

LORING, WOLCOTT & COOLIDGE TRUST, LLC

2016 PROXY VOTING GUIDELINES

The Trustees of Loring, Wolcott & Coolidge (LWC) consider the voting of shareholder proxies to be an important part of our fiduciary responsibilities. The Trustees have retained voting responsibility for all of our nonretirement accounts unless otherwise specified. Consistent with our investment philosophy of buying and holding high quality companies, we support initiatives that enhance corporate accountability, increase transparency and protect the rights of shareholders.

A Proxy Voting Committee has been established to adopt and review guidelines for voting proxies annually. The Committee has retained Glass, Lewis & Co. (Glass Lewis) to provide research and voting services for the proxies it receives on behalf of LWC clients in accordance with our guidelines. Guidelines are applicable to both domestic and international companies. Glass Lewis provides additional guidance for votes on issues unique to international companies. Glass Lewis is also responsible for providing the Committee with quarterly reports on the firm's voting record. All votes are reviewed by the LWC proxy administrator prior to executing and specific votes on our core holdings are approved in advance by the Trustees. In certain instances, clients can obtain a separate ballot to attend an annual meeting or vote their own proxies.

In establishing our guidelines, we give consideration to the firm's commitment to innovative management practices and to the full disclosure of information that will assist us in assessing shareholder value. This includes issues involving corporate governance, employment practices, community relations, board composition, product liabilities and environmental disclosure practices. Issues of economic significance such as mergers and acquisitions, and issues not found to be covered by our guidelines, are referred to the proxy administrator or Proxy Voting Committee to be decided on a case-by-case basis. The administrator and committee utilize research provided by Glass Lewis. A copy of our voting guidelines and information regarding specific votes is available upon request.

Shareholder Advocacy

The Sustainability Group at Loring, Wolcott & Coolidge is a signatory to the Principles for Responsible Investment because it believes that environmental, social and governance (ESG) factors are deeply rooted to our investment practices. The Sustainability Group's Trustees and their clients believe that it is important to consider a company's ESG performance as part of its fiduciary responsibility. In addition, the Group pursues active shareholder engagement strategies that are consistent with its fiduciary responsibilities. Working under the principles that the long-term financial health of a corporation is tied to its environmental performance, economic sustainability of its workers and the communities in which it operates, the Sustainability Group advocates for environmental and social initiatives, sustainability reporting and exceptional corporate governance through proxy voting and shareholder activism.

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CORPORATE GOVERNANCE

Board of Directors

Diversity

Typically, a board committee selects nominees for the board and they run unopposed. If the board or the slate does not contain diversity, defined as 30% women or people of color, we will **oppose** the members of the Nominating Committee.

The company's Nominating Committee Charter should include specific language on attracting diversity for its board of directors, including such considerations as background, experience, age, race, gender, ethnicity and culture. We **support** proposals that ask for such language in the charter. We will **oppose** members of the Nominating Committee if the company is silent on these guidelines in the charter.

Shareholders have asked boards to make greater efforts to appoint qualified female and minority candidates for nomination to the board of directors, to endorse a policy of board inclusiveness and to issue reports to shareholders on their efforts to increase diversity on their boards. We will **support** these resolutions.

Accountability

We will **oppose** individual directors who have demonstrated disregard for their responsibilities to shareholders and other stakeholders. We will **oppose** directors who have attended less than 75% of board and committee meetings without a valid excuse.

We will **oppose** directors who have ignored or not acted on a shareholder proposal that has been approved by a majority of the votes outstanding during the previous year.

We will **oppose** directors who have served on boards or as executives of companies with records of poor performance, inadequate risk oversight, overcompensation, audit- or accounting-related issues, and other indicators of mismanagement or actions against the interests of shareholders. We will base these vote decisions on the recommendations Glass Lewis, which applies a three year look-back period in tracking director performance.

We will **oppose** the entire board slate (except for new nominees) in cases where the director(s) receive more than 50% withhold votes out of those cast and the issue that was the underlying cause of the high level of withhold votes in the prior election has not been addressed. The adequacy of the company's response will be analyzed on a **case-by-case** basis.

Over-Boarded Directors

To be an effective board member requires a certain time commitment. Many directors serve on more than one board and do so effectively. However, some directors overextend themselves by serving on a large number of boards. We will **oppose** directors with full time jobs that sit on more than three public company boards. We will **oppose** directors who sit on more than one additional board and also serve as Chief Executive Officer of a company. No director should serve on more than five for-profit company boards.

Director Compensation - Excessive Stock and Option Grants

Director stock option plans align the interests of directors and shareholders. Stock options serve to motivate non-employee directors to maximize shareholder value. The awards may increase the directors' ownership stake in the company and lead to the company's improved performance. We are in support of offering stock and options to directors, but believe this incentive should be promoted without being excessive. We **support** proposals and resolutions asking corporate boards to limit stock options for non-employee directors by *not* offering or allowing:

- a single individual more than 5% of the total stock or options granted in a single year
- options or stock to be priced at less than 100% of the fair market value on the grant date
- an option grant plan that has a share replenishment feature (evergreen plan),
- the plan administrator to grant reloaded stock options, or non-formula stock and option awards
- the repricing or replacement of underwater options without shareholder approval
- potential cumulative dilution from all company stock plans (including all potential future grants) of more than 15% of the current outstanding stock

Director - Shareholder Dialogue

Shareholders have asked that corporations establish an Office of the Board of Directors to facilitate communication between non-management directors and shareholders. A committee of non-management directors would be responsible for the Office. We will **support** these resolutions.

Indemnification

A board may use indemnification policies that go well beyond accepted norms to protect itself against shareholder actions in the wake of unsuccessful takeover attempts. We will **oppose** these resolutions.

Proxy Access

Shareholders are increasingly submitting proposals regarding their ability to nominate director candidates to management's proxy (proxy access). The SEC, under the Dodd-Frank Act, ruled in favor of mandating universal proxy access, but that ruling was overturned in court in 2011. The shareholders' ability to submit proposals requesting that companies allow proxy access was however upheld and investors have begun to adopt various approaches to ensuring this right. We will **generally** support Proxy Access shareholder proposals that request a share ownership percentage of at least 3% with a holding period of at least three years of the company's stock. We will take into consideration management's response to shareholder proposals, the company's size and ownership structure. If Glass Lewis recommends voting against the proposal, we will examine it on a **case-by-case** basis.

We will also vote **for** shareholder proposals calling for the reimbursement of reasonable costs incurred in connection with nominating one or more candidates in a contested election.

Majority Vote to Elect Directors

Director elections do not use the same democratic process used to elect public officials. In a director election, the board exerts significant control on the nomination process through the Nominating Committee. In addition, many corporations allow for a director to be re-elected even if a substantial majority of the votes cast are withheld from that director. In order to make director elections more meaningful, we will **support** shareholder resolutions to change board election standards by requiring a majority of the votes cast to be in favor of a director.

Consistent with these policies, we will also vote *against* proposals that provide that directors may be removed only for cause and will *support* proposals seeking to promote the ability of shareholders to remove directors with or without cause.

Cumulative Voting

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

Cumulative voting generally acts as a safeguard for shareholders by ensuring that those who hold a significant minority of shares can elect a candidate of their choosing to the board. But it may also grant minority shareholders a disproportionate voice in running the company. We will review cumulative voting proposals on a *case-by-case* basis, factoring in the independence of the board and the status of the company's governance structure. Typically, these proposals are found on ballots at companies where independence is lacking and where the appropriate checks and balances favoring shareholders are not in place. In such cases, we will *support* cumulative voting.

More Democratic Elections

In practice, most corporations allow shareholders to approve board candidates as selected by the board, rather than to truly "elect" candidates from a pool of nominees. To further democratize the election process, shareholders have requested that there be more director nominees than there are board seats to be filled during a board election. Such an arrangement would enhance the ability of shareholders to choose candidates who would more accurately represent their interests. We will *support* these resolutions.

Staggered Terms / Declassified Boards

The annual election of all directors is a necessary part of maintaining accountability to shareholders. Management often proposes a classified board or staggered board terms to maintain control of the board. In general, we will *oppose* bylaws of this type. We will *support* resolutions to abolish staggered or classified boards.

Term Limits

We will generally *support* proposals to limit the tenure of outside directors through term limits or mandatory retirement ages.

Reduce Board Size

Some shareholders have sought to reduce the size of boards as a cost-cutting measure. However, the costs associated with boards are relatively small, and considerations other than size should be weighed carefully. We will consider proposals to change the size of the board on a case-by-case basis and will generally *oppose* proposals to reduce the size of the board solely as a cost-cutting measure. We will vote *against* proposals that give management the ability to alter the size of the board without shareholder approval.

