

LORING, WOLCOTT & COOLIDGE TRUST

2014 Proxy Voting Policy

The Trustees of the Loring, Wolcott & Coolidge Office 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. Federal law requires disclosure of our proxy voting policies to our clients. Consistent with our investment philosophy of buying and holding high quality companies, we support initiatives that enhance corporate accountability and protect the rights of shareholders.

A Proxy Voting Committee has been established by the Trustees to adopt guidelines for voting proxies annually. The Committee has retained Glass Lewis & Co. (Glass Lewis) to act as its agent to vote the proxies it receives on behalf of its clients in accordance with our guidelines. Guidelines are applicable to both U.S.-based companies and non-U.S. companies. Glass Lewis will provide additional guidance for votes on issues unique to international companies. Glass Lewis is also responsible for keeping records regarding these votes and providing the Committee with quarterly reports on the firm's voting record. 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 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 Voting Committee to be decided on a case-by-case basis. The Committee utilizes research provided by Glass Lewis. A copy of our voting guidelines or information regarding specific votes is available upon request.

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 shape the stewardship values for its clients. 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.

LORING, WOLCOTT & COOLIDGE TRUST, LLC

2014 Proxy Voting Guidelines

Corporate Governance

Annual Meetings — 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.

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.

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 25% 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:

- from members of the audit committee where the audit committee has approved an audit contract for which non-audit fees represent more than 25% of the total audit fees
- from audit committee members at companies with ineffective internal controls, if the company has had a history of poor accounting practices and the Board has failed to address them.
- from audit committees that have pulled auditor ratification from the ballot.

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. In such cases when the Chair of the Board is not independent, we will **oppose** the chair of the governance/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 feel 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.

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.

Board of Directors — Accountability

We will *oppose* individual directors who have demonstrated disregard for their responsibilities to shareholders and other stakeholders. For example, we will *oppose* directors who have attended less than 75% of board and committee meetings without a valid excuse or who have ignored a shareholder proposal that has been approved by a majority of the votes outstanding.

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.

Board of Directors — 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.

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 20% women or people of color, we will *oppose* the board's nominees.

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.

Board of Directors — 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.

Board of Directors — 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.

Board of Directors — 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.

We support the concept of “proxy access”, allowing shareholders access to the corporate proxy to nominate directors and will continue to support public policy proposals and shareholder proposals seeking to achieve this important objective. 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.

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.

Board of Directors — Cumulative Voting

Cumulative voting allows shareholders to cast all of their votes for one nominee to the board. Theoretically, it facilitates the election of dissidents to the board. In practice, however, it violates the principles of fairness and equity by granting minority shareholders a disproportionate voice in running the company. We will *oppose* bylaws requiring cumulative voting, and *support* proposals in favor of eliminating cumulative voting.

Board of Directors — 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.

Board of Directors — Staggered Terms

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 boards.

Board of Directors — Term Limits

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

Board of Directors — Reduce 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.

Board of Directors — 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.

Board of Directors — Establish Board Committee on Human Rights or Sustainability

Shareholders have filed binding 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.

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.

Management and Directors — Reasonable Compensation

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

- Pension plans for outside directors (since they usually benefit from other plans)
- Gold or silver parachute plans triggered by a takeover
- Total compensation to outside directors exceeding \$200,000 per year
- Total compensation to chief executive officers exceeding \$10,000,000 per year, where executive compensation is out of line compared to peers and relative to performance.

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. In addition, equity plans may be opposed 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. Equity plans that allow for repricing without shareholder approval, the grant of discount stock options, include evergreen provisions, or where total potential dilution from all company stock plans exceeds 15% of the current outstanding stock will also be opposed.

We will *support* "Say-on-Pay" proposals and resolutions that propose shareholder votes on extraordinary benefits, such as golden parachutes. In addition, we will *support* resolutions calling for companies to review and report on executive compensation on an annual basis.

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*.

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.

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

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

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.

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 issues
- Burma
- 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
- Social issues generally

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.

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.

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.

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

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.

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.

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.

Stock Option Expensing

Current accounting rules do not require companies to expense stock options as a cost in determining operating income. We believe this practice leads to distorted earnings reports. We will *support* resolutions calling for companies to expense costs of stock options in the company's annual income statement.

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 and Stock Issuance

Corporations occasionally engage in takeover or anti-takeover practices that are not in the interest of shareholders. Shareholders have asked for anti-greenmail provisions. 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, required by law in many states, protect shareholders from a two-tiered takeover. 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.

