

# United States

## Sustainability Proxy Voting Guidelines Updates

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2018 Policy Recommendations

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## Board of Directors- Voting on Director Nominees in Uncontested Elections

### Fundamental Principles

Current Sustainability Advisory Services Principles, incorporating policy changes:	New Sustainability Advisory Services Principles:
<p>Four fundamental principles apply when determining votes on director nominees:</p> <ol style="list-style-type: none"> <li><b>Accountability:</b> Boards should be sufficiently accountable to shareholders, including through transparency of the company's governance practices and regular board elections, by the provision of sufficient information for shareholders to be able to assess directors and board composition, and through the ability of shareholders to remove directors.</li> <li><b>Responsiveness:</b> Directors should respond to investor input, such as that expressed through significant opposition to management proposals, significant support for shareholder proposals (whether binding or non-binding), and tender offers where a majority of shares are tendered.</li> <li><b>Composition:</b> Companies should seek directors who can add value to the board through their specific skills or expertise and who can devote sufficient time and commitment to serve effectively. <del>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 regarding the director's ability to effectively serve in shareholders' best interests.</del> <b>Boards should be of a size appropriate to accommodate diversity, expertise, and independence, while ensuring active and collaborative participation by all members. Boards should be sufficiently diverse to ensure consideration of a wide range of perspectives.</b></li> <li><b>Independence:</b> Boards should be sufficiently independent from management (and significant shareholders) so as to ensure that they are able and motivated to effectively supervise management's performance for the benefit of all shareholders, including in setting and monitoring the execution of corporate strategy, with appropriate use of shareholder capital, and in setting and monitoring executive compensation programs that support that strategy. The chair of the board should ideally be an</li> </ol>	<p>Four fundamental principles apply when determining votes on director nominees:</p> <ol style="list-style-type: none"> <li><b>Accountability:</b> Boards should be sufficiently accountable to shareholders, including through transparency of the company's governance practices and regular board elections, by the provision of sufficient information for shareholders to be able to assess directors and board composition, and through the ability of shareholders to remove directors.</li> <li><b>Responsiveness:</b> Directors should respond to investor input, such as that expressed through significant opposition to management proposals, significant support for shareholder proposals (whether binding or non-binding), and tender offers where a majority of shares are tendered.</li> <li><b>Composition:</b> Companies should seek directors who can add value to the board through their specific skills or expertise and who can devote sufficient time and commitment to serve effectively. <b>Boards should be of a size appropriate to accommodate diversity, expertise, and independence, while ensuring active and collaborative participation by all members. Boards should be sufficiently diverse to ensure consideration of a wide range of perspectives.</b></li> <li><b>Independence:</b> Boards should be sufficiently independent from management (and significant shareholders) so as to ensure that they are able and motivated to effectively supervise management's performance for the benefit of all shareholders, including in setting and monitoring the execution of corporate strategy, with appropriate use of shareholder capital, and in setting and monitoring executive compensation programs that support that strategy. The chair of the board should ideally be an independent director, and all boards should have an independent leadership position or a similar role in order to help provide appropriate counterbalance to executive management, as well as having sufficiently</li> </ol>

<p>independent director, and all boards should have an independent leadership position or a similar role in order to help provide appropriate counterbalance to executive management, as well as having sufficiently independent committees that focus on key governance concerns such as audit, compensation, and nomination of directors.</p>	<p>independent committees that focus on key governance concerns such as audit, compensation, and nomination of directors.</p>
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**Rationale for Change:**

Sustainability Advisory Services is updating the principles for company boards to include a specific statement regarding the benefits of diversity in boardrooms. In addition, the update refines the principles with regard to board size.

**Board Accountability**

<p><b>Current Sustainability Advisory Services Recommendation, incorporating policy changes:</b></p>	<p><b>New Sustainability Advisory Services Recommendation:</b></p>
<p><b>Sustainability Advisory Services Recommendation:</b> Vote against<sup>1</sup> or withhold from the entire board of directors (except new nominees<sup>2</sup>, who should be considered case-by-case) for the following:</p> <p><i>Problematic Takeover Defenses</i></p> <p><b>Classified Board Structure:</b>  <del>1.1</del> The board is classified, and a continuing director responsible for a problematic governance issue at the board/committee level that would warrant a withhold/against vote recommendation is not up for election. All appropriate nominees (except new) may be held accountable.</p> <p><b>Removal of Shareholder Discretion on Classified Boards:</b> The company has opted into, or failed to opt out of, state laws requiring a classified board structure.</p>	<p><b>Sustainability Advisory Services Recommendation:</b> Vote against<sup>1</sup> or withhold from the entire board of directors (except new nominees<sup>2</sup>, who should be considered case-by-case) for the following:</p> <p><i>Problematic Takeover Defenses</i></p> <p><b>Classified Board Structure:</b> The board is classified, and a continuing director responsible for a problematic governance issue at the board/committee level that would warrant a withhold/against vote recommendation is not up for election. All appropriate nominees (except new) may be held accountable.</p> <p><b>Removal of Shareholder Discretion on Classified Boards:</b> The company has opted into, or failed to opt out of, state laws requiring a classified board structure.</p>