Shareholder Advisory Board

Shareholders have asked that corporations create a shareholder advisory board to represent the owners' views to the board. Boards with a sufficient number of outside directors should represent the interests of shareholders. We will *oppose* such resolutions.

Establish Board Committee on Human Rights or Sustainability

Shareholders have filed resolutions seeking the creation of a board committee on human rights or sustainability. We believe that a properly constituted board committee focused on these issues would help to ensure a place for human rights and sustainability on the board's regular agenda, and should help companies to more proactively address the various long-term risks imposed by poor management of these issues. We will generally *support* these proposals.

Risk Oversight on Environmental and Social Issues

The board of directors is responsible for providing insight and oversight on both risks and opportunities for the business, and environmental and social issues should be considered part of this responsibility. To fully embed environmental and social issues into the board oversight process, companies should recruit directors with diverse backgrounds and provide education and training to board members on these issues. We *support* proposals seeking to add expertise in environmental and social issues to the board of directors.

Majority of Independent Directors

It is in the best interest of all stockholders that a majority of board members be independent. We will *oppose* board slates that do not consist of a majority of independent directors. We will *support* shareholder resolutions asking management to amend company bylaws to ensure that the board has a majority or a supermajority (two-thirds or three-quarters) of independent directors.

Independent Chair

To ensure that the board represents the interests of the shareholders and is able to effectively monitor and evaluate the CEO and other top officers, we believe the position of Chair of the Board should be held by an independent director. The CEO and Chair roles should only be combined in very limited circumstances. In these situations, the board should provide a written statement in the proxy materials discussing why the combined role is in the best interests of shareholders, and it should name a lead independent director with authority to ensure a structure that provide an appropriate balance between the powers of the CEO and those of the independent directors.

Absent such disclosure, in cases when the Chair of the Board is not independent, we will *oppose* the Chair of the Governance and Nominating Committee. This committee, as agency for the shareholders, is responsible for the governance of the board and its executives and is accountable for the selection of objective and competent board members. It is also responsible for providing leadership on governance policies adopted by the company.

We will *support* proposals to separate the position of Chair and CEO, and proposals that request that the position of Chair be held by an independent director who has not served as CEO.

Independence of Key Committees

We believe that it is critical to the protection of shareholder interests that certain key committees, such as the Audit Committee, the Nominating Committee and the Compensation Committee, be composed entirely of independent directors. We will *oppose* the election of inside directors and affiliated outside directors nominated to these committees. We will *support* shareholder resolutions requesting that these committees be composed exclusively of independent directors, and *support* shareholder resolutions in favor of establishing independent Audit, Nominating and Compensation Committees where they did not previously exist.

Qualifications for Independence

Often, “independent” or “outside” directors are so only in that they are not employees of the company. Their ties to management make them *de facto* insiders, and therefore their representation of the interests of external constituencies is minimal. We believe a director must have no *material* connection to the company.

We follow Glass Lewis’ definition that a *material* relationship is one in which the dollar value exceeds (i) \$50,000 (or where no amount is disclosed) for directors who are paid for a service they have agreed to perform for the company outside of their service as a director, including professional or other services; (ii) \$120,000 (where no amount is disclosed) for those directors employed by a professional services firm, such as a law firm, investment bank or consulting firm, where the company pays the firm, not the individual for services. This dollar limit would also apply to charitable contributions to schools where a board member is a professor, charities where a director serves on the board or is an executive and any aircraft and real estate dealings between the company and the director’s firm; or (iii) 1% of either company’s consolidated gross revenue for other business relationships (e.g. where the director is an executive officer of a company that provides services or products to or receives services or products from the company.

Some shareholders have proposed that boards nominate independent directors subject to very strict criteria defining “independent.” We will *support* these resolutions.

Chief Financial Officer on Board

We believe that the unique financial information and control over a company's finances that is typical for a CFO should place the CFO in the position of reporting to and not serving on the board. It is crucial for the board to be in the position of overseeing the company's finances and its reporting. This oversight is likely to be more complicated and less rigorous when the CFO sits on the same board to which he or she reports. We will *oppose* nominees for the Board of Directors who hold the position of CFO of the company.

Mandatory Share Ownership

Shareholders have proposed that all directors should own stock in the company. In general, directors should own stock in the companies on whose boards they sit. However, boards should not be restricted to those financially able to buy stock. In general, we will *oppose* these resolutions.

Auditors

Independence

We will **support** the reappointment of the company's auditor unless we have reason to believe that the independence of the audit may be compromised. We believe that significant non-audit fees can compromise the independence of the audit. Therefore, we will examine non-audit fees closely and will, for example, **oppose** the appointment of auditors and votes for Audit Committee nominees when non-audit fees, such as consulting fees, represent more than 50% of the total fees paid to the auditor. We will include audit-related fees and tax compliance/preparation fees in our calculation of audit fees. In addition, we will review on a **case-by-case** basis the appointment of auditors who have a significant professional or personal relationship with the company, or where there is reason to believe that the auditor has rendered an inaccurate opinion.

We will **support** shareholder proposals asking companies to adopt a policy to ensure that the firm that is appointed to be the company's independent accountants will only provide audit services to the company and not provide any other services. We will also **support** shareholder proposals that set a reasonable period for mandatory rotation of the auditor (at least every five years).

We will also **support** shareholder proposals asking companies to place the ratification of auditors on the agenda.

Audit Committee Accountability

The Audit Committee is ultimately responsible for the company's internal financial reporting controls, and for addressing problems when they arise.

We will consider **opposing** Audit Committee members for the following reasons:

- when the Audit Committee has approved an audit contract for which non-audit fees represent more than 50% of the total audit fees
- when there is evidence of ineffective internal controls or if the company has had a history of poor accounting practices and the Board has failed to address them
- when the company has pulled auditor ratification from the ballot
- when there is persuasive evidence that the Audit Committee entered into an inappropriate indemnification agreement with its auditors that limits the ability of the company, or its shareholders, to pursue legitimate legal recourse against the audit firm

Executive Compensation

Reasonable Compensation

We **support** reasonable compensation packages for managers and directors. In general, we do *not* regard as reasonable:

- total compensation to chief executive officer exceeding \$10,000,000 per year, especially where there is significant misalignment between compensation relative to performance and peers
- salary for the chief executive officer exceeding the \$1,000,000 provision of the Internal Revenue Code 162(m), therefore exposing the company to unnecessary loss of tax deduction

- discretionary cash bonuses awarded over \$150,000, but not based on any performance criteria
- significant option grants, over \$100,000, that are not accompanied by rigorous stock ownership and retention guidelines
- pension plans for outside directors
- gold or silver parachute plans triggered by a takeover
- total compensation to outside directors exceeding \$200,000 per year

We use these guidelines as a base, then review Glass Lewis' pay for performance report. This provides a thorough analysis of executive compensation, compared with peer groups and financial performance. Where compensation is unreasonable we will **oppose** incumbent nominees serving on the Compensation Committee.

Equity Plans

We will generally **oppose** Equity Plans if they serve as the vehicle for such excessive pay. Exceptions may be made, however, in the case of broad-based plans so as not to unjustly penalize non-executive managers and employees who participate in the plan. We will also **oppose** Equity Plans that:

- allow for repricing without shareholder approval
- provide a grant discount stock options
- include evergreen provisions
- or where total potential dilution, using the fully diluted method, from all company stock plans exceeds 15% of the current outstanding stock

We will consider the average three-year burn rate of companies in evaluating the costs of equity plans. Burn-rate, also known as run rate, is another measure of dilution that shows how rapidly the company is depleting its shares reserved for equity compensation plans. It also captures the annual cost of granting equity to employees in terms of shares. We will generally vote **against** equity plans for companies whose average three-year burn rates exceed two percent of its weighted common share.

Frequency on Say on Pay

The Dodd-Frank Act requires companies to allow shareholders to determine whether future votes on executive pay will occur every one, two or three years. We believe that the burden to a company, with regard to an annual vote, is outweighed by the benefits to shareholders and the increased accountability. Implementing biennial or triennial votes on executive compensation limits shareholders' ability to hold the board accountable for its compensation practices through means other than voting against the Compensation Committee. For this reason, we will generally recommend that shareholders support the holding of advisory votes on executive compensation **annually**.

Hold Equity Past Retirement or for a Significant Period of Time

We will vote **case-by-case** on shareholder proposals asking companies to adopt policies requiring senior executive officers to retain all or a significant portion of the shares acquired through compensation plans, either while employed and/or for two years following the termination of their employment, or for a substantial period following the lapse of all other vesting requirements for the award ("lock-up period").

The following factors will be taken into account:

- whether the company has any holding period, retention ratio, or officer ownership requirements in place. These should consist of: a) rigorous stock ownership guidelines; b) a holding period requirement coupled with a significant long-term ownership requirement; or c) a meaningful retention ratio
- actual officer stock ownership and the degree to which it meets or exceeds the proponent's suggested holding period/retention ratio or the company's own stock ownership or retention requirements
- post-termination holding requirement policies or any policies aimed at mitigating risk taking by senior executives
- problematic pay practices, current and past, which may promote a short-term versus a long-term focus

A rigorous stock ownership guideline should be at least 10x base salary for the CEO, with the multiple declining for other executives. A meaningful retention ratio should constitute at least 50 percent of the stock received from equity awards (on a net proceeds basis) held on a long-term basis, such as the executive's tenure with the company or even a few years past the executive's termination with the company.

We will generally vote *against* shareholder proposals that mandate a minimum amount of stock that directors must own in order to qualify as a director or to remain on the board. While we favor stock ownership on the part of directors, the company should determine the appropriate ownership requirement.

General Governance Issues

In-Person Annual Meetings

Some corporations have lobbied to replace "face-to-face" annual meetings with "virtual meetings" broadcast over the Internet. Shareholders have argued that Internet access to annual meetings should only supplement and not replace in-person annual meetings. We will *support* resolutions asking directors to affirm the continuation of in-person annual meetings.

Rotating Sites

Corporations with large numbers of shareholders should move their annual meetings around the country so that their owners have an opportunity to participate in person. Needless to say, the locations should be readily accessible. We will *support* resolutions advancing this cause.

CEO Succession Planning

As investors concerned about the long-term sustainability and viability of the companies we invest in, we believe it is important that large corporations have thoughtful plans in place when the need arises to replace the CEO. We will therefore generally *support* proposals seeking disclosure on the company's CEO succession plan.

Golden Parachute Arrangements

The Dodd-Frank Act requires companies to provide shareholders with a separate non-binding vote on approval of golden parachute compensation arrangements in connection with certain change-in-control

transactions. We believe the narrative and disclosure of golden parachute arrangements will benefit all shareholders. We will analyze each on a *case-by-case* basis, taking into account whether the executive is receiving a severance package and losing his or her position wholly. We will vote against any plan that unreasonably compensates an executive who will be serving a new position in the newly formed subsidiary. We will also vote against exit packages that are outside the normal size for the company's industry and peer group. We will support proposals when they are within reason for the size of the company and the Executive's roles and responsibilities. We will generally follow Glass Lewis' analysis and recommendations on these proposals.

Compensation Consultants — Disclosure

We will *support* resolutions seeking disclosure regarding the company, board or board committee's use of compensation consultants. This includes company name, business relationships and fees paid, in order to examine any potential or perceived conflicts of interest, and to allow shareholders to assess the proposed compensation arrangements.

Relative Compensation Levels

Compensation for corporate CEOs has grown at an astonishing pace in recent years, far faster than that for employees in general. Shareholders have asked that corporations establish a cap for CEO compensation, tying it to the wage of the lowest-paid workers. We will *support* these resolutions.

In addition, shareholders have asked that corporations prepare a detailed statistical historical report on the salaries of the highest-paid executive and lowest-paid employee. We will *support* these resolutions.

A few enlightened companies have set a maximum range they will tolerate between the salaries of their lowest- and highest-paid employees. Shareholders have asked other companies for reports comparing the compensation packages of the average and lowest wage earners to those of top management. We will *support* these resolutions.

Management Compensation — Disclosure

Shareholders have asked companies to disclose the salaries of top management beyond those the SEC requires in the proxy statement. We will *support* these resolutions.

Management Compensation — Excessive Stock and Option Grants to Executives

Studies have shown that firms with broad-based stock ownership delivered superior stock market performance and profitability relative to peer firms without employee ownership. We are in support of offering stock and options to executives, but believe this incentive should be promoted without being excessive. We *support* proposals and resolutions asking corporate boards to limit stock options by *not* offering or allowing:

- a single individual more than 5% of the total options or stock granted in a single year
- the executive officers no more than 10% of the total options or stock granted in a single year

Management Compensation — Executive Severance Pay Review

Shareholders have criticized boards of directors that grant retiring executives severance pay packages that significantly exceed the standard benefits granted to other company executives, particularly when the company's financial performance was poor during the executive's tenure. As a result, shareholders have

asked boards to prepare reports that summarize and explain the relationship of their executive severance package policies and philosophies to corporate performance, employee morale and executive performance incentives, and/or require the Compensation Committee to hire its own independent compensation consultant, separate from the compensation consultants working with corporate management, to assist with executive compensation issues. We will *support* these resolutions.

Management Compensation — Nonfinancial Performance

Shareholders have asked companies to review their executives' compensation and report to shareholders on its link not only to financial performance but also to the company's performance on various non-financial criteria, including:

- environmental and social issues
- improvements in healthcare quality
- exporting U.S. jobs to low-wage countries
- closing the wage gap in the U.S. between workers and top management
- predatory lending
- diversity issues

We will *support* these resolutions.

Management Compensation — Performance-Based Stock Options

Shareholders have asked companies to tie executive compensation more closely to company, rather than stock market, performance through the use of performance-based stock options. Performance-based stock options include indexed stock options, which link option exercise prices to an industry index; premium-priced stock options, which have exercise prices that are above the market price of the stock on the date of grant; and performance-vesting options, which vest only after the market price of the stock exceeds a target price greater than the market price on the grant date. We will *support* these resolutions.

Management Compensation — Salary Freeze During Layoffs

Layoffs are generally undertaken as cost-saving measures designed to improve profits and increase the company's long-term competitiveness. However, increasing the pay of corporate officers while asking employees to sacrifice is hypocritical, damaging to a company's culture and indicative of poor corporate governance. We will *support* resolutions that require companies to freeze the salaries of corporate officers during layoffs and/or until the positive benefits of the layoffs are demonstrated.

Extraordinary Supplemental Executive Retirement Plan (SERPs)

Many companies establish Supplemental Executive Retirement Plans (SERPs) to provide retirement benefits that exceed IRS limitations that can be paid from tax-qualified pension plans. Some companies also maintain what are known as Extraordinary SERPs, which provide preferential benefit formulas or pension benefits not provided to other managers. Some companies also make individual pension agreements with executives that have similar features. The resulting disparities between the retirement security offered to senior executives and to other employees can create morale problems and increased employee turnover. Moreover, because they are not performance-based, they do not help to align management incentives with long-term shareholder interests. Shareholders have asked companies to seek shareholder approval of executive pension agreements of this kind. We will *support* these resolutions.

Employee Benefits — Cash Balance Pension Plans

In the late 1990s, many companies converted their pension plans from traditional defined benefit pension plans to cash-balance plans. Older workers can lose significant pension earnings if their traditional pension is replaced by a cash-balance plan that puts them on an equal earning footing with younger workers. Shareholders have asked companies to give employees the choice of either a defined benefit pension plan or a cash-balance plan. We will *support* these resolutions.

Employee Compensation — Stock and Option Awards, Purchase and Ownership Plans (ESOPs)

In the expectation that companies fostering employee ownership will grow faster, attract and retain higher quality employees, create more employee wealth, and achieve sustained superior performance, shareholders have asked corporation to create and fund ESOPs and report on employee ownership. We will *support* these resolutions.

Political Contributions and Nonpartisanship

Shareholders have asked boards of directors to establish oversight of corporate political contributions, to establish corporate political contributions guidelines and reporting provisions, to disclose the business rationale for the company's political involvement and the public policy positions taken by the company and to produce reports detailing the use of corporate resources for political purposes. We will *support* these resolutions. We will also *support* similar proposals seeking transparency in corporate lobbying expenditures.

We will also *support* proposals advancing principles of corporate nonpartisanship, for example, requesting corporations to refrain from devoting resources to partisan political activities or compelling their employees to contribute to or support particular causes.

Ballot / Citizen Initiatives — Noninterference by Corporations

According to the Supreme Court, large corporations have a constitutional right to participate in initiative campaigns. However, their financial contributions can and do defeat citizen initiative campaigns for environmental protection, recycling, sustainable resource use and right to know laws. Shareholders have asked corporations to disclose such spending or refrain from contributing to initiative campaigns unless a competitor would gain a competitive advantage from it. We will *support* such resolutions.

Proxy Voting — Confidential Ballot

Many companies' proxies bear the name of the shareholder, allowing companies to learn who voted how in corporate elections. Confidential voting is necessary to maintain a proxy voting system that is free of pressure. Shareholders have asked that proxy voting be kept confidential, except in those limited circumstances when the law requires disclosure. We will *support* these resolutions.

Proxy Voting — Counting Abstentions

Proposals have been presented that would request that abstain votes and broker non-votes would be taken out of the tally when determining vote results. A company's governing documents often provide that abstentions are included in the tabulation. The SEC approved method of calculating votes includes dividing the *For* votes by only those cast *For* and *Against*. This typically gives a more accurate percentage of support that any given proposal receives. We will *support* these resolutions.

Shareholder Resolutions — Identification of Proponents

Shareholders have asked that management fully identify proponents of all shareholder resolutions. We will *support* these resolutions.

Shareholder Resolutions — Supermajority Votes

A company may propose a bylaw requiring that certain types of shareholder resolutions receive a supermajority, sometimes as much as 80% of the vote, to be adopted. We will *oppose* these resolutions, and *support* proposals seeking to eliminate and/or reduce supermajority provisions.

Shareholder Right to Call a Special Meeting

Shareholders have been asking companies to enable them to act on matters that arise between annual meetings, including matters such as the removal of a director or acquisition proceedings. A majority of S&P 500 companies now provide shareholders with some right to call a special meeting, a development driven largely by shareholder proposals support over the past few years. We will generally *support* proposals that provide shareholders to the right to call special meetings, taking into account the shareholders' current right to call special meetings, the minimum ownership threshold necessary to call a special meeting (10% preferred) and management's response to previous shareholder proposals. If Glass Lewis recommends voting against the proposal, we will examine it on a *case-by-case* basis.

Shareholder Right to Act by Written Consent

Shareholders are increasingly asking companies to provide in their charters the right of shareholders to act by written consent, providing a mechanism for shareholder action outside the normal meeting cycle. Corporate bylaws of most states provide that shareholders may act by written consent in lieu of a meeting unless the company's certificate of incorporation provides otherwise. Commonly, public companies provide in their charters that shareholders may not act by written consent, or that they may act only if the consent is unanimous. Similar to the right to call a special meeting, we will generally *support* proposals that provide shareholders to the right to act by written consent, taking into account the shareholders' current right, the consent threshold (over 50% preferred), and management's response to previous shareholder proposals. If Glass Lewis recommends voting against the proposal, we will examine it on a *case-by-case* basis.

Reimbursing Proxy Solicitation Expenses

Shareholders have submitted proposals asking companies to reimburse them for proxy solicitation expenses. We will generally support proposals calling for the reimbursement of reasonable costs incurred in connection with nominating one or more candidates in a contested election. We will examine the proposal on a *case-by-case* basis for the proxy solicitation expenses associated with a dissident slate of directors.

Proxy Contests – Voting for Director Nominees in Contested Elections

Contested elections of directors frequently occur when a board candidate or slate runs for the purpose of seeking a significant change in corporate policy or control. Competing slates will be evaluated based upon the personal qualifications of the candidates, the economic impact of the policies that they advance and their expressed and demonstrated commitment to the interests of all shareholders.

Votes in a contested election of directors are evaluated on a *case-by-case* basis, considering the following factors:

- long-term financial performance of the target company relative to its industry
- management's track record
- background to the proxy contest
- qualifications of director nominees (both slates)
- strategic plan of dissident slate and quality of critique against management
- likelihood that the proposed goals and objectives can be achieved (both slates)
- stock ownership positions
- impact on stakeholders, such as job loss, community lending, equal opportunity and impact on environment.

Capital Structure

We will vote *against* proposals at companies with more than one class of common stock to increase the number of authorized shares of the class that has superior voting rights. We will generally vote *against* dual class capital structures. We will vote *for* proposals to increase the number of authorized common shares where the primary purpose of the increase is to issue shares in connection with a transaction on the same ballot that warrants support.

Takeover — Employee Stock Ownership Plans (ESOPs)

ESOPs should promote active employee ownership. However, some companies have proposed ESOPs as a way to park stock to avoid a takeover. We will *oppose* ESOPs not intended and designed to promote active employee ownership.

Takeovers — Anti-Greenmail, Fair Price, Poison Pill Provisions

Corporations occasionally engage in takeover or anti-takeover practices that are not in the interest of shareholders. Greenmail is a discriminatory share repurchase offered to corporate raiders in return for raider's shares and a guarantee not to pursue a takeover, which often devalues the company's stock value and reputation. Fair price provisions protect shareholders from a two-tiered takeover in many states. The prospective bidder may offer to take a controlling position in the company at a reasonable price level, then purchase the remaining stake of the company at a much lower level. We will *support* advancement of provisions in favor of fair pricing and limiting greenmail. Management may seek authorization to ratify or adopt a shareholder rights plan (poison pill), often intended to avoid a takeover. Management may also seek authorization to issue stock, or to reincorporate in another state, in an effort to avoid a takeover. We will *oppose* these resolutions.

Reincorporation

When a corporation seeks approval from its shareholders to reincorporate into a different jurisdiction, we will review management's rationale and consider such proposals on a *case-by-case* basis. Occasionally, a company will seek to reincorporate in order to reduce its tax burden, or to shield itself from shareholder or consumer lawsuits. We will *oppose* reincorporation into jurisdictions that serve as tax shelters, such as Bermuda, or that significantly reduce legal rights for shareholders and other corporate stakeholders. We will *support* shareholder proposals to reincorporate corporations from such jurisdictions.

Transparent Financial Reporting

Accounting rule FAS 87 requires companies to boost their profit reports with part of the surplus from their pension funds. The surplus used to do so can account for a substantial portion of a company's profit.

Companies cannot use this surplus to fund company operations. However, some companies have based executive incentive pay on FAS 87 profit. They have also decided against using pension fund surplus money to adjust retiree pay for inflation. Shareholders have asked companies not to base executive incentive pay on FAS 87 profit, to provide transparent reports to shareholders of profit from real company operations, and/or to use part of their pension fund surplus to adjust retiree pay for inflation. We will *support* these resolutions.

MERGERS AND ACQUISITIONS

We will review the financial considerations of a proposed merger, along with the potential social and environmental costs. Although mergers and acquisitions may offer financial, and even social and environmental benefits, their tendency to underperform and their potential to do harm, creates the need for special scrutiny on a *case-by-case* basis.

We will generally *oppose* mergers that involve a two-tiered stock offer. When evaluating mergers and acquisitions, in addition to the business case for the deal, where information is available, we will consider the following factors:

- the relative social and environmental performance of the two companies
- the impact on employees, including layoffs and post-merger investments in human resources
- whether this is a hostile acquisition of a company with a substantially unionized workforce by a company with a non-unionized workforce
- the acquiring company's plans for cultural integration of the two companies
- the acquiring company's history of acquisitions
- executive and board compensation packages tied to completion of the merger
- change in control provisions in executive employment contracts triggered by the merger
- conflicts of interest
- corporate governance changes as a result of the merger

In certain industries, such as media, banking, agriculture, telecommunications and pharmaceuticals, we will consider with caution mergers that will create notably high levels of industry concentration, and may weight such considerations heavily in our decision-making.

Mergers and Acquisitions — Shareholder Approval

Some shareholders have sought to require submission to shareholders of any merger or acquisition, regardless of size. While mergers and acquisitions that decisively change a company's character should be submitted to its owners for approval, we will *oppose* all-inclusive resolutions since they are both impractical and entail an unnecessary expense.

Mergers and Acquisitions — Non-Financial Effects of Mergers

A non-financial effects provision, also referred to as directors' duties, allows the board to consider the effect a merger would have on a broad range of constituencies, such as employees, consumers, business

partners and communities in which the company and its branches are located. While these constituencies are not traditionally considered financially relevant to mergers, we believe that they influence substantial long-term effects on companies' reputation, government relations and other strategic and competitive factors. We will *support* proposals and resolutions advancing this provision.

SOCIAL ISSUES

Diversity and Equality

Equal Employment Opportunity and Affirmative Action Report

All corporations have the power and responsibility to promote equality in the workplace and the marketplace. Shareholders have asked for reports that may include:

- a description of diversity or affirmative action policies and programs in place
- the company's Form EEO-1 disclosure report
- a report on the percentage of hires during the previous year who were persons with disabilities
- a description of programs designed to increase the number of women and/or minority managers
- a description of programs designed to increase the number of persons employed with disabilities
- a description of how the company is working to eliminate "glass ceilings" for female and minority employees
- a report on any material litigation facing the company concerning diversity-related controversies
- a description of how the company publicizes its affirmative action policies and programs to suppliers and service providers
- a description of programs directing the purchase of goods and services from minority- and/or female-owned businesses

We will *support* these resolutions.

Further, we will *support* resolutions that ask companies to amend relevant portions of their charter to include reasonable language addressing the importance of diversity at the board level.

