Form ADV Part 2A and 2B
Investment Advisor Brochure and Brochure Supplement

Item 1: Cover Page

<table>
<thead>
<tr>
<th>Name of Firm</th>
<th>Dorsey, Wright &amp; Associates, LLC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Address</td>
<td>3300 W. Leigh Street, Richmond, VA, 23230</td>
</tr>
<tr>
<td>Phone Number</td>
<td>(804) 320-8511</td>
</tr>
<tr>
<td>Website Address</td>
<td><a href="http://www.dorseywright.com">www.dorseywright.com</a></td>
</tr>
<tr>
<td>E-mail Address</td>
<td><a href="mailto:Lisa.Johnson@nasdaq.com">Lisa.Johnson@nasdaq.com</a></td>
</tr>
</tbody>
</table>

This Form ADV Part 2A (Investment Advisor Brochure) gives information about the investment advisor and its business for the use of clients and prospective clients. If you have any questions about the contents of this brochure, please contact us using one of the methods listed above. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority. Registration is mandatory for all persons meeting the definition of investment advisor and does not imply a certain level of skill or training.

Additional information about our firm is available on the SEC’s website at: www.adviserinfo.sec.gov.

Item 2: Material Changes

The purpose of this section is to discuss only material changes since the last annual update of Dorsey, Wright & Associates, LLC (“Dorsey Wright”) Investment Advisor Brochure. The date of the last annual update was March 18, 2022.

Summary of Material Changes:

There have been no material changes since our last Annual Updating Amendment on March 18, 2022.

Delivery:
Within 120 days of our fiscal year end we will deliver our annual Summary of Material Changes if there have been material changes since the last annual updating amendment.
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Item 4: Advisory Business (Advisory Firm and Services)

Advisory Firm

Dorsey Wright has been providing investment advisory services since 1987. Dorsey Wright’s current principal owners are:

- Nasdaq, Inc.;
- Granite Redux, Inc., a Delaware corporation and wholly owned subsidiary of Nasdaq, Inc.; and
- Granite Block, Inc., a Delaware corporation and wholly owned subsidiary of Nasdaq, Inc.

Dorsey Wright offers various types of advisory services as described in more detail below the list.

1. Investment Management provides personal investment advisory services for individual investors. The Investment Management activity takes place primarily from the California office.
2. Research and subscription services directed primarily to financial professionals, institutional clients (including mutual funds, unit investment trusts (“UITs”), exchange traded funds (“ETFs”)), and some individual investors. These impersonal advisory services come in a digital format and are primarily generated from the home office in Virginia.
3. Seminars, Webinars, and Broker Institutes.
4. Hourly special services.
5. Advisory, sub-advisory, licensing, and consultant services are provided to mutual funds, UIT providers, providers of ETFs, and providers of structured notes and certificates of deposit.

Advisory Services

① Investment Management

The Investment Management arm of Dorsey Wright provides investment supervisory services (“Investment Management”). These personalized services are provided to individual investors, who in turn are clients of several unaffiliated broker/dealer or investment advisory firms. Our goal for Investment Management services is to attain meaningful investment results with emphasis on meeting the particular needs and investment goals of each client. These services are primarily provided through our California branch office; however, the methodologies and the portfolio management strategies used are created in collaboration with our main office in Virginia. For further discussion on our methodologies and strategies, see Item 8 of this brochure.

As of December 31, 2022, Dorsey Wright has $ 657,787,469.96 of assets under management on a discretionary basis. This includes our separately managed accounts, as well as our advisory and sub- advisory arrangements.

Investment Management is based upon the same technical analysis that drives our research reports. Investment Management provides the value-added service that the investment account is monitored and that the advice is implemented by a qualified IA Representative of Dorsey Wright. Individual advice is afforded to the Investment Management clients. Advice and action taken on behalf of any client is likely to be similar to but can be different from published research of a non-personalized nature.
A data gathering questionnaire is reviewed to determine the client's financial situation and investment objectives, and to give the client the opportunity to impose reasonable restrictions on the management of the account. Clients have the ability to leave standing instructions with the Dorsey Wright IA Rep (or designee) to refrain from investing in particular securities or types of securities or invest in limited amounts of securities. Annually the IA Rep (or designee) will notify the client in writing to contact the IA Rep (or designee) if there have been any changes in the client's financial situation or investment objectives, or to impose or modify account restrictions. The IA Rep (or designee) will contact or attempt to contact the client annually on these matters. It is the client's responsibility to notify the IA Rep (or designee) any time there are changes. In the case where a client is referred by unaffiliated broker/dealer or investment advisory firm (“sponsor firm”), the agent of the sponsor firm may be acting as the designee for Dorsey Wright.

Dorsey Wright utilizes SEI Investment Managers Services, Inc. (“SEI”), to assist Dorsey Wright in many of the back office functions that support our Investment Management business. Dorsey Wright continues to be responsible for the content, quality, and timeliness of our Investment Management services, however, SEI’s outsourced operational solutions help facilitate account opening and maintenance, daily reconciliation, and trade settlement. SEI prepares quarterly portfolio reports for Dorsey Wright’s Investment Management clients on behalf of Dorsey Wright.

Clients may call in at any time during normal business hours to discuss directly with the IA Rep their account, financial situation, or investment needs. Clients will receive from the custodian/brokerage firm confirmations, unless they have elected to have their confirmations suppressed, and at least quarterly statements containing a description of all transactions and all account activity. The client retains the indicia of ownership of all securities and funds in the account.

Research and Subscription Services

Dorsey Wright offers three combinations of charting, research, and software services with our Basic, Platinum and Elite subscription packages. For any of the subscription packages, billing is done either monthly, quarterly, semi-annually, or annually in advance and payment is due upon receipt of the invoice. Clients must cancel by the 10th of the month to receive a pro-rata fee following the end of the previously paid advanced billing cycle (either monthly, quarterly, semi-annually or annually to receive a pro-rata fee for that billing period. Clients who notify Dorsey Wright of cancelation after the 10th of the month following the previously paid advanced billing cycle will be charged for the entire next billing cycle and will maintain access through the end of the month.

The Basic subscription package gives subscribers access to our charts, a limited number of watch lists, a select number of model portfolios, a limited search/sort feature, computer generated stock comments, and a “From the Analyst” daily research article. The Basic subscription is $79/month.

Dorsey Wright currently provides approximately 100 managed model portfolios on its website. The purpose of these tools is to provide a guideline for managing a piece of a portfolio. The basis of the allocations in the models is Point and Figure relative strength (technical analysis). No risk-management tools or suitability considerations are factored into the models. The models are provided as impersonal research services. Investment professionals must make the final decisions as to allocations in investment portfolios when utilizing the research. These ETF model portfolios are included in subscriptions to all the
subscription options described herein. ETF providers, including but not limited to, Blackrock (iShares), Invesco, First Trust, Franklin Templeton, DWS, KraneShares, BondBloxx, and New York Life (IndexIQ), sponsor these models on a flat fee basis.

Dorsey Wright also makes certain ETF model portfolios available through other websites. Dorsey Wright has a contractual relationship with each of these companies to provide ETF models to their representatives, or in the case of a model platform, to their financial professional clients. The licensing fee paid to Dorsey Wright is based on the assets under management in the program. Dorsey Wright sometimes waives this fee at its discretion.

The Platinum subscription package gives subscribers access to everything in Basic noted above plus our Daily Equity Report, DALI and ESS services described below. The Platinum subscription package is $299/month.

Daily Equity Report
This Report is a daily technical research report to financial advisors and institutions. The Report covers a large universe of securities, which are updated daily using Point & Figure charts. Each week we review our market indicators, highlighting any changes that may occur.

DALI
The Dynamic Asset Level Investing (D.A.L.I.) service applies relative strength analysis across the following six major asset classes, US Equities, International Equities, Commodities, Global Currencies, Fixed Income, and Cash, to identify leadership and guide tactical asset allocation.

ESS
The Enhanced Security Selection (ESS) service includes the Teambuilder and Matrix tools. Teambuilder aids in portfolio construction regarding mutual funds, ETFs, and stocks. The Relative Strength Matrix service evaluates a portfolio on a relative strength basis by creating a relative strength chart of each member of the portfolio versus every other member. This allows users to rank the portfolio by relative strength buy signals and columns. The ESS Package service, offers a few additional features such as email alerts for matrix movers, fund score methodology (FSM) models and select stock models.

The Elite subscription package gives subscribers access to everything in Basic and Platinum noted above plus custom strategy construction service. The Elite subscription package is $399/month.

Dorsey Wright sometimes offers discounted rates for Basic, Platinum and Elite for higher volume relationships, academic institutions, promotions, and other circumstances.

Tactical Tilt Model Licensing

Dorsey Wright's Tactical Tilt Program is a model manager product that is licensed to broker-dealers, RIAs, or other financial institutions (the “licensee”). Dorsey Wright constructs and manages the model portfolios that are built with Exchange Traded Funds or open-end Mutual Funds as asset allocation investment solutions. The Tactical Tilt methodology is a rules-based process by which Dorsey Wright applies relative strength analysis to major asset classes to establish recommended investment weightings for each category, and similar analysis within asset classes to determine recommended sector weightings.
The asset class weightings are based upon the results of the relative strength ranking process, and the constraints of strategic boundaries. Tactical Tilt Models are generally offered as a family, which provides a suite of risk-based options that vary materially only in the strategic boundaries within the program. Tactical Tilt model updates are provided on a scheduled basis, as frequently as weekly, or as infrequently as monthly, as established by the licensee. The investment inventory (i.e. securities used to gain exposure to a particular asset class or sector) vary based upon the availability of specific securities to the licensee or licensee preference. Generally, Dorsey Wright is compensated on an AUM basis for all assets participating within Tactical Tilt guided models. However, Dorsey Wright will charge a flat subscription fee to licensees at Dorsey Wright’s discretion. Since the guided models are updated no more frequently than weekly, on a day chosen by the licensee, the licensee will receive some recommendations after such recommendations or similar recommendations are distributed to other Dorsey Wright clients. The Tactical Tilt Models do not provide individual or personalized investment advice and the decision to put a client in a Tactical Tilt program belongs solely to the client's broker or advisor.

③ Seminars, Webinars, and Broker Institute

Dorsey Wright offers seminars to its clients. These seminars are based on Point and Figure charting and designed to educate our clients on Point and Figure charting, its origin, the basics of this charting method, specific chart formations, relative strength, sector analysis, Exchange Traded Funds (ETF's), investment models, and our technical indicators. These seminars are approximately 1-3 hours in length. Dorsey Wright also offers intense, comprehensive one-day, a day and a half, and two-day Point and Figure seminars for its subscription clients. Specialized seminars are also available at negotiated prices.

Dorsey Wright also offers webinars for clients. Webinar series and specialized webinars are also available at negotiated prices.

Dorsey Wright offers a three-day educational event once or twice per year as well. These events are held as the need arises but have typically been held in the spring and fall of each year. Dorsey Wright also offers advanced educational events, and smaller events in other cities. Pricing for various seminars, webinars and other educational events are negotiated based on complexity. From time to time, the Firm may offer all or part of these workshops at reduced or no extra charge to subscribers to other services or to other business partners.

Dorsey Wright also offers consulting services as part of its seminar services. This entails a visit to the office of a client to advise him or her on how to better implement our service and some of the features of our service. This service would include doing branch seminars as well as client seminars. The cost of this service can be negotiated.

④ Hourly Special Services

Dorsey Wright periodically offer services where charges are on an hourly basis. This could include such services as portfolio evaluation or conference calls. The hourly charges for these services vary depending on the task.

⑤ Advisory, Sub-Advisory, Licensing, and Consultant Services to Mutual Funds, UITs, Structured Products, Variable Insurance Trusts, ETFs, ETNs, and Unified Managed Account
Dorsey Wright provides advisory, sub-advisory, licensing, and consultant services to mutual funds, unit investment trusts, structured products, variable insurance trusts, ETFs, and ETNs. The majority of the products that utilize a Dorsey Wright strategy are U.S.-listed or issued, however, Dorsey Wright provides model and index licensing services for use in a small number of foreign listed and issued products as well. The product providers listed below represent our main clients from this category.

- **AdvisorShares**

Dorsey Wright acts as a sub-advisor to AdvisorShares for a suite of AdvisorShares Dorsey Wright ETFs. The AdvisorShares Dorsey Wright ADR ETF (AADR) is an all-cap international equity strategy seeks to achieve long-term capital appreciation through a portfolio of international companies in both developed and emerging markets. The investment strategy is relative strength-based and takes into account current sector and industry group allocations in order to keep the strategy diversified. There is no consideration given to the allocation between developed and emerging markets; the strategy will allocate between the two depending on global price trends. Exposure to international markets is primarily achieved through American Depository Receipts (ADRs).

The AdvisorShares Dorsey Wright Short ETF (DWSH) employs an actively managed strategy that seeks capital appreciation through short selling securities using a technical, systematically driven investment approach. The strategy identifies the weakest relative strength securities from within an investment universe of U.S. large and mid-cap equities, short selling securities that have depreciated in price more than others in their investment universe and holding those securities until they exhibit buy signals.

The AdvisorShares Dorsey Wright Micro-Cap ETF (DWMC) utilizes an actively managed strategy that seeks long-term capital appreciation by investing in exchange-listed, micro-cap equities with sufficient liquidity that generally have a market capitalization of less than $1 billion at the time of purchase. The strategy is relative strength-based, buying securities from the investment universe that have appreciated in price more than other equities within its investment universe and holding those securities until they exhibit sell signals.

Dorsey Wright also licenses models to AdvisorShares for use in three ETFs: The AdvisorShares Dorsey Wright FSM All Cap World ETF (DWAW), AdvisorShares Dorsey Wright FSM U.S. Core ETF (DWUS), and AdvisorShares Dorsey Wright Alpha Equal Weight ETF (DWEQ). The underlying models for DWAW and DWUS utilize Dorsey Wright’s Fund Score Method (FSM) framework. The FSM evaluates trend analysis, market relative strength, and peer relative strength to select funds that are showing outperformance. The All Cap World model is a global equity rotation strategy, while the U.S. Core model is a large cap equity rotation strategy. The model provided for the DWEQ utilizes two layers of relative strength, investing in high relative strength equities from sectors or industry groups showing outperformance, and also includes a defensive feature that allows the strategy to gradually add cash based on market indicators.
**Arrow Funds**

Dorsey Wright licenses models to Arrow Funds for use in two mutual funds and two exchange traded funds (ETFs). The Arrow Funds DWA Balanced Fund (DWAFX) is based upon the DWA Balanced Model, a model that invests in five (5) areas: Sector Rotation, Style Rotation, International Rotation, Fixed Income Rotation, and an Alternative Rotation. The Fund will rely primarily on relative strength when making the allocation decisions but other technical indicators may be used.

The Arrow DWA Tactical Fund (DWTFX) and the Arrow DWA Tactical ETF (DWAT) are based upon the DWA Tactical Model, a model that provides broad diversification across markets, sectors, styles, long and inverse domestic and international equities, fixed income, currencies and commodities primarily using Exchange Traded Fund (ETFs) instruments. The Model is constructed pursuant to our proprietary ranking and rotation methodology.

The Arrow DWA Country Rotation ETF (DWCR) seeks to track the Dorsey Wright Country and Stock Momentum Index. The Index’s methodology is designed to select the top 10 strongest performing countries out of a universe of approximately 40 countries. Once a country is identified for inclusion within the Index, the Index methodology is designed to identify 10 companies that demonstrate powerful relative strength characteristics within that country. The Index is equally weighted and rebalanced and reconstructed on a quarterly basis.

**AssetMark**

Dorsey Wright acts as a research provider by providing AssetMark with investment models for their clients to follow. Dorsey Wright does not have discretion in the client accounts and solely provides broad investment models.

**First Trust**

Dorsey Wright acts as a consultant to First Trust Portfolios L.P. in connection with the First Trust Dorsey, Wright Relative Strength Top 50 unit investment trust series as well as the First Trust Dorsey, Wright Relative Strength Dividend unit investment trust series. The securities selected for inclusion within a series of the First Trust Dorsey Wright Relative Strength Top 50 are selected based on relative strength. The securities selected for inclusion within each series of the First Trust Dorsey Wright Relative Strength Dividend are selected based on a combination of relative strength and dividend yield. Each series of the unit investment trust is designed to be held over the fixed 15-month term of the trust.

Dorsey Wright licenses the Dorsey Wright Focus Five Index, the Dorsey Wright Dynamic Focus Five Index, the Dorsey Wright International Focus Five Index, the Nasdaq Dorsey Wright DALII Index, the Nasdaq Dorsey Wright People's Portfolio Index, the Dorsey Wright Momentum Plus Low Volatility Index, the Dorsey Wright Momentum Plus Dividend Yield Index, and the Dorsey Wright Momentum Plus Value Index to First Trust Advisors L.P. for use in the First Trust Focus 5 ETF (FV), the First Trust Dorsey Wright Dynamic Focus 5 ETF (FVC), the First Trust International Focus 5 ETF (IFV), the First Trust Dorsey Wright DALII ETF (DALI), the First Trust Dorsey Wright People’s Portfolio ETF (DWPP), the First Trust Dorsey Wright Momentum & Low Volatility ETF (DVOL), the First Trust
Dorsey Wright Momentum & Dividend ETF (DDIV), and the First Trust Dorsey Wright Momentum & Value ETF (DVLU), respectively. The FV seeks to track the Focus Five Index, an index designed to provide targeted exposure to the five First Trust sector and industry based ETFs identified by Dorsey Wright’s index methodology to possess high relative strength. First Trust sector and industry based ETFs provide the universe for the index selection and the Focus Five Index always contains five ETFs. The Focus Five Index follows the Dorsey Wright Focus Five Model that Dorsey Wright has been publishing within its Equity Chart Database Service since late-October 2009. The Focus Five strategy is also licensed for use on unified managed account (UMA) platforms. The FVC utilizes the same methodology as the Focus Five Index (described above), however, in instances where relative strength diminishes across the equity sectors, the Dynamic Focus Five Index can raise varying amounts of exposure to a cash equivalent. The IFV seeks to track the International Focus Five Index, an index designed to provide targeted exposure to the five First Trust country and region based ETFs identified by Dorsey Wright’s index methodology to possess high relative strength. First Trust country and region-focused ETFs provide the universe for the index selection and the International Focus Five Index always contains five ETFs. The International Focus Five Index follows the Dorsey Wright International Model that Dorsey Wright has been publishing within its Equity Chart Database Service since late-February 2012. The DALI seeks to track the Nasdaq Dorsey Wright DALI1 Index, an index that utilizes Dorsey Wright’s Dynamic Asset Level Investing (DALI) framework to allocate to the top asset class among Domestic Equities, International Equities, Fixed Income, and Commodities via sub-indexes composed of ETFs. The DWPP seeks to track the Nasdaq Dorsey Wright People's Portfolio Index, an index designed to provide exposure to either the cap-weighted basket of equities representing the U.S. equity market, an equal-weighted basket of equities representing the U.S. equity market, or T-bills, based upon daily relative strength readings resulting from Dorsey Wright’s relative strength comparison process. The DVOL seeks to track an index of approximately 50 stocks from a starting universe of U.S. large and mid-cap equities that exhibit relatively low levels of volatility, while maintaining high levels of relative strength. The DDIV seeks to track an index of approximately 50 high dividend paying stocks that also maintain high levels of relative strength from a starting universe of U.S. large and mid-cap equities.

Dorsey Wright also licenses the Dorsey Wright Tactical Tilt Moderate Core Index to First Trust Advisors L.P. for use in a Variable Insurance Trust, the First Trust Dorsey Wright Tactical Core Portfolio. The Dorsey Wright Tactical Tilt Moderate Core Index is constructed using Dorsey Wright’s relative strength-based Dynamic Asset Level Investing (“DALI”) asset allocation process. The Index is designed to allocate its investments among the domestic equity, international equity, fixed income, and cash asset classes. The Index gains exposure to the domestic equity, international equity, and fixed income asset classes through investment in ETFs.

Dorsey Wright licenses models to other registered investment advisors and unified managed account (UMA) platforms. These model portfolios are built with exchange traded funds or open-end mutual funds as asset allocation investment solutions for all, or part of a portfolio. These are impersonal, non-discretionary, advisory solutions and Dorsey Wright is compensated on an AUM basis for assets participating within the guided models. Dorsey Wright licenses such guided models to Carson Wealth Management (CWM) for use by their representatives within client portfolios and is compensated for this licensing arrangement by First Trust, who pays Dorsey Wright for all assets invested in the First Trust products included within the guided models provided to CWM. There are First Trust products within the guided models that Dorsey Wright or Nasdaq receives index licensing fees on, and in those cases Dorsey
Wright (or Nasdaq) will receive a fee from First Trust based on assets participating the CWM guided model, as well as the licensing fees to Dorsey Wright from First Trust for assets invested in the guided models attributable to First Trust exchange traded funds.

*Invesco*

Invesco is an exchange traded product provider with a family domestic and international ETFs. Invesco ETFs trade on U.S. stock exchanges, as well as exchanges throughout Canada and Europe (source: [www.invesco.com](http://www.invesco.com), 3/11/2019).

Dorsey Wright created thirteen Technical Leaders indices. Technical Leaders indices are all constructed mechanically, using objective criteria from Dorsey Wright’s proprietary ranking system, and contain between thirty and two hundred high relative strength stocks. The DWA tactical indices are also rules-based, using objective criteria to rank a potential investment inventory of ETFs. Dorsey Wright licenses these indices to Invesco for use in 16 exchange traded funds. The Invesco exchange traded funds that utilize Dorsey Wright Technical Leaders or tactical indices are listed below.

*Exchange Traded Funds that utilize a Dorsey Wright Technical Leaders Index:*

- Invesco DWA Momentum (PDP)
- Invesco DWA Developed Momentum (PIZ)
- Invesco DWA Emerging Momentum (PIE)
- Invesco DWA Smallcap Momentum (DWAS)
- Invesco DWA Basic Materials Momentum (PYZ)
- Invesco DWA Consumer Discretionary Momentum (PEZ)
- Invesco DWA Consumer Staples (PSL)
- Invesco DWA Energy Momentum (PXI)
- Invesco DWA Financial Momentum (PFI)
- Invesco DWA Healthcare Momentum (PTH)
- Invesco DWA Industrials Momentum (PRN)
- Invesco DWA Technology Momentum (PTF)
- Invesco DWA Utilities Momentum (PUI)

*ProShares*

In May 2021, Proshares partnered with Dorsey Wright & Associates to create the Nasdaq-100 Dorsey Wright Momentum Index (QQQA) to help investors take advantage of their findings regarding the potential of momentum. The Nasdaq-100 Dorsey Wright Momentum selects and equally weights the top 21 stocks ranked by Relative Strength every quarter. Once chosen, stocks will remain in the index until they fall to a certain sell threshold, in which case they will be replaced at the next quarterly reconstitution. This approach allows outperforming stocks to continue to run while reducing portfolio turnover. It also helps the index keep pace with changing momentum trends in the Nasdaq-100 Index.
Dorsey Wright partnered with Nasdaq Index Group and Strategy Shares to create the Nasdaq 5HANDL and Nasdaq 7HANDL ETFs. The 5 & 7HANDL indices are split into two components with a 50% allocation to fixed income and equity ETF (core Portfolio) and a 50% allocation to a “Dorsey Wright Explore Portfolio”, a tactical allocation with U.S. fixed-income, U.S. blend, U.S. equity and U.S. alternative assets, or categories that have historically provided high levels of income. The Dorsey Wright portion of the ETF uses the tactical asset allocation methodology developed in consultation with Nasdaq Dorsey Wright Investment Research & Analysis that seeks to incorporate momentum, yield and risk.

