Corporate Governance Principles and Proxy Voting Guidelines

April 2016

New York City Employees' Retirement System

New York City Police Pension Fund

New York City Fire Department Pension Plan

Board of Education Retirement System of the City of New York

Prepared By

The Office of the New York City Comptroller

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Contents

I. INTRODUCTION 6

About the New York City Retirement Systems 6

Statement of Purpose and Principles 7

Proxy Voting Oversight and Procedure 10

II. PROXY VOTING POLICY 12

Section 1: The Board of Directors: Composition and Structure 12

1.1 Election of Directors 13

1.2 Contested Elections 16

1.3 Annual Director Elections 17

1.4 Majority Vote Standard for Director Elections 17

1.5 Cumulative Voting in Contested Director Elections 17

1.6 Independent Board Leadership 17

1.7 Board Size 17

1.8 Director Term Limits 18

1.9 Director Age Limits 18

1.10 Proxy Access 18

1.11 Establish a Board Committee 18

1.12 Right to Remove Directors 18

1.13 Director Indemnification 18

Section 2: Investor Rights 19

2.1 Confidential Ballot 19

2.2 Bundled Voting Items 19

2.3 Universal Ballot 19

2.4 Reimbursement of Proxy Solicitation Expenses 19

2.5 Exclusion of Broker Non-Votes from Voting Tabulations 19

2.6 Timely Disclosure of Vote Results 20

2.7 Right to Act By Written Consent 20

2.8 Right to Call A Special Meeting 20

2.9 Supermajority Voting Requirements 20

2.10 Reincorporation 20

2.11 Restrictions on Litigation Rights 20

2.12 Advance Notice Requirements 21

2.13 Meeting Adjournment To Enable Further Solicitation 21
Section 3: Capital: Structure, Authorizations, and Corporate Transactions 22
3.1 Common Stock Authorization 22
3.2 Preferred Stock Authorization 22
3.3 Preemptive Rights 22
3.4 Shareowner Approval of Targeted Share Placements 22
3.5 Mergers and Acquisitions 23
3.6 Fair Price Provisions 23
3.7 Greenmail 23
3.8 Poison Pills 23
3.9 One Share, One Vote 24
Section 4: Incentives: Compensation and Benefits 25
4.1 Advisory Vote on Executive Compensation, or "Say-on-Pay" 25
4.2 Annual Advisory Votes on Executive Compensation 26
4.3 Director Compensation 27
4.4 Adopt Advisory Votes on Director Compensation 27
4.5 Equity Compensation Plans 27
4.6 Employee Stock Purchase Plans 28
4.7 Pay-For-Performance 28
4.8 Sustainability and Non-Financial Incentive Metrics 28
4.9 Equity Ownership Guidelines 28
4.10 Equity Retention Requirements 28
4.11 Principles for 10b5-1 Pre-Arranged Trading Plans 29
4.12 Prohibitions on Hedging or Pledging Company Equity 29
4.13 Compensation Consultant Independence 29
4.14 Restrictions on Executive Compensation 29
4.15 Internal Pay Disparity Analysis 29
4.16 Compensation Recoupment, or "Clawback" Policies 29
4.17 Shareowner Approval or Limit Executive Retirement Plans and "SERP's" 30
4.18 Shareowner Approval of Severance Payments, or "Golden Parachutes" 30
4.19 Advisory Votes on Golden Parachutes 30
4.20 Limits on Automatic Equity Acceleration 31
4.21 Prohibition on Tax Gross-Ups 31
4.22 Shareowner Approval of Executive Death Benefits, or "Golden Coffins" 31
Section 5: Financial Reporting 32

5.1 Shareowner Ratification of the Auditor 32
5.2 Auditor Ratification 32
5.3 Audit Firm Rotation 33
Section 6: Environmental and Social Issues 34
6.1 Public Reporting of Environmental Risks and Management 34
6.2 Climate Risk Mitigation and Greenhouse Gas Emission Reductions 34
6.3 Water Risk and Stewardship 34
6.4 Cease or Discontinue Business Lines or Operations Due to Environmental Risk 35
6.5 Energy Efficiency and Conservation 35
6.6 Renewables 35
6.7 Proper Use and Handling of Toxics and Hazardous Materials 35
6.8 Product Recycling 35
6.9 Tobacco Advertising and Production 36
6.10 Product Sales and Marketing 36
6.11 Product and Food Safety 36
6.12 Gun Safety 36
6.13 Equal Employment Opportunity and Non-Discrimination 37
6.14 Human Capital Development 37
6.15 Occupational Safety and Health 38
6.16 Human Rights 38
6.17 Cybersecurity and Privacy 38
6.18 Military and Weapons Issues 39
6.19 Animal Welfare 39
6.20 Health Care Policy 39
6.21 Access to Health Care and Medicines 40
6.22 Political Contributions and Lobbying Disclosure 40
6.23 Charitable Contributions 40
6.24 Responsible Lending Practices 41
6.25 Risk Mitigation of Financial Products and Practices 41
6.26 International Finance and Trade Issues 41
III. Appendix 42
Council of Institutional Investors (CII) Independent Director Definition 42

I. INTRODUCTION

About the New York City Retirement Systems

The New York City Retirement Systems are pension and benefit funds whose mission is to provide retirement security to over 700,000 active and retired beneficiaries. The New York City Retirement Systems include:

- **Teachers Retirement System:** New York City Teachers' Retirement System ("TRS") provides benefits for pedagogical employees in the public schools of the City of New York, certain charter schools, and select college employees.
- **New York City Employees' Retirement System:** The New York City Employees' Retirement System ("NYCERS") provides benefits for employees of the City of New York not covered by one of the other pension systems and employees of certain other government units.
- **Police Pension Fund:** The New York City Police Pension Fund ("POLICE") provides benefits for uniformed employees of the New York Police Department.
- **Fire Department Pension Fund:** The New York City Fire Department Pension Fund ("FIRE") provides benefits for uniformed employees of the New York Fire Department.
- **Board of Education Retirement System of the City of New York:** The New York City Board of Education Retirement System ("BERS") provides benefits for non-pedagogical employees of the New York City Department of Education, certain charter schools, and select employees of the School Construction Authority.

These *Corporate Governance Principles and Proxy Voting Guidelines* apply to the New York City Employees' Retirement System, the New York City Police Pension Fund, the New York City Fire Department Pension Fund, and the Board of Education Retirement System of the City of New York (the "Systems"). TRS maintains its own *Corporate Governance Principles and Proxy Voting Guidelines*. At the date of initial adoption of this revised Policy, TRS' Policy was the same in all material respects to this Policy.

The Systems aim to fulfill their obligations to beneficiaries by achieving a competitive risk-adjusted market rate of return, consistent with their asset allocations, while prudently mitigating downside risks to the Systems' investments, including those affecting the sustainability of their investments' long-term returns.

The Office of the New York City Comptroller serves as the chief investment advisor and custodian of assets to the Systems, and is responsible for actively monitoring the Systems' investments, voting corporate proxies consistent with the Systems' policies, and engaging portfolio companies on behalf of the Systems. The Comptroller of the City of New York also serves as a trustee to four of the five Systems.

Statement of Purpose and Principles

The Corporate Governance Principles and Proxy Voting Guidelines (the "Policy") outline the philosophy and guidance that frame the Systems' analysis when casting votes on corporate proxies of the portfolio companies in which the Systems invest, consistent with the Systems' fiduciary duties, and informs the Systems' general approach to company and regulatory engagement.

The Policy is rooted in the Systems' view that the right to vote shares is considered an asset of the benefit fund. A fiduciary's responsibility to manage the assets of the fund therefore includes the duty to vote proxies on issues that may affect the value of the shares. This is consistent with U.S. Department of Labor guidance, reaffirmed in 2015 and directed at certain private sector pension plans that are subject to the Employee Retirement Income Security Act of 1974 (ERISA).

The System's approach to proxy voting and sound corporate governance is derived and guided by who the Systems fundamentally are as investors:

- **Beneficiary-focused:** Our duty is to promote the retirement security of our beneficiaries.
- **Long-term:** Our investment horizon stretches decades in order to cover the Systems' actuarial liabilities.
- **Diversified, or "universal" owners:** Our fiduciary obligation compels us to mitigate risk by diversifying our investments across the market, thereby positioning us as "universal owners" with a financial stake across a wide number of companies and an economic interest in the overall performance of the financial markets and broader economy in which the Systems' invest.

As diversified, long-term investors, the Systems believe that advocating sound corporate governance practices and responsible business practices at portfolio companies promotes shareowner value creation. Simply put, better managed companies deliver superior and more sustainable results. The Systems also believe that good governance protects against downside risks to long-term financial performance. And critically, the Systems believe that good governance engenders investor confidence that, in turn, fosters stable financial markets that will be conducive to the long-term economic growth upon which the Systems' investments depend.

Core Principles

The Systems first adopted formal proxy voting policies in 1987. Several basic principles, consistent with the Systems' duty to promote shareowner value, inform the guidelines in this Policy:

- **Accountability:** Portfolio companies should adopt policies and practices by which the board of directors is accountable to shareowners.
- **Investor Rights:** Shareowners should have strong investor rights and protections.
- **Aligned Interests:** Directors and executives should have incentives that align their interests with those of shareowners.
- **Transparency:** Financial markets work more efficiently when companies provide shareowners accurate, thorough, and timely information on material matters.
- **Sustainability:** Companies should effectively manage financial, governance, social, environmental and other material risks to long-term performance and advance policies and practices that create sustainable shareowner value.

Active Ownership Commitment and Legacy

The Systems advance their core principles by actively exercising their rights as shareowners, or being "active owners" of the companies in which they invest. By voting corporate proxies at each portfolio company and engaging companies to promote practices in line with the Systems' core principles, the Systems' have strengthened the independence and accountability of boards of directors, aligned executive pay with long-term firm performance, and promoted more transparent, sustainable, and responsible business practices.

