Currently, we display and compare compensation data for three distinct European groups—the **UK** alone, **Spain** alone, and **Germany**, **France**, the **Netherlands**, **Sweden** and **Switzerland** combined. In 2011, we will unify our presentation of this data and compare compensation figures for CEOs or managing directors across a broader range of companies with a more unified output. Further, we will add **Ireland** and **Norway** and add partial coverage (for larger companies with reasonable disclosure) of **Belgium**, **Portugal**, **Denmark**, and **Italy**. Under the revised compensation model our coverage of Spain may decrease due to inconsistencies in disclosure, but our coverage of **France** will increase significantly. The new display will include a more detailed comparison of compensation by category and other improvements to facilitate analysis of compensation issues.

3. *More information on directors and board nominees:* Our board of directors table will include new information on the **company classification** of directors and a list of **other board memberships** for each director. In addition, we will provide bios for all new nominees to the board when provided in English for the largest companies in each market.

4. *More* ***market context and analysis****:* Most proposals, including board elections, capital and financing proposals, and other unique issues, will feature a section explaining relevant best practice recommendations in each market. This will be most noticeable in **Eastern Europe**, but will also enhance our analysis in Proxy Papers across other European markets.

5. ***Voting results*** *from the last annual meeting:* We will expand the number of companies for which we display voting results from the last annual meeting across Europe.

China

Over the past several years, the China Securities Regulatory Commission (CSRC) and the Chinese stock exchanges have been dedicated to promulgating and amending rules and decrees on listed companies and market intermediaries. But areas of weakness remain, including the lack of a credible deterrent against insider trading, the non-existence of pre-emption rights for shareholders, and fraudulent accounting and disclosure.

We have seen some improvements in the field of information disclosure since the release of the Regulations on information disclosure of listed companies in December 2006. We expect to see that the information about Chinese companies and shareholders' meetings will be disclosed in a more transparent and timely manner in the upcoming proxy season.

Most Chinese companies are governed by a two-tier structure consisting of the board of directors and board of supervisors. The board of supervisors typically comprises shareholder and employee representatives with limited independent representation. We have seen increasing independence on Chinese boards of directors since the recent enactment of regulations and rules, (e.g., a guideline on the election, appointment and conduct of directors of listed companies which was published by Shanghai Stock Exchange in August 2009). In 2010, we implemented a policy that independent directors may not serve for more than six consecutive years, which we will continue to enforce in the coming proxy season. In China, there are as yet no statutory guidelines for the independence of the board of supervisors. In 2009, we began to recommend that shareholders reject insider or affiliated supervisors if the board was not at least one-third independent. We will continue to strengthen this policy in 2011 by implementing a higher standard of independence.

Connected party transactions are becoming a common practice in China. We generally approve any related-party transaction that falls within a company's regular course of business, as long as the special report by independent directors confirms these transactions are regular commercial transactions and carry terms that are fair and reasonable. More and more large Chinese companies commonly establish financial arms, known as "non-bank financial institutions," in order to centralize treasury-management operations and bring convenience to the group during financial transactions. Although many Chinese companies have recently started to strengthen the risk control in these transactions, considering the nature and extent of the financial service, we are still concerned that this practice may expose shareholders of a listed company to undisclosed risks. Thus, absent a compelling economic rationale and sufficiently effective risk management, we generally do not support financial services transactions within a group.

Although the above matters will remain the primary focus of our research during the 2011 proxy season, we will continue to monitor other issues such as provision of guarantees to subsidiaries, issuance of various classes of shares, amendments to corporate articles and executive compensation.

Though some aspects of China's corporate governance regime, such as transparency and accountability, lag behind international norms, we expect that 2011 will prove to be a year of improvements for corporate governance in China.

Hong Kong

While most Glass Lewis policies for Hong Kong will stay the same as last year, we have placed more restrictions with regard to proposals of share issuances without preemptive rights. Under Hong Kong laws and regulations, most of Hong Kong's listed companies submit two separate issuance proposals at their annual general meetings: (i) an authority to issue shares without preemptive rights (the "general mandate") of up to 20% of issued share capital; and (ii) an authority to issue repurchased shares of up to 10% of issued share capital (the "issuance of repurchased shares mandate"), both of which may be issuable with a maximum 20% discount to the market price.

Although we understand companies' need to secure financial flexibility through share issuances without preemptive rights, we are concerned that boards may abuse these authorities in order to serve their own interests by issuing shares to any party. Granting a board with such a dangerously high level of discretion over a company's capital may negatively affect shareholders' interests. We believe that these general mandates for issuances should be analyzed carefully, and that lower maximum limits tend to better serve shareholders' interests. Therefore, we believe that the aggregate maximum limit of additional share issuances should be limited to 20% of the company's issued share capital: 10% for the general mandate and 10% for the issuance of repurchased shares mandate. Further, we believe discount rates should be capped at 15% of market price.

Japan

Japan saw many regulatory upgrades in 2010. These include disclosure requirements set by the Financial Services Agency (FSA) such as remuneration policy, breakdown of compensation packages, names of individuals earning more than ¥100 million, and cross-shareholding and corporate governance structure in annual securities report. Most significant of all, disclosure of vote results are now mandated and are available for shareholder review shortly after each annual shareholder meeting. In addition, the Tokyo Stock Exchange (TSE) has a new requirement mandating at least one independent member on the board of directors or statutory auditors. For those companies listed on the TSE and Osaka Stock Exchange, shareholders have access to electronic convocation notices on the respective websites. While there are hurdles, such as concentrated meetings in June, lack of proxy material access in Engligh and limited availability of electronic voting, regulatory improvements made by the FSA and TSE may reinvigorate investor confidence in the Japanese capital market.

Cross-shareholding

Whether or not the trend toward reduced cross-shareholding is connected to an enhanced disclosure requirement by FSA, it seems as though companies are reducing the size of mutual investments by active share buybacks. Also, investors' concern about the risk of too much investment in other securities during a time of unstable economic times might have convinced management to wind down exposure in other securities.

Shareholder Proposals

The 2010 proxy season saw no shareholder proposals from institutional investors. With the stock market performing at a pre-2008 economic meltdown level and an increased cash cushion, we may see a few shareholder proposals from institutional investors; however, we do not believe that there will be a significant increase overall.

Takeover Defenses

The companies that abolished takeover defense plans outnumbered the companies that adopted them in 2010. With the disclosure of vote results now mandated and investors' widespread discontent out in the open, the trend toward doing away with these plans may continue. However, given that the economy is still fragile, companies still see takeover defense plans as attractive, despite substantial opposition. We do not expect to see much fluctuation in the number of companies renewing poison pills in 2011.

Korea

In August 2010, the Korea Securities Depository adopted an electronic voting system for general meetings of shareholders ("KSD e-vote system"). Listed companies will be allowed to adopt the KSD e-vote system through amendments of articles with shareholder approval. Once adopted, shareholders of the listed company will be able to cast votes via the internet anytime between 10 days and 1 day before the meeting date. This electronic voting system will enable shareholders to exercise their voting rights with almost no limitation on time and location, will help companies to reduce the cost for implementing voting procedures, and will also make securing information on votes cast a less complex matter.

The adoption of poison-pills is still pending and waiting for final approval from the National Assembly with the complete guidelines of poison pills prepared by the Ministry of Justice. According to the government, in order to minimize the abuse of poison pills, the Commercial Act will be revised to require companies to adopt poison pills through shareholder approval at a general meeting of shareholders, with the affirmative votes of at least two-thirds of the voting shares represented at the general meeting and representing at least one-third of the total outstanding shares. If approved, it is expected to be effective late this year.

Malaysia

The Bursa Malaysia Berhad (Bursa Malaysia) plans to launch an environmental, social and corporate governance (ESG) Index by 2012. It hopes to attract socially responsible investment (SRI) funds to Malaysia and increase the disclosure quality by the listing companies in attempt to bring in investments. While it is not mandatory for all companies to participate in the index, Bursa Malaysia hopes its announcement will have a positive effect on listed companies and encourage them to boost their corporate governance practices. With increased attention given to SRI and ESG globally, by focusing on ESG disclosure and sustainable business practices, the Bursa Malaysia may become a center for SRI in Asia.

As is the case in Singapore, Malaysia still lags behind the standard set forth by its European counterparts in that shareholder exercise of votes is severely restricted by "show of hands" voting, a system which separates the economic interests of shareholders from their voting rights.

Singapore

On October 25, 2010, the Singapore Exchange Limited (SGX) announced its intent to buy the Australia Securities Exchange (ASX). The ASX has stricter governance standards, such as board independence, separation of CEO and chairman, and disclosure practices such as a remuneration report. While the Australian counterpart has voiced concerns about the merger, if the merger does go through, Singaporean companies may be forced to comply with higher governance standard set by the ASX.

Singapore received the highest corporate governance score in a report on Asian coroprate governance put together by the Asia Corporate Governance Association in 2010. However, despite the high score it received, investors should be aware that it still lags behind the standard set forth by European counterparts and that the exercise of votes is severely restricted by voting by a show of hands, a system which separates the economic interests of shareholders from their voting rights, whereby a shareholder or his/her proxy presented in person only has one vote regardless of holdings.

In 2011, we believe that proposals addressing percentage of shares issuable to non-shareholders, issuance of shares at a discount, as well as percentage of shares issuable under equity compensation will receive increased scrutiny, with more investors concerned about dilution.

Taiwan

While several regulatory amendments have been made recently in Taiwan, such as new rules on the disclosure of compensation for directors and supervisors in annual reports beginning in December 2009 and a new set of Corporate Social Responsibility Best Practice Principles in February 2010, some of Taiwan's corporate governance rules are still falling behind international best practices.

Taiwanese firms must hold annual meetings within six months of their fiscal year-end date, which is typically December 31. Therefore, the highest concentration of annual meetings occurs between mid-May and mid-June. Regulators have been making efforts to improve the information disclosure. Companies are now required to release final AGM agendas and meeting materials 21 days prior to the meeting date.

In the coming proxy season, we will continue to strengthen our policie on private placements and elections of directors and supervisors. In Taiwan, the majority of companies elect directors and supervisors as a slate. However, most companies only disclose detailed information about nominees who would be independent directors and many companies will not release the final list of nominees until the meeting date. As such, we recommend shareholders abstain from voting on nominees whose profiles have not been thoroughly disclosed by a company in a timely manner. A vast majority of Taiwanese companies have a traditional two-tier board structure in place and an overwhelming number of boards do not have any independent directors. Nonetheless, we started to recommend voting against directors in the 2009 proxy season when the company failed to appoint a sufficient number of independent directors in accordance with the amended Securities and Exchange Act and the listing rules. We will continue implementing this policy in the coming season. In Taiwan, it is common for companies to raise funds through private placement at a discount. In our view, the issuance of new shares to specified investors at an excessive discount may threaten shareholder value. As such, we will continue to apply tighter rules on dilutive private placements with discounts. This, as has historically been the case, may result in a large number of against recommendations for such proposals. It is common for Taiwanese companies to allocate stock bonuses to its executives and employees. In addition, a number of companies, such as Acer, adopted stock option schemes for directors and executives in 2010. In the coming season, we expect to see the organic development of a fair incentive mechanism and a transparent disclosure system for management's compensation in Taiwan.

Other than the above matters, we will continue to closely monitor those common issues such as amendments to corporate articles and procedural rules, increases in paid-in capital, issuance of debt instruments, distribution of stock dividends and non-compete restrictions in the upcoming proxy season. We believe new governance concepts will continue to be tested and implemented in 2011, as poor performance will be questioned to a higher degree by shareholders. We also expect to see further improvements in transparency and the protection of shareholder rights in general.

Latin America

INTRODUCTION

Over the past year, Latin America became divided in terms of corporate disclosure between Brazil and the rest of the region. The Commissão de Valores Mobilíarios ("CVM"), the Brazilian securities regulator, has aligned disclosure practices in Brazil with those of more developed capital markets with high exposure to foreign capital. By increasing the amount of information disclosed to shareholders in advance of the general meeting, shareholders from around the globe are now able to take part in the management of Brazilian corporations alongside their Brazilian investor counterparts. For the rest of Latin America, local asset managers within driving distance of corporations' headquarters will continue to dominate the scene.

We expect this trend in divergence to continue throughout 2011. It will be reinforced by the emergence of more Brazilian corporations without a controlling shareholder as they seek out a greater investor base through migration to the single-share class Novo Mercado. For these companies, governance focus has shifted from the inherent conflicts between controlling and minority shareholders, to those between management and all shareholders. Thus, we expect to see many anti-takeover provisions and the like proposed at these companies.

Brazil will continue to observe a rise in shareholder activism in the coming year. In the summer of 2010, Polo Capital Management, a Brazilian asset manager, utilized the CVM's newly minted proxy solicitation process to launch a counter-proposal to the tie-up between telecom giants Oi and Brasil Telecom. Some of the minority shareholders who eventually voted down the proposed merger used a new electronic proxy voting platform to lodge their votes, eliminating the need to attend the meeting. As shareholders become more aware of these new tools that have been made available to them by the CVM, we expect to see a rise in activism.

REGULATORY DEVELOPMENTS

Brazil

The BM&FBOVESPA of Brazil carried out a reform of the differentiated corporate governance levels on the exchange. The reforms sought to eliminate many of the take-over defenses that have been included in many Brazilian companies' bylaws. Thus voting caps, special quorums and eternity clauses (mandatory takeover bid for any shareholder voting to remove the clause) will no longer be employed by companies listed on Level 2 and the Novo Mercado. Further, the separation of chairman and CEO will be phased in over the next three years for those companies that are listed on Levels 1 and 2, as well as the Novo Mercado. Further, in light of the hostile takeover of GVT by Vivendi, the board of directors will now have to make a recommendation regarding any potential buyout within 15 days following the announcement of a bid, considering the interests of all shareholders. This last rule will apply to those companies listed on Level 2 and the Novo Mercado.

The establishment of the much hyped Mergers and Acquisitions Committee ("CAF") is set to take place during the first quarter of 2011 in Brazil. The CAF was inspired by the United Kingdom's Takeover Panel, which regulates M&A activity in that market; however, adhesion to the committee will be voluntary. Over the past few years, M&A activity in Brazil has increased and with it the unequal treatment of minority shareholders in cases of a change of control. In light of numerous recent polemic transactions, CAF will help to ensure equal treatment of shareholders during such transactions and reduce the incidences of expropriation of minority shareholders. As with most private initiatives in Brazilian capital markets, we expect few companies to immediately adhere to CAF in 2011 until its value has been clearly demonstrated by a few market leaders.

Chile

In Chile, the government of Sebastian Piñera has announced the latest initiative to reform capital markets, dubbed Bicentennial Capital Markets Reform ("MKB"). In accordance with the reform, the Superintendencia de Valores y Seguros ("SVS") will transform into a full-fledge securities commission headed by five commissioners with greater autonomy to carry out reforms of Chile's capital markets. At the heart of the reform is the deepening and global integration of Chilean capital markets and access to cheaper capital for both the middle class and small and medium-sized businesses. While the reform will not have an immediate and direct impact on the governance of Chilean companies, another reform to the Companies Law is planned under the plan. We expect to hear more about this aspect of the reform later in 2011.

Mexico

There have been no significant reforms to the governance of Mexican companies in the past four years; however, there was a renewal of activity in Mexican capital markets with a handful of companies going public in 2010. Nonetheless, the recent tie-up between Carlos Slim's America Movil, Carso Global Telecom and Telmex International resulted in a telecom behemoth that comprises nearly one-quarter of the market-weighted benchmark index in Mexico.

The Consejo Coordinador Empresarial ("CCE") released a new edition of their Code of Best Corporate Practices in 2010. While we don't expect much reaction from companies to the code, its recommendations appear to be more in line with the reality of corporate ownership in Mexico. For example, the CCE dropped the majority independent board recommendation and replaced it with a recommendation for a board comprised of at least 60% of shareholder representatives and independent directors.

CHANGES TO GLASS LEWIS' PROXY PAPER

While the overall depth of research and appearance of Glass Lewis' Latin America research will remain the same, a new page with Brazilian executive compensation data will be displayed in order to allow for easier pay versus performance evaluation. The new display will also include key performance indicators as well as year-on-year compensation data.

Middle East (except Egypt)

We do not expect to see many momentous changes in 2011 with respect to corporate governance practices in the Middle East region. With the exception of Bahrain, which recently adopted a new corporate governance code, no markets in this region have made any updates to their laws or corporate governance codes in the last year that will have a substantial effect on shareholders.

One of our chief concerns in recent seasons has been the timely publishing of information to shareholders. Due to a lack of sufficient information, we have recommended shareholders abstain from a relatively high number of proposals in the past. We note that companies in markets such as the United Arab Emirates and Lebanon do typically disclose their financial results and meeting materials weeks prior to the AGM, allowing us ample time to make for and against recommendations for most proposals. However, we have found that companies in other markets, such as Jordan and Oman, have inconsistent disclosure practices, at times providing incomplete information or no information at all. In instances where disclosure has been poor, we have attempted to contact the companies for additional information. During the upcoming season, we will continue to reach out to companies in advance of the AGM to seek information.

The aforementioned notwithstanding, we expect governance practices in the region to gradually improve in 2011 and beyond. Hawkamah, a corporate governance institute that promotes sustainable governance practices in the Middle East, actively coordinates governance policy issues among countries in the region through its partnerships with local financial regulators and governance associations. Through its efforts, we expect, sometime in the near future, an approach to governance that takes into account regional issues, as well as the particular characteristics of each market.

Bahrain

In 2010, the Kingdom of Bahrain published a new corporate governance code (the "Code"), with the aim of enhancing investor confidence and fostering economic development. The Code, which is "comply-or-explain," and became effective January 1, 2011, supplements current governance principles found in the Company Law. The Code makes recommendations with regard to the number of non-executive and independent directors on the board, the formation and composition of board committees, executive and non-executive compensation, the process of publishing meeting notices and agendas, and the implementation of Sharia Law. In 2011, we expect to see improved corporate practices at companies in Bahrain as they continue implementing provisions of the Code. We believe this will be borne out in improved content and timelier disclosure of information, as well as in more independent boards and committees.

Egypt

In previous proxy seasons, the timely disclosure of information by companies has been a major hurdle for shareholders interested in participating at Egyptian AGMs. The Companies Law of 1981 requires companies to publish meeting notices and agendas, as well as the financial statements in two widely-circulated Egyptian papers or to send such materials to shareholders at least 15 days prior to the date of the scheduled meeting. However, the level of public disclosure is far from rigorous in Egypt, particularly with respect to corporate governance-related issues. Accordingly, most Egyptian companies disclose little to no information regarding the biographies of board members, individual director and executive remuneration, auditor fees, director attendance records and corporate governance practices. In the past, we have attempted to contact companies directly for such material, but our efforts have produced mixed results.

However, we believe some positive changes may be coming soon. The Egyptian Code of Corporate Governance (the "Code") is being updated based on the most current Egyptian and international standards. To our knowledge, there is no timeline for when the revised Code will be finalized. Among the changes envisaged by the revised Code are:

- A requirement to disclose meeting materials, governance information and financial data on the company's website and/or the stock exchange website;
- Additional requirements for the appointment of the independent auditor; and
- A more specific independence threshold for the board; the current Code only requires that a majority of the board be non-executive.

Moreover, the Egyptian Financial Supervisory Authority (the "EFSA") passed a resolution in August 2010 that imposes certain disclosure requirements on companies listed on the Egyptian Stock Exchange ("ESX"). According to the amendment, listed companies would be required to provide the EFSA and ESX with all board meeting minutes within 10 days of the meeting. In addition, companies would be obliged to disclose the content of any notice inviting shareholders to a meeting pertaining to the following matters:

- A change in authorized capital;
- A change in corporate purpose; or
- A change in the par value of issued/listed securities.

We believe the proposed changes to the Code as well as the new disclosure requirements put forth by the EFSA would represent a significant shift in governance practices at Egyptian companies. While the revised Code may not go into effect in time for the 2011 proxy season, we suspect some Egyptian companies will be compelled by the Egyptian government's ongoing efforts to improve transparency and provide more timely disclosure of information to shareholders. If this is the case, we expect to make fewer abstain recommendations during this upcoming proxy season. We recognize, however, that improving corporate governance in Egypt remains a very fluid process. When materials are unavailable, we will continue to reach out to companies directly.

Turkey

Access to timely information, inconsistent disclosure standards, and the lack of qualified independent directors serving on boards are among the many governance challenges that have historically confronted investors in this market. Corporate governance practices in Turkey are enshrined in the Turkish Commercial Code ("TCC") and the Capital Market Board's Corporate Governance Principles (the "Principles"). However, enforcement of provisions of the TCC and the Principles has been, at best, inadequate. Moreover, because concentrated ownership of companies by families is typical in Turkey, shareholder protection provisions have remained fairly weak.

As result, we have, in the past, recommended abstaining from a high percentage of proposals due to the lack of information. In Turkey, it has been common practice for companies to publish their meeting materials for public view only several days prior to the meeting, placing shareholders interested in participating in the AGM at a tremendous disadvantage. During the 2010 Proxy Season, however, we did observe a larger number of companies publishing their annual reports and/or providing explanatory notes to the agenda up to two weeks prior to the meeting. While we still abstained from a relatively high number of proposals, we were able to provide shareholders with a FOR or AGAINST recommendation on more proposals than we had in previous years. We attribute this improvement to Turkey's continued efforts to gradually integrate its commercial and governance structures with those of the EU, which has more established laws and regulations regarding disclosure and transparency.

We also note that Turkey is close to adopting a new, reformed commercial code (the "Draft Code") to replace the TCC, which has not been significantly amended since 1957. (Parliament is reportedly expected to vote on the Draft Code on January 11, 2011). The Draft Code, which aims to align the country's commercial laws with EU legislation and to better meet investor requirements, emphasizes transparency, equity and liability. Some of the changes being envisaged are as follows:

- Companies would be required to maintain a website where shareholders can access important financial information, business and performance reports, and meeting documents;
- The board's liability will be regulated; unless a specific person is assigned, the board members will be jointly liable for each and every transaction of the company;
- Companies will be required to incorporate internationally accepted accounting practices in the preparation and audit of their financial statements;
- The requirement to have statutory auditors amount the statutory bodies of the company will be abolished; the audit will be conducted by independent auditing companies; and
- New, severe sanctions will be introduced for failure to comply with the Draft Code's new requirements.

We believe the proposed changes are generally positive for shareholders, as they will significantly improve disclosure requirements and enhance accountability standards.

We believe the Draft Code, if approved, would require a monumental shift in the corporate governance practices in Turkey. We expect more Turkish companies to be compelled to make their public filings available to shareholders earlier than in previous years. Although timely disclosure of information has improved at some Turkish companies, many companies still provide very limited information for public review. If the Draft Code is enacted into law this year, we expect Turkish companies to begin implementing the new requirements by amending their articles of association. In addition, due to the Draft Code's increased disclosure requirements, we suspect we will also be able to provide additional information to shareholders about proposals being voted on at meetings and make considerably more for and against recommendations.

One of our primary concerns remains the lack of sufficiently independent boards in Turkey. In accordance with the Principles, we recommend that at least one-third of the directors are independent (two at the very least) and half of the directors are non-executive (i.e. they do not perform a management function within the company or its subsidiaries). In addition, we believe that the majority of directors who serve on a company's audit committee should be independent and that it should be chaired by an independent director. In most instances, Turkish boards failed to meet either of these independence thresholds; in some cases, there was not even one independent director on the board. We recognize that many Turkish companies have concentrated ownership structures and are typically controlled by one family. Nevertheless, we believe that minority shareholders' interests should be protected by having at least two independent directors. We will continue to monitor this issue in 2011, and will vote against boards that do not meet these minimum independence standards.

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Proxy Voting Management Report

Voting Statistics, By Issue

Votes in Meetings Held Between October 01, 2010 and December 31, 2010

Allocation of profits/Financial Statements

Allocation of Profits/Dividends	Vote	Count	Total	Percentage
	With Management Recommendation	101	118	85.6%
	With Policy	118	118	100.0%
	With Glass Lewis research	118	118	100.0%
	FOR	101	121	83.5%
	ABSTAIN	17	121	14.0%
	Decided not to vote	3	121	2.5%

Bonus Dividend/Bonus Share Issue	Vote	Count	Total	Percentage
	With Management Recommendation	15	15	100.0%
	With Policy	15	15	100.0%
	With Glass Lewis research	15	15	100.0%
	FOR	15	22	68.2%
	Decided not to vote	7	22	31.8%

Financial Statements	Vote	Count	Total	Percentage
	With Management Recommendation	151	161	93.8%
	With Policy	161	163	98.8%
	With Glass Lewis research	161	163	98.8%
	FOR	145	167	86.8%
	ABSTAIN	18	167	10.8%
	Decided not to vote	4	167	2.4%

Stock Dividend/Dividend Reinvestment	Vote	Count	Total	Percentage
	With Management Recommendation	1	1	100.0%
	With Policy	1	1	100.0%
	With Glass Lewis research	1	1	100.0%
	FOR	1	1	100.0%

Proxy Voting Management Report

Voting Statistics, By Issue

Votes in Meetings Held Between October 01, 2010 and December 31, 2010

Allocation of profits/Financial Statements

Category Summary: Allocation of profits/Financial Statements

Vote	Count	Total	Percentage
With Management Recommendation	268	295	90.8%
With Policy	295	297	99.3%
With Glass Lewis research	295	297	99.3%
FOR	262	311	84.2%
ABSTAIN	35	311	11.3%
Decided not to vote	14	311	4.5%

Auditor

Appointment of Auditor	Vote	Count	Total	Percentage
	With Management Recommendation	70	71	98.6%
	With Policy	73	73	100.0%
	With Glass Lewis research	73	73	100.0%
	FOR	72	75	96.0%
	ABSTAIN	1	75	1.3%
	Decided not to vote	2	75	2.7%

Appointment of Auditor and Authority to Set Fees	Vote	Count	Total	Percentage
	With Management Recommendation	78	95	82.1%
	With Policy	95	95	100.0%
	With Glass Lewis research	95	95	100.0%
	FOR	78	95	82.1%
	WITHHOLD	2	95	2.1%
	AGAINST	1	95	1.1%
	ABSTAIN	14	95	14.7%

Authority to Set Auditor's Fees	Vote	Count	Total	Percentage
	With Management Recommendation	27	28	96.4%
	With Policy	28	28	100.0%
	With Glass Lewis research	28	28	100.0%
	FOR	27	28	96.4%
	AGAINST	1	28	3.6%

Proxy Voting Management Report

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Auditor

Ratification of Auditor	Vote	Count	Total	Percentage
	With Management Recommendation	207	207	100.0%
	With Policy	207	207	100.0%
	With Glass Lewis research	207	207	100.0%
	FOR	207	207	100.0%

Category Summary: Auditor

Vote	Count	Total	Percentage
With Management Recommendation	382	401	95.3%
With Policy	403	403	100.0%
With Glass Lewis research	403	403	100.0%
FOR	384	405	94.8%
WITHHOLD	2	405	0.5%
AGAINST	2	405	0.5%
ABSTAIN	15	405	3.7%
Decided not to vote	2	405	0.5%

Board

Authorization of Board to Set Board Size	Vote	Count	Total	Percentage
	With Management Recommendation	2	2	100.0%
	With Policy	2	2	100.0%
	With Glass Lewis research	2	2	100.0%
	FOR	2	2	100.0%

Board Size	Vote	Count	Total	Percentage
	With Management Recommendation	1	3	33.3%
	With Policy	3	3	100.0%
	With Glass Lewis research	3	3	100.0%
	FOR	1	4	25.0%
	ABSTAIN	2	4	50.0%
	Decided not to vote	1	4	25.0%

Proxy Voting Management Report

Voting Statistics, By Issue

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Board

Change in Board Size	Vote	Count	Total	Percentage
	With Management Recommendation	1	1	100.0%
	With Policy	1	1	100.0%
	With Glass Lewis research	1	1	100.0%
	FOR	1	1	100.0%

Election of Board Committee Members	Vote	Count	Total	Percentage
	With Management Recommendation	8	8	100.0%
	With Policy	8	8	100.0%
	With Glass Lewis research	8	8	100.0%
	FOR	8	8	100.0%

Election of Directors	Vote	Count	Total	Percentage
	With Management Recommendation	2477	3028	81.8%
	With Policy	3043	3044	100.0%
	With Glass Lewis research	3043	3044	100.0%
	FOR	2479	3046	81.4%
	WITHHOLD	173	3046	5.7%
	AGAINST	358	3046	11.8%
	ABSTAIN	34	3046	1.1%
	Decided not to vote	2	3046	0.1%

Election of Directors (Slate)	Vote	Count	Total	Percentage
	With Management Recommendation	7	27	25.9%
	With Policy	27	27	100.0%
	With Glass Lewis research	27	27	100.0%
	FOR	7	31	22.6%
	AGAINST	1	31	3.2%
	ABSTAIN	19	31	61.3%
	Decided not to vote	4	31	12.9%

Proxy Voting Management Report

Voting Statistics, By Issue

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Board

Election of Statutory Auditors	Vote	Count	Total	Percentage
	With Management Recommendation	11	19	57.9%
	With Policy	19	19	100.0%
	With Glass Lewis research	19	19	100.0%
	FOR	11	19	57.9%
	AGAINST	7	19	36.8%
	ABSTAIN	1	19	5.3%

Election of Supervisory Board	Vote	Count	Total	Percentage
	With Management Recommendation	29	35	82.9%
	With Policy	35	35	100.0%
	With Glass Lewis research	35	35	100.0%
	FOR	29	35	82.9%
	AGAINST	5	35	14.3%
	ABSTAIN	1	35	2.9%

Misc. Management Proposal Regarding Board	Vote	Count	Total	Percentage
	With Management Recommendation	7	7	100.0%
	With Policy	7	7	100.0%
	With Glass Lewis research	7	7	100.0%
	FOR	7	8	87.5%
	Decided not to vote	1	8	12.5%

Removal/Resignation of Director	Vote	Count	Total	Percentage
	With Management Recommendation	8	8	100.0%
	With Policy	8	8	100.0%
	With Glass Lewis research	8	8	100.0%
	FOR	8	9	88.9%
	Decided not to vote	1	9	11.1%

Proxy Voting Management Report

Voting Statistics, By Issue

Votes in Meetings Held Between October 01, 2010 and December 31, 2010

Board

Category Summary: Board

Vote	Count	Total	Percentage
With Management Recommendation	2551	3138	81.3%
With Policy	3153	3154	100.0%
With Glass Lewis research	3153	3154	100.0%
FOR	2553	3163	80.7%
WITHHOLD	173	3163	5.5%
AGAINST	371	3163	11.7%
ABSTAIN	57	3163	1.8%
Decided not to vote	9	3163	0.3%

Change in Authorized Capital Stock

Authority to Issue Preferred Stock	Vote	Count	Total	Percentage
	With Management Recommendation	3	3	100.0%
	With Policy	5	5	100.0%
	With Glass Lewis research	5	5	100.0%
	FOR	5	5	100.0%

Authority to Repurchase Shares	Vote	Count	Total	Percentage
	With Management Recommendation	142	143	99.3%
	With Policy	145	145	100.0%
	With Glass Lewis research	145	145	100.0%
	FOR	144	157	91.7%
	AGAINST	1	157	0.6%
	Decided not to vote	12	157	7.6%

Cancellation of Authorized Stock	Vote	Count	Total	Percentage
	With Management Recommendation	21	21	100.0%
	With Policy	21	21	100.0%
	With Glass Lewis research	21	21	100.0%
	FOR	21	21	100.0%

Proxy Voting Management Report

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Change in Authorized Capital Stock

Creation of New Share Class	Vote	Count	Total	Percentage
	With Management Recommendation	1	1	100.0%
	With Policy	1	1	100.0%
	With Glass Lewis research	1	1	100.0%
	FOR	1	1	100.0%

Increase in Authorized Capital	Vote	Count	Total	Percentage
	With Management Recommendation	9	11	81.8%
	With Policy	11	11	100.0%
	With Glass Lewis research	11	11	100.0%
	FOR	9	11	81.8%
	AGAINST	2	11	18.2%

Increase in Authorized Common Stock	Vote	Count	Total	Percentage
	With Management Recommendation	2	5	40.0%
	With Policy	5	5	100.0%
	With Glass Lewis research	5	5	100.0%
	FOR	2	5	40.0%
	AGAINST	3	5	60.0%

Increase in/Authorization of Preferred Stock	Vote	Count	Total	Percentage
	With Management Recommendation	0	1	0.0%
	With Policy	1	1	100.0%
	With Glass Lewis research	1	1	100.0%
	AGAINST	1	1	100.0%

Issuance of Repurchased Shares	Vote	Count	Total	Percentage
	With Management Recommendation	23	24	95.8%
	With Policy	24	24	100.0%
	With Glass Lewis research	24	24	100.0%
	FOR	23	24	95.8%
	AGAINST	1	24	4.2%

Proxy Voting Management Report

Voting Statistics, By Issue

Votes in Meetings Held Between October 01, 2010 and December 31, 2010

Change in Authorized Capital Stock

Category Summary: Change in Authorized Capital Stock

Vote	Count	Total	Percentage
With Management Recommendation	201	209	96.2%
With Policy	213	213	100.0%
With Glass Lewis research	213	213	100.0%
FOR	205	225	91.1%
AGAINST	8	225	3.6%
Decided not to vote	12	225	5.3%

Change in Governance Structure

Adoption of Classified Board	Vote	Count	Total	Percentage
	With Management Recommendation	0	1	0.0%
	With Policy	1	1	100.0%
	With Glass Lewis research	1	1	100.0%
	AGAINST	1	1	100.0%

Adoption of Poison Pill	Vote	Count	Total	Percentage
	With Management Recommendation	1	1	100.0%
	With Policy	1	1	100.0%
	With Glass Lewis research	1	1	100.0%
	FOR	1	1	100.0%

Adoption of Shareholder Rights' Plan	Vote	Count	Total	Percentage
	With Management Recommendation	5	8	62.5%
	With Policy	8	8	100.0%
	With Glass Lewis research	8	8	100.0%
	FOR	5	8	62.5%
	AGAINST	3	8	37.5%

Amendment to Classified Board	Vote	Count	Total	Percentage
	With Management Recommendation	1	1	100.0%
	With Policy	1	1	100.0%
	With Glass Lewis research	1	1	100.0%
	FOR	1	1	100.0%

Proxy Voting Management Report

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Change in Governance Structure

Amendment to Shareholder Rights' Plan	Vote	Count	Total	Percentage
	With Management Recommendation	2	2	100.0%
	With Policy	2	2	100.0%
	With Glass Lewis research	2	2	100.0%
	FOR	2	2	100.0%

Change in State of Incorporation	Vote	Count	Total	Percentage
	With Management Recommendation	1	1	100.0%
	With Policy	1	1	100.0%
	With Glass Lewis research	1	1	100.0%
	FOR	1	1	100.0%

Delisting	Vote	Count	Total	Percentage
	With Management Recommendation	8	8	100.0%
	With Policy	8	8	100.0%
	With Glass Lewis research	8	8	100.0%
	FOR	8	8	100.0%

Elimination of Cumulative Voting	Vote	Count	Total	Percentage
	With Management Recommendation	1	1	100.0%
	With Policy	1	1	100.0%
	With Glass Lewis research	1	1	100.0%
	FOR	1	1	100.0%

Elimination of Supermajority Requirement	Vote	Count	Total	Percentage
	With Management Recommendation	2	2	100.0%
	With Policy	2	2	100.0%
	With Glass Lewis research	2	2	100.0%
	FOR	2	2	100.0%

Proxy Voting Management Report

Voting Statistics, By Issue

Votes in Meetings Held Between October 01, 2010 and December 31, 2010

Change in Governance Structure

Misc. Proposal Regarding Antitakeover Devices	Vote	Count	Total	Percentage
	With Management Recommendation	0	1	0.0%
	With Policy	1	1	100.0%
	With Glass Lewis research	1	1	100.0%
	AGAINST	1	2	50.0%
	Decided not to vote	1	2	50.0%

Reincorporation	Vote	Count	Total	Percentage
	With Management Recommendation	14	14	100.0%
	With Policy	14	14	100.0%
	With Glass Lewis research	14	14	100.0%
	FOR	14	15	93.3%
	Decided not to vote	1	15	6.7%

Repeal of Classified Board	Vote	Count	Total	Percentage
	With Management Recommendation	1	1	100.0%
	With Policy	1	1	100.0%
	With Glass Lewis research	1	1	100.0%
	FOR	1	1	100.0%

Restoration of Right to Call a Special Meeting	Vote	Count	Total	Percentage
	With Management Recommendation	2	2	100.0%
	With Policy	2	2	100.0%
	With Glass Lewis research	2	2	100.0%
	FOR	2	2	100.0%

Waiving of Mandatory Takeover Requirement	Vote	Count	Total	Percentage
	With Management Recommendation	30	30	100.0%
	With Policy	30	30	100.0%
	With Glass Lewis research	30	30	100.0%
	FOR	30	30	100.0%

Proxy Voting Management Report

Voting Statistics, By Issue

Votes in Meetings Held Between October 01, 2010 and December 31, 2010

Change in Governance Structure

Category Summary: Change in Governance Structure

Vote	Count	Total	Percentage
With Management Recommendation	68	73	93.2%
With Policy	73	73	100.0%
With Glass Lewis research	73	73	100.0%
FOR	68	75	90.7%
AGAINST	5	75	6.7%
Decided not to vote	2	75	2.7%

Compensation

Adoption of Director Equity Compensation Plan

Vote	Count	Total	Percentage
With Management Recommendation	0	1	0.0%
With Policy	1	1	100.0%
With Glass Lewis research	1	1	100.0%
AGAINST	1	1	100.0%

Adoption of Equity Compensation Plan

Vote	Count	Total	Percentage
With Management Recommendation	13	26	50.0%
With Policy	26	26	100.0%
With Glass Lewis research	26	26	100.0%
FOR	13	26	50.0%
AGAINST	13	26	50.0%

Advisory Vote on Executive Compensation

Vote	Count	Total	Percentage
With Management Recommendation	0	12	0.0%
With Policy	12	12	100.0%
With Glass Lewis research	12	12	100.0%
AGAINST	12	12	100.0%

Proxy Voting Management Report

Voting Statistics, By Issue

Votes in Meetings Held Between October 01, 2010 and December 31, 2010

Compensation

Amendment to Bonus/162(m) Plan	Vote	Count	Total	Percentage
	With Management Recommendation	3	5	60.0%
	With Policy	5	5	100.0%
	With Glass Lewis research	5	5	100.0%
	FOR	3	5	60.0%
	AGAINST	2	5	40.0%

Amendment to Deferred Compensation Plan	Vote	Count	Total	Percentage
	With Management Recommendation	2	2	100.0%
	With Policy	2	2	100.0%
	With Glass Lewis research	2	2	100.0%
	FOR	2	2	100.0%

Amendment to Director Equity Compensation Plan	Vote	Count	Total	Percentage
	With Management Recommendation	2	2	100.0%
	With Policy	2	2	100.0%
	With Glass Lewis research	2	2	100.0%
	FOR	2	2	100.0%

Amendment to Employee Stock Purchase Plan	Vote	Count	Total	Percentage
	With Management Recommendation	19	19	100.0%
	With Policy	19	19	100.0%
	With Glass Lewis research	19	19	100.0%
	FOR	19	19	100.0%

Amendment to Equity Compensation Plan	Vote	Count	Total	Percentage
	With Management Recommendation	36	60	60.0%
	With Policy	60	60	100.0%
	With Glass Lewis research	60	60	100.0%
	FOR	36	60	60.0%
	AGAINST	24	60	40.0%

Proxy Voting Management Report

Voting Statistics, By Issue

Votes in Meetings Held Between October 01, 2010 and December 31, 2010

Compensation

Amendment to Restricted Stock Plan	Vote	Count	Total	Percentage
	With Management Recommendation	2	2	100.0%
	With Policy	2	2	100.0%
	With Glass Lewis research	2	2	100.0%
	FOR	2	2	100.0%

Amendment to Stock Option Plan	Vote	Count	Total	Percentage
	With Management Recommendation	45	52	86.5%
	With Policy	52	52	100.0%
	With Glass Lewis research	52	52	100.0%
	FOR	45	52	86.5%
	AGAINST	7	52	13.5%

Amendment to Stock Purchase Plan	Vote	Count	Total	Percentage
	With Management Recommendation	1	1	100.0%
	With Policy	1	1	100.0%
	With Glass Lewis research	1	1	100.0%
	FOR	1	1	100.0%

Bonus	Vote	Count	Total	Percentage
	With Management Recommendation	1	2	50.0%
	With Policy	2	2	100.0%
	With Glass Lewis research	2	2	100.0%
	FOR	1	10	10.0%
	ABSTAIN	1	10	10.0%
	Decided not to vote	8	10	80.0%

Bonus/162(m) Plan	Vote	Count	Total	Percentage
	With Management Recommendation	17	17	100.0%
	With Policy	17	17	100.0%
	With Glass Lewis research	17	17	100.0%
	FOR	17	17	100.0%

Proxy Voting Management Report

Voting Statistics, By Issue

Votes in Meetings Held Between October 01, 2010 and December 31, 2010

Compensation

Bonuses for Retiring Directors (JP)	Vote	Count	Total	Percentage
	With Management Recommendation	1	1	100.0%
	With Policy	1	1	100.0%
	With Glass Lewis research	1	1	100.0%
	FOR	1	1	100.0%

Bonuses for Retiring Directors and Statutory Auditors (JP)	Vote	Count	Total	Percentage
	With Management Recommendation	1	3	33.3%
	With Policy	3	3	100.0%
	With Glass Lewis research	3	3	100.0%
	FOR	1	3	33.3%
	AGAINST	2	3	66.7%

Bonuses for Retiring Statutory Auditors (JP)	Vote	Count	Total	Percentage
	With Management Recommendation	0	1	0.0%
	With Policy	1	1	100.0%
	With Glass Lewis research	1	1	100.0%
	AGAINST	1	1	100.0%

Compensation Policy	Vote	Count	Total	Percentage
	With Management Recommendation	167	264	63.3%
	With Policy	264	264	100.0%
	With Glass Lewis research	264	264	100.0%
	FOR	167	264	63.3%
	AGAINST	96	264	36.4%
	ABSTAIN	1	264	0.4%

Directors' Fees	Vote	Count	Total	Percentage
	With Management Recommendation	158	169	93.5%
	With Policy	171	171	100.0%
	With Glass Lewis research	171	171	100.0%
	FOR	160	171	93.6%
	AGAINST	6	171	3.5%
	ABSTAIN	5	171	2.9%

Proxy Voting Management Report

Voting Statistics, By Issue

Votes in Meetings Held Between October 01, 2010 and December 31, 2010

Compensation

Misc. Proposal Regarding Compensation	Vote	Count	Total	Percentage
	With Management Recommendation	32	56	57.1%
	With Policy	58	58	100.0%
	With Glass Lewis research	58	58	100.0%
	FOR	34	58	58.6%
	AGAINST	24	58	41.4%

Related Party Transactions	Vote	Count	Total	Percentage
	With Management Recommendation	22	30	73.3%
	With Policy	35	35	100.0%
	With Glass Lewis research	35	35	100.0%
	FOR	27	35	77.1%
	AGAINST	1	35	2.9%
	ABSTAIN	7	35	20.0%

Stock Option Grants	Vote	Count	Total	Percentage
	With Management Recommendation	140	173	80.9%
	With Policy	173	173	100.0%
	With Glass Lewis research	173	173	100.0%
	FOR	140	177	79.1%
	AGAINST	33	177	18.6%
	Decided not to vote	4	177	2.3%

Stock Option Plan	Vote	Count	Total	Percentage
	With Management Recommendation	63	86	73.3%
	With Policy	86	86	100.0%
	With Glass Lewis research	86	86	100.0%
	FOR	63	86	73.3%
	AGAINST	21	86	24.4%
	ABSTAIN	2	86	2.3%

Proxy Voting Management Report

Voting Statistics, By Issue

Votes in Meetings Held Between October 01, 2010 and December 31, 2010

Compensation

Stock Option Plan for Overseas Employees	Vote	Count	Total	Percentage
	With Management Recommendation	7	7	100.0%
	With Policy	7	7	100.0%
	With Glass Lewis research	7	7	100.0%
	FOR	7	7	100.0%

