



**Institutional Shareholder Services Inc.**  
**Due Diligence Compliance Package**

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- 6) ISS Form ADV Part 2A**
- 7) Regulatory Code of Ethics (May 2014)**

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## OVERVIEW

This Institutional Shareholder Services Inc. (“ISS”) Due Diligence Compliance Package is designed to assist our clients and prospective clients in fulfilling the legal and regulatory obligation to conduct due diligence regarding independent third-party proxy voting firms.

In 2004, the U.S. Securities and Exchange Commission (“SEC”) issued guidance to investment advisers concerning their due diligence in respect to third-party proxy voting firms. The SEC counseled advisers that, before they follow the recommendations of an independent proxy voting firm, they should take reasonable steps to ensure that the proxy voting firm: (a) has the capacity and competency to analyze proxy issues and (b) can make such recommendations in an impartial manner and in the best interests of the investment adviser’s clients.

In response to a request from ISS, the SEC issued a letter on September 15, 2004 confirming that investment advisers can perform the required due diligence in a number of ways. These include:

- A thorough review of the proxy voting firm’s conflict procedures and the effectiveness of their implementation;
- Case-by-case evaluation of the proxy voting firm and its issuer relationships; or
- Other means to ensure the integrity of the proxy voting firm.

When reviewing a proxy voting firm’s conflict procedures, the SEC has indicated that an investment adviser should assess the adequacy of the procedures in light of the particular conflicts of interest that the firm faces in making vote recommendations.

The SEC has also suggested that advisers should keep themselves apprised of any changes or updates to the proxy voting firm’s policies and procedures. To this end, ISS assists its clients by proactively communicating any such changes or updates to its policies and procedures.

ISS offers the enclosed package with the aim of enhancing your understanding of our business and facilitating your review of our conflict management procedures and the adequacy of those procedures in light of any potential conflicts of interest that ISS might face in making vote recommendations. This package includes:

1. Suggested Due Diligence Questions
2. Due Diligence Checklist
3. Information about ISS’ wholly-owned subsidiary, ISS Corporate Services, Inc. (“ICS”)
4. ISS’ Policies, Procedures and Practices Regarding Potential Conflicts of Interest
5. ISS’ Form ADV, Part 2A
6. ISS’ Regulatory Code of Ethics
7. ISS’ Business Practices and Principles

Please note that in addition to conducting due diligence on third-party proxy voting firms, investment advisers must also ensure that the third-party voting guidelines or recommendation policies they select are suitable for the clients whose proxies are being voted. Different guidelines or recommendations may be

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required for different types of clients. Where an adviser stands to benefit in some way from the selection of one set of guidelines or recommendations over another, the adviser must disclose that fact to its clients.

**Questions?**

For questions about this Due Diligence Compliance Package and ISS' conflict management procedures, please contact Thomas R. Rus, ISS' Chief Compliance Officer at [Thomas.rus@issgovernance](mailto:Thomas.rus@issgovernance.com) .com.

For questions about ISS' proxy voting policies and guidelines, we refer you to the ISS Policy Gateway section of our website at [www.issgovernance.com](http://www.issgovernance.com). You can also contact Kathy Cohen at Research Central, at [usresearch@issgovernance.com](mailto:usresearch@issgovernance.com).

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## QUESTIONS YOU SHOULD ASK:

### Q. What is ISS' core business?

- A. ISS' core business is the provision of proxy research, vote recommendations and related governance research services, including an end-to-end proxy voting platform and leading compliance and risk management solutions, to institutional investors worldwide. ISS covers nearly 40,000 public companies across 115 global markets annually.

In addition to the above services, ISS also offers specialized voting policies, non-recommendation research reports, tools for portfolio screening, corporate governance ratings services and securities class action filing services.

ISS' wholly-owned subsidiary, ISS Corporate Services, Inc. ("ICS"), which is separate from ISS' institutional business, serves the corporate issuer community by providing products and services that enable issuers to understand and implement corporate governance best practices.<sup>1</sup> ISS is well aware of the potential conflicts of interest that may exist between ISS' proxy advisory service and the business of ICS, and has therefore taken steps to prevent any potential conflicts from becoming actual conflicts.

### Q. Is ISS subject to regulatory oversight?

- A. Yes. ISS is a Registered Investment Adviser under the Investment Advisers Act of 1940.

