



INTERNATIONAL

PUBLIC FUND PROXY VOTING GUIDELINES

2025 Policy Recommendations

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TABLE OF CONTENTS

Fiduciary Proxy Voting Guidelines for Public Plan Sponsors	5
1. Operational Items	6
Financial Results/Director and Statutory Reports	6
Appointment of Auditors and Auditor Fees	6
Appointment of Internal Statutory Auditors	7
Allocation of Income	8
Stock (Scrip) Dividend Alternative and Dividend Reinvestment Plans	9
Amendments to Articles of Association	9
Amendments to Articles to Allow Virtual Meetings	10
Change in Company Fiscal Term	10
Lower Disclosure Threshold for Stock Ownership	10
Transact Other Business	11
2. Board of Directors	12
Director and Supervisory Board Member Elections	12
Board Diversity	16
Climate Accountability	20
Contested Director Elections	21
Discharge of Board and Management	22
Director and Officer Liability and Indemnification, and Auditor Indemnification	23
Board Structure	24
Board Size	24
Adopt Classified Board	24
Introduction of Mandatory Age of Retirement	24
Altering Board Size	25
3. Capital Structure	26
Authorized Capital System	26
Conditional Capital System	26
Share Issuance Requests	27
General Issuances	27
Specific Issuances	28
Increases in Authorized Capital	28
Reduction of Capital	29
Capital Structures	29
Preferred Stock	30
Blank Check Preferred Stock	31
Debt Issuance Requests	31
Pledging of Assets for Debt	32
Increase in Borrowing Powers	32
Share Repurchase Plans	33

Reissuance of Shares Repurchased	34
Capitalization of Reserves for Bonus Issues/Increase in Par Value	34
4. Mergers and Corporate Restructurings	35
Reorganizations/Restructurings	35
Mergers and Acquisitions	35
Reincorporation Proposals	37
Expansion of Business Activities	38
Related Party Transactions	38
5. Compensation	40
Executive Compensation	40
Non-Executive Director Compensation	41
Equity-Based Compensation Plans	41
Stock Option Plans	42
Shares Reserved for Issuance of Options under the Plan	42
Exercise Price	43
Exercise Price Discounts	43
Plan Administration	43
Eligibility and Participation	43
Performance Criteria and Vesting Provisions	43
Retesting of Performance Criteria	44
Issue Terms	44
Option repricing	44
Financial Assistance	44
Plans for International Employees	45
Stock Appreciation Rights	45
Phantom Stock Option Plans	45
Super Options	45
Restricted Stock	45
Dividends under Option and Dividend Equivalent Payment Provisions	45
Incentive Plans	46
Share Purchase Plans	46
Eligibility	46
Loan Terms	46
Grants Outside of Plans	47
6. Antitakeover Mechanisms	48
Renew Partial Takeover Provision (Australia)	48
Golden Shares	48
Poison Pills (Canada, Japan)	48
Depositary Receipts and Priority Shares (The Netherlands)	50
7. Shareholder Rights and Defenses	51
Exclusive Forum Proposals (Canada)	51
8. Shareholder Proposals	52
Corporate Governance Proposals	52
Social and Environmental Proposals	53
Say on Climate (SoC) Management Proposals	54
Say on Climate (SoC) Shareholder Proposals	54
Report on Environmental Policies	54



Adoption of Ceres Roadmap to 203054

Adoption of "MacBride Principles"55

Contract Supplier Standards55

Corporate Conduct and Human Rights55

9. Other Items 56

Charitable Donations56

Fiduciary Proxy Voting Guidelines for Public Plan Sponsors

Public fund fiduciaries and their investment managers are required to vote proxies solely in the best interest of plan participants and beneficiaries. As fiduciaries, public funds trustees must act with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.

The execution of proxy-voting rights at shareholder meetings is a required duty of pension fund fiduciaries. The U.S. Department of Labor (DOL) has stated that the fiduciary act of managing plan assets that are shares of corporate stock includes the voting of proxies appurtenant to those shares of stock and that trustees may delegate this duty to an investment manager.¹ While public pension plans are not directly subject to the Employment Retirement Income Security Act of 1974 (ERISA), most do generally comply with the position set forth by the U.S. Department of Labor in 1988 with regard to the fiduciary responsibilities governing the voting of shares of stock owned by the plan.