Stock Purchase Plan	Vote	Count	Total	Percentage
	With Management Recommendation	35	35	100.0%
	With Policy	35	35	100.0%
	With Glass Lewis research	35	35	100.0%
	FOR	35	35	100.0%

Supervisory Board/ Corp Assembly Fees	Vote	Count	Total	Percentage
	With Management Recommendation	1	1	100.0%
	With Policy	1	1	100.0%
	With Glass Lewis research	1	1	100.0%
	FOR	1	1	100.0%

Category Summary: Compensation

Vote	Count	Total	Percentage
With Management Recommendation	768	1027	74.8%
With Policy	1036	1036	100.0%
With Glass Lewis research	1036	1036	100.0%
FOR	777	1048	74.1%
AGAINST	243	1048	23.2%
ABSTAIN	16	1048	1.5%
Decided not to vote	12	1048	1.1%

Financing Transaction

Amendment to Terms of Debt Instruments	Vote	Count	Total	Percentage
	With Management Recommendation	0	2	0.0%
	With Policy	2	2	100.0%
	With Glass Lewis research	2	2	100.0%
	ABSTAIN	2	2	100.0%

Proxy Voting Management Report

Voting Statistics, By Issue

Votes in Meetings Held Between October 01, 2010 and December 31, 2010

Indemnification of Officers or Directors

Ratification of Management Acts - Legal	Vote	Count	Total	Percentage
	With Management Recommendation	1	1	100.0%
	With Policy	1	1	100.0%
	With Glass Lewis research	1	1	100.0%
	FOR	1	1	100.0%

Category Summary: Indemnification of Officers or Directors

Vote	Count	Total	Percentage
With Management Recommendation	9	16	56.3%
With Policy	16	16	100.0%
With Glass Lewis research	16	16	100.0%
FOR	9	18	50.0%
ABSTAIN	7	18	38.9%
Decided not to vote	2	18	11.1%

Issuance of Stock by Non-US Company

Authority to Issue Shares w/ Preemptive Rights	Vote	Count	Total	Percentage
	With Management Recommendation	52	60	86.7%
	With Policy	62	62	100.0%
	With Glass Lewis research	62	62	100.0%
	FOR	54	62	87.1%
	AGAINST	8	62	12.9%

Authority to Issue Shares w/o Preemptive Rights	Vote	Count	Total	Percentage
	With Management Recommendation	98	101	97.0%
	With Policy	104	104	100.0%
	With Glass Lewis research	104	104	100.0%
	FOR	101	104	97.1%
	AGAINST	2	104	1.9%
	ABSTAIN	1	104	1.0%

Proxy Voting Management Report

Voting Statistics, By Issue

Votes in Meetings Held Between October 01, 2010 and December 31, 2010

Issuance of Stock by Non-US Company

Authority to Issue Stock w/ or w/out Preemptive Rights	Vote	Count	Total	Percentage
	With Management Recommendation	14	19	73.7%
	With Policy	19	19	100.0%
	With Glass Lewis research	19	19	100.0%
	FOR	14	19	73.7%
	AGAINST	5	19	26.3%

Issuance of Stock w/ Preemptive Rights	Vote	Count	Total	Percentage
	With Management Recommendation	10	10	100.0%
	With Policy	11	11	100.0%
	With Glass Lewis research	11	11	100.0%
	FOR	11	11	100.0%

Issuance of Stock w/out Preemptive Rights	Vote	Count	Total	Percentage
	With Management Recommendation	9	9	100.0%
	With Policy	15	15	100.0%
	With Glass Lewis research	15	15	100.0%
	FOR	15	15	100.0%

Issuance of Warrants w/o Preemptive Rights	Vote	Count	Total	Percentage
	With Management Recommendation	1	1	100.0%
	With Policy	1	1	100.0%
	With Glass Lewis research	1	1	100.0%
	FOR	1	1	100.0%

Category Summary: Issuance of Stock by Non-US Company

Vote	Count	Total	Percentage
With Management Recommendation	184	200	92.0%
With Policy	212	212	100.0%
With Glass Lewis research	212	212	100.0%
FOR	196	212	92.5%
AGAINST	15	212	7.1%
ABSTAIN	1	212	0.5%

Proxy Voting Management Report

Voting Statistics, By Issue

Votes in Meetings Held Between October 01, 2010 and December 31, 2010

Other Amendment to Charter

Category Summary: Other Amendment to Charter

Vote	Count	Total	Percentage
With Management Recommendation	325	376	86.4%
With Policy	384	384	100.0%
With Glass Lewis research	384	384	100.0%
FOR	333	405	82.2%
AGAINST	45	405	11.1%
ABSTAIN	6	405	1.5%
Decided not to vote	21	405	5.2%

SHP: Board

SHP Regarding Election of Dissident Board Member(s)	Vote	Count	Total	Percentage
	With Management Recommendation	2	10	20.0%
	With Policy	10	10	100.0%
	With Glass Lewis research	10	10	100.0%
	FOR	2	10	20.0%
	AGAINST	7	10	70.0%
	ABSTAIN	1	10	10.0%

SHP Regarding Independent Board Chairman/Seperation of Chair and CEO	Vote	Count	Total	Percentage
	With Management Recommendation	0	9	0.0%
	With Policy	9	9	100.0%
	With Glass Lewis research	9	9	100.0%
	FOR	9	9	100.0%

SHP Regarding Misc. Board Issue	Vote	Count	Total	Percentage
	With Management Recommendation	0	2	0.0%
	With Policy	2	2	100.0%
	With Glass Lewis research	2	2	100.0%
	ABSTAIN	2	2	100.0%

Proxy Voting Management Report

Voting Statistics, By Issue

Votes in Meetings Held Between October 01, 2010 and December 31, 2010

SHP: Board

SHP Regarding Setting Age Limits for Directors	Vote	Count	Total	Percentage
	With Management Recommendation	1	1	100.0%
	With Policy	1	1	100.0%
	With Glass Lewis research	1	1	100.0%
	FOR	1	1	100.0%

Category Summary: SHP: Board

Vote	Count	Total	Percentage
With Management Recommendation	3	22	13.6%
With Policy	22	22	100.0%
With Glass Lewis research	22	22	100.0%
FOR	12	22	54.5%
AGAINST	7	22	31.8%
ABSTAIN	3	22	13.6%

SHP: Compensation

SHP Regarding Advisory Vote on Compensation (Say on Pay)	Vote	Count	Total	Percentage
	With Management Recommendation	0	3	0.0%
	With Policy	3	3	100.0%
	With Glass Lewis research	3	3	100.0%
	FOR	3	3	100.0%

SHP Regarding Performance-Based Equity Compensation	Vote	Count	Total	Percentage
	With Management Recommendation	0	3	0.0%
	With Policy	3	3	100.0%
	With Glass Lewis research	3	3	100.0%
	FOR	3	3	100.0%

SHP Regarding Restricting Executive Compensation	Vote	Count	Total	Percentage
	With Management Recommendation	10	10	100.0%
	With Policy	10	10	100.0%
	With Glass Lewis research	10	10	100.0%
	AGAINST	10	10	100.0%

Proxy Voting Management Report

Voting Statistics, By Issue

Votes in Meetings Held Between October 01, 2010 and December 31, 2010

SHP: Compensation

Category Summary: SHP: Compensation

Vote	Count	Total	Percentage
With Management Recommendation	10	16	62.5%
With Policy	16	16	100.0%
With Glass Lewis research	16	16	100.0%
FOR	6	16	37.5%
AGAINST	10	16	62.5%

SHP: Environment

SHP Regarding Formation of Environmental/Social Committee of the Board

Vote	Count	Total	Percentage
With Management Recommendation	32	32	100.0%
With Policy	32	32	100.0%
With Glass Lewis research	32	32	100.0%
AGAINST	32	32	100.0%

Category Summary: SHP: Environment

Vote	Count	Total	Percentage
With Management Recommendation	32	32	100.0%
With Policy	32	32	100.0%
With Glass Lewis research	32	32	100.0%
AGAINST	32	32	100.0%

SHP: Labor/Human Rights

SHP Regarding Code of Conduct in China

Vote	Count	Total	Percentage
With Management Recommendation	10	10	100.0%
With Policy	10	10	100.0%
With Glass Lewis research	10	10	100.0%
AGAINST	10	10	100.0%

SHP Regarding MacBride Principles

Vote	Count	Total	Percentage
With Management Recommendation	1	1	100.0%
With Policy	1	1	100.0%
With Glass Lewis research	1	1	100.0%
AGAINST	1	1	100.0%

Proxy Voting Management Report

Voting Statistics, By Issue

Votes in Meetings Held Between October 01, 2010 and December 31, 2010

SHP: Labor/Human Rights

SHP Regarding Reporting on Company's Compliance with International Human Rights Standards	Vote	Count	Total	Percentage
	With Management Recommendation	10	10	100.0%
	With Policy	10	10	100.0%
	With Glass Lewis research	10	10	100.0%
	AGAINST	10	10	100.0%

Category Summary: SHP: Labor/Human Rights

Vote	Count	Total	Percentage
With Management Recommendation	21	21	100.0%
With Policy	21	21	100.0%
With Glass Lewis research	21	21	100.0%
AGAINST	21	21	100.0%

SHP: Misc. Issues

SHP Regarding Misc. Issue	Vote	Count	Total	Percentage
	With Management Recommendation	0	2	0.0%
	With Policy	2	2	100.0%
	With Glass Lewis research	2	2	100.0%
	AGAINST	2	2	100.0%

Category Summary: SHP: Misc. Issues

Vote	Count	Total	Percentage
With Management Recommendation	0	2	0.0%
With Policy	2	2	100.0%
With Glass Lewis research	2	2	100.0%
AGAINST	2	2	100.0%

SHP: Shareholder Rights

SHP Regarding Cumulative Voting	Vote	Count	Total	Percentage
	With Management Recommendation	12	12	100.0%
	With Policy	12	12	100.0%
	With Glass Lewis research	12	12	100.0%
	AGAINST	12	12	100.0%

Proxy Voting Management Report

Voting Statistics, By Issue

Votes in Meetings Held Between October 01, 2010 and December 31, 2010

SHP: Shareholder Rights

SHP Regarding Majority Vote for Election of Directors	Vote	Count	Total	Percentage
	With Management Recommendation	0	10	0.0%
	With Policy	10	10	100.0%
	With Glass Lewis research	10	10	100.0%
	FOR	10	10	100.0%

SHP Regarding Right to Call a Special Meeting	Vote	Count	Total	Percentage
	With Management Recommendation	0	3	0.0%
	With Policy	3	3	100.0%
	With Glass Lewis research	3	3	100.0%
	FOR	3	3	100.0%

Category Summary: SHP: Shareholder Rights

Vote	Count	Total	Percentage
With Management Recommendation	12	25	48.0%
With Policy	25	25	100.0%
With Glass Lewis research	25	25	100.0%
FOR	13	25	52.0%
AGAINST	12	25	48.0%

SHP: Social Issues

SHP Regarding Animal Welfare	Vote	Count	Total	Percentage
	With Management Recommendation	5	5	100.0%
	With Policy	5	5	100.0%
	With Glass Lewis research	5	5	100.0%
	AGAINST	5	5	100.0%

SHP Regarding Limiting or Ending Political Spending	Vote	Count	Total	Percentage
	With Management Recommendation	4	4	100.0%
	With Policy	4	4	100.0%
	With Glass Lewis research	4	4	100.0%
	AGAINST	4	4	100.0%

Proxy Voting Management Report

Voting Statistics, By Issue

Votes in Meetings Held Between October 01, 2010 and December 31, 2010

SHP: Social Issues

SHP Regarding Reviewing Political Spending or Lobbying	Vote	Count	Total	Percentage
	With Management Recommendation	4	4	100.0%
	With Policy	4	4	100.0%
	With Glass Lewis research	4	4	100.0%
	AGAINST	4	4	100.0%

Category Summary: SHP: Social Issues

Vote	Count	Total	Percentage
With Management Recommendation	13	13	100.0%
With Policy	13	13	100.0%
With Glass Lewis research	13	13	100.0%
AGAINST	13	13	100.0%

Strategic Transaction or Restructuring

Divestiture/Spin-off	Vote	Count	Total	Percentage
	With Management Recommendation	16	17	94.1%
	With Policy	17	17	100.0%
	With Glass Lewis research	17	17	100.0%
	FOR	16	17	94.1%
	ABSTAIN	1	17	5.9%

Intra-company Contracts/Control Agreements	Vote	Count	Total	Percentage
	With Management Recommendation	65	65	100.0%
	With Policy	65	65	100.0%
	With Glass Lewis research	65	65	100.0%
	FOR	65	65	100.0%

Merger/Acquisition	Vote	Count	Total	Percentage
	With Management Recommendation	79	88	89.8%
	With Policy	88	88	100.0%
	With Glass Lewis research	88	88	100.0%
	FOR	79	112	70.5%
	ABSTAIN	9	112	8.0%
	Decided not to vote	24	112	21.4%

Proxy Voting Management Report

Voting Statistics, By Issue

Votes in Meetings Held Between October 01, 2010 and December 31, 2010

Strategic Transaction or Restructuring

Misc. Proposal Regarding Restructuring	Vote	Count	Total	Percentage
	With Management Recommendation	25	27	92.6%
	With Policy	27	27	100.0%
	With Glass Lewis research	27	27	100.0%
	FOR	25	27	92.6%
	ABSTAIN	2	27	7.4%

Property Purchase	Vote	Count	Total	Percentage
	With Management Recommendation	2	2	100.0%
	With Policy	2	2	100.0%
	With Glass Lewis research	2	2	100.0%
	FOR	2	2	100.0%

Property Sale	Vote	Count	Total	Percentage
	With Management Recommendation	1	1	100.0%
	With Policy	1	1	100.0%
	With Glass Lewis research	1	1	100.0%
	FOR	1	1	100.0%

Restructuring/Capitalization	Vote	Count	Total	Percentage
	With Management Recommendation	26	26	100.0%
	With Policy	26	26	100.0%
	With Glass Lewis research	26	26	100.0%
	FOR	26	26	100.0%

Restructuring/Reorganization	Vote	Count	Total	Percentage
	With Management Recommendation	4	4	100.0%
	With Policy	4	4	100.0%
	With Glass Lewis research	4	4	100.0%
	FOR	4	4	100.0%

Proxy Voting Management Report

Voting Statistics, By Issue

Votes in Meetings Held Between October 01, 2010 and December 31, 2010

Strategic Transaction or Restructuring

Spin-off	Vote	Count	Total	Percentage
	With Management Recommendation	1	1	100.0%
	With Policy	1	1	100.0%
	With Glass Lewis research	1	1	100.0%
	FOR	1	1	100.0%

Category Summary: Strategic Transaction or Restructuring

Vote	Count	Total	Percentage
With Management Recommendation	219	231	94.8%
With Policy	231	231	100.0%
With Glass Lewis research	231	231	100.0%
FOR	219	255	85.9%
ABSTAIN	12	255	4.7%
Decided not to vote	24	255	9.4%

TAB 4 – OREGON SAVINGS GROWTH PLAN

ANNUAL REVIEW

Oregon Savings Growth Plan
Annual Review
February 23, 2011

Purpose

To provide an annual update on the Oregon Savings Growth Program (OSGP) structure and performance, with recommended action by the OIC.

Recommendations

1. Approve the addition of a Self Directed Brokerage window to be managed by Charles Schwab;
2. Approve the addition of the Callan Small Cap Equity Fund into the OSGP Small/Mid Equity Option;
3. Approve the addition of the DFA Emerging Markets Equity Fund into the OSGP International Equity Option.
4. Approve the attached staff proposed changes to the Deferred Compensation Investment Program policies 04-07-01 (*Statement of Objectives*), and 04-07-05 (*Investment Management Firm Monitoring and Retention*).

Background

The Oregon Growth Savings Plan (Plan or OGSP) is the State of Oregon's 457 Deferred Compensation Plan. It is a voluntary supplemental retirement plan that provides eligible state and local government employees the opportunity to defer receipt of a portion of their current salary on a pre-tax basis. These deferrals are invested in various investment vehicles until they are drawn upon by the employee, typically at the time of retirement. More than 23,000 employees participate in the Plan, which has assets totaling more than $1.14 billion (as of 12/31/10).

Oversight of the ***Plan's administrative operation*** is the responsibility of the Oregon Public Employees Retirement Fund Board (OPERF Board), with support from the OSGP manager. Additional oversight is provided by a seven member Deferred Compensation Advisory Committee established under ORS 243.505. The Deferred Compensation Advisory Committee studies and advises the OPERF Board on various activities regarding the Plan, such as:

- State and federal legislative issues related to the administration of a deferred compensation plan;
- The administration of the catch-up and the financial hardship provisions in Section 457 of the IRS Code;
- The OSGP administrative operations fees and procedures and plan participant actuarial statistics;
- Ways and means to inform and educate eligible employees about the Plan;
- The expressed desires of participating employees.

Oversight of the ***Plan's investment program*** is the responsibility of the Oregon Investment Council and supported by Treasury staff. The Plan offers an array of eight investment options (Short-Term Fixed Option, Stable Value Option, Intermediate Bond Option, Large Company Value Stock Option, Stock Index Option, Large Company Growth Stock Option, International Stock Option, and Small/Mid-Size Company Stock Option) and nine Target Date Asset Allocations funds (the multiple target date funds are considered to be "one" option). Plan participants may individually direct their salary deferrals to any of these Options or Target Date Funds.

OSGP Structure

The Plan's Investment Options employ a mix of passive and active management using both institutional commingled trust funds and mutual funds, within each option. OSGP uses several managers currently retained for OPERF. The benefits of this structure include: 1) Lower overall investment management fees; 2) More effective monitoring of funds/managers by staff; and 3) Efficient management of participant directed cash flows between Options. The Plan's Target Date funds are institutional commingled trusts managed by BlackRock (formerly BGI), that are indexed implementations of nine unique strategic asset allocation plans, which are designed for participants according to their anticipated year of retirement.

The following table shows the underlying fund vehicles, and associated fees, contained within each OSGP option. The total weighted average investment cost, of the OSGP participant driven allocations, is 26 basis points. CEM Benchmarking studies for previous calendar years show progressively lower year over year OSGP Investment Option costs. For calendar years 2007 to 2009, total investment costs dropped from 35 basis points to 24 basis points. The cost reductions occurred as a result of: 1) Dropping the Balanced Fund Option in 2008 in favor of Target Date Funds, lowering costs from 26 bps to 10 bps; 2) Increased participant driven allocation to Target Date Funds from 19.6 percent to 23.5 percent; and 3) Negotiating a lower fee structure with the Short Term Option investment provider (SSgA Government ST Fund) in late 2009, from 10 bps to 5 bps.

CURRENT STRUCTURE AS OF DECEMBER 31, 2010

OPTION	MARKET VALUE	WEIGHT	NET FEE
SHORT TERM FIXED OPTION			
SSgA GSTIF	$ 56,337,862.78	100.0%	0.05%
Option Total	**$ 56,337,862.78**		**0.05%**
STABLE VALUE OPTION			
Dwight Asset Management	$ 180,944,233.50	100.0%	0.29%
Option Total	**$ 180,944,233.50**	**100.0%**	**0.29%**
INTERMEDIATE FIXED INCOME OPTION			
BTC US Debt Index Fund	$ 28,019,328.50	31.1%	0.04%
Fidelity Broad Market Duration	$ 31,095,124.12	34.5%	0.15%
Wellington Capital Bond Core Plus	$ 31,012,353.14	34.4%	0.10%
Option Total	**$ 90,126,805.76**	**100.0%**	**0.10%**
LARGE CAP VALUE EQUITY OPTION			
BTC Russell 1000 Value Fund	$ 34,923,434.21	40.2%	0.032%
DODGX - Dodge and Cox	$ 17,353,368.56	20.0%	0.42%
MEIIX - MFS Value	$ 17,230,885.65	19.9%	0.73%
LSVEX - LSV Value	$ 17,270,325.43	19.9%	0.65%
Option Total	**$ 86,778,013.85**	**100.0%**	**0.37%**
TOTAL MARKET EQUITY INDEX OPTION			
BTC Russell 3000 Index Fund	$ 106,544,201.74	100.0%	0.035%
Option Total	**$ 106,544,201.74**	**100.0%**	**0.035%**
LARGE CAP GROWTH EQUITY OPTION			
BTC Russell 1000 Growth Fund	$ 35,477,220.67	40.4%	0.03%
AMCPX - American Funds	$ 17,623,469.05	20.0%	0.48%
WFCIX - Wells Fargo Adv. Endeavor Sel. I	$ 17,383,061.49	19.8%	0.80%
DEUIX - Delaware	$ 17,419,478.60	19.8%	0.57%
Option Total	**$ 87,903,229.81**	**100.0%**	**0.38%**
INTERNATIONAL EQUITY OPTION			
ARTIX - Artisan International	$ 14,945,097.23	14.9%	0.88%
BTC EAFE index	$ 39,963,037.80	39.7%	0.08%
GMOFX - GMO Foreign III	$ 15,254,177.08	15.2%	0.75%
OAKIX - Oakmark International	$ 15,360,866.78	15.3%	0.73%
MIOFX - Marsico	$ 15,091,211.27	15.0%	1.27%
Option Total	**$ 100,614,390.16**	**100.0%**	**0.58%**
SMALL/MID CAP EQUITY OPTION			
BTC Russell 2000 Index Fund	$ 42,458,159.67	26.2%	0.04%
AVFIX - American Beacon	$ 40,372,213.87	24.9%	0.84%
ACRNX - Columbia Acorn	$ 39,924,439.09	24.6%	0.42%
RPMGX - T Rowe Price Midcap Growth	$ 39,414,827.71	24.3%	0.73%
Option Total	**$ 162,169,640.34**	**100.0%**	**0.50%**
BLACKROCK LIFEPATH			
LifePath Retirement	$ 82,124,363.63	30.8%	0.10%
LifePath 2015	$ 70,550,804.46	26.4%	0.10%
LifePath 2020	$ 50,725,979.30	19.0%	0.10%
LifePath 2025	$ 25,617,119.04	9.6%	0.10%
LifePath 2030	$ 15,726,836.21	5.9%	0.10%
LifePath 2035	$ 10,261,659.72	3.8%	0.10%
LifePath 2040	$ 4,747,806.99	1.8%	0.10%
LifePath 2045	$ 2,060,065.67	0.8%	0.10%
LifePath 2050	$ 4,994,094.18	1.9%	0.10%
Option Total	**$ 266,808,729.20**	**100.0%**	**0.10%**
OSGP FUND TOTAL	**$ 1,138,227,107.14**		**0.26%**

Although not under OIC oversight, OSGP administrative costs, as of the end of 2010, were 22 basis points. The costs are comprised of a 14 basis point recordkeeping fee, and an 8 basis point administrative fee, which includes: OSGP staffing & consultant costs; custodial bank costs; and participant education/communication costs. The 2010 CEM Benchmarking study for calendar year 2009 shows that the total plan cost of 47 basis points was below the predicted total plan cost of 59 bps, given OSGP's plan size and asset mix**. It should be noted that in late 2010, recordkeeping services for OSGP were renegotiated from 14 to 10 basis points.**

OSGP Performance

The following table shows performance results for calendar year 2010. In order to remain consistent with reporting for all other OIC managed plans (OPERF, CSF, HIED, SAIF), the OSGP performance results shown on the next two tables are **Net** of all investment management fees and **Gross** of the 22 bps administrative fees. Four of the eight Investment Options met or exceeded their benchmarks for the last calendar year. Although the Stable Value Option shows underperformance relative to the Constant Maturing 5-year Treasury index, this Option is also measured against the 91-Day T-Bill, which it outperformed by over 100 basis points, across all time periods.

Oregon Savings Growth Plan
Performance Results
as of December 31, 2010

	Annualized			
OPTION *BENCHMARKS (for comparison)*	1 Year	2 Years	3 Years	5 Years
Short-Term Fixed Option	0.13%	0.19%	0.86%	2.54%
91-Day T-Bill	*0.13%*	*0.17%*	*0.79%*	*2.43%*
Excess Returns	*0.00%*	*0.02%*	*0.07%*	*0.11%*
Stable Value Option	2.06%	2.08%	2.91%	3.59%
*Rolling Average 5 Year CMT***	*3.41%*	*3.57%*	*3.68%*	*3.74%*
Excess Returns	*-1.35%*	*-1.49%*	*-0.77%*	*-0.15%*
Intermediate-Bond Option	8.14%	11.43%	6.85%	6.08%
BC Aggregate	*6.54%*	*6.24%*	*5.90%*	*5.80%*
Excess Returns	*1.60%*	*5.19%*	*0.95%*	*0.28%*
Large Company Value Stock Option	13.90%	18.36%	-4.68%	1.17%
Russell 1000 Value	*15.51%*	*17.58%*	*-4.42%*	*1.28%*
Excess Returns	*-1.61%*	*0.78%*	*-0.26%*	*-0.11%*
Stock Index Option	17.12%	22.63%	-1.99%	2.75%
Russell 3000	*16.93%*	*22.50%*	*-2.01%*	*2.74%*
Excess Returns	*0.19%*	*0.13%*	*0.02%*	*0.01%*
Large Company Growth Stock Option	15.94%	26.58%	-1.54%	2.48%
Russell 1000 Growth	*16.71%*	*26.55%*	*-0.47%*	*3.75%*
Excess Returns	*-0.77%*	*0.03%*	*-1.07%*	*-1.27%*
International Stock Option	9.12%	21.44%	-6.47%	3.02%
MSCI EAFE	*7.75%*	*19.16%*	*-7.02%*	*2.46%*
Excess Returns	*1.37%*	*2.28%*	*0.55%*	*0.56%*
Small/Mid-Size Company Stock Option	26.58%	31.66%	3.33%	5.36%
Russell 2500	*26.71%*	*30.49%*	*2.48%*	*4.86%*
Excess Returns	*-0.13%*	*1.17%*	*0.85%*	*0.50%*

SOURCE: STATE STREET BANK

The following color-coded calendar-year performance table shows that the majority of OSGP Investment Options have met or exceeded their benchmark objectives over the past few years.

OPTION	CY 2010	CY 2009	CY 2008	CY 2007	CY 2006	CY 2005	CY 2004
Short-Term Fixed Option	Outperform	Outperform	Outperform	Outperform	Outperform	Outperform	Underperformed
Stable Value Option	Underperformed	Underperformed	Outperform	Outperform	Outperform	Outperform	Outperform
Intermediate-Bond Option	Outperform	Outperform	Underperformed	Underperformed	Outperform	Outperform	Outperform
Large Company Value Stock Option	Underperformed	Outperform	Underperformed	Outperform	Underperformed	Outperform	Outperform
Stock Index Option	Outperform	Outperform	Underperformed	Outperform	Underperformed	Inderperforme	Underperformed
Large Company Growth Stock Option	Underperformed	Outperform	Underperformed	Underperformed	Underperformed	Outperform	Outperform
International Stock Option	Outperform	Outperform	Underperformed	Outperform	Underperformed	Outperform	Underperformed
Small/Mid-Size Company Stock Option	Underperformed	Outperform	Outperform	Outperform	Underperformed	Outperform	Outperform

Although the Oregon Savings Growth Plan has performed well, Staff and the OIC/OSGP Consultant (Arnerich & Massena) are recommending three changes to the Plan. The first recommendation is the addition of a Self Directed Brokerage Account (SDBA) Option. The two remaining recommendations are commingled trust fund additions to the Small/Mid Cap Option and the International Equity Option. A discussion of the OSGP Option performance and the individual proposed Option changes are contained in the attached Consultant presentation.

Self Directed Brokerage Option Discussion

One of the objectives in hiring a dedicated consultant for the OSGP was to survey the defined contribution landscape and to provide recommendations on how to improve the OSGP structure in serving the needs of the individual investors, whose participation is voluntary. After reviewing the OSGP structure relative to other 457 plans and defined contribution plans in general, the consultant authored a white paper in April 2010 titled "Conservation of Choice" which sets out current defined contribution best practices. That white paper was later followed by a second white paper titled "Core Menu Construction," which provides more granular core option structuring recommendations. In summary, those best practices translate to a recommended investment option structure that is composed of three tiers: 1) A set of target date or risk based investment portfolios; 2) A simplified core menu of investment options; and 3) A self-directed brokerage window.

Shortly after the results of the whitepaper were discussed with OST and OSGP staff, a survey from OSGP was distributed to state employees asking if they would be interested in having a self-directed brokerage account added to the Option line-up. According to the OSGP Administrator, the response to the survey was the highest OSGP staff had ever received. A total of 4,212 employees responded to the survey. Eighty-four percent of the 3,917 who responded to the question ***"Do you think OSGP should offer a SDBA?"*** said **"*yes*"**. The results of the consultant study and OSGP survey were presented and discussed at the August 11, 2010 OSGP Advisory Committee meeting and resulted in the Advisory Committee voting to move ahead with the vendor diligence and the preparation of adding a SDBA Option. Three vendors that currently provide SDBA services through the OSGP record keeper (ING Retirement Services) were contacted and interviewed (SSGM, TD Ameritrade, Charles Schwab). Although all three vendors were deemed very capable of providing the desired SDBA services, the OSGP SDBA evaluation team (comprised of the consultant, OST and OSGP staff) was unanimous in its recommendation to retain Charles Schwab.

SDBA OPTION PROS

- Allows participants to invest in mutual funds and ETFs not available in core options;
- Allows participants or employee groups to invest in socially responsible investments (SRI) that promote environmental stewardship, consumer protection, human rights, avoidance of "sin stocks," and pursuit of religious/cultural based investing preferences;
- OSGP survey indicates that the addition of a SDBA Option would encourage participants to keep their money with OSGP, upon retirement.

SDBA OPTION CONS

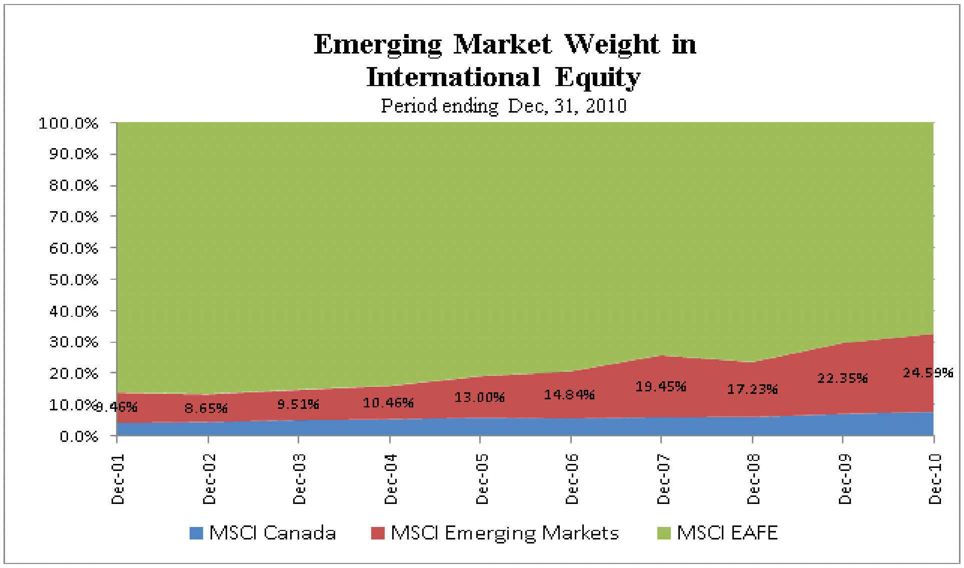
- Adding a brokerage window will increase plan costs [Mitigant: Only individuals participating in the OSGP SDBA will bear the costs associated with the SDBA Option];
- Adding a brokerage window will expose the participant to "risky" investments [Mitigant: Participants will be limited to investing in mutual funds and a limited list of ETFs. Only participants with a minimum OSGP balance of $20,000 will be allowed access to the SDBA Option. Participants will only be allowed to transfer a maximum of 50 percent of their total OSGP balance into the SDBA Option.];
- Adding a brokerage account will subject participants to higher transaction costs [Mitigant: SDBA participants will have access to a large list of no-load, no transaction fee mutual funds and ETFs];
- Adding a brokerage window will subject the OSGP to liability [Mitigant: It is standard industry practice by SDBA providers to require that a waiver be signed by the participant, acknowledging that no fiduciary oversight by the plan sponsor is provided in the SDBA Option].

Recommendation

Given participant demand, OIC/OSGP Consultant recommendation, and approval from the OSGP Advisory Committee, staff recommends the addition of a SDBA Option to be provided by Charles Schwab Inc.

International Equity Option Discussion

Over the last decade, emerging markets have become a significant portion of the international equity market place. In 2001, emerging markets represented 9.5 percent of the international equity market place. As of December 31, 2010 that figure is close to 25 percent.



Analysis of the OSGP International Equity Option shows that the bulk of its exposure is to developed international equity stocks. The exposure to emerging market stocks in the Option is currently at 6 percent. The diminutive exposure to emerging markets in the Option limits the benefits of diversification benefits due to investing in a broader international equity universe. Staff and the OIC/OSGP Consultant believe that adding a dedicated emerging markets strategy to the Option will improve the overall return/risk characteristics and provide the OSGP participants with a more diversified Option.

Given the preference for using managers that are common to OPERF (leveraging overall fee structures, efficient monitoring of managers/fund), staff queried the existing stable of OPERF emerging market managers for potential OSGP investment venues. That group of dedicated emerging market managers included Arrowstreet, Genesis, Westwood, Pictet, and Dimensional Fund Advisors (DFA). Although all managers offered commingled trust funds, only Arrowstreet and DFA offered daily valued funds which are required within OSGP, due to the daily participant driven flows that can occur between the OSGP Options. The Arrowstreet mutual fund was eliminated from consideration due to fact that the strategy is sub-advised (creating the potential for sub-advisory changes beyond OSGP control) to a mutual fund complex whose expense ratios approached 150 bps per annum.

The proposed emerging markets strategy would be implemented through the DFA Emerging Markets Core Equity institutional mutual fund (performance shown below) which provides exposure to over 3,100 different emerging markets stocks at an institutional expense ratio of 65 bps per annum.

Performance for period ending December 31, 2010

	1 year	3 Years	5 Years	Incep*
DFA Emerging Market Core Equity	23.54%	3.79%	14.97%	18.26%
MSCI Emerging Markets Index (net)	18.88%	-0.32%	12.78%	17.28%
Excess	4.66%	4.11%	2.19%	0.98%

*Inception May 2005

The OIC is very familiar with DFA, having approved a DFA Emerging Markets Small Cap mandate for the OPERF portfolio at the February 2010 OIC meeting. Prior to that, the OIC approved a DFA International Small Cap mandate for the OPERF portfolio at the October 2008 OIC meeting. Staff has conducted numerous due diligence visits with DFA and is confident in DFA's abilities to meet the investment objectives within this International Equity Option.

The International Equity Option is comprised of one commingled trust index fund managed by BlackRock (formerly BGI) and four mutual funds (GMO Foreign III, Oakmark International Fund, Artisan International Fund, and the Marsico International Opportunities Fund). The current allocation within the Option is 40% to BlackRock EAFE Index and 15% to each of the other mutual funds. Various emerging market allocation scenarios were analyzed and considered. Staff is recommending a structure that provides a meaningful increase in emerging markets exposure (from 6 percent to 17 percent), but also lowers the overall fee structure from 58 to 56 bps.

Fund	Ticker	EM Exposure	Current Allocation	Proposed Allocation
Artisan International	ARTIX	10.6%	15%	10%
GMO Foreign	GMOFX	3.9%	15%	15%
Marsico International Opportunities	MIOFX	22.4%	15%	10%
Oakmark International	OAKIX	2.1%	15%	15%
BlackRock MSCI EAFE Index		0.0%	40%	35%
DFA Emerging Markets Core	DFCEX	85.0%	0%	15%
TOTAL EMERGING MARKETS EXPOSURE			**6%**	**17%**
OSGP INTERNATIONAL EQUITY OPTION FEE			**0.58%**	**0.56%**

Recommendation

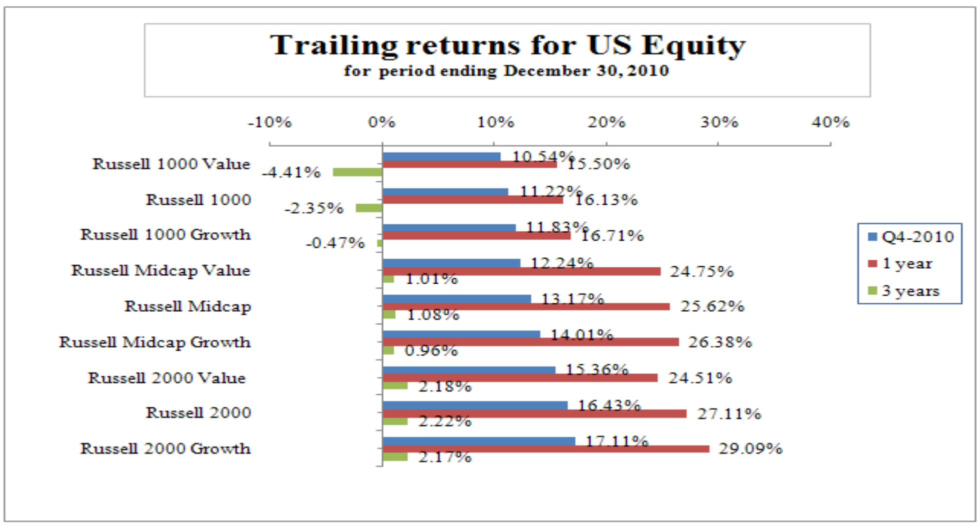
Staff recommends the addition of the DFA's Emerging Markets Core Equity institutional mutual fund (Ticker: DFCEX) into the International Equity Option. Given the proposed structure, the total dollars allocated to the DFA Emerging Markets Core fund, based upon December 31, 2010 market values would be approximately $15 mm. The new Option allocation weightings would be as follows:

1) 35% BlackRock EAFE Index;
2) 10% Artisan International Fund;
3) 10% Marsico International Opportunities Fund;
4) 15% GMO Foreign III;
5) 15% OakMark International Fund I;
6) 15% DFA Emerging Market Core Equity Fund.

Small/Mid Cap Equity Option Discussion

This Small/Mid Cap Equity Option invests in actively managed midcap and small cap stocks. The benchmark for this option is the Russell 2500 Index. The option is comprised of one commingled trust fund (BlackRock Russell 2000 Index Fund) and three mutual funds (American Beacon Small Cap Value, Columbia Acorn Z Fund, and the T. Rowe Price Mid Cap Growth Fund). The allocation to each of the funds is 25% and the option is rebalanced on a monthly basis. Combined, the weighted average fee structure for this option is 50 basis points.

A structure analysis of the Small/Mid Cap Equity Option shows that there is an underweight to Small Cap Growth exposure and a mirror image overweight to Mid Cap Growth. Although the Option has performed well overall, trailing returns for periods ending December 30, 2010 (see chart below) show that small cap growth stocks have taken a leadership position across asset class capitalization and style. The underweight to small cap growth, in the Option, provides some risk of underperformance should this particular sub-asset class continue to outperform.



Staff believes that adding an actively managed small cap strategy will addresses the imbalance and improve the overall return/risk characteristics, providing OSGP participants with a better diversified, actively managed Option.

The proposed strategy would be implemented with the Callan Small Cap Equity Fund. The fund is a multi-sub advisor portfolio managed by the Callan Associates Trust Advisory group which invests in 40 underlying investment strategies. Callan Associates was founded in 1973 and is one of the largest independently owned investment consulting firms in the United States. Callan is an employee-owned firm which employs 60 dedicated research professions and has $1 trillion in assets under advisement. The Callan Small Cap Equity Fund is designed to replicate the structure found within the U.S. Small Cap manager universe. The investment strategy on which this mandate is predicated was first published in the Spring 2005 edition of *The Journal of Portfolio Management* by Greg Allen (President of Callan Associates and Director of Research). At the time of publication, Callan research showed that a portfolio that earned the average return for a broad universe of institutional small-cap U.S. equity managers, in each quarter over the 20 years ended June 30, 2004, would have outperformed the Russell 2000 index by over 500 basis points per year.

The original research and the subsequent live performance of this fund (see performance table below) reinforce the accepted belief that small cap equity is an inefficient asset class well suited for active management. The strategy is backed by Callan's Associates Global Manager Research Group that carry out research on the Fund's underlying managers as well as the broader U.S. Small Cap and Micro Cap manager universe.

Performance for period ending December 31, 2010

	1 year	3 Years	4 Years	Inception
Callan SC Equity Fund (net)	28.17%	1.64%	2.52%	3.90%
Russell 2000 Index	26.86%	2.22%	1.26%	3.16%
Excess	1.32%	-0.59%	1.26%	0.74%

Although there is a preference for using managers that are common to OPERF (leveraging overall fee structures, efficient monitoring of managers/fund), it should be noted that many institutional small cap managers do not offer daily valued commingled trusts or mutual funds, limiting the number of viable institutional quality funds available to OSGP. That being said, the Callan Small Cap Equity fund structure (consisting of 40 sub-advised separate accounts) does provide exposure to two existing OPERF small cap equity managers (Eudaimonia Asset Management & Tygh Capital Management) and exposure to many high conviction institutional small cap managers that staff has met with over the years in Treasury offices, in a daily valued commingled trust.

Staff has followed this fund with great interest since its inception in July 2006. The commingled fund was marketed only to pension plans and initially required a minimum $200 mm commitment. Request from smaller plans have since resulted in a lower minimum commitment hurdle of $50 mm. As a result of the long relationship that staff has had with Callan, the fund is allowing OSGP into the fund at half the minimum required asset level. The total projected Expense Ratio of this fund is 70 basis points. Underlying managers are subject to a non-negotiable 50 bps advisory fee. Callan receives a 15 basis point annual management fee with the residual 4 basis point fee going to pay for custodial services. Given the dedication to portfolio structure, rebalancing, negotiating of fees and terms, and continual monitoring of the 40 underlying managers (implying a perpetual search in small cap), this fund will provide the OSGP Small/Mid Cap Option a unique investment fund that at any given point in time, is Callan Associates best thinking in small cap space.

Staff and the OIC/OSGP Consultant Arnerich Massena conducted separate due diligence visits with the Callan Trust Advisory group asset management division in September 2010. Staff and the OIC/OSGP Consultant are confident that the fund strategy will be able to meet its investment objectives within this Option.

Recommendation

Staff recommends the addition of the Callan Small Cap Fund into the Small/Mid Cap Equity Option. Given the proposed structure, the total dollars allocated to the Callan Small Cap Equity fund, based upon December 31, 2010 market values would be approximately $25 mm. The new Option allocation weightings would be as follows:

1) 25% BlackRock Russell 2000 Index;
2) 22.5% American Beacon Value Fund;
3) 22.5% Columbia Acorn SMID Growth Fund;
4) 15% T. Rowe Price Mid Cap Growth Fund;
5) 15% Callan Small Equity Fund.

OSGP Option Restructuring Results

The following table provides the overall investment fee implications of the addition of the DFA Emerging Markets Core Equity fund and the Callan Small Cap Equity fund to the International Equity Option and the Small Mid Cap Option, respectively. The table also shows the results of staff efforts to **reduce investment management costs** to the plan. Within the Large Cap Value Option, staff is in the process of mapping the MFS Value mutual fund to a commingled trust vehicle lowering the cost of the fund from 73 to 44 bps. Within the Large Cap Growth Option, staff is in the process of mapping the Delaware Growth mutual fund to a commingled investment trust lowering the cost of the fund from 57 to 45 bps. Finally, within the Small/Mid Cap Option, staff is in the process of mapping the T. Rowe Price Mid Cap Growth fund to a newly formed institutional share class mutual fund lowering the cost of the fund from 73 to 66 bps.

