



Everence

# **U.S. and International Proxy Voting Guidelines**

## **2023 Proxy Season**

An overview of our values-driven approach to proxy voting for U.S. and international companies.



Approved Feb. 24, 2023

## Introduction

Under its philosophy of Stewardship Investing, Everence believes that the considered and consistent voting of proxies is both our fiduciary duty and our moral responsibility.

As fiscal fiduciaries for our clients, carefully casting proxy ballots demonstrates our commitment to good corporate governance by responsibly participating in corporate decision-making. As co-stewards with our clients, we are mindful of our shared, deep-seated concern for the individuals, communities and environments impacted by our investments and the opportunity proxy voting provides to communicate values of peace, justice, compassion and care of creation.

Everence carefully votes the proxies of both domestic and international holdings, in accordance with the guidelines below, for all accounts managed by Everence-related entities. Clients with separately managed accounts, containing individual equities, can choose to vote their own proxies, upon request.

The Proxy Voting Guidelines set forth in this document derive from the application of the Everence Stewardship Investing Core Values to the range of issues and concerns that may be expressed on the coming year's corporate proxy ballot. The objective is to promote long-term value, appropriate accountability and comprehensive sustainability through good governance while raising critical issues of social and environmental corporate responsibility that we believe are integral to successful companies and societies.

These guidelines are intended only as a general guide, as it is not possible to anticipate every resolution (either management- or shareholder-sponsored) on which we may be asked to vote. Under certain circumstances, Everence may choose to cast company-specific votes not in accordance with these guidelines if company-specific information indicates that doing so is in the best interest of our clients or the communication of shared stewardship investing values. In determining how to cast a vote on an issue not covered in the guidelines, Everence will look to our Stewardship Investing Philosophy and Core Values for guidance. In addition, Everence will employ a realistic assessment of the prescriptive and communicative implications of the ballot issue, given the advisory nature of most management- and shareholder-sponsored resolutions. Everence also takes into consideration policy guidance managed by Institutional Shareholder Services, Inc. (ISS), a leading proxy advisory firm, leveraging recommendations provided by ISS's socially responsible investor policy.

All Everence voting decisions are intended to meet our faith-based fiduciary obligations to our clients, which include support for high standards of corporate governance and social and environmental responsibility. We foresee no conflicts of interest that would hinder the application of this principle. If a conflict does arise, the Everence Investment Management Committee, charged with approving votes at variance with our guidelines, will seek to eliminate the conflict if it is feasible to do so. In any event, Everence will resolve any such conflict in the best interests of our clients. Everence may not be able to vote all proxies for companies in any account participating in a share-lending program.

These guidelines may also reflect differences between how Everence votes proxies for a U.S. company versus an international company. In voting shares of international companies, Everence is compelled to follow the rules of the governing authority in each individual country. In some markets, these rules can be complicated and onerous. While our objective is to vote every proxy possible, Everence cannot guarantee our ability to vote shares in countries that engage in overly complex or costly proxy voting requirements. These

guidelines shall be applied to the greatest extent possible in non-U.S. markets, taking into account regulatory and legal regimes, local corporate governance codes, disclosure requirements, and market best practices.

## **I. Election of directors**

### Board of directors

Boards are put in place to represent shareholders and protect their interests. Everence seeks boards with a proven record of protecting shareholders and delivering value over the medium and long term. We believe that boards working to protect and enhance the best interests of shareholders are independent, have directors with diverse backgrounds, have a record of positive performance, and have members with a breadth and depth of relevant experience.

### *Board composition*

We look at each individual on the board and examine his or her relationships with the company, the company's executives and with other board members. The purpose of this inquiry is to determine whether pre-existing personal, familial or financial relationships are likely to impact the decisions of that board member.

We vote in favor of governance structures that will drive positive performance and enhance shareholder value. The most crucial test of a board's commitment to the company and to its shareholders is the performance of the board and its members. The performance of directors in their capacity as board members and as executives of the company, when applicable, and in their roles at other companies where they serve, is critical to this evaluation.

We believe a director is independent if he or she has no material financial, familial or other current relationships with the company, its executives or other board members except for service on the board and standard fees paid for that service. Relationships that have existed within the five years prior to the inquiry are usually considered to be "current" for purposes of this test.

In our view, a director is affiliated if he or she has a material financial, familial or other relationship with the company or its executives but is not an employee of the company. This includes directors whose employers have a material financial relationship with, or a controlling stake in, the company.

We define an inside director as one who simultaneously serves as a director and as an employee of the company. This category may include a chairman of the board who acts as an employee of the company or is paid as an employee of the company.

Although we typically vote for the election of directors, we will recommend voting against directors (or withholding where applicable, here and following) for the following reasons:

- A director who attends less than 75% of the board and applicable committee meetings.
- A director that sits on more than five public boards.<sup>1</sup>

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<sup>1</sup> In Continental Europe, a non-executive directorship counts as one mandate, a non-executive chairmanship counts as two mandates, and a position as executive director (or a comparable position) counts as three mandates. Additionally, any director with both executive director and non-executive chairman positions at separate companies will be considered overboarded.

- A CEO of a public company who sits on more than two public company boards besides his/her own – withhold only at their outside boards.<sup>2</sup>
- A director who fails to file timely form(s) four or five (assessed on a case-by-case basis).
- A director who is also the CEO of a company where a serious restatement has occurred after the CEO certified the pre-restatement financial statements.
- All board members who served at a time when a poison pill was adopted without shareholder approval within the prior 12 months.
- All directors up for election if the board is less than 30% diverse, or if the board lacks at least one female or one racially diverse director.<sup>3</sup>

We also feel that the following conflicts of interest may hinder a director's performance and will therefore recommend voting against a:

- CFO who presently sits on the board.
- Director who presently sits on an excessive number of boards.
- Director, or a director whose immediate family member, provides material professional services to the company at any time during the past five years.
- Director, or a director whose immediate family member, engages in airplane, real estate or other similar deals, including perquisite type grants from the company.
- Director with an interlocking directorship.

#### *Board committee composition*

All key committees including audit, compensation, governance, and nominating committees should be composed solely of independent directors and each committee should be focused on fulfilling its specific duty to shareholders. We typically vote against any affiliated or inside director seeking appointment to an audit, compensation, nominating or governance committee or who has served in that capacity in the past year.

Additionally, we will usually vote against any affiliated or inside directors if the board is missing an audit, compensation, governance, or nominating committee.

#### *Governance committee performance*

We have adopted a policy regarding instances where a board has amended a company's governing documents to reduce or remove important shareholder rights, or to otherwise impede the ability of shareholders to exercise such right, and has done so without shareholder approval. Examples of board action that may cause such a recommendation include: the elimination of the ability of shareholders to call a special meeting or to act by written consent; an increase to the ownership threshold required for shareholders to call a special meeting; the adoption of provisions that limit the ability of shareholders to pursue full legal recourse – such as bylaws that require arbitration of shareholder claims or that require shareholder plaintiffs to pay the company's legal expenses in the absence of a court victory (i.e., "fee shifting" or "loser pays" bylaws); the adoption of a classified board structure; and the elimination of the ability of shareholders to remove a director without cause. In these instances, depending on the circumstances, we may vote against the chairman of the governance committee, or the entire committee.

<sup>2</sup> In Canada, we will generally not count a board for policy application purposes when it is publicly disclosed that the director will be stepping off that board at its next annual meeting.

<sup>3</sup> In the U.S., Canada, U.K., and Australia, a diverse person is someone who is a female or ethnic minority. Outside of these markets, this policy is applied with respect to gender diversity only. In Japan, this policy is only applied with respect to gender diversity and at companies with audit-committee board structures or traditional two-tier board structures.

We have also adopted a policy regarding instances where the board has failed to remove undue restrictions on shareholders' ability to amend the bylaws. Such restrictions include, but are not limited to: outright prohibition on the submission of binding shareholder proposals, or share ownership requirements, subject matter restrictions, or time holding requirements in excess of SEC Rule 14a-8. In such circumstances votes will be generally held against or withheld from members of the governance committee.

Submission of management proposals to approve or ratify requirements in excess of SEC Rule 14a-8 for the submission of binding bylaw amendments unless supported by good reason will generally be viewed as an insufficient restoration of shareholders' rights. We will generally continue to vote against or withhold on an ongoing basis until shareholders are provided with an unfettered ability to amend the bylaws or a proposal providing for such unfettered right is submitted for shareholder approval.

#### *Compensation committee performance*

We will vote against the members of the Compensation Committee and potentially the full board if:

- There is no "say-on-pay" proposal on the ballot, and an against vote on a "say-on-pay" proposal is warranted due to pay-for-performance misalignment, problematic pay practices, or the lack of adequate responsiveness on compensation issues raised previously, or a combination thereof;
- The board fails to respond adequately to a previous "say-on-pay" proposal that received less than 70% support of votes cast. Factors that will be considered are:
  - Disclosure of engagement efforts with major institutional investors regarding the issues that contributed to the low levels of support (including the timing and frequency of engagements and whether independent directors participated);
  - Disclosure of specific concerns voiced by dissenting shareholders that led to the say-on-pay opposition;
  - Disclosure of specific and meaningful actions taken to address shareholder concerns;
- The company has recently practiced or approved problematic pay practices, including option repricing or option backdating;
- The situation is egregious;
- The company fails to include a Say on Pay ballot item when required under SEC provisions, or under the company's declared frequency of say on pay; or
- The company fails to include a Frequency of Say on Pay ballot item when required under SEC provisions.

Generally vote against members of the board committee responsible for approving/setting non-employee director compensation if there is a pattern (i.e. two or more years) of awarding excessive non-employee director compensation without disclosing a compelling rationale or other mitigating factors.

#### *Problematic pledging of company stock*

Vote against the members of the committee that oversees risks related to pledging, or the full board, where a significant level of pledged company stock by executives or directors raises concerns. The following factors will be considered:

- The presence of an anti-pledging policy, disclosed in the proxy statement, that prohibits future pledging activity;
- The magnitude of aggregate pledged shares in terms of total common shares outstanding, market value, and trading volume;

- Disclosure of progress or lack thereof in reducing the magnitude of aggregate pledged shares over time;
- Disclosure in the proxy statement that shares subject to stock ownership and holding requirements do not include pledged company stock; and
- Any other relevant factors.

#### *Management proposals to ratify existing charter or bylaw provisions*

Generally, we will vote against management proposals to ratify provisions of the company's existing charter or bylaws, unless these governance provisions align with best practice. In addition, we will also vote against/withhold from individual directors, members of the governance committee, or the full board, where boards ask shareholders to ratify existing charter or bylaw provisions considering the following factors:

- The presence of a shareholder proposal addressing the same issue on the same ballot;
- The board's rationale for seeking ratification;
- Disclosure of actions to be taken by the board should the ratification proposal fail;
- Disclosure of shareholder engagement regarding the board's ratification request;
- The level of impairment to shareholders' rights caused by the existing provision;
- The history of management and shareholder proposals on the provision at the company's past meetings;
- Whether the current provision was adopted in response to the shareholder proposal;
- The company's ownership structure; and
- Previous use of ratification proposals to exclude shareholder proposals.

#### *Unilateral bylaw/charter amendments*

We will generally vote against directors individually, committee members, or the entire board (except new nominees, who should be considered case-by-case) if the board amends the company's bylaws or governing documents without shareholder approval in a manner that materially diminishes shareholders' rights or that could adversely impact shareholders, considering the following factors, as applicable:

- The board's rationale for adopting the bylaw/charter amendment without shareholder ratification;
- Disclosure by the company of any significant engagement with shareholders regarding the amendment;
- The level of impairment of shareholders' rights caused by the board's unilateral amendment to the bylaws/charter;
- The board's track record with regard to unilateral board action on bylaw/charter amendments or other entrenchment provisions;
- The company's ownership structure;
- The company's existing governance provisions;
- Whether the amendment was made prior to or in connection with the company's initial public offering;
- The timing of the board's amendment to the bylaws/charter in connection with a significant business development; or
- Other factors, as deemed appropriate, that may be relevant to determine the impact of the amendment on shareholders.

### *Problematic governance structure – newly public companies*

For companies that hold or held their first annual meeting<sup>4</sup> of public shareholders after Feb. 1, 2015, we will generally vote against or withhold from directors individually, committee members, or the entire board (except new nominees, who should be considered case-by-case) if, prior to or in connection with the company's public offering, the company or its board adopted the following bylaw or charter provisions that are considered to be materially adverse to shareholder rights:

- Supermajority vote requirements to amend the bylaws or charter;
  - A classified board structure; or
  - Other egregious provisions.
- A provision which specifies that the problematic structure(s) will be sunset within seven years of the date of going public will be considered a mitigating factor.
- Unless the adverse provision is reversed or removed, vote case-by-case on director nominees in subsequent years.

### *Unequal voting rights*

We will generally vote withhold or against directors individually, committee members, or the entire board (except new nominees, who should be considered case-by-case), if the company employs a common stock structure with unequal voting rights<sup>5</sup>.

Exceptions to this policy will generally be limited to:

- Newly-public companies with a sunset provision of no more than seven years from the date of going public;
- Limited Partnerships and the Operating Partnership (OP) unit structure of REITs;
- Situations where the super-voting shares represent less than 5% of total voting power and therefore considered to be de minimis; or
- The company provides sufficient protections for minority shareholders, such as allowing minority shareholders a regular binding vote on whether the capital structure should be maintained.

### *Board responsiveness*

Directors should be responsive to shareholders, particularly in regard to shareholder proposals that receive a majority vote or management proposals that receive significant opposition and to tender offers where a majority of shares are tendered. Furthermore, shareholders should expect directors to devote sufficient time and resources to oversight of the company.