These proxy voting guidelines are designed to help ensure that public funds fulfill all statutory and common law obligations governing proxy voting, with the intent of maximizing the long-term economic benefits of its plan participants, beneficiaries and citizens of the state in which the fund resides. This includes an obligation to vote proxies in a manner consistent with sound corporate governance and responsible corporate citizenship. Sound corporate governance and responsible corporate practices lead to increased long-term shareholder value.

While these guidelines often provide explicit guidance on how to vote proxies with regard to specific issues that appear on ballot, they are not intended to be exhaustive. Hundreds of issues appear on proxy ballots every year; as such, it is neither practical nor reasonable to fashion voting guidelines and policies which attempt to address every eventuality. Rather, these guidelines are intended to cover the most significant and frequent proxy issues that arise. Each proxy issue should be subject to a rigorous analysis of the economic impact of the issue on the long-term share value. All votes shall be cast solely in the long-term interest of the participants and beneficiaries of the plan.

These proxy voting guidelines address a broad range of issues, including election of directors, executive compensation, auditor ratification, proxy contests, mergers and acquisitions, and tender offer takeover defenses. In addition to governance issues, these guidelines address broader issues of corporate citizenship that can also have a direct impact on corporate performance and important stakeholder interests, including climate risk, job security and wage parity, local economic development and stability, and workplace safety and health issues. In accordance with state laws, the policies take into consideration actions that promote good corporate citizenship through the proxy process.

¹ Most public sector pension plans, regulatory bodies, and professional associations have adopted the views of the U.S. Department of Labor on fiduciary duties related to proxy voting. The Department of Labor's Employee Benefits Security Administration (previously known as the Pension and Welfare Benefits Administration) has stated in opinion letters and an interpretative bulletin that the voting rights related to shares of stock held by pension plans are plan assets. Therefore, according to the Department, "the fiduciary act of managing plan assets which are shares of corporate stock would include the voting of proxies appurtenant to those shares of stock." Sources include: the Department of Labor Opinion Letter (Feb.23, 1988), reprinted in 15 Pens. Rep. (BNA), 391, the Department of Labor Opinion Letter (Jan.23, 1990), reprinted in 17 Pens. Rep. (BNA), 244 and the Interpretative Bulletin, 94-2.

1. Operational Items

Financial Results/Director and Statutory Reports

Public Fund Advisory Services Recommendation: Vote for approval of financial statements, report of the board of directors, independent auditor reports, and other statutory reports, unless:

- There are concerns about the accounts presented or audit procedures used;
- The company is not responsive to shareholder questions about specific items that should be publicly disclosed; or
- The company failed to disclose the financial reports in a timely manner.

Discussion

Most companies around the world submit these reports to shareholders for approval, and this is one of the first items on most agenda. The official financial statements and director and auditor reports are valuable documents when evaluating a company's annual performance. The director report usually includes a review of the company's performance during the year, justification of dividend levels and profits or losses, special events such as acquisitions or disposals, and future plans for the company.

The auditor report discloses any irregularities or problems with the company's finances. While a qualified report by itself is not sufficient reason to oppose this resolution, it raises cautionary flags of which shareholders should be aware. Most auditor reports are unqualified, meaning that in the auditor's opinion, the company's financial statements have been prepared in accordance with generally accepted accounting principles.

When evaluating a company's financial statements, Public Fund Advisory Services looks at debt/equity levels on the balance sheet, historical sales and earnings performance, dividend history and payout ratios, and the company's own performance relative to similar companies in its industry. Unless there are major concerns about the accuracy of the financial statements or the director or auditor reports, Public Fund Advisory Services generally approves of this item.

Appointment of Auditors and Auditor Fees

Public Fund Advisory Services Recommendation: Vote for the reelection of auditors and proposals authorizing the board to fix auditor fees, unless:

- The name of the proposed auditors has not been published;
- There are serious concerns about the effectiveness of the auditors;
- The lead audit partner(s) has been linked with a significant auditing controversy;
- There is reason to believe that the auditor has rendered an opinion, which is neither accurate nor indicative of the company's financial position;
- The lead audit partner(s) has previously served the company in an executive capacity or can otherwise be considered affiliated with the company;
- The breakdown of audit or non-audit fees is not disclosed or provided in a timely manner (in markets where such information is routinely available);
- The auditors have been changed without explanation; or
- Fees for non-audit/consulting services exceed a quarter of total fees paid to the auditor or any stricter limit set in local best practice recommendations or law; or

Vote against auditor remuneration proposals if a company's non-audit fees are excessive and auditor remuneration is presented as a separate voting item.