CURRENT STRUCTURE AS OF DECEMBER 31, 2010				PROPOSED	
OPTION	**MARKET VALUE**	**WEIGHT**	**NET FEE**	**WEIGHT**	**NET FEE**
SHORT TERM FIXED OPTION					
SSgA GSTIF	$ 56,337,862.78	100.0%	0.05%	100.0%	0.05%
Option Total	**$ 56,337,862.78**		**0.05%**		**0.05%**
STABLE VALUE OPTION					
Dwight Asset Management	$ 180,944,233.50	100.0%	0.29%	100.0%	0.29%
Option Total	**$ 180,944,233.50**	**100.0%**	**0.29%**	**100.0%**	**0.29%**
INTERMEDIATE FIXED INCOME OPTION					
BTC US Debt Index Fund	$ 28,019,328.50	31.1%	0.04%	33.3%	0.04%
Fidelity Broad Market Duration	$ 31,095,124.12	34.5%	0.15%	33.3%	0.15%
Wellington Capital Bond Core Plus	$ 31,012,353.14	34.4%	0.10%	33.3%	0.10%
Option Total	**$ 90,126,805.76**	**100.0%**	**0.10%**	**100.0%**	**0.10%**
LARGE CAP VALUE EQUITY OPTION					
BTC Russell 1000 Value Fund	$ 34,923,434.21	40.2%	0.032%	40.0%	0.032%
DODGX - Dodge and Cox	$ 17,353,368.56	20.0%	0.42%	20.0%	0.42%
MEIIX - MFS Value	$ 17,230,885.65	19.9%	0.73%	20.0%	0.44%
LSVEX - LSV Value	$ 17,270,325.43	19.9%	0.65%	20.0%	0.65%
Option Total	**$ 86,778,013.85**	**100.0%**	**0.37%**	**100.0%**	**0.31%**
TOTAL MARKET EQUITY INDEX OPTION					
BTC Russell 3000 Index Fund	$ 106,544,201.74	100.0%	0.035%	100.0%	0.035%
Option Total	**$ 106,544,201.74**	**100.0%**	**0.035%**	**100.0%**	**0.035%**
LARGE CAP GROWTH EQUITY OPTION					
BTC Russell 1000 Growth Fund	$ 35,477,220.67	40.4%	0.03%	40.0%	0.03%
AMCPX - American Funds	$ 17,623,469.05	20.0%	0.48%	20.0%	0.48%
WFCIX - Wells Fargo Adv. Endeavor Sel. I	$ 17,383,061.49	19.8%	0.80%	20.0%	0.80%
DEUIX - Delaware	$ 17,419,478.60	19.8%	0.57%	20.0%	0.45%
Option Total	**$ 87,903,229.81**	**100.0%**	**0.38%**	**100.0%**	**0.36%**
INTERNATIONAL EQUITY OPTION					
ARTIX - Artisan International	$ 14,945,097.23	14.9%	0.88%	10.0%	0.88%
BTC EAFE index	$ 39,963,037.80	39.7%	0.08%	35.0%	0.08%
GMOFX - GMO Foreign III	$ 15,254,177.08	15.2%	0.75%	15.0%	0.75%
OAKIX - Oakmark International	$ 15,360,866.78	15.3%	0.73%	15.0%	0.73%
MIOFX - Marsico	$ 15,091,211.27	15.0%	1.27%	10.0%	1.27%
DFCEX - DFA Emerging Markets Core Equity			0.65%	15.0%	0.65%
Option Total	**$ 100,614,390.16**	**100.0%**	**0.58%**	**100.0%**	**0.56%**
SMALL/MID CAP EQUITY OPTION					
BTC Russell 2000 Index Fund	$ 42,458,159.67	26.2%	0.04%	25.0%	0.04%
AVFIX - American Beacon	$ 40,372,213.87	24.9%	0.84%	22.5%	0.84%
ACRNX - Columbia Acorn	$ 39,924,439.09	24.6%	0.42%	22.5%	0.42%
RPMGX - T Rowe Price Midcap Growth	$ 39,414,827.71	24.3%	0.73%	15.0%	0.66%
Callan Small Cap Equity Fund			0.75%	15.0%	0.75%
Option Total	**$ 162,169,640.34**	**100.0%**	**0.50%**	**100.0%**	**0.50%**
BLACKROCK LIFEPATH					
LifePath Retirement	$ 82,124,363.63	30.8%	0.10%	30.8%	0.10%
LifePath 2015	$ 70,550,804.46	26.4%	0.10%	26.4%	0.10%
LifePath 2020	$ 50,725,979.30	19.0%	0.10%	19.0%	0.10%
LifePath 2025	$ 25,617,119.04	9.6%	0.10%	9.6%	0.10%
LifePath 2030	$ 15,726,836.21	5.9%	0.10%	5.9%	0.10%
LifePath 2035	$ 10,261,659.72	3.8%	0.10%	3.8%	0.10%
LifePath 2040	$ 4,747,806.99	1.8%	0.10%	1.8%	0.10%
LifePath 2045	$ 2,060,065.67	0.8%	0.10%	0.8%	0.10%
LifePath 2050	$ 4,994,094.18	1.9%	0.10%	1.9%	0.10%
Option Total	**$ 266,808,729.20**	**100.0%**	**0.10%**	**100.0%**	**0.10%**
OSGP FUND TOTAL	**$ 1,138,227,107.14**		**0.263%**		**0.256%**

New Fund
Fee Drop

Arnerich Massena
Building Better Portfolios

Oregon Savings Growth Plan
Annual Review

February 23, 2011

What Our DC Clients Value

You and your participants are our top priority.

- Unbiased and independent – a client advocate
- Extensive investment manager services
  - Rigorous proprietary research
  - Thorough due diligence
  - Ongoing monitoring
- Adaptive to the needs and personalities of committee members
- We are a co-fiduciary

Our DC Client Base – Arnerich Massena Client Profile	
$5 million to $50 million	32
$50 million to $100 million	10
$100 million to $500 million	19
$500 million and above	8
Total	69

- Number of 457 Plans – 17
- Types of clients served
  - Public Sector
  - Corporate
- Total institutional assets under management– $14.5 billion

Our DC Service Model

Comprehensive Fiduciary Solution – A Best Practices Approach

- **Plan Governance and Documentation**
  - Investment policy, fee policy, and committee charter
  - Fiduciary training and education
- **Investment Advisory**
  - Manager search and selection
  - Monitoring and reporting (quarterly performance reporting)
  - Manager research and due diligence
- **Cost Management**
  - Investment costs
  - Provider costs
  - Transparency and disclosure
- **Vendor Management (Services) and Negotiations (Fees)**
  - Record-keepers
  - Administrators
  - Trustees

Arnerich Massena
Building Better Portfolios

Projects

- **Recordkeeper Request for Proposal**
  - Conducted RFP, worked with evaluation committee to determine finalist candidates, observed finalist presentations.
  - Result: ING retained with approximately 40% in administrative cost savings.
- **OSGP Investment Menu Structure Review**
  - Determined Plan to be very progressive – format allows participants to utilize best-in-class money managers and packages the investment options into easily understood 'asset class modules'.
- **Self-Directed Brokerage Provider Interviews (Charles Schwab, State Street, and TD Ameritrade)**
  - OSGP currently in the process of determining if the SDB option should be added to the Plan and whom the optimal provider would be.
- **Stable Value Fund Manager Review**
  - Reviewed manager in light of changing stable value landscape.

OSGP Staff Report

Performance Measurement Notes as of December 31, 2010

Product Name	Report Short Name	Ticker
SSga Government Short Term Investment Fund	SSga Government Sh Tm Investment	N/A
Dwight Stable Value	Dwight Stable Value	N/A
Stable Value Option - OSGP	Stable Value Option - OSGP	N/A
A Intermediate Bond Option - OSGP	A Intermediate Bond Option - OSGP	N/A
BlackRock US Debt Index Fund	BlackRock US Debt Index Fund	N/A
Fidelity Broad Market Duration Fund	Fidelity Brd Mkt Dur	N/A
Wellington Capital Core Bond Plus	Wellington Capital Core Bond Plus	N/A
BlackRock LP 2015 Index Q	BR LP 2015 Index Q	N/A
BlackRock LP 2020 Index Q	BR LP 2020 Index Q	N/A
BlackRock LP 2025 Index Q	BR LP 2025 Index Q	N/A
BlackRock LP 2030 Index Q	BR LP 2030 Index Q	N/A
BlackRock LP 2035 Index Q	BR LP 2035 Index Q	N/A
BlackRock LP 2040 Index Q	BR LP 2040 Index Q	N/A
BlackRock LP 2045 Index Q	BR LP 2045 Index Q	N/A
BlackRock LP 2050 Index Q	BR LP 2050 Index Q	N/A
BlackRock LP Retirement Index Q	BR LP Ret Indx Q	N/A
A1 Large Company Growth Stock Option - OSGP	A1 Large Company Growth Stock Option - OSGP	N/A
A2 Large Company Value Stock Option - OSGP	A2 Large Company Value Stock Option - OSGP	N/A
A3 Stock Index Option - OSGP	A3 Stock Index Option - OSGP	N/A
American Funds Amcap Fund	American Funds Amcap Fund	N/A
BlackRock Russell 1000 Growth Index Fund	BR Russell 1000 Gr	N/A
BlackRock Russell 1000 Value Fund	BlackRock Russell 1000 Value Fund	N/A
BlackRock Russell 3000 Index Fund	BR Russell 3000 Idx	N/A
Delaware US Growth Fund	Delaware US Growth Fund	N/A
Dodge & Cox Stock Fund	Dodge & Cox Stock Fund	N/A
MFS Value Fund	MFS Value Fund	N/A
Wells Fargo Adv Endeavor Select	Wells Fargo Adv Endeavor Select	N/A
Columbia Acorn Fund	Columbia Acorn Fund	N/A
T. Rowe Price Mid Cap Growth Fund	T. Rowe Price Mid Cap Growth Fund	N/A
Small-Mid Size Company Stock Option - OSGP	Small-Mid Size Company Stock Option - OSGP	N/A
American Beacon Small Cap Value Fund	American Beacon Sm Cp Value	N/A
BlackRock Russell 2000 Index Fund	BlackRock Russell 2000 Index Fund	N/A
A International Stock Option - OSGP	A International Stock Option - OSGP	N/A
Artisan International Fund	Artisan International Fund	N/A
BlackRock MSCI EAFE Index Fund	BlackRock MSCI EAFE Index Fund	N/A

Fund Manager Review Key

Symbol	Perf Ranking	Style/Cap Consist	Expense Ratio	Manager Tenure
● (dark green)	25th Percentile and Better	Consistent	0.1% or more below average	No change in last 36 months
● (light green)	26th to 50th Percentile	N/A	.01% to .09% below average	Change in last 25 - 36 months
■ (yellow)	51st to 75th Percentile	Not Consistent	.01% to .09% above average	Change in last 13 - 24 months
⬣ (red)	76th Percentile and Below	N/A	0.1% or more above average	Change in last 12 months

Performance Reporting Notes:

Products labled with an "A" in front represent the participant level investment options.

OSGP Staff Report

Performance Measurement Notes as of December 31, 2010

Product Name	Report Short Name	Ticker
GMO Foreign Fund - III	GMO Foreign Fund - III	N/A
Marsico International Opportunities Fund	Marsico International Opp Fund	N/A
Oakmark International Fund	Oakmark International Fund	N/A

Fund Manager Review Key

Symbol	Perf Ranking	Style/Cap Consist	Expense Ratio	Manager Tenure
● (dark green)	25th Percentile and Better	Consistent	0.1% or more below average	No change in last 36 months
● (light green)	26th to 50th Percentile	N/A	.01% to .09% below average	Change in last 25 - 36 months
■ (yellow)	51st to 75th Percentile	Not Consistent	.01% to .09% above average	Change in last 13 - 24 months
⬣ (red)	76th Percentile and Below	N/A	0.1% or more above average	Change in last 12 months

OSGP Staff Report

Fund Manager Review Summary as of December 31, 2010

		Qtr. End	Performance Rankings 1 Yr.	3 Yrs.	5 Yrs.	10 Yrs.	Style/Cap Consist.	Expense Ratio	Avg. Mgmt Tenure
Fixed									
A Intermediate Bond Option - OSGP	N/A	4Q10	36	28	27	19	N/A	N/A	N/A
		3Q10	41	30	26	18			
BlackRock US Debt Index Fund	N/A	4Q10	69	47	32	27	N/A	N/A	N/A
		3Q10	76	39	29	24			
Fidelity Brd Mkt Dur	N/A	4Q10	24	20	27	N/A	N/A	N/A	N/A
		3Q10	28	27	28	N/A			
Wellington Capital Core Bond Plus	N/A	4Q10	84	33	54	N/A	N/A	N/A	N/A
		3Q10	86	25	42	N/A			
Balanced									
BR LP 2015 Index Q	N/A	4Q10	45	N/A	N/A	N/A	N/A	N/A	N/A
		3Q10	29	N/A	N/A	N/A			
BR LP 2020 Index Q	N/A	4Q10	54	N/A	N/A	N/A	N/A	N/A	N/A
		3Q10	39	N/A	N/A	N/A			
BR LP 2025 Index Q	N/A	4Q10	46	N/A	N/A	N/A	N/A	N/A	N/A
		3Q10	26	N/A	N/A	N/A			
BR LP 2030 Index Q	N/A	4Q10	44	N/A	N/A	N/A	N/A	N/A	N/A
		3Q10	25	N/A	N/A	N/A			
BR LP 2035 Index Q	N/A	4Q10	44	N/A	N/A	N/A	N/A	N/A	N/A
		3Q10	28	N/A	N/A	N/A			
BR LP 2040 Index Q	N/A	4Q10	30	N/A	N/A	N/A	N/A	N/A	N/A
		3Q10	20	N/A	N/A	N/A			

- Performance results are net of investment advisory fees and/or expense ratio.
- Percentile rankings are based on the applicable Morningstar peer group universe assigned.

Fund Manager Review Summary as of December 31, 2010

		Qtr. End	Performance Rankings 1 Yr.	3 Yrs.	5 Yrs.	10 Yrs.	Style/Cap Consist.	Expense Ratio	Avg. Mgmt Tenure
Balanced(Cont.)									
BR LP 2045 Index Q	N/A	4Q10	27	N/A	N/A	N/A	N/A	N/A	N/A
		3Q10	30	N/A	N/A	N/A			
BR LP 2050 Index Q	N/A	4Q10	16	N/A	N/A	N/A	N/A	N/A	N/A
		3Q10	14	N/A	N/A	N/A			
BR LP Ret Indx Q	N/A	4Q10	6	N/A	N/A	N/A	N/A	N/A	N/A
		3Q10	28	N/A	N/A	N/A			
Large Cap									
A1 Large Company Growth Stock Option - OSGP	N/A	4Q10	46	37	55	66	N/A	N/A	N/A
		3Q10	22	39	54	68			
A2 Large Company Value Stock Option - OSGP	N/A	4Q10	43	65	57	60	N/A	N/A	N/A
		3Q10	46	62	53	67			
A3 Stock Index Option - OSGP	N/A	4Q10	12	28	32	36	N/A	N/A	N/A
		3Q10	15	35	37	43			
American Funds Amcap Fund	N/A	4Q10	63	21	44	N/A	N/A	N/A	N/A
		3Q10	63	31	39	N/A			
BR Russell 1000 Gr	N/A	4Q10	36	20	26	54	N/A	N/A	N/A
		3Q10	22	23	28	69			
BlackRock Russell 1000 Value Fund	N/A	4Q10	21	58	51	46	N/A	N/A	N/A
		3Q10	34	62	52	50			
BR Russell 3000 Idx	N/A	4Q10	12	26	30	N/A	N/A	N/A	N/A
		3Q10	15	33	35	N/A			

- Performance results are net of investment advisory fees and/or expense ratio.
- Percentile rankings are based on the applicable Morningstar peer group universe assigned.

OSGP Staff Report

Fund Manager Review Summary as of December 31, 2010

		Qtr. End	Performance Rankings 1 Yr.	3 Yrs.	5 Yrs.	10 Yrs.	Style/Cap Consist.	Expense Ratio	Avg. Mgmt Tenure
Large Cap(Cont.)									
Delaware US Growth Fund	N/A	4Q10	60	N/A	N/A	N/A	N/A	N/A	N/A
		3Q10	9	N/A	N/A	N/A			
Dodge & Cox Stock Fund	N/A	4Q10	48	78	79	N/A	N/A	N/A	N/A
		3Q10	63	79	76	N/A			
MFS Value Fund	N/A	4Q10	76	38	15	N/A	N/A	N/A	N/A
		3Q10	58	24	14	N/A			
Wells Fargo Adv Endeavor Select	N/A	4Q10	26	77	N/A	N/A	N/A	N/A	N/A
		3Q10	14	63	N/A	N/A			
Mid Cap									
Columbia Acorn Fund	N/A	4Q10	45	24	35	N/A	N/A	N/A	N/A
		3Q10	49	33	38	N/A			
T. Rowe Price Mid Cap Growth Fund	N/A	4Q10	29	13	19	N/A	N/A	N/A	N/A
		3Q10	32	15	19	N/A			
Small-Mid Cap									
Small-Mid Size Company Stock Option - OSGP	N/A	4Q10	38	31	31	61	N/A	N/A	N/A
		3Q10	22	31	26	76			

- Performance results are net of investment advisory fees and/or expense ratio.
- Percentile rankings are based on the applicable Morningstar peer group universe assigned.

OSGP Staff Report

Fund Manager Review Summary as of December 31, 2010

		Qtr. End	Performance Rankings 1 Yr.	3 Yrs.	5 Yrs.	10 Yrs.	Style/Cap Consist.	Expense Ratio	Avg. Mgmt Tenure
Small Cap									
American Beacon Sm Cp Value	N/A	4Q10	42	37	45	N/A	N/A	N/A	N/A
		3Q10	38	42	49	N/A			
BlackRock Russell 2000 Index Fund	N/A	4Q10	34	44	44	N/A	N/A	N/A	N/A
		3Q10	45	46	45	N/A			
International									
A International Stock Option - OSGP	N/A	4Q10	61	45	40	24	N/A	N/A	N/A
		3Q10	51	41	37	26			
Artisan International Fund	N/A	4Q10	99	77	69	N/A	N/A	N/A	N/A
		3Q10	100	61	68	N/A			
BlackRock MSCI EAFE Index Fund	N/A	4Q10	70	N/A	N/A	N/A	N/A	N/A	N/A
		3Q10	67	N/A	N/A	N/A			
GMO Foreign Fund - III	N/A	4Q10	92	71	72	N/A	N/A	N/A	N/A
		3Q10	87	66	63	N/A			
Marsico International Opp Fund	N/A	4Q10	62	85	80	N/A	N/A	N/A	N/A
		3Q10	89	83	69	N/A			
Oakmark International Fund	N/A	4Q10	2	1	3	N/A	N/A	N/A	N/A
		3Q10	1	1	3	N/A			

- Performance results are net of investment advisory fees and/or expense ratio.
- Percentile rankings are based on the applicable Morningstar peer group universe assigned.

Arnerich Massena
Building Better Portfolios

Structure Analysis

- **Oregon Savings Growth Plan Investment Structure is Cutting Edge**
  - Current model offers nine investment options to participants (counting the multiple Blackrock Target Date Portfolio offerings as "one" option) versus the 23 individual funds which comprised these 'asset class' options.
  - Facilitates diversification and appropriate allocations to particular managers, while at the same time reducing the likelihood of 'paralysis of choice' due to an overwhelming number of investment options a participant may face.

Arnerich Massena
Building Better Portfolios

Structural Level Recommendations

- **Based on the industry trend, we recommend considering the addition of a Self- Directed Brokerage Option to the Plan**
  - Offers Plan competitiveness for local governments/agencies. According to ING, 61% of their governmental clients currently offer a Self-Directed Brokerage Option.
  - Institutional approach. Builds in "flexibility" for vocal minority.
- **Oregon Savings Growth Plan staff asked participants if they would be interested in having a Self-Directed Brokerage Option (SDBA) added to the Plan:**
  - **4,198** employees responded to the survey.
  - **65**% were currently enrolled in OSGP.
  - **84**% of the 3,905 participants who responded to the question "Do you think OSGP should offer a SDBA?" said yes.
  - **73**% of those not participating said adding a SDBA would not encourage them to join OSGP.
  - **49**% said they would consider using a SDBA if one is offered.
  - **42**% said it would encourage them to keep their money with OSGP upon retirement.
  - **36**% currently have their own brokerage account.

Structural Level Recommendations

We generally support the addition of a Self-Directed Brokerage Option to the Plan in order to expand the choices available to participants. While the potential diversification benefits can help investors, the following aspects of such an offering are currently under consideration by the Committee:

- Amount of participant balance allowed to be invested in SDBA – currently considering no more than 50% of a participant's balance.
- Types of investments available in the Brokerage Window – currently considering mutual funds (load and no-load) and a limited number of Exchange Traded Funds (ETFs) be allowed. No individual stocks, bonds, or derivatives will be allowed in the OSGP Brokerage Option.
- Participant must sign a waiver acknowledging no fiduciary oversight provided by the Plan Sponsor. Waiver must be signed and submitted before a participant can open a Brokerage Option Account.

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Structural Level Recommendation - SDBA

- **Interviewed three established SDBA providers that have existing relationships with ING:**
  - StateStreet
  - TD Ameritrade
  - Charles Schwab
- **Recommendation of Charles Schwab due to:**
  - Breadth and depth of no-load, no transaction fee fund offerings
  - Competitive fees
  - Research tool capabilities
  - Existing relationship with ING

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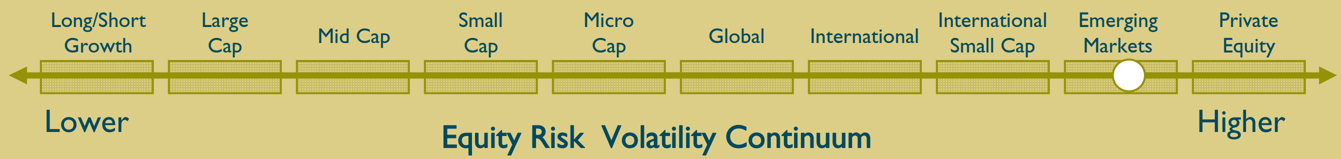
Option Level Recommendations – DFA Emerging Market Core Equity Fund

- **Add dedicated Emerging Market manager to diversify the option into emerging markets.**
- **DFA Emerging Markets Core Equity is a well known, low cost strategy (see following fund snapshot).**

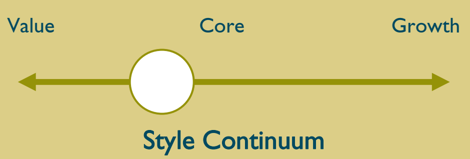
		Emerging Markets Weight	Existing Weight	Proposed Allocation
Artisan International	ARTIX	10.6%	15%	10%
GMO Foreign	GMOFX	3.9%	15%	15%
Marsico International Opportunities	MIOFX	22.4%	15%	10%
Oakmark International	OAKIX	2.1%	15%	15%
BlackRock MSCI EAFE Index		0.0%	40%	35%
DFA Emerging Markets Core	DFCEX	85.0%	0%	15%
Total Emerging Markets (MSCI ACWI ex-US 24-25%)			**6%**	**17%**

Dimensional Fund Advisors L.P.
Austin, TX
Firm Inception: 1981

Product: **DFA Emerging Markets Core Equity**
Product Inception: **2005**



Ticker	DFCEX
Asset class	Emerging Market Equity
Firm / fund assets under management	$187.9 billion / $4.3 billion
Funding vehicle(s)	Mutual fund
Minimum investment	DFCEX: $2,000,000
Fees	DFCEX: 0.65%
Estimated revenue share	DFCEX: 0.00%
Platform availability	Most major platforms



Portfolio/Strategy Summary

DFA Emerging Markets Core Equity is a diversified (over 3,000 stocks across over 20 countries) portfolio designed to give exposure to developing economies with a bias towards smaller, more reasonably priced companies using market cap and book value to market value, respectively. At purchase individual positions are limited to 5% and industries are limited to 25%.

Philosophy

Dimensional applies academic research to the investing process. Three fundamental principles form the core of Dimensional's philosophy: 1) financial markets are largely efficient, 2) higher returns are the reward for bearing greater risk and 3) three systematic risk factors (market, size and value) largely explain returns in the equity market. Dimensional's philosophy has remained consistent since inception.

Investment Process

Dimensional is very quantitative in its approach to investing. Securities are excluded as opposed to included. After meeting size and value parameters, securities are run through an exclusionary process of over 30 exclusion rules. This is done to eliminate companies that are not representative of the asset class. Such exclusionary screens include: 1) asset class concerns (no investment funds, select holding companies or regulated utilities); 2) pricing concerns (foreign restrictions, distressed securities, suspended or merger/acquisition targets); 3) trading concerns (exchange consideration, liquidity, short trading history or insufficient float); 4) momentum screens and 5) other.

Investment Process (cont'd)

Dimensional spends a large amount of time ensuring transaction cost are as low as possible. This is done through their "Portfolio Decision System" which is a grid defined by market capitalization and book-to-market equity. The number of buckets in each grid varies across countries depending on the size of the market. This grid is used to compare the actual portfolio to a "target" portfolio.

Dimensional uses the system to match as closely as possible the target portfolio, but takes into account transaction costs, diversification, style tilts, industry weights, momentum, taxes, tracking error and liquidity when evaluating a trade. They are patient traders and are very price conscious, waiting until they feel a trade is necessary and appropriate.

Role in Portfolio

DFA Emerging Markets Core Equity can be used as a stand alone emerging markets funding to give sufficient emerging markets exposure when existing international managers are lighter in their EM allocations.

Key Personnel

Dimensional products are team managed by a group of portfolio managers and supported by a sizable team of analysts. **Graham Lennon** is the head of international portfolio management and is a senior portfolio manager.

Option Level Recommendations – Callan Small Cap Growth Fund

- **Add 15% Callan Small Cap Equity Fund to OSGP small/mid cap equity option.**
- **Increased exposure to small cap growth stocks will better diversify the small/mid cap equity option (see following fund snapshot and analysis).**

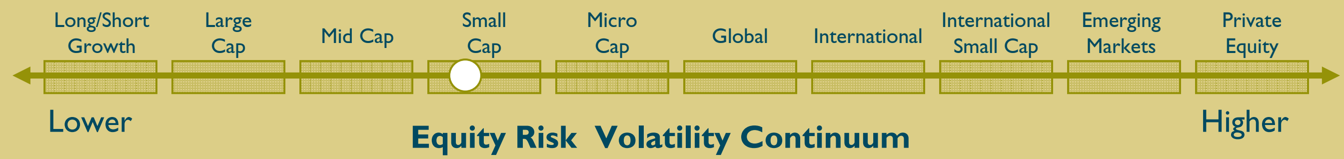
Arnerich Massena
Building Better Portfolios

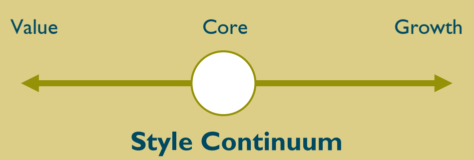
Callan Associates, Inc.

San Francisco, CA
Firm Inception: 1973

Product: **Diversified Alpha Small Cap**

Ticker	N/A
Asset class	Small cap
Firm / fund assets under management	$1.5 billion / $1.5 billion
Funding vehicle(s)	Commingled fund
Minimum investment	Commingled: $50 million*
Fees	Commingled: 0.70%
Estimated revenue share	N/A
Platform availability	N/A
Date of last Arnerich Massena on-site visit	August 25, 2010 *Waived at manager discretion





Portfolio/Strategy Summary

The Fund invests across the US market cap spectrum from micro through SMID, encompassing growth, core and value sub-styles. The Fund is built on the premise that small cap managers whom operate within the capacity constrains of their respective universe are able to take advantage of the inefficiencies that are present in the asset class. The Fund invests in 40 underlying investment strategies that uniquely blend together to provides a proxy of actively managed small cap exposure. The portfolio is highly diversified generally holding between 1,100 and 1,600 securities. The Fund's targeted tracking error versus the standard small cap benchmark is 4-6%.

Philosophy

Callan's investment philosophy and approach stems from empirical research conducted by the firm examining the historical behavior of a broad universe of actively managed institutional small cap products. This study resulted in an approach based on two primary tenants: a well-diversified, multi-manager portfolio reflecting the actual positioning and performance of active management as well as keying in on the inefficiencies available in small cap by investing in prudently sized managers that able to effectively add value.

Investment Process

The firm's Investment Committee uses Barra's Aegis product to facilitate the manager selection and portfolio construction process. The Fund's risk exposures are monitored relative to both the Russell 2000, and the average institutional small cap portfolio on a regular basis using the BARRA software. In addition the Investment Committee uses a set of proprietary tools that allows it to examine

Investment Process (cont'd)

the historical portfolio characteristics and performance of various combinations of managers. Research is focused on understanding the investment process as described by the portfolio manager(s), and reconciling that process with the performance record and portfolio characteristics of the product. Within the small cap area, a particular emphasis is placed on understanding capacity constraints and evaluating their impact, both past and prospective, on the sub-advisors' investment process.

Role in Portfolio

The Fund provides exposure to a broad set of actively managed small cap strategies in a transparent, cost-effective manner.

Key Personnel

Kelly Cliff, CFA, CIO of Public Markets
Gregory Allen, CFA, President and Director of Research
Mark Stahl, CFA, Senior Vice President

The strategy is unique in that it implements a multi-manager approach whereby the underlying sub-advisor's investment strategies are the Fund's securities. The investment professionals listed above, along with the Investment Committee, are solely responsible for investment manager selection and allocation within the Fund as opposed to stock selection. The Fund is backed by Callan's Global Manager Research Group whom carry out research on the Fund's underlying sub-advisors, as well as candidates for future replacement sub-advisors. Their research includes quantitative and qualitative data collection, on-site visits, conference calls, and meetings within the sub-advisors' offices.

Oregon Savings Growth Plan

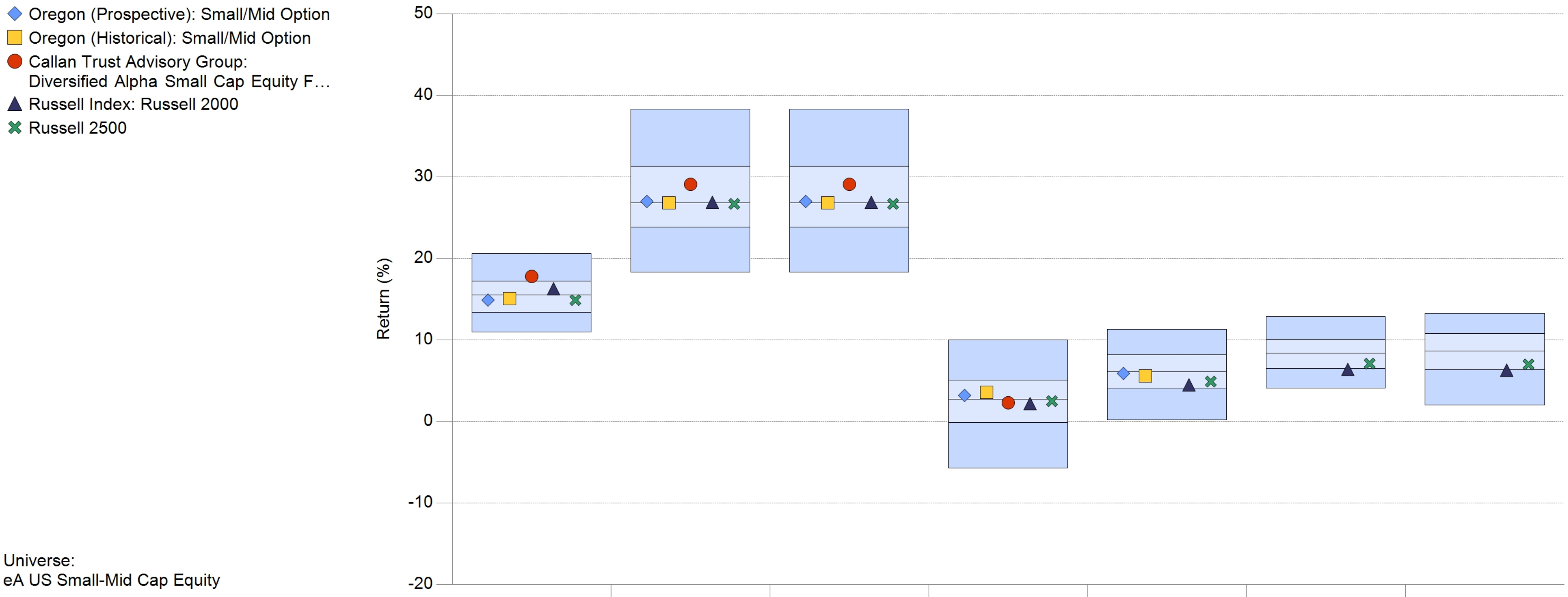
Small/Mid-Size Company Stock Option Analysis

	Oregon Small/Mid Option (Prospective)*	Oregon Small/Mid Option (Historical)	CallanDiversified Alpha Small Cap Equity Fund	Russell 2000 Index**	Russell 2500 Index**
Returns					
4Q10	14.9	15.1	17.8	16.3	14.9
1 Year	27.0	26.8	29.1	26.9	26.7
2 Year	32.1	31.8	33.7	27.0	30.5
3 Year	3.2	3.6	2.4	2.2	2.5
4 Year	4.1	3.7	3.2	1.3	2.2
5 Year	5.8	5.6	---	4.5	4.9
Risk Statistics					
Std Dev - 3 Years	28.3	28.6	30.9	29.3	29.0
Std Dev - 5 Years	22.4	22.8	---	23.7	23.2
Sharpe - 3 Year	0.1	0.1	0.1	0.1	0.1
Sharpe - 5 Year	0.2	0.2	---	0.1	0.1
Information Ratio - 3 Year	0.4	1.2	0.0	-0.1	---
Information Ratio - 5 Year	0.4	0.5	---	-0.1	---
Up Market Captuare - 5 Year	97.5	99.2	---	98.1	100.0
Down Market Capture - 5 Year	93.2	95.6	---	100.2	100.0
Batting Average - 5 Year	0.5	0.6	---	0.4	0.0
Tracking Error - 5 Year	2.5	1.6	---	3.6	0.0
Market Capitalization Breakdown					
Wgtd. Avg. Mkt. Cap	3,642	3,419	2,142	1,060	2,275
Mkt Cap: % < 400 million	7%	6%	15%	16%	4%
Mkt Cap: % 400-750 million	10%	11%	16%	21%	17%
Mkt Cap: % 750-1.5 billion	18%	21%	22%	38%	13%
Mkt Cap: % 1.5-7.5 billion	52%	49%	43%	25%	65%
Mkt Cap: % 7.5-15 billion	12%	11%	3%	0%	0%
Mkt Cap: % 15-50 billion	2%	2%	1%	0%	0%
Mkt Cap: % > 50 billion	0%	0%	0%	0%	0%

* Oregon Small/Mid Option (Prospective) uses the (Historical) track record for the period between Jan 2006-May2006 as Callan's track record does not span the full 5 years

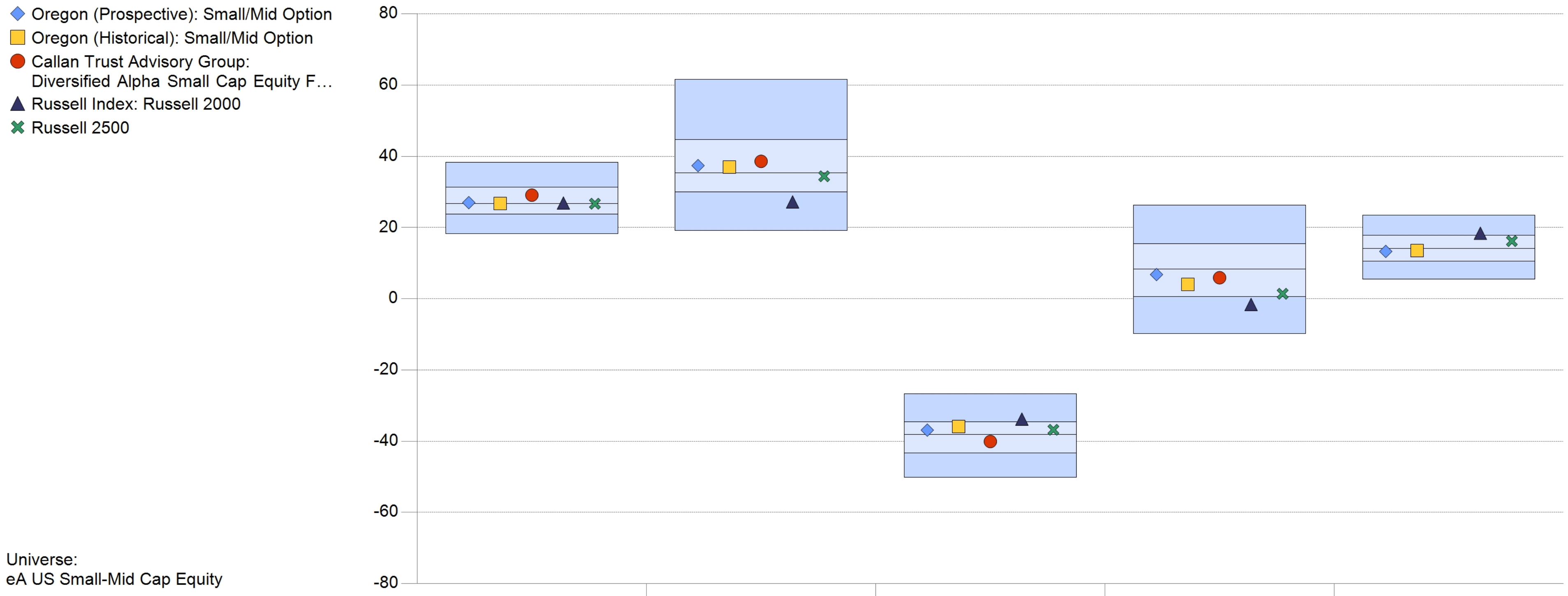
** Market Capitalization Breakdowns as of 9/30/2010

Data as of 12/31/2010 unless otherwise indicated



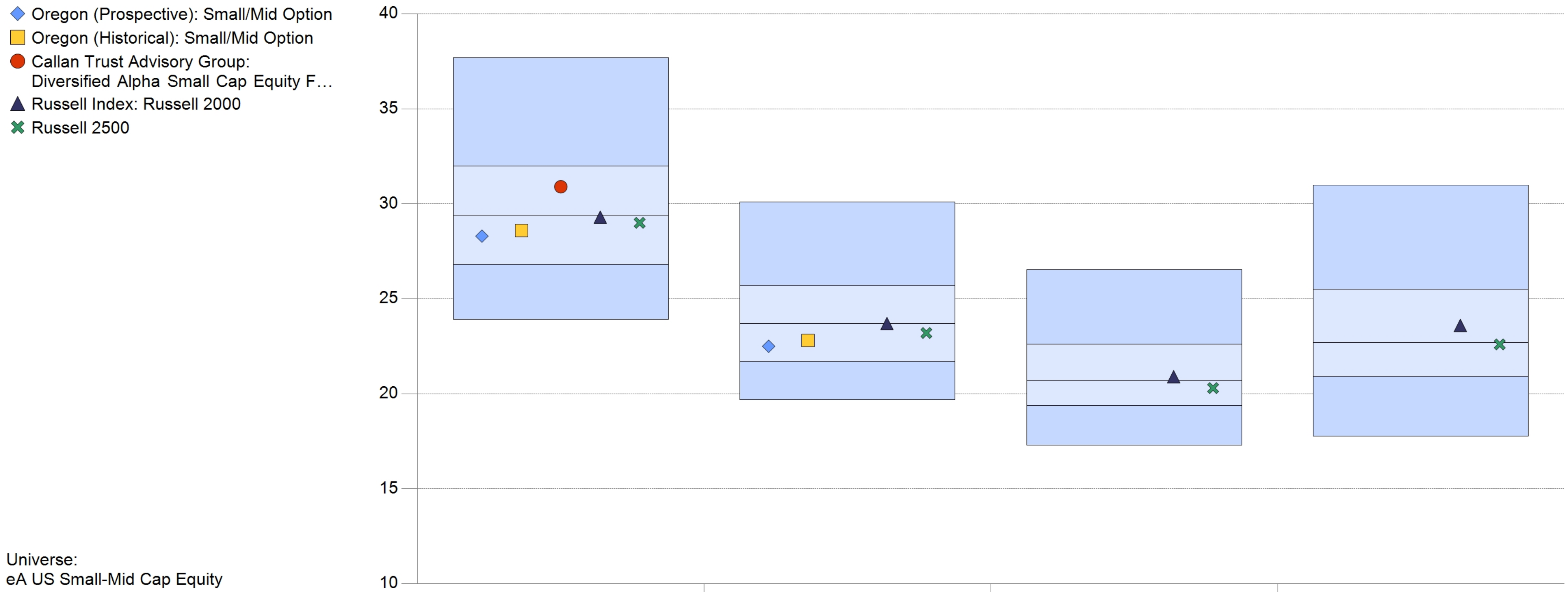
	DS	VT	RM	MRQ	Rk	1 Yr	Rk	1 Yr	Rk	3 Yrs	Rk	5 Yrs	Rk	7 Yrs	Rk	10 Yrs	Rk
5th percentile				20.6		38.3		38.3		10.0		11.3		12.9		13.2	
25th percentile				17.2		31.3		31.3		5.1		8.2		10.1		10.8	
Median				15.5		26.8		26.8		2.7		6.1		8.4		8.7	
75th percentile				13.4		23.8		23.8		-0.1		4.1		6.5		6.4	
95th percentile				11.0		18.3		18.3		-5.7		0.2		4.1		2.0	
# of Observations				241		240		240		225		201		156		112	
Oregon (Prospective)	IM	RA	NF	14.9	59	27.0	48	27.0	48	3.2	44	5.9	52	---		---	
Oregon (Historical)	IM	RA	NF	15.1	54	26.8	50	26.8	50	3.6	40	5.6	55	---		---	
Callan Trust Advisory Group	IM	CFE	GF	17.8	21	29.1	35	29.1	35	2.3	54	---		---		---	
Russell Index	IM	---	IX	16.3	36	26.9	49	26.9	49	2.2	55	4.5	68	6.4	76	6.3	75
Russell 2500	IM	---	IX	14.9	59	26.7	50	26.7	50	2.5	52	4.9	64	7.1	67	7.0	70

Results displayed in US Dollar (USD)