### Q. What is ISS' Ownership Structure?

- A. ISS is a privately-held company. The ultimate owner of ISS is VISS Holdings, Inc., an affiliate of Vestar Capital Partners ("Vestar"). Vestar is a private equity firm based in New York, NY. Vestar Capital Partners VI, L.P. and affiliated entities, through VISS Holdings, acquired 100% of the issued and outstanding stock of ISS in a transaction that was completed on April 30, 2014. Subsequent to closing, certain shares representing a minority interest in VISS Holdings were sold to certain employees of ISS.

### Q. Does ISS have written policies and procedures in place to manage potential conflicts of interest?

- A. Yes. These written policies and procedures are included with this Due Diligence Compliance Package, along with our *Regulatory Code of Ethics* which provides additional guidelines and procedures regarding conflict management (see below).

### Q. What are the key elements of ISS' written policies and procedures related to managing potential conflicts of interest?

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<sup>1</sup>It is noteworthy that the SEC letters have confirmed that a proxy voting firm such as ISS could be an independent third-party for purposes of making voting recommendations for an investment adviser's clients even though the firm receives compensation from an issuer for providing advice on corporate governance issues.

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**A.** ISS' policies and procedures are designed to ensure the integrity of ISS' institutional proxy advisory and advisory research services. ISS maintains a firewall which separates the staffs that perform proxy analyses and advisory research from the members of ICS. This firewall includes legal, physical and technological separations.

**Q. Are ISS' procedures designed to preclude ISS' analysts from obtaining access to information about the relationship between ICS and corporate issuers?**

**A.** Yes. The firewall is designed precisely to achieve this goal.

**Q. Are ISS' procedures designed to insulate ISS' analysts from direct or indirect influence by ICS when preparing research reports?**

**A.** Yes. Not only does the firewall create a separation between ISS' analysts and ICS, but the day to day operations of the two groups are separately managed and the compensation of ISS' analysts is not directly tied to any activities of ICS.

**Q. Does ISS have a Code of Ethics?**

**A.** Yes. In accordance with SEC Rule 204A-1, ISS has adopted a code of ethics, the *Regulatory Code of Ethics* ("the Code"). All ISS employees are bound by and are required to adhere to the Code. On an annual basis, all employees are required to review and acknowledge the Code, which describes certain standards of conduct that the company's employees must follow. With regard to the standards of conduct, the Code, among other things, affirms ISS' relationship of trust with its clients and obligates ISS to carry out its duties solely in the best interest of clients and free from all compromising influences and loyalties. The Code also contains provisions designed to prevent ISS' employees from improperly trading on inside information.

The *Regulatory Code of Ethics* devotes special attention to preventing and disclosing conflicts of interest. In this regard, the Code addresses the conflicts between ISS' institutional proxy advisory services and the corporate services of its ICS subsidiary, conflicts within the institutional advisory business, conflicts arising from an analyst's stock ownership, conflicts in connection with issuers' review of ISS' draft proxy analyses and conflicts generally. In each case, the goal of the Code is to prevent conflicts wherever possible, and to manage and disclose those conflicts that cannot be prevented.

The *Regulatory Code of Ethics* is included with this Due Diligence Compliance Package.

**Q. What credentials does ISS have to support its capacity and competency to analyze proxy issues?**

**A.** ISS has over 25 years of experience and is a recognized industry leader in the field of corporate governance and proxy voting. ISS' research staff is comprised of more than 160 research analysts and 75 data analysts, located in financial centers worldwide. Members of the research team have experience in investment banking, asset management, executive compensation and corporate actions. Our research team is fluent in over 20 languages.

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**Q. Does ISS disclose the existence of its ICS business?**

**A.** Yes. ISS is transparent about its ICS business. ISS' entire business is described in great detail on its website at [www.issgovernance.com](http://www.issgovernance.com) and on ISS' Form ADV, Part II. ISS' standard institutional client contract contains specific disclosure regarding the work of ICS. Similarly, each proxy analysis and research report issued by ISS contains a legend indicating that the subject of the analysis or report may be a client of ICS. This legend also advises institutional clients about the way in which they can receive additional, specific detail about any issuer's use of products and services from ICS.

**Q. Will ISS provide its institutional clients with relevant facts concerning the relationship between ICS and corporate issuers, such as the amount of the compensation that the firm has received or will receive from the issuer?**

**A.** Yes. This information is available by emailing [disclosure@issgovernance.com](mailto:disclosure@issgovernance.com). On each proxy analysis and research report that it issues, ISS confirms that no employee of ICS played a role in the preparation of the proxy analysis and/or research report.