<sup>1</sup> 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.

<sup>2</sup> 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 Sustainability Advisory Services 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.

**Director Performance Evaluation:**

~~1.2.~~ The board lacks mechanisms to promote 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 operational metrics.

Problematic provisions include but are not limited to:

- › A classified board structure;
- › A supermajority vote requirement;
- › Either a plurality vote standard in uncontested director elections or a majority vote standard 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 ~~multi-~~ 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 against or withhold from nominees every year until this feature is removed;~~

~~1.4. The company has board adopts a poison pill that was not approved by shareholders<sup>3</sup>. 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; or~~ However, vote case-by-case on nominees if the board

**Director Performance Evaluation:** The board lacks mechanisms to promote accountability and oversight, coupled with sustained poor performance relative to peers. Sustained poor performance is measured by one- 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 operational metrics. Problematic provisions include but are not limited to:

- › A classified board structure;
- › A supermajority vote requirement;
- › Either a plurality vote standard in uncontested director elections or a majority vote standard 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 multi-class capital structure; and/or
- › A non-shareholder-approved poison pill.

**Poison Pills:** Vote against/withhold from all nominees if:

- › The company has a poison pill that was not approved by shareholders<sup>3</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 modification to an existing pill, including, but not limited to, extension, renewal, or lowering the trigger, without shareholder approval.

<sup>3</sup> Public shareholders only, approval prior to a company's becoming public is insufficient.

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).

**1.5.** 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.

~~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 the 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.~~

### **Restrictions on Shareholders’ Rights**

#### **Restricting Binding Shareholder Proposals:**

Generally vote against or withhold from members of the governance committee if:

**1.7.** The company’s ~~charter~~ **governing documents** imposes 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.

#### **Problematic Audit-Related Practices**

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

### **Restrictions on Shareholders’ Rights**

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

- › The company’s governing documents impose undue restrictions on shareholders’ ability to amend the bylaws. Such restrictions include, but are not limited to: outright prohibition on the submission of binding shareholder proposals, or share ownership requirements or time holding requirements in excess of SEC Rule 14a-8. Vote against on an ongoing basis.

