

GUGGENHEIM INVESTMENTS

Form ADV, Part 2A
(the “Brochure”)

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This Brochure provides information about the qualifications and business practices of Guggenheim Investments. If you have any questions about the contents of this Brochure, please contact us at 212.739.0700. 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.

Additional information about Guggenheim Investments also is available on the SEC’s website at www.adviserinfo.sec.gov.

Guggenheim Investments may refer to itself as a “registered investment adviser.” You should be aware that registration with the SEC or a state securities authority does not imply a certain level of skill or training.

MATERIAL CHANGES

The following material change has been incorporated into the Brochure since its last annual update, on March 30, 2012. The Guggenheim Investments list of officers has been updated to reflect the current officer structure.

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ADVISORY BUSINESS

Firm Overview

Guggenheim Investments (“GI”), a multi-product manager with focused investment teams, is an investment adviser registered with the U.S. Securities and Exchange Commission (“SEC”). Guggenheim Investments may provide a variety of discretionary advisory services to: (1) certain investment companies registered under the Investment Company Act of 1940, as amended (“1940 Act”), consisting of approximately 275 (each series, a “Fund” and, collectively, the “Funds”); (2) unregistered non-U.S. investment companies and other investment vehicles; (3) institutions, such as insurance companies, other financial institutions, pension and profit sharing plans, U.S. and non-U.S. governmental entities, colleges, hospitals, charitable organizations, endowment funds and foundations; (4) clients of broker-dealers, investment advisers or other financial intermediaries (“Program Sponsors”) who offer comprehensive brokerage, custodial and advisory services for a single fee (“Wrap Fee Programs”); and (5) certain individuals and trusts.

As of December 31, 2012, the discretionary assets under management of Guggenheim Investments were approximately \$18,235,000,000. Security Investors, LLC (“SI”) is a multi-product manager with specialized investment teams with a mission to be a “best-in-class” asset management firm that delivers competitive risk-adjusted returns. SI does business as Guggenheim Investments, and has previously done business as Security Global Investors and Rydex Investments. Guggenheim Investments is an indirect, wholly owned subsidiary of Guggenheim Capital, LLC. Guggenheim Capital, LLC’s subsidiary, Guggenheim Partners, LLC, is a global, independent, privately-held, diversified financial services firm with more than 2,200 dedicated professionals.

Types of Advisory Services

Guggenheim Investments offers investment supervisory services to the following clients.

Investment Companies

Guggenheim Investments acts as investment adviser to the following multi-series U.S. registered investment companies: (1) Security Equity Fund; (2) Security Income Fund; (3) Security Large Cap Value Fund; (4) SBL Fund; (5) Security Mid Cap Growth Fund; (6) Rydex Series Funds; (7) Rydex Dynamic Funds; (8) Rydex ETF Trust; and (9) Rydex Variable Trust. As an investment adviser, Guggenheim Investments provides investment research and advice to each Fund subject to the supervision of, and policies established by, the Fund’s board of trustees or directors, as applicable, pursuant to an investment advisory contract with the Fund. In some cases the day-to-day investment management function is performed by a sub-adviser, including an affiliate of Guggenheim Investments, pursuant to a written sub-advisory contract between Guggenheim Investments and the sub-adviser.

Direct Clients

Guggenheim Investments offers investment supervisory services to individually-managed accounts (“Separate Accounts”) for institutions, as well as ultra-high net worth individuals and trusts, which meet Guggenheim Investments’ applicable minimum account size requirements, as discussed in more detail in the section entitled “Types of Clients”.

Wrap Fee Program Clients

Guggenheim Investments offers investment supervisory services similar to the services provided to its institutional clients to clients of Program Sponsors who offer Wrap Fee Programs for a single fee, which is typically based on a percentage of assets under management. Under a Wrap Fee Program, Guggenheim Investments is chosen by the client to act as an adviser or subadviser through a pre-selection process administered by the Program Sponsors. A Program Sponsor is responsible for establishing the financial circumstances, investment objectives and investment restrictions of each Wrap Fee Program client through a client profile, questionnaire and/or investment policy statement (“Profile”) as well as consultations with the Program Sponsor’s personnel. Each client completes a Profile and enters into a wrap fee agreement with the Program Sponsor. In some Wrap Fee Programs, clients may also be required to enter into a separate investment advisory agreement directly with Guggenheim Investments or Guggenheim Investments may be a party to the client/Program Sponsor agreement. The Program Sponsor’s wrap fee agreement establishes the services to be provided to the client by or on behalf of the Program Sponsor. These services may include, among other things: (1) manager selection; (2) execution, generally without a transaction-specific commission or charge; (3) custodial services; (4) periodic monitoring of discretionary managers; and (5) account evaluation. Wrap Fee Program clients may also be subject to additional fees and expenses (*e.g.*, commissions on transactions executed away from the Program Sponsor or the Program Sponsor’s designated broker-dealer, money market expenses on money market funds used as a cash sweep investment vehicle, dealer mark-ups or mark-downs on principal transactions, and certain costs or charges imposed by third parties including odd-lot differentials, exchange fees, and transfer taxes mandated by law). Generally, Program Sponsors are responsible for most aspects of the client relationship and will provide Wrap Fee Program clients this Brochure as well as their brochure or equivalent disclosure brochure with respect to the Wrap Fee Program (the “Wrap Brochure”). In some instances, Guggenheim Investments may be responsible for delivery (and annual offer) of this Brochure.

Although Guggenheim Investments may not always have direct initial or ongoing client contact, the pre-selection process is sufficiently detailed that Guggenheim Investments is able to provide individualized investment services. Ongoing contact with the Program Sponsor ensures that Guggenheim Investments maintains the ability to provide individualized investment services. Guggenheim Investments also makes available personnel knowledgeable about the management of the client’s account for direct telephone conversations with clients at their request, and periodically, at the discretion of

the Program Sponsor, Guggenheim Investments makes its personnel available in person, during one-on-one meetings. As discussed in more detail in the section entitled “Fees and Compensation”, Guggenheim Investments generally receives a portion of the total wrap fee paid by each Wrap Fee Program client advised by Guggenheim Investments. The Program Sponsor collects the total wrap fee and remits the advisory portion to Guggenheim Investments. The range of the advisory portion payable to Guggenheim Investments is set forth in the section entitled “Fees and Compensation”. Information on the total wrap fee is included in the Wrap Brochure provided by the Program Sponsor.

Wrap Fee Program clients should review the relevant Wrap Brochure for further details about the Wrap Fee Program, and should be aware and consider that, depending on the rate of the wrap fee charged, the amount of account activity, the value of custodial and other services provided and other factors, the wrap fee may exceed the aggregate costs of the services provided through the Wrap Fee Program, if they were to be obtained separately including, with respect to brokerage, transaction-based commissions. Guggenheim Investments is not responsible for, and does not attempt to determine, whether, in the first instance, a particular Wrap Fee Program is suitable or advisable for any given client. Rather, Guggenheim Investments is responsible for and will determine whether each wrap fee account referred to it is suitable for discretionary management by Guggenheim Investments based on the client’s Profile provided by the Program Sponsor and, in circumstances where Guggenheim Investments is party to an agreement with a client, such additional information as may be provided pursuant or attendant to such agreement. Guggenheim Investments reserves the right, in its sole discretion, to reject any wrap fee account referred to Guggenheim Investments for any reason, including, but not limited to, the prospective client’s investment goals and restrictions.

Tailored Advisory Services

Guggenheim Investments provides tailored investment advisory services to its clients. Except as otherwise described herein, investments for Separate Accounts (including accounts managed as part of a Wrap Fee Program) are managed in accordance with the client’s investment objectives, strategies, restrictions and guidelines as communicated to Guggenheim Investments by the client (or the client’s primary adviser or Program Sponsor). Each collective investment vehicle (*e.g.*, a Fund) is managed in accordance with its investment objective, strategies and restrictions and is not tailored to the individualized needs of any particular Fund shareholder or other fund investor. Therefore, such shareholders and investors must consider whether the Fund, or any other fund, meets their investment objectives and risk tolerance prior to investing. Information about each Fund can be found in its Prospectus and Statement of Additional Information, and information about each other fund is described in its governing documents and offering memorandum, which will be available to current and prospective investors only through Guggenheim Investments or another authorized party.

FEES AND COMPENSATION

The following discussion represents the basic compensation arrangements of Guggenheim Investments. However, fees and other compensation are negotiable in certain circumstances, and arrangements with any particular client may vary.

Advisory/Management Fees

Direct Clients

Fee arrangements for Separate Accounts will vary and are negotiable based upon specific investment advisory services and the size of the client account, among other factors. Although the fee schedule of Guggenheim Investments may vary, the standard fee schedule is set forth below.

Management Fee Schedule as a Percentage of Assets Under Management

<u>Account Value</u>	<u>Large Cap Value Equity Portfolios</u>	<u>Small and Mid Cap Value Equity Portfolios</u>	<u>Intermediate Bond Portfolios</u>
First \$10 million	0.75%	1.00%	0.50%
Next \$10 million	0.65%	0.90%	0.40%
Next \$10 million	0.60%	0.85%	0.35%
Next \$20 million	0.55%	0.80%	0.30%
Greater than \$50 million	0.50%	0.75%	0.25%

<u>Account Value</u>	<u>Large Cap Growth Equity or Balanced Portfolios</u>
First \$10 million	0.70%
Next \$15 million	0.60%
Next \$25 million	0.50%
Next \$50 million	0.45%
Over \$100 million	Negotiable

<u>Account Value</u>	<u>Mid Cap Growth Equity Portfolios</u>
First \$25 million	0.75%
Next \$25 million	0.65%
Over \$50 million	0.60%

<u>Account Value</u>	<u>Long/Short Commodities Portfolios</u>
First \$50 million	1.50%
Next \$100 million	1.25%

Next \$100 million	1.00%
Over \$250 million	0.80%

<u>Account Value</u>	<u>Managed Futures Portfolios</u>
First \$30 million	1.15%
Next \$70 million	0.90%
Over \$100 million	0.80%

Fees are generally payable quarterly in arrears, although individual clients may negotiate different arrangements.

Wrap Fee Program Clients

For fee arrangements with Wrap Fee Program clients, the Program Sponsor collects the total wrap fee and remits the advisory portion to Guggenheim Investments. The advisory portion payable to Guggenheim Investments may vary from program to program and within a single program based on the desired investment mandate. Information on the total wrap fee is included in the Wrap Brochure provided by the Program Sponsor. The current advisory portion payable to Guggenheim Investments generally ranges from 0.28% to 0.65%.

Investment Companies

The investment advisory contracts between Guggenheim Investments and each Fund provide for compensation to Guggenheim Investments based on a percentage of the average daily closing value of net assets of the Fund computed on a daily basis with the fee adjusted and payable monthly. Guggenheim Investments may, however, either voluntarily or pursuant to a written fee waiver/expense reimbursement agreement, waive fees and/or reimburse expenses. Guggenheim Investments may also enter into investment sub-advisory contracts with sub-advisers to manage Fund assets; however, Guggenheim Investments is responsible for the fees paid to such sub-advisers.

The fees payable to Guggenheim Investments for advisory services provided to the Funds vary depending on the type of investment strategy employed by a Fund, as described in more detail in the Fund's Prospectus and Statement of Additional Information.

Other Fees and Expenses Associated with Advisory Services

Clients of Guggenheim Investments (including, indirectly, shareholders in the Funds) bear certain other fees, expenses and costs (in addition to Guggenheim Investments' advisory fees) which are incidental or related to the maintenance of an account or the buying, selling and holding of investments including, but not necessarily limited to: (1) custodial charges; (2) brokerage fees, commissions and other related transaction costs and expenses; (3) governmental charges, taxes and duties; (4) transfer fees, registration fees and other expenses associated with buying, selling or holding investments; (5) withholding taxes payable and required to be withheld by issuers or their agents; and (6) fees associated with investments in other, unaffiliated pooled investment vehicles. For additional information about brokerage practices, please refer to the section entitled "Brokerage Practices".

Billing Arrangements

Guggenheim Investments generally bills clients (and clients generally pay) for fees and expenses incurred or otherwise payable on a quarterly basis. However, at a client's option, Guggenheim Investments may bill the client (and the client may pay) for fees and expenses incurred or otherwise payable on a monthly basis. Clients generally also may pay fees in advance. Clients that pay fees in advance may obtain a refund of such pre-paid fees if the advisory contract is terminated before the end of the billing period by contacting Guggenheim Investments, at the contact information that appears on the cover page of this Brochure. The amount of the refund will be determined on a pro rata basis.

PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

Not Applicable.

TYPES OF CLIENTS

As described in the section entitled “Advisory Business”, Guggenheim Investments may provide a variety of discretionary advisory services to (1) certain investment companies registered under 1940 Act, including the Funds; (2) unregistered non-U.S. investment companies and other investment vehicles; (3) institutions, such as insurance companies, other financial institutions, pension and profit sharing plans, U.S. and non-U.S. governmental entities, colleges, hospitals, charitable organizations, endowment funds and foundations; (4) clients of Program Sponsors who offer Wrap Fee Programs; and (5) certain individuals and trusts.

The terms and conditions of client accounts may vary depending on the type of services provided or the type of client, and these terms and conditions may also vary from client to client. From time to time, Guggenheim Investments may impose, or, in its discretion, waive, certain requirements for opening or maintaining a client account, such as a minimum account size.

Direct Accounts

Guggenheim Investments generally requires a minimum dollar value of \$10,000,000 to establish an account investing primarily in equity securities and a minimum dollar value of \$50,000,000 to establish a fixed income account. Investment minimums may be negotiable depending upon the circumstances.

Wrap Fee Program Clients

Each Program Sponsor may impose qualifications for establishing or maintaining participation in a Wrap Fee Program including, without limitation, minimum asset levels. These program level minimums, which are described in detail in the relevant Wrap Brochure, are outside of Guggenheim Investments’ control. Additionally, Guggenheim Investments has established qualifications or requirements that must be met by a program participant in order for Guggenheim Investments to accept or continue to manage a portion of the client’s program account, which may be in excess of those imposed by the Program Sponsor. These minimums may vary from program to program and within a single program based on the desired investment mandate. Guggenheim Investments’ current minimums for establishing and maintaining an account through each Wrap Fee Program in which Guggenheim Investments participates range from \$50,000 to \$2,000,000. Guggenheim Investments may, in its discretion, waive its own investment minimums but cannot waive any investment minimums imposed by a Program Sponsor.

Investment Companies

Guggenheim Investments generally does not impose a minimum amount for starting or maintaining a Fund. However, the Funds may impose investment minimums upon

shareholders, as described in more detail in a Fund's Prospectus and Statement of Additional Information.

METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

Guggenheim Investments is a multi-product manager. As such, Guggenheim Investments may use a variety of techniques including fundamental, technical and quantitative analysis to manage such products and multiple sources of information to facilitate such analysis. Guggenheim Investments invests in a wide range of investments depending on a particular product's objectives, strategies, policies, applicable law and other relevant factors.

Guggenheim Investments has focused investment teams. These investment teams consist of the (1) U.S. Value Equity Team; (2) U.S. Growth Equity Team; (3) International Alpha Equity Team; (4) U.S. Fixed Income Team; and (5) Quantitative Strategies Team. General descriptions of the methods of analysis and specific investment strategies employed by these investment teams are provided below. Guggenheim Investments reserves the right to limit the availability of any particular strategy at any given time based on factors including asset class capacity, pre-existing relationships, minimum account sizes, fees and distribution channels. In addition, Guggenheim Investments may develop other investment strategies from time to time. Certain strategies may be available only in certain channels or through investing in funds. The descriptions of the investment strategies below are qualified in their entirety by a fund's prospectus or other official offering materials. Prior to investing in any fund, please review the relevant prospectus or other offering materials for important information.

Methods of Analysis and Investment Strategies

U.S. Value Equity Team

The Large Cap Value strategy typically invests in equity securities of companies that appear to be undervalued relative to assets, earnings, growth potential or cash flows, and have market capitalizations that are usually within the range of companies in the Russell 1000 Value Index. Guggenheim Investments uses a blend of quantitative analysis and fundamental research to identify securities that appear favorably priced and that may be able to sustain or improve their pre-tax ROIC (Return on Invested Capital) over time. Guggenheim Investments may focus its investments in a limited number of issuers. While a concentrated portfolio may provide increased opportunities for investment gain, holding positions in fewer issuers means that the change in value of a single issuer's securities will have a greater impact on the value of the client's portfolio than in a more diversified portfolio.

The Small and Mid Cap Value Equity strategy typically invests in equity securities of companies that appear undervalued relative to assets, earnings, growth potential or cash flows, and may invest in a limited number of industries or industry sectors, and have market capitalizations that are usually within the range of companies in the Russell 2500 Value Index. The securities included in the portfolio are typically common stocks of small-to medium-sized companies. The strategy is subject to the risks associated with investing in small capitalization companies.

U.S. Growth Equity Team

The Large Cap Growth and Mid Cap Growth strategies use a concentrated approach that combines the elements of fundamental economic analysis, bottom-up investing and technical analysis. In terms of economic analysis, Guggenheim Investments reviews trends in the U.S. economy, projected forward approximately twelve to eighteen months, and categorizes the U.S. economy as in one of three phases: recessionary, noninflationary or rapid growth. The philosophy of Guggenheim Investments for these strategies is that economic trends will favor certain sectors and sub-sectors more than others with regard to relative earnings growth. While a concentrated portfolio may provide increased opportunities for investment gain, holding positions in fewer issuers means that the change in value of a single issuer's securities will have a greater impact on the value of the client's portfolio than in a more diversified portfolio.

International Alpha Equity Team

Under this strategy, Guggenheim Investments constructs a risk-controlled portfolio of investments predominantly in developed equity markets, but also including some emerging equity markets, using a systematic factor model approach across all included countries. The portfolio is carefully controlled by country, industry sector and individual security concentration. Risks related to issuer, industry, market and general economic conditions all affect this strategy. There is no assurance that this strategy will achieve its investment objective, as returns will fluctuate in response to changes in the market and on income on the portfolio's investments. While Guggenheim Investments seeks to ensure that every holding is liquid and easily traded, there is no assurance that this will remain true in all market conditions.

U.S. Fixed Income Team

These strategies are generally designed to meet client-specific risk/reward objectives by investing in fixed income securities across a broad range of sectors. The Advisor's investment philosophy is predicated upon the belief that thorough research and independent thought are rewarded with the potential for outperformance. Certain strategies involve extensive credit research and due diligence on each issuer, region and sector as well as a consideration of macroeconomic outlook and geopolitical issues. For all strategies, the Advisor may determine to sell a security for several reasons including the following: (1) to adjust the portfolio's average maturity, or to shift assets into or out of higher-yielding securities; (2) if a security's credit rating has been changed or for other credit reasons; (3) to meet redemption requests; (4) to take gains; or (5) due to relative value. In general, fixed income securities are subject to interest rate, market and credit risks. Interest rate risk relates to changes in a security's value as a result of changes in interest rates generally. Market risk relates to changes in the risks or perceived risks of an issuer, country or region. Credit risk relates to the ability of an issuer to make payments of principal and interest.

Quantitative Strategies Team

The strategies managed by the team are quantitative in nature, meaning statistical analysis and mathematical techniques are generally utilized to structure portfolios to meet specific risk/reward objectives, overall risk, and tracking error targets. Guggenheim Investments may use quantitative methods to construct portfolios that correlate highly with the performance (or inverse performance) of their respective benchmarks or market sectors, on a leveraged or unleveraged basis. Quantitative methods may also be used to model return expectations and select securities based on measurable security characteristics contained in accounting and market data. Statistical techniques may be used to determine the optimal mix of assets for each portfolio. For the Rydex Funds, Guggenheim Investments places particular emphasis on controlling risk relative to each portfolio's benchmark or market sector in order to maintain consistency and predictability. Depending on the investment strategy, a broad range on securities, instruments and investment vehicles are utilized in the management of the products, including but not limited to equities, fixed income securities, and exchange-traded and over-the-counter derivatives.

Description of Strategies

Commodities Strategy: The Commodities strategy seeks to achieve total returns with less volatility than the broad commodity markets from long and/or short investments in commodities and other investment instruments. The strategy intends to invest in multiple proprietary and third-party investment strategies that seek to identify and profit from upcoming movements, in the global commodity markets. The strategies may be quantitative or fundamental in nature, and may use market data and macroeconomic analysis to determine positions. The proprietary strategies may range from broad strategies that seek to provide exposure to all commodity markets, to focused strategies that seek to provide exposure to a single asset class, sector or a market.

Event Driven and Distressed Strategy: The Event Driven and Distressed strategy seeks to provide investment results that generally correspond to the performance of the event driven hedge fund universe. Event driven hedge strategies invest in various asset classes, including physical commodities and real estate, and seek to profit from potential mispricings of securities related to a specific corporate or market event. Such events can include: mergers, bankruptcies, financial or operational stress, restructurings, asset sales, recapitalizations, spin-offs, litigation, regulatory and legislative changes as well as other types of corporate events. Event driven hedge strategies can invest in equities, fixed income instruments (investment grade, high yield, bank, convertible and distressed debt), options and various other derivatives. Event driven hedge strategies may specialize in distressed debt, distressed equities, Regulation D transactions, capital structure arbitrage, merger arbitrage or other special situations. Many managers use a combination of strategies that typically involve buying long or selling short certain securities in the capital structures of various corporations representing a broad range of both debt and equity securities and adjust exposures based on the opportunity sets in each sub-sector.

Multi-Hedge Strategy: The Advisor seeks to develop and implement investment strategies designed to achieve strategy's objective by evaluating quantitative and qualitative inputs to determine the optimal mix of strategies. The Advisor places particular emphasis on controlling risk at the strategy level. Based on market observations and internal and external research, the Advisor employs directional and non-directional strategies which can be categorized into traditional hedge fund styles, including but not limited to Equity Long/Short, Equity Market Neutral, Global Macro, Merger Arbitrage, and Fixed Income Strategies. These strategies are then combined with the objective of creating returns which are differentiated from those of traditional equities and bonds over longer time periods. The Advisor utilizes several proprietary quantitative models and market insights to allocate between its investment strategies with the intent of generating capital appreciation while managing risk.

U.S. Long Short Momentum Strategy: The U.S. Long Short Momentum strategy seeks long-term capital appreciation. In order to each this, each month, the Advisor ranks all industries according to several measures of price momentum. The top-ranked industries are selected for the Advisor's buy list. In order to ensure liquidity in the underlying securities for purchase, approximately 2,000 securities are eligible for purchase from the industry buy lists. The Advisor uses this methodology to rotate the investments among a variety of industries or sectors in order to take advantage of volatility in the top performing sectors. The strategy may, at times, also short-sell securities in industries or sectors that exhibit particularly low momentum measurement scores. The Advisor may invest in cash or cash-type securities (high-quality, short-term debt securities issued by corporations, financial institutions, the U.S. government or foreign governments) as a temporary defensive position to avoid losses during adverse market conditions. Taking a temporary defensive position could reduce the benefit to the strategy if the market goes up. In this case, the strategy may not achieve its investment goal.

Investment Risks

The investment activities of Guggenheim Investments involve a significant degree of risk of loss that you should be prepared to bear. This section contains a summary of the primary risks associated with Guggenheim Investments' investment activities. However, it is not possible to identify all of the risks associated with investing, and the particular risks applicable to a client (*e.g.*, Separate Account, Wrap Fee Program client or Fund) will depend on the nature of the client's investment strategy or strategies and the types of investments held by the client.

While Guggenheim Investments seeks to manage the account(s) of a client so that risks are appropriate to the return potential for the strategy, it is often not possible or desirable to fully mitigate risks. Any investment includes the risk of loss and there can be no guarantee that a particular level of return or objective will be achieved.

Clients and shareholders/investors should be aware that mandates may be limited to certain types of investments (*e.g.*, small and mid cap equity securities) and may not be diversified. Guggenheim Investments' investment activities are generally not intended to provide a complete investment program and Guggenheim Investments expects that the assets it manages do not represent all of the client's or shareholder's/investor's assets. Clients and shareholders/investors are responsible for appropriately diversifying their assets to guard against the risk of loss.

Active Trading Risk — Active trading will increase the costs a client incurs because of higher brokerage charges or mark-up charges, which are passed on to the client, and, as a result, may lower a client's performance.

Asset-Backed and Mortgage-Backed Securities Risk — Investments in asset-backed securities, including mortgage-backed securities, generally receive payments that are part interest and part return of principal. These payments may vary based on the rate at which the underlying borrowers pay off their loans. Some asset-backed securities, including mortgage-backed securities, may have structures that make their reaction to interest rates and other factors difficult to predict, making their prices very volatile. These securities are subject to high degrees of credit, valuation and liquidity risks.

Borrowing Risk — Certain strategies may borrow money to the extent permitted by investment policies and restrictions and applicable law, including borrowings from banks for investment-related purposes such as purchasing securities believed to be desirable by the Advisor. Certain strategies also can borrow from banks and other lenders to meet redemption obligations or for temporary and emergency purposes. When strategies invest borrowed funds in portfolio securities, they are using a speculative investment technique known as "leverage." If the strategy does borrow, its expenses will be greater than comparable strategies that do not borrow. In the case of borrowing for leverage, the interest paid on a loan might be more (or less) than the yield on the securities purchased with the loan proceeds. When the strategy borrows money or otherwise leverages its portfolio, the value of an investment will be more volatile and other investment risks will

tend to be compounded. This is because leverage tends to exaggerate the effect of any increase or decrease in the value of the holdings. The strategy also may be required to maintain minimum average balances in connection with such borrowing or to pay a commitment or other fee to maintain a line of credit; either of these requirements would increase the cost of borrowing over the stated interest rate.

Capitalization Securities Risk — A client’s investments may be composed primarily of, or have significant exposure to, securities in a particular capitalization range, e.g., large-, mid- or small-cap securities. As a result, a client may be subject to the risk that the predominate capitalization range represented in the client’s portfolio may underperform other segments of the equity market or the equity market as a whole. In addition, in comparison to securities of companies with larger capitalizations, securities of small and medium-capitalization companies may experience more price volatility (especially during periods of economic uncertainty), greater spreads between their bid and ask prices, significantly lower trading volumes, and cyclical or static growth prospects. Small and medium-capitalization companies often have limited product lines, markets or financial resources, and may therefore be more vulnerable to adverse developments than larger capitalization companies. Securities of smaller companies may present additional risks because their earnings are less predictable and their securities are often less liquid than those of larger, more established companies.

Collateralized Loan Obligations (“CLOs”) — CLOs are trusts or other special purpose entities that are backed by a pool of loans. Such loans may include domestic and foreign senior secured loans, senior unsecured loans and subordinate corporate loans, some of which may be below investment grade or equivalent unrated loans. CLOs issue classes or “tranches” that vary in risk and yield, and may experience substantial losses due to actual defaults, decrease of market value due to collateral defaults and disappearance of subordinate tranches, market anticipation of defaults, and investor aversion to CLO securities as a class. The risks of CLOs depend largely on the type of the underlying loans and the tranche of CLOs in which the client invests. In addition, CLOs carry risks including interest rate risk, credit risks and default risk. Certain CLOs may not hold loans directly, but rather, use derivatives such as swaps to create “synthetic” exposure to the collateral pool of loans.

Commodities-Linked Investments Risk — The performance of commodity-linked notes and related investments, including derivatives, may depend on the performance of the overall commodities markets and on other factors that affect the value of commodities, including weather, political, tax, and other regulatory and market developments. Commodity-linked notes may be leveraged. Commodity-linked investments may be hybrid instruments that can have substantial risk of loss with respect to both principal and interest. Commodity-linked investments may be more volatile and less liquid than the underlying commodity, instruments, or measures and are subject to the credit risks associated with the issuer, and their values may decline substantially if the issuer’s creditworthiness deteriorates. As a result, returns of commodity-linked investments may deviate significantly from the return of the underlying commodity, instruments, or measures. Legal and regulatory changes also can affect the value of these investments.

Concentration Risk — A client that is less diversified across countries, geographic regions, sectors or industries is generally riskier than more diversified accounts. A client that focuses on a single country, or a specific region, sector or industry, is more exposed to that country's, regions, sector's or industry's economic cycles, stock market valuations and political risks, among others, compared with a more diversified account. The economies and financial markets of certain regions can be interdependent and may be adversely affected by the same events.

Convertible Securities Risk — Convertible securities are generally preferred stocks and other securities, including fixed income securities and warrants that are convertible into or exercisable for common stock. They generally participate in the appreciation or depreciation of the underlying stock into which they are convertible, but to a lesser degree. Warrants are options to buy a stated number of shares of common stock at a specified price anytime during the life of the warrants (generally, two or more years). Convertible securities may be lower-rated securities subject to greater levels of credit risk. A convertible security may be converted before it would otherwise be most appropriate, which may have an adverse effect on the client's ability to achieve its investment objective.

Correlation and Compounding Risk — A number of factors may affect a client's ability to achieve a high degree of correlation with its benchmark, and there can be no guarantee that the client will achieve a high degree of correlation. Failure to achieve a high degree of correlation may prevent the client from achieving its investment objective. A number of factors may adversely affect the client's correlation with its benchmark, including fees, expenses, transaction costs, costs and risks associated with the use of leveraged investment techniques, income items, accounting standards and disruptions or illiquidity in the markets for the securities or financial instruments in which the client invests. The client may not have investment exposure to all securities in its underlying index or benchmark, or its weighting of investment exposure to such securities or industries may be different from that of its underlying index or benchmark. In addition, the client may invest in securities or financial instruments not included in its underlying index or benchmark.

Counterparty Credit Risk — The strategy may invest in financial instruments involving counterparties that attempt to gain exposure to a particular group of securities, index or asset class without actually purchasing those securities or investments, or to hedge a position. The strategy's use of such financial instruments, including swap agreements, involves risks that are different from those associated with ordinary portfolio securities transactions. For example, if a swap agreement counterparty defaults on its payment obligations, this default will cause the value of your investment to decrease. Swap agreements also may be considered to be illiquid. Similarly, if the credit quality of an issuer or guarantor of a debt instrument improves, this change may adversely affect the value of the investment.

Credit Risk — It is possible that some issuers of fixed-income securities will not make payments on debt securities held by a client, or there could be defaults on repurchase agreements held by a client. This risk may be especially acute with respect to high yield securities (i.e., “junk bonds”). Also, an issuer may suffer adverse changes to its financial condition that could lower the credit quality of a security, leading to greater volatility in the price of the security. A change in the credit quality rating of a bond can affect the bond’s liquidity and make it more difficult for a client to sell.

Depository Receipt Risk — The strategy may hold the securities of non-U.S. companies in the form of ADRs. The underlying securities of the ADRs in the portfolio are subject to fluctuations in foreign currency exchange rates that may affect the value of the portfolio. In addition, the value of the securities underlying the ADRs may change materially when the U.S. markets are not open for trading. Investments in the underlying foreign securities also involve political and economic risks distinct from those associated with investing in the securities of U.S. issuers.

Derivatives Risk — Derivatives, including include options, futures and options on futures, may pose risks in addition to those associated with investing directly in securities or other investments, including limited ability to enter into or unwind a position, imperfect correlations with underlying investments or other portfolio holdings, lack of availability and the risk that the counterparty may default on its obligations. Derivatives may be used to increase returns or to maintain exposure to a market without buying individual securities. There is the risk that derivatives may fail to serve their intended purposes and may reduce returns or increase volatility. Accordingly, there is also the risk that a client could lose more than the amount the client invested in the derivatives. These practices also entail transactional expenses.

Equity Securities Risk — Equity securities include common stocks and other equity securities (and securities convertible into stocks), and the prices of equity securities fluctuate in value more than other investments. They reflect changes in the issuing company’s financial condition and changes in the overall market. Common stocks generally represent the riskiest investment in a company. A client may lose a substantial part, or even all, of its investment in a company’s stock. Growth stocks may be more volatile than value stocks. A client’s investment in securities offered through initial public offerings (“IPOs”) may have a magnified performance impact, either positive or negative, on any client. A client’s investments in IPOs may make it subject to more erratic price movements than the overall equity market.

Foreign Securities Risk — Investing in foreign investments, including investing in foreign securities through American depository receipts, involves certain special risks, including but not limited to: (1) unfavorable changes in currency exchange rates; (2) adverse political and economic developments; (3) unreliable or untimely information; (4) limited legal recourse; (5) limited markets; (6) higher operational expenses; and (7) illiquidity. These risks may even be higher in underdeveloped or emerging markets. Foreign investments are normally issued and traded in foreign currencies. As a result, their values may be affected by changes in the exchange rates between particular foreign

currencies and the U.S. dollar. Foreign investments may be subject to the risks of seizure by a foreign government, imposition of restrictions on the exchange or transport of foreign currency, and tax increases. There may also be less information publicly available about a foreign company than about most U.S. companies, and foreign companies are usually not subject to accounting, auditing and financial reporting standards and practices comparable to those in the United States. The legal remedies for investors in foreign investments may be more limited than those available in the United States. A client may at times find it difficult to value its foreign investments. Brokerage commissions and other fees are generally higher for foreign investments than for domestic investments. The procedures and rules for settling foreign transactions may also involve delays in payment, delivery or recovery of money or investments. Foreign withholding taxes may reduce the amount of income available to distribute to the client.

Growth Stocks Risk — Investments in growth stocks may lack the dividend yield that can cushion stock prices in market downturns. Growth companies often are expected to increase their earnings at a certain rate. If expectations are not met, investors can punish the stocks, even if earnings do increase.

High Yield Securities Risk — Higher yielding debt securities in the lower rating (higher risk) categories of recognized rating services are commonly referred to as “junk bonds.” High yield securities are debt securities that have been determined by a rating agency to have a lower probability of being paid and have a credit rating of BB or lower by Standard & Poor’s Corporation and Fitch Investors Service, Inc. or Ba or lower by Moody’s Investors Service or have been determined by Guggenheim Investments to be of comparable quality. The total return and yield of junk bonds can be expected to fluctuate more than the total return and yield of higher-quality bonds. Junk bonds are regarded as predominantly speculative with respect to the issuer’s continuing ability to meet principal and interest payments. These bonds are often thinly traded and can be more difficult to sell and value accurately than high-quality bonds. Because objective pricing data may be less available, judgment may play a greater role in the valuation process. In addition, the entire junk bond market can experience sudden and sharp price swings due to a variety of factors, including changes in economic forecasts, stock market activity, large or sustained sales by major investors, a high-profile default, or just a change in the market’s psychology.

Insurance Risk — Certain municipal securities may be insured by an insurer, such as a bank or other financial institution. Adverse developments affecting a particular insurer or, more generally, banks and financial institutions could have a negative effect on the value of a client’s holdings.

Interest Rate Risk — Investments in fixed-income securities are subject to the possibility that interest rates could rise sharply, causing the value of a client’s securities to decline. Longer term bonds and zero coupon bonds are generally more sensitive to interest rate changes than shorter-term bonds. Generally, the longer the average maturity of the bonds, the more the price will fluctuate in response to interest rate changes. If an issuer calls or redeems an investment during a time of declining interest rates, a client

might have to reinvest the proceeds in an investment offering a lower yield, and therefore might not benefit from any increase in value as a result of declining interest rates. Securities with floating interest rates, such as syndicated bank loans, generally are less sensitive to interest rate changes, but may decline in value if their interest rates do not rise as much or as fast as interest rates in general.

Investment in Investment Companies Risk — Investing in other investment companies subjects the strategy to those risks affecting the investment company, including the possibility that the value of the underlying securities held by the investment company could decrease. Moreover, the strategy will incur its pro rata share of the expenses of the underlying investment companies' expenses.

Investment in the Subsidiary Risk — Certain strategies may invest in wholly-owned and controlled Cayman Islands subsidiaries (each, a "Subsidiary" and together, the "Subsidiaries.") The Subsidiaries are not registered under the Investment Company Act of 1940 (the "1940 Act") and are generally not subject to all of the investor protections of the 1940 Act. Thus, certain strategies, as the sole investor in their respective Subsidiaries, will not have all of the protections offered to shareholders of registered investment companies. By investing in the Subsidiaries, certain strategies are exposed to the risks of the Subsidiaries' investments, which in turn will be exposed primarily to the risks of investing in the commodities markets. Each applicable strategy also will incur its pro rata share of the expenses of its Subsidiary. In addition, changes in the laws of the United States or the Cayman Islands, under which certain of the strategies and the Subsidiaries, respectively, are organized, could result in the inability of the strategies and/or the Subsidiaries to operate as intended and could negatively affect the strategy.

Leverage Risk — The use of derivatives may create leveraging risk. Leveraging may cause an account to be more volatile than if it had not been leveraged. Leverage can also arise through the use of borrowing for investment purposes. To the extent that a client purchases securities while it has outstanding borrowings, it is using leverage, i.e., using borrowed funds for investment. Leveraging will exaggerate the effect of any increase or decrease in the market value of a client's portfolio. Money borrowed for leveraging will be subject to interest costs that may or may not be recovered by appreciation of the securities purchased.

Liquidity Risk — Investments are subject to liquidity risks when they are difficult to purchase or sell. Investments in illiquid securities may reduce the returns of a client because it may be unable to sell the illiquid securities at an advantageous time or price.

Management Risk — Guggenheim Investments will apply investment techniques and risk analysis in making investment decisions for a client, but there can be no guarantee that these decisions will produce the desired results. Additionally, legislative, regulatory or tax developments may affect the investment techniques available to Guggenheim Investments, any sub-adviser and each individual portfolio manager in connection with managing the client and may also adversely affect the ability of the client to achieve its investment objectives.