We will vote case-by-case on individual directors, committee members, or the entire board of directors as appropriate if:

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<sup>4</sup> Includes companies that emerge from bankruptcy, SPAC transactions, spin-offs, direct listings, and those who complete a traditional initial public offering.

<sup>5</sup> This generally includes classes of common stock that have additional votes per share than other shares; classes of shares that are not entitled to vote on all the same ballot items or nominees; or stock with time-phased voting rights ("loyalty shares").

- The board failed to act on a shareholder proposal that received the support of a majority of the shares cast in the previous year or failed to act on a management proposal seeking to ratify an existing charter/bylaw provision that received the opposition of a majority of the shares cast in the previous year. Factors that will be considered are:
  - Disclosed outreach efforts by the board to shareholders in the wake of the vote;
  - Rationale provided in the proxy statement for the level of implementation;
  - The subject matter of the proposal;
  - The level of support for and opposition to the resolution in past meetings;
  - Actions taken by the board in response to the majority vote and its engagement with shareholders;
  - The continuation of the underlying issue as a voting item on the ballot (as either shareholder or management proposals); and
  - Other factors as appropriate.
- The board failed to act on takeover offers where the majority of shares are tendered;
- At the previous board election, any director received more than 50% withhold/against votes of the shares cast and the company has failed to address the issue(s) that caused the high withhold/against vote; or
- The board implements an advisory vote on executive compensation on a less frequent basis than the frequency that received the plurality of votes cast at the most recent shareholder meeting at which shareholders voted on the say-on-pay frequency.

#### *Environmental, social and governance failures*

We will vote against directors individually, committee members, or potentially the entire board, due to:

- Material failures of governance, stewardship, risk oversight, or fiduciary responsibilities at the company, including failure to adequately guard against or manage ESG risks;
- A lack of sustainability reporting in the company's public documents and/or website in conjunction with a failure to adequately manage or mitigate ESG risks;
- Failure to replace management as appropriate; or
- Egregious actions related to the director(s)' service on other boards that raise substantial doubt about his or her ability to effectively oversee management and serve the best interests of shareholders at any company.

#### *Climate accountability*

For companies that are significant GHG emitters, through their operations or value chain (defined as companies currently in the Climate Action 100+ Focus Group list), we will generally vote against or withhold from the incumbent chair of the responsible committee (or other directors on a case-by-case basis) in cases where it is determined that the company is not taking the minimum steps needed to be aligned with a Net Zero by 2050 trajectory.

For 2023, minimum steps needed to be considered to be aligned with a Net Zero by 2050 trajectory are (all minimum criteria will be required to be in alignment with policy):

- The company has detailed disclosure of climate-related risks, such as according to the framework established by the Task Force on Climate-related Financial Disclosures, including:
  - Board governance measures;
  - Corporate strategy;
  - Risk management analyses; and
  - Metrics and targets.



- The company has declared a Net Zero target by 2050 or sooner and the target includes scope 1, 2, and relevant scope 3 emissions.
- The company has set a medium-term target for reducing its GHG emissions.

Expectations about what constitutes "minimum steps needed to be aligned with a Net Zero by 2050 trajectory" will increase over time.

#### *Slate elections*

In some countries, companies elect their board members as a slate, whereby shareholders are unable to vote on the election of each individual director, but rather are limited to voting for or against the board as a whole. If significant issues exist concerning one or more of the nominees, we will recommend voting against the entire slate of directors.

#### *Review of the Compensation Discussion and Analysis Report*

We review the CD&A in our evaluation of the overall compensation practices of a company, as overseen by the compensation committee. In our evaluation of the CD&A, we examine, among other factors, the extent to which the company has used performance goals in determining overall compensation, how well the company has disclosed performance metrics and goals and the extent to which the performance metrics, targets and goals are implemented to enhance company performance. We would recommend voting against the chair of the compensation committee where the CD&A provides insufficient or unclear information about performance metrics and goals, where the CD&A indicates that pay is not tied to performance, or where the compensation committee or management has excessive discretion to alter performance terms or increase amounts of awards in contravention of previously defined targets. However, if a company provides shareholders with an advisory vote on compensation, we will recommend that shareholders only vote against the advisory compensation vote proposal unless the compensation practices are particularly egregious or persistent.

#### *Review of risk management controls*

We believe companies, particularly financial firms, should have a dedicated risk committee, or a committee of the board charged with risk oversight, as well as a chief risk officer who reports directly to that committee, not to the CEO or another executive. In cases where a company has disclosed a sizable loss or write-down, and where a reasonable analysis indicates that the company's board-level risk committee should be held accountable for poor oversight, we would vote against such committee members on that basis. In addition, in cases where a company maintains a significant level of financial risk exposure but fails to disclose any explicit form of board-level risk oversight (committee or otherwise), we will consider recommending voting against the chairman of the board on that basis.

#### Separation of the roles of chairman and CEO

Everence believes that separating the roles of corporate officers and the chairman of the board is a better governance structure than a combined executive/chairman position. The role of executives is to manage the business on the basis of the course charted by the board. Executives should be in the position of reporting and answering to the board for their performance in achieving the goals set out by such board. This becomes much more complicated when management actually sits on, or chairs, the board.

We view an independent chairman as better able to oversee the executives of the company and set a pro-shareholder agenda without the management conflicts that a CEO and other executive insiders often face. This, in turn, leads to a more proactive and effective board of directors that is looking out for the interests of shareholders above all else.

We do not recommend voting against CEOs who serve on or chair the board. However, we do support a separation between the roles of chairman of the board and CEO, whenever that question is posed in a proxy.

In the absence of an independent chairman, we support the appointment of a presiding or lead director with authority to set the agenda for the meetings and to lead sessions outside the presence of the insider chairman.

#### Majority voting for the election of directors

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

#### Classified boards

Everence favors the repeal of staggered boards in favor of the annual election of directors. We believe that staggered boards are less accountable to shareholders than annually elected boards. Furthermore, we feel that the annual election of directors encourages board members to focus on protecting the interests of shareholders.

Additionally, Everence will not support situations where the company has opted into, or failed to opt out of, state laws requiring a classified board structure.

#### Majority-approved shareholder proposals seeking board declassification

If a company fails to implement a shareholder proposal seeking board declassification, which received majority support from shareholders (excluding abstentions and broker non-votes) at the previous year's annual meeting, we will consider voting against all nominees up for election that served throughout the previous year, regardless of their committee membership.

## **II. Financial reporting**

### Auditor ratification

We believe that role of the auditor is crucial in protecting shareholder value. In our view, shareholders should demand the services of objective and well-qualified auditors at every company in which they hold an interest. Like directors, auditors should be free from conflicts of interest and should assiduously avoid situations that require them to make choices between their own interests and the interests of the shareholders.

Everence generally supports management's recommendation regarding the selection of an auditor. However, we recommend voting against the ratification of auditors for the following reasons:

- The non-audit fees paid represent 25% or more of the total fees paid to the auditor;
- An auditor has a financial interest in or association with the company, and is therefore not independent;
- There is reason to believe that the independent auditor has rendered an opinion that is neither accurate nor indicative of the company's financial position; or,
- Poor accounting practices are identified that rise to a serious level of concern, such as: fraud; misapplication of GAAP; and material weaknesses identified in Section 404 disclosures.

### Auditor rotation

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

### Pension accounting issues

Proxy proposals sometimes raise the question as to whether pension accounting should have an effect on the company's net income and therefore be reflected in the performance of the business for purposes of calculating payments to executives. It is our view that pension credits should not be included in measuring income used to award performance-based compensation. Many of the assumptions used in accounting for retirement plans are subject to the discretion of a company, and management would have an obvious conflict of interest if pay were tied to pension income.

### Auditor-related shareholder proposals

These shareholder proposals request that the board allow shareholders to ratify the company's auditor at each annual meeting. Annual ratification of the outside accountants is standard practice. While it is recognized that the company is in the best position to evaluate the competence of the outside accountants, we believe outside accountants must ultimately be accountable to shareholders.

Given the rash of accounting irregularities that were not detected by audit panels or auditors, shareholder ratification is an essential step in restoring investor confidence. Everence believes shareholders should have the ability to ratify the auditor on an annual basis. We will:

- Vote for shareholder proposals to allow shareholders to vote on auditor ratification;
- Vote for proposals that ask a company to adopt a policy on auditor independence; and

- Vote for proposals that seek to limit the non-audit services provided by the company's auditor.

#### Accounts and reports (international markets)

Many countries require companies to submit the annual financial statements, director reports and independent auditors' reports to shareholders at a general meeting. Shareholder approval of such a proposal does not discharge the board or management. We will usually recommend voting in favor of these proposals except when there are concerns about the integrity of the statements/reports. However, should the audited financial statements, auditor's report and/or annual report not be published at the writing of our report, we will vote against this proposal. We will generally vote for the approval of mandatory non-financial information statement/report, unless the independent assurance services provider has raised material concerns about the information presented.

#### Income allocation – distribution of dividend (international markets)

In many countries, companies must submit the allocation of income for shareholder approval. We will generally recommend voting for such a proposal. However, we will give particular scrutiny to cases where the company's dividend payout ratio is exceptionally low or excessively high relative to its peers and the company has not provided a satisfactory explanation. We generally recommend abstaining from dividends with payout ratios of less than 10% or more than 200%.

### **III. Compensation**

#### Advisory votes on compensation – Say on Pay

The Dodd-Frank Act mandates advisory votes on executive compensation (aka management say on pay or MSOP) for a proxy or consent or authorization for an annual or other meeting of the shareholders that includes required SEC compensation disclosures. This non-binding shareholder vote on compensation must be included in a proxy or consent or authorization at least once every three years.

In general, the management say on pay ballot item is the primary focus of voting on executive pay practices – dissatisfaction with compensation practices can be expressed by voting against the MSOP proposal rather than voting against or withhold from the compensation committee. However, if there is no MSOP on the ballot, then the negative vote will apply to members of the compensation committee. In addition, in egregious cases, or if the board fails to respond to concerns raised by a prior MSOP proposal, then Everence will vote against compensation committee members (or, if the full board is deemed accountable, all directors). If the negative factors involve equity-based compensation, then a vote against an equity-based plan proposal presented for shareholder approval may be appropriate. In evaluating MSOP proposals, Everence will also assess to what degree social and environmental considerations are incorporated into compensation programs and executive pay decision-making – to the extent that proxy statement CD&A disclosures permit.

Everence will evaluate executive pay and practice, as well as certain aspects of outside director compensation on a case-by-case basis.

We will vote against management say on pay (MSOP) proposals if:

- The CEO's total direct compensation exceeds \$10 million; or

- There is an unmitigated misalignment between CEO pay and company performance (pay for performance); or
- The company maintains problematic pay practices; or
- The board exhibits poor communication and responsiveness to shareholders; or
- The board has failed to demonstrate good stewardship of investors' interests regarding executive compensation practices.

We will vote against an equity plan on the ballot if:

- A pay for performance misalignment exists, and a significant portion of the CEO's misaligned pay is attributed to non-performance-based equity awards, taking into consideration:
  - Magnitude of pay misalignment;
  - Contribution of non-performance-based equity grants to overall pay; and
  - The proportion of equity awards granted in the last three fiscal years concentrated at the named executive officer (NEO) level.

### Say-When-on-Pay

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

### Equity-based compensation plans

As executive pay levels continue to soar, non-salary compensation remains one of the most sensitive and visible corporate governance issues. The financial crisis raised questions about the role of pay incentives in influencing executive behavior, including their appetite for risk-taking. Although shareholders may have little say about how much the CEO is paid in salary and bonus, they do have a major voice in approving stock incentive plans.

Stock-based plans can transfer significant amounts of wealth from shareholders to executives and directors and are among the most economically significant issues that shareholders are entitled to vote on. Rightly, the cost of these plans must be in line with the anticipated benefits to shareholders. Clearly, reasonable limits must be set on dilution as well as administrative authority. In addition, shareholders must consider the necessity of the various pay programs and examine the appropriateness of award types. Consequently, the pros and cons of these proposals necessitate a case-by-case evaluation.

Factors that increase the cost (or have the potential to increase the cost) of plans to shareholders include: excessive dilution, options awarded at below-market discounts, permissive policies on pyramiding, restricted stock giveaways that reward tenure rather than results, sales of shares on concessionary terms, blank-check authority for administering committees, option repricing or option replacements, accelerated vesting of awards in the event of defined changes in corporate control, stand-alone stock appreciation rights, loans or other forms of assistance, or evidence of improvident award policies.

Positive plan features that can offset costly features include: plans with modest dilution potential (i.e., appreciably below double-digit levels), bars to pyramiding and related safeguards for investor interests. Also favorable are performance programs with a duration of two or more years, bonus schemes that pay off in non-dilutive, fully deductible cash, 401K and other thrift or profit sharing plans, and tax-favored employee stock purchase plans. In general, we believe that stock plans should afford incentives, not sure-fire, risk-free rewards.

