

# United States

## Public Fund Proxy Voting Guidelines Updates

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2018 Policy Recommendations

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## Director Elections - Voting on Director Nominees in Uncontested Elections

### Board Independence

Current Public Fund Advisory Services Recommendation, incorporating policy changes:	New Public Fund Advisory Services Recommendation:
<p><b>Public Fund Advisory Services Recommendation:</b></p> <ul style="list-style-type: none"> <li>› Generally vote against or withhold votes from non-independent director nominees (<del>insiders and affiliated outsiders</del> Executive Directors and Non-independent, Non- Executive Directors) where the entire board is not at least majority independent.</li> <li>› Generally vote against or withhold votes from non-independent director nominees (<del>insiders and affiliated outsiders</del>) when the nominating, compensation and audit committees are not fully independent.</li> <li>› Generally consider independent board members who have been on the board continually for a period longer than 10 years as <del>affiliated outsiders</del> non-independent, non-executive directors.</li> <li>› Vote for shareholder proposals requesting that all key board committees (i.e. audit, compensation and/or nominating) include independent directors exclusively.</li> <li>› Vote for shareholder proposals requesting that the board be comprised of a majority of independent directors.</li> </ul>	<p><b>Public Fund Advisory Services Recommendation:</b></p> <ul style="list-style-type: none"> <li>› Generally vote against or withhold votes from non-independent director nominees (Executive Directors and Non-independent, Non- Executive Directors) where the entire board is not at least majority independent.</li> <li>› Generally vote against or withhold votes from non-independent director nominees when the nominating, compensation and audit committees are not fully independent.</li> <li>› Generally consider independent board members who have been on the board continually for a period longer than 10 years as non-independent, non-executive directors.</li> <li>› Vote for shareholder proposals requesting that all key board committees (i.e. audit, compensation and/or nominating) include independent directors exclusively.</li> <li>› Vote for shareholder proposals requesting that the board be comprised of a majority of independent directors.</li> </ul>

### Rationale for Change:

To harmonize the Public Fund Advisory Services Categorization of Directors across markets, Public Fund Advisory Services is changing its nomenclature for the directors under the US policy who are classified as not independent: from Inside Director and Affiliated Outside Director to Executive Director and Non-Independent, Non-Executive Director. While most Inside Directors will be categorized as Executive Directors, the directors considered Insiders due to their controlling interest in the company will now be considered Non-Independent, Non-Executive Director category. This reclassification does not result in any vote recommendation changes, as under the old and new Public Fund Advisory Services categorizations, the directors are considered non-independent.

## Board Competence

Current Public Fund Advisory Services Recommendation, incorporating policy changes:	New Public Fund Advisory Services Recommendation:
<p><b>Public Fund Advisory Services Recommendation:</b> Votes on individual director nominees are always made on a case-by-case basis. Specific director nominee withhold/against votes can be triggered by one or more of the following factors:</p> <ul style="list-style-type: none"> <li>› Attendance of director nominees at board and committee meetings of less than 75 percent in one year without valid reason or explanation; or</li> <li>› Directors serving on an excessive number of other boards which could compromise their primary duties of care and loyalty.</li> </ul> <p><b>Diversity:</b> Highlight boards with no gender diversity. However, no adverse vote recommendations will be made due to any lack of gender diversity.</p>	<p><b>Public Fund Advisory Services Recommendation:</b> Votes on individual director nominees are always made on a case-by-case basis. Specific director nominee withhold/against votes can be triggered by one or more of the following factors:</p> <ul style="list-style-type: none"> <li>› Attendance of director nominees at board and committee meetings of less than 75 percent in one year without valid reason or explanation; or</li> <li>› Directors serving on an excessive number of other boards which could compromise their primary duties of care and loyalty.</li> </ul> <p><b>Diversity:</b> Highlight boards with no gender diversity. However, no adverse vote recommendations will be made due to any lack of gender diversity.</p>

### Rationale for Change:

Diversity: In ISS' 2017-2018 Governance Principles Survey, 69 percent of investor respondents replied that they could consider it problematic if there were no female directors on a public company board. Many of those respondents indicated that they may consider it appropriate to engage with the company if this were the case. While the Public Fund Advisory Services policy will not use any lack of gender diversity as a factor in its vote recommendations on directors, Public Fund Advisory Services will identify in its reports where a board has zero female directors.

## Board Accountability

Current Public Fund Advisory Services Recommendation, incorporating policy changes:	New Public Fund Advisory Services Recommendation:
<p><b>Public Fund Advisory Services Recommendation:</b> Vote against or withhold from the entire board of directors, (except new nominees, who should be considered on a case-by-case basis) if:</p> <p><i>Problematic Takeover Defenses</i></p> <ul style="list-style-type: none"> <li>› The board lacks accountability and oversight due to the presence of problematic governance provisions, coupled with long-term poor corporate performance relative to peers;</li> <li>› 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, Public Fund Advisory Services may recommend votes against or withhold votes from any or all of the nominees up for election, with the exception of new nominees; <del>or</del></li> <li>→ <del>The company's poison pill has a "dead hand" or "modified dead hand" feature; or</del></li> <li>→ <del>The board adopts a pill or makes a material adverse change to an existing pill without shareholder approval.</del></li> <li>› The company has opted into, or failed to opt out of, state laws requiring a classified board structure.</li> </ul> <p><i>Restriction of Binding Shareholder Proposals</i></p> <p>Vote against or withhold from members of the governance committee if:</p> <ul style="list-style-type: none"> <li>• The company's <del>charter or articles of incorporation</del> governing documents impose undue restrictions on shareholders' ability to amend the bylaws. Such restrictions include, but are not limited to: outright prohibition on the submission of binding shareholder proposals, or share ownership requirements or time holding requirements in excess of SEC Rule 14a-8. Vote against on an ongoing basis.</li> </ul>	<p><b>Public Fund Advisory Services Recommendation:</b> Vote against or withhold from the entire board of directors (except new nominees, who should be considered case-by-case) for the following:</p> <p><i>Problematic Takeover Defenses</i></p> <ul style="list-style-type: none"> <li>› The board lacks accountability and oversight due to the presence of problematic governance provisions, coupled with long-term poor corporate performance relative to peers;</li> <li>› 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, Public Fund Advisory Services may recommend votes against or withhold votes from any or all of the nominees up for election, with the exception of new nominees; or</li> <li>› The company has opted into, or failed to opt out of, state laws requiring a classified board structure.</li> </ul> <p><i>Restriction of Binding Shareholder Proposals</i></p> <p>Vote against or withhold from members of the governance committee if:</p> <ul style="list-style-type: none"> <li>• The company's governing documents impose undue restrictions on shareholders' ability to amend the bylaws. Such restrictions include, but are not limited to: outright prohibition on the submission of binding shareholder proposals, or share ownership requirements or time holding requirements in excess of SEC Rule 14a-8. Vote against on an ongoing basis.</li> </ul>