Market Risk — Most securities fluctuate in price, and equity prices tend to fluctuate more dramatically over the shorter term than do the prices of other asset classes. These movements may result from factors affecting individual companies, or from broader influences like changes in interest rates, market conditions, investor confidence or changes in economic, political or financial market conditions. Volatility of financial markets can expose a client to greater market risk, possibly resulting in greater liquidity risk. Moreover, changing economic, political or financial market conditions in one country or geographic region could adversely affect the market value of the securities held by a client in a different country or geographic region due to increasingly interconnected global economies and financial markets. These market conditions also may lead to increased regulation of the instruments in which a client may invest, which may, in turn, affect the client's ability to pursue its investment objective and performance.

Municipal Securities Risk — Investments in municipal securities will be significantly affected by events that affect the municipal securities market, which could include unfavorable legislative or political developments and adverse changes in the financial conditions of state and municipal issuers. Income from municipal bonds could be declared taxable because of changes in tax laws or interpretations by taxing authorities, or noncompliant conduct of a municipal issuer. In addition, a portion of the otherwise tax-exempt dividends may be taxable to those clients subject to the federal alternative minimum tax. Also, municipal securities backed by current or anticipated revenues from a specific project or assets can be negatively affected by the discontinuance of taxation supporting the project or assets or the inability to collect enough revenue. Because many municipal securities are issued to finance similar projects (especially those relating to education, health care, utilities and transportation), conditions in those sectors can affect the overall municipal market. Certain sectors of the municipal bond market have special risks that can affect them more significantly than the market as a whole. Municipalities and municipal projects that rely directly or indirectly on federal funding mechanisms may be negatively affected by current budgetary constraints of the federal government. In addition, changes in the financial condition of an individual municipal issuer can affect the overall municipal market, and market conditions may directly impact the liquidity and valuation of municipal securities.

Passive Investment Risk — For those strategies that are not actively managed, the Advisor does not attempt to take defensive positions in declining markets. Therefore, the strategy may be subject to greater losses in a declining market than a strategy that is actively managed.

Preferred Securities Risk — Preferred stock represents an equity interest in a company that generally entitles the holder to receive, in preference to the holders of other stocks such as common stocks, dividends and a fixed share of the proceeds resulting from a liquidation of the company. Preferred stocks may pay fixed or adjustable rates of return. Preferred stock is subject to issuer-specific and market risks applicable generally to equity securities. In addition, a company's preferred stock generally pays dividends only after the company makes required payments to holders of its bonds and other debt. For

this reason, the value of preferred stock will usually react more strongly than bonds and other debt to actual or perceived changes in the company's financial condition or prospects.

Prepayment Risk — The issuers of securities held by a client may be able to prepay principal due on the securities, particularly during periods of declining interest rates. Securities subject to prepayment risk generally offer less potential for gains when interest rates decline, and may offer a greater potential for loss when interest rates rise. In addition, rising interest rates may cause prepayments to occur at a slower than expected rate, thereby effectively lengthening the maturity of the security and making the security more sensitive to interest rate changes. Prepayment risk is a major risk of mortgage-backed securities and certain asset-backed securities.

Sector Risk — Through its investments in futures and similar instruments, the strategy may have significant exposure to one or more of the energy, precious and industrial metals, and agriculture sectors. As a result of this investment exposure, the strategy will be more susceptible to the risks associated with each sector than a strategy that does not invest in such a manner. To the extent that the strategy has significant exposure to any of the energy, precious and industrial metals, and/or agriculture sectors, the strategy is subject to the risk that those sectors will underperform the market as a whole due to legislative or regulatory changes, adverse market conditions and/or increased competition affecting that economic sector.

Short Sales Risk — A short sale entails selling a borrowed security with the expectation that the price of the security will decline so that a client may purchase the security at a lower price when the client must return the security that it borrowed. While the potential losses associated with investing in stocks are typically limited to the original cost of the securities, the potential for losses associated with short positions is much greater than the original value of the securities sold short. The client may not always be able to close out a short position at a particular time or at an acceptable price. A lender may request that borrowed securities be returned to it on short notice, and the client may have to buy the borrowed securities at an unfavorable price, resulting in a loss. Short sales also subject a client to risks related to the lender (such as bankruptcy risks) or the general risk that the lender does not comply with its obligations.

Syndicated Bank Loans Risk — Syndicated bank loans are subject to some of the same risks as other debt securities, such as prepayment risk, credit risk, interest rate risk, liquidity risk and risks found with high yield securities. Syndicated loans may be issued in connection with a restructuring (such as leveraged buyout loans, leveraged recapitalizations and other types of acquisition financing). Lower rated syndicated bank loans and debt securities (those of less than investment grade quality), involve greater risk of default on interest and principal payments than higher-rated syndicated bank loans and securities. Syndicated bank loans are senior obligations of the borrower or issuer, are generally secured by collateral (which can be difficult to liquidate and its value can decline or be insufficient to meet the obligations of the borrower), and generally are subject to certain restrictive covenants in favor of the lenders or security-holders that

invest in them. Syndicated bank loans generally offer a floating interest rate. Syndicated bank loans may decline in value if their interest rates do not rise as much or as fast as interest rates in general.

Technology Stocks Risk — Companies in the rapidly changing field of technology often face unusually high price volatility, both in terms of gains and losses. The potential for wide variation in performance is based on the special risks common to these stocks. Products or services that at first appear promising may not prove commercially successful or may become obsolete quickly. Earnings disappointments can result in sharp price declines. The level of risk will be increased to the extent that a client has significant exposure to smaller or unseasoned companies (those with less than a three-year operating history), which may not have established products or more experienced management.

Tracking Error Risk – The Advisor may not be able to cause the strategy’s performance to match that of the benchmark, either on a daily or aggregate basis. Factors such as expenses, imperfect correlation between the strategy’s investments and those of the underlying index, rounding of share prices, changes to the composition of the underlying index, regulatory policies, high portfolio turnover rate, and the use of leverage all contribute to tracking error. Tracking error may cause the strategy’s performance to be less than you expect.

Value Stocks Risk — Investments in value stocks are subject to the risk that their intrinsic values may never be realized by the market or that their prices may go down. While a client’s investments in value stocks may limit downside risk over time, a client may, as a trade-off, produce more modest gains than riskier stock funds.

* * *

The foregoing list of risk factors does not purport to be a complete enumeration or explanation of the risks involved in an investment strategy. Prospective and existing investors are encouraged to consult their own financial advisors and legal and tax professionals on an initial and continuous basis in connection with the selection of and investment in a particular strategy or product. In addition, due to the dynamic nature of investments and markets, strategies may be subject to additional and different risk factors not discussed herein.

DISCIPLINARY INFORMATION

In April 2009, Security Investors, LLC received a notice to show cause from the Securities and Exchange Board of India (“SEBI”) regarding the delay in informing the SEBI of its name change. Security Global Investors replied according to the procedure outlined by the SEBI and proposed a consent order and fine. The SEBI agreed to the proposed consent and entered such order in September 2009. The fine paid was approximately 325,000 Rupees, or \$7,053.

OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

Guggenheim Investments is part of a larger group of affiliated companies engaged in the financial services business. In some cases, Guggenheim Investments has business arrangements with its related companies that are material to Guggenheim Investments' advisory business or to its clients. These are described in more detail below and, in some cases, may cause Guggenheim Investments or a related person's interests to diverge from the best interests of a client.

Registered Broker-Dealers

Guggenheim Distributors, LLC ("Guggenheim Distributors"), an affiliate of Guggenheim Investments, is registered with the SEC as a broker-dealer and is a member of the Financial Industry Regulatory Authority ("FINRA"). Guggenheim Distributors acts as principal underwriter for certain of the Funds for which Guggenheim Investments acts as investment adviser.

Guggenheim Investments may, on behalf of a client, including a Fund, execute brokerage or other agency transactions through registered broker-dealers affiliated with Guggenheim Investments, such as Guggenheim Distributors, for commissions. Guggenheim Investments may have an incentive to effect such transactions through an affiliate. However, such transactions must comply with applicable law, regulations and the policies of Guggenheim Investments. Moreover, with respect to the Funds, under applicable law and regulations, affiliated broker-dealers are generally permitted, subject to certain conditions, to receive and retain compensation for effecting portfolio transactions for a Fund provided that the commission is fair and reasonable compared to the commission received by other broker-dealers in connection with comparable transactions. The board of directors or trustees of a Fund, as applicable, also must adopt procedures for evaluating the reasonableness of commissions paid to affiliates. The brokerage practices of Guggenheim Investments are described in more detail in the section entitled "Brokerage Practices". SI has other related persons that are registered broker/dealers, none of which are material to SI's business. SI will provide a list of those broker/dealers upon request.

The following Guggenheim Investments officers are also registered representatives of an affiliated broker-dealer:

Name	Title
Joseph Arruda	Vice President
Todd Boehly	President & CEO
Nick Bonos	Senior Vice President
Michael P. Byrum*	Senior Vice President
Donald Cacciapaglia	Executive Vice President
Amy Damman	Assistant Treasurer
Amy J. Lee	Senior Vice President & Secretary

*Mr. Byrum is also a Portfolio Manager for Guggenheim Investments.

Investment Companies

Guggenheim Investments serves as investment adviser and/or administrator of the Funds, which are identified in the section entitled “Advisory Business”. Guggenheim Investments also acts as investment adviser to SBL Fund and Rydex Variable Trust, which serve as underlying investment vehicles for variable insurance products issued by SBL and FSBL. Guggenheim Investments, FSBL and SBL are affiliates. As discussed below in the section entitled “Code of Ethics, Participation or Interest in Client Transactions and Personal Trading,” under certain circumstances, Guggenheim Investments may invest client assets in the shares of the Funds, subject to the policies and procedures of Guggenheim Investments.

Registered Investment Advisers

Guggenheim Partners Investment Management (“GPIM”), an investment adviser registered with the SEC under the 1940 Act, serves as a sub-adviser to certain Funds, pursuant to a sub-advisory agreement with Guggenheim Investments, which was approved by the Funds’ board of directors. Additional information about GPIM is available on the SEC’s website at www.adviserinfo.sec.gov.

CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING

As described in the section entitled “Types of Clients”, Guggenheim Investments provides investment advisory services to numerous clients, including the Funds. Guggenheim Investments or a related person may give advice and take action with respect to any client account, or for their own account, or for the account of an access person, that may differ from any action taken on behalf of other accounts. Guggenheim Investments and its related persons are not obligated to recommend, buy or sell, or to refrain from recommending, buying or selling any security that Guggenheim Investments or its related persons, or their “Access Persons,” as defined by the 1940 Act and by the Advisers Act, may buy or sell for its or their own account or for the accounts of any other client. Neither Guggenheim Investments nor a related person, nor any Access Person, is obligated to refrain from investing in securities held by the accounts that Guggenheim Investments manages except to the extent that such investments violate the Code of Ethics adopted by Guggenheim Investments and the Funds.

From time to time, employees and principals of Guggenheim Investments or any related person(s) may invest or otherwise have an interest in securities owned by or recommended to clients of Guggenheim Investments. Additionally, such persons may invest or otherwise have an interest, either directly or indirectly, in the Funds, which, in turn, may invest in securities held in other accounts advised by Guggenheim Investments. As these situations may involve potential conflicts of interest, Guggenheim Investments has implemented policies and procedures relating to personal securities transactions, insider trading and side by side management, including the Code of Ethics, that are designed to identify potential conflicts of interest, to prevent or mitigate actual conflicts of interest and to resolve such conflicts appropriately if they do occur.

Code of Ethics

The Code of Ethics reinforces that Guggenheim Investments and each supervised person has a fiduciary duty to clients to conduct personal securities transactions in a manner that does not interfere with client securities transactions or otherwise take unfair advantage of clients. The Code of Ethics further provides that Guggenheim Investments and its supervised persons shall at all times: (1) place the interests of clients first; (2) conduct all personal securities transactions consistent with this Code of Ethics and in such a manner as to avoid any actual or potential conflict of interest or any abuse of their position of trust and responsibility; (3) avoid taking inappropriate advantage of their positions; and (4) act in compliance with applicable federal securities laws. Guggenheim Investments’ supervised persons are required to provide acknowledgement each year that they have read and understand the Code of Ethics.

The Code of Ethics requires all Access Persons of Guggenheim Investments to report to the Chief Compliance Officer (“CCO”) once each year all securities holdings in which they had any direct or indirect beneficial ownership and to report within 30 days of the end of each calendar quarter their personal securities transactions. Access Persons include

officers and directors of Guggenheim Investments, employees that participate in, or obtain information regarding, clients' purchases or sales of securities or whose job relates to the making of any recommendations with respect to such purchases or sales. Reportable personal securities transactions include transactions in shares of the Funds, or other mutual funds whose investment adviser or principal underwriter controls, is controlled by, or is under common control with, Guggenheim Investments. Access Persons are required to obtain prior clearance of their personal securities transactions from the compliance department, unless such transactions are exempt from prior clearance as set forth in the policy.

The Code of Ethics prohibits Access Persons from purchasing or selling an equity or fixed income security during the period beginning seven (7) calendar days before and ending seven (7) calendar days after a client trades in that security, and prohibits Access Persons from purchasing shares offered in an initial public offering ("IPO"). The Code of Ethics also prohibits Access Persons from engaging in excessive trading of shares of the Funds, except for those Funds that allow unlimited trading, as referenced in the Combined Code of Ethics. Trading in such shares generally is considered excessive if it exceeds one round trip (*i.e.*, in and out of the same Fund) within any 90-day period. All violations of the Code of Ethics must be reported to the CCO. Guggenheim Investments will provide a copy of its Code of Ethics to any client or prospective client upon request. Guggenheim Investments' contact information appears on the cover page of this Brochure.

Other Conflicts of Interest Associated with Management of, and Interests in, Client Accounts

Recommendations of and Investments in Securities in which Guggenheim Investments and Certain Related Parties have a Financial Interest

Under certain circumstances, Guggenheim Investments may invest client assets in the shares of the Funds. Guggenheim Investments is subject to conflicts of interest in doing so and in allocating the assets among the various underlying Funds, both because the fees payable to it by some underlying Funds may be higher than the fees payable by other underlying funds and because Guggenheim Investments is also responsible for managing each of the underlying Funds. In such instances, Guggenheim Investments will waive advisory fees for the client's account in an amount equal to the client's proportionate share of the fees paid to Guggenheim Investments by the Fund, so that the client does not effectively pay two fees to Guggenheim Investments. In advising the Managed Futures Strategy Fund, Managed Commodities Strategy Fund, Multi-Hedge Strategies Fund and Commodities Strategy Fund, Guggenheim Investments will also be selecting a CFC as an investment. Since each CFC is a wholly-owned subsidiary of each Fund, the Funds have a vested financial interest in its respective CFC. However, because each Fund is the sole owner and investor of its respective CFC, no other entity will benefit from the respective CFC's operation.

Investments by Guggenheim Investments and Certain Related Parties in Securities Recommended to Clients

From time to time, Guggenheim Investments may recommend or cause a client to invest in a security in which a person associated with Guggenheim Investments has an ownership position, or a person associated with Guggenheim Investments may purchase a security that is held in a client account or has been recommended by Guggenheim Investments. In addition, employees of Guggenheim Investments are permitted to invest in securities which Guggenheim Investments recommends to its clients, subject to Guggenheim Investments' Code of Ethics, which, as discussed above, prohibits access persons from purchasing or selling an equity or fixed income security during the period beginning seven (7) calendar days before and ending seven (7) calendar days after a client trades in that security, and prohibits access persons from purchasing shares offered in an IPO.

Side-by-Side Management and Differential Interests

As discussed above, the nature and amount of compensation paid to Guggenheim Investments by certain clients, which may be managed pursuant to investment strategies which may involve investing in similar, competing or conflicting investments, than other accounts, may differ from that paid by other clients. Additionally, Guggenheim Investments and its personnel may have differing investment or pecuniary interests in different accounts and personnel may have differing compensatory interests with respect to different accounts. Guggenheim Investments faces a potential conflict of interest when (1) the actions taken on behalf of one account may impact other similar or different accounts (*e.g.*, because such accounts have the same or similar investment strategies or otherwise compete for investment opportunities, have potentially conflicting investment strategies or investments, or have differing ability to engage in short sales and economically similar transactions) and (2) Guggenheim Investments and its personnel have differential interests in such accounts (*i.e.*, expose Guggenheim Investments or its related persons to differing potential for gain or loss through differential ownership interests or compensation structures) because Guggenheim Investments may have an incentive to favor certain accounts over others that may be less lucrative. These conflicts may present particular concern when, for example, Guggenheim Investments places, or allocates the results of, securities transactions that Guggenheim Investments believes could more likely result in favorable performance, engages in cross trades or executes potentially conflicting or competing investments. To mitigate these conflicts, Guggenheim Investments' policies and procedures seek to provide that investment decisions are made in accordance with the fiduciary duties owed to such accounts and without consideration of Guggenheim Investments' (or such personnel's) pecuniary, investment or other financial interests.

BROKERAGE PRACTICES

In addition to using brokers as “agents” and paying commissions, Guggenheim Investments may cause clients to buy or sell securities from or to dealers acting as principal at prices that include markups or markdowns, and may buy securities from underwriters or dealers in public offerings at prices that include compensation to the underwriters or dealers.

Selection Criteria, Generally

In choosing brokers and dealers, Guggenheim Investments is not required to consider any particular criteria. Guggenheim Investments seeks “best execution.” What constitutes “best execution” and determining how to achieve it are inherently uncertain. In evaluating whether a broker or dealer will provide best execution, Guggenheim Investments considers a range of factors. In addition to quantitative factors such as transaction costs, Guggenheim Investments may consider a number of other factors, including, among others, (1) the size and type of transaction; (2) access to liquidity; (3) execution efficiency; (4) capital utilization; (5) the value of brokerage and research services provided by the broker; (6) clearance and settlement services; (7) financial responsibility/counterparty credit statistics; (8) responsiveness to inquiries or issues; (9) confidentiality; (10) knowledge of the specific security and its industry group; (11) the availability of securities to borrow for short sales; (12) block trading capabilities; (13) access to markets; and (14) the ability to limit market impact. As discussed below, Guggenheim Investments is not required to select the broker or dealer that charges the lowest transaction cost, even if that broker or dealer provides execution quality comparable to other brokers or dealers, and, at times, client accounts may pay more than the lowest transaction cost available in order to obtain for themselves and/or Guggenheim Investments services and products other than securities transaction execution.

Guggenheim Investments does not expect to use one particular broker or dealer, and when one or more brokers is believed capable of providing the best combination of price and execution, Guggenheim Investments may select a broker based upon brokerage, research, or other services provided to Guggenheim Investments, subject to the Soft Dollar Policies and Procedures of Guggenheim Investments. For example, Guggenheim Investments has entered into an arrangement with Goldman Sachs Execution & Clearing (“GSEC”) pursuant to which GSEC has agreed to waive a portion of the fees associated with Guggenheim Investments’ use of an order management system sponsored by GSEC, if a certain volume of trades are transacted with the Goldman Sachs & Co. Program Trading Desk. Guggenheim Investments may pay a higher commission than otherwise obtainable from other brokers in return for such services only if a good faith determination is made that the commission is reasonable in relation to the services provided

Guggenheim Investments also maintains variable requirements for trading partners based on various trading environments and strategies. These include access to traders on a daily

basis, input from the traders on developing strategies and services, ability to trade multiple types of investment products, access to analysts and research, access to various sources of liquidity, rapid execution, access to technology, responsiveness to Guggenheim Investments' requests, and other strategic services.

"Soft Dollars"

As noted above, in choosing brokers and dealers, Guggenheim Investments may take into consideration the value of various services or products, beyond transaction execution, that they provide. Further, the amount of compensation an account pays a broker or dealer who provides those services and/or products may be higher than what another, equally capable broker or dealer might charge. Guggenheim Investments engages in soft dollar transactions only when it believes the commission paid is reasonable in relation to the value of the brokerage and research services received. Furthermore, this practice does not relieve Guggenheim Investments from its duty of seeking best execution. It is Guggenheim Investments' policy to disclose fully its use of soft dollars to all prospective clients. Selecting a broker or dealer in recognition of the provision of services or products other than transaction execution is known as paying for those services or products with "soft dollars."

Guggenheim Investments may use soft dollars to acquire a variety of "research" and "brokerage" services and products for which clients would not otherwise be required to pay. Section 28(e) of the Securities Exchange Act of 1934 permits Guggenheim Investments, under certain circumstances, to cause client accounts to pay a broker or dealer a commission for effecting a transaction in excess of the amount of commission another broker or dealer would have charged for effecting the transaction, in recognition of the value of either proprietary or third-party brokerage and research services provided by the broker or dealer. To be protected under Section 28(e), Guggenheim Investments must, among other things, determine that the commissions paid are reasonable in light of the value of the brokerage and research services and products acquired.

For purposes of Section 28(e), "research" means services or products used to provide lawful and appropriate assistance to Guggenheim Investments in making investment decisions for its clients. The types of "research" Guggenheim Investments expects to acquire (and which Guggenheim Investments has generally received during the last fiscal year) include (but are not limited to): (1) reports on or other information about particular companies or industries; (2) economic surveys or analyses; (3) portfolio evaluation services; (4) financial database software and services; (5) computerized quotation and statistical services; (6) analytical software; and (7) other products or services that may enhance Guggenheim Investments' investment decision making. "Brokerage" services and products Guggenheim Investments expects to acquire (and which Guggenheim Investments has generally received during the last fiscal year) are those used to effect portfolio transactions for Guggenheim Investments' clients or to assist in effecting those transactions (such as computer systems and facilities used for such tasks as communicating orders electronically to executing brokers).

Section 28(e) generally protects the use of an account's soft dollars even when Guggenheim Investments uses research and brokerage services and products to benefit clients other than the client account that generated the commissions used to obtain the research or brokerage services. Notwithstanding this protection, Guggenheim Investments has a conflict of interest when it uses soft dollars for research and brokerage services and products because it might otherwise have to pay cash for those services and products and it may have an incentive to use brokers or dealers who provide those products and services more than it otherwise would. Any service or product that is not protected under Section 28(e) (*i.e.*, not a "research" or "brokerage" service or product) will not be acquired through soft dollar payments.

Guggenheim Investments may use soft dollars for "mixed use" products and services—products and services that are used in part for research or brokerage purposes and in part for other purposes. When a mixed use product or service is obtained, Guggenheim Investments must allocate the value of such services between research and brokerage (which can be paid for with soft dollars) and other services (which cannot be paid for with soft dollars). Since that portion of a service that is not research or brokerage must be paid for from Guggenheim Investments' own assets, it has a conflict of interest when making this allocation. Guggenheim Investments believes that its allocation procedures are reasonably designed to ensure that it appropriately allocates the anticipated use of such services to their research and non-research uses.

Guggenheim Investments may direct a portion of the commissions from executing trades to a broker through a Commission Sharing Agreement ("CSA"). Where Guggenheim Investments has executed a CSA, Guggenheim Investments will place a trade with the broker and pay the negotiated commission to that broker. The broker will then credit a negotiated portion of the commission for the purpose of funding a pool to be used to pay for research products or services received by Guggenheim Investments from third parties.

On behalf of its clients, Guggenheim Investments may also buy securities from, or sell securities to, dealers acting as principals or market makers. In contrast to the "agency" transactions discussed above, Guggenheim Investments will seek best execution in selecting such dealers without considering any research services obtained in connection with such principal transactions, although it may receive such services from such dealers from time to time. Guggenheim Investments, however, may consider research services in connection with "riskless principal" transactions that are reported pursuant to certain FINRA rules that ensure transparency as to security price and transaction charges, or in connection with transactions in other markets having regulations that ensure comparable transparency of security prices and charges. In addition, Guggenheim Investments may obtain research services in connection with investments in underwritten fixed price offerings consistent with certain FINRA rules.

In addition, from time to time, Guggenheim Investments may purchase new issues of securities for clients in a fixed price offering. In these situations, the seller may be a member of the selling group that will, in addition to selling securities, provide Guggenheim Investments with research services. FINRA has adopted rules expressly

permitting these types of arrangements under certain circumstances. Generally, the seller will provide research “credits” in these situations at a rate that is higher than that which is available for typical secondary market transactions. These arrangements may not fall within the safe harbor of Section 28(e).

Wrap Fee Programs

As noted above, Guggenheim Investments may participate as a portfolio manager in various Wrap Fee Programs in which the Program Sponsor would generally: (1) recommend Guggenheim Investments; (2) pay Guggenheim Investments’ management fees on behalf of the Wrap Fee Program client; (3) execute the Wrap Fee Program client’s portfolio transactions, generally without separate commission charges; (4) monitor Guggenheim Investments’ performance; and (5) in most cases, act as custodian or provide some combination of these or other services, all for a single fee paid by the client to the Program Sponsor. Many wrap fee programs require that brokerage transactions ordinarily will be effected through the Program Sponsor or its designated broker-dealer (the “designated broker”) or charge separately for transactions not effected through the designated broker.

In evaluating a Wrap Fee Program, a client should recognize that transactions executed by the designated broker on behalf of the client’s account are not negotiated by Guggenheim Investments and Guggenheim Investments may not be free to seek the best available combination of price and execution. Even under those wrap fee arrangements in which Guggenheim Investments retains some discretion to select other brokers or dealers to execute client transactions if Guggenheim Investments believes that “best execution” may be obtained elsewhere, since the client has already paid an asset-based charge that includes commissions on transactions executed through the designated broker (and since transactions executed away from the designated broker would generally result in the client paying a commission, concession, dealer mark-up or mark-down, or other fees associated with the execution and/or settlement of that transaction in addition to the wrap fee), Guggenheim Investments expects that best execution would generally be through the designated broker.

Clients participating in a Wrap Fee Program with separate commission charges may execute a written directed brokerage instruction in favor of the designated broker. In such circumstances, the client will be subject to the same consequences as any other directed brokerage client, as described below under the heading “Client Directed Brokerage Arrangements.” As with client directed brokerage arrangements, Guggenheim Investments is often unable to freely select broker-dealers for Wrap Fee Program client transactions. As a result, Guggenheim Investments may be unable to batch orders for Wrap Fee Program clients with orders for other clients. This may result in Wrap Fee Program clients paying higher commissions or greater spreads than other clients, or receiving less favorable net prices and poorer execution than might be the case if Guggenheim Investments could negotiate commission rates or spreads freely.

Wrap Fee Program clients should also be aware that the overall costs of obtaining the services provided through their Wrap Fee Program may exceed those which might be available if the client were to obtain such services separately and outside of the program. Accordingly, Wrap Fee Program clients should satisfy themselves that the wrap fee program is a suitable investment, given the client's particular financial needs and circumstances.

Client Directed Brokerage Arrangements

A client that is not participating in a Wrap Fee Program may nonetheless direct Guggenheim Investments to effect part or all of the portfolio transactions for the client's account through specific brokers or dealers. Such directions may be subject to restrictions agreed to by Guggenheim Investments and the client, such as a maximum commission rate. Clients should note, however, that the designated broker or dealer may not always have the ability to obtain best execution of all transactions. Where clients designate brokers or dealers through which transactions are to be effected, Guggenheim Investments generally will not negotiate commission rates with those brokers or dealers. Furthermore, if a client directs brokerage, the client's account will not be able to participate in reduced commission rates which may be available to aggregated or "bunched" orders placed by Guggenheim Investments. Orders for such clients generally will be placed after orders for clients that leave the selection of brokers or dealers to the discretion of Guggenheim Investments. Execution of the transactions for Guggenheim Investments' other accounts could affect the market price of the security being bought or sold, meaning that the directing client's account may pay more for a security being purchased or receive less for a security being sold than Guggenheim Investments' other client accounts. Thus, an account utilizing a directed brokerage arrangement may pay higher commissions than those accounts which do not utilize directed brokerage.

Aggregation and Allocation of Orders

Guggenheim Investments maintains multiple trading facilities, each of which may have separate trade aggregation and allocation processes. Guggenheim Investments seeks to aggregate trade orders in a manner that is consistent with its duty to: (1) seek best execution of client orders; (2) treat all clients fairly and equitably over time; and (3) not systematically advantage or disadvantage any single client or group of clients.

Guggenheim Investments may combine orders on behalf of an account with orders for other accounts for which it or its principals have trading authority, or in which it or its principals have an economic interest. When it does, Guggenheim Investments will allocate the securities or proceeds arising out of those transactions (and the related transaction expenses) on an average price basis among the various participants. Guggenheim Investments believes combining orders in this way will, over time, be advantageous to all participants. However, the average price could be less advantageous to an account than if an account had been the only account effecting the transaction or had completed its transaction before the other participants. Because of Guggenheim

Investments' interest in some of the accounts, there may be circumstances in which an account's transactions may not, under certain laws and regulations, be combined with those of some of Guggenheim Investments' and its affiliates' other clients, and an account may obtain less advantageous execution than such other clients.

Guggenheim Investments may also trade securities on a rotational basis. Under the rotation procedures of Guggenheim Investments, for example, orders for Wrap Fee Program clients may be aggregated with orders of other clients of the same Wrap Fee Program, but such orders will not be aggregated with orders for clients of other Wrap Fee Programs and Guggenheim Investments' other clients. Guggenheim Investments uses this trade rotation procedure to ensure that all clients are treated in fair and equitable manner over time. Under the procedure, Guggenheim Investments' clients are divided into a number of separate groups, one group for each wrap program and another group for non-wrap clients. The groups are assigned an order as part of a daily rotation, in which the transactions will be executed, and execution for one group will be completed before execution for the next group will begin. Orders for wrap fee program clients will normally be executed by the trading desk of the particular program's sponsor, while orders for non-wrap clients will be executed by a broker chosen in accordance with Guggenheim Investments' normal brokerage selection policy. Once the rotation has been completed and the entire order has been allocated, the first client is moved to the bottom of the list for the next rotation. Due to the sequential execution of orders for different groups of clients under this trade rotation procedure, it is possible that clients in one group will receive a different price for a transaction in the same security than will clients of other groups.

Clients of Guggenheim Investments may be following the same or similar strategies at the same or different times as those being followed by Guggenheim Investments' other clients. Because different portfolio construction processes are used for different types of accounts, allocation of trading opportunities may not be granted to certain accounts with similar strategies where the portfolio manager in good faith determines that such opportunity may not be appropriate for certain such accounts.

REVIEW OF ACCOUNTS

Guggenheim Investments periodically reviews client accounts and provides reports to clients regarding their accounts. The nature and frequency of these reviews, as well as the frequency and content of these written reports, is discussed in more detail below.

Nature and Frequency of Client Account Review

Each account is managed by one or more portfolio managers of Guggenheim Investments. The portfolio managers review the accounts on a continuous basis and are responsible for the day-to-day operations of the account, including sector weightings, cash position, buy and sell decisions, performance and overall adherence with the investment philosophy and specific requirements of the account. In some cases, for instance when an account has an objective which necessitates the purchase of both equity and fixed income securities, two portfolio managers may share day-to-day responsibilities for the account. A more formal review of investment policy, strategy, asset allocation and other matters will be conducted at least quarterly and more often as circumstances warrant. The number of accounts that each portfolio manager is responsible for reviewing will vary depending on the nature and size of the accounts. The following supervised persons of Guggenheim Investments review client accounts:

Name	Title
Mark Mitchell	Portfolio Manager
Michael P. Byrum	Senior Vice President & CIO
Mark Bronzo	Portfolio Manager
Joseph O'Connor	Portfolio Manager

For accounts managed by the U.S. Fixed Income team, the Chief Investment Officer (“CIO”), other members of the Portfolio Construction Group (“PCG”), sector specialists (which include members’ various investment committees), and each portfolio manager regularly record and review the U.S. Fixed Income investment strategies. The CIO provides the sector specialists and the PCG with direction for overall investment strategy. The sector specialists, PCG members, and portfolio managers report to the CIO on the performance of the underlying portfolios and sectors. The PCG meets at least once a month and was formed to manage the fixed income investment process. In consultation with the CIO, the PCG determines both tactical and strategic asset allocations for client portfolios, providing sector specialists with direction for overall investment strategy, and performs risk management, overseeing the securities selected by sector specialists to seek to ensure they conform to client investment objectives. Sector teams (“Sector Specialist Teams”) for equity and fixed income incorporate the CIO’s (and, in the case of fixed income asset selection, the PCG’s) macroeconomic insights into the applicable Sector Special Team’s own investment selection. Members of the Sector Specialist Teams seek investment opportunities within their respective sectors, which are approved for purchase by the head of each Sector Specialist Team or by the investment committee dedicated to the specific sector, such as aviation or corporate credit, or in the case of quantitative

strategies, through the approved model. In addition, GI uses several systems to manage the day to day aspects of its investment management business. Those systems include: the Blackrock Solutions Aladdin (BRS) system (which acts as a portfolio management system and is used to manage the day-to-day aspects of GI's investment activity), Charles River, and Wall Street Office. Risk management of each portfolio is under the direction of the Assistant CIO for equities and fixed income, as applicable, as well as the PCG and the applicable Investment Committee who provides information to the CIO on a regular basis.

Frequency and Content of Client Account Reports

Direct Clients

Reports to Separate Accounts are generally provided on a monthly basis. In some cases, however, reports may be provided on a quarterly basis. Such reports generally contain information with respect to portfolio holdings, transactions and performance.

Wrap Fee Program Clients

Reports to Wrap Fee Program clients are provided by the Program Sponsor, and their content and frequency may vary from program to program. However, Guggenheim Investments (or a service provider) provides a report to each Program Sponsor on a monthly basis. Such reports generally contain information with respect to portfolio holdings, transactions and performance. Program Sponsors may also receive certain other reports from Guggenheim Investments (or a service provider), such as reports containing proxy voting information.

Investment Companies

Fund shareholders are provided with annual audited financial reports as well as semiannual unaudited reports, each of which is available through the SEC's EDGAR database at www.sec.gov. In addition, on a quarterly basis, Guggenheim Investments generally meets with, and provides a comprehensive report of the performance of each Fund to, the Fund's board of directors or trustees, as applicable. This report includes a comparison of each portfolio's performance measured against the performance of its applicable benchmark, market sector and/or a mutual fund peer with a similar investment objective. Special reports and materials are also provided to the directors or trustees, as applicable, from time to time or as requested.

CLIENT REFERRALS AND OTHER COMPENSATION

While Guggenheim Investments does not currently have any third-party referral arrangements in place, Guggenheim Investments may in the future compensate third parties for the referral of clients by paying a fee to the third party. These arrangements will be disclosed to clients and will otherwise be in accordance with Rule 206(4)-3 under the Advisers Act, which generally specifies certain standards that must be met by an investment adviser prior to the payment of a cash fee, directly or indirectly, for a client solicitation or referral.

CUSTODY

Not Applicable.

INVESTMENT DISCRETION

Guggenheim Investments generally has complete discretion over the selection and amount of securities to be bought or sold for clients (within the parameters established by the relevant investment management agreement or other governing document and subject to any reasonable investment restrictions) without obtaining any consent or approval of any client.

VOTING CLIENT SECURITIES

Guggenheim Investments is generally responsible for voting proxies with respect to securities held in client accounts. Guggenheim Investments' Proxy Voting Policies and Procedures are designed to ensure that proxies are voted in the best interests of its clients. As an investment adviser with a fiduciary responsibility to its clients, Guggenheim Investments seeks to vote proxies in a manner that maximizes the economic value of companies whose securities are held in client accounts for which Guggenheim Investments has been delegated voting discretion.

Guggenheim Investments has adopted Proxy Voting Guidelines which it uses in voting specific proposals. However, the vote entered on a client's behalf with respect to a particular proposal may differ from the Proxy Voting Guidelines if it is determined to be in the best interest of the client. In addition, the manner in which specific proposals are to be voted may differ based on the type of client account. For example, a specific proposal may be considered on a case-by-case basis for socially aware client accounts, while all other accounts may always vote in favor of the proposal. The Proxy Voting Guidelines cannot provide an exhaustive list of all the issues that may arise, nor can Guggenheim Investments anticipate all future situations. The Guidelines cover such agenda items as the election of directors, ratification of auditors, management and director compensation, anti-takeover mechanisms, mergers and corporate restructuring, and social and corporate policy issues.

Guggenheim Investments has delegated to an independent third party (the "Service Provider"), the responsibility to review proxy proposals and to vote proxies in a manner consistent with the Proxy Voting Guidelines. The Service Provider notifies Guggenheim Investments of all proxy proposals that do not fall within the Proxy Voting Guidelines (*i.e.*, proposals which are either not addressed in the Proxy Voting Guidelines or proposals for which Guggenheim Investments has indicated that a decision will be made on a case-by-case basis) and Guggenheim Investments then directs the Service Provider how to vote on that particular proposal.

Guggenheim Investments may occasionally be subject to conflicts of interest in the voting of proxies. Accordingly it has adopted procedures to identify potential conflicts and to ensure that the vote made is in the best interest of the client and is not a result of the conflict. Proxy materials from an issuer or its information agent are forwarded to registered owners of record, typically the client's custodian bank. Guggenheim Investments may be unable to vote or may determine not to vote a proxy on behalf of one or more clients. For example, Guggenheim Investments will generally abstain from voting a proxy in circumstances where, in its judgment, the costs exceed the expected benefits to the client.

Guggenheim Investments will provide clients with a copy of its Proxy Voting Policies and Procedures, including the Proxy Voting Guidelines, upon written request. Guggenheim Investments will make specific voting information relating to a client

available to that client upon written request. In addition, specific voting information relating to the Funds is available on SEC Form N-PX, available through the SEC's EDGAR database at www.sec.gov. Guggenheim Investments' contact information appears on the cover page of this Brochure.