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

Many studies have concluded that the majority of mergers and acquisitions fail to deliver shareholder value, yet shareholders overwhelmingly approve them. At the same time, significant mergers and acquisitions may entail serious social and environmental risks. For this reason, we will review the potential social and environmental costs of any merger or acquisition along with purely financial considerations. 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 proposed 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 and Environmental Issues

Sustainability Reports

Concerned investors increasingly believe that the long-term financial health of a corporation is tied to the economic sustainability of its workers and the communities in which they operate, source and sell their products. Consequently, these investors have sought 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.

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.

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.

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 refrain from contributing to initiative campaigns unless a competitor would gain a competitive advantage from it. We will *support* such resolutions.

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. 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.

Universal Healthcare Principles and Conflicts of Interest

The AFL-CIO and others have filed proposals asking companies to adopt a set of five Institute of Medicine principles, which state that healthcare coverage should be universal, continuous and affordable. Proposals have also been filed at certain healthcare firms that focus on corporate lobbying efforts to maintain the status quo, and that stress the impact of healthcare costs on the U.S. economy at companies outside the healthcare industry. In addition, the AFL-CIO has filed proposals to address perceived conflicts of interest involvement that board members may have with health industry affiliations, asking such directors to recuse themselves from voting and from chairing board committees when necessary. We will generally *support* these resolutions.

Confidentiality of Personal Information

The outsourcing of white-collar jobs overseas has prompted concerns over the enforceability of U.S. laws to protect confidential data of customers and patients. Some shareholders have called on companies to report on policies and procedures to ensure all personal and private customer information remains so even when business operations are outsourced overseas, contracted or subcontracted. We will *support* these resolutions.

Privacy Rights

Allegations that telecommunications firms, including AT&T and Verizon, 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.

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 \$30 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.

Community and Product Safety

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

According to a 2002 study by the National Institute for Health Care Management, two thirds of drugs approved by the FDA from 1989 to 2000 were modified or identical version of existing drugs. Patents on these “me too” 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 of Americans have severely limited or no practical access to crucial prescription drugs because they are either uninsured or underinsured. 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.

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.

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.

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.

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.

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.

Diversity and Equality

Equal Employment Opportunity and Affirmative Action Report

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

- A chart identifying employees by sex, race and the various job categories defined by the EEOC
- A description of 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.

Equality Principles on Sexual Orientation

In 1995, a coalition of advocacy groups and businesses, primarily in financial services, developed the Equality Principles on Sexual Orientation. The principles call on companies to:

- Adopt written prohibitions against discrimination in employment based on sexual orientation
- Recognize and grant equal status to employee groups formed to address sexual orientation issues in the workplace
- Include sexual orientation issues in diversity training
- Grant spousal benefits to domestic partners, regardless of sexual orientation
- Refrain from using negative stereotypes of sexual orientation in advertising
- Practice nondiscrimination in the sale of goods and services and the placement of advertisements

Shareholders have asked for reports on the implementation of the principles. We will *support* these resolutions.

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. The most notorious of these is the Cleveland Indians' "Chief Wahoo." Shareholders have asked companies to display more sensitivity toward the images they present. We will *support* these resolutions.

Environment

Animal Welfare

Shareholders have asked restaurants 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. Shareholders have also filed proposals to address the practice of "battery cages", asking supermarkets and other firms to adopt policies to give consumers a choice to purchase cage-free eggs. 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, such as "controlled atmosphere killing."

CERES Principles

The Coalition for Environmentally Responsible Economies (CERES) was formed in 1989 in the wake of the Exxon Valdez disaster. It developed a set of ten principles, now called the CERES Principles, to guide corporate decisions that affect the environment. By subscribing to the Principles, a company commits itself to:

- Work toward positive goals such as sustainable use of natural resources, energy conservation and environmental restoration
- Set definitive goals and a means of measuring progress
- Inform the public in an environmental report published in the format of a CERES Report

Shareholders have submitted resolutions asking corporations to study the Principles or to endorse them. We will *support* these resolutions.

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.

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 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.

PVCs (Polyvinyl Chloride Plastics), Phthalates

PVCs are environmentally hazardous throughout their life cycle (production, use and disposal). We will *support* resolutions asking companies to phase out the manufacture of PVC- or phthalate-containing medical supplies where safe alternatives are available. PVCs are also extensively used in building materials such as furniture and floor coverings. 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 PVCs in these types of products.

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 in a wide variety of industries, including electric utilities, oil, real estate and manufacturing, 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 significantly reduce carbon dioxide and other greenhouse gas emissions.