**~~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).~~

In the absence of an Advisory Vote on Executive Compensation (Say on Pay) ballot item or in egregious situations, ~~v~~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; or~~
- › There is evidence that management/board members are using company stock in hedging activities.
- › ~~The company fails to include a Say on Pay ballot item when required under SEC provisions, or under the company's declared frequency of say on pay; or~~
- › ~~The company fails to include a Frequency of Say on Pay ballot item when required under SEC provisions.~~

~~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~~

**Problematic Compensation Practices**

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

- › There is 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.;
- › There is evidence that management/board members are using company stock in hedging activities;
- › The company fails to include a Say on Pay ballot item when required under SEC provisions, or under the company's declared frequency of say on pay; or
- › The company fails to include a Frequency of Say on Pay ballot item when required under SEC provisions.

**[This policy has been moved to the "Board Responsiveness" section]**

<p><del>Whether the support level was less than 50 percent, which would warrant the highest degree of responsiveness.</del></p> <p>Generally vote against members of the board committee responsible for approving/setting non-employee director compensation if there is a pattern (i.e. two or more years) of awarding excessive non-employee director compensation without disclosing a compelling rationale or other mitigating factors.</p> <p><b>Problematic Audit-Related Practices</b></p> <p>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;</p> <p>Vote against or withhold votes from the members of the Audit Committee when:</p> <ul style="list-style-type: none"> <li>› Consulting (i.e. non-audit) fees paid to the auditor are excessive;</li> <li>› Auditor ratification is not included on the proxy ballot;</li> <li>› The company receives an adverse opinion on the company’s financial statements from its auditor;</li> <li>› 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</li> <li>› 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.</li> </ul> <p><b>Problematic Pledging of Company Stock</b></p> <p>Vote against the members of the committee that oversees risks related to pledging, or the full board, where a significant level of pledged company stock</p>	<p>Generally vote against members of the board committee responsible for approving/setting non-employee director compensation if there is a pattern (i.e. two or more years) of awarding excessive non-employee director compensation without disclosing a compelling rationale or other mitigating factors.</p> <p><b>Problematic Audit-Related Practices</b></p> <p>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;</p> <p>Vote against or withhold votes from the members of the Audit Committee when:</p> <ul style="list-style-type: none"> <li>› Consulting (i.e. non-audit) fees paid to the auditor are excessive;</li> <li>› Auditor ratification is not included on the proxy ballot;</li> <li>› The company receives an adverse opinion on the company’s financial statements from its auditor;</li> <li>› 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</li> <li>› 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.</li> </ul> <p><b>Problematic Pledging of Company Stock</b></p> <p>Vote against the members of the committee that oversees risks related to pledging, or the full board, where a significant level of pledged company stock</p>
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<p>by executives or directors raises concerns. The following factors will be considered:</p> <ul style="list-style-type: none"> <li>› The presence of an anti-pledging policy, disclosed in the proxy statement, that prohibits future pledging activity;</li> <li>› The magnitude of aggregate pledged shares in terms of total common shares outstanding, market value, and trading volume;</li> <li>› Disclosure of progress or lack thereof in reducing the magnitude of aggregate pledged shares over time;</li> <li>› Disclosure in the proxy statement that shares subject to stock ownership and holding requirements do not include pledged company stock; and</li> <li>› Any other relevant factors.</li> </ul> <p><b><i>Unilateral Bylaw/Charter Amendments and Problematic Capital Structures</i></b></p> <p>Generally vote against or withhold from directors individually, committee members, or the entire board (except new nominees, who should be considered case-by-case) if the board amends the company's bylaws or charter without shareholder approval in a manner that materially diminishes shareholders' rights or that could adversely impact shareholders, considering the following factors:</p> <ul style="list-style-type: none"> <li>› The board's rationale for adopting the bylaw/charter amendment without shareholder ratification;</li> <li>› Disclosure by the company of any significant engagement with shareholders regarding the amendment;</li> <li>› The level of impairment of shareholders' rights caused by the board's unilateral amendment to the bylaws/charter;</li> <li>› The board's track record with regard to unilateral board action on bylaw/charter amendments or other entrenchment provisions;</li> <li>› The company's ownership structure;</li> <li>› The company's existing governance provisions;</li> <li>› The timing of the board's amendment to the bylaws/charter in connection with a significant business development; and</li> <li>› Other factors, as deemed appropriate, that may be relevant to determine the impact of the amendment on shareholders.</li> </ul> <p>Unless the adverse amendment is reversed or submitted to a binding shareholder vote, in subsequent years vote case-by-case on director nominees.</p>	<p>by executives or directors raises concerns. The following factors will be considered:</p> <ul style="list-style-type: none"> <li>› The presence of an anti-pledging policy, disclosed in the proxy statement, that prohibits future pledging activity;</li> <li>› The magnitude of aggregate pledged shares in terms of total common shares outstanding, market value, and trading volume;</li> <li>› Disclosure of progress or lack thereof in reducing the magnitude of aggregate pledged shares over time;</li> <li>› Disclosure in the proxy statement that shares subject to stock ownership and holding requirements do not include pledged company stock; and</li> <li>› Any other relevant factors.</li> </ul> <p><b><i>Unilateral Bylaw/Charter Amendments and Problematic Capital Structures</i></b></p> <p>Generally vote against or withhold from directors individually, committee members, or the entire board (except new nominees, who should be considered case-by-case) if the board amends the company's bylaws or charter without shareholder approval in a manner that materially diminishes shareholders' rights or that could adversely impact shareholders, considering the following factors:</p> <ul style="list-style-type: none"> <li>› The board's rationale for adopting the bylaw/charter amendment without shareholder ratification;</li> <li>› Disclosure by the company of any significant engagement with shareholders regarding the amendment;</li> <li>› The level of impairment of shareholders' rights caused by the board's unilateral amendment to the bylaws/charter;</li> <li>› The board's track record with regard to unilateral board action on bylaw/charter amendments or other entrenchment provisions;</li> <li>› The company's ownership structure;</li> <li>› The company's existing governance provisions;</li> <li>› The timing of the board's amendment to the bylaws/charter in connection with a significant business development; and</li> <li>› Other factors, as deemed appropriate, that may be relevant to determine the impact of the amendment on shareholders.</li> </ul> <p>Unless the adverse amendment is reversed or submitted to a binding shareholder vote, in subsequent years vote case-by-case on director nominees.</p>