From time-to-time a client may wish to vote their own proxy, and if Guggenheim Investments is not charged with voting responsibility under the investment management agreement, the client may direct the custodian to vote the proxy on its behalf and provide directions for the vote. In addition, if Guggenheim Investments is charged with voting responsibility under the investment management agreement, a client can advise Guggenheim Investments that it wishes to vote a particular way. In such a case, Guggenheim Investments will vote the client's proxy as the client requested.

FINANCIAL INFORMATION

Not Applicable.

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SERVICES

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PRIVACY POLICY

Our Commitment to You

Guggenheim Investments considers your privacy our utmost concern. When you become a Guggenheim Investments investor, you entrust us with not only your hard-earned money but also with personal and financial information about you. We recognize that your relationship with us is based on trust and that you expect us to act responsibly and in your best interests. Because we have access to this private information about you, we hold ourselves to the highest standards in its safekeeping and use. This means, most importantly, that we do not sell client information to anyone—whether it is your personal information or if you are a current or former Guggenheim Investments client.

The Information We Collect About You

In order to provide you with individualized service, we collect certain nonpublic personal information about you from information you provide on applications or other forms (such as name, address, Social Security or other tax identification number, age, financial status, assets, income, tax information, retirement and estate plan information, transaction history, account balance, payment history, bank account information, investment objectives, marital status, family relationships, information that we collect on our website through the use of “cookies,” and other personal information). We may also collect such information through your inquiries by mail, e-mail or telephone.

How We Handle Your Personal Information

As emphasized above, we do not sell information about current or former clients or their accounts to third parties. Nor do we share such information, except when necessary to complete transactions at your request or to make you aware of related investment products and services that we offer. Additional details about how we handle your personal information are provided below.

To complete certain transactions or account changes that you direct, it may be necessary to provide identifying information to companies, individuals or groups that are not affiliated with Guggenheim Investments. For example if you ask to transfer assets from another financial institution to Guggenheim Investments, we will need to provide certain information about you to that company to complete the transaction. To alert you to other Guggenheim Investments investment products and services, we may share your information within the Guggenheim Investments family of affiliated companies. This would include, for example, sharing your information within Guggenheim Investments so we can make you aware of new funds or the services offered through another Guggenheim Investments affiliated company. In certain instances, we may contract with nonaffiliated companies to perform services for us. Where necessary, we will disclose information we have about you to these third parties. In all such cases, we provide the third party with only the information necessary to carry out its assigned responsibilities and only for that purpose. And we require these third parties to treat your private information with the same high degree of confidentiality that we do.

In certain instances, we may share information with other financial institutions regarding individuals and entities in response to the U.S.A. Patriot Act.

We will release information about you if you direct us to do so, if we are compelled by law to do so, or in other circumstances as permitted by law (for example, to protect your account from fraud).

If you decide at some point either to close your account(s) or to become an inactive customer, we will continue to adhere to the privacy policies and practices described in this notice.

Opt-Out Provisions

We do not sell your personal information to anyone. The law allows you to “opt out” of only certain kinds of information sharing with third parties. The firm does not share personal information about you with any third parties that triggers this opt-out right. This means YOU ARE ALREADY OPTED OUT.

How We Protect Privacy Online

Our concern for the privacy of our shareholders also extends to those who use our web site — www.guggenheiminvestments.com. Our web site uses some of the most secure forms of online communication available, including encryption technology, Secure Socket Layer (SSL) protocol, firewalls and user names and passwords. These technologies provide a high level of security and privacy when you access your account information or initiate online transactions. The Guggenheim Investments web site offers customized features that require our use of “http cookies”—tiny pieces of information that we ask your browser to store. However, we make very limited use of these cookies. We only use cookies for session management and security features on the Guggenheim Investments web site. We do not use them to pull data from your hard drive, to learn your e-mail address, or to view data in cookies created by other web sites. We will not share the information in our cookies or give others access to it. See the legal information area on our web site for more details about web site security and privacy features.

How We Safeguard Your Personal Information

We restrict access to nonpublic personal information about shareholders to our employees and in some cases to third parties (for example, the service providers described above) as permitted by law. We maintain strict physical, electronic and procedural safeguards that comply with federal standards to guard your nonpublic personal information.

We'll Keep You Informed

As required by federal law, we will notify shareholders of our privacy policy annually. We reserve the right to modify this

policy at any time, but rest assured that if we do change it, we will tell you promptly. You will also be able to access our privacy policy from our web site at www.guggenheiminvestments.com. Should you have any questions regarding our privacy policy, contact us at 800.820.0888.

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• Not FDIC Insured • No Bank Guarantee • May Lose Value

Read a prospectus and summary prospectus (if available) carefully before investing. It contains the investment objectives, risks, charges, expenses and other information, which should be considered carefully before investing. To obtain a prospectus and summary prospectus (if available) click here or contact us.

Guggenheim Investments represents the investment management businesses of Guggenheim Partners, LLC ("GP"), which includes Security Investors, LLC ("SI"), Guggenheim Funds Investment Advisors, LLC ("GFIA") and Guggenheim Partners Investment Management ("GPIM"), the investment advisers to the referenced funds. **Securities offered through Guggenheim Funds Distributors, LLC and Guggenheim Distributors, LLC**, affiliates of GP, SI, GFIA and GPIM.

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Proxy Voting

Policy Creation Date:	August 30, 2004
Policy Reviewed As Of:	September 2004 September 2006 April 2009 September 2011
Policy Revised As Of:	September 2006 September 2011
Regulatory Rule:	Rule 206(4)-6 of the Investment Advisers Act of 1940

POLICY

Security Investors, LLC (“SI”) generally is responsible for voting proxies with respect to securities held in client accounts, including clients registered as investment companies under the Investment Company Act of 1940 (“Funds”) and clients that are pension plans (“Plans”) subject to the Employee Retirement Income Security Act of 1974 (“ERISA”). This document sets forth SI’s policies and guidelines with respect to proxy voting and its procedures to comply with SEC Rule 206(4)-6 under the Investment Advisers Act of 1940. Specifically, Rule 206(4)-6 requires that we:

- Adopt and implement written policies and procedures reasonably designed to ensure that we vote client securities in the best interest of clients;
- Disclose to clients how they may obtain information from us about how we voted proxies for their securities; and
- Describe our proxy voting policies and procedures to clients and furnish them a copy of our policies and procedures on request.

Proxies may have economic value and, where SI has been delegated the responsibility for voting proxies, we must take reasonable steps under the circumstances to ensure that proxies are received and voted in the best long-term economic interests of our clients, which generally means voting proxies with a view to enhancing the value of the shares of stock held in client accounts, considering all relevant factors and without undue influence from individuals or groups who may have an economic interest in the outcome of the proxy vote. Our authority is initially established by our advisory contracts or comparable documents. Clients, however, may change their proxy voting direction at any time.

The financial interest of our clients is the primary consideration in determining how proxies should be voted. Any material conflicts of interest between SI and our clients with respect to proxy voting are resolved in the best interests of clients.

FOR MORE INFORMATION:

The primary contacts with respect to this policy are the Senior Managers within Investment Management.

Proxy Voting

Procedure Creation Date:	August 30, 2004
Procedure Reviewed As Of:	September 2004 September 2006 April 2009 September 2011
Procedure Revised As Of:	September 2006 September 2011
Rule:	Rule 206(4)-6 of the Investment Advisers Act of 1940

BUSINESS UNIT: Investment Management

RESPONSIBILITY: Trading Desk

MANAGER RESPONSIBLE: Investment Management Senior Managers

PURPOSE:

In order to best serve the financial interest of our clients while voting proxies the following procedures have been created.

PROCEDURE:

1. Procedures - Security Investors, LLC ("SI") utilizes the services of an outside proxy voting firm, ISS/RiskMetrics, to act as agent for the proxy process, to maintain records on proxy votes for our clients, and to provide independent research on corporate governance, proxy and corporate responsibility issues. The Proxy Voting Guidelines, attached as Appendix A, Appendix B, and Appendix C to these Proxy Voting Policies and Procedures, set forth the guidelines that the Firm uses in voting specific proposals. Depending on the objective of Fund or client account and the portfolio team managing, SI will assign the proxy voting guidelines in Appendix A, B or C to determine how proxies will be voted. Generally though, the Funds or client accounts managed by the following investment management teams will adhere to the following Proxy Voting Guidelines:

Investment Team	Proxy Voting Guidelines
Quantitative Team	Appendix A
Value Team	Appendix B or Appendix C
Growth Team	Appendix B or Appendix C
Fixed Income Team	Appendix B or Appendix C

However, the vote entered on a client's behalf with respect to a particular proposal may differ from the Proxy Voting Guidelines if it is determined to be in the best interest of the client. If a proposal is voted in a manner different than set forth in the Proxy Voting Guidelines, the reasons therefore shall be documented in writing. The manner in which specific proposals are to be voted, may differ based on the type of client account. For example, a specific proposal may be considered on a case-by-case basis for socially aware client accounts, while all other accounts may always vote in favor of the proposal. In the absence of contrary instructions received from SI, ISS/RiskMetrics will vote proxies in accordance with the proxy voting guidelines (the "Guidelines") attached as Schedule A Schedule B or Schedule C hereto, as such Guidelines may be revised from time to time by representatives from the Investment Management groups and Compliance Department. (the ad hoc "Committee Risk Metrics notifies SI of all proxy proposals that do not fall within the Proxy Voting Guidelines (i.e. proposals which are either not addressed in the Proxy Voting Guidelines or proposals for which SI has indicated that a decision will be made on a case-by-case basis). Proposals which are either not addressed in the Proxy Voting Guidelines, or which are indicated to be voted case-by-case, are sent by ISS/Risk Metrics to investment teams responsible for the client account. If the investment team responsible determines that there is no material conflict of interest, the proposal is voted in accordance with his or her recommendation.

Under its arrangement with ISS/RiskMetrics, SI has agreed to:

- provide ISS/RiskMetrics with a copy of the Guidelines and to inform ISS/RiskMetrics promptly of any changes to the Guidelines;
 - deliver to ISS/RiskMetrics, on a timely basis, all documents, information and materials necessary to enable ISS/RiskMetrics to provide the services contemplated to be performed by it on a timely and efficient basis (such as conveying to ISS/RiskMetrics a power of attorney with respect to the services to be provided hereunder and providing ISS/RiskMetrics on a timely basis with SI's authorized stamp, proxy cards, special voting instructions, authorization letters to custodian banks and any other materials necessary for the performance by ISS/RiskMetrics of its duties);
 - provide ISS/RiskMetrics with a data file containing portfolio information (such as account numbers, share amounts, and security identifiers such as cusip and/or sedol numbers) on a regular basis; and coordinate with ISS/RiskMetrics with respect to the classification of a proxy items for the treatment of items not clearly defined under the Guidelines.
2. Resolving Potential Conflicts of Interest - SI may occasionally be subject to conflicts of interest in the voting of proxies due to business or personal relationships it maintains with persons having an interest in the outcome of certain votes. The proxies that are not addressed by the ISS proxy voting instructions or to be voted on a case-by-case basis will be forward to the Investment management teams. The Investment teams will be responsible for identifying potential conflicts of interest (on a case-by-case basis) in regard to the proxy voting process. Determination of whether there is a material conflict of interest between RI and a client due to (a) the provision of services or products by SI or SI affiliate to the company on whose behalf proxies are being solicited, (b) personal relationships that may exist between personnel of SI or its affiliates and proponents of a proxy issue or (c) any other matter or thing, shall be made by the investment team responsible for voting to proxy. If a conflict of interest exists, the investment team will consult the 'ad hoc committee' which comprises persons from the investment teams and compliance (and legal as necessary) to determine how to vote the proxy consistent with the procedures below.

Examples of potential conflicts of interest include:

- managing a pension plan for a company or accounts owned/controlled by a company whose management is soliciting proxies;
- significant business relationship - having a material business relationship with a proponent of a proxy proposal in which this business relationship may influence how the proxy vote is cast;
- significant personal/family relationship - SI, its employees or affiliates have a business or personal relationship with participants in a proxy contest, corporate directors or candidates for directorships.

To ensure that all proxies are voted in the best interests of clients and are not the product of any potential conflict of interests, if a potential conflict of interest exists SI will instruct ISS/RiskMetrics to vote in accordance with the established Guidelines. In the absence of established Guidelines (e.g., in instances where the Guidelines provide for a "case-by-case" review), SI may vote a proxy regarding that proposal in any of the following manners:

- Refer Proposal to the Client - SI may refer the proposal to the client and obtain instructions from the client on how to vote the proxy relating to that proposal.
- Obtain Client Ratification - If SI is in a position to disclose the conflict to the client (i.e., such information is not confidential), SI may determine how it proposes to vote the proposal on which it has a conflict, fully disclose the nature of the conflict to the client, and obtain the client's consent for how SI will vote on the proposal (or otherwise obtain instructions from the client on how the proxy on the proposal should be voted).
- Use an Independent Third Party for All Proposals - Subject to any client imposed proxy voting policies, SI may vote all proposals in a proxy according to the policies of an independent third party, such as ISS/RiskMetrics or a similar entity (or to have the third party vote such proxies).
- Use an Independent Third Party to Vote the Specific Proposals that Involve a Conflict - Subject to any client imposed proxy voting policies, SI may use an independent third party (such as ISS/RiskMetrics) to recommend how the proxy for specific proposals that involve a conflict should be voted (or to have the third party vote such proxies).
- Abstaining

The method selected by SI to resolve the conflict may vary from one instance to another depending upon the facts and circumstances of the situation, but in each case, consistent with its duty of loyalty and care.

3. Special Situations (As Applicable):

- 3.1. Securities Subject to Lending Arrangements - For various legal or administrative reasons, SI is often unable to vote securities that are, at the time of such vote, on loan pursuant to a client's securities lending arrangement with the

client's custodian. SI will refrain from voting such securities where the costs to the client and/or administrative inconvenience of retrieving securities then on loan outweighs the benefit of voting, assuming retrieval under such circumstances is even feasible and/or possible. In certain extraordinary situations, SI may seek to have securities then on loan pursuant to such securities lending arrangements retrieved by the clients' custodians for voting purposes. This decision will generally be made on a case-by-case basis depending on whether, in SI's judgment, the matter to be voted on has critical significance to the potential value of the securities in question, the relative cost and/or administrative inconvenience of retrieving the securities, the significance of the holding and whether the stock is considered a long-term holding. There can be no guarantee that any such securities can be retrieved for such purpose.

3.2 Special Issues with Voting Foreign Proxies - Voting proxies with respect to shares of foreign stocks may involve significantly greater effort and corresponding cost due to the variety of regulatory schemes and corporate practices in foreign countries with respect to proxy voting. Because the cost of voting on a particular proxy proposal could exceed the expected benefit to a client (including an ERISA Plan), SI may weigh the costs and benefits of voting on proxy proposals relating to foreign securities and make an informed decision on whether voting a given proxy proposal is prudent.

3.3 Share Blocking - In certain countries the exercise of voting rights could restrict the ability of an account's portfolio manager to freely trade the security in question ("share blocking"). The portfolio manager retains the final authority to determine whether to block the shares in the client's account or to forego voting the shares.

3.4 Lack Of Adequate Information, Untimely Receipt Of Proxy Or Excessive Costs - SI may be unable to enter an informed vote in certain circumstances due to the lack of information provided in the proxy statement or by the issuer or other resolution sponsor, and may abstain from voting in those instances. Proxy materials not delivered in a timely manner may prevent analysis or entry of a vote by voting deadlines. SI's practice is to abstain from voting a proxy in circumstances where, in its judgment, the costs exceed the expected benefits to the client.

3.5 Shares Of Registered Investment Companies (Fund of Funds) - Certain funds are structured as fund of funds and invest their assets primarily in other underlying funds (the "Funds of Funds"). The Funds of Funds will vote their shares in the underlying fund in the same proportion as the vote of all the shareholders in that underlying fund (also called "mirror" or "echo" voting).

4. Undue Influence:

If at any time any person involved in the SI's proxy voting process is pressured or lobbied either by SI's personnel or affiliates or third parties with respect to a particular proposal, he or she should provide information regarding such activity to SI's compliance officer, or in his or her absence, to the Law Department. A determination will then be made regarding this information, keeping in mind SI's duty of loyalty and care to its clients.

REPORTING REQUIREMENTS:

Assistance with Form N-PX and Proxy Voting Record - SI shall assist its Fund clients in disclosing the following information on Form N-PX for each proxy matter relating to a portfolio security considered at any shareholder meeting held during the period covered by the report and with respect to which SI, or ISS/RiskMetrics as its agent, voted on the client's behalf by accessing the following information to the Fund on an annual basis within 45 days after June 30:

- the name of the issuer of the portfolio security;
- the exchange ticker symbol of the portfolio security (if available through reasonably practicable means);
- the Council on Uniform Security Identification Procedures ("CUSIP") number for the portfolio security (if available through reasonably practicable means);
- the shareholder meeting date;
- a brief identification of the matter voted on;
- whether the matter was proposed by the issuer or by a security holder;
- whether SI (or ISS/RiskMetrics as its agent) cast the client's vote on the matter;
- how SI (or ISS/RiskMetrics as its agent) cast the client's vote (e.g., for or against proposal, or abstain; for or withhold regarding election of directors); and
- whether SI (or ISS/RiskMetrics as its agent) cast the client's vote for or against management.

SI has access to the information on a quarterly basis. Form N-PX is required to be filed for each Trust or Series Fund by August 31 of each year and must disclose the proxies received by the Funds between July 1 and June 30.

TESTING AND REVIEW:

Compliance will obtain a quarterly attestation from Senior Portfolio and Trading Managers that they are not aware of any violations of the policies and procedures. Furthermore, the Compliance Department will at a minimum audit these policies and procedures annually and will maintain evidence of such review.

RECORDKEEPING:

SI is required to keep the following records:

- a copy of this Policy;
- proxy statements received regarding client securities;
- records of votes cast on behalf of clients;
- any documents prepared by SI that were material to making a decision how to vote, or that memorialized the basis for the decision; and
- records of client requests for proxy voting information and a copy of any written response by SI to any client request (regardless of whether such client request was written or oral).

The foregoing records will be retained for such period of time as is required to comply with applicable laws and regulations.

With respect to SI's Fund clients, the Fund shall maintain a copy of each of the records that is related to proxy votes on behalf of the Fund by SI. Additionally, SI may keep Fund client records as part of SI's records.

SI may rely on proxy statements filed on the SEC's EDGAR system instead of keeping its own copies, and may rely on proxy statements and records of proxy votes cast by SI that are maintained with a third party, such as ISS/RiskMetrics, provided that SI has obtained an undertaking from the third party to provide a copy of the documents promptly upon request.

TRAINING:

Compliance and Portfolio personnel receive necessary on the job training.

DISCLOSURE:

Disclosure of How to Obtain Voting Information - On or before August 6, 2003, Rule 206(4)-6 requires SI to disclose in response to any client request how the client can obtain information from SI on how the client's securities were voted. SI will disclose in Part II of its Form ADV that clients can obtain information on how their securities were voted by making a written request to SI. Upon receipt of a written request from a client, SI will provide the information requested by the client within a reasonable amount of time.

Rule 206(4)-6 also requires SI to describe its proxy voting policies and procedures to clients, and upon request, to provide clients with a copy of those policies and procedures. SI will provide such a description in Part II of its Form ADV. Upon receipt of a written request from a client, SI will provide a copy of this policy within a reasonable amount of time.

If approved by the client, this policy and any requested records may be provided electronically.

REVISIONS:

These procedures shall remain in effect until amended, modified or terminated.

APPENDIX A

SECURITY INVESTORS PROXY VOTING POLICIES AND PROCEDURES

PROXY VOTING GUIDELINES

Security Investors, LLC (“SI”) believes that management is generally in the best position to make decisions that are essential to the ongoing operation of the company and which are not expected to have a major impact on the corporation and its shareholders. Accordingly, SI will generally vote with management on “routine items” of a corporate administrative nature. SI will generally review all “non-routine items” (e.g., those items having the potential for major economic impact on the corporation and the long-term value of its shares) on a case-by-case basis.

Board of Directors

- | | |
|--|----------------|
| A. Director Nominees in Uncontested Elections | Vote With Mgt. |
| B. Chairman and CEO is the Same Person | Vote With Mgt. |
| C. Majority of Independent Directors | Vote With Mgt. |
| D. Stock Ownership Requirements | Vote With Mgt. |
| E. Limit Tenure of Outside Directors | Vote With Mgt. |
| F. Director and Officer Indemnification and Liability Protection | Vote With Mgt. |
| G. Eliminate or Restrict Charitable Contributions | Vote With Mgt. |

Proxy Contests

- | | |
|---|----------------|
| A. Voting for Director Nominees in Contested Election | Vote With Mgt. |
| B. Reimburse Proxy Solicitation | Vote With Mgt. |

Auditors

- | | |
|-----------------------|----------------|
| A. Ratifying Auditors | Vote With Mgt. |
|-----------------------|----------------|

Proxy Contest Defenses

- | | |
|---|----------------|
| A. Board Structure – Classified Board | Vote With Mgt. |
| B. Cumulative Voting | Vote With Mgt. |
| C. Shareholder Ability to Call Special Meetings | Vote With Mgt. |

Tender Offer Defenses

- | | |
|--|----------------|
| A. Submit Poison Pill for shareholder ratification | Case-by-Case |
| B. Fair Price Provisions | Vote With Mgt. |
| C. Supermajority Shareholder Vote Requirement To Amend the Charter or Bylaws | Vote With Mgt. |
| D. Supermajority Shareholder Vote Requirement | Vote With Mgt. |

Miscellaneous Governance Provisions

- | | |
|------------------------|----------------|
| A. Confidential Voting | Vote With Mgt. |
| B. Equal Access | Vote With Mgt. |
| C. Bundled Proposals | Vote With Mgt. |

Capital Structure

- | | |
|-------------------------------|----------------|
| A. Common Stock Authorization | Vote With Mgt. |
| B. Stock Splits | Vote With Mgt. |
| C. Reverse Stock Splits | Vote With Mgt. |
| D. Preemptive Rights | Vote With Mgt. |
| E. Share Repurchase Programs | Vote With Mgt. |

Executive and Director Compensation

- | | |
|---|----------------|
| A. Shareholder Proposals to Limit Executive and Directors Pay | Case-by-Case |
| B. Shareholder Ratification of Golden and Tin Parachutes | Vote With Mgt. |
| C. Employee Stock Ownership Plans | Vote With Mgt. |

D. 401(k) Employee Benefit Plans

Vote With Mgt.

State of Incorporation

A. Voting on State Takeover Plans

Vote With Mgt.

B. Voting on Reincorporation Proposals

Vote With Mgt.

Mergers and Corporate Restructurings

A. Mergers and Acquisitions

Case-by-Case

B. Corporate Restructuring

Vote With Mgt.

C. Spin-Offs

Vote With Mgt.

D. Liquidations

Vote With Mgt.

Social and Environmental Issues

A. Issues with Social/Moral Implications

Vote With Mgt.

APPENDIX B

Please See ISS/RiskMetrics' Research Based Proxy Voting Guidelines (U.S. and International)

APPENDIX C

Please See ISS/RiskMetrics' Taft-Hatley Advisory Services Voting Guidelines



An MSCI Brand

2012 U.S. Proxy Voting Summary Guidelines

December 19, 2011

Institutional Shareholder Services Inc.

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ISS' 2012 U.S. Proxy Voting Summary Guidelines

Effective for Meetings on or after Feb. 1, 2012

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INTRODUCTION

The primary purpose of a public corporation is to create sustainable value for its shareowners. To that end, ISS designs its proxy voting guidelines to enhance shareholders' long-term economic interests. ISS' Benchmark proxy voting guidelines serve as a tool to assist institutional investors in meeting their fiduciary requirements with respect to voting by promoting shareholder value creation and risk mitigation at their portfolio firms.

ISS reviews and updates its proxy voting guidelines each year, taking into account emerging issues and trends, the evolution of market standards, regulatory changes, and feedback provided by ISS' institutional clients.

ISS' robust and transparent [policy formulation process](#) includes an exhaustive review of relevant empirical studies and other factual data, an annual [policy survey](#) of institutional clients and corporate issuers, policy roundtables with a wide range of industry constituents, and an open [comment period](#) on draft policy changes. ISS also conducts internal research to validate assumptions and policy positions.

The Benchmark Policy Guidelines consider market-specific recommended best practices, transparency, and disclosure when addressing issues such as board structure, director accountability, corporate governance standards, executive compensation, shareholder rights, corporate transactions, and social/environmental issues.

ISS' policy guidelines require the consideration of company-specific circumstances. When issuing a vote recommendation on a proposal, ISS considers historical operating and investment performance, company disclosure (and proponent/dissident disclosure, if applicable), the company's governance structure and historical practices, and its industry.

In applying these policies, ISS often engages with public issuers, shareholders, activists, and other stakeholders to seek additional information and to gain insight and context in order to provide our clients with informed vote recommendations. This engagement process enhances dialogue and promotes a higher level of understanding between investors and the companies in which they invest.

In formulating proxy voting policies, ISS assesses the potential costs and benefits of the adoption or rejection of the underlying ballot items. Where the economic impact of a ballot item is not apparent and may involve trade-offs, the guidelines direct analysts to consider the economic consequences as well as potential risks to shareholders of approval.

This document presents a summary of all of ISS' Benchmark U.S. Corporate Governance Policies. The document, along with other policy documents, is available on our Web site under the [Policy Gateway](#). If you have any questions, please contact Research Central at 301-556-0576 or usresearch@issgovernance.com.

These policies will be effective for meetings on or after Feb. 1, 2012.



1. Routine/Miscellaneous

Adjourn Meeting

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

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

Vote FOR bylaw or charter changes that are of a housekeeping nature (updates or corrections).



Change Company Name

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

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

Vote AGAINST proposals to approve other business when it appears as voting item.



Audit-Related

Auditor Indemnification and Limitation of Liability

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;
- Motivation and rationale for establishing the agreements;
- Quality of disclosure; and
- 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

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; misapplication of GAAP; and material weaknesses identified in Section 404 disclosures; 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

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

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.



2. Board of Directors:

Voting on Director Nominees in Uncontested Elections

Votes on director nominees should be determined CASE-BY-CASE.

Four fundamental principles apply when determining votes on director nominees:

1. **Board Accountability:** Practices that promote accountability include: transparency into a company's governance practices; annual board elections; and providing shareholders the ability to remove problematic directors and to vote on takeover defenses or other charter/bylaw amendments. These practices help reduce the opportunity for management entrenchment.
2. **Board Responsiveness:** Directors should be responsive to shareholders, particularly in regard to shareholder proposals that receive a majority vote and to tender offers where a majority of shares are tendered. Furthermore, shareholders should expect directors to devote sufficient time and resources to oversight of the company.
3. **Director Independence:** Without independence from management, the board may be unwilling or unable to effectively set company strategy and scrutinize performance or executive compensation.
4. **Director Competence:** Companies should seek directors who can add value to the board through specific skills or expertise and who can devote sufficient time and commitment to serve effectively. While directors should not be constrained by arbitrary limits such as age or term limits, directors who are unable to attend board and committee meetings or who are overextended (*i.e.*, serving on too many boards) may be unable to effectively serve in shareholders' best interests.

1. Board Accountability

Vote AGAINST¹ or WITHHOLD from the entire board of directors (except new nominees², who should be considered CASE-BY-CASE) for the following:

Problematic Takeover Defenses:

Classified Board Structure:

- 1.1. 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 -- any or all appropriate nominees (except new) may be held accountable;

Director Performance Evaluation:

- 1.2. The board lacks accountability and oversight, coupled with sustained poor performance relative to peers. Sustained poor performance is measured by one- and three-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 five-year total shareholder return and five-year operational metrics. Problematic provisions include but are not limited to:

¹ 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.

² A "new nominee" is any current nominee who has not already been elected by shareholders and who joined the board after the problematic action in question transpired. If ISS cannot determine whether the nominee joined the board before or after the problematic action transpired, the nominee will be considered a "new nominee" if he or she joined the board within the 12 months prior to the upcoming shareholder meeting.

- A classified board structure;
- A supermajority vote requirement;
- Either a plurality vote standard in uncontested director elections or a majority vote standard with no plurality carve-out for contested elections;
- The inability of shareholders to call special meetings;
- The inability of shareholders to act by written consent;
- A dual-class capital structure; and/or
- A non-shareholder-approved poison pill.

Poison Pills:

- 1.3. The company's poison pill has a "dead-hand" or "modified dead-hand" feature. Vote WITHHOLD or AGAINST every year until this feature is removed;
- 1.4. The board adopts a poison pill with a term of more than 12 months ("long-term pill"), or renews any existing pill, including any "short-term" pill (12 months or less), without shareholder approval. A commitment or policy that puts a newly adopted pill to a binding shareholder vote may potentially offset an adverse vote recommendation. Review such companies with classified boards every year, and such companies with annually elected boards at least once every three years, and vote AGAINST or WITHHOLD votes from all nominees if the company still maintains a non-shareholder-approved poison pill. This policy applies to all companies adopting or renewing pills after the announcement of this policy (Nov. 19, 2009); or
- 1.5. The board makes a material adverse change to an existing poison pill without shareholder approval.

Vote CASE-BY-CASE on all nominees if:

- 1.6. The board adopts a poison pill with a term of 12 months or less ("short-term pill") without shareholder approval, taking into account the following factors:
 - The date of the pill's adoption relative to the date of the next meeting of shareholders—*i.e.* whether the company had time to put the pill on ballot for shareholder ratification given the circumstances;
 - The issuer's rationale;
 - The issuer's governance structure and practices; and
 - The issuer's track record of accountability to shareholders.

Problematic Audit-Related Practices

Generally vote AGAINST or WITHHOLD from the members of the Audit Committee if:

- 1.7. The non-audit fees paid to the auditor are excessive (see discussion under "[Auditor Ratification](#)");
- 1.8. The company receives an adverse opinion on the company's financial statements from its auditor; or
- 1.9. 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:

- 1.10. 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/Pay for Performance Misalignment

In the absence of an Advisory Vote on Executive Compensation ballot item, or, in egregious situations, vote AGAINST or WITHHOLD from the members of the Compensation Committee and potentially the full board if:

- 1.11. There is a significant misalignment between CEO pay and company performance ([pay for performance](#));
- 1.12. The company maintains significant [problematic pay practices](#);
- 1.13. The board exhibits a significant level of [poor communication and responsiveness](#) to shareholders;
- 1.14. The company fails to submit one-time [transfers of stock options](#) to a shareholder vote; or
- 1.15. The company fails to fulfill the terms of a [burn rate commitment](#) made to shareholders.

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

- 1.16. The company's previous say-on-pay proposal received the support of less than 70 percent of votes cast, taking into account:
 - The company's response, including:
 - Disclosure of engagement efforts with major institutional investors regarding the issues that contributed to the low level of support;
 - Specific actions taken to address the issues that contributed to the low level of support;
 - 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.

Governance Failures

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

- 1.17. Material failures of governance, stewardship, risk oversight, or fiduciary responsibilities at the company;
- 1.18. Failure to replace management as appropriate; or
- 1.19. 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.

2. Board Responsiveness

Vote AGAINST or WITHHOLD from the entire board of directors (except new nominees, who should be considered CASE-BY-CASE) if:

- 2.1. The board failed to act on a shareholder proposal that received the support of a majority of the shares outstanding the previous year;
- 2.2. The board failed to act on a shareholder proposal that received the support of a majority of shares cast in the last year and one of the two previous years;
- 2.3. The board failed to act on takeover offers where the majority of shares are tendered;
- 2.4. 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; or
- 2.5. The board implements an advisory vote on executive compensation on a less frequent basis than the frequency that received the majority of votes cast at the most recent shareholder meeting at which shareholders voted on the say-on-pay frequency.

Vote CASE-BY-CASE on the entire board if:

- 2.6. The board implements an advisory vote on executive compensation on a less frequent basis than the frequency that received a plurality, but not a majority, of the votes cast at the most recent shareholder meeting at which shareholders voted on the say-on-pay frequency, taking into account:
- The board's rationale for selecting a frequency that is different from the frequency that received a plurality;
 - The company's ownership structure and vote results;
 - ISS' analysis of whether there are compensation concerns or a history of problematic compensation practices; and
 - The previous year's support level on the company's say-on-pay proposal.

3. Director Independence

Vote AGAINST or WITHHOLD from Inside Directors and Affiliated Outside Directors (per the [Categorization of Directors](#)) when:

- 3.1. The inside or affiliated outside director serves on any of the three key committees: audit, compensation, or nominating;
- 3.2. The company lacks an audit, compensation, or nominating committee so that the full board functions as that committee;
- 3.3. The company lacks a formal nominating committee, even if the board attests that the independent directors fulfill the functions of such a committee; or
- 3.4. Independent directors make up less than a majority of the directors.

4. Director Competence

Attendance at Board and Committee Meetings:

Vote AGAINST or WITHHOLD from the entire board of directors (except new nominees, who should be considered CASE-BY-CASE) if:

- 4.1. The company's proxy indicates that not all directors attended 75 percent of the aggregate board and committee meetings, but fails to provide the required disclosure of the names of the director(s) involved.

Generally vote AGAINST or WITHHOLD from individual directors who:

- 4.2. Attend less than 75 percent of the board and committee meetings (with the exception of new nominees). Acceptable reasons for director absences are generally limited to the following:
 - Medical issues/illness;
 - Family emergencies; and
 - Missing only one meeting.

These reasons for directors' absences will only be considered by ISS if disclosed in the proxy or another SEC filing. If the disclosure is insufficient to determine whether a director attended at least 75 percent of board and committee meetings in aggregate, vote AGAINST or WITHHOLD from the director.

Overboarded Directors:

Vote AGAINST or WITHHOLD from individual directors who:

- 4.3. Sit on more than six public company boards; or
- 4.4. 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.



2012 ISS Categorization of Directors

1. **Inside Director (I)**
 - 1.1. Employee of the company or one of its affiliatesⁱ.
 - 1.2. Among the five most highly paid individuals (excluding interim CEO).
 - 1.3. Listed as an officer as defined under Section 16 of the Securities and Exchange Act of 1934 ("Section 16 officer")ⁱⁱ.
 - 1.4. Current interim CEO.
 - 1.5. 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 defined group).
2. **Affiliated Outside Director (AO)**

Board Attestation

 - 2.1. Board attestation that an outside director is not independent.

Former CEO

 - 2.2. Former CEO of the company^{iii,iv}.
 - 2.3. Former CEO of an acquired company within the past five years^{iv}.
 - 2.4. Former interim CEO if the service was longer than 18 months. If the service was between twelve and eighteen months an assessment of the interim CEO's employment agreement will be made^v.

Non-CEO Executives

 - 2.5. Former Section 16 officerⁱⁱ of the company, an affiliateⁱ or an acquired firm within the past five years.
 - 2.6. Section 16 officerⁱⁱ of a former parent or predecessor firm at the time the company was sold or split off from the parent/predecessor within the past five years.
 - 2.7. Section 16 officerⁱⁱ, former Section 16 officer, or general or limited partner of a joint venture or partnership with the company.

Family Members

 - 2.8. Immediate family member^{vi} of a current or former Section 16 officerⁱⁱ of the company or its affiliatesⁱ within the last five years.
 - 2.9. Immediate family member^{vi} of a current employee of company or its affiliatesⁱ 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).

Transactional, Professional, Financial, and Charitable Relationships

 - 2.10. Currently provides (or an immediate family member^{vi} provides) professional services^{vii} to the company, to an affiliateⁱ of the company or an individual officer of the company or one of its affiliates in excess of \$10,000 per year.
 - 2.11. Is (or an immediate family member^{vi} is) a partner in, or a controlling shareholder or an employee of, an organization which provides professional services^{vii} to the company, to an affiliateⁱ of the company, or an individual officer of the company or one of its affiliates in excess of \$10,000 per year.
 - 2.12. Has (or an immediate family member^{vi} has) any material transactional relationship^{viii} with the company or its affiliatesⁱ (excluding investments in the company through a private placement).
 - 2.13. Is (or an immediate family member^{vi} is) a partner in, or a controlling shareholder or an executive officer of, an organization which has any material transactional relationship^{viii} with the company or its affiliatesⁱ (excluding investments in the company through a private placement).
 - 2.14. Is (or an immediate family member^{vi} is) a trustee, director, or employee of a charitable or non-profit organization that receives material grants or endowments^{viii} from the company or its affiliatesⁱ.

Other Relationships

 - 2.15. Party to a voting agreement^{ix} to vote in line with management on proposals being brought to shareholder vote.
 - 2.16. Has (or an immediate family member^{vi} has) an interlocking relationship as defined by the SEC involving members of the board of directors or its Compensation Committee^x.
 - 2.17. Founder^{xi} of the company but not currently an employee.
 - 2.18. Any material^{xii} relationship with the company.
3. **Independent Outside Director (IO)**
 - 3.1. No material^{xii} connection to the company other than a board seat.

Footnotes:

ⁱ “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.

ⁱⁱ “Section 16 officer” (officers subject to Section 16 of the Securities and Exchange Act of 1934) 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). A non-employee director serving as an officer due to statutory requirements (e.g. corporate secretary) will be classified as an Affiliated Outsider. If the company provides explicit disclosure that the director is not receiving additional compensation in excess of \$10,000 per year for serving in that capacity, then the director will be classified as an Independent Outsider.