**Item 5: Fees and Compensation**

The current fees for Research, Seminars, and Special Services are disclosed above with the description of Fees for Investment Management are computed at an annualized percentage of assets under management on a sliding scale. The current fee schedule is set forth below.

<table>
<thead>
<tr>
<th>Equity - Growth, Aggressive Growth, Growth &amp; Income, Large Cap Fusion, Small Cap Fusion</th>
<th>Systematic Relative Strength – Balanced, Global Macro</th>
</tr>
</thead>
<tbody>
<tr>
<td>First $ 500,000 1.25%</td>
<td>Systematic Relative Strength – Aggressive, Growth, Core, International Core, ESG Core</td>
</tr>
<tr>
<td>Next $ 500,000 1.00%</td>
<td>First $ 500,000 1.25%</td>
</tr>
<tr>
<td>Over $1,000,000 0.75%</td>
<td>Next $ 500,000 1.00%</td>
</tr>
<tr>
<td>(Minimum Annual Fee: $1,250)</td>
<td>Over $1,000,000 0.75%</td>
</tr>
<tr>
<td></td>
<td>(Minimum Annual Fee: $2,500)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Systematic Relative Strength – Tactical Fixed Income</th>
<th>Focus Five Strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>First $1,000,000 0.50%</td>
<td>First $1,000,000 0.50%</td>
</tr>
<tr>
<td>Next $1,000,000 0.40%</td>
<td>Next $1,000,000 0.40%</td>
</tr>
<tr>
<td>Over $2,000,000 0.35%</td>
<td>Over $2,000,000 0.35%</td>
</tr>
<tr>
<td>(Minimum Annual Fee: $1,000)</td>
<td>(Minimum Annual Fee: $1,000)</td>
</tr>
</tbody>
</table>
Moderate Risk Endowment
First $1,000,000 1.00%
Next $1,000,000 0.85%
Over $2,000,000 0.75%
(Minimum Annual Fee: $2,000)

The minimum account sizes and annual fees stated above are negotiable at the discretion of Dorsey Wright. These fees are for Dorsey Wright advisory services only and do not include any transaction fees or commissions. The fee is based on the total market value, including cash. Lower or higher fees for comparable services may be available from other sources. Exceptions are made to the base fee schedule and minimum account size at the discretion of Dorsey Wright.

In addition to fees paid for advisory services with respect to clients' investments in mutual funds, clients pay additional fees on the mutual fund investment because the mutual funds also pay advisory and/or management fees to an investment advisor. Exchange Traded Funds (ETFs) also result in the layering of fees, as ETFs impose their own advisory and other fees. To obtain more complete information about an ETF, the documents are publicly available for free via EDGAR on the SEC website (http://www.sec.gov).

Advisory fees are calculated quarterly, using the value of the client account as of a specific day selected by the custodian, which can be the final day of the previous quarter or a day after the end of the previous quarter.

Generally, we do not recommend securities that are illiquid or hard-to-price. Should a rare occurrence of this ever happen, DWA will value the assets in a manner determined in good faith. The asset may also be treated as having no value if this would not be misleading to clients.

Dorsey Wright does not share investment management fees with an unaffiliated sponsor firm that refers clients. Please refer to Client Referrals section for more information. The sponsor firms will be compensated under arrangements made directly with their clients, which may be commission-based and/or fee-based. Clients referred by sponsor firms should read carefully the section on Brokerage Practices (Brokerage for Client Referrals and Trade Aggregation).

The fee will be payable quarterly in advance. The first payment is due and payable upon execution of the Agreement, and will be assessed pro-rata in the event the Agreement is executed other than the first day of the new calendar quarter. Subsequent payments are calculated on the first day of each calendar quarter based on the value of the account assets under management as of the close of business on the last business day of the preceding quarter.

Payment of fees may be paid direct by the client, or client may authorize the custodian holding client funds and securities to deduct advisory fees direct from the client account in accordance with statements prepared and submitted to the custodian by Dorsey Wright. The custodian will provide periodic account statements to the client. Such statements will reflect all fee withdrawals by Dorsey Wright. It is the client’s responsibility to verify the accuracy of the fee calculation. The custodian will not determine whether the fee is properly calculated.

Investment Management services will continue until either party terminates the agreement on thirty (30)
calendar days written notice. If termination occurs prior to the end of a calendar quarter, a pro-rata refund of unearned fees will be made to the client.

Upon termination, all assets will be held at the custodian and it will be Client's responsibility to instruct the custodian as to the final disposition of assets, unless Client specifically notifies Dorsey Wright to liquidate or take other action. As of the date of termination, Dorsey Wright will no longer be the investment advisor of record, and it will be Client’s responsibility to monitor the timely disposition of the account and take all future actions in regards to the management of the account.

General Service and Fee Disclosures

Fees are not collected from any investment management client more than six months in advance.

Dorsey Wright is an investment advisory firm that receives fees as compensation for research, investment management, and seminars.

Dorsey Wright is compensated for licensing certain products to other firms, such as the Technical Leaders Indices to Invesco and the Focus Five Indices to First Trust Advisors L.P. Dorsey Wright's fee is based on the assets under management. Fees for the exchange-traded funds that utilize the licensed products can be found on each exchange-traded fund’s prospectus document.

Nasdaq, Inc., Dorsey Wright’s parent company, is also compensated for the licensing of certain indexes to investment vehicle sponsors, and the provision of index calculation services to index providers. There are certain investment management account strategies and research models with the potential to invest in ETFs or other investment vehicles for which Nasdaq, Inc. or one of its subsidiaries would also receive a fee based on assets within that investment vehicle. Please see Item 10 for further discussion of this potential conflict of interest.

Dorsey Wright is compensated by AdvisorShares, for sub-advisory work based on the assets under management within the AdvisorShares’ investment products.

The Investment Management Agreement contains a pre-dispute arbitration clause. Client understands that the agreement to arbitrate does not constitute a waiver of the right to seek a judicial forum where such a waiver would be void under the federal securities laws. Arbitration is final and binding on the parties.

The Investment Management agreement contains an acknowledgement and acceptance of electronic delivery of communications including the communication of any notice, advice, or report in lieu of a printed copy, including applicable disclosure documents and disclosures required under ERISA section 408(b)(2) at such email address as Client may designate in writing to Dorsey Wright. Client may revoke this consent at any time and receive all communications in hard copy form by providing written notice to DWA. Even if Client agrees to electronic delivery, Client may request a paper copy of any communication via U.S. mail at no additional cost to Client.
Item 6: Performance-Based Fees and Side-By-Side Management

Dorsey Wright does not charge performance-based fees, which are based on capital gains in the client account.

Item 7: Types of Clients and Account Minimums

*Types of Clients*

Dorsey Wright provides personal and impersonal advisory services to individuals, banking institutions, pension and profit sharing plans and other ERISA accounts, trusts, estates, and business entities.

Dorsey Wright acts as sub-advisor to collective investment funds, a licensor to providers of exchange-traded funds (ETFs) and exchange traded notes (ETNs), certificates of deposit and structured products, a licensor to providers of variable insurance trusts, and a consultant to providers of unit investment trusts. Dorsey Wright licenses model or index products to one or more Registered Investment Advisers and Broker-dealers.

Dorsey Wright has arrangements with other investment advisors to act as sub-advisor for the purpose of providing investment research, making investment recommendations or trading. Clients would sign an advisory agreement for the other investment advisor and would not be clients of Dorsey Wright. When we act as sub-advisor, the client’s primary investment advisor may offer within its Investment Advisor Brochure to provide Dorsey Wright’s Investment Advisor Brochure.

*Account Minimums*

Dorsey Wright has minimums for account size and fees, subject to exceptions.

<table>
<thead>
<tr>
<th></th>
<th>Minimum Size</th>
<th>Minimum Fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity Account</td>
<td>$100,000</td>
<td>$1,250</td>
</tr>
<tr>
<td>(Growth, Aggressive Growth, Growth &amp; Income Large Cap Fusion, Small Cap Fusion)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Systematic Relative Strength</td>
<td>$200,000</td>
<td>$2,500</td>
</tr>
<tr>
<td>(Aggressive, Core, International Core, ESG Core)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Systematic Relative Strength</td>
<td>$200,000</td>
<td>$2,000</td>
</tr>
<tr>
<td>(Balanced, Global Macro)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tactical Fixed Income</td>
<td>$200,000</td>
<td>$1,000</td>
</tr>
<tr>
<td>Focus Five</td>
<td>$200,000</td>
<td>$1,000</td>
</tr>
<tr>
<td>Moderate Risk Endowment</td>
<td>$200,000</td>
<td>$2,000</td>
</tr>
</tbody>
</table>
Item 8: Methods of Analysis, Investment Strategies, and Risk of Loss

The Research and investment process for the Dorsey Wright Investment Management accounts are firmly based on our principles of research. We at Dorsey Wright believe that our methods, when followed rigorously, can help mitigate the risk and uncertainty that are inherent in all investments. There is no guarantee that the investment strategy selected for the client will result in the client’s goals being met, nor is there any guarantee of profit or protection from loss. For those investments sold by prospectus, clients should read the prospectus in full.

Dorsey Wright uses internally generated charts and proprietary relative strength methods based on technical security analysis as a main source of information for our research reports and investment management services.

Technical analysis is a discipline for forecasting the direction of prices through the study of past market data, primarily price. Technician’s use various methods and tools – the study of price charts is but one. Technical analysis holds that prices reflect all factors that are known to investors.

Technical analysis does not take into consideration fundamental analysis, which looks at how well the company is operating and its competitive advantages.

All investments in securities include a risk of loss of principal (invested amount) and any profits that have not been realized (i.e. the securities were not sold to “lock in” the profit). Stock markets and bond markets fluctuate substantially over time. In addition, as recent global and domestic economic events have indicated, performance of any investment is not guaranteed. As a result, there is a risk of loss of the assets we manage. We will do our very best in the management of investors’ assets; however, Dorsey Wright cannot guarantee any level of performance or that account assets will not be lost. Dorsey Wright does not represent, warrant, or imply that the services or method of analysis used can or will predict future results, successfully identify market tops or bottoms, or insulate clients from major losses due to market corrections or crashes. No promises or assumptions can be made that the advisory services offered by Dorsey Wright will provide a better return than other investment strategies.

There are risks inherent in international investments, which may make such investments unsuitable for certain clients. These include, for example, economic, political, currency exchange, rate fluctuations, and limited availability of information on international securities. Dorsey Wright and their affiliates make no representation that the companies that issue securities that are the subject of their research reports are subject to, or in compliance with, certain informational reporting requirements imposed by the Securities Exchange Act of 1934. Sales of securities covered in the research reports may be made in only those jurisdictions where such securities are qualified for sale. Individuals should seek professional guidance in assessing their own objectives and risk tolerance.

Dorsey Wright is disclosing those risks and opportunities for the types of securities used:

- A Stock represents ownership in a company. If the company prospers and grows, the value of the stock may increase. Even if a company is profitable, the stock prices are subject to “market risk” which is attributable to investor attitudes, and/or the performance of the broad economy. Stock
ownership in more established companies tends to be more conservative, while younger companies typically provide the most risk and reward opportunities.

- Debt Securities (corporate or municipal bonds) are basically promissory notes that pay interest and the return of principal at the end of a specified term. Credit risk is the chance the issuer will fail to pay the interest payments on the security or to pay the principal at maturity. Interest rate risk is that the market value of the bonds will go down when interest rates go up. Prepayment risk is the chance that a bond will be paid off early. For example, if interest rates fall, a bond issuer may decide to pay off its debt. When this happens, the investor may not be able to reinvest the proceeds in an investment with as high a return or yield.

- A Government Bond is a fixed-income security issued and backed by an agency of the United States Government.

- A Mutual Fund is an investment pool, which may include money market instruments, stocks, bonds, or other investment vehicles. Professional money managers research, select, and monitor the performance of the securities the fund purchases. It is often easier to achieve diversification through ownership of mutual funds rather than through ownership of individual stocks or bonds. Even with no-load or load-waived funds, there are mutual fund expenses paid to the fund company. Investors may have to pay taxes on capital gains distribution received by the fund, but not distributed to the investor. Mutual funds redeem shares at net asset value ("NAV") at the end of the trading day.

- A Unit Investment Trust ("UIT") is similar to a mutual fund, but once the UIT selects the securities it will hold them. The portfolio is not actively managed and does not sell securities in response to ordinary market fluctuations. There may be special risks if a portfolio is concentrated within a specific sector of the market.

- An Exchange Traded Fund ("ETF") holds securities to match the price performance of a certain market index or commodity. ETFs can track stock indexes and sectors, bonds, precious metals, or other assets. ETFs are subject to the same market risks as the index or sector they are designed to track. ETFs can be bought and sold throughout the day like stocks. ETFs may be an index fund or a fully transparent actively managed fund.

- An Exchange Traded Notes ("ETN") is a senior, unsecured, unsubordinated debt security typically linked to the performance of an index, strategy, or benchmark. The note has a fixed maturity, is backed by the credit of the issuer, and is traded on an exchange.

- A Variable Insurance Trust ("VIT") is an investment vehicle for life insurance companies writing variable annuity contracts and variable life insurance contracts.

- A Futures contract is a standardized contract between two parties to buy or sell a specified asset (e.g. oranges, oil, gold) of standardized quantity and quality at a specified future date at a price agreed today (the futures price). The contracts are traded on a futures exchange. Futures contracts are not “direct” securities like stocks or bonds. They are still securities, however, although they are a type of derivative contract. The underlying asset to a futures contract may not be traditional "commodities" – that is, for financial futures, the underlying asset or item can be currencies, securities or financial instruments and intangible assets or referenced items such as stock indexes and interest rates. Futures traders are traditionally placed in one of two groups: hedgers, who have
an interest in the underlying asset, and are seeking to hedge out the risk of price changes; and speculators, who seek to make a profit by predicting market moves and opening a derivative contract related to the asset “on paper,” while they have no practical use for or intent to actually take or make delivery of the underlying asset. Trading security futures contracts may not be suitable for all investors. You may lose a substantial amount of money in a very short period of time. The amount you may lose is potentially unlimited and can exceed the amount you originally deposit with your broker. This is because futures trading is highly leveraged, with a relatively small amount of money used to establish a position in assets having a much greater value. If you are uncomfortable with this level of risk, you should not trade security futures contracts.

- Structured products are securities derived from or based on a single security, a basket of securities, an index, a commodity, a debt issuance and/or a foreign currency (“underlying assets”). The return of a structured product is linked to performance of the underlying assets. Some structured products offer full protection of principal invested while others may offer limited or no protection of principal. Structured products are unsecured debt obligations of the issuer, so there is a credit risk associated with their purchase. There is also a liquidity risk associated with structured products, as they are generally not listed on an exchange or may be thinly traded. Investors who need to sell their structured products prior to maturity are likely to receive less than the amount they invested.

- A collective investment fund (“CIF”) is a bank-administered trust that holds commingled assets that meet specific criteria established by 12 CFR 9.18. The bank acts as a fiduciary for the CIF and holds legal title to the fund’s assets. CIFs allow banks to avoid costly purchases of small lot investments for their smaller fiduciary accounts. CIFs are bank maintained and not registered with the SEC. The Declaration of Trust for the Trust describes the procedures for admission to and withdrawal from a CIF.

- RS Core ESG:

The DWA Systematic RS Core ESG strategy invests in securities selected from the Nasdaq US Mid+Large Index which are screened by a third party vendor for Environmental, Social, and Governance (“ESG”) factors as a criteria for inclusion. The vendor, Sustainalytics, categorizes issuers based on a composite of multiple ESG factors and assigns each issuer to one of five ESG categories: Negligible, Low, Medium, High, and Severe. Dorsey Wright does not participate in the screening process. The Dorsey Wright universe for the strategy is composed of companies from the abovementioned index which receive a Negligible or Low Sustainalytics rating. Dorsey Wright will further accept individual account restrictions for the ESG strategy for any client identified specific issues that go beyond the Sustainalytics ranking system.

**Item 9: Disciplinary Information**

An investment advisor must disclose material facts about any legal or disciplinary event that is material to client’s evaluation of the advisory business or of the integrity of its management personnel. Dorsey
Wright does not have any such disclosure items.

Item 10: Other Financial Industry Activities and Affiliations

Dorsey Wright is registered as a Commodities Trading Adviser and may buy and sell futures contracts. Dorsey Wright makes no commissions from implementing commodities advice.

Nasdaq, Inc. is a publicly traded corporation (NDAQ). Its subsidiaries include The Nasdaq Stock Market LLC, Nasdaq PHLX LLC, Nasdaq BX, Inc., Nasdaq ISE, LLC, Nasdaq GEMX, LLC, and Nasdaq MRX, LLC, all of which are SEC-registered national securities exchanges, Nasdaq Execution Services, LLC, Nasdaq Capital Market Advisory, LLC, and NFSTX LLC, all of which are SEC registered broker-dealers and FINRA member organizations, Nasdaq CXC Limited, a Canadian recognized exchange for the trading of TSX, TSXV and CSE-listed securities. Nasdaq, Inc. also has subsidiaries that are foreign securities exchanges that receive listing and trading fees.

Dorsey Wright will not publish research or make recommendations concerning NDAQ, nor trade the security for its Investment Management clients. Dorsey Wright does, however, publish research on, recommend or trade other securities listed on the Nasdaq exchanges, which receive fees from the listed companies and futures. Dorsey Wright will not take into account where a security is listed or traded in exercising its independent judgment for clients. In addition, Dorsey Wright does not manage or control where clients’ broker/dealers route orders for execution. Accordingly, client orders may be routed to the subsidiaries of Nasdaq, Inc. for execution. These markets receive trading fees.

Nasdaq, Inc. and its subsidiaries receive index licensing fees from investment product sponsors, as well as index calculation fees from index providers. These fees are often asset based. With respect to ETFs and other investment products for which Nasdaq, Inc. or its subsidiaries may receive licensing or other asset-based fees, Dorsey Wright will, from time to time, (i) recommend such an ETF or other investment product in research for which Dorsey Wright receives fees; (ii) include such an ETF or other investment product in models or indexes for which Dorsey Wright receives an asset based fee; and/or (iii) recommend or include such an ETF or other investment product in the investment management accounts. While Dorsey Wright does not receive any portion of Nasdaq’s fees directly, the firm will indirectly benefit as a subsidiary that is part of a Nasdaq business unit. To manage this potential conflict of interest, in the case of Dorsey Wright research or index and model licensing, Dorsey Wright would only include the Nasdaq investment product if the product helps to meet the stated objectives of the strategy and it otherwise meets the rules-based methodology associated with the strategy. In the case of the investment management accounts, Dorsey Wright will only recommend or include the Nasdaq investment product when the recommendation is suitable and meets the client’s stated investment objectives. Dorsey Wright will not take into account the fees received by Nasdaq, Inc. and its affiliates in exercising Dorsey Wright’s independent judgment for clients.

“We have a broker/dealer affiliate, Nasdaq Capital Markets Advisory, LLC, (NCMA) which is engaged in marketing certain Exchange Traded Funds which are based on Dorsey Wright models, indexes, or other intellectual property. Some of Dorsey Wright’s personnel are also providing services for NCMA and some are dually registered with Dorsey Wright and NCMA. This is a conflict of interest in that Dorsey Wright and its personnel have an incentive to promote those ETF’s in our research, commentary, public statements, and models. Where our employees are performing services for both firms, they are being compensated for the services they provide to NCMA as well as the services they provide to Dorsey
Wright. We mitigate this conflict by disclosing these conflicts to you, and by excluding all these ETF’s from our discretionary investment advice services.

Item 11: Code of Ethics, Participation or Interest in Client Transactions, and Personal Trading

*Code of Ethics*

Dorsey Wright maintains a Code of Ethics. The Code of Ethics sets forth standards of conduct expected of advisory personnel, requires compliance with Federal securities laws, and addresses conflicts that arise from personal trading by advisory personnel. Clients may request a copy of the Code of Ethics.

*Personal Trading*

Dorsey Wright's goal is to be fair to its research (impersonal services) clients, its investment management (personal advisory services) clients, clients of its licensing services, and sub advisory clients. Dorsey Wright and its access persons will not use information for personal gain. At times, Dorsey Wright or its access persons will take positions in the same securities as clients, and we will try to avoid conflicts with clients. Dorsey Wright and its access persons will generally be ‘last in’ and ‘last out’ for the trading day when trading occurs in close proximity to investment management client trades. We will not violate the Advisor's fiduciary responsibilities to our clients. Scalping (trading shortly ahead of clients) is prohibited. If a security is prudent for an investment management portfolio and/or a recommendation is made in a research report we generate, we shall give clients adequate opportunity to act before acting on our own behalf. In addition, to mitigate conflicts with clients of Dorsey Wright research and subscription services, Dorsey Wright has implemented policies and procedures such as restricted periods wherein employees are prohibited from trading certain securities.

Dorsey Wright does not offer clients investments in initial public offerings (“IPOs,”) private placements, or thinly traded securities because that is not the investment philosophy of the Investment Management Accounts. However, Dorsey Wright and/or its IA Reps may have different investment objectives and/or risk tolerance than that of the managed accounts, and thus at times may invest in these types of securities that are not offered to clients.

Should a conflict with clients occur because of materiality (e.g., the access person or firm has an existing position in a thinly traded stock), disclosure will be made to the client(s) at the time of trading or the research report is released. Incidental trading not deemed to be a conflict (e.g., a purchase or sale which is minimal in relation to the total outstanding value, and as such would have negligible effect on the market price), would not be disclosed at the time of trading if the access person or firm has an existing position.

Dorsey Wright licenses index products to various exchange traded fund providers (please see Item 4 for details on the index products). Dorsey Wright provides research reports on the various exchange traded fund providers’ ETFs.
Principal and Agency Cross Transactions
Dorsey Wright does not engage in principal transactions with or agency cross transactions for, investment management clients.

Item 12: Brokerage Practices

Client Referrals from Brokers

Dorsey Wright will generally maintain an existing broker/dealer relationship when the client is referred to Dorsey Wright. In maintaining the existing broker/dealer relationship, a conflict of interest may exist in obtaining best execution by Dorsey Wright on behalf of the client. A conflict of interest may exist in obtaining future referrals from a broker/dealer if Dorsey Wright did not maintain these existing relationships.

Directed Brokerage

Client may direct brokerage to a particular broker/dealer other than the referring broker/dealer. In both these instances, it is up to the client to negotiate the commission rate, as Dorsey Wright does not. The client may not be able to negotiate the most competitive rate. As a result, clients may pay materially disparate commissions. In these instances, the client may not be able to participate in aggregated (“blocked”) trades, which may help reduce the cost of execution. When a client directs us to execute their trades through a particular broker/dealer, the client may incur higher than usual commissions, transaction costs, custodial and transfer fees, and other administrative costs which may not be readily apparent. Dorsey Wright does not collect or benefit from these charges.

Recommendation of Broker/Dealers

Where the client is not referred by an existing broker/dealer and/or the client does not otherwise designate a broker/dealer, Dorsey Wright will recommend a broker/dealer at the client’s request; however, ultimately it is the client’s decision to select a broker/dealer and custodian. Dorsey Wright does not receive a referral fee from recommended broker/dealers.

Soft Dollar Practices

Dorsey Wright does not receive any “soft dollar” compensation from a brokerage firm. Soft dollars means products and services (anything other than trade execution) that an investment advisor receives from (or through) a broker/dealer in exchange for commissions paid by a client. Soft dollars is a rebate of client commissions to the advisor in the form of goods or services.
Trade Aggregation

Dorsey Wright often executes block trades when there are a number of accounts using the same broker/dealer. When a client is referred to Dorsey Wright, and the client already has an existing brokerage relationship, we will maintain this relationship using the broker/dealer’s commission or fee schedule. This practice results in Dorsey Wright utilizing many different firms and limits block trading capabilities. When placing trades at various firms, the order of trade communication is random so that no client is systematically disadvantaged relative to another client.