In circumstances where fees for non-audit services include fees related to significant one-time capital structure events: initial public offerings, bankruptcy emergencies, and spin-offs; and the company makes public disclosure of the amount and nature of those fees which are an exception to the standard "non-audit fee" category, then such fees may be excluded from the non-audit fees considered in determining the ratio of non-audit to audit fees.

Public Fund Advisory Services will apply its U.S. policy at U.S. firms incorporated in offshore tax and governance havens that do not qualify for disclosure exemptions, and vote against the reelection of auditors where auditor tenure exceeds seven years.

Discussion

Most major public companies around the world use one of the major international auditing firms to conduct their audits. As such, concerns about the quality and objectivity of the audit are minimal, and the reappointment of the auditor is usually viewed as a routine matter. Audit fees tend to be highly competitive and vary little between companies. However, if a company proposes a new auditor or an auditor resigns and does not seek reelection, companies should offer an explanation to shareholders. If shareholders request an explanation for a change in auditor and the company or retiring auditor fails to provide one, Public Fund Advisory Services will vote against the election of a new auditor. If an explanation is otherwise unavailable, Public Fund Advisory Services will vote against this item.

Many countries also require the appointment of censors, or special auditors who ensure that the board and management are in compliance with the company's articles. The censors' role is purely advisory in nature. Proposals to appoint censors are routine, as the censors usually act as a secondary auditor for special audit requirements.

The practice of auditors contributing non-audit services to companies is problematic, as illuminated by the accounting scandals around the world. When an auditor is paid more in consulting fees than for auditing, the company/auditor relationship is left open to conflicts of interest. Because accounting scandals evaporate shareholder value, any proposal to ratify auditors is examined for potential conflicts of interest, with particular attention to the fees paid to the auditor. When fees from non-audit services become significant without any clear safeguards against conflicts of interest, Public Fund Advisory Services will oppose the auditor's reappointment.

Appointment of Internal Statutory Auditors

Public Fund Advisory Services Recommendation: Vote for the appointment or reelection of statutory auditors, unless:

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

Discussion

The appointment of internal statutory auditors is a routine request for companies in Latin America, Italy, Spain, Portugal, Japan, and Russia. The statutory auditing board is usually composed of three to five members, including a group chair and two alternate members, all of whom are expected to be independent. In addition to the regular duty of verifying corporate accounts, the auditor board is responsible for supervising management and ensuring compliance with the law and articles of association. The auditors must perform an audit of the accounts every

three months and present to shareholders a report on the balance sheet at the AGM. For most countries, the auditors are elected annually and may seek reelection. Public Fund Advisory Services supports the appointment of statutory auditors unless there are serious concerns about the reports presented or questions about an auditor's qualifications.

Allocation of Income

Public Fund Advisory Services Recommendation: Vote for approval of the allocation of income, unless:

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

Discussion

Many countries require shareholders to approve the allocation of income generated during the year. These proposals usually, but not always, contain an allocation to dividends. When determining the acceptability of this proposal, Public Fund Advisory Services focuses primarily on the payout ratio. Payouts of less than 30 percent or more than 100 percent are a trigger for further analysis. The minimum level of 30 percent is based on a review of international practice. Payouts of more than 100 percent are a signal that the company is dipping into reserves to make the payment.

Further analysis of payout ratios should include the following: an examination of historical payouts to determine if there is a long-term pattern of low payouts; exceptional events that may have artificially modified earnings for the year; the condition of a company's balance sheet; comparisons with similar companies both domestically and internationally; and the classification of the company as growth or mature.

Justifications for extreme payouts must be reviewed carefully. If the company has an adequate explanation for a certain payout, Public Fund Advisory Services supports the income allocation as proposed. However, if a company has a pattern of low payouts, fails to adequately justify the retention of capital, and is not experiencing above-average growth, Public Fund Advisory Services will oppose the proposal. Public Fund Advisory Services will also vote against the payout if a company appears to be maintaining an excessive payout that may affect its long-term health.

Although dividend payouts are still the predominant form of distribution of capital to shareholders, share buybacks have become more popular in some markets, such as Denmark. In these cases, companies have introduced policies to return capital to shareholders by way of share repurchases instead of through the payment of dividends. Public Fund Advisory Services votes on proposals to omit the payment of a dividend in favor of a share buyback on a case-by-case basis by looking at factors such as whether repurchased shares will be cancelled or may be reissued, tax consequences for shareholders, liquidity of the shares, share price movements and the solvency ratio of the company.