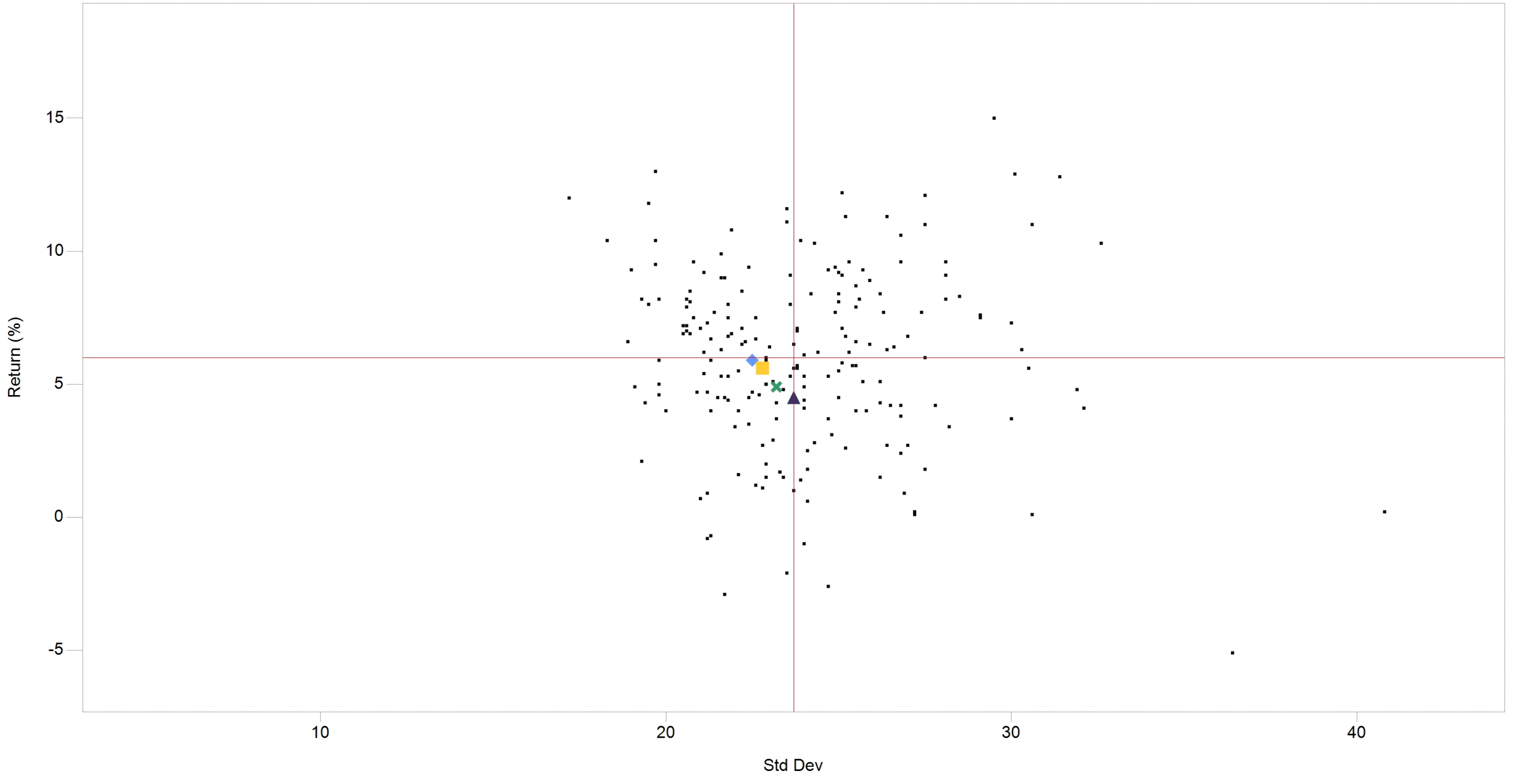
	DS	VT	RM	2010	Rk	2009	Rk	2008	Rk	2007	Rk	2006	Rk
5th percentile				38.3		61.6		-26.7		26.3		23.4	
25th percentile				31.3		44.7		-34.5		15.5		17.8	
Median				26.8		35.3		-38.2		8.3		14.1	
75th percentile				23.8		30.0		-43.4		0.7		10.6	
95th percentile				18.3		19.2		-50.2		-9.8		5.6	
# of Observations				240		267		282		276		272	
Oregon (Prospective)	IM	RA	NF	27.0	48	37.4	43	-36.9	38	6.8	54	13.3	56
Oregon (Historical)	IM	RA	NF	26.8	50	37.0	44	-35.9	32	4.0	64	13.5	55
Callan Trust Advisory G...	IM	CFE	GF	29.1	35	38.6	40	-40.1	61	5.9	58	---	
Russell Index	IM	---	IX	26.9	49	27.2	82	-33.8	21	-1.6	83	18.4	21
Russell 2500	IM	---	IX	26.7	50	34.4	56	-36.8	37	1.4	73	16.2	33

Results displayed in US Dollar (USD)



	DS	VT	RM	3 Yrs	Rk	5 Yrs	Rk	7 Yrs	Rk	10 Yrs	Rk
5th percentile				37.7		30.1		26.5		31.0	
25th percentile				32.0		25.7		22.6		25.5	
Median				29.4		23.7		20.7		22.7	
75th percentile				26.8		21.7		19.4		20.9	
95th percentile				23.9		19.7		17.3		17.8	
# of Observations				225		201		156		112	
Oregon (Prospective)	IM	RA	NF	28.3	60	22.5	65	---		---	
Oregon (Historical)	IM	RA	NF	28.6	59	22.8	62	---		---	
Callan Trust Advisory G...	IM	CFE	GF	30.9	33	---		---		---	
Russell Index	IM	---	IX	29.3	51	23.7	50	20.9	48	23.6	39
Russell 2500	IM	---	IX	29.0	54	23.2	57	20.3	55	22.6	51

Results displayed in US Dollar (USD)

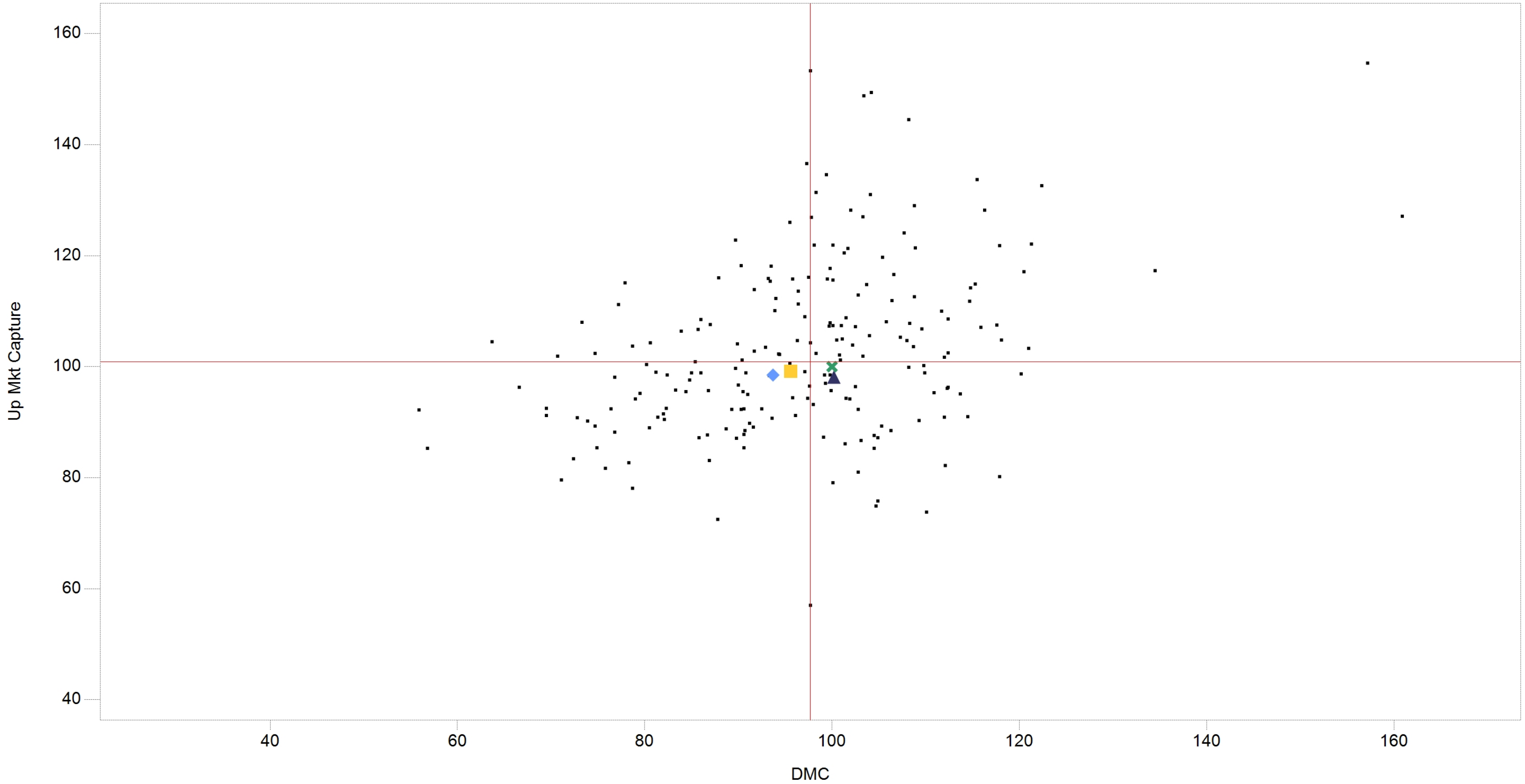


Universe: eA US Small-Mid Cap Equity

As of: December 31, 2010
5 Years

	DS	VT	RM	Return (%)	Std Dev
Oregon (Prospective)	IM	RA	NF	5.9	22.5
Oregon (Historical)	IM	RA	NF	5.6	22.8
Callan Trust Advisory Group	IM	CFE	GF	---	---
Russell Index	IM	---	IX	4.5	23.7
Russell 2500	IM	---	IX	4.9	23.2
Universe Median				6.0	23.7

Results displayed in US Dollar (USD)



Universe: eA US Small-Mid Cap Equity

As of: December 31, 2010
5 Years

	DS	VT	RM	Up Mkt Capture	DMC
Oregon (Prospective)	IM	RA	NF	98.5	93.7
Oregon (Historical)	IM	RA	NF	99.2	95.6
Callan Trust Advisory Group	IM	CFE	GF	---	---
Russell Index	IM	---	IX	98.1	100.2
Russell 2500	IM	---	IX	100.0	100.0
Universe Median				100.9	97.7

Results displayed in US Dollar (USD)

Russell 2500

Future Considerations

- **Roth 457 option**
- **Income / managed payout solutions for participants**
- **Large cap option analysis**

FUNCTION: **Deferred Compensation Investment Program**
ACTIVITY: **Statement of Objectives**

POLICY:

The Oregon Investment Council (the "Council") will maintain a Deferred Compensation Investment Program (the "Program") providing investment options with varying levels of risk and returns for those eligible employees who choose to participate in the Program.

The Council approves the array of Program investment options consistent with ORS 293.721, the general objective "to make the moneys as productive as possible," and ORS 293.726, the standard of prudence.

The Council may change the offered Program investment options or the investment management of those options at any time. The Council will assure the consideration of new investment options at least once every four years. Any change in Program options or the investment management of those options will be reported in advance, whenever practicable, to the Public Employees Retirement Board (PERB) in a timely manner.

PROCEDURES:

1. **BACKGROUND**

The "457" Deferred Compensation Plan is maintained for eligible employees desiring to supplement other income sources including social security benefits they may receive upon retirement. The plan is a voluntary retirement program.

Eligible employees choose to participate based on their assessment of need for additional retirement capital. The amount of capital a plan participant accumulates directly relates to the amount of earnings deferred and the growth of those deferrals through the investment options he or she selects.

In selecting the investment options and investment management firms for the Program, the Council will consider the population of potential participants. The offered Program should contain investment options providing participants a range of risk and return appropriate for this type of retirement savings program. The Council expects eligible participants to evaluate the presented Program and identify those investments meeting their individual objectives. The Council expects the participant to satisfy retirement investment needs not met within the Program through other means.

2. INVESTMENT PROGRAM

The Program offers the following investments options:

1~~A~~. Short Term Fixed Income

- **Objective**: Preservation of capital with a moderate level of income by investing primarily in fixed income instruments issued by the US Government and its agencies. Risk, as measured by volatility of returns, is expected to be very low; however, long-term investors need to consider the possibility of purchasing-power risk due to inflation. Expected performance, net of investment management fees, is to meet or exceed the performance of the benchmark.

- **Benchmark:** 91 Day Treasury Bill

2~~B~~. Stable Value

- **Objective**: Stability of capital while maintaining a stream of income by investing in contracts issued by insurance companies and banks and short term liquidity vehicles. There is no guarantee of principal or interest. Risk, as measured by volatility of returns, is expected to be very low; however, long-term investors need to consider the possibility of purchasing-power risk due to inflation, as well as possible liquidity risk and credit risk.

- **Benchmark:** 5 Year Constant Maturing Treasury

3~~C~~. Intermediate Term Fixed Income

- **Objective**: Higher level of current income expected than Short Term Fixed Income option by investing in fixed income securities over a range of maturities, including: US Treasury, corporate, and limited exposure to high-yield and foreign fixed income securities. Risk, as measured by volatility of returns, is expected to be higher than that for the Short-Term Fixed Income option. There is also the risk of negative returns during periods of rising interest rates. Expected performance, net of investment management fees, is to meet or exceed the performance of the benchmark.

- **Benchmark:** Barclays Capital U.S. Aggregate Bond Index

~~D. Target Date Retirement Funds~~

- ~~**Objective**: Provide participants with an asset allocation mix among U.S. and non-U.S. stocks and bonds and short-term instruments that is more aggressive when participants are younger and more conservative as they near, or reach, retirement. Participants should normally select a fund that closely matches their estimated retirement year and let the target date funds slowly change to a more conservative asset allocation over time. The target date funds will be highly diversified and include several asset classes, selected by the fund manager. Performance and volatility expectations will vary based on the asset allocation and risk profile for each fund.~~

- ~~**Benchmark:** Each target date fund will have a separate custom benchmark based on the asset allocation.~~

- ~~**Rebalancing:** The fund manager is responsible for rebalancing each target date fund to the desired asset allocation, and will generally do so, daily, with cash flow activity.~~

4~~E~~. Large Cap Value Equity

- **Objective**: Long-term growth of capital through investment in common stocks, with the focus on buying securities at low valuations on an absolute basis or relative to the broad market. Portfolios tend to be defensive in nature and typically exhibit below-average Price/Earnings ratios, below-average Price/Book Value ratios, and/or above average dividend yields. Risk, as measured by volatility of returns, is expected to be moderate to high. Expected performance, net of investment management fees, is to meet or exceed the performance of the benchmark.

- **Benchmark:** Russell 1000® Value Index

5~~F~~. Total Market Equity Index

- **Objective**: Long-term growth of capital through investment in common stocks with growth and valuation characteristics in line with the broad market averages. Risk, as measured by volatility of returns, is expected to be moderate to high. Current income may not be a primary objective. Expected performance, net of investment management fees, is to meet or exceed the performance of the benchmark.

- **Benchmark:** Russell 3000™ Index

6~~G~~. Large Cap Growth Equity

- **Objective**: Long-term growth of capital through investment in common stocks with above average growth and profitability prospects. In contrast to the Value Equity option, typical characteristics of this group are below-market dividend yields and above-average risk, as measured by volatility relative to the benchmark. Current income is not a primary objective. Risk, as measured by volatility of returns, is expected to be high. Expected performance, net of investment management fees, is to meet or exceed the performance of the benchmark.

- **Benchmark:** Russell 1000® Growth Index

7~~H~~. International Equity

- **Objective**: Long-term growth of capital through investment, primarily, in the common stocks of non-US companies. These funds will experience factors unique to investing in international markets, such as the effect of exchange rate depreciation or appreciation and the diversification effect of investing in various countries. Risk, as measured by volatility of returns, is expected to be high. Expected performance, net of investment management fees, is to meet or exceed the performance of the benchmark.

- **Benchmark:** MSCI EAFE Index

8~~I~~. Small/Mid Cap Equity

- **Objective**: Long-term growth of capital through investment in common stocks of small and mid cap companies with growth and valuation characteristics in line with the broad market averages. A typical characteristic of these funds is below-market dividend yields. Risk, as measured by volatility of returns, is expected to be high. Current income is not a primary objective. Expected performance, net of investment management fees, will meet or exceed the performance of the benchmark.

- **Benchmark:** Russell 2500™ Index

9~~D~~. Target Date Retirement Funds

- **Objective**: Provide participants with an asset allocation mix among U.S. and non-U.S. stocks and bonds and short-term instruments that is more aggressive when participants are younger and more conservative as they near, or reach, retirement. Participants should normally select a fund that closely matches their estimated retirement year and let the target date funds slowly change to a more conservative asset allocation over time. The target date funds will be highly diversified and include several asset classes, selected by the fund manager. Performance and volatility expectations will vary based on the asset allocation and risk profile for each fund.

- **Benchmark:** Each target date fund will have a separate custom benchmark based on the asset allocation.

- **Rebalancing:** The fund manager is responsible for rebalancing each target date fund to the desired asset allocation, and will generally do so, daily, with cash flow activity.

10. **Self Directed Brokerage Window**

- **Objective**: Provide participants access to investments which are not on the Core Option menu, but that may be prudent for them based on their individual financial situation or beliefs. Participants will be limited to investing in mutual funds and a limited list of ETFs. Only participants with a minimum OSGP balance of $20,000 will be allowed access to the SDBA Option. Participants will only be allowed to transfer a maximum of 50 percent of their total OSGP balance into the SDBA Option.~~1~~;

3. **Program Management.** The Program is managed and monitored consistent with the Council's policies and procedures regarding selecting, managing and terminating Program firms as found in **Activity Reference 4.07.02**.

4. **Participant Disclosure Requirements**. The Deferred Compensation Investment Officer will work with the Public Employees Retirement System (PERS) Plan Administrator to provide necessary information for compliance with participant disclosure requirements of PERS (ORS 243.450).

5. **Program Information Requests.** The Deferred Compensation Investment Officer will work with the PERS Plan Administrator to provide any other information requested regarding the Program.

6. **Program Population Characteristics.** The Deferred Compensation Investment Officer will periodically provide the Council with Program population characteristics for use in their evaluation. The Deferred Compensation Investment Officer will request such information from the PERS Plan Administrator.

7. **Communication with PERB.** The Deferred Compensation Investment Officer will periodically present the Council with information for consideration from PERB regarding the expressed desires of participants related to the Program investment options. The duties and powers of PERB and the Council concerning the Program, while separate and distinct, are also complementary. This creates a need for coordination and cooperation between the two bodies. At the request of the Council, the Deferred Compensation Investment Officer will facilitate information flow between the Council and PERB. The Deferred Compensation Investment Officer will report in advance, whenever practicable, any change in Program options or the investment management of the options to PERB in a timely manner.

8. **Program Review.** The Deferred Compensation Investment Officer will bring investment options to the Council for review as provided by law.

SAMPLE FORMS, DOCUMENTS, OR REPORTS (Attached):

None

FUNCTION: **Deferred Compensation Investment Program**
ACTIVITY: **Investment Management Firm Monitoring and Retention**

POLICY:
The Oregon Investment Council contracts with Investment Management Firms to invest the assets of the State of Oregon Deferred Compensation Investment Program. Firms are hired for their specific expertise and the investments will generally take the form of mutual funds and commingled trusts. Firm expertise is manifested in the investment performance results produced. Retention of a firm exposes the assets under management to a degree of risk for which the Program should receive adequate compensation. Office of the State Treasurer (OST) staff will begin monitoring the Investment Management Firm before the firm is hired.

PROCEDURES:

Based on information provided by investment prospectuses, Morningstar, and other available information, staff shall identify the following for each firm:

1. **Strategic Role.** Identification of the strategic role within the investment structure the firm's portfolio is to fulfill.

2. **Firm's Style.** Description of the firm's style or how the firm will fulfill the strategic role.

3. **Universe of Securities.** Identification of the universe of securities from which the firm will construct its portfolio.

4. **Risk Level.** Identification of the expected risk level, as measured by commonly accepted investment risk measures, relative to the strategic role the firm is to fulfill. The risk level can be expressed relative either to the universe of securities from which the firm selects, other managers, or to the market return as a whole, or it can be expressed in absolute terms.

5. **Performance Objective.** Identification of a specific performance objective should be expressed on a risk-adjusted basis. For example, the firm's performance may be compared to an index that represents the universe of securities from which the firm selects, plus some degree of excess return over that index that is commensurate with the risk the firm takes to achieve return. Benchmarks and performance objectives for individual funds are included in Appendix A.

6. **Time Horizon.** Identification of a time horizon considered acceptable by the firm and the Oregon Investment Council for the delivery of the expected performance results. This time horizon should be expressed in terms relative to a market cycle for that manager's specific style of management. The style of management can be embodied in the index selection. A market cycle is defined as performance from peak to trough to peak in the index return.

7. **Monitoring.** The firm is to be monitored with regard to how performance results are generated to ensure the firm is exhibiting risk and other portfolio characteristics consistent with the original objectives for hiring that particular firm. If the firm's risk profile or other portfolio characteristics deviate materially from those outlined in the guidelines, the firm will be subject to probationary action as described in section 8.

8. **Performance.** Prior to the expiration of the time horizon for performance measurement, performance deviating from objectives should be noted, with the firm being placed informally on "Watchlist." Staff shall notify the Council anytime an investment fund is placed on "Watchlist" and shall report the "Watchlist" status ~~at the annual Deferred Compensation review~~within the quarterly ~~reporting~~ reports. Nothing stated in this policy will supersede the right of the Oregon Investment Council from exercising its right to terminate "at will" any firm in its employ according to the terms of its contract.

9. **Contracting.** For purposes of this policy, in cases where the firm contracts with others for the management of the assets, the firm will meet the above elements for each separate manager employed by the firm.

SAMPLE FORMS, DOCUMENTS, OR REPORTS (Attached):

None

APPENDIX A

INVESTMENT MANAGER BENCHMARKS

Manager	Benchmark	Peer Group	Return Objective Over Benchmark Net of Fees
SSGA GSTIF	3 month T Bill	Money Market	10bps
BlackRock US Debt Index	Barclays Aggregate	Int. Fixed Income	N/A
Fidelity Broad Mkt. Dur.	Barclays Aggregate	Int. Fixed Income	50bps
Wellington Bond Core Plus	Barclays Aggregate	Int. Fixed Income	50bps
BlackRock Russell 1000 Value	R 1000 Value	Large Value	N/A
Dodge & Cox	R 1000 Value	Large Value	75bps
MFS Value	R 1000 Value	Large Value	75bps
LSV Value	R 1000 Value	Large Value	75bps
BlackRock Russell 3000	R 3000	Market-Oriented	N/A
BlackRock Russell 1000 Growth	R 1000 Growth	Large Growth	N/A
American Funds Amcap	R 1000 Growth	Large Growth	75bps
Wells Fargo Endeavor Sel.	R 1000 Growth	Large Growth	75bps
Delaware US Growth	R 1000 Growth	Large Growth	75bps
BlackRock EAFE Index	MSCI EAFE	Market-Oriented	N/A
Artisan International	MSCI EAFE	Market-Oriented	150bps
GMO Foreign III	MSCI EAFE	Market-Oriented	150bps
Marsico International	MSCI EAFE	Market-Oriented	150bps
Oakmark International	MSCI EAFE	Market-Oriented	150bps
DFA EM Core Equity	MSCI EM	Market –Oriented	150bps
BlackRock Russell 2000	R 2000	Market-Oriented	N/A
Callan Small Equity	R2000	Market-Oriented	150bps
American Beacon S.C. Value	R 2000 Value	Small Value	150bps
Columbia Acorn	R 2500	Midcap Market-Oriented	150bps
T Rowe Midcap Growth	R 2500 Growth	Midcap Growth	150bps
BlackRock			
Lifepath Retirement	Various	Target Date Funds	N/A
Lifepath 2015	Various	Target Date Funds	N/A
Lifepath 2020	Various	Target Date Funds	N/A
Lifepath 2025	Various	Target Date Funds	N/A
Lifepath 2030	Various	Target Date Funds	N/A
Lifepath 2035	Various	Target Date Funds	N/A
Lifepath 2040	Various	Target Date Funds	N/A
Lifepath 2045	Various	Target Date Funds	N/A
Lifepath 2050	Various	Target Date Funds	N/A
Self Directed Brokerage	N/A	N/A	N/A

TAB 5 – OREGON INVESTMENT FUND UPDATE

Not for Redistribution

CREDIT SUISSE

Oregon Public Employees Retirement Fund

Oregon Investment Fund Update

Kelly Williams, Managing Director and Global Head of CFIG

David Almodovar, Principal

February 23, 2011

Customized Fund Investment Group

Important Information

This document has been prepared, at the request of the Oregon Public Employees Retirement Fund and the Oregon Investment Fund ("OPERF" and "OIF"), for its general informational purposes and to provide OPERF and OIF with summary data regarding an investment in a program (the "Program") with the Customized Fund Investment Group ("CFIG") of Credit Suisse Asset Management, LLC and may not be used or reproduced for any other purpose. This document is for informational purposes only and all information contained herein is subject to revision and completion. This document does not constitute or form part of an offer to issue or sell, or of a solicitation of an offer to subscribe or buy, any securities or other financial instruments, nor does it constitute a financial promotion, investment advice or an inducement or incitement to participate in any product, offering or investment. Any such offer will be made only by means of the Program's confidential private placement memorandum and is subject to the terms and conditions contained therein and in the limited partnership agreement (or other organizational documents) of the Program, as amended, restated or modified. The information set forth herein does not purport to be complete. In addition, this document does not constitute nor shall it or the fact of its distribution form the basis of, or be relied on in connection with, any investment contract.

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Important Information (Cont'd)

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In considering any performance data contained herein, OPERF and OIF should bear in mind that past performance is not indicative of future results, and there can be no assurance that the Program will achieve comparable results. Statements, estimates and projections with respect to future performance are based on assumptions made by CFIG, which may or may not prove to be correct. In addition, there can be no assurance that unrealized investments will be realized at the valuations shown as actual realized returns, which may depend on, among other factors, future operating results, the value of the assets and market conditions at the time of disposition, any related transaction costs, and the timing and manner of sale, all of which may differ from the assumptions on which the valuations contained herein are based. The internal rates of return presented on a "gross" basis do not reflect any management fees, carried interest, taxes and allocable expenses borne by investors, which in the aggregate may be substantial. Nothing contained herein is, or should be relied upon as, a promise, representation, prediction or projection of future performance of the Program. No representation is made as to the accuracy of any statements, estimates or projections contained herein.

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General Risk Factors

General. Any investment in the Program is speculative and entails substantial risks. There can be no assurance that the investment objective of the Program will be achieved and that investors will not incur losses. An investment in the Program may result in the partial or total loss of capital. Moreover, an investment in the Program will provide limited liquidity since the interests therein may not be freely transferable, and the investors in the Program will have very limited withdrawal rights. Additional risks associated with an investment in the Program include, but are not limited to, the following: (i) the Program is speculative and may involve a high degree of risk; (ii) the Program anticipates employing leverage; (iii) the performance of the Program could be volatile; (iv) the general partner (or its equivalent) or investment manager of the Program will have total trading authority over the investments of the Program; (v) the use of a single manager applying generally similar trading strategies could mean a lack of diversification and, consequently, higher risk; (vi) there is no secondary market for equity interests in the Program and none is expected to develop; (vii) there are restrictions on transferring an investor's interest; (viii) the fees and expenses of the Program may offset any profits; and (ix) certain conflicts of interests. All investors in the Program risk a total loss of capital. Investors in the Program must be prepared to bear such risks for an indefinite period of time and able to withstand a total loss of the amount invested. The foregoing list of certain risk factors does not purport to be a complete enumeration or explanation of the risks involved in the Program.

Recent Market Conditions. Over the past several years, U.S. and non-U.S. securities markets and exchanges have experienced high volatility, market disruption and substantial losses, which may continue for some time. Prospective investors should be aware that these market conditions can be expected to present significant challenges to investors, including managers with past success under other market conditions. Private investment funds, including the Program, are likely to be further impacted by the recent turmoil in financial markets around the world. Unexpected volatility, illiquidity, governmental action, currency devaluation, or other events in global markets in which the Program directly or indirectly holds positions could impair the ability of the Program to carry out its business and could cause the Program to incur substantial losses. Increased governmental scrutiny and regulation, whether as a result of the recent market disruptions or otherwise, may (i) increase the Program's exposure to potential liabilities and to legal, compliance and other related costs, (ii) reduce the amount and availability of the investment opportunities of the Program, (iii) impose additional administrative burdens, and (iv) require increased transparency as to the identity of the investors of the Program.

In addition, the recent economic turmoil in the U.S. and non-U.S. debt markets may affect the ability of the Program to obtain financing on acceptable terms in connection with its investment activities. Financing may not be available to the Program or may be available to the Program only on terms that are not favorable, which risk is even more likely given the current market downturn and credit crisis. If the Program is unable to raise additional funds or obtain capital on acceptable terms, the Program may have to delay, modify or abandon part or all of its investment strategies. The inability to obtain such financing may adversely affect the number of investments made by the Program and the returns on such investments.

Reliance on Management and Other Third Parties. The Program will be investing in third-party sponsored privately-offered private equity investment funds ("Private Funds") and directly (or indirectly through holding vehicles) in securities of companies ("Co-Investments"). Generally, the Private Funds and Co-Investments will be unrelated to the business currently conducted through Credit Suisse or its affiliates and, indirectly, in investments selected by such unrelated sponsors. The Program will not have an active role in the day-to-day management of the Private Funds in which the Program invests. Moreover, the Program will not have the opportunity to evaluate the specific investments made by any Private Fund. Accordingly, the returns of the Program will primarily depend on the performance of the sponsors of the Private Funds and could be substantially adversely affected by the unfavorable performance of such sponsors.

Co-Investments. The Program expects to make Co-Investments alongside third parties, thereby acquiring interests in the companies in which it makes Co-Investments. The Program may not have the same access to information that it would have if the Program were leading the negotiation of the terms of such investment. Moreover, the Program will not have control over these companies and, therefore, may have a limited ability to protect its position therein. Such investments may involve risks not present in investments where a third party is not involved, including the possibility that a third party partner or co-investor may have financial difficulties resulting in a negative impact on such investment, may have economic or business interests or goals which are inconsistent with those of the Program, or may be in a position to take action contrary to the Program's investment objectives. Furthermore, a third party co-investor may control the form and timing of the Program's sale of a Co-Investment.

Carried Interest, Fees and Expenses. The existence of carried interest distributions payable to CFIG may create an incentive for CFIG to make riskier or more speculative investments on behalf of the Program than would be the case in the absence of this arrangement. The funds in which the Program purchases interests will charge their own management fees, expenses and carried interest to the Program. Because CFIG will also charge management fees, allocated expenses and carried interest to the Program, investors in the Program will experience materially lower results than if such investors had invested in the investments of the Program directly. Investors in the Program may experience a loss when they may have made a profit had they participated in the Program's investments directly.

Additional risk factors relating to the specific investment program of the Program will be set forth in the Memorandum. In considering an investment in the Program, each prospective investor should carefully review the Memorandum related to the offering of interests in the Program.

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Executive Summary

Customized Fund Investment Group

Customized Fund Investment Group

CFIG is a leading global private equity fund investment and co-investment manager. CFIG's senior professionals' experiences as professional fiduciaries set them apart from comparable private equity managers.

Private Equity Industry Leader	**Over $27 billion* of client commitments under management as of December 31, 2010** ▪ Clients include blue chip public and corporate pension plans, insurance companies, endowments, foundations, and high net worth investors
Customized Solution Based Approach	**Flexibility to create customized solutions** ▪ Diversified programs for new entrants to the private equity asset class ▪ Specialized solutions for investors looking for specific exposure ▪ Completion strategies for investors looking to diversify their portfolio
Experienced Team with Global Reach	**Over 125 professionals led by a management committee of 4 MDs and CFIG's CFO** ▪ Average experience: 18 yrs for MDs, 15 yrs for Partners and Directors, 14 yrs for Principals and VPs ▪ Offices in New York, London, Hong Kong, Columbus, Detroit, Indianapolis, Los Angeles, Raleigh and Portland
Superior Monitoring and Reporting Capabilities	**Industry leading monitoring and reporting capabilities** ▪ CFIG provides its clients with access to Credit Suisse's proprietary FundCentral™ system, which provides 24/7 online access to portfolio information and reports ▪ CFIG also has a substantial fund administration practice with approximately $85.1 billion of monitored commitments as of December 31, 2010

*Includes approximately $6.7 billion of commitments relating to funds that CFIG currently manages, but which were not raised by and which were not invested by CFIG.

The Oregon Investment Fund

- Following the passage of HB 3613 in 2003, the Oregon Public Employees Retirement Fund (“OPERF”) chose to develop a fund of funds and co-investment program, the Oregon Investment Fund (“OIF” or the “Program”), to meet Oregon and regional objectives
- The Program commits capital to private equity and venture capital funds that will, in turn, invest in companies located primarily in the state of Oregon and the Pacific Northwest region
- Originally comprised of commitments of $100 million from OPERF and $5 million by Credit Suisse, the program was expanded in 2007 to $158 million with a further commitment of $50 million from OPERF and $3 million by Credit Suisse
- Credit Suisse opened an office in Portland in 2004 that is headed by David Almodovar
- To increase exposure and drive deal flow, CFIG has built a website available to both entrepreneurs and fund managers (www.oregoninvestmentfund.com)
- CFIG has actively driven state-wide interest to the Program by participating in forums, attending/hosting educational/networking events, meeting key business development groups, and working with the media
- Working with the Treasurer’s Office, CFIG developed an advisory board in Oregon with professionals throughout the State with diverse industry experience and expertise
- CFIG reached out to the private equity community in Oregon and throughout the country through the use of CFIG’s industry relationships, press releases, one-on-one correspondence, and the Program’s website

The Oregon Investment Fund (Cont'd)

- Credit Suisse has enjoyed a productive relationship with the Oregon Investment Council ("OIC"), the Treasure's Office and OPERF staff in executing the strategy of the Oregon Investment Fund
- Eleven private equity funds with a strong history of delivering top quartile returns have received commitments (across thirteen OIF fund investments) and the investment cycle is nearing completion
  - In addition, CFIG has made a few, select co-investments alongside OIF fund managers as well as those in the broader OPERF private equity portfolio
- Even in this difficult environment, over **$160 million** has been invested into 22 different Oregon platform companies by fund managers in the Program and as co-investments of the OIF
  - These investments attracted an additional **$242 million** to Oregon from other investors
- Over **1,250 jobs** have been positively impacted in Oregon through investments by the OIF
- Ranging from healthcare services to consumer products to information technology, these platform companies spend approximately **$66 million** annually in Oregon
- There continues to be great opportunities within Oregon and the Pacific Northwest for further investment

Note: All Oregon and Pacific Northwest data cited in this presentation comes directly from the funds and companies in the Program as of December 31, 2010

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Program Overview

Customized Fund Investment Group

Program Summary

- Following the passage of HB 3613 by the Oregon Legislature, the Oregon Public Employees Retirement Fund ("OPERF") chose to develop a fund-of-fund strategy to take advantage of the private equity opportunities in Oregon and the Pacific Northwest ("PNW")
- Managed by CFIG, the Oregon Investment Fund ("OIF") commits capital to private equity and venture capital funds ("Underlying Funds") that will, in turn, invest in companies located in the State of Oregon as well as the PNW
  - In addition, CFIG has made a few, select co-investments alongside OIF fund managers as well as those in the broader OPERF private equity portfolio
- Comprised of combined commitments of $150 million from OPERF ($100 million in Fund 1 and $50 million in Fund 1A) and approximately $8 million by Credit Suisse ($5 million in Fund 1 and $3 million in Fund 1A), the $158 million, return-oriented program is seeking to build successful, innovative enterprises for the benefit of its investors by:
  - Fostering the creation and growth of young and maturing companies in Oregon and the PNW
  - Encouraging the development and growth of a vibrant Oregon and PNW private equity community
  - Facilitating public and private partnerships within the State of Oregon
- The teams actively managing the OIF are:

The CFIG Investment Team

Kelly Williams, Managing Director – Head of CFIG

David Almodovar, Principal

Mel Carter, Principal

The OIF Advisory Board

Kirby Dyess, Austin Capital Management

Patricia Moss, CEO, Bank of the Cascades

Michael Payne, CEO, AnswerConnect

Dave Chen, GP, Equilibrium Partners

OIF Progress

- Since 2004, the OIF has committed **$121.7 million** to 13 funds and invested **$7.5 million** in four companies
  - ***Investing in PNW:*** Over **$215 million** has been invested in 39 Oregon and PNW companies by the OIF and its Underlying Managers. Other equity coming into these investments from outside the OIF totals **$336 million**. This **$551.2 million** of investment represents a **7.1x** leveraging of the OIF capital to date
  - ***Investing in Oregon:*** Over **$159 million** has been invested in 22 Oregon companies by the OIF and its Underlying Managers. Other equity coming into these same investments from outside the OIF totals **$242 million**. This **$401.8 million** of investment represents a **5.1x** leveraging of the OIF capital to date
- Currently, the OIF portfolio includes **35** companies located in the PNW, of which **20** are either headquartered or have significant operations in Oregon
  - These investments account to total spend or payroll taxes + taxes for the PNW of $150.4 million with total spend in Oregon representing $65.9 million for 2010
  - In 2010, the OIF fund managers reviewed over **1,333** PNW investment opportunities, which includes over **610** Oregon investments opportunities
  - OIF has impacted 3,743 jobs in the PNW, including 1,254 jobs in Oregon
- The OIF's Underlying Funds have an adequate supply of capital to take advantage of the current economic climate, having called approximately 59.7% ($62.7 million) from Fund 1 and just 29.1% ($15.4 million) from Fund 1A
- The OIF has only $14 million of dry powder to commit to additional funds or invest in co-investments with the commitment period ending in Q3 2011

Evolving of Strategy

- Since 2004, the OIF, in conjunction with its Underlying Funds, co-investments and other entrepreneurial networks, has hosted or co-sponsored 19 major educational and networking events throughout the State including the following:
  - The Big Idea Bash I & II
  - Angel Oregon
  - Venture Northwest
  - Oregon Entrepreneur Network
  - The Bend Venture Conference
  - Silicon Forest Technology Conference
  - Portland Alternative Investment Association
  - Burrill & Company Life Sciences Conference in Portland
- The OIF has also worked to provide further outreach to its Oregon constituency by providing news updates from the portfolio, updating the OIF's website
- CFIG is pleased to report that commitments to qualifying private equity funds from Fund 1 are complete and Fund 1A is nearing completion
- The OIF's key parameters closely conform to the following targets laid out for the OIF in conjunction with OPERF:
  - Each of the Underlying Funds has or is developing a presence in Oregon, a deep investment experience in the State and region, agreed to certain time commitments in the State, and will seek out Oregon-based opportunities on a "best-efforts" basis
  - The manager of each Underlying Fund has demonstrated exceptional performance for their vintage and asset class of its previous fund
  - The OIF as a whole is well diversified across every relevant statistic - asset class, geography, target sector and vintage year, including a mix of both national firms and top-quality Oregon and regionally-based funds
- Several of the Underlying Funds have encouraged their companies in other parts of the country to move operations to Oregon
- CFIG and OPERF staff regularly collaborate with regard to strategy, investment opportunities and other matters that are of mutual interest to the OIF and the Oregon Growth Account

OIF and OPERF's current Underlying Funds, as well as other CFIG relationships, continue to source increasingly high quality co-investment opportunities in Oregon.

OIF Fund Commitments

- **Venture Firms**
  - **Montlake Capital II,** a Seattle-based private equity firm focusing on venture capital and growth capital investments in a variety of industries throughout the Pacific Northwest and Inner-Mountain regions.
  - **Burrill Life Sciences Capital Fund III,** a San Francisco-based venture capital firm focused exclusively on companies in the life sciences sector.
  - **DFJ Frontier Fund II,** a Sacramento and Los Angeles-based seed and early stage venture capital firm affiliated with Draper Fisher Jurvetson. DFJ Frontier Fund II focuses on seed and early stage investments across a broad range of industries.
  - **Nth Power Fund IV,** a San Francisco-based venture capital firm that invests in cutting-edge energy and related technology businesses.
  - **Sherbrooke Capital Health & Wellness II,** a Boston-MA-based private equity firm focused on growth equity investments in the health and wellness market.
  - **Voyager Capital Fund III,** a Seattle-based venture capital firm that focuses on early and growth-stage investments in the enterprise software and services, digital media and wireless technologies markets.
  - **Walden Venture Capital 2007,** a San Francisco-based ventured capital firm that focuses on investments in digital media, technology-enabled services and internet commerce companies.
  - **Chrysalix Energy Limited Partnership III,** a Vancouver-based venture capital firm focused on early and developmental-stage clean technology.

OIF Fund Commitments (Cont'd)

- **Buyout Firms**
  - **Evergreen Pacific Partners and Evergreen Pacific Partners II,** a Seattle-based private equity firm focused on the pursuit of middle market buyouts and growth equity investments in the western United States.
  - **Riverlake Equity Partners (Oregon) and Riverlake Equity Partners II**, a Portland-based private equity firm focused on lower middle market traditional economy businesses principally located in Oregon and the western United States.
  - **Wedbush Capital Partners,** a Los Angeles-based private equity firm that specializes in making lower middle market buyout investments. Wedbush Capital Partners is an affiliate of Wedbush Morgan Securities, a leading NYSE investment bank with offices across the western United States, including several in Oregon.

OIF Co-Investments

- **Co-Investments***
  - **Kryptiq Corp. (“Kryptiq”),** a Hillsboro, OR company that is the leading provider of interoperability and workflow connectivity solutions for healthcare. The company facilitates a first-of-its-kind collaborative network of care between physicians, patients and health plans. By using Kryptiq’s technology to share and utilize information, physicians gain better patient engagement, optimize practice revenue and enhance communication with health plans. OIF participated in the Kryptiq transaction alongside Voyager Capital.
  - **CriterionBrock,** a Portland, OR company, which is one of the largest multi-family (apartment) flooring services providers in the United States. Founded in 1982, the company emphasizes its service offerings and has a reputation for quality and value in the industry by maintaining a commitment to customer service. Since the initial acquisition in September 2007, the company has doubled in size and has acquired two additional companies. CriterionBrock now has 12 branches in Oregon, Washington, California, Nevada, Arizona, New Mexico, Texas and Colorado. OIF participated in the original buyout alongside Wedbush Capital.
  - **Wellpartner,** a Tualatin, OR company providing prescription medication distribution and outsourcing alternatives to commercial health plan and state Medicaid organizations with an intense focus on cost containment for the payors and access and affordability for the patients. Its services include: mail order pharmacy through its automated fulfillment center located in Portland; and 340B contract pharmacy fulfillment that lowers the cost of medications for patients seen in the safety-net clinics by allowing deeply discounted medications to be dispensed at retail pharmacies using Wellpartner’s proprietary technology. Wellpartner currently serves a number of employee health plans including the Oregon Health Plan, Providence Health Plan, PacificSource, CareOregon, Washington State Uniform Medical Plan and Washington State Employees Aetna Health Plan. OIF participated in the Wellpartner transaction alongside Burrill & Company and Montlake Capital.
  - **Precision Wire Components (“Precision Wire”),** a Tualatin, Oregon contract manufacturer of high-precision medical-wire components used for minimally invasive procedures in fields such as interventional cardiology, neurovascular, women’s health, and sports medicine. Precision Wire is a leader in straightening, grinding, coiling, forming and assembling of wire components for the medical device industry. The company has a diversified, blue-chip customer base of leading medical device original equipment manufacturers. The company has proprietary manufacturing equipment and processes that allows for customizing equipment to meet customer-specific requirements in a relatively short timeframe and with less expense than their competition. OIF participated in the buyout alongside Riverside Partners, a partnership that resides in the OPERF private equity portfolio.

*The information on this page has been provided by the respective companies. CFIG has not independently verified this information and assumes no responsibility for the accuracy of such information. Further, the information, as presented on this page, was not prepared, reviewed, or approved by the respective companies.

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The Impact on Oregon

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The OIF's Impact on Oregon

- CFIG believes that the funds and co-investments comprising the Program's investments represent the best of breed for private equity funds and co-investments working in Oregon that were in the market for OIF Series 1 (2004 – 2007 vintages) and in the market for OIF Series 1A (2008 and thereafter)

- The funds and co-investments in the Program are actively investing in Pacific Northwest:

Oregon Impact (in $ millions)	As of December 2007	As of December 2008	As of December 2009	As of December 2010
Program Fund Managers, Dollars Invested in Pacific Northwest	$80.5	$133.4	$190.0	$215.0
Additional Dollars Invested from Outside the Program	$40.0	$166.0	$114.7	$336.1
Jobs Impacted in Pacific Northwest	2,767	3,088	2,789	3,743
Platform Companies	11	21	28	39
Total Dollars Invested in the State of Pacific Northwest	$120.5	$299.4	$304.7	$551.2

Note: All Oregon and Pacific Northwest data cited in this presentation comes directly from the funds and companies in the Program as of December 31, 2010

Examples of OIF Underlying Fund Activities in PNW

Overall, CFIG is extremely pleased with the involvement of the OIF's Underlying Funds in Oregon and the PNW. Below are a few examples of the OIF's Underlying Fund's activities.