When the firm, in its sole discretion, believes it is in the best interests of its clients to do so, it will aggregate trades in the same security and then allocate them across client accounts. We do this because we believe that it will result in better execution prices and overall lower trading costs to our clients.

Block trading is subject to the ability of the broker/dealer to accept block trades. While generally not the case, some brokerage firms may require Dorsey Wright to call trades to the various branch offices and not to a central desk, thus delaying timely trading and the ability to seek best execution.

Individual investment advice and treatment will be accorded to each advisory client within a block trade. All trades within a block will be aggregated and done in the name of the Dorsey Wright. The executing broker will be informed that the trades are for the account of Dorsey Wright's clients and not for Dorsey Wright itself. No advisory account within the block trade will be favored over any other advisory account, and, thus, each account will participate in an aggregated order at the average share price and commissions will be applied on the same basis (or lower) as if the trade had been entered on an individual basis. Dorsey Wright will not aggregate a client's order if in a particular instance Dorsey Wright believes that aggregation would cause the client's cost of execution to be increased. The Custodian will be notified of the amount of each trade for each account.

Dorsey Wright utilizes a trade rotation policy to determine the order in which each sponsor firm receives trade communications related to a particular strategy. Due to the sequence of placing trades for accounts with sponsor firms, it is possible that accounts that are traded earlier in the rotation may receive a more or less favorable execution. The rotation is used in an effort to create an orderly trading process that over time provides fairness in the trading order. We reserve the right to deviate from this procedure within the discretion of our investment team, because of, among other reasons: a) the security involved, b) DWA’s view as to the best interest of affected clients, c) market conditions at the time of the order, or d) the investment strategy being traded.

Item 13: Review of Accounts and Reports on Accounts

Reviews

Investment management services include the continuous review of underlying assets to determine what, if any, action is necessary and timely.

The client account reviews are performed by our CCO, primarily using reports produced by our back-office system, SEI Investment Managers Services, Inc. and other systemic processes. Additionally, the CCO performs reviews of Investment Management client new accounts.
Reports

The client receives a copy of each confirmation (unless the client has chosen to suppress the confirmations), as well as a copy of the standard account statement from the qualified custodian of his or her respective brokerage firm. For sponsor firm client accounts, where Dorsey Wright has an investment management agreement with the client, Dorsey Wright also sends quarterly statements that show the portfolio, value, and basis for fees charged.

Item 14: Client Referrals & Other Compensation

Referral Fees Paid

Dorsey Wright does not currently have any unaffiliated solicitors that refer Investment Management clients; however, in the future Dorsey Wright may compensate for client referrals. All solicitors’ agreements will comply with the Investment Advisers Act of 1940. In addition, all applicable federal and state laws will be observed. All clients procured by solicitors for personal advisory services will be given full written disclosures describing the terms and fee arrangements between the advisor and the solicitor prior to or at the time of entering into the advisory agreement. All clients procured by solicitors for impersonal advisory services (subscriptions) will be offered Form ADV 2A.

Dorsey Wright currently has an arrangement with its parent company, Nasdaq, Inc., wherein Nasdaq sales representatives sell Dorsey Wright’s impersonal advisory services such as the licensing of Dorsey Wright models, as well as subscriptions to the research website. The Nasdaq sales representatives also refer potential investment advisory clients to Dorsey Wright’s asset management business. Dorsey Wright does not compensate Nasdaq for these services.

Dorsey Wright attempts to get competitive commission rates for its clients, subject to existing relationships. At times, a registered representative of a broker/dealer will refer a client to Dorsey Wright, with instructions to direct brokerage to the firm. Dorsey Wright does not pay a referral fee. Generally the broker/dealer and its registered representatives will be compensated by commissions, or other agreed upon arrangements. Dorsey Wright reserves the right to execute trades at other broker/dealers if Dorsey Wright believes the client will not receive best execution at his or her existing broker/dealer relationship. In requesting directed brokerage, the client should satisfy himself or herself that they are receiving best execution, which includes price, commissions, transaction fees, timeliness of execution, research, and other factors.

Item 15: Custody

Dorsey Wright is deemed to have custody of client funds solely because of the fee deduction authority granted by the client in the investment advisory agreement.

Clients will receive account statements at least quarterly from their broker-dealer or other qualified custodian. Clients are urged to compare custodial account statements against statements prepared by Dorsey Wright for accuracy. Minor variations may occur because of reporting dates, accrual methods of interest and dividends, and other factors. The custodial statement is the official record of your account for
tax purposes. Clients should contact Dorsey Wright’s CCO, using the contact information listed on the
cover page of this Brochure, if there are discrepancies between the custodial account statements and the
quarterly statement he or she receives from Dorsey Wright.

Item 16: Investment Discretion
The Dorsey Wright Investment Management division maintains full discretion under a limited power of
attorney as to the securities and amount of securities held within the Investment Management accounts.
On occasion, a client may direct DWA to make a trade in their separately managed account.
Dorsey Wright will not have authority to withdraw client funds/securities or to take custody of client
funds or securities, other than under the terms of the Fee Payment Authorization clause in the Agreement
with the client.

Item 17: Voting Client Securities

Dorsey Wright has the authority to vote proxies, unless the client otherwise specifically directs. Dorsey
Wright has engaged Institutional Shareholder Services to provide research and recommendations
regarding client proxy votes, pursuant to the ISS Proxy Voting Guidelines. Dorsey Wright votes proxies
in the best economic interest of the client, and not in the interest of our firm. While it is unlikely that we
will have a material conflict when voting client proxies, a conflict could arise from time to time. We can
resolve such conflicts to include, but not limited to, documenting that votes were cast in the interest of the
client. As a secondary option, we can resolve conflicts that are more material by obtaining client's
informed consent to vote a proxy in a specific manner. When seeking a client's consent, we will provide
the client with sufficient information regarding the matter and the nature of the conflict to enable the
client to make an informed decision. Clients may contact us direct at the phone number or address listed
on the first page of this document to direct specific proxy votes or to obtain information on how the
client’s securities were voted on behalf of the client, as well as for a description of the Institutional
Shareholder Services proxy voting policy. There may be times when refraining from voting a proxy is in
the client's best interest, such as when the cost of voting exceeds the expected benefit to the client. Clients
may request a complete copy of our proxy voting policy.

Item 18: Financial Information

An investment advisor must provide financial information if a threshold of fee prepayments is met; there is a financial
condition likely to impair the ability to meet contractual commitments; or, a bankruptcy within the past ten years. Dorsey
Wright does not have any disclosure items in this section.

Form ADV Part 2B Brochure Supplement

Item 1: Form ADV Part 2B Group Brochure Supplement Cover Page
This Brochure Supplement provides information about the following IA Reps that supplements the
Dorsey Wright brochure. You should have received a copy of that brochure. Please contact Lisa Johnson
(Lisa.Johnson@nasdaq.com) if you did not receive Dorsey Wright’s brochure or if you have any
questions about the contents of this supplement.
• Myron C. Fuller, IV

Additional information about IA Reps is available on the SEC’s website at: www.adviserinfo.sec.gov

Item 2: Educational Background and Business Experience

*Education and Business Background*

**Myron C. Fuller, IV – Senior Vice President**

- Investment industry experience since 2007 including:
  - Dorsey, Wright & Associates 2007 to present
- Born 1980
- Graduated 2002 BS in Computer Science, Virginia Commonwealth University • Graduated 2007 MBA, Virginia Tech

Item 3: Disciplinary Information

An investment advisor and its supervised persons (IA Reps) must disclose material facts about any legal or disciplinary event that is material to a client’s evaluation of the advisory business or of the integrity of the IA Rep. The IA Rep does not have any disclosure items.

Item 4: Other Business Activities

Dorsey Wright is registered as a Commodities Trading Adviser and may buy and sell futures contracts. Dorsey Wright and its IA Reps make no commissions from implementing commodities advice.

Item 5: Additional Compensation

An investment advisor and its IA Reps must disclose economic benefits received by non-clients for the provision of advisory services. There are no additional compensation arrangements to disclose for this IA Rep.

Item 6: Supervision

Lisa Johnson, Chief Compliance Officer, monitors portfolios for investment objectives and other supervisory reviews. The Chief Compliance Officer may be contacted at the phone number of the main office as shown on the cover page.
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• John G. Lewis, CMT

Additional information about IA Reps is available on the SEC’s website at: www.adviserinfo.sec.gov

Item 2: Educational Background and Business Experience

**Education and Business Background**

**John G. Lewis, CMT** – *Senior Vice President, Portfolio Manager*

- Investment industry experience since 1993 including:
  - Dorsey, Wright & Associates 2002 to present
- Born 1971
- Graduated 1993 BS in Business Administration, University of San Diego
- Graduated 2002 Masters in Business Administration, University of Southern California

**Professional Designations Qualifications**
CMT - Chartered Market Technician, conferred by Market Technicians Association.
Candidates must meet the following requirements:
- Successful completion of all 3 levels of the CMT Exam.
- Gainfully employed in a professional analytical or investment management capacity for a minimum period of 3 years and regularly engaged in this capacity at the time of successfully passing all exams.

Item 3: Disciplinary Information

An investment advisor and its supervised persons (IA Reps) must disclose material facts about any legal or disciplinary event that is material to a client’s evaluation of the advisory business or of the integrity of the IA Rep. The IA Reps do not have any disclosure items.

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• Andrew C. Hyer, CIMA®, CMT, CFP®

Additional information about IA Reps is available on the SEC’s website at: www.adviserinfo.sec.gov

Item 2: Educational Background and Business Experience

Education and Business Background

Andrew C. Hyer, CIMA®, CMT, CFP® – Client Portfolio Manager

• Investment industry experience since 2004 including:
  o Dorsey, Wright & Associates 2004 to present
• Born 1978
• Graduated 2003 BS in Finance and Economics, Utah State University

Professional Designations Qualifications
CMT - Chartered Market Technician, conferred by Market Technicians Association. Candidates must meet the following requirements:
• Successful completion of all 3 levels of the CMT Exam.
• Gainfully employed in a professional analytical or investment management capacity for a minimum period of 3 years and regularly engaged in this capacity at the time of successfully passing all exams.

CIMA® - Certified Investment Management Analyst®, conferred by the Investment Management Consultants Association (IMCA). Candidates must complete the following requirements:
• At least three years of experience in investment management consulting or financial services
• Passed a background check and qualification examination.
• Completed an educational program from a top-25 business school.
• Successfully passed a comprehensive certification examination
• Agreed to adhere to an ethical code of professional responsibility and to complete 40 hours of
continuing education every two years.

CFP® - Certified Financial Planner™, conferred by Certified Financial Planner Board of Standards, Inc. (CFP Board). The CFP® certification is a voluntary certification; no federal or state law or regulation requires financial planners to hold CFP® certification. It is recognized in the United States and a number of other countries for its (1) high standard of professional education; (2) stringent code of conduct and standards of practice; and (3) ethical requirements that govern professional engagements with clients. Candidates must complete the following requirements for certification:

- Completion of an advanced college-level course of study addressing the financial planning subject areas that CFP Board’s studies have determined as necessary for the competent and professional delivery of financial planning services, and attain a Bachelor’s Degree from a regionally accredited U.S. college or university (or its equivalent from a foreign university). CFP Board’s financial planning subject areas include insurance planning and risk management, employee benefits planning, investment planning, income tax planning, retirement planning, and estate planning.
- Passage of the comprehensive CFP® Certification Examination. The examination, administered in 10 hours over a two-day period, includes case studies and client scenarios designed to test one’s ability to correctly diagnose financial planning issues and apply one’s knowledge of financial planning to real world circumstances;
- Completion of at least three years of full-time financial planning-related experience (or the equivalent, measured as 2,000 hours per year); and
- Agreement to be bound by CFP Board’s Standards of Professional Conduct, a set of documents outlining the ethical and practice standards for CFP® professionals.

Individuals who become certified must complete the following ongoing education and ethics requirements in order to maintain the right to continue to use the CFP® marks:

- Continuing Education – Complete 30 hours of continuing education hours every two years, including two hours on the Code of Ethics and other parts of the Standards of Professional Conduct, to maintain competence and keep up with the developments in the financial planning field; and
- Ethics – Renew an agreement to be bound by the Standards of Professional Conduct. The standards prominently require The Standards prominently require that CFP® professionals provide financial planning services at a fiduciary standard of care. This means CFP® professionals must provide financial planning services in the best interests of their clients.

CFP® professionals who fail to comply with the above standards and requirements may be subject to CFP Board’s enforcement process, which could result in suspension or permanent revocation of their CFP® certification.

FINRA Registrations-General Securities Representative (Series 7) Registered Principal (Series 24.)

Item 3: Disciplinary Information

An investment advisor and its supervised persons (IA Reps) must disclose material facts about any legal or disciplinary event that is material to a client’s evaluation of the advisory business or of the integrity of the IA Rep. The IA Reps do not have any disclosure items.
Item 4: Other Business Activities

Dorsey Wright is registered as a Commodities Trading Adviser and may buy and sell futures contracts. Dorsey Wright and its IA Reps make no commissions from implementing commodities advice.

Mr. Hyer is a registered representative with Nasdaq Capital Markets Advisory, LLC, an affiliated broker dealer. As a registered representative with the broker dealer, Mr. Hyer may engage in ETFs distribution activities. In this role, he may promote ETFs where Dorsey Wright & Associates serve as the index provider or licensee and will receive compensation for these activities.

Item 5: Additional Compensation
An investment advisor and its IA Reps must disclose economic benefits received by non-clients for the provision of advisory services. There are no additional compensation arrangements to disclose for this IA Rep.

Item 6: Supervision

Lisa Johnson, Chief Compliance Officer, monitors portfolios for investment objectives and other supervisory reviews. The Chief Compliance Officer may be contacted at the phone number of the main office as shown on the cover page
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UNITED STATES

Proxy Voting Guidelines
Benchmark Policy Recommendations

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The U.S. research team provides proxy analyses and voting recommendations for the common shareholder meetings of U.S.-incorporated companies that are publicly-traded on U.S. exchanges, as well as certain OTC companies, if they are held in our institutional investor clients' portfolios. Coverage generally includes corporate actions for common equity holders, such as written consents and bankruptcies. ISS' U.S. coverage includes investment companies (including open-end funds, closed-end funds, exchange-traded funds, and unit investment trusts), limited partnerships ("LPS"), master limited partnerships ("MLPs"), limited liability companies ("LLCs"), and business development companies. ISS reviews its universe of coverage on an annual basis, and the coverage is subject to change based on client need and industry trends.

Foreign-incorporated companies

In addition to U.S.-incorporated, U.S.-listed companies, ISS' U.S. policies are applied to certain foreign-incorporated company analyses. Like the SEC, ISS distinguishes two types of companies that list but are not incorporated in the U.S.:

- **U.S. Domestic Issuers** – which have a majority of outstanding shares held in the U.S. and meet other criteria, as determined by the SEC, and are subject to the same disclosure and listing standards as U.S. incorporated companies (e.g. they are required to file DEF14A proxy statements) – are generally covered under standard U.S. policy guidelines.

- **Foreign Private Issuers (FPIs)** – which are allowed to take exemptions from most disclosure requirements (e.g., they are allowed to file 6-K for their proxy materials) and U.S. listing standards – are generally covered under a combination of policy guidelines:
  - FPI Guidelines (see the [Americas Regional Proxy Voting Guidelines](https://www.issgovernance.com/resources/ths-proxy-voting-guidelines)), may apply to companies incorporated in governance havens, and apply certain minimum independence and disclosure standards in the evaluation of key proxy ballot items, such as the election of directors; and/or
  - Guidelines for the market that is responsible for, or most relevant to, the item on the ballot.

U.S. incorporated companies listed only on non-U.S. exchanges are generally covered under the ISS guidelines for the market on which they are traded.

An FPI is generally covered under ISS' approach to FPIs outlined above, even if such FPI voluntarily files a proxy statement and/or other filing normally required of a U.S. Domestic Issuer, so long as the company retains its FPI status.

In all cases – including with respect to other companies with cross-market features that may lead to ballot items related to multiple markets – items that are on the ballot solely due to the requirements of another market (listing, incorporation, or national code) may be evaluated under the policy of the relevant market, regardless of the "assigned" primary market coverage.
1. Board of Directors

Voting on Director Nominees in Uncontested Elections

Four fundamental principles apply when determining votes on director nominees:

**Independence**: Boards should be sufficiently independent from management (and significant shareholders) to ensure that they are able and motivated to effectively supervise management’s performance for the benefit of all shareholders, including in setting and monitoring the execution of corporate strategy, with appropriate use of shareholder capital, and in setting and monitoring executive compensation programs that support that strategy. The chair of the board should ideally be an independent director, and all boards should have an independent leadership position or a similar role in order to help provide appropriate counterbalance to executive management, as well as having sufficiently independent committees that focus on key governance concerns such as audit, compensation, and nomination of directors.

**Composition**: Companies should ensure that directors add value to the board through their specific skills and expertise and by having sufficient time and commitment to serve effectively. Boards should be of a size appropriate to accommodate diversity, expertise, and independence, while ensuring active and collaborative participation by all members. Boards should be sufficiently diverse to ensure consideration of a wide range of perspectives.

**Responsiveness**: Directors should respond to investor input, such as that expressed through significant opposition to management proposals, significant support for shareholder proposals (whether binding or non-binding), and tender offers where a majority of shares are tendered.

**Accountability**: Boards should be sufficiently accountable to shareholders, including through transparency of the company’s governance practices and regular board elections, by the provision of sufficient information for shareholders to be able to assess directors and board composition, and through the ability of shareholders to remove directors.

**General Recommendation**: Generally vote for director nominees, except under the following circumstances (with new nominees¹ considered on case-by-case basis):

**Independence**

Vote against² or withhold from non-independent directors (Executive Directors and Non-Independent Non-Executive Directors per ISS’ Classification of Directors) when:

- Independent directors comprise 50 percent or less of the board;
- The non-independent director serves on the audit, compensation, or nominating committee;
- The company lacks an audit, compensation, or nominating committee so that the full board functions as that committee; or
- The company lacks a formal nominating committee, even if the board attests that the independent directors fulfill the functions of such a committee.

¹ A "new nominee" is a director who is being presented for election by shareholders for the first time. Recommendations on new nominees who have served for less than one year are made on a case-by-case basis depending on the timing of their appointment and the problematic governance issue in question.

² In general, companies with a plurality vote standard use “Withhold” as the contrary vote option in director elections; companies with a majority vote standard use “Against”. However, it will vary by company and the proxy must be checked to determine the valid contrary vote option for the particular company.
ISS Classification of Directors – U.S.

1. Executive Director
   1.1. Current officer of the company or one of its affiliates.

2. Non-Independent Non-Executive Director
   Board Identification
   2.1. Director identified as not independent by the board.
   Controlling/Significant Shareholder
   2.2. Beneficial owner of more than 50 percent of the company’s voting power (this may be aggregated if voting power is distributed among more than one member of a group).
   Current Employment at Company or Related Company
   2.3. Non-officer employee of the firm (including employee representatives).
   2.4. Officer, former officer, or general or limited partner of a joint venture or partnership with the company.
   Former Employment
   2.5. Former CEO of the company.
   2.6. Former non-CEO officer of the company or an affiliate within the past five years.
   2.7. Former officer of an acquired company within the past five years.
   2.8. Officer of a former parent or predecessor firm at the time the company was sold or split off within the past five years.
   2.9. Former interim officer if the service was longer than 18 months. If the service was between 12 and 18 months an assessment of the interim officer’s employment agreement will be made.
   Family Members
   2.10. Immediate family member of a current or former officer of the company or its affiliates within the last five years.
   2.11. Immediate family member of a current employee of company or its affiliates where additional factors raise concern (which may include, but are not limited to, the following: a director related to numerous employees; the company or its affiliates employ relatives of numerous board members; or a non-Section 16 officer in a key strategic role).
   Professional, Transactional, and Charitable Relationships
   2.12. Director who (or whose immediate family member) currently provides professional services in excess of $10,000 per year to: the company, an affiliate, or an individual officer of the company or an affiliate; or who is (or whose immediate family member is) a partner, employee, or controlling shareholder of an organization which provides the services.
   2.13. Director who (or whose immediate family member) currently has any material transactional relationship with the company or its affiliates; or who is (or whose immediate family member is) a partner in, or a controlling shareholder or an executive officer of, an organization which has the material transactional relationship (excluding investments in the company through a private placement).
   2.14. Director who (or whose immediate family member) is a trustee, director, or employee of a charitable or non-profit organization that receives material grants or endowments from the company or its affiliates.
   Other Relationships
   2.15. Party to a voting agreement to vote in line with management on proposals being brought to shareholder vote.
   2.16. Has (or an immediate family member has) an interlocking relationship as defined by the SEC involving members of the board of directors or its Compensation Committee.
   2.17. Founder of the company but not currently an employee.
   2.18. Director with pay comparable to Named Executive Officers.
   2.19. Any material relationship with the company.

3. Independent Director
   3.1. No material connection to the company other than a board seat.
Footnotes:

1. The definition of officer will generally follow that of a “Section 16 officer” (officers subject to Section 16 of the Securities and Exchange Act of 1934) and includes the chief executive, operating, financial, legal, technology, and accounting officers of a company (including the president, treasurer, secretary, controller, or any vice president in charge of a principal business unit, division, or policy function). Current interim officers are included in this category. For private companies, the equivalent positions are applicable. A non-employee director serving as an officer due to statutory requirements (e.g., corporate secretary) will generally be classified as a Non-Independent Non-Executive Director under “Any material relationship with the company.” However, if the company provides explicit disclosure that the director is not receiving additional compensation exceeding $10,000 per year for serving in that capacity, then the director will be classified as an Independent Director.

2. “Affiliate” includes a subsidiary, sibling company, or parent company. ISS uses 50 percent control ownership by the parent company as the standard for applying its affiliate designation. The manager/advisor of an externally managed issuer (EMI) is considered an affiliate.

3. Includes any former CEO of the company prior to the company’s initial public offering (IPO).

4. When there is a former CEO of a special purpose acquisition company (SPAC) serving on the board of an acquired company, ISS will generally classify such directors as independent unless determined otherwise taking into account the following factors: the applicable listing standards determination of such director’s independence; any operating ties to the firm; and the existence of any other conflicting relationships or related party transactions.

5. ISS will look at the terms of the interim officer’s employment contract to determine if it contains severance pay, long-term health and pension benefits, or other such standard provisions typically contained in contracts of permanent, non-temporary CEOs. ISS will also consider if a formal search process was under way for a full-time officer at the time.

6. “Immediate family member” follows the SEC’s definition of such and covers spouses, parents, children, step-parents, step-children, siblings, in-laws, and any person (other than a tenant or employee) sharing the household of any director, nominee for director, executive officer, or significant shareholder of the company.

7. Professional services can be characterized as advisory in nature, generally involve access to sensitive company information or to strategic decision-making, and typically have a commission- or fee-based payment structure. Professional services generally include but are not limited to the following: investment banking/financial advisory services, commercial banking (beyond deposit services), investment services, insurance services, accounting/audit services, consulting services, marketing services, legal services, property management services, realtor services, lobbying services, executive search services, and IT consulting services. The following would generally be considered transactional relationships and not professional services: deposit services, IT tech support services, educational services, and construction services. The case of participation in a banking syndicate by a non-lead bank should be considered a transactional (and hence subject to the associated materiality test) rather than a professional relationship. “Of Counsel” relationships are only considered immaterial if the individual does not receive any form of compensation (in excess of $10,000 per year) from, or is a retired partner of, the firm providing the professional service. The case of a company providing a professional service to one of its directors or to an entity with which one of its directors is affiliated, will be considered a transactional rather than a professional relationship. Insurance services and marketing services are assumed to be professional services unless the company explains why such services are not advisory.