The Systems' forged their commitment to active ownership partly in response to the corporate boardroom battles and the effects of the globalization of capital markets in the 1980s. In response to new risks posed by these market forces, the Systems developed tools and strategies, and a commitment to investor collaboration, that provided the building blocks of the Systems' current approach to active ownership:

- In 1984, the Systems first urged companies doing business in apartheid-torn South Africa to adhere to specific human rights principles or face divestment – a core commitment of the Systems until the first democratic elections in South Africa in 1994.
- In 1985, the Systems co-founded the Council of Institutional Investors (CII) in response to a wave of hostile takeovers by corporate raiders. CII, whose members now include public, union and corporate pension funds with more than $3 trillion in assets, has become the leading voice for effective corporate governance and strong shareowner rights in the U.S market.
- In 1986, the Systems' were among the first large institutional investors to exercise their rights under the Securities Exchange Act of 1934 to submit shareowner proposals for a vote at annual shareowner meetings. The proposals initiated a multi-year effort by the Systems to advocate that companies adopt the MacBride Principles, broad equal employment guidelines designed to eliminate employment discrimination in Northern Ireland.
- In 1989, the Systems worked with a small group of investors to found Ceres in response to the Exxon Valdez oil spill, one of the worst environmental disasters in history. Today, Ceres and its Investor Network on Climate Risk (INCR) mobilize global investors and companies to integrate sustainability into their investment risk analysis and decision-making and advocate for strong climate and energy policies in the U.S. and globally.
- In 1992, the Systems helped pave the way for investors to challenge workplace discrimination and address employment practices when they filed a shareowner proposal to ban sexual orientation discrimination at Cracker Barrel, which had said it would no longer hire gay employees. After the Securities and Exchange Commission (SEC) not only permitted the company to omit the proposal from its ballot because it dealt with "ordinary business," but also set a new standard whereby employment-based shareowner proposals would "always be excludable by corporations," the Systems challenged the decision in court. While the lawsuit was unsuccessful, the resulting investor outcry later prompted the SEC to reverse its position.

The Systems approach to active ownership has continued to evolve over the past 25 years. In addition to constructively engaging companies to improve practices and protect value, the Systems have pursued securities litigation to recover losses and hold accountable companies that clearly fail to act in the interests of their shareowners. The Systems, for example, acted as co-lead plaintiff in cases that obtained a $3.2 billion class action settlement with Cendant Corporation in connection with alleged accounting fraud and a $624 million class action settlement with Countrywide Financial for deceptive mortgage practices that contributed to the global financial crisis.

The Systems also recognized the importance of regulatory engagement, for example advocating stronger corporate governance rights and investor protections following the collapse of Enron and WorldCom in 2001 and the global financial crisis of 2008, both of which exposed widespread and costly failures of corporate governance. The Systems have also supported government rules and regulations requiring greater disclosure of climate-related risks as well as the diversity of corporate directors, among other existing and proposed reforms.

Key regulatory reforms enacted since 2001 were previously the subject of shareowner proposals sponsored by the Systems and other institutional investors. These include regulatory reforms requiring majority-independent boards of directors and key board committees and enabling shareowners to cast advisory votes on executive compensation ("say-on-pay").

One of the most critical investor rights that the Systems and other investors have long sought through regulatory reform is the right for long-term shareowners to nominate directors using the corporate proxy statement, known as "proxy access." Although the SEC proposed a proxy access rule in 2003 and again in 2009 following the global financial crisis, strong corporate opposition has thwarted a lasting rule. In 2014 the Systems launched a broad effort to enact proxy access on a company-by-company basis. Working with numerous institutional investors, the investor campaign has rapidly succeeded in making proxy access a common shareowner right at U.S. companies.

Approach to Active Ownership

The Systems' history and experience serve as the foundation for their approach to promoting the Systems' core principles through active ownership, which encompasses:

- **Proxy Voting:** Responsibly voting proxies at portfolio companies.
- **Company Engagement:** Actively monitoring and engaging companies on their environmental, social and governance policies, practices and disclosures, including by filing shareowner proposals.
- **Regulatory Advocacy:** Advocating for regulatory and policy reforms to strengthen shareowner rights, improve corporate disclosure and improve the integrity and sustainability of financial markets and the economy.
- **Active Collaboration:** Collaborating with other long-term investors, both formally as active members of numerous institutional investor associations, and informally, in order to advance sound governance and sustainable business practices at individual companies and across the market.
- **Legal Action:** Exercising their rights to pursue legal action to recover losses on behalf of the Systems' beneficiaries and other affected investors in select cases of egregious fraud, misconduct, or corporate malfeasance.

Proxy Voting Oversight and Procedure

The Office of the Comptroller executes the corporate governance policies of the Systems, including proxy voting, portfolio monitoring, and shareowner engagements and initiatives. The Bureau of Asset Management at the Office of the Comptroller, through its Corporate Governance and Responsible Investment division, is responsible for casting the Systems' proxy votes, consistent with the policies adopted by each System, engaging portfolio companies and regulators, and submitting shareowner proposals that have been approved by each System.

Each System's Board appoints a Proxy Committee, as defined in the individual System's Investment Policy Statement. Each System's Proxy Committee promulgates the System's voting policies and procedures, including the Policy. Each System retains discretion to modify the Policy or implement proxy guidelines that are specific to its System. Each System votes in a manner that is consistent with its individual investment philosophy and interests.

This Policy primarily focuses on the United States market, although the core principles may generally apply to other investment markets as well. The Systems have separately adopted global proxy voting guidelines that address proxy voting in markets other than the United States.

The Office of the Comptroller implements the Policy on behalf of the Systems. The Policy provides general guidance and parameters on items that regularly appear on corporate proxies. The Office of the Comptroller casts votes in a manner that is consistent with the philosophy, intent, and spirit of this Policy. In implementing the Policy and the principles that underlie it, the Office of the Comptroller may oppose proxy items sponsored by shareowners that appear overly prescriptive, unduly seek to micromanage portfolio companies, or otherwise contradict this Policy in letter or intent, absent a broader justification aligned with the core principles of this Policy. The Office of the Comptroller may consider multiple sources of information, including research from outside vendors, direct dialogue with company directors and managers, and portfolio managers, in assessing and deciding proxy votes in line with the Policy, fiduciary duty, and the economic interests of the Systems.

In a contested director election, the Office of the Comptroller may, but is not obligated, to have discussions with the company and/or dissident nominees involved in the contest to consider their views. In the event that the Office of the Comptroller speaks with representatives from one side of the contest, it will not refuse a request for a discussion from representatives of the other side.

Reporting

The Office of the Comptroller provides periodic reports on proxy voting activities to the Proxy Committee of each System, including at minimum during semiannual Proxy Committee meetings held in the spring and fall of each year. Summary proxy voting information is also included in the Systems' annual report on shareowner initiatives, which is publicly available on the Office of the Comptroller's website.

Securities Lending

The Office of the Comptroller implements the Systems' securities lending policy with respect to assets for which the Comptroller is statutory custodian. The Office of the Comptroller may seek to recall securities on loan in order to cast a vote on a proxy item where it is in the economic interest of the Systems, consistent with its fiduciary duty and established policy, and sufficient advance notice is provided.

Conflicts of Interest Policy

Potential conflicts of interest on the parts of the trustees and/or the staff of the Office of the Comptroller are addressed by Chapter 68 of the New York City Charter and the Rules of the New York City Conflicts of Interest Board.

II. PROXY VOTING POLICY

Section 1: The Board of Directors: Composition and Structure

The Systems rely on the corporate directors they elect to promote and protect long-term shareowner value. The Systems believe corporate directors best serve the Systems' interests when the board of directors is composed of a diverse group of highly-qualified individuals who:

- Focus on sustainable value creation, particularly over the long-term;
- Align the company's business strategy, including capital allocation and executive incentive programs, with the board's long-term business objectives;
- Ensure effective oversight of risks to firm value, including but not limited to material operational, financial, environmental, and social factors;
- Objectively scrutinize and assess management performance;
- Uphold an unequivocal standard and expectation for ethical conduct and responsible business practices;
- Ensure a robust process for board refreshment and prudent CEO succession planning; and
- Demonstrate accountability to shareowners and other important stakeholders, including employees and the communities in which the company operates.

Each director should possess relevant skills, expertise and experience, and the ability to devote sufficient time in light of other professional commitments. Moreover, each director should be capable of performing the duties objectively and free of any conflicts of interest.

Boards should be composed of directors who, collectively, are best equipped to effectively oversee the company's strategy for creating and protecting firm value. Accordingly, the Systems encourage board diversity. Diverse perspectives, skills, expertise, and backgrounds may enhance the board's decision-making and ability to exercise prudent oversight on shareowners' behalf, as well as better position the board to pursue market opportunities. The Systems view diversity broadly and believe diverse boards may encompass considerations such as professional background, expertise, skills, age, race, gender, ethnicity, geography, sexual orientation, and gender identity. Director attributes should be relevant to the company's business and enhance the board's capacity to effectively oversee strategy and risk, including operational, regulatory, climate-related and environmental, human capital, macroeconomic, and financial risks. Board nominating policies and practices should define and reflect the board's view of diversity.

1.1 Election of Directors

The Systems evaluate individual director nominees in an uncontested election and the performance of the board as a whole, according to the factors below.

1.1a Independence

At least two-thirds of the board should be composed of independent directors. The Systems consider an independent director to be someone whose only nontrivial professional, familial, or financial connection to the corporation, its chair, CEO or any other executive officer is his or her directorship. To determine independence, the Systems use the definition adopted by the Council of Institutional Investors, which may exceed the minimum standards established in stock exchange listing requirements (see the Appendix). The Systems may vote against, or withhold support from, any and all non-independent director nominees where a board has failed to constitute a two-thirds majority of independent directors.

1.1b Committee Independence

Independent directors should comprise in full all key board committees, including the Audit Committee, the Compensation Committee, and the Nominating Committee. The Systems oppose non-independent director nominees serving on key board committees.

1.1c Board Attendance

The Systems may withhold support from incumbent director nominees who have failed to attend at least 75% of board or committee meetings during the preceding term, absent a compelling, disclosed justification. Companies should clearly disclose individual director attendance figures for board and committee meetings, including whether attendance was in-person or otherwise, such as telephonically or via web access. Excused absences should not be categorized as attendance.

1.1d Over-boarding

The Systems generally oppose director nominees who have an excessive number of outside commitments that may jeopardize their ability to adequately fulfill their responsibilities as a director. The Systems generally consider any director nominee who serves on more than a total of four public company boards to be over-boarded. If the director nominee is a chief executive officer of a public company, the Systems generally withhold support from the director's nomination to boards other than the company where the individual serves as chief executive, if the nominee serves on more than a total of three public company boards.

1.1e Accountability

The Systems expect portfolio companies to be responsive to shareowners' votes. The Systems generally oppose director nominees who failed to receive the majority of votes cast in a previous director election at the company, taking into account actions taken to address the issues that prompted the previous dissent.

The Systems may oppose all incumbent directors of a board committee that has failed to address a shareowner proposal that received majority support and addresses a matter that is within the purview of that board

committee. (In the event of a classified board, the Systems may oppose all incumbent directors up for election at the meeting).

The Systems believe that the full board is ultimately responsible for actions taken by its committees. The Systems may vote against some or all incumbent directors of a board where the board has failed to act on a shareowner proposal that addresses a fundamental governance issue and receives a majority of votes cast, absent a compelling justification from the board. The Systems generally oppose all incumbent director nominees of a board where the board fails to implement a proposal that twice receives the support of a majority of votes cast.

1.1f Performance

Board Performance

The Systems assess the performance of each nominee to the board. The Systems may oppose some or all incumbent director nominees if:

- The company has chronically underperformed peers and either the board has failed to take reasonable steps to address the poor performance, or the board maintains multiple governance provisions that may insulate directors from accountability, such as a classified board, supermajority vote requirements, dual-class share structure, and a poison pill that has not been approved by shareowners;
- A director nominees has problematic previous experience; for example, the Systems may oppose nominees who served as an executive or a director of a company with egregious performance, legal, accounting, or compensation problems, taking into consideration the individual's specific role and committee assignments;
- Any nominee who has demonstrated a lack of integrity or ability to represent shareowner interests, such as, but not limited to, having been convicted of financial, corporate, or securities fraud, including insider trading, or having a history of misconduct, regulatory sanctions, or ethical violations relating to corporate responsibilities; or
- There has been a material failure of governance, legal, or regulatory compliance; risk management (including with respect to financial or non-financial risks); or other fiduciary responsibility at the company.

Committee Performance

The Systems assess incumbent nominees' track record of committee service and may oppose nominees who fail in their qualifications or performance, as outlined in the committee's charter or detailed below. If no member of a committee is available for election (due to, for example, a classified board structure or no relevant committee has been constituted by the board) and the Systems would otherwise oppose one or more committee members due to concerns about committee performance, the Systems may oppose all incumbent directors of the board up for election.

The Systems may oppose incumbent nominees who serve on the Nominating Committee if:

- The Committee has failed to nominate or appoint candidates who would constitute a board composed of at least two-thirds independent directors;
- A current director nominee failed to receive a majority of votes cast in an uncontested election at a previous meeting of the company, taking into consideration actions taken by the board to address the issues that prompted the previous vote;
- The board has failed to ensure adequate director succession planning and board refreshment, as indicated by unusually high average tenure and an inadequate number of new directors in recent years, taking into consideration factors such as the company's performance and governance profile;
- The board unilaterally adopted a governance provision that weakens shareowner rights without shareowner approval (such as an exclusive forum bylaw, fee-shifting bylaw, or mandatory arbitration bylaw), or is currently seeking shareowner approval for such a governance provision pursuant to a bundled bylaw or charter amendment rather than as an individual proposal (and in egregious instances, the Systems may withhold from all incumbent board nominees);
- The board adopted or renewed a poison pill that was not approved by shareowners within a reasonable time period, taking into consideration the date of its next annual meeting.

The Systems may oppose incumbent directors who serve on the Audit Committee if:

- Material accounting fraud has occurred at the company;
- The company discloses a material weakness in its internal controls over financial reporting and fails to remedy the weakness in a timely way, taking into account the nature of the material weakness;
- The company receives an adverse opinion in its financial statements from its auditor for the preceding fiscal year;
- The company's financial statements lack adequate transparency or indicate aggressive accounting practices;
- The company pays excessive non-audit fees to the auditor (generally greater than 30% of the total fees paid to the firm in the prior year) during the preceding fiscal year;
- The company does not provide shareowners the opportunity to ratify the appointment of its external audit firm;
- The company enters into an inappropriate indemnification agreement with its auditor that unduly limits the ability of the company, or its shareowners, to pursue legal recourse against the audit firm;
- The company repeatedly fails to file its quarterly and/or annual financial statements in a timely manner;
- Legal or regulatory proceedings against the company or one of its employees indicate inadequate oversight of legal and regulatory compliance (unless the board has constituted a separate committee charged with oversight of compliance and regulatory affairs).

The Systems may oppose incumbent directors serving on the Compensation Committee if:

- The Compensation Committee has repeatedly approved executive or director compensation awards or policies, including in the most recent fiscal year, that are excessive or inconsistent with long-term performance, or has otherwise failed to adequately align executive pay with performance;
- The Systems would have voted against management's say-on-pay proposal but the company has not presented a say-on-pay proposal for shareowner approval on the current proxy;
- The board fails to take adequate steps in response to a high opposition vote on the company's previous say-on-pay proposal;
- The Compensation Committee changed performance goals to allow for payments that would not have been awarded based on the original goals, or performance-based compensation was paid despite goals not being attained;
- The Compensation Committee re-priced stock options without shareowner approval in the past two years.

1.2 Contested Elections

Contested elections generally occur when an alternate board candidate or alternate slate of candidates seeks election to the board without the support of the incumbent board. When evaluating competing slates, the Systems assess:

- To what extent is there a compelling case that change is in the Systems' economic interests;
- Which nominees – dissident or incumbent – are more likely to protect and create long-term value.

In evaluating director nominees in a contested election, the Systems consider:

- The long-term financial performance of the company relative to its industry;
- The company's existing governance policies and practices;
- Any proposed strategic plan for the company and the likelihood that such proposals will enhance the company's long-term value;
- The qualifications and track record of each incumbent nominee, dissident nominee, and the dissident nominee's sponsor or proponent;
- The equity ownership positions of all nominees, as well as the sponsors of dissident director nominees.

The Systems may vote for certain, but not necessarily all, dissident nominees, where the dissident nominees have made a compelling case that change is warranted. The Systems may also elect to cumulate their votes in support of certain incumbent or dissident nominees, where voting provisions enable cumulative voting.

1.3 Annual Director Elections: *For*

Boards should enable shareowners to review and elect each member of the board on an annual basis. The Systems generally vote for proposals to declassify a board of directors. Inversely, the Systems oppose proposals to classify a board into separate groups for periodic elections.

1.4 Majority Vote Standard for Director Elections: *For*

Each director in an uncontested election should be elected by a majority vote standard, by which the director nominee must receive a majority of votes cast in order to be elected. The Systems support a plurality vote standard, whereby the nominees receiving the most votes will be elected, only in contested elections where there are more nominees than available board seats.

1.5 Cumulative Voting in Contested Director Elections: *For*

Cumulative voting allows each shareowner to cast as many votes as equal to the number of shares held, multiplied by the number of directors to be elected. Each shareowner may cast all such cumulated votes for a single candidate or split votes among several candidates.

The Systems generally support cumulative voting provisions that exclusively apply to contested director elections. Cumulative voting may be particularly in the Systems' economic interests when a board is controlled by insiders or affiliates or where the company's ownership structure includes one or more shareowners who control a majority-voting block of a company. In such circumstances, cumulative voting increases the ability of non-affiliated shareowners to elect one or more directors.

The Systems generally oppose proposals to establish cumulative voting on voting items other than contested director elections. The Systems also generally oppose proposals to rescind cumulative voting, unless the proposals specifically pertain to uncontested director elections.

1.6 Independent Board Leadership: *For*

The chair of the board should be an independent director. The Systems believe that independent board leadership is key to promoting objective board oversight of the company, to the benefit of shareowners.

1.7 Board Size: *Case-by-Case*

The Systems generally support reasonable requests to establish, or modify, a company's board size in its governance policies, unless the board size appears unduly restrictive, appears to have been set in an effort to deter or dilute the participation of dissident directors, or otherwise may jeopardize the board's responsiveness to shareowners.

1.8 Director Term Limits: *Against*

The Systems encourage ongoing board refreshment. However, the Systems generally oppose requests for a board to establish specific term limits for directors. Term limits may be an overly stringent mechanism that may impede the continuing service of directors who otherwise may offer institutional knowledge and benefit shareowners.

1.9 Director Age Limits: *Against*

The Systems encourage an appropriately diverse range of ages among board directors. Companies may wish to establish their own age limits for board participation, as appropriate. However, the Systems generally oppose requests for companies to require directors to retire at specified ages. The Systems consider that such limitations may be unduly rigid and deny the board the availability of seasoned perspectives to the benefit of shareowners.

1.10 Proxy Access: *For*

The Systems generally support reasonable proposals to enable long-term shareowners with an appropriate level of equity ownership to nominate director candidates for listing on a company's proxy. Such proxy access provisions should incorporate suitable safeguards to prevent abuse, should not be a means to exercise a change-in-control of the board or company, and should not include onerous or overly restrictive provisions. Absent any problematic features, the Systems generally vote in favor of proxy access proposals with provisions no more restrictive than requiring three percent aggregate ownership and three years of continuous ownership.

1.11 Establish a Board Committee: *Case-by-Case*

The Systems evaluate requests for a board to establish a new standing board committee on a case-by-case basis, taking into consideration the rationale for the committee, the extent to which the board or an existing board committee is adequately positioned to perform the duties of the proposed committee, and the extent to which the mandate for the committee represents a compelling risk to the firm's value and business strategy.

1.12 Right to Remove Directors: *For*

Shareowners should have the right to remove directors with or without cause.

1.13 Director Indemnification: *Case-by-Case*

The Systems generally support reasonable requests to indemnify directors in order to facilitate the attraction and retention of qualified directors and officers that may benefit the company. The Systems consider such requests on an individual basis to ensure that shareowners remain protected in the event of egregious misconduct by directors or officers. The Systems generally oppose requests for indemnification if such requests extend overly broad protections or cover actions or decisions already undertaken by directors or officers.

Section 2: Investor Rights

The Systems espouse robust, accessible, and equitable investor rights and protections to promote accountability at the companies in which the Systems invest and in order to access legal recourse in the event of malfeasance. The Systems believe that strong investor rights promote integrity both at portfolio companies and in the broader financial markets, thereby promoting a stable investment climate that is conducive to long-term economic growth and in the Systems' fundamental economic interests.