Companies have also been asked to tie executive compensation to progress in this area. In addition, oil companies have been asked about their progress toward developing renewable energy sources and their efforts to comply with climate regulation, while electric utility companies have been asked to report on their progress in helping customers conserve energy and in using benign sources of electricity to reduce CO₂ emissions. Shareholders have also asked property and casualty insurance industry firms to report on their exposure to potentially catastrophic risks from natural disasters brought on by worldwide climate change. 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.

Environmental Reports

Shareholders have asked companies to prepare general reports (often using the CERES Report as a guide) describing company programs, progress and future plans in the environmental area. Such resolutions may also ask the company to:

- disclose environmental liabilities in a somewhat clearer fashion than the SEC requires
- 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.

Environmental Standards for International Electronics Industry Subcontractors

The manufacture of semiconductors requires extensive use of toxic 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.

Forestry Practices

Shareholders have asked companies to review their policies on the sale of products containing material from old-growth or virgin forests 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 phasing out the use of non-FSC-certified wood products, 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.

Genetically Engineered (GE) Agricultural Products

There is growing concern that GE 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.

Mining or Exploration and Production 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

The U.S. Energy Information Administration estimates that the U.S. had 238 trillion cubic feet of natural gas reserves in 2007. Onshore “unconventional production” of those reserves is expected to increase by 45% between 2007 and 2030. This includes hydraulic fracturing, which injects a mix of water, chemicals and particles underground to create fractures, through which gas can flow for collection. A government industry study estimates that 60-80% of natural gas wells drilled in the next decade will require hydraulic fracturing.

There is virtually no public disclosure of the chemicals used at fracturing locations or the impact on the surrounding environment or communities. Shareholders are asking companies to disclose the chemicals used in this process, as well as the public safety and environmental impact on surrounding communities. We will **support** these proposals.

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.

Renewable Fuels and Energy Efficiency

Burning coal and oil contributes to global climate change, acid rain, deteriorating air quality and related public health and environmental problems. Corporations can significantly reduce their negative impact on the environment by implementing more energy-efficient manufacturing processes and marketing more energy-efficient products. 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

In particular, social investors are concerned with companies involved in the bottled-water industry. These companies risk the potential of being involved in water rights disputes with local communities. We will

support resolutions requesting companies to report on the business risks associated with water use and its impact on the corporation's supply chain, and steps taken to mitigate the impact on water supplies of communities near company operations.

Human Rights

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

According to UNAIDS, the Joint United Nations Program on HIV/AIDS, in 2004, 39.4 million people were infected with HIV, and 3.1 million died from the disease. While two thirds of global HIV cases remain in sub-Saharan Africa, infections are rising in every region of the world. In addition, tuberculosis kills 2 million people per year and malaria an additional million. India and Russia have the steepest increases in HIV infection and are highly exposed to malaria and tuberculosis, respectively. UNAIDS stated that in order to achieve sustainable development in these regions, both the government and the private sector need to address the local AIDS epidemic. The private sector can do so through the provision of comprehensive workplace health coverage, counseling, testing and treatment programs. 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.

Coffee Crisis Report

In the early 2000s, the price of coffee beans reached all-time lows, preventing small farmers from earning enough to cover their costs of production and pushing thousands of small coffee farmers to the brink of starvation, with many abandoning their farms. In addition, nations that depend on coffee income have had to cut back on essential social services. The move to plantation-grown coffee threatens the environment as well. The crisis presents significant reputational risks to corporations that roast and sell coffee, as they become associated with this humanitarian crisis. Shareholders have asked companies to report on their policies related to the steep decline in coffee prices, and their response to the crisis. We will *support* these proposals.

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.

Burma

The Burmese military dictatorship has been accused of serious, ongoing human rights violations. Most large investments in Burma must be made through joint ventures with the military dictatorship, thus providing income to a regime that has committed gross violations of human rights. Shareholder resolutions relating to Burma include:

- Requests for comprehensive reports on corporate operations in Burma
- Requests for reports on the tangible and intangible costs to companies attributable to their being boycotted for doing business in Burma
- Demands that companies terminate all operations in Burma

We will **support** these resolutions.

Child Sex Tourism

Each year more than two million children are exploited in the global commercial sex trade. Child sex tourism is the practice of foreigners sexually exploiting children in another country. It is an organized multibillion dollar industry that includes tour guides, websites and brothel maps. In 2003, ECPAT, the World Tourism Organization, created a “Code of Conduct for the Protection of Children from Sexual Exploitation in Travel and Tourism” with funding from the United Nations.