8. A material transactional relationship, including grants to non-profit organizations, exists if the company makes annual payments to, or receives annual payments from, another entity, exceeding the greater of: $200,000 or 5 percent of the recipient’s gross revenues, for a company that follows NASDAQ listing standards; or the greater of $1,000,000 or 2 percent of the recipient’s gross revenues, for a company that follows NYSE listing standards. For a company that follows neither of the preceding standards, ISS will apply the NASDAQ-based materiality test. (The recipient is the party receiving the financial proceeds from the transaction).

9. Dissident directors who are parties to a voting agreement pursuant to a settlement or similar arrangement may be classified as Independent Directors if an analysis of the following factors indicates that the voting agreement does not compromise their alignment with all shareholders’ interests: the terms of the agreement; the duration of the standstill provision in the agreement; the limitations and requirements of actions that are agreed upon; if the dissident director nominee(s) is subject to the standstill; and if there any conflicting relationships or related party transactions.

10. Interlocks include: executive officers serving as directors on each other’s compensation or similar committees (or, in the absence of such a committee, on the board); or executive officers sitting on each other’s boards and at least one serves on the other’s compensation or similar committees (or, in the absence of such a committee, on the board).
11. The operating involvement of the founder with the company will be considered; if the founder was never employed by the company, ISS may deem him or her an Independent Director.

12. For purposes of ISS’s director independence classification, “material” will be defined as a standard of relationship (financial, personal, or otherwise) that a reasonable person might conclude could potentially influence one’s objectivity in the boardroom in a manner that would have a meaningful impact on an individual’s ability to satisfy requisite fiduciary standards on behalf of shareholders.

Composition

Attendance at Board and Committee Meetings: Generally vote against or withhold from directors (except nominees who served only part of the fiscal year3) who attend less than 75 percent of the aggregate of their board and committee meetings for the period for which they served, unless an acceptable reason for absences is disclosed in the proxy or another SEC filing. Acceptable reasons for director absences are generally limited to the following:

- Medical issues/illness;
- Family emergencies; and
- Missing only one meeting (when the total of all meetings is three or fewer).

In cases of chronic poor attendance without reasonable justification, in addition to voting against the director(s) with poor attendance, generally vote against or withhold from appropriate members of the nominating/governance committees or the full board.

If the proxy disclosure is unclear and insufficient to determine whether a director attended at least 75 percent of the aggregate of his/her board and committee meetings during his/her period of service, vote against or withhold from the director(s) in question.

Overboarded Directors: Generally vote against or withhold from individual directors who:

- Sit on more than five public company boards; or
- Are CEOs of public companies who sit on the boards of more than two public companies besides their own— withhold only at their outside boards4.

Gender Diversity: For companies in the Russell 3000 or S&P 1500 indices, generally vote against or withhold from the chair of the nominating committee (or other directors on a case-by-case basis) at companies where there are no women on the company’s board. An exception will be made if there was a woman on the board at the preceding annual meeting and the board makes a firm commitment to return to a gender-diverse status within a year.

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3 Nominees who served for only part of the fiscal year are generally exempted from the attendance policy.
4 Although all of a CEO’s subsidiary boards with publicly-traded common stock will be counted as separate boards, ISS will not recommend a withhold vote for the CEO of a parent company board or any of the controlled (>50 percent ownership) subsidiaries of that parent but may do so at subsidiaries that are less than 50 percent controlled and boards outside the parent/subsidiary relationships.
This policy will also apply for companies not in the Russell 3000 and S&P1500 indices, effective for meetings on or after Feb. 1, 2023.

**Racial and/or Ethnic Diversity**: For companies in the Russell 3000 or S&P 1500 indices, generally vote against or withhold from the chair of the nominating committee (or other directors on a case-by-case basis) where the board has no apparent racially or ethnically diverse members\(^5\). An exception will be made if there was racial and/or ethnic diversity on the board at the preceding annual meeting and the board makes a firm commitment to appoint at least one racial and/or ethnic diverse member within a year.

**Responsiveness**

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

- 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 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 percent withhold/against votes of the shares cast and the company has failed to address the issue(s) that caused the high withhold/against vote.

Vote case-by-case on Compensation Committee members (or, in exceptional cases, the full board) and the Say on Pay proposal if:

- The company’s previous say-on-pay received the support of less than 70 percent of votes cast. Factors that will be considered are:
  - The company’s response, including:
    - Disclosure of engagement efforts with major institutional investors, including the frequency and timing of engagements and the company participants (including whether independent directors participated);
    - Disclosure of the specific concerns voiced by dissenting shareholders that led to the say-on-pay opposition;
    - Disclosure of specific and meaningful actions taken to address shareholders’ concerns;
    - Other recent compensation actions taken by the company;
    - Whether the issues raised are recurring or isolated;
    - The company’s ownership structure; and
    - Whether the support level was less than 50 percent, which would warrant the highest degree of responsiveness.

\(^5\) Aggregate diversity statistics provided by the board will only be considered if specific to racial and/or ethnic diversity.
The board implements an advisory vote on executive compensation on a less frequent basis than the frequency that received the plurality of votes cast.

**Accountability**

**Problematic Takeover Defenses/Governance Structure**

**Poison Pills:** Vote against or withhold from all nominees (except new nominees\(^6\), who should be considered case-by-case) if:

- The company has a poison pill that was not approved by shareholders\(^6\). However, vote case-by-case on nominees if the board adopts an initial pill with a term of one year or less, 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);
- The board makes a material adverse modification to an existing pill, including, but not limited to, extension, renewal, or lowering the trigger, without shareholder approval; or
- The pill, whether short-term\(^7\) or long-term, has a deadhand or slowhand feature.

**Classified Board Structure:** The board is classified, and a continuing director responsible for a problematic governance issue at the board/committee level that would warrant a withhold/against vote recommendation is not up for election. All appropriate nominees (except new) may be held accountable.

**Removal of Shareholder Discretion on Classified Boards:** The company has opted into, or failed to opt out of, state laws requiring a classified board structure.

**Director Performance Evaluation:** The board lacks mechanisms to promote accountability and oversight, coupled with sustained poor performance relative to peers. Sustained poor performance is measured by one-, three-, and five-year total shareholder returns in the bottom half of a company’s four-digit GICS industry group (Russell 3000 companies only). Take into consideration the company’s operational metrics and other factors as warranted. Problematic provisions include but are not limited to:

- A classified board structure;
- A supermajority vote requirement;
- Either a plurality vote standard in uncontested director elections, or a majority vote standard in contested elections;
- The inability of shareholders to call special meetings;
- The inability of shareholders to act by written consent;
- A multi-class capital structure; and/or
- A non-shareholder-approved poison pill.

**Unilateral Bylaw/Charter Amendments and Problematic Capital Structures:** Generally vote against or withhold from directors individually, committee members, or the entire board (except new nominees\(^3\), who should be considered case-by-case) if the board amends the company's bylaws or charter without shareholder approval in a manner that materially diminishes shareholders’ rights or that could adversely impact shareholders, considering the following factors:

- 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;

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\(^6\) Public shareholders only, approval prior to a company's becoming public is insufficient.

\(^7\) If the short-term pill with a deadhand or slowhand feature is enacted but expires before the next shareholder vote, ISS will generally still recommend withhold/against nominees at the next shareholder meeting following its adoption.
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;
- The timing of the board’s amendment to the bylaws/charter in connection with a significant business development; and
- Other factors, as deemed appropriate, that may be relevant to determine the impact of the amendment on shareholders.

Unless the adverse amendment is reversed or submitted to a binding shareholder vote, in subsequent years vote case-by-case on director nominees. Generally vote against (except new nominees\(^8\), who should be considered case-by-case) if the directors:
- Classified the board;
- Adopted supermajority vote requirements to amend the bylaws or charter; or
- Eliminated shareholders’ ability to amend bylaws.

### Unequal Voting Rights

**Problematic Capital Structure - Newly Public Companies:** For 2022, for newly public companies\(^8\), generally vote against or withhold from the entire board (except new nominees\(^1\), who should be considered case-by-case) if, prior to or in connection with the company’s public offering, the company or its board implemented a multi-class capital structure in which the classes have unequal voting rights without subjecting the multi-class capital structure to a reasonable time-based sunset. In assessing the reasonableness of a time-based sunset provision, consideration will be given to the company’s lifespan, its post-IPO ownership structure and the board’s disclosed rationale for the sunset period selected. No sunset period of more than seven years from the date of the IPO will be considered to be reasonable.

Continue to vote against or withhold from incumbent directors in subsequent years, unless the problematic capital structure is reversed, removed, or subject to a newly added reasonable sunset.

**Common Stock Capital Structure with Unequal Voting Rights:** Starting Feb 1, 2023, generally vote withhold or against directors individually, committee members, or the entire board (except new nominees\(^1\), who should be considered case-by-case), if the company employs a common stock structure with unequal voting rights\(^9\).

Exceptions to this policy will generally be limited to:
- Newly-public companies\(^8\) 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 unequal voting rights are considered *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.

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\(^8\) Newly-public companies generally include companies that emerge from bankruptcy, SPAC transactions, spin-offs, direct listings, and those who complete a traditional initial public offering.

\(^9\) 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”).
Problematic Governance Structure - Newly Public Companies: For newly public companies, 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 reasonable sunset provision will be considered a mitigating factor.

Unless the adverse provision is reversed or removed, vote case-by-case on director nominees in subsequent years.

Management Proposals to Ratify Existing Charter or Bylaw Provisions: 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.

Restrictions on Shareholders’ Rights

Restricting Binding Shareholder Proposals: Generally vote against or withhold from the members of the governance committee if:

- The company’s governing documents impose 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. Vote against or withhold on an ongoing basis.

Submission of management proposals to approve or ratify requirements in excess of SEC Rule 14a-8 for the submission of binding bylaw amendments will generally be viewed as an insufficient restoration of shareholders’ rights. 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.

Problematic Audit-Related Practices

Generally vote against or withhold from the members of the Audit Committee if:

- The non-audit fees paid to the auditor are excessive;
- The company receives an adverse opinion on the company’s financial statements from its auditor; or
- There is persuasive evidence that the Audit Committee entered into an inappropriate indemnification agreement with its auditor that limits the ability of the company, or its shareholders, to pursue legitimate legal recourse against the audit firm.
Vote case-by-case on members of the Audit Committee and potentially the full board if:

- Poor accounting practices are identified that rise to a level of serious concern, such as: fraud; misapplication of GAAP; and material weaknesses identified in Section 404 disclosures. Examine the severity, breadth, chronological sequence, and duration, as well as the company’s efforts at remediation or corrective actions, in determining whether withhold/against votes are warranted.

**Problematic Compensation Practices**

In the absence of an Advisory Vote on Executive Compensation (Say on Pay) ballot item or in egregious situations, vote against or withhold from the members of the Compensation Committee and potentially the full board if:

- There is an unmitigated misalignment between CEO pay and company performance; or
- The company maintains significant problematic pay practices; or
- The board exhibits a significant level of poor communication and responsiveness to shareholders.

Generally vote against or withhold from the Compensation Committee chair, other committee members, or potentially the full board if:

- 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.

**Climate Accountability**

For companies that are significant greenhouse gas (GHG) emitters, through their operations or value chain\(^\text{10}\), 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 ISS determines that the company is not taking the minimum steps needed to understand, assess, and mitigate risks related to climate change to the company and the larger economy.

\(^{10}\) For 2022, companies defined as “significant GHG emitters” will be those on the current Climate Action 100+ Focus Group list.
For 2022, minimum steps to understand and mitigate those risks are considered to be the following. Both minimum criteria will be required to be in compliance:

- Detailed disclosure of climate-related risks, such as according to the framework established by the Task Force on Climate-related Financial Disclosures (TCFD), including:
  - Board governance measures;
  - Corporate strategy;
  - Risk management analyses; and
  - Metrics and targets.
- Appropriate GHG emissions reduction targets.

For 2022, “appropriate GHG emissions reductions targets” will be any well-defined GHG reduction targets. Targets for Scope 3 emissions will not be required for 2022 but the targets should cover at least a significant portion of the company’s direct emissions. Expectations about what constitutes “minimum steps to mitigate risks related to climate change” will increase over time.

**Governance Failures**

Under extraordinary circumstances, vote against or withhold from directors individually, committee members, or the entire board, due to:

- Material failures of governance, stewardship, risk oversight\(^\text{11}\), or fiduciary responsibilities at the company;
- Failure to replace management as appropriate; or
- Egregious actions related to a 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.

**Voting on Director Nominees in Contested Elections**

**Vote-No Campaigns**

**General Recommendation:** In cases where companies are targeted in connection with public “vote-no” campaigns, evaluate director nominees under the existing governance policies for voting on director nominees in uncontested elections. Take into consideration the arguments submitted by shareholders and other publicly available information.

**Proxy Contests/Proxy Access**

**General Recommendation:** Vote case-by-case on the election of directors in contested elections, considering the following factors:

- Long-term financial performance of the company relative to its industry;
- Management’s track record;
- Background to the contested election;
- Nominee qualifications and any compensatory arrangements;
- Strategic plan of dissident slate and quality of the critique against management;
- Likelihood that the proposed goals and objectives can be achieved (both slates); and

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\(^{11}\) Examples of failure of risk oversight include but are not limited to: bribery; large or serial fines or sanctions from regulatory bodies; demonstrably poor risk oversight of environmental and social issues, including climate change; significant adverse legal judgments or settlement; or hedging of company stock.
Stock ownership positions.

In the case of candidates nominated pursuant to proxy access, vote case-by-case considering any applicable factors listed above or additional factors which may be relevant, including those that are specific to the company, to the nominee(s) and/or to the nature of the election (such as whether there are more candidates than board seats).

Other Board-Related Proposals

**Adopt Anti-Hedging/Pledging/Speculative Investments Policy**

General Recommendation: Generally vote for proposals seeking a policy that prohibits named executive officers from engaging in derivative or speculative transactions involving company stock, including hedging, holding stock in a margin account, or pledging stock as collateral for a loan. However, the company’s existing policies regarding responsible use of company stock will be considered.

**Board Refreshment**

Board refreshment is best implemented through an ongoing program of individual director evaluations, conducted annually, to ensure the evolving needs of the board are met and to bring in fresh perspectives, skills, and diversity as needed.

**Term/Tenure Limits**

General Recommendation: Vote case-by-case on management proposals regarding director term/tenure limits, considering:

- The rationale provided for adoption of the term/tenure limit;
- The robustness of the company’s board evaluation process;
- Whether the limit is of sufficient length to allow for a broad range of director tenures;
- Whether the limit would disadvantage independent directors compared to non-independent directors; and
- Whether the board will impose the limit evenly, and not have the ability to waive it in a discriminatory manner.

Vote case-by-case on shareholder proposals asking for the company to adopt director term/tenure limits, considering:

- The scope of the shareholder proposal; and
- Evidence of problematic issues at the company combined with, or exacerbated by, a lack of board refreshment.

**Age Limits**

General Recommendation: Generally vote against management and shareholder proposals to limit the tenure of independent directors through mandatory retirement ages. Vote for proposals to remove mandatory age limits.

**Board Size**

General Recommendation: Vote for proposals seeking to fix the board size or designate a range for the board size.

Vote against proposals that give management the ability to alter the size of the board outside of a specified range without shareholder approval.

**Classification/Declassification of the Board**

General Recommendation: Vote against proposals to classify (stagger) the board.
Vote for proposals to repeal classified boards and to elect all directors annually.

**CEO Succession Planning**

General Recommendation: Generally vote for proposals seeking disclosure on a CEO succession planning policy, considering, at a minimum, the following factors:

- The reasonableness/scope of the request; and
- The company’s existing disclosure on its current CEO succession planning process.

**Cumulative Voting**

General Recommendation: 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\(^\text{12}\), 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.

Vote for proposals for cumulative voting at controlled companies (insider voting power > 50%).

**Director and Officer Indemnification and Liability Protection**

General Recommendation: Vote case-by-case on proposals on director and officer indemnification and liability protection.

Vote against proposals that would:

- Eliminate entirely directors’ and officers’ liability for monetary damages for violating the duty of care.
- Expand coverage beyond just legal expenses to liability for acts that are more serious violations of fiduciary obligation than mere carelessness.
- Expand the scope of indemnification to provide for mandatory indemnification of company officials in connection with acts that previously the company was permitted to provide indemnification for, at the discretion of the company’s board (i.e., “permissive indemnification”), but that previously the company was not required to indemnify.

Vote for only those proposals providing such expanded coverage in cases when a director’s or officer’s legal defense was unsuccessful if both of the following apply:

- If the director was found to have acted in good faith and in a manner that s/he reasonably believed was in the best interests of the company; and
- If only the director’s legal expenses would be covered.

**Establish/Amend Nominee Qualifications**

General Recommendation: Vote case-by-case on proposals that establish or amend director qualifications. Votes should be based on the reasonableness of the criteria and the degree to which they may preclude dissident nominees from joining the board.

Vote case-by-case on shareholder resolutions seeking a director nominee who possesses a particular subject matter expertise, considering:

\(^{12}\) A proxy access right that meets the [recommended guidelines](https://issgovernance.com).
The company’s board committee structure, existing subject matter expertise, and board nomination provisions relative to that of its peers;

- The company’s existing board and management oversight mechanisms regarding the issue for which board oversight is sought;

- The company’s disclosure and performance relating to the issue for which board oversight is sought and any significant related controversies; and

- The scope and structure of the proposal.

**Establish Other Board Committee Proposals**

**General Recommendation:** Generally vote against shareholder proposals to establish a new board committee, as such proposals seek a specific oversight mechanism/structure that potentially limits a company’s flexibility to determine an appropriate oversight mechanism for itself. However, the following factors will be considered:

- Existing oversight mechanisms (including current committee structure) regarding the issue for which board oversight is sought;

- Level of disclosure regarding the issue for which board oversight is sought;

- Company performance related to the issue for which board oversight is sought;

- Board committee structure compared to that of other companies in its industry sector; and

- The scope and structure of the proposal.

**Filling Vacancies/Removal of Directors**

**General Recommendation:** Vote against proposals that provide that directors may be removed only for cause. Vote for proposals that provide that shareholders’ ability to remove directors with or without cause. Vote against proposals that provide that only continuing directors may elect replacements to fill board vacancies. Vote for proposals that permit shareholders to elect directors to fill board vacancies.

**Independent Board Chair**

**General Recommendation:** Generally vote for shareholder proposals requiring that the board chair position be filled by an independent director, taking into consideration the following:

- The scope and rationale of the proposal;

- The company’s current board leadership structure;

- The company’s governance structure and practices;

- Company performance; and

- Any other relevant factors that may be applicable.

The following factors will increase the likelihood of a “for” recommendation:

- A majority non-independent board and/or the presence of non-independent directors on key board committees;

- A weak or poorly-defined lead independent director role that fails to serve as an appropriate counterbalance to a combined CEO/chair role;

- The presence of an executive or non-independent chair in addition to the CEO, a recent recombination of the role of CEO and chair, and/or departure from a structure with an independent chair;

- Evidence that the board has failed to oversee and address material risks facing the company;

- A material governance failure, particularly if the board has failed to adequately respond to shareholder concerns or if the board has materially diminished shareholder rights; or

- Evidence that the board has failed to intervene when management’s interests are contrary to shareholders’ interests.
**Majority of Independent Directors/Establishment of Independent Committees**

**General Recommendation:** Vote for shareholder proposals asking that a majority or more of directors be independent unless the board composition already meets the proposed threshold by ISS’ definition of Independent Director (See [ISS’ Classification of Directors](#)).

Vote for shareholder proposals asking that board audit, compensation, and/or nominating committees be composed exclusively of independent directors unless they currently meet that standard.

**Majority Vote Standard for the Election of Directors**

**General Recommendation:** Generally vote for management proposals to adopt a majority of votes cast standard for directors in uncontested elections. Vote against if no carve-out for a plurality vote standard in contested elections is included.

Generally vote for precatory and binding shareholder resolutions requesting that the board change the company’s bylaws to stipulate that directors need to be elected with an affirmative majority of votes cast, provided it does not conflict with the state law where the company is incorporated. Binding resolutions need to allow for a carve-out for a plurality vote standard when there are more nominees than board seats.

Companies are strongly encouraged to also adopt a post-election policy (also known as a director resignation policy) that will provide guidelines so that the company will promptly address the situation of a holdover director.

**Proxy Access**

**General Recommendation:** Generally vote for management and shareholder proposals for proxy access with the following provisions:

- **Ownership threshold:** maximum requirement not more than three percent (3%) of the voting power;
- **Ownership duration:** maximum requirement not longer than three (3) 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 twenty-five percent (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.

**Require More Nominees than Open Seats**

**General Recommendation:** Vote against shareholder proposals that would require a company to nominate more candidates than the number of open board seats.

**Shareholder Engagement Policy (Shareholder Advisory Committee)**

**General Recommendation:** Generally vote for shareholder proposals requesting that the board establish an internal mechanism/process, which may include a committee, in order to improve communications between directors and shareholders, unless the company has the following features, as appropriate:

- Established a communication structure that goes beyond the exchange requirements to facilitate the exchange of information between shareholders and members of the board;
- Effectively disclosed information with respect to this structure to its shareholders;
- Company has not ignored majority-supported shareholder proposals, or a majority withhold vote on a director nominee; and
▪ The company has an independent chair or a lead director, according to ISS' definition. This individual must be made available for periodic consultation and direct communication with major shareholders.
2. Audit-Related

**Auditor Indemnification and Limitation of Liability**

**General Recommendation:** Vote case-by-case on the issue of auditor indemnification and limitation of liability. Factors to be assessed include, but are not limited to:

- The terms of the auditor agreement—the degree to which these agreements impact shareholders' rights;
- The motivation and rationale for establishing the agreements;
- The quality of the company's disclosure; and
- The company's historical practices in the audit area.

Vote against or withhold from members of an audit committee in situations where there is persuasive evidence that the audit committee entered into an inappropriate indemnification agreement with its auditor that limits the ability of the company, or its shareholders, to pursue legitimate legal recourse against the audit firm.

**Auditor Ratification**

**General Recommendation:** Vote for proposals to ratify auditors unless any of the following apply:

- 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;
- Poor accounting practices are identified that rise to a serious level of concern, such as fraud or misapplication of GAAP; or
- Fees for non-audit services ("Other" fees) are excessive.

Non-audit fees are excessive if:

- Non-audit ("Other") fees > audit fees + audit-related fees + tax compliance/preparation fees

Tax compliance and preparation include the preparation of original and amended tax returns and refund claims, and tax payment planning. All other services in the tax category, such as tax advice, planning, or consulting, should be added to "Other" fees. If the breakout of tax fees cannot be determined, add all tax fees to "Other" fees.

In circumstances where "Other" fees include fees related to significant one-time capital structure events (such as initial public offerings, bankruptcy emergence, and spin-offs) and the company makes public disclosure of the amount and nature of those fees that are an exception to the standard "non-audit fee" category, then such fees may be excluded from the non-audit fees considered in determining the ratio of non-audit to audit/audit-related fees/tax compliance and preparation for purposes of determining whether non-audit fees are excessive.

**Shareholder Proposals Limiting Non-Audit Services**

**General Recommendation:** Vote case-by-case on shareholder proposals asking companies to prohibit or limit their auditors from engaging in non-audit services.