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<p>Generally vote against (except new nominees, who should be considered case-by-case) if the directors:</p> <ul style="list-style-type: none"> <li>› Classified the board;</li> <li>› Adopted supermajority vote requirements to amend the bylaws or charter; or</li> <li>› Eliminated shareholders' ability to amend bylaws.</li> </ul> <p><b>Problematic Governance Structure – Newly public companies</b></p> <p>For newly public companies, generally vote against or withhold from directors individually, committee members, or the entire board (except new nominees, who should be considered case-by-case) if, prior to or in connection with the company's public offering, the company or its board adopted bylaw or charter provisions materially adverse to shareholder rights, or implemented a multi-class capital structure in which the classes have unequal voting rights considering the following factors:</p> <ul style="list-style-type: none"> <li>› The level of impairment of shareholders' rights;</li> <li>› The disclosed rationale;</li> <li>› The ability to change the governance structure (e.g., limitations on shareholders' right to amend the bylaws or charter, or supermajority vote requirements to amend the bylaws or charter);</li> <li>› The ability of shareholders to hold directors accountable through annual director elections, or whether the company has a classified board structure;</li> <li>› Any reasonable sunset provision; and</li> <li>› Other relevant factors.</li> </ul> <p>Unless the adverse provision and/or problematic capital structure is reversed or removed, vote case-by-case on director nominees in subsequent years.</p> <p><b>Governance Failures</b></p> <p>Under extraordinary circumstances, vote against or withhold from directors individually, committee members, or the entire board, due to:</p>	<p>Generally vote against (except new nominees, who should be considered case-by-case) if the directors:</p> <ul style="list-style-type: none"> <li>› Classified the board;</li> <li>› Adopted supermajority vote requirements to amend the bylaws or charter; or</li> <li>› Eliminated shareholders' ability to amend bylaws.</li> </ul> <p><b>Problematic Governance Structure – Newly public companies</b></p> <p>For newly public companies, generally vote against or withhold from directors individually, committee members, or the entire board (except new nominees, who should be considered case-by-case) if, prior to or in connection with the company's public offering, the company or its board adopted bylaw or charter provisions materially adverse to shareholder rights, or implemented a multi-class capital structure in which the classes have unequal voting rights considering the following factors:</p> <ul style="list-style-type: none"> <li>› The level of impairment of shareholders' rights;</li> <li>› The disclosed rationale;</li> <li>› The ability to change the governance structure (e.g., limitations on shareholders' right to amend the bylaws or charter, or supermajority vote requirements to amend the bylaws or charter);</li> <li>› The ability of shareholders to hold directors accountable through annual director elections, or whether the company has a classified board structure;</li> <li>› Any reasonable sunset provision; and</li> <li>› Other relevant factors.</li> </ul> <p>Unless the adverse provision and/or problematic capital structure is reversed or removed, vote case-by-case on director nominees in subsequent years.</p> <p><b>Governance Failures</b></p> <p>Under extraordinary circumstances, vote against or withhold from directors individually, committee members, or the entire board, due to:</p>
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- › 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<sup>1</sup>, 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.

#### Shareholder Rights Plan (i.e. Poison Pills)

- ~~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 or 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.~~

- › 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<sup>1</sup>, 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.

#### Shareholder Rights Plan (i.e. Poison Pills)

- 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 company has a poison pill that was not approved by shareholders<sup>2</sup>. However, vote case-by-case on nominees if the board adopts an initial pill with a term of one year or less, depending on the disclosed rationale for the adoption, and other factors as relevant (such as a commitment to put any renewal to a shareholder vote).
  - › The board makes a material, adverse change to an existing poison pill, including, but not limited to, extension, renewal, or lowering the trigger, without shareholder approval.

<sup>1</sup> Examples of failure of risk oversight include, but are not limited to: bribery; large or serial fines or sanctions from regulatory bodies; significant adverse legal judgments or settlements; ~~or hedging of company stock;~~ ~~or significant pledging of company stock.~~

<p><del>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:</del></p> <ul style="list-style-type: none"> <li><del>▶ 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;</del></li> <li><del>▶ The issuer’s rationale;</del></li> <li><del>▶ The issuer’s governance structure and practices; and</del></li> <li><del>▶ The issuer’s track record of accountability to shareholders.</del></li> </ul> <p>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;</p> <ul style="list-style-type: none"> <li>▶ The company has a poison pill that was not approved by shareholders<sup>2</sup>. However, vote case-by-case on nominees if the board adopts an initial pill with a term of one year or less, depending on the disclosed rationale for the adoption, and other factors as relevant (such as a commitment to put any renewal to a shareholder vote).</li> <li>▶ The board makes a material, adverse change to an existing poison pill, including, but not limited to, extension, renewal, or lowering the trigger, without shareholder approval.</li> </ul>	
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### Rationale for Changes:

**Removal of Shareholder Discretion on Classified Boards:** Under the Governance Failures policy, Public Fund Advisory Services has been recommending against the boards of approximately 20 Indiana-incorporated companies since 2010 who have yet to opt out of the state’s 2009 law that requires a classified board. Public Fund Advisory Services has also been recommending against one Iowa company that has a state law-mandated classified board. Shareholders have minimal ability to address these staggered board term structures, as shareholder proposals that contradict state laws can be challenged at the SEC and kept off from the ballot.