Shareholders have filed resolutions asking companies involved in providing tourism services, including hotels, to adopt a policy prohibiting sexual exploitation of minors on company premises in line with the ECPAT code. 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, among other things, 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.

China — Prison Labor

The widespread belief that the government of China uses forced labor from its prison system to produce goods for export to the U.S. and elsewhere has spawned a number of general resolutions on where and how companies do business overseas (see below). Some shareholders, however, have asked for specific reports on business operations in China. 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.

Global Companies — Standards for Vendors

The outcry against the use of offshore sweatshops by U.S. retailers has many origins. Underlying those protests, however, is a common assumption: U.S. corporations have the power to alter the conditions under which their vendors operate. Shareholders have asked companies for reports 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.

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.

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

Shareholders have asked natural resource extraction companies to report on 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* these resolutions.

Mexico — Maquiladoras

Maquiladoras are facilities operated by U.S. companies just south of the U.S.-Mexico border. There, Mexican workers paid a fraction of what U.S. workers would require to subsist, assemble parts made in the U.S. and ship the finished goods north. Shareholders may ask management to:

- Initiate a review of its Maquiladoras operations, addressing issues such as environmental health and safety, or fair employment and wage practices, as well as standards of living and community impact
- Prepare a report with recommendations for changes in light of the findings

We will *support* these resolutions.

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.

Northern Ireland — MacBride Principles

The International Commission of Jurists has cited employment discrimination as one of the major causes of conflict in Northern Ireland. Shareholders have asked companies to make all lawful efforts to implement and/or increase activity on each of the nine MacBride Principles (equal employment opportunity principles), and to encourage their contractors and franchisees to implement the MacBride Principles. 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.

Tibet

Since 1950, China has occupied Tibet. Human rights activists have protested China's policies and practices in that country. From within Tibet there has been substantial opposition to Chinese rule. Shareholders have asked corporations to review plans for operating in Tibet in light of their policies on human rights. We will *support* these resolutions.

Militarism and Violence

Commitment to Peace and to Planning for Peacetime Production

With the end of the Cold War, defense contractors should turn their attention to nonmilitary markets and to converting military technology to civilian uses. Shareholders have asked for reports on military sales, conversion of military production to civilian purposes, and diversification plans to civilian production. We will *support* these resolutions.

Handgun 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 certain mainstream retail companies to stop selling handguns 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.

Space Weapons

Missile defense systems have been on the national defense agenda since the 1980's, but few independent engineers and scientists have yet to endorse such systems as reliable and cost-effective. Companies deriving significant revenue from contracts to build these systems are exposed to substantial political risk. Shareholders have asked companies for reports on government contracts for the development of ballistic missile defense technologies and related space systems. 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.

Tobacco

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 alerting pregnant women to the dangers of smoking. We will *support* these resolutions.

Sales of Non-Tobacco Products to Tobacco Industry

Shareholders have asked companies making significant sales of non-tobacco products to the tobacco industry to study the effects of ending these transactions or to stop immediately. Shareholders have also asked companies to study the health impact of certain products sold to the tobacco industry that become part of tobacco products. We will *support* these resolutions.

Smoke-Free Restaurants

Exposure to secondhand smoke from cigarettes can be harmful to the health of nonsmokers. An increasing number of restaurants are banning smoking on their premises. Shareholders have asked restaurant companies to adopt a smoke-free policy. We will *support* these resolutions.

Tobacco Advertising

Tobacco is among the most heavily advertised products in the U.S. Shareholders have asked media companies that profit from cigarette advertising to:

- Develop policies and practices to ensure cigarette advertising is not manipulative or misleading
- Voluntarily adopt the 1996 FDA regulations pertaining to tobacco advertising
- Assure that tobacco ads are not youth-friendly
- Assess the financial impact of refusing to run tobacco ads
- Develop anti-tobacco ad campaigns funded by the revenues they receive from tobacco advertising

- Review and report on the ways in which smoking is portrayed in films and television programming.

We will *support* these resolutions.

Tobacco Smoke in the Environment

The hazards of tobacco smoke in the environment, particularly indoors, are well documented. Shareholders have requested that a company refrain from efforts to undermine legislation geared toward restricting smoking in public places. Shareholders have also asked restaurant and airline companies to adopt smoke-free policies and they have requested that new fast-food franchises' facilities be smoke-free. We will *support* these resolutions.

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 board chair 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.