**Shareholder Proposals on Audit Firm Rotation**

**General Recommendation:** Vote case-by-case on shareholder proposals asking for audit firm rotation, taking into account:

- The tenure of the audit firm;
▪ The length of rotation specified in the proposal;
▪ Any significant audit-related issues at the company;
▪ The number of Audit Committee meetings held each year;
▪ The number of financial experts serving on the committee; and
▪ Whether the company has a periodic renewal process where the auditor is evaluated for both audit quality and competitive price.
3. Shareholder Rights & Defenses

**Advance Notice Requirements for Shareholder Proposals/Nominations**

**General Recommendation:** Vote case-by-case on advance notice proposals, giving support to those proposals which allow shareholders to submit proposals/nominations as close to the meeting date as reasonably possible and within the broadest window possible, recognizing the need to allow sufficient notice for company, regulatory, and shareholder review.

To be reasonable, the company’s deadline for shareholder notice of a proposal/nominations must be no earlier than 120 days prior to the anniversary of the previous year’s meeting and have a submittal window of no shorter than 30 days from the beginning of the notice period (also known as a 90-120-day window). The submittal window is the period under which shareholders must file their proposals/nominations prior to the deadline.

In general, support additional efforts by companies to ensure full disclosure in regard to a proponent’s economic and voting position in the company so long as the informational requirements are reasonable and aimed at providing shareholders with the necessary information to review such proposals.

**Amend Bylaws without Shareholder Consent**

**General Recommendation:** Vote against proposals giving the board exclusive authority to amend the bylaws.

Vote case-by-case on proposals giving the board the ability to amend the bylaws in addition to shareholders, taking into account the following:

- Any impediments to shareholders’ ability to amend the bylaws (i.e. supermajority voting requirements);
- The company’s ownership structure and historical voting turnout;
- Whether the board could amend bylaws adopted by shareholders; and
- Whether shareholders would retain the ability to ratify any board-initiated amendments.

**Control Share Acquisition Provisions**

**General Recommendation:** Vote for proposals to opt out of control share acquisition statutes unless doing so would enable the completion of a takeover that would be detrimental to shareholders.

Vote against proposals to amend the charter to include control share acquisition provisions.

Vote for proposals to restore voting rights to the control shares.

Control share acquisition statutes function by denying shares their voting rights when they contribute to ownership in excess of certain thresholds. Voting rights for those shares exceeding ownership limits may only be restored by approval of either a majority or supermajority of disinterested shares. Thus, control share acquisition statutes effectively require a hostile bidder to put its offer to a shareholder vote or risk voting disenfranchisement if the bidder continues buying up a large block of shares.

**Control Share Cash-Out Provisions**

**General Recommendation:** Vote for proposals to opt out of control share cash-out statutes.

Control share cash-out statutes give dissident shareholders the right to "cash-out" of their position in a company at the expense of the shareholder who has taken a control position. In other words, when an investor crosses a
preset threshold level, remaining shareholders are given the right to sell their shares to the acquirer, who must buy them at the highest acquiring price.

**Disgorgement Provisions**

**General Recommendation:** Vote for proposals to opt out of state disgorgement provisions.

Disgorgement provisions require an acquirer or potential acquirer of more than a certain percentage of a company’s stock to disgorge, or pay back, to the company any profits realized from the sale of that company’s stock purchased 24 months before achieving control status. All sales of company stock by the acquirer occurring within a certain period of time (between 18 months and 24 months) prior to the investor’s gaining control status are subject to these recapture-of-profits provisions.

**Fair Price Provisions**

**General Recommendation:** Vote case-by-case on proposals to adopt fair price provisions (provisions that stipulate that an acquirer must pay the same price to acquire all shares as it paid to acquire the control shares), evaluating factors such as the vote required to approve the proposed acquisition, the vote required to repeal the fair price provision, and the mechanism for determining the fair price.

Generally vote against fair price provisions with shareholder vote requirements greater than a majority of disinterested shares.

**Freeze-Out Provisions**

**General Recommendation:** Vote for proposals to opt out of state freeze-out provisions. Freeze-out provisions force an investor who surpasses a certain ownership threshold in a company to wait a specified period of time before gaining control of the company.

**Greenmail**

**General Recommendation:** Vote for proposals to adopt anti-greenmail charter or bylaw amendments or otherwise restrict a company’s ability to make greenmail payments.

Vote case-by-case on anti-greenmail proposals when they are bundled with other charter or bylaw amendments.

Greenmail payments are targeted share repurchases by management of company stock from individuals or groups seeking control of the company. Since only the hostile party receives payment, usually at a substantial premium over the market value of its shares, the practice discriminates against all other shareholders.

**Shareholder Litigation Rights**

**Federal Forum Selection Provisions**

Federal forum selection provisions require that U.S. federal courts be the sole forum for shareholders to litigate claims arising under federal securities law.

**General Recommendation:** 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.

Vote against provisions that restrict the forum to a particular federal district court; unilateral adoption (without a shareholder vote) of such a provision will generally be considered a one-time failure under the Unilateral Bylaw/Charter Amendments policy.
Exclusive Forum Provisions for State Law Matters

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).

**General Recommendation:** 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.

For states other than Delaware, vote case-by-case on exclusive forum provisions, taking into consideration:

- The company’s stated rationale for adopting such a provision;
- Disclosure of past harm from duplicative shareholder lawsuits in more than one forum;
- The breadth of application of the charter or bylaw provision, including the types of lawsuits to which it would apply and the definition of key terms; and
- Governance features such as shareholders’ ability to repeal the provision at a later date (including the vote standard applied when shareholders attempt to amend the charter or bylaws) and their ability to hold directors accountable through annual director elections and a majority vote standard in uncontested elections.

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; unilateral adoption of such a provision will generally be considered a one-time failure under the Unilateral Bylaw/Charter Amendments policy.

Fee shifting

Fee-shifting provisions in the charter or bylaws require that a shareholder who sues a company unsuccessfully pay all litigation expenses of the defendant corporation and its directors and officers.

**General Recommendation:** Generally vote against provisions that mandate fee-shifting whenever plaintiffs are not completely successful on the merits (i.e., including cases where the plaintiffs are partially successful).

Unilateral adoption of a fee-shifting provision will generally be considered an ongoing failure under the Unilateral Bylaw/Charter Amendments policy.

**Net Operating Loss (NOL) Protective Amendments**

**General Recommendation:** Vote against proposals to adopt a protective amendment for the stated purpose of protecting a company’s net operating losses (NOL) if the effective term of the protective amendment would exceed the shorter of three years and the exhaustion of the NOL.

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 5-percent holder or increase the stock ownership percentage of an existing 5-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; and

Any other factors that may be applicable.

Poison Pills (Shareholder Rights Plans)

Shareholder Proposals to Put Pill to a Vote and/or Adopt a Pill Policy

General Recommendation: Vote for shareholder proposals requesting that the company submit its poison pill to a shareholder vote or redeem it unless the company has: (1) A shareholder-approved poison pill in place; or (2) The company has adopted a policy concerning the adoption of a pill in the future specifying that the board will only adopt a shareholder rights plan if either:

- Shareholders have approved the adoption of the plan; or
- The board, in its exercise of its fiduciary responsibilities, determines that it is in the best interest of shareholders under the circumstances to adopt a pill without the delay in adoption that would result from seeking stockholder approval (i.e., the “fiduciary out” provision). A poison pill adopted under this fiduciary out will be put to a shareholder ratification vote within 12 months of adoption or expire. If the pill is not approved by a majority of the votes cast on this issue, the plan will immediately terminate.

If the shareholder proposal calls for a time period of less than 12 months for shareholder ratification after adoption, vote for the proposal, but add the caveat that a vote within 12 months would be considered sufficient implementation.

Management Proposals to Ratify a Poison Pill

General Recommendation: Vote case-by-case on management proposals on poison pill ratification, focusing on the features of the shareholder rights plan. Rights plans should contain the following attributes:

- No lower than a 20 percent trigger, flip-in or flip-over;
- A term of no more than three years;
- No deadhand, slowhand, no-hand, or similar feature that limits the ability of a future board to redeem the pill;
- Shareholder redemption feature (qualifying offer clause); if the board refuses to redeem the pill 90 days after a qualifying offer is announced, 10 percent of the shares may call a special meeting or seek a written consent to vote on rescinding the pill.

In addition, the rationale for adopting the pill should be thoroughly explained by the company. In examining the request for the pill, take into consideration the company’s existing governance structure, including: board independence, existing takeover defenses, and any problematic governance concerns.

Management Proposals to Ratify a Pill to Preserve Net Operating Losses (NOLs)

General Recommendation: Vote against proposals to adopt a poison pill for the stated purpose of protecting a company’s net operating losses (NOL) if the term of the pill would exceed the shorter of three years and the exhaustion of the NOL.

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 percent);
- 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.

Proxy Voting Disclosure, Confidentiality, and Tabulation

**General Recommendation:** Vote case-by-case on proposals regarding proxy voting mechanics, taking into consideration whether implementation of the proposal is likely to enhance or protect shareholder rights. Specific issues covered under the policy include, but are not limited to, confidential voting of individual proxies and ballots, confidentiality of running vote tallies, and the treatment of abstentions and/or broker non-votes in the company’s vote-counting methodology.

While a variety of factors may be considered in each analysis, the guiding principles are: transparency, consistency, and fairness in the proxy voting process. The factors considered, as applicable to the proposal, may include:

- The scope and structure of the proposal;
- The company’s stated confidential voting policy (or other relevant policies) and whether it ensures a “level playing field” by providing shareholder proponents with equal access to vote information prior to the annual meeting;
- The company’s vote standard for management and shareholder proposals and whether it ensures consistency and fairness in the proxy voting process and maintains the integrity of vote results;
- Whether the company’s disclosure regarding its vote counting method and other relevant voting policies with respect to management and shareholder proposals are consistent and clear;
- Any recent controversies or concerns related to the company’s proxy voting mechanics;
- Any unintended consequences resulting from implementation of the proposal; and
- Any other factors that may be relevant.

Ratification Proposals: Management Proposals to Ratify Existing Charter or Bylaw Provisions

**General Recommendation:** Generally 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, voting against/withhold from individual directors, members of the governance committee, or the full board may be warranted, considering:

- 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.

Reimbursing Proxy Solicitation Expenses

**General Recommendation:** Vote case-by-case on proposals to reimburse proxy solicitation expenses.

When voting in conjunction with support of a dissident slate, vote for the reimbursement of all appropriate proxy solicitation expenses associated with the election.

Generally vote for shareholder proposals calling for the reimbursement of reasonable costs incurred in connection with nominating one or more candidates in a contested election where the following apply:
The election of fewer than 50 percent of the directors to be elected is contested in the election;
One or more of the dissident’s candidates is elected;
Shareholders are not permitted to cumulate their votes for directors; and
The election occurred, and the expenses were incurred, after the adoption of this bylaw.

Reincorporation Proposals

General Recommendation: Management or shareholder proposals to change a company’s state of incorporation should be evaluated case-by-case, giving consideration to both financial and corporate governance concerns including the following:

- Reasons for reincorporation;
- Comparison of company's governance practices and provisions prior to and following the reincorporation; and
- Comparison of corporation laws of original state and destination state.

Vote for reincorporation when the economic factors outweigh any neutral or negative governance changes.

Shareholder Ability to Act by Written Consent

General Recommendation: Generally vote against management and shareholder proposals to restrict or prohibit shareholders' ability to act by written consent.

Generally vote for management and shareholder proposals that provide shareholders with the ability to act by written consent, taking into account the following factors:

- Shareholders’ current right to act by written consent;
- The consent threshold;
- The inclusion of exclusionary or prohibitive language;
- Investor ownership structure; and
- Shareholder support of, and management’s response to, previous shareholder proposals.

Vote case-by-case on shareholder proposals if, in addition to the considerations above, the company has the following governance and antitakeover provisions:

- An unfettered\(^\text{13}\) right for shareholders to call special meetings at a 10 percent threshold;
- A majority vote standard in uncontested director elections;
- No non-shareholder-approved pill; and
- An annually elected board.

Shareholder Ability to Call Special Meetings

General Recommendation: Vote against management or shareholder proposals to restrict or prohibit shareholders’ ability to call special meetings.

Generally vote for management or shareholder proposals that provide shareholders with the ability to call special meetings taking into account the following factors:

- Shareholders’ current right to call special meetings;
- Minimum ownership threshold necessary to call special meetings (10 percent preferred);
- The inclusion of exclusionary or prohibitive language;

\(^\text{13}\) “Unfettered” means no restrictions on agenda items, no restrictions on the number of shareholders who can group together to reach the 10 percent threshold, and only reasonable limits on when a meeting can be called: no greater than 30 days after the last annual meeting and no greater than 90 prior to the next annual meeting.
- Investor ownership structure; and
- Shareholder support of, and management’s response to, previous shareholder proposals.

**Stakeholder Provisions**

**General Recommendation:** Vote against proposals that ask the board to consider non-shareholder constituencies or other non-financial effects when evaluating a merger or business combination.

**State Antitakeover Statutes**

**General Recommendation:** Vote case-by-case on proposals to opt in or out of state takeover statutes (including fair price provisions, stakeholder laws, poison pill endorsements, severance pay and labor contract provisions, and anti-greenmail provisions).

**Supermajority Vote Requirements**

**General Recommendation:** Vote against proposals to require a supermajority shareholder vote.

- Vote for management or shareholder proposals to reduce supermajority vote requirements. However, for companies with shareholder(s) who have significant ownership levels, vote case-by-case, taking into account:
  - Ownership structure;
  - Quorum requirements; and
  - Vote requirements.

**Virtual Shareholder Meetings**

**General Recommendation:** 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 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.

Vote case-by-case on shareholder proposals concerning virtual-only meetings, considering:

- Scope and rationale of the proposal; and
- Concerns identified with the company’s prior meeting practices.

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14 Virtual-only shareholder meeting refers to a meeting of shareholders that is held exclusively using technology without a corresponding in-person meeting.
4. Capital/Restructuring

Capital

Adjustments to Par Value of Common Stock

**General Recommendation:** Vote for management proposals to reduce the par value of common stock unless the action is being taken to facilitate an anti-takeover device or some other negative corporate governance action.

Vote for management proposals to eliminate par value.

Common Stock Authorization

General Authorization Requests

**General Recommendation:** 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.

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, 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

**General Recommendation**: 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.

Dual Class Structure

**General Recommendation**: Generally vote against proposals to create a new class of common stock unless:

- The company discloses a compelling rationale for the dual-class capital structure, such as:
  - The company’s auditor has concluded that there is substantial doubt about the company’s ability to continue as a going concern; or
  - The new class of shares will be transitory;
  - The new class is intended for financing purposes with minimal or no dilution to current shareholders in both the short term and long term; and
  - The new class is not designed to preserve or increase the voting power of an insider or significant shareholder.

Issue Stock for Use with Rights Plan

**General Recommendation**: Vote against proposals that increase authorized common stock for the explicit purpose of implementing a non-shareholder-approved shareholder rights plan (poison pill).

Preemptive Rights

**General Recommendation**: Vote case-by-case on shareholder proposals that seek preemptive rights, taking into consideration:

- The size of the company;
- The shareholder base; and
- The liquidity of the stock.

Preferred Stock Authorization

**General Authorization Requests**

**General Recommendation**: Vote case-by-case on proposals to increase the number of authorized shares of preferred 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.
- If no preferred shares are currently issued and outstanding, vote against the request, unless the company discloses a specific use for the shares.

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:
If the shares requested are blank check preferred shares that can be used for antitakeover purposes;\textsuperscript{15}

The company seeks to increase a class of non-convertible preferred shares entitled to more than one vote per share on matters that do not solely affect the rights of preferred stockholders "supervoting shares");

The company seeks to increase a class of convertible preferred shares entitled to a number of votes greater than the number of common shares into which they are convertible ("supervoting shares") on matters that do not solely affect the rights of preferred stockholders;

The stated intent of the increase in the general authorization is to allow the company to increase an existing designated class of supervoting preferred shares;

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, 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:

\begin{itemize}
  \item 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;
  \item 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
  \item A government body has in the past year required the company to increase its capital ratios.
\end{itemize}

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**

**General Recommendation:** Generally vote for proposals to increase the number of authorized preferred 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:

\begin{itemize}
  \item twice the amount needed to support the transactions on the ballot, and
  \item the allowable increase as calculated for general issuances above.
\end{itemize}

**Recapitalization Plans**

**General Recommendation:** Vote case-by-case on recapitalizations (reclassifications of securities), taking into account the following:

\begin{itemize}
  \item More simplified capital structure;
  \item Enhanced liquidity;
  \item Fairness of conversion terms;
  \item Impact on voting power and dividends;
  \item Reasons for the reclassification;
\end{itemize}

\textsuperscript{15}To be acceptable, appropriate disclosure would be needed that the shares are “declawed”: i.e., representation by the board that it will not, without prior stockholder approval, issue or use the preferred stock for any defensive or anti-takeover purpose or for the purpose of implementing any stockholder rights plan.
▪ Conflicts of interest; and
▪ Other alternatives considered.

**Reverse Stock Splits**

**General Recommendation:** Vote for management proposals to implement a reverse stock split if:

▪ The number of authorized shares will be proportionately reduced; or
▪ The effective increase in authorized shares is equal to or less than the allowable increase calculated in accordance with ISS' Common Stock Authorization policy.

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

▪ Stock exchange notification 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.

**Share Repurchase Programs**

**General Recommendation:** For U.S.-incorporated companies, and foreign-incorporated U.S. Domestic Issuers that are traded solely on U.S. exchanges, 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.

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.

**Share Repurchase Programs Shareholder Proposals**

**General Recommendation:** Generally vote against shareholder proposals prohibiting executives from selling shares of company stock during periods in which the company has announced that it may or will be repurchasing shares of its stock. Vote for the proposal when there is a pattern of abuse by executives exercising options or selling shares during periods of share buybacks.

**Stock Distributions: Splits and Dividends**

**General Recommendation:** Generally vote for management proposals to increase the common share authorization for stock split or stock dividend, provided that the effective increase in authorized shares is equal to or is less than the allowable increase calculated in accordance with ISS' Common Stock Authorization policy.

**Tracking Stock**

**General Recommendation:** Vote case-by-case on the creation of tracking stock, weighing the strategic value of the transaction against such factors as:
- Adverse governance changes;
- Excessive increases in authorized capital stock;
- Unfair method of distribution;
- Diminution of voting rights;
- Adverse conversion features;
- Negative impact on stock option plans; and
- Alternatives such as spin-off.

**Restructuring**

**Appraisal Rights**

*General Recommendation:* Vote for proposals to restore or provide shareholders with rights of appraisal.

**Asset Purchases**

*General Recommendation:* Vote case-by-case on asset purchase proposals, considering the following factors:

- Purchase price;
- Fairness opinion;
- Financial and strategic benefits;
- How the deal was negotiated;
- Conflicts of interest;
- Other alternatives for the business;
- Non-completion risk.

**Asset Sales**

*General Recommendation:* Vote case-by-case on asset sales, considering the following factors:

- Impact on the balance sheet/working capital;
- Potential elimination of diseconomies;
- Anticipated financial and operating benefits;
- Anticipated use of funds;
- Value received for the asset;
- Fairness opinion;
- How the deal was negotiated;
- Conflicts of interest.

**Bundled Proposals**

*General Recommendation:* Vote case-by-case on bundled or “conditional” proxy proposals. In the case of items that are conditioned upon each other, examine the benefits and costs of the packaged items. In instances when the joint effect of the conditioned items is not in shareholders’ best interests, vote against the proposals. If the combined effect is positive, support such proposals.

**Conversion of Securities**

*General Recommendation:* Vote case-by-case on proposals regarding conversion of securities. When evaluating these proposals, the investor should review the dilution to existing shareholders, the conversion price relative to market value, financial issues, control issues, termination penalties, and conflicts of interest.
Vote for the conversion if it is expected that the company will be subject to onerous penalties or will be forced to file for bankruptcy if the transaction is not approved.

**Corporate Reorganization/Debt Restructuring/Prepackaged Bankruptcy Plans/Reverse Leveraged Buyouts/Wrap Plans**

**General Recommendation:** Vote case-by-case on proposals to increase common and/or preferred shares and to issue shares as part of a debt restructuring plan, after evaluating:

- Dilution to existing shareholders’ positions;
- Terms of the offer - discount/premium in purchase price to investor, including any fairness opinion; termination penalties; exit strategy;
- Financial issues - company’s financial situation; degree of need for capital; use of proceeds; effect of the financing on the company’s cost of capital;
- Management’s efforts to pursue other alternatives;
- Control issues - change in management; change in control, guaranteed board and committee seats; standstill provisions; voting agreements; veto power over certain corporate actions; and
- Conflict of interest - arm’s length transaction, managerial incentives.

Vote for the debt restructuring if it is expected that the company will file for bankruptcy if the transaction is not approved.

**Formation of Holding Company**

**General Recommendation:** Vote case-by-case on proposals regarding the formation of a holding company, taking into consideration the following:

- The reasons for the change;
- Any financial or tax benefits;
- Regulatory benefits;
- Increases in capital structure; and
- Changes to the articles of incorporation or bylaws of the company.

Absent compelling financial reasons to recommend for the transaction, vote against the formation of a holding company if the transaction would include either of the following:

- Increases in common or preferred stock in excess of the allowable maximum (see discussion under “Capital”); or
- Adverse changes in shareholder rights.

**Going Private and Going Dark Transactions (LBOs and Minority Squeeze-outs)**

**General Recommendation:** Vote case-by-case on going private transactions, taking into account the following:

- Offer price/premium;
- Fairness opinion;
- How the deal was negotiated;
- Conflicts of interest;
- Other alternatives/offers considered; and
- Non-completion risk.

Vote case-by-case on going dark transactions, determining whether the transaction enhances shareholder value by taking into consideration:
- Whether the company has attained benefits from being publicly-traded (examination of trading volume, liquidity, and market research of the stock);
- Balanced interests of continuing vs. cashed-out shareholders, taking into account the following:
  - Are all shareholders able to participate in the transaction?
  - Will there be a liquid market for remaining shareholders following the transaction?
  - Does the company have strong corporate governance?
  - Will insiders reap the gains of control following the proposed transaction?
  - Does the state of incorporation have laws requiring continued reporting that may benefit shareholders?

**Joint Ventures**

**General Recommendation:** Vote case-by-case on proposals to form joint ventures, taking into account the following:

- Percentage of assets/business contributed;
- Percentage ownership;
- Financial and strategic benefits;
- Governance structure;
- Conflicts of interest;
- Other alternatives; and
- Non-completion risk.

**Liquidations**

**General Recommendation:** Vote case-by-case on liquidations, taking into account the following:

- Management’s efforts to pursue other alternatives;
- Appraisal value of assets; and
- The compensation plan for executives managing the liquidation.

Vote for the liquidation if the company will file for bankruptcy if the proposal is not approved.

**Mergers and Acquisitions**

**General Recommendation:** Vote case-by-case on mergers and acquisitions. Review and evaluate the merits and drawbacks of the proposed transaction, balancing various and sometimes countervailing factors including:

- **Valuation** - Is the value to be received by the target shareholders (or paid by the acquirer) reasonable? While the fairness opinion may provide an initial starting point for assessing valuation reasonableness, emphasis is placed on the offer premium, market reaction, and strategic rationale.
- **Market reaction** - How has the market responded to the proposed deal? A negative market reaction should cause closer scrutiny of a deal.
- **Strategic rationale** - Does the deal make sense strategically? From where is the value derived? Cost and revenue synergies should not be overly aggressive or optimistic, but reasonably achievable. Management should also have a favorable track record of successful integration of historical acquisitions.
- **Negotiations and process** - Were the terms of the transaction negotiated at arm’s-length? Was the process fair and equitable? A fair process helps to ensure the best price for shareholders. Significant negotiation "wins" can also signify the deal makers’ competency. The comprehensiveness of the sales process (e.g., full auction, partial auction, no auction) can also affect shareholder value.
- **Conflicts of interest** - Are insiders benefiting from the transaction disproportionately and inappropriately as compared to non-insider shareholders? As the result of potential conflicts, the directors and officers of the company may be more likely to vote to approve a merger than if they did not hold these interests. Consider whether these interests may have influenced these directors and officers to support or recommend the
merger. The CIC figure presented in the "ISS Transaction Summary" section of this report is an aggregate figure that can in certain cases be a misleading indicator of the true value transfer from shareholders to insiders. Where such figure appears to be excessive, analyze the underlying assumptions to determine whether a potential conflict exists.