- **Sherbrooke Capital Health & Wellness II**
  - Moved two companies operations to Oregon from other states
    - FoodShouldTasteGood and Ciao Bella have set up manufacturing facilities in Oregon (Hermiston and Eugene, respectively)
  - Boston-based Sherbrooke has Cory Comstock based in and working from Portland
- **Voyager Capital Fund III**
  - Established an office in the Pearl District run by Diane Fraiman
  - Three deals in Oregon with six deals in PNW
  - Highly visible in the entrepreneurial community
- **DFJ Frontier Fund II**
  - Partnered with Eric Rosenfeld at Capybara Ventures to help source and evaluate opportunities in Oregon
  - Have run entrepreneurial classes at Portland State University during 2009 and 2010
  - Highly visible in the entrepreneurial community
- **Montlake Capital II**
  - Established a Venture Partner relationship with Rob Wiltbank to help source and evaluate opportunities in Oregon

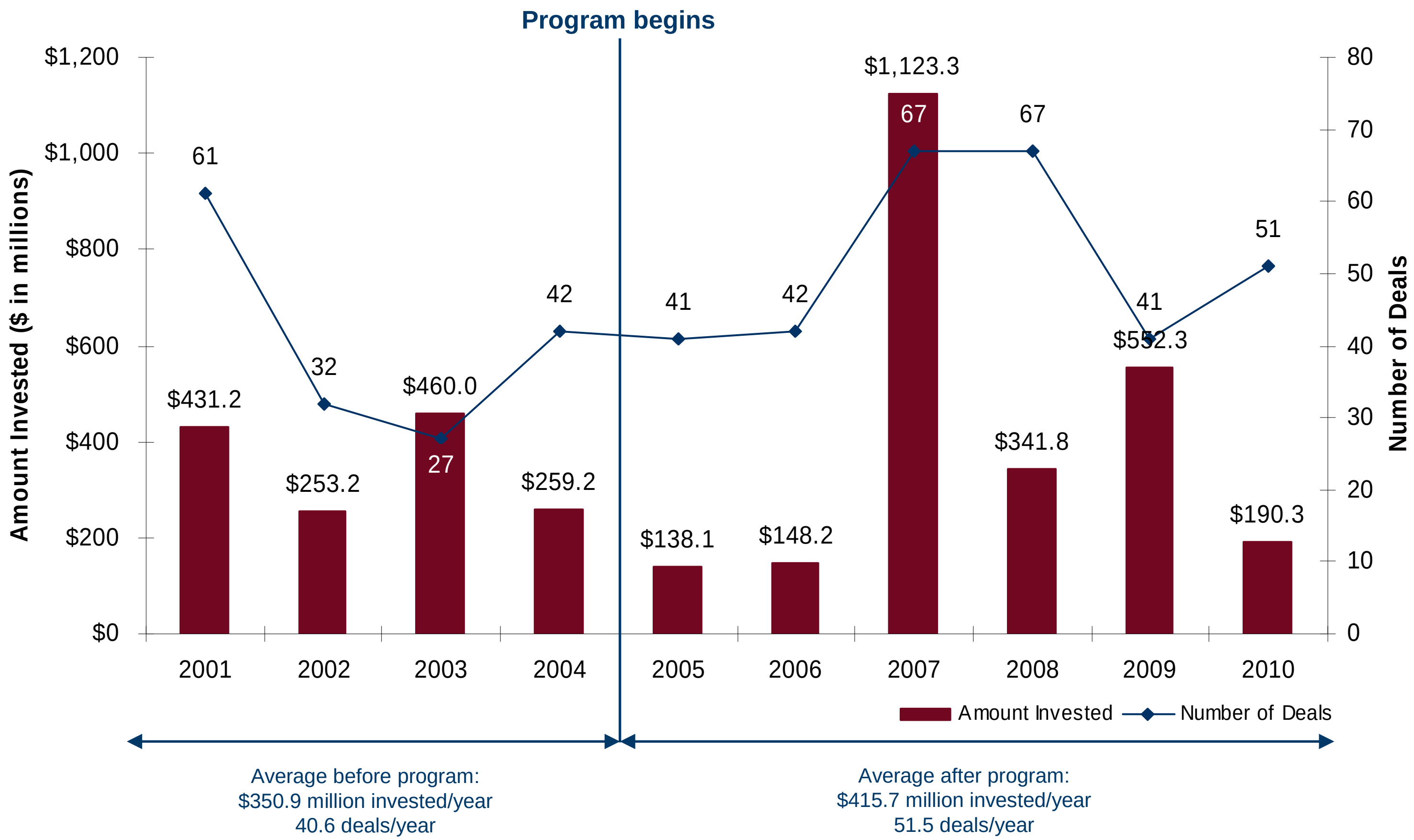
Ancillary Activities in Oregon

One of the key goals of the Program has been to provide education about the opportunities that exist within Oregon and to facilitate entrepreneurs' ability to find private equity and venture capital to grow their businesses.

- **Build a network to link entrepreneurs, corporate partners and private firms**
  - Driven by CFIG's investment in-state investment professional (David Almodovar)
  - CFIG used its customized proprietary system to build a flow sourcing and due diligence database
- **Educate local and regional private equity firms by organizing and sponsoring ongoing:**
  - Entrepreneurial teach-ins
  - Private equity and venture capital seminars
  - Industry conferences
- **Facilitation of capital investment**
  - CFIG has actively sought to increase private equity investment opportunities in the region by making introductions of Oregon-based funds and companies with regional and national private equity and venture capital funds
  - Introductions are done with the goal of increasing deal flow to Oregon-based funds and to foster syndication and/or joint venturing on deals between Oregon-based and national funds
  - CFIG has actively worked to strengthen the relationships among the OIF funds by holding annual meetings where all fund managers are brought together to share insight regarding Oregon and the PNW
  - CFIG shares deal flow with the OIF's participating funds and discusses systemic ideas to promote investing in Oregon and the PNW

Oregon Private Equity Investment: 2001 - Present

The following chart displays the number of deals done and the amount invested from 2001 to 2010:



Source: Venture Economics as of December 31, 2010

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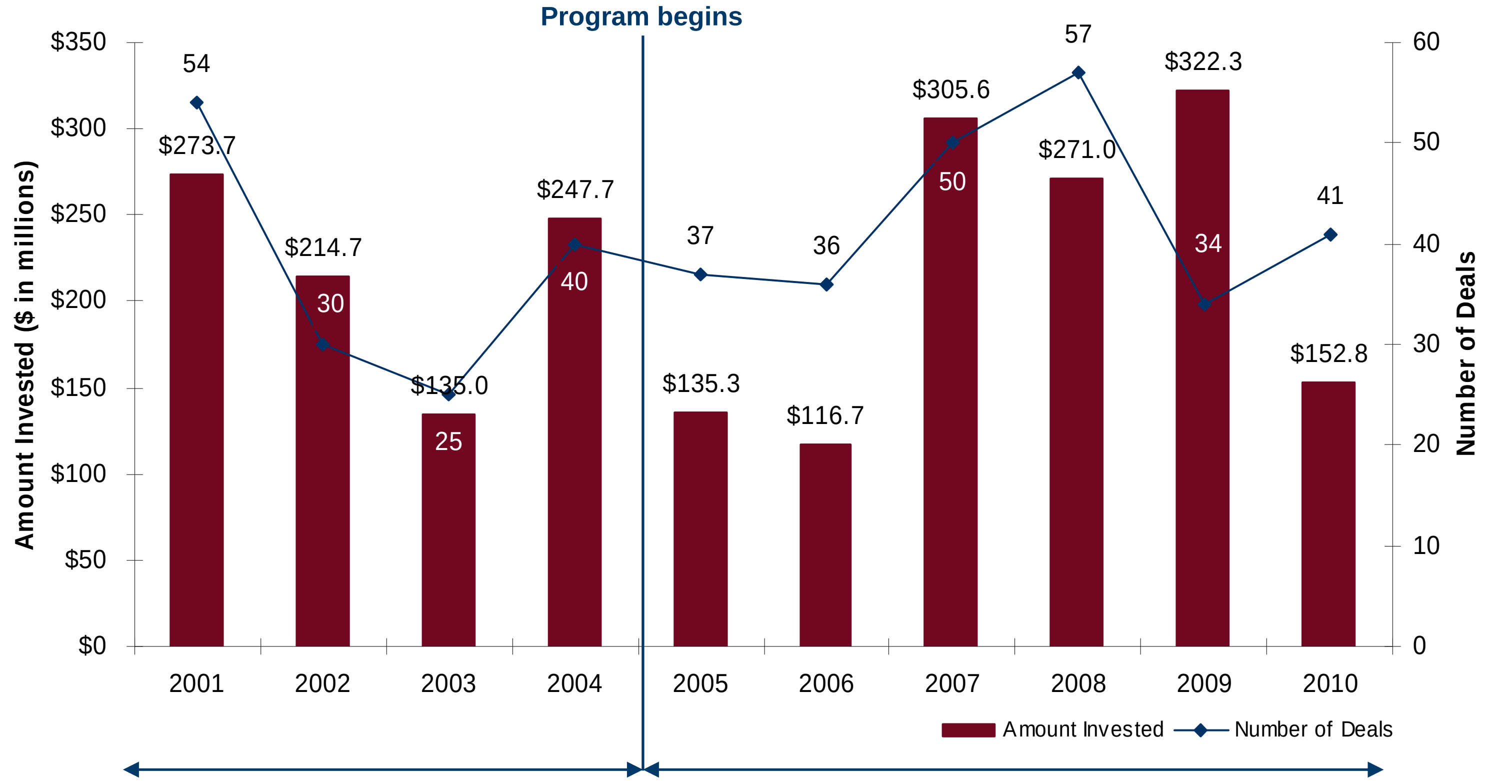
Oregon Venture Capital Investment: 2001 - Present

The following chart displays the number of deals done and the amount invested from 2001 to 2010:



Average before program:
$217.8 million invested/year
37.3 deals/year

Average after program:
$217.3 million invested/year
42.5 deals/year

Source: Venture Economics as of December 31, 2010

Performance – Series 1 and 1A

Oregon Investment Fund Series 1 and 1A Investment Summary

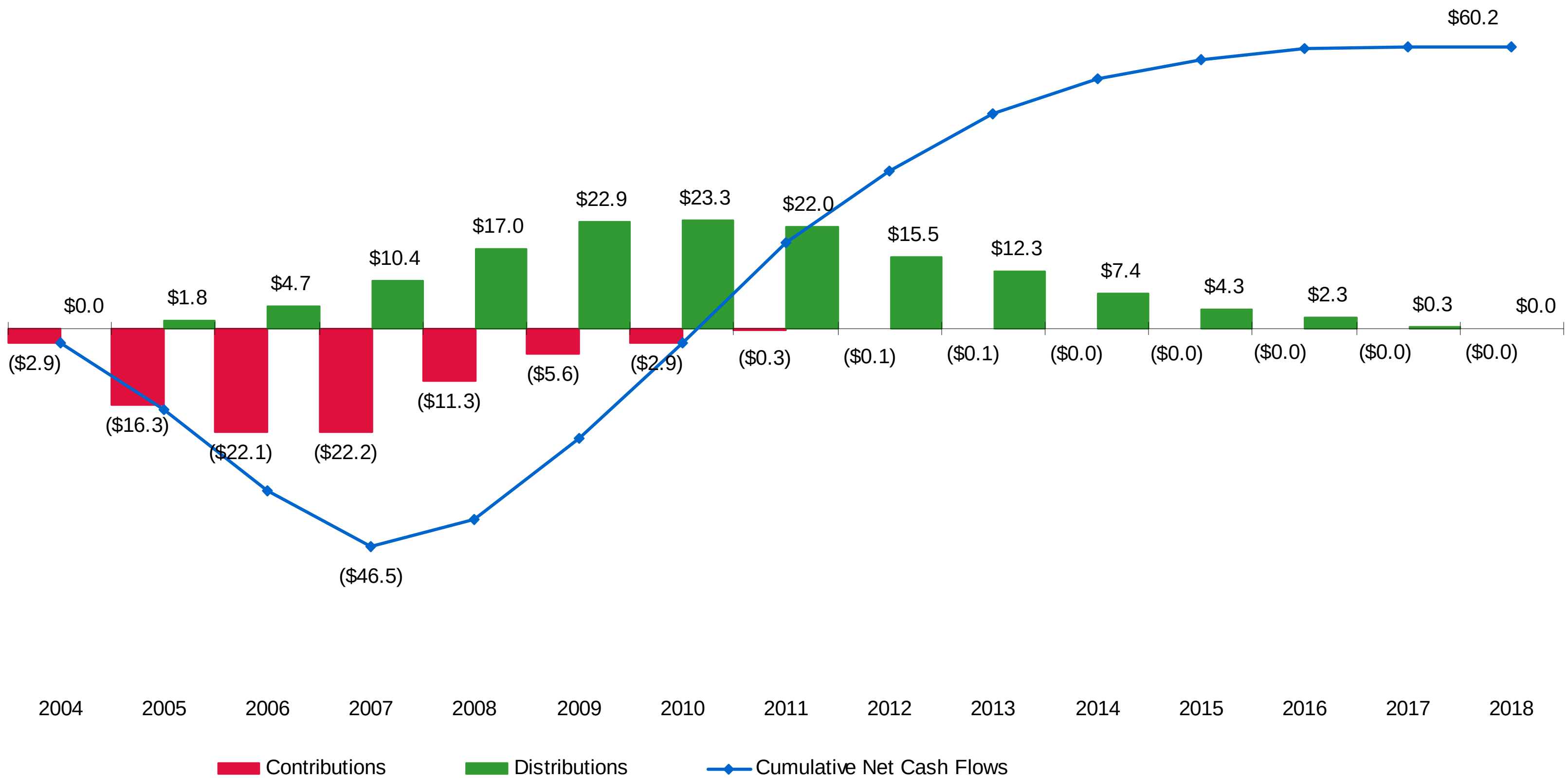
$ in millions *As of September 30, 2010*

	VINTAGE YEAR	PROGRAM SIZE	COMMITMENTS	FUNDED AMOUNT[1]	REMAINING COMMITMENTS	REPORTED VALUE[2]	DISTRIBUTIONS[3]	ADJUSTED REPORTED VALUE[4]	UNDERLYING FUND NET MULTIPLE[5]	LP NET IRR[6,7,8]
Series I	2004	$105.0	$95.7	$52.1	$43.6	$43.8	$2.0	$45.8	0.88x	(5.1%)
Other Partnership Net Assets (Liabilities)						$0.7				
Total Fund Value						$44.4				
Series IA	2007	$53.0	$33.5	$8.1	$25.5	$7.1	$0.0	$7.1	0.88x	NM
Other Partnership Net Assets (Liabilities)						$0.7				
Total Fund Value						$7.8				

(1) Represents investments made to the underlying funds plus capitalized expenses paid, less any reductions for recallable returns of capital. A portion of the funded amount may not reduce the Partnership's remaining commitment to the underlying funds.
(2) Represents the fair value reported by the underlying fund managers as of the stated valuation date, adjusted for cash flows through period-end, where applicable.
(3) Represents total proceeds returned to partners (including recallable and non-recallable returns of capital and General Partner's performance allocation) and withholding taxes paid to the IRS and state taxing authorities on behalf of investors, if applicable.
(4) Represents the reported value plus distributions.
(5) Represents the adjusted reported value divided by the funded amount.
(6) Net IRR is based on the actual cash flows to the limited partners of the CFIG-managed product and their terminal values as of the date of this report. This IRR includes the impact of fees paid by such limited partners and is net of carry where applicable.
(7) In certain cases and on a temporarily basis, the Limited Net performance may be higher than the Underlying Investment performance for diverse reasons, including interest income for cash on hand at the partnership level.
(8) This legal entity has multiple vehicles within the overall program's structure. The calculation of Net IRR varies depending upon which vehicle the investor participates in. The performance indicated is representative of a typical LP within the vehicle reported on. Therefore, the performance information presented herein may not present the actual performance achieved by an individual Limited Partner in a different vehicle.

Typical J-Curve for a Fund

The following J-Curve is an example of what would be typical contributions, distributions and cumulative net cash flows for a private equity vehicle like the OIF:



OIF Portfolio Highlights

The OIF has had many successes in both underlying funds and co-investments.

- **Wedbush Exit:** Wedbush exited ExtruMed, a designer, developer, and manufacturer of precision extrusion solutions for the medical device industry
  - Wedbush's first investment of the fund, made June 2006 and fully exited in March 2009
  - Wedbush realized a 3.1x return on invested capital
- **Krypitq Corp. Partnership:** In December 2010, Kryptiq entered into a strategic partnership with Surescripts, the nations largest e-prescription network
- **Gevo IPO (Burrill Portfolio Company):** Completed a successful IPO on February 9th
  - Priced at $15 per share, delivering proceeds to the company of $107 million and $123 million if the overallotment is exercised
  - Market cap at the IPO of $493 million
- **Agilyx Financing:** Recently closed a new round of financing which included strong financial and strategic investors
  - New financial investors include Kleiner Perkins Caufield & Byers
  - New financial investors include Total Energy and Waste Management
- **Wellpartner, Inc.:** Strong progress since the OIF initial investment in 2008
  - Continues to grow its outsourcing pharmacy operations with clients across the country
  - Both specialty pharmacy and 340B businesses have experienced strong growth
  - Attracted the attention of a number of potential clients and partners which has significantly enhanced the OIF's equity value
- **Chrysalix Energy Management ("Chrysalix"):** Received a first-place ranking in the Cleantech Group's preliminary annual list of the most active global venture investors
  - Named 3rd most active cleantech investor in 2010 by Bloomberg/New Energy Finance
- **Coulomb Technologies (Voyager Capital Portfolio Company):** Received a large grant from the U.S. Department of Energy in 2010

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Conclusion

Conclusion

- The OIF has been very successful in facilitating the entrepreneurial environment in the State of Oregon and the Pacific Northwest, as well as working to provide further outreach to its Oregon constituency
- CFIG believes that the OIF and its portfolio funds continue to identify strong companies that will drive growth in the Pacific Northwest and Oregon
- CFIG and the OIF's underlying funds have made investments in 39 companies throughout the Pacific Northwest, of which 22 are headquartered or have significant operations in Oregon
  - The OIF companies have impacted over 3,743 jobs throughout the Pacific Northwest which includes 1,254 jobs in Oregon
  - The OIF's underlying portfolio companies had total spend or payroll taxes + taxes of $150.4 million in the Pacific Northwest, with total spend in Oregon of $65.9 million in 2010
- CFIG and the OIF have built a strong base of Underlying Funds, co-investments and relationships since 2004
- There continues to be great opportunities within Oregon for further investment including new funds with an Oregon nexus coming to market and several co-investment opportunities being brought to CFIG by current General Partners

CFIG looks forward to leveraging its successful experience with the OIF and in Oregon to continue developing investment opportunities in Oregon and the Pacific Northwest in the coming years.

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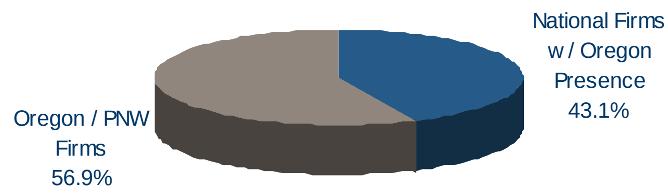
Appendix I – OIF Characteristics

Fund Construction

The OIF is diversified by product type, representing commitments to both regional and nationally-focused firms, as well as diversified across a range of target industries and vintage years:

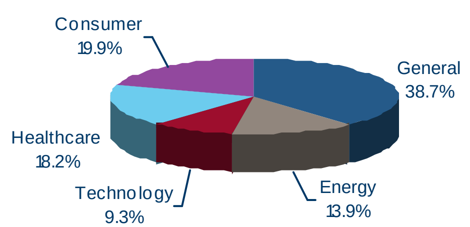
Geography

By OIF commitment amount



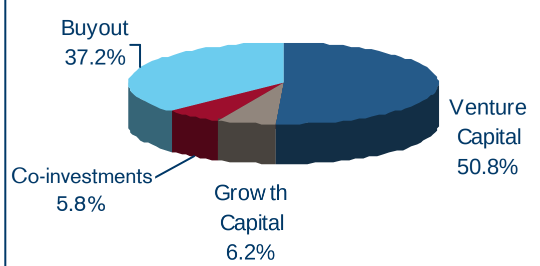
Target Sector

By OIF commitment amount



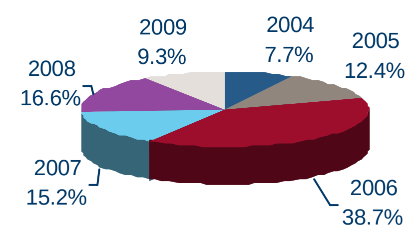
Sub-Asset Class

By OIF commitment amount



Vintage Year

By OIF commitment amount



As of December 31, 2010

Fund Commitments

The OIF's commitments are targeted to take advantage of Oregon and the PNW's many existing areas of expertise.

Industrial/Consumer/General

CriterionBrock exceeding your expectations

Wedbush Capital Partners

Sherbrooke Capital

Riverlake Partners

Walden Venture Capital

Montlake • Capital Private Capital for Growth Companies

DFJ Frontier

Evergreen Pacific Partners

Information Technology

Kryptiq Software to Connect Healthcare

Wellpartner

Voyager Capital

Montlake • Capital Private Capital for Growth Companies

Walden Venture Capital

DFJ Frontier

Healthcare

Wellpartner

Precision Wire Components

Sherbrooke Capital

Burrill & Company

Kryptiq Software to Connect Healthcare

DFJ Frontier

Energy/Power

Nth Power Energy | Vision | Capital

Montlake • Capital Private Capital for Growth Companies

DFJ Frontier

Chrysalix

Oregon Portfolio Companies

The OIF and Underlying Funds have made investments in the following companies with a presence in Oregon.

Companies with Oregon Presence

BRAMMO
Qsent
FOOD SHOULD TASTE GOOD
HYDRA Dx
ELEMENTAL
KRYPTIQ Software to Connect Healthcare
NUPRECON
AboutUs
HANEY TRUCK LINE
PINNACLE EXHIBITS
ClearAccess
CriterionBrock exceeding your expectations
agilyx
MAX VIZ
veriwave
JANRAIN
act-on
Wellpartner
Precision Wire Components
ivey
oregon chai
CLEANPAK INTERNATIONAL
nLIGHT
Oak Patch Gifts

TAB 6 – OPERF 4TH QUARTER 2010

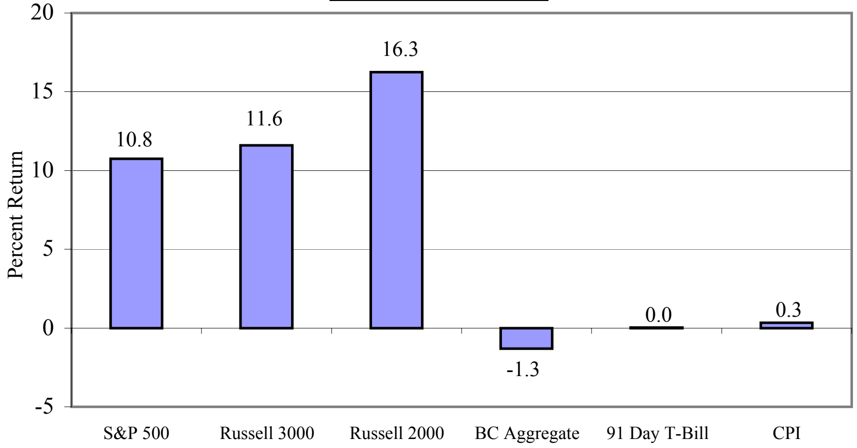
PERFORMANCE REVIEW

State of Oregon
OPERF Performance Summary
Quarter Ending December 31, 2010

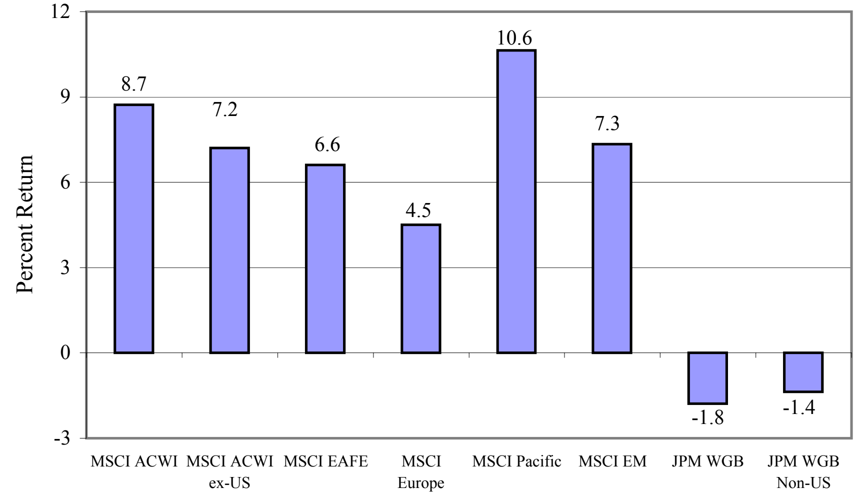
Capital Markets Review

Q4 2010

U.S. Markets



Global Markets



General Comments

Global equity markets continued to charge ahead in the fourth quarter with positive returns across all styles, cap-ranges, regions and levels of development. Smaller companies led the way in the US as represented by a 16.3% return to the Russell 2000 index. The major drivers of the improved performance were better prospects for economic growth and investors' expectations of increased earnings and dividend growth in 2011. While unemployment rates are still high, industrial production, consumer spending and US GDP each increased in the fourth quarter, easing fears of a double-dip recession.

The US economy grew at a rate of 3.2% in the fourth quarter, its sixth straight quarter of expansion. The growth was based on a 4.4% increase in consumer spending, and a 5.1% decrease in net exports. Exports actually rose in the quarter by 8.5%, but imports declined sharply by 13.6% as a result of the strengthening Dollar.

The Labor Department reported that the Unemployment rate fell 0.4% to 9.4% in December 2010. Total nonfarm payroll increased by a revised 121,000 in the month. Other reports indicated that the gains were made in manufacturing jobs, and smaller businesses created more jobs than their larger counterparts. Additionally, layoffs were down 59% in 2010 compared with 2009.

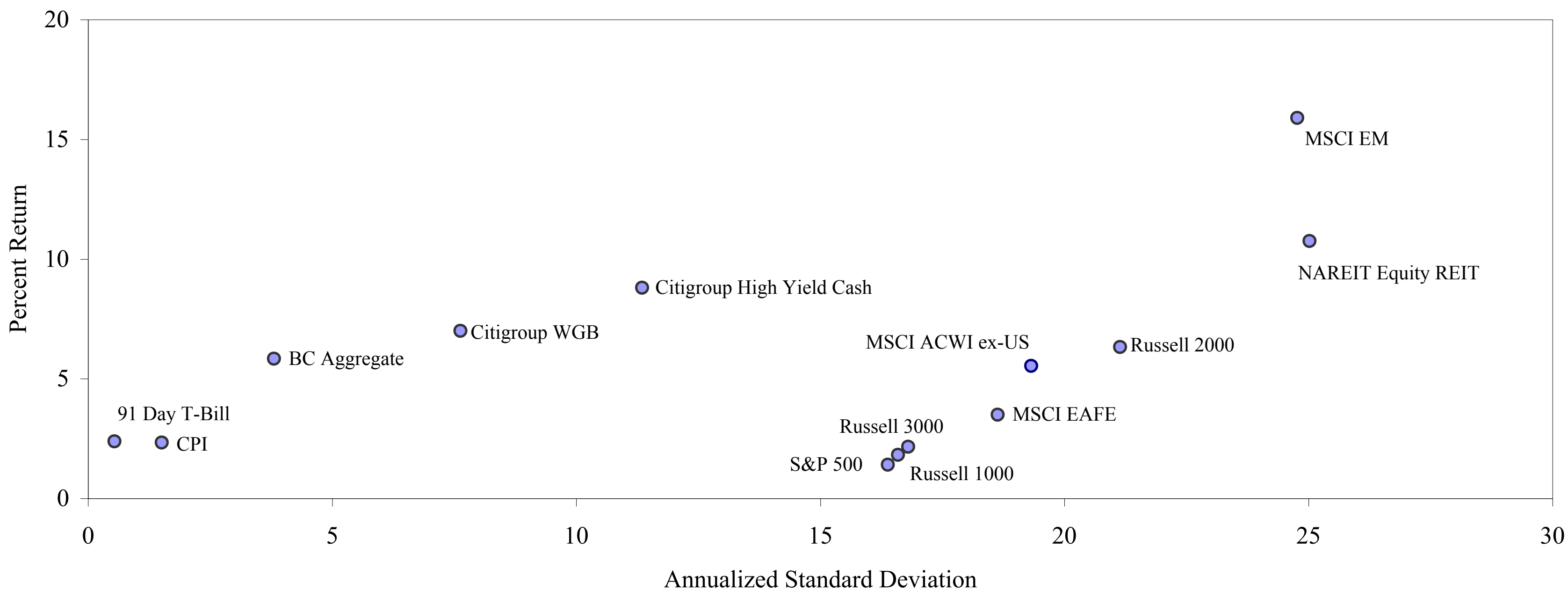
Inflation continued to be tame in the US, with the CPI rising just 0.5% in December, and 1.5% over the full year. Excluding food and energy, the year-over-year rate was just 0.8%, as Energy prices rose 7.7% in 2010.

Noting the lack of inflation and continued elevated rates of Unemployment, the Federal Reserve continued to leave the Fed Funds target rate at between 0.0 and 0.25%. In a move designed to continue to stimulate economic growth, and without room to lower interest rates, the FOMC extended its program of quantitative easing (QE2) by announcing plans in November to purchase $600 Billion more in Treasury securities through the first half of 2011.

Capital Markets Review

Total Returns in US$	Quarter	Year to Date	1 Year	3 Years	5 Years	10 Years	20 Years	10 Year Std. Dev.
91 Day T-Bill	0.04	0.13	0.13	0.79	2.43	2.38	3.73	0.54
BC Aggregate	-1.30	6.54	6.54	5.90	5.80	5.84	6.89	3.81
Citigroup High Yield Cash	3.13	14.24	14.24	9.60	8.43	8.80	9.79	11.35
Citigroup World Gov't Bond	-1.76	5.17	5.17	6.15	7.09	7.00	7.00	7.63
S&P 500	10.76	15.06	15.06	-2.86	2.29	1.41	9.14	16.38
Russell 3000	11.59	16.93	16.93	-2.01	2.74	2.16	9.51	16.80
Russell 1000	11.19	16.10	16.10	-2.37	2.59	1.83	9.46	16.59
Russell 2000	16.25	26.85	26.85	2.22	4.47	6.33	10.84	21.14
MSCI ACWI ex-US	7.20	11.15	11.15	-5.03	4.82	5.54		19.32
MSCI EAFE	6.61	7.75	7.75	-7.02	2.46	3.50	5.85	18.63
MSCI Emerging Markets	7.34	18.88	18.88	-0.32	12.78	15.89		24.80
Nareit Equity REIT	7.44	27.95	27.95	0.66	3.03	10.75	12.17	25.02
CPI	0.34	1.50	1.50	1.44	2.18	2.34	2.50	1.51

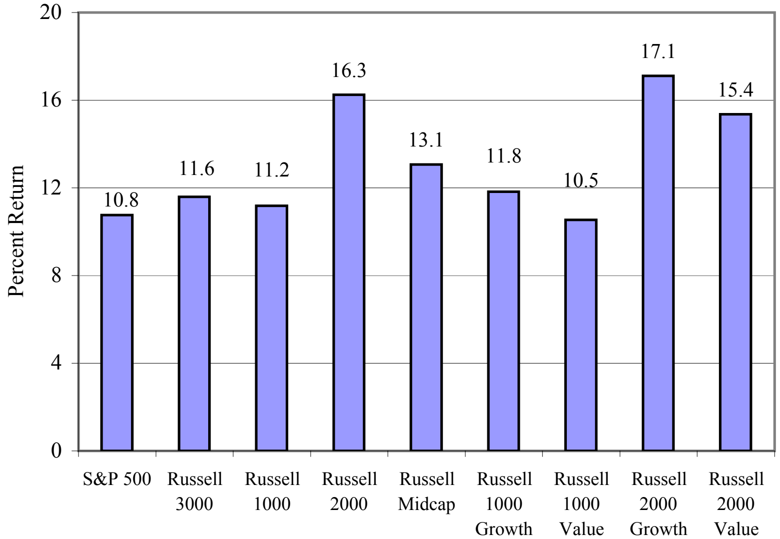
Risk vs. Return - 10 Years



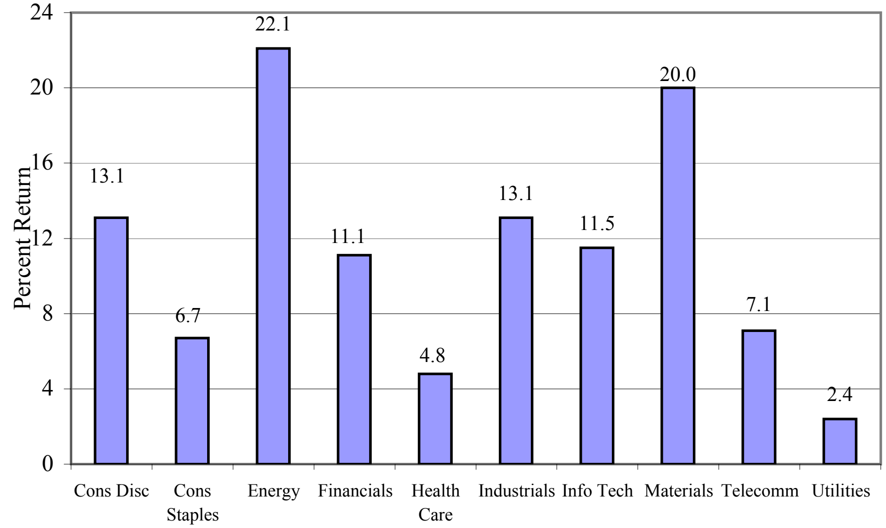
U.S. Equity Market Review

Q4 2010

U.S. Markets



Economic Sector Performance



U. S. Equity Market

For US Equities, the story in the fourth quarter was the relative success of the small cap indices over their large cap counterparts. The Russell 2000 outperformed the larger cap Russell 1000 by 506 basis points, and the Russell Microcap index returned 19.4% in the quarter, to outperform the large cap index by 822 basis points. For the year 2010, the Russell 2000 returned 26.9%, compared with 16.1% for the Russell 1000 Index.

Driving the strong performance of the US Equity market was a healthy holiday retail season and marginally improved economic data in December, following weaker economic data and a large cap selloff after the November elections. Aiding in the rally was the revival of several companies tied to the US Government's Troubled Asset Relief Program (TARP). First off, General Motors (+8%) went public, allowing the Government to reduce its holdings in the company. Then the Treasury sold its remaining stake in Citigroup (+21%). And, just before year-end, the stage was set for AIG (+47%) to regain its independence following massive government aid.

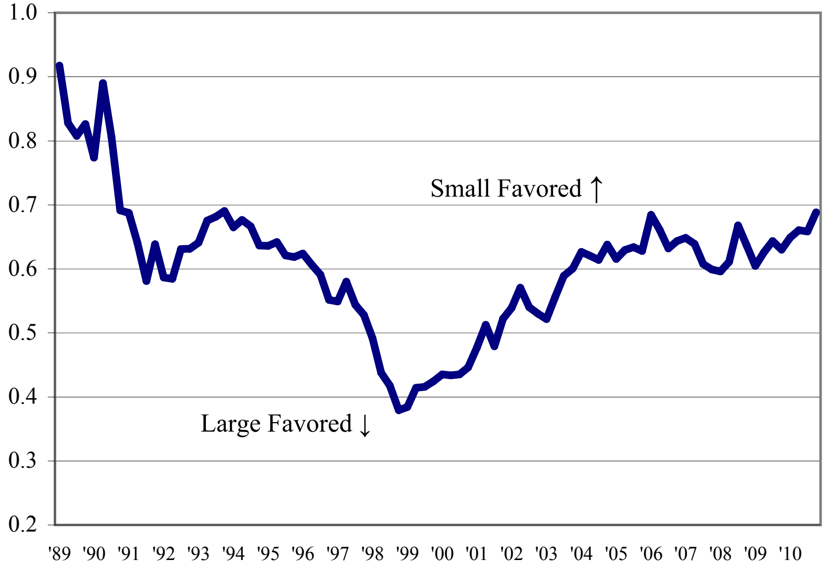
Growth stocks once again outperformed their Value counterparts in the fourth quarter. Among stocks in the Russell 1000 Index, Growth topped Value with a return of 11.8% vs 10.5% for Value. In the 2000 Index, Growth returned 17.1% compared with a 15.4% return on Value. For the year 2010, Growth outperformed Value by 120 basis points in the 1000 Index, and by 458 basis points in the 2000 Index.

A look at the returns across economic sectors shows that all sectors were positive in the fourth quarter and for the year. In the quarter, Energy, Materials and Consumer Discretionary were the top performers, while Consumer Discretionary, Industrials and Energy led in the year. Utilities, Health Care and Consumer Staples lagged in the quarter. Health Care and Utilities had the lowest returns as many large Pharmaceuticals underperformed.

U.S. Equity Market Review

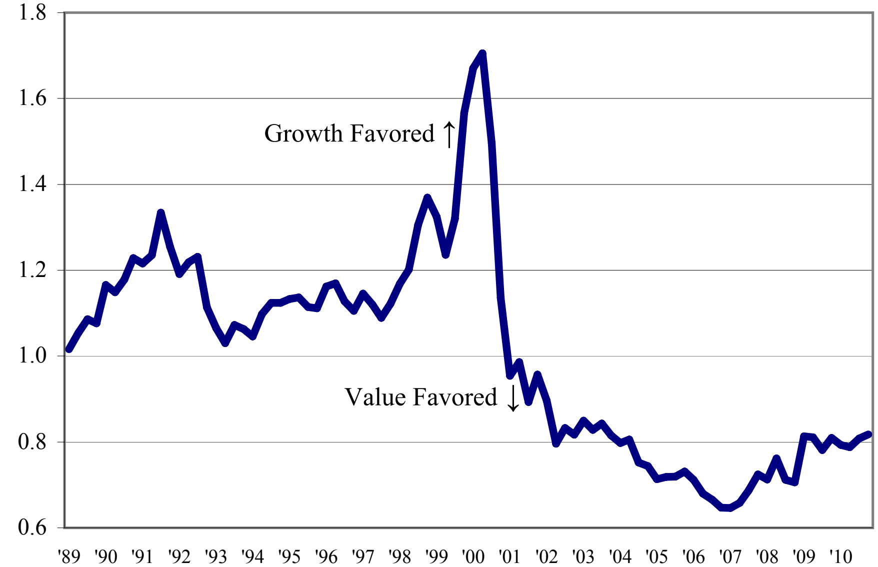
Q4 2010

Small vs. Large



Cumulative return of the Russell 2000 versus the Russell 1000

Growth vs. Value



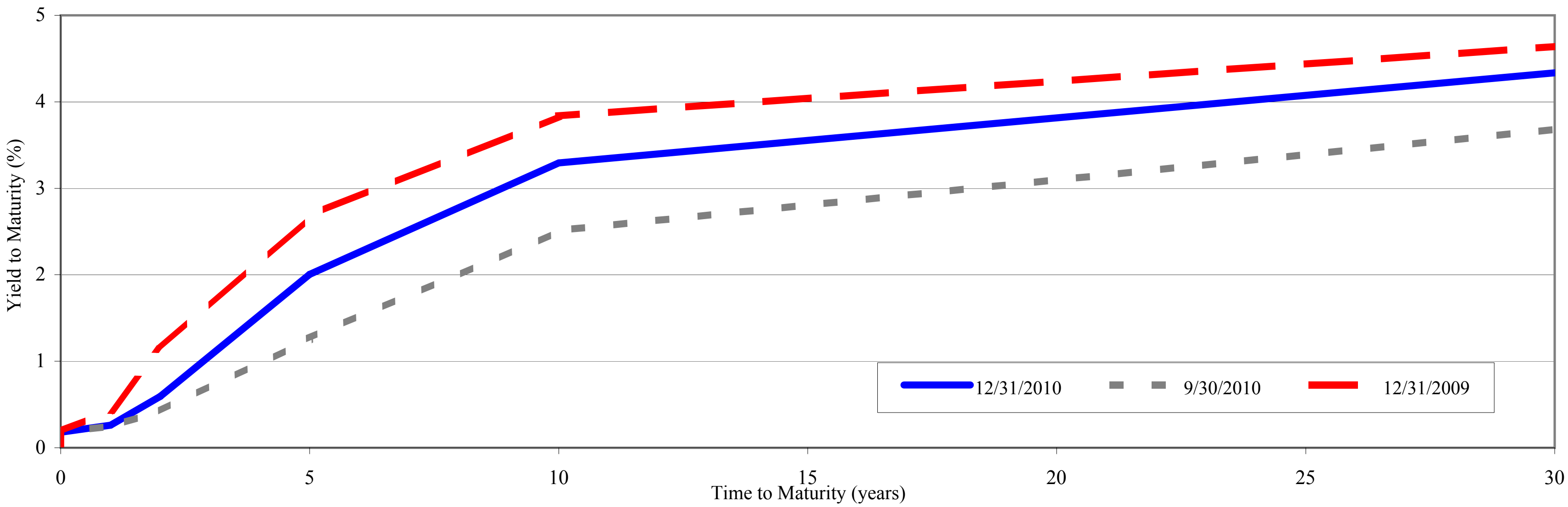
Cumulative return of the Russell 1000 Growth versus the Russell 1000 Value

Total Returns	**Quarter**	**Year to Date**	**1 Year**	**3 Years**	**5 Years**	**10 Years**	**20 Years**
S&P 500	10.76	15.06	15.06	-2.86	2.29	1.41	9.14
Russell 3000	11.59	16.93	16.93	-2.01	2.74	2.16	9.51
Russell 1000	11.19	16.10	16.10	-2.37	2.59	1.83	9.46
Russell 2000	16.25	26.85	26.85	2.22	4.47	6.33	10.84
Russell Midcap	13.07	25.48	25.48	1.05	4.66	6.54	12.26
Russell 1000 Growth	11.83	16.71	16.71	-0.47	3.75	0.02	8.33
Russell 1000 Value	10.54	15.51	15.51	-4.42	1.28	3.26	10.09
Russell 2000 Growth	17.11	29.09	29.09	2.18	5.30	3.78	8.20
Russell 2000 Value	15.36	24.50	24.50	2.19	3.52	8.42	12.94

U.S. Fixed Income Market Review

Q4 2010

Treasury Yield Curve



U. S. Fixed Income Market

Restored optimism and a positive outlook for the US economy fueled a rise in bond yields and equity prices in the fourth quarter, causing domestic Fixed Income indices to fall. The BC Aggregate Index fell 1.3% in the quarter, but finished the calendar year up 6.5%. The BC Universal Index was down 1.0% in the quarter, but rose 7.2% on the year based on strong performances in the second and third quarters.

US Treasuries were generally lower in the quarter as yields, which had reached a low in October with the 10-year Treasury at 2.4%, began to rise steadily as economic prospects improved and QE2 was announced. By year-end the 10-year Treasury was yielding 3.3%, resulting in a quarterly return of -5.6%. Treasuries on average were down 2.6% in the quarter, but up 5.9% for the year.

