## Item 1. Introduction

WestEnd Advisors, LLC is registered with the Securities and Exchange Commission (SEC) as an investment adviser. Brokerage and investment advisory services and fees differ, and it is important for you to understand these differences. Free and simple tools are available to research firms and financial professionals at [Investor.gov/CRS](https://Investor.gov/CRS), which also provides educational materials about broker-dealers, investment advisers, and investing.

## Item 2. Relationships and Services

### What investment services and advice can you provide me?

We offer investment advisory services to retail investors, including discretionary investment management to individuals, high net worth individuals, pension and profit-sharing plans; trusts or estates; charitable organizations; government entities; and, corporations or other businesses. The cornerstone of our investment philosophy is that the macroeconomic environment is a key driver of financial market returns.

#### Monitoring

We employ a two-step process for the review of client portfolios. The overall review of clients’ portfolios is conducted by the Portfolio Manager(s) responsible for the respective strategy. Additionally, accounts are reviewed at least quarterly by the Relationship Manager responsible for the account. Accounts may be reviewed more or less frequently depending on the specific needs of the client.

#### Investment Authority

We manage client portfolios on a discretionary basis which gives us the authority to determine the securities to be bought or sold, the amount of securities to be bought or sold, the broker or dealer used to execute trades, and the commission rate paid by clients. Investment discretion is limited only by specific instructions, guidelines, and/or mandates provided by clients in writing and to which we agree.

#### Limited Investment Offering

In our Large-Cap Core Equity strategy, the investment universe is the S&P 500 Index. In our ETF strategies, we select ETFs from leading U.S. providers to invest in favored areas of global equity and U.S. fixed income markets.

#### Account Minimums and Other Requirements

The minimum value of new accounts managed directly by us, is $250,000 for the Large-Cap Core Equity strategy and $100,000 for ETF strategies. The minimum value of new accounts managed through broker-sponsored wrap-fee programs is $250,000 for the Large-Cap Core Equity strategy and $50,000 for ETF strategies. In some circumstances, minimum account values may be negotiable.

**More information** about our services can be found on Part 2 of our Form ADV, which is available at [https://adviserinfo.sec.gov/firm/summary/133279](https://adviserinfo.sec.gov/firm/summary/133279).

### Conversation Starters.

- Ask your financial professional—
  - Given my financial situation, should I choose an investment advisory service? Why or why not?
  - How will you choose investments to recommend to me?
  - What is your relevant experience, including your licenses, education and other qualifications? What do these qualifications mean?

## Item 3.A Fees, Costs, Conflicts, and Standard of Conduct

### What fees will I pay?

Our standard annual fee is charged quarterly in advance, and is generally between 0.50% and 1.00% based on the value of the assets in the account on the last day of the previous quarter. Fees may be negotiable depending on certain factors. More information about our firm’s fees is included in Part 2 of Form ADV: [https://adviserinfo.sec.gov/firm/summary/133279](https://adviserinfo.sec.gov/firm/summary/133279).

In addition to our management fees, clients may incur certain charges imposed by custodians, brokers, and other third parties. Mutual funds and exchange traded funds also charge management fees, which are disclosed in a fund’s prospectus.

We participate as a portfolio manager in several wrap-fee programs. In a wrap account, clients pay a single fee to a wrap sponsor based on assets under management, which generally includes execution, custodial,
and other services provided by the sponsor, and may also include our advisory fee, which would be payable to us by the sponsor. Wrap-fee clients should review the sponsor’s ADV Part 2A Appendix 1 for details regarding any specific wrap program.

We do not charge performance-based fees.

You will pay fees and costs whether you make or lose money on your investments. Fees and costs will reduce any amount of money you make on your investments over time. Please make sure you understand what fees and costs you are paying.

**Conversation Starter.** Ask your financial professional—
- Help me understand how these fees and costs might affect my investments. If I give you $10,000 to invest, how much will go to fees and costs, and how much will be invested for me?

### Item 3.B
**Fees, Costs, Conflicts, and Standard of Conduct**

What are your legal obligations to me when acting as my investment adviser? How else does your firm make money and what conflicts of interest do you have?

*When we act as your investment adviser,* we must act in your best interest and not put our interest ahead of yours. At the same time, the way we make money can sometimes create conflicts with your interests. Below is an example of where a conflict could arise. You should understand and ask us about such conflicts because they can affect the investment advice we provide to you.

- We receive proprietary research from certain brokers in exchange for executing client transactions. This presents a conflict of interest in selecting such brokers, as it may cause us to select a broker based on the research received rather than on the client’s interest in receiving the most favorable execution.

**Conversation Starter.** Ask your financial professional—
- How might your conflicts of interest affect me, and how will you address them?

More information about conflicts of interest between us and our clients is available on Part 2 of our Form ADV, which can be found at https://adviserinfo.sec.gov/firm/summary/133279.

*How do your financial professionals make money?*

Our financial professionals receive a salary, and may receive a discretionary bonus. Compensation is set with the intention of attracting and retaining highly qualified professionals. Total compensation is based on a variety of factors, including the success of the company as a whole, the value of the accounts under management a given financial professional referred to the firm, and client satisfaction and retention.

### Item 4.
**Disciplinary History**

Do you or your financial professionals have legal or disciplinary history?

| Yes ☐ | No ☒ |

Visit [Investor.gov/CRS](https://www.investor.gov/CRS) for a free and simple search tool to research us and our financial professionals.

**Conversation Starter.** Ask your financial professional—
- As a financial professional, do you have any disciplinary history? For what type of conduct?

### Item 5.
**Additional Information**

Additional information about our services can be found at [www.westendadvisors.com](http://www.westendadvisors.com). If you have any questions about the contents of this brochure or would like to request a copy of this relationship summary, please contact us at 888-500-9025 or info@westendadvisors.com.

**Conversation Starter.** Ask your financial professional—
- Who is my primary contact person? Is he or she a representative of an investment-adviser or a broker-dealer? Who can I talk to if I have concerns about how this person is treating me?
This Brochure provides information about the qualifications and business practices of WestEnd Advisors, LLC (“WestEnd” or the “Firm”). If you have any questions about the contents of this Brochure, please contact us at 888-500-9025 or at info@westendadvisors.com. 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.

WestEnd is registered with the SEC as an Investment Adviser under the Investment Advisers Act of 1940. Registration as an Investment Adviser does not imply any level of skill or training.

Additional information about WestEnd also is available on the SEC’s website at www.adviserinfo.sec.gov.
Item 2 - Material Changes

In accordance with SEC Rule 204-3 under the Investment Advisers Act of 1940 (the “Brochure Rule”), WestEnd is required to prepare a disclosure document (“Brochure”) that describes the firm and its business practices. Pursuant to SEC rules, we are required to update our Brochure at least annually and provide you with a summary of any material changes since the previous annual amendment.

Material changes since the last amendment of this Brochure on February 15, 2023, include the promotion of Jacob L. Buchanan to Portfolio Manager. This Brochure also includes various updates to clarify and enhance certain of WestEnd’s existing disclosures. We recommend that you read this Brochure in its entirety.

With this summary, we hereby offer to deliver a complete copy of our Brochure upon your request at any time during the year. You may request our Brochure at any time by contacting us at 888-500-9025 or info@westendadvisors.com.

Additional information about WestEnd is also available via the SEC’s website www.adviserinfo.sec.gov. The SEC’s website also provides information about any persons affiliated with WestEnd who are registered as investment adviser representatives of the Firm.
**Item 3 – Table of Contents**

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**Item 4 – Advisory Business**

Founded in 2004, and headquartered in Charlotte, North Carolina, WestEnd is a third-party ETF model strategist providing financial advisors with turnkey, core model allocation strategies serving as holistic solutions and complementary sources of alpha.

On December 31, 2021, Victory Capital Holdings, Inc. (“Victory Capital”) acquired WestEnd. Victory Capital is a publicly traded asset management business listed on the NASDAQ under ticker “VCTR”. WestEnd, an SEC-registered investment adviser, operates as an autonomous Victory Capital Investment Franchise. WestEnd’s active principals continue to be responsible for managing the firm and its day-to-day operations. The Managing Members of the firm are Mr. Edmund N. Durden, Mr. Michael W. Goldman, and Mr. Frederick O. Porter.