**Poison pills:** Institutional investors view poison pills as a potent takeover defense that if misused may serve to entrench management and have a detrimental impact on long-term share value. While recognizing that boards have a fiduciary duty to use all available means to protect shareholders' interests, Public Fund Advisory Services believes that boards should seek shareholder ratification of a poison pill (or an amendment thereof) within a reasonable period. Boards that fail to allow shareholders to approve or ratify the pill should be held accountable. In applying this principle to voting in uncontested director elections, Public Fund Advisory Services considers the pill’s term to be an important factor. Shorter-term pills are generally viewed as being less onerous as a takeover defense when compared to longer term pills. In some cases, a short-term pill provides the board with a valuable tool to maximize shareholder value in the face of an opportunistic offer. However, the adoption or maintenance of any pill for more than one year should be approved by shareholders.

<sup>2</sup> Public shareholders only, approval prior to a company’s becoming public is insufficient.

The updated policy will be applied at companies that have existing non-shareholder approved pills. There are approximately 90 previously-grandfathered companies that adopted or renewed 10-year pills. While deadhand and modified deadhand (slowhand) provisions are still considered as extremely onerous, the removal of grandfathering of previously-adopted pills eliminates the need to mention these features in the policy, as all such pills (Public Fund Advisory Services is tracking just five pills with such features at active companies) are not shareholder-approved, and thus are covered under the revised policy. The removal of the distinction between annually elected and classified boards impacts approximately 50 companies with annually-elected boards.

For short-term pills (with a term of one year or less), Public Fund Advisory Services will continue to conduct a case-by-case analysis, with special emphasis on the board's disclosed rationale for adopting the plan without a shareholder vote. The other factors currently listed under the policy will be examined if relevant. A commitment by the board that, should it extend or renew the pill, it will put it to a shareholder vote, would provide reassurance to investors that their interests are being considered.

**Restricting Binding Shareholder Proposals:** Restrictions on shareholders' ability to amend the bylaws are sometime found in the bylaws, therefore we are broadening the language to include all "governing documents."

**Problematic Pledging of Company Stock:** Under the Governance Failures policy, Public Fund Advisory Services has been recommending against the committee responsible for risk oversight since 2013 for a significant level of pledging of company stock. This update establishes an explicit policy on problematic pledging reflecting Public Fund Advisory Services' current approach on the issue.

**Problematic Compensation Practices:**

- › **One-time transfers of stock options:** Non-shareholder approved transfer of stock options are rare; so a separate policy is unnecessary. Should such a transfer occur, it would be treated as a problematic pay practice.
- › **Burn rate commitments:** Public Fund Advisory Services stopped considering new 3-year burn commitments in our vote recommendations on equity plans. The last of the remaining 3-year burn rate commitments ended in the fall of 2017, so the policy can be removed.
- › **Lack of Say-on-Pay ballot item:** Not all companies in the US are legally required to have an Advisory Vote on Executive Compensation (say-on -pay) on their ballot. For example, non-SEC registrants, Foreign Private Issuers, Emerging Growth Companies under the JOBS Act, and companies registered under the Investment Company Act, are exempt. When companies do not have the say on pay on their ballot and do not have a legal basis for its exclusion, Public Fund Advisory Services has been recommending against the election of the Compensation Committee members. This is a codification of existing practice.
- › **Lack of Say-on-Pay Frequency ballot item:** In 2017, the large companies who held their initial say-on-pay frequency votes in 2011 were once again required to include it on their ballot in 2017, as the frequency issue needs to be put to a shareholder vote at least once every six years under the SEC's rules. Many companies inadvertently omitted it, and ISS has been reaching out to companies that lacked the ballot item so that they could add it to the agenda if required. Over 30 companies refiled their proxy statements or filed supplemental materials to add the frequency vote to their ballots. For the companies that did not add it and did not have a legal basis for its absence, if they were on a biennial or triennial frequency, Public Fund Advisory Services recommended against their Say on Pay resolution or, in its absence, against members of their Compensation Committees, as these boards did not provide shareholders with opportunities to adopt a different frequency. There was not an adverse vote recommendation if the company failed to timely present a frequency proposal but maintained an annual frequency.

- › **Excessive non-employee director compensation:** ISS' 2017 Board Study found median NED pay in the S&P1500 has risen every year since 2012. As director pay has escalated, investors' interest in the magnitude and structure of these boardroom compensation packages has grown. Some investors have gone a step further by challenging director pay magnitude in court or by making boardroom compensation an issue in proxy contests. In response to recent judicial decisions, numerous companies have introduced proposals requesting shareholder approval of the director compensation program and/or the addition of compensation limits to director equity award programs. Although NED pay magnitude varies by company size and industry sector, Public Fund Advisory Services has identified cases of extreme outliers relative to peers and the broader market. Investor respondents to ISS' 2017-2018 Policy Application Survey indicated a strong preference for adverse vote recommendations where a pattern of excessive NED pay levels at a company has been identified. The least-favored action advocated by investor respondents to the survey was making no adverse vote recommendations. Public Fund Advisory Services is thus introducing a policy that provides a basis for holding directors who approve excessive NED pay without compelling rationale accountable for their actions. The new policy will not impact vote recommendations in 2018. Going forward, negative recommendations would be triggered only after a pattern of excessive NED pay is identified in consecutive years.