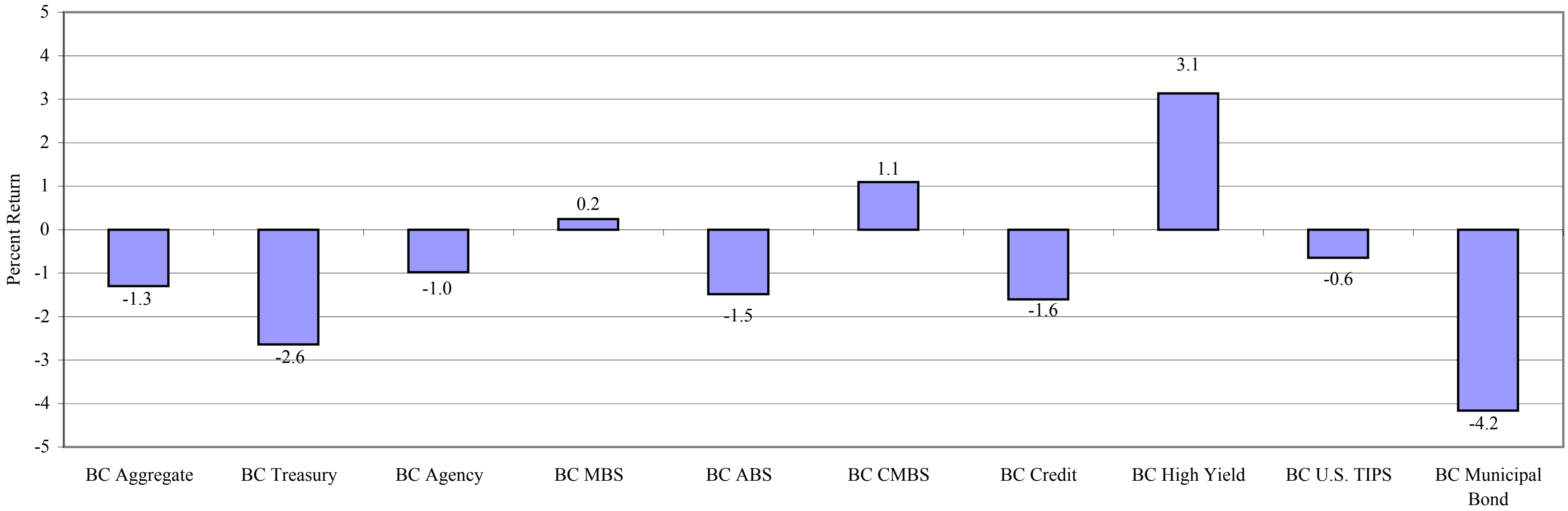
Agencies' returns behaved similarly to Treasuries as investor concern over prepayments eased in the quarter driving up their demand. Meanwhile CMBS returns came in positive at 0.9% in the quarter as the demand for investment grade offerings with yield became much more robust. CMBS finished the year up by 20.4%.

US Corporates' returns also fell in the quarter as risk appetites improved. More defensive sectors lagged as investors looked to a brighter economic outlook and rising stock prices. Investors were also drawn to the high yield bond markets as their spreads continued to recover in the fourth quarter as fears of a double-dip recession subsided and earnings strengthened. Lower quality and cyclical industries performed the best in the quarter. On average, US High Yield bonds rose 3.2% in the fourth quarter and 15.1% over 2010.

U.S. Fixed Income Market Review

Q4 2010

U.S. Bond Sector Performance

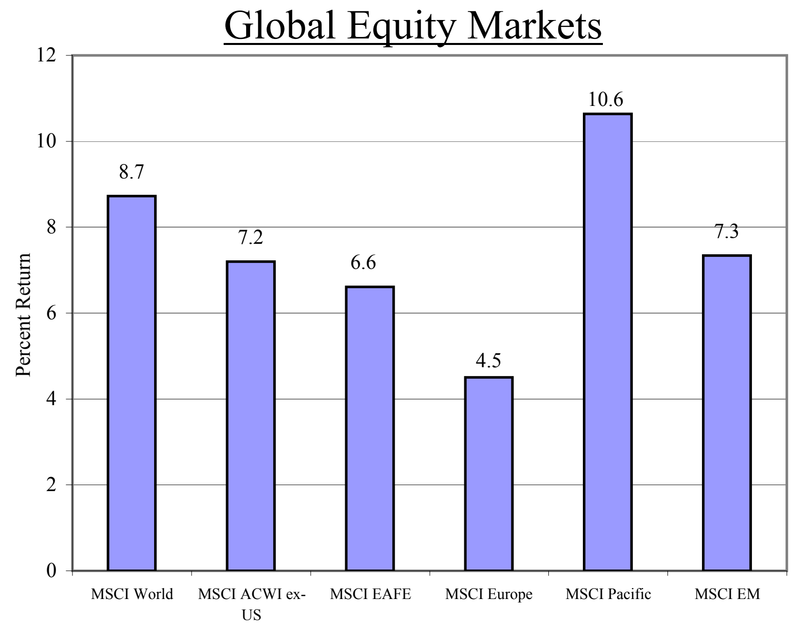


Total Returns	**Quarter**	**Year to Date**	**1 Year**	**3 Years**	**5 Years**	**10 Years**	**20 Years**
BC Aggregate	-1.30	6.54	6.54	5.90	5.80	5.84	6.89
BC Treasury	-2.64	5.87	5.87	5.11	5.47	5.41	6.66
BC Agency	-0.98	4.36	4.36	5.00	5.45	5.45	6.68
BC MBS	0.24	5.37	5.37	6.52	6.34	5.89	6.85
BC ABS	-1.48	5.85	5.85	4.84	4.28	4.86	
BC CMBS	1.09	20.81	20.81	6.16	5.59	6.32	
BC Credit	-1.61	9.00	9.00	7.14	6.05	6.57	7.49
BC High Yield	3.14	15.18	15.18	10.38	8.89	9.05	
BC U.S. TIPS	-0.65	6.31	6.31	4.97	5.33	7.02	
BC Municipal Bond	-4.17	2.38	2.38	4.08	4.09	4.83	6.07

Global Equity Market Review

Q4 2010

Total Net Returns in US$	**Quarter**	**Year to Date**	**1 Year**	**3 Years**	**5 Years**	**10 Years**	**20 Years**
MSCI World	8.73	12.67	12.67	-4.29	3.44	3.20	
MSCI ACWI ex-US	7.20	11.15	11.15	-5.03	4.82	5.54	
MSCI EAFE	6.61	7.75	7.75	-7.02	2.46	3.50	5.85
MSCI EAFE Hedged	5.72	5.61	5.61	-7.27	0.02	0.57	5.12
MSCI Europe	4.50	3.88	3.88	-8.90	2.85	3.27	8.26
MSCI Pacific	10.64	15.92	15.92	-2.91	1.58	3.99	2.76
MSCI Emerging Markets	7.34	18.88	18.88	-0.32	12.78	15.89	
MSCI UK	6.04	8.76	8.76	-6.97	2.65	3.47	7.53
MSCI Japan	12.12	15.44	15.44	-4.60	-2.45	1.01	0.66



Non-US Equity Markets

International equity markets in the fourth quarter followed the patterns of the domestic markets with positive returns across the globe, albeit at slightly rates of return than in the US. The MSCI EAFE Index rose 6.6% in the quarter to finish the year up 7.8%. Developed markets were led by Japan with a return of 12.1% and the Pacific ex-Japan, which returned 10.1%. Europe, ex-UK lagged behind with a 3.7% return as many of its countries faced budgetary hurdles, most notably the PIIGS (Portugal, Italy, Ireland, Greece and Spain), coupled with the continued threat of future bailouts in some countries (Italy, Portugal and Spain).

Similar to the US markets, the international markets were led by the Energy and Materials sectors while the more defensive Telecom and Utilities lagged behind. Also, the Growth style continued to outperform Value in the developed markets, while Value topped Growth in the emerging markets.

Emerging Markets slowed down slightly in the quarter with a return of 7.4% to the MSCI Emerging Markets Index. For the year the Index increased 18.9%. Commodity-rich countries such as Argentina, Mexico and Peru led the way, particularly those with high Copper reserves. Meanwhile performance in the BRIC's with the exception of Russia slowed considerably. Brazil, for example, took steps to limit the flow of investments, which had driven up its currency, while India and China tightened monetary policy amid concerns of increased inflation.

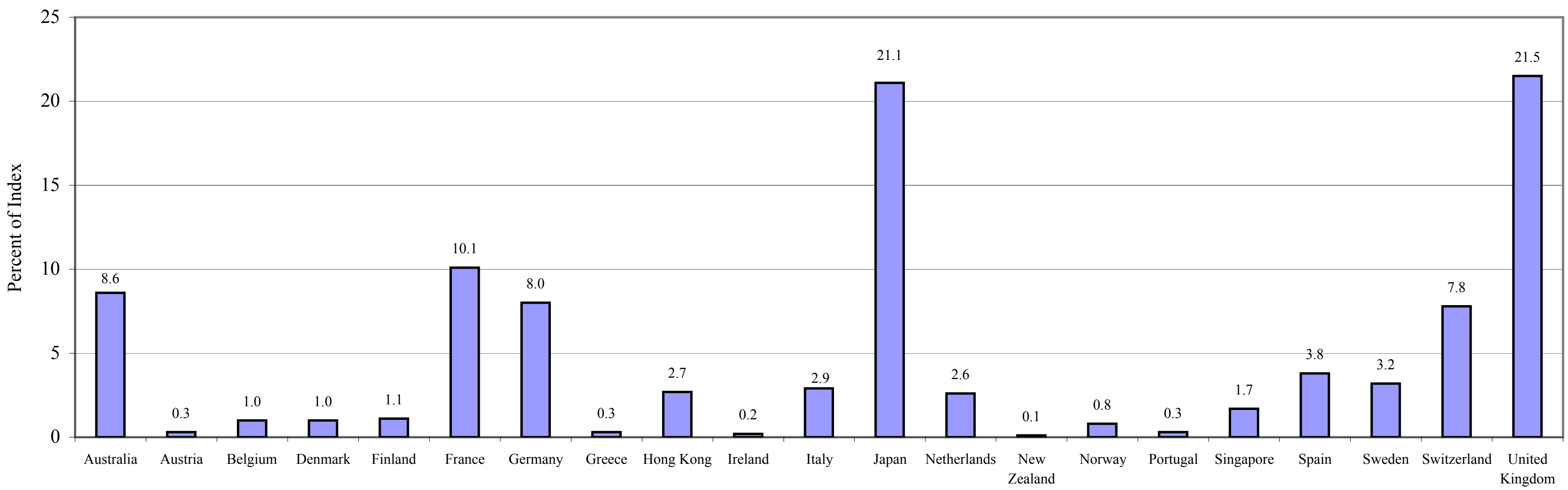
Exchange rate shifts in the fourth quarter were fairly tame compared to the rest of 2010. For the quarter and the year, the Dollar strengthened against the Euro, as its member countries struggled with deficit issues. But, the Dollar weakened against the Yen as consumer spending continued to weaken there. As a result, dollar based returns were lower in Europe (3.9%) versus local currency (6.8%), and higher in Japan at 15.4% versus 0.6% for local currency investors.

Global Equity Market Review

Q4 2010

MSCI EAFE Country Returns

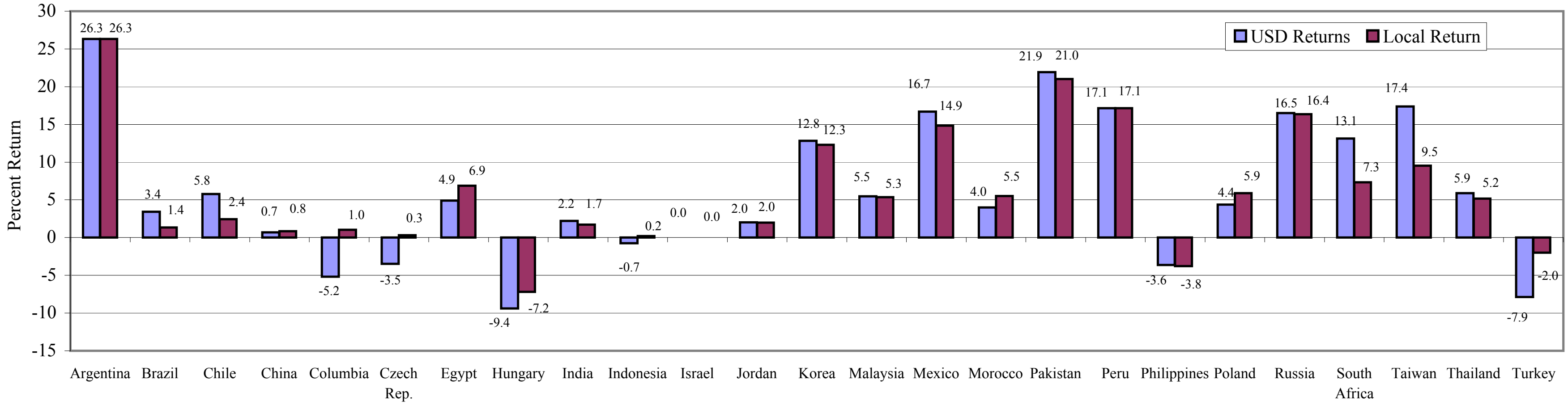
MSCI EAFE Country Weights



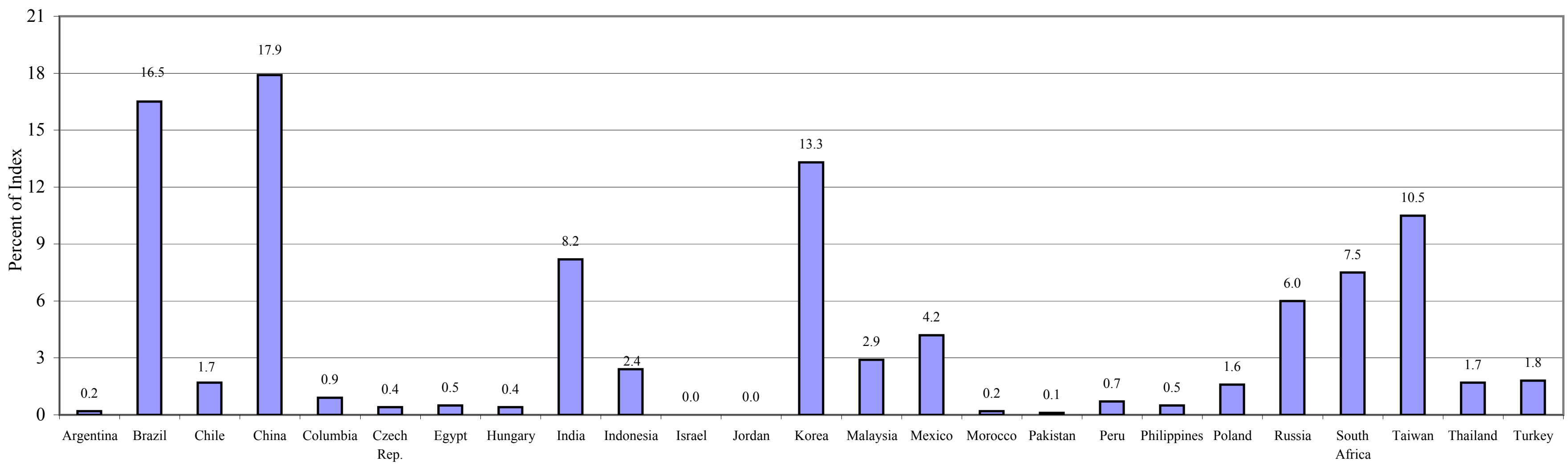
Global Equity Market Review

Q4 2010

MSCI Emerging Markets Country Returns



MSCI Emerging Markets Country Weights



OIC Regular Account Performance Report

Net of Fees

Periods Ending December 31, 2010

	3 Year %	5 Year %	7 Year %	10 Year %
Have returns affected benefit security?				
1. Total Regular Account	-0.60	4.43	7.03	5.45
2. Actuarial discount rate	8.00	8.00	8.00	8.00
3. Out/Under performance (1-2)	-8.60	-3.57	-0.97	-2.55
Has plan been rewarded for capital market risk?				
4. Policy Return	-0.34	4.68	6.53	5.01
5. Minimum risk/high cost policy of 91-day T-Bills	0.79	2.43	2.36	2.38
6. Impact of asset mix policy (4-5)	-1.13	2.25	4.17	2.63
Has plan been rewarded for active management risk?				
7. Net active management effect (1-4)	-0.26	-0.25	0.50	0.44

State of Oregon

Total Fund Summary

Quarter Ending December 31, 2010

Total Fund:

The Total Regular Account returned 5.72% in the fourth quarter of 2010, trailing its benchmark, the OPERF Policy Benchmark by 38 basis points. For the calendar year 2010, the Plan gained 12.62%, which topped the benchmark 129 basis points. With respect to the TUCS universe of all public funds greater than $1 Billion, the Regular Account landed at the 51st percentile for the fourth quarter, and at the 44th percentile for the year. Noteworthy, is the fund's long-term performance which placed it at the third percentile in the 7-year period, and tenth for the 10 years ended December 31, 2010.

Key Factors Contributing to Performance:

The Total Plan Attribution for the fourth quarter (page 16) shows the chief detractor to the *Value Added* over the Policy benchmark to be the Selection Factor in Private Equity, which gave up 1.49% to the net return. Selection within Fixed Income was the top source for added value with a contribution of 47 basis points. Over the calendar year, 2010 (page 17), Selection in Public Equity and Fixed Income were the greatest contributors, adding 120 and 104 basis points, respectively. Selection in Real Estate was the greatest detractor in the year with a subtraction of 89 basis points.

With a return of 12.46% in the fourth quarter, the Domestic Equity portfolio out-performed its benchmark, the Russell 3000, by 87 basis points, placing it in the 12th percentile of TUCS' rankings of US Equity pools of Public Plans. On the year, the portfolio gained 19.03% to outperform its benchmark by 210 basis points, placing it at the 13th percentile of the TUCS universe.

The International Equity portfolio edged out its benchmark, the MSCI ACWI ex US IMI (net), by seven basis points in the quarter with a return of 7.80%. For 2010, the portfolio returned 14.12%, topping the benchmark by 139 basis points. Among its peers in the TUCS' Public International Equity pools, the portfolio was ranked in the 22nd percentile for the quarter, and 18th for the year. Over the five, seven and ten year periods, the portfolio was ranked ninth, first and fifth, respectively.

The PERS Total Fixed Income portfolio continued its excellent relative performance by beating its benchmark, the Custom Fixed Income 90/10 benchmark, by 182 basis points. On the year, the portfolio destroyed the benchmark by 409 basis points with a return of 10.78%. Against, its peers in the TUCS US Fixed Income Pools, the portfolio place at the 9th percentile in the quarter, and 12th on the year.

Also contributing well to the Total Fund's Performance was the Private Equity portfolio, which returned 5.31% and 16.44% for the quarter and year, respectively, placing it in the 17th and 21st percentiles, respectively. Also noteworthy, was its long-term performance, which on a gross-of-fees basis placed it in the fifth percentile for the 5-year period, and in the first percentiles for both the 7-year and 10-year periods.

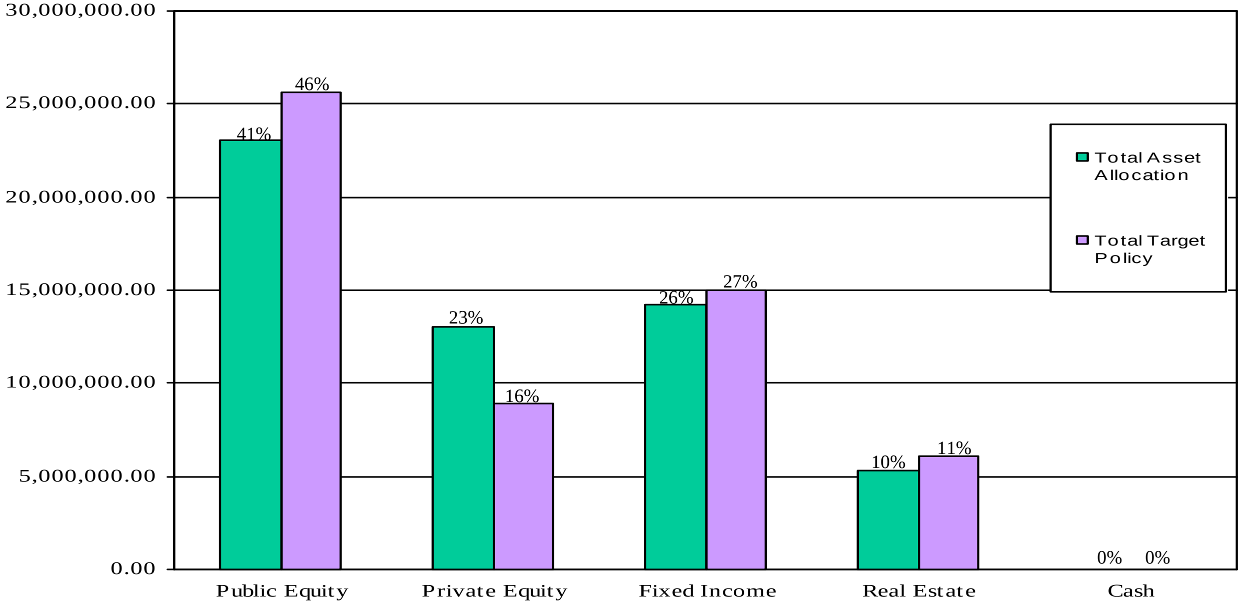
Note: Returns are net of fees. Private Equity and Real Estate Returns are lagged one quarter.

TUCS Universe: Public Funds $1 Billion or Larger (rankings based on gross returns)

State of Oregon

Total Regular Account Asset Allocation ($ Millions)
as of December 31, 2010

Asset Allocation vs. Target Policy



Allocation vs. Target Policy

	WEIGHTS			
	Allocation*	Policy	Difference	Median-Public Fund>$1 B Universe (TUCS)
PUBLIC EQUITY	41	46	-5.0	58.6
PRIVATE EQUITY	23	16	7.0	8.5
FIXED INCOME	26	27	-1.0	24.4
REAL ESTATE	10	11	-1.0	1.7
CASH	-	-	-	2.5
TOTAL PLAN	100	100		

*Asset class allocations reflect the impact of the overlay program.

State Of Oregon

Total Fund Return Table

Rates Of Return

Periods Ending December 31, 2010

	Market Value $(M)	Current Quarter	YTD	1 Year	3 Years	5 Years	7 Years	10 Years	Inception to Date	Inception Date
FUNDS										
TOTAL REGULAR ACCOUNT	$55,696,913	5.72	12.62	12.62	-0.60	4.43	7.03	5.45	7.15	07/01/1997
OPERF POLICY BENCHMARK		6.11	11.32	11.32	-0.34	4.68	6.53	5.01		
PUBLIC FUNDS > $1 BILLION RANK*		51	44	44	65	26	3	10		
PUBLIC FUNDS > $10 BILLION RANK*		52	42	42	55	15	1	5		
TOTAL DOMESTIC EQUITY	$9,483,897	12.46	19.03	19.03	-1.67	2.68	4.81	2.55	9.92	04/01/1971
RUSSELL 3000		11.59	16.93	16.93	-2.01	2.74	4.49	2.16		
US EQUITY POOLS*		12	13	13	21	21	17	29		
TOTAL INTERNATIONAL EQUITY	$12,572,620	7.80	14.12	14.12	-2.96	6.11	9.93	6.67	11.62	04/01/1985
MSCIACWI - OREGON MSCI ACWI EX US IMI NET		7.73	12.73	12.73	-4.22	5.52	9.27	6.09		
INTERNATIONAL EQUITY POOLS*		22	18	18	12	9	1	5		
TOTAL GLOBAL EQUITY	$935,276	9.84	10.46	10.46	-8.23				-4.68	03/01/2007
MSCI AC WORLD (NET)		8.73	12.67	12.67	-4.29	3.44	6.09	3.20		
TOTAL FIXED INCOME	$13,334,082	0.69	10.78	10.78	7.88	6.86	6.30	7.06	8.51	01/01/1988
CUSTOM FIXED INCOME 90/10 BLEND [3]		-1.14	6.69	6.69	5.85	5.73	5.23	5.94		
US FIXED INCOME POOLS*		9	29	29	9	9	15	10		
TOTAL REAL ESTATE[1]	$5,329,935	3.84	-1.88	-1.88	-8.42	1.51	8.15	8.96	9.40	12/01/1996
NCREIF PROPERTY ONE QTR LAG		3.86	5.84	5.84	-4.62	3.67	6.98	7.25		
REAL ESTATE POOLS*		61	80	80	34	39	20	5		
TOTAL PRIVATE EQUITY[2]	$11,973,204	5.31	16.44	16.44	0.54	8.14	15.24	7.58	10.66	07/01/1997
BLENDED PRIVATE EQUITY INDEX QTR LAG		12.33	14.27	14.27	-2.48	4.69	8.57	4.76		
US PRIVATE EQUITY*		17	21	21	25	5	1	1		
TOTAL OPPORTUNITY PORTFOLIO	$1,053,075	6.97	12.37	12.37	5.10				4.21	09/01/2006
RUSSELL 3000		11.59	16.93	16.93	-2.01					
CPI + 5%		1.57	6.56	6.56	6.47					
OST SHORT TERM FUND - PERS	$685,068	0.15	0.88	0.88	1.50	2.98	2.78	2.74	4.29	12/01/1989
91 DAY T-BILL		0.04	0.13	0.13	0.79	2.43	2.36	2.38		

[1] Publicly traded real estate securities are current quarter; all others are 1 quarter lagged

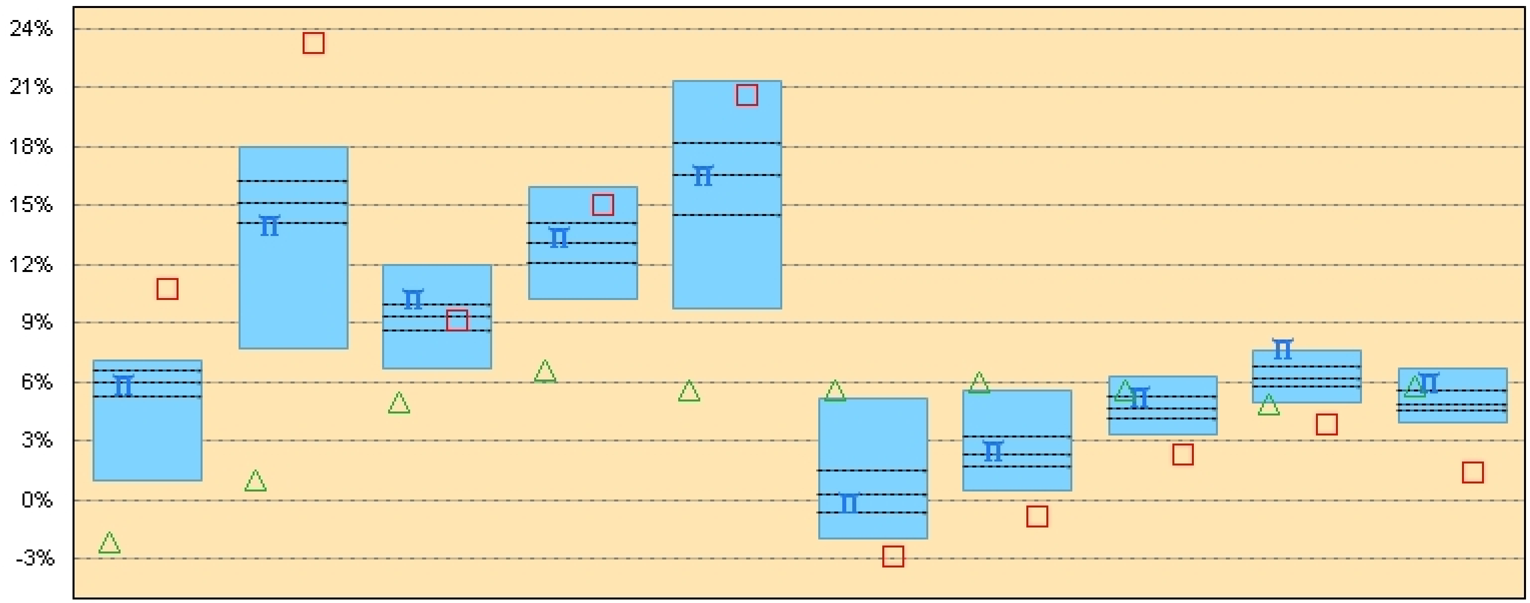
[2] Private Equity returns lagged one quarter

[3] 90% BC U.S. Universal/10% SSBI Non-US World Govt. Bond Hedged; prior to 1/1/1999 Gov't/Credit; 1/99 to 6/00 SSBI Non-US WGB Unhedged

*RANKING SOURCE: TUCS UNIVERSE, BASED ON GROSS RETURNS

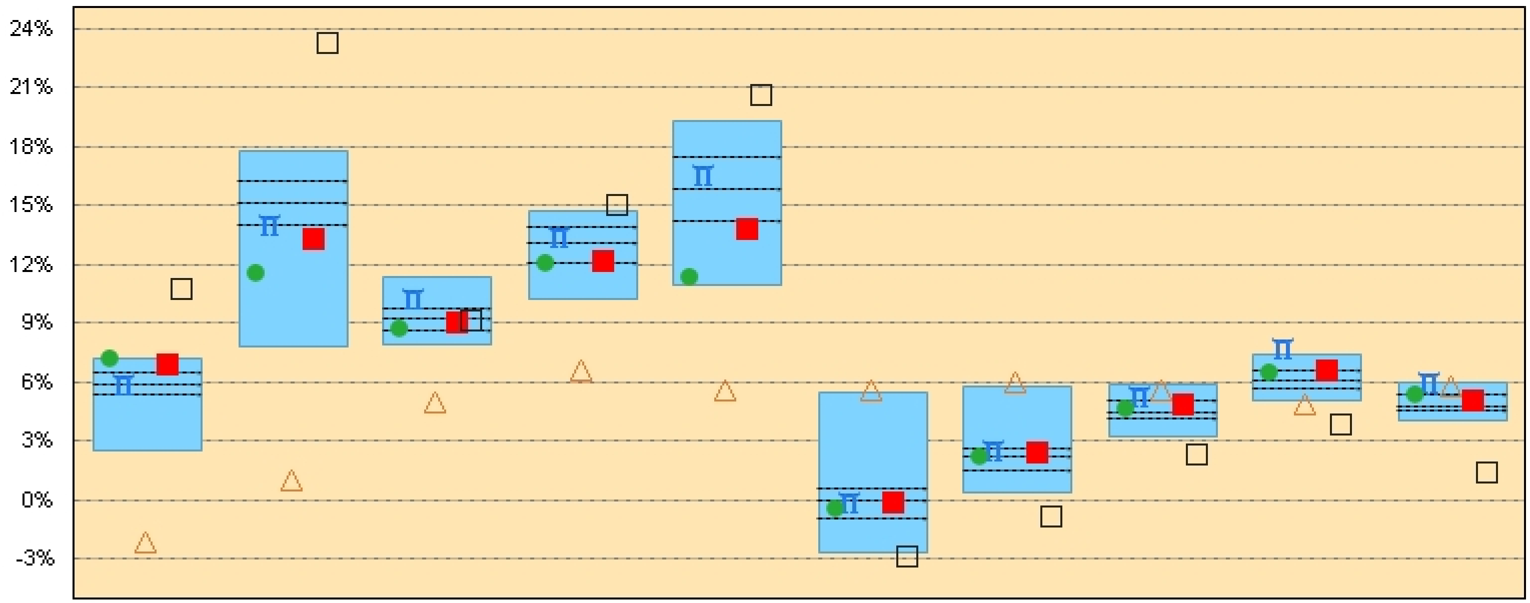
Assets not listed above include a total of $329,755 invested in the Overlay, Total Closed Global Equity, Transition Account, Transitional Managers, Shott Capital, and Fixed Income Transition Account.

State of Oregon
Performance Comparison
Total Returns of Master Trusts - Public : Plans > $1 Billion
Cumulative Periods Ending : December 31, 2010



Percentile Rankings	1 Qtr	2 Qtrs	3 Qtrs	1 Year	2 Years	3 Years	4 Years	5 Years	7 Years	10 Years
5th	7.11	17.97	11.98	15.92	21.31	5.21	5.57	6.32	7.59	6.70
25th	6.56	16.29	9.96	14.07	18.16	1.47	3.19	5.27	6.80	5.56
50th	5.96	15.14	9.31	13.13	16.53	0.25	2.36	4.67	6.23	4.89
75th	5.27	14.08	8.63	12.08	14.51	-0.59	1.70	4.18	5.74	4.55
95th	1.03	7.68	6.73	10.23	9.76	-1.97	0.54	3.31	4.97	3.91
No. Of Obs	75	75	74	74	74	74	74	74	72	69
Total Regular Account	5.89 (51)	14.04 (76)	10.29 (17)	13.38 (44)	16.58 (48)	-0.12 (65)	2.52 (41)	5.23 (26)	7.70 (3)	5.98 (10)
S&P 500	10.76 (1)	23.27 (1)	9.18 (54)	15.05 (10)	20.61 (6)	-2.86 (96)	-0.82 (100)	2.30 (100)	3.85 (100)	1.41 (100)
Barclays Govt/Credit	-2.17 (100)	1.05 (99)	4.96 (97)	6.59 (97)	5.55 (99)	5.60 (2)	6.01 (2)	5.56 (18)	4.90 (96)	5.83 (15)

State of Oregon
Performance Comparison
Total Returns of Public Funds > $10 Billion
Cumulative Periods Ending : December 31, 2010

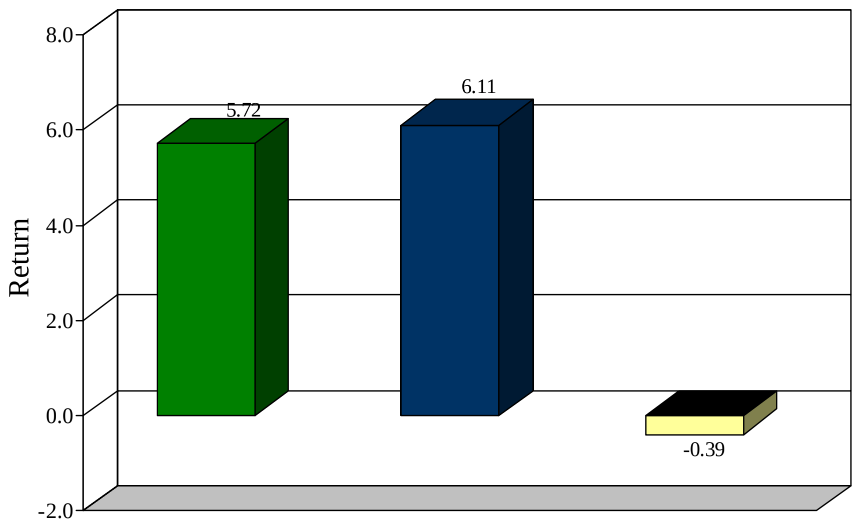


Percentile Rankings	1 Qtr	2 Qtrs	3 Qtrs	1 Year	2 Years	3 Years	4 Years	5 Years	7 Years	10 Years
5th	7.19	17.79	11.42	14.71	19.31	5.48	5.77	5.88	7.41	5.98
25th	6.53	16.24	9.73	13.89	17.48	0.62	2.65	5.03	6.55	5.42
50th	5.89	15.12	9.25	13.11	15.87	-0.02	2.22	4.45	6.10	4.79
75th	5.38	14.04	8.63	12.13	14.27	-0.90	1.55	4.17	5.70	4.51
95th	2.48	7.84	7.96	10.23	10.93	-2.69	0.40	3.23	5.04	4.08
No. Of Obs	39	39	39	39	39	39	39	39	38	36
Total Regular Account	5.89 (52)	14.04 (75)	10.29 (13)	13.38 (42)	16.58 (40)	-0.12 (55)	2.52 (30)	5.23 (15)	7.70 (1)	5.98 (5)
OPERF Policy Benchmark	6.88 (15)	13.27 (83)	9.03 (58)	12.14 (72)	13.81 (77)	-0.11 (52)	2.45 (35)	4.83 (30)	6.64 (20)	5.08 (33)
Actual Allocation Retu	7.21 (1)	11.55 (93)	8.74 (69)	12.04 (77)	11.36 (91)	-0.41 (58)	2.26 (47)	4.70 (37)	6.47 (27)	5.34 (27)
S&P 500	10.76 (1)	23.27 (1)	9.18 (50)	15.05 (1)	20.61 (1)	-2.86 (96)	-0.82 (100)	2.30 (100)	3.85 (100)	1.41 (100)
Barclays Govt/Credit	-2.17 (100)	1.05 (100)	4.96 (100)	6.59 (100)	5.55 (100)	5.60 (1)	6.01 (1)	5.56 (8)	4.90 (99)	5.83 (11)

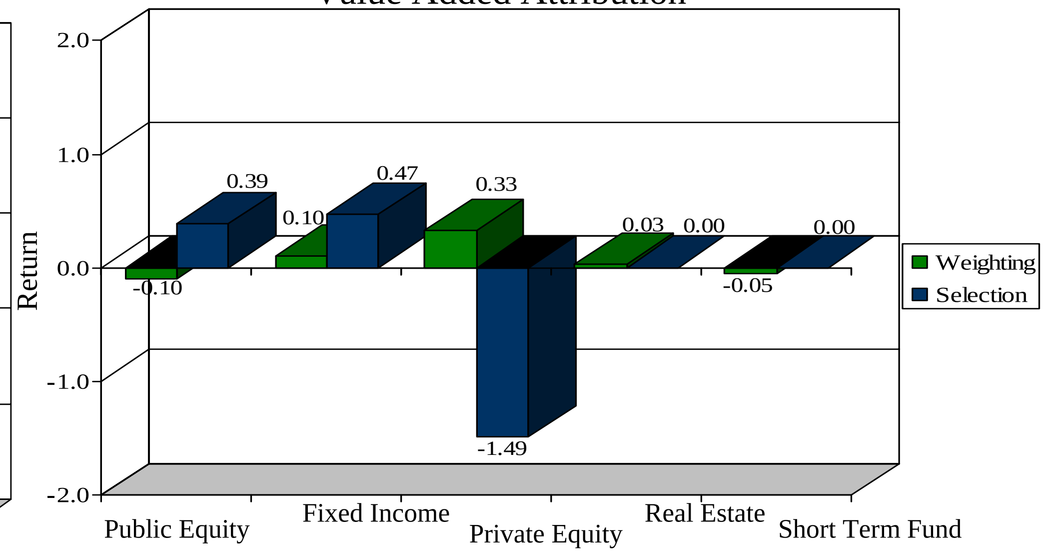
Total Plan Attribution

Regular Account
4th Quarter 2010

Return vs. Benchmark



Value Added Attribution



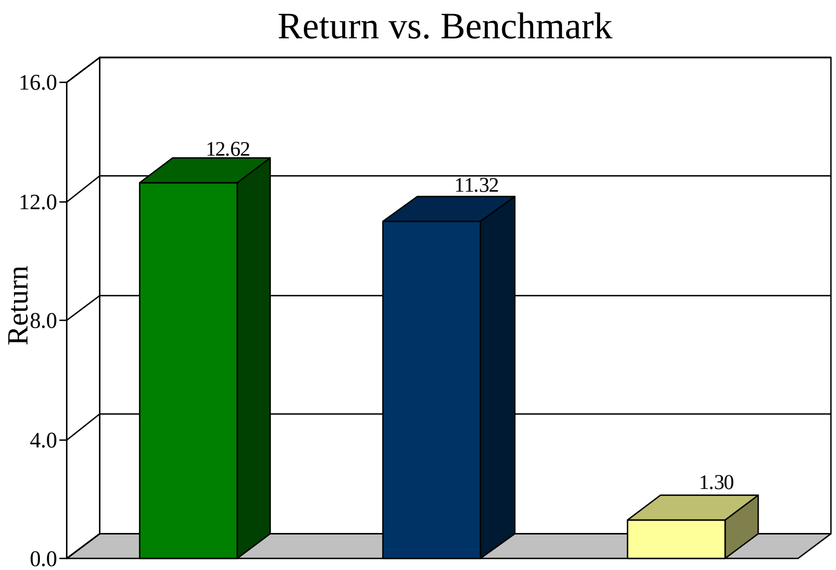
	WEIGHTS			RETURNS			VALUE ADDED		
	Portfolio*	Benchmark**	Difference	Portfolio***	Benchmark	Difference	Weighting	Selection	Timing
PUBLIC EQUITY	41.89	46.00	-4.11	9.70	8.73	0.97	-0.10	0.39	
FIXED INCOME	25.67	27.00	-1.33	0.66	-1.14	1.80	0.10	0.47	
PRIVATE EQUITY	21.68	16.00	5.68	5.31	12.33	-7.02	0.33	-1.49	
REAL ESTATE	9.73	11.00	-1.27	3.84	3.86	-0.02	0.03	0.00	
SHORT TERM FUND	1.03	0.00	1.03	0.12	0.04	0.08	-0.05	0.00	
TOTAL REGULAR ACCT	100.00	100.00	0.00	5.72	6.11	-0.39	0.30	-0.63	-0.03

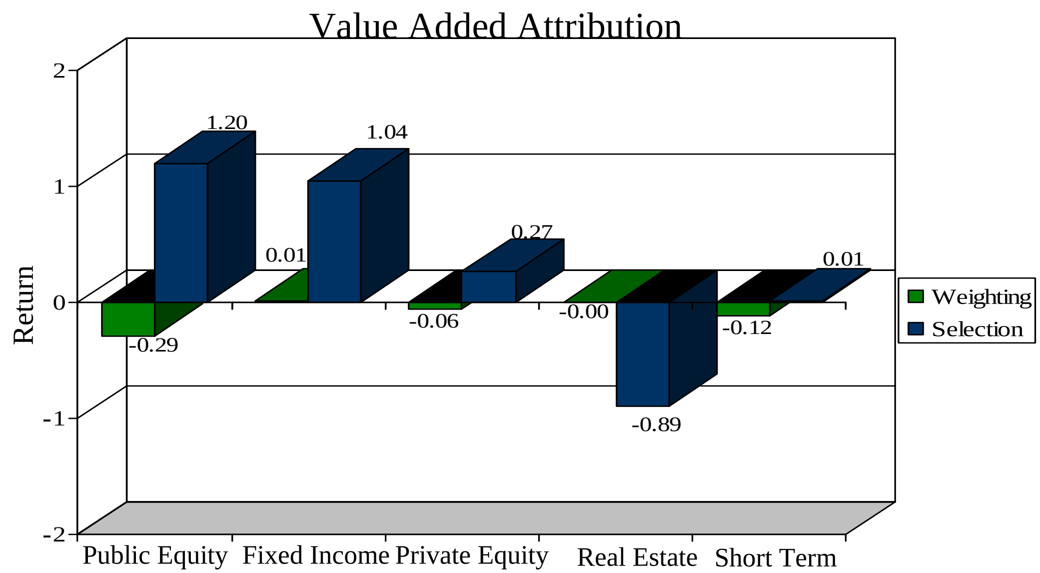
* Weights of Portfolios based on beginning of period valuations.
** Weights of Benchmarks based on average weights over entire period.
*** Asset Class Returns reflect the impact of the overlay program.

Total Plan Attribution

Regular Account

12/31/2009 – 12/31/2010





	WEIGHTS			RETURNS			VALUE ADDED		
	Portfolio*	Benchmark**	Difference	Portfolio***	Benchmark	Difference	Weighting	Selection	Timing
PUBLIC EQUITY	41.75	46.00	-4.25	15.89	12.67	3.22	-0.29	1.20	
FIXED INCOME	26.50	27.00	-0.50	10.86	6.69	4.17	0.01	1.04	
PRIVATE EQUITY	19.59	16.00	3.59	16.44	14.27	2.17	-0.06	0.27	
REAL ESTATE	10.72	11.00	-0.28	-1.88	5.84	-7.72	-0.00	-0.89	
SHORT TERM FUND	1.44	0.00	1.44	1.03	0.13	0.90	-0.12	0.01	
TOTAL REGULAR ACCT.	100.00	100.00	0.00	12.62	11.32	1.30	-0.46	1.63	0.00

* Weights of Portfolios based on beginning of period valuations.

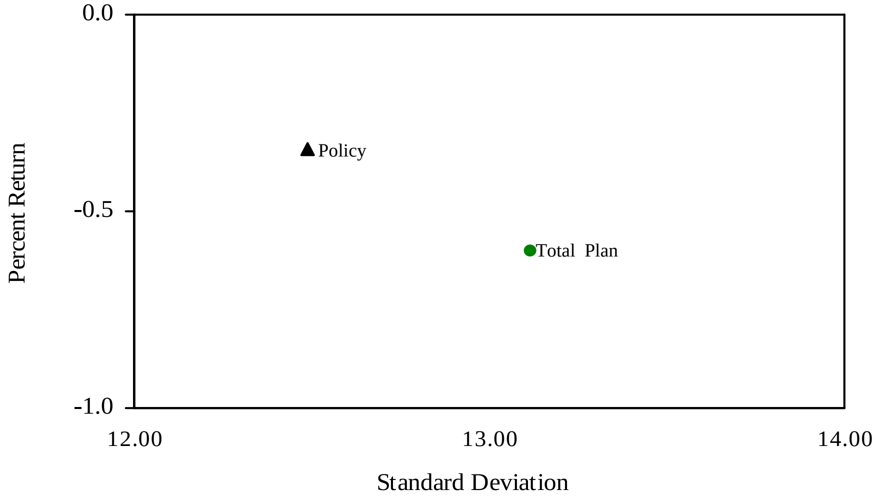
** Weights of Benchmarks based on average weights over entire period.