- **Governance** - Will the combined company have a better or worse governance profile than the current governance profiles of the respective parties to the transaction? If the governance profile is to change for the worse, the burden is on the company to prove that other issues (such as valuation) outweigh any deterioration in governance.

**Private Placements/Warrants/Convertible Debentures**

**General Recommendation:** Vote case-by-case on proposals regarding private placements, warrants, and convertible debentures taking into consideration:

- **Dilution to existing shareholders' position:** The amount and timing of shareholder ownership dilution should be weighed against the needs and proposed shareholder benefits of the capital infusion. Although newly issued common stock, absent preemptive rights, is typically dilutive to existing shareholders, share price appreciation is often the necessary event to trigger the exercise of "out of the money" warrants and convertible debt. In these instances from a value standpoint, the negative impact of dilution is mitigated by the increase in the company's stock price that must occur to trigger the dilutive event.

- **Terms of the offer (discount/premium in purchase price to investor, including any fairness opinion, conversion features, termination penalties, exit strategy):**
  - The terms of the offer should be weighed against the alternatives of the company and in light of the company's financial condition. Ideally, the conversion price for convertible debt and the exercise price for warrants should be at a premium to the then prevailing stock price at the time of private placement.
  - When evaluating the magnitude of a private placement discount or premium, consider factors that influence the discount or premium, such as, liquidity, due diligence costs, control and monitoring costs, capital scarcity, information asymmetry, and anticipation of future performance.

- **Financial issues:**
  - The company's financial condition;
  - Degree of need for capital;
  - Use of proceeds;
  - Effect of the financing on the company's cost of capital;
  - Current and proposed cash burn rate;
  - Going concern viability and the state of the capital and credit markets.

- **Management's efforts to pursue alternatives and whether the company engaged in a process to evaluate alternatives:** A fair, unconstrained process helps to ensure the best price for shareholders. Financing alternatives can include joint ventures, partnership, merger, or sale of part or all of the company.

- **Control issues:**
  - Change in management;
  - Change in control;
  - Guaranteed board and committee seats;
  - Standstill provisions;
  - Voting agreements;
  - Veto power over certain corporate actions; and
  - Minority versus majority ownership and corresponding minority discount or majority control premium.
Conflicts of interest:
- Conflicts of interest should be viewed from the perspective of the company and the investor.
- Were the terms of the transaction negotiated at arm's length? Are managerial incentives aligned with shareholder interests?

Market reaction:
- The market's response to the proposed deal. A negative market reaction is a cause for concern. Market reaction may be addressed by analyzing the one-day impact on the unaffected stock price.

Vote for the private placement, or for the issuance of warrants and/or convertible debentures in a private placement, if it is expected that the company will file for bankruptcy if the transaction is not approved.

Reorganization/Restructuring Plan (Bankruptcy)

General Recommendation: Vote case-by-case on proposals to common shareholders on bankruptcy plans of reorganization, considering the following factors including, but not limited to:

- Estimated value and financial prospects of the reorganized company;
- Percentage ownership of current shareholders in the reorganized company;
- Whether shareholders are adequately represented in the reorganization process (particularly through the existence of an Official Equity Committee);
- The cause(s) of the bankruptcy filing, and the extent to which the plan of reorganization addresses the cause(s);
- Existence of a superior alternative to the plan of reorganization; and
- Governance of the reorganized company.

Special Purpose Acquisition Corporations (SPACs)

General Recommendation: Vote case-by-case on SPAC mergers and acquisitions taking into account the following:

- Valuation - Is the value being paid by the SPAC reasonable? SPACs generally lack an independent fairness opinion and the financials on the target may be limited. Compare the conversion price with the intrinsic value of the target company provided in the fairness opinion. Also, evaluate the proportionate value of the combined entity attributable to the SPAC IPO shareholders versus the pre-merger value of SPAC. Additionally, a private company discount may be applied to the target if it is a private entity.
- Market reaction - How has the market responded to the proposed deal? A negative market reaction may be a cause for concern. Market reaction may be addressed by analyzing the one-day impact on the unaffected stock price.
- Deal timing - A main driver for most transactions is that the SPAC charter typically requires the deal to be complete within 18 to 24 months, or the SPAC is to be liquidated. Evaluate the valuation, market reaction, and potential conflicts of interest for deals that are announced close to the liquidation date.
- Negotiations and process - What was the process undertaken to identify potential target companies within specified industry or location specified in charter? Consider the background of the sponsors.
- Conflicts of interest - How are sponsors benefiting from the transaction compared to IPO shareholders? Potential conflicts could arise if a fairness opinion is issued by the insiders to qualify the deal rather than a third party or if management is encouraged to pay a higher price for the target because of an 80 percent rule (the charter requires that the fair market value of the target is at least equal to 80 percent of net assets of the SPAC). Also, there may be sense of urgency by the management team of the SPAC to close the deal since its charter typically requires a transaction to be completed within the 18-24-month timeframe.
- Voting agreements - Are the sponsors entering into enter into any voting agreements/tender offers with shareholders who are likely to vote against the proposed merger or exercise conversion rights?
- Governance - What is the impact of having the SPAC CEO or founder on key committees following the proposed merger?
**Special Purpose Acquisition Corporations (SPACs) - Proposals for Extensions**

**General Recommendation:** Vote case-by-case on SPAC extension proposals taking into account the length of the requested extension, the status of any pending transaction(s) or progression of the acquisition process, any added incentive for non-redeeming shareholders, and any prior extension requests.

- **Length of request:** Typically, extension requests range from two to six months, depending on the progression of the SPAC's acquisition process.

- **Pending transaction(s) or progression of the acquisition process:** Sometimes an initial business combination was already put to a shareholder vote, but, for varying reasons, the transaction could not be consummated by the termination date and the SPAC is requesting an extension. Other times, the SPAC has entered into a definitive transaction agreement, but needs additional time to consummate or hold the shareholder meeting.

- **Added incentive for non-redeeming shareholders:** Sometimes the SPAC sponsor (or other insiders) will contribute, typically as a loan to the company, additional funds that will be added to the redemption value of each public share as long as such shares are not redeemed in connection with the extension request. The purpose of the "equity kicker" is to incentivize shareholders to hold their shares through the end of the requested extension or until the time the transaction is put to a shareholder vote, rather than electing redemption at the extension proposal meeting.

- **Prior extension requests:** Some SPACs request additional time beyond the extension period sought in prior extension requests.

**Spin-offs**

**General Recommendation:** Vote case-by-case on spin-offs, considering:

- Tax and regulatory advantages;
- Planned use of the sale proceeds;
- Valuation of spinoff;
- Fairness opinion;
- Benefits to the parent company;
- Conflicts of interest;
- Managerial incentives;
- Corporate governance changes;
- Changes in the capital structure.

**Value Maximization Shareholder Proposals**

**General Recommendation:** Vote case-by-case on shareholder proposals seeking to maximize shareholder value by:

- Hiring a financial advisor to explore strategic alternatives;
- Selling the company; or
- Liquidating the company and distributing the proceeds to shareholders.

These proposals should be evaluated based on the following factors:

- Prolonged poor performance with no turnaround in sight;
- Signs of entrenched board and management (such as the adoption of takeover defenses);
- Strategic plan in place for improving value;
- Likelihood of receiving reasonable value in a sale or dissolution; and
- The company actively exploring its strategic options, including retaining a financial advisor.
5. Compensation

Executive Pay Evaluation

Underlying all evaluations are five global principles that most investors expect corporations to adhere to in designing and administering executive and director compensation programs:

1. Maintain appropriate pay-for-performance alignment, with emphasis on long-term shareholder value: This principle encompasses overall executive pay practices, which must be designed to attract, retain, and appropriately motivate the key employees who drive shareholder value creation over the long term. It will take into consideration, among other factors, the link between pay and performance; the mix between fixed and variable pay; performance goals; and equity-based plan costs;

2. Avoid arrangements that risk “pay for failure”: This principle addresses the appropriateness of long or indefinite contracts, excessive severance packages, and guaranteed compensation;

3. Maintain an independent and effective compensation committee: This principle promotes oversight of executive pay programs by directors with appropriate skills, knowledge, experience, and a sound process for compensation decision-making (e.g., including access to independent expertise and advice when needed);

4. Provide shareholders with clear, comprehensive compensation disclosures: This principle underscores the importance of informative and timely disclosures that enable shareholders to evaluate executive pay practices fully and fairly;

5. Avoid inappropriate pay to non-executive directors: This principle recognizes the interests of shareholders in ensuring that compensation to outside directors is reasonable and does not compromise their independence and ability to make appropriate judgments in overseeing managers’ pay and performance.

At the market level, it may incorporate a variety of generally accepted best practices.

Advisory Votes on Executive Compensation—Management Proposals (Say-on-Pay)

General Recommendation: Vote case-by-case on ballot items related to executive pay and practices, as well as certain aspects of outside director compensation.

Vote against Advisory Votes on Executive Compensation (Say-on-Pay or “SOP”) if:

- There is an unmitigated misalignment between CEO pay and company performance (pay for performance);
- The company maintains significant problematic pay practices;
- The board exhibits a significant level of poor communication and responsiveness to shareholders.

Vote against or withhold from the members of the Compensation Committee and potentially the full board if:

- There is no SOP on the ballot, and an against vote on an SOP would otherwise be 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 SOP proposal that received less than 70 percent support of votes cast;
- The company has recently practiced or approved problematic pay practices, such as option repricing or option backdating; or
- The situation is egregious.
Primary Evaluation Factors for Executive Pay

Pay-for-Performance Evaluation

ISS annually conducts a pay-for-performance analysis to identify strong or satisfactory alignment between pay and performance over a sustained period. With respect to companies in the S&P1500, Russell 3000, or Russell 3000E Indices\(^{16}\), this analysis considers the following:

1. Peer Group\(^ {17}\) Alignment:
   - The degree of alignment between the company’s annualized TSR rank and the CEO’s annualized total pay rank within a peer group, each measured over a three-year period.
   - The rankings of CEO total pay and company financial performance within a peer group, each measured over a three-year period.
   - The multiple of the CEO’s total pay relative to the peer group median in the most recent fiscal year.

2. Absolute Alignment\(^ {18}\) – the absolute alignment between the trend in CEO pay and company TSR over the prior five fiscal years – i.e., the difference between the trend in annual pay changes and the trend in annualized TSR during the period.

If the above analysis demonstrates significant unsatisfactory long-term pay-for-performance alignment or, in the case of companies outside the Russell indices, a misalignment between pay and performance is otherwise suggested, our analysis may include any of the following qualitative factors, as relevant to an evaluation of how various pay elements may work to encourage or to undermine long-term value creation and alignment with shareholder interests:

- The ratio of performance- to time-based incentive awards;
- The overall ratio of performance-based compensation to fixed or discretionary pay;
- The rigor of performance goals;
- The complexity and risks around pay program design;
- The transparency and clarity of disclosure;
- The company’s peer group benchmarking practices;
- Financial/operational results, both absolute and relative to peers;
- Special circumstances related to, for example, a new CEO in the prior FY or anomalous equity grant practices (e.g., bi-annual awards);
- Realizable pay\(^ {19}\) compared to grant pay; and
- Any other factors deemed relevant.

Procedural Pay Practices

The focus is on executive compensation practices that contravene the global pay principles, including:

- Problematic practices related to non-performance-based compensation elements;

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\(^{16}\) The Russell 3000E Index includes approximately 4,000 of the largest U.S. equity securities.

\(^{17}\) The revised peer group is generally comprised of 14-24 companies that are selected using market cap, revenue (or assets for certain financial firms), GICS industry group, and company’s selected peers’ GICS industry group, with size constraints, via a process designed to select peers that are comparable to the subject company in terms of revenue/assets and industry, and also within a market-cap bucket that is reflective of the company’s market cap. For Oil, Gas & Consumable Fuels companies, market cap is the only size determinant.

\(^{18}\) Only Russell 3000 Index companies are subject to the Absolute Alignment analysis.

\(^{19}\) ISS research reports include realizable pay for S&P1500 companies.
- Incentives that may motivate excessive risk-taking or present a windfall risk; and
- Pay decisions that circumvent pay-for-performance, such as options backdating or waiving performance requirements.

**Problematic Pay Practices related to Non-Performance-Based Compensation Elements**

Pay elements that are not directly based on performance are generally evaluated case-by-case considering the context of a company’s overall pay program and demonstrated pay-for-performance philosophy. Please refer to ISS’ [U.S. Compensation Policies FAQ](https://www.issgovernance.com) document for detail on specific pay practices that have been identified as potentially problematic and may lead to negative recommendations if they are deemed to be inappropriate or unjustified relative to executive pay best practices. The list below highlights the problematic practices that carry significant weight in this overall consideration and may result in adverse vote recommendations:

- Repricing or replacing of underwater stock options/SARs without prior shareholder approval (including cash buyouts and voluntary surrender of underwater options);
- Extraordinary perquisites or tax gross-ups;
- New or materially amended agreements that provide for:
  - Excessive termination or CIC severance payments (generally exceeding 3 times base salary and average/target/most recent bonus);
  - CIC severance payments without involuntary job loss or substantial diminution of duties ("single" or "modified single" triggers) or in connection with a problematic Good Reason definition;
  - CIC excise tax gross-up entitlements (including "modified" gross-ups);
  - Multi-year guaranteed awards that are not at risk due to rigorous performance conditions;
  - Liberal CIC definition combined with any single-trigger CIC benefits;
- Insufficient executive compensation disclosure by externally-managed issuers (EMIs) such that a reasonable assessment of pay programs and practices applicable to the EMI’s executives is not possible;
- Any other provision or practice deemed to be egregious and present a significant risk to investors.

**Options Backdating**

The following factors should be examined case-by-case to allow for distinctions to be made between “sloppy” plan administration versus deliberate action or fraud:

- Reason and motive for the options backdating issue, such as inadvertent vs. deliberate grant date changes;
- Duration of options backdating;
- Size of restatement due to options backdating;
- Corrective actions taken by the board or compensation committee, such as canceling or re-pricing backdated options, the recouping of option gains on backdated grants; and
- Adoption of a grant policy that prohibits backdating and creates a fixed grant schedule or window period for equity grants in the future.

**Compensation Committee Communications and Responsiveness**

Consider the following factors case-by-case when evaluating ballot items related to executive pay on the board’s responsiveness to investor input and engagement on compensation issues:

- Failure to respond to majority-supported shareholder proposals on executive pay topics; or
- Failure to adequately respond to the company’s previous say-on-pay proposal that received the support of less than 70 percent of votes cast, taking into account:
  - Disclosure of engagement efforts with major institutional investors, including the frequency and timing of engagements and the company participants (including whether independent directors participated);
Disclosure of the specific concerns voiced by dissenting shareholders that led to the say-on-pay opposition;
- Disclosure of specific and meaningful actions taken to address shareholders' concerns;
- Other recent compensation actions taken by the company;
- Whether the issues raised are recurring or isolated;
- The company's ownership structure; and
- Whether the support level was less than 50 percent, which would warrant the highest degree of responsiveness.

**Frequency of Advisory Vote on Executive Compensation ("Say When on Pay")**

**General Recommendation:** Vote for annual advisory votes on compensation, which provide the most consistent and clear communication channel for shareholder concerns about companies' executive pay programs.

**Voting on Golden Parachutes in an Acquisition, Merger, Consolidation, or Proposed Sale**

**General Recommendation:** Vote case-by-case on say on Golden Parachute proposals, including consideration of existing change-in-control arrangements maintained with named executive officers but also considering new or extended arrangements.

Features that may result in an “against” recommendation include one or more of the following, depending on the number, magnitude, and/or timing of issue(s):

- Single- or modified-single-trigger cash severance;
- Single-trigger acceleration of unvested equity awards;
- Full acceleration of equity awards granted shortly before the change in control;
- Acceleration of performance awards above the target level of performance without compelling rationale;
- Excessive cash severance (generally >3x base salary and bonus);
- Excise tax gross-ups triggered and payable;
- Excessive golden parachute payments (on an absolute basis or as a percentage of transaction equity value); or
- Recent amendments that incorporate any problematic features (such as those above) or recent actions (such as extraordinary equity grants) that may make packages so attractive as to influence merger agreements that may not be in the best interests of shareholders; or
- The company's assertion that a proposed transaction is conditioned on shareholder approval of the golden parachute advisory vote.

Recent amendment(s) that incorporate problematic features will tend to carry more weight on the overall analysis. However, the presence of multiple legacy problematic features will also be closely scrutinized.

In cases where the golden parachute vote is incorporated into a company's advisory vote on compensation (management say-on-pay), ISS will evaluate the say-on-pay proposal in accordance with these guidelines, which may give higher weight to that component of the overall evaluation.

**Equity-Based and Other Incentive Plans**

Please refer to ISS’ [U.S. Equity Compensation Plans FAQ](http://www.issgovernance.com) document for additional details on the Equity Plan Scorecard policy.
**General Recommendation:** Vote case-by-case on certain 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 using an "Equity Plan Scorecard" (EPSC) approach with 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 (SVT) 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:**
  - Quality of disclosure around vesting upon a change in control (CIC);
  - Discretionary vesting authority;
  - Liberal share recycling on various award types;
  - Lack of 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 CEO’s recent 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 sufficient claw-back policy;
  - Whether the company maintains sufficient post-exercise/vesting share-holding requirements.

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 egregious factors ("overriding factors") 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 significant pay-for-performance disconnect under certain circumstances;
- The plan is excessively 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.

**Further Information on certain EPSC Factors:**

**Shareholder Value Transfer (SVT)**

The cost of the equity plans is expressed as Shareholder Value Transfer (SVT), which is measured using a binomial option pricing model that assesses the amount of shareholders’ equity flowing out of the company to employees and directors. SVT is expressed as both a dollar amount and as a percentage of market value, and includes the new

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20 Proposals evaluated under the EPSC policy generally include those to approve or amend (1) stock option plans for employees and/or employees and directors, (2) restricted stock plans for employees and/or employees and directors, and (3) omnibus stock incentive plans for employees and/or employees and directors; amended plans will be further evaluated case-by-case.
shares proposed, shares available under existing plans, and shares granted but unexercised (using two measures, in the case of plans subject to the Equity Plan Scorecard evaluation, as noted above). All award types are valued. For omnibus plans, unless limitations are placed on the most expensive types of awards (for example, full-value awards), the assumption is made that all awards to be granted will be the most expensive types.

For proposals that are not subject to the Equity Plan Scorecard evaluation, Shareholder Value Transfer is reasonable if it falls below a company-specific benchmark. The benchmark is determined as follows: The top quartile performers in each industry group (using the Global Industry Classification Standard: GICS) are identified. Benchmark SVT levels for each industry are established based on these top performers’ historic SVT. Regression analyses are run on each industry group to identify the variables most strongly correlated to SVT. The benchmark industry SVT level is then adjusted upwards or downwards for the specific company by plugging the company-specific performance measures, size, and cash compensation into the industry cap equations to arrive at the company's benchmark.\(^{21}\)

**Three-Year Burn Rate**

For meetings held prior to February 1, 2023, burn-rate benchmarks (utilized in Equity Plan Scorecard evaluations) are calculated as the greater of: (1) the mean ($\mu$) plus one standard deviation ($\sigma$) of the company's GICS group segmented by S&P 500, Russell 3000 index (less the S&P 500), and non-Russell 3000 index; and (2) two percent of weighted common shares outstanding. In addition, year-over-year burn-rate benchmark changes will be limited to a maximum of two (2) percentage points plus or minus the prior year's burn-rate benchmark. See the [U.S. Equity Compensation Plans FAQ](https://issgovernance.com) for the benchmarks.

For meetings held prior to February 1, 2023, a company's adjusted burn rate is calculated as follows:

$$\text{Burn Rate} = \frac{(\# \text{ of appreciation awards granted} + \# \text{ of full value awards granted} \times \text{Volatility Multiplier})}{\text{Weighted average common shares outstanding}}$$

The Volatility Multiplier is used to provide more equivalent valuation between stock options and full value shares, based on the company's historical stock price volatility.

Effective for meetings held on or after February 1, 2023, a "Value-Adjusted Burn Rate" will instead be used for stock plan evaluations. Value-Adjusted Burn Rate benchmarks will be calculated as the greater of: (1) an industry-specific threshold based on three-year burn rates within the company's GICS group segmented by S&P 500, Russell 3000 index (less the S&P 500) and non-Russell 3000 index; and (2) a de minimis threshold established separately for each of the S&P 500, the Russell 3000 index less the S&P 500, and the non-Russell 3000 index. Year-over-year burn-rate benchmark changes will be limited to a predetermined range above or below the prior year's burn-rate benchmark.

The Value-Adjusted Burn Rate will be calculated as follows:

$$\text{Value-Adjusted Burn Rate} = \frac{(\# \text{ of options} \times \text{option's dollar value using a Black-Scholes model}) + (\# \text{ of full-value awards} \times \text{stock price})}{(\text{Weighted average common shares} \times \text{stock price})}.$$
**Egregious Factors**

**Liberal Change in Control Definition**

Generally vote against equity plans if the plan has a liberal definition of change in control and the equity awards could vest upon such liberal definition of change in control, even though an actual change in control may not occur. Examples of such a definition include, but are not limited to, announcement or commencement of a tender offer, provisions for acceleration upon a “potential” takeover, shareholder approval of a merger or other transactions, or similar language.

**Repricing Provisions**

Vote against plans that expressly permit the repricing or exchange of underwater stock options/stock appreciate rights (SARs) without prior shareholder approval. "Repricing" typically includes the ability to do any of the following:

- Amend the terms of outstanding options or SARs to reduce the exercise price of such outstanding options or SARs;
- Cancel outstanding options or SARs in exchange for options or SARs with an exercise price that is less than the exercise price of the original options or SARs;
- Cancel underwater options in exchange for stock awards; or
- Provide cash buyouts of underwater options.

While the above cover most types of repricing, ISS may view other provisions as akin to repricing depending on the facts and circumstances.

Also, vote against or withhold from members of the Compensation Committee who approved repricing (as defined above or otherwise determined by ISS), without prior shareholder approval, even if such repricings are allowed in their equity plan.

Vote against plans that do not expressly prohibit repricing or cash buyout of underwater options without shareholder approval if the company has a history of repricing/buyouts without shareholder approval, and the applicable listing standards would not preclude them from doing so.

**Problematic Pay Practices or Significant Pay-for-Performance Disconnect**

If the equity plan on the ballot is a vehicle for problematic pay practices, vote against the plan.

ISS may recommend a vote against the equity plan if the plan is determined to be a vehicle for pay-for-performance misalignment. Considerations in voting against the equity plan may include, but are not limited to:

- Severity of the pay-for-performance misalignment;
- Whether problematic equity grant practices are driving the misalignment; and/or
- Whether equity plan awards have been heavily concentrated to the CEO and/or the other NEOs.

**Amending Cash and Equity Plans (including Approval for Tax Deductibility (162(m)))**

**General Recommendation:** Vote case-by-case on amendments to cash and equity incentive plans.

Generally 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 directors, per ISS’ Classification of Directors. Note that if the company is presenting the plan to shareholders for the first time for any reason (including 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).

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 directors, per ISS’ Classification of Directors.

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.

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 include a term extension or addition of full value awards as an award type, 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 (including 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 do not include a term extension or addition of full value awards as an award type, then the recommendation will be based entirely on an analysis of the overall impact of the amendments, and the EPSC evaluation will be shown only for informational purposes.

In the first two case-by-case evaluation scenarios, the EPSC evaluation/score is the more heavily weighted consideration.

Specific Treatment of Certain Award Types in Equity Plan Evaluations

Dividend Equivalent Rights

Options that have Dividend Equivalent Rights (DERs) associated with them will have a higher calculated award value than those without DERs under the binomial model, based on the value of these dividend streams. The higher value will be applied to new shares, shares available under existing plans, and shares awarded but not exercised per the plan specifications. DERS transfer more shareholder equity to employees and non-employee directors and this cost should be captured.

Operating Partnership (OP) Units in Equity Plan Analysis of Real Estate Investment Trusts (REITs)

For Real Estate Investment Trusts (REITS), include the common shares issuable upon conversion of outstanding Operating Partnership (OP) units in the share count for the purposes of determining: (1) market capitalization in the Shareholder Value Transfer (SVT) analysis and (2) shares outstanding in the burn rate analysis.

Other Compensation Plans

401(k) Employee Benefit Plans

General Recommendation: Vote for proposals to implement a 401(k) savings plan for employees.
**Employee Stock Ownership Plans (ESOPs)**

**General Recommendation:** Vote for proposals to implement an ESOP or increase authorized shares for existing ESOPs, unless the number of shares allocated to the ESOP is excessive (more than five percent of outstanding shares).

**Employee Stock Purchase Plans—Qualified Plans**

**General Recommendation:** Vote case-by-case on qualified employee stock purchase plans. Vote for employee stock purchase plans where all of the following apply:

- Purchase price is at least 85 percent of fair market value;
- Offering period is 27 months or less; and
- The number of shares allocated to the plan is 10 percent or less of the outstanding shares.

Vote against qualified employee stock purchase plans where the plan features do not meet all of the above criteria.

**Employee Stock Purchase Plans—Non-Qualified Plans**

**General Recommendation:** Vote case-by-case on nonqualified employee stock purchase plans. Vote for nonqualified employee stock purchase plans with all the following features:

- Broad-based participation;
- Limits on employee contribution, which may be a fixed dollar amount or expressed as a percent of base salary;
- Company matching contribution up to 25 percent of employee’s contribution, which is effectively a discount of 20 percent from market value; and
- No discount on the stock price on the date of purchase when there is a company matching contribution.

Vote against nonqualified employee stock purchase plans when the plan features do not meet all of the above criteria. If the matching contribution or effective discount exceeds the above, ISS may evaluate the SVT cost of the plan as part of the assessment.

**Option Exchange Programs/Repricing Options**

**General Recommendation:** Vote case-by-case on management proposals seeking approval to exchange/reprice options taking into consideration:

- 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?; and
- Are surrendered stock options added back to the plan reserve?;
- Timing—repricing should occur at least one year out from any precipitous drop in company’s stock price;
- Option vesting—does the new option vest immediately or is there a black-out 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 must be excluded.

If the surrendered options are added back to the equity plans for re-issuance, then also take into consideration the company’s total cost of equity plans and its three-year average burn rate.

In addition to the above considerations, evaluate the intent, rationale, and timing of the repricing proposal. The proposal should clearly articulate why the board is choosing to conduct an exchange program at this point in time. Repricing underwater options after a recent precipitous drop in the company’s stock price demonstrates poor timing and warrants additional scrutiny. Also, consider the terms of the surrendered options, such as the grant date, exercise price and vesting schedule. Grant dates of surrendered options should be far enough back (two to
three years) so as not to suggest that repricings are being done to take advantage of short-term downward price movements. Similarly, the exercise price of surrendered options should be above the 52-week high for the stock price.

Vote for shareholder proposals to put option repricings to a shareholder vote.

**Stock Plans in Lieu of Cash**

**General Recommendation:** Vote case-by-case on plans that provide participants with the option of taking all or a portion of their cash compensation in the form of stock.

Vote for non-employee director-only equity plans that provide a dollar-for-dollar cash-for-stock exchange.

Vote case-by-case on plans which do not provide a dollar-for-dollar cash for stock exchange. In cases where the exchange is not dollar-for-dollar, the request for new or additional shares for such equity program will be considered using the binomial option pricing model. In an effort to capture the total cost of total compensation, ISS will not make any adjustments to carve out the in-lieu-of cash compensation.

**Transfer Stock Option (TSO) Programs**

**General Recommendation:** One-time Transfers: Vote against or withhold from compensation committee members if they fail to submit one-time transfers to shareholders for approval.

Vote case-by-case on one-time transfers. Vote for if:

- Executive officers and non-employee directors are excluded from participating;
- Stock options are purchased by third-party financial institutions at a discount to their fair value using option pricing models such as Black-Scholes or a Binomial Option Valuation or other appropriate financial models; and
- There is a two-year minimum holding period for sale proceeds (cash or stock) for all participants.

Additionally, management should provide a clear explanation of why options are being transferred to a third-party institution and whether the events leading up to a decline in stock price were beyond management’s control. A review of the company’s historic stock price volatility should indicate if the options are likely to be back “in-the-money” over the near term.

Ongoing TSO program: Vote against equity plan proposals if the details of ongoing TSO programs are not provided to shareholders. Since TSOs will be one of the award types under a stock plan, the ongoing TSO program, structure, and mechanics must be disclosed to shareholders. The specific criteria to be considered in evaluating these proposals include, but not limited, to the following:

- Eligibility;
- Vesting;
- Bid-price;
- Term of options;
- Cost of the program and impact of the TSOs on company’s total option expense; and
- Option repricing policy.

Amendments to existing plans that allow for introduction of transferability of stock options should make clear that only options granted post-amendment shall be transferable.
**Director Compensation**

**Shareholder Ratification of Director Pay Programs**

**General Recommendation:** Vote case-by-case on management proposals seeking ratification of non-employee director compensation, 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**

**General Recommendation:** 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 (SVT) 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 (in certain circumstances); and
- The presence of any egregious plan features (such as an option repricing provision or liberal CIC vesting risk).

On occasion, non-employee 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.

**Non-Employee Director Retirement Plans**

**General Recommendation:** Vote against retirement plans for non-employee directors. Vote for shareholder proposals to eliminate retirement plans for non-employee directors.
Shareholder Proposals on Compensation

**Bonus Banking/Bonus Banking “Plus”**

**General Recommendation:** Vote case-by-case on proposals seeking deferral of a portion of annual bonus pay, with ultimate payout linked to sustained results for the performance metrics on which the bonus was earned (whether for the named executive officers or a wider group of employees), taking into account the following factors:

- The company’s past practices regarding equity and cash compensation;
- Whether the company has a holding period or stock ownership requirements in place, such as a meaningful retention ratio (at least 50 percent for full tenure); and
- Whether the company has a rigorous claw-back policy in place.

**Compensation Consultants—Disclosure of Board or Company’s Utilization**

**General Recommendation:** Generally vote for shareholder proposals seeking disclosure regarding the company, board, or compensation committee’s use of compensation consultants, such as company name, business relationship(s), and fees paid.

**Disclosure/Setting Levels or Types of Compensation for Executives and Directors**

**General Recommendation:** Generally vote for shareholder proposals seeking additional disclosure of executive and director pay information, provided the information requested is relevant to shareholders’ needs, would not put the company at a competitive disadvantage relative to its industry, and is not unduly burdensome to the company.

Generally vote against shareholder proposals seeking to set absolute levels on compensation or otherwise dictate the amount or form of compensation (such as types of compensation elements or specific metrics) to be used for executive or directors.

Generally vote against shareholder proposals that mandate a minimum amount of stock that directors must own in order to qualify as a director or to remain on the board.

Vote case-by-case on all other shareholder proposals regarding executive and director pay, taking into account relevant factors, including but not limited to: company performance, pay level and design versus peers, history of compensation concerns or pay-for-performance disconnect, and/or the scope and prescriptive nature of the proposal.

**Golden Coffins/Executive Death Benefits**

**General Recommendation:** Generally vote for proposals calling for companies to adopt a policy of obtaining shareholder approval for any future agreements and corporate policies that could oblige the company to make payments or awards following the death of a senior executive in the form of unearned salary or bonuses, accelerated vesting or the continuation in force of unvested equity grants, perquisites and other payments or awards made in lieu of compensation. This would not apply to any benefit programs or equity plan proposals for which the broad-based employee population is eligible.

**Hold Equity Past Retirement or for a Significant Period of Time**

**General Recommendation:** Vote case-by-case on shareholder proposals asking companies to adopt policies requiring senior executive officers to retain a portion of net shares acquired through compensation plans. The following factors will be taken into account:

- The percentage/ratio of net shares required to be retained;
- The time period required to retain the shares;
- Whether the company has equity retention, holding period, and/or stock ownership requirements in place and the robustness of such requirements;
• Whether the company has any other policies aimed at mitigating risk taking by executives;
• Executives’ actual stock ownership and the degree to which it meets or exceeds the proponent’s suggested holding period/retention ratio or the company’s existing requirements; and
• Problematic pay practices, current and past, which may demonstrate a short-term versus long-term focus.

**Pay Disparity**

**General Recommendation:** Vote case-by-case on proposals calling for an analysis of the pay disparity between corporate executives and other non-executive employees. The following factors will be considered:

• The company’s current level of disclosure of its executive compensation setting process, including how the company considers pay disparity;
• If any problematic pay practices or pay-for-performance concerns have been identified at the company; and
• The level of shareholder support for the company’s pay programs.

Generally vote against proposals calling for the company to use the pay disparity analysis or pay ratio in a specific way to set or limit executive pay.

**Pay for Performance/Performance-Based Awards**

**General Recommendation:** 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 meaningful premium 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, vote for the shareholder proposal if the company does not meet both of the above two steps.

**Pay for Superior Performance**

**General Recommendation:** Vote case-by-case on shareholder proposals that request the board establish a pay-for-superior performance standard in the company’s executive compensation plan for senior executives. These proposals generally include the following principles:

• Set compensation targets for the plan’s annual and long-term incentive pay components at or below the peer group median;
• Deliver a majority of the plan’s target long-term compensation through performance-vested, not simply time-vested, equity awards;
• Provide the strategic rationale and relative weightings of the financial and non-financial performance metrics or criteria used in the annual and performance-vested long-term incentive components of the plan;
- Establish performance targets for each plan financial metric relative to the performance of the company’s peer companies;
- Limit payment under the annual and performance-vested long-term incentive components of the plan to when the company’s performance on its selected financial performance metrics exceeds peer group median performance.

Consider the following factors in evaluating this proposal:

- What aspects of the company’s annual and long-term equity incentive programs are performance driven?
- If the annual and long-term equity incentive programs are performance driven, are the performance criteria and hurdle rates disclosed to shareholders or are they benchmarked against a disclosed peer group?
- Can shareholders assess the correlation between pay and performance based on the current disclosure?
- What type of industry and stage of business cycle does the company belong to?

**Pre-Arranged Trading Plans (10b5-1 Plans)**

**General Recommendation:** Generally vote for shareholder proposals calling for the addition of certain safeguards in prearranged trading plans (10b5-1 plans) for executives. Safeguards may include:

- Adoption, amendment, or termination of a 10b5-1 Plan must be disclosed in a Form 8-K;
- Amendment or early termination of a 10b5-1 Plan allowed only under extraordinary circumstances, as determined by the board;
- Request that a certain number of days that must elapse between adoption or amendment of a 10b5-1 Plan and initial trading under the plan;
- Reports on Form 4 must identify transactions made pursuant to a 10b5-1 Plan;
- An executive may not trade in company stock outside the 10b5-1 Plan;
- Trades under a 10b5-1 Plan must be handled by a broker who does not handle other securities transactions for the executive.

**Prohibit Outside CEOs from Serving on Compensation Committees**

**General Recommendation:** Generally vote against proposals seeking a policy to prohibit any outside CEO from serving on a company’s compensation committee, unless the company has demonstrated problematic pay practices that raise concerns about the performance and composition of the committee.

**Recoupment of Incentive or Stock Compensation in Specified Circumstances**

**General Recommendation:** Vote case-by-case on proposals to recoup incentive cash or stock compensation made to senior executives if it is later determined that the figures upon which incentive compensation is earned turn out to have been in error, or if the senior executive has breached company policy or has engaged in misconduct that may be significantly detrimental to the company’s financial position or reputation, or if the senior executive failed to manage or monitor risks that subsequently led to significant financial or reputational harm to the company. Many companies have adopted policies that permit recoupment in cases where an executive’s fraud, misconduct, or negligence significantly contributed to a restatement of financial results that led to the awarding of unearned incentive compensation. However, such policies may be narrow given that not all misconduct or negligence may result in significant financial restatements. Misconduct, negligence, or lack of sufficient oversight by senior executives may lead to significant financial loss or reputational damage that may have long-lasting impact.

In considering whether to support such shareholder proposals, ISS will take into consideration the following factors:

- If the company has adopted a formal recoupment policy;
- The rigor of the recoupment policy focusing on how and under what circumstances the company may recoup incentive or stock compensation;
• Whether the company has chronic restatement history or material financial problems;
• Whether the company’s policy substantially addresses the concerns raised by the proponent;
• Disclosure of recoupment of incentive or stock compensation from senior executives or lack thereof; or
• Any other relevant factors.

**Severance Agreements for Executives/Golden Parachutes**

**General Recommendation:** 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.

Vote case-by-case on proposals to ratify or cancel golden parachutes. An acceptable parachute should include, but is not limited to, the following:

• The triggering mechanism should be beyond the control of management;
• The amount should not exceed three times base amount (defined as the average annual taxable W-2 compensation during the five years prior to the year in which the change of control occurs);
• Change-in-control payments should be double-triggered, i.e., (1) after a change in control has taken place, and (2) termination of the executive as a result of the change in control. Change in control is defined as a change in the company ownership structure.

**Share Buyback Impact on Incentive Program Metrics**

**General Recommendation:** Vote case-by-case on proposals requesting the company exclude the impact of share buybacks from the calculation of incentive program metrics, considering the following factors:

• The frequency and timing of the company’s share buybacks;
• The use of per-share metrics in incentive plans;
• The effect of recent buybacks on incentive metric results and payouts; and
• Whether there is any indication of metric result manipulation.

**Supplemental Executive Retirement Plans (SERPs)**

**General Recommendation:** Generally vote for shareholder proposals requesting to put extraordinary benefits contained in SERP agreements to a shareholder vote unless the company’s executive pension plans do not contain excessive benefits beyond what is offered under employee-wide plans.

Generally vote for shareholder proposals requesting to limit the executive benefits provided under the company’s supplemental executive retirement plan (SERP) by limiting covered compensation to a senior executive’s annual salary or those pay elements covered for the general employee population.

**Tax Gross-Up Proposals**

**General Recommendation:** Generally vote for proposals calling for companies to adopt a policy of not providing tax gross-up payments to executives, except in situations where gross-ups are provided pursuant to a plan, policy, or arrangement applicable to management employees of the company, such as a relocation or expatriate tax equalization policy.

**Termination of Employment Prior to Severance Payment/Eliminating Accelerated Vesting of Unvested Equity**

**General Recommendation:** Vote case-by-case on shareholder proposals seeking a policy requiring termination of employment prior to severance payment and/or eliminating accelerated vesting of unvested equity.

The following factors will be considered:
The company’s current treatment of equity upon employment termination and/or in change-in-control situations (i.e., vesting is double triggered and/or pro rata, does it allow for the assumption of equity by acquiring company, the treatment of performance shares, etc.);

Current employment agreements, including potential poor pay practices such as gross-ups embedded in those agreements.

Generally vote for proposals seeking a policy that prohibits automatic acceleration of the vesting of equity awards to senior executives upon a voluntary termination of employment or in the event of a change in control (except for pro rata vesting considering the time elapsed and attainment of any related performance goals between the award date and the change in control).
6. Routine/Miscellaneous

**Adjourn Meeting**

- **General Recommendation:** Generally vote against proposals to provide management with the authority to adjourn an annual or special meeting absent compelling reasons to support the proposal.

  Vote for proposals that relate specifically to soliciting votes for a merger or transaction if supporting that merger or transaction. Vote against proposals if the wording is too vague or if the proposal includes "other business."

** Amend Quorum Requirements**

- **General Recommendation:** Vote against proposals to reduce quorum requirements for shareholder meetings below a majority of the shares outstanding unless there are compelling reasons to support the proposal.

** Amend Minor Bylaws**

- **General Recommendation:** Vote for bylaw or charter changes that are of a housekeeping nature (updates or corrections).

** Change Company Name**

- **General Recommendation:** Vote for proposals to change the corporate name unless there is compelling evidence that the change would adversely impact shareholder value.

** Change Date, Time, or Location of Annual Meeting**

- **General Recommendation:** Vote for management proposals to change the date, time, or location of the annual meeting unless the proposed change is unreasonable.

  Vote against shareholder proposals to change the date, time, or location of the annual meeting unless the current scheduling or location is unreasonable.

** Other Business**

- **General Recommendation:** Vote against proposals to approve other business when it appears as a voting item.
7. Social and Environmental Issues

Global Approach

Issues covered under the policy include a wide range of topics, including consumer and product safety, environment and energy, labor standards and human rights, workplace and board diversity, and corporate political issues. While a variety of factors goes into each analysis, the overall principle guiding all vote recommendations focuses on how the proposal may enhance or protect shareholder value in either the short or long term.

**General Recommendation:** Generally vote case-by-case, examining primarily whether implementation of the proposal is likely to enhance or protect shareholder value. The following factors will be considered:

- If the issues presented in the proposal are more appropriately or effectively dealt with through legislation or government regulation;
- If the company has already responded in an appropriate and sufficient manner to the issue(s) raised in the proposal;
- Whether the proposal’s request is unduly burdensome (scope or timeframe) or overly prescriptive;
- The company’s approach compared with any industry standard practices for addressing the issue(s) raised by the 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 reasonable and sufficient information is currently available to shareholders from the company or from other publicly available sources; and
- If the proposal requests increased disclosure or greater transparency, whether implementation would reveal proprietary or confidential information that could place the company at a competitive disadvantage.

Endorsement of Principles

**General Recommendation:** Generally vote against proposals seeking a company’s endorsement of principles that support a particular public policy position. Endorsing a set of principles may require a company to take a stand on an issue that is beyond its own control and may limit its flexibility with respect to future developments. Management and the board should be afforded the flexibility to make decisions on specific public policy positions based on their own assessment of the most beneficial strategies for the company.

Animal Welfare

**Animal Welfare Policies**

**General Recommendation:** Generally vote for proposals seeking a report on a company’s animal welfare standards, or animal welfare-related risks, unless:

- The company has already published a set of animal welfare standards and monitors compliance;
- The company’s standards are comparable to industry peers; and
- There are no recent significant fines, litigation, or controversies related to the company’s and/or its suppliers’ treatment of animals.
**Animal Testing**

**General Recommendation:** Generally vote against proposals to phase out the use of animals in product testing, unless:

- The company is conducting animal testing programs that are unnecessary or not required by regulation;
- The company is conducting animal testing when suitable alternatives are commonly accepted and used by industry peers; or
- There are recent, significant fines or litigation related to the company’s treatment of animals.

**Animal Slaughter**

**General Recommendation:** Generally vote against proposals requesting the implementation of Controlled Atmosphere Killing (CAK) methods at company and/or supplier operations unless such methods are required by legislation or generally accepted as the industry standard.

Vote case-by-case on proposals requesting a report on the feasibility of implementing CAK methods at company and/or supplier operations considering the availability of existing research conducted by the company or industry groups on this topic and any fines or litigation related to current animal processing procedures at the company.

**Consumer Issues**

**Genetically Modified Ingredients**

**General Recommendation:** Generally vote against proposals requesting that a company voluntarily label genetically engineered (GE) ingredients in its products. The labeling of products with GE ingredients is best left to the appropriate regulatory authorities.

Vote case-by-case on proposals asking for a report on the feasibility of labeling products containing GE ingredients, taking into account:

- The potential impact of such labeling on the company’s business;
- The quality of the company’s disclosure on GE product labeling, related voluntary initiatives, and how this disclosure compares with industry peer disclosure; and
- Company’s current disclosure on the feasibility of GE product labeling.

Generally vote against proposals seeking a report on the social, health, and environmental effects of genetically modified organisms (GMOs). Studies of this sort are better undertaken by regulators and the scientific community.

Generally vote against proposals to eliminate GE ingredients from the company’s products, or proposals asking for reports outlining the steps necessary to eliminate GE ingredients from the company’s products. Such decisions are more appropriately made by management with consideration of current regulations.

**Reports on Potentially Controversial Business/Financial Practices**

**General Recommendation:** Vote case-by-case on requests for reports on a company’s potentially controversial business or financial practices or products, taking into account:

- Whether the company has adequately disclosed mechanisms in place to prevent abuses;
- Whether the company has adequately disclosed the financial risks of the products/practices in question;
- Whether the company has been subject to violations of related laws or serious controversies; and
- Peer companies’ policies/practices in this area.
**Pharmaceutical Pricing, Access to Medicines, and Prescription Drug Reimportation**

**General Recommendation:** Generally vote against proposals requesting that companies implement specific price restraints on pharmaceutical products unless the company fails to adhere to legislative guidelines or industry norms in its product pricing practices.

Vote case-by-case on proposals requesting that a company report on its product pricing or access to medicine policies, considering:

- The potential for reputational, market, and regulatory risk exposure;
- Existing disclosure of relevant policies;
- Deviation from established industry norms;
- Relevant company initiatives to provide research and/or products to disadvantaged consumers;
- Whether the proposal focuses on specific products or geographic regions;
- The potential burden and scope of the requested report;
- Recent significant controversies, litigation, or fines at the company.

Generally vote for proposals requesting that a company report on the financial and legal impact of its prescription drug reimportation policies unless such information is already publicly disclosed.

Generally vote against proposals requesting that companies adopt specific policies to encourage or constrain prescription drug reimportation. Such matters are more appropriately the province of legislative activity and may place the company at a competitive disadvantage relative to its peers.

**Product Safety and Toxic/Hazardous Materials**

**General Recommendation:** Generally vote for proposals requesting that a company report on its policies, initiatives/procedures, and oversight mechanisms related to toxic/hazardous materials or product safety in its supply chain, unless:

- The company already discloses similar information through existing reports such as a supplier code of conduct and/or a sustainability report;
- The company has formally committed to the implementation of a toxic/hazardous materials and/or product safety and supply chain reporting and monitoring program based on industry norms or similar standards within a specified time frame; and
- The company has not been recently involved in relevant significant controversies, fines, or litigation.

Vote case-by-case on resolutions requesting that companies develop a feasibility assessment to phase-out of certain toxic/hazardous materials, or evaluate and disclose the potential financial and legal risks associated with utilizing certain materials, considering:

- The company’s current level of disclosure regarding its product safety policies, initiatives, and oversight mechanisms;
- Current regulations in the markets in which the company operates; and
- Recent significant controversies, litigation, or fines stemming from toxic/hazardous materials at the company.

Generally vote against resolutions requiring that a company reformulate its products.

**Tobacco-Related Proposals**

**General Recommendation:** Vote case-by-case on resolutions regarding the advertisement of tobacco products, considering:

- Recent related fines, controversies, or significant litigation;
- Whether the company complies with relevant laws and regulations on the marketing of tobacco;
- Whether the company’s advertising restrictions deviate from those of industry peers;
- Whether the company entered into the Master Settlement Agreement, which restricts marketing of tobacco to youth; and
- Whether restrictions on marketing to youth extend to foreign countries.

Vote case-by-case on proposals regarding second-hand smoke, considering:

- Whether the company complies with all laws and regulations;
- The degree that voluntary restrictions beyond those mandated by law might hurt the company’s competitiveness; and
- The risk of any health-related liabilities.