WestEnd is registered in the United States, and is regulated by the SEC.

WestEnd provides discretionary investment management services to clients, including: individuals (including high net worth individuals); pension and profit-sharing plans; trusts or estates; charitable organizations; government entities; and, corporations or other businesses. WestEnd acts on behalf of its clients in all matters necessary to effect securities transactions for the accounts, including purchasing, selling, or otherwise trading securities or other investments without discussing the transactions in advance with its clients.

While accounts are primarily invested according to the investment strategy selected by the client, clients may impose reasonable restrictions on the management of their portfolio, provided such restrictions are communicated in writing and subject to WestEnd’s acceptance of those restrictions.

WestEnd also provides Model Portfolio recommendations to banks, broker-dealers, investment advisers, or other financial services companies who, in turn, offer the Model Portfolio to their respective clients. Model Portfolio recommendations are provided on a non-discretionary basis and WestEnd has no supervisory or oversight responsibilities with regard to the assets invested in the Model Portfolio.

Additionally, WestEnd participates as a portfolio manager in several wrap-fee programs. In a wrap account, clients pay a single fee to a wrap sponsor which covers some or all of the following services: portfolio management, custody, administration, commissions for trades executed by the sponsor (or an affiliate of the sponsor), and selection of portfolio managers. The fee paid by the client is not based directly upon transactions in the client’s account. Wrap-fee clients either have a direct contractual relationship with WestEnd, or receive WestEnd’s advisory services through a contract entered into with the wrap sponsor. Advisory fees may be paid to WestEnd by the wrap sponsor or directly by the client. Wrap-fee clients generally instruct WestEnd, subject to its duty to seek best execution, to execute transactions through the wrap sponsor. Since no additional commissions are charged to execute transactions through the sponsor, best execution will typically be achieved through the wrap sponsor.

WestEnd relies on wrap sponsors and their financial advisors to fulfill certain responsibilities with regard to wrap program clients. Generally, wrap sponsors assume tasks such as: (1) Know Your Client (KYC) requirements; (2) delivery of WestEnd’s disclosure document; (3) delivery of WestEnd’s privacy notice; and, (4) ensuring WestEnd’s products and services are suitable to the client’s investment objectives.

As of December 31, 2022, WestEnd’s Regulatory Assets Under Management, as reported in Form ADV Part 1A, were as follows:
As of December 31, 2022, WestEnd had $15.82 billion of Other Assets Under Advisement, which includes assets in Unified Managed Account (UMA) programs for which WestEnd provides Model Portfolios but has no discretion to effect trades, and no supervisory responsibility over the assets in the program. This number has been derived from the most recent information provided by each of the participating UMA programs and is not independently verified by WestEnd.

Item 5 – Fees and Compensation

In exchange for the portfolio management services provided, clients will pay WestEnd an advisory fee (the “Fee”) on a quarterly basis, in advance, based on the value of the assets in the account on the last day of the previous quarter. For new accounts, the initial Fee is charged in arrears and pro-rated for the number of days in the quarter. At the same time the initial Fee is charged, WestEnd will also charge the applicable Fee for the next quarter, in advance, as described. WestEnd’s standard fee schedule is as follows:

<table>
<thead>
<tr>
<th>Value of Account Assets</th>
<th>Annual Fee Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>$100,000 to $4,999,999</td>
<td>1.00%</td>
</tr>
<tr>
<td>Next $5,000,000 to $9,999,999</td>
<td>0.90%</td>
</tr>
<tr>
<td>Next $10,000,000 to $24,999,999</td>
<td>0.75%</td>
</tr>
<tr>
<td>Next $25,000,000 to $49,999,999</td>
<td>0.65%</td>
</tr>
<tr>
<td>Amounts over $50,000,000</td>
<td>0.50%</td>
</tr>
</tbody>
</table>

With respect to wrap-fee programs, the program sponsor charges the client a fee based on assets under management. The fee generally includes execution, custodial, and other services provided by the sponsor. Depending on the particular program, the wrap fee may also include WestEnd’s advisory fee, which would be payable by the sponsor to WestEnd. Other programs may require WestEnd to enter into a separate agreement with the client, in which case the client would pay WestEnd directly. WestEnd receives fees ranging from 0.30% to 0.50% per year of the value of accounts participating in a wrap-fee program. Wrap-fee clients should review the sponsor’s ADV Part 2A Appendix 1 for details regarding any specific wrap program.

WestEnd negotiates fees for Model Portfolio recommendations with the respective sponsor. WestEnd does not maintain a standard fee schedule for such services.

The Fee and any applicable terms and conditions are negotiable depending on certain factors, including, but not limited to, the type and size of the account and the range of services provided. The Fee covers only the portfolio management and advisory services provided by WestEnd and does not include brokerage commissions, mark-up and mark-downs, dealer spreads or other costs associated with the purchase and sale of securities, custodian fees, interest, taxes, or other account expenses. All fees paid to WestEnd for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds or in conjunction with internal expenses associated with exchange-traded funds. The client will be solely responsible, directly or indirectly, for these additional expenses. Refer to Item 12 for a detailed discussion of brokerage practices.

Clients may, but are not required to, grant WestEnd the authority to debit advisory fees directly from the clients’ accounts. If the client authorizes WestEnd to debit fees, WestEnd is deemed to have custody of the client’s funds. Clients will receive a statement, usually monthly but no less than quarterly, directly from
their account custodian. WestEnd urges clients to review the information on the statement for accuracy and compare the information to any reports received directly from WestEnd. Clients may contact WestEnd with any questions at 888-500-9025 or info@westendadvisors.com. Please refer to Item 15 of this document for additional disclosures relating to Custody.

Clients may terminate their portfolio management agreements at any time upon prior written notice. A pro rata portion of the Fee paid in advance will be remitted to the client based on the number of days left in the quarter. Any Fee due at this time will be invoiced. Such termination will not affect the liabilities or obligations arising from transactions initiated prior to termination.

**Item 6 – Performance-based Fees and Side-By-Side Management**

WestEnd does not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client).

**Item 7 – Types of Clients**

WestEnd provides discretionary investment management services to clients, including: individuals (including high net worth individuals); pension and profit-sharing plans; trusts or estates; charitable organizations; government entities; and, corporations or other businesses. The minimum value of new accounts managed directly by WestEnd, is $250,000 for the Large-Cap Core Equity strategy and $100,000 for ETF strategies.

The minimum value of new accounts managed through broker-sponsored wrap-fee programs is $250,000 for the Large-Cap Core Equity strategy and $50,000 for ETF strategies. In some circumstances, minimum account values may be negotiable. If WestEnd accepts an account below its stated minimum, WestEnd reserves the right, in its sole discretion, to charge a Fee higher than its standard fee schedule. In such cases, the Fee paid by the client will be fully disclosed in the advisory agreement.

**Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss**

**Investment Process Overview**

The cornerstone of WestEnd’s investment philosophy is that the macroeconomic environment is a key driver of financial market returns. WestEnd conducts in-depth analysis of the macroeconomic environment to anticipate areas of strength and weakness in the financial markets and invests accordingly.

WestEnd’s research process begins with the collection of a broad set of publicly available macroeconomic data. The investment team determines what economic data is most important given the current economic environment and then examines that data in a broader context to develop WestEnd’s economic and market outlook. WestEnd uses this qualitative process and the firm’s experience analyzing economic trends to build portfolios that capitalize on opportunities in financial markets.

**Stock and Exchange Traded Fund (“ETF”) Selection**

In the Large-Cap Core Equity strategy, the investment universe is the S&P 500 Index. Based on its assessment of the macroeconomic environment, WestEnd determines which sectors of the S&P 500 Index to overweight and which sectors to avoid. WestEnd then applies quantitative and qualitative criteria to its universe to identify what WestEnd believes to be market-leading, financially strong companies with characteristics that typically include: market capitalizations above the S&P 500 Index’s average market capitalization; low debt-to-equity ratios; high return-on-equity; earnings growth opportunity; strong competitive position; prospective benefits from secular tailwinds; and an experienced management team.