Stock (Scrip) Dividend Alternative and Dividend Reinvestment Plans

Public Fund Advisory Services Recommendation:

- Vote for most stock (scrip) dividend proposals.
- Vote against proposals that do not allow for a cash option unless management demonstrates that the cash option is harmful to shareholder value.

Discussion

Stock dividend alternatives, also referred to in some markets as “scrip” dividend alternatives or dividend reinvestment plans (DRIPS), offer shareholders the option of receiving their dividend payment in the form of fully paid ordinary shares and are common proposals worldwide. While dividend payments in the form of shares in lieu of cash do not immediately add to shareholder value, they allow companies to retain cash and to strengthen the position and commitment of long-term shareholders. While Public Fund Advisory Services is generally supportive of such plans, Public Fund Advisory Services opposes stock dividend proposals that do not allow a cash option unless management shows that the cash outflow is detrimental to the company’s health and to long-term shareholder value.

Amendments to Articles of Association

Public Fund Advisory Services Recommendation: Votes on amendments to the articles of association are considered on a case-by-case basis.

Discussion

Requests to amend a company’s articles of association are usually motivated by changes in the company’s legal and regulatory environment, although evolution of general business practice can also prompt amendments to articles. Such proposals are especially common whenever stock exchange listing rules are revised, new legislation is passed, or a court case exposes the need to close loopholes.

Amendments to articles range from minor spelling changes to the adoption of an entirely new set of articles. While the majority of such requests are of a technical and administrative nature, minor changes in wording can have a significant impact on corporate governance. As such, Public Fund Advisory Services carefully scrutinizes any changes to a company’s articles.

From a company’s perspective, it is often more efficient to adopt a new set of articles than to introduce numerous amendments. However, bundling changes that treat different provisions of the articles into one voting item prevents shareholders from separating items of concern from routine changes. By leaving a shareholder with an all-or-nothing choice, bundling allows companies to include negative provisions along with positive or neutral changes.

When reviewing new or revised articles, Public Fund Advisory Services classifies each change according to its potential impact on shareholder value and then weighs the package as a whole. The presence of one strongly negative change may warrant a recommendation against the resolution. In assigning these classifications, Public Fund Advisory Services is not concerned with the nature of the article being amended, but rather focuses on whether the proposed change improves or worsens the existing provision.

The final criterion on which Public Fund Advisory Services bases its decision is whether failure to pass a resolution would cause an immediate loss of shareholder value. In such cases, Public Fund Advisory Services supports even a bundled resolution that includes negative changes.

Amendments to Articles to Allow Virtual Meetings

Public Fund Advisory Services Recommendation: Generally vote for proposals allowing for the convening of hybrid² shareholder meetings.

Vote case-by-case on proposals concerning virtual-only meetings³ considering:

- Whether the company has committed to ensuring shareholders will have the same rights participating electronically as they would have for an in-person meeting;
- Assurance that a virtual-only meeting will only be convened in the case of extraordinary circumstances that necessitate restrictions on physical attendance;
- The use of past authorizations to hold virtual-only meetings and the accompanying rationale for doing so;
- In-person or hybrid meetings are not precluded; and
- Local laws and regulations concerning the convening of virtual meetings.

Discussion

While there is recognition of the potential benefits of enabling participation at shareholder meetings via electronic means, investors have raised concerns about moves to completely eliminate physical shareholder meetings, arguing that virtual meetings may hinder meaningful exchanges between management and shareholders and enable management to avoid uncomfortable questions.

Change in Company Fiscal Term

Public Fund Advisory Services Recommendation: Vote for resolutions to change a company's fiscal term unless a company's motivation for the change is to postpone its annual general meeting (AGM).

Discussion

Companies routinely seek shareholder approval to change their fiscal year end. This is a decision best left to management. Public Fund Advisory Services opposes this resolution only if the company is changing its year-end to postpone its AGM. Most countries require companies to hold their AGM within a certain period of time after the close of the fiscal year. If a company is embroiled in a controversy, it might seek approval to amend its fiscal year end at an EGM to avoid controversial issues at an AGM. Public Fund Advisory Services opposes the change in year-end in these cases.

Lower Disclosure Threshold for Stock Ownership

Public Fund Advisory Services Recommendation: Vote against resolutions to lower the stock ownership disclosure threshold below 5 percent unless specific reasons exist to implement a lower threshold.

Discussion

Required shareholder disclosure levels vary around the world. Some countries, such as Canada, require the disclosure of any stakes ten percent or higher, while other countries require lower disclosure levels. For example,

² The term "hybrid shareholder meeting" refