UNITED STATES

BOARD-ALIGNED PROXY VOTING GUIDELINES

Policy Recommendations

Effective for Meetings on or after October 1, 2021
Published September 29, 2021
# Table of Contents

Introduction ........................................................................................................................................... 3

1. Board of Directors ................................................................................................................................ 3
   - Voting on Director Nominees in Uncontested Elections ........................................................................... 3
     - Independence ........................................................................................................................................... 3
     - Composition ........................................................................................................................................ 3
     - Responsiveness ................................................................................................................................. 3
     - Accountability .................................................................................................................................

2. Audit-Related ............................................................................................................................................ 5
   - Auditor Ratification ............................................................................................................................. 5

3. Corporate Transactions .......................................................................................................................... 5

4. Compensation .......................................................................................................................................... 5
   - Advisory Votes on Executive Compensation Proposals (Say-on-Pay) .................................................... 5
   - Equity-Based and Other Incentive Plans .............................................................................................. 5

5. Shareholder Proposals .......................................................................................................................... 6
   - Governance & Compensation-Related .................................................................................................. 6
   - Compensation-Related Shareholder Proposals ................................................................................... 6
   - Declassification of the Board ............................................................................................................. 6
   - Proxy Access ......................................................................................................................................... 6
   - Shareholder Ability to Call Special Meetings .................................................................................... 6
   - Supermajority Vote Requirements ..................................................................................................... 7
   - Environmental & Social-Related Shareholder Proposals .................................................................... 7
Introduction

At the core of corporate governance is the expectation that boards of directors effectively fulfill their fiduciary duties to shareholders and position the corporation for long-term shareholder value creation. ISS’ Board-Aligned Voting Policy enables subscribing investors to vote in a manner intended to allow companies to operate within the flexible framework of the laws, regulations and exchange requirements that govern them, while maintaining proper safeguards, including governance structures and practices, that foster and protect long-term value creation for shareholders. The Board-Aligned Policy is based on principles designed to ensure that boards are meeting their core objectives and maintaining consistency with widely-accepted governance practices, including adherence to the corporate governance listing standards of the New York Stock Exchange (NYSE) and Nasdaq Stock Market (Nasdaq), demonstrating responsiveness to shareholder votes, implementing commonly-accepted compensation practices and affording fundamental shareholder rights.

The Board-Aligned Policy will recommend votes in support of the board recommendation on all ballot items except in circumstances where an issue does not meet with the core objectives outlined above, and as detailed in these guidelines.

1. Board of Directors

Voting on Director Nominees in Uncontested Elections

**Board-Aligned Policy Recommendation:** Generally vote with board recommendations on director nominees, except under the following limited circumstances:

**Independence**

Generally vote against\(^1\) or withhold from non-independent directors (per the company’s determination of independence) as appropriate when the company fails to meet exchange requirements for board independence and key committee independence.

**Composition**

Generally vote against or withhold from the chair of the nominating committee (or other directors on a case-by-case basis) at companies that fail to meet exchange requirements for board diversity.

**Responsiveness**

Vote case-by-case on individual directors, committee members, or the entire board of directors as appropriate if:

---

\(^1\) In general, companies with a plurality vote standard use “Withhold” as the contrary vote option in director elections; companies with a majority vote standard use “Against”. However, it will vary by company and the proxy must be checked to determine the valid contrary vote option for the particular company.
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:

- Disclosed outreach efforts by the board to shareholders in the wake of the vote;
- Rationale provided in the proxy statement for the level of implementation;
- The subject matter of the proposal;
- The level of support for and opposition to the resolution in past meetings;
- Actions taken by the board in response to the majority vote and its engagement with shareholders;
- The continuation of the underlying issue as a voting item on the ballot (as either shareholder or management proposals); and
- Other factors as appropriate.

The board failed to act on takeover offers where the majority of shares were tendered;

At the previous board election, any director received more than 50 percent withhold/against votes of the shares cast and the company has failed to address the issue(s) that caused the majority withhold/against vote.