**Q. Will ISS allow clients to conduct on site due diligence visits?**

**A.** Yes. ISS welcomes clients to conduct their own due diligence of our services. Please contact your Account Manager to schedule a due diligence meeting with ISS.

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## DUE DILIGENCE CHECKLIST

This self-assessment Due Diligence Checklist is intended as a guide to simplify the review of your organization's due diligence assessment of its proxy advisory firm(s).

**1. Received due diligence materials from my proxy advisory firm.**

Yes  No

Date: \_\_\_\_\_

Any further action items? Yes  No

If Yes, specify: \_\_\_\_\_

Date Completed: \_\_\_\_\_

**2. Thoroughly reviewed due diligence materials from my proxy advisory firm.**

Yes  No

Date: \_\_\_\_\_

Any further action items? Yes  No

If Yes, specify: \_\_\_\_\_

Date Completed: \_\_\_\_\_

**3. Understand the nature of my proxy advisory firm's business.**

Yes  No

Date: \_\_\_\_\_

Any further action items? Yes  No

If Yes, specify: \_\_\_\_\_

Date Completed: \_\_\_\_\_

**4. Understand the potential conflicts that my proxy advisory firm's business may present and the magnitude of any conflicts.**

Yes  No

Date: \_\_\_\_\_

Any further action items? Yes  No

If Yes, specify: \_\_\_\_\_

Date Completed: \_\_\_\_\_

**5. Assessed the manner in which my proxy advisory firm's conflict procedures address that firm's conflicts.**

Yes  No

Date: \_\_\_\_\_

Any further action items? Yes  No

If Yes, specify: \_\_\_\_\_

Date Completed: \_\_\_\_\_

**6. Assessed whether my proxy voting firm has fully implemented the conflict procedures.**

Yes  No

Date: \_\_\_\_\_

Any further action items? Yes  No

If Yes, specify: \_\_\_\_\_

Date Completed: \_\_\_\_\_

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**7. Asked questions of my proxy voting firm if I didn't fully understand the due diligence materials and the manner in which my firm addresses potential conflicts.**

Yes  No  N/A

Date: \_\_\_\_\_

Any further action items? Yes  No

If Yes, specify: \_\_\_\_\_

Date Completed: \_\_\_\_\_

**8. Assessed my own organization's proxy voting policies and procedures to determine whether any updates are needed to reflect that I have conducted the required due diligence on my proxy voting firm.**

Yes  No

Date: \_\_\_\_\_

Any further action items? Yes  No

If Yes, specify: \_\_\_\_\_

Date Completed: \_\_\_\_\_

**8. Confirmed that the proxy voting guidelines or platform(s) of recommendations I have selected are suitable for my advisory clients.**

Yes  No

Date: \_\_\_\_\_

Any further action items? Yes  No

If Yes, specify: \_\_\_\_\_

Date Completed: \_\_\_\_\_

**9. Assessed whether I have an incentive to select any particular set of proxy voting guidelines or platform of recommendations, and if so, whether I have disclosed this fact to my clients.**

Yes  No

Date: \_\_\_\_\_

Any further action items? Yes  No

If Yes, specify: \_\_\_\_\_

Date Completed: \_\_\_\_\_

**Comments:**

**Checklist Completed By:**

**Name:** \_\_\_\_\_

**Title:** \_\_\_\_\_

**Signature:** \_\_\_\_\_

**Date:** \_\_\_\_\_

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## ISS CORPORATE SERVICES, INC. (“ICS”)

ISS Corporate Services, Inc. serves the corporate issuer community with a variety of products and services, including web-based governance tools and advisory services that can assist corporate issuers with executive and director compensation modeling, capital structure planning and understanding corporate governance best practices. ISS believes that corporations and investors have a common goal – building strong shareholder value. In response to the growing complexity, visibility and significance of proxy season and proxy voting and governance issues, ICS provides an important bridge between those designing and proposing corporate governance initiatives and the institutional investors who must vote on them.

The following facts about ICS are pertinent to your due diligence review of ISS’ proxy advisory services:

- ICS is a wholly-owned subsidiary of ISS. (Until June 2006, when ICS was formed as a wholly-owned subsidiary, the work of ICS was conducted through an ISS division, then known as the “Corporate Services” division.)
- ICS’ intent is to work with companies in a constructive manner to help them improve their corporate governance practices for the benefit of shareholders.
- ICS provides no guarantees to corporate issuers. Issuers are told explicitly in their contract with ICS that: (a) ISS will not give preferential treatment to, and is under no obligation to support, any proxy proposal of a corporate issuer and (b) ISS’ proxy advisory service prepares its analyses and vote recommendations independently of, and with no involvement from, ICS.
- In connection with ISS' QuickScore (QuickScore), corporate issuers have access to a specially designed free online portal to verify their company’s data and submit material changes related to their corporate governance practices. The site also provides monthly updated risk levels. (QuickScore is ISS’ metric for assessing corporate governance risk. Issuers do not pay ISS or ICS to be evaluated. The QuickScore coverage universe is determined by ISS in its discretion. In addition to accessing the free online verification portal, issuers may purchase from ICS a subscription for web access to premium tools for conducting "what if" analyses, peer benchmarking, custom reports and trends in best practice standards.)
- Separate from the work of ICS, ISS’ global research service often meets with corporate issuers, irrespective of whether they are ICS clients, in order to get more information about a particular stockholders meeting or governance issue. The purpose of these meetings is to improve the accuracy and substance of ISS’ proxy analyses, research and vote recommendations. There is no fee charged for these meetings.

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## **POLICIES, PROCEDURES AND PRACTICES REGARDING POTENTIAL CONFLICTS OF INTEREST**

Although Institutional Shareholder Services Inc.'s ("ISS") proxy research covers nearly 40,000 public companies across 115 global markets annually, it is rare that we encounter potential conflicts of interest that would preclude us from making a vote recommendation. By applying our voting policies consistently across proxy proposals and by issuing vote recommendations strictly according to policy, potential conflicts of interests are minimized. Additionally, we believe that shareholders benefit when issuers use products and services to craft proposals that are consistent with ISS' policies. We are also aware of the potential conflicts of interest that may exist between ISS' proxy advisory service, which provides proxy analyses and vote recommendations to institutional investors, and the business of ICS, which provides products and services to issuers consisting primarily of advisory and analytical services, self-assessment tools and publications. ICS was formed on June 26, 2006 as a wholly-owned subsidiary of ISS to assume the work previously performed by ISS' Corporate Services division.

To mitigate potential conflicts, ISS has adopted a number of policies and practices to guard against possible conflicts of interest that could arise. Key factors and policies include:

**Regulatory Oversight** - ISS is a Registered Investment Adviser under the Investment Advisers Act of 1940. Its primary regulator is the U.S. Securities and Exchange Commission.

**Full Disclosure** - ISS believes in transparency and disclosure. Therefore, we offer our institutional clients the ability to get information regarding our dealings with corporate issuers. ISS policy requires every ISS proxy analysis and research report to carry a disclosure statement describing potential conflicts of interest related to the ICS business. ISS institutional clients can get a list of ICS clients on a confidential basis by emailing [disclosure@issgovernance.com](mailto:disclosure@issgovernance.com).

**Separate Staff/Physical Separation** - The ISS Domestic and Global Research departments prepare proxy analyses and vote recommendations. ICS provides advisory and analytical services to issuers and supports self-assessment tools for issuers. ISS maintains separate staffs for its ICS and proxy analysis and governance research operations. These two groups are staffed and managed on a day-to-day basis by different groups of individuals. To avoid accidental discovery of corporate clients, ICS operates in segregated office suites and uses segregated equipment and information databases. The identities of the ICS clients is not revealed to the ISS research analysts as they prepare vote recommendations and other research, helping to ensure that the analysts' objectivity will not be compromised.

**No Guarantees** - Issuers purchasing ICS products or services sign an agreement that acknowledges that utilization of such products or services in no way guarantees preferential treatment or support of any particular agenda item from ISS' proxy advisory service.

**Blackout Period** - ICS staff will only work with issuers or their representatives when no "live" voting issue is pending. This "blackout period" runs from immediately after definitive proxy materials are filed with the SEC through the date of the issuer's shareholders' meeting. Inquiries from issuers or their advisers that are received while ISS is actively preparing a proxy analysis are routed to Research Central. Research Central, which sits "on top of" the firewall, controls the flow of communication between ICS and ISS' Global and Domestic Research Department and preserves the integrity of the firewall.