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

^{iv} 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.

^v ISS will look at the terms of the interim CEO’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 underway for a full-time CEO at the time.

^{vi} “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.

^{vii} 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.

^{viii} 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, in the case of a company which follows NASDAQ listing standards; or the greater of \$1,000,000 or 2 percent of the recipient’s gross revenues, in the case of a company which follows NYSE/Amex listing standards. In the case of a company which 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).

^{ix} Dissident directors who are parties to a voting agreement pursuant to a settlement arrangement, will generally be classified as independent unless determined otherwise taking into account the following factors: 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.

^x 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).

^{xi} The operating involvement of the founder with the company will be considered. Little to no operating involvement may cause ISS to deem the founder as an independent outsider.

^{xii} 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.

4.



Other Board-Related Proposals

Age/Term Limits

Vote AGAINST management and shareholder proposals to limit the tenure of outside directors through mandatory retirement ages.

Vote AGAINST management proposals to limit the tenure of outside directors through term limits. However, scrutinize boards where the average tenure of all directors exceeds 15 years for independence from management and for sufficient turnover to ensure that new perspectives are being added to the board.



Board Size

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

Vote AGAINST proposals to classify (stagger) the board.

Vote FOR proposals to repeal classified boards and to elect all directors annually.



CEO Succession Planning

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

Generally vote AGAINST proposals to eliminate cumulative voting.

Generally vote FOR shareholder proposals to restore or provide for cumulative voting unless:

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

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



Director and Officer Indemnification and Liability Protection

Vote CASE-BY-CASE on proposals on director and officer indemnification and liability protection using Delaware law as the standard.

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, such as negligence, 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 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

Vote CASE-BY-CASE on proposals that establish or amend director qualifications. Votes should be based on the reasonableness of the criteria and to what degree they may preclude dissident nominees from joining the board.

Vote CASE-BY-CASE on shareholder resolutions seeking a director nominee candidate who possesses a particular subject matter expertise, considering:

- 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 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

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/or
- The scope and structure of the proposal.



Filling Vacancies/Removal of Directors

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 Chair (Separate Chair/CEO)

Generally vote FOR shareholder proposals requiring that the chairman's position be filled by an independent director, unless the company satisfies *all* of the following criteria:

The company maintains the following counterbalancing governance structure:

- Designated lead director, elected by and from the independent board members with clearly delineated and comprehensive duties. (The role may alternatively reside with a presiding director, vice chairman, or rotating lead director; however the director must serve a minimum of one year in order to qualify as a lead director.) The duties should include, but are not limited to, the following:
 - presides at all meetings of the board at which the chairman is not present, including executive sessions of the independent directors;
 - serves as liaison between the chairman and the independent directors;
 - approves information sent to the board;
 - approves meeting agendas for the board;
 - approves meeting schedules to assure that there is sufficient time for discussion of all agenda items;
 - has the authority to call meetings of the independent directors;
 - if requested by major shareholders, ensures that he is available for consultation and direct communication;
- Two-thirds independent board;
- All independent key committees;
- Established governance guidelines;
- A company in the Russell 3000 universe must not have exhibited sustained poor total shareholder return (TSR) performance, defined as one- and three-year TSR in the bottom half of the company's four-digit GICS industry group (using Russell 3000 companies only), unless there has been a change in the Chairman/CEO position within that time. For companies not in the Russell 3000 universe, the company must not have underperformed both its peers and index on the basis of both one-year and three-year total shareholder returns, unless there has been a change in the Chairman/CEO position within that time;
- The company does not have any problematic governance or management issues, examples of which include, but are not limited to:
 - Egregious compensation practices;
 - Multiple related-party transactions or other issues putting director independence at risk;
 - Corporate and/or management scandals;
 - Excessive problematic corporate governance provisions; or
 - Flagrant actions by management or the board with potential or realized negative impacts on shareholders.



Majority of Independent Directors/Establishment of Independent Committees

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's definition of independent outsider. (See [Categorization of Directors](#).)

Vote FOR shareholder proposals asking that board audit, compensation, and/or nominating committees be composed exclusively of independent directors if they currently do not meet that standard.



Majority Vote Standard for the Election of Directors

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 plurality 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

ISS supports proxy access as an important shareholder right, one that is complementary to other best-practice corporate governance features. However, in the absence of a uniform standard, proposals to enact proxy access may vary widely; as such, ISS is not setting forth specific parameters at this time and will take a case-by-case approach in evaluating these proposals.

Vote CASE-BY-CASE on proposals to enact proxy access, taking into account, among other factors:

- Company-specific factors; and
- Proposal-specific factors, including:
 - The ownership thresholds proposed in the resolution (*i.e.*, percentage and duration);
 - The maximum proportion of directors that shareholders may nominate each year; and
 - The method of determining which nominations should appear on the ballot if multiple shareholders submit nominations.



Require More Nominees than Open Seats

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)

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 chairman or a lead director, according to ISS's definition. This individual must be made available for periodic consultation and direct communication with major shareholders.



Proxy Contests- Voting for Director Nominees in Contested Elections

Vote CASE-BY-CASE on the election of directors in contested elections, considering the following factors:

- Long-term financial performance of the target company relative to its industry;
- Management's track record;
- Background to the proxy contest;
- Qualifications of director nominees (both slates);
- Strategic plan of dissident slate and quality of critique against management;
- Likelihood that the proposed goals and objectives can be achieved (both slates);
- Stock ownership positions.



Vote No Campaigns

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.



3. Shareholder Rights & Defenses

Advance Notice Requirements for Shareholder Proposals/Nominations

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 not be more than 60 days prior to the meeting, with a submittal window of at least 30 days prior to the deadline. The submittal window is the period under which a shareholder must file his proposal/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

Vote AGAINST proposals giving the board exclusive authority to amend the bylaws.

Vote FOR proposals giving the board the ability to amend the bylaws in addition to shareholders.



Confidential Voting

Vote FOR shareholder proposals requesting that corporations adopt confidential voting, use independent vote tabulators, and use independent inspectors of election, as long as the proposal includes a provision for proxy contests as follows: In the case of a contested election, management should be permitted to request that the dissident group honor its confidential voting policy. If the dissidents agree, the policy remains in place. If the dissidents will not agree, the confidential voting policy is waived.

Vote FOR management proposals to adopt confidential voting.



Control Share Acquisition Provisions

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.

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 Cash-Out Provisions

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.

Vote FOR proposals to opt out of control share cash-out statutes.



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.

Vote FOR proposals to opt out of state disgorgement provisions.



Exclusive Venue

Vote CASE-BY-CASE on exclusive venue proposals, taking into account:

- Whether the company has been materially harmed by shareholder litigation outside its jurisdiction of incorporation, based on disclosure in the company's proxy statement; and
- Whether the company has the following good governance features:
 - An annually elected board;
 - A majority vote standard in uncontested director elections; and
 - The absence of a poison pill, unless the pill was approved by shareholders.



Fair Price Provisions

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

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

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.

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.



Net Operating Loss (NOL) Protective Amendments

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

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

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% trigger, flip-in or flip-over;
- A term of no more than three years;
- No dead-hand, slow-hand, 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 (NOL)

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.



Reimbursing Proxy Solicitation Expenses

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% 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

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

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 unfettered³ 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

Vote AGAINST management or shareholder proposals to restrict or prohibit shareholders' ability to call special meetings.

³ "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.

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% preferred);
- The inclusion of exclusionary or prohibitive language;
- Investor ownership structure; and
- Shareholder support of, and management's response to, previous shareholder proposals.



Stakeholder Provisions

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

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

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.



4. CAPITAL/RESTRUCTURING

Capital

Adjustments to Par Value of Common Stock

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

Vote FOR proposals to increase the number of authorized common shares where the primary purpose of the increase is to issue shares in connection with a transaction on the same ballot that warrants support.

Vote AGAINST proposals at companies with more than one class of common stock to increase the number of authorized shares of the class of common stock that has superior voting rights.

Vote AGAINST proposals to increase the number of authorized common shares if a vote for a reverse stock split on the same ballot is warranted despite the fact that the authorized shares would not be reduced proportionally.

Vote CASE-BY-CASE on all other proposals to increase the number of shares of common stock authorized for issuance. Take into account company-specific factors that include, at a minimum, the following:

- Past Board Performance:
 - The company's use of authorized shares during the last three years
- The Current Request:
 - Disclosure in the proxy statement of the specific purposes of the proposed increase;
 - Disclosure in the proxy statement of specific and severe risks to shareholders of not approving the request; and
 - The dilutive impact of the request as determined by an allowable increase calculated by ISS (typically 100 percent of existing authorized shares) that reflects the company's need for shares and total shareholder returns.



Dual Class Structure

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

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

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

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 a transaction on the same ballot that warrants support.

Vote AGAINST proposals at companies with more than one class or series of preferred stock to increase the number of authorized shares of the class or series of preferred stock that has superior voting rights.

Vote CASE-BY-CASE on all other proposals to increase the number of shares of preferred stock authorized for issuance. Take into account company-specific factors that include, at a minimum, the following:

- Past Board Performance:
 - The company's use of authorized preferred shares during the last three years;
- The Current Request:
 - Disclosure in the proxy statement of the specific purposes for the proposed increase;
 - Disclosure in the proxy statement of specific and severe risks to shareholders of not approving the request;
 - In cases where the company has existing authorized preferred stock, the dilutive impact of the request as determined by an allowable increase calculated by ISS (typically 100 percent of existing authorized shares) that reflects the company's need for shares and total shareholder returns; and
 - Whether the shares requested are blank check preferred shares that can be used for antitakeover purposes.



Recapitalization Plans

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;
- Conflicts of interest; and
- Other alternatives considered.



Reverse Stock Splits

Vote FOR management proposals to implement a reverse stock split when the number of authorized shares will be proportionately reduced.

Vote AGAINST proposals when there is not a proportionate reduction of authorized shares, unless:

- A stock exchange has provided notice to the company of a potential delisting; 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.



Share Repurchase Programs

Vote FOR management proposals to institute open-market share repurchase plans in which all shareholders may participate on equal terms.



Stock Distributions: Splits and Dividends

Vote FOR management proposals to increase the common share authorization for a stock split or share dividend, provided that the increase in authorized shares equal to or less than the allowable increase calculated in accordance with ISS' Common Stock Authorization policy.



Tracking Stock

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

Vote FOR proposals to restore or provide shareholders with rights of appraisal.



Asset Purchases

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

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

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

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

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

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 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)

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

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

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

Vote CASE –BY- CASE on mergers and acquisitions. Review and evaluate the merits and drawbacks of the proposed transaction, balancing various and sometimes countervailing factors including:

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

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



Private Placements/Warrants/Convertible Debentures

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)

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)

Vote CASE-BY-CASE on SPAC mergers and acquisitions taking into account the following:

- Valuation – Is the value being paid by the SPAC reasonable? SPACs generally lack an independent fairness opinion and the financials on the target may be limited. Compare the conversion price with the intrinsic value of the target company provided in the fairness opinion. Also, evaluate the proportionate value of the combined entity attributable to the SPAC IPO shareholders versus the pre-merger value of SPAC. Additionally, a private company discount may be applied to the target, if it is a private entity.
- Market reaction – How has the market responded to the proposed deal? A negative market reaction may be a cause for concern. Market reaction may be addressed by analyzing the one-day impact on the unaffected stock price.
- Deal timing – A main driver for most transactions is that the SPAC charter typically requires the deal to be complete within 18 to 24 months, or the SPAC is to be liquidated. Evaluate the valuation, market reaction, and potential conflicts of interest for deals that are announced close to the liquidation date.
- Negotiations and process – What was the process undertaken to identify potential target companies within specified industry or location specified in charter? Consider the background of the sponsors.
- Conflicts of interest – How are sponsors benefiting from the transaction compared to IPO shareholders? Potential conflicts could arise if a fairness opinion is issued by the insiders to qualify the deal rather than a third party or if management is encouraged to pay a higher price for the target because of an 80% rule (the charter requires that the fair market value of the target is at least equal to 80% 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 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?



Spin-offs

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

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 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 (Management Say-on-Pay)

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 (Management Say-on-Pay – MSOP) if:

- There is a significant 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 MSOP on the ballot, and an AGAINST vote on an MSOP is warranted due to pay for performance misalignment, problematic pay practices, or the lack of adequate responsiveness on compensation issues raised previously, or a combination thereof;
- The board fails to respond adequately to a previous MSOP proposal that received less than 70 percent support of votes cast;
- The company has recently practiced or approved problematic pay practices, including option repricing or option backdating; or
- The situation is egregious.

Vote AGAINST an equity plan on the ballot if:

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

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 Russell 3000 index, this analysis considers the following:

1. Peer Group⁴ Alignment:
 - The degree of alignment between the company's TSR rank and the CEO's total pay rank within a peer group, as measured over one-year and three-year periods (weighted 40/60);
 - The multiple of the CEO's total pay relative to the peer group median.
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 non-Russell 3000 index companies, misaligned pay and performance are otherwise suggested, analyze the following qualitative factors to determine 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 equity awards;
- The ratio of performance-based compensation to overall compensation;
- The completeness of disclosure and rigor of performance goals;
- The company's peer group benchmarking practices;
- Actual results of financial/operational metrics, such as growth in revenue, profit, cash flow, etc., both absolute and relative to peers;
- Special circumstances related to, for example, a new CEO in the prior fiscal year or anomalous equity grant practices (*e.g.*, biennial awards); and
- Any other factors deemed relevant.

⁴ The peer group is generally comprised of 14-24 companies that are selected using market cap, revenue (or assets for financial firms), and GICS industry group, via a process designed to select peers that are closest to the subject company, and where the subject company is close to median in revenue/asset size. The relative alignment evaluation will consider the company's rank for both pay and TSR within the peer group (for one- and three-year periods) and the CEO's pay relative to the median pay level in the peer group.

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;
- Incentives that may motivate excessive risk-taking; and
- Options Backdating.

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' Compensation 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);
- Excessive perquisites or tax gross-ups, including any gross-up related to a secular trust or restricted stock vesting;
- New or extended agreements that provide for:
 - CIC payments 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);
 - CIC payments with excise tax gross-ups (including "modified" gross-ups).

Incentives that may Motivate Excessive Risk-Taking

- Multi-year guaranteed bonuses;
- A single or common performance metric used for short- and long-term plans;
- Lucrative severance packages;
- High pay opportunities relative to industry peers;
- Disproportionate supplemental pensions; or
- Mega annual equity grants that provide unlimited upside with no downside risk.

Factors that potentially mitigate the impact of risky incentives include rigorous claw-back provisions and robust stock ownership/holding guidelines.

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.

Board 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:
 - The company's response, including:
 - Disclosure of engagement efforts with major institutional investors regarding the issues that contributed to the low level of support;
 - Specific actions taken to address the issues that contributed to the low level of support;
 - 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")

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

Vote CASE-BY-CASE on proposals to approve the company's golden parachute compensation, consistent with ISS' policies on problematic pay practices related to severance packages. Features that may lead to a vote AGAINST include:

- Recently adopted or materially amended agreements that include excise tax gross-up provisions (since prior annual meeting);
- Recently adopted or materially amended agreements that include modified single triggers (since prior annual meeting);
- Single trigger payments that will happen immediately upon a change in control, including cash payment and such items as the acceleration of performance-based equity despite the failure to achieve performance measures;
- Single-trigger vesting of equity based on a definition of change in control that requires only shareholder approval of the transaction (rather than consummation);
- Potentially excessive severance payments;
- Recent amendments or other changes that may make packages so attractive as to influence merger agreements that may not be in the best interests of shareholders;

- In the case of a substantial gross-up from pre-existing/grandfathered contract: the element that triggered the gross-up (i.e., option mega-grants at low point in stock price, unusual or outsized payments in cash or equity made or negotiated prior to the merger); or
- The company's assertion that a proposed transaction is conditioned on shareholder approval of the golden parachute advisory vote. ISS would view this as problematic from a corporate governance perspective.

In cases where the golden parachute vote is incorporated into a company's separate 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

Vote CASE-BY-CASE on equity-based compensation plans. Vote AGAINST the equity plan if any of the following factors apply:

- The total [cost](#) of the company's equity plans is unreasonable;
- The plan expressly permits [repricing](#);
- A [pay-for-performance misalignment](#) is found;
- The company's three year [burn rate](#) exceeds the [burn rate cap](#) of its industry group;
- The plan has a [liberal change-of-control definition](#); or
- The plan is a vehicle for [problematic pay practices](#).

Each of these factors is described below:

Cost of Equity Plans

Generally, vote AGAINST equity plans if the cost is unreasonable. For non-employee director plans, vote FOR the plan if certain factors are met (see [Director Compensation](#) section).

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 shares proposed, shares available under existing plans, and shares granted but unexercised. 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. See discussion of specific types of awards.

The Shareholder Value Transfer is reasonable if it falls below the company-specific allowable cap. The allowable cap 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 allowable cap.

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" 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.

Also, vote AGAINST OR WITHHOLD from members of the Compensation Committee who approved and/or implemented a repricing or an option/SAR exchange program, by buying out underwater options/SARs for stock, cash or other consideration or canceling underwater options/SARs and regranting options/SARs with a lower exercise price, without prior shareholder approval, even if such repricings are allowed in their equity plan.

Vote AGAINST plans if the company has a history of repricing without shareholder approval, and the applicable listing standards would not preclude them from doing so.



Pay for Performance Misalignment- Application to Equity Plans

If a significant portion of the CEO's misaligned pay is attributed to non-performance-based equity awards, and there is an equity plan on the ballot with the CEO as one of the participants, ISS may recommend a vote AGAINST the equity plan. Considerations in voting AGAINST the equity plan may include, but are not limited to:

- Magnitude of pay misalignment;
- Contribution of non-performance-based equity grants to overall pay; and
- The proportion of equity awards granted in the last three fiscal years concentrated at the named executive officer level.

Three-Year Burn Rate/Burn Rate Commitment

Generally vote AGAINST equity plans for companies whose average three-year burn rates their burn rate caps.

Burn rate caps are calculated as the greater of: (1) the mean (μ) plus one standard deviation (σ) of the company's GICS group segmented by Russell 3000 index and non-Russell 3000 index (per the Burn Rate Table published in December); and (2) two percent of weighted common shares outstanding. In addition, year-over-year burn-rate cap changes will be limited to a maximum of two (2) percentage points (plus or minus) the prior year's burn-rate cap.

If a company fails to fulfill a burn rate commitment, vote AGAINST or WITHHOLD from the compensation committee.

In the absence of demonstrating reasonable use of equity awards under the first burn rate commitment, companies making consecutive burn rate commitments may not garner support on their proposed equity plan proposals.

Burn Rate Table for 2012

Russell 3000					Non-Russell 3000		
GICS	Description	Mean	Standard Deviation	2012 Burn Rate Cap*	Mean	Standard Deviation	2012 Burn Rate Cap*
1010	Energy	1.99%	2.03%	4.02%	2.82%	4.64%	7.46%
1510	Materials	1.64%	1.44%	3.08%	2.48%	3.56%	6.04%
2010	Capital Goods	1.72%	1.21%	2.93%	3.53%	5.29%	*8.69%
2020	Commercial Services & Supplies	2.52%	2.09%	4.61%	2.88%	2.93%	5.81%
2030	Transportation	1.68%	1.15%	2.83%	1.51%	1.37%	2.88%
2510	Automobiles & Components	1.85%	1.55%	3.40%	4.48%	6.32%	*6.99%
2520	Consumer Durables & Apparel	2.84%	1.96%	4.81%	2.81%	3.46%	6.27%
2530	Consumer Services	2.70%	3.11%	5.81%	2.81%	4.18%	6.99%
2540	Media	2.91%	2.65%	5.56%	2.75%	2.91%	5.65%
2550	Retailing	2.43%	1.59%	4.02%	3.38%	4.70%	*6.62%
3010, 3020, 3030	Consumer Staples	1.64%	1.39%	3.03%	3.18%	6.61%	*7.17%
3510	Health Care Equipment & Services	2.95%	1.74%	4.69%	5.23%	7.28%	*11.92%
3520	Pharmaceuticals & Biotechnology	3.59%	3.90%	7.49%	6.01%	8.02%	*12.58%
4010	Banks	1.31%	1.50%	2.81%	1.20%	2.29%	3.49%
4020	Diversified Financials	5.02%	5.97%	*9.15%	4.78%	6.52%	11.31%
4030	Insurance	1.58%	1.22%	2.80%	0.69%	0.98%	*2.31%
4040	Real Estate	1.15%	1.19%	2.34%	1.35%	2.11%	3.46%
4510	Software & Services	4.41%	3.35%	7.76%	5.43%	7.12%	*11.58%
4520	Technology Hardware & Equipment	3.41%	2.32%	5.73%	3.74%	3.95%	7.69%
4530	Semiconductor Equipment	3.94%	1.90%	5.83%	5.42%	4.74%	*9.78%
5010	Telecommunication Services	3.02%	4.62%	*6.50%	7.23%	13.28%	*9.08%
5510	Utilities	0.76%	0.48%	2.00%	3.88%	6.47%	*5.64%

*The cap is generally the Mean + Standard Deviation, subject to minimum cap of 2% (de minimus allowance) and maximum +/- 2 percentage points relative to prior year burn rate cap for same industry/index group.

A premium (multiplier) is applied on full value awards for the past three fiscal years. The guideline for applying the premium is as follows:

Stock Price Volatility	Multiplier
54.6% and higher	1 full-value award will count as 1.5 option shares
36.1% or higher and less than 54.6%	1 full-value award will count as 2.0 option shares
24.9% or higher and less than 36.1%	1 full-value award will count as 2.5 option shares
16.5% or higher and less than 24.9%	1 full-value award will count as 3.0 option shares
7.9% or higher and less than 16.5%	1 full-value award will count as 3.5 option shares
Less than 7.9%	1 full-value award will count as 4.0 option shares



Liberal Definition of Change-in-Control

Generally vote AGAINST equity plans if the plan has a liberal definition of change-in-control (it provides for the acceleration of vesting of equity awards even though an actual change in control may not occur) and the equity awards would automatically vest upon such liberal definition of change-in-control. 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.

Problematic Pay Practices

If the equity plan on the ballot is a vehicle for [problematic pay practices](#), vote AGAINST the plan.



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.



Liberal Share Recycling Provisions

Under net share counting provisions, shares tendered by an option holder to pay for the exercise of an option, shares withheld for taxes or shares repurchased by the company on the open market can be recycled back into the equity plan for awarding again. All awards with such provisions should be valued as full-value awards. Stock-settled stock appreciation rights (SSARs) will also be considered as full-value awards if a company counts only the net shares issued to employees towards their plan reserve.



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.



Option Overhang Cost

Companies with sustained positive stock performance and high overhang cost attributable to in-the-money options outstanding in excess of six years may warrant a carve-out of these options from the overhang as long as the dilution attributable to the new share request is reasonable and the company exhibits sound compensation practices. Consider CASE-BY-CASE a carve-out of a portion of cost attributable to overhang, considering the following criteria:

- **Performance:** Companies with sustained positive stock performance will merit greater scrutiny. Five-year total shareholder return (TSR), year-over-year performance, and peer performance could play a significant role in this determination.
- **Overhang Disclosure:** Assess whether optionees have held in-the-money options for a prolonged period (thus reflecting their confidence in the prospects of the company). Note that this assessment would require additional disclosure regarding a company's overhang. Specifically, the following disclosure would be required:
 - The number of in-the-money options outstanding in excess of six or more years with a corresponding weighted average exercise price and weighted average contractual remaining term;
 - The number of all options outstanding less than six years and underwater options outstanding in excess of six years with a corresponding weighted average exercise price and weighted average contractual remaining term;
 - The general vesting provisions of option grants; and
 - The distribution of outstanding option grants with respect to the named executive officers;
- **Dilution:** Calculate the expected duration of the new share request in addition to all shares currently available for grant under the equity compensation program, based on the company's three-year average burn rate (or a burn-rate commitment that the company makes for future years). The expected duration will be calculated by multiplying the company's unadjusted (options and full-value awards accounted on a one-for-one basis) three-year average burn rate by the most recent fiscal year's weighted average shares outstanding (as used in the company's calculation of basic EPS) and divide the sum of the new share request and all available shares under the company's equity compensation program by the product. For example, an expected duration in excess of five years could be considered problematic; and
- **Compensation Practices:** An evaluation of overall practices could include: (1) stock option repricing provisions, (2) high concentration ratios (of grants to top executives), or (3) additional practices outlined in the Poor Pay Practices policy.



Other Compensation Plans

401(k) Employee Benefit Plans

Vote FOR proposals to implement a 401(k) savings plan for employees.



Employee Stock Ownership Plans (ESOPs)

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

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 ten percent or less of the outstanding shares.

Vote AGAINST qualified employee stock purchase plans where any of the following apply:

- Purchase price is less than 85 percent of fair market value; or

- Offering period is greater than 27 months; or
- The number of shares allocated to the plan is more than ten percent of the outstanding shares.



Employee Stock Purchase Plans-- Non-Qualified Plans

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 (i.e., all employees of the company with the exclusion of individuals with 5 percent or more of beneficial ownership of the company);
- 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;
- No discount on the stock price on the date of purchase since there is a company matching contribution.

Vote AGAINST nonqualified employee stock purchase plans when any of the plan features do not meet the above criteria. If the company matching contribution exceeds 25 percent of employee's contribution, evaluate the cost of the plan against its allowable cap.



Incentive Bonus Plans and Tax Deductibility Proposals (OBRA-Related Compensation Proposals)

Generally vote FOR proposals to approve or amend executive incentive bonus plans if the proposal:

- Is only to include administrative features;
- Places a cap on the annual grants any one participant may receive to comply with the provisions of Section 162(m);
- Adds performance goals to existing compensation plans to comply with the provisions of Section 162(m) unless they are clearly inappropriate; or
- Covers cash or cash and stock bonus plans that are submitted to shareholders for the purpose of exempting compensation from taxes under the provisions of Section 162(m) if no increase in shares is requested.

Vote AGAINST such proposals if:

- The compensation committee does not fully consist of independent outsiders, per [ISS' director classification](#); or
- The plan contains excessive problematic provisions.

Vote CASE-BY CASE on such proposals if:

- In addition to seeking 162(m) tax treatment, the amendment may cause the transfer of additional shareholder value to employees (e.g., by requesting additional shares, extending the option term, or expanding the pool of plan participants). Evaluate the Shareholder Value Transfer in comparison with the company's allowable cap; or
- A company is presenting the plan to shareholders for Section 162(m) favorable tax treatment for the first time after the company's initial public offering (IPO). Perform a full equity plan analysis, including consideration of total shareholder value transfer, burn rate (if applicable), repricing, and liberal change in control. Other factors such as pay-for-performance or problematic pay practices as related to Management Say-on-Pay may be considered if appropriate.



Option Exchange Programs/Repricing Options

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?
- 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 should 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. Repricing after a recent decline in stock price triggers additional scrutiny and a potential AGAINST vote on the proposal. At a minimum, the decline should not have happened within the past year. 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

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

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;

- 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
- 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

Equity Plans for Non-Employee Directors

Vote CASE-BY-CASE on compensation plans for non-employee directors, based on the cost of the plans against the company's allowable cap.

On occasion, director stock plans that set aside a relatively small number of shares when combined with employee or executive stock compensation plans will exceed the allowable cap. Vote for the plan if ALL of the following qualitative factors in the board's compensation are met and disclosed in the proxy statement:

- Director stock ownership guidelines with a minimum of three times the annual cash retainer.
- Vesting schedule or mandatory holding/deferral period:
 - A minimum vesting of three years for stock options or restricted stock; or
 - Deferred stock payable at the end of a three-year deferral period.
- Mix between cash and equity:
 - A balanced mix of cash and equity, for example 40% cash/60% equity or 50% cash/50% equity; or
 - If the mix is heavier on the equity component, the vesting schedule or deferral period should be more stringent, with the lesser of five years or the term of directorship.
- No retirement/benefits and perquisites provided to non-employee directors; and

- Detailed disclosure provided on cash and equity compensation delivered to each non-employee director for the most recent fiscal year in a table. The column headers for the table may include the following: name of each non-employee director, annual retainer, board meeting fees, committee retainer, committee-meeting fees, and equity grants.



Non-Employee Director Retirement Plans

Vote AGAINST retirement plans for non-employee directors.

Vote FOR shareholder proposals to eliminate retirement plans for non-employee directors.



Shareholder Proposals on Compensation

Advisory Vote on Executive Compensation (Say-on-Pay)

Generally, vote FOR shareholder proposals that call for non-binding shareholder ratification of the compensation of the Named Executive Officers and the accompanying narrative disclosure of material factors provided to understand the Summary Compensation Table.



Adopt Anti-Hedging/Pledging/Speculative Investments Policy

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.



Bonus Banking/Bonus Banking "Plus"

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

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

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.

Vote AGAINST shareholder proposals seeking to set absolute levels on compensation or otherwise dictate the amount or form of compensation.

Vote AGAINST shareholder proposals seeking to eliminate stock options or any other equity grants to employees or directors.

Vote AGAINST shareholder proposals requiring director fees be paid in stock only.

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 company performance, pay level versus peers, pay level versus industry, and long-term corporate outlook.



Golden Coffins/Executive Death Benefits

Generally vote FOR proposals calling 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 that the broad-based employee population is eligible.



Hold Equity Past Retirement or for a Significant Period of Time

Vote CASE-BY-CASE on shareholder proposals asking companies to adopt policies requiring senior executive officers to retain all or a significant portion of the shares acquired through compensation plans, either:

- while employed and/or for two years following the termination of their employment ; or
- for a substantial period following the lapse of all other vesting requirements for the award ("lock-up period"), with ratable release of a portion of the shares annually during the lock-up period.

The following factors will be taken into account:

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

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

Vote CASE-BY-CASE on shareholder proposals asking companies to adopt policies requiring Named Executive Officers to retain 75% of the shares acquired through compensation plans while employed and/or for two years following the termination of their employment, and to report to shareholders regarding this policy. The following factors will be taken into account:

- Whether the company has any holding period, retention ratio, or officer ownership requirements in place. These should consist of:
 - Rigorous stock ownership guidelines, or
 - A holding period requirement coupled with a significant long-term ownership requirement, or
 - A meaningful retention ratio,
- Actual officer stock ownership and the degree to which it meets or exceeds the proponent's suggested holding period/retention ratio or the company's own stock ownership or retention requirements.
- Problematic pay practices, current and past, which may promote a short-term versus a long-term focus.

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

Generally vote AGAINST shareholder proposals that mandate a minimum amount of stock that directors must own in order to qualify as a director or to remain on the board. While ISS favors stock ownership on the part of directors, the company should determine the appropriate ownership requirement.



Non-Deductible Compensation

Generally vote FOR proposals seeking disclosure of the extent to which the company paid non-deductible compensation to senior executives due to Internal Revenue Code Section 162(m), while considering the company's existing disclosure practices.



Pay for Performance

Performance-Based Awards

Vote CASE-BY-CASE on shareholder proposal requesting that a significant amount of future long-term incentive compensation awarded to senior executives shall be performance-based and requesting that the board adopt and disclose challenging performance metrics to shareholders, based on the following analytical steps:

- First, vote FOR shareholder proposals advocating the use of performance-based equity awards, such as performance contingent options or restricted stock, indexed options or premium-priced options, unless the proposal is overly restrictive or if the company has demonstrated that it is using a "substantial" portion of performance-based awards for its top executives. Standard stock options and performance-accelerated awards do not meet the criteria to be considered as performance-based awards. Further, premium-priced options should have a premium of at least 25 percent and higher to be considered performance-based awards.

- Second, assess the rigor of the company's performance-based equity program. If the bar set for the performance-based program is too low based on the company's historical or peer group comparison, generally vote FOR the proposal. Furthermore, if target performance results in an above target payout, vote FOR the shareholder proposal due to program's poor design. If the company does not disclose the performance metric of the performance-based equity program, vote FOR the shareholder proposal regardless of the outcome of the first step to the test.

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

Pay for Superior Performance

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)

Generally vote FOR shareholder proposals calling for certain principles regarding the use of prearranged trading plans (10b5-1 plans) for executives. These principles include:

- Adoption, amendment, or termination of a 10b5-1 Plan must be disclosed within two business days in a Form 8-K;
- Amendment or early termination of a 10b5-1 Plan is allowed only under extraordinary circumstances, as determined by the board;
- Ninety days 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 CEOs from serving on Compensation Committees

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.



Recoup Bonuses

Vote CASE-BY-CASE on proposals to recoup unearned incentive bonuses or other incentive payments made to senior executives if it is later determined that the figures upon which incentive compensation is earned later turn out to have been in error. This is line with the clawback provision in the Trouble Asset Relief Program. Many companies have adopted policies that permit recoupment in cases where fraud, misconduct, or negligence significantly contributed to a restatement of financial results that led to the awarding of unearned incentive compensation. ISS will take into consideration:

- If the company has adopted a formal recoupment bonus policy;
- If the company has chronic restatement history or material financial problems; or
- If the company's policy substantially addresses the concerns raised by the proponent.



Severance Agreements for Executives/Golden Parachutes

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 Holding Periods

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.



Supplemental Executive Retirement Plans (SERPs)

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 and excluding of all incentive or bonus pay from the plan's definition of covered compensation used to establish such benefits.



Tax Gross-Up Proposals

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

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 in change-of-control situations (i.e. is it double triggered, 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 acceleration of the vesting of equity awards to senior executives 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. Social/Environmental Issues

Overall Approach

- When evaluating social and environmental shareholder proposals, ISS considers the following factors:
- Whether adoption of the proposal is likely to enhance or protect shareholder value;
- Whether the information requested concerns business issues that relate to a meaningful percentage of the company's business as measured by sales, assets, and earnings;
- The degree to which the company's stated position on the issues raised in the proposal could affect its reputation or sales, or leave it vulnerable to a boycott or selective purchasing;
- Whether the issues presented are more appropriately/effectively dealt with through governmental or company-specific action;
- Whether the company has already responded in some appropriate manner to the request embodied in the proposal;
- Whether the company's analysis and voting recommendation to shareholders are persuasive;
- What other companies have done in response to the issue addressed in the proposal;
- Whether the proposal itself is well framed and the cost of preparing the report is reasonable;
- Whether implementation of the proposal's request would achieve the proposal's objectives;
- Whether the subject of the proposal is best left to the discretion of the board;
- Whether the requested information is available to shareholders either from the company or from a publicly available source; and
- Whether providing this information would reveal proprietary or confidential information that would place the company at a competitive disadvantage.



Animal Welfare

Animal Welfare Policies

Generally vote FOR proposals seeking a report on the company's animal welfare standards 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 or litigation related to the company's treatment of animals.

Animal Testing

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 at industry peers; or
- There are recent, significant fines or litigation related to the company's treatment of animals.

Animal Slaughter (Controlled Atmosphere Killing (CAK))

Generally vote AGAINST proposals requesting the implementation of 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

Generally vote AGAINST proposals asking suppliers, genetic research companies, restaurants and food retail companies to voluntarily label genetically engineered (GE) ingredients in their products and/or eliminate GE ingredients. The cost of labeling and/or phasing out the use of GE ingredients may not be commensurate with the benefits to shareholders and is an issue better left to regulators.

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

- The company's business and the proportion of it affected by the resolution;
- 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, including information on the related costs.

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 completely phase out 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 resolutions presuppose that there are proven health risks to GE ingredients (an issue better left to regulators) that may outweigh the economic benefits derived from biotechnology.



Reports on Potentially Controversial Business/Financial Practices

Vote CASE-BY CASE on requests for reports on the 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, Product Reimportation, and Health Pandemics

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.

Vote CASE-BY-CASE on proposals requesting that the company evaluate report on their product pricing policies or their access to medicine policies, considering:

- The nature of the company's business and the potential for reputational and market risk exposure;
- The existing disclosure of relevant policies;
- Deviation from established industry norms;
- The company's existing, relevant initiatives to provide research and/or products to disadvantaged consumers;
- Whether the proposal focuses on specific products or geographic regions; and
- The potential cost and scope of the requested report.

Generally vote FOR proposals requesting that companies report on the financial and legal impact of their 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.

Health Pandemics

Vote CASE-BY-CASE on requests for reports outlining the impact of health pandemics (such as HIV/AIDS, malaria, tuberculosis, and avian flu) on the company's operations and how the company is responding to the situation, taking into account:

- The scope of the company's operations in the affected/relevant area(s);
- The company's existing healthcare policies, including benefits and healthcare access; and
- Company donations to relevant healthcare providers.

Vote AGAINST proposals asking companies to establish, implement, and report on a standard of response to health pandemics (such as HIV/AIDS, malaria, tuberculosis, and avian flu), unless the company has significant operations in the affected markets and has failed to adopt policies and/or procedures to address these issues comparable to those of industry peers.



Product Safety and Toxic/Hazardous Materials

Generally vote FOR proposals requesting the company to 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, significant 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

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;
- 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;
- 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 and the Environment

Climate Change/ Greenhouse Gas (GHG) Emissions

Generally vote FOR resolutions requesting that a company disclose information on the impact of climate change on the company's operations and investments considering:

- The company already provides current, publicly-available information on the impacts 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 is at least comparable to that of industry peers; and
- There are no significant, controversies, fines, penalties, or litigation associated with the company's environmental 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 provides 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:

- Overly prescriptive requests for the reduction in GHG emissions by specific amounts or within a specific time frame;
- Whether company disclosure lags behind industry peers;
- Whether the company has been the subject of recent, significant violations, fines, litigation, or controversy related to GHG emissions;
- The feasibility of reduction of GHGs given the company's product line and current technology and;
- Whether the company already provides meaningful disclosure on GHG emissions from its products and operations.



General Environmental Proposals and Community Impact Assessments, Concentrated Area Feeding Operations

General Environmental Proposals and Community Impact Assessments

Vote CASE-BY-CASE on requests for reports outlining 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.

Concentrated Area Feeding Operations (CAFOs)

Generally vote FOR resolutions requesting companies report to shareholders on the risks and liabilities associated with CAFOs unless:

- The company has publicly disclosed its environmental management policies for its corporate and contract farming operations, including compliance monitoring; and
- The company publicly discloses company and supplier farm environmental performance data; or
- The company does not have company-owned CAFOs and does not directly source from contract farm CAFOs.



Energy Efficiency

Generally vote FOR on proposals requesting a company report on its comprehensive 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.



Facility and Operational Safety/Security

Vote CASE-BY-CASE on resolutions requesting that companies report on safety and/or security risks associated with their 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.



Hydraulic Fracturing

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

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

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 prescribed by the proposal and the costs and methods of program implementation;
- The ability of the company to address the issues raised in the proposal; and
- The company's recycling programs compared with the similar programs of its industry peers.



Renewable Energy

Generally vote FOR requests for reports on the feasibility of developing renewable energy resources unless the report is 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.



Diversity

Board Diversity

Generally vote FOR requests for reports on the 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 the 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;
- 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

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 its comprehensive equal opportunity policies and initiatives;
- 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 cost and administration burden on the company.



Gender Identity, Sexual Orientation, and Domestic Partner Benefits

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 result in excessive costs for the company.

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.



General Corporate Issues

Charitable Contributions

Vote AGAINST proposals restricting the 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.



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

Generally vote AGAINST proposals to link, or report on linking, executive compensation to environmental and social criteria such as corporate downsizings, customer or employee satisfaction, community involvement, human rights, environmental performance, or predatory lending. However, the following factors will be considered:

- Whether the company has significant and persistent controversies or 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.

Generally vote AGAINST proposals calling for an analysis of the pay disparity between corporate executives and other non-executive employees. The value of the information sought by such proposals is unclear.



Political Spending & Lobbying Activities

Generally vote AGAINST proposals asking the 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 to publish in newspapers and other media the company's political contributions. Such publications could present significant cost to the company without providing commensurate value to shareholders.

Generally vote FOR proposals requesting greater disclosure of a company's political contributions and trade association spending policies and activities. However, the following will be considered:

- The company's current disclosure of policies and oversight mechanisms related to its direct political contributions and payments to trade associations or other groups that may be used for political purposes, including information on the types of organizations supported and the business rationale for supporting these organizations; and
- Recent significant controversies, fines, or litigation related to the company's political contributions or political activities.

Vote AGAINST proposals barring the 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 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.

Vote CASE-BY-CASE on proposals requesting information on a company's lobbying activities, including direct lobbying as well as grassroots lobbying activities, considering:

- The company's current disclosure of relevant policies and oversight mechanisms;
- Recent significant controversies, fines, or litigation related to the company's public policy activities; and
- The impact that the policy issues may have on the company's business operations.



International Issues, Labor Issues, and Human Rights

International Human Rights Proposals

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.



Internet Privacy and Censorship

Vote CASE-BY-CASE on resolutions requesting the disclosure and implementation of Internet privacy and censorship policies and procedures considering:

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



MacBride Principles

Generally vote AGAINST proposals to endorse or increase activity on the MacBride Principles, unless:

- The company has formally been found to be out of compliance with relevant Northern Ireland fair employment laws and regulations;
- Failure to implement the MacBride Principles would put the company in an inconsistent position and/or at a competitive disadvantage compared with industry peers;
- Failure to implement the MacBride Principles would subject the company to excessively negative financial impacts due to laws that some municipalities have passed regarding their contracting operations and companies that have not implemented the MacBride Principles; or
- The company has had recent, significant controversies, fines or litigation regarding religious-based employment discrimination in Northern Ireland.



Operations in High Risk Markets

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

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.



Workplace Safety

Vote CASE-BY CASE on requests for workplace safety reports, including reports on accident risk reduction efforts, taking into account:

- The current level of company 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.



Weapons and Military Sales

Foreign Military Sales/Offsets

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.

Nuclear and Depleted Uranium Weapons

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.



Sustainability

Sustainability Reporting

Generally vote FOR proposals requesting the company to 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

Vote CASE-BY-CASE on proposals requesting a company report on, or to 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.



7. Mutual Fund Proxies

Election of Directors

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.



Converting Closed-end Fund to Open-end Fund

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

Vote CASE-BY-CASE on proxy contests, considering the following factors:

- Past performance relative to its peers;
- Market in which 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

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

Vote FOR the establishment of new classes or series of shares.



Preferred Stock Proposals

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

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

Vote CASE-BY-CASE on proposals to change a fundamental restriction to a non-fundamental 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

Vote AGAINST proposals to change a fund's fundamental investment objective to non-fundamental.



Name Change Proposals

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

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

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 that is less than one year from the date shareholders approve the underlying proposal, as required under the Investment Company Act of 1940;
- A majority of the independent directors who have no financial interest in the sale have made a determination as to whether such sale would be in the best interests of the company and its shareholders prior to selling shares below NAV; and
- The company has demonstrated responsible past use of share issuances by either:
 - Outperforming peers in its 8-digit GICS group as measured by one- and three-year median TSRs; or
 - Providing disclosure that its past share issuances were priced at levels that resulted in only small or moderate discounts to NAV and economic dilution to existing non-participating shareholders.



Disposition of Assets/Termination/Liquidation

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

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

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

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

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

Vote FOR the establishment of a master-feeder structure.



Mergers

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

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

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

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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Institutional Shareholder Services Inc.

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ISS' 2012 International Proxy Voting Summary Guidelines

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The following is a condensed version of the proxy voting recommendations contained in ISS' International Proxy Voting Manual. Note that markets covered in this document exclude the U.S., Canada, Western European markets, Australia, New Zealand, and China, which are presented separately. In addition, ISS has country- and market-specific policies, which are not captured below.

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INTRODUCTION

The primary purpose of a public corporation is to create sustainable value for its shareowners. To that end, ISS designs its proxy voting guidelines to enhance shareholders' long-term economic interests. ISS' Benchmark proxy voting guidelines serve as a tool to assist institutional investors in meeting their fiduciary requirements with respect to voting by promoting shareholder value creation and risk mitigation at their portfolio firms.

ISS reviews and updates its proxy voting guidelines each year, taking into account emerging issues and trends, the evolution of market standards, regulatory changes, and feedback provided by ISS' institutional clients.

ISS' robust and transparent [policy formulation process](#) includes an exhaustive review of relevant empirical studies and other factual data, an annual [policy survey](#) of institutional clients and corporate issuers, policy roundtables with a wide range of industry constituents, and an open [comment period](#) on draft policy changes. ISS also conducts internal research to validate assumptions and policy positions.

The Benchmark Policy Guidelines consider market-specific recommended best practices, transparency, and disclosure when addressing issues such as board structure, director accountability, corporate governance standards, executive compensation, shareholder rights, corporate transactions, and social/environmental issues.

ISS' policy guidelines require the consideration of company-specific circumstances. When issuing a vote recommendation on a proposal, ISS considers historical operating and investment performance, company disclosure (and proponent/dissident disclosure, if applicable), the company's governance structure and historical practices, and its industry.

In applying these policies, ISS often engages with public issuers, shareholders, activists, and other stakeholders to seek additional information and to gain insight and context in order to provide our clients with informed vote recommendations. This engagement process enhances dialogue and promotes a higher level of understanding between investors and the companies in which they invest.

In formulating proxy voting policies, ISS assesses the potential costs and benefits of the adoption or rejection of the underlying ballot items. Where the economic impact of a ballot item is not apparent and may involve trade-offs, the guidelines direct analysts to consider the economic consequences as well as potential risks to shareholders of approval.

This document presents ISS' Benchmark International Corporate Governance Policies. The document, along with other policy documents, is available on our Web site under the [Policy Gateway](#). If you have any questions, please contact usresearch@issgovernance.com.

These policies will be effective for meetings on or after Feb. 1, 2012.



1. OPERATIONAL ITEMS

Financial Results/Director and Auditor Reports

Vote FOR approval of financial statements and director and auditor reports, unless:

- There are concerns about the accounts presented or audit procedures used; or
- The company is not responsive to shareholder questions about specific items that should be publicly disclosed.



Appointment of Auditors and Auditor Fees

Vote FOR the (re)election of auditors and/or proposals authorizing the board to fix auditor fees, unless:

- There are serious concerns about the procedures used by the auditor;
- There is reason to believe that the auditor has rendered an opinion, which is neither accurate nor indicative of the company's financial position;
- External auditors have previously served the company in an executive capacity or can otherwise be considered affiliated with the company;
- Name of the proposed auditors has not been published;
- The auditors are being changed without explanation; or
- Fees for non-audit services exceed standard annual audit-related fees (only applies to companies on the MSCI EAFE index and/or listed on any country main index).

In circumstances where fees for non-audit services include fees related to significant one-time capital structure events (initial public offerings, bankruptcy emergencies, and spinoffs) and the company makes public disclosure of the amount and nature of those fees, which 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 fees.

For concerns related to the audit procedures, independence of auditors, and/or name of auditors, ISS may recommend AGAINST the auditor (re)election. For concerns related to fees paid to the auditors, ISS may recommend AGAINST remuneration of auditors if this is a separate voting item; otherwise ISS may recommend AGAINST the auditor election.



Appointment of Internal Statutory Auditors

Vote FOR the appointment or (re)election of statutory auditors, unless:

- There are serious concerns about the statutory reports presented or the audit procedures used;
- Questions exist concerning any of the statutory auditors being appointed; or
- The auditors have previously served the company in an executive capacity or can otherwise be considered affiliated with the company.



Allocation of Income

Vote FOR approval of the allocation of income, unless:

- The dividend payout ratio has been consistently below 30 percent without adequate explanation; or
- The payout is excessive given the company's financial position.



Stock (Scrip) Dividend Alternative

Vote FOR most stock (scrip) dividend proposals.

Vote AGAINST proposals that do not allow for a cash option unless management demonstrates that the cash option is harmful to shareholder value.



Amendments to Articles of Association

Vote amendments to the articles of association on a CASE-BY-CASE basis.



Change in Company Fiscal Term

Vote FOR resolutions to change a company's fiscal term unless a company's motivation for the change is to postpone its AGM.



Lower Disclosure Threshold for Stock Ownership

Vote AGAINST resolutions to lower the stock ownership disclosure threshold below 5 percent unless specific reasons exist to implement a lower threshold.



Amend Quorum Requirements

Vote proposals to amend quorum requirements for shareholder meetings on a CASE-BY-CASE basis.



Transact Other Business

Vote AGAINST other business when it appears as a voting item.



2. BOARD OF DIRECTORS

Director Elections

Vote FOR management nominees in the election of directors, unless:

- Adequate disclosure has not been provided in a timely manner;
- There are clear concerns over questionable finances or restatements;
- There have been questionable transactions with conflicts of interest;
- There are any records of abuses against minority shareholder interests; or
- The board fails to meet minimum corporate governance standards.

Vote FOR individual nominees unless there are specific concerns about the individual, such as criminal wrongdoing or breach of fiduciary responsibilities.

Vote AGAINST individual directors if repeated absences at board meetings have not been explained (in countries where this information is disclosed).

Vote on a CASE-BY-CASE basis for contested elections of directors, e.g. the election of shareholder nominees or the dismissal of incumbent directors, determining which directors are best suited to add value for shareholders.

Vote FOR employee and/or labor representatives if they sit on either the audit or compensation committee *and* are required by law to be on those committees. Vote AGAINST employee and/or labor representatives if they sit on either the audit or compensation committee, if they are not required to be on those committees.

Under extraordinary circumstances, vote AGAINST individual directors, members of a committee, or the entire board, due to:

- Material failures of governance, stewardship, risk oversight, 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.



[Please see the ISS International Classification of Directors on the following page.]

ISS Classification of Directors - International Policy 2011

Executive Director

- Employee or executive of the company;
- Any director who is classified as a non-executive, but receives salary, fees, bonus, and/or other benefits that are in line with the highest-paid executives of the company.

Non-Independent Non-Executive Director (NED)

- Any director who is attested by the board to be a non-independent NED;
- Any director specifically designated as a representative of a significant shareholder of the company;
- Any director who is also an employee or executive of a significant shareholder of the company;
- Any director who is nominated by a dissenting significant shareholder, unless there is a clear lack of material^[5] connection with the dissident, either currently or historically;
- Beneficial owner (direct or indirect) of at least 10 percent of the company's stock, either in economic terms or in voting rights (this may be aggregated if voting power is distributed among more than one member of a defined group, e.g., family members who beneficially own less than 10 percent individually, but collectively own more than 10 percent), unless market best practice dictates a lower ownership and/or disclosure threshold (and in other special market-specific circumstances);
- Government representative;
- Currently provides (or a relative^[1] provides) professional services^[2] to the company, to an affiliate of the company, or to an individual officer of the company or of one of its affiliates in excess of \$10,000 per year;
- Represents customer, supplier, creditor, banker, or other entity with which company maintains transactional/commercial relationship (unless company discloses information to apply a materiality test^[3]);
- Any director who has conflicting or cross-directorships with executive directors or the chairman of the company;
- Relative^[1] of a current employee of the company or its affiliates;
- Relative^[1] of a former executive of the company or its affiliates;
- A new appointee elected other than by a formal process through the General Meeting (such as a contractual appointment by a substantial shareholder);
- Founder/co-founder/member of founding family but not currently an employee;
- Former executive (five-year cooling off period);
- Years of service is generally not a determining factor unless it is recommended best practice in a market and/or in extreme circumstances, in which case it may be considered.^[4]
- Any additional relationship or principle considered to compromise independence under local corporate governance best practice guidance.

Independent NED

- No material^[5] connection, either directly or indirectly, to the company (other than a board seat) or the dissenting significant shareholder.

Employee Representative

- Represents employees or employee shareholders of the company (classified as “employee representative” but considered a non-independent NED).

Footnotes:

[1] “Relative” follows the definition of “immediate family members” which covers spouses, parents, children, stepparents, 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.

[2] Professional services can be characterized as advisory in nature and generally include the following: investment banking/financial advisory services; commercial banking (beyond deposit services); investment services; insurance services; accounting/audit services; consulting services; marketing services; and legal services. The case of participation in a banking syndicate by a non-lead bank should be considered a transaction (and hence subject to the associated materiality test) rather than a professional relationship.

[3] A business relationship may be material if the transaction value (of all outstanding transactions) entered into between the company and the company or organization with which the director is associated is equivalent to either 1 percent of the company's turnover or 1 percent of the turnover of the company or organization with which the director is associated. OR, A business relationship may be material if the transaction value (of all outstanding financing operations) entered into between the company and the company or organization with which the director is associated is more than 10 percent of the company's shareholder equity or the transaction value, (of all outstanding financing operations), compared to the company's total assets, is more than 5 percent.

[4] For example, in continental Europe, directors with a tenure exceeding 12 years will be considered non-independent. In the United Kingdom and Ireland, directors with a tenure exceeding nine years will be considered non-independent, unless the company provides sufficient and clear justification that the director is independent despite his long tenure.

[5] For purposes of ISS' 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.



Contested Director Elections

For contested elections of directors, e.g. the election of shareholder nominees or the dismissal of incumbent directors, ISS will make its recommendation on a case-by-case basis, determining which directors are best suited to add value for shareholders.

The analysis will generally be based on, but not limited to, the following major decision factors:

- Company performance relative to its peers;
- Strategy of the incumbents versus the dissidents;
- Independence of directors/nominees;
- Experience and skills of board candidates;
- Governance profile of the company;
- Evidence of management entrenchment;
- Responsiveness to shareholders;
- Whether a takeover offer has been rebuffed;
- Whether minority or majority representation is being sought.

When analyzing a contested election of directors, ISS will generally focus on two central questions: (1) Have the dissidents proved that board change is warranted? And (2) if so, are the dissident board nominees likely to effect positive change (i.e., maximize long-term shareholder value).



Discharge of Directors

Generally vote FOR the discharge of directors, including members of the management board and/or supervisory board, *unless* there is reliable information about significant and compelling controversies that the board is not fulfilling its fiduciary duties warranted by:

- A lack of oversight or actions by board members which invoke shareholder distrust related to malfeasance or poor supervision, such as operating in private or company interest rather than in shareholder interest; or
- Any legal issues (e.g. civil/criminal) aiming to hold the board responsible for breach of trust in the past or related to currently alleged actions yet to be confirmed (and not only the fiscal year in question), such as price fixing, insider trading, bribery, fraud, and other illegal actions; or
- Other egregious governance issues where shareholders will bring legal action against the company or its directors.

For markets which do not routinely request discharge resolutions (e.g. common law countries or markets where discharge is not mandatory), analysts may voice concern in other appropriate agenda items, such as approval of the annual accounts or other relevant resolutions, to enable shareholders to express discontent with the board.



Director, Officer, and Auditor Indemnification and Liability Provisions

Vote proposals seeking indemnification and liability protection for directors and officers on a CASE-BY-CASE basis.

Vote AGAINST proposals to indemnify external auditors.



Board Structure

Vote FOR proposals to fix board size.

Vote AGAINST the introduction of classified boards and mandatory retirement ages for directors.

Vote AGAINST proposals to alter board structure or size in the context of a fight for control of the company or the board.



3. CAPITAL STRUCTURE

Share Issuance Requests

General Issuances

Vote FOR issuance requests with preemptive rights to a maximum of 100 percent over currently issued capital.

Vote FOR issuance requests without preemptive rights to a maximum of 20 percent of currently issued capital.

Specific Issuances

Vote on a CASE-BY-CASE basis on all requests, with or without preemptive rights.



Increases in Authorized Capital

Vote FOR non-specific proposals to increase authorized capital up to 100 percent over the current authorization unless the increase would leave the company with less than 30 percent of its new authorization outstanding.

Vote FOR specific proposals to increase authorized capital to any amount, unless:

- The specific purpose of the increase (such as a share-based acquisition or merger) does not meet ISS guidelines for the purpose being proposed; or
- The increase would leave the company with less than 30 percent of its new authorization outstanding after adjusting for all proposed issuances.

Vote AGAINST proposals to adopt unlimited capital authorizations.



Reduction of Capital

Vote FOR proposals to reduce capital for routine accounting purposes unless the terms are unfavorable to shareholders.

Vote proposals to reduce capital in connection with corporate restructuring on a CASE-BY-CASE basis.



Capital Structures

Vote FOR resolutions that seek to maintain or convert to a one-share, one-vote capital structure.

Vote AGAINST requests for the creation or continuation of dual-class capital structures or the creation of new or additional super voting shares.



Preferred Stock

Vote FOR the creation of a new class of preferred stock or for issuances of preferred stock up to 50 percent of issued capital unless the terms of the preferred stock would adversely affect the rights of existing shareholders.

Vote FOR the creation/issuance of convertible preferred stock as long as the maximum number of common shares that could be issued upon conversion meets ISS guidelines on equity issuance requests.

Vote AGAINST the creation of a new class of preference shares that would carry superior voting rights to the common shares.

Vote AGAINST the creation of blank check preferred stock unless the board clearly states that the authorization will not be used to thwart a takeover bid.

Vote proposals to increase blank check preferred authorizations on a CASE-BY-CASE basis.



Debt Issuance Requests

Vote non-convertible debt issuance requests on a CASE-BY-CASE basis, with or without preemptive rights.

Vote FOR the creation/issuance of convertible debt instruments as long as the maximum number of common shares that could be issued upon conversion meets ISS guidelines on equity issuance requests.

Vote FOR proposals to restructure existing debt arrangements unless the terms of the restructuring would adversely affect the rights of shareholders.



Pledging of Assets for Debt

Vote proposals to approve the pledging of assets for debt on a CASE-BY-CASE basis.



Increase in Borrowing Powers

Vote proposals to approve increases in a company's borrowing powers on a CASE-BY-CASE basis.



Share Repurchase Plans

Generally vote FOR market repurchase authorities (share repurchase programs) if the terms comply with the following criteria:

- A repurchase limit of up to 10 percent of outstanding issued share capital (15 percent in U.K./Ireland);
- A holding limit of up to 10 percent of a company's issued share capital in treasury ("on the shelf"); and
- A duration of no more than five years, or such lower threshold as may be set by applicable law, regulation or code of governance best practice.

Authorities to repurchase shares in excess of the 10 percent repurchase limit will be assessed on a case-by-case basis. ISS may support such share repurchase authorities under special circumstances, which are required to be publicly disclosed by

the company, provided that, on balance, the proposal is in shareholders' interests. In such cases, the authority must comply with the following criteria:

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

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

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

In addition, ISS will recommend AGAINST any proposal where:

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



Reissuance of Repurchased Shares

Vote FOR requests to reissue any repurchased shares unless there is clear evidence of abuse of this authority in the past.



Capitalization of Reserves for Bonus Issues/Increase in Par Value

Vote FOR requests to capitalize reserves for bonus issues of shares or to increase par value.



4. COMPENSATION

Compensation Plans

Vote compensation plans on a CASE-BY-CASE basis.



Director Compensation

Vote FOR proposals to award cash fees to non-executive directors unless the amounts are excessive relative to other companies in the country or industry.

Vote non-executive director compensation proposals that include both cash and share-based components on a CASE-BY-CASE basis.

Vote proposals that bundle compensation for both non-executive and executive directors into a single resolution on a CASE-BY-CASE basis.

Vote AGAINST proposals to introduce retirement benefits for non-executive directors.



5. OTHER ITEMS

Reorganizations/Restructurings

Vote reorganizations and restructurings on a CASE-BY-CASE basis.



Mergers and Acquisitions

Vote CASE-BY-CASE on mergers and acquisitions taking into account the following:

For every M&A analysis, ISS reviews publicly available information as of the date of the report and evaluates 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, ISS places emphasis on the offer premium, market reaction, and strategic rationale.
- Market reaction - How has the market responded to the proposed deal? A negative market reaction will cause ISS to scrutinize a deal more closely.
- 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.
- Conflicts of interest - Are insiders benefiting from the transaction disproportionately and inappropriately as compared to non-insider shareholders? ISS will consider whether any special interests may have influenced these directors and officers to support or recommend the merger.
- 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.

Vote AGAINST if the companies do not provide sufficient information upon request to make an informed voting decision.



Mandatory Takeover Bid Waivers

Vote proposals to waive mandatory takeover bid requirements on a CASE-BY-CASE basis.



Reincorporation Proposals

Vote reincorporation proposals on a CASE-BY-CASE basis.



Expansion of Business Activities

Vote FOR resolutions to expand business activities unless the new business takes the company into risky areas.



Related-Party Transactions

In evaluating resolutions that seek shareholder approval on related-party transactions (RPTs), vote on a case-by-case basis, considering factors including, but not limited to, the following:

- The parties on either side of the transaction;
- The nature of the asset to be transferred/service to be provided;
- The pricing of the transaction (and any associated professional valuation);
- The views of independent directors (where provided);
- The views of an independent financial adviser (where appointed);
- Whether any entities party to the transaction (including advisers) is conflicted; and
- The stated rationale for the transaction, including discussions of timing.

If there is a transaction that ISS deemed problematic and that was not put to a shareholder vote, ISS may recommend against the election of the director involved in the related-party transaction or the full board.



Antitakeover Mechanisms

Generally vote AGAINST all antitakeover proposals, unless they are structured in such a way that they give shareholders the ultimate decision on any proposal or offer.



Shareholder Proposals

Vote all shareholder proposals on a CASE-BY-CASE basis.

Vote FOR proposals that would improve the company's corporate governance or business profile at a reasonable cost.

Vote AGAINST proposals that limit the company's business activities or capabilities or result in significant costs being incurred with little or no benefit.



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TAFT-HARTLEY ADVISORY SERVICES

PROXY VOTING POLICY STATEMENT AND GUIDELINES

This statement sets forth the proxy voting policy of ISS' Taft-Hartley Advisory Services. The U.S. Department of Labor (DOL) has stated that the fiduciary act of managing plan assets that are shares of corporate stock includes the voting of proxies appurtenant to those shares of stock and that trustees may delegate this duty to an investment manager. ERISA section 3(38) defines an investment manager as any fiduciary who is registered as an investment adviser under the Investment Advisor Act of 1940. ISS is a registered investment adviser under the Investment Advisor Act of 1940.

Taft-Hartley Advisory Services will vote the proxies of its clients solely in the interest of their participants and beneficiaries and for the exclusive purpose of providing benefits to them. The interests of participants and beneficiaries will not be subordinated to unrelated objectives. Taft-Hartley Advisory Services shall act with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. When proxies due to Taft-Hartley Advisory Services' clients have not been received, Taft-Hartley Advisory Services will make reasonable efforts to obtain missing proxies. Taft-Hartley Advisory Services is not responsible for voting proxies it does not receive.

Taft-Hartley Advisory Services shall analyze each proxy on a case-by-case basis, informed by the guidelines elaborated below, subject to the requirement that all votes shall be cast solely in the long-term interest of the participants and beneficiaries of the plans. Taft-Hartley Advisory Services does not intend for these guidelines to be exhaustive. Hundreds of issues appear on proxy ballots every year, and it is neither practical nor productive to fashion voting guidelines and policies which attempt to address every eventuality. Rather, Taft-Hartley Advisory Services' guidelines are intended to cover the most significant and frequent proxy issues that arise. Issues not covered by the guidelines shall be voted in the interest of plan participants and beneficiaries of the plan based on a worker-owner view of long-term corporate value. Taft-Hartley Advisory Services shall revise its guidelines as events warrant and will remain in full conformity with the AFL-CIO proxy voting policy.

Taft-Hartley Advisory Services shall report annually to its clients on proxy votes cast on their behalf. These proxy voting reports will demonstrate Taft-Hartley Advisory Services' compliance with its responsibilities and will facilitate clients' monitoring of Taft-Hartley Advisory Services. A copy of this *Proxy Voting Policy Statement and Guidelines* is provided to each client at the time Taft-Hartley Advisory Services is retained. Taft-Hartley Advisory Services shall provide its clients with revised copies of this proxy voting policy statement and guidelines whenever significant revisions have been made.



DIRECTOR ELECTIONS

Electing directors is the single most important stock ownership right that shareholders can exercise. By electing directors who share their views, shareholders can help to define performance standards against which management can be held accountable. Taft-Hartley Advisory Services holds directors to a high standard when voting on their election, qualifications, and compensation. We evaluate directors fairly and objectively, rewarding them for significant contributions and holding them ultimately accountable to shareholders for corporate performance. Institutional investors should use their voting rights in uncontested elections to influence financial performance and corporate strategies for achieving long term shareholder value.

Director accountability, independence and competence have become issues of prime importance to investors given the failings in oversight exposed by the global financial crisis. There is also concern over the environment in the boardrooms of certain markets, where past failures appear to be no impediment to continued or new appointments at major companies and may not be part of the evaluation process at companies in considering whether an individual is, or continues to be, fit for the role and best able to serve shareholders' interests.

Voting on Director Nominees in Uncontested Elections

Votes concerning the entire board of directors and members of key board committees are examined using the following factors:

Board Independence: Without independence from management, the board and/or its committees may be unwilling or unable to effectively set company strategy and scrutinize performance or executive compensation.

Board Competence: Companies should seek a diverse board of directors who can add value to the board through specific skills or expertise and who can devote sufficient time and commitment to serve effectively. While directors should not be constrained by arbitrary limits such as age or term limits, directors who are unable to attend board and committee meetings and/or who are overextended (i.e. serving on too many boards) raise concern on the director's ability to effectively serve in shareholders' best interests.

Board Accountability: Practices that promote accountability include; transparency into a company's governance practices, annual board elections, and providing shareholders the ability to remove problematic directors and to vote on takeover defenses or other charter/bylaw amendments. These practices help reduce the opportunity for management entrenchment.

Board Responsiveness: Directors should be responsive to shareholders, particularly in regard to shareholder proposals that receive a majority vote or management proposals that receive low shareholder support, and to tender offers where a majority of shares are tendered. Boards should also be sufficiently responsive to high withhold/against votes on directors. Furthermore, shareholders should expect directors to devote sufficient time and resources to oversight of the company.

Votes on individual director nominees are always made on a CASE-BY-CASE basis. Specific director nominee WITHHOLD/AGAINST¹ votes can be triggered by one or more of the following factors:

¹ In general, companies with a plurality vote standard use "Withhold" as the valid 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.



Board Independence

- Lack of board and key board committee independence (fully independent audit, compensation, and nominating committees).
- Lack of a board that is at least two-thirds (67 percent) independent – i.e. where the composition of non-independent board members is in excess of 33 percent of the entire board;
- Lack of an independent board chair;
- Lack of independence on key board committees (i.e. audit, compensation, and nominating committees);
- Failure to establish any key board committees (i.e. audit, compensation, or nominating).

Board Competence

- Attendance of director nominees at board and committee meetings of less than 75 percent in one year without valid reason or explanation.
- Directors serving on an excessive number of other boards which could compromise their primary duties of care and loyalty.

Board Accountability

Problematic Takeover Defenses

- The board lacks accountability and oversight due to the presence of problematic governance provisions, coupled with long-term poor corporate performance relative to peers;
- If the company has a classified board and a continuing director is responsible for a problematic governance issue at the board/committee level that would warrant a withhold/against vote, in addition to potential future withhold/against votes on that director, Taft-Hartley Advisory Services may vote against or withhold votes from any or all of the nominees up for election, with the exception of new nominees;
- The company's poison pill has a "dead-hand" or "modified dead-hand" feature;
- The board adopts a pill or makes a material adverse change to an existing pill without shareholder approval.

Governance Failures

- The presence of problematic governance practices including interlocking directorships, multiple related-party transactions, excessive risk-taking, imprudent use of corporate assets, etc.;
- Inadequate CEO succession planning, including the absence of an emergency and non-emergency/orderly CEO succession plan;
- Material failures of governance, stewardship, risk oversight, or fiduciary responsibilities at the company, failure to replace management as appropriate, flagrant or egregious actions related to the director(s)' service on other boards that raise substantial doubt about his or her ability to effectively oversee management and serve the best interests of shareholders at any company;
- Chapter 7 bankruptcy, Securities & Exchange Commission (SEC) violations or fines, and criminal investigations by the Department of Justice (DOJ), Government Accounting Office (GAO) or any other federal agency.



Problematic Compensation Practices/Pay-for-Performance Misalignment

Performance of compensation committee members and/or the entire board in relation to the approval of egregious or excessive executive compensation (including perquisites and cash or equity awards).

Vote AGAINST or WITHHOLD votes from members of the Compensation Committee and potentially the full board if:

- There is a misalignment between CEO pay and company performance (see [Pay-for-Performance](#) policy);
- The company maintains [problematic pay practices](#) including [options backdating](#), excessive perks and overly generous employment contracts etc.;
- The company fails to submit one-time transfers of stock options to a shareholder vote;
- The company fails to fulfill the terms of a burn rate commitment they made to shareholders;
- There is evidence that management/board members are using company stock in hedging activities.

Vote CASE-BY-CASE on Compensation Committee members (or, potentially, the full board) and the Management Say-on-Pay proposal if:

- The company's previous say-on-pay proposal received low levels of investor support, taking into account:
 - The company's response, including: a) disclosure of engagement efforts with major institutional investors regarding the issues that contributed to the low level of support; b) specific actions taken to address the issues that contributed to the low level of support; c) 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.

Problematic Audit-Related Practices

Performance of audit committee members concerning the approval of excessive non-audit fees, material weaknesses, and/or the lack of auditor ratification upon the proxy ballot;

Vote AGAINST or WITHHOLD votes from the members of the Audit Committee when:

- Consulting (i.e. non-audit) fees paid to the auditor are excessive;
- Auditor ratification is not included on the proxy ballot;
- The company receives an adverse opinion on the company's financial statements from its auditor;
- There is 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; or
- Poor accounting practices such as: fraud; misapplication of GAAP; and material weaknesses identified in Section 404 disclosures, exist. Poor accounting practices may warrant voting against or withholding votes from the full board.



Board Responsiveness

Vote AGAINST/WITHHOLD from the entire board of directors (except new nominees, who should be considered on a CASE-BY-CASE basis), if:

- 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 underlying issue(s) that caused the high withhold/against vote;
- The board failed to act on takeover offers where the majority of the shareholders tendered their shares;
- The board failed to act on a shareholder proposal that received approval by a majority of the shares cast the previous year;
- The board implements an advisory vote on executive compensation on a less frequent basis than the frequency that received the majority of votes cast at the most recent shareholder meeting at which shareholders voted on the say-on-pay frequency.

Vote CASE-BY-CASE on the entire board if:

The board implements an advisory vote on executive compensation on a less frequent basis than the frequency that received a plurality, but not a majority, of the votes cast at the most recent shareholder meeting at which shareholders voted on the say-on-pay frequency, taking into account:

- The board's rationale for selecting a frequency that is different from the frequency that received a plurality;
- The company's ownership structure and vote results;
- Whether there are compensation concerns or a history of problematic compensation practices;
- The previous year's support level on the company's say-on-pay proposal.

Voting for Director Nominees in Contested Elections

Contested elections of directors frequently occur when a board candidate or “dissident slate” seeks election for the purpose of achieving a significant change in corporate policy or control of seats on the board. Competing slates will be evaluated on a CASE-BY-CASE basis with a number of considerations in mind. These include, but are not limited to, the following: personal qualifications of each candidate; the economic impact of the policies advanced by the dissident slate of nominees; and their expressed and demonstrated commitment to the interests of the shareholders of the company. Votes in a contested election of directors are evaluated on a CASE-BY-CASE basis with the following seven factors in consideration:

- Long-term financial performance of the target company relative to its industry;
- Management’s track record;
- Background to the proxy contest;
- Qualifications of director nominees (both slates);
- Strategic plan of dissident slate and quality of critique against management;
- Likelihood that the proposed goals and objectives can be achieved (both slates);
- Stock ownership positions.



Independent Directors

Board independence from management is of vital importance to a company and its shareholders. Accordingly, we believe votes should be cast in a manner that will encourage the independence of boards. Independence will be evaluated based upon a number of factors, including: employment by the company or an affiliate in an executive capacity; past or current employment by a firm that is one of the company's paid advisors or consultants; personal services contract with the company; family relationships of an executive or director of the company; interlocks with other companies on which the company's chairman or chief executive officer is also a board member; and service with a non-profit organization that receives significant contributions from the company.

- Generally vote AGAINST or WITHHOLD votes from non-independent director nominees (insiders and affiliated outsiders) where the entire board is not at least two-thirds (67 percent) independent;
- Generally vote AGAINST or WITHHOLD votes from non-independent director nominees (insiders and affiliated outsiders) when the nominating, compensation and audit committees are not fully independent;
- Generally consider independent board members who have been on the board continually for a period longer than 10 years as affiliated outsiders;
- Vote FOR shareholder proposals requesting that all key board committees (i.e. audit, compensation and/or nominating) include independent directors exclusively;
- Vote FOR shareholder proposals requesting that the board be comprised of a two-thirds majority of independent directors.

Non-Independent Chairman

Two major components at the top of every public company are the running of the board and the executive responsibility for the running of the company's business. Many institutional investors believe there should be a clear division of responsibilities at the head of the company that will ensure a balance of power and authority, such that no one individual has unfettered powers of decision. When there is no clear division between the executive and board branches of a company, poor executive and/or board actions often go unchecked to the ultimate detriment of shareholders. Since executive compensation is so heavily correlated to the managerial power relationship in the boardroom, the separation of the CEO and chairman positions is a critical step in curtailing excessive pay, which ultimately can become a drain on shareholder value.

Arguments have been made that a smaller company and its shareholders can benefit from the full-time attention of a joint chairman and CEO. This may be so in select cases, and indeed, using a case-by-case review of circumstances there may be worthy exceptions. But, even in these cases, it is the general view of many institutions that a person should only serve in the position of joint CEO and chairman on a temporary basis, and that these positions should be separated following their provisional combination.

We strongly believe that the potential for conflicts of interest in the board's supervisory and oversight duties trumps any possible corollary benefits that could ensue from a dual CEO/chairman scenario. Instead of having an ingrained quid pro quo situation whereby a company has a single leader overseeing both management and the boardroom, Taft-Hartley fiduciaries believe that it is the board's implicit duty to assume an impartial and objective role in overseeing the executive team's overall performance. Shareholder interests are placed in jeopardy if the CEO of a company is required to report to a board that she/he also chairs.

Inherent in the chairman's job description is the duty to assess the CEO's performance. This objectivity is obviously compromised when a chairman is in charge of evaluating her/his own performance or has a past or present affiliation with management. Moreover, the unification of chairman and CEO poses a direct threat to the smooth functioning of the entire



board process since it is the ultimate responsibility of the chairman to set the agenda, facilitate discussion, and make sure that directors are given complete access to information in order to make informed decisions.

- Generally vote AGAINST or WITHHOLD votes from any non-independent director who serves as board chairman;
- Generally vote AGAINST or WITHHOLD votes from a CEO who is also serving in the role of chairman at the same company;
- Generally support shareholder proposals calling for the separation of the CEO and chairman positions;
- Generally support shareholder proposals calling for a non-executive director to serve as chairman who is not a former CEO or senior-level executive of the company.