Vote case-by-case on Compensation Committee members (or, in exceptional cases, the full board) and the Say on Pay proposal if the company’s previous say-on-pay received the support of less than 50 percent of votes cast. Factors that will be considered are:

- The company's response, including:
  - Disclosure of engagement efforts with major institutional investors, including the frequency and timing of engagements and the company participants (including whether independent directors participated);
  - Disclosure of the specific concerns voiced by dissenting shareholders that led to the say-on-pay opposition;
  - Disclosure of specific and meaningful actions taken to address shareholders' concerns;
- Other recent compensation actions taken by the company;
- Whether the issues raised are recurring or isolated; and
- The company's ownership structure.

**Accountability**

**Problematic Audit-Related Practices**

Generally vote against or withhold from the members of the Audit Committee and potentially the full board if:

- Poor accounting practices are identified that rise to a level of serious concern, such as: fraud; misapplication of GAAP; and material weaknesses identified in Section 404 disclosures. Examine the severity, breadth, chronological sequence, and duration, as well as the company’s efforts at remediation or corrective actions, in determining whether withhold/against votes are warranted.

**Governance Failures**

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

- Material failures of governance, stewardship, risk oversight\(^2\), or fiduciary responsibilities at the company; or
- Failure to replace management as appropriate.

\(^2\) Examples of failure of risk oversight include but are not limited to: bribery; large or serial fines or sanctions from regulatory bodies; demonstrably poor risk oversight of environmental and social issues, including climate change; significant adverse legal judgments or settlement; or hedging of company stock.
2. Audit-Related

**Auditor Ratification**

**Board-Aligned Policy Recommendation:** Generally vote with board recommendations on ratifying auditors unless:

- There is reason to believe that the independent auditor has rendered an opinion that is neither accurate nor indicative of the company’s financial position; or
- Poor accounting practices are identified that rise to a serious level of concern, such as fraud or misapplication of GAAP.

3. Corporate Transactions

**Board-Aligned Policy Recommendation:** Generally vote following the ISS Benchmark policy vote recommendations regarding corporate transactions and restructurings.

4. Compensation

**Advisory Votes on Executive Compensation Proposals (Say-on-Pay)**

**Board-Aligned Policy Recommendation:** Generally vote with board recommendations on ballot items related to executive pay and practices, as well as certain aspects of outside director compensation, except:

Vote against Advisory Votes on Executive Compensation (Say-on-Pay or “SOP”) in the following limited circumstances:

- The company maintains significant problematic pay practices, such as:
  - New employment agreements that contain excise tax gross-ups;
  - Option backdating;
  - Excessive termination or change-in-control (CIC) severance payments; and CIC severance payments without involuntary job loss or substantial diminution of duties ("single" or "modified single" triggers);
- The board exhibits a significant level of poor communication and responsiveness to shareholders following one or more Say-on-Pay votes with greater than 50% opposition.

**Equity-Based and Other Incentive Plans**

**Board-Aligned Policy Recommendation:** Generally vote with board recommendations on equity-based compensation plans. Vote against equity plan that expressly permit the repricing or exchange of underwater stock options/stock appreciation rights (SARs) without prior shareholder approval.

"Repricing" typically includes the ability to do any of the following:

- Amend the terms of outstanding options or SARs to reduce the exercise price of such outstanding options or SARs;
- Cancel outstanding options or SARs in exchange for options or SARs with an exercise price that is less than the exercise price of the original options or SARs;
- Cancel underwater options in exchange for stock awards; or
- Provide cash buyouts of underwater options.

While the above cover most types of repricing, ISS may view other provisions as akin to repricing depending on the facts and circumstances.

5. Shareholder Proposals

Governance & Compensation-Related

**Board-Aligned Policy Recommendation:** Generally vote with board recommendations on governance and compensation-related shareholder proposals except in the following limited circumstances:

**Compensation-Related Shareholder Proposals**

- **Board-Aligned Policy Recommendation:** Generally vote for shareholder proposals that seek to address or prevent egregious practices; such as shareholder proposals that request the introduction of malus or clawback provisions.

**Declassification of the Board**

- **Board-Aligned Policy Recommendation:** Generally vote for shareholder proposals to repeal classified boards and to elect all directors annually.

**Proxy Access**

- **Board-Aligned Policy Recommendation:** Generally vote for shareholder proposals to adopt a proxy access right with the following provisions:
  - **Ownership threshold:** maximum requirement not more than three percent (3%) of the voting power;
  - **Ownership duration:** maximum requirement not longer than three (3) years of continuous ownership for each member of the nominating group;
  - **Aggregation:** minimal or no limits on the number of shareholders permitted to form a nominating group;
  - **Cap:** cap on nominees of generally twenty-five percent (25%) of the board.

Review for reasonableness any other restrictions on the right of proxy access.

- Generally vote with board recommendations on shareholder proposals to amend an existing proxy access right.

**Shareholder Ability to Call Special Meetings**

- **Board-Aligned Policy Recommendation:** Generally vote following for shareholder proposals to provide shareholders with the ability to call special meetings, taking into account the following factors:
  - Shareholders’ current right to call special meetings;
  - Minimum ownership threshold necessary to call special meetings (10 percent preferred);
The inclusion of exclusionary or prohibitive language;
Investor ownership structure; and
Shareholder support of, and management’s response to, previous shareholder proposals.

Generally vote with board recommendations on proposals to reduce the ownership threshold to call special meetings.

Supermajority Vote Requirements

**Board-Aligned Policy Recommendation:** Generally vote for shareholder proposals to reduce supermajority vote requirements. However, for companies with shareholder(s) who have significant ownership levels, vote case-by-case, taking into account:

- Ownership structure;
- Quorum requirements; and
- Vote requirements.

Environmental & Social-Related Shareholder Proposals

**Board-Aligned Policy Recommendation:** Generally vote with board recommendations on environmental and social-related shareholder proposals that are too prescriptive or deemed to be in the purview of management. However, the policy may support shareholder proposals that address material environmental or social issues when there has not been demonstrated commitment to address investor concerns of business risks that may impact long term shareholder value.
We empower investors and companies to build for long-term and sustainable growth by providing high-quality data, analytics, and insight.

GET STARTED WITH ISS SOLUTIONS

Email sales@issgovernance.com or visit issgovernance.com for more information.

Founded in 1985, the Institutional Shareholder Services group of companies (“ISS”) is the world’s leading provider of corporate governance and responsible investment solutions alongside fund intelligence and services, events, and editorial content for institutional investors, globally. ISS’ solutions include objective governance research and recommendations; responsible investment data, analytics, and research; end-to-end proxy voting and distribution solutions; turnkey securities class-action claims management (provided by Securities Class Action Services, LLC); reliable global governance data and modeling tools; asset management intelligence, portfolio execution and monitoring, fund services, and media. Clients rely on ISS’ expertise to help them make informed investment decisions.

This document and all of the information contained in it, including without limitation all text, data, graphs, and charts (collectively, the “Information”) is the property of Institutional Shareholder Services Inc. (ISS), its subsidiaries, or, in some cases third party suppliers.

The Information has not been submitted to, nor received approval from, the United States Securities and Exchange Commission or any other regulatory body. None of the Information constitutes an offer to sell (or a solicitation of an offer to buy), or a promotion or recommendation of, any security, financial product or other investment vehicle or any trading strategy, and ISS does not endorse, approve, or otherwise express any opinion regarding any issuer, securities, financial products or instruments or trading strategies.

The user of the Information assumes the entire risk of any use it may make or permit to be made of the Information.

ISS MAKES NO EXPRESS OR IMPLIED WARRANTIES OR REPRESENTATIONS WITH RESPECT TO THE INFORMATION AND EXPRESSLY DISCLAIMS ALL IMPLIED WARRANTIES (INCLUDING, WITHOUT LIMITATION, ANY IMPLIED WARRANTIES OF ORIGINALITY, ACCURACY, TIMELINESS, NON-INFRINGEMENT, COMPLETENESS, MERCHANTABILITY, AND FITNESS for A PARTICULAR PURPOSE) WITH RESPECT TO ANY OF THE INFORMATION.

Without limiting any of the foregoing and to the maximum extent permitted by law, in no event shall ISS have any liability regarding any of the Information for any direct, indirect, special, punitive, consequential (including lost profits), or any other damages even if notified of the possibility of such damages. The foregoing shall not exclude or limit any liability that may not by applicable law be excluded or limited.

© 2021 | Institutional Shareholder Services and/or its affiliates