## Board Responsiveness

Current Public Fund Advisory Services Recommendation, incorporating policy changes:	New Public Fund Advisory Services Recommendation:
<p><b>Public Fund Advisory Services Recommendation:</b> Vote against or withhold from individual directors, committee members, or the entire board of directors as appropriate if:</p> <ul style="list-style-type: none"> <li>› 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 votes;</li> <li>› The board failed to act on takeover offers where the majority of the shareholders tendered their shares; <span style="color: green;">or</span></li> <li>➤ The board failed to act on a shareholder proposal that received approval by a majority of the shares cast the previous year. <del>;</del><span style="color: green;">or</span></li> <li>➤ <del>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.</del></li> </ul> <p><del>Vote case-by-case on the entire board if:</del></p> <p><del>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:</del></p> <ul style="list-style-type: none"> <li>➤ <del>The board's rationale for selecting a frequency that is different from the frequency that received a plurality;</del></li> <li>➤ <del>The company's ownership structure and vote results;</del></li> <li>➤ <del>Whether there are compensation concerns or a history of problematic compensation practices; and</del></li> <li>➤ <del>The previous year's support level on the company's say-on-pay proposal.</del></li> </ul> <p>Vote case-by-case on Compensation Committee members (or, potentially, the full board) and the <del>Management</del> Say-on-Pay proposal if:</p> <ul style="list-style-type: none"> <li>› The company's previous say-on-pay proposal received low levels of investor support, taking into account:</li> </ul>	<p><b>Public Fund Advisory Services Recommendation:</b> Vote against or withhold from individual directors, committee members, or the entire board of directors as appropriate if:</p> <ul style="list-style-type: none"> <li>› 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 votes;</li> <li>› The board failed to act on takeover offers where the majority of the shareholders tendered their shares; or</li> <li>› The board failed to act on a shareholder proposal that received approval by a majority of the shares cast the previous year.</li> </ul> <p>Vote case-by-case on Compensation Committee members (or, potentially, the full board) and the Say-on-Pay proposal if:</p> <ul style="list-style-type: none"> <li>› The company's previous say-on-pay proposal received low levels of investor support, taking into account: <ul style="list-style-type: none"> <li>› 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 (including the timing and frequency of engagements and whether independent directors participated); b) disclosure of the specific concerns voiced by dissenting shareholders that led to the say-on-pay opposition; c) disclosure of specific and meaningful actions taken to address shareholders' concerns; d) other recent compensation actions taken by the company;</li> <li>› Whether the issues raised are recurring or isolated;</li> <li>› The company's ownership structure; and</li> <li>› Whether the support level was less than 50 percent, which would warrant the highest degree of responsiveness.</li> </ul> </li> <li>› The board implements an advisory vote on executive compensation on a less frequent basis than the frequency that received the plurality of votes cast.</li> </ul>

<ul style="list-style-type: none"> <li>› 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 (including the timing and frequency of engagements and whether independent directors participated); b) disclosure of the specific concerns voiced by dissenting shareholders that led to the say-on-pay opposition; c) disclosure of specific and meaningful actions taken to address <del>the issues that contributed to the low level of support</del> shareholders' concerns; d) other recent compensation actions taken by the company;</li> <li>› Whether the issues raised are recurring or isolated;</li> <li>› The company's ownership structure; and</li> <li>› Whether the support level was less than 50 percent, which would warrant the highest degree of responsiveness.</li> <li>› The board implements an advisory vote on executive compensation on a less frequent basis than the frequency that received the plurality of votes cast.</li> </ul>	
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#### Rationale for Change:

**Responsiveness to low support for the Say-on-Pay:** This policy is being moved to “Board Responsiveness” from “Board Accountability”, as it is the more appropriate section. The policy updates better reflect the factors that are considered when evaluating the board's responsiveness to say-on-pay opposition (see corresponding policy change under Executive Compensation).

**Responsiveness to Say-on-Pay Frequency shareholder vote:** The frequency vote is required at least once every six years, and most companies that held their first votes in 2011 just held their second votes in 2017 and are disclosing the say-on-pay frequency they are choosing to implement. The updated policy looks for companies to adopt a frequency that is at least as often as the frequency option that received the plurality of votes by their shareholders.

## Other Board-Related Proposals

### Proxy Access

Current Public Fund Advisory Services Recommendation, incorporating policy changes:	New Public Fund Advisory Services Recommendation:
<p><b>Public Fund Advisory Services Recommendation:</b> Generally <del>vote case-by-case on</del> for management and shareholder proposals <del>to provide shareholders the ability to nominate director candidates to be included on management's</del> for proxy <del>card</del>access, <del>taking into account, among other factors</del>with the following provisions:</p> <ul style="list-style-type: none"> <li><del>→ Company specific factors including:</del> <ul style="list-style-type: none"> <li><del>→ Responsiveness to shareholders (e.g. failing to implement majority-supported shareholder proposals);</del></li> <li><del>→ Board and key committee independence;</del></li> <li><del>→ Problematic governance and compensation practices; and</del></li> <li><del>→ Past accounting or financial issues such as restatements.</del></li> </ul> </li> <li><del>→ Proposal specific factors, including:</del> <ul style="list-style-type: none"> <li><del>→ The ownership thresholds proposed in the resolution (i.e., percentage and duration);</del></li> <li><del>→ The maximum proportion of directors that shareholders may nominate each year; and</del></li> <li><del>→ The method of determining which nominations should appear on the ballot if multiple shareholders submit nominations.</del></li> </ul> </li> <li>› <b>Ownership threshold:</b> maximum requirement not more than three percent (3%) of the voting power;</li> <li>› <b>Ownership duration:</b> maximum requirement not longer than three (3) years of continuous ownership for each member of the nominating group;</li> <li>› <b>Aggregation:</b> minimal or no limits on the number of shareholders permitted to form a nominating group;</li> <li>› <b>Cap:</b> cap on nominees of generally twenty-five percent (25%) of the board.</li> </ul> <p>Review for reasonableness any other restrictions on the right of proxy access. Generally vote against proposals that are more restrictive than these guidelines.</p>	<p><b>Public Fund Advisory Services Recommendation:</b> Generally vote for management and shareholder proposals for proxy access with the following provisions:</p> <ul style="list-style-type: none"> <li>› <b>Ownership threshold:</b> maximum requirement not more than three percent (3%) of the voting power;</li> <li>› <b>Ownership duration:</b> maximum requirement not longer than three (3) years of continuous ownership for each member of the nominating group;</li> <li>› <b>Aggregation:</b> minimal or no limits on the number of shareholders permitted to form a nominating group;</li> <li>› <b>Cap:</b> cap on nominees of generally twenty-five percent (25%) of the board.</li> </ul> <p>Review for reasonableness any other restrictions on the right of proxy access. Generally vote against proposals that are more restrictive than these guidelines.</p>



**Rationale for Change:**

The policy is being updated to more specifically describe the factors that Public Fund Advisory Services currently analyzes when assessing proxy access proposals. For companies that present both a board and shareholder proxy access proposals on the ballot, Public Fund Advisory Services will review each of them under the policy.

## Compensation

### Evaluation of Executive Pay: Pay-for-Performance Evaluation

Current Public Fund Advisory Services Recommendation, incorporating policy changes:	New Public Fund Advisory Services Recommendation:
<p>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, Public Fund Advisory Services conducts a pay-for-performance analysis.</p> <p>With respect to companies in the Russell 3000 or Russell 3000E Indices<sup>3</sup>, this analysis considers the following:</p> <ol style="list-style-type: none"> <li>1. Peer Group<sup>4</sup> Alignment:                             <ul style="list-style-type: none"> <li>› The degree of alignment between the company's annualized TSR rank and the CEO's annualized total pay rank within a peer group, each measured over a three-year period.</li> <li>› <b>The rankings of CEO total pay and company financial performance within a peer group, each measured over a three-year period.</b></li> <li>› The multiple of the CEO's total pay relative to the peer group median <b>in the most recent fiscal year.</b></li> </ul> </li> <li>2. Absolute Alignment<sup>5</sup> – 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.</li> </ol>	<p>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, Public Fund Advisory Services conducts a pay-for-performance analysis.</p> <p>With respect to companies in the Russell 3000 or Russell 3000E Indices<sup>3</sup>, this analysis considers the following:</p> <ol style="list-style-type: none"> <li>1. Peer Group<sup>4</sup> Alignment:                             <ul style="list-style-type: none"> <li>› The degree of alignment between the company's annualized TSR rank and the CEO's annualized total pay rank within a peer group, each measured over a three-year period.</li> <li>› The rankings of CEO total pay and company financial performance within a peer group, each measured over a three-year period.</li> <li>› The multiple of the CEO's total pay relative to the peer group median in the most recent fiscal year.</li> </ul> </li> <li>2. Absolute Alignment<sup>5</sup> – 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.</li> </ol>

<sup>3</sup> The Russell 3000E Index includes approximately 4,000 of the largest U.S. equity securities.

<sup>4</sup> The revised peer group is generally comprised of 14-24 companies that are selected using market cap, revenue (or assets for certain financial firms), GICS industry group, and company's selected peers' GICS industry group, with size constraints, via a process designed to select peers that are comparable to the subject company in terms of revenue/assets and industry, and also within a market cap bucket that is reflective of the company's. For Oil, Gas & Consumable Fuels companies, market cap is the only size determinant.

<sup>5</sup> Only Russell 3000 Index companies are subject to the Absolute Alignment analysis.

**Rationale for Change:**

This update reflects the incorporation of the Relative Financial Performance Assessment into the US quantitative pay-for-performance evaluation methodology. The Relative Financial Performance Assessment compares the company's rankings to a peer group with respect to (i) CEO pay and (ii) financial performance in three or four metrics (which will vary depending on industry), in each case as measured over three years.

This update also clarifies the measurement period of one year that is applicable to the CEO pay multiple assessment (this is in line with current policy).

**Evaluation of Executive Pay: Compensation Committee Communications and Responsiveness**

Current Public Fund Advisory Services Recommendation, incorporating policy changes:	New Public Fund Advisory Services Recommendation:
<p>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:</p> <ul style="list-style-type: none"> <li>› Failure to respond to majority-supported shareholder proposals on executive pay topics; or</li> <li>› Failure to adequately respond to the company's previous say-on-pay proposal that received a low level of shareholder support, taking into account:               <ul style="list-style-type: none"> <li>› The company's response, including:                   <ul style="list-style-type: none"> <li>› Disclosure of engagement efforts with major institutional investors regarding the issues that contributed to the low level of support (including the timing and frequency of engagements and whether independent directors participated);</li> <li>› Disclosure of the specific concerns voiced by dissenting shareholders that led to the say-on-pay opposition;</li> <li>› Disclosure of <del>the</del> specific and meaningful actions taken to address <del>the issues that contributed to the low level of support</del> shareholders' concerns;</li> <li>› Other recent compensation actions taken by the company;</li> </ul> </li> <li>› Whether the issues raised are recurring or isolated;</li> <li>› The company's ownership structure; and</li> <li>› Whether the support level was less than 50 percent, which would warrant the highest degree of responsiveness.</li> </ul> </li> </ul>	<p>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:</p> <ul style="list-style-type: none"> <li>› Failure to respond to majority-supported shareholder proposals on executive pay topics; or</li> <li>› Failure to adequately respond to the company's previous say-on-pay proposal that received a low level of shareholder support, taking into account:               <ul style="list-style-type: none"> <li>› The company's response, including:                   <ul style="list-style-type: none"> <li>› Disclosure of engagement efforts with major institutional investors regarding the issues that contributed to the low level of support (including the timing and frequency of engagements and whether independent directors participated);</li> <li>› Disclosure of the specific concerns voiced by dissenting shareholders that led to the say-on-pay opposition;</li> <li>› Disclosure of specific and meaningful actions taken to address shareholders' concerns;</li> <li>› Other recent compensation actions taken by the company;</li> </ul> </li> <li>› Whether the issues raised are recurring or isolated;</li> <li>› The company's ownership structure; and</li> <li>› Whether the support level was less than 50 percent, which would warrant the highest degree of responsiveness.</li> </ul> </li> </ul>