Everence will vote case-by-case on equity-based compensation plans depending on a combination of certain plan features and equity grant practices, where positive factors may counterbalance negative factors, and vice versa, as evaluated in three pillars:

- Plan cost: The total estimated cost of the company's equity plans relative to industry/market cap peers, measured by the company's estimated shareholder value transfer in relation to peers and considering both:
  - SVT based on new shares requested plus shares remaining for future grants, plus outstanding unvested/unexercised grants; and
  - SVT based only on new shares requested plus shares remaining for future grants.
- Plan features:
  - Automatic single-triggered award vesting upon a change in control;
  - Discretionary vesting authority;
  - Liberal share recycling on various award types;
  - Minimum vesting period for grants made under the plan.
  - Dividends payable prior to award vesting.
- Grant practices:
  - The company's three year burn rate relative to its industry/market cap peers;
  - Vesting requirements in most recent CEO equity grants (3-year look-back);
  - The estimated duration of the plan based on the sum of shares remaining available and the new shares requested, divided by the average annual shares granted in the prior three years;
  - The proportion of the CEO's most recent equity grants/awards subject to performance conditions;
  - Whether the company maintains a claw-back policy;
  - Whether the company has established post exercise/vesting share-holding requirements.

Everence will generally vote against the plan proposal if the combination of above factors indicates that the plan is not, overall, in shareholders' interests, or if any of the following apply:

- Awards may vest in connection with a liberal change-of-control definition;
- The plan would permit repricing or cash buyout of underwater options without shareholder approval (either by expressly permitting it – for NYSE and Nasdaq listed companies -- or by not prohibiting it when the company has a history of repricing – for non-listed companies);
- The plan is a vehicle for problematic pay practices or a pay-for-performance disconnect;
- The plan is unjustifiably dilutive to shareholders' holdings;
- The plan contains an evergreen (automatic share replenishment) feature; or
- Any other plan features are determined to have a significant negative impact on shareholder interests.

### Option exchanges

Option exchanges are reviewed on a case-by-case basis, although they are approached with great skepticism. Repricing is tantamount to a re-trade. We will consider the following when evaluating proposals seeking approval to exchange/reprice options:

- Historic trading patterns – the stock price should not be so volatile that the options are likely to be back “in-the-money” over the near term;
- Rationale for the re-pricing – was the stock price decline beyond management's control?
- Is this a value-for-value exchange?
- Are surrendered stock options added back to the plan reserve?
- Option vesting – does the new option vest immediately or is there a blackout period?
- Term of the option – the term should remain the same as that of the replaced option;
- Exercise price – should be set at fair market or a premium to market;
- Participants – executive officers and directors should be excluded.

### Director compensation plans

Non-employee directors should receive compensation for the time and effort they spend serving on the board and its committees. In particular, we support compensation plans that include equity-based awards, which help to align the interests of outside directors with those of shareholders. Director fees should be competitive in order to retain and attract qualified individuals.

We have adopted a policy for management proposals seeking ratification of non-employee director compensation where we will vote on a case-by-case basis, based on the following factors:

- If the equity plan under which non-employee director grants are made is on the ballot, whether or not it warrants support; and
- An assessment of the following qualitative factors:
  - The relative magnitude of director compensation as compared to companies of a similar profile;
  - The presence of problematic pay practices relating to director compensation;
  - Director stock ownership guidelines and holding requirements;
  - Equity award vesting schedules;
  - The mix of cash and equity-based compensation;
  - Meaningful limits on director compensation;
  - The availability of retirement benefits or perquisites; and
  - The quality of disclosure surrounding director compensation.

### Equity plans for non-employee directors

We will vote case-by-case on compensation plans for non-employee directors, based on:

- The total estimated cost of the company's equity plans relative to industry/market cap peers, measured by the company's estimated shareholder value transfer based on new shares requested plus shares remaining for future grants, plus outstanding unvested/unexercised grants;
- The company's three-year burn rate relative to its industry/market cap peers; and
- The presence of any egregious plan features (such as an option repricing provision or liberal CIC vesting risk).
- On occasion, director stock plans will exceed the plan cost or burn rate benchmarks when combined with employee or executive stock plans. In such cases, vote case-by-case on the plan taking into consideration the following qualitative factors:

- The relative magnitude of director compensation as compared to companies of a similar profile;
- The presence of problematic pay practices relating to director compensation;
- Director stock ownership guidelines and holding requirements;
- Equity award vesting schedules;
- The mix of cash and equity-based compensation;
- Meaningful limits on director compensation;
- The availability of retirement benefits or perquisites; and
- The quality of disclosure surrounding director compensation.

#### Amending cash and equity plans (including Approval for Tax Deductibility (162(m)))

Everence will vote on a case-by-case basis on amendments to cash and equity incentive plans.

Generally, we will vote for proposals to amend executive cash, stock, or cash and stock incentive plans if the proposal:

- Addresses administrative features only; or
- Seeks approval for Section 162(m) purposes only, and the plan administering committee consists entirely of independent outsiders, per Social Advisory Services' Categorization of Directors. Note that if the company is presenting the plan to shareholders for the first time after the company's initial public offering, or if the proposal is bundled with other material plan amendments, then the recommendation will be case-by-case (see below).
- Enables the financial community to manage governance risk for the benefit of shareholders.

We will vote against proposals to amend executive cash, stock, or cash and stock incentive plans if the proposal:

- Seeks approval for Section 162(m) purposes only, and the plan administering committee does not consist entirely of independent outsiders, per Social Advisory Services' Categorization of Directors.

On all other proposals will vote case-by-case on all other proposals to amend cash incentive plans. This includes plans presented to shareholders for the first time after the company's IPO and/or proposals that bundle material amendment(s) other than those for Section 162(m) purposes.

We will also vote case-by-case on all other proposals to amend equity incentive plans, considering the following:

- If the proposal requests additional shares and/or the amendments may potentially increase the transfer of shareholder value to employees, the recommendation will be based on the Equity Plan Scorecard evaluation as well as an analysis of the overall impact of the amendments.
- If the plan is being presented to shareholders for the first time after the company's IPO, whether or not additional shares are being requested, the recommendation will be based on the Equity Plan Scorecard evaluation as well as an analysis of the overall impact of any amendments.
- If there is no request for additional shares and the amendments are not deemed to potentially increase the transfer of shareholder value to employees, then the recommendation will be based entirely on an analysis of the overall impact of the amendments, and the EPSC evaluation will be shown for informational purposes.



## Compensation-related shareholder proposals

### *Performance-based options*

We generally vote in favor of performance-based option requirements. We feel that executives should be compensated with equity when their performance and that of the company warrants such rewards. We believe boards can develop a consistent, reliable approach, as boards of many companies have, that would attract executives who believe in their ability to guide the company to achieve its targets.

Everence will vote case-by-case on shareholder proposals requesting that a significant amount of future long-term incentive compensation awarded to senior executives shall be performance-based and requesting that the board adopt and disclose challenging performance metrics to shareholders, based on the following analytical steps:

- First, vote for shareholder proposals advocating the use of performance-based equity awards, such as performance contingent options or restricted stock, indexed options or premium-priced options, unless the proposal is overly restrictive or if the company has demonstrated that it is using a “substantial” portion of performance-based awards for its top executives. Standard stock options and performance-accelerated awards do not meet the criteria to be considered as performance-based awards. Further, premium-priced options should have a premium of at least 25% and higher to be considered performance-based awards.
- Second, assess the rigor of the company’s performance-based equity program. If the bar set for the performance-based program is too low based on the company’s historical or peer group comparison, generally vote for the proposal. Furthermore, if target performance results in an above target payout, vote for the shareholder proposal due to program’s poor design. If the company does not disclose the performance metric of the performance-based equity program, vote for the shareholder proposal regardless of the outcome of the first step to the test.

In general, Everence will vote for the shareholder proposal if the company does not meet both of the above two steps.

### *Limits on executive compensation*

Proposals to limit executive compensation will be evaluated on a case-by-case basis. Generally, we believe executive compensation should be left to the board's compensation committee. We view the election of directors, and specifically those who sit on the compensation committee, as the appropriate mechanism for shareholders to express their disapproval or support of board policy on this issue.

### *Limits on executive stock options*

We favor the grant of options to executives. Options are a very important component of compensation packages designed to attract and retain experienced executives and other key employees. Tying a portion of an executive's compensation to the performance of the company also provides an excellent incentive to maximize share values by those in the best position to affect those values. Accordingly, we typically vote against caps on executive stock options.

### *Severance agreements/golden parachutes*

Golden parachutes are designed to protect the employees of a corporation in the event of a change in control. With golden parachutes senior level management employees receive a payout during a change in control at usually two to three times base salary.

Everence will vote for shareholder proposals requiring that golden parachutes or executive severance agreements be submitted for shareholder ratification, unless the proposal requires shareholder approval prior to entering into employment contracts.

### *Link compensation to non-financial factors*

Proponents of these proposals feel that social and environmental criteria should be factored into the formulas used in determining executive compensation packages. The shareholder sponsors of the resolutions look to companies to review current compensation practices and to include social or environmental performance criteria such as accounting for “poor corporate citizenship” and meeting environmental or workplace safety objectives and metrics when evaluating executive compensation. Some of the non-financial criteria that proponents of these resolutions seek to be incorporated in compensation program design include workplace safety, environmental stewardship, or diversity and customer/employee satisfaction – as part of a written policy used to align compensation with performance on non-financial factors alongside financial criteria.

Proponents believe factors such as poor environmental performance, workplace lawsuits, etc. could have a significant adverse impact on a company’s financial performance if not proactively and adequately addressed, and that these factors should be considered along with traditional financial considerations when determining executive pay. The significant stock price declines and massive losses in shareholder value stemming from the BP Deepwater Horizon oil rig disaster and the tragic explosion at Massey Energy’s Upper Big Branch mine that killed 29 employees is a sobering reminder of the need to have the right management incentives in place to ensure that social and environmental risks are actively managed and mitigated against. Given the proliferation of derivative lawsuits targeted at firms such as Halliburton, Transocean and Cameron International that were suppliers to or partners with BP in a capacity that ignored safety considerations or that contributed to the economic and ecological disaster, investors are increasingly mindful of the far-reaching implications that exposure to social or environmental risks could have on shareholder value at portfolio companies.

- We will vote for shareholder proposals calling for linkage of executive pay to non-financial factors including performance against social and environmental goals, customer/employee satisfaction, corporate downsizing, community involvement, human rights, or predatory lending.
- We will vote for shareholder proposals seeking reports on linking executive pay to non-financial factors.

## **IV. Governance structures**

### Anti-takeover measures

#### *Poison pills (shareholder rights plans)*

Everence believes poison pill plans generally are not in the best interests of shareholders. Specifically, they can reduce management accountability by substantially limiting opportunities for corporate takeovers. Rights plans can thus prevent shareholders from receiving a buy-out premium for their stock.

We believe boards should be given wide latitude in directing the activities of the company and charting the company's course. However, on an issue such as this where the link between the financial interests of shareholders and their right to consider and accept buyout offers is so substantial, we believe shareholders should be allowed to vote on whether they support such a plan's implementation.

When a classified board adopts a poison pill without shareholder approval within the prior 12 months and shareholders are unable to vote against all members of the board due to the board's staggered structure, we will vote against the remaining directors in the next year they are up for a shareholder vote.

In certain limited circumstances, we will support a limited poison pill to accomplish a particular objective, such as the closing of an important merger, or a pill that contains what we believe to be a reasonable "qualifying offer" clause.

If a poison pill with a term of one year or less was adopted without shareholder approval, we will consider voting against all members of the governance committee, depending on the disclosed rationale for the adoption, and other factors as relevant (such as a commitment to put any renewal to a shareholder vote). If the board has, without seeking shareholder approval, made material adverse change to an existing poison pill, including, but not limited to, extension, renewal, or lowering the trigger, or if the pill, whether short-term or long-term, has a deadhand or slowhand feature, we will consider voting against the entire board.

#### *Net operating loss (NOL) poison pills/protective amendments*

The financial crisis has prompted widespread losses in certain industries. This has resulted in previously profitable companies considering the adoption of a poison pill and/or NOL protective amendment to protect their NOL tax assets, which may be lost upon an acquisition of 5% of a company's shares.

When evaluating management proposals seeking to adopt NOL pills or protective amendments, Everence will leverage the research and proxy voting guidance provided by ISS. ISS examines the purpose behind the proposal, its terms, and the company's existing governance structure should be taken into account to assess whether the structure actively promotes board entrenchment or adequately protects shareholder rights. ISS acknowledges the high estimated tax value of NOLs, which benefit shareholders, the ownership acquisition limitations contained in an NOL pill/protective amendment coupled with a company's problematic governance structure could serve as an antitakeover device.

Given the fact shareholders will want to ensure that such an amendment does not remain in effect permanently, ISS will also closely review whether the pill/amendment contains a

sunset provision or a commitment to cause the expiration of the NOL pill/protective amendment upon exhaustion or expiration of the NOLs.

Everence will vote against proposals to adopt a poison pill for the stated purpose of protecting a company's net operating losses if the term of the pill would exceed the shorter of three years and the exhaustion of the NOL.

Everence will vote case-by-case on management proposals for poison pill ratification, considering the following factors, if the term of the pill would be the shorter of three years (or less) and the exhaustion of the NOL:

- The ownership threshold to transfer (NOL pills generally have a trigger slightly below 5%);
- The value of the NOLs;
- Shareholder protection mechanisms (sunset provision, or commitment to cause expiration of the pill upon exhaustion or expiration of NOLs);
- The company's existing governance structure including: board independence, existing takeover defenses, track record of responsiveness to shareholders, and any other problematic governance concerns; and
- Any other factors that may be applicable.

We will vote against proposals to adopt a protective amendment for the stated purpose of protecting a company's net operating losses if the effective term of the protective amendment would exceed the shorter of three years and the exhaustion of the NOL.

We will vote case-by-case, considering the following factors, for management proposals to adopt an NOL protective amendment that would remain in effect for the shorter of three years (or less) and the exhaustion of the NOL:

- The ownership threshold (NOL protective amendments generally prohibit stock ownership transfers that would result in a new five-percent holder or increase the stock ownership percentage of an existing five-percent holder);
- The value of the NOLs;
- Shareholder protection mechanisms (sunset provision or commitment to cause expiration of the protective amendment upon exhaustion or expiration of the NOL);
- The company's existing governance structure including; board independence, existing takeover defenses, track record of responsiveness to shareholders, and any other problematic governance concerns;
- Any other factors that may be applicable.

#### *Right of shareholders to call a special meeting*

Most state corporation statutes allow shareholders to call a special meeting when they want to take action on certain matters that arise between regularly scheduled annual meetings. Sometimes this right applies only if a shareholder or a group of shareholders own a specified percentage of shares, with 10% being the most common. Shareholders may lose the ability to remove directors, initiate a shareholder resolution, or respond to a beneficial offer without having to wait for the next scheduled meeting if they are unable to act at a special meeting of their own calling.

We will vote in favor of proposals that allow shareholders to call special meetings, taking into account: a) shareholders' current right to call special meetings; b) minimum ownership threshold necessary to call special meetings (10% preferred); c) the inclusion of exclusionary or prohibitive language; d) investor ownership structure; and e) shareholder support of and management's response to previous shareholder proposals.

### *Shareholder action by written consent*

We will vote in favor of proposals that allow shareholders to act by written consent, taking into consideration: a) shareholders' current right to act by written consent; b) consent threshold; c) the inclusion of exclusionary or prohibitive language; d) investor ownership structure; and e) shareholder support of and management's response to previous shareholder proposals.

### Authorized shares (U.S. market)

Everence will vote case-by-case on proposals to increase the number of authorized shares of common stock that are to be used for general corporate purposes:

- If share usage (outstanding plus reserved) is less than 50% of the current authorized shares, vote for an increase of up to 50% of current authorized shares.
- If share usage is 50% to 100% of the current authorized, vote for an increase of up to 100% of current authorized shares.
- If share usage is greater than current authorized shares, vote for an increase of up to the current share usage.
- In the case of a stock split, the allowable increase is calculated (per above) based on the post-split adjusted authorization.

We will generally vote against proposed increases, even if within the above ratios, if the proposal or the company's prior or ongoing use of authorized shares is problematic, including, but not limited to:

- The proposal seeks to increase the number of authorized shares of the class of common stock that has superior voting rights to other share classes;
- On the same ballot is a proposal for a reverse split for which support is warranted despite the fact that it would result in an excessive increase in the share authorization;
- The company has a non-shareholder approved poison pill (including an NOL pill); or
- The company has previous sizeable placements (within the past 3 years) of stock with insiders at prices substantially below market value, or with problematic voting rights, without shareholder approval.

However, we will generally vote for proposed increases beyond the above ratios or problematic situations when there is disclosure of specific and severe risks to shareholders of not approving the request, such as:

- In, or subsequent to, the company's most recent 10-K filing, the company discloses that there is substantial doubt about its ability to continue as a going concern;
- The company states that there is a risk of imminent bankruptcy or imminent liquidation if shareholders do not approve the increase in authorized capital; or
- A government body has in the past year required the company to increase its capital ratios.

For companies incorporated in states that allow increases in authorized capital without shareholder approval, generally vote withhold or against all nominees if a unilateral capital authorization increase does not conform to the above policies.

### Specific authorization requests

We will generally 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 transaction(s) (such as acquisitions, SPAC transactions, private placements, or similar

transactions) on the same ballot, or disclosed in the proxy statement, that warrant support. For such transactions, the allowable increase will be the greater of:

- Twice the amount needed to support the transactions on the ballot, and
- The allowable increase as calculated for general issuances above.

#### Share repurchase program

For U.S.-incorporated companies, and foreign-incorporated U.S. Domestic Issuers that are traded solely on U.S. exchanges, Everence will vote for management proposals to institute open-market share repurchase plans in which all shareholders may participate on equal terms, or to grant the board authority to conduct open-market repurchases, in the absence of company-specific concerns regarding:

- Greenmail;
- The use of buybacks to inappropriately manipulate incentive compensation metrics;
- Threats to the company's long-term viability; or
- Other company-specific factors as warranted.

We will vote case-by-case on proposals to repurchase shares directly from specified shareholders, balancing the stated rationale against the possibility for the repurchase authority to be misused, such as to repurchase shares from insiders at a premium to market price.

#### Reverse stock splits

Everence will vote for management proposals to implement a reverse stock split if:

- The number of authorized shares will be proportionally reduced; or
- The effective increase in authorized shares is equal to or less than the allowable increase calculated in accordance with Social Advisory Services' Common Stock Authorization policy.

Everence will vote case-by-case on proposals that do not meet either of the above conditions, taking into consideration the following factors:

- Stock exchange notifications to the company of a potential delisting;
- Disclosure of substantial doubt about the company's ability to continue as a going concern without additional financing;
- The company's rationale; or
- Other factors as applicable.

#### Increase in authorized shares (international markets)

Everence believes adequate capital stock is important to the operation of a company. We will generally support proposals when a company could reasonably use the requested shares for financing, stock splits and stock dividends. While we think that having adequate shares to allow management to make quick decisions and effectively operate the business is critical, we prefer that, for significant transactions, management come to shareholders to justify their use of additional shares rather than providing a blank check in the form of large pools of unallocated shares available for any purpose.

We will vote for proposals to increase authorized capital on a case-by-case basis if such proposals do not include the authorization to issue shares from the (pre-)approved limit.

In case the proposals to increase authorized capital include the authorization to issue shares according to the (pre-)approved limit without obtaining separate shareholder approval, the general issuance policy applies.

We will also vote against proposals to adopt unlimited capital authorizations.

#### Issuance of shares (international markets)

Issuing additional shares can dilute existing holders in limited circumstances. Further, the availability of additional shares, where the board has discretion to implement a poison pill, can often serve as a deterrent to interested suitors. Accordingly, where we find that the company has not disclosed a detailed plan for use of the proposed shares, or where the number of shares requested are excessive, we typically recommend against the issuance. In the case of a private placement, we will also consider whether the company is offering a discount to its share price.

In general, we will support proposals to issue shares (with pre-emption rights) when the requested increase is the lesser of a) the unissued ordinary share capital; or b) a sum equal to 100% of the issued ordinary share capital. This authority should not exceed five years. In some countries, if the proposal contains a figure greater than one-third, the company should explain the nature of the additional amounts.

We will also generally support proposals to suspend pre-emption rights for a maximum of 20% of the issued ordinary share capital of the company. If the proposal contains a figure greater than 20%, the company should provide an explanation. This authority should not exceed five years, or less for some countries.

#### Repurchase of shares (international markets)

Everence will generally vote for market repurchase authorities (share repurchase programs) if the terms comply with the following criteria:

- A repurchase limit of up to 10% of issued share capital;
- A holding limit of up to 10% of a company's issued share capital in treasury ("on the shelf"); and
- Duration of no more than five years, or such lower threshold as may be set by applicable law, regulation, or code of governance best practice.

Authorities to repurchase shares in excess of the 10% repurchase limit will be assessed on a case-by-case basis. Everence may support such share repurchase authorities under special circumstances, which are required to be publicly disclosed by the company, provided that, on balance, the proposal is in shareholders' interests. In such cases, the authority must comply with the following criteria:

- A holding limit of up to 10% of a company's issued share capital in treasury ("on the shelf"); and
- Duration of no more than 18 months.

In markets where it is normal practice not to provide a repurchase limit, Everence will evaluate the proposal based on the company's historical practice. However, Everence expects companies to disclose such limits and, in the future, may recommend a vote against companies that fail to do so. In such cases, the authority must comply with the following criteria:

- A holding limit of up to 10% of a company's issued share capital in treasury ("on the shelf"); and
- Duration of no more than 18 months.

In addition, Everence will recommend against any proposal where:

- The repurchase can be used for takeover defenses;
- There is clear evidence of abuse;
- There is no safeguard against selective buybacks; or
- Pricing provisions and safeguards are deemed unreasonable in light of market practice.

### Voting structure

#### *Cumulative voting*

We will generally vote against management proposals to eliminate cumulative voting, and for shareholder proposals to restore or provide for cumulative voting, unless:

- The company has proxy access, thereby allowing shareholders to nominate directors to the company's ballot; and
- The company has adopted a majority vote standard, with a carve-out for plurality voting in situations where there are more nominees than seats, and a director resignation policy to address failed elections.

We will vote for proposals for cumulative voting at controlled companies (insider voting power > 50%).

#### *Supermajority vote requirements*

Everence favors a simple majority voting structure. Supermajority vote requirements act as impediments to shareholder action on ballot items that are critical to our interests. One key example is in the takeover context where supermajority vote requirements can strongly limit shareholders' input in making decisions on such crucial matters as selling the business.

- We will vote for proposals to reduce supermajority shareholder vote requirements for charter amendments, mergers and other significant business combinations.
- For companies with shareholder(s) who own a significant amount of company stock, we will vote case-by-case, taking into account: a) ownership structure; b) quorum requirements; and c) supermajority vote requirements.
- We will vote against proposals to require a supermajority shareholder vote for charter amendments, mergers and other significant business combinations.

#### *Dual listed companies*

For those companies whose shares trade on exchanges in multiple countries, and which may seek shareholder approval of proposals in accordance with varying exchange- and country-specific rules, we will apply the governance standards most relevant in each situation. We will consider a number of factors in determining which ISS country-specific policy to apply, including but not limited to: a) the corporate governance structure and features of the company including whether the board structure is unique to a particular market; b) the nature of the proposals; c) the location of the company's primary listing, if one can be determined; d) the regulatory/governance regime that the board is reporting against; and e) the availability and completeness of the company's SEC filings.



### Proxy access

The SEC's move to mandate proxy access has been stopped by 2011's U.S. Court of Appeals decision, and most shareholder resolutions regarding access to the proxy were excluded by the SEC or voted down by shareholders. Shareholders do plan, however, to continue to submit proposals at U.S. companies requesting access and this will continue to be one of the hot topics for the upcoming season. We will consider supporting well-crafted and reasonable proposals requesting proxy access, as we believe that in some cases, adoption of this provision allows for improved shareholder rights and ensures that shareholders who maintain a long-term interest in the target company have an ability to nominate candidates for the board.

ISS will generally vote for management and shareholder proposals for proxy access with the following provisions:

- Ownership threshold: maximum requirement not more than three percent of the voting power;
- Ownership duration: maximum requirement not longer than three years of continuous ownership for each member of the nominating group;
- Aggregation: minimal or no limits on the number of shareholders permitted to form a nominating group;
- Cap: cap on nominees of generally 25% of the board.

Review for reasonableness any other restrictions on the right of proxy access.

Generally vote against proposals that are more restrictive than these guidelines.

### Exclusive forum provisions

Various companies have been adopting bylaws to establish Delaware as the exclusive jurisdiction for state corporate law disputes. Because the January 2011 court opinion in *Galaviz v. Berg* suggested that unilaterally adopted bylaws may not be enforceable, a number of companies began putting their bylaw amendments to a shareholder vote.

Federal forum selection provisions require that U.S. federal courts be the sole forum for shareholders to litigate claims arising under federal securities law. Everence will generally vote for federal forum selection provisions in the charter or bylaws that specify "the district courts of the United States" as the exclusive forum for federal securities law matters, in the absence of serious concerns about corporate governance or board responsiveness to shareholders. Everence will vote against provisions that restrict the forum to a particular federal district court.

Exclusive forum provisions in the charter or bylaws restrict shareholders' ability to bring derivative lawsuits against the company, for claims arising out of state corporate law, to the courts of a particular state (generally the state of incorporation). Everence will generally vote for charter or bylaw provisions that specify courts located within the state of Delaware as the exclusive forum for corporate law matters for Delaware corporations, in the absence of serious concerns about corporate governance or board responsiveness to shareholders. Everence will vote on a case-by-case basis for any bylaw or charter amendment seeking to adopt an exclusive forum provision for states other than Delaware. Everence will generally vote against provisions that specify a state other than the state of incorporation as the exclusive forum for corporate law matters, or that specify a particular local court within the state.

### Virtual shareholder meetings

Everence will generally vote for management proposals allowing for the convening of shareholder meetings by electronic means, so long as they do not preclude in-person meetings. Companies are encouraged to disclose the circumstances under which virtual-only<sup>6</sup> meetings would be held, and to allow for comparable rights and opportunities for shareholders to participate electronically as they would have during an in-person meeting. Everence will vote case-by-case on shareholder proposals concerning virtual-only meetings.

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<sup>6</sup> Virtual-only shareholder meeting” refers to a meeting of shareholders that is held exclusively using technology without a corresponding in-person meeting.

## Shareholder Proposals

Socially responsible shareholder resolutions are receiving a great deal more attention from institutional shareholders today than in the past. In addition to moral and ethical considerations intrinsic to many of these proposals, there is a growing recognition of their potential impact on the economic performance of the company. Among the reasons for this change are:

- The number and variety of shareholder resolutions on social and environmental issues has increased.
- Many of the sponsors and supporters of these resolutions are large institutional shareholders with significant holdings, and therefore, greater direct influence on the outcomes.
- The proposals are more sophisticated – better written, more focused, and more sensitive to the feasibility of implementation.
- Investors now understand that a company's response to social and environmental issues can have serious economic consequences for the company and its shareholders.