Sexual Orientation and/or Gender Identity

We *support* proposals that call on companies to include language barring discrimination on the basis of sexual orientation or gender identity.

We *support* proposals asking companies to report on efforts to create a workplace free of discrimination.

We *support* proposals that ask companies to extend benefits to domestic partners.

Pay Equity

Historically women have not received comparable wages for comparable work in many sectors of our economy, although national legislation requires that they be comparably compensated. Shareholders have asked for reports that companies undertake studies to assure that all women and minorities are paid comparably with their counterparts. We will *support* these resolutions.

Racial Stereotypes in Advertising

Racial stereotyping persists in advertising and team logos. Shareholders have asked companies to display more sensitivity toward the images they present. We will *support* these resolutions.

Health and Wellness

Access to Pharmaceuticals — Disclosure of Incentives to Pharmaceutical Purchasers

Drug companies have provided doctors, pharmacy benefit managers and other pharmaceutical purchasers rebates, payments and other incentives to purchase their drugs. These incentives are often hidden and are therefore not passed on to patients. Shareholders have called on pharmaceutical companies to issue reports disclosing the extent and types of incentives they use to influence pharmaceutical purchasers to select their drugs. We will *support* these resolutions.

Access to Pharmaceuticals — Ethical Criteria for Drug Patent Extensions

Patents on drugs extend the time it takes for generic drugs to come to market, which are lower in cost but equally effective alternatives to brand names. Shareholders have called into question the ethics of effectively extending the patents on existing drugs, and are concerned about the negative effects of this practice on their companies' reputations and on consumers' access to needed treatments. We will *support* resolutions asking companies to develop ethical criteria for the extension of patents on prescription drugs and to issue reports on the implications of such criteria.

Lower Drug Prices

Millions have severely limited or no practical access to crucial prescription drugs. In addition, shareholders have criticized pharmaceutical companies for using a two-tiered pricing system through which retail purchasers are charged significantly more for drugs than are group purchasers like HMOs and federal government agencies. As a result, the underinsured and uninsured must often pay higher prices for the same drugs than their adequately insured counterparts. We will *support* resolutions asking companies to implement and report on price-restraint policies for pharmaceutical products.

Affordable HIV/AIDS, Tuberculosis, Malaria and Other Drugs for Developing Countries

Shareholders have called on pharmaceutical companies in industrialized nations to develop and implement a policy to provide HIV/AIDS, TB, malaria and other drug treatments in ways that the majority of people affected by these diseases in developing countries can afford. These resolutions are intended to help provide relief to developing countries that are gravely suffering from these epidemics and to protect the intellectual property of their companies' products in order to ensure their long-term profitability. We will *support* these resolutions.

AIDS, Tuberculosis and Malaria — Impact on Operations

AIDS, tuberculosis and malaria have a devastating impact globally. Through the provision of comprehensive workplace health coverage, counseling, testing and treatment programs, the private sector can make a major contribution toward lessening the suffering from these diseases. In addition, the HIV/AIDS, tuberculosis and malaria pandemics may have a profound impact on companies that produce products essential to combating infectious diseases and companies with significant operations in affected

areas. We will *support* resolutions that call for corporate reports on the impact of these diseases on corporate operations in affected areas.

Universal Healthcare Principles and Conflicts of Interest

We believe healthcare should be universal, continuous and affordable. We will generally *support* these resolutions that increase access to healthcare.

Quality of Healthcare

Many communities are increasingly concerned about the ability of for-profit healthcare institutions to provide quality healthcare. Shareholders have asked corporations operating hospitals for reports on the quality of their patient care. We will *support* these resolutions.

Infant Formula

Nutrition researchers have learned that substitution of infant formula for breast milk increases health risks to children. Shareholders have asked companies that produce infant formula to endorse the WHO/UNICEF Code of Marketing for Breast-Milk Substitutes. We will *support* these resolutions.

Insurance and Healthcare Companies Investing in Tobacco

Shareholders have asked insurance and healthcare company boards to report on the appropriateness of investments in the tobacco industry. They have also asked for reports on the impact of smoking on benefit payments for death, disease and property loss. Shareholders have also asked insurance companies and healthcare providers not to invest in the stocks of tobacco companies. We will *support* these resolutions.

Limitation on Tobacco Sales to Minors and Others

Shareholders have submitted resolutions asking management of grocery chains, convenience stores, service stations and pharmacies to implement programs to ensure that they do not sell tobacco products to minors, to restrict the promotion and marketing of tobacco products both in the U.S. and abroad, and/or to stop selling them altogether. In addition, shareholders have asked tobacco companies to limit sales of tobacco products to youth in developing countries and to tie executive compensation to the company's success in achieving federally mandated decreases in teen smoking. Shareholders have also asked tobacco companies to adopt a policy of disclosing the dangers of smoking. We will *support* these resolutions.

Nanotechnology Safety

Nanomaterials are molecular-sized materials, much smaller than the head of a pin or a human hair, increasingly used in consumer products. Because of their extremely small size, these materials may easily enter the bloodstream when inhaled or swallowed, and possibly when applied to the skin. Shareholders have filed proposals seeking reports on the use of nanomaterials, which may pose certain risks to human health. We will *support* these proposals.

Consumer Protection and Rights

Equal Credit Opportunity and Predatory Lending

Access to capital is essential to participating in our society. The Equal Credit Opportunity Act prohibits lenders from discriminating with regard to race, religion, national origin, sex, age and the like. Predatory lending is any practice that imposes excessive fees or other unfair loan terms on a borrower, especially without adequate disclosure.

Shareholders have asked for:

- reports by credit card issuers evaluating their marketing, lending and collection practices and the impact these practices have on borrowers in order to avoid engaging in predatory practices
- reports on lending practices in low/moderate income or minority areas and on steps to remedy mortgage-lending discrimination
- the development of fair lending policies that would assure access to credit for major disadvantaged groups and require annual reports to shareholders on their implementation
- the development of policies to ensure that the firm does not securitize predatory loans
- specific actions to prevent predatory lending. Predatory lending includes the charging of excessive rates and fees, failing to offer borrowers with good credit interest rates that reflect their sound credit records, requiring borrowers to give up their full legal rights by agreeing to mandatory arbitration as a condition of receiving the loan, and paying large prepayment penalties that make refinancing loans prohibitively expensive. These practices have disproportionate impact on low-income, elderly and minority borrowers
- the application by nonfinancial corporations, such as auto companies, of Equal Credit Opportunity Act standards to their financial subsidiaries

We will *support* these resolutions.

Privacy Rights

Allegations that telecommunications and technology firms voluntarily provided customer phone records and communications data to the U.S. National Security Agency have prompted shareholders to ask companies to report on these practices, including steps the company is taking to protect its customers' private records to ensure that such records are only released when required by law. We will *support* these resolutions.

Internet Privacy

In recent years, Internet Service Providers (ISPs) have come under scrutiny for profiling and tracking online behavior of its customers. ISPs often use that information to more effectively advertise certain products or services, based on the individual's internet browsing history. Shareholders are asking ISPs to report on their management practices in light of public concerns on profiling and freedom of expression, and the potential privacy risks it entails. We will *support* these proposals.

Financial Services Firms

Global financial institutions play a critical role in ensuring the economic stability of local and national economies, providing financing for a wide variety of development projects, and ensuring access to credit

for individuals and institutions large and small. They have therefore been the subject of serious attention by concerned investors seeking to achieve a more just and sustainable economic system.

Financial institutions have also received proposals seeking more complete disclosure to allow investors to understand the bank's exposure to structured investment vehicles, structured securities and conduits and its policies to manage these risks. Banks have been asked to incorporate social and environmental standards into their underwriting criteria, to adopt environmental commitments, such as the Equator Principles, and to address their impact on climate change by ending financing or investment in mountaintop removal mining or construction of coal-fired plants. We will *support* these proposals.

Cable Companies and Adult Entertainment

The availability and the level of graphic, sexually explicit and obscene content on cable channels is expanding. This mainstreaming of pornography has become a source of serious concern for some shareholders on both social and financial grounds. Among other things, shareholders have asked cable companies to:

- outline the business case for their increasing distribution of pornography
- review policies governing content decision-making for cable operations
- assess the potential legal issues and financial liabilities posed by possible violations of local obscenity laws and lawsuits from individuals and communities

We will *support* these resolutions.

Redlining

“Redlining” is the systematic denial of services to an area based on its economic or ethnic profile. The term originated in banking, but the same practice infects businesses as different as insurance companies and supermarkets. Shareholders have asked management to appraise their lending practices and develop policies to avoid redlining. Shareholders have also asked insurance companies to develop fair housing policies that would assure adequate homeowner insurance protection in low-income neighborhoods. We will *support* these resolutions.