In WestEnd’s ETF strategies, client portfolios are allocated to areas of the global financial markets that
WestEnd believes will benefit from economic tailwinds, while out-of-favor areas facing headwinds are underweighted or avoided. WestEnd then selects ETFs from leading U.S. providers to invest in favored areas of global equity and U.S. fixed income markets.

Risk
All investments carry a certain degree of risk, including the possible loss of principal. Clients should be prepared to bear the risks involved with owning a particular security or asset class.

- Market Risk: The market value of securities owned within WestEnd’s portfolios may decline, at times sharply and unpredictably.

- Securities Selection Risk: Securities selected by WestEnd may not perform to expectations. This could result in underperformance by WestEnd’s portfolios compared to other portfolios with similar investment objectives.

- Industry and Sector Focus Risk: WestEnd’s portfolios will typically focus its investments on stocks of companies or ETFs within particular industries or economic sectors. To the extent that it does so, developments affecting companies in those industries or sectors will have a magnified effect on portfolios and total return.

- Non-Diversification Risk: Certain WestEnd portfolios are non-diversified, which means that they may invest in the securities of fewer issuers than a diversified portfolio. As a result, portfolios may be more susceptible to a single adverse economic or regulatory occurrence affecting one or more of these issuers, and may experience increased volatility.

- Investment Strategy Risk: WestEnd’s portfolios invest in securities that WestEnd believes will perform well in a certain macroeconomic environment. WestEnd’s investment approach may be out of favor at times, causing its portfolios to underperform portfolios that also seek capital appreciation, but use different approaches to the security selection and portfolio construction process.

- Investment Risk: When you sell your shares of securities from WestEnd’s portfolios, they could be worth less than what you paid for them. Therefore, as with any investment, you may lose some or all of your investment by investing in WestEnd’s portfolios.

- International Risk: Foreign securities owned through ETFs can be subject to greater risks than U.S. investments, including currency fluctuations, less liquid trading markets, greater price volatility, political and economic instability, less publicly available information, and changes in tax or currency laws or monetary policy. These risks are likely to be greater for emerging markets than in developed markets.

- Small/Mid-Cap Risk: Small/mid-cap securities owned through ETFs are subject to risk, including greater price volatility, market risk, and liquidity risk. Public information about small/mid-cap companies may be limited. Small/mid-cap companies may also lack experienced management and have less financial resources compared to their large-cap counterparts.

- Fixed Income Risk: Investments in fixed income vehicles owned through ETFs are subject to risk, including market risk, default risk, and liquidity risk.

- Interest Rate Risk: Changes in interest rates can result in losses for fixed-income or equity securities. Specifically for fixed-income securities or fixed-income ETFs, when interest rates rise,
the market values of the fixed-income instruments normally decrease. Typically, the longer the maturity or duration of a fixed-income security, the greater the security’s sensitivity to changes in interest rates. Changes in monetary policy, government policy, government spending and inflation may affect the level of interest rates.

- **Commodities Risk:** Investments in commodities (including precious metals), owned through ETFs and Exchange Traded Notes (“ETNs”), can experience significant price fluctuations that can have a negative effect on the value of an investor’s ETF or ETN shares. These securities may have exposure to underlying commodities through ownership of the actual commodity, or through commodity-linked derivative instruments. In the case of an ETN, investors are subject to the credit risk of the ETN issuer. The value of an underlying commodity is highly speculative, and can be affected by supply and demand factors; issues affecting a particular industry or commodity (e.g. drought); and changes in interest rates, and global economic factors (e.g. tariffs, currency exchange rates).

- **MLPs Risk:** Investments in Master Limited Partnerships (“MLPs”) owned through ETFs are subject to risk, including volatility risk, liquidity risk, distribution payout risk, tax risk, and industry specific risks.

- **Force Majeure:** Portfolio investments may be affected by force majeure events (i.e., events beyond the control of the party claiming that the event has occurred, including, without limitation, acts of God, fire, flood, earthquakes, outbreaks of an infectious disease, pandemic or any other serious public health concern, war, terrorism, labor strikes, major plant breakdowns, pipeline or electricity line ruptures, failure of technology, defective design and construction, accidents, demographic changes, government macroeconomic policies, social instability, etc.). Some force majeure events may adversely affect the ability of a party (including an issuer or asset in which a client is invested) to perform its obligations until it is able to remedy the force majeure event. In addition, forced events, such as the cessation of the operation of machinery for repair or upgrade, could similarly lead to the unavailability of essential machinery and technologies. These risks could, among other effects, adversely impact the cash flows available with respect to a portfolio investment, cause personal injury or loss of life, damage property, or instigate disruptions of service. In addition, the cost to an issuer of repairing or replacing damaged assets resulting from such force majeure event could be considerable. Certain force majeure events (such as war or an outbreak of an infectious disease) could have a broader negative impact on the world economy and international business activity generally. Additionally, a major governmental intervention into industry, including the nationalization of an industry or the assertion of control over one or more issuers in which a client is invested, could result in a loss to Clients. Any of the foregoing may therefore adversely affect the performance of a client’s investments.

**Item 9 – Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of WestEnd or the integrity of WestEnd’s management. WestEnd has no information applicable to this Item.

**Item 10 – Other Financial Industry Activities and Affiliations**

As stated in Item 4, WestEnd is a wholly owned subsidiary of Victory Capital Holdings, Inc. (“Victory Capital”), a publicly traded asset management business listed on the NASDAQ under ticker “VCTR”. Victory Capital Management Inc. (“VCM”), an affiliated investment adviser, is also a wholly owned
subsidiary of Victory Capital.

Although WestEnd remains a separate registered investment advisor, certain technology, operations, and sales services of WestEnd are supported by Victory Capital under its multi-franchise asset management platform. In a variety of instances, WestEnd utilizes the personnel and/or services of our affiliates in the performance of our business including, without limitation, legal, compliance, human resources, sales, technology, reporting, finance, and accounting from Victory Capital. These arrangements will take a variety of forms including a formal secondment agreement and informal arrangements among WestEnd and its affiliates. When we utilize the personnel and services of our affiliates, we remain responsible for the account within the framework of the Advisers Act and/or other applicable regulatory frameworks and the relevant investment management agreement, and no additional fees are charged to the client for the affiliates’ services except as set forth in the investment management agreement.

Some officers and directors of Victory Capital serve as our officers. Victory Capital’s officers and directors may also serve as officers or directors of affiliated registered investment companies.

**Item 11 – Code of Ethics**

WestEnd endeavors to ensure that the investment management and overall business of the firm complies with both our firm and Victory Capital’s policies as well as applicable U.S. federal and state securities laws and regulations. WestEnd has adopted the Victory Capital Code of Conduct and its own Code of Ethics (the “Codes”) in accordance with Rule 204A-1 of the Investment Advisers Act of 1940, as amended.

Victory Capital and WestEnd maintain a Code of Ethics, which applies to all employees, designed to ensure that WestEnd conducts its business with the highest level of ethical standards and upholds its fiduciary duties to its clients. WestEnd has a duty to exercise its authority and responsibility for the benefit of its clients, to place the interests of its clients first, and to refrain from having outside interests that conflict with the interests of its clients.

WestEnd requires its employees to submit certain reports regarding personal investment accounts. Employees must report their personal securities holdings within ten days of becoming an access person and annually thereafter, and are required to report certain securities transactions within 30 days of the end of each calendar quarter.

A complete copy of WestEnd’s Code of Ethics is available to any client or prospective client upon request.

WestEnd has adopted policies and procedures imposing certain conditions and restrictions on transactions for the accounts of WestEnd’s employees. Employees of WestEnd are permitted to own or purchase investment securities which are also held in client portfolios, provided they conduct their personal trading in a manner that does not create a conflict of interest with a client, or otherwise take unfair advantage of the client relationship. WestEnd employees are prohibited from taking action for personal benefit rather than for a client’s benefit, failing to take action for a client’s benefit, and from using their knowledge of client transactions for personal profit. Employees are required to obtain approval from the Chief Compliance Officer, or other designee, prior to executing trades in any Reportable Security for their personal investment accounts. To the extent that an employee maintains an account managed by WestEnd, the employee account will trade along with client accounts. Employee accounts in which an employee has granted full discretionary trading authority to an independent, third-party may be exempted from the firm’s pre-clearance policy. Trading procedures are in place to ensure that the employee does not benefit from direct trades and that no client account is disadvantaged by employee trading.
Item 12 – Brokerage Practices

WestEnd provides investment advisory services in which investment decisions for clients are made on a fully discretionary basis, including the selection of brokers to execute trades and the amount of commissions or markups paid to those brokers.

WestEnd may choose, but is not required, to aggregate client orders consistent with its policy of seeking best price and execution. Clients participating in an aggregated order participate at the average share price. If an aggregated order is filled in its entirety, it is allocated to client accounts according to a predetermined allocation. If an order is partially filled, it is allocated on a pro rata basis. The lack of available cash in an account will preclude its inclusion in an investment otherwise suitable for the client. Also, to the extent that the limited availability of a security would result in a de minimis allocation, WestEnd may exclude one or more accounts from participating in the order.

WestEnd seeks to avoid favoring any client account over any other client account in the ordering and execution of trades. When a model change is implemented across multiple client accounts, brokers, or platforms, a random order determines the sequence in which fully discretionary accounts, wrap program accounts, directed brokerage accounts, and certain Unified Managed Account (UMA) programs trades are executed. Other overlay programs, other Unified Managed Accounts (UMAs), and other model portfolios (for example, those programs in which WestEnd does not initiate trades, or is made aware of trade progress, or does not receive trade completion notification) are notified of model changes at or near completion of WestEnd’s trading according to a random order process. At times, operational or other circumstances may warrant modification to these practices. WestEnd has procedures in place to ensure that any deviation from its trading procedures does not systemically disadvantage any client or group of clients.

In selecting a broker or dealer, WestEnd seeks competitive commission rates. However, WestEnd also considers a number of other factors, including:

- research capabilities and the success of prior research recommendations
- commission rates
- ability to execute trades timely, accurately and efficiently
- nature and frequency of sales coverage
- specialization in a market, sector or industry
- back office and processing capabilities
- financial stability
- reputation
- responsiveness

WestEnd does not currently maintain any soft-dollar arrangements. WestEnd receives proprietary research from certain brokers in exchange for executing client transactions. This presents a conflict of interest in selecting such brokers, as it may cause WestEnd to select a broker based on the research received rather than on the client’s interest in receiving the most favorable execution. WestEnd has established internal review processes in an attempt to mitigate this conflict. Additionally, research received will generally be used to service all WestEnd strategies, though it should be noted that not all research will be used to manage every client’s individual account. Research services include, among other things: market, economic or financial data; a particular aspect of economics or on the economy in general; statistical information; data on pricing and availability of securities; financial publications; electronic market quotations; analyses concerning specific securities, companies, industries or sectors; and market, economic and financial studies and forecasts.

A client may pay a brokerage commission in excess of that which another broker might charge for effecting
the same transaction where WestEnd determines, in good faith, that the commission is reasonable in relation to the value of the brokerage and research services received. WestEnd regularly evaluates brokerage services and the commissions paid to make a good faith determination that the amount of the commission is reasonable in relation to the value of the research received. The extent to which commission rates charged by brokers reflect the value of research cannot be readily determined. However, WestEnd makes every attempt to negotiate the lowest possible transaction costs to clients.

Subject to WestEnd’s approval, a client may direct WestEnd to use a particular broker-dealer to effect securities transactions. In such situations, WestEnd will not be able to negotiate commission rates or obtain volume discounts and thus, may not achieve best execution for those transactions. Transactions subject to client direction generally will not be combined with orders in the same securities for other accounts managed by WestEnd. Therefore, client direction may result in higher commissions and/or less favorable net prices than if WestEnd had the ability to select broker-dealers for execution. To the extent that directed brokerage is the result of a wrap-fee arrangement, clients will generally receive best execution through the wrap-fee sponsor since the fees paid by the client already include commissions. WestEnd does not trade-away wrap accounts from the respective wrap program sponsor(s) (“step-out trade”). WestEnd places trades for accounts within a wrap program with the respective wrap program sponsor(s). In this capacity, the respective wrap program sponsor acts as the executing broker-dealer, and also clears and settles the trade as a broker-dealer and custodian of the account(s).

A step-out trade occurs when a wrap account trade is executed by a broker-dealer (in the capacity of the executing broker) other than the wrap program sponsor, while the respective wrap program sponsor clears and settles all or portions of the trade as a broker-dealer and custodian of the account(s). Step-out trades can be used in an effort to ensure different types of accounts (e.g. wrap accounts, non-directed accounts) receive the same share price for the same security or address issues of liquidity, or for other operational reasons. Wrap accounts participating in a step-out trade can incur costs other than those charged by the wrap program sponsor in its respective wrap fee, including any commissions charged by the executing broker-dealer.

Under certain circumstances, WestEnd may recommend that clients maintain their managed accounts at certain discount brokers. These custodians are preferred due to their discounted commission rates, availability of no-load mutual funds, electronic trading, daily transaction downloads, familiarity of our staff with their operational procedures, and a dedicated service team. Additionally, clients are not required to utilize any custodian or broker recommended by WestEnd in order to utilize WestEnd’s advisory services. WestEnd receives no fee as a result of recommending any custodian or broker.

**Item 13 – Review of Accounts**

Mr. Frederick O. Porter, Chief Investment Officer, Portfolio Manager, Mr. Edmund N. Durden, Chief Investment Strategist, Portfolio Manager, Mr. Marion W. Peebles, Portfolio Manager, Mr. Jacob Buchanan, Senior Investment Analyst, Mr. Roger Regelbrugge, Investment Analyst, Mr. Zach Hollister, Investment Analyst, and Mr. Matthew Franken, Investment Analyst constitute WestEnd’s Investment Team. The Investment Team works collaboratively, and each WestEnd strategy is managed by at least two Portfolio Managers jointly.

WestEnd employs a two-step process for the review of client portfolios. The overall review of clients’ portfolios is conducted by the Portfolio Manager(s) responsible for the respective strategy. Additionally, accounts are reviewed at least quarterly by the WestEnd Relationship Manager responsible for the account. Accounts may be reviewed more or less frequently depending on the specific needs of the client.

At least quarterly, Clients will receive an account statement from their custodian(s), which includes a
summary of transactions and an inventory of holdings. Clients may also receive written quarterly performance reports directly from WestEnd. Performance reports are not typically provided to wrap account clients.

**Item 14 – Client Referrals and Other Compensation**

WestEnd has access to free or discounted research materials from broker-dealers and/or third-party providers in exchange for recommending clients maintain their accounts at certain custodians. Custodians may provide free industry information that does not qualify as research, such as newsletters or other publications pertaining to compliance, marketing, practice management, etc. Additionally, custodians may sponsor events, such as workshops or conferences, at reduced or no cost. These benefits are not provided on the basis of client transactions. Under no circumstances do any clients pay additional fees or commissions to WestEnd, or any custodian or broker-dealer, in order for WestEnd to obtain these products or services.

WestEnd does not receive any monetary compensation from any third-party ETF providers for use of their respective ETFs in WestEnd’s investment strategies. WestEnd may receive indirect non-monetary benefits from third-party ETF providers such as increased visibility via public websites or as a featured investment manager at meetings with broker-dealer platforms and/or broker-dealer financial advisers. Under no circumstances are investment decisions based on any benefit, direct or indirect, that the firm may receive for its use of certain securities within its ETF investment strategies. WestEnd’s Investment Team weighs various factors in its analysis of potential ETFs for inclusion in a particular investment strategy including, but not limited to: market exposure (including sector, industry, geographic region, large-cap, small-cap, duration, and credit rating), liquidity; expenses ratios; and, tracking error.

On December 22, 2020, the Securities and Exchange Commission (the “SEC”) adopted amendments to modernize and consolidate Rule 206(4)-1 (“Advertising Rule”) and Rule 206(4)-3 (“Solicitation Rule”) under the Investment Advisers Act of 1940 (“Advisers Act”). The amendments are intended to modernize the existing rules governing investment adviser advertising and payments to solicitors, which have not been substantively changed since they were adopted in 1961 and 1979, respectively. The amendments combine the Advertising Rule and the Solicitation Rule into amended Rule 206(4)-1 (“Marketing Rule”), and rescind the Solicitation Rule. WestEnd does not currently have any active solicitor or promoter relationships.

As discussed in Item 10, WestEnd and its personnel may receive and provide services to WestEnd’s affiliates, including Victory Capital.

**Item 15 – Custody**

WestEnd is deemed to have “custody” of client funds if WestEnd directly debits investment advisory fees from client accounts. Debiting of fees is done pursuant to authorization provided by each client. Usually monthly, but no less than quarterly, clients receive account statements directly from the custodian of their account. All WestEnd clients maintain their cash and securities at a qualified custodian. Such qualified custodian will provide directly to the client statements that include account holdings, market values and any activity that occurred during the period, including the deduction of investment advisory fees. WestEnd urges clients to compare information contained in reports provided by WestEnd with the account statements received directly from the qualified custodian. Clients may contact WestEnd with any questions at 888-500-9025 or info@westendadvisors.com. Differences in portfolio value may occur due to various factors, including but not limited to: (1) unsettled trades; (2) accrued income; (3) pricing of securities; and (4) dividends earned but not received.
Item 16 – Investment Discretion

WestEnd manages client portfolios on a discretionary basis. Clients grant WestEnd discretion over their account by providing authorization in the investment management agreement. This discretionary authority authorizes WestEnd to determine the securities to be bought or sold, the amount of securities to be bought or sold, the broker or dealer used to execute trades, and the commission rate paid by clients. Investment discretion is limited only by specific instructions, guidelines, and/or mandates provided by clients in writing and to which WestEnd agrees.

Item 17 – Voting Client Securities

WestEnd will vote proxies for securities in client accounts unless a client specifically reserves the right to vote proxies in writing. WestEnd will vote company proxies in accordance with its fiduciary obligations and its Proxy Voting Policies and Procedures. WestEnd has developed proxy voting guidelines that address issues related to sound corporate governance. The exclusive purpose of each voting decision is to maximize the economic value of the client’s investment. WestEnd may vote against management on specific issues which are deemed to impair shareholder rights or value. Specific guidelines cover certain topics related to board of director issues, capitalization issues, shareholder rights, executive compensation, routine corporate issues, social responsibility issues and conflicts of interest. Other issues are considered in light of relevant facts and circumstances.

WestEnd engages a third-party service provider to assist with the administrative aspects of the voting process as well as providing research and vote recommendations. WestEnd considers all relevant factors in its voting decision, including the opinion of the third party provider; however, WestEnd may, at its discretion, vote shares in a manner contrary to the third party’s recommendation if WestEnd feels that is in the best interest of the client. In the unlikely event that WestEnd is required to vote a proxy that could result in a conflict between a client’s best interests and WestEnd’s best interests, WestEnd will vote according to the third party’s recommendation or alternatively, WestEnd may contact the client and follow the client’s instruction with respect to the voting of that proxy. A client may direct WestEnd to vote proxies on a particular issue in a manner that differs from that of other clients. In such instances, WestEnd votes the proxies based on the number of shares the client holds.

When an account is terminated, WestEnd makes a reasonable effort to notify the custodian of such termination in a timely manner so that WestEnd no longer receives proxy voting materials on behalf of a terminated client. WestEnd generally votes on an aggregate basis with respect to its clients’ holdings. As a result, if a vote is in progress when the Firm is notified of a client’s intention to terminate their relationship, WestEnd will generally not be able to cancel the vote on behalf of such client. The Firm will not vote proxies on behalf of clients after termination. Furthermore, new accounts may transfer to WestEnd holding securities not recommended by WestEnd. In such cases, WestEnd reserves the right to abstain from voting proxies for securities it has not purchased or recommended for a client account. Likewise, WestEnd may, in its sole discretion, abstain from voting proxies for securities it no longer holds in a client account.

Clients can obtain a complete copy of WestEnd’s Proxy Voting Policies and Procedures, as well as ascertain how particular proxies were voted by contacting its office at 888-500-9025 or info@westendadvisors.com.

Item 18 – Financial Information

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about WestEnd’s financial condition. WestEnd has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients and has not been the subject of a bankruptcy proceeding.
Item 1 – Cover Page

This Brochure Supplement provides information about the following persons that supplements the WestEnd Advisors, LLC (“WestEnd” or the “Firm”) Brochure. You should have received a copy of that Brochure. Please contact WestEnd at 888-500-9025 or info@westendadvisors.com if you did not receive its Brochure or if you have any questions about the contents of this supplement.

Additional information about the following persons is available on the SEC’s website at www.adviserinfo.sec.gov.

Jacob L. Buchanan, CFA
Edmund N. Durden
Michael W. Goldman
Marion W. Peebles, IV, CPA,CFA
Frederick O. Porter, CFA
Item 2 – Educational Background and Business Experience

Jacob L. Buchanan, Portfolio Manager, joined WestEnd in 2018 as an Analyst. Mr. Buchanan was named Senior Analyst in 2022. Prior to joining WestEnd, he was Global Markets Analyst at Credit Suisse Group AG from 2016 to 2017.

Mr. Buchanan also holds the Chartered Financial Analyst (“CFA”) designation issued by the CFA Institute. To be admitted into the CFA program, candidates must have: (1) a bachelor’s degree or equivalent (candidates can register if in the last year of a bachelor’s program); or, (2) four years of professional work experience that the Institute deems as “qualified” experience; or, (3) a combination of the above. To become a CFA charterholder, candidates must pass three exams, have four years of professional experience in investment decision-making, and obtain membership with the CFA Institute. Additional information about the CFA program can be found at www.cfainstitute.org. The CFA Institute does not impose any continuing education requirements on charterholders.

Mr. Buchanan was born in 1994. Mr. Buchanan completed his undergraduate degree at the University of North Carolina at Chapel Hill.

Item 3 – Disciplinary Information

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of each supervised person providing investment advice. Jacob L. Buchanan has not been the subject of any legal or disciplinary events.

Item 4 – Other Business Activities

Jacob L. Buchanan is not engaged in any investment-related business or occupation other than his investment advisory duties with WestEnd.

Item 5 – Additional Compensation

Registered investment advisers are required to disclose if someone who is not a client provides an economic benefit to the supervised person for providing advisory services. Jacob L. Buchanan is compensated by WestEnd Advisors, LLC. He does not receive additional compensation or economic benefits from other sources.

Item 6 – Supervision

Michael W. Goldman has supervisory responsibilities over investment advisory activities at WestEnd. Mr. Goldman can be contacted at 888-500-9025.
Edmund N. Durden

Item 2 – Educational Background and Business Experience

Edmund N. Durden, Chief Investment Strategist and Portfolio Manager, has been with WestEnd since 2006. Mr. Durden was a Founder of Crescent Heights Consulting, LLC in 2006, and also served as a Senior Analyst at Cambium Capital from 2002 to 2006. From 1997 to 2002, Mr. Durden was a Director at The MONY Group, Inc.

Mr. Durden was born in 1970. Mr. Durden completed his undergraduate degree at the University of Virginia. Mr. Durden also earned his J.D. and MBA from the University of Virginia.

Item 3 – Disciplinary Information

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of each supervised person providing investment advice. Edmund N. Durden has not been the subject of any legal or disciplinary events.

Item 4 – Other Business Activities

Edmund N. Durden is not engaged in any investment-related business or occupation other than his investment advisory duties with WestEnd.

Item 5 – Additional Compensation

Registered investment advisers are required to disclose if someone who is not a client provides an economic benefit to the supervised person for providing advisory services. Edmund N. Durden is compensated by WestEnd Advisors, LLC. He does not receive additional compensation or economic benefits from other sources.

Item 6 – Supervision

Michael W. Goldman has supervisory responsibilities over investment advisory activities at WestEnd. Mr. Goldman can be contacted at 888-500-9025.
Michael W. Goldman

Item 2 – Educational Background and Business Experience

Michael W. Goldman, Managing Partner, has been with WestEnd since 2004. Prior to joining WestEnd, Mr. Goldman served as an Associate Director at PowellJohnson, Inc. from 2003 to 2004. Mr. Goldman also served as a Vice President at UBS Financial Services, Inc. from 2001 to 2003, at Paine Webber, Inc. from 2000 to 2001, and at J.C. Bradford & Co. from 1998 to 2000.

Mr. Goldman was born in 1972. Mr. Goldman is a graduate of the University of Richmond.

Item 3 – Disciplinary Information

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of each supervised person providing investment advice. Michael W. Goldman has not been the subject of any legal or disciplinary events.

Item 4 – Other Business Activities

Michael W. Goldman is not engaged in any investment-related business or occupation other than his investment advisory duties with WestEnd.

Item 5 – Additional Compensation

Registered investment advisers are required to disclose if someone who is not a client provides an economic benefit to the supervised person for providing advisory services. Michael W. Goldman is compensated by WestEnd Advisors, LLC. He does not receive additional compensation or economic benefits from other sources.

Item 6 – Supervision

Michael W. Goldman has supervisory responsibilities over investment advisory activities at WestEnd, and is supervised by James Cox, in his capacity as WestEnd’s Chief Compliance Officer. Mr. Goldman and Mr. Cox can be contacted at 888-500-9025.
Marion W. Peebles, IV, CPA, CFA

Item 2 – Educational Background and Business Experience

Marion W. Peebles, IV, Portfolio Manager, joined WestEnd in 2014 as an Analyst. Mr. Peebles was named a Member in 2019. Prior to joining WestEnd, Mr. Peebles was an Operations Associate at Global Endowment Management. From 2010-2012 he worked at Ernst & Young LLP.

Mr. Peebles holds the Certified Public Accountant ("CPA") designation issued by the North Carolina State Board of CPA Examiners ("the Board"). A North Carolina CPA certificate (license) will be issued to a person who: (1) has completed 150 semester hours and received a Bachelors degree with a concentration in accounting and other courses that the Board may require from a college or university; (2) has the endorsement as to the person’s eligibility of three CPAs who currently hold licenses in any state or territory of the United States or the District of Columbia; (3) has one of the following: (a) one year’s experience in the field of accounting under the direct supervision of a CPA; (b) four years of experience teaching accounting in a four-year college or university; (c) four years of experience in the field of accounting; (d) four years of experience teaching college transfer accounting courses at a community college or technical institute; (e) any combination of such experience determined by the Board to be substantially equivalent to the foregoing; and (4) has passed each section of The Uniform CPA Examination prepared by the AICPA. As a requirement for continued licensure, the Board requires all active CPAs to complete 40 continuing education hours, including at least two hours of regulatory or behavioral professional ethics and conduct.

Mr. Peebles also holds the Chartered Financial Analyst ("CFA") designation issued by the CFA Institute. To be admitted into the CFA program, candidates must have: (1) a bachelor’s degree or equivalent (candidates can register if in the last year of a bachelor’s program); or, (2) four years of professional work experience that the Institute deems as “qualified” experience; or, (3) a combination of the above. To become a CFA charterholder, candidates must pass three exams, have four years of professional experience in investment decision-making, and obtain membership with the CFA Institute. Additional information about the CFA program can be found at www.cfainstitute.org. The CFA Institute does not impose any continuing education requirements on charterholders.

Mr. Peebles was born in 1987. Mr. Peebles completed his undergraduate degree at the University of North Carolina at Chapel Hill. Mr. Peebles earned his Master of Accounting degree (MAC) from UNC’s Kenan-Flagler Business School.

Item 3 – Disciplinary Information

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of each supervised person providing investment advice. Marion W. Peebles, IV has not been the subject of any legal or disciplinary events.

Item 4 – Other Business Activities

Marion W. Peebles, IV is not engaged in any investment-related business or occupation other than his investment advisory duties with WestEnd.

Item 5 – Additional Compensation

Registered investment advisers are required to disclose if someone who is not a client provides an economic benefit to the supervised person for providing advisory services. Marion W. Peebles, IV is compensated by WestEnd Advisors, LLC. He does not receive additional compensation or economic benefits from other sources.

Item 6 – Supervision

Michael W. Goldman has supervisory responsibilities over investment advisory activities at WestEnd. Mr. Goldman can be contacted at 888-500-9025.
Frederick O. Porter, CFA

Item 2 – Educational Background and Business Experience

Frederick O. Porter, Chief Investment Officer and Portfolio Manager, joined WestEnd in 2008. Mr. Porter was named a Member in 2011, and served as Co-Chief Investment Officer from October 2018 to September 2019. Prior to joining WestEnd, Mr. Porter was an Associate at Wachovia Securities from 2006 to 2008, a Vice President at U.S. Trust Company from 2002 to 2004, and a Principal at State Street Global Advisors from 2001 to 2002.

Mr. Porter holds the Chartered Financial Analyst (“CFA”) designation issued by the CFA Institute. To be admitted into the CFA program, candidates must have: (1) a bachelor’s degree or equivalent (candidates can register if in the last year of a bachelor’s program); or, (2) four years of professional work experience that the Institute deems as “qualified” experience; or, (3) a combination of the above. To become a CFA charterholder, candidates must pass three exams, have four years of professional experience in investment decision-making, and obtain membership with the CFA Institute. Additional information about the CFA program can be found at www.cfainstitute.org. The CFA Institute does not impose any continuing education requirements on charterholders.

Mr. Porter was born in 1976. Mr. Porter completed his undergraduate degree at Davidson College. Mr. Porter earned his MBA from Duke University’s Fuqua School of Business.

Item 3 – Disciplinary Information

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of each supervised person providing investment advice. Frederick O. Porter has not been the subject of any legal or disciplinary events.

Item 4 – Other Business Activities

Frederick O. Porter is not engaged in any investment-related business or occupation other than his investment advisory duties with WestEnd.

Item 5 – Additional Compensation

Registered investment advisers are required to disclose if someone who is not a client provides an economic benefit to the supervised person for providing advisory services. Frederick O. Porter is compensated by WestEnd Advisors, LLC. He does not receive additional compensation or economic benefits from other sources.

Item 6 – Supervision

Michael W. Goldman has supervisory responsibilities over investment advisory activities at WestEnd. Mr. Goldman can be contacted at 888-500-9025.
WHAT DOES WestEnd Advisors, LLC DO WITH YOUR PERSONAL INFORMATION?

Why?
Financial companies choose how they share your personal information. Federal law gives consumers the right to limit some but not all sharing. Federal law also requires us to tell you how we collect, share, and protect your personal information. Please read this notice carefully to understand what we do.

What?
The types of personal information we collect and share depend on the product or service you have with us. This information can include:
- Social Security number and date of birth
- State of residence and assets
- Account balances and transaction history

How?
All financial companies need to share clients’ personal information to run their everyday business. In the section below, we list the reasons financial companies can share their clients’ personal information; the reasons WestEnd Advisors, LLC chooses to share; and whether you can limit this sharing.

<table>
<thead>
<tr>
<th>Reasons we can share your personal information</th>
<th>Does WestEnd Advisors share?</th>
<th>Can you limit this sharing?</th>
</tr>
</thead>
<tbody>
<tr>
<td>For our everyday business purposes—such as to process your transactions, maintain your account(s), respond to court orders and legal investigations, or report to credit bureaus</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>For our marketing purposes—to offer our products and services to you</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>For joint marketing with other financial companies</td>
<td>No</td>
<td>We do not share.</td>
</tr>
<tr>
<td>For our affiliates’ everyday business purposes—information about your transactions and experiences</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>For our affiliates’ everyday business purposes—information about your creditworthiness</td>
<td>No</td>
<td>We do not share.</td>
</tr>
<tr>
<td>For nonaffiliates to market to you</td>
<td>No</td>
<td>We do not share.</td>
</tr>
</tbody>
</table>

Questions? Call 704.556.9300 or go to westendadvisors.com
### Who we are

| Who is providing this notice? | WestEnd Advisors, LLC |

### What we do

| How does WestEnd Advisors protect my personal information? | To protect your personal information from unauthorized access and use, we use security measures that comply with federal law. These measures include computer safeguards and secured files and buildings. |
| How does WestEnd Advisors collect my personal information? | We collect your personal information, for example, when you:  
- open an account or provide your contact information  
- transfer an account or close an account  
- have transactions in an account |
| Why can't I limit all sharing? | Federal law gives you the right to limit only:  
- sharing for affiliates’ everyday business purposes—information about your creditworthiness  
- affiliates from using your information to market to you  
- sharing for nonaffiliates to market to you  
State laws and individual companies may give you additional rights to limit sharing. |

### Definitions

| Affiliates | Companies related by common ownership or control. They can be financial and nonfinancial companies.  
On December 31, 2021, Victory Capital Holdings, Inc. acquired WestEnd Advisors, LLC. WestEnd operates as an autonomous Victory Capital Investment Franchise. |
| Nonaffiliates | Companies not related by common ownership or control. They can be financial and nonfinancial companies.  
WestEnd Advisors does not share clients’ information with nonaffiliates. |
| Joint marketing | A formal agreement between nonaffiliated financial companies that together market financial products or services to you.  
WestEnd Advisors does not have any agreements with nonaffiliated financial companies to market financial products or services to you. |

### Other important information

**For Nevada Residents:** Nevada law requires that we tell you about the option to be placed on our internal do-not-call list. If you’d rather not receive sales calls from us, please call (888) 500.7501 or (704) 556.9300 and ask to speak to a representative so we can place you on our do-not-call list.

You may also contact: Bureau of Consumer Protection Office of the Nevada Attorney General, 555 E. Washington Ave., Ste. 3900, Las Vegas, NV 89101, call 1-702-486-3132 or Email: BCPINFO@ag.state.nv.us.

**For Vermont Residents:** In accordance with Vermont law, we will not share information we collect about you with companies who are not affiliates, except as permitted by law, such as with your consent or to service your accounts. We will not share information about your creditworthiness with our affiliates without your authorization or consent, but we may share information about our transactions or experiences with you with our affiliates as permitted by law.

**For California Residents:** In accordance with California law, we will not share information we collect about you with nonaffiliates, except as allowed by law. For example, we may share information with your consent or to service your accounts. Among our affiliates, we will limit information sharing to the extent required by California law.

To discuss the aforementioned information or any other questions, please call us toll-free at (888) 500.7501 or (704) 556.9300 anytime between 8:30 a.m. and 5:00 p.m. Eastern Time, contact us at info@westendadvisors.com, or visit us at www.westendadvisors.com.

WestEnd Advisors, LLC  
1001 Morehead Square Drive, Suite 600  
Charlotte, North Carolina 28203
**Proxy Voting Procedures**

*See also Victory Capital Compliance Policy Executive Summary H-12 Proxy Voting Policy (Supplemental Document H-12).

Under the Investment Advisers Act of 1940 ("Advisers Act"), the Employment Retirement Income Security Act of 1974 ("ERISA"), and other relevant laws and regulations, an investment advisor owes its Clients the duty of care and loyalty in providing advisory services, including the voting of proxies.

WestEnd Advisors ("WestEnd"), an investment advisor providing discretionary equity and fixed-income portfolio management services to corporations, retirement plans, endowment funds and foundations, individuals with substantial net worth, and financial institutions such as trust companies and bank trust departments (collectively, "Clients"), takes seriously its legal and fiduciary obligations concerning the voting of proxies. As such, WestEnd has adopted and implemented policies and procedures to ensure that it votes proxies in a manner consistent with the best interests of its Clients.

In determining the best interests of its Clients, WestEnd may obtain information from third parties concerning their recommendations on particular proxy issues. Through its parent company Victory Capital, WestEnd utilizes Institutional Shareholder Services ("ISS") for both proxy administration services and voting recommendations. WestEnd has adopted ISS’s U.S. Proxy Voting Guidelines, however neither relies on the advice of ISS nor delegates to them the authority to decide how any proxy will be voted.

WestEnd reviews all recommendations prior to voting taking place and may choose to accept or reject any recommendation made by ISS based on the particular facts and circumstances surrounding any proxy issues. A summary of ISS’s U.S. Proxy Voting Guidelines is included in the Supplemental section of this manual.

**Client Guidelines**

Pursuant to WestEnd’s fiduciary obligations, the investment management agreements generally authorize WestEnd to vote proxies on behalf of Clients. Clients may choose to vote their own proxies by specifically requesting such in writing or by not delegating proxy to WestEnd at the account custodian level.

Alternatively, Clients may have their own set of proxy voting guidelines, which may conflict with the proxy guidelines referenced above or the voting guidelines of another Client. If such a situation arises, it is the policy of WestEnd to comply with Client guidelines by voting the proxies attributable to that Client on a proportionate basis (based on the number of shares held by the Client).
**PROCEDURES**

WestEnd’s proxy voting policies and procedures are designed to ensure that proxies are properly voted, material conflicts are avoided, and fiduciary obligations are fulfilled.

**ONGOING DILIGENCE**

On August 21, 2019, the SEC published the “Commission Guidance Regarding Proxy Voting Responsibilities of Investment Advisers (the “IA Release”).” The IA Release contains the SEC’s guidance regarding investment advisers’ proxy voting responsibilities under fiduciary principles and Rule 206(4)-6 under the Advisers Act, and various disclosure obligations under federal securities law. In particular, much of the IA Release is devoted to providing guidance to investment advisers that rely on the assistance of a third-party proxy firm to fulfill some part of their proxy voting responsibilities—in particular, that advisers should adopt and implement policies and procedures that are reasonably designed to evaluate the third-party proxy firm.

In light of this guidance, WestEnd conducts due diligence during its annual vendor review to ensure that ISS’s services remain suitable to support WestEnd’s proxy voting obligations to its Clients. The Director of Operations conducts the annual vendor review under oversight of the Chief Compliance Officer.

**FOREIGN INVESTMENTS**

On occasion, WestEnd may invest Client assets in foreign securities. Given the complexity and variety of regulatory schemes and corporate practices in foreign countries, there may be excessive costs associated with voting proxies for foreign securities. Consistent with applicable law and regulations, if the costs of exercising a proxy vote on a proposal exceed the expected benefits to a Client’s account, WestEnd may choose not to vote that proxy proposal.

**RECORDKEEPING**

WestEnd will maintain:

- the Proxy Voting Policies and Procedures;
- all proxy statements received by WestEnd in connection with Client securities and readily available through a third-party service provider;
- a record of how WestEnd voted each proxy;
- a record of all written Client requests for proxy voting information and WestEnd’s response to those requests; and
- Any other documents prepared by WestEnd that were material to the voting decision.

Clients may download a copy of this Proxy Voting Policies and Procedures document in Adobe Acrobat format by visiting www.westendadvisors.com. Clients can obtain information regarding how WestEnd voted each proxy in their portfolio by submitting a written request to WestEnd at the following address:

WestEnd Advisors, LLC  
1001 Morehead Square Drive Suite 600  
Charlotte, NC 28203
Compliance Policy Executive Summary

<table>
<thead>
<tr>
<th>Policy Name:</th>
<th>H-12 Proxy Voting Policy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Applicability:</td>
<td>Victory Capital Management Inc. (“Victory Capital”)</td>
</tr>
<tr>
<td>Category:</td>
<td>Investments - General</td>
</tr>
<tr>
<td>Compliance Owner:</td>
<td>Chief Compliance Officer, Victory Capital</td>
</tr>
<tr>
<td>Business Owner:</td>
<td>Director Responsible Investment, Victory Capital</td>
</tr>
<tr>
<td>Effective Date:</td>
<td>June 1, 2022</td>
</tr>
<tr>
<td>Executive Summary:</td>
<td>Policy and procedures governing the voting of client securities</td>
</tr>
</tbody>
</table>

**BACKGROUND AND RISKS**

Voting rights associated with security ownership are closely related to the discretionary asset management services Victory Capital provides to its clients. Therefore, Victory Capital should be capable of accepting and exercising voting authority on behalf of clients with the same standard of care, skill, prudence, and diligence it is subject to when exercising its investment authority on behalf of clients. Further, in order to exercise voting authority on behalf of clients, Victory Capital must comply with Rule 206(4)-6 (the “proxy rule”) which requires Victory Capital to adopt and implement written policies and procedures designed to ensure it votes securities in the best interest of clients including managing material conflicts of interest between Victory Capital and its clients. The proxy rule also requires Victory Capital to disclose to clients a summary of its proxy voting policies and procedures, how they may obtain a copy of these procedures, and information about how Victory Capital voted their securities.

Inability to accept and exercise voting authority on behalf of clients or failure to comply with the proxy rule could result in violations of securities law, breach of fiduciary duty, client harm, or damage to Victory Capital’s reputation.

**POLICY**

Victory Capital will establish policies and procedures and retain resources necessary to ensure it is capable of exercising voting authority on behalf of clients according to the same standard of care with which it exercises investment authority. Because Victory Capital will exercise voting authority, it will comply with the proxy rule and must vote securities in the best interest of clients.
For purposes of this policy, voting in the best interest of clients means using complete and accurate information to vote with the objective of increasing the long-term economic value of client assets. Similar to investment decision making, voting decisions are qualitative in nature and Victory Capital will consider a variety of factors to arrive at vote decisions. Further a voting decision in the same security may be different between clients for the same reasons Victory Capital clients are invested in different securities. For example, client agreements, investment strategies, or specific investment franchise views on ballot proposals may cause the same security to be voted in a different manner across Victory Capital’s client base.

Victory Capital will vote all securities over which it has authority, provided the client has voting rights and there is sufficient time and information available to make informed decisions. Victory Capital will take reasonable steps to obtain appropriate and timely information. In situations where voting may impact the ability to trade a security (e.g., shareblocking), Victory Capital will not vote unless it determines that voting is in a client’s best interest.

For a copy of the guidelines (as defined below) please visit Victory Capital’s website at https://investor.vcm.com/policies. To obtain information on specific proxies voted by Victory Capital, clients may contact their Victory Capital client manager or email an inquiry to client_service_team@vcm.com.

Victory Capital will create, maintain, and retain appropriate records related to voting client securities.

**LIST OF REQUIRED CONTROLS**

- Proxy Voting Committee (the “committee”)
- Client Investment Management Agreements ("IMAs")
- Third-party proxy firm ("proxy firm")
- M-19 Vendor Due Diligence and Oversight ("vendor oversight policy")
- Proxy voting guidelines
- Annual committee guideline review
- Form ADV, Part 2A
- M-13 Record Retention and Destruction, Appendix A ("recordkeeping requirements")
CONTROL IMPLEMENTATION PROCEDURES

- The committee will consist of members with experience related to the functional areas applicable to voting client securities including responsible investing, investment management, operations, and compliance. The committee is responsible for exercising Victory Capital’s fiduciary responsibilities related to voting client securities including voting in the best interests of clients and identifying and managing conflicts of interest. The committee will be active, keep a charter, and maintain records that demonstrate adequate execution of its responsibilities.

- When a client enters into an advisory relationship with Victory Capital, proxy voting roles and responsibilities between the client and Victory Capital will be fully disclosed. Responsibilities delegated to Victory Capital will be communicated to the committee and the committee will be responsible for implementing voting requirements in accordance with each IMA.

- In order to support its fiduciary duty related to voting client securities, Victory Capital will retain, and the committee will oversee a third-party proxy advisory firm (“proxy firm”) to provide both administrative and advisory services related to voting client securities. Selection and ongoing oversight of the proxy firm will be conducted in accordance with the vendor oversight policy. The Sponsor, as defined in the vendor oversight policy, must be a member of the committee. Currently, Victory Capital retains Institutional Shareholder Services Inc. as its proxy firm.

- The committee will adopt written proxy voting guidelines authored by the proxy firm (“guidelines”). These guidelines can be used as standing instructions on how the proxy firm must vote ballots provided that the committee must:
  
  - Have the ability to customize the guidelines.
  - Retain the ability to override the guidelines on individual ballot proposals at the client level.
  - Review the guidelines at least annually, implement customizations based on this review, and submit a written memo to the compliance committee documenting the results of the annual review that includes the name of the proxy firm, links to the specific guidelines adopted, and a description of customizations made.
  - Make the memo available to clients upon request.
The purpose of the guidelines is 1) to benefit from the specialized expertise related to voting securities provided by the proxy firm and to provide an independent source to resolve conflicts of interest identified between Victory Capital and its clients. For the first purpose, the committee will take into account the guidelines but will have ultimate responsibility for voting decisions. The committee will, in its discretion, rely on additional sources such as portfolio manager input to ensure the voting decisions it makes are in the best interest of specific clients. If the guidelines are silent on any pending ballot proposal, the committee will exercise its voting responsibility with due care and document the rationale for the vote decision. For the second purpose, if the committee identifies a conflict of interest between Victory Capital and clients, the committee must vote in accordance with the guidelines unless the rationale for deviating from guidelines has unanimous consent from the committee and is put in writing, including an analysis of how the conflict of interest is eliminated, mitigated, or disclosed.

The proxy firm will provide technology-based platform that provides operational controls over voting securities that include, at minimum, ballot reconciliation, casting complete ballots in a timely manner and in accordance with adopted written guidelines, ability to adjust or override a vote based on committee input, and reporting. The committee is responsible for ensuring these controls are operating as intended though must, at minimum, develop reporting designed to ensure all eligible client accounts are properly set up and configured on the proxy firm’s platform and that the proxy firm is voting securities in accordance with the guidelines and this policy. Such reports should be reviewed by the committee at regular intervals and any exceptions should be referred to the LCR department.

The disclosures required under the proxy rule will be contained in Victory Capital’s Form ADV, Part 2A and will be delivered to clients at the time and frequency required by regulation.

The committee will be familiar with the recordkeeping requirements related to voting client securities and will maintain records and ensure the proxy firm maintains records for the required periods.
UNITED STATES

Proxy Voting Guidelines
Benchmark Policy Recommendations

Effective for Meetings on or after February 1, 2022
Published December 13, 2021
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Coverage

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), 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 nominees\(^1\) considered on case-by-case basis):

**Independence**
Vote against\(^2\) or withhold from non-independent directors (Executive Directors and Non-Independent Non-Executive Directors per [ISS’ Classification of Directors](https://www.issgovernance.com)) 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) 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) 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).
I. 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.

II. 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 year\(^3\)) 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 boards\(^4\).

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.

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\(^5\) 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\(^7\), 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), 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, generally vote against or withhold from 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 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, who should be considered case-by-case), if the company employs a common stock structure with unequal voting rights.

Exceptions to this policy will generally be limited to:
- Newly-public companies with a sunset provision of no more than seven years from the date of going public;
- Limited Partnerships and the Operating Partnership (OP) unit structure of REITs;
- Situations where the 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 (pay for performance);
- 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, 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.

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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\(^1\), 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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\(^1\) 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:

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\(^{12}\) 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 to restore 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\(^{13}\) 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;

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\(^{13}\) "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:

- 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 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:

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

**Recapitalization Plans**

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

- More simplified capital structure;
- Enhanced liquidity;
- Fairness of conversion terms;
- Impact on voting power and dividends;
- Reasons for the reclassification;

\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 benefitting 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 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 of interest 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, this analysis considers the following:

1. Peer Group 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 — 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 compared to grant pay; and
- Any other factors deemed relevant.

Problematic 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](#) 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](https://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 (μ) plus one standard deviation (σ) of the company’s GICS group segmented by S&P 500, Russell 3000 index (less the S&P500), 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 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:

\[
\text{Value-Adjusted Burn Rate} = \frac{((\# \text{ of options} \times \text{option’s dollar value using a Black-Scholes model}) + (\# \text{ of full-value awards} \times \text{stock price}))}{(\text{Weighted average common shares} \times \text{stock price})}
\]

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21 For plans evaluated under the Equity Plan Scorecard policy, the company's SVT benchmark is considered along with other factors.
**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 when 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?;
- Is this a value-for-value exchange?;
- 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 plan\(^{22}\), 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;
- 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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