In general, Everence supports shareholder proposals related to social, workforce, and environmental topics that seek to create good corporate citizens while enhancing long-term shareholder and stakeholder value. Everence will vote for disclosure reports that seek additional information particularly when it appears companies have not adequately addressed shareholders' social, workforce, and environmental concerns. In determining our votes on shareholder social, workforce, and environmental proposals, we also analyze the following factors:

- Whether adoption of the proposal would have either a positive or a negative impact on the company's short-term or long-term share value.
- The percentage of sales, assets and earnings affected.
- The degree to which the company's stated position on the issues could affect its reputation or sales, or leave it vulnerable to boycott or selective purchasing.
- Whether the subject of the proposal is best left to the discretion of the board;
- Whether the issues presented should be dealt with through government or company-specific action.
- Whether the company has already responded in some appropriate manner to the request embodied in a proposal.
- Whether there are significant controversies, fines, penalties, or litigation associated with the company's environmental or social practices;
- If the proposal requests increased disclosure or greater transparency, whether sufficient information is publicly available to shareholders and whether it would be unduly burdensome for the company to compile and avail the requested information to shareholders in a more comprehensive or amalgamated fashion;
- Whether the company's analysis and voting recommendation to shareholders is persuasive.
- What other companies have done in response to the issue.
- Whether the proposal itself is well framed and reasonable.
- Whether implementation of the proposal would achieve the objectives sought in the proposal.

In general, Everence supports proposals that request the company to furnish information helpful to shareholders in evaluating the company's operations. In order to be able to intelligently monitor their investments shareholders often need information best provided by the company in which they have invested. Requests to report such information to investors merit support. Requests to establish special committees of the board to address broad corporate policy and provide forums for ongoing dialogue on issues including, but not

limited to shareholder relations, the environment, human rights, occupational health and safety, and executive compensation, will generally be supported, particularly when they appear to offer a potentially effective method for enhancing shareholder value. We will closely evaluate proposals that ask the company to cease certain actions that the proponent believes are harmful to society or some segment of society with special attention to the company's legal and ethical obligations, its ability to remain profitable, and potential negative publicity if the company fails to honor the request. Everence supports shareholder proposals that improve the company's public image, and reduce exposure to liabilities.

### Diversity and equality

Significant progress has been made in recent years in the advancement of women and racial minorities in the workplace and the establishment of greater protections against discriminatory practices in the workplace. In the U.S., there are many civil rights laws that are enforced by the Equal Employment Opportunity Commission. The Civil Rights Act of 1964 prohibits discrimination based on race, color, religion, sex and nationality. However, discrimination on the basis of race, gender, religion, nationality, and sexual preference continues. The SEC's revised disclosure rules now require information on how boards factor diversity into the director nomination process, as well as disclosure of how the board assesses the effectiveness of its diversity policy. Shareholder proposals on diversity may target a company's board nomination procedures or seek greater disclosure on a company's programs and procedures on increasing the diversity of its workforce, and make reference to one or more of the following points:

- Violations of workplace anti-discrimination laws lead to expensive litigation and damaged corporate reputations that are not in the best interests of shareholders.
- Employers already prepare employee diversity reports for the EEOC, so preparing a similar report to shareholders can be done at minimal cost.
- The presence of women, ethnic minorities and union members in workforce and customer pools gives companies with diversified boards a practical advantage over their competitors as a result of their unique perspectives.
- Efforts to include women, minorities and union representatives on corporate boards can be made at reasonable costs.
- Reports can be prepared "at reasonable expense" describing efforts to encourage diversified representation on their boards. Board diversification increases the pool of the company's potential investors because more and more investors are favoring companies with diverse boards.
- A commitment to diversity in the workforce can lead to superior financial returns.

### *Add women and minorities to board*

Board diversification proposals ask companies to put systems in place to increase the representation of women, racial minorities, union members or other underrepresented minority groups on boards of directors. In prior years, board diversification proposals requested that companies nominate board members from certain constituencies, appoint special committees to recommend underrepresented classes of board members, establish board positions reserved for representatives of certain groups, or simply "make greater efforts" to nominate women and ethnic minorities to their boards.

- We will vote for shareholder proposals that ask the company to create and maintain a board with fair representation of women and racial minorities.
- We will vote for shareholder proposals asking for reports on board diversity.
- We will vote for shareholder proposals asking companies to adopt nomination charters or amend existing charters to include reasonable language addressing diversity.

### *Report on the distribution of stock options by gender and race*

Companies have received requests from shareholders to prepare reports documenting the distribution of the stock options and restricted stock awards by race and gender of the recipient. Proponents of these proposals argue that, in the future, there will be a shift toward basing racial and gender discrimination suits on the distribution of corporate wealth through stock options. The appearance of these proposals is also in response to the nationwide wage gap and under representation of minorities and women at the highest levels of compensation.

- We will vote for shareholder proposals asking companies to report on the distribution of stock options by race and gender of the recipient.

### *Prepare report/promote EEOC-related activities*

Filers of proposals on this issue generally ask a company to make available, at reasonable cost and omitting proprietary information, data the company includes in its annual report to the Equal Employment Opportunity Commission outlining the make-up of its workforce by race, gender and position. Shareholders also ask companies to report on any efforts they are making to advance the representation of women and ethnic minorities in jobs in which they have been historically underrepresented, such as sales and management. The costs of violating federal laws that prohibit discrimination by corporations are high and can affect corporate earnings. The Equal Opportunities Employment Commission does not release the companies' filings to the public, unless it is involved in litigation, and this information is difficult to obtain from other sources. Companies need to be sensitive to minority employment issues as the new evolving work force becomes increasingly diverse. This information can be provided with little cost to the company and does not create an unreasonable burden on management.

- We will vote for shareholder proposals that ask the company to report on its diversity and/or affirmative action programs.
- We will vote for shareholder proposals calling for legal and regulatory compliance and public reporting related to non-discrimination, affirmative action, workplace health and safety, and labor policies and practices that effect long-term corporate performance.
- We will vote for shareholder proposals requesting nondiscrimination in salary, wages and all benefits.
- We will vote for shareholder proposals calling for action on equal employment opportunity and antidiscrimination.

### *Gender, race, and ethnicity pay gap*

Over the past three years shareholders have filed resolutions requesting that companies report whether a gender pay gap exists, and if so, what measures are being taken to eliminate the gap.

- We will vote for shareholder proposals requesting companies report on pay data by gender, race, or ethnicity, or a report on a company's policies and goals to reduce any gender, race, or ethnicity pay gap.

### *Racial equity and/or civil rights audits*

We will generally vote for proposals requesting that a company conduct an independent racial equity and/or civil rights audit, considering company disclosures, policies, actions, and engagements.

### *Prohibit discrimination on the basis of sexual orientation or gender identity*

Federal law does not ban workplace discrimination against gay and lesbian employees, and some states have enacted workplace protections for these employees. Although an increasing number of U.S. companies have explicitly banned discrimination on the basis of sexual orientation or gender identity in their equal employment opportunity statements, many still do not. Shareholder proponents and other activist groups concerned with gay and lesbian rights, such as the Human Rights Campaign and the Pride Foundation, have targeted U.S. companies that do not specifically restrict discrimination on the basis of sexual orientation in their EEO statements. Shareholder proposals on this topic ask companies to change the language of their EEO statements in order to put in place anti-discrimination protection for their gay and lesbian employees. In addition, proposals may seek disclosure on a company's general initiatives to create a workplace free of discrimination on the basis of sexual orientation, including reference to such items as support of gay and lesbian employee groups, diversity training that addresses sexual orientation, and non-medical benefits to domestic partners of gay and lesbian employees.

- We will vote for shareholder proposals to include language in EEO statements specifically barring discrimination on the basis of sexual orientation or gender identity.
- We will vote for shareholder proposals seeking reports on a company's initiatives to create a workplace free of discrimination on the basis of sexual orientation or gender identity.
- We will vote against shareholder proposals that seek to eliminate protection already afforded to gay and lesbian employees.

### *Report on/eliminate use of racial stereotypes in advertising*

Many companies continue to use racial stereotypes or images perceived as racially insensitive in their advertising campaigns. Filers of shareholder proposals on this topic often request companies to give more careful consideration to the symbols and images that are used to promote the company.

- We will vote for shareholder proposals seeking more careful consideration of using racial stereotypes in advertising campaigns, including preparation of a report on this issue.

### Labor and human rights

Investors, international human rights groups, and labor advocacy groups have long been making attempts to safeguard worker rights in the international marketplace. In instances where companies themselves operate factories in developing countries for example, these advocates have asked that the companies adopt global corporate standards that guarantee sustainable wages and safe working conditions for their workers abroad. Companies that contract out portions of their manufacturing operations to foreign companies have been asked to ensure that the products they receive from those contractors have not been made using forced labor, child labor, or sweatshop labor. These companies are asked to adopt formal vendor standards that, among other things, include some sort of monitoring mechanism. Globalization, relocation of production overseas, and widespread use of subcontractors and vendors, often make it difficult to obtain a complete picture of a company's labor practices in global markets. Many Investors believe companies would benefit from adopting a human rights policy based on the Universal Declaration of Human Rights and the International Labour Organization's Core Labor Standards. Efforts that seek greater disclosure on a company's labor practices and that seek to establish minimum

standards for a company's operations will be supported. In addition, requests for independent monitoring of overseas operations will be supported.

Everence generally supports proposals that call for the adoption and/or enforcement of principles or codes relating to countries in which there are systematic violations of human rights; such as the use of slave, child, or prison labor; a government that is illegitimate; or there is a call by human rights advocates, pro-democracy organizations, or legitimately-elected representatives for economic sanctions. The use of child, sweatshop, or forced labor is unethical and can damage corporate reputations. Poor labor practices can lead to litigation against the company, which can be costly and time consuming.

#### *Code of conduct and vendor standards*

In recent years, an increasing number of shareholder proposals have been submitted that pertain to the adoption of codes of conduct or provision of greater disclosure on a company's international workplace standards. Companies have been asked to adopt a number of different types of codes, including a workplace code of conduct, standards for international business operations, human rights standards, International Labour Organization standards and the SA 8000 principles. The ILO is an independent agency of the United Nations which consists of 180 member nations represented by workers, employers, and governments. The ILO's general mandate is to promote a decent workplace for all individuals. The ILO sets international labor standards in the form of its conventions and then monitors compliance with the standards. The seven conventions of the ILO fall under four broad categories: right to organize and bargain collectively, nondiscrimination in employment, abolition of forced labor, and end of child labor. Each of the 183 member nations of the ILO is bound to respect and promote these rights to the best of their abilities. SA 8000 is a set of labor standards, based on the principles of the ILO conventions and other human rights conventions, and covers eight workplace conditions, including: child labor, forced labor, health and safety, freedom of association and the right to collective bargaining, discrimination, disciplinary practices, working hours and compensation. The Global Sullivan Principles are a set of guidelines that support economic, social and political justice by companies where they do business; to support human rights and to encourage equal opportunity at all levels of employment.

- We will vote for shareholder proposals to implement human rights standards and workplace codes of conduct.
- We will vote for shareholder proposals calling for the implementation and reporting on ILO codes of conduct, SA 8000 Standards, or the Global Sullivan Principles.
- We will vote for shareholder proposals that call for the adoption of principles or codes of conduct relating to company investments in countries with patterns of human rights abuses (e.g., Northern Ireland, Burma, former Soviet Union and China).
- We will vote for shareholder proposals that call for independent monitoring programs in conjunction with local and respected religious and human rights groups to monitor supplier and licensee compliance with codes.
- We will vote for shareholder proposals that seek publication of a "code of conduct" to the company's foreign suppliers and licensees, requiring they satisfy all applicable standards and laws protecting employees' wages, benefits, working conditions, freedom of association, and other rights.
- We will vote for shareholder proposals seeking reports on, or the adoption of, vendor standards including: reporting on incentives to encourage suppliers to raise standards rather than terminate contracts and providing public disclosure of contract supplier reviews on a regular basis.
- We will vote for shareholder proposals to adopt labor standards for foreign and domestic suppliers to ensure that the company will not do business with foreign suppliers that

manufacture products for sale in the U.S. using forced labor, child labor, or that fail to comply with applicable laws protecting employee's wages and working conditions.

#### *Community impact assessment/indigenous peoples' rights*

In recent years, a number of U.S. public companies have found their operations or expansion plans in conflict with local indigenous groups. In order to improve their standing with indigenous groups and decrease any negative publicity companies may face, some concerned shareholders have sought reports requesting that companies review their obligations, actions and presence on these groups. Some have also requested these companies adopt policies based on the Draft UN Declaration on the Rights of Indigenous Peoples and the Organization of American States' American Declaration on rights of Indigenous Peoples. Some companies such as Starbucks have reached agreements with local governments to ensure better business practices for products produced by indigenous groups. Shareholders, concerned with the negative impact that the company's operations may have on the indigenous people's land and community, have sought reports detailing the impact of the company's actions and presence on these groups.

- We will vote for shareholder proposals to prepare reports on a company's environmental and health impact on communities.

#### *Report on risks of outsourcing*

Consumer interest in keeping costs low through comparison shopping, coupled with breakthroughs in productivity have prompted companies to look for methods of increasing profit margins while keeping prices competitive. Through a practice known as off-shoring, the outsourcing or moving of manufacturing and service operations to foreign markets with lower labor costs, companies have found one method where the perceived savings potential is quite substantial. Shareholder opponents of outsourcing argue there may be long-term consequences to offshore outsourcing that outweigh short-term benefits such as backlash from a public already sensitive to off-shoring, security risks from information technology development overseas, and diminished employee morale. Shareholder proposals addressing outsourcing ask that companies prepare a report to shareholders evaluating the risk to the company's brand name and reputation in the U.S. from outsourcing and off-shoring of manufacturing and service work to other countries.