Ride Safety

No federal regulation of amusement parks currently exists, and parks in many states are not required to report on injuries caused by rides. Shareholders have filed resolutions asking companies to report on company policies for ride safety, medical response and reporting of injuries related to amusement park rides. We will *support* these resolutions.

Human Dignity

Global Companies — Standards for Vendors

U.S. corporations have the power to alter the conditions under which their vendors operate and face significant risks if such suppliers are not acting responsibly. Shareholders have asked companies for reports encouraging companies to adopt or describing their vendor standards, focusing especially on the workers' right to organize, working conditions and worker compensation. They have also asked for:

- companies to use external, independent monitoring programs to ensure that their vendors comply with their vendor standards
- reports on companies' efforts to assure that they are not doing business with contractors that use forced labor, child labor, or otherwise have abusive working conditions

We will *support* these resolutions.

Internet and Telecommunications Censorship and Surveillance

The growth of the internet and mobile telecommunication services offers considerable opportunities for global broad-based wealth creation, including the advancement of human rights. Companies providing these services and technology are playing a leading role in building global communities and sharing knowledge. We believe that government action to censor, monitor, isolate and jail users of these technologies for exercising basic human rights outlined in the Universal Declaration of Human Rights threatens the ultimate realization of these benefits. We believe these actions also present significant barriers to growth for Internet and telecommunication sector businesses. As documented by Human Rights Watch and others, the presence of the Internet in repressive-regime countries can help dissidents and others stay informed about relevant political issues and generally advance the cause of human rights.

Shareholders have filed a variety of resolutions on this issue. We will *support* those resolutions that advance principles of freedom of expression and privacy by asking companies to adopt policies and procedures to safeguard these rights, and to publicly report on their implementation, but will generally *oppose* resolutions that require that internet and telecommunication sector companies pull out of repressive-regime countries.

Repressive-Regime Countries

Countries ruled by repressive regimes are often plagued by corruption and instability, as well as human rights violations. Corporate activity in these countries can provide benefits to the local population and can contribute to greater stability. Companies can also find themselves complicit in human rights violations. Shareholders have asked companies with operations in these states to report on their businesses there and their relationships with the government, or to develop guidelines for their operations in these countries. We will *support* these resolutions.

Human Trafficking

Human trafficking is the act of recruiting, harboring, transporting, providing or obtaining a person for compelled labor or commercial sex acts through the use of force, fraud or coercion.

Shareholders have filed resolutions asking companies to adopt a policy prohibiting human trafficking more broadly or the sexual exploitation of minors specifically. They have also asked companies to report to shareholders on the implementation of this policy. We will *support* these resolutions.

China — Human Rights Criteria

Resolutions introduced in Congress have called for U.S. corporations with operations in the China to follow certain principles in doing business there. These principles commit companies to promote freedom of expression and freedom of association among employees, to use production methods that do not risk harm to the environment, and to prohibit the presence of the Chinese military on the premises. We will *support* resolutions asking companies to adopt these principles.

Shareholders have submitted resolutions asking companies in certain key industries, such as nuclear power, not to begin new operations in China until the country improves its human rights record. They have also submitted resolutions asking financial services companies transacting business in China to report on the impact such transactions have on human rights and the environment. We will *support* these resolutions.

Choosing Where and How to Do Business

Companies choose where they will do business, where they will operate their factories, where they will subcontract their work or buy finished goods, and where they will extract natural resources. Shareholders have asked companies to develop guidelines for these choices that include consideration of a regime's human rights record. We will *support* these resolutions.

Global Companies — Standards of Conduct

Global manufacturing, resource extraction, financial services and other companies face complex issues arising from the diverse cultures and political and economic contexts in which they operate. Shareholders have asked companies to develop, adopt and continually improve codes of conduct to guide company policies, programs and operations, both within and outside their cultures of origin, and to publicly report these policies. Shareholders believe these codes should include policies designed to ensure the protection of the environment and human rights, the payment of just wages, the maintenance of safe working conditions, the avoidance of child and forced labor, and freedom of association. Shareholders often ask companies to adhere to policies that conform with the International Labor Organization's Core Conventions and the United Nations Universal Declaration on Human Rights. We will *support* these resolutions.

International Lending and Economic Development

Programs enforced by the IMF and World Bank are supposed to help developing countries repay loans, but considerable evidence indicates their effects include:

- encouraging capital flight from less economically developed countries
- eroding human and natural resources
- encouraging the inefficient use of capital
- decreasing spending for health, education, and housing
- undermining a country's long-term capacity to repay its debts

To help remedy these matters, shareholders have asked financial services companies to develop criteria for the evaluation, support, and use of intermediaries capable of promoting appropriate development in emerging economies. Others have asked for the disclosure of the criteria used in extending loans to developing countries so as to avoid adding to their \$1.3 trillion debt to industrialized countries. Shareholders have also asked companies to cancel debts owed to them by developing countries, particularly those designated as Heavily Indebted Poor Countries by the World Bank and the IMF. Still others have asked for information on structural adjustment programs. We will *support* these resolutions.

Justice for Indigenous Peoples

The land, human rights and culture of millions of indigenous peoples around the world are threatened by efforts to extract natural resources. Shareholders have asked companies to report on the impact their operations on indigenous lands and to address the impact and implications of their activities on both the

land and the people. Shareholders have also asked these companies to cease operations on indigenous lands that have an adverse environmental, socioeconomic, or human rights impact on the local population. We will **support** resolutions that call on companies to respect indigenous rights.

Money Laundering

In order to prevent money laundering, shareholders have asked financial institutions not to engage in financial transactions, including no correspondent or payable-through accounts, for any financial institution that is not willing to provide the identity and address of the participants in transactions or relationships or the identity of the beneficial ownership of funds. We will **support** these resolutions.

Questionable Overseas Payments

U.S. corporations can provide valuable goods and services to developing countries that help them attain a higher standard of living. At the same time, corporations doing business in these countries must be certain they are not violating provisions of the Foreign Corrupt Practices Act that prohibit the accepting of bribes and other questionable payments. Shareholders have asked companies to audit their foreign contracts to assure that no violations of the Foreign Corrupt Practices Act are occurring. We will **support** these resolutions.

Labor Relations

Companies have the obligation to treat their employees fairly. We support proposals asking companies to disclose or adopt codes of conduct to protect global labor and human rights practices.

Corporate Actions

Corporate Welfare

Corporate welfare, according to a *Time* magazine article on the subject, is “any action by local, state or federal government that gives a corporation or an entire industry a benefit not offered to others.” Government officials, business leaders, shareholders and others worry that corporate welfare leads to unfair market competition and softens the ability of American businesses to compete. We will **support** resolutions that ask corporations to report the corporate welfare benefits they receive.

Corporate Tax Avoidance

According to the IRS, the United States loses as much as \$65 billion annually from corporations that avoid taxes through the use of tax havens. The IRS has also documented how banks, investment companies, lawyers and stockbrokers help clients avoid millions of dollars in taxes by setting up shell companies offshore. U.S. multinational corporations are increasingly attributing their profits to offshore jurisdictions.

Shareholders have filed resolutions with financial institutions seeking a report on policies that are in place to safeguard against the provision of financial services for corporate or individual clients that enables capital flight and results in tax avoidance. We will **support** these proposals.

Over-The-Counter (OTC) Derivatives Risk

The use of complex derivatives instruments was a key factor in the financial crisis of 2008. Prior to the crisis, some shareholders sought to evaluate the credit risks associated with the exposure to the derivatives market by filing proposals requesting financial companies to provide adequate disclosure of the collateral for over-the-counter derivatives. We will *support* these resolutions.

Public Interest Obligations

The Federal Communications Act of 1934 requires media companies utilizing the publicly owned airwaves to act as a public trustee, and to fulfill a public interest obligation. Shareholders have asked media companies to report on their activities to meet their public interest obligations. We will *support* such proposals.

Insurance Companies and Economically Targeted Investments

Economically targeted investments (ETIs) are loans made to low- to moderate-income communities or individuals to foster, among many things, small businesses and farms, affordable housing, and community development banks and credit unions. Shareholders have asked for reports outlining how insurers could implement an ETI program. We will *support* these resolutions.

Anti-Corporate Social Responsibility (CSR) Proposals

In recent years, a handful of shareholders have filed proposals modeled on sustainability reporting and political contributions reporting resolutions submitted by social investors. Although the “resolved” clause of these proposals is often very similar to proposals we would generally support, the “whereas” clauses generally advance a very different agenda, calling into question, for example, a company’s efforts to address climate change. Where such proposals request “charitable contribution reports,” we will *oppose* them as their intent is clearly to limit corporate philanthropy, and because that information is readily available. Where these proposals seek sustainability reports, we will generally *abstain* or *oppose* the proposal, carefully considering the message that a vote against a “sustainability report” proposal may send to the company.