**Rationale for Change:**

This policy refinement clarifies Public Fund Advisory Services' approach to assessing say-on-pay responsiveness and more specifically describes the factors that Public Fund Advisory Services currently analyzes when assessing the robustness of board responsiveness. First, the update clarifies that Public Fund Advisory Services' evaluation of the breadth of shareholder engagements may consider the timing and frequency of engagements as well as the company's participants in such engagements. Independent director participation is preferred as it is more conducive for candid investor feedback on pay concerns (as compared to discussions with senior management about their own pay packages), and engagement following a low vote result is necessary to ascertain the rationale for the limited support. Second, the update clarifies that Public Fund Advisory Services looks for summary disclosure of the feedback received from shareholders, particularly those investors voting against, at these meetings to assess whether subsequent changes are in fact responsive to that feedback. Finally, the policy refinement specifies that Public Fund Advisory Services considers not only *whether* a company made changes to pay and/or disclosure in response to shareholder concerns, but also the *quality* of those changes relative to the feedback received.

## Mergers & Acquisitions/Corporate Restructurings

### Special Purpose Acquisition Corporations (SPACs)

Current Public Fund Advisory Services Recommendation, incorporating policy changes:	New Public Fund Advisory Services Recommendation:
<p><b>Public Fund Advisory Services Recommendation:</b> [No current formal policy] Vote case-by-case on SPAC mergers and acquisitions taking into account the following:</p> <ul style="list-style-type: none"> <li>› <i>Valuation</i> - 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.</li> <li>› <i>Market reaction</i> - 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.</li> <li>› <i>Deal timing</i> - 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.</li> <li>› <i>Negotiations and process</i> - What was the process undertaken to identify potential target companies within specified industry or location specified in charter? Consider the background of the sponsors.</li> <li>› <i>Conflicts of interest</i> - How are sponsors benefiting from the transaction compared to IPO shareholders? Potential conflicts could arise if a fairness opinion is issued by the insiders to qualify the deal rather than a third party or if management is encouraged to pay a higher price for the target because of an 80 percent rule (the charter requires that the fair market value of the target is at least equal to 80 percent of net assets of the SPAC). Also, there may be sense of urgency by the management team of the SPAC to close the deal since its charter typically requires a transaction to be completed within the 18-24 month timeframe.</li> </ul>	<p><b>Public Fund Advisory Services Recommendation:</b> Vote case-by-case on SPAC mergers and acquisitions taking into account the following:</p> <ul style="list-style-type: none"> <li>› <i>Valuation</i> - 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.</li> <li>› <i>Market reaction</i> - 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.</li> <li>› <i>Deal timing</i> - 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.</li> <li>› <i>Negotiations and process</i> - What was the process undertaken to identify potential target companies within specified industry or location specified in charter? Consider the background of the sponsors.</li> <li>› <i>Conflicts of interest</i> - How are sponsors benefiting from the transaction compared to IPO shareholders? Potential conflicts could arise if a fairness opinion is issued by the insiders to qualify the deal rather than a third party or if management is encouraged to pay a higher price for the target because of an 80 percent rule (the charter requires that the fair market value of the target is at least equal to 80 percent of net assets of the SPAC). Also, there may be sense of urgency by the management team of the SPAC to close the deal since its charter typically requires a transaction to be completed within the 18-24 month timeframe.</li> </ul>

<ul style="list-style-type: none"> <li>› <i>Voting agreements</i> - Are the sponsors entering into enter into any voting agreements/tender offers with shareholders who are likely to vote against the proposed merger or exercise conversion rights?</li> <li>› <i>Governance</i> - What is the impact of having the SPAC CEO or founder on key committees following the proposed merger?</li> <li>› <i>Stakeholder Impact</i>- impact on community stakeholders and workforce including impact on stakeholders, such as job loss, community lending, equal opportunity, impact on environment etc.</li> </ul>	<ul style="list-style-type: none"> <li>› <i>Voting agreements</i> - Are the sponsors entering into enter into any voting agreements/tender offers with shareholders who are likely to vote against the proposed merger or exercise conversion rights?</li> <li>› <i>Governance</i> - What is the impact of having the SPAC CEO or founder on key committees following the proposed merger?</li> <li>› <i>Stakeholder Impact</i>- impact on community stakeholders and workforce including impact on stakeholders, such as job loss, community lending, equal opportunity, impact on environment etc.</li> </ul>
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**Rationale for Change:**

The policy is being added to codify the existing approach and specifically describe the factors that Public Fund Advisory Services currently analyzes when assessing SPAC mergers and acquisitions.

**Special Purpose Acquisition Corporations (SPACs) - Proposals for Extensions**

Current Public Fund Advisory Services Recommendation, incorporating policy changes:	New Public Fund Advisory Services Recommendation:
<p><b>Public Fund Advisory Services Recommendation:</b> [No current formal policy] Vote case-by-case on SPAC extension proposals taking into account the length of the requested extension, the status of any pending transaction(s) or progression of the acquisition process, any added incentive for non-redeeming shareholders, and any prior extension requests.</p> <ul style="list-style-type: none"> <li>› <i>Length of request:</i> Typically, extension requests range from two to six months, depending on the progression of the SPAC's acquisition process.</li> <li>› <i>Pending transaction(s) or progression of the acquisition process:</i> Sometimes an initial business combination was already put to a shareholder vote, but, for varying reasons, the transaction could not be consummated by the termination date and the SPAC is requesting an extension. Other times, the SPAC has entered into a definitive transaction agreement, but needs additional time to consummate or hold the shareholder meeting.</li> <li>› <i>Added incentive for non-redeeming shareholders:</i> Sometimes the SPAC sponsor (or other insiders) will contribute, typically as a loan to the company, additional funds that will be added to the redemption value of each public share as long as such shares are not redeemed in connection with the extension request. The purpose of the "equity kicker" is to incentivize shareholders to hold their shares through the end of the requested extension</li> </ul>	<p><b>Public Fund Advisory Services Recommendation:</b> Vote case-by-case on SPAC extension proposals taking into account the length of the requested extension, the status of any pending transaction(s) or progression of the acquisition process, any added incentive for non-redeeming shareholders, and any prior extension requests.</p> <ul style="list-style-type: none"> <li>› <i>Length of request:</i> Typically, extension requests range from two to six months, depending on the progression of the SPAC's acquisition process.</li> <li>› <i>Pending transaction(s) or progression of the acquisition process:</i> Sometimes an initial business combination was already put to a shareholder vote, but, for varying reasons, the transaction could not be consummated by the termination date and the SPAC is requesting an extension. Other times, the SPAC has entered into a definitive transaction agreement, but needs additional time to consummate or hold the shareholder meeting.</li> <li>› <i>Added incentive for non-redeeming shareholders:</i> Sometimes the SPAC sponsor (or other insiders) will contribute, typically as a loan to the company, additional funds that will be added to the redemption value of each public share as long as such shares are not redeemed in connection with the extension request. The purpose of the "equity kicker" is to incentivize shareholders to hold their shares through the end of the</li> </ul>