- We will vote for shareholders proposals asking companies to report on the risks associated with outsourcing or off-shoring.

#### Report on the impact of health pandemics on company operations

Sub-Saharan Africa is the most affected region in the world with regard to the HIV/AIDS epidemic. In 2011, an estimated 23.5 million people in this region were living with HIV and approximately 1.2 million people died of AIDS. With limited access to antiretroviral treatment for HIV/AIDS, the increasing death toll is expected to have profound social, political and economic impact on that region and the companies or industries with operations in Sub-Saharan Africa. In the past, shareholder proposals asked companies to develop policies to provide affordable HIV/AIDS, Malaria, and Tuberculosis drugs in third-world countries. However, in recent years, shareholders have changed their tactic, asking instead for reports on the impact of these pandemics on company operations, including both pharmaceutical and non-pharmaceutical companies operating in high-risk areas. This change is consistent with the general shift in shareholder proposals towards risk assessment and mitigation.

- We will vote for shareholder proposals asking companies to report on the impact of pandemics, such as HIV/AIDS, Malaria, and Tuberculosis, on their business strategies.



## Operations in high risk markets

In recent years, shareholder advocates and human rights organizations have highlighted concerns associated with companies operating in regions that are politically unstable, including state sponsors of terror. The U.S. government has active trade sanction regimes in place against a number of countries, including Burma, Cuba, Iran, North Korea, Sudan, and Syria, among others. These sanctions are enforced by the Office of Foreign Assets Control, which is part of the U.S. Department of the Treasury. However, these countries do not comprise an exhaustive list of countries considered to be high-risk markets.

Shareholder proponents have filed resolutions addressing a variety of concerns around how investments and operations in high-risk regions may support, or be perceived to support, potentially oppressive governments. Proponents contend that operations in these countries may lead to potential reputational, regulatory, and/or supply chain risks as a result of operational disruptions. Concerned shareholders have requested investment withdrawals or cessation of operations in high-risk markets as well as reports on operations in high-risk markets. Such reports may seek additional disclosure from companies on criteria employed for investing in, continuing to operate in, and withdrawing from specific countries.

Depending on the country's human rights record, investors have also asked companies to refrain from commencing new projects in the country of concern until improvements are made. In addition, investors have sought greater disclosure on the nature of a company's involvement in the country and on the impact of their involvement or operations.

We will vote for requests for a review of and a report outlining the company's potential financial and reputation risks associated with operations in "high-risk" markets, such as a terrorism-sponsoring state or otherwise, taking into account:

- The nature, purpose, and scope of the operations and business involved that could be affected by social or political disruption.
- Current disclosure of applicable risk assessment(s) and risk management procedures.
- Compliance with U.S. sanctions and laws.
- Consideration of other international policies, standards, and laws.
- Whether the company has been recently involved in significant controversies or violations in "high-risk" markets.

### *Report on operations in Burma/Myanmar*

Since the early 1960s, Burma (also known as Myanmar) has been ruled by a military dictatorship that has been condemned for human rights abuses, including slave labor, torture, rape and murder. Many companies have pulled out of Burma over the past decade given the controversy surrounding involvement in the country. In July 2003, Congress and President Bush passed The Burmese Freedom and Democracy Act, which bans imported goods and services from Burma. Violence in Burma prompted the U.S. to tighten financial sanctions on Burma and extend the ban on visas for officials from the country. Oil companies continue to be the largest investors in Burma, and therefore are the usual targets of shareholder proposals on this topic. However, proposals have also been filed at other companies, including financial companies, for their involvement in the country.

- We will vote for shareholder proposals to adopt labor standards in connection with involvement in Burma.
- We will vote for shareholder proposals seeking reports on Burmese operations and reports on costs of continued involvement in the country.
- We will vote shareholder proposals to pull out of Burma on a case-by-case basis.

### *Report on operations in China*

Documented human rights abuses in China continue to raise concerns among investors, specifically with respect to alleged use of prison and child labor in manufacturing. Reports have identified U.S. companies with direct or indirect ties to companies controlled by the Chinese military, the People's Liberation Army, and hence links to prison labor. The U.S. Business Principles for Human Rights of Workers in China may help a company with operations in China avoid being blacklisted by U.S. states and municipalities, many of whom have limited their contracts with companies that fail to adopt similar principles in other countries recognized for committing gross human rights violations.

- We will vote for shareholder proposals requesting more disclosure on a company's involvement in China.
- We will vote on a case-by-case basis shareholder proposals that ask a company to terminate a project or investment in China.

### *Product sales to repressive regimes*

Certain Internet technology companies have been accused of assisting repressive governments in violating human rights through the knowing misuse of their hardware and software. Human rights groups have accused companies such as Yahoo!, Cisco, Google, and Microsoft of allowing the Chinese government to censor and track down dissenting voices on the internet.

- We will vote case-by-case on shareholder proposals requesting that companies cease product sales to repressive regimes that can be used to violate human rights.
- We will vote for proposals to report on company efforts to reduce the likelihood of product abuses in this manner.

### Internet privacy and censorship

Information technology sector companies have been at the center of shareholder advocacy campaigns regarding concerns over Internet service companies and technology providers alleged cooperation with potentially repressive regimes, notably the Chinese government. Shareholder proposals, submitted at Yahoo!, Google, Microsoft, and Cisco, among others, asked companies to take steps to stop abetting repression and censorship of the Internet and/or review their human rights policies taking this issue into consideration. Resolution sponsors generally argue that the Chinese government is using IT company technologies to track, monitor, identify, and, ultimately, suppress political dissent. In the view of proponents, this process of surveillance and associated suppression violates internationally accepted norms outlined in the U.N. Universal Declaration of Human Rights.

We will vote for resolutions requesting the disclosure and implementation of internet privacy and censorship policies and procedures considering:

- The level of disclosure of policies and procedures relating to privacy, freedom of speech, internet censorship, and government monitoring of the internet.
- Engagement in dialogue with governments and/or relevant groups with respect to the Internet and the free flow of information.
- The scope of business involvement and of investment in markets that maintain government censorship or monitoring of the Internet.
- The market-specific laws or regulations applicable to Internet censorship or monitoring that may be imposed on the company.
- The level of controversy or litigation related to the company's international human rights policies and procedures.

### Disclosure on plant closings

Shareholders have asked that companies contemplating plant closures consider the impact of such closings on employees and the community, especially when such plan closures involve a community's largest employers. Everence usually recommends voting for greater disclosure of plant closing criteria. In cases where it can be shown that companies have been proactive and responsible in adopting these criteria, Everence recommends against the proposal.

- We will vote for shareholder proposals seeking greater disclosure on plant closing criteria if the company has not provided such information.

### Mandatory arbitration

We will generally vote for requests for a report on a company's use of mandatory arbitration on employment-related claims.

### Sexual harassment

Generally vote for requests for a report on company actions taken to strengthen policies and oversight to prevent workplace sexual harassment, or a report on risks posed by a company's failure to prevent workplace sexual harassment.

### Climate change/greenhouse gas emissions

In December 2009, the UN Climate Change Conference in Copenhagen ended with an agreement by countries to cap the global temperature rise by committing to significant emission reductions and to raise finance to kick start action in the developing world to deal with climate change. Climate change has emerged as the most significant environmental threat to the planet to date. Scientists generally agree that gases released by chemical reactions including the burning of fossil fuels contribute to a "greenhouse effect" that traps the planet's heat. Environmentalists claim that the greenhouse gases produced by the industrial age have caused recent weather crises such as heat waves, rainstorms, melting glaciers, rising sea levels and receding coastlines. With notable exceptions, business leaders have described the rise and fall of global temperatures as naturally occurring phenomena and depicted corporate impact on climate change as minimal. Shareholder proposals asking a company to issue a report to shareholders, "at reasonable cost and omitting proprietary information," on greenhouse gas emissions ask that the report include descriptions of efforts within companies to reduce emissions, their financial exposure and potential liability from operations that contribute to global warming, their direct or indirect efforts to promote the view that global warming is not a threat, and their goals in reducing these emissions from their operations. Proponents argue that there is scientific proof that the burning of fossil fuels causes global warming, that future legislation may make companies financially liable for their contributions to global warming, and that a report on the company's role in global warming can be assembled at reasonable cost.

- We will vote for shareholder proposals seeking disclosure of liabilities or preparation of a report pertaining to global warming and climate change risk.
- We will vote for shareholder proposals calling for the reduction of GHG or adoption of GHG goals in products and operations.
- We will vote for shareholder proposals seeking reports on responses to regulatory and public pressures surrounding climate change, and for disclosure of research that aided in setting company policies around climate change.
- We will vote for shareholder proposals requesting a report on greenhouse gas emissions from company operations and/or products and operations.

### *Say on Climate management proposals*

We will vote case-by-case on management proposals that request shareholders to approve the company's climate transition action plan, taking into account the completeness and rigor of the plan. Information that will be considered where available includes the following:

- The extent to which the company's climate related disclosures are in line with TCFD recommendations and meet other market standards;
- Disclosure of its operational and supply chain GHG emissions (Scopes 1, 2, and 3);
- The completeness and rigor of company's short-, medium-, and long-term targets for reducing operational and supply chain GHG emissions (Scopes 1, 2, and 3 if relevant);
- Whether the company has sought and approved third-party approval that its targets are science-based;
- Whether the company has made a commitment to be "net zero" for operational and supply chain emissions (Scopes 1, 2, and 3) by 2050;
- Whether the company discloses a commitment to report on the implementation of its plan in subsequent years;
- Whether the company's climate data has received third-party assurance;
- Disclosure of how the company's lobbying activities and its capital expenditures align with company strategy;
- Whether there are specific industry decarbonization challenges; and
- The company's related commitment, disclosure, and performance compared to its industry peers.

### *Say on Climate (SoC) shareholder proposals*

We will vote case-by-case on shareholder proposals that request the company to disclose a report providing its GHG emissions levels and reduction targets and/or its upcoming/ approved climate transition action plan and provide shareholders the opportunity to express approval or disapproval of its GHG emissions reduction plan, taking into account information such as the following:

- The completeness and rigor of the company's climate-related disclosure;
- The company's actual GHG emissions performance;
- Whether the company has been the subject of recent, significant violations, fines, litigation, or controversy related to its GHG emissions; and
- Whether the proposal's request is unduly burdensome (scope or timeframe) or overly prescriptive.

### *Invest in clean/renewable energy:*

Filers of proposals on renewable energy ask companies to increase their investment in renewable energy sources and to work to develop products that rely more on renewable energy sources. Increased use of renewable energy will reduce the negative environmental impact of energy companies. In addition, as supplies of oil and coal exist in the earth in limited quantities, renewable energy sources represent a competitive, and some would argue essential, long-term business strategy.

- We will vote for shareholder proposals seeking the preparation of a report on a company's activities related to the development of renewable energy sources.
- We will vote for shareholder proposals seeking increased investment in renewable energy sources unless the terms of the resolution are overly restrictive.

## *Energy efficiency*

Reducing the negative impact to the environment can be done through the use of more energy efficient practices and products. Shareholders propose that corporations should have energy efficient manufacturing processes and should market more energy efficient products. This can be done by utilizing renewable energy sources that are cost-competitive and by implementing energy efficient operations.

- We will vote for shareholder proposals requesting a report on company energy efficiency policies and/or goals.

## Environment

Proposals addressing environmental and energy concerns are plentiful, and generally seek greater disclosure on an issue or seek to improve a company's environmental practices in order to protect the world's natural resources. In addition, some proponents cite the negative financial implications for companies with poor environmental practices, including liabilities associated with site clean-ups and lawsuits, as well as arguments that energy efficient products and clean environmental practices are sustainable business practices that will contribute to long-term shareholder value. Shareholders say the majority of independent atmospheric scientists agree that global warming poses a serious problem to the health and welfare of our planet, citing the findings of the Intergovernmental Panel on Climate Change. Shareholders argue that companies can report on their greenhouse gas emissions within a few months at reasonable cost. In general, there is a call for companies to have proactive environmental policies, focusing on maximizing the efficient use of non-renewable resources and minimizing threats of harm to human health or the environment.

## *Environmental/sustainability report*

Shareholders may request general environmental reports or reports on a specific location/operation, often requesting that the company detail the environmental risks and potential liabilities of a specific project. Companies have begun to report on environmental and sustainability issues using the Global Reporting Initiative (GRI) standards. The GRI was established in 1997 with the mission of developing globally applicable guidelines for reporting on economic, environmental, and social performance. The GRI was developed by the Coalition for Environmentally Responsible Economies in partnership with the United Nations Environment Programme.

CERES was formed in the wake of the March 1989 Exxon Valdez oil spill, when a consortium of investors, environmental groups, and religious organizations drafted what were originally named the Valdez Principles, and later to be renamed the CERES Principles. Corporate signatories to the CERES Principles are pledged to publicly report on environmental issues, including protection of the biosphere, sustainable use of natural resources, reduction and disposal of wastes, energy conservation, and employee and community risk reduction in a standardized form.

The Equator Principles are the financial industry's benchmark for determining, assessing and managing social and environmental risk in project financing. The Principles were first launched in June 2003 and were ultimately adopted by over forty financial institutions during a three year implementation period. The principles were subsequently revised in July 2006 to take into account the new performance standards approved by the World Bank Group's International Finance Corporation. Financial institutions adopt these principles to ensure the projects they venture in are developed in a socially responsible manner and reflect sound environmental management practices.

- We will vote for shareholder proposals seeking greater disclosure on the company's environmental practices, and/or environmental risks and liabilities.
- We will vote for shareholder proposals asking companies to report in accordance with the Global Reporting Initiative.
- We will vote for shareholder proposals to prepare a sustainability report.
- We will vote for shareholder proposals to study or implement the CERES principles.
- We will vote for shareholder proposals to study or implement the Equator Principles.

*Canadian oil sands and drilling in the Arctic National Wildlife Refuge:*

Recently, proposals asking for a report on oil sands operations in the Athabasca region of Alberta, Canada have appeared at a number of oil and gas companies. Alberta's oil sands contain a reserve largely thought to be one of the world's largest potential energy sources. Rising oil sands production in Alberta has been paralleled with concerns from a variety of stakeholders—including environmental groups, local residents, and shareholders—regarding the environmental impacts of the complicated extraction and upgrading processes required to convert oil sands into a synthetic crude oil. The high viscosity of bitumen makes its extraction a challenging and resource-intensive process; the most common extraction technique involves pumping steam into the oil sands to lower the viscosity of bitumen in order to pump it to the surface.

One of the most prominent issues concerning oil sands is the large volume of greenhouse gases associated with production. Oil sands are by far one of the most energy-intensive forms of oil production, releasing three times more GHG emissions from production than conventional oil.

Shareholders have kept up pressure on the issue of potential long-term risks to companies posed by the environmental, social, and economic challenges associated with Canadian oil sands operations. Resolutions on the topic have focused on requesting greater transparency on the ramifications of oil sands development projects.

The Arctic National Wildlife Refuge is a federally protected wilderness along Alaska's North Slope. In the recent past, legislation proposed in both the House and Senate that, if passed, would allow a portion of this area to be leased to private companies for development and production of oil, has been witnessed. Oil companies have expressed an interest in bidding for these leases given the opportunity. In response, shareholder activists have filed resolutions asking these companies to cancel any plans to drill in the ANWR and cease their lobbying efforts to open the area for drilling. Proponents of shareholder proposals on this issue argue that the Coastal Plain section of the ANWR is the most environmentally sensitive area of the refuge, that the majority of Alaska's North Slope that is not federally designated wilderness already provides the oil industry with sufficient resources for oil production, and that advocates of drilling in ANWR overstate the benefit to be derived from opening the wilderness to oil production. Those in favor of opening the area up to drilling note that only a small portion of ANWR would be considered for exploration, and if drilling were to take place, it would be on less than one percent of the entire area, that modern technology reduces the environmental impact of oil drilling on both the land and surrounding wildlife, and that oil production in ANWR would have considerable benefit to company shareholders, Alaskans, and the United States as a whole.

- We will vote for requests for reports on potential environmental damage as a result of company operations in protected regions.
- We will vote for shareholder proposals asking companies to prepare a feasibility report or to adopt a policy not to mine, drill, or log in environmentally sensitive areas.

- We will vote for shareholder proposals seeking to prohibit or reduce the sale of products manufactured from materials extracted from environmentally sensitive areas such as old growth forests.

#### *Hydraulic fracturing ("fracking")*

Hydraulic fracturing, also known as "fracking", is a controversial natural gas extraction technique that involves the high-pressure injection of water, sand, and chemicals into a gas-bearing shale rock formation. The pressure creates or exposes fissures, which then are kept open by the sand that remains after the water and chemicals are removed, allowing the formerly inaccessible natural gas to flow to the well for extraction. This process has attracted public attention due to its potential environmental implications.

- We will vote for shareholder proposals seeking greater disclosure of a company's natural gas hydraulic fracturing operations

#### *Phase out chlorine-based chemicals*

The Environmental Protection Agency identified chlorine bleaching of pulp and paper as a major source of dioxin, a known human carcinogen linked to have negative effects to humans and animals. A number of shareholder proposals have been filed in recent years asking companies to report on the possible phase-out of chlorine bleaching in the production of paper because of the practice's negative environmental impact.

- We will vote for shareholder proposals to prepare a report on the phase-out of chlorine bleaching in paper production.
- We will vote on a case-by-case basis on shareholder proposals asking companies to cease or phase-out the use of chlorine bleaching.

#### *Land procurement and development*

Certain real estate developers including big-box large retailers have received criticism over their processes for acquiring and developing land. Given a 2005 Supreme Court decision allowing for the usage of eminent domain laws in the U.S. to take land from property-owners for tax generating purposes, as well as certain controversies outside of the U.S. with land procurement, some shareholders would like assurances that companies are acting ethically and with local stakeholders in mind.

- We will vote for shareholder proposals requesting that companies report on or adopt policies for land procurement and utilize the policies in their decision-making.

#### *Report on the sustainability of concentrated area feeding operations*

The potential environmental impact on water, aquatic ecosystems, and local areas from odor and chemical discharges from CAFOs has led to lawsuits and EPA regulations. Certain shareholders have asked companies to provide additional details on their CAFOs in addition to those with which the companies contract to raise their livestock.

- We will vote for requests that companies report on the sustainability and the environmental impacts of both company-owned and contract livestock operations.

#### *Adopt a comprehensive recycling policy:*

A number of companies have received proposals to step up their recycling efforts, with the goal of reducing the company's negative impact on the environment and reducing costs over the long-term.

- We will vote for shareholder proposals requesting the preparation of a report on the company's recycling efforts.
- We will vote for shareholder proposals that ask companies to increase their recycling efforts or to adopt a formal recycling policy.

### *Nuclear energy*

Nuclear power continues to be a controversial method of producing electricity. While some see promise for emerging nuclear power technologies in a carbon-constrained energy mix, opponents of nuclear energy remain concerned with the history of and potential for serious accidents and the related negative human health consequences, along with the difficulties involved in nuclear waste storage.

- We will vote for shareholder proposals seeking the preparation of a report on a company's nuclear energy procedures.
- We will vote case-by-case on proposals that ask the company to cease the production of nuclear power.

### *Water use*

Shareholders may ask a company to prepare a report evaluating the business risks linked to water use and impacts on the company's supply chain, including subsidiaries and bottling partners. Such proposals also ask companies to disclose current policies and procedures for mitigating the impact of operations on local communities in areas of water scarcity.

- We will vote for shareholder proposals seeking the preparation of a report on a company's risks linked to water use.
- We will vote for resolutions requesting companies to promote the "human right to water" as articulated by the United Nations.
- We will vote for shareholder proposals requesting that companies report on or adopt policies for water use that incorporate social and environmental factors.

### *Kyoto Protocol compliance*

With the Kyoto Protocol operational as of February 2005, ratifying countries have agreed to reduce their emissions of carbon dioxide and five other greenhouse gases. While some signatories have yet to release specific details of corporate regulations, the impact on multinationals operating in Kyoto-compliant countries is anticipated to be significant.

- We will vote for shareholder proposals asking companies to review and report on how companies will meet GHG reduction targets of the Kyoto-compliant countries in which they operate.

### Health and safety

#### *Toxic materials*

- We will vote for shareholder proposals asking companies to report on policies and activities to ensure product safety.
- We will vote for shareholder proposals asking companies to disclose annual expenditures relating to the promotion and/or environmental cleanup of toxins.
- We will vote for shareholder proposals asking companies to report on the feasibility of removing, or substituting with safer alternatives, all "harmful" ingredients used in company products.

#### *Product safety*

- We will generally vote for proposals requesting the company to report on or adopt consumer product safety policies and initiatives.



- We will generally vote for proposals requesting the study, adoption and/or implementation of consumer product safety programs in the company's supply chain.

#### *Workplace/facility safety*

- We will vote for shareholder proposals requesting workplace safety reports, including reports on accident risk reduction efforts.
- We will vote shareholder proposals requesting companies report on or implement procedures associated with their operations and/or facilities on a case-by-case basis.

#### *Report on weapons safety*

Shareholders may ask a company to report on policies and procedures that are aimed at curtailing the incidence of gun violence. Such a report may include: implementation of the company's contract instruction to distributors not to sell the company's weapons at gun shows or through pawn shops; recalls or retro-fits of products with safety-related defects causing death or serious injury to consumers, as well as development of systems to identify and remedy these defects; names and descriptions of products that are developed or are being developed for a combination of higher caliber/maximum capacity and greater concealability; and the company's involvement in promotion campaigns that could be construed as aimed at children.

- We will vote for shareholder proposals asking the company to report on its efforts to promote handgun safety.
- We will vote for shareholder proposals asking the company to stop the sale of handguns and accessories.

#### *Ride safety*

In recent years, there has been a steady increase in the number of amusement park ride injuries. Proponents of this issue argue that there is little regulation by federal and state authorities in regard to the safety of amusement parks and their rides and that it is hard for consumers to judge the safety of a ride without a standardized recording, reporting, and disclosure mechanism in place. Shareholders have asked companies to issues reports on their policies for amusement park ride safety including a company's medical response policy and all recorded injuries caused by rides over a certain number of years.

- We will vote for shareholder proposals to report on ride safety.

#### *Phase-out or label products containing genetically engineered ingredients*

Shareholders ask companies engaged in the development of genetically modified agricultural products to adopt a policy of not marketing or distributing such products until "long term safety testing" demonstrates that they are not harmful to humans, animals or the environment. Until further long term testing demonstrates that these products are not harmful, companies in the restaurant and prepared foods industries are being asked to remove genetically altered ingredients from products they manufacture or sell, and label such products in the interim. Shareholders are asking supermarket companies to do the same for their own private label brands.

- We will vote for shareholder proposals to label products that contain genetically engineered products or products from cloned animals.
- We will abstain on shareholder proposals that ask the company to phase out the use of genetically engineered ingredients in their products.
- We will vote for shareholder proposals that ask the company to report on the use of genetically engineered organisms in their products.

- We will vote for shareholder proposals asking for reports on the financial, legal, and operational risks posed by the use of genetically engineered organisms.

#### *Tobacco-related proposals*

Under the pressure of ongoing litigation and negative media attention, tobacco companies and even non-tobacco companies with ties to the industry have received an assortment of shareholder proposals seeking increased responsibility and social consciousness from tobacco companies and as well as firms affiliated with the tobacco industry. While the specific resolutions for shareholder proponents vary from year to year, activist shareholders consistently make the tobacco industry one of their most prominent targets. Examples of shareholder proposals focused on tobacco include: warnings on the risks of tobacco smoke and smoking-related diseases, attempting to link executive compensation with reductions in teen smoking rates, the placement of company tobacco products in retail outlets, a review of advertising campaigns and their impact on children and minority groups, prohibiting non-tobacco companies from entering into contracts with tobacco companies, and requesting restaurant operators maintain smoke-free restaurants.

In June 2009, the Family Smoking Prevention and Tobacco Control Act was signed into law, giving the FDA authority to regulate the tobacco industry for the first time, including the power to block or approve new products as well as the nicotine and other content in existing tobacco products. This legislation empowers the imposition of a ban on tobacco advertising within 1,000 feet of schools and playgrounds and requires FDA-approved graphic warning labels that occupy 50% of the space on each package of cigarettes.

In September 2009, the FDA issued a ban on the sale of flavored cigarettes, exercising its regulatory power in a major way over tobacco for the first time under the new law. The ban affected tobacco products with chocolate, vanilla, clove, and other similar flavors.

- We will vote for shareholder proposals seeking to limit the sale of tobacco products to children.
- We will vote for shareholder proposals asking producers of tobacco product components (such as filters, adhesives, flavorings, and paper products) to halt sales to tobacco companies.
- We will vote for shareholder proposals that ask restaurants to adopt smoke-free policies and that ask tobacco companies to support smoke-free legislation.
- We will vote for shareholder proposals seeking a report on a tobacco company's advertising approach.
- We will vote for shareholder proposals at insurance companies to cease investment in tobacco companies.
- We will vote for proposals at producers of cigarette components calling for a report outlining the risks and potential liabilities of the production of these components.
- We will vote for proposals calling for tobacco companies to cease the production of tobacco products.
- We will vote for shareholder proposals asking companies to stop all advertising, marketing and sale of cigarettes using the terms "light," "ultra-light," "mild," and other similar words and/or colors.
- We will vote for shareholder proposals asking companies to increase health warnings on cigarette smoking. (i.e., information for pregnant women, "Canadian Style" warnings, filter safety, etc.).

### *Adopt policy/report on drug pricing*

Shareholder proponents, activists and even some legislators have called upon drug companies to restrain pricing of prescription drugs. According to proponents, the high cost of prescription drugs is a vital issue for senior citizens across the country. Seniors have the greatest need for prescription drugs, accounting for about one-third of all prescription drug sales, but they often live on fixed incomes and are underinsured. Today about 20 million elderly people have little or no drug coverage in the U.S. and it is precisely this group, proponents argue, that faces that highest prescription drug costs. Proponents argue that the uninsured and underinsured pay substantially more for drugs than manufacturers' "favored" customers, such as HMOs and Federal agencies, and drug manufacturers are responsible for this discrepancy. Proponents also note that efforts to reign-in pharmaceutical costs will not negatively impact research and development costs and that retail drug prices are consistently higher in the U.S. than in other industrialized nations. Proponents highlight this disparity, noting that pharmaceuticals sold to Canada are sold at a lower price than in the United States which has encouraged certain states and municipalities to re-import drugs from Canada, an action currently illegal under U.S. federal law. Pharmaceutical companies often respond that adopting a formal drug pricing policy could put the company at a competitive disadvantage. Against the backdrop of the AIDS crisis in Africa, shareholders have called on companies to address the issue of affordable drugs for the treatment of AIDS, as well as TB and Malaria. While Everence generally supports increased disclosure of economic and legal risks as well as the development of policies favorable to consumer welfare, however we recommend that shareholders do not encourage companies to enact plans that run counter to existing laws and regulations.