#### **Problematic Audit-Related Practices**

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

<p><del>1.8.</del> The non-audit fees paid to the auditor are excessive (see discussion under “<a href="#">Auditor Ratification</a>”);</p> <p><del>1.9.</del> The company receives an adverse opinion on the company’s financial statements from its auditor; or</p> <p><del>1.10.</del> 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.</p> <p>Vote case-by-case on members of the Audit Committee and potentially the full board if:</p> <p><del>1.11.</del> 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.</p> <p><b><i>Problematic Compensation Practices/<del>Pay for Performance Misalignment</del></i></b></p> <p>In the absence of an Advisory Vote on Executive Compensation (<a href="#">Say on Pay</a>) ballot item or in egregious situations, vote against or withhold from the members of the Compensation Committee and potentially the full board if:</p> <p><del>1.12.</del> There is a significant misalignment between CEO pay and company performance (<a href="#">pay for performance</a>);</p> <p><del>1.13.</del> The company maintains significant <a href="#">problematic pay practices</a>;</p> <p><del>1.14.</del> The board exhibits a significant level of <a href="#">poor communication and responsiveness</a> to shareholders;</p> <p><del>1.15.</del> <del>The company fails to submit one time transfers of stock options to a shareholder vote; or</del></p> <p><del>1.16.</del> <del>The company fails to fulfill the terms of a <a href="#">burn rate commitment</a> made to shareholders.</del></p> <p>› <a href="#">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;</a> or</p>	<p>› The non-audit fees paid to the auditor are excessive (see discussion under “<a href="#">Auditor Ratification</a>”);</p> <p>› The company receives an adverse opinion on the company’s financial statements from its auditor; or</p> <p>› 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.</p> <p>Vote case-by-case on members of the Audit Committee and potentially the full board if:</p> <p>› 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.</p> <p><b><i>Problematic Compensation Practices</i></b></p> <p>In the absence of an Advisory Vote on Executive Compensation (<a href="#">Say on Pay</a>) ballot item or in egregious situations, vote against or withhold from the members of the Compensation Committee and potentially the full board if:</p> <p>› There is a significant misalignment between CEO pay and company performance (<a href="#">pay for performance</a>);</p> <p>› The company maintains significant <a href="#">problematic pay practices</a>;</p> <p>› The board exhibits a significant level of <a href="#">poor communication and responsiveness</a> to shareholders;</p> <p>› 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</p> <p>› The company fails to include a Frequency of Say on Pay ballot item when required under SEC provisions.</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.</p>
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<p>› The company fails to include a Frequency of Say on Pay ballot item when required under SEC provisions.</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><del>Vote case-by-case on Compensation Committee members (or, in exceptional cases, the full board) and the Management Say on Pay proposal if:</del></p> <p><del>1.17. The company's previous say on pay received the support of less than 70 percent of votes cast, taking into account:</del></p> <ul style="list-style-type: none"> <li><del>› The company's response, including:</del> <ul style="list-style-type: none"> <li><del>› Disclosure of engagement efforts with major institutional investors regarding the issues that contributed to the low level of support;</del></li> <li><del>› Specific actions taken to address the issues that contributed to the low level of support;</del></li> <li><del>› Other recent compensation actions taken by the company;</del></li> </ul> </li> <li><del>› Whether the issues raised are recurring or isolated;</del></li> <li><del>› The company's ownership structure; and</del></li> <li><del>› Whether the support level was less than 50 percent, which would warrant the highest degree of responsiveness.</del></li> </ul> <p><b>Problematic Pledging of Company Stock:</b> Vote against the members of the committee that oversees risks related to pledging, or the full board, where a significant level of pledged company stock by executives or directors raises concerns. The following factors will be considered:</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> </ul>	<p>two or more years) of awarding excessive non-employee director compensation without disclosing a compelling rationale or other mitigating factors.</p> <p><b>[This policy has been moved to the “Board Responsiveness” section]</b></p> <p><b>Problematic Pledging of Company Stock:</b> Vote against the members of the committee that oversees risks related to pledging, or the full board, where a significant level of pledged company stock by executives or directors raises concerns. The following factors will be considered:</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>
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<ul style="list-style-type: none"> <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>Unilateral Bylaw/Charter Amendments and Problematic Capital Structures:</b></p> <p><del>1.18.</del> 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>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>Unilateral Bylaw/Charter Amendments and Problematic Capital Structures:</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>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> 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</p>
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<p><b>1-19. Problematic Governance Structure – Newly public companies:</b> 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><i>Environmental, Social and Governance (ESG) Failures</i></p> <p>Under extraordinary circumstances, vote against or withhold from directors individually, committee members, or the entire board, due to:</p> <p><b>1-20.</b> Material failures of governance, stewardship, risk oversight<sup>4</sup>, or fiduciary responsibilities at the company, including failure to adequately guard against or manage ESG risks</p> <p><b>1-21.</b> Failure to replace management as appropriate; or</p> <p><b>1-22.</b> 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.</p>	<p>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><i>Environmental, Social and Governance (ESG) Failures</i></p> <p>Under extraordinary circumstances, vote against or withhold from directors individually, committee members, or the entire board, due to:</p> <ul style="list-style-type: none"> <li>› Material failures of governance, stewardship, risk oversight<sup>4</sup>, or fiduciary responsibilities at the company, including failure to adequately guard against or manage ESG risks</li> <li>› Failure to replace management as appropriate; or</li> <li>› 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.</li> </ul>
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<sup>4</sup> Examples of failure of risk oversight include, but are not limited to: bribery; large or serial fines or sanctions from regulatory bodies; significant environmental incidents including spills and pollution; large scale or repeat workplace fatalities or injuries; significant adverse legal judgments or settlements; or hedging of company stock; ~~or significant pledging of company stock.~~

### Rationale for Changes:

**Removal of Shareholder Discretion on Classified Boards:** Under the Governance Failures policy, Sustainability 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. Sustainability 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, Sustainability 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, Sustainability 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.

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 (Sustainability 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), Sustainability 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 Environmental, Social and Governance (ESG) Failures policy, Sustainability Advisory Services has been recommending against the committee responsible for risk oversight since 2013 for a significant level of pledging of company stock. ([See FAQs #29-31.](#)) This update establishes an explicit policy on problematic pledging reflecting Sustainability 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:** With the introduction of the Equity Plan Scorecard several years ago, Sustainability 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, Sustainability 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, Sustainability 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, Sustainability 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. Sustainability 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 Sustainability Advisory Services Recommendation, incorporating policy changes:	New Sustainability Advisory Services Recommendation:
<p>Vote case-by-case on individual directors, committee members, or the entire board of directors as appropriate if:</p> <p><del>2.1.</del> The board failed to act on a shareholder proposal that received the support of a majority of the shares cast in the previous year. Factors that will be considered are:</p> <ul style="list-style-type: none"> <li>› Disclosed outreach efforts by the board to shareholders in the wake of the vote;</li> <li>› Rationale provided in the proxy statement for the level of implementation;</li> <li>› The subject matter of the proposal;</li> <li>› The level of support for and opposition to the resolution in past meetings;</li> <li>› Actions taken by the board in response to the majority vote and its engagement with shareholders;</li> <li>› The continuation of the underlying issue as a voting item on the ballot (as either shareholder or management proposals); and</li> <li>› Other factors as appropriate.</li> </ul> <p><del>2.2.</del> The board failed to act on takeover offers where the majority of shares are tendered;</p> <p><del>2.3.</del> 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.</p> <p>Vote case-by-case on Compensation Committee members (or, in exceptional cases, 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 received the support of less than 70 percent of votes cast. Factors that will be considered are:           <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</li> </ul> </li> </ul> </li> </ul>	<p>Vote case-by-case on individual directors, committee members, or the entire board of directors as appropriate if:</p> <ul style="list-style-type: none"> <li>› The board failed to act on a shareholder proposal that received the support of a majority of the shares cast in the previous year. Factors that will be considered are:           <ul style="list-style-type: none"> <li>› Disclosed outreach efforts by the board to shareholders in the wake of the vote;</li> <li>› Rationale provided in the proxy statement for the level of implementation;</li> <li>› The subject matter of the proposal;</li> <li>› The level of support for and opposition to the resolution in past meetings;</li> <li>› Actions taken by the board in response to the majority vote and its engagement with shareholders;</li> <li>› The continuation of the underlying issue as a voting item on the ballot (as either shareholder or management proposals); and</li> <li>› Other factors as appropriate.</li> </ul> </li> <li>› The board failed to act on takeover offers where the majority of shares are tendered;</li> <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 issue(s) that caused the high withhold/against vote.</li> </ul> <p>Vote case-by-case on Compensation Committee members (or, in exceptional cases, 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 received the support of less than 70 percent of votes cast. Factors that will be considered are:           <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> </ul> </li> </ul> </li> </ul>

<p>(including the timing and frequency of engagements and whether independent directors participated);</p> <ul style="list-style-type: none"> <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 <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> <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> <p><del>2.4. The board implements an advisory vote on executive compensation on a less frequent basis than the frequency that received the majority plurality of votes cast. at the most recent shareholder meeting at which shareholders voted on the say-on-pay frequency.</del></p> <p><del>2.5. 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>› Sustainability Advisory Services' analysis of 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>	<ul style="list-style-type: none"> <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> <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> <ul style="list-style-type: none"> <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.

## Board Composition

Current Sustainability Advisory Services Recommendation, incorporating policy changes:	New Sustainability Advisory Services Recommendation:
<p><b>Sustainability Advisory Services Recommendation:</b> Generally vote for director nominees, except under the following circumstances:</p> <p><b>Attendance at Board and Committee Meetings:</b></p> <p><del>3.1</del> Generally vote against or withhold from directors (except new nominees, <del>who should be considered case-by-case</del><sup>5</sup>) who attend less than 75 percent of the aggregate of their board and committee meetings for the period for which they served, unless an acceptable reason for absences is disclosed in the proxy or another SEC filing. Acceptable reasons for director absences are generally limited to the following:</p> <ul style="list-style-type: none"> <li>› Medical issues/illness;</li> <li>› Family emergencies; and</li> <li>› Missing only one meeting (when the total of all meetings is three or fewer).</li> </ul> <p><del>3.2</del> If the proxy disclosure is unclear and insufficient to determine whether a director attended at least 75 percent of the aggregate of his/her board and committee meetings during his/her period of service, vote against or withhold from the director(s) in question.</p> <p><b>Overboarded Directors:</b> Generally vote against or withhold from individual directors who:</p> <p><del>3.3</del> Sit on more than five public company boards; or</p> <p><del>3.4</del> 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<sup>5</sup>.</p>	<p><b>Sustainability Advisory Services Recommendation:</b> Generally vote for director nominees, except under the following circumstances:</p> <p><b>Attendance at Board and Committee Meetings:</b> Generally vote against or withhold from directors (except new nominees<sup>5</sup>) who attend less than 75 percent of the aggregate of their board and committee meetings for the period for which they served, unless an acceptable reason for absences is disclosed in the proxy or another SEC filing. Acceptable reasons for director absences are generally limited to the following:</p> <ul style="list-style-type: none"> <li>› Medical issues/illness;</li> <li>› Family emergencies; and</li> <li>› Missing only one meeting (when the total of all meetings is three or fewer).</li> </ul> <p>If the proxy disclosure is unclear and insufficient to determine whether a director attended at least 75 percent of the aggregate of his/her board and committee meetings during his/her period of service, vote against or withhold from the director(s) in question.</p> <p><b>Overboarded Directors:</b> Generally vote against or withhold from individual directors who:</p> <ul style="list-style-type: none"> <li>› Sit on more than five public company boards; or</li> <li>› 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<sup>6</sup>.</li> </ul>

<sup>5</sup> ~~For n~~New nominees who served for only part of the fiscal year are generally exempted from the attendance policy. ~~only, schedule conflicts due to commitments made prior to their appointment to the board are considered if disclosed in the proxy or another SEC filing.~~

<sup>6</sup> Although all of a CEO's subsidiary boards will be counted as separate boards, ISS will not recommend a withhold vote for the CEO of a parent company board or any of the controlled (>50 percent ownership) subsidiaries of that parent, but may do so at subsidiaries that are less than 50 percent controlled and boards outside the parent/subsidiary relationships.



**Diversity:** Highlight boards with no gender diversity. However, no adverse vote recommendations will be made due to any lack of gender diversity.

**Diversity:** Highlight boards with no gender diversity. However, no adverse vote recommendations will be made due to any lack of gender diversity.

#### Rationale for Change:

**Attendance:** Shareholders expect directors to attend their scheduled board and committee meetings. However, unlike the incumbent directors who were aware of the board schedule long in advance, newly-appointed directors did not receive such advance notice. Likewise, the meeting schedule would not have been set to accommodate the new director's pre-existing obligations. Thus, the current policy is that for newly-appointed directors only, schedule conflicts, if disclosed, are an acceptable reason for poor attendance.

Rather than looking for supplemental disclosure of such schedule conflicts, Sustainability Advisory Services' updated policy exempts partial-year "new" board appointees from the attendance policy.

**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 ISS' Sustainability U.S. policy will not use any lack of gender diversity as a factor in its vote recommendations on directors, Sustainability Advisory Services will identify in its reports where a board has zero female directors.



## Board Independence

Current Sustainability Advisory Services Recommendation, incorporating policy changes:	New Sustainability Advisory Services Recommendation:
<p><b>Sustainability Advisory Services Recommendation:</b> Generally vote for director nominees, except under the following circumstances:</p> <p>Vote against or withhold from <del>Inside Directors and Affiliated Outside Directors non-independent directors (Executive Directors and Non-independent, Non-Executive Directors</del> (per the <a href="#">Categorization of Directors</a>) when:</p> <p><del>4.1. The inside or affiliated outside non-independent</del> director serves on <del>any of the three key committees:</del> audit, compensation, or nominating committee;</p> <p><del>4.2. The company lacks an audit, compensation, or nominating committee so that the full board functions as that committee;</del></p> <p><del>4.3. The company lacks a formal nominating committee, even if the board attests that the independent directors fulfill the functions of such a committee; or</del></p> <p><del>4.4. Independent directors comprise 50 percent or less make up less than a majority</del> of the board directors.</p>	<p><b>Sustainability Advisory Services Recommendation:</b> Generally vote for director nominees, except under the following circumstances:</p> <p>Vote against or withhold from non-independent directors (Executive Directors and Non-Independent Non-Executive Directors per Sustainability Advisory Services' <a href="#">Categorization of Directors</a>) when:</p> <ul style="list-style-type: none"> <li>› Independent directors comprise 50 percent or less of the board;</li> <li>› The non-independent director serves on the audit, compensation, or nominating committee;</li> <li>› The company lacks an audit, compensation, or nominating committee so that the full board functions as that committee; or</li> <li>› The company lacks a formal nominating committee, even if the board attests that the independent directors fulfill the functions of such a committee.</li> </ul>

## Sustainability Policy Categorization of Directors

1. **Inside Executive Director (+)**
  - 1.1. Current employee or current officer<sup>[1]</sup> of the company or one of its affiliates<sup>[2]</sup>.
  - ~~1.2. Beneficial owner of more than 50 percent of the company's voting power (this may be aggregated if voting power is distributed among more than one member of a group).~~
  - ~~1.3. Director named in the Summary Compensation Table (excluding former interim officers).~~
2. **Affiliated Outside Director (AO) Non-independent Non-Executive Director**

~~Board Attestation Identification~~

  - 2.1. Director identified as ~~Board attestation that an outside director is~~ not independent by the board.

Controlling/Significant Shareholder  
Beneficial owner of more than 50 percent of the company's voting power (this may be aggregated if voting power is distributed among more than one member of a group).

Former CEO/Interim Officer

  - 2.2. Former CEO of the company.<sup>[3],[4]</sup>
  - 2.3. Former CEO of an acquired company within the past five years<sup>[4]</sup>.
  - 2.4. Former interim officer if the service was longer than 18 months. If the service was between 12 and 18 months an assessment of the interim officer's employment agreement will be made.<sup>[5]</sup>

Non-CEO Executives

  - 2.5. Former officer<sup>[1]</sup> of the company, an affiliate<sup>[2]</sup>, or an acquired firm within the past five years.
  - 2.6. Officer<sup>[1]</sup> 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. Officer<sup>[1]</sup>, former officer, or general or limited partner of a joint venture or partnership with the company.

Family Members

  - 2.8. Immediate family member<sup>[6]</sup> of a current or former officer<sup>[1]</sup> of the company or its affiliates<sup>[2]</sup> within the last five years.

## Sustainability Policy Categorization of Directors

1. **Executive Director**
  - 1.1. Current employee or current officer<sup>1</sup> of the company or one of its affiliates<sup>2</sup>.
2. **Non-Independent Non-Executive Director**

Board Identification

  - 2.1 Director identified as not independent by the board.

Controlling/Significant Shareholder

  - 2.2 Beneficial owner of more than 50 percent of the company's voting power (this may be aggregated if voting power is distributed among more than one member of a group).

Former CEO/Interim Officer

  - 2.3. Former CEO of the company.<sup>3, 4</sup>
  - 2.4. Former CEO of an acquired company within the past five years.<sup>4</sup>
  - 2.5. Former interim officer if the service was longer than 18 months. If the service was between 12 and 18 months an assessment of the interim officer's employment agreement will be made.<sup>5</sup>

Non-CEO Executives

  - 2.6. Former officer<sup>1</sup> of the company, an affiliate<sup>2</sup>, or an acquired firm within the past five years.
  - 2.7. Officer<sup>1</sup> 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.
  - 2.8. Officer<sup>1</sup>, former officer, or general or limited partner of a joint venture or partnership with the company.

Family Members

  - 2.9. Immediate family member<sup>6</sup> of a current or former officer<sup>1</sup> of the company or its affiliates<sup>2</sup> within the last five years.
  - 2.10. Immediate family member<sup>6</sup> of a current employee of company or its affiliates<sup>2</sup> 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