*** Asset Class Returns reflect the impact of the overlay program.

Total Regular Account

Total Risk vs. Return (OPERF Policy) as of December 31, 2010

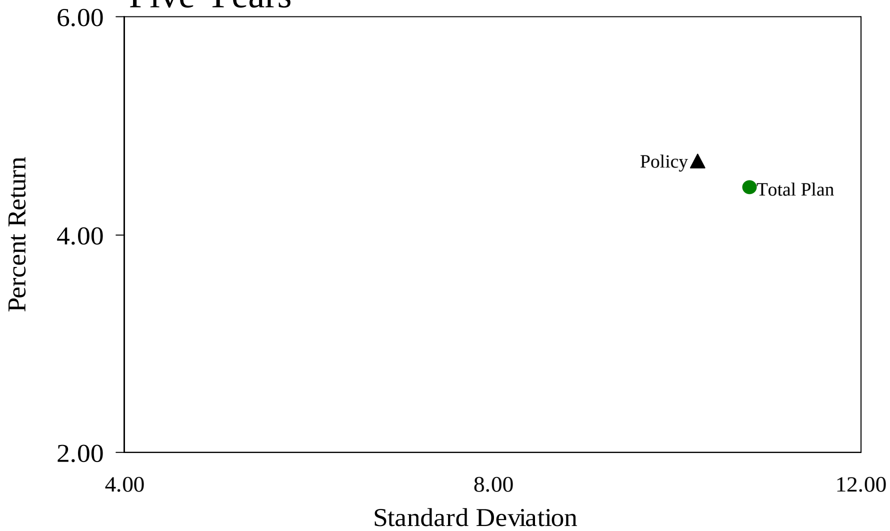
Three Years



Risk Statistics

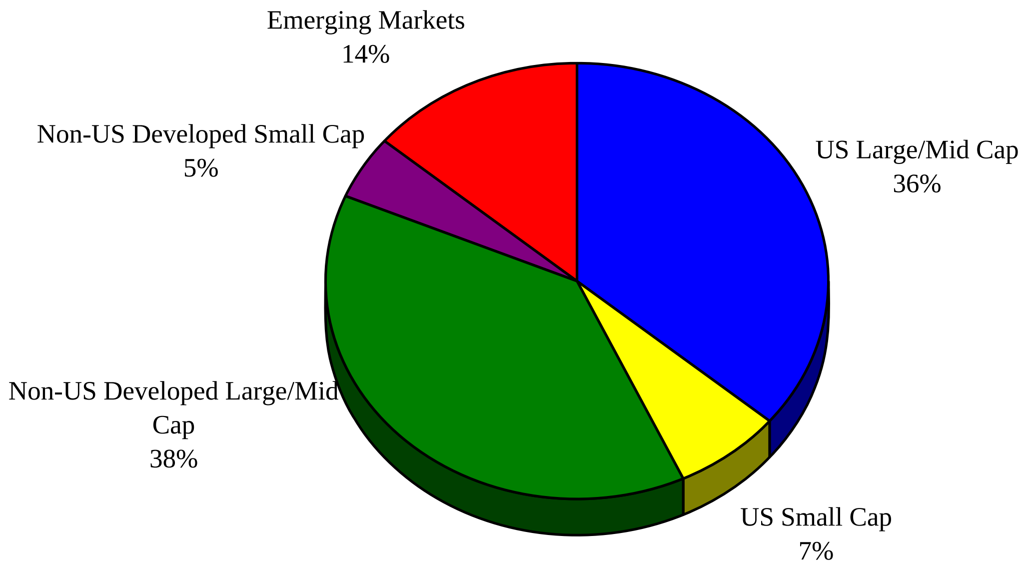
	3 Years	5 Years
Portfolio Return	-0.60	4.43
Benchmark Return	-0.34	4.68
Return Difference	-0.25	-0.25
Portfolio Standard Deviation	13.12	10.80
Benchmark Standard Deviation	12.49	10.23
Tracking Error	2.93	2.34
Historic Beta	1.03	1.03
R-squared	0.95	0.95
Jensen's Alpha	-0.23	-0.32
Sharpe Ratio	-0.11	0.19
Treynor Ratio	-1.36	1.94
Information Ratio	-0.09	-0.11

Five Years



State of Oregon

Public Equity Regional Allocation as of December 31, 2010



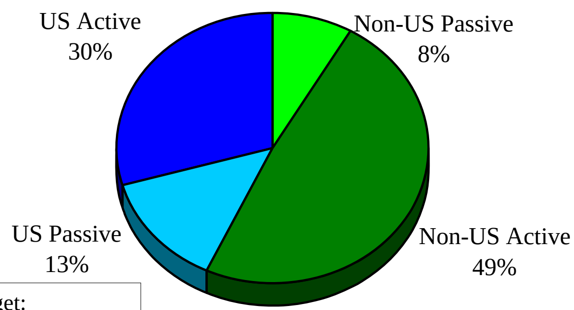
Target	
US Large/Mid:	37%
US Small:	7%
Non-US Developed Large/Mid:	38%
Non-US Developed Small:	5%
Emerging Markets:	14%

* Based on SIS's analysis of historical manager holdings for market capitalization and style characteristics.

State of Oregon

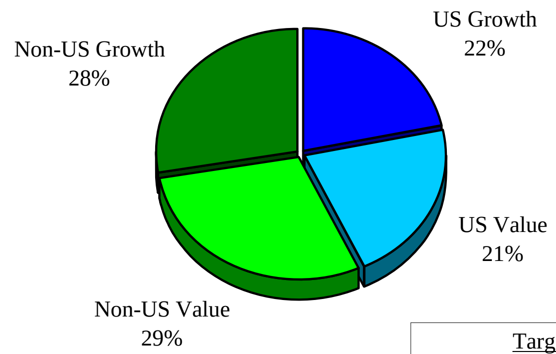
Public Equity Manager Allocation as of December 31, 2010

Active vs. Passive



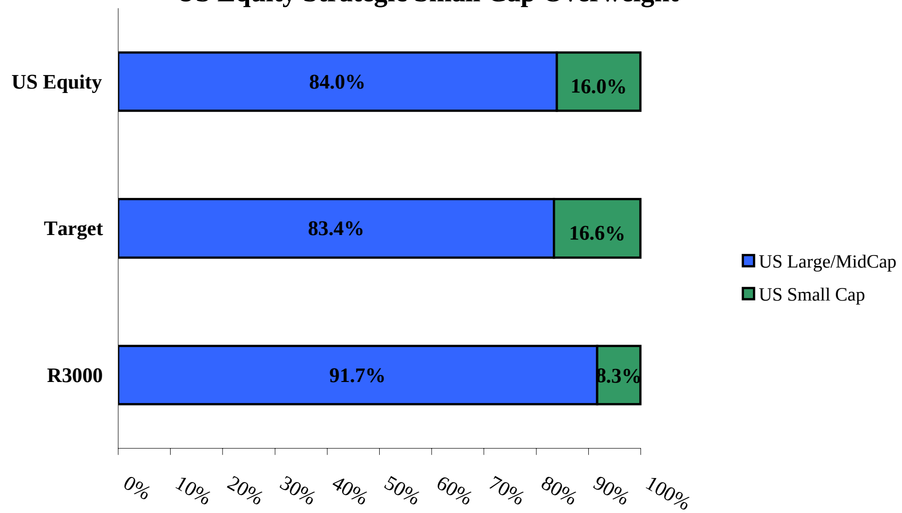
<u>Target:</u>
Active: 75%
Passive: 25%

Value vs. Growth



<u>Target:</u>
Growth: 50%
Value: 50%

US Equity Strategic Small Cap Overweight



Target: 100% Overweight of Russell 2000 as a Percent of Russell 3000

Figures may not sum to 100% due to rounding.

Total Public Equity
Individual Manager Allocations
as of December 31, 2010

Manager	Market Value ($M)	Current % of Equities
Total Domestic Equity		
U.S. Large Cap:	**7,564,119**	**32.9%**
Aletheia Research	358,522	1.6%
Aronson+Johnson+Ortiz	768,394	3.3%
BGI Russell 1000 Growth	968,605	4.2%
BGI Russell 1000 Value	1,031,839	4.5%
Delaware	399,278	1.7%
MFS	763,727	3.3%
Northern Trust	751,761	3.3%
PIMCO	450,161	2.0%
Pyramis US Core	363,669	1.6%
S&P 400 Index	160,505	0.7%
S&P 500 Index	795,506	3.5%
Wells Capital Select	752,153	3.3%
U.S. Small and SMID Cap:	**1,917,950**	**8.3%**
AQR	174,934	0.8%
Boston Company	176,760	0.8%
Eudaimonia	98,909	0.4%
Next Century Micro	134,377	0.6%
Next Century Small	132,210	0.6%
R2000 Synthetic	122,931	0.5%
Wanger	726,524	3.2%
Wellington	351,304	1.5%
Passive	5,006,436	21.8%
Active	17,983,487	78.2%
Total Equities*	**22,992,319**	**100.0%**

Manager	Market Value ($M)	Current % of Equities
Total Non-US Equity		
Non-U.S. Large Cap:	**9,821,351**	**42.7%**
Acadian	777,578	3.4%
AQR	893,960	3.9%
Arrowstreet	1,197,281	5.2%
Brandes	758,714	3.3%
Lazard	779,460	3.4%
Northern Trust	227,574	1.0%
Pyramis Select	989,042	4.3%
SSgA	1,927,050	8.4%
TT International	810,737	3.5%
UBS	561,074	2.4%
Walter Scott	898,881	3.9%
Non-U.S. Small Cap:	**910,622**	**4.0%**
DFA	206,206	0.9%
Harris	221,541	1.0%
Pyramis Select (Non-US Smcap)	294,011	1.3%
Victory	188,864	0.8%
Emerging Markets:	**1,840,605**	**8.0%**
Arrowstreet	417,238	1.8%
BGI TEMs	237,082	1.0%
DFA SC	126,075	0.5%
Genesis	726,229	3.2%
Pictet	218,154	0.9%
Westwood	115,826	0.5%
Global:	**935,276**	**4.1%**
Alliance Bernstein Value	935,276	4.1%

* Includes $2,397 in other Equity assets not listed above.

State of Oregon

Total Active Domestic Equity Characteristics Summary

Fourth Quarter 2010

Top 10 Holdings

	Mkt. Value ($M)	% of Portfolio
APPLE INC	103,030	1.8
JPMORGAN CHASE + CO	70,320	1.2
ORACLE CORP	60,560	1.1
CHEVRON CORP	57,860	1.0
GOOGLE INCCL A	54,570	1.0
PROCTER +GAMBLE CO/THE	51,810	0.9
QUALCOMM INC	50,170	0.9
JOHNSON +JOHNSON	48,860	0.9
EXXON MOBIL CORP	48,600	0.9
AT+T INC	48,240	0.9

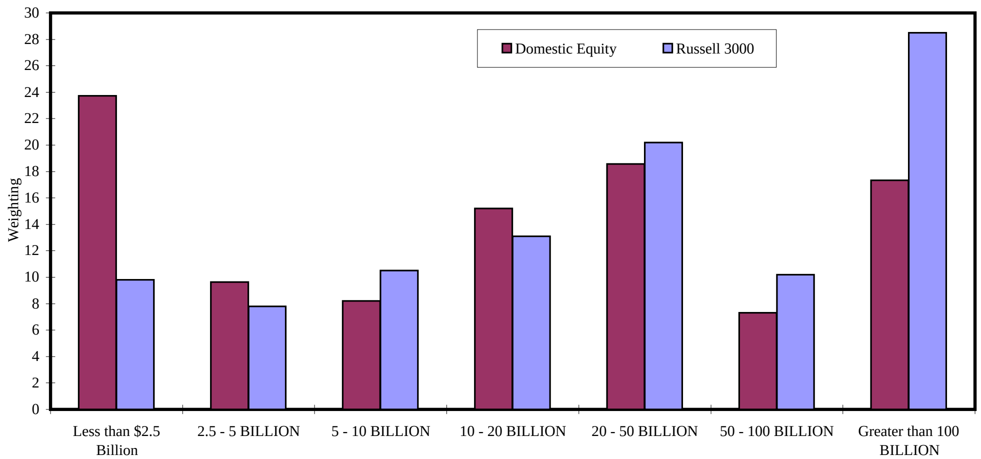
Characteristics

	Domestic Equity	Russell 3000
P/E Ratio	20.8	18.5
P/B Ratio	3.7	3.4
5 Year EPS Growth (%)	8.1	5.0
Market Cap - cap wtd ($MM)	45.9	69.9
Dividend Yield (%)	1.3	1.7

Risk Statistics

	3 Year	5 Year
Portfolio Return	-1.40	2.60
Benchmark Return	-2.01	2.74
Portfolio Standard Deviation	24.18	19.44
Benchmark Standard Deviation	22.94	18.45
Tracking Error	2.80	2.32
Historic Beta	1.05	1.05
R-Squared	0.99	0.99
Jensen's Alpha	0.75	-0.15
Sharpe Ratio	-0.09	0.01
Information Ratio	0.22	-0.06

Market Capitalization



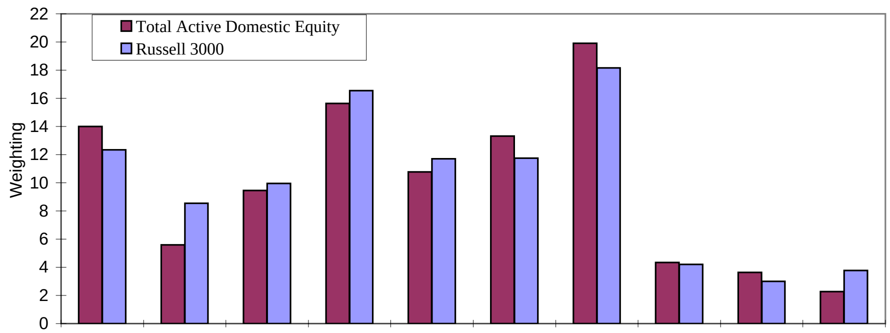
Market Capitalization

	Domestic Equity	Russell 3000
Less than $2.5 Billion	23.7	9.8
2.5 - 5 BILLION	9.6	7.8
5 - 10 BILLION	8.2	10.5
10 - 20 BILLION	15.2	13.1
20 - 50 BILLION	18.6	20.2
50 - 100 BILLION	7.3	10.2
Greater than 100 BILLION	17.3	28.5

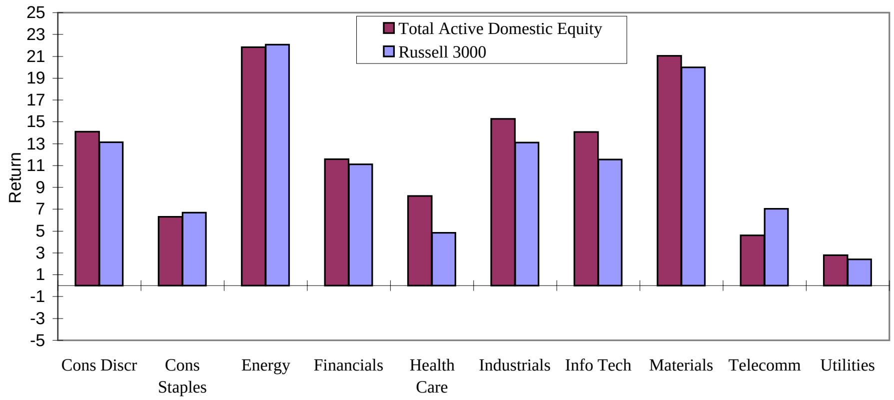
State of Oregon

Total Active Domestic Equity Sector Attribution
Fourth Quarter 2010

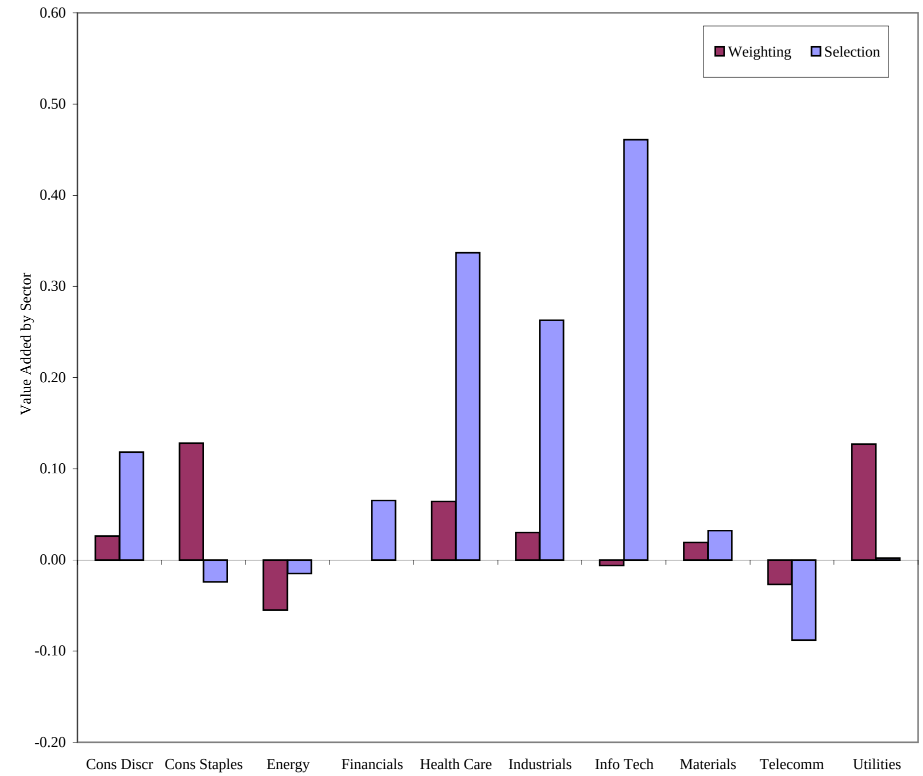
Weighting



Return



Value Added



	BEGINNING WEIGHTS			RETURNS			VALUE ADDED		
	Total Active Dom Equity	Russell 3000	Difference	Total Active Dom Equity	Russell 3000	Difference	Allocation	Selection	Timing
Consumer Discretionary	14.0	12.3	1.7	14.1	13.1	0.8	0.0	0.1	
Consumer Staples	5.6	8.5	-2.9	6.3	6.7	-0.4	0.1	0.0	
Energy	9.5	9.9	-0.5	21.8	22.1	-0.2	-0.1	0.0	
Financials	15.6	16.6	-0.9	11.6	11.1	0.4	0.0	0.1	
Health Care	10.8	11.7	-0.9	8.2	4.8	3.2	0.1	0.3	
Industrials	13.3	11.8	1.5	15.3	13.1	1.9	0.0	0.3	
Info Technology	19.9	18.2	1.7	14.1	11.5	2.3	0.0	0.5	
Materials	4.3	4.2	0.1	21.0	20.0	0.9	0.0	0.0	
Telecommunication	3.6	3.0	0.6	4.6	7.0	-2.3	0.0	-0.1	
Utilities	2.3	3.8	-1.5	2.8	2.4	0.4	0.1	0.0	
Total Fund	100.0	100.0	0.0	13.4	11.6	1.6	0.2	1.4	0.0

Note: Attribution is based on the invested portfolio's gross performance returns at the security level. Weighting is based on beginning of period holdings

State of Oregon

International Equity Atttribution Summary
Fourth Quarter 2010

Top Ten Holdings

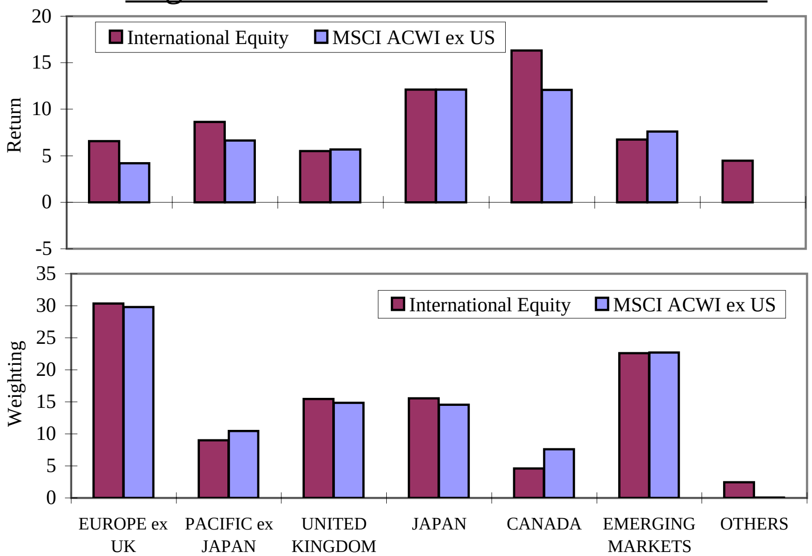
	Mkt. Value ($M)	% of Portfolio
NESTLE SA	111,160	0.9
GLAXOSMITHKLINE	83,240	0.7
NOVO NORDISK AS	75,540	0.6
CANON INC	70,280	0.6
HSBC HLDGS	62,390	0.5
SANOFI AVENTIS	62,370	0.5
ASTRAZENECA	60,090	0.5
XSTRATA PLC	58,350	0.5
NOVARTIS AG REG	57,860	0.5
CHINA MOBILE LTD	57,410	0.5

*Excludes holdings of funds or ETF's

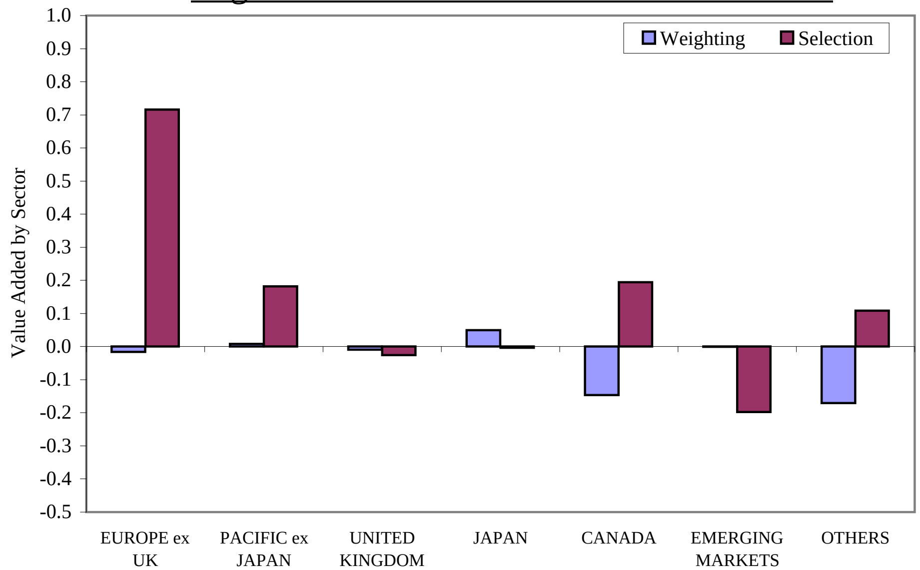
Market Capitalization

	International Equity	MSCI AC WORLD ex US
Less than 2.5 BILLION	13.4	2.3
2.5 - 5 BILLION	11.4	7.7
5 - 10 BILLION	13.5	13.9
10 - 20 BILLION	16.1	16.5
20 - 50 BILLION	20.6	26.9
50 - 100 BILLION	15.9	19.3
Greater than 100 BILLION	9.1	13.4

Regional Attribution vs. MSCI ACWI ex US



Regional Attribution vs. MSCI ACWI ex US



Note: Attribution is based on the invested portfolio's gross performance returns at the security level. Weighting is based on beginning of period holdings.

State of Oregon

International Equity Atttribution Summary
Fourth Quarter 2010

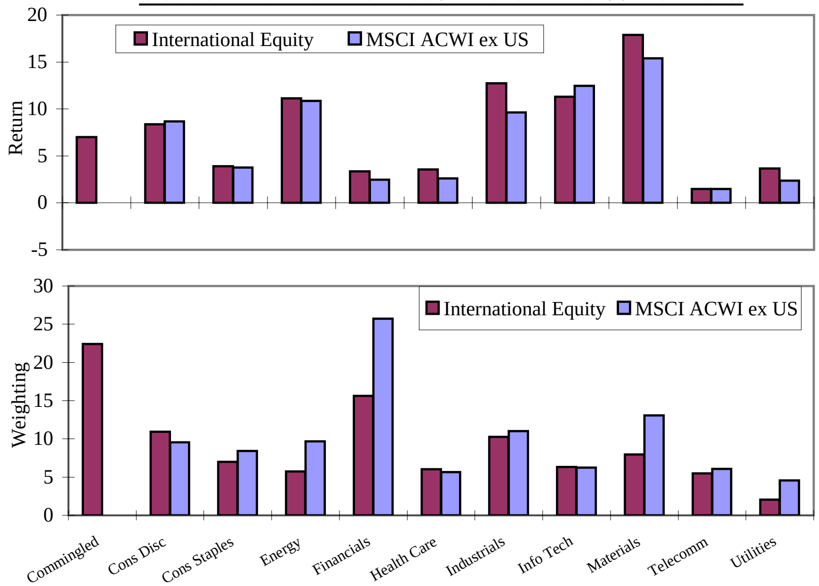
Risk Statistics

	3 Year	5 Year
Portfolio Return	-2.96	6.11
Benchmark Return	-4.22	5.52
Portfolio Standard Deviation	27.00	22.02
Benchmark Standard Deviation	27.97	22.76
Tracking Error	1.69	1.49
Historic Beta	0.96	0.97
R-Squared	1.00	1.00
Jensen's Alpha	1.09	0.69
Sharpe Ratio	-0.14	0.17
Information Ratio	0.75	0.39

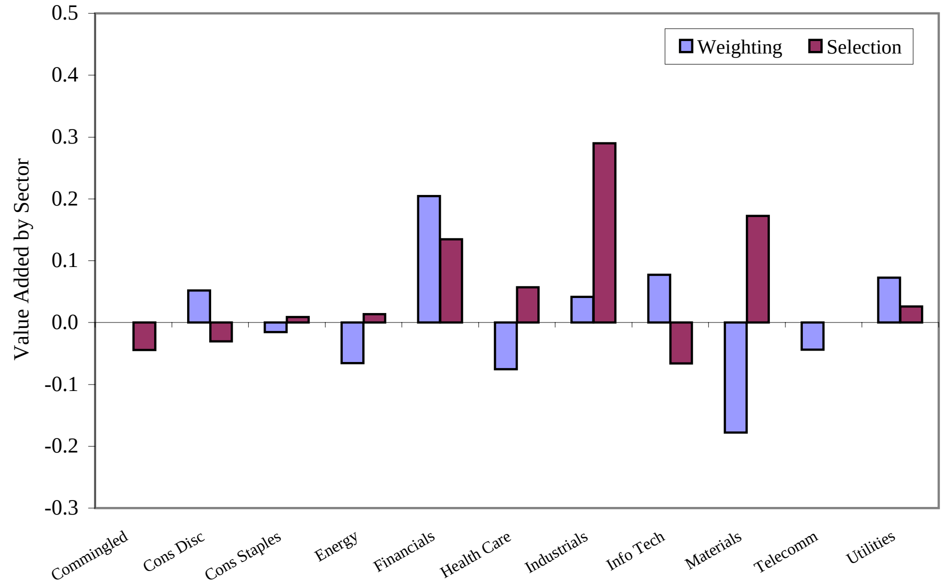
Characteristics

	International Equity	MSCI AC WORLD ex US
P/E Ratio	21.0	19.0
P/B Ratio	2.7	2.8
5 Year EPS Growth (%)	3.3	2.1
Market Cap - cap weighted ($B)	34.6	45.1
Dividend Yield (%)	2.4	2.6

Sector Attribution vs. MSCI ACWI ex US



Sector Attribution vs. MSCI ACWI ex US

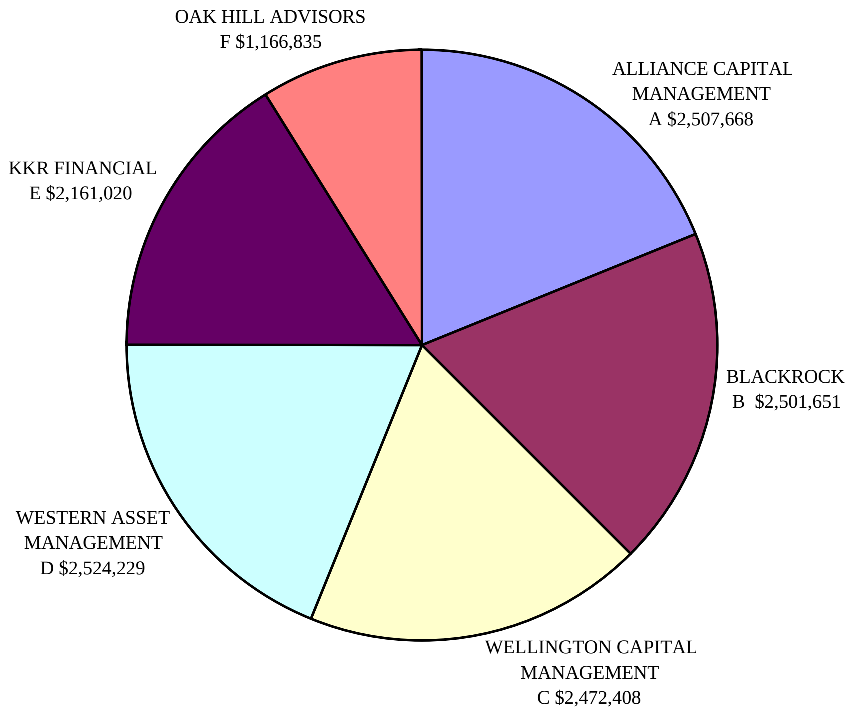


Note: All risk statistics are based on net performance returns and attribution is based on gross performance returns at the security level. Weighting is based on beginning of period holdings.

Total Fixed Income

Individual Manager Allocation
as of December 31, 2010

	Portfolio	$M	% ALLOCATION
	EXTERNAL FIXED INCOME		
A	ALLIANCE CAPITAL MANAGEMENT	$2,507,668	19%
B	BLACKROCK	$2,501,651	19%
C	WELLINGTON CAPITAL MANAGEMENT	$2,472,408	19%
D	WESTERN ASSET MANAGEMENT	$2,524,229	19%
E	KKR FINANCIAL	$2,161,020	16%
F	OAK HILL ADVISORS	$1,166,835	9%
Total Fixed Income		**$13,334,082**	

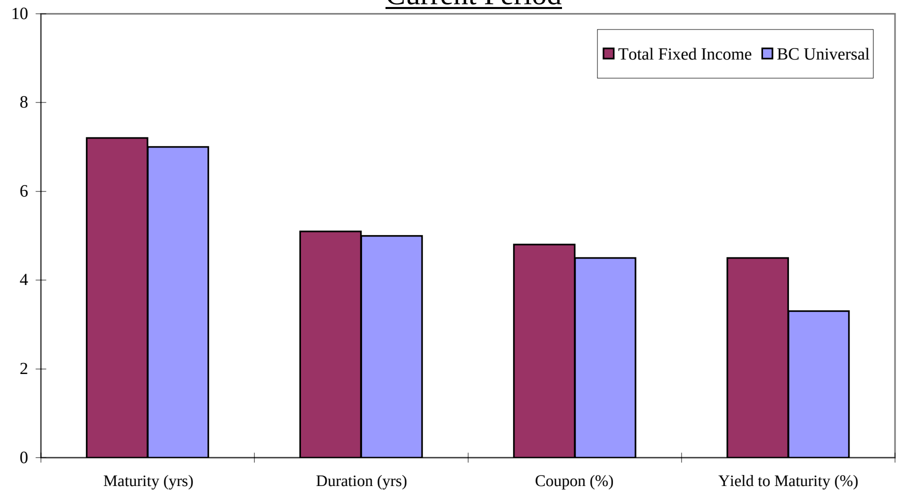


State of Oregon

Fixed Income Characteristics Summary

Fourth Quarter 2010

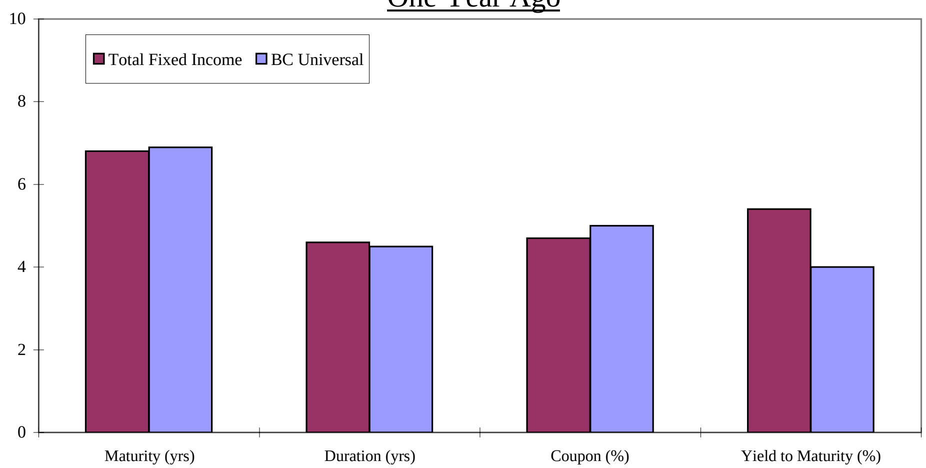
Current Period



Characteristics

	12/31/10		12/31/09	
Characteristics	**Portfolio**	**BC Universal**	**Portfolio**	**BC Universal**
Maturity (yrs)	7.2	7.0	6.8	6.9
Duration (yrs)	5.1	5.0	4.6	4.5
Coupon (%)	4.8	4.5	4.7	5.0
Yield to Maturity (%)	4.5	3.3	5.4	4.0
Moody's Quality Rating	A-2	AA-2	A-2	AA-3
S&P Quality Rating	A+	AA	A+	AA

One Year Ago



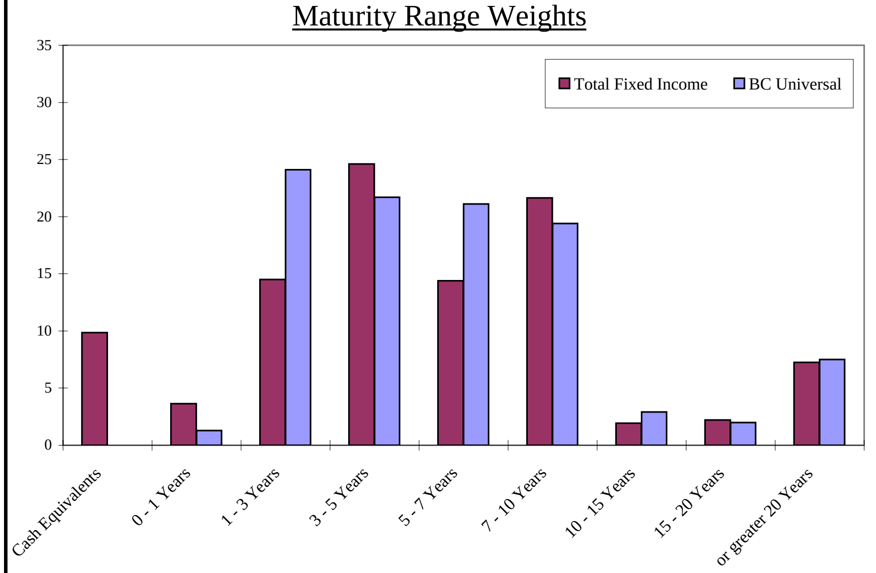
Risk Statistics

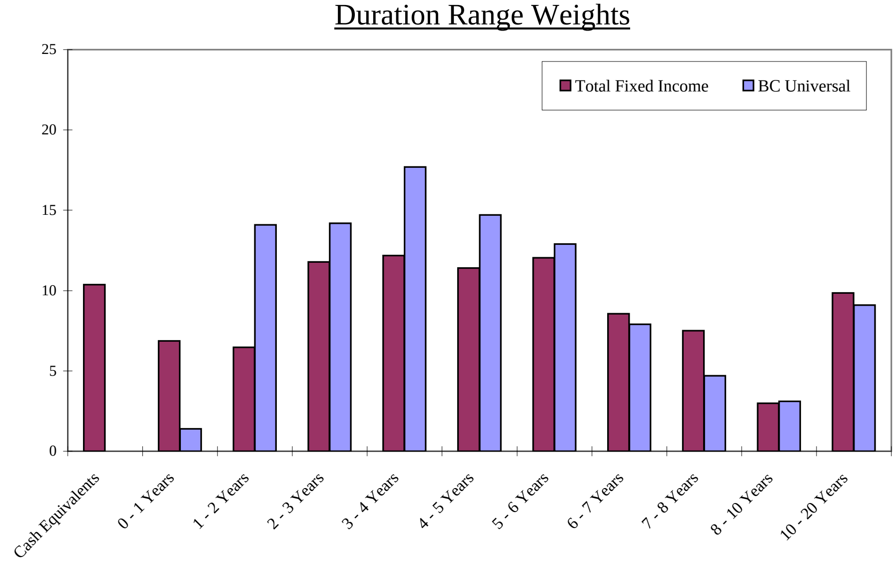
	3 Year	**5 Year**
Portfolio Return	7.88	6.86
Benchmark Return	5.85	5.73
Portfolio Standard Deviation	7.17	5.72
Benchmark Standard Deviation	4.23	3.60
Tracking Error	5.37	4.18
Historic Beta	1.17	1.13
R-Squared	0.47	0.50
Jensen's Alpha	1.18	0.68
Sharpe Ratio	0.99	0.77
Information Ratio	0.38	0.27

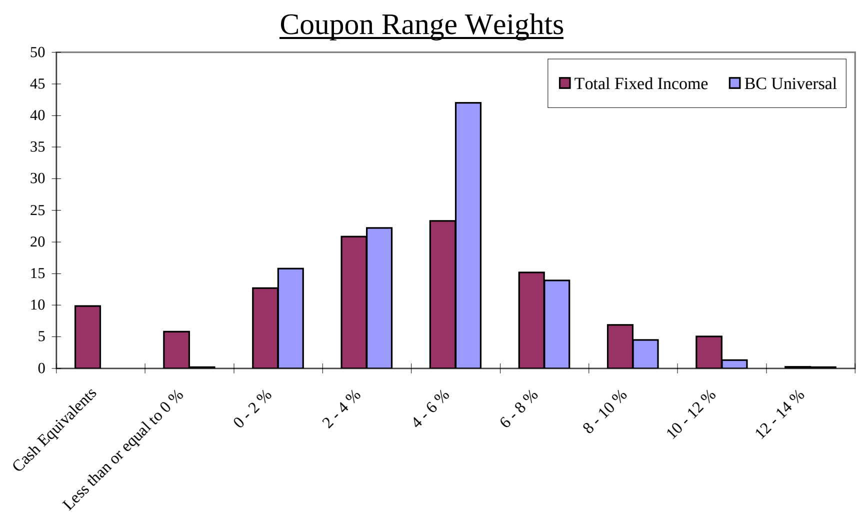
State of Oregon

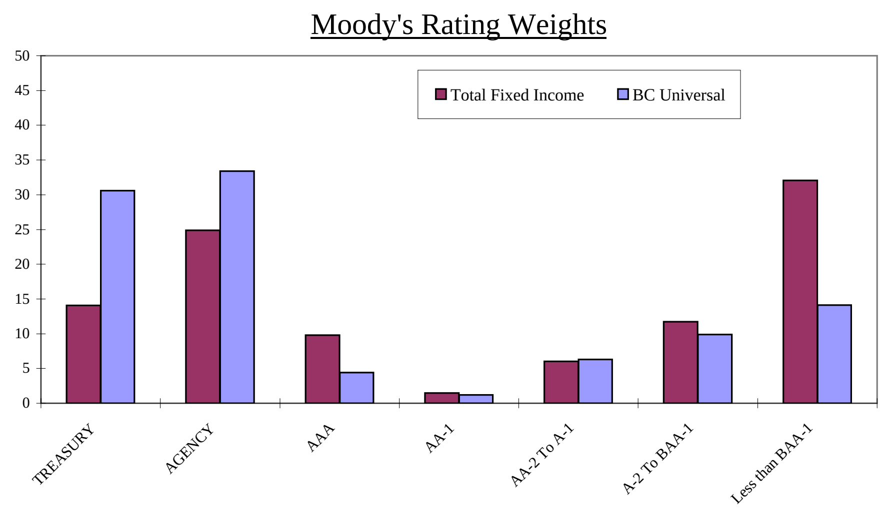
Fixed Income Characteristics Detail

Fourth Quarter 2010







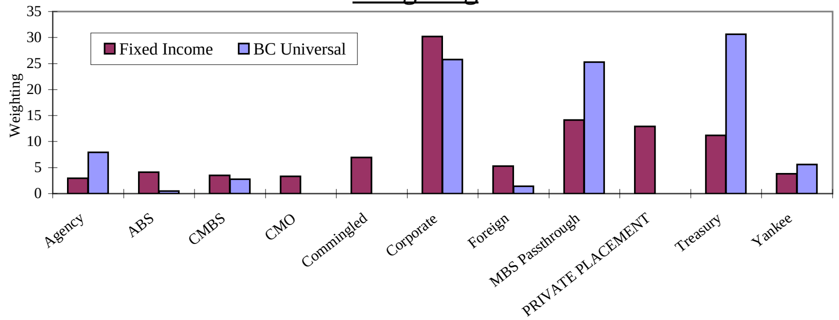


State of Oregon

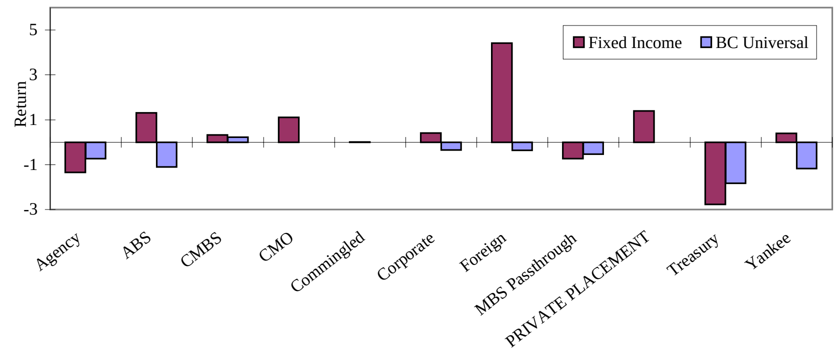
Fixed Income Sector Attribution

Fourth Quarter 2010

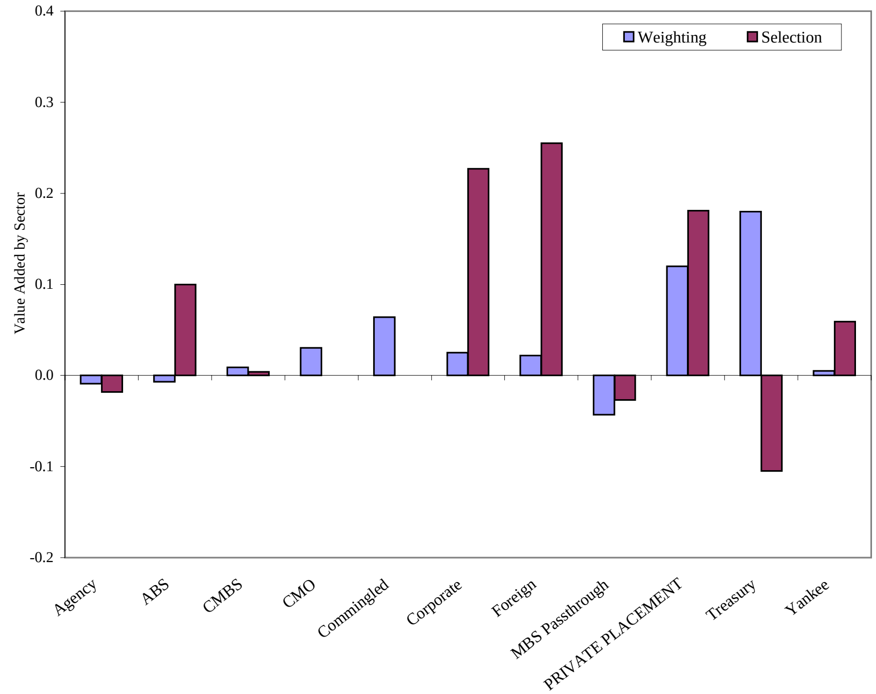
Weighting



Return



Value Added



	BEGINNING WEIGHTS			RETURNS			VALUE ADDED		
	Total Fixed Income*	BC Universal	Difference	Total Fixed Income*	BC Universal	Difference	Weighting	Selection	Timing
AGENCY	2.9	7.9	-5.0	-1.3	-0.7	-0.6	0.0	0.0	-
ASSET BACKED	4.1	0.5	3.6	1.3	-1.1	2.4	0.0	0.1	-
CMBS	3.5	2.8	0.7	0.3	0.2	0.1	0.0	0.0	-
CMO	3.3	0.0	3.3	1.1	0.0	0.0	0.0	0.0	-
COMMINGLED FUND	6.9	0.0	6.9	0.0	-	-	0.1	0.0	-
CORPORATE	30.2	25.8	4.4	0.4	-0.3	0.7	0.0	0.2	-
FOREIGN	5.3	1.4	3.9	4.4	-0.4	4.8	0.0	0.3	-
MORTGAGE PASS-THROUG	14.1	25.3	-11.1	-0.7	-0.5	-0.2	0.0	0.0	-
PRIVATE PLACEMENT	12.9	0.0	12.9	1.4	-	-	0.1	0.2	-
US TREASURY	11.2	30.7	-19.4	-2.8	-1.8	-1.0	0.2	-0.1	-
YANKEE	3.8	5.6	-1.8	0.4	-1.2	1.6	0.0	0.1	-
TOTAL	100.0	100.0	0.0	0.3	-0.9	1.2	0.4	0.6	0.2

Note: Attribution is based on the invested portfolio's gross performance returns at the security level. Weighting is based on beginning of period holdings

*Excludes 1.8% in Euros, Convertibles, Preferred Stock, Miscellaneous and Swap-related investments

REAL ESTATE PORTFOLIO SUMMARY

Real Estate Portfolio and Investment-level data are provided below for period ended September 30, 2010.
Portfolio refers to all real estate Investments held by OPERF, which is referred to herein as the Fund.