<p>or until the time the transaction is put to a shareholder vote, rather than electing redemption at the extension proposal meeting.</p> <p>› <i>Prior extension requests: Some SPACs request additional time beyond the extension period sought in prior extension requests.</i></p>	<p>requested extension or until the time the transaction is put to a shareholder vote, rather than electing redemption at the extension proposal meeting.</p> <p>› <i>Prior extension requests: Some SPACs request additional time beyond the extension period sought in prior extension requests.</i></p>
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**Rationale for Change:**

Public Fund Advisory Services has seen an increase in the number of special purpose acquisition companies (SPAC) transaction proposals and, thus, there has been an increase in the number of SPAC extension requests. The update in policy will provide clients and issuers with guidance on the factors that Public Fund Advisory Services considers and how Public Fund Advisory Services will evaluate SPAC extension proposals.

SPACs are blank-check companies that raise pools of capital from investors through a public offering of shares and warrants (known as a Unit IPO) for the purpose of buying one or more companies (commonly referred to as an initial business combination). SPACs have no assets or business plan and their sole intent is to acquire an operating business. Typically, the SPAC founders have 18 months to sign a definitive engagement letter and two years from the time of the SPAC IPO to consummate an initial business combination (the termination date); otherwise, the SPAC will be dissolved and the trust proceeds disseminated among investors.

SPACs that have neither proposed nor consummated a business combination and are nearing their deadlines often request extensions of their deadlines by way of amendments to their charters and trust agreements. In these instances, IPO shareholders are given the opportunity to elect redemption of their shares for the pro-rata portion of the funds available in the trust account. The standard charter amendment involves a change in the termination date and the trust agreement amendment involves a change in the date that the trust will be liquidated absent consummation of an initial business combination. In addition, the amendment to the trust agreement will seek approval to permit the withdrawal of funds from the trust to pay shareholders who properly exercise their redemption rights at that meeting. Approval of the charter and trust amendments are needed to implement the extension.

## Environment and Climate Change

### Greenhouse Gas Emissions

<p><b>Current Public Fund Advisory Services Recommendation, incorporating policy changes:</b></p>	<p><b>New Public Fund Advisory Services Recommendation:</b></p>
<p><b>Public Fund Advisory Services Recommendation:</b></p> <ul style="list-style-type: none"> <li>› Generally vote for shareholder proposals calling for a company to commit to reducing its greenhouse gas emissions under a reasonable timeline.</li> <li>› Generally vote for resolutions requesting that a company disclose information on the <b>financial, physical, or regulatory</b> risks related to climate change on its operations and investments, <del>such as financial, physical, or regulatory risks</del> <b>or on how the company identifies, measures, and manages such risks.</b></li> <li>› Generally vote for proposals requesting a report on greenhouse gas (GHG) emissions from company operations and/or products and operations.</li> </ul>	<p><b>Public Fund Advisory Services Recommendation:</b></p> <ul style="list-style-type: none"> <li>› Generally vote for shareholder proposals calling for a company to commit to reducing its greenhouse gas emissions under a reasonable timeline.</li> <li>› Generally vote for resolutions requesting that a company disclose information on the financial, physical, or regulatory risks related to climate change on its operations and investments, or on how the company identifies, measures, and manages such risks.</li> <li>› Generally vote for proposals requesting a report on greenhouse gas (GHG) emissions from company operations and/or products and operations.</li> </ul>

#### Rationale for Change:

A growing number of investors believe that effective boardroom oversight requires transparent identification of risks associated both with a changing climate and the business changes associated with an expected transition to a lower-carbon economy. To that end, The Task Force on Climate-Related Financial Disclosures (TCFD), released draft recommendations in late 2016 and a final report and recommendations in the summer of 2017 for consistent and voluntary climate-related financial disclosures.

The updates to Public Fund Advisory Services’ climate change risk policy better aligns it with the TCFD’s recommendations, which explicitly seek transparency around the board and management’s role in assessing and managing climate-related risks and opportunities.



### Shareholder Proposals on Gender Pay Gap

Current Public Fund Advisory Services Recommendation, incorporating policy changes:	New Public Fund Advisory Services Recommendation:
<b>Public Fund Advisory Services Recommendation:</b> [No current policy.] Generally support requests for a report on a company’s policies and goals to reduce any gender pay gap.	<b>Public Fund Advisory Services Recommendation:</b> [No current policy.] Generally support requests for a report on a company’s policies and goals to reduce any gender pay gap.

#### Rationale for Change:

Over the past three years shareholders have filed resolutions requesting that companies report whether a gender pay gap exists, and if so, what measures are being taken to eliminate the gap. While primarily filed at technology firms, in 2017, the resolutions were also filed at firms in the financial services, insurance, healthcare, and telecommunication sectors. Proponents are expected to continue this campaign by engaging companies and filing shareholder proposals on this issue.

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