Generally vote against resolutions to cease production of tobacco-related products, to avoid selling products to tobacco companies, to spin-off tobacco-related businesses, or prohibit investment in tobacco equities. Such business decisions are better left to company management or portfolio managers.

Generally vote against proposals regarding tobacco product warnings. Such decisions are better left to public health authorities.

**Climate Change**

**Say on Climate (SoC) Management Proposals**

**General Recommendation:** Vote case-by-case on management proposals that request shareholders to approve the company’s climate transition action plan22, 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 received 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**

**General Recommendation:** 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:

22 Variations of this request also include climate transition related ambitions, or commitment to reporting on the implementation of a climate plan.
- 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.

**Climate Change/Greenhouse Gas (GHG) Emissions**

**General Recommendation:** Generally vote for resolutions requesting that a company disclose information on the financial, physical, or regulatory risks it faces related to climate change on its operations and investments or on how the company identifies, measures, and manages such risks, considering:

- Whether the company already provides current, publicly-available information on the impact that climate change may have on the company as well as associated company policies and procedures to address related risks and/or opportunities;
- The company’s level of disclosure compared to industry peers; and
- Whether there are significant controversies, fines, penalties, or litigation associated with the company’s climate change-related performance.

Generally vote for proposals requesting a report on greenhouse gas (GHG) emissions from company operations and/or products and operations, unless:

- The company already discloses current, publicly-available information on the impacts that GHG emissions may have on the company as well as associated company policies and procedures to address related risks and/or opportunities;
- The company’s level of disclosure is comparable to that of industry peers; and
- There are no significant controversies, fines, penalties, or litigation associated with the company’s GHG emissions.

Vote case-by-case on proposals that call for the adoption of GHG reduction goals from products and operations, taking into account:

- Whether the company provides disclosure of year-over-year GHG emissions performance data;
- Whether company disclosure lags behind industry peers;
- The company’s actual GHG emissions performance;
- The company’s current GHG emission policies, oversight mechanisms, and related initiatives; and
- Whether the company has been the subject of recent, significant violations, fines, litigation, or controversy related to GHG emissions.

**Energy Efficiency**

**General Recommendation:** Generally vote for proposals requesting that a company report on its energy efficiency policies, unless:

- The company complies with applicable energy efficiency regulations and laws, and discloses its participation in energy efficiency policies and programs, including disclosure of benchmark data, targets, and performance measures; or
- The proponent requests adoption of specific energy efficiency goals within specific timelines.
Renewable Energy

**General Recommendation:** Generally vote for requests for reports on the feasibility of developing renewable energy resources unless the report would be duplicative of existing disclosure or irrelevant to the company’s line of business.

Generally vote against proposals requesting that the company invest in renewable energy resources. Such decisions are best left to management’s evaluation of the feasibility and financial impact that such programs may have on the company.

Generally vote against proposals that call for the adoption of renewable energy goals, taking into account:

- The scope and structure of the proposal;
- The company's current level of disclosure on renewable energy use and GHG emissions; and
- The company's disclosure of policies, practices, and oversight implemented to manage GHG emissions and mitigate climate change risks.

Diversity

**Board Diversity**

**General Recommendation:** Generally vote for requests for reports on a company's efforts to diversify the board, unless:

- The gender and racial minority representation of the company’s board is reasonably inclusive in relation to companies of similar size and business; and
- The board already reports on its nominating procedures and gender and racial minority initiatives on the board and within the company.

Vote case-by-case on proposals asking a company to increase the gender and racial minority representation on its board, taking into account:

- The degree of existing gender and racial minority diversity on the company’s board and among its executive officers;
- The level of gender and racial minority representation that exists at the company’s industry peers;
- The company’s established process for addressing gender and racial minority board representation;
- Whether the proposal includes an overly prescriptive request to amend nominating committee charter language;
- The independence of the company’s nominating committee;
- Whether the company uses an outside search firm to identify potential director nominees; and
- Whether the company has had recent controversies, fines, or litigation regarding equal employment practices.

**Equality of Opportunity**

**General Recommendation:** Generally vote for proposals requesting a company disclose its diversity policies or initiatives, or proposals requesting disclosure of a company's comprehensive workforce diversity data, including requests for EEO-1 data, unless:

- The company publicly discloses equal opportunity policies and initiatives in a comprehensive manner;
- The company already publicly discloses comprehensive workforce diversity data; and
- The company has no recent significant EEO-related violations or litigation.

Generally vote against proposals seeking information on the diversity efforts of suppliers and service providers. Such requests may pose a significant burden on the company.
**Gender Identity, Sexual Orientation, and Domestic Partner Benefits**

**General Recommendation:** Generally vote for proposals seeking to amend a company’s EEO statement or diversity policies to prohibit discrimination based on sexual orientation and/or gender identity, unless the change would be unduly burdensome.

Generally vote against proposals to extend company benefits to, or eliminate benefits from, domestic partners. Decisions regarding benefits should be left to the discretion of the company.

**Gender, Race/Ethnicity Pay Gap**

**General Recommendation:** Vote case-by-case on requests for reports on a company’s pay data by gender or race/ethnicity, or a report on a company’s policies and goals to reduce any gender or race/ethnicity pay gaps, taking into account:

- The company’s current policies and disclosure related to both its diversity and inclusion policies and practices and its compensation philosophy on fair and equitable compensation practices;
- Whether the company has been the subject of recent controversy, litigation, or regulatory actions related to gender, race, or ethnicity pay gap issues;
- The company’s disclosure regarding gender, race, or ethnicity pay gap policies or initiatives compared to its industry peers; and
- Local laws regarding categorization of race and/or ethnicity and definitions of ethnic and/or racial minorities.

**Racial Equity and/or Civil Rights Audit Guidelines**

**General Recommendation:** Vote case-by-case on proposals asking a company to conduct an independent racial equity and/or civil rights audit, taking into account:

- The company’s established process or framework for addressing racial inequity and discrimination internally;
- Whether the company has issued a public statement related to its racial justice efforts in recent years, or has committed to internal policy review;
- Whether the company has engaged with impacted communities, stakeholders, and civil rights experts,
- The company’s track record in recent years of racial justice measures and outreach externally;
- Whether the company has been the subject of recent controversy, litigation, or regulatory actions related to racial inequity or discrimination; and
- Whether the company’s actions are aligned with market norms on civil rights, and racial or ethnic diversity.

**Environment and Sustainability**

**Facility and Workplace Safety**

**General Recommendation:** Vote case-by-case on requests for workplace safety reports, including reports on accident risk reduction efforts, taking into account:

- The company’s current level of disclosure of its workplace health and safety performance data, health and safety management policies, initiatives, and oversight mechanisms;
- The nature of the company’s business, specifically regarding company and employee exposure to health and safety risks;
- Recent significant controversies, fines, or violations related to workplace health and safety; and
- The company’s workplace health and safety performance relative to industry peers.
Vote case-by-case on resolutions requesting that a company report on safety and/or security risks associated with its operations and/or facilities, considering:

- The company’s compliance with applicable regulations and guidelines;
- The company’s current level of disclosure regarding its security and safety policies, procedures, and compliance monitoring; and
- The existence of recent, significant violations, fines, or controversy regarding the safety and security of the company’s operations and/or facilities.

**General Environmental Proposals and Community Impact Assessments**

**General Recommendation:** Vote case-by-case on requests for reports on policies and/or the potential (community) social and/or environmental impact of company operations, considering:

- Current disclosure of applicable policies and risk assessment report(s) and risk management procedures;
- The impact of regulatory non-compliance, litigation, remediation, or reputational loss that may be associated with failure to manage the company’s operations in question, including the management of relevant community and stakeholder relations;
- The nature, purpose, and scope of the company’s operations in the specific region(s);
- The degree to which company policies and procedures are consistent with industry norms; and
- The scope of the resolution.

**Hydraulic Fracturing**

**General Recommendation:** Generally vote for proposals requesting greater disclosure of a company’s (natural gas) hydraulic fracturing operations, including measures the company has taken to manage and mitigate the potential community and environmental impacts of those operations, considering:

- The company’s current level of disclosure of relevant policies and oversight mechanisms;
- The company’s current level of such disclosure relative to its industry peers;
- Potential relevant local, state, or national regulatory developments; and
- Controversies, fines, or litigation related to the company’s hydraulic fracturing operations.

**Operations in Protected Areas**

**General Recommendation:** Generally vote for requests for reports on potential environmental damage as a result of company operations in protected regions, unless:

- Operations in the specified regions are not permitted by current laws or regulations;
- The company does not currently have operations or plans to develop operations in these protected regions; or
- The company’s disclosure of its operations and environmental policies in these regions is comparable to industry peers.

**Recycling**

**General Recommendation:** Vote case-by-case on proposals to report on an existing recycling program, or adopt a new recycling program, taking into account:

- The nature of the company’s business;
- The current level of disclosure of the company’s existing related programs;
- The timetable and methods of program implementation prescribed by the proposal;
- The company’s ability to address the issues raised in the proposal; and
- How the company’s recycling programs compare to similar programs of its industry peers.
**Sustainability Reporting**

**General Recommendation:** Generally vote for proposals requesting that a company report on its policies, initiatives, and oversight mechanisms related to social, economic, and environmental sustainability, unless:

- The company already discloses similar information through existing reports or policies such as an environment, health, and safety (EHS) report; a comprehensive code of corporate conduct; and/or a diversity report; or
- The company has formally committed to the implementation of a reporting program based on Global Reporting Initiative (GRI) guidelines or a similar standard within a specified time frame.

**Water Issues**

**General Recommendation:** Vote case-by-case on proposals requesting a company report on, or adopt a new policy on, water-related risks and concerns, taking into account:

- The company's current disclosure of relevant policies, initiatives, oversight mechanisms, and water usage metrics;
- Whether or not the company's existing water-related policies and practices are consistent with relevant internationally recognized standards and national/local regulations;
- The potential financial impact or risk to the company associated with water-related concerns or issues; and
- Recent, significant company controversies, fines, or litigation regarding water use by the company and its suppliers.

**General Corporate Issues**

**Charitable Contributions**

**General Recommendation:** Vote against proposals restricting a company from making charitable contributions. Charitable contributions are generally useful for assisting worthwhile causes and for creating goodwill in the community. In the absence of bad faith, self-dealing, or gross negligence, management should determine which, and if, contributions are in the best interests of the company.

**Data Security, Privacy, and Internet Issues**

**General Recommendation:** Vote case-by-case on proposals requesting the disclosure or implementation of data security, privacy, or information access and management policies and procedures, considering:

- The level of disclosure of company policies and procedures relating to data security, privacy, freedom of speech, information access and management, and Internet censorship;
- Engagement in dialogue with governments or relevant groups with respect to data security, privacy, or the free flow of information on the Internet;
- The scope of business involvement and of investment in countries whose governments censor or monitor the Internet and other telecommunications;
- Applicable market-specific laws or regulations that may be imposed on the company; and
- Controversies, fines, or litigation related to data security, privacy, freedom of speech, or Internet censorship.

**Environmental, Social, and Governance (ESG) Compensation-Related Proposals**

**General Recommendation:** Vote case-by-case on proposals to link, or report on linking, executive compensation to sustainability (environmental and social) criteria, considering:

- The scope and prescriptive nature of the proposal;
- Whether the company has significant and/or persistent controversies or regulatory violations regarding social and/or environmental issues;
- Whether the company has management systems and oversight mechanisms in place regarding its social and environmental performance;
▪ The degree to which industry peers have incorporated similar non-financial performance criteria in their executive compensation practices; and
▪ The company’s current level of disclosure regarding its environmental and social performance.

Human Rights, Human Capital Management, and International Operations

Human Rights Proposals

**General Recommendation:** Generally vote for proposals requesting a report on company or company supplier labor and/or human rights standards and policies unless such information is already publicly disclosed.

Vote case-by-case on proposals to implement company or company supplier labor and/or human rights standards and policies, considering:

▪ The degree to which existing relevant policies and practices are disclosed;
▪ Whether or not existing relevant policies are consistent with internationally recognized standards;
▪ Whether company facilities and those of its suppliers are monitored and how;
▪ Company participation in fair labor organizations or other internationally recognized human rights initiatives;
▪ Scope and nature of business conducted in markets known to have higher risk of workplace labor/human rights abuse;
▪ Recent, significant company controversies, fines, or litigation regarding human rights at the company or its suppliers;
▪ The scope of the request; and
▪ Deviation from industry sector peer company standards and practices.

Vote case-by-case on proposals requesting that a company conduct an assessment of the human rights risks in its operations or in its supply chain, or report on its human rights risk assessment process, considering:

▪ The degree to which existing relevant policies and practices are disclosed, including information on the implementation of these policies and any related oversight mechanisms;
▪ The company’s industry and whether the company or its suppliers operate in countries or areas where there is a history of human rights concerns;
▪ Recent significant controversies, fines, or litigation regarding human rights involving the company or its suppliers, and whether the company has taken remedial steps; and
▪ Whether the proposal is unduly burdensome or overly prescriptive.

Mandatory Arbitration

**General Recommendation:** Vote case-by-case on requests for a report on a company’s use of mandatory arbitration on employment-related claims, taking into account:

▪ The company’s current policies and practices related to the use of mandatory arbitration agreements on workplace claims;
▪ Whether the company has been the subject of recent controversy, litigation, or regulatory actions related to the use of mandatory arbitration agreements on workplace claims; and
▪ The company’s disclosure of its policies and practices related to the use of mandatory arbitration agreements compared to its peers.
**Operations in High Risk Markets**

**General Recommendation:** Vote case-by-case on requests for a report on a company’s potential financial and reputational risks associated with operations in “high-risk” markets, such as a terrorism-sponsoring state or politically/socially unstable region, 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; and
- Whether the company has been recently involved in recent, significant controversies, fines, or litigation related to its operations in “high-risk” markets.

**Outsourcing/Offshoring**

**General Recommendation:** Vote case-by-case on proposals calling for companies to report on the risks associated with outsourcing/plant closures, considering:

- Controversies surrounding operations in the relevant market(s);
- The value of the requested report to shareholders;
- The company’s current level of disclosure of relevant information on outsourcing and plant closure procedures; and
- The company’s existing human rights standards relative to industry peers.

**Sexual Harassment**

**General Recommendation:** Vote case-by-case on 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, taking into account:

- The company's current policies, practices, oversight mechanisms related to preventing workplace sexual harassment;
- Whether the company has been the subject of recent controversy, litigation, or regulatory actions related to workplace sexual harassment issues; and
- The company’s disclosure regarding workplace sexual harassment policies or initiatives compared to its industry peers.

**Weapons and Military Sales**

**General Recommendation:** Vote against reports on foreign military sales or offsets. Such disclosures may involve sensitive and confidential information. Moreover, companies must comply with government controls and reporting on foreign military sales.

Generally vote against proposals asking a company to cease production or report on the risks associated with the use of depleted uranium munitions or nuclear weapons components and delivery systems, including disengaging from current and proposed contracts. Such contracts are monitored by government agencies, serve multiple military and non-military uses, and withdrawal from these contracts could have a negative impact on the company’s business.

**Political Activities**

**Lobbying**

**General Recommendation:** Vote case-by-case on proposals requesting information on a company’s lobbying (including direct, indirect, and grassroots lobbying) activities, policies, or procedures, considering:
The company’s current disclosure of relevant lobbying policies, and management and board oversight;

- The company’s disclosure regarding trade associations or other groups that it supports, or is a member of, that engage in lobbying activities; and

- Recent significant controversies, fines, or litigation regarding the company’s lobbying-related activities.

**Political Contributions**

**General Recommendation:** Generally vote for proposals requesting greater disclosure of a company's political contributions and trade association spending policies and activities, considering:

- The company’s policies, and management and board oversight related to its direct political contributions and payments to trade associations or other groups that may be used for political purposes;

- The company's disclosure regarding its support of, and participation in, trade associations or other groups that may make political contributions; and

- Recent significant controversies, fines, or litigation related to the company's political contributions or political activities.

Vote against proposals barring a company from making political contributions. Businesses are affected by legislation at the federal, state, and local level; barring political contributions can put the company at a competitive disadvantage.

Vote against proposals to publish in newspapers and other media a company's political contributions. Such publications could present significant cost to the company without providing commensurate value to shareholders.

**Political Ties**

**General Recommendation:** Generally vote against proposals asking a company to affirm political nonpartisanship in the workplace, so long as:

- There are no recent, significant controversies, fines, or litigation regarding the company’s political contributions or trade association spending; and

- The company has procedures in place to ensure that employee contributions to company-sponsored political action committees (PACs) are strictly voluntary and prohibit coercion.

Vote against proposals asking for a list of company executives, directors, consultants, legal counsels, lobbyists, or investment bankers that have prior government service and whether such service had a bearing on the business of the company. Such a list would be burdensome to prepare without providing any meaningful information to shareholders.
8. Mutual Fund Proxies

**Election of Directors**

**General Recommendation:** Vote case-by-case on the election of directors and trustees, following the same guidelines for uncontested directors for public company shareholder meetings. However, mutual fund boards do not usually have compensation committees, so do not withhold for the lack of this committee.

**Closed End Funds- Unilateral Opt-In to Control Share Acquisition Statutes**

**General Recommendation:** For closed-end management investment companies (CEFs), vote against or withhold from nominating/governance committee members (or other directors on a case-by-case basis) at CEFs that have not provided a compelling rationale for opting-in to a Control Share Acquisition statute, nor submitted a by-law amendment to a shareholder vote.

**Converting Closed-end Fund to Open-end Fund**

**General Recommendation:** Vote case-by-case on conversion proposals, considering the following factors:

- Past performance as a closed-end fund;
- Market in which the fund invests;
- Measures taken by the board to address the discount; and
- Past shareholder activism, board activity, and votes on related proposals.

**Proxy Contests**

**General Recommendation:** Vote case-by-case on proxy contests, considering the following factors:

- Past performance relative to its peers;
- Market in which the fund invests;
- Measures taken by the board to address the issues;
- Past shareholder activism, board activity, and votes on related proposals;
- Strategy of the incumbents versus the dissidents;
- Independence of directors;
- Experience and skills of director candidates;
- Governance profile of the company;
- Evidence of management entrenchment.

**Investment Advisory Agreements**

**General Recommendation:** Vote case-by-case on investment advisory agreements, considering the following factors:

- Proposed and current fee schedules;
- Fund category/investment objective;
- Performance benchmarks;
- Share price performance as compared with peers;
- Resulting fees relative to peers;
- Assignments (where the advisor undergoes a change of control).

**Approving New Classes or Series of Shares**

**General Recommendation:** Vote for the establishment of new classes or series of shares.

**Preferred Stock Proposals**

**General Recommendation:** Vote case-by-case on the authorization for or increase in preferred shares, considering the following factors:
▪ Stated specific financing purpose;
▪ Possible dilution for common shares;
▪ Whether the shares can be used for antitakeover purposes.

**1940 Act Policies**

**General Recommendation:** Vote case-by-case on policies under the Investment Advisor Act of 1940, considering the following factors:

▪ Potential competitiveness;
▪ Regulatory developments;
▪ Current and potential returns; and
▪ Current and potential risk.

Generally vote for these amendments as long as the proposed changes do not fundamentally alter the investment focus of the fund and do comply with the current SEC interpretation.

**Changing a Fundamental Restriction to a Nonfundamental Restriction**

**General Recommendation:** Vote case-by-case on proposals to change a fundamental restriction to a nonfundamental restriction, considering the following factors:

▪ The fund's target investments;
▪ The reasons given by the fund for the change; and
▪ The projected impact of the change on the portfolio.

**Change Fundamental Investment Objective to Nonfundamental**

**General Recommendation:** Vote against proposals to change a fund's fundamental investment objective to nonfundamental.

**Name Change Proposals**

**General Recommendation:** Vote case-by-case on name change proposals, considering the following factors:

▪ Political/economic changes in the target market;
▪ Consolidation in the target market; and
▪ Current asset composition.

**Change in Fund's Subclassification**

**General Recommendation:** Vote case-by-case on changes in a fund's sub-classification, considering the following factors:

▪ Potential competitiveness;
▪ Current and potential returns;
▪ Risk of concentration;
▪ Consolidation in target industry.

**Business Development Companies—Authorization to Sell Shares of Common Stock at a Price below Net Asset Value**

**General Recommendation:** Vote for proposals authorizing the board to issue shares below Net Asset Value (NAV) if:

▪ The proposal to allow share issuances below NAV has an expiration date no more than one year from the date shareholders approve the underlying proposal, as required under the Investment Company Act of 1940;
▪ The sale is deemed to be in the best interests of shareholders by (1) a majority of the company's independent directors and (2) a majority of the company's directors who have no financial interest in the issuance; and
- The company has demonstrated responsible past use of share issuances by either:
  - Outperforming peers in its 8-digit GICS group as measured by one- and three-year median TSRs; or
  - Providing disclosure that its past share issuances were priced at levels that resulted in only small or moderate discounts to NAV and economic dilution to existing non-participating shareholders.

**Disposition of Assets/Termination/Liquidation**

*General Recommendation:* Vote case-by-case on proposals to dispose of assets, to terminate or liquidate, considering the following factors:

- Strategies employed to salvage the company;
- The fund’s past performance;
- The terms of the liquidation.

**Changes to the Charter Document**

*General Recommendation:* Vote case-by-case on changes to the charter document, considering the following factors:

- The degree of change implied by the proposal;
- The efficiencies that could result;
- The state of incorporation;
- Regulatory standards and implications.

Vote against any of the following changes:

- Removal of shareholder approval requirement to reorganize or terminate the trust or any of its series;
- Removal of shareholder approval requirement for amendments to the new declaration of trust;
- Removal of shareholder approval requirement to amend the fund’s management contract, allowing the contract to be modified by the investment manager and the trust management, as permitted by the 1940 Act;
- Allow the trustees to impose other fees in addition to sales charges on investment in a fund, such as deferred sales charges and redemption fees that may be imposed upon redemption of a fund’s shares;
- Removal of shareholder approval requirement to engage in and terminate subadvisory arrangements;
- Removal of shareholder approval requirement to change the domicile of the fund.

**Changing the Domicile of a Fund**

*General Recommendation:* Vote case-by-case on re-incorporations, considering the following factors:

- Regulations of both states;
- Required fundamental policies of both states;
- The increased flexibility available.

**Authorizing the Board to Hire and Terminate Subadvisers Without Shareholder Approval**

*General Recommendation:* Vote against proposals authorizing the board to hire or terminate subadvisers without shareholder approval if the investment adviser currently employs only one subadviser.

**Distribution Agreements**

*General Recommendation:* Vote case-by-case on distribution agreement proposals, considering the following factors:

- Fees charged to comparably sized funds with similar objectives;
- The proposed distributor’s reputation and past performance;
- The competitiveness of the fund in the industry;
- The terms of the agreement.
**Master-Feeder Structure**

**General Recommendation:** Vote for the establishment of a master-feeder structure.

**Mergers**

**General Recommendation:** Vote case-by-case on merger proposals, considering the following factors:

- Resulting fee structure;
- Performance of both funds;
- Continuity of management personnel;
- Changes in corporate governance and their impact on shareholder rights.

**Shareholder Proposals for Mutual Funds**

**Establish Director Ownership Requirement**

**General Recommendation:** Generally vote against shareholder proposals that mandate a specific minimum amount of stock that directors must own in order to qualify as a director or to remain on the board.

**Reimburse Shareholder for Expenses Incurred**

**General Recommendation:** Vote case-by-case on shareholder proposals to reimburse proxy solicitation expenses. When supporting the dissidents, vote for the reimbursement of the proxy solicitation expenses.

**Terminate the Investment Advisor**

**General Recommendation:** Vote case-by-case on proposals to terminate the investment advisor, considering the following factors:

- Performance of the fund’s Net Asset Value (NAV);
- The fund’s history of shareholder relations;
- The performance of other funds under the advisor’s management.
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