Excessive Directorships

As new regulations mandate that directors be more engaged and vigilant in protecting shareholder interests or else risk civil and/or criminal sanctions, board members have to devote more time and effort to their oversight duties. Recent surveys of U.S. directors confirm a desire for limiting board memberships, to between three and five seats. In view of the increased demands placed on corporate board members, Taft-Hartley fiduciaries believe that directors who are overextended may be impairing their ability to serve as effective representatives of shareholders. Taft-Hartley Advisory Services will vote against or withhold from directors serving on an excessive number of other boards, which could compromise their primary duties of care and loyalty.

- Generally vote AGAINST or WITHHOLD votes from directors serving on an excessive number of boards. As a general rule, vote AGAINST or WITHHOLD from director nominees who are:
 - CEOs of publicly traded companies who serve on more than two public boards besides their own. NOTE: Taft-Hartley Advisory Services will vote against or withhold from overboarded CEO directors only at their outside directorships and not at the company in which they presently serve as CEO); and
 - Non-CEO directors who serve on more than five public company boards.

Director Performance Evaluation

Many institutional investors believe long-term financial performance and the appropriateness of governance practices should be taken into consideration when determining vote recommendations with regard to directors in uncontested elections. When evaluating whether to vote against or withhold votes from director nominees, we will evaluate underperforming companies that exhibit sustained poor performance as measured by one- and three-year total shareholder returns in the bottom half of a company's four-digit GICS industry group (Russell 3000 companies only). For companies outside the Russell 3000 universe, a company will be considered to have exhibited sustained poor performance if it underperforms its peers or index on the basis of both one-year and three-year total shareholder returns.

Taft-Hartley Advisory Services views deficient oversight mechanisms and the lack of board accountability to shareholders especially in the context of sustained poor performance, as problematic. As part of our framework for assessing director performance, we will also evaluate board accountability and oversight at companies that demonstrate sustained underperformance. A governance structure that discourages director accountability may lead to board and management entrenchment. For example, the existence of several anti-takeover provisions* has the cumulative effect of deterring legitimate tender offers, mergers, and corporate transactions that may have ultimately proved beneficial to shareholders. When a company maintains entrenchment devices, shareholders of poorly performing companies are left with few effective routes to beneficial change.

Taft-Hartley Advisory Services will assess the company's response to the ongoing performance issues, and consider recent board and management changes, board independence, overall governance practices, and other factors that may have an



impact on shareholders. If a company exhibits sustained poor performance coupled with a lack of board accountability and oversight, we may also consider the company's five-year total shareholder return and five-year operational metrics in our evaluation.

*Problematic provisions include but are not limited to:

- A classified board structure;
- A supermajority vote requirement;
- Majority voting with no carve out for contested elections;
- The inability for shareholders to call special meetings;
- The inability for shareholders to act by written consent;
- A dual-class structure; and/or
- A non-shareholder approved poison pill.

Vote AGAINST/WITHHOLD votes from all director nominees if the board lacks accountability and oversight, coupled with sustained poor performance relative to peers. Sustained poor performance is measured by one- and three-year total shareholder returns in the bottom half of a company's four-digit GICS industry group (Russell 3000 companies only). Sustained poor performance for companies outside the Russell 3000 universe is defined as underperforming peers or index on the basis of both one-year and three-year total shareholder returns.

Director Diversity

Gender and ethnic diversity are important components on a company's board. Diversity brings different perspectives to a board that in turn leads to a more varied approach to board issues. Taft-Hartley fiduciaries believe that increasing diversity in the boardroom to better reflect a company's workforce, customers, and community enhances shareholder value.

- Support proposals asking the board to make greater efforts to search for qualified female and minority candidates for nomination to the board of directors;
- Support endorsement of a policy of board inclusiveness;
- Support reporting to shareholders on a company's efforts to increase diversity on their boards.

Stock Ownership Requirements

Corporate directors should own some amount of stock of the companies on which they serve as board members. Stock ownership is a simple method to align the interests of directors with company shareholders. Nevertheless, many highly qualified individuals such as academics and clergy who can offer valuable perspectives in boardrooms may be unable to purchase individual shares of stock. In such a circumstance, the preferred solution is to look at the board nominees individually and take stock ownership into consideration when voting on the merits of each candidate.

- Vote AGAINST shareholder proposals requiring directors to own a minimum amount of company stock in order to qualify as a director nominee or to remain on the board.

Classified Boards ~ Annual Elections

The ability to elect directors is the single most important use of the shareholder franchise, and all directors should be accountable on an annual basis. Annually elected boards provide the best governance system for accountability to shareholders. A classified board is a board that is divided into separate classes, with directors serving overlapping terms. A



company with a classified board usually divides the board into three classes. Under this system, only one class of nominees comes up to shareholder vote at the AGM each year.

As a consequence of these staggered terms, shareholders only have the opportunity to vote on a single director approximately once every three years. A classified board makes it difficult to change control of the board through a proxy contest since it would normally take two years to gain control of a majority of board seats. Under a classified board, the possibility of management entrenchment greatly increases. Classified boards can reduce director accountability by shielding directors, at least for a certain period of time, from the consequences of their actions. Continuing directors who are responsible for a problematic governance issue at the board/committee level would avoid shareholders' reactions to their actions because they would not be up for election in that year. Ultimately, in these cases, the full board should be responsible for the actions of its directors.

Many in management believe that staggered boards provide continuity. Some shareholders believe that in certain cases a staggered board can provide consistency and continuity in regard to decision-making and commitment that may be important to the long-term financial future of the company. Nevertheless, empirical evidence strongly suggests that staggered boards are generally not in the shareholders' best interest. In addition to shielding directors from being held accountable by shareholders on an annual basis, a classified board can entrench management and effectively preclude most takeover bids or proxy contests.

- Vote AGAINST management or shareholder proposals seeking to classify the board when the issue comes up for vote;
- Vote FOR management or shareholder proposals to repeal a company's classified board structure.
- If the company has a classified board and a continuing director is responsible for a problematic governance issue at the board/committee level that would warrant a withhold/against vote, in addition to potential future withhold/against votes on that director, we may vote against or withhold votes from any or all of the nominees up for election, with the exception of new nominees.

Board and Committee Size

While there is no hard and fast rule among institutional investors as to what may be an optimal size board, there is an acceptable range that companies should strive to meet and not exceed. A board that is too large may function inefficiently. Conversely, a board that is too small may allow the CEO to exert disproportionate influence or may stretch the time requirements of individual directors too thin.

Proposals seeking to set board size will be evaluated on a CASE-BY-CASE basis. Given that the preponderance of boards in the U.S. range between five and fifteen directors, many institutional investors believe this benchmark is a useful standard for evaluating such proposals.

- Generally vote AGAINST any proposal seeking to amend the company's board size to fewer than five seats;
- Generally vote AGAINST any proposal seeking to amend the company's board size to more than fifteen seats;
- Evaluate board size on a CASE-BY-CASE basis and consider WITHHOLD or AGAINST votes or other action at companies that have fewer than five directors and more than 15 directors on their board.

Limit Term of Office

Those who support term limits argue that this requirement would bring new ideas and approaches on to a board. While term of office limitations can rid the board of non-performing directors over time, it can also unfairly force experienced and effective directors off the board. When evaluating shareholder proposals on director term limits, consider whether the



company's performance has been poor and whether problematic or entrenching governance provisions are in place at the company. Additionally, consider board independence, including whether the board chair is independent.

- Generally vote AGAINST shareholder proposals to limit the tenure of outside directors.

Cumulative Voting

Most corporations provide that shareholders are entitled to cast one vote for each share owned. Under a cumulative voting scheme, the shareholder is permitted to have one vote per share for each director to be elected. Shareholders are permitted to apportion those votes in any manner they wish among the director candidates. Thus, under a cumulative voting scheme shareholders have the opportunity to elect a minority representative to a board by cumulating their votes, thereby ensuring minority representation for all sizes of shareholders.

For example, if there is a company with a ten-member board and 500 shares outstanding-the total number of votes that may be cast is 5,000. In this case a shareholder with 51 shares (10.2 percent of the outstanding shares) would be guaranteed one board seat because all votes may be cast for one candidate. Without cumulative voting, anyone controlling 51 percent of shares would control the election of all ten directors.

With the advent and prevalence of majority voting for director elections, shareholders now have greater flexibility in supporting candidates for a company's board of directors. Cumulative voting and majority voting are two different voting mechanisms designed to achieve two different outcomes. While cumulative voting promotes the interests of minority shareholders by allowing them to get some representation on the board, majority voting promotes a democratic election of directors for all shareholders and ensures board accountability in uncontested elections. Though different in philosophic view, cumulative voting and majority voting can work together operationally, with companies electing to use majority voting for uncontested elections and cumulative voting for contested elections to increase accountability and ensure minority representation on the board.

In contested elections, similar to cumulative voting, proxy access allows shareholder access to the ballot without a veto from the nominating committee, but unlike cumulative voting, it also requires majority support to elect such directors.

At controlled companies, where majority insider control would preclude minority shareholders from having any representation on the board, cumulative voting would allow such representation and shareholder proposals for cumulative voting would be supported.

- Generally vote AGAINST proposals to eliminate cumulative voting;
- Generally vote FOR proposals to restore or provide for cumulative voting unless:
 - The company has proxy access thereby allowing shareholders to nominate directors to the company's ballot; and
 - The company has adopted a majority vote standard, with a carve-out for plurality voting in situations where there are more nominees than seats, and a director resignation policy to address failed elections.
- Vote FOR proposals for cumulative voting at controlled companies (where insider voting power exceeds 50%).

Failure to Act on Shareholder Proposals Receiving Majority Support

- Generally vote AGAINST or WITHHOLD from all director nominees at a company that has ignored a shareholder proposal that was approved by a majority of the votes cast at the last annual meeting.



Votes Against or Withholds from Directors for Shareholder Rights Plan (i.e. Poison Pills)

Institutional investors view shareholder rights plans, or poison pills, as among the most onerous of takeover defenses that may serve to entrench management and have a detrimental impact on their long-term share value. While recognizing that boards have a fiduciary duty to use all available means to protect shareholders' interests, as a best governance principle, boards should seek shareholder ratification of a poison pill (or an amendment thereof) within a reasonable period, to ensure that the features of the poison pill support the interests of shareholders and do not merely serve as a management entrenchment device. Boards that fail to do so should be held accountable for ultimately disregarding shareholders' interests. In applying this principle to voting in uncontested director elections, Taft-Hartley Advisory Services considers the term of the pill an important factor, as shorter term pills are generally less onerous as a takeover defense when compared to longer term pills, and may in some cases provide the board with a valuable tool to maximize shareholder value in the event of an opportunistic offer.

Companies that unilaterally adopt a long-term pill should be subject to a more frequent review — at least once every three years, beginning the first year following the adoption and extending until the pill has expired or been redeemed. However, we believe special consideration must be given to the combination of a poison pill and a classified board; together they create a powerful anti-takeover and entrenchment device. Instead of only reviewing such companies every 3 years, an annual review is more appropriate. Under a 3-year review, the same class of directors would be receiving against or withhold recommendations, while the other 2 classes of directors would be shielded. An annual review would hold responsible all directors of classified boards for not putting the pill to a shareholder vote.

- Vote AGAINST or WITHHOLD votes from all nominees of the board of directors (except new nominees, who should be considered on a CASE-BY-CASE basis) at a company that has a dead-hand or modified dead-hand poison pill in place. Vote AGAINST/WITHHOLD every year until this feature is removed;
- Vote AGAINST or WITHHOLD votes from all nominees of the board of directors (except new nominees, who should be considered on a CASE-BY-CASE basis) if the board has adopted a poison pill with a term of more than 12 months ("long-term pill") or renewed any existing pill, including any "short-term" pill (12 months or less) without shareholder approval, and there is no requirement or commitment to put the pill to a binding shareholder vote. Review such companies with classified boards every year, and such companies with annually-elected boards at least once every three years, and vote AGAINST or WITHHOLD votes from all nominees if the company still maintains a non-shareholder-approved poison pill;
- Vote AGAINST or WITHHOLD votes from all nominees of the board of directors (except new nominees, who should be considered on a CASE-by-CASE basis) if the board makes a material, adverse change to an existing poison pill without shareholder approval;
- Vote CASE-By-CASE on all nominees if the board adopts a poison pill with a term of 12 months or less ("short-term pill") without shareholder approval, taking into account the following factors:
 - The date of the pill's adoption relative to the date of the next meeting of shareholders- i.e. whether the company had time to put the pill on ballot for shareholder ratification given the circumstances;
 - The issuer's rationale;
 - The issuer's governance structure and practices; and
 - The issuer's track record of accountability to shareholders.



Shareholder Access to the Proxy

The current director election process as it exists leaves much to be desired. Companies currently nominate for election only one candidate for each board seat. Shareholders who oppose a candidate have no easy way to do so unless they are willing to undertake the considerable expense of running an independent candidate for the board. The only way for shareholders to register dissent about a certain director candidate is to vote against or “withhold” support from that nominee. But because directors are still largely elected by a plurality (those nominees receiving the most votes win board seats) at a large proportion of firms in the U.S., nominees running unopposed are typically reelected despite shareholder opposition.

Many investors view proxy access as an important shareholder right, one that is complementary to other best-practice corporate governance features. Taft-Hartley Advisory Services is generally supportive of reasonably crafted shareholder proposals advocating for the ability of long-term shareholders to cost-effectively nominate director candidates that represent their interests on management’s proxy card. Shareholder proposals that have the potential to result in abuse of the proxy access right by way of facilitating hostile takeovers will generally not be supported.

- Consider on a CASE-BY-CASE basis proposals to provide shareholders the ability to nominate director candidates to be included on management’s proxy card, taking into account, among other factors:
 - Company-specific factors including:
 - Responsiveness to shareholders (e.g. failing to implement majority-supported shareholder proposals);
 - Board and key committee independence;
 - Problematic governance and compensation practices; and
 - Past accounting or financial issues such as restatements.
 - Proposal-specific factors, including:
 - The ownership thresholds proposed in the resolution (i.e., percentage and duration);
 - The maximum proportion of directors that shareholders may nominate each year; and
 - The method of determining which nominations should appear on the ballot if multiple shareholders submit nominations.

Majority Threshold Voting Requirement for Director Elections

Shareholders have expressed strong support for precatory resolutions on majority threshold voting since 2005, with a number of proposals receiving majority support from shareholders. Taft-Hartley fiduciaries believe shareholders should have a greater voice in regard to the election of directors and view majority threshold voting as a viable alternative to the current deficiencies of the plurality system in the U.S.

- Generally support reasonably crafted shareholders proposals calling for directors to be elected with an affirmative majority of votes cast and/or the elimination of the plurality standard for electing directors (including binding resolutions requesting that the board amend the company’s bylaws), provided the proposal includes a carve-out for a plurality voting standard when there are more director nominees than board seats (e.g. in contested elections).
- Taft-Hartley Advisory Services may vote AGAINST/WITHHOLD votes from members of the board at companies without the carve-out for plurality voting in contested elections, as the use of a majority vote standard can act as an anti-takeover defense in contested elections. (e.g. although the dissident nominees may have received more shares cast, as long as the combination of withhold/against votes and the votes for the management nominees keep the dissident nominees under 50%, the management nominees will win, due to the holdover rules). This clearly contradicts the expressed will of shareholders.



- In addition to supporting proposals seeking a majority vote standard in director elections, we also support a post-election “director resignation policy” that addresses the situation of holdover directors to accommodate both shareholder proposals and the need for stability and continuity of the board.

CEO Succession Planning

- Vote FOR proposals seeking disclosure on a CEO succession planning policy.

Establish an Office of the Board

- Generally vote FOR shareholders proposals requesting that the board establish an *Office of the Board of Directors* in order to facilitate direct communication between shareholders and non-management directors, unless the company has effectively demonstrated via public disclosure that it already has an established structure in place.

Director and Officer Liability Protection

Management proposals typically seek shareholder approval to adopt an amendment to the company’s charter to eliminate or limit the personal liability of directors to the company and its shareholders for monetary damages for any breach of fiduciary duty to the fullest extent permitted by state law. In contrast, shareholder proposals seek to provide for personal monetary liability for fiduciary breaches arising from gross negligence.

Taft-Hartley Advisory Services may support these proposals when the company persuasively argues that such action is necessary to attract and retain directors, but will likely oppose management proposals and support shareholder proposals in order to promote greater accountability.

- Vote AGAINST proposals to limit or eliminate entirely director and officer liability in regards to: (i) breach of the director’s fiduciary “duty of loyalty” to shareholders; (ii) acts or omissions not made in “good faith” or involving intentional misconduct or knowledge of violations under the law; (iii) acts involving the unlawful purchases or redemptions of stock; (iv) payment of unlawful dividends; or (v) use of the position as director for receipt of improper personal benefits.

Director and Officer Indemnification

Indemnification is the payment by a company of the expenses of directors who become involved in litigation as a result of their service to a company. Proposals to indemnify a company’s directors differ from those to eliminate or reduce their liability because with indemnification directors may still be liable for an act or omission, but the company will bear the expense. Taft-Hartley fiduciaries may support these proposals when the company persuasively argues that such action is necessary to attract and retain directors, but should generally oppose indemnification when it is being proposed to insulate directors from actions that have already occurred.

- Vote AGAINST indemnification proposals that would expand individual coverage beyond ordinary legal expenses to also cover specific acts of negligence that are more serious violations of fiduciary obligation than mere carelessness;
- Vote AGAINST proposals that would 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 which provide expanded coverage in cases when a director’s or officer’s legal defense was unsuccessful if: (1) the director was found to have acted in good faith and in a manner that he/she reasonably believed was in the best interests of the company; and (2) only if the director’s legal expenses would be covered.



COMPENSATION

The housing market collapse and resulting credit crisis resulted in significant erosion of shareholder value, unprecedented levels of market volatility, and a lack of confidence among financial market participants. Many Taft-Hartley trustees have questioned the role of executive compensation in incentivizing inappropriate or excessive risk-taking behavior by executives that could threaten a corporation's long-term viability. Further, generous severance packages and other payments to departing executives of failed institutions have heightened attention on the issue of pay for performance.

Trustees of Taft-Hartley funds, which have lost significant value in their investments as a result of the financial crisis, have little patience for "pay for failure" and continue to press for the adoption of executive compensation practices aimed at creating and sustaining long-term shareholder value.

Companies have long argued that legally binding executive compensation obligations cannot be modified. The Capital Purchase Program implemented under the Emergency Economic Stabilization Act of 2008, the "bail out" program for the U.S. financial system, set the tone for executive compensation reform and requires participating firms to accept certain limits and requirements on executive compensation, regardless of existing contractual arrangements. A number of firms agreed to these requirements.

Evolving disclosure requirements have opened a wider window into compensation practices and processes, giving shareholders more opportunity and responsibility to ensure that pay is designed to create and sustain shareholder value. Companies in the U.S. are now required to evaluate and discuss potential risks arising from misguided or misaligned compensation programs. The Dodd-Frank Wall Street Reform and Consumer Protection Act requires advisory shareholder votes on executive compensation (management "Say on Pay"), an advisory vote on the frequency of Say on Pay, as well as a shareholder advisory vote on golden parachute compensation. The advent of "Say on Pay" votes for shareholders in the U.S. has provided a new communication mechanism and impetus for constructive engagement between shareholders and managers/directors on pay issues.

Evaluation of Executive Pay

Taft-Hartley Advisory Services believes that executive pay programs should be fair, competitive, reasonable, and appropriate, and that pay for performance should be a central tenet in executive compensation philosophy. When evaluating executive and director pay programs and practices, Taft-Hartley Advisory Services looks for the following best practice considerations in the design and administration of executive compensation programs;

- **Appropriate pay-for-performance alignment with emphasis on long-term shareholder value:** executive pay practices must be designed to attract, retain, and appropriately motivate the key employees who drive shareholder value creation over the long term. Evaluating appropriate alignment of pay incentives with shareholder value creation includes taking 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.
- **Avoiding arrangements that risk "pay for failure":** this includes assessing the appropriateness of long or indefinite contracts, excessive severance packages, and guaranteed compensation.
- **Independent and effective compensation committee:** 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) should be promoted.
- **Clear, comprehensive compensation disclosures:** shareholders expect companies to provide informative and timely disclosures that enable shareholders to evaluate executive pay practices fully and fairly.



- **Avoiding inappropriate pay to non-executive directors:** compensation to outside directors should not compromise their independence and ability to make appropriate judgments in overseeing managers' pay and performance.

Examples of best pay practices include:

Employment contracts: Companies should enter into employment contracts under limited circumstances for a short time period (e.g., new executive hires for a three-year contract) for limited executives. The contracts should not have automatic renewal feature and should have a specified termination date.

Severance agreements: Severance provisions should not be so appealing that they become an incentive for the executive to be terminated. The severance formula should be reasonable and not overly generous to the executive (e.g., use a reasonable severance multiple; use pro-rated target/average historical bonus and not maximum bonus). Failure to renew employment contract, termination under questionable events or for poor performance should not constitute "good reason" for termination with severance payments.

Change-in-control payments: Change-in-control payments should be "double-triggered" – i.e. payouts should only made when there is a significant change in company ownership structure, and when there is a loss of employment or substantial change in job duties associated with the change in company ownership structure. Change-in-control provisions should exclude excise tax gross-ups and should not authorize the acceleration of vesting of equity awards upon a change in control unless provided under a double-trigger scenario. Similarly, change in control provisions in equity plans should be double-triggered. A change in control event should not result in an acceleration of vesting of all unvested stock options or lapsing of vesting/performance requirements on restricted stock/performance shares, unless there is a loss of employment or substantial change in job duties.

Supplemental executive retirement plans (SERPs): SERPs should not include sweeteners that can increase the payout value significantly or even exponentially, such as additional years of service credited for pension calculations, or inclusion of variable pay (e.g. bonuses and equity awards) into the formula. Pension formulas should not include extraordinary annual bonuses paid close to the time of retirement and should be based on an average, not the maximum, level of compensation earned.

Deferred compensation: Above-market returns or guaranteed minimum returns should not be applied on deferred compensation.

Disclosure practices: The Compensation, Discussion and Analysis should be written in plain English, with as little "legalese" as possible and formatted using section headers, bulleted lists, tables and charts where possible to ease reader comprehension. Ultimately, the document should provide detail and rationale regarding compensation, strategy, pay mix, goals/metrics, challenges, competition and pay for performance linkage, etc. in a narrative fashion.

Responsible use of company stock: Companies should adopt policies that prohibit executives from speculating in company's stock or using company stock in hedging activities, such as "cashless" collars, forward sales, equity swaps or other similar arrangements. Such behavior undermines the ultimate alignment with long-term shareholders' interests. In addition, the policy should prohibit or discourage the use of company stock as collateral for margin loans, to avoid any potential sudden stock sales (required upon margin calls) that could have a negative impact on the company's stock price.

Long-term focus: Executive compensation programs should be designed to support companies' long-term strategic goals. A short-term focus on performance does not necessarily create sustainable shareholder value. Instead, long-term goals may be sacrificed to achieve short-term expectations to the detriment of shareholder value, as evidenced by the financial crisis.



Compensation programs embedding a long-term focus with respect to company goals better align with the long-term interests of shareholders. Granting stock options and restricted stock to executives that vest in five years does not necessarily provide a long-term focus, as executives can sell off the company shares once they vest. However, requiring senior executives to hold company stock until retirement or after retirement can encourage a long-term focus on company performance.

Pay-For-Performance Alignment

Stock-based pay is often the main driver for excessive executive compensation, which could be fueled by poor plan design or administration. Therefore, it is important to closely examine any discrepancies between CEO pay and total shareholder returns over a sustained period of time in assessing equity-based compensation. Many investors do not consider standard stock options or time-vested restricted stock to be performance-based. If a company provides performance-based incentives to its executives, the company should provide complete disclosure of the performance measures and goals to allow shareholders to assess the rigor of the performance program. Complete and transparent disclosure enables shareholders to better comprehend the company's pay for performance linkage.

When financial or operational measures are utilized in incentive awards, the achievements related to these measures should ultimately translate into superior shareholder returns in the long-term. The use of non-GAAP financial metrics makes it very challenging for shareholders to ascertain the rigor of the program as shareholders often cannot tell the type of adjustments being made and if the adjustments were made consistently.

Pay-for-performance should be a central tenet in executive compensation philosophy. In evaluating the degree of alignment between the CEO's pay with the company's performance over a sustained period, Taft-Hartley Advisory Services conducts a pay-for-performance analysis.

With respect to companies in the Russell 3000 index, this analysis considers the following:

1. Peer Group² Alignment:
 - The degree of alignment between the company's TSR rank and the CEO's total pay rank within a peer group, as measured over one-year and three-year periods (weighted 40/60);
 - The multiple of the CEO's total pay relative to the peer group median.
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 pay-for-performance analysis demonstrates significant unsatisfactory long-term pay-for-performance alignment or, in the case of non-Russell 3000 index companies, misaligned pay and performance are otherwise suggested, the following qualitative factors will be evaluated to determine 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 equity awards;
- The ratio of performance-based compensation to overall compensation;

² The peer group is generally comprised of 14-24 companies that are selected using market cap, revenue (or assets for financial firms), and GICS industry group, via a process designed to select peers that are closest to the subject company, and where the subject company is close to median in revenue/asset size. The relative alignment evaluation will consider the company's rank for both pay and TSR within the peer group (for one- and three-year periods) and the CEO's pay relative to the median pay level in the peer group.



- The completeness/transparency of disclosure, rigor and appropriateness of performance hurdles;
- The company's peer group benchmarking practices;
- Actual results of financial/operational metrics, such as growth in revenue, profit, cash flow, workplace safety, environmental performance etc., both absolute and relative to peers;
- Special circumstances related to, for example, a new CEO in the prior fiscal year or anomalous equity grant practices (*e.g.*, biennial awards); and
- Any other factors deemed relevant.

Problematic Compensation Practices

Poor disclosure, the absence or non-transparency of disclosure and flawed compensation plan design can lead to excessive executive pay practices that are detrimental to shareholders.

Companies are expected to meet a minimum standard of tally sheet disclosure as to allow shareholders to readily assess the total executive pay package, understand the actual linkage between pay and performance, and mitigate misinformation to shareholders. The SEC has issued rules on executive and director compensation that require expansive disclosure and a total compensation figure for each of the named executive officers. Poorly designed executive compensation plans or those lacking in transparency can be reflective of a poorly performing compensation committee.

Executive compensation will continue to be in the spotlight in the ensuing years, particularly when shareholders are expected to have access to more complete information.

The focus is on executive compensation practices that contravene best practice compensation considerations, including:

- Problematic practices related to non-performance-based compensation elements;
- Incentives that may motivate excessive risk-taking; and
- Options Backdating.

Problematic compensation practices include, but are not limited to, the following:

Non-Performance based Compensation Elements

While not exhaustive, the following list represents certain adverse practices that are contrary to a performance-based pay philosophy and executive pay best practices, and may lead to negative vote recommendations:

- Egregious employment contracts:
 - Contracts containing multi-year guarantees for salary increases, non-performance based bonuses, and equity compensation.
- New CEO with overly generous new-hire package:
 - Excessive “make whole” provisions without sufficient rationale;
 - Any of the problematic pay practices listed in this policy.
- Abnormally large bonus payouts without justifiable performance linkage or proper disclosure:
 - Includes performance metrics that are changed, canceled, or replaced during the performance period without adequate explanation of the action and the link to performance.
- Egregious pension/SERP (supplemental executive retirement plan) payouts:



- Inclusion of additional years of service not worked that result in significant benefits provided in new arrangements;
- Inclusion of performance-based equity or other long-term awards in the pension calculation.
- Excessive Perquisites:
 - Perquisites for former and/or retired executives, such as lifetime benefits, car allowances, personal use of corporate aircraft, or other inappropriate arrangements;
 - Extraordinary relocation benefits (including home buyouts);
 - Excessive amounts of perquisites compensation.
- Excessive severance and/or change in control provisions:
 - Change in control cash payments exceeding 3 times base salary plus target/average/last paid bonus;
 - Arrangements that provide for change-in-control payments without loss of job or substantial diminution of job duties (single-triggered or modified single-triggered - where an executive may voluntarily leave for any reason and still receive the change-in-control severance package);
 - Employment or severance agreements that provide for excise tax gross-ups. Modified gross-ups would be treated in the same manner as full gross-ups;
 - Excessive payments upon an executive's termination in connection with performance failure;
 - Liberal change in control definition in individual contracts or equity plans which could result in payments to executives without an actual change in control occurring.
- Tax Reimbursements/Gross-ups: income tax reimbursements on executive perquisites or other payments (e.g., related to personal use of corporate aircraft, executive life insurance, bonus, restricted stock vesting, secular trusts, etc; see also excise tax gross-ups above);
- Dividends or dividend equivalents paid on unvested performance shares or units;
- Executives using company stock in hedging activities, such as “cashless” collars, forward sales, equity swaps, or other similar arrangements;
- Internal pay disparity: Excessive differential between CEO total pay and that of next highest-paid named executive officer (NEO);
- Repricing or replacing of underwater stock options/stock appreciation rights (SARs) without prior shareholder approval (including cash buyouts, option exchanges, and certain voluntary surrender of underwater options where shares surrendered may subsequently be re-granted);
- Options backdating;
- Other pay practices that may be deemed problematic in a given circumstance but are not covered in the above categories.



Incentives that may Motivate Excessive Risk-Taking

Assess company policies and disclosure related to compensation that could incentivize excessive risk-taking, for example:

- Guaranteed bonuses or other abnormally large bonus payouts without justifiable performance linkage or appropriate disclosure;
- Mega annual equity grants that provide unlimited upside with no downside risk;
- A single performance metric used for short- and long-term plans;
- High pay opportunities relative to industry peers;
- Disproportionate supplemental pensions;
- Lucrative severance packages.

Factors that potentially mitigate the impact of risky incentives include rigorous claw-back provisions, robust stock ownership/holding guidelines, and substantive bonus deferral/escrowing programs.

Options Backdating

Options backdating has serious implications and has resulted in financial restatements, delisting of companies, and/or the termination of executives or directors. Taft-Hartley Advisory Services will adopt a CASE-BY-CASE approach to differentiate companies that had sloppy administration vs. deliberate action or fraud, as well as those companies which have since taken corrective action. Instances in which companies have committed fraud are considered most egregious, and Taft-Hartley Advisory Services will look to them to adopt formal policies to ensure that such practices will not re-occur in the future.

Taft-Hartley Advisory Services will consider several factors, including, but not limited to, the following:

- 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 repricing backdated options, or recoupment of option gains on backdated grants;
- Adoption of a grant policy that prohibits backdating, and creation of a fixed grant schedule or window period for equity grants going forward.

Board Communications and Responsiveness

Consider the following factors 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 a low level of shareholder support, taking into account:
 - The company's response, including:
 - Disclosure of engagement efforts with major institutional investors regarding the issues that contributed to the low level of support;



- Specific actions taken to address the issues that contributed to the low level of support;
 - 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.

Advisory Votes on Executive Compensation – Management Say-on-Pay Proposals

The Dodd-Frank Act Wall Street Reform and Consumer Protection Act of 2010 mandates advisory votes on executive compensation (aka management "say on pay" or MSOP) for a proxy or consent or authorization for an annual or other meeting of the shareholders that includes required SEC compensation disclosures. This non-binding shareholder vote on compensation must be included in a proxy or consent or authorization at least once every 3 years.

In general, the management say on pay (MSOP) ballot item is the primary focus of voting on executive pay practices – dissatisfaction with compensation practices can be expressed by voting against MSOP rather than voting AGAINST or WITHHOLDING from the compensation committee. However, if there is no MSOP on the ballot, then the negative vote will apply to members of the compensation committee. In addition, in egregious cases, or if the board fails to respond to concerns raised by a prior MSOP proposal, then Taft-Hartley fiduciaries should vote AGAINST or WITHHOLD votes from compensation committee members (or, if the full board is deemed accountable, all directors). If the negative factors involve equity-based compensation, then a vote AGAINST an equity-based plan proposal presented for shareholder approval may be warranted.

- Evaluate executive pay and practices, as well as certain aspects of outside director compensation on a CASE-BY-CASE basis.
- Vote AGAINST management say on pay (MSOP) proposals if:
 - There is a misalignment between CEO pay and company performance ([pay for performance](#));
 - The company maintains [problematic pay practices](#);
 - The board exhibits [poor communication and responsiveness](#) to shareholders;
 - The board has failed to demonstrate good stewardship of investors' interests regarding executive compensation practices.
- Vote AGAINST or WITHHOLD from the members of the Compensation Committee and potentially the full board if:
 - There is no MSOP on the ballot, and an AGAINST vote on an MSOP is warranted due to pay for performance misalignment, problematic pay practices, or the lack of adequate responsiveness on compensation issues raised previously, or a combination thereof;
 - The board fails to respond adequately to a previous MSOP proposal that received low levels of shareholder support;
 - The company has practiced or approved [problematic pay practices](#), including option repricing or option backdating; or
 - The situation is egregious.



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

Frequency of Advisory Vote on Executive Compensation – Management Say on Pay

The Dodd-Frank Act, in addition to requiring advisory votes on compensation (aka management "say on pay" or MSOP), requires that each proxy for the first annual or other meeting of the shareholders (that includes required SEC compensation disclosures) occurring after Jan. 21, 2011, include an advisory voting item to determine whether, going forward, the "say on pay" vote by shareholders to approve compensation should occur every one, two, or three years.

Taft-Hartley Advisory Services will vote FOR annual advisory votes on compensation. The MSOP is at its essence a communication vehicle, and communication is most useful when it is received in a consistent and timely manner. Support for an annual MSOP vote is merited for many of the same reasons Taft-Hartley Advisory Services supports annual director elections rather than a classified board structure: because this provides the highest level of accountability and direct communication by enabling the MSOP vote to correspond to the majority of the information presented in the accompanying proxy statement for the applicable shareholders' meeting. Having MSOP votes every two or three years, covering all actions occurring between the votes, would make it difficult to create the meaningful and coherent communication that the votes are intended to provide. Under triennial elections, for example, a company would not know whether the shareholder vote references the compensation year being discussed or a previous year, making it more difficult to understand the implications of the vote.

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

Advisory Vote on Golden Parachutes in an Acquisition, Merger, Consolidation, or Proposed Sale

This is a proxy item regarding specific advisory votes on "golden parachute" arrangements for Named Executive Officers (NEOs) that is required under The Dodd-Frank Wall Street Reform and Consumer Protection Act. Taft-Hartley Advisory Services places particular emphasis on severance packages that provide inappropriate windfalls and cover certain executive tax liabilities.

- Vote CASE-BY-CASE on proposals to approve the company's golden parachute compensation, consistent with Taft-Hartley Advisory Services' policies on problematic pay practices related to severance packages. Features that may lead to a vote AGAINST include:
 - Agreements that include excise tax gross-up provisions;
 - Agreements that include modified single triggers;
 - Single trigger payments that will happen immediately upon a change in control, including cash payment and such items as the acceleration of performance-based equity despite the failure to achieve performance measures;



- Single-trigger vesting of equity based on a definition of change in control that requires only shareholder approval of the transaction (rather than consummation);
- Potentially excessive severance payments;
- Recent amendments or other changes that may make packages so attractive as to influence merger agreements that may not be in the best interests of shareholders;
- In the case of a substantial gross-up from pre-existing/grandfathered contract: the element that triggered the gross-up (i.e., option mega-grants at low point in stock price, unusual or outsized payments in cash or equity made or negotiated prior to the merger); or
- The company's assertion that a proposed transaction is conditioned on shareholder approval of the golden parachute advisory vote. Such a construction is problematic from a corporate governance perspective.

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

Methodology for Analyzing Pay Plans

The theory that stock awards including stock options are beneficial to shareholders because they motivate management and align the interests of investors with those of executives is no longer held sacrosanct. Indeed, a number of academic studies have found that there is limited correlation between executive stock ownership and company performance. Misused stock options can give executives an incentive to inflate their company's earnings, take excessive risks, and make irresponsibly optimistic forecasts in order to keep stock prices high and their paychecks gargantuan.

Therefore, it is vital for shareholders to fully analyze all equity plans that appear on ballot. In general, Taft-Hartley Advisory Services evaluates executive and director compensation plans on a CASE-BY-CASE basis. When evaluating equity-based compensation items on ballot, the following elements will be considered:

Primary Considerations:

- *Dilution:* Vote AGAINST plans in which the potential voting power dilution (VPD) of all shares outstanding exceeds ten percent;
- *Full Market Value:* Awards must be granted at 100 percent of fair market value on the date of grant. However, in instances when a plan is open to broad-based employee participation and excludes the five most highly compensated employees, we accept a 15 percent discount;
- *Burn Rate:* Vote AGAINST plans where the company's three year burn rate exceeds the greater of: (1) the mean (μ) plus one standard deviation (σ) of the company's GICS group segmented by Russell 3000 index and non-Russell 3000 index; and (2) two percent of weighted common shares outstanding;
- *Liberal Definition of Change-in-Control:* Vote AGAINST equity plans if the plan provides for the accelerated vesting of equity awards even though an actual change in control may not occur. Examples of such a definition could 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;
- *Problematic Pay Practices:* Vote AGAINST equity plans if the plan is a vehicle for problematic pay practices (e.g. if the plan allows for change-in-control payouts that are single triggered).