- We will vote for shareholder proposals to prepare a report on drug pricing.
- We will vote for shareholder proposals to adopt a formal policy on drug pricing.
- We will vote for shareholder proposals that call on companies to develop a policy to provide affordable HIV, AIDS, TB and Malaria drugs in third-world nations.
- We will vote for proposals asking for reports on the economic effects and legal risks of limiting pharmaceutical products to Canada or certain wholesalers.
- We will vote case-by-case on proposals requesting that companies adopt policies not to constrain prescription drug re-importation by limiting supplies to foreign markets.

### *Health care reform and disclosure*

Shareholder activity around reforming the healthcare system in the U.S. has increased over the past few years. In 2008, a coalition of investors, primarily members of the Interfaith Center on Corporate Responsibility and labor groups, including the AFL-CIO, proposed a resolution on health care reform at a number of U.S. corporations.

According to the proponents, this health care reform resolution is akin to those proposals that seek corporate endorsement of labor or human rights principles. The resolution requests companies to sign on to a set of general health care reform principles based on those that the Institute of Medicine articulated in 2004. The IOM developed its principles after conducting an exhaustive review of the problems relating to the large and growing number of people who have limited access to health care due to the lack of insurance. The proponents seek the endorsement of a set of principles that support healthcare coverage that is universal, continuous, affordable, and of high quality.

- We will vote for shareholder proposals requesting companies to endorse or adopt IOM – based healthcare reform principles.
- We will vote for shareholder proposals requesting a report on the implications of rising healthcare costs.

## Government and military

Weapons-related proposals may target handguns, landmines, defense contracting, or sale of weapons to foreign governments.

### *Prepare report to renounce future landmine production*

Although very few companies currently produce landmines, some companies continue to have links to landmine production or produce components that are used to make landmines. Shareholders have asked companies to renounce the future development of landmines or their components, or to prepare a report on the feasibility of such a renouncement.

- We will vote for shareholder proposals seeking a report on the renouncement of future landmine production.

### *Prepare report on foreign military sales*

Every year, shareholders file proxy resolutions asking companies to account for their policies surrounding the sale of military equipment to foreign governments. The proposals take various forms. One resolution simply calls on companies to report on their foreign military sales, providing information about any military products exported over the past three years, the company's basis for determining whether those sales should be made, and any procedures used to market or negotiate those sales.

Another resolution calls for companies to report on "offsets" (e.g., guarantee of new jobs in the purchasing country and technology transfers). Offsets involve a commitment by military contractors and the U.S. government to direct benefits back to a foreign government as a condition of a military sale.

- We will vote for shareholder proposals to report on foreign military sales or offset agreements.
- We will vote case-by-case on proposals that call for outright restrictions on foreign military sales.

### *Depleted uranium/nuclear weapons*

Depleted uranium is the remains of the element uranium after some components are removed. The main difference is that depleted uranium contains at least three times less <sup>235</sup>U than natural uranium. It is weakly radioactive. However, shareholders want reports on companies' policies, procedures and involvement in the said substance and nuclear weapons.

- We will vote for shareholder proposals requesting a report on involvement, policies, and procedures related to depleted uranium and nuclear weapons.

### *Adopt ethical criteria for weapons contracts*

Shareholders have requested that companies review their code of conduct and statements of ethical criteria for military production-related contract bids, awards and execution to incorporate environmental factors and sustainability issues related to the contract bidding process. Sustainability is a business model that requires companies to balance the needs and interests of various stakeholders while concurrently sustaining its business, communities, and environment for future generations.

- We will vote for shareholder proposals asking companies to review and amend, if necessary, the company's code of conduct and statements of ethical criteria for military production-related contract bids, awards and execution.

## Animal welfare

### *Animal rights/testing*

Shareholders and animal rights groups, including People for the Ethical Treatment of Animals, may file resolutions calling for the end to painful and unnecessary animal testing on laboratory animals by companies developing products for the cosmetics and medical supply industry. Since advanced testing methods now produce many reliable results without the use of live animals, Everence generally recommends voting for proposals on this issue. In cases where it can be determined that alternative testing methods are unreliable or are required by law, Everence recommends voting against such proposals.

Other resolutions call for the adoption of animal welfare standards that would ensure humane treatment of animals on vendors' farms and slaughterhouses. Everence will generally vote in favor of such resolutions.

- We will vote for shareholder proposals that seek to limit unnecessary animal testing where alternative testing methods are feasible or not barred by law.
- We will vote for shareholder proposals that ask companies to adopt or/and report on company animal welfare standards.
- We will vote for shareholder proposals asking companies to report on the operational costs and liabilities associated with selling animals.
- We will vote for shareholder proposals to eliminate cruel product testing methods.
- We will vote for shareholder proposals that seek to monitor, limit, report, or eliminate outsourcing animal testing to overseas laboratories.
- We will vote for shareholder proposals to publicly adopt or adhere to an animal welfare policy at both company and contracted laboratory levels.
- We will vote for shareholder proposals to evaluate, adopt or require suppliers to adopt CAK and/or CAS slaughter methods.

## Political and charitable giving

### *Lobbying efforts*

Shareholders have asked companies to report on their lobbying efforts to refute established scientific research regarding climate change, the health effects of smoking, and fuel efficiency standards. Given the poor performance of the U.S. automotive industry and the highly litigious nature surrounding the tobacco industry, shareholders would like assurances that companies are acting in their best long-term interests.

- We will vote for shareholder proposals asking companies to review and report on their lobbying activities, including efforts to challenge scientific research and influence governmental legislation.
- We will vote for proposals requesting information on a company's lobbying (including direct, indirect, and grassroots lobbying) activities, policies, or procedures.

### *Non-partisanship/political contributions*

Proponents of resolutions calling for the abolishment of political contributions or contributions to political campaigns are concerned with the increasing power of corporations in the political process. These resolutions seek to limit the involvement of corporations in the political process. Everence will generally vote in favor of political contributions disclosure proposals, but will look for key elements such as explicit lack of board oversight.

- We will vote for proposals calling for a company to disclose its political and trade association contributions, unless the terms of the proposal are unduly restrictive.

- We will vote for proposals calling for a company to maintain a policy of non-partisanship and to limit political contributions.
- We will vote against proposals calling for a company to refrain from making any political contributions.

#### *Political expenditures and lobbying congruency*

- We will generally vote for proposals requesting greater disclosure of a company's alignment of political contributions, lobbying, and electioneering spending with a company's publicly stated values and policies, unless the terms of the proposal are unduly restrictive. Additionally, Everence will consider whether:
  - The company's policies, management, board oversight, governance processes, and level of disclosure related to direct political contributions, lobbying activities, and payments to trade associations, political action committees, or other groups that may be used for political purposes;
  - The company's disclosure regarding: the reasons for its support of candidates for public offices; the reasons for support of and participation in trade associations or other groups that may make political contributions; and other political activities;
  - Any incongruencies identified between a company's direct and indirect political expenditures and its publicly stated values and priorities;
  - Recent significant controversies related to the company's direct and indirect lobbying, political contributions, or political activities.

#### *Control over charitable contributions*

Shareholders have attempted to impose criteria on companies for the selection of recipients of corporate charitable contributions that would further specific objectives supported by the sponsors of the proposals. Everence believes management is in a much better position than shareholders to decide what criteria are appropriate for corporate charitable contributions. Also, some of the proposals would require companies to poll their shareholders as part of the grant-making process. Since many companies have hundreds of thousands of shareholders, contacting, confirming, and processing each individual opinion and/or consent would be burdensome and expensive.

- We will generally vote for shareholder resolutions seeking enhanced transparency on corporate philanthropy.
- We will vote against shareholder proposals giving criteria for requiring shareholder ratification of grants.
- We will vote against shareholder proposals requesting that companies prohibit charitable contributions.

#### *Disclosure on prior government service*

Shareholders have asked companies to disclose the identity of any senior executive and/or other high-level employee, consultant, lobbyist, attorney, or investment banker who has served in government. Although the movement of individuals between government and the private sector may benefit both, the potential also exists for conflicts of interest, especially in industries that have extensive dealings with government agencies.

- We will vote for shareholder proposals calling for the disclosure of prior government service of the company's key executives.

## Consumer lending and economic development

### *Adopt policy/report on predatory lending practices*

Predatory lending involves charging excessive fees to sub-prime borrowers without adequate disclosure. More specifically, predatory lending includes misleading sub-prime borrowers about the terms of a loan, charging excessive fees that are folded into the body of a refinancing loan, including life insurance policies or other unnecessary additions to a mortgage, or lending to homeowners with insufficient income to cover loan payments.

- We will vote for shareholder proposals seeking the development of a policy or preparation of a report to guard against predatory lending practices.

### *Disclosure on credit in developing countries or forgive LDC debt*

Shareholders have asked banks and other financial services firms to develop and disclose lending policies for less developed countries. Proponents are concerned that, without such policies, lending to developing countries may contribute to the outflow of capital, the inefficient use of capital, and corruption, all of which increase the risk of loan loss. In the interest of promoting improved LDC lending practices and responsible loan disclosure, Everence usually recommends voting for this type of proposal. In cases where it can be determined that companies have been proactive and responsible in developing policies, Everence recommends a vote against the proposal's adoption. Everence usually recommends against proposals that call for outright loan forgiveness; such action represents an unacceptable loss to lending institutions and their shareholders. Everence may support such proposals at banks that have failed to make reasonable provisions for non-performing loans as a means to encourage banks to change their policies.

- We will vote for shareholder proposals asking for disclosure on lending practices in developing countries, unless the company has demonstrated a clear proactive record on the issue.
- We will vote against shareholder proposals asking banks to forgive loans outright.
- We will vote case-by-case on shareholder proposals asking for loan forgiveness at banks that have failed to make reasonable provisions for non-performing loans.
- We will vote for proposals to restructure and extend the terms of non-performing loans.

### *Community investing*

Shareholders may ask a company to prepare a report addressing the company's community investing efforts. Such proposals also ask companies to review their policies regarding their investments in different communities.

- We will vote for proposals that seek a policy review or report addressing the company's community investing efforts.

## Miscellaneous

### *Adult entertainment*

Traditionally, there have not been many proposals filed in the area of adult entertainment. However, with the consolidation of the communications industry, a number of large companies have ended up with ownership of cable companies. These cable companies may offer their customers access to pay-per-view programming or channels intended for adult audiences. Proponents of shareholder proposals on this issue ask cable companies and companies with interests in cable companies to assess the costs and benefits of continuing

to distribute sexually-explicit content, including the potential negative impact on the company's image.

- We will vote for shareholder proposals that seek a review of the company's involvement with pornography.

#### *Life ethics issues*

Everence acknowledges and respects the diverse positions held within and beyond the faith community on issues of abortion and life ethics. We lament the rifts and severed relationships these issues have created in churches and even families. In its stewardship investing activities (screening, proxy voting, shareholder advocacy, etc.), Everence holds to a position that is strongly in favor of life, while respecting choice. This position is rooted in the historic Anabaptist commitment to pacifism and the belief in the sanctity and value of all life. It is also rooted in a 500 year history, marked by martyrdom, which understands the personal costs of choice.

Shareholder proposals pertaining to abortion and life ethics issues are rare. Everence's exclusionary screens supporting its "in favor of life" position—which restricts companies with any level of involvement producing a drug/product primarily indicated for the termination of pregnancy and/or any verified abortion providers—make the likelihood of these proposals appearing in Everence-managed portfolios even more rare.

In the past, shareholders have asked companies to stop manufacturing abortifacient drugs, to separate abortifacient drug operations from other operations, or to discontinue acute-care or physician management practices that involve support for abortion services. Given that Everence portfolios exclude all companies with relevant concerns related to abortion or life ethics and in respect for the diverse opinions in the definition and response to these concerns throughout the Anabaptist and broader faith community, Everence recommends abstaining on all abortion and life ethics proposals.

- We will abstain on shareholder proposals that address life ethics issues.

#### *Coffee crisis*

Since the early 1990's coffee-producing countries have seen a decline in their earnings from the sale of coffee while the retail sale value has risen in coffee in industrial countries. 2001-2002 saw the lowest price in earnings in 100 years and many coffee producing countries, usually developing countries, have seen a severe drop in their export revenues. In order to help the farmers in these countries gain better payment for their products and also promote sustainability in developing countries; proponents have filed proposals asking companies to set policy and goals to eventually have all their coffee and coffee products Fair Trade certified.

- We will vote for shareholder proposals asking for reports on company policies related to the coffee crisis.

#### *Violence and adult themes in video games*

Perceptions of increased sex and violence in video games have led certain shareholders to question the availability of adult-themed content to children and teens. The Entertainment Software Ratings Board, which provides ratings for video games, has classified approximately 34% of the total games it reviews as either Teen, Mature, or Adults Only.

- We will vote for shareholder proposals asking for reports on company policies related to the sale of mature-rated video games to children and teens.



### Anti-social proposals

A number of “anti-social” shareholder proposals have been filed in previous years at companies requesting increased disclosure. While these proposals’ requests are very similar to those submitted by shareholder advocates within traditional socially responsible investor circles, the underlying motives for filing the proposals appear to be very different. In addition to charitable contribution proposals, anti-social proposals addressing climate change, sustainability, and conflicts of interest may be seen at shareholder meetings.

Despite implicitly different motivations in some of these proposals, the underlying requests for increased disclosure, in some cases, may be worth shareholder support.

- We will vote against shareholder proposals that do not seek to ultimately advance the goals of the social investment community.
- We will vote case-by-case on anti-social shareholder proposals seeking a review or report on the company's charitable contributions.