The Systems therefore support policies and practices that ensure the sanctity of shareowners' rights as equity owners.

2.1 Confidential Ballot: *For*

The Systems support confidential voting provisions by which the inspectors of election are independent, non-employees, and all proxies, ballots, and voting tabulations that identify shareowners are kept confidential, except when disclosure is mandated by the law of the corporation's state of incorporation.

2.2 Bundled Voting Items: *Against*

The Systems support shareowners' ability to vote on each material matter brought before them for consideration as a separate and distinct voting item. Disparate voting items should not be combined or bundled into one voting item presented for shareowners' approval.

2.3 Universal Ballot: *For*

Companies should enable shareowners to cast proxy votes in contested director elections on one ballot that includes both board-recommended and dissident directors.

2.4 Reimbursement of Proxy Solicitation Expenses: *Case-by-Case*

The Systems may support reasonable requests for a company to reimburse shareowners who nominate directors in a contested election. In assessing the reasonableness of a proposal, the Systems consider whether the request applies to sponsors of fewer than the majority of directors to be elected and whether the request would only apply if nominees are supported by the majority of votes cast in the election. The Systems generally oppose reimbursement where shareowners are permitted to cumulate their votes for directors or where such a request would apply to contested elections commenced prior to the enactment of a reimbursement provision.

2.5 Exclusion of Broker Non-Votes from Voting Tabulations: *For*

Broker non-votes should be used exclusively for the establishment of a quorum. Broker non-votes should be excluded when tabulating the results of items presented for a shareowner vote.

2.6 Timely Disclosure of Vote Results: *For*

Companies should provide shareowners timely disclosure of the results of all matters voted upon at an annual meeting or special meeting of shareowners. Disclosure should include the vote tallies for each item submitted for shareowners' vote. Companies should aim to exceed regulatory requirements, including making available preliminary voting results at the meeting in question, when practical.

2.7 Right to Act By Written Consent: *For*

The Systems generally support reasonable requests to permit shareowners to act by written consent.

2.8 Right to Call A Special Meeting: *For*

Shareowners who aggregate at least 10% of outstanding shares of a company should have the right to call a special meeting of shareowners under reasonable terms and timelines.

2.9 Supermajority Voting Requirements: *Against*

The Systems generally believe that shareowners should be able to adopt, amend, or modify a corporate bylaw or charter, or to take other action that requires or receives a shareowner vote, by a simple majority of votes cast. A supermajority provision in that regard is a requirement in a corporation's charter or bylaw that requires the approval of more than a simple majority of votes cast. At companies with a shareowner with a particularly significant ownership stake, the Systems may support a supermajority requirement after assessing the specific provisions of the policy or action that is subject to a supermajority vote and the economic interests of the Systems.

2.10 Reincorporation: *Case-by-Case*

A corporation's state or country of incorporation may impact a company's business economics and shareowner rights. The Systems assess each proposal to reincorporate from one jurisdiction to another by examining the company's stated rationale and any effects on the company's financial and business profile, including the extent to which a reincorporation may enhance or reduce investors' legal rights. All other matters being equal, the Systems generally support requests to reincorporate in a jurisdiction with stronger investor and governance protections, and generally oppose reincorporation to jurisdictions that would diminish investor rights.

2.11 Restrictions on Litigation Rights: *Against*

The Systems believe that strong legal rights for investors serve to deter misconduct and protect shareowner value. In the event of misconduct, shareowners should have reasonable recourse to recover losses. The Systems generally oppose proposals or provisions that would weaken, or otherwise disadvantage, shareowners' legal recourse in the event of egregious and costly corporate misconduct or malfeasance.

Exclusive forum provisions in corporate charters or bylaws designate one legal jurisdiction as the sole forum for the resolution of intra-corporate disputes and certain types of litigation. Mandatory arbitration clauses

attempt to prohibit shareowners from pursuing legal recourse through courts. The Systems consider such provisions to unnecessarily thwart statutory rights otherwise provided to investors.

Fee-shifting provisions in corporate bylaws require a shareowner who unsuccessfully brings legal action against a corporate entity to pay all legal fees and expenses of the company related to the litigation. The Systems consider that such "loser-pay" provisions unduly disregard standard legal practice by which parties to legal actions typically bear their own costs. As such, these provisions may have the negative consequence of deterring legal recourse in the event of fraud or misconduct in the financial markets. The Systems therefore generally oppose fee-shifting provisions.

2.12 Advance Notice Requirements: *Case-by-Case*

The Systems may support reasonable requests to require adequate advance notice of certain items an investor intends to present for shareowner approval at a meeting of shareowners. The Systems do not support overly onerous or restrictive advance notice requirements that may serve to unduly thwart investors' rights.

2.13 Meeting Adjournment To Enable Further Solicitation: *Case-by-Case*

The Systems generally do not support requests for a board to adjourn a meeting of shareowners in order to facilitate further investor solicitation. The Systems may support such a request where a quorum has not been established or where the request is related to a corporate transaction that is presented for shareowner approval and that the Systems have determined merits support.

Section 3: Capital: Structure, Authorizations, and Corporate Transactions

Voting items regarding a firm's capital structure and corporate transactions have a fundamental impact on the Systems' economic interest in the firm and prospective returns. The Systems carefully assess matters regarding capital structure and corporate transactions from a fiduciary point of view, by assessing the risk/reward profile of the proposal and prospective economic benefits to the Systems.

3.1 Common Stock Authorization: *Case-by-Case*

The Systems consider requests to authorize the issuance of common stock on a case-by-case basis, assessing the board's stated rationale for the authorization, the company's track record in responsibly using share authorizations, and the dilutive impact of the share issuance. The Systems generally oppose requests that would increase authorization to issue stock by more than 50 percent, unless the request is related to a corporate transaction, such as a merger or acquisition, that is presented for shareowner approval on the same ballot and that the Systems have determined they will support. The Systems also generally oppose requests at companies with multiple classes of common stock where the authorization request would increase the number of shares in a class with superior voting rights.

3.2 Preferred Stock Authorization: *Case-by-Case*

The Systems examine requests to issue or increase the issuance of preferred shares on a case-by-case basis.

The Systems may support reasonable requests to issue preferred shares where a company has made a compelling case that such a request would financially benefit the firm's value, the company has historically used preferred shares in a responsible manner, and the dilutive impact of the request is minimal. The Systems generally oppose blank check preferred shares that may improperly be used as an anti-takeover device.

3.3 Preemptive Rights: *For*

Preemptive rights permit shareowners to maintain a proportionate interest in a corporation by exercising a right to purchase new shares before the shares are offered to the public. The Systems generally support preemptive rights offered on equal terms to all current shareowners to enable a corporation to attract new capital while preserving existing shareowners' ability to maintain a stable economic interest in the company.

3.4 Shareowner Approval of Targeted Share Placements: *For*

The Systems generally favor requiring shareowner approval for a company to issue shares to a designated owner. Shareowners should be able to assess the rationale, economic effects, and prospective impact of targeted share placements.

3.5 Mergers and Acquisitions: *Case-by-Case*

The Systems consider mergers, acquisitions, and other corporate transactions on a case-by-case basis, with the sole concern being how the total value generated will best further the long-term economic interests of the Systems. In determining their vote, the Systems evaluate:

- **Rationale:** The strategic rationale and prospects of the transaction to deliver viable economic value;
- **Valuation:** The transaction's valuation and any associated premium;
- **Governance:** The strength of the governance and investor rights of the resulting entity;
- **Fairness:** The fairness of the process, including the negotiations with transaction partners, the objectivity of advisors, and the independence of board oversight;
- **Conflicts:** Any potential conflicts of interest that jeopardize the integrity of the board's or advisers' recommendations, including golden parachutes and contingency fees.

The Systems also take into consideration the entirety of their investments affected by the proposed transaction.

3.6 Fair Price Provisions: *Against*

Fair price provisions impose certain minimum price and procedural requirements on proposed transactions that may be used to impede a takeover. The Systems believe that state law generally provides for recourse through appraisal rights or otherwise if minority shareowners contest the valuation of a proposed transaction, and accordingly, generally oppose fair price provisions that may deter transactions that may be in shareowners' economic interests.

3.7 Greenmail: *Against*

The Systems generally oppose the use of corporate assets to repurchase shares, typically at a premium, from a designated shareowner, often in an effort to deter a change in control. These "greenmail" payments unduly discriminate against other shareowners who are not offered the same premium and may deter a takeover that is otherwise in the interest of all shareowners. The Systems generally support requests for bylaw or charter amendments that restrict a company's ability to make greenmail payments.

3.8 Poison Pills: *Case-by-Case*

Shareowner Rights Plans, generally known as "poison pills," provide mechanisms to deter a hostile takeover attempt by making the bid economically unattractive. "Flip-in" poison pills confer certain rights upon specified triggering events, such as the acquisition of a specified percentage of shares by one acquirer, for shareowners to purchase common or preferred shares at a significant discount, effectively diluting the share position of the acquirer and deterring a change in control. "Flip-over" poison pills enable shareowners to purchase the shares of an acquiring shareowner at a discount if specified ownership thresholds are surpassed.

The Systems generally believe the adoption of a poison pill plan should be submitted for shareowner approval. Where a board unilaterally enacts a poison pill, exclusively as an exercise of its fiduciary duty and after determining in particular circumstances that awaiting shareowner approval would not be in shareowners interests, the poison pill plan should expire within one year of the date of adoption unless approved by shareowners.

The Systems assess shareowner rights plans on a case-by-case basis, assessing factors such as the plan's stated rationale, the mechanisms of the plan, its duration, and the reasonableness of triggering events. The Systems generally oppose shareowner rights plans with triggers less than twenty percent of outstanding shares, that do not expire within twelve months if not approved by a majority of votes cast by shareowners, or that include features that would impede a future board from terminating the plan.

3.9 One Share, One Vote: *For*

The Systems believe that one share of company stock should entitle the holder to one vote. Multiple classifications of stock with unequal voting rights violate the principle of "one share-one vote." The Systems generally vote for proposals to recapitalize company stock into one class of stock by which all holders have equal voting rights. The Systems generally vote against proposals to establish a multiple class stock structure.

Section 4: Incentives: Compensation and Benefits

The Systems support compensation incentives and awards for executives, directors, and throughout a portfolio company's operations that promote, sustain, and protect long-term value creation.

Executive compensation incentives should align executives' interests with the long-term interests of the corporation and its shareowners. Compensation incentives should attract and retain qualified executives and reward them for superior long-term company performance.

Reasonable and effective executive compensation plans should align:

- **Value** with long-term performance;
- **Performance periods**, including both annual and long-term incentive pay, with the company's long-term business strategy;
- Multiple, diverse, and reaching performance **metrics** with the company's long-term objectives, both financial and non-financial, to create value;
- **Executive risk** with the interests of long-term shareowners, as demonstrated by considerable executive and director company equity ownership and prohibitions on shielding executives and directors from changes in equity value through hedging strategies and other protections;
- **Pay magnitude**, as measured by total compensation expenses to senior executives, with the appropriate role senior executives perform in delivering performance compared to relevant peers and the company's broader workforce, or human capital.

Boards should clearly articulate the company's compensation philosophy and describe how compensation plans advance the company's strategic objectives. The disclosures should include specific plan details, such as performance metrics and any designated peer group, and the rationale for their selection. Incentive performance metrics should be derived from, aligned with, and justified by the company's articulated business strategy.

4.1 Advisory Vote on Executive Compensation, or "Say-on-Pay": *Case-by-Case*

In evaluating management say-on-pay proposals, the Systems consider the following aspects of a company's executive compensation:

1. The link between pay and performance as reflected in actual compensation paid. The Systems generally oppose management's say-on-pay vote when actual compensation paid to executives is inconsistent with long-term performance or excessive. To determine whether compensation is excessive and/or disconnected from performance, the Systems evaluate long-term performance relative to peers, the level of pay relative to peers, and the change (direction and magnitude) in pay over time relative to absolute and peer performance.
2. The quality and clarity of executive compensation disclosures. The Systems expect clear, comprehensive, and accurate pay disclosures. The Systems may oppose or abstain on say-on-pay votes when the company provides inadequate or opaque disclosure that fails to enable an assessment of the appropriateness of the company's pay practices and provisions.

3. The existence and prevalence of problematic or egregious compensation practices that may impose significant expenses unrelated to company performance, may incent excessive or overly short-term risk-taking by executives, or are otherwise inconsistent with sustainable, long-term value creation. In assessing program design, the Systems assess factors such as those defined below.

    - An equity compensation program currently in place that was opposed by the Systems when implemented or last amended.
    - Change-in-control payments greater than three times average annual compensation (consisting of base salary plus annual bonus) during the previous five years, or that include single triggers in which an executive receives a payout without loss of employment; accelerated vesting of unearned equity; provisions for executives' employment protection for an extended period (more than 2 years); or added pension credits based on years of service or other factors.
    - Excessive equity dilution.
    - Commitments to pay executives' excise tax obligations, or "tax gross-ups," except in the context of perquisites, such as reasonable relocation benefits, that are generally available to all employees.
    - Multi-year employment contracts that include guaranteed payments, including bonuses and equity compensation that are not related to performance; extraordinary death benefits reserved for executives, or "golden coffins;" or special recruitment bonuses or "golden hellos."
    - Excessive perquisites, such as personal use of corporate aircraft, financial and tax planning services.
    - Inappropriate selection of peer group or performance benchmarks, or changes to these metrics without a compelling rationale.
    - Supplemental pension benefits that include variable pay, credits for unearned time, and/or the use of unduly favorable formulas.
    - Inadequate stock ownership guidelines or permissive practices allowing executives to hedge their company equity holdings.
    - Stock option re-pricing.
    - Discretionary payouts lacking adequate justification.
    - An unjustified gap between the compensation of the CEO and the next highest paid executives (i.e. internal pay disparity) or an excessively high disparity between CEO pay and median worker pay compared to peers or over time that lacks a compelling justification.
    - Unresponsiveness to shareowner concerns, including the failure to adequately respond to majority shareowner votes on compensation-related proposals.

4.2 Annual Advisory Votes on Executive Compensation: *For*

The Systems support providing shareowners the right to review and approve, on an advisory basis, executives' compensation plans on an annual basis.

4.3 Director Compensation: *Case-by-Case*

The Systems believe that compensation for independent directors should consist of a salary (retainer) or restricted shares of company equity. Independent directors should not receive other forms of equity incentives, such as performance-based restricted shares or options, that may create perverse incentives and jeopardize the directors' ability fulfill their oversight role. Independent directors should not receive excessive perquisites and should not be entitled to any retirement awards or benefits for their service as directors.

4.4 Adopt Advisory Votes on Director Compensation: *Case-by-Case*

Directors should be adequately compensated for the experience and expertise that they contribute to the company. The Systems believe that a company should retain the flexibility to determine compensation for directors that is commensurate with the service they provide. Excessive compensation, however, may imperil a director's independence and objectivity. Accordingly, the Systems generally oppose requests to establish an advisory vote for shareowners on director compensation. The Systems may support proposals where the Systems believe historic director compensation is excessive, directors maintain inadequate equity ownership, or where there is otherwise concern that director pay practices are not in the interests of shareowners.

4.5 Equity Compensation Plans: *Case-by-Case*

The Systems assess requests to approve equity compensation plans, and any amendments to such plans, on a case-by-case basis. The Systems generally support equity plans that serve to attract, motivate, and retain executive talent and align the interests of executives with the long-term interests of the corporation and its shareowners. The Systems generally oppose plans that may result in an excessive transfer of value from the company to executives, create incentives for overly excessive risk-taking, or otherwise conflict with shareowners' interests.

In assessing equity plans, the Systems assess:

- The cost of the plan relative to peers, including its dilutive impact. The Systems generally oppose equity plans that may, in aggregate with outstanding equity plans, prompt greater than 10 percent dilution at mature companies. The Systems may support equity plans that result in dilution of up to 20 percent at companies with market capitalization of no more than $100 million, companies where employee participation in the equity plan is particularly broad, or at select start-up companies, such as in information technology.
- Core provisions of the plan. The Systems generally support clearly defined performance criteria and strong clawback provisions in equity plans. The Systems generally oppose equity plan provisions allowing share repricing, evergreen plans that do not expire, liberal change-in-control provisions that may result in windfall awards disconnected from performance, and lack of minimal vesting periods for equity to be granted through the plan.
- The company's track record and oversight of responsibly deploying equity plans, including the company's recent burn rate relative to peers, the rigor of performance metrics required of recent equity grants, the current extent of equity ownership among senior executives, and the full independence of each director serving on the compensation committee.

4.6 Employee Stock Purchase Plans: *Case-by-Case*

The Systems may support requests to authorize or amend an employee stock purchase plan if such plans offer share purchases at prices not less than 85 percent of the share value, do not prompt dilution exceeding 5 percent of outstanding shares, and are generally available to all employees.

4.7 Pay-For-Performance: *For*

Incentive compensation to senior executives should be tied to the attainment of robust, reaching performance criteria that are aligned with, and justified by, the company's long-term business objectives. The Systems generally support reasonable requests for the company to adopt rigorous performance criteria for a significant majority of incentive compensation. The Systems believe that performance criteria should be adequately linked to accomplishments that are reasonably influenced by executive actions and decisions. Performance criteria should not be unduly influenced by market forces outside of the control or influence of executives. Similarly, performance criteria should be based on actual performance and not unduly manipulated, directly or indirectly, by executive actions. Accordingly, the results of performance measures, such as earnings per share, should be adjusted, as applicable, for the impact of capital changes under which management may exert influence, such as share repurchases. Any adjustments to generally accepted accounting principles (GAAP) should be clearly disclosed, explained, and justified to shareowners.

4.8 Sustainability and Non-Financial Incentive Metrics: *Case-by-Case*

Performance criteria for incentive compensation should be rooted in the company's long-term business strategy to create and protect value. The Systems may support reasonable requests for a company to include performance criteria related to a company's compelling non-financial risks, such as workplace safety and health, environmental performance, or other factors, that may serve to enhance long-term value in the interests of shareowners. The Systems generally oppose requests to adopt unduly prescriptive targets or criteria for incentive compensation awards. The Systems believe boards are generally best positioned to determine the specific criteria for incentive awards and that those criteria should be clearly disclosed to shareowners.

4.9 Equity Ownership Guidelines: *For*

Senior executives and directors should maintain equity ownership in the company in order to promote the alignment of executives' interests with those of shareowners. The Systems generally support reasonable requests for companies to adopt equity ownership guidelines to ensure that directors and senior executives maintain "skin in the game." The Systems generally oppose requests for directors to receive all compensation in equity or to obtain minimum equity ownership prior to board service, which may unduly restrict otherwise qualified directors from serving as directors.

4.10 Equity Retention Requirements: *Case-by-Case*

Equity compensation should align executives' and shareowners' interests and provide incentives for executives to produce and protect lasting firm value. The Systems generally support reasonable requests for senior executives to retain a substantial amount of equity awards for a long-term, such as during the tenure of employment or for a reasonable period of time past employment. The Systems may oppose requests for equity retention that are inappropriately high or applicable to a wide segment of employees for whom the requirements may create an undue burden.

4.11 Principles for 10b5-1 Pre-Arranged Trading Plans: *For*

The Systems generally support requests to ensure robust guidelines for senior executives' use of Securities and Exchange Commission Rule 10b5-1, which permits issuers and their officers and directors to structure trading programs in advance to permit pre-planned share trades without running afoul of insider trading regulations. Guidelines may include public disclosure of the adopted plan within two days, amendments and terminations only under extraordinary circumstances, a report on transactions made under the program, and the use of an independent broker. Such provisions may protect shareowners' from inappropriate use of pre-arranged trading plans.

4.12 Prohibitions on Hedging or Pledging Company Equity: *For*

Executives and directors should be prohibited from engaging in speculative activity with company equity shares, such as hedging transactions or pledging shares as collateral in a margin account. Executives and directors should have a long-term interest in company shares that is aligned with other shareowners and does not have the potential disruption or conflicts of interest that may arise from hedging or pledging company shares.

4.13 Compensation Consultant Independence: *For*

The Systems believe that it is in shareowners' economic interests for the board of directors and the compensation committee to receive objective counsel on executive compensation program design. The Systems generally support requests for compensation committees or boards of directors to ensure that consultants are independent and free of any potential conflicts of interest. The Systems also support disclosure of the names of compensation consultants employed and fees paid to any compensation consultants engaged by the board.

4.14 Restrictions on Executive Compensation: *Against*

The Systems generally oppose requests that would unduly impose limitations on the size or format of overall executive compensation pay levels, such as prescribing a maximum level of pay, capping pay under certain conditions, or tying pay levels to overly arbitrary formulas.

4.15 Internal Pay Disparity Analysis: *For*

The Systems may support reasonable requests for companies to disclose an analysis of pay levels among senior executives and between senior executives and company employees in general. Analysis of pay between a chief executive officer and other named executive officers in the proxy statement may promote stable succession planning among key executives to the benefit of long-term shareowners. Similarly, as employee compensation may serve a critical function in motivating and rewarding employees to achieve corporate objectives, shareowners may benefit from disclosure of summary information addressing internal pay practices. The Systems generally oppose requests to link pay to prescribed ratios of pay between segments of employees or requests to disclose data that may be confidential or otherwise place a company at risk.

4.16 Compensation Recoupment, or "Clawback" Policies: *For*

The Systems support the principle of "pay-for-performance." In order to buttress the performance basis of compensation, companies should establish clear policies that enable a company to recoup or cancel incentive-based compensation, to the extent practicable, in the event that a board later determines that due to a financial restatement or misconduct (including lack of proper supervisory oversight) during a pertinent performance

period, the performance was either not actually attained or not sustained. The Systems generally support reasonable requests for companies to adopt clawback provisions in pay plans and practices. The Systems also may support reasonable requests to defer a portion of incentive compensation payment for senior executives for a defined period of time, also known as "bonus escrow" or "bonus banking," in order to assess the sustained results of the criteria upon which the bonus is paid and facilitate adjustments to incentive rewards aligned with performance.

4.17 Shareowner Approval or Limit Executive Retirement Plans and "SERP's": *For*

The Systems generally support requests to limit the benefits provided under a company's supplemental executive retirement plan, or "SERP," by restricting compensation covered under the plan to annual salary and excluding variable elements such as bonus and incentive payments. The Systems also support requests to subject extraordinary executive retirement benefits, such as a supplemental executive retirement plan, to shareowner ratification, unless executives' retirement benefits are consistent with those provided all company employees.

4.18 Shareowner Approval of Severance Payments, or "Golden Parachutes:" *For*

Severance arrangements may be appropriate in some circumstances. However, severance payments may also impose excessive costs on a company and risk unduly rewarding an executive who has failed to deliver performance on shareowners' behalf. Accordingly, the Systems generally support requests for executive severance agreements to be ratified by shareowners.

4.19 Advisory Votes on Golden Parachutes: *Case-by-Case*

Executive severance payments, or "golden parachutes," provide guaranteed payments to executives in the event of job loss generally related to a change in control. Such arrangements may serve as an incentive to executives to negotiate in the best interest of shareowners during a change in control in an objective manner and without consideration for their personal benefit or employment security.

The Systems consider board-sponsored advisory proposals to approve golden parachutes related to a proposed corporate transaction on a case-by-case basis. The Systems may support reasonable severance arrangements that reflect the executives' job performance and are in shareowners' economic interests. The Systems generally oppose severance arrangements that are excessive, constitute significant unearned income that is unrelated to job performance, and lack best practice features without adequate justification. Best practice features include, but are not limited to, the following.

- Clear narrative and tabular disclosures;
- Total payments, including perquisites, do not exceed more than three times the average of the previous five years' compensation;
- No excise tax payments, or "tax gross-ups,"
- Payments are "double triggered;" that is, any severance payment is contingent upon both the consummation of the corporate transaction and an executive's actual separation from employment;
- Any accelerated vesting of unearned equity awards is justified by the performance of the company or the services provided by the executive;

- There are no recent amendments that unduly favor executives;
- Approval of the corporate transaction is not contingent upon the ratification of the golden parachute payments.

4.20 Limits on Automatic Equity Acceleration: *For*

Compensation provisions in executive contracts, equity plans, or grant awards that disregard equity vesting requirements and automatically pay equity grants in full upon a change-in-control or a severance event inherently violate the principle of pay-for-performance. No unearned awards or payments to executives should be made to executives upon a change in control event alone; any payments should be based on a "double trigger" of both the change in control and a severance from employment. The Systems generally support requests for companies to limit automatic equity acceleration upon corporate transactions or severance. The Systems may support requests to tie any acceleration of equity vesting upon a severance to actual performance or a pro rata portion of time employed during an unvested equity grant's performance period.

4.21 Prohibition on Tax Gross-Ups: *For*

Commitments by companies to pay executives' excise taxes on perquisites or prospective severance payments, also known as "tax gross ups," are not in shareowners' interests since they can be costly and are not linked to performance. The Systems generally support requests to prohibit tax gross-ups, except for gross-up provisions that may apply more generally to management employees, such as a relocation or expatriate tax equalization policy.

4.22 Shareowner Approval of Executive Death Benefits, or "Golden Coffins:" *For*

Awarding executives with extraordinary death payments, bonuses, or benefits posthumously sever the relationship between pay and performance and may unduly misallocate corporate assets that may otherwise be deployed to generate long-term value. Executive death benefits, or "golden coffins," may include bonuses and special awards, accelerating vesting of unearned equity awards upon an executive's death, or using corporate assets to cover life insurance policy premiums where the policy does not apply to company management employees more generally. The Systems generally support requests to subject executive death benefits to shareowner approval.

Section 5: Financial Reporting

Capital markets operate most efficiently when investors have complete, accurate, and timely information about material aspects of company performance.

Financial reporting forms the foundation of all corporate reporting, and also provides the context for additional reporting. The Systems rely on companies to provide thorough, regular, clear, and reliable information about financial performance, in accordance with Generally Accepted Accounting Principles (GAAP). Any additional reporting that does not conform to GAAP should be clearly explained and justified. In all circumstances, GAAP reporting should receive greater emphasis.

5.1 Shareowner Ratification of the Auditor: *For*

Auditors play a crucial role in independently reviewing and ensuring the integrity and accuracy of financial reports presented to shareowners. Accordingly, the Systems believe all companies should submit the appointment of the independent auditor for shareowner ratification on an annual basis.

5.2 Auditor Ratification: *Case-by-Case*

The Systems assess requests to ratify the appointment of an auditor on a case-by-case basis, taking into account the following factors:

- **Independence:** The Systems may oppose an auditor that has, or has had within the past five years, a financial interest in the company or any significant professional or personal affiliation with the company, its directors, or executives.
- **Performance:** The Systems generally oppose auditors where the company has had a material financial restatement, material weakness in internal controls, fraud, or misapplication of Generally Accepted Auditing Principles (GAAP) during the auditor's tenure, or where there is otherwise reason to believe the auditor has rendered an opinion on financial statements that does not accurately represent the company's financial condition. The Systems may also consider the audit firm's performance at other companies and any related regulatory sanctions.
- **Conflicts of Interest:** Non-audit related fees should be kept to a minimum in order to ensure the independence of the auditor and avoid potential conflicts of interest. The Systems may oppose an auditor if the company pays excessive, or consistently and unusually high, non-audit related fees to the auditor. The Systems generally consider that a company should not pay more than 30% of fees to an appointed auditor for non-audit related services.
- **Investor Protections:** The Systems may also oppose the ratification of an audit firm where the company has agreed to an inappropriate indemnification provision or a mandatory alternative dispute resolution process with its auditor, either of which unduly limits the ability of the company, or its shareowners, to pursue legal recourse against the audit firm.

5.3 Audit Firm Rotation: *Case-by-Case*

The Systems believe excessive tenure may compromise an audit firm's independence and objectivity. The Systems believe regular rotation of a firm's auditor may enhance the quality of the audit, and thereby serve to protect shareowners' interests. The Systems assess proposals to mandate audit firm rotation by considering the company's existing procedure, if any, for periodically conducting competitive bidding for the audit function (such as every five years), the tenure of the current audit firm, the existence of any significant auditing concerns at the company, and the reasonableness of the rotation period advocated by the proposal.

Section 6: Environmental and Social Issues

Environmental, social, regulatory, operational, and other matters may present risks or opportunities for a firm's ability to create and sustain long-term value. The Systems believe that robust corporate reporting should go well beyond financial reporting. The Systems encourage companies to clearly disclose and prudently manage material environmental, social, and operational risks to the firm's business objectives. The Systems similarly support comprehensive qualitative and quantitative reporting of a firm's material financial, environmental, and social performance, including issuing periodic reports on the firm's sustainability policies, practices and performance in adherence to internationally-recognized sustainability reporting methods, such as the Global Reporting Initiative.

6.1 Public Reporting of Environmental Risks and Management: *For*

The Systems generally support reasonable proposals requesting greater disclosure or public reporting of a company's policies, oversight mechanisms, and initiatives regarding efforts to mitigate any adverse impact of its operations on the environment and the communities in which it operates. Companies that proactively mitigate and manage environmental risks are, in the Systems' view, better positioned to reduce legal and regulatory liabilities and promote stronger community and regulatory relationships, both to the benefit of shareowner value.

6.2 Climate Risk Mitigation and Greenhouse Gas Emission Reductions: *For*

Climate change presents regulatory, financial, and operational risks to individual companies and to the broader financial markets. The Systems support companies that proactively develop policies, initiatives, and objectives to mitigate risks related to climate change.

The Systems generally support requests for companies to disclose and quantify their exposure to climate-related risks and to assess the potential impact of government regulation on business operations and assets, including greenhouse gas emissions and carbon reserves, as applicable. The Systems also support reasonable requests for companies to define quantifiable targets to reduce greenhouse gas emissions and to publicly report on their performance against such goals. In assessing the reasonableness of the proposal, the Systems evaluate the quality of the company's current disclosures and the company's economic exposure to climate-related risks.

The Systems generally oppose overly prescriptive proposals that require a company to divest or discontinue its significant business operations or impose specific targets for its emissions reductions.

6.3 Water Risk and Stewardship: *For*

Sustainable economic growth for both individual companies as well as the broader market rely on responsible stewardship of finite natural resources, particularly water. As diversified investors, the Systems support reasonable efforts by companies to integrate sustainable water use policies and practices into global operations, including the utilization of water conservation technologies and processes to mitigate risks to business operations, reputations, and share value.

6.4 Cease or Discontinue Business Lines or Operations Due to Environmental Risk: *Against*

The Systems generally oppose requests for immediate discontinuation of a legal product line or business operation unless either that product line or operation poses compelling, catastrophic legal and economic risks to the company's long-term viability and the Systems' economic interests, or a viable alternative or replacement product has been demonstrated to enhance the company's value and such elimination would not financially harm the company.

6.5 Energy Efficiency and Conservation: *For*

The Systems generally support reasonable requests for companies to enhance operational efficiency and reduce operating costs by conserving energy or otherwise pursuing energy efficiency, including reporting to shareowners on energy efficiency initiatives. The Systems may oppose proposals requiring overly onerous or prescriptive targets or objectives.

6.6 Renewables: *For*

Companies that pursue cost-effective alternative energy sources, such as wind and solar power, may create strategic business advantages while minimizing the detrimental environmental impact of fossil fuel energy sources.

The Systems generally support reasonable requests for companies to assess and publicly disclose the feasibility of using or developing alternative energy sources, such as solar and wind power, and adopting and disclosing targets or objectives for the use of renewable energy sources.

The Systems generally oppose overly prescriptive proposals requiring a company to meet specific, defined targets for adopting renewable energy sources, absent a comprehensive evaluation of the economic benefits of the alternative energy source.

6.7 Proper Use and Handling of Toxics and Hazardous Materials: *For*

The Systems generally support reasonable proposals calling for a company to adopt policies and/or report on efforts to mitigate the risks of using or reducing exposure to toxic chemicals. The Systems assess proposals to phase out specific hazardous substances or materials on a case-by-case basis. The Systems may support requests to phase out or eliminate chemicals with a known track record, or where evidence suggests a strong cause for concern, for creating legal, reputational, and environmental liabilities to the detriment of shareowner value, such as chloro fluorocarbons (CFC's) and polyvinyl chlorides (PVC's).

6.8 Product Recycling: *For*

As part of promoting sustainable value on behalf of shareowners, the Systems believe companies should assess and seek to minimize potential environmental risks and liabilities that may result from inappropriate disposal of their products by end users.

The Systems generally support reasonable requests for companies to disclose efforts to enhance product recycling and minimize the risks of inappropriate product disposal. The Systems generally oppose overly prescriptive requests that unduly impose targets or specific methods by which companies must ensure safe product disposal or recycling, as well as requests that could reveal proprietary information.

6.9 Tobacco Advertising and Production: *Case-by-Case*

The Systems believe that it is in shareowners' economic interest for tobacco and tobacco-related companies to mitigate the legal, regulatory, and reputational risks inherent in the production and sale of a heavily regulated product.

The Systems generally support requests for tobacco and tobacco-related companies to assess and disclose the health impact and risks of their products, to adhere to reasonable standards of advertising, or to report or assess the impact of their advertising on consumer markets.

The Systems generally oppose proposals requesting that companies stop producing or selling tobacco or tobacco-related products. The Systems believe it is not in shareowners' economic interests to discontinue sales of a legal product.

6.10 Product Sales and Marketing: *Case-by-Case*

The Systems generally support freedom of speech. Advertising and sales of heavily-regulated products, such as tobacco and tobacco-related items, alcoholic beverages, guns and ammunition, and certain food products, particularly to minors, may, however, create reputational and regulatory risks for companies that may be detrimental to a company's economic value and performance.

The Systems may support reasonable requests for companies in heavily-regulated product markets to assess or report on the impact of their advertising on consumer segments or to adhere to reasonable, established standards of advertising.

The Systems generally oppose overly prescriptive proposals that would direct or restrict a company's sales or advertising, unless the proponent makes a credible case for potential detrimental economic impact on the company. The Systems also generally oppose proposals that may unduly impede free speech rights.

6.11 Product and Food Safety: *Case-by-Case*

The Systems believe that ensuring companies' product safety, including food and consumer goods, promotes shareowner value by reducing the risks of expensive recalls, litigation, and detrimental reputational impacts of unsafe products.

The Systems generally support reasonable proposals that request clear and accurate labeling or disclosure of a product's content, provided that the requested labeling or disclosure would not divulge trade secrets, unless the trade secret includes the presence of hazardous content; a report or assessment of the safety of a company's products and services; or to abide by recognized and credible standards of product safety. Additionally, the Systems generally support reasonable requests for accurate labeling of food products, including disclosing when products may contain genetically-modified organisms.

The Systems generally do not believe requests for companies to discontinue the sale of legal products are generally in shareowners' economic interests.

6.12 Gun Safety: *For*

In light of potential legal and regulatory liabilities, the Systems believe it is prudent for guns and ammunitions manufacturers to carefully examine safety policies and practices in order to deter gun violence and preserve

firm value. The Systems generally support reasonable requests for guns and ammunitions manufacturers and related companies to report on policies and procedures to promote gun safety, assure only lawful sales, and prevent gun violence.

6.13 Equal Employment Opportunity and Non-Discrimination: *For*

The Systems support robust policies affirming equal employment opportunity and reasonable requests for companies to disclose and report on the implementation of such policies. Discrimination in employment based on race or ethnic origin, age, gender or sex (including pregnancy), national origin, religion, sexual orientation, gender identity, disability, veteran status, or other factors unrelated to work performance may undermine employee morale and productivity, limit the pool of qualified job candidates, and create legal and operational risks for companies.

The Systems promote equal employment opportunity throughout portfolio companies' global operations, as well as their supplier base. The Systems advocated the Sullivan Principles, established in 1977 by the Reverend Leon Sullivan, to promote equal opportunity and combat racial discrimination in South Africa under apartheid. The Systems also support the MacBride Principles, a set of nine principles founded in 1984 by Nobel Peace Prize winner Sean McBride, aimed at promoting equal opportunity for employment and deter religious discrimination in Northern Ireland. The Systems believe that global policies for non-discrimination, such as those enshrined in the Sullivan Principles and the MacBride Principles, are a means by which companies can promote equal employment opportunity, mitigate the legal and reputational risks of employment discrimination in local markets, and promote a meaningful peace that facilitates a stable economic and investment environment.

6.14 Human Capital Development: *For*

Human capital development encompasses a broad range of practices, including but not limited to employee training and development, fair labor practices, health and safety, responsible contracting, and diversity, both with respect to the company's own domestic and international employees as well as the employees of vendors throughout the global supply chain. Collectively or individually, a company's human capital management practices may impact company performance.

Accordingly, the Systems support clear board oversight and disclosure of material information addressing the role that a company's workforce – also known as the firm's human capital – plays in generating long-term value for shareowners.

The Systems generally support requests to disclose material information related to a company's strategies to develop, motivate, and retain a productive workforce in line with a company's business strategy, as well as to mitigate the risks or assess the impact of labor strife that may undermine firm performance. The Systems encourage effective employee engagement, fair compensation, adequate training and development, and suitable rates of retention at portfolio companies that are conducive to driving long-term value.

The Systems generally oppose employment policies and job requirements at portfolio companies that may infringe upon civil liberties, such as drug testing unless justifiable by probable cause or job hazards, credit checks, and health or fitness standards, that are unrelated to job performance.

6.15 Occupational Safety and Health: *For*

The Systems believe that companies that safeguard the health and safety of employees will better protect and promote long-term value. The Systems therefore encourage portfolio companies to abide by international health and safety standards as defined by the International Labor Organization and support reasonable requests for companies to assess and disclose internal compliance with stated safety and health standards.

6.16 Human Rights: *For*

Corporate violations of human rights in their domestic and international operations, as well as in their supply chains, have not only a human toll, but also create legal, operational, and reputational risks, such as loss of consumer confidence, that may negatively impact shareowner value.

The Systems generally support requests for companies to adopt robust human rights policies, founded upon internationally-recognized human rights standards, such as the United Nations Global Compact, the United Nations Guiding Principles on Business and Human Rights (also known as the "Ruggie Principles"), and the International Labor Organization. Such comprehensive human rights policies should incorporate consistent standards throughout a company and its supply chain and, where applicable, address issues such as child labor, prison labor, and human trafficking. Human rights policies should also include unequivocal labor rights, as outlined by the International Labor Organization, including the freedom of employees to form or join a union of their choosing, the right to collectively bargain compensation and working conditions, and equal pay protections.

The Systems also encourage human rights policies to apply to all operations and regions of operation, including indigenous communities, migrant or undocumented communities, and conflict zones. The Systems support board oversight and clear policies, procedures, and practices to assess and ensure compliance with a company's human rights policy.

The Systems generally support requests to assess and disclose the economic impact of human rights-related consumer or other boycotts and sanctions. The Systems generally oppose requests to discontinue the legal sale of products or services to specific markets or conflict zones.

6.17 Cybersecurity and Privacy: *For*

A company's use of electronic consumer data creates legal, reputational, and financial risks if companies' use of consumer data violates consumers' expectations of privacy, confidentiality, and freedom of expression or censorship. For example, some authoritarian governments have used the internet and related technologies to identify and repress political dissidents and restrict access to information, raising concerns regarding human rights, including the freedom of expression. Security breaches and otherwise failing to secure private consumer data, financial or otherwise, may create significant reputational, legal, and operational risks for a company. Moreover, the transfer or sale of consumer data may violate consumers' expectations as to a company's use of such data.

The Systems generally support reasonable proposals that seek board oversight and enhanced disclosure of policies and practices on how consumer data is used and protected, and to assess risks to human rights and firm value. In evaluating reasonableness, the Systems consider applicable market-specific laws, regulations, and sanctions that may be imposed on the company and the company's current policies and disclosures, and

whether the proposal is overly prescriptive or could facilitate the use of the internet for hate speech or the illicit distribution of regulated products, such as tobacco or guns.

The Systems generally oppose resolutions that would prescribe subjective review of media content, may prompt censorship, or otherwise may unduly infringe upon freedom of expression.

6.18 Military and Weapons Issues: *Case-by-Case*

A portfolio company's involvement in the research, production, and distribution of military weaponry and defense systems may create certain reputational, regulatory, and operational risks related to the products' safety and end-use. The Systems review proposals pertaining to weaponry and defense systems with a view that portfolio companies that actively disclose and have policies in place to monitor risks will better protect shareowner value.

To mitigate such risks, the Systems generally support reasonable proposals requesting disclosure of a firm's involvement in the research, production, and distribution of military weaponry, such as nuclear weaponry and missile defense systems, including assessment of the safe handling thereof. In assessing the reasonableness of a proposal, the Systems take into account whether the request would place the company at a competitive disadvantage or violate the terms of a company's defense contracts.

The Systems generally oppose proposals calling to discontinue research, production, or distribution of military weaponry and defense systems. The Systems also generally oppose proposals requiring conversion of military production facilities to civilian use. The Systems believe that public policy on defense systems should be deliberated and determined through the government process.

6.19 Animal Welfare: *Case-by-Case*

The Systems support policies and practices that promote the humane treatment of animals by portfolio companies. Companies with proper animal care practices, in the Systems' view, are better positioned to avoid legal, operational, and reputational risks resulting from animal abuse and therefore will better safeguard shareowner value.

The Systems generally support reasonable proposals requesting disclosure of the use of animals in a company's research and product development, adoption of animal use-and-care policies, and the application of a company's animal care policy to its subcontractors and suppliers. The Systems generally favor reporting on the feasibility of replacing animal testing for household and consumer products. The Systems also support humane treatment of animals in food production, for example in animal husbandry and the food supply chain.

The Systems generally do not support requests to cease or eliminate animal testing where viable alternatives are not available.

6.20 Health Care Policy: *For*

The Systems believe that individual firms' profitability and performance and the broader economy may benefit from accessible, quality, cost-efficient, and equitable employee health care. Efficient and widely-available employee health care may promote economic competitiveness at individual companies by reducing health care costs from firm-level competition, enhance productivity by facilitating good health and reducing employee absenteeism, and expand consumer markets for health care providers and pharmaceutical

companies' products. Accordingly, the Systems generally support reasonable requests for companies to review and publicly report on health care policies and practices.

6.21 Access to Health Care and Medicines: *For*

Broad and equitable access to health care may expand the consumer base for individual firms and promote stable conditions for economic growth in global markets. The Systems recognize that pandemics in numerous regions of the world undermine economic growth.

The Systems generally support reasonable requests for companies to assess and report on legal, regulatory, and marketing risks of health care policies and practices, such as patent use and pharmaceutical pricing strategies, and/or their impact on long-term firm value.

The Systems also generally support proposals that promote equitable access to reproductive health care, including the research thereof, and conversely, generally oppose proposals that seek to curtail access to legal health care rights and provisions.

The Systems believe it is not the role of shareowners to prescribe pricing policies for portfolio companies' products, including pharmaceuticals. Accordingly, the Systems generally oppose overly prescriptive requests to restrict or reduce health product prices.

6.22 Political Contributions and Lobbying Disclosure: *For*

Corporate expenditures on lobbying and contributions in support of, or opposition to political candidates or campaign initiatives create certain legal, compliance, and reputation risks.

The Systems therefore generally support reasonable requests that boards exercise oversight and transparency of corporate political spending by regularly reviewing and publicly disclosing all corporate assets spent on political expenditures. Board oversight and transparency promote the alignment of corporate political involvement with a company's business strategy and interests, help mitigate the risks inherent in corporate political participation, and safeguard corporate assets from being deployed under undue influence of individual corporate officers' personal political preferences.

The Systems generally oppose proposals that would prohibit corporate political spending or subject corporate political contributions to shareholder approval.

The Systems review other political spending proposals on a case-by-case basis, taking into consideration the nature of the request and how it aligns with the Systems' view on political participation outlined above, and the company's current policies, practices, and disclosures, including any history of campaign finance violations.

6.23 Charitable Contributions: *Case-by-Case*

The Systems believe that corporate philanthropy is a customary business practice and consistent with a corporation's interests in furthering stakeholder relations and community development.

The Systems generally support board oversight and transparency of significant uses of corporate assets to philanthropic or charitable causes.

The Systems generally oppose overly prescriptive proposals related to charitable contributions, including prohibitions on the use of corporate assets to any charitable, educational, or other similar organizations, or proposals that would establish, direct, or restrict corporate contributions to particular organizations, causes, or scholarships.

6.24 Responsible Lending Practices: *For*

The Systems generally support reasonable requests to financial service providers to ensure board oversight and publicly report on the risk profile of their financial products, including promoting fair lending practices and avoiding usurious, or "predatory," lending that may undermine consumer loyalty and create reputational and regulatory risks, to the detriment of long-term firm value.

6.25 Risk Mitigation of Financial Products and Practices: *Case-by-Case*

Companies' use, exposure to, or marketing of financial products and services may expose the company to certain regulatory, legal, and economic risks. The Systems may support reasonable requests to evaluate, disclose, or establish procedures to mitigate the risks of certain financial products or procedures. The Systems generally oppose requests to disclose or report proprietary or confidential information or otherwise divulge information that would place the company at a competitive disadvantage.

6.26 International Finance and Trade Issues: *Case-by-Case*

The Systems assess proposals related to international finance and trade issues on a case-by-case basis to determine whether they are consistent with the long-term interests of the company. The Systems may support reasonable requests to disclose or assess lending standards and/or to assess the impact of international trade agreements on a company's business strategy.

The Systems generally oppose overly prescriptive requests to define lending criteria or forgive debt.

The Systems generally abstain if inadequate information is presented to assess the proposal.

III. Appendix

Council of Institutional Investors (CII) Independent Director Definition

Introduction

A narrowly drawn definition of an independent director (coupled with a policy specifying that at least two-thirds of board members and all members of the audit, compensation and nominating committees should meet this standard) is in the corporation's and shareowners' financial interest because:

- Independence is critical to a properly functioning board;
- Certain clearly definable relationships pose a threat to a director's unqualified independence;
- The effect of a conflict of interest on an individual director is likely to be almost impossible to detect, either by shareowners or other board members; and
- While an across-the-board application of any definition to a large number of people will inevitably miscategorize a few of them, this risk is sufficiently small and is far outweighed by the significant benefits.

Independent directors do not invariably share a single set of qualities that are not shared by non-independent directors. Consequently no clear rule can unerringly describe and distinguish independent directors. However, the independence of the director depends on all relationships the director has, including relationships between directors, that may compromise the director's objectivity and loyalty to shareowners.

Boards have an obligation to consider all relevant facts and circumstances to determine whether a director should be considered independent. These considerations include the director's years of service on the board. Extended periods of service may adversely impact a director's ability to bring an objective perspective to the boardroom.

Basic Definition of an Independent Director

An independent director is someone whose only nontrivial professional, familial or financial connection to the corporation, its chairman, CEO or any other executive officer is his or her directorship. Stated most simply, an independent director is a person whose directorship constitutes his or her only connection to the corporation.

Guidelines for Assessing Director Independence

The notes that follow are supplied to give added clarity and guidance in interpreting the specified relationships. A director will not be considered independent if he or she:

A. Is, or in the past five years has been, or whose relative is, or in the past five years has been, employed by the corporation or employed by or a director of an affiliate;

   Notes: *An "affiliate" relationship is established if one entity either alone or pursuant to an arrangement with one or more other persons, owns or has the power to vote more than 20 percent of the equity interest in another, unless some other person, either alone or pursuant to an arrangement with one or more other persons, owns or has the power to vote a greater percentage of the equity interest. For these purposes, joint venture partners and general partners meet the definition of an affiliate, and officers and employees of joint venture enterprises and general partners are considered affiliated. A subsidiary is an affiliate if it is at least 20 percent owned by the corporation.*

Affiliates include predecessor companies. A "predecessor" is an entity that within the last five years was party to a "merger of equals" with the corporation or represented more than 50 percent of the corporation's sales or assets when such predecessor became part of the corporation.

"Relatives" include spouses, parents, children, step-children, siblings, mothers and fathers-in-law, sons and daughters-in-law, brothers and sisters-in-law, aunts, uncles, nieces, nephews and first cousins, and anyone sharing the director's home.

B. Is, or in the past five years has been, or whose relative is, or in the past five years has been, an employee, director or greater-than-20-percent owner of a firm that is one of the corporation's or its affiliate's paid advisers or consultants or that receives revenue of at least $50,000 for being a paid adviser or consultant to an executive officer of the corporation;

Notes: *Advisers or consultants include, but are not limited to, law firms, auditors, accountants, insurance companies and commercial/investment banks. For purposes of this definition, an individual serving "of counsel" to a firm will be considered an employee of that firm.*

The term "executive officer" includes the chief executive, operating, financial, legal and accounting officers of a company. This includes the president, treasurer, secretary, controller and any vice-president who is in charge of a principal business unit, division or function (such as sales, administration or finance) or performs a major policymaking function for the corporation.

C. Is, or in the past five years has been, or whose relative is, or in the past five years has been, employed by or has had a five percent or greater ownership interest in a third-party that provides payments to or receives payments from the corporation and either: (i) such payments account for one percent of the third-party's or one percent of the corporation's consolidated gross revenues in any single fiscal year; or (ii) if the third-party is a debtor or creditor of the corporation and the amount owed exceeds one percent of the corporation's or third party's assets. Ownership means beneficial or record ownership, not custodial ownership;

D. Has, or in the past five years has had, or whose relative has paid or received more than $50,000 in the past five years under, a personal contract with the corporation, an executive officer or any affiliate of the corporation;

Notes: *CII members believe that even small personal contracts, no matter how formulated, can threaten a director's complete independence. This includes any arrangement under which the director borrows or lends money to the corporation at rates better (for the director) than those available to normal customers—even if no other services from the director are specified in connection with this relationship;*

E. Is, or in the past five years has been, or whose relative is, or in the past five years has been, an employee or director of a foundation, university or other non-profit organization that receives significant grants or endowments from the corporation, one of its affiliates or its executive officers or has been a direct beneficiary of any donations to such an organization;

Notes: *A "significant grant or endowment" is the lesser of $100,000 or one percent of total annual donations received by the organization.*

F. Is, or in the past five years has been, or whose relative is, or in the past five years has been, part of an interlocking directorate in which the CEO or other employee of the corporation serves on the board of a third-party entity (for-profit or not-for-profit) employing the director or such relative;

G. Has a relative who is, or in the past five years has been, an employee, a director or a five percent or greater owner of a third-party entity that is a significant competitor of the corporation; or

H. Is a party to a voting trust, agreement or proxy giving his/her decision making power as a director to management except to the extent there is a fully disclosed and narrow voting arrangement such as those which are customary between venture capitalists and management regarding the venture capitalists' board seats.

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