Secondary Considerations:

- *Executive Concentration Ratio:* Vote AGAINST plans where the annual grant rate to the top five executives (“named officers”) exceeds one percent of shares outstanding;
- *Pay-For-Performance:* Vote AGAINST plans where there is a misalignment between CEO pay and the company’s performance, or if the performance criteria is not disclosed;
- *Evergreen Features:* Vote AGAINST plans that reserve a specified percentage of outstanding shares for award each year instead of having a termination date;
- *Repricing:* Vote AGAINST plans if the company’s policy permits repricing of “underwater” options or if the company has a history of repricing past options;
- *Loans:* Vote AGAINST the plan if the plan administrator may provide loans to officers to assist in exercising the awards.

Stock Option Plans

Compensation to executive and other senior level employees should be strongly correlated to sustained performance. Stock options, restricted stock and other forms of non-cash compensation should be performance-based with an eye toward improving long-term corporate value. Well-designed stock option plans can align the interests of executives and shareholders by providing that executives benefit when stock prices rise so that the employees of the company, along with shareholders, prosper together. Likewise, option plans should not allow for the benefits of share price gains without the risk of share price declines. Poorly designed stock option plans can encourage excessive risk-taking behavior and incentivize executives to pursue corporate strategies that promote short-term stock price to the ultimate detriment of long-term shareholder value.

Many plans sponsored by management provide goals so easily attained that executives can realize massive rewards even though shareholder value is not created. Taft-Hartley Advisory Services supports option plans when they provide legitimately challenging performance targets that serve to truly motivate executives in the pursuit of sustained superior performance. Moreover, equity pay plans should be designed in a fashion that ensures executive compensation is veritably performance driven and “at risk” such that executives are penalized (by either reducing or withholding compensation) for failure to meet pre-determined performance hurdles. Taft-Hartley Advisory Services will oppose those plans that offer unreasonable benefits to executives that are not generally available to other shareholders or employees.

Voting Power Dilution (VPD) Calculation

Voting power dilution, or VPD, measures the amount of voting power represented by the number of shares reserved over the life of the plan. Industry norm dictates that ten percent dilution over the life of a ten-year plan is reasonable for most mature companies. Restricted stock plans or stand-alone stock bonus plans that are not coupled with stock option plans can be held to a lower dilution cap.

Voting power dilution may be calculated using the following formula:

- A: Shares reserved for this amendment or plan;
- B: Shares available under this plan and/or continuing plans prior to proposed amendment;
- C: Shares granted but unexercised under this plan and/or continuing plans;
- D: All outstanding shares plus any convertible equity, outstanding warrants, or debt.



The formula can be applied as follows: $\frac{A + B + C}{A + B + C + D}$

$$A + B + C + D$$

Fair Market Value, Dilution and Repricing

Consideration will be made as to whether the proposed plan is being offered at fair market value or at a discount; whether the plan excessively dilutes the earnings per share of the outstanding shares; and whether the plan gives management the ability to replace or reprice “underwater” options. Repricing is an amendment to a previously granted stock option contract that reduces the option exercise price. Options are “underwater” when their current price is below the current option contract price. Options can also be repriced through cancellations and re-grants. The typical new grant would have a ten-year term, new vesting restrictions, and a lower exercise price reflecting the current lower market price.

Burn Rate

The annual burn rate is a measure of dilution that illustrates how rapidly a company is deploying shares reserved for equity compensation plans. The burn or run rate is calculated by dividing the number of shares pursuant to awards granted in a given year by the number of shares outstanding. Taft-Hartley Advisory Services benchmarks a company’s burn rate against three-year industry and primary index burn rates, and generally opposes plans whose average three-year burn rates exceed the greater of: (1) the mean plus one standard deviation of the company’s GICS group segmented by Russell 3000 index and non-Russell 3000 index; or (2) two percent of weighted common shares outstanding. Additionally, year-over-year burn-rate cap changes will be limited to a maximum of two (2) percentage points (plus or minus) the prior year’s burn-rate cap. If a company fails to fulfill a burn rate commitment to shareholders, vote AGAINST or WITHHOLD from the compensation committee.

Executive Concentration Ratio

In examining stock option awards, restricted stock and other forms of long-term incentives, it is important to consider internal pay equity; that is, the concentration and distribution of equity awards to a company’s top five executives (“named officers”) as a percentage of overall grants. Taft-Hartley Advisory Services will consider voting against equity compensation plans whose annual grant rate to top executives exceeds one percent of shares outstanding.

Evergreen Provisions

Taft-Hartley Advisory Services will oppose plans that reserve a specified percentage of outstanding shares for award each year (evergreen plans) instead of having a termination date. Such plans provide for an automatic increase in the shares available for grant with or without limits on an annual basis. Because they represent a transfer of shareholder value and have a dilutive impact on a regular basis, evergreen plans are expensive to shareholders. Evergreen features also minimize the frequency that companies seek shareholder approval in increasing the number of shares available under the plan.

Option Exchange Programs/Repricing Options

Vote CASE-BY-CASE on management proposals seeking approval to exchange/reprice options taking into consideration the following factors:

- 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?



- 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: the plan should be broad-based and executive officers and directors should be excluded;
- Is this a value-for-value exchange?
- Are surrendered stock options added back to the plan reserve?

If the surrendered options are added back to the equity plans for re-issuance, then we will also take into consideration the impact on the company's equity plans and its three-year average burn rate.

In addition to the above considerations, we will 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. We do not view market deterioration, in and of itself, as an acceptable reason for companies to reprice stock options and/or reset goals under performance plans. Repricing after a recent decline in stock price triggers additional scrutiny and may warrant a vote AGAINST the proposal. At a minimum, the decline should not have happened within the past year. 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.

Restricted Stock

Taft-Hartley Advisory Services supports the use of performance-vesting restricted stock as long as the absolute amount of restricted stock being granted is a reasonable proportion of an executive's overall compensation. The best way to align the interests of executives with shareholders is through direct stock holdings, coupled with at-risk variable compensation that is tied to explicit and challenging performance benchmarks. Performance-vesting restricted stock both adds to executives direct share holdings and incorporates at-risk features.

To reward performance and not job tenure, restricted stock vesting requirements should be performance-based rather than time lapsing. Such plans should explicitly define the performance criteria for awards to senior executives and may include a variety of corporate performance measures in addition to the use of stock price targets. In addition, executives should be required to hold their vested restricted stock as long as they remain employees of the company.

Employee Stock Purchase Plans (ESPPs) - Qualified Plans

Vote CASE-BY-CASE on qualified employee stock purchase plans. Vote FOR plans if:

- 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 five percent or less of the outstanding shares.



Employee Stock Purchase Plans (ESPPs) – Non-Qualified Plans

Vote CASE-by-CASE on nonqualified employee stock purchase plans. Vote FOR plans with:

- Broad-based participation (i.e. all employees with the exclusion of individuals with 5 percent or more of beneficial ownership of the company);
- Limits on employee contribution (a fixed dollar amount or a percentage 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;
- No discount on the stock price on the date of purchase since there is a company matching contribution.

Employee Stock Ownership Plans (ESOPs)

An Employee Stock Ownership Plan (ESOP) is an employee benefit plan that makes the employees of a company also owners of stock in that company. Recent academic research of the performance of ESOPs in closely held companies found that ESOPs appear to increase overall sales, employment, and sales per employee over what would have been expected absent an ESOP. Studies have also found that companies with an ESOP are also more likely to still be in business several years later, and are more likely to have other retirement oriented benefit plans than comparable non-ESOP companies.

- Vote FOR proposals that request shareholder approval in order to implement an ESOP or to increase authorized shares for existing ESOPs except in cases when the number of shares allocated to the ESOP is deemed excessive (i.e. generally greater than five percent of outstanding shares).

OBRA-Related Compensation Proposals

Cash bonus plans can be an important part of an executive's overall pay package, along with stock-based plans tied to long-term total shareholder returns. Section 162(m) of the IRS Code Section limits the deductibility of compensation in excess of \$1 million to a named executive officer unless certain prescribed actions are taken including shareholder approval and the establishment of performance goals.

- Generally vote FOR proposals to approve or amend executive incentive bonus plans if the proposal:
 - Is only to include administrative features;
 - Places a cap on the annual grants any one participant may receive to comply with the provisions of Section 162(m);
 - Adds performance goals to existing compensation plans to comply with the provisions of Section 162(m) unless they are clearly inappropriate; or
 - Covers cash or cash and stock bonus plans that are submitted to shareholders for the purpose of exempting compensation from taxes under the provisions of Section 162(m) if no increase in shares is requested.
- Vote AGAINST such proposals if:
 - If the plan provides for awards to individual participants in excess of \$2 million a year;
 - The compensation committee does not fully consist of independent outsiders as defined by Taft-Hartley Advisory Services' definition of director independence;
 - The plan contains excessive problematic provisions including lack of rigorous performance measures.



- Vote CASE-BY CASE on such proposals if:
 - In addition to seeking 162(m) tax treatment, the amendment may cause the transfer of additional shareholder value to employees (e.g., by requesting additional shares, extending the option term, or expanding the pool of plan participants);
 - A company is presenting the plan to shareholders for Section 162(m) favorable tax treatment for the first time after the company's initial public offering (IPO). Perform a full equity plan analysis, including consideration of total shareholder value transfer, burn rate (if applicable), repricing, and liberal change in control. Other factors such as pay-for-performance or problematic pay practices as related to Management Say-on-Pay may be considered if appropriate.

Golden and Tin Parachutes

Golden parachutes are designed to protect the employees of a corporation in the event of a change-in-control. Under most golden parachute agreements, senior level management employees receive a lump sum payout triggered by a change-in-control at usually two to three times their current base salary. The SEC requires disclosure of all golden parachute arrangements in the proxy statement.

- Vote on a CASE-BY-CASE basis on management proposals to ratify or cancel golden parachutes taking into consideration the following factors;
 - Whether the triggering mechanism is beyond the control of management.
 - Whether the payout amount is based on an excessive severance multiple.
 - Whether the change-in-control payments are 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.
- Vote FOR shareholder proposals to all have golden parachute agreements submitted for shareholder ratification;



Shareholder Proposals on Compensation

Disclosure of Executive and Director Pay

- Generally vote FOR shareholder proposals that seek additional disclosure of executive and director pay information, including the preparation of a formal report on executive compensation practices and policies;

Limit Executive and Director Pay

- Generally vote FOR shareholder proposals that seek to eliminate outside directors' retirement benefits;
- Review on a CASE-BY-CASE basis all other shareholder proposals that seek to limit executive and director pay. This includes shareholder proposals that seek to link executive compensation to customer, employee, or stakeholder satisfaction.

Executive Perks and Retirement/Death Benefits

Taft-Hartley Advisory Services supports enhanced disclosure and shareholder oversight of executive benefits and other in-kind retirement perquisites. For example, compensation devices like executive pensions (SERPs), deferred compensation plans, below-market-rate loans or guaranteed post-retirement consulting fees can amount to significant liabilities to shareholders and it is often difficult for investors to find adequate disclosure of their full terms. Taft-Hartley Advisory Services opposes any perquisite or benefit to executives that exceeds what is generally offered to other company employees. From a shareholder perspective, the cost of these executive entitlements would be better allocated to performance-based forms of executive compensation during their term in office.

- 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 calling companies to adopt a policy of discontinuing or 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 that the broad-based employee population is eligible.

Executive Holding Periods

Senior level executives should be required to hold a substantial portion of their equity compensation awards, including shares received from option exercises (e.g. 75% of their after-tax stock option proceeds), while they are employed at a company or even into retirement. Equity compensation awards are intended to align management interests with those of shareholders, and allowing executives to sell these shares while they are employees of the company undermines this purpose. Given the large size of a typical annual equity compensation award, holding requirements that are based on a multiple of cash compensation may be inadequate.

- Vote CASE-BY-CASE on shareholder proposals asking companies to adopt policies requiring senior executive officers to retain a significant portion of the shares acquired through compensation plans while employed or following the termination of their employment.



Pay for Superior Performance

- Generally vote FOR shareholder proposals that request the board to establish a pay-for-superior performance standard in the company's executive compensation programs for senior executives.

Performance-Based Options

Stock options are intended to align the interests of management with those of shareholders. However, stock option grants without performance-based elements can excessively compensate executives for stock increases due solely to a general stock market rise, rather than improved or superior company stock performance. When option grants reach the hundreds of thousands, a relatively small increase in the share price may permit executives to reap millions of dollars without providing material benefits to shareholders.

Taft-Hartley Advisory Services advocates for performance-based awards – such as premium-priced or indexed – which encourage executives to outperform peers, certain indices, or the broader market rather than being rewarded for any minimal rise in the share price, which can occur if there are not empirical performance measures incorporated into the structure of the options. Additionally, it should be noted that performance-accelerated vesting and premium priced options allow fixed plan accounting, whereas performance-vested and indexed options entail certain expensing requirements.

- Generally vote FOR shareholder proposals that seek to provide for performance-based options such as indexed and/or premium priced options.

Tax Gross-up Proposals

- 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.

Advisory Vote on Executive Compensation (Say-on-Pay) Shareholder Proposals

- Generally, vote FOR shareholder proposals that call for non-binding shareholder ratification of the compensation of the Named Executive Officers and the accompanying narrative disclosure of material factors provided to understand the Summary Compensation Table.

Compensation Consultants - Disclosure of Board or Company's Utilization

- 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.

Adopt Anti-Hedging/Pledging/Speculative Investments Policy

- 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.



Bonus Banking/Bonus Banking “Plus”

- Generally vote FOR 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)

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

- Generally vote FOR shareholder proposals seeking a policy requiring termination of employment prior to severance payment, and eliminating accelerated vesting of unvested equity.

Recoup Bonuses

- Generally vote FOR proposals to recoup unearned incentive bonuses or other incentive payments made to senior executives if it is later determined that the figures upon which incentive compensation is earned later turn out to have been in error.

Link Compensation to Non-Financial Factors

- Generally vote FOR shareholder proposals seeking disclosure on linking executive pay to non-financial factors.
- Evaluate shareholder proposals calling for linkage of executive pay to non-financial factors, such as corporate downsizing, customer/employee satisfaction, community involvement, human rights, social and environmental goals and performance, and predatory lending on a CASE-BY-CASE basis.

Pension Plan Income Accounting

- Generally vote FOR shareholder proposals to exclude pension plan income in the calculation of earnings used in determining executive bonuses/compensation.



AUDITORS

Auditors play an integral role in certifying the integrity and reliability of corporate financial statements on which investors rely to gauge the financial well being of a company and the viability of an investment. The well-documented auditor-facilitated bankruptcies and scandals at several large public companies in recent years underscore the catastrophic consequences that investors can suffer when the audit process breaks down.

Auditor Independence

The wave of accounting scandals at companies in the over the past decade illuminate the need to ensure auditor independence in the face consulting services to audit clients. The ratio of non-audit services to total revenues at the large accounting firms grew significantly leading up to the accounting scandals. We believe the ratio of non-audit fees should make up no more than one-quarter of all fees paid to the auditor so as to properly discourage even the appearance of any undue influence upon an auditor's objectivity.

Under SEC rules, disclosed categories of professional fees paid for audit and non-audit services are as follows: (1) Audit Fees, (2) Audit-Related Fees, (3) Tax Fees, and (4) All Other Fees. Under the reporting requirements, companies are required to describe – in qualitative terms – the types of services provided under the three categories other than Audit Fees. The following fee categories are defined as: A) tax compliance or preparation fees are excluded from our calculations of non-audit fees; and B) fees for consulting services for tax-avoidance strategies and tax shelters will be included in "other fees" and will be considered non-audit fees if the proxy disclosure does not indicate the nature of the tax services. In circumstances where "Other" fees include fees related to significant one-time capital structure events: initial public offerings, bankruptcy emergence, and spin-offs; and the company makes public disclosure of the amount and nature of those fees which 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.

As auditors are the backbone upon which a company's financial health is measured, auditor independence is absolutely essential for rendering objective opinions upon which investors then rely. When an auditor is paid excessive consulting fees in addition to fees paid for auditing, the company-auditor relationship is left open to conflicts of interest.

Auditor Ratification

The ratification of auditors is an important component of good governance. In light of the Sarbanes-Oxley Act of 2002 and increased shareholder scrutiny, some companies are opting to take auditor ratification off the ballot. Neglecting to include the ratification of auditors on the proxy takes away the fundamental shareholder right to ratify the company's choice of auditor. Whereas shareholder ratification of auditors was once considered routine by many shareowners, accounting scandals have caused shareholders to be more vigilant about the integrity of the auditors certifying their companies' financial statements. It is now viewed as best practice for companies to place the item on ballot.

Although U.S. companies are not legally required to allow shareholders to ratify their appointment of independent auditors, submission of the audit firm for approval at the annual meeting on an annual basis gives shareholders the means to weigh in on their satisfaction (or lack thereof) on the auditor's independent execution of their duties. Taft-Hartley Advisory Services firmly believes mandatory auditor ratification is in line with sound and transparent corporate governance and remains an important mechanism to ensure the integrity of the auditor's work. In the absence of legislation mandating shareholder ratification of auditors, the failure by a company to present its selection of auditors for shareholder ratification should be discouraged as it undermines good governance and disenfranchises shareholders.



Proposals to ratify auditors is examined for potential conflicts of interest, with particular attention to the fees paid to the auditor, as well as whether the ratification of auditors has been put up for shareholder vote.

- Vote FOR proposals to ratify auditors when the amount of audit fees is equal to or greater than three times (75 percent) the amount paid for consulting, unless: i) An auditor has a financial interest in or association with the company, and is therefore not independent; or ii) There is reason to believe that the independent auditor has rendered an opinion which is neither accurate nor indicative of the company's financial position;
- Vote AGAINST proposals to ratify auditors when the amount of non-audit consulting fees exceeds a quarter of all fees paid to the auditor;
- Generally support shareholder proposals seeking to limit companies from buying consulting services from their auditor.

Auditor Rotation

Long-term relationships between auditors and their clients can impede auditor independence, objectivity and professional skepticism. Such long-standing relationships foster an undesirable coziness between audit firms and their clients, which can cause the auditors to lose their independence and become less questioning especially where lucrative contracts for the provision of non-audit consulting services are involved. Mandatory auditor rotation is a widely supported safeguard against improper audits and is viewed by many as an effective mechanism for mitigating the potential risks borne by long-term auditor-client relationships.

Proponents of compulsory audit firm rotation contend that rotation policies promote objectivity and independence among auditors and minimize the scope of vested interests developing in the audit. Opponents of audit firm rotation argue that regular re-tendering is a costly practice, likely to reduce audit quality and increase the risk of audit failure in the early years due to the time required to gain cumulative knowledge of an often complex and geographically diverse business. A solution around this apparent negative effect of mandatory rotation is to keep a longer rotation period.

Taft-Hartley Advisory Services recommends that companies not maintain the same audit firm in excess of seven years, and will consider voting against auditors if their tenure at a company exceeds seven years. A revolving seven-year rotation period allows the auditor to develop cumulative knowledge of a company's business and the effect of changes in the business along with the corresponding changes in its risks, thereby enhancing the quality of the audit and trammeling potential loss of auditor objectivity and independence. Many institutional investors argue that the increased costs associated with compulsory auditor rotation are a lesser evil vis-à-vis the larger evil of the costs to shareholders when the objectionable coziness between clients and long-standing auditors leads to gross erosion of shareholder value.

- Generally support shareholder proposals to ensure auditor independence through measures such as mandatory auditor rotation (no less than every seven years).

Auditor Indemnification and Limitation of Liability

Indemnification clauses allow auditors to avoid liability for potential damages, including punitive damages. Eliminating concerns about being sued for carelessness could lead to; 1) potential impairment of external auditor independence and impartiality by contractual clauses limiting their liability; and 2) a decrease the quality and reliability of the audit given the lack of consequence for an inadequate audit.

Given the substantial settlements against auditors in recent years for poor audit practices and the cost of such insurance to the company and its shareholders, there are legitimate concerns over the broader use of indemnification clauses. Such agreements may weaken the objectivity, impartiality and performance of audit firms. Taft-Hartley Advisory Services believes it is important for shareholders to understand the full risks and implications of these agreements and determine



what impact they could have on shareholder value. At the present time, however, due to poor disclosure in this area, it is difficult to identify the existence and extent of limited liability provisions and auditor agreements, and investors lack the information needed to make informed decisions regarding these agreements.

Without uniform disclosure, it is difficult to consistently apply policy and make informed vote recommendations. As such, Taft-Hartley Advisory Services reviews the use of indemnification clauses and limited liability provisions in auditor agreements on a case-by-case basis, when disclosure is present.

- Vote AGAINST or WITHHOLD from Audit Committee members if 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.

Disclosures Under Section 404 of Sarbanes-Oxley Act

Section 404 of the Sarbanes-Oxley Act requires that companies document and assess the effectiveness of their internal financial controls. Beginning in 2005, most public companies must obtain annual attestation of the effectiveness of their internal controls over financial reporting from their outside auditors. Companies with significant material weaknesses identified in the Section 404 disclosures potentially have ineffective internal financial reporting controls, which may lead to inaccurate financial statements, hampering shareholders' ability to make informed investment decisions, and may lead to destruction of public confidence and shareholder value. The Audit Committee is ultimately responsible for the integrity and reliability of the company's financial information and its system of internal controls.

- Vote AGAINST or WITHHOLD votes from Audit Committee members under certain circumstances when a material weakness rises to a level of serious concern, if there are chronic internal control issues, or if there is an absence of established effective control mechanisms;
- Vote AGAINST management proposals to ratify auditors if there is reason to believe that the independent auditor has rendered an opinion which is neither accurate nor indicative of the company's financial position;

Adverse Opinions

An Adverse Opinion on the company's financial statements is issued when the auditor determines that the financial statements are materially misstated and, when considered as a whole, do not conform to GAAP. It essentially states that the information contained is materially incorrect, unreliable, and inaccurate in order to assess the company's financial position and results of operations.

Adverse opinions on companies' financial statements are generally very rare because they essentially state that a significant portion of the financial statements are unreliable and the auditor had no choice but to issue an adverse opinion after a long process of seeking resolution with the company subjected to the audit.

- Vote AGAINST or WITHHOLD votes from Audit Committee members if the company receives an Adverse Opinion on the company's financial statements from its auditors.



TAKEOVER DEFENSES

Poison Pills

Shareholder rights plans, typically known as poison pills, take the form of rights or warrants issued to shareholders and are triggered when a potential acquiring stockholder reaches a certain threshold of ownership. When triggered, poison pills generally allow shareholders to purchase shares from, or sell shares back to, the target company (“flip-in pill”) and/or the potential acquirer (“flip-out pill”) at a price far out of line with fair market value.

Depending on the type of pill, the triggering event can either transfer wealth from the target company or dilute the equity holdings of current shareholders. Poison pills insulate management from the threat of a change in control and provide the target board with veto power over takeover bids. Because poison pills greatly alter the balance of power between shareholders and management, shareholders should be allowed to make their own evaluation of such plans.

In evaluating management proposals on poison pills, Taft-Hartley Advisory Services considers the company’s rationale for adopting the pill and its existing governance structure in determining whether or not the pill appropriately serves in shareholders’ best interests. The rationale for adopting the pill should be thoroughly explained by the company. Additionally, we examine the company’s existing governance structure including: board independence, existing takeover defenses, or any problematic governance concerns.

- Vote FOR shareholder proposals that ask a company to submit its poison pill for shareholder ratification;
- Review on a CASE-BY-CASE basis shareholder proposals to redeem a company’s poison pill;
- Review on a CASE-BY-CASE basis management proposals to ratify a poison pill;
- Vote AGAINST or WITHHOLD from any board where a dead-hand poison pill provision is in place. From a shareholder perspective, there is no justification for a dead-hand provision. Directors of companies with these lethal protective devices should be held fully accountable.

Net Operating Loss (NOL) Poison Pills/Protective Amendments

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

When evaluating management proposals seeking to adopt NOL pills or protective amendments, the purpose behind the proposal, its terms, and the company’s existing governance structure should be taken into account to assess whether the structure actively promotes board entrenchment or adequately protects shareholder rights. While the high estimated tax value of NOLs would typically benefit shareholders, the ownership acquisition limitations contained in an NOL pill/protective amendment coupled with a company’s problematic governance structure could serve as an antitakeover device.

Given the low ownership thresholds involved, shareholders want to ensure that such pills/amendments do not remain in effect permanently. Taft-Hartley Advisory Services will closely review whether the pill/amendment contains a sunset provision or a commitment to cause the expiration of the NOL pill/protective amendment upon exhaustion or expiration of the NOLs.



- Vote AGAINST proposals to adopt a poison pill/ protective amendment for the stated purpose of protecting a company's net operating losses ("NOLs") if the term of the pill/ protective amendment would exceed the shorter of three years and the exhaustion of the NOL.
- Evaluate management proposals to ratify an NOL pill /adopt an NOL protective amendment if the term of the pill/amendment would be the shorter of three years (or less) and the exhaustion of the NOL on a CASE-BY-CASE basis considering the following factors;
 - The ownership threshold to transfer (NOL pills generally have a trigger slightly below 5% and 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 five-percent holder);
 - 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;
 - Any other factors that may be applicable.

Greenmail

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 shares, the practice discriminates against most shareholders. This transferred cash, absent the greenmail payment, could be put to much better use for reinvestment in the company, payment of dividends, or to fund a public share repurchase program.

- Vote FOR proposals to adopt an anti-greenmail provision in their charter or bylaws that would thereby restrict a company's ability to make greenmail payments to certain shareholders;
- Review on a CASE-BY-CASE basis all anti-greenmail proposals when they are presented as bundled items with other charter or bylaw amendments.

Shareholder Ability to Remove Directors/Fill Vacancies

Shareholder ability to remove directors, with or without cause, is either prescribed by a state's business corporation law, individual company's articles of incorporation, or its corporate bylaws. Many companies have sought shareholder approval for charter or bylaw amendments that would prohibit the removal of directors except for cause, thus ensuring that directors would retain their directorship for their full-term unless found guilty of self-dealing. By requiring cause to be demonstrated through due process, management insulates the directors from removal even if a director has been performing poorly, not attending meetings, or not acting in the best interests of shareholders.

- Vote AGAINST proposals that provide that directors may be removed only for cause;
- Vote FOR proposals which seek to restore the authority of shareholders to remove directors with or without cause;
- Vote AGAINST proposals that provide only continuing directors may elect replacements to fill board vacancies;
- Vote FOR proposals that permit shareholders to elect directors to fill board vacancies.



Shareholder Ability to Alter the Size of the Board

Proposals that would allow management to increase or decrease the size of the board at its own discretion are often used by companies as a takeover defense. Proposals to fix the size of the board at a specific number can prevent management from increasing the board size without shareholder approval when facing a proxy context. By increasing the size of the board, management can make it more difficult for dissidents to gain control of the board. Fixing the size of the board also prevents a reduction in the size of the board as a strategy to oust independent directors. Fixing board size also prevents management from increasing the number of directors in order to dilute the effects of cumulative voting.

- Vote FOR proposals that seek to fix the size of the board within an acceptable range;
- Vote AGAINST proposals that give management the ability to alter the size of the board without shareholder approval.



SHAREHOLDER RIGHTS

Confidential Voting

The confidential ballot ensures that voters are not subject to real or perceived coercion. In an open voting system, management can determine who has voted against its nominees or proposals before a final vote count. As a result, shareholders can be pressured to vote with management at companies with which they maintain or would like to establish a business relationship.

- Vote FOR shareholder proposals that request corporations to adopt confidential voting, the use of independent tabulators, and the use of independent inspectors for an election as long as the proposals include clauses for proxy contests. In the case of a contested election, management is permitted to request that the dissident group honor its confidential voting policy. If the dissidents agree, the policy remains in place. If the dissidents do not agree, the confidential voting policy is waived;
- Vote FOR management proposals to adopt confidential voting procedures.

Shareholder Ability to Call Special Meetings

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

- Vote AGAINST proposals to restrict or prohibit shareholder ability to call special meetings;
- Vote FOR proposals that remove restrictions on the right of shareholders to act independently of management;
- Vote AGAINST provisions that would require advance notice of more than sixty days.

Shareholder Ability to Act by Written Consent

Consent solicitations allow shareholders to vote on and respond to shareholder and management proposals by mail without having to act at a physical meeting. A consent card is sent by mail for shareholder approval and only requires a signature for action. Some corporate bylaws require supermajority votes for consents, while at others standard annual meeting rules apply. Shareholders may lose the ability to remove directors, initiate a shareholder resolution, or respond to a beneficial offer without having to wait for the next scheduled meeting if they are unable to act at a special meeting of their own calling.

- Vote AGAINST proposals to restrict or prohibit shareholder ability to take action by written consent;
- Vote FOR proposals to allow or make easier shareholder action by written consent.

Unequal Voting Rights

Incumbent managers are able to use unequal voting rights through the creation of a separate class of shares that has superior voting rights to the common shares of regular shareholders. This separate class of shares with disproportionate voting power allows management to concentrate its power and insulate itself from the wishes of the majority of shareholders. Dual class exchange offers involve a transfer of voting rights from one group of shareholders to another group of shareholders typically through the payment of a preferential dividend. A dual class recapitalization plan also



establishes two classes of common stock with unequal voting rights, but initially involves an equal distribution of preferential and inferior voting shares to current shareholders.

- Vote FOR resolutions that seek to maintain or convert to a one-share-one-vote capital structure;
- Generally vote AGAINST requests for the creation or continuation of dual class capital structures or the creation of new or additional super-voting shares.

Supermajority Shareholder Vote Requirement to Amend the Charter or Bylaws

Supermajority shareholder vote requirements for charter or bylaw amendments are often the result of “lock-in” votes, which are the votes required to repeal new provisions to the corporate charter. Supermajority provisions violate the principle that a simple majority of voting shares should be all that is necessary to effect change regarding a company and its corporate governance provisions. Requiring more than this may entrench managers by blocking actions that are in the best interests of shareholders.

The general lack of credit availability for financially distressed companies has resulted in “rescue” or highly dilutive stock and warrant issuances, which often comprise a majority of the company’s voting stock upon conversion. When an investor takes control of the company through the conversion of securities, the new owners often seek statutory amendments, such as adopting written consent, or allowing 50 percent shareholders to call a special meeting, that allow effective control over the company with little or no input from minority shareholders.

In such cases, the existing supermajority vote requirements would serve to protect minority shareholders’ interests. The reduction in the vote requirements, when coupled with low quorum requirements (in Nevada and other states) could shift the balance in power away from small shareholders while overly empowering large shareholders.

- Vote AGAINST management proposals to require a supermajority shareholder vote to approve charter and bylaw amendments;
- Vote AGAINST management proposals seeking to lower supermajority shareholder vote requirements when they accompany management sponsored proposals to also change certain charter or bylaw amendments;
- Vote FOR management or shareholder proposals to reduce supermajority vote requirements for charter and bylaw amendments. However, for companies with shareholders who have significant ownership levels, vote CASE-BY-CASE, taking into account i) ownership structure, ii) quorum requirements, and iii) supermajority vote requirements.

Supermajority Shareholder Vote Requirement to Approve Mergers

Supermajority provisions violate the principle that a simple majority of voting shares should be all that is necessary to effect change regarding a company and its corporate governance provisions. Requiring more than this may entrench managers by blocking actions that are in the best interests of shareholders.

- Vote AGAINST management proposals to require a supermajority shareholder vote to approve mergers and other significant business combinations;
- Vote FOR shareholder proposals to lower supermajority shareholder vote requirements for mergers and other significant business combinations.



Reimbursing Proxy Solicitation Expenses

- Generally support shareholder proposals to reimburse for proxy solicitation expenses;
- When voting in conjunction with support of a dissident slate, always support the reimbursement of all appropriate proxy solicitation expenses associated with the election;
- Generally support requests seeking to reimburse a shareholder proponent for all reasonable campaign expenditures for a proposal approved by the majority of shareholders.

Exclusive Venue

Exclusive venue management proposals were new for the 2011 proxy season, as issuers began seeking shareholder approval of exclusive charter provisions in 2011 after a court opinion suggested that unilaterally adopted exclusive venue bylaw provisions might not be enforceable. All the exclusive venue proposals to date have sought to make Delaware the exclusive forum for resolution on shareholder disputes.

Corporations have defended exclusive forum provisions on the grounds that the Delaware Chancery Court moves cases more quickly than other courts and is presided over by judges who are experienced in corporate law. Firms have also argued that making Delaware the sole forum for lawsuits avoids the possibility of duplicative suits arising out of the same events. A number of shareholder advocates have, however, countered that exclusive venue provisions deprive shareholders of the flexibility to choose the forum in which to assert claims of wrongdoing.

- Generally vote AGAINST management proposals to restrict the venue for shareholder claims by adopting charter or bylaw provisions that seek to establish an exclusive judicial forum.

Bundled Proposals

- 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.



MERGERS & ACQUISITIONS / CORPORATE RESTRUCTURINGS

A number of academic and industry studies have estimated that nearly three quarters of all corporate acquisitions fail to create economically meaningful shareholder value. These studies have also demonstrated that the larger the deal the greater the risk in realizing long-term value for shareholders of the acquiring firm. These risks include integration challenges, over-estimation of expected synergies, incompatible corporate cultures and poor succession planning. Indeed, some studies have found that smaller deals within specialized industries on average outperform “big bet” larger deals by a statistically significant factor.

In analyzing M&A deals, private placements or other transactional related items on proxy, Taft-Hartley Advisory Services performs a well-rounded analysis that seeks to balance all facets of the deal to ascertain whether the proposed acquisition is truly going to generate long-term value for shareholders and enhance the prospects of the ongoing corporation.

Votes on mergers and acquisitions are always considered on a CASE-BY-CASE basis, taking into account the following factors:

- Impact of the merger on shareholder value;
- Perspective of ownership (target vs. acquirer) in the deal;
- Form and mix of payment (i.e. stock, cash, debt, etc.);
- Fundamental value drivers behind the deal;
- Anticipated financial and operating benefits realizable through combined synergies;
- Offer price (cost vs. premium);
- Change-in-control payments to executive officers;
- Financial viability of the combined companies as a single entity;
- Was the deal put together in good faith? What kind of auction setting took place? Were negotiations carried out at arm’s length? Was any portion of the process tainted by possible conflicts of interest?
- Fairness opinion (or lack thereof);
- Changes in corporate governance and their impact on shareholder rights;
- What are the potential legal or environmental liability risks associated with the target firm?
- Impact on community stakeholders and employees in both workforces;
- How will the merger adversely affect employee benefits like pensions and health care?

Fair Price Provisions

Fair price provisions were originally designed to specifically defend against the most coercive of takeover devices- the two-tiered, front-end loaded tender offer. In such a hostile takeover, the bidder offers cash for enough shares to gain control of the target. At the same time, the acquirer states that once control has been obtained, the target’s remaining shares will be purchased with cash, cash and securities, or only securities. Since the payment offered for the remaining stock is, by design, less valuable than the original offer for the controlling shares, shareholders are forced to sell out early to maximize the value of their shares. Standard fair price provisions require that in the absence of board or shareholder approval of the acquisition the bidder must pay the remaining shareholders the same price for their shares that brought control.



- Vote FOR fair price proposals as long as the shareholder vote requirement embedded in the provision is no more than a majority of disinterested shares;
- Vote FOR shareholder proposals to lower the shareholder vote requirement in existing fair price provisions.

Appraisal Rights

Rights of appraisal provide shareholders who do not approve of the terms of certain corporate transactions the right to demand a judicial review in order to determine the fair value for their shares. The right of appraisal applies to mergers, sale of corporate assets, and charter amendments that may have a materially adverse effect on the rights of dissenting shareholders.

- Vote FOR proposals to restore or provide shareholders with the right of appraisal.

Corporate Restructuring

- Votes concerning corporate restructuring proposals, including minority squeeze outs, leveraged buyouts, spin-offs, liquidations, and asset sales, are considered on a CASE-BY-CASE basis.

Spin-offs

- Votes on spin-offs are considered on a CASE-BY-CASE basis depending on the tax and regulatory advantages, planned use of sale proceeds, market focus, and managerial incentives.

Asset Sales

- Votes on asset sales are made on a CASE-BY-CASE basis after considering the impact on the balance sheet/working capital, value received for the asset, and potential elimination of diseconomies.

Liquidations

- Votes on liquidations are made on a CASE-BY-CASE basis after reviewing management's efforts to pursue other alternatives, appraisal value of assets, and the compensation plan for executives managing the liquidation.

Going Private Transactions (LBOs, Minority Squeezeouts)

- Vote on a CASE-BY-CASE basis 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), cash-out value, whether the interests of continuing and cashed-out shareholders are balanced, and market reaction to public announcement of transaction.



Changing Corporate Name

- Vote FOR changing the corporate name in all instances if proposed and supported by management and the board.

Plans of Reorganization (Bankruptcy)

The recent financial crisis has placed Chapter 11 bankruptcy reorganizations as a potential alternative for distressed companies. While the number of bankruptcies has risen as evidenced by many firms, including General Motors and Lehman Brothers, the prevalence of these reorganizations can vary year over year due to, among other things, market conditions and a company's ability to sustain its operations. Additionally, the amount of time that lapses between a particular company's entrance into Chapter 11 and its submission of a plan of reorganization varies significantly depending on the complexity, timing, and jurisdiction of the particular case. These plans are often put to a vote of shareholders (in addition to other interested parties), as required by the Bankruptcy Code.

- Vote CASE-BY-CASE basis 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.



CAPITAL STRUCTURE

The management of a corporation's capital structure involves a number of important issues including dividend policy, types of assets, opportunities for growth, ability to finance new projects internally, and the cost of obtaining additional capital. Many financing decisions have a significant impact on shareholder value, particularly when they involve the issuance of additional common stock, preferred stock, or debt.

Common Stock Authorization

State statutes and stock exchanges require shareholder approval for increases in the number of common shares. Corporations increase their supply of common stock for a variety of ordinary business purposes: raising new capital, funding stock compensation programs, business acquisitions, implementation of stock splits, or payment of stock dividends.

Clear justification should accompany all management requests for shareholders approval of increases in authorized common stock. We support increases in authorized common stock to fund stock splits that are in shareholders' interests. Consideration will be made on a case-by-case basis on proposals when the company intends to use the additional stock to implement a poison pill or other takeover defense. The amount of additional stock requested in comparison to the requests of the company's peers as well as the company's articulated reason for the increase must be evaluated. Dual requests on the same ballot, in which an increase in common stock is requested in tandem with a reverse stock split in which shares are not proportionately reduced may not be in shareholder best interests. Although the reverse stock split may be needed in the face of imminent delisting, there is little justification in effectively approving two increases in common stock on the same ballot.

- Vote on a CASE-BY-CASE basis proposals to increase the number of shares of common stock authorized for issue. The following factors will be considered:
 - Past Board Performance: the company's historical use of authorized shares in the previous three years;
 - The Current Request: i) disclosure on specific reasons/rationale for the proposed increase; ii) the dilutive impact of the request; and iii) disclosure of specific risks to shareholders of not approving the request.
- Vote AGAINST proposals at companies with dual-class capital structures to increase the number of authorized shares of the class of stock that has superior voting rights;
- Vote AGAINST proposed common stock authorizations that increase the existing authorization by more than fifty percent unless a clear need for the excess shares is presented by the company;
- Vote AGAINST proposals to increase the number of authorized common shares if a vote for a reverse stock split on the same ballot is warranted despite the fact that the authorized shares would not be reduced proportionally.

Reverse Stock Splits

Reverse splits exchange multiple shares for a lesser amount to increase share price. Increasing share price is sometimes necessary to restore a company's share price to a level that will allow it to be traded on the national stock exchanges. In addition, some brokerage houses have a policy of not monitoring or investing in very low priced shares. Reverse stock splits can help maintain stock liquidity.

Evaluation of management proposals to implement a reverse stock split will take into account whether there is a corresponding proportional decrease in authorized shares. Without a corresponding decrease, a reverse stock split is effectively an increase in authorized shares by way of reducing the number of shares outstanding while leaving the number of authorized shares to be issued at the pre-split level.



Generally support a reverse stock split if the number of authorized shares will be reduced proportionately. When there is not a proportionate reduction of authorized shares, Taft-Hartley trustees should oppose such proposals unless a stock exchange has provided notice to the company of a potential delisting. Shareholders should only vote for non-proportionate reverse stock splits in the most dire of situations. Companies should provide disclosure of external evidence that a potential delisting is imminent to separate the true emergencies from vague potential risks to shareholders.

Preferred Stock Authorization

Preferred stock is an equity security which has certain features similar to debt instruments- such as fixed dividend payments and seniority of claims to common stock - and usually carries little to no voting rights. The terms of blank check preferred stock give the board of directors the power to issue shares of preferred stock at their discretion with voting, conversion, distribution, and other rights to be determined by the board at time of issue.

- Vote FOR proposals to authorize preferred stock in cases where the company specifies the voting, dividend, conversion, and other rights of such stock and the terms of the preferred stock appear reasonable. Consider company-specific factors including;
 - Past Board Performance: the company's historical use of authorized preferred shares over the previous three years;
 - The Current Request: i) disclosure on specific reasons/rationale for the proposed increase; ii) the dilutive impact of the request; and iii) disclosure of specific risks to shareholders of not approving the request;
 - Whether the shares requested are blank check preferred shares that can be used for antitakeover purposes.

Blank Check Preferred Stock

"Blank check" preferred stock, with unspecified voting, conversion, dividend, distribution, and other rights, can be used for sound corporate purposes but can also be used as a device to thwart hostile takeovers without shareholder approval.

- Vote AGAINST proposals that would authorize the creation of new classes of blank check preferred stock;
- Vote AGAINST proposals to increase the number of blank check preferred stock authorized for issuance when no shares have been issued or reserved for a specific purpose.;
- Vote FOR proposals to create "decayed" blank check preferred stock (stock that cannot be used as a takeover defense);
- Vote FOR requests to require shareholder approval for blank check authorizations.

Adjust Par Value of Common Stock

Stock that has a fixed per share value that is on its certificate is called par value stock. The purpose of par value stock is to establish the maximum responsibility of a stockholder in the event that a corporation becomes insolvent. Proposals to reduce par value come from certain state level requirements for regulatory industries such as banks and other legal requirements relating to the payment of dividends.

- Vote FOR management proposals to reduce the par value of common stock.



Preemptive Rights

Preemptive rights permit shareholders to share proportionately in any new issues of stock of the same class. These rights guarantee existing shareholders the first opportunity to purchase shares of new issues of stock in the same class as their own and in the same proportion. The absence of these rights could cause stockholders' interest in a company to be reduced by the sale of additional shares without their knowledge and at prices unfavorable to them. Preemptive rights, however, can make it difficult for corporations to issue large blocks of stock for general corporate purposes. Both corporations and shareholders benefit when corporations are able to arrange issues without preemptive rights that do not result in a substantial transfer of control.

- Review on a CASE-BY-CASE basis proposals to create or abolish preemptive rights. In evaluating proposals on preemptive rights, we look at the size of a company and the characteristics of its shareholder base.

Debt Restructuring

We review on a CASE-BY-CASE basis proposals to increase common and/or preferred shares and to issue shares as part of a debt-restructuring plan. The following factors are considered:

- *Dilution*—How much will the ownership interest of existing shareholders be reduced, and how extreme will dilution to any future earnings be?
- *Change in Control*—Will the transaction result in a change in control of the company? Are board and committee seats guaranteed? Do standstill provisions and voting agreements exist?
- *Financial Issues*— company's financial situation, degree of need for capital, use of proceeds, and effect of the financing on the company's cost of capital;
- *Terms of the offer*—discount/premium in purchase price to investor including any fairness opinion, termination penalties and exit strategy;
- *Conflict of interest*—arm's length transactions and managerial incentives;
- Management's efforts to pursue other alternatives.

Vote on a CASE-BY-CASE basis proposals regarding debt restructurings.

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



STATE OF INCORPORATION

Voting on State Takeover Statutes

Review on a CASE-BY-CASE basis proposals to opt in or out of state takeover statutes (including control share acquisition statutes, control share cash-out statutes, freeze out provisions, fair price provisions, stakeholder laws, poison pill endorsements, severance pay and labor contract provisions, anti-greenmail provisions, and disgorgement provisions). We generally support opting into stakeholder protection statutes if they provide comprehensive protections for employees and community stakeholders. Taft-Hartley Advisory Services is less supportive of takeover statutes that only serve to protect incumbent management from accountability to shareholders and which negatively influence shareholder value.

Reincorporation Proposals

Management or shareholder proposals to change a company's state of incorporation should be evaluated on a CASE-BY-CASE basis, 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.

Offshore Reincorporations and Tax Havens

For a company that seeks to reincorporate, Taft-Hartley Advisory Services evaluates the merits of the move on a CASE-BY-CASE basis, taking into consideration the company's strategic rationale for the move, the potential economic ramifications, potential tax benefits, and any corporate governance changes that may impact shareholders. Taft-Hartley Advisory Services believes there are a number of concerns associated with a company looking to reincorporate from the United States to offshore locales such as Bermuda, the Cayman Islands or Panama. With more U.S.-listed companies seeking to move offshore, shareholders are beginning to understand the web of complexities surrounding the legal, tax, and governance implications involved in such a transaction.

When reviewing a proposed offshore move, the following factors are considered:

- Legal recourse for U.S. stockholders of the new company and the enforcement of legal judgments against the company under the U.S. securities laws;
- The transparency (or lack thereof) of the new locale's legal system;
- Adoption of any shareholder-unfriendly corporate law provisions;
- Actual, quantifiable tax benefits associated with foreign incorporation;
- Potential for accounting manipulations and/or discrepancies;
- Any pending U.S. legislation concerning offshore companies;
- Prospects of reputational harm and potential damage to brand name via increased media coverage concerning corporate expatriation.

Furthermore, generally support shareholder requests calling for "expatriate" companies that are domiciled abroad yet predominantly owned and operated in America to re-domesticate back to a U.S. state jurisdiction. While a firm's country of



incorporation will remain the primary basis for evaluating companies, Taft-Hartley Advisory Services will generally apply U.S. policies to the extent possible with respect to issuers that file DEF 14As, 10-K annual reports, and 10-Q quarterly reports, and are thus considered domestic issuers by the U.S. Securities and Exchange Commission (SEC). Corporations that have reincorporated outside the U.S. have found themselves subject to a combination of governance regulations and best practice standards that may not be entirely compatible with an evaluation framework based solely on country of incorporation.



CORPORATE RESPONSIBILITY & ACCOUNTABILITY

Social, Environmental and Sustainability Issues

Taft-Hartley Advisory Services generally supports social, workforce, and environmental shareholder-sponsored resolutions if they seek to create responsible corporate citizens while at the same time attempting to enhance long-term shareholder value. We typically support proposals that ask for disclosure reporting of information that is not available outside the company that is not proprietary in nature. Such reporting is particularly most vital when it appears that a company has not adequately addressed shareholder concerns regarding social, workplace, environmental and/or other issues. A determination whether the request is relevant to the company's core business and in-line with industry practice will be made on a CASE-BY-CASE basis. The proponent of the resolution must make the case that the benefits of additional disclosure outweigh the costs of producing the report.

In determining our vote on social, workplace, environmental, and other related proposals, we specifically analyze the following factors:

- Whether adoption of the proposal would have either a positive or negative impact on the company's short-term or long-term share value;
- Percentage of sales, assets, and earnings affected;
- Degree to which the company's stated position on the issues could affect its reputation or sales, or leave it vulnerable to boycott or selective purchasing;
- Whether the issues presented should be dealt with through government or company-specific action;
- Whether the company has already responded in some appropriate manner to the request embodied in a proposal;
- Whether the company's analysis and voting recommendation to shareholders is persuasive;
- What its industry peers have done in response to the issue;
- Whether the proposal itself is well framed and reasonable;
- Whether implementation of the proposal would achieve the objectives sought in the proposal;
- Whether the subject of the proposal is best left to the discretion of the board.

In general, Taft-Hartley Advisory Services supports proposals that request the company to furnish information helpful to shareholders in evaluating the company's operations from top to bottom. In order to be able to intelligently monitor their investments, shareholders often need information that is best provided by the company in which they have invested on behalf of their end beneficiaries. Qualified requests satisfying the aforementioned criteria usually merit support.

Proposals requesting that the company cease certain actions that the proponent believes are harmful to society or some segment of society will be evaluated on a CASE-BY-CASE basis. Special attention will be made to the company's legal and ethical obligations, its ability to remain profitable, and potential negative publicity if the company fails to honor the request. A high standard will need to be met by proponents requesting specific action like divestiture of a business line or operation, legal remuneration, or withdrawal from certain high-risk markets.



I. GENERAL CSR RELATED

Special Policy Review and Shareholder Advisory Committees

These resolutions propose the establishment of special committees of the board to address broad corporate policy and provide forums for ongoing dialogue on issues including, but not limited to: shareholder relations, the environment, occupational health and safety, and executive compensation.

- Support these proposals when they appear to offer a potentially effective method for enhancing shareholder value.

International Financial Related

The rise of globalization has put increasing importance on the need for U.S. companies to periodically monitor their business operations abroad. As a means to preserve brand integrity and protect against potentially costly litigation and negative public relations, Taft-Hartley Advisory Services generally supports shareholder proposals which call for a report on the company's core business policies and procedures of its operations outside the United States.

Many of the resolutions which address a company's international policies can include: impact of Foreign Direct Investment (FDI) in emerging market economies; corporate safeguards against money laundering; terrorist financing; economic de-stabilization concerns; relationships with international financial institutions (IFIs); and product sales/marketing abroad (i.e., tobacco, pharmaceutical drug pricing).

- Generally support proposals asking for policy clarification and reporting on foreign-related matters that can materially impact the company's short and long-term bottom-line.

Affirm Political Non-Partisanship

Employees should not be put in a position where professional standing and goodwill within the corporation could be jeopardized as a result of political beliefs. Responsible employment practices should protect workers from an environment characterized by political indoctrination or intimidation. Corporations should not devote resources to partisan political activities, nor should they compel their employees to contribute to or support particular causes. Moreover, it is wise for a corporation to maintain a politically neutral stance as to avoid potentially embarrassing conflicts of interests that could negatively impact the company's brand name with consumers.

- Generally support proposals affirming political non-partisanship within the company.

Political Contributions Reporting & Disclosure

Changes in legislation that governs corporate political giving have, rather than limiting such contributions, increased the complexity of tracking how much money corporations contribute to the political process and where that money ultimately ends up. In January 2010, the U.S. Supreme Court's decision in *Citizens United vs. Federal Election Commission* lifted restrictions on corporate spending in federal elections. A company's involvement in the political process could impact shareholder value if such activities are not properly overseen and managed.

Shareholders have the right to know about corporate political activities, and management's knowledge that such information can be made publicly available should encourage a company's lawful and responsible use of political contributions.



Moreover, it is critical that shareholders understand the internal controls that are in place at a company to adequately manage political contributions. Given the significant reputational and financial risk involved in political giving, shareholders should expect management to have the necessary capabilities to monitor and track all monies distributed toward political groups and causes. These internal controls should be fully consistent with Section 404 requirements of the Sarbanes-Oxley Act of 2002.

While political contributions, lobbying and other corporate political activity can benefit the strategic interests of a company, it is important that accountability mechanisms are in place to ensure that monies disbursed in support of political objectives actually generate identifiable returns on shareholder wealth. Such mechanisms serve to insure against the use of shareholder funds in the furtherance of narrow management agendas.

When analyzing the proposals, special consideration will be made if the target company has been the subject of significant controversy stemming from its contributions or political activities, if the company fails to disclose a policy to shareholders that outlines the process by which the company considers its political contributions, or if the company has recently been involved in significant controversy or litigation related to the company's political contributions or governmental affairs.

- Support reporting of political and political action committee (PAC) contributions;
- Support establishment of corporate political contributions guidelines and internal reporting provisions or controls;
- Generally support shareholder proposals requesting companies to review and report on their political lobbying activities including efforts to influence governmental legislation;
- Vote AGAINST shareholder proposals asking to publish in newspapers and public media the company's political contributions as such publications could present significant cost to the company without providing commensurate value to shareholders.

Military Sales

Shareholder proposals from church groups and other community organizations ask companies for detailed reports on foreign military sales. These proposals often can be created at reasonable cost to the company and contain no proprietary data. Large companies can supply this information without undue burden and provide shareholders with information affecting corporate performance and decision-making.

- Generally support reports on foreign military sales and economic conversion of facilities and where such reporting will not disclose sensitive information that could impact the company adversely or increase its legal exposure;
- Generally vote AGAINST proposals asking a company to develop specific military contracting criteria.

Report on Operations in Sensitive Regions or Countries

Over the past decade, a number of public companies – especially within the extractive sector – have withdrawn from geopolitically sensitive regions as a result of being associated with political controversies involving their host countries (i.e. Myanmar, the Sudan, China, Iran, etc.). Oil and natural gas companies, in particular, continue to be the largest investors in many countries involved in human rights abuse and terrorist activities. As such, these companies become targets of consumer boycotts, public relations backlash and even governmental intervention.

- Generally support shareholder proposals to adopt labor standards in connection with involvement in a certain market and other potentially sensitive geopolitical regions;
- Generally support shareholder proposals seeking a report on operations within a certain market and documentation of costs of continued involvement in a given country or region;



- Generally support requests for establishment of a board committee to review and report on the reputational risks and legal compliance with U.S. sanctions as a result of the company's continued operations in countries associated with terrorist sponsored activities;
- Consider shareholder proposals to pull out of a certain market on a CASE-BY-CASE basis considering factors such as overall cost, FDI exposure, level of disclosure for investors, magnitude of controversy, and the current business focus of the company.

II. ENVIRONMENT & CLIMATE CHANGE

Shareholder proposals addressing environmental and energy concerns have been plentiful in recent years, and generally seek greater disclosure on an issue or seek to improve a company's environmental practices in order to protect the world's natural resources. In addition, some proponents cite the negative financial implications for companies with poor environmental practices, including liabilities associated with site clean-ups and lawsuits, as well as arguments that energy efficient products and clean environmental practices are sustainable business practices that will contribute to long-term shareholder value. Shareholders say the majority of independent atmospheric scientists agree that global warming poses a serious problem to the health and welfare of all countries, citing the findings of the Intergovernmental Panel on Climate Change (IPCC), the world's most authoritative scientific body on the subject. Shareholder proponents argue that companies can report on their greenhouse gas emissions within a few months at reasonable cost.

Greenhouse Gas Emissions

Scientists generally agree that gases released by chemical reactions including the burning of fossil fuels contribute to a "greenhouse effect" that traps the planet's heat. Environmentalists claim that the greenhouse gases produced by the industrial age have caused recent weather crises such as heat waves, rainstorms, melting glaciers, rising sea levels and receding coastlines. With notable exceptions, business leaders have described the rise and fall of global temperatures as naturally occurring phenomena and depicted corporate impact on climate change as minimal.

Shareholder proposals asking a company to issue a report to shareholders – at reasonable cost and omitting proprietary information – on greenhouse gas emissions ask that the report include descriptions of efforts within companies to reduce emissions, their financial exposure and potential liability from operations that contribute to global warming, and their direct or indirect efforts to promote the view that global warming is not a threat. Proponents argue that there is scientific proof that the burning of fossil fuels causes global warming, that future legislation may make companies financially liable for their contributions to global warming, and that a report on the company's role in global warming can be assembled at reasonable cost.

Investment in Renewable Energy

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

- Generally support shareholder proposals seeking increased investment in renewable energy sources, taking into account whether the terms of the resolution are realistic or overly restrictive for management to pursue.
- Generally vote FOR shareholder proposals calling for a company to commit to reducing its greenhouse gas emissions under a reasonable timeline.



Sustainability Reporting and Planning

The concept of sustainability is commonly understood as meeting the needs of the present generation without compromising the ability of future generations to meet their own needs. Indeed, the term sustainability is complex and poses significant challenges for companies on many levels. Many in the investment community have termed this broader responsibility the “triple bottom line,” referring to the triad of performance goals related to economic prosperity, social responsibility and environmental quality. In essence, the concept requires companies to balance the needs and interests of their various stakeholders while operating in a manner that sustains business growth for the long-term, supports local communities and protects the environment and natural capital for future generations.

Reporting and enhanced disclosure addressing sustainable development is important to companies namely because it offers a formal structure for decision making that helps management teams anticipate and address important global trends that can have serious consequences for business and society. Shareholders may request general sustainability reports on a specific location (i.e. drilling in ANWR) or operation (i.e. nuclear facility), often requesting that the company detail the environmental, social, legal and other risks and/or potential liabilities of the specific project in question.

A number of companies have begun to report on sustainability issues using established standards in the marketplace. Such reporting focuses on corporate compliance and measurement regarding key economic, environmental, and social performance indicators. Many best practice companies release annual sustainability reports in conjunction to regular annual statement of operations.

- Generally support shareholder proposals seeking greater disclosure on the company’s environmental practices, and/or environmental risks and liabilities.

Operations in Protected or Sensitive Areas

Operating in regions protected or established under national or international categorization guidelines, including wildlife refuges, national forests, and International Union for Conservation of Nature and Natural Resources (IUCN) categorized areas expose companies to increased oversight and the potential for associated risk and controversy. While it is important for a company to have the flexibility to operate in these regions to take advantage of strategic placement or growth, additional disclosure could be an important mitigating factor when addressing increased risk and oversight. Restrictions to the company’s operations, damaging public opinion, and costly litigation resulting from failure to comply with the requirements associated with protected or categorized regions could have a significant impact on shareholder value.

- Generally support shareholder requests for reports outlining potential environmental damage from operations in protected regions, including wildlife refuges, unless the company does not currently have operations or plans to develop operations in these protected regions.

Hydraulic Fracturing

Shareholder proponents have elevated concerns on the use of hydraulic fracturing, an increasingly controversial process in which water, sand, and a mix of chemicals is blasted horizontally into tight layers of shale rock to extract natural gas. As this practice has gained more widespread use, environmentalists have raised concerns that the chemicals mixed with sand and water to aid the fracturing process can contaminate ground water supplies. Proponents of resolutions at companies that employ hydraulic fracturing are also concerned that wastewater produced by the process could overload the waste treatment plants to which it is shipped. Shareholders have asked companies that utilize hydraulic fracturing to report on the environmental impact of the practice and to disclose policies aimed at reducing hazards from the process.

- Vote FOR requests seeking greater transparency on the practice of hydraulic fracturing and its associated risks.



Recycling Policy

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

- Generally vote FOR shareholder proposals that ask companies to increase their recycling efforts or to adopt a formal recycling policy.

Endorsement of CERES Principles

These resolutions call for the adoption of principles that encourage the company to protect the environment and the safety and health of its employees. The CERES Principles, formulated by the Coalition of Environmentally Responsible Economies, require signing companies to address environmental issues, including protection of the biosphere, sustainable use of natural resources, reduction and disposal of wastes, energy conservation, and employee and community risk reduction. A signee to the CERES Principles would disclose its efforts in such areas through a standardized report submitted to CERES and made available to the public.

Evidence suggests that environmentally conscious companies may realize long-term savings by implementing programs to pollute less and conserve resources. In addition, environmentally responsible companies stand to benefit from good public relations and new marketing opportunities. Moreover, the reports that are required of signing companies provide shareholders with more information concerning topics they may deem relevant to their company's financial well-being. Roughly thirty public companies have voluntarily adopted these principles.

Taft-Hartley Advisory Services supports proposals that improve a company's public image, reduce exposure to liabilities, and establish standards so that environmentally responsible companies and markets are not at a competitive financial disadvantage.

- Vote FOR requests asking a company to formally adopt the CERES Principles;
- Vote FOR adoption of reports to shareholders on environmental issues.

Land Use

Many large retail stores and real estate development firms have received criticism over their policies and processes for acquiring and developing land. Often, in such cases, there are organizations that support as well as those that oppose the proposed development.

Many of these requests brought forth by the respective stakeholders raise serious issues that can have a real impact on short-term shareholder value. However in some cases, additional reporting may be duplicative of existing disclosure or may fail to provide added benefit to shareholders commensurate with the associated cost or burden of providing additional information. Some of the companies targeted with this resolution have been subject to recent litigation and/or significant fines stemming from its land use practices or recent community boycotts.

- Generally support shareholder resolutions that request better disclosure of detailed information on a company's policies related to land use or development or compliance with local and national laws and zoning requirements.



Water Use

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

- Vote FOR shareholder proposals seeking the preparation of a report on a company's risks linked to water use.

Kyoto Compliance

The Kyoto Protocol was officially ratified in November 2004 and requires the reduction of greenhouse gas emissions by signatory countries in an effort to lower the global emissions of six key greenhouse gasses and address concerns over climate change. While some Kyoto signatory markets have not yet released the details of their respective regulations for companies, it is clear that there will be some significant financial impact on corporate issuers, especially those that operate in industries profoundly impacted by greenhouse gas emission constraints or regulation. In order to comply with the anticipated standards, companies will have to consider options such as: capital improvement to their facilities to reduce emissions, the cost of "trading" carbon credits on an open market to offset emission overages, or the expense of fines or restrictions resulting from noncompliance.

- Taft-Hartley Advisory Services generally supports resolutions requesting that companies outline their preparations to comply with standards established by Kyoto Protocol signatory markets, unless: 1) The company does not maintain operations in Kyoto signatory markets; or 2) The company already evaluates and substantially discloses such information to shareholders; or, 3) Greenhouse gas emissions do not materially impact the company's core businesses.

III. WORKPLACE PRACTICES & HUMAN RIGHTS

Equal Employment Opportunity

These proposals generally request that a company establish a policy of reporting to shareholders its progress with equal opportunity and affirmative action programs. The costs of violating federal laws that prohibit discrimination by corporations are high and can affect corporate earnings.

The Equal Opportunities Employment Commission (EEOC) does not release the company's filings to the public unless it is involved in litigation, and it is difficult to obtain from other sources. Companies need to be very sensitive to minority employment issues as the new evolving work force becomes increasingly diverse. This information can be provided with little cost to the company and does not create an unreasonable burden on management.

- Vote FOR proposals calling for action on equal employment opportunity and anti-discrimination;
- Vote FOR legal and regulatory compliance and public reporting related to non-discrimination, affirmative action, workplace health and safety, environmental issues, and labor policies and practices that affect long-term corporate performance;
- Vote FOR non-discrimination in salary, wages, and all benefits.



High-Performance Workplace

High-performance workplace practices emphasize employee training, participation, and feedback. The concept of a high-performance workplace has been endorsed by the U.S. Department of Labor and refers to a workplace that is designed to provide workers with the information, skills, incentives, and responsibility to make decisions essential for innovation, quality improvement and rapid response to changes in the marketplace. These standards embrace a “what is good for the worker is good for the company” philosophy. Studies have shown that improvement in human resources practices is associated with increases in total return to shareholders. High-performance workplace standards proposals can include linking compensation to social measures such as employee training, morale and safety, environmental performance and workplace lawsuits.

- Generally support proposals that incorporate high-performance workplace standards.

Workplace Safety

In light of recent fatal accidents at oil refineries (Tesoro – Anacortes refinery, April 2010; and BP – Texas City refinery, March 2005), the 2010 BP Deepwater Horizon incident in the Gulf of Mexico, and the explosion at Massey Energy’s Upper Big Branch mine in 2010, shareholders have sought greater transparency and accountability regarding workplace safety by filing resolutions at a number of corporations.

- Generally vote FOR shareholder proposals requesting requests for workplace safety reports, including reports on accident risk reduction efforts.

Non-Discrimination in Retirement Benefits

A cash balance plan is a defined benefit plan that treats an earned retirement benefit as if it were a credit from a defined contribution plan, but which provides a stated benefit at the end of its term. Because employer contributions to these plans are credited evenly over the life of a plan and not based on a seniority formula, they may reduce payouts to long-term employees who are currently vested in plans.

Cash-balance pension conversions have undergone significant congressional and federal agency scrutiny in the wake of high-profile EEOC complaints on age discrimination and employee anger at several large blue-chip companies. While significant policy reform is unlikely in the short-term, business interests are worried enough that the *National Association of Manufacturers* and other pro-business lobbies have formed a coalition on Capitol Hill to preserve the essential features of the plans and to overturn an IRS ruling.

Driving the push behind conversions from traditional pension plans to cash-balance plans are the substantial savings that companies generate in the process. Critics point out that this savings is gained at the expense of the most senior employees. Shareholder resolutions call on corporate boards to establish a committee of outside directors to prepare a report to shareholders on the potential impact of pension-related proposals now being considered by national policymakers in reaction to the controversy spawned by the plans.

- Support proposals calling for a non-discrimination policy with regard to retirement benefits and pension management at a company.

Fair Lending Reporting and Compliance

These resolutions call for financial institutions to comply with fair lending laws and statutes while avoiding predatory practices in their sub-prime lending. These predatory practices include: lending to borrowers with inadequate income, who will then default; not reporting on payment performances of borrowers to credit agencies; implying that credit life



insurance is necessary to obtain the loan (packing); unnecessarily high fees; refinancing with high additional fees rather than working out a loan that is in arrears (flipping); and high pre-payment fees.

- Support proposals calling for full compliance with fair-lending laws;
- Support reporting on overall lending policies and data.

MacBride Principles

These resolutions call for the adoption of the MacBride Principles for operations located in Northern Ireland. They request companies operating abroad to support the equal employment opportunity policies that apply in facilities they operate domestically. The principles were established to address the sectarian hiring problems between Protestants and Catholics in Northern Ireland. It is well documented that Northern Ireland's Catholic community faces much higher unemployment figures than the Protestant community. In response to this problem, the U.K. government instituted the New Fair Employment Act of 1989 (and subsequent amendments) to address the sectarian hiring problems.

Many companies believe that the Act adequately addresses the problems and that further action, including adoption of the MacBride Principles, only duplicates the efforts already underway. In evaluating a proposal to adopt the MacBride Principles, shareholders must decide whether the principles will cause companies to divest, and therefore worsen the unemployment problem, or whether the principles will promote equal hiring practices. Proponents believe that the Fair Employment Act does not sufficiently address the sectarian hiring problems. They argue that the MacBride Principles will stabilize the situation and promote further investment.

- Support the MacBride Principles for operations in Northern Ireland that request companies to abide by equal employment opportunity policies.

Contract Supplier Standards

These resolutions call for compliance with governmental mandates and corporate policies regarding nondiscrimination, affirmative action, work place safety and health, and other basic labor protections.

We generally support proposals that:

- Seek publication of a "Worker Code of Conduct" to be implemented by the company's foreign suppliers and licensees, requiring they satisfy all applicable labor standards and laws protecting employees' wages, benefits, working conditions, freedom of association, right to collectively bargain, and other rights;
- Request a report summarizing the company's current practices for enforcement of its Worker Code of Conduct;
- Establishes independent monitoring mechanism in conjunction with local and respected religious and human rights groups to monitor supplier and licensee compliance with the Worker Code of Conduct;
- Create incentives to encourage suppliers to raise standards rather than terminate contracts;
- Implement policies for ongoing wage adjustments, ensuring adequate purchasing power and a sustainable living wage for employees of foreign suppliers and licensees;
- Request public disclosure of contract supplier reviews on a regular basis;
- Adopt labor standards for foreign and domestic suppliers to ensure that the company will not do business with foreign suppliers that manufacture products for sale in the U.S. using forced or child labor, or that fail to comply with applicable laws protecting employees' wages and working conditions.



Corporate Conduct and Labor Code of Conduct

Taft-Hartley Advisory Services generally supports proposals that call for the adoption and/or enforcement of clear principles or codes of conduct relating to countries in which there are systematic violations of human rights. These conditions include the use of slave, child, or prison labor, undemocratically elected governments, widespread reports by human rights advocates, fervent pro-democracy protests, or economic sanctions and boycotts.

Many proposals refer to the seven core conventions, commonly referred to as the “Declaration on Fundamental Principles and Rights At Work,” ratified by the International Labor Organization (ILO). The seven conventions fall under four broad categories: i) right to organize and bargain collectively; ii) non-discrimination in employment; iii) abolition of forced labor; and iv) end of child labor. Each of the 180 member nations of the ILO body are bound to respect and promote these rights to the best of their abilities.

- Support the principles and codes of conduct relating to company investment and/or operations in countries with patterns of human rights abuses or pertaining to geographic regions experiencing political turmoil (Northern Ireland, Columbia, Burma, former Soviet Union, and China);
- Support the implementation and reporting on ILO codes of conduct;
- Support independent monitoring programs in conjunction with local and respected religious and human rights groups to monitor supplier and licensee compliance with Codes.

IV CONSUMER HEALTH & PUBLIC SAFETY

Phase-out or Label Products Containing Genetically Engineered Ingredients

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

- Vote FOR shareholder proposals to label products that contain genetically engineered products;
- Generally vote AGAINST proposals calling for a full phase out of product lines containing GMO ingredients.

Tobacco-Related Proposals

Shareholders file resolutions annually asking that companies with ties to the tobacco industry account for their marketing and distribution strategies, particularly as they impact smoking by young people. While the specific resolutions for shareholder proponents vary from year to year, activist shareholders consistently make the tobacco industry one of their most prominent targets. Examples of tobacco proposals include: attempting to link executive compensation with teen smoking rates; the placement of company tobacco products in retail outlets; the impact of second hand smoke; and a review of advertising campaigns and their impact on children and minority groups.

- Vote FOR shareholder proposals seeking to limit the sale of tobacco products to minors;
- Generally vote AGAINST proposals calling for a full phase out of tobacco related product lines.



Toxic Emissions

Shareholder proposals asking companies to take steps to minimize their emissions of toxic chemicals or release of toxic wastes into the environment can vary greatly. Some focus on reporting on the impact of these chemicals on the communities in which the company operates. Still others ask for a review of the company's efforts to minimize pollution.

- Vote FOR shareholder proposals calling on the company to establish a plan to reduce toxic emissions.

Toxic Chemicals

The use of toxic chemicals in cosmetics, consumables, and household products has become a growing issue of concern for shareholders as international regulations on this topic continue to expand, providing increased scrutiny over potentially toxic materials or compounds used or emitted in the conduct of operations or as an ingredient in consumer goods. Shareholders must recognize the impact that changing regulation and consumer expectations could have on shareholder value and should encourage companies to disclose their policies regarding the use or emission of toxic chemicals. Specific considerations should be made for a company's geographic markets and the appearance of historical difficulties with controversy, fines, or litigation, requests for disclosure on the potential financial and legal risk associated with toxic chemicals.

- Generally support resolutions requesting that a company disclose its policies related to toxic chemicals;
- Generally support shareholder resolutions requesting that companies evaluate and disclose the potential financial and legal risks associated with utilizing certain chemicals.
- Consider shareholder proposals requesting companies to substitute or replace existing products on a CASE-BY-CASE basis, with consideration for applicable regulations and standards in the markets in which the company participates.

Nuclear Safety

These resolutions are filed at companies that manage nuclear power facilities or produce components for nuclear reactors to request disclosure on the risks to the company associated with these operations, including physical security and the potential for environmental damage. Current reporting requirements for companies that operate nuclear facilities are managed by the Nuclear Regulatory Commission (NRC) and include detailed reports on safety and security that are available to the public.

- Generally support shareholder resolutions requesting that companies report on risks associated with their nuclear reactor designs and/or the production and interim storage of irradiated fuel rods.

Concentrated Area Feeding Operations (CAFOs)

The level of pollution resulting from CAFOs has drawn increased attention in recent years as certain legal decisions have established the precedent that a company can be held liable for the actions of the contract farms it sources from. Fines and remediation expenses stemming from these cases have been significant and could have a notable impact on the companies' operations and shareholder value.

- Generally support resolutions requesting that companies report to shareholders on the risks and liabilities associated with concentrated animal feeding operations (CAFOs) unless the company has publicly disclosed guidelines for its corporate and contract farming operations, including compliance monitoring or if the company does not directly source from CAFOs.



Pharmaceutical Product Reimportation

One of the most visible aspects of the legal and political debate over rising health care costs in the United States can be seen through prescription drug reimportation through Canada. While U.S. and Canadian regulations limit reimportation, several states have taken steps to encourage employees to actively seek less expensive medications through reimportation.

Shareholder action at major pharmaceutical companies has requested increased disclosure of the financial and legal risks associated with company policies, or called on companies to change distribution limits to increase product availability in Canada, thereby encouraging product reimportation to the United States. The level of public concern over this issue and associated impact that a poorly developed policy could have on the companies suggest that additional disclosure of company policies related to reimportation could be beneficial to shareholders and generally merits support.

- Generally support shareholder proposals requesting that companies report on the financial and legal impact of their policies regarding prescription drug reimportation, unless such information is already publicly disclosed;
- Generally support shareholder proposals requesting that companies adopt specific policies to encourage or not constrain prescription drug reimportation.

Pharmaceutical Product Pricing

Pharmaceutical drug pricing, both within the United States and internationally, has raised many questions of the companies that are responsible for creating and marketing these treatments. Shareholder proponents, activists and even some legislators have called upon drug companies to restrain pricing of prescription drugs.

The high cost of prescription drugs is a vital issue for senior citizens across the country. Seniors have the greatest need for prescription drugs, accounting for about one-third of all prescription drug sales, but they often live on fixed incomes and are underinsured. Today about 20 million elderly people have little or no drug coverage in the U.S. In addition, the uninsured and underinsured pay substantially more for drugs than manufacturers favored customers such as HMOs and Federal agencies.

Proponents note that efforts to reign-in pharmaceutical costs will not negatively impact research and development (R&D) costs and that retail drug prices are consistently higher in the U.S. than in other industrialized nations. Pharmaceutical companies often respond that adopting a formal drug pricing policy could put the company at a competitive disadvantage.

Against the backdrop of the AIDS crisis in Africa, many shareholders have called on companies to address the issue of affordable drugs for the treatment of AIDS, as well as TB and Malaria throughout the developing world. When analyzing such resolutions, consideration should be made of the strategic implications of pricing policies in the market.

- Proposals asking a company to implement price restraints on its pharmaceutical products will be evaluated on a CASE-BY-CASE basis, taking into account the following factors:
 - Whether the proposal focuses on a specific drug and region;
 - Whether the economic benefits of providing subsidized drugs (e.g., public goodwill) outweigh the costs in terms of reduced profits, lower R&D spending, and harm to competitiveness;
 - The extent that reduced prices can be offset through the company's marketing expenditures without significantly impacting R&D spending;
 - Whether the company already limits price increases of its products;



- Whether the company already contributes life-saving pharmaceuticals to the needy and Third World countries;
- The extent to which peer companies implement price restraints.
- Generally support proposals requesting that companies implement specific price restraints for its pharmaceutical products in developing markets or targeting certain population groups;
- Generally support proposals requesting that the company evaluate their global product pricing strategy, considering the existing level of disclosure on pricing policies, any deviation from established industry pricing norms, and the company's existing philanthropic initiatives;
- Vote FOR shareholder proposals that call on companies to develop a policy to provide affordable HIV, AIDS, TB and Malaria drugs to citizens in the developing world.



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