Militarism and Violence

Firearms Sales

Violence in the U.S. has increasingly become a major concern. Tens of thousands of Americans die annually due to gunfire, including many children. Restricting easy access to guns is one way of reducing the possibility of gun violence. We will *support* resolutions that ask retail companies to stop selling firearms and related ammunition, and to return all handgun inventories and related ammunition to their manufacturers

Review Military Contracting Criteria

Military contracting, particularly overseas, has been an industry susceptible to unethical business practices. Shareholders have asked management to develop social, economic and ethical criteria that the company could use to determine the acceptability of military contracts and to govern the execution of the contracts. We will *support* these resolutions.

Violence in Television Programming and in Video Games

Shareholders have asked media companies and program sponsors for reports on standards for television program production and mechanisms for monitoring violent programming. We will *support* these resolutions. In addition, researchers have raised concern that playing violent video games may lead to violent behavior among children and adolescents. Shareholders have asked retailers to report on their marketing policies for violent video games. We will *support* these resolutions

Workplace Violence

In keeping with the recommendations of the U.S. Occupational Safety and Health Administration, shareholders have asked corporations to develop violence prevention programs in the workplace. We will *support* these resolutions.

ENVIRONMENTAL ISSUES

Sustainability Reports

Concerned investors increasingly believe that the long-term financial health of a corporation is enhanced by integrating environmental, social and governance factors onto its operations. Consequently, investors increasingly seek to analyze corporate financial, social and environmental performance, and have asked corporations to prepare sustainability reports detailing their firms' records in these areas. Some shareholders have requested that companies prepare such reports using the sustainability guidelines issued by the Global Reporting Initiative (GRI). We will *support* resolutions requesting these reports. We will also *support* resolutions asking for reports on specific environmental matters, such as greenhouse gas emissions or water usage.

Environmental Reports

All companies leave some footprint on the environment. These impacts can have financial implications. As a result, disclosure of company efforts to manage and mitigate these is imperative. We expect companies to take reasonable steps to reduce their negative environmental impacts and should disclose these efforts. Shareholders have asked companies to prepare general reports describing company programs, progress and future plans in the environmental area. Such resolutions may also ask the company to:

- disclose environmental impacts and liabilities
- report on toxic emissions
- disclose the environmental impact of the company's operations on biodiversity

Other requests have focused on specific environmental problems, such as hazardous waste sites. Shareholders have also asked for reports on the environmental and occupational standards that companies require of their suppliers and vendors. We will *support* these resolutions.

CO₂ and Climate Change

In light of the severe climate-changing effects of greenhouse gas emissions from companies' operations and products, shareholders have asked companies to report on these emissions and their progress towards

reducing them, and to report on how the company is responding to rising regulatory, competitive and public pressure to measure and significantly reduce carbon dioxide and other greenhouse gas emissions.

We will **support** all resolutions to report on greenhouse gas emissions, to reduce such emissions when appropriate and to report on the effects that the continued emissions and climate change will have on their businesses.

Forestry Practices / Palm Oil Issues

Deforestation is a major driver of climate change. Forests store significant quantities of carbon, help clean and regulate water and are the home to rich biodiversity and often, indigenous communities. Shareholders have asked companies to review their policies on deforestation, including the sale of products containing material from old-growth or virgin forests. Companies should to develop and implement comprehensive policies prohibiting the harvest and trade in products from old growth and endangered forests, to phase out the use of paper from these sources, to report on the feasibility of using only wood products certified to be free of deforestation, to increase the use of recycled material, and to report generally on their progress toward implementing sustainable forestry policies. We will **support** these resolutions.

We will also **support** resolutions seeking reports on the company's forestry practices and use of certification schemes. We will support efforts to encourage companies to complete annual surveys regarding exposure to certain key commodities that are linked to deforestation. These commodities include timber, soy, beef, palm oil and biofuels. We will also **support** proposals asking companies to avoid sourcing these commodities from endangered forest areas.

Consumer-facing companies have been asked to commit to sourcing palm oil from companies and plantations committed to sustainable practices. Palm plantations have been recent targets for issues of forced labor, deforestation, habitat destruction and accelerated greenhouse gas emissions. We **support** resolutions asking companies to adopt policies to ensure the sustainable sourcing of palm oil throughout its supply chains.

Renewable Fuels and Energy Efficiency

Corporations can significantly reduce their negative impact on the environment by implementing more energy-efficient processes and operations. They may also do so through creating products and manufacturing processes that utilize renewable energy sources, several of which are currently cost-competitive. In addition, utility and energy companies can help by increasing their investments in the development of renewable energy sources. We will **support** resolutions asking corporations to develop products and operations that are more energy-efficient and/or that rely on renewable fuel sources. We will also **support** resolutions asking utility and energy companies to increase their investments in the development of renewable energy sources.

Risks Linked to Water Use

There is a need for long-term corporate water use strategies. Corporations are exposed to the following risks linked to water use:

- increasing water costs
- increasing competition for water supplies
- conflicts with local communities over water rights
- risk of disruption of water supplies and its impact on business operations

We support resolutions asking companies to report on business risks associated with a company's direct water use or the water used in its supply chain. We will support proposals asking companies to enhance access and affordability to safe drinking water.

Operatives in Certain Environmentally Sensitive Regions

Certain regions, such as the Arctic National Wildlife Refuge, the Boreal Forest or the Okefenokee National Wildlife Refuge, are particularly environmentally sensitive. Shareholders have asked natural resource extraction companies to adopt a policy of not exploiting these regions. Oil companies have also been asked to report and sometimes withdraw from tar sands activities in Canada, due to the environmental risks. We will review these resolutions on a *case-by-case* basis and will generally *support* resolutions asking for reporting on the environmental risks associated with the activities.

Hydraulic Fracturing Practices

Hydraulic fracturing, which injects a mix of water, chemicals and particles underground to create fractures, through which gas can flow for collection, has been an increasingly significant player in fossil fuel production in North America. Hydraulic fracturing operations use millions of gallons of water and significant quantities of harmful chemicals. It can contaminate ground and surface water, contribute to air quality concerns and be socially disruptive to the surrounding communities. Shareholders are asking companies to report on the environmental impact of the practice, increase transparency regarding chemicals used and to disclose policies aimed at reducing hazards from the process. We will *support* these proposals.

Linking Executive Compensation to Sustainability Goals

In order to ensure environmental and social impacts of company operations are fully integrated into a company's business, executive compensation should be linked to a company's sustainability performance. Shareholders have recently been asking companies to go beyond compliance-based metrics and link compensation to voluntary sustainability and social targets, such as reduced water risks in their supply chain, lower greenhouse gas emissions and improved diversity. Such incentives can demonstrate a company's commitment to its financial sustainability, both long and short term. We will *support* proposals linking executive compensation to sustainability and social goals.

Animal Welfare

Increasingly, consumers care deeply about how the products they purchase and consumer were produced. Shareholders have asked restaurants, food producers and other corporations to adopt animal welfare standards for their operations and suppliers worldwide, and to report these standards, and their progress towards implementing these standards, to shareholders. They have also asked such companies for transparency in the production and sourcing of their meats and eggs, to assess the humane treatment of animals through the supply chains. We will *support* these resolutions.

We will examine resolutions asking companies to eliminate animal testing on a *case-by-case* basis, considering the industry and the purpose of the testing, and whether viable alternatives exist. We will generally *support* resolutions that ask companies to phase out unnecessary testing, and will *support* resolutions calling for more humane forms of slaughter.

Neonicotinoids – Pollinator Issues

Neonicotinoids, or neonics, are used in agricultural production to control pests, especially sap-feeding insects, on cereals and grains. Neonics are systemic pesticides often applied at the root or as a seed treatment, unlike contact pesticides which remain on the surface of the treated foliage. Neonics have become of increasing concern to beekeepers and bee researchers with many of the suspecting that they may be connected to the significant bee declines in recent years. Many European markets have banned the use of neonics because of this. Investors in the United States are approaching food producers and large retail suppliers of plants to report on and implement bee-friendly farming practices. We will *support* these resolutions.

Genetically Engineered and Modified Agricultural Products

There is growing concern that genetically engineered (GE) or genetically modified foods may be harmful to humans, animals or the environment. There is also concern that any detrimental impact on public health and the environment resulting from these foods may expose companies to substantial financial liabilities. Shareholders have asked companies to delay marketing GE foods until testing proves these products to be safe over the long term. They have also asked companies that are currently marketing GE foods to:

- label them as such
- adopt a policy to phase them out
- report on the financial and environmental costs, benefits and risks associated with the production and consumption of these products
- report on the feasibility of phasing them out, unless long-term testing proves them safe to humans, animals and the environment

We will review these resolutions on a *case-by-case* basis and will generally *support* proposals asking for reporting on such issues.

Chemical Safety

To protect and enhance shareholder value, companies should know what toxic chemicals are in their products, and work to lower toxic hazards and their associated costs.

Shareholders have asked companies to do the following:

- phase out specific chemicals of concern that are used in their products where safer alternatives are available, or to report on the feasibility of doing so
- report on the expected impact on their business of chemical regulation and emerging scientific findings
- disclose their policies for identifying, handling and marketing products containing potentially hazardous chemicals, and for seeking safer substitutes for these chemicals
- reformulate products globally to meet the most stringent national or regional standards for toxic chemicals of high concern applicable to those products
- comply with actions sought by the Campaign for Safe Cosmetics, including conducting an inventory of products containing chemicals of concern, proactively seeking safer alternatives and publicly reporting on these efforts

We will *support* these resolutions.

Environmental Standards for International Electronics Industry Subcontractors

The manufacture of semiconductors requires extensive use of harmful chemicals and the use and discharge of large amounts of water. Shareholders have asked certain large U.S. electronics products companies to report on their policies for monitoring the environmental records of their major overseas suppliers. We will *support* these resolutions.

Mercury-Containing Devices

Mercury, a bioaccumulative neurotoxin contained in such devices as thermometers and sphygmomanometers, poses a significant threat to public health. We will *support* resolutions asking corporations to phase out their production and/or sale of certain mercury-containing devices.

Other proposals seek to have companies include on the labeling of fluorescent light bulbs, the precise amount of mercury contained and to provide information on special procedures for safe clean-up if the lamps break during normal handling. Shareholders are also asking companies to report on their options to reduce consumer exposure and increase consumer awareness regarding mercury and any other toxins contained in their brand products. We will *support* these proposals.

Chemicals of Concern

PVCs, phthalates and other commonly used ingredients can be environmentally hazardous throughout their life cycle (production, use and disposal). We will *support* resolutions asking companies to phase out the manufacture of such chemicals where safe alternatives are available. We will *support* resolutions asking companies to report on the risks, financial costs and benefits, and environmental and health impacts of the continued use of chemicals of concern in these types of products.

Paper Production and Use — Chlorine Bleaching

The insatiable demand for paper has led to clear-cutting of forest for pulp and the use of chlorine bleaching to achieve whiteness in the end product. As both these practices have dire environmental consequences, shareholders have asked paper manufacturers to report on plans to phase out the production of paper using these processes. In addition, shareholders have also asked companies to report on steps taken to eliminate the use of chlorine bleaching in the production of their products. We will *support* these resolutions.

Pollution Prevention, Recycling and Product Life-Cycle Responsibility

Implementation of pollution-prevention and recycling programs results in clear benefits to corporations, shareholders and the environment. Shareholders have asked corporations in environmentally risky industries to adopt a policy requiring each major facility to conduct an annual review of pollution-prevention measures. Shareholders have also asked companies to adopt and report upon plans for the virtual elimination from their operations of certain pollutants that cause severe environmental harm. Others have asked corporations to increase the use of recycled materials in their production processes and/or to implement a strategy encouraging consumers to recycle company products. In addition, shareholders are increasingly asking companies to commit to taking responsibility for the environmental impact of their products during their entire life cycles and to report on the initiatives they use to achieve this objective. We will *support* these resolutions.

Environmental Hazards to Community

The public has a right to know whether a company uses substances that pose an environmental health or safety risk to a community in which it operates. Shareholders have asked companies to make information about these risks available to enable surrounding communities to assess a facility's potential impact. We will *support* these resolutions.

Land Procurement

Retail firms, particularly "big-box retailers," can have a significant negative impact on local communities, permanently altering the character of the community's economy and environment. Controversies that arise as a result may negatively impact the company's reputation and ability to attract consumers. We will *support* shareholder proposals asking such companies to develop socially and environmentally sensitive land-procurement policies, and to report to shareholders on their implementation.

Occasionally corporations locate facilities on sites of archeological or cultural importance. Local citizens often protest such plans. Shareholders have asked companies to do the following:

- prepare a report on the impact of their plans in culturally sensitive sites
- develop policies that would ensure the preservation of communities' cultural heritage and the natural environment
- consult with affected communities on development plans
- maintain high ethical standards when working with governments and partners
- cease their operations on these sites once operations have begun

We will *support* these resolutions.

Environmental Justice

All too often, company activities disproportionately impact people of color, indigenous populations and economically disadvantaged groups. We will support proposals asking companies to inform communities on potential impacts and respect the rights of local communities to participate in decisions impacting their surroundings.

VOTING IN NON-U.S. MARKETS

The general principles guiding our proxy voting practices apply globally, and we will seek to apply these guidelines consistently in all markets. However, there are significant differences between the U.S. and other markets that may require us to modify the application of these guidelines for certain non-U.S. markets. Our policies will serve as the baseline, but where local best practices exceed our policies, we will apply the higher standard. In cases where our guidelines do not address specific issues, we will follow Glass Lewis' recommendations.

Availability of Information

The availability of information necessary to make informed voting decisions varies widely in non-U.S. markets. It is common for European companies, for example, to seek shareholder approval of company financial statements. In many cases, however, companies fail to provide their financial statements in a

timely manner. Although this is considered a “routine” matter, where we are being asked to approve a report that has not been received, we will vote **against** the proposal.

Where we are being asked to vote on an item where we have insufficient information to apply our guideline (such as auditor independence), we will **abstain**, unless it is clear market practice in that country to provide the required information, in which case we will vote **against** the proposal. As stated below, where we cannot determine the independence of a director, we will assume that director is not independent.

Bundled Proposals

Frequently, non-U.S. companies “bundle” proposals, meaning that they combine several issues into one vote. We believe that shareholders should have the opportunity to vote on each individual issue. We will vote **against** bundled proposals if we have reason to vote against any individual issue presented and **support** the proposal if we would have supported each issue. Many bundled proposals relate to the Amendments to Articles, for which we will follow Glass Lewis’ recommendations.

Capital

Unless a company is not adhering to market standards, or there is evidence of past abuses or reasons to distrust management’s judgment in its use of the company’s authorized share capital, we will generally support capital-related voting items.

Compensation

We generally **support** compensation-related items unless the company has a history of compensation issues or its compensation program does not follow market practices. Where information is available and unreasonable compensation levels are noted, we will review the data reported by Glass Lewis, comparing them to peer companies’ plans and performance.

Routine

We generally **support** routine voting items and proposals to amend a company’s article of incorporation, unless the requested action would adversely affect the rights of public shareholders.

Election of Directors

We strongly believe that directors should be elected individually. In **France**, where it is market practice to present directors individually, and Germany, where it is recommended best practice, we will vote **against** all director slates that are presented as a bundled proposal.

In other countries, where it is common practice to bundle these proposals, we will vote **against** the entire slate if we have reason to oppose any individual director, where, for example, an individual non-independent director sits on a key committee, or if the board does not include any women.

Due to the difficulty of obtaining information about the background of directors at non-U.S. companies and in consideration of the local context, *we will not consider race* when applying our board diversity guideline to foreign companies. We will **oppose** board slates where there are no women on the board.

In all markets, we will vote **against** the election or reelection of any director whose name is not disclosed. Where information is not provided to determine the independence of the director, we will assume the

director is *not* independent. Where the board does not include an audit or remuneration committee, we will assume the entire board serves in that capacity, and will vote ***against*** any non-independent directors.

In ***Sweden, Norway, Luxembourg and Finland***, some companies have sought permission to have the Chair of the Board and representatives of the firm's largest shareholders (who are not directors) serve on the nominating committee. We will ***oppose*** these proposals, as we believe only independent board members should serve on this key committee.

In ***Germany*** and other countries where up to half of the board must consist of employee representatives, we will depart from our general requirement that the board consist of a majority of independent directors, and ***require that one third of the total board be independent***.

In ***Japan***, if there are no outside directors on the board, we will ***oppose*** the election of all inside directors, excluding the CEO/President. In instances of boards with outside directors, we will ***oppose*** the election of any outside director who is a former employee of the company or maintains significant business transactions with the company.

Japan — Statutory Auditors

Independence is critical to establishing confidence in a financial audit. Many so-called “statutory” auditors in Japan, however, are not independent of corporate management. We will ***oppose*** any non-independent statutory auditors.

Availability of Information

We will ***oppose*** any proposal asking for approval of a financial statement when the statement has not been provided for review.