<p>2.9. Immediate family member<sup>[6]</sup> of a current employee of company or its affiliates<sup>[2]</sup> 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).</p> <p><u>Transactional, Professional, Financial, and Charitable Relationships</u></p> <p>2.10. Currently provides (or an immediate family member<sup>[6]</sup> provides) professional services<sup>[7]</sup> to the company, to an affiliate<sup>[2]</sup> of the company or an individual officer of the company or one of its affiliates in excess of \$10,000 per year.</p> <p>2.11. Is (or an immediate family member<sup>[6]</sup> is) a partner in, or a controlling shareholder or an employee of, an organization which provides professional services<sup>[7]</sup> to the company, to an affiliate<sup>[2]</sup> of the company, or an individual officer of the company or one of its affiliates in excess of \$10,000 per year.</p> <p>2.12. Has (or an immediate family member<sup>[6]</sup> has) any material transactional relationship<sup>[8]</sup> with the company or its affiliates<sup>[2]</sup> (excluding investments in the company through a private placement).</p> <p>2.13. Is (or an immediate family member<sup>[6]</sup> is) a partner in, or a controlling shareholder or an executive officer of, an organization which has any material transactional relationship<sup>[8]</sup> with the company or its affiliates<sup>[2]</sup> (excluding investments in the company through a private placement).</p> <p>2.14. Is (or an immediate family member<sup>[6]</sup> is) a trustee, director, or employee of a charitable or non-profit organization that receives material grants or endowments<sup>[8]</sup> from the company or its affiliates<sup>[2]</sup>.</p> <p><u>Other Relationships</u></p> <p>2.15. Party to a voting agreement<sup>[9]</sup> to vote in line with management on proposals being brought to shareholder vote.</p> <p>2.16. Has (or an immediate family member<sup>[6]</sup> has) an interlocking relationship as defined by the SEC involving members of the board of directors or its Compensation Committee<sup>[10]</sup>.</p> <p>2.17. Founder<sup>[11]</sup> of the company but not currently an employee.</p> <p>2.18. Any material<sup>[12]</sup> relationship with the company.</p> <p>3. <b>Independent <del>Outside</del> Director (IQ)</b></p> <p>3.1. No material<sup>[12]</sup> connection to the company other than a board seat.</p>	<p>2.11. Currently provides (or an immediate family member<sup>6</sup> provides) professional services<sup>7</sup> to the company, to an affiliate<sup>2</sup> of the company or an individual officer of the company or one of its affiliates in excess of \$10,000 per year.</p> <p>2.12. Is (or an immediate family member<sup>6</sup> is) a partner in, or a controlling shareholder or an employee of, an organization which provides professional services<sup>7</sup> to the company, to an affiliate<sup>2</sup> of the company, or an individual officer of the company or one of its affiliates in excess of \$10,000 per year.</p> <p>2.13. Has (or an immediate family member<sup>6</sup> has) any material transactional relationship<sup>8</sup> with the company or its affiliates<sup>2</sup> (excluding investments in the company through a private placement).</p> <p>2.14. Is (or an immediate family member<sup>6</sup> is) a partner in, or a controlling shareholder or an executive officer of, an organization which has any material transactional relationship<sup>8</sup> with the company or its affiliates<sup>2</sup> (excluding investments in the company through a private placement).</p> <p>2.15. Is (or an immediate family member<sup>6</sup> is) a trustee, director, or employee of a charitable or non-profit organization that receives material grants or endowments<sup>8</sup> from the company or its affiliates<sup>2</sup>.</p> <p><u>Other Relationships</u></p> <p>2.16. Party to a voting agreement<sup>9</sup> to vote in line with management on proposals being brought to shareholder vote.</p> <p>2.17. Has (or an immediate family member<sup>6</sup> has) an interlocking relationship as defined by the SEC involving members of the board of directors or its Compensation Committee<sup>10</sup>.</p> <p>2.18. Founder<sup>11</sup> of the company but not currently an employee.</p> <p>2.19. Any material<sup>12</sup> relationship with the company.</p> <p>3. <b>Independent Director</b></p> <p>3.1. No material<sup>12</sup> connection to the company other than a board seat.</p>
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### Rationale for Change:

To harmonize the Sustainability Policy Categorization of Directors across markets, Sustainability 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 be moved to the Non-Independent, Non-Executive Director category. This reclassification does not result in any vote recommendation changes, as under the old and new Sustainability Policy categorizations, the directors are considered non-independent.

## Voting Capital/Restructuring

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

Current Sustainability Advisory Services Recommendation, incorporating policy changes:	New Sustainability Advisory Services Recommendation:
<p><b>Sustainability 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 or until the time the transaction is put to a shareholder vote, rather than electing redemption at the extension proposal meeting.</li> <li>› <i>Prior extension requests:</i> Some SPACs request additional time beyond the extension period sought in prior extension requests.</li> </ul>	<p><b>Sustainability 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 requested extension or until the time the transaction is put to a shareholder vote, rather than electing redemption at the extension proposal meeting.</li> <li>› <i>Prior extension requests:</i> Some SPACs request additional time beyond the extension period sought in prior extension requests.</li> </ul>

#### Rationale for Change:

Sustainability 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 Sustainability Advisory Services considers and how Sustainability 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.

## Compensation

### Advisory Votes on Executive Compensation Pay-for-Performance Evaluation

Current Sustainability Advisory Services Recommendation, incorporating policy changes:	New Sustainability Advisory Services Recommendation:
<p><b>Primary Evaluation Factors for Executive Pay</b></p> <p><b>Pay-for-Performance Evaluation</b></p> <p>Sustainability Advisory Services 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 or Russell 3000E Indices<sup>7</sup>, this analysis considers the following:</p> <ol style="list-style-type: none"> <li>1. Peer Group<sup>8</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>9</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><b>Primary Evaluation Factors for Executive Pay</b></p> <p><b>Pay-for-Performance Evaluation</b></p> <p>Sustainability Advisory Services 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 or Russell 3000E Indices<sup>7</sup>, this analysis considers the following:</p> <ol style="list-style-type: none"> <li>1. Peer Group<sup>8</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>9</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>7</sup> The Russell 3000E Index includes approximately 4,000 of the largest U.S. equity securities.

<sup>8</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>9</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. Specific details around the mechanics of the updated quantitative screening methodology will be provided in an updated white paper.

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).

### Advisory Votes on Executive Compensation: Compensation Committee Communications and Responsiveness

Current Sustainability Advisory Services Recommendation, incorporating policy changes:	New Sustainability Advisory Services Recommendation:
<p>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:</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 the support of less than 70 percent of votes cast, 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 <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> </ul> </li> </ul>	<p>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:</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 the support of less than 70 percent of votes cast, 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>

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#### Rationale for Change:

This policy refinement clarifies Sustainability Advisory Services' approach to assessing say-on-pay responsiveness and more specifically describes the factors that Sustainability Advisory Services currently analyzes when assessing the robustness of board responsiveness. First, the update clarifies that Sustainability 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 Sustainability 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 Sustainability 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.



## Social and Environmental Issues

### Shareholder Proposals on Climate Change Risk

Current Sustainability Advisory Services Recommendation, incorporating policy changes:	New Sustainability Advisory Services Recommendation:
<p><b>Sustainability Advisory Services Recommendation:</b> Vote for shareholder proposals seeking <del>disclosure of liabilities or preparation of a report pertaining to global warming and</del> information on the financial, physical, or regulatory risks it faces related to climate change <del>related risks, such as financial, physical, or regulatory risks</del> on its operations and investments, or on how the company identifies, measures, and manage such risks.</p>	<p><b>Sustainability Advisory Services I Recommendation:</b> Vote for shareholder proposals seeking information on the financial, physical, or regulatory risks it faces related to climate change- on its operations and investments, or on how the company identifies, measures, and manage such risks.</p>

#### 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 Sustainability 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 Sustainability Advisory Services Recommendation, incorporating policy changes:	New Sustainability Advisory Services Recommendation:
<p><b>Sustainability Advisory Services Recommendation:</b> [No current policy.] Generally vote case-by-case on requests for reports on a company's pay data by gender, or a report on a company's policies and goals to reduce any gender pay gap, taking into account:</p> <ul style="list-style-type: none"> <li>› The company's current policies and disclosure related to both its diversity and inclusion policies and practices and its compensation philosophy and fair and equitable compensation practices;</li> <li>› Whether the company has been the subject of recent controversy, litigation, or regulatory actions related to gender pay gap issues; and</li> <li>› Whether the company's reporting regarding gender pay gap policies or initiatives is lagging its peers.</li> </ul>	<p><b>Sustainability Advisory Services Recommendation:</b> Generally vote case-by-case on requests for reports on a company's pay data by gender, or a report on a company's policies and goals to reduce any gender pay gap, taking into account:</p> <ul style="list-style-type: none"> <li>› The company's current policies and disclosure related to both its diversity and inclusion policies and practices and its compensation philosophy and fair and equitable compensation practices;</li> <li>› Whether the company has been the subject of recent controversy, litigation, or regulatory actions related to gender pay gap issues; and</li> <li>› Whether the company's reporting regarding gender pay gap policies or initiatives is lagging its peers.</li> </ul>

### 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.

The results of ISS' 2017-2018 Policy Application Survey support a more flexible case-by-case approach to proposals requesting that companies report on the gender pay gap. Sixty percent of investor respondents agreed that companies should be disclosing their gender pay gap information, while 67 percent of non-investor respondents disagreed.

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