OPERF REAL ESTATE PORTFOLIO SUMMARY September 30, 2010		
Current Portfolio Net Asset Value	**$5.179**	**billion**
	9.14%	of Total Fund ($56.6B)
Current Unfunded Investment Commitments	**$2.253**	**billion**
Total Portfolio NAV plus Unfunded Commitments	**$7.432**	**billion**
	13.11%	of Total Fund
Target Allocation to Real Estate	**$6.235**	**billion**
	11.00%	of Total Fund
Total Number of Investments	**75**	

SUMMARY OF PORTFOLIO INVESTMENT NET RETURNS

Investment	Qtr	1-Yr.	3-Yr.	5-Yr.
Private Real Estate				
Direct Core	3.27%	-21.81%	-8.78%	1.31%
Opportunistic	2.13%	6.36%	-10.40%	2.80%
Value Added	6.11%	-19.07%	-22.86%	N/A
Total Private Real Estate	3.11%	-9.40%	-10.90%	0.95%
Public Real Estate				
Domestic REIT Portfolio	13.70%	36.69%	-8.55%	0.23%
Global REIT Portfolio	21.34%	11.52%	-11.63%	N/A
Total Portfolio Return	5.70%	-1.75%	-9.69%	1.37%
NCREIF Index	3.86%	5.84%	-4.61%	3.67%
NAREIT Index	12.83%	30.28%	-6.06%	1.88%
EPRA/NAREIT Global (ex-US) Index	21.98%	12.39%	-11.30%	3.50%

Note: Time weighted returns by category and for the portfolio include all historical investments converted by the Private Edge Group (i.e. exited investments and managers).

PORTFOLIO NET RETURNS BY COMPONENT

Portfolio Net Asset Value ($M)

Total Real Estate
$5,179.2

One year return	-1.75%
NCREIF Index	5.84%

Direct Core Portfolio
$1,424.4

% of total portfolio	27.50%
One year return	-21.81%
NCREIF Index	5.84%

- Clarion (Office)
- Clarion Office Properties
- Clarion Holding (Office) [1]
- Guggenheim Separate Account
- Lincoln (Industrial)
- Regency Retail Partners I (Retail)
- Regency Retail Partners II (Retail)
- RREEF America II
- Windsor Columbia Realty Fund
- Regency Cameron (Non Mandate)
- Lincoln (Non Mandate)

Opportunistic Portfolio
$2,009.6

% of total portfolio	38.81%
One year return	6.36%
NCREIF Index	5.84%

- Aetos Capital Asia II & III
- AG Asia Realty Fund II, L.P.
- Canyon Johnson Urban Fund III
- Blackstone Partners VI
- Fortress Fund II - V
- Fortress Fund III PIK Note
- Fortress Residential Inv. Deutschland
- GI Partners Fund II & III
- Greenfield Acquisition Partners III
- Hampstead Fund I, II & III
- Heritage Fields Capital
- IL & FS India Realty Fund I & II
- JE Roberts Fund II
- JE Roberts Europe Fund III
- Lion Mexico Fund
- Lone Star Opportunity Fund III - VI
- Lone Star Real Estate Fund
- OCM RE Oppo Fund A, LP
- Rockpoint Real Estate Fund I - III
- Rockpoint Real Estate Special Fund
- Starwood Cap Hospitality Fund II Global
- Starwood Hospitality Fund
- Starwood Hospitality Fund Co-Inv.
- Westbrook Real Estate Fund I - IV

Value Added Portfolio
$636.5

% of total portfolio	12.29%
One year return	-19.07%
NCREIF Index	5.84%

- Alpha Asia Macro Trends
- Beacon Capital Strategic Partners VI, LP
- Buchanan Fund V
- CBRE US Value Fund 5
- Guggenheim II & III
- Hines U.S. Office Value Added II
- Keystone Industrial Fund I
- KTR Industrial Fund II
- Lionstone CFO One
- Pac Trust
- Rockpoint Finance Fund
- Rockwood Real Estate VII & VIII
- Vornado Capital Partners L.P.
- Western National Realty II & Co-Invest II
- Windsor Realty VII

Publicly Traded Portfolio

	Domestic $721.2	Global $387.4
% of total portfolio	13.93%	7.48%
One year return	36.69%	11.52%
Index	NAREIT 30.28%	EPRA/NAREIT Global (ex US) 12.39%

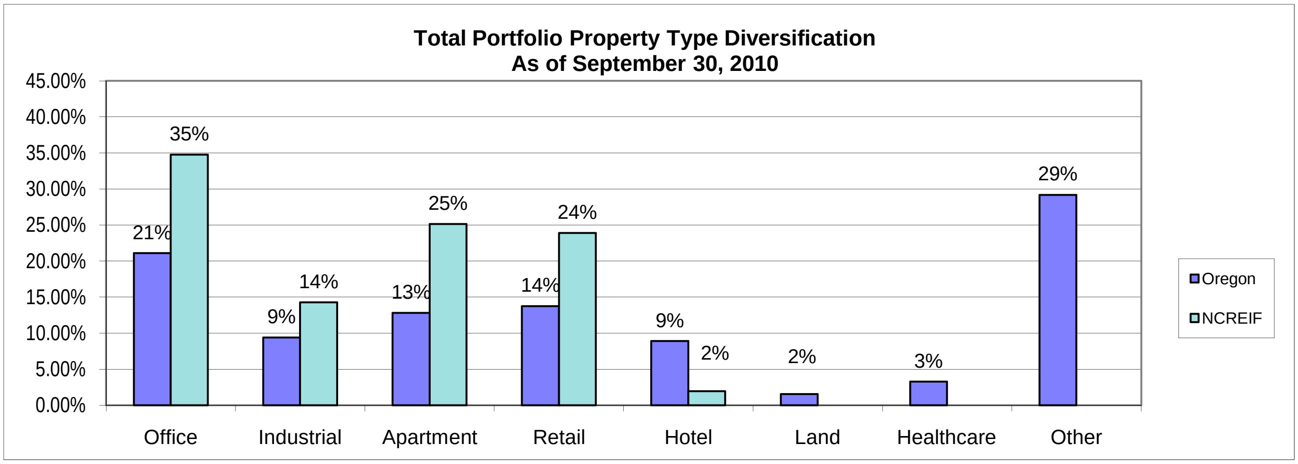
Domestic REITS
- Cohen & Steers
- Columbia Woodbourne
- LaSalle REIT

Global REITS
- European Investors
- Morgan Stanley

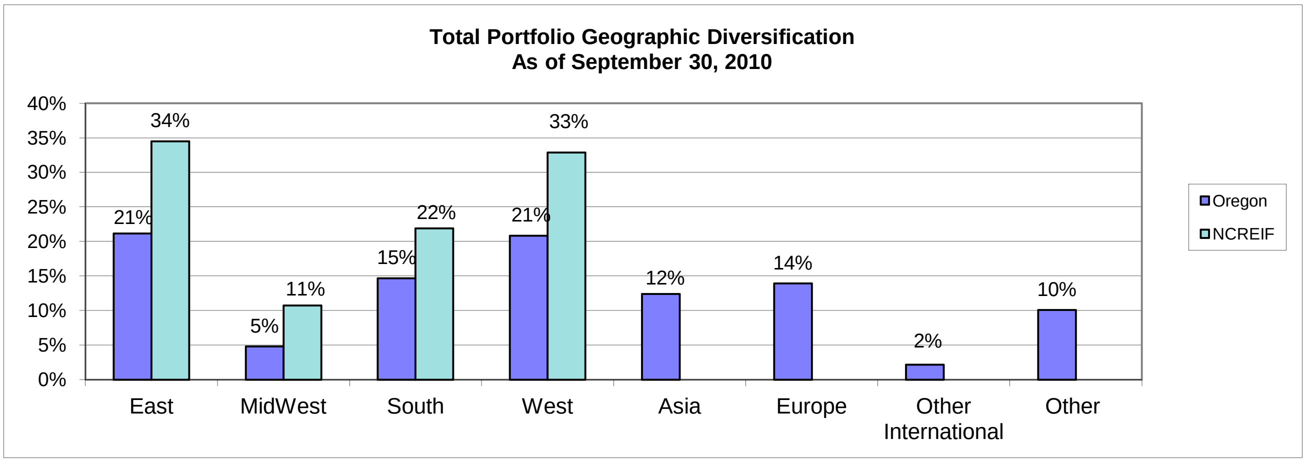
1. Holdings accounts represent properties in liquidation that were transferred from a terminated manager.

OPERF	Oregon Public Employees Retirement Fund Third Quarter 2010

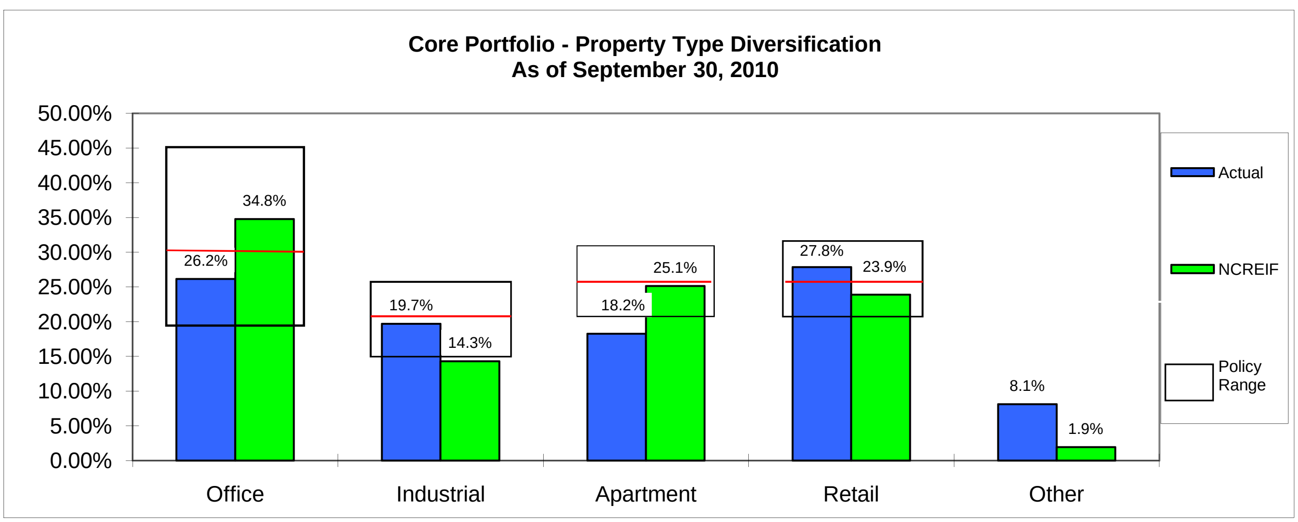
PORTFOLIO COMPOSITION REVIEW (% of Total Portfolio FMV)



Note: Other is primarily composed of Stocks/Equity (2%), Debt Instruments (56%), Operating Cos. (22%) and Diversifed (20%) investments.



Note: Other is primarily composed of US Diverse (95%) and Various (5%) per GP's financials and Quarterly Data Input Sheets.



Executive Summary

OPERF Alternative Investment Program ("the Program")

PRIVATE EQUITY POLICY

The program was formally started in 1981. The target private equity allocation is 16.0% of total pension assets with a range of + / - 400 basis points. As of September 30, 2010, private equity represented 21.8% of total pension assets, a decrease of 24 basis points since last quarter.

PERFORMANCE OBJECTIVE

The Program's objective is to create significant long-term net returns to OPERF. As of September 30, 2010, the Program has achieved a total return of 16.0% since inception.

AS OF 30 SEP 2010	1 YEAR	3 YEAR	5 YEAR	10 YEAR	SINCE INCEPTION
Program IRR	16.2%	0.7%	8.3%	7.6%	16.0%
Venture Economics*	16.0%	-0.4%	5.2%	2.8%	11.1%
Value Added	***0.2%***	***1.1%***	***3.1%***	***4.8%***	***4.9%***
Russell 3000 (+ 300 bps)**	14.3%	-0.9%	3.8%	2.9%	14.9%
Value Added	***1.9%***	***1.6%***	***4.5%***	***4.7%***	***1.1%***

* Venture Economics Pooled IRR: *All U.S. Private Equity Funds as of June 30, 2010*

** Data is a dollar-weighted Long-Nickels calculation of quarterly changes in the Russell 3000 index plus 300 basis points.

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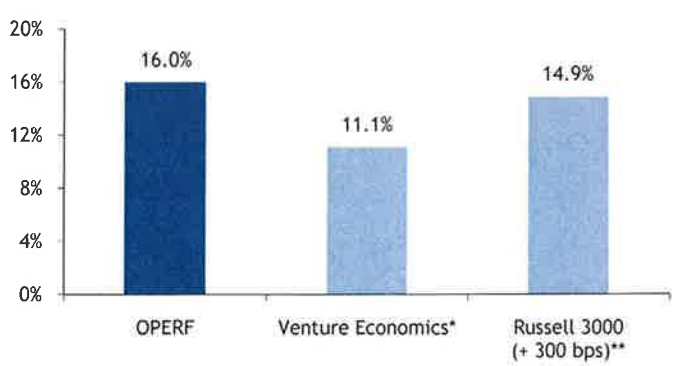
PROGRAM IRR vs. SELECTED BENCHMARKS

Net Returns since Inception



INVESTMENT PACING

The annual level of commitments is reviewed regularly with Staff and the Oregon Investment Council ("OIC"). Based on the desire to continue to build a well diversified portfolio and support OPERF's core relationships, PCG AM's annual pacing analysis completed in December 2009 recommended that OPERF commit up to $2.8 billion in 2010 pending the completion of due diligence, OIC approval, and successful legal negotiations.

PORTFOLIO EXPOSURE

Exposure % by Investment Type

Figures may not foot due to rounding

INVESTMENT TYPE	TARGET ALLOCATION	FMV	UNFUNDED	TOTAL EXPOSURE
Corporate Finance	65%-85%	76%	62%	70%
Venture Capital	5%-10%	4%	5%	5%
Special Situations	5%-15%	12%	11%	11%
Fund-of-Funds	5%-10%	5%	15%	9%
Co-Investments	0%-7.5%	3%	7%	5%
Investment Type Total:		100%	100%	100%

RECENT PROGRAM DEVELOPMENTS

- During the quarter, the OIC authorized $200 million of new commitments to one private equity fund and closed on $500 million of commitments to four funds.
- Through the first nine months of the year, the Program has closed on a total of $1,723.5 million in new commitments to thirteen funds.
- Subsequent to third quarter-end, the OIC authorized five new commitments totaling $455 million and through December 1, 2010 the Program had closed on one additional commitment of $80 million.

Portfolio Summary

Portfolio Review

NEW COMMITMENTS

During the quarter, OPERF closed on $500 million in commitments to four new funds. Please see Activity Detail for more details and for other recent activity.

CONTRIBUTIONS DECREASED

Contributions decreased by a modest 8.2% during the third quarter compared to the prior quarter. Contributions during the quarter were still higher than the most recent four-quarter average which stands at $540.5 million.

DISTRIBUTIONS INCREASED

Distributions continued apace, increasing from the prior quarter by 7.5%. Distribution activity has not been this strong since Q3 2007. The most recent four-quarter average for OPERF's distributions stands at $412.7 million.

GAIN / LOSS

The Portfolio appreciated by $596.0 million, net of cash flows, during the quarter, representing a 5.0% appreciation from the prior quarter. This relatively steep quarterly appreciation caused the Program's IRR since inception to slightly increase from the prior quarter.

WEIGHTED AVERAGE AGE

Based on remaining value of all underlying funds, the weighted average age of the Portfolio is 5.2 years, practically unchanged from the prior quarter. The relatively mature age of the Programs' Private Equity Portfolio is expected to result in the continued gradual increase in quarterly distributions in the coming years.

Portfolio Activity

$ Million | Figures may not foot due to rounding

	2009		2010		
	Q3	Q4	Q1	Q2	Q3
Starting Valuation	$8,747.5	$9,795.9	$10,416.3	$10,936.4	**$11,231.2**
Contributions	$354.2	$486.5	$443.9	$642.1	**$589.4**
Distributions	($177.8)	($395.0)	($314.7)	($453.5)	**($487.6)**
Appreciation/(Depreciation)	$872.0	$528.9	$390.9	$106.2	**$596.0**
Ending Valuation	$9,795.9	$10,416.3	$10,936.4	$11,231.2	**$11,929.0**
Unfunded Commitments	$8,509.0	$8,211.4	$8,303.0	$8,472.0	**$8,528.0**
IRR Since Inception	16.0%	16.0%	16.0%	15.9%	**16.0%**
Weighted Avg. Age of Portfolio (yrs)	5.0	5.0	5.2	5.2	**5.2**

Program Summary

Active, Exited and Overall Program Performance

$ Million | Figures may not foot due to rounding

	June 30, 2010	September 30, 2010
Total Pension Assets *	$51,031	**$54,781**
Allocation to Private Equity: *(Target 16.0% +/- 4.0%)*	22.0%	**21.8%**
ACTIVE		
# of Partnerships	177	**181**
Capital Committed	$25,258	**$25,758**
Cash Contributed	$19,849	**$20,399**
Cash Distributed	$14,469	**$14,919**
Estimated FMV	$11,230	**$11,924**
Total Value	$25,698	**$26,843**
Total Value Multiple	1.29x	**1.32x**
IRR	9.8%	**10.0%**
EXITED		
# of Partnerships	38	**38**
Capital Committed	$2,337	**$2,337**
Cash Contributed	$2,605	**$2,605**
Cash Distributed	$5,853	**$5,853**
Estimated FMV**	$5	**$5**
Total Value	$5,859	**$5,858**
Total Value Multiple	2.25x	**2.25x**
IRR	23.4%	**23.4%**
OVERALL		
Portfolio Multiple	1.41x	**1.42x**
IRR	15.9%	**16.0%**

*Total Pension Assets updated to incorporate actual Private Equity portfolio values at each quarter end.

**Includes escrows of exited deals.

Glossary

Variance Analysis Reports

These reports provide an analysis of the difference between the portfolio and the benchmark returns in terms of sector exposure. The incremental return is attributed to over-or under-weighting and selection within the sector.

For each sector, the beginning of the period weighting is used for both the portfolio and the benchmark. Returns are time-weighted for periods longer than one month. For periods of more than one month, the monthly calculations are geometrically linked over the indicated time period.

WEIGHTING

Measures the portion of the porfolio return that can be attributed to over/underweighting sectors/countries relative to the benchmark. Positive weighting occurs if the fund was overweighted in sectors/countries that performed well or underweighted in sectors/countries that did not perform well.

Sector weighting = [benchmark return $_{(sector)}$ - benchmark return $_{(total)}$] x [portfolio beginning weight $_{(sector)}$ - benchmark beginning weight $_{(sector)}$] / 100

SELECTION

Measures the portion of the portfolio return that can be attributed to the selecton of securities within a sector/country relative to the benchmark. Positive selection occurs if the portfolio's sector/country return is greater than the benchmark sector/country return.

Sector selection = [portfolio return $_{(sector)}$ - benchmark return $_{(sector)}$] x [portfolio beginning weight $_{(sector)}$] /100

TIMING

This is the value required to make the sum of weighting + selection + timing = the total variance between the portfolio and the benchmark. This is a result of attribution being based on beginning weights and the portfolio shifting weights throughout the month.

TAB 7 – ASSET ALLOCATIONS & NAV UPDATES

Asset Allocations at January 31, 2011

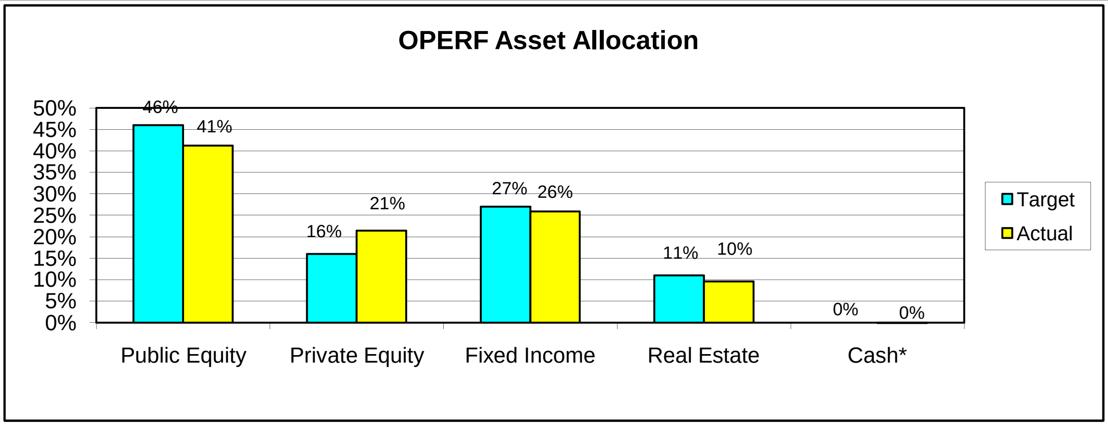
OPERF	Policy	Target	Regular Account $ Thousands	Pre-Overlay	Overlay	Net Position	Actual	Variable Fund $ Thousands	Total Fund $ Thousands
Public Equity	41-51%	46%	23,338,842	41.7%	(271,214)	23,067,628	41.2%	991,083	24,058,711
Private Equity	12-20%	16%	12,008,455	21.4%		12,008,455	21.4%		12,008,455
Total Equity	**57-67%**	**62%**	**35,347,297**	**63.1%**	**(271,214)**	**35,076,083**	**62.6%**		**36,067,166**
Opportunity Portfolio			1,059,805	1.9%		1,059,805	1.9%		1,059,805
Fixed Income	**22-32%**	**27%**	**13,500,463**	24.1%	**999,781**	**14,500,244**	25.9%		**14,500,244**
Real Estate	**8-14%**	**11%**	**5,364,103**	9.6%	**(5,400)**	**5,358,703**	9.6%		**5,358,703**
Cash*	**0-3%**	**0%**	**728,249**	1.3%	**(723,167)**	**5,082**	0.0%	2,048	**7,130**
TOTAL OPERF		**100%**	**$ 55,999,917**	**100.0%**	**$ -**	**$ 55,999,917**	**100.0%**	**$ 993,131**	**$ 56,993,048**

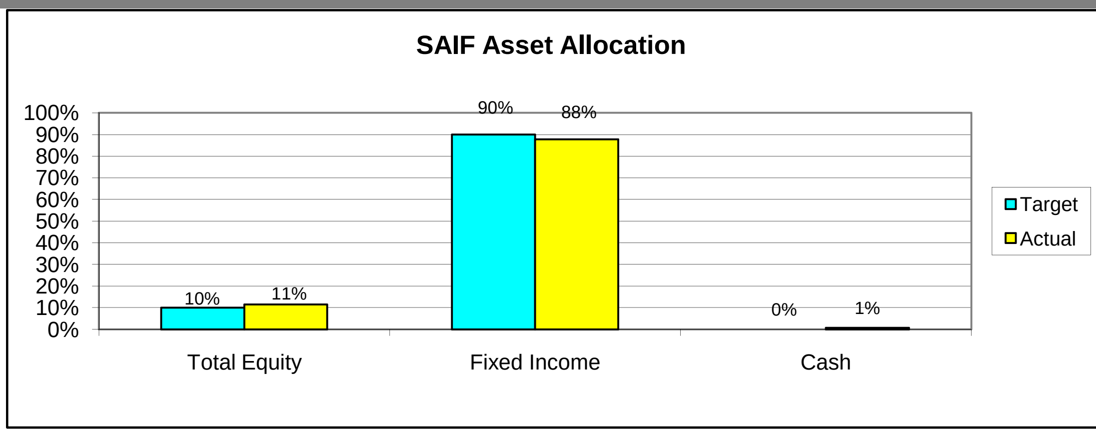
*Includes cash held in the policy implementation overlay program.

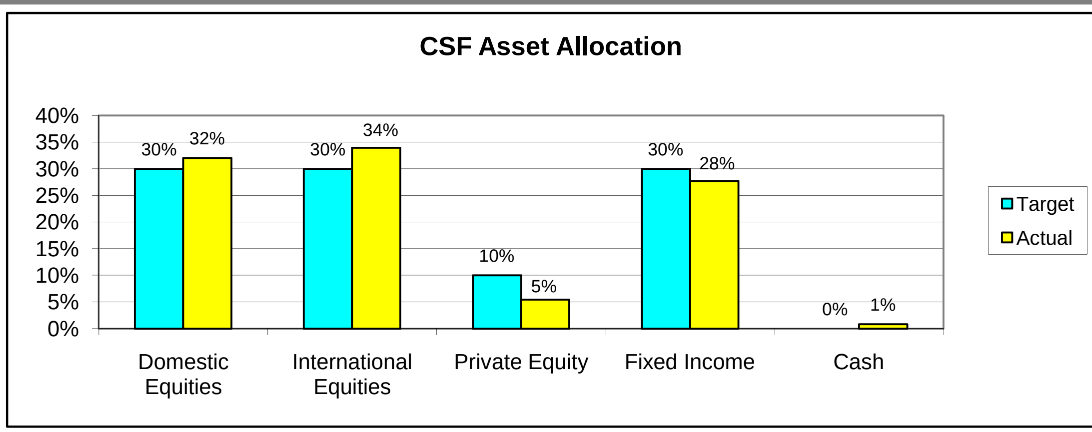
SAIF	Policy	Target	$ Thousands	Actual
Total Equity	**7-13%**	**10.0%**	**474,804**	**11.5%**
Fixed Income	**87-93%**	**90.0%**	**3,633,607**	**87.8%**
Cash	**0-3%**	**0%**	**31,667**	**0.8%**
TOTAL SAIF		**100%**	**$4,140,078**	**100.0%**

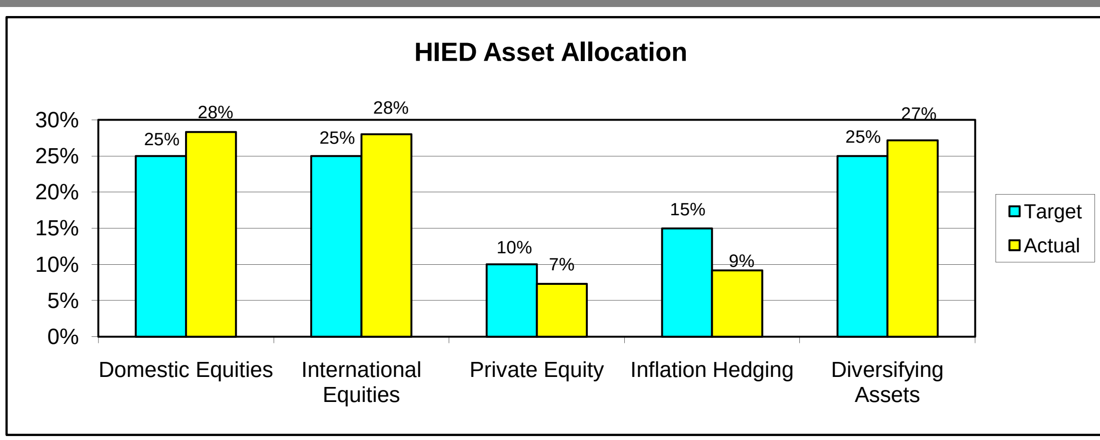
CSF	Policy	Target	$ Thousands	Actual
Domestic Equities	25-35%	30%	$351,021	32.0%
International Equities	25-35%	30%	371,980	33.9%
Private Equity	0-12%	10%	60,064	5.5%
Total Equity	**65-75%**	**70%**	**783,065**	**71.5%**
Fixed Income	**25-35%**	**30%**	**303,522**	**27.7%**
Cash	**0-3%**	**0%**	**9,299**	**0.8%**
TOTAL CSF			**$1,095,886**	**100.0%**

HIED	Policy	Target	$ Thousands	Actual
Domestic Equities	20-30%	25%	$18,144	28.3%
International Equities	20-30%	25%	17,954	28.0%
Private Equity	0-15%	10%	4,687	7.3%
Growth Assets	**50-75%**	**60%**	**40,785**	**63.7%**
Real Estate	0-10%	7.5%	1,498	2.3%
TIPS	0-10%	7.5%	4,369	6.8%
Inflation Hedging	**7-20%**	**15%**	**5,867**	**9.2%**
Fixed Income	20-30%	25%	16,433	25.7%
Cash	0-3%	0%	979	1.5%
Diversifying Assets	**20-30`%**	**25%**	**17,412**	**27.2%**
TOTAL HIED			**$64,064**	**100.0%**

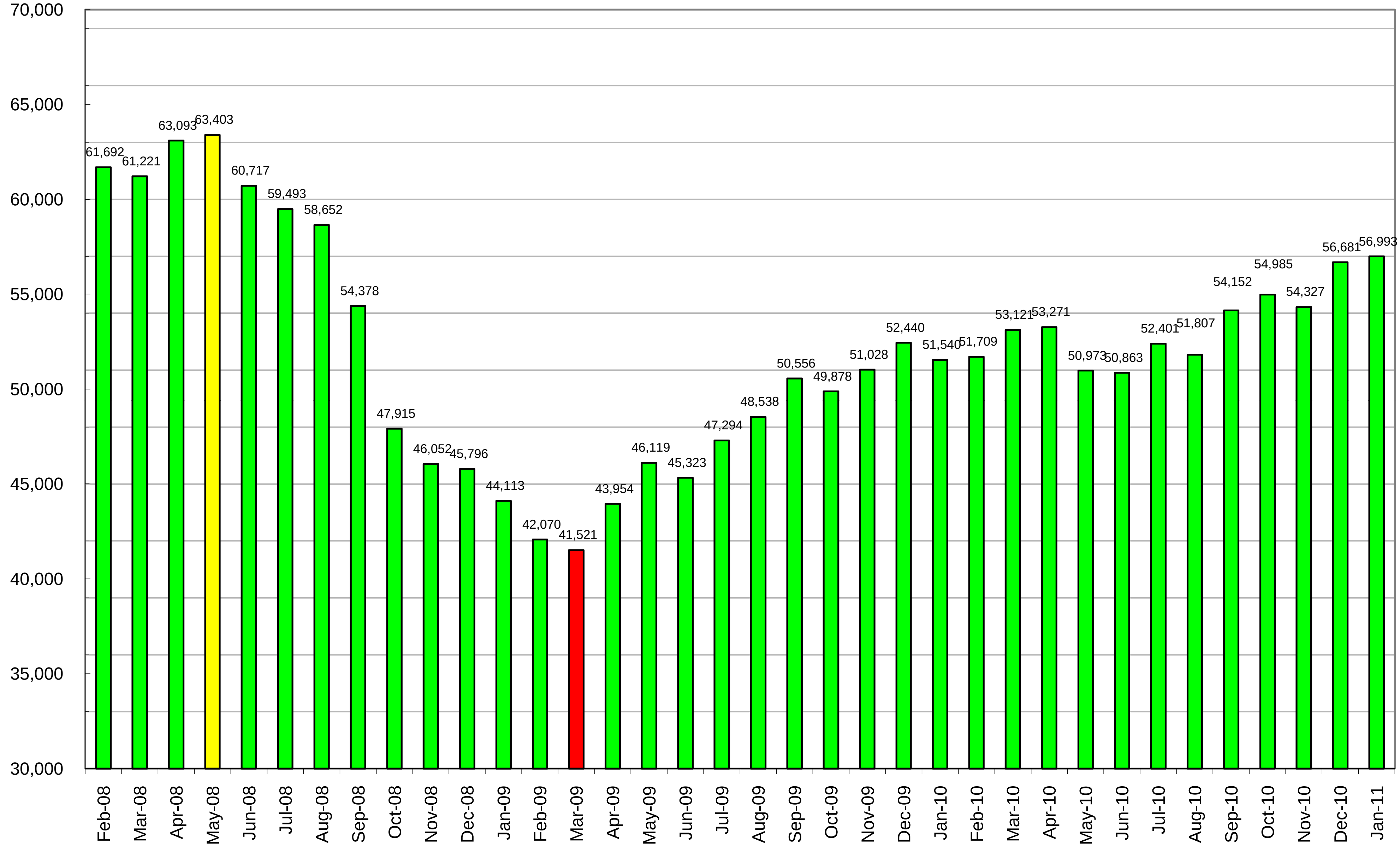

OPERF Asset Allocation
50%
45%
40%
35%
30%
25%
20%
15%
10%
5%
0%
46%
41%
16%
21%
27%
26%
11%
10%
0%
0%
Public Equity
Private Equity
Fixed Income
Real Estate
Cash*
Target
Actual

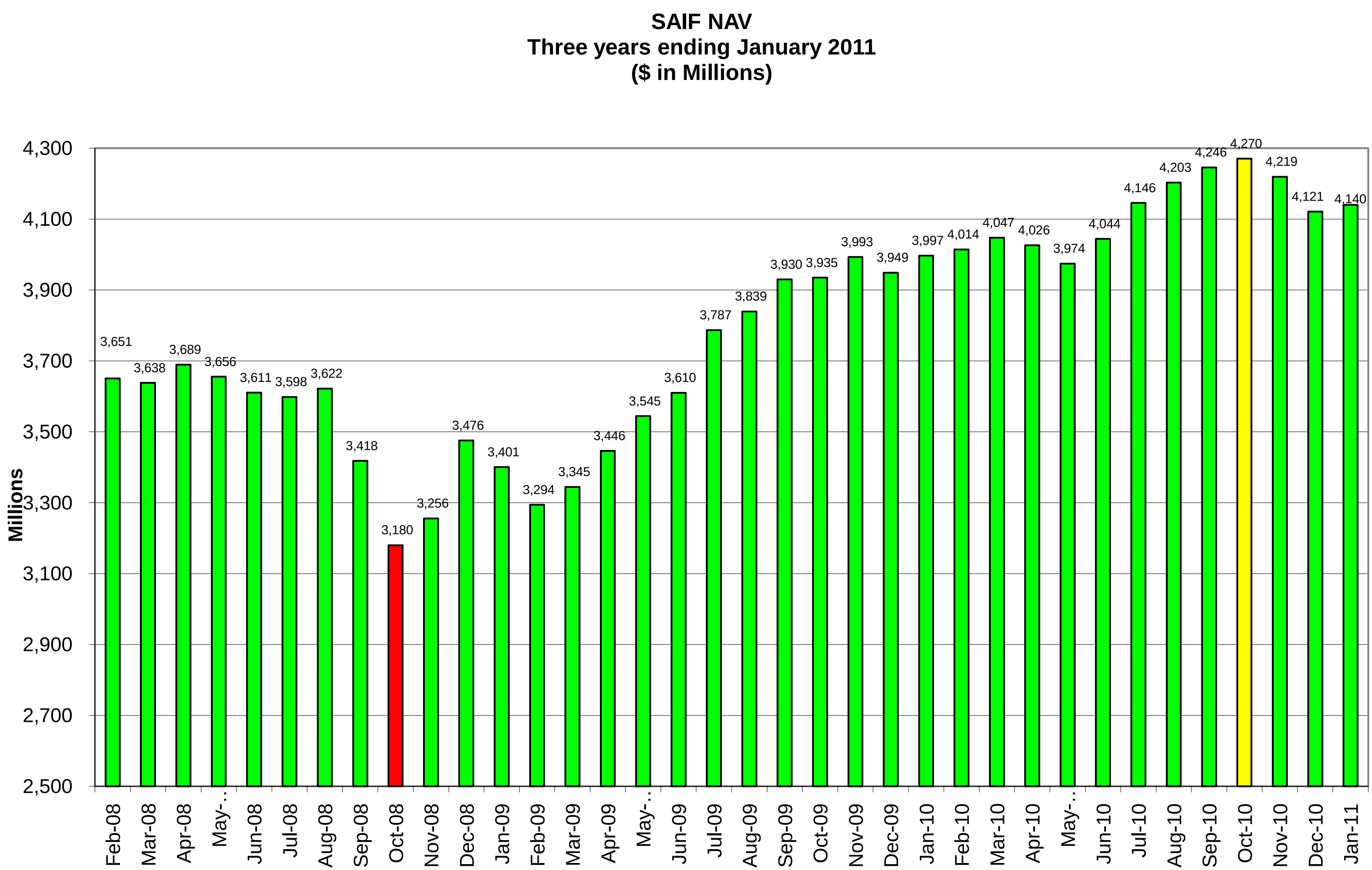

SAIF Asset Allocation
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
10%
11%
90%
88%
0%
1%
Total Equity
Fixed Income
Cash
Target
Actual


CSF Asset Allocation
40%
35%
30%
25%
20%
15%
10%
5%
0%
30%
32%
30%
34%
10%
5%
30%
28%
0%
1%
Domestic Equities
International Equities
Private Equity
Fixed Income
Cash
Target
Actual


HIED Asset Allocation
30%
25%
20%
15%
10%
5%
0%
25%
28%
25%
28%
10%
7%
15%
9%
25%
27%
Domestic Equities
International Equities
Private Equity
Inflation Hedging
Diversifying Assets
Target
Actual

OPERF NAV
Three years ending January 2011
($ in Millions)




SAIF NAV
Three years ending January 2011
($ in Millions)
Millions
4,300
4,100
3,900
3,700
3,500
3,300
3,100
2,900
2,700
2,500
3,651
3,638
3,689
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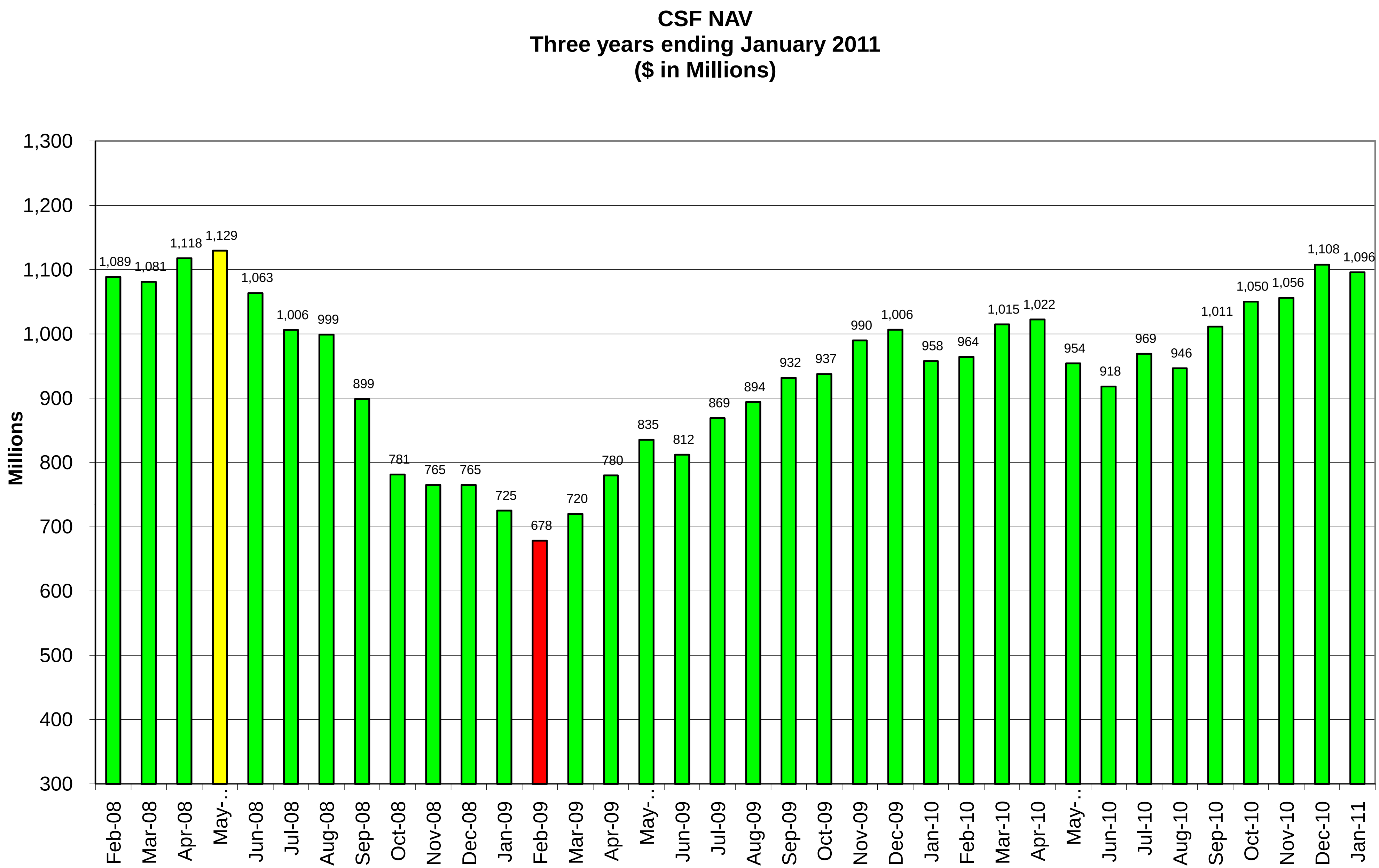
CSF NAV
Three years ending January 2011
($ in Millions)
Millions
1,300
1,200
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TAB 8 – FORWARD AGENDA TOPICS

2011 OIC Forward Agenda Topics

April 27:	Core RE Recommendations OSTF Annual Review DOJ Litigation Update Securities Lending Review Annual Policy Updates
June 1:	Public Equity Annual Review SAIF Annual Review OPERF 1st Quarter Performance Review
July 27:	OPERF Real Estate Annual Review Annual Audit Update
September 28:	CSF Annual Review
November 2:	CEM Benchmarking Annual Review
December 7:	OPERF 3rd Quarter Performance Review OPERF Opportunity Portfolio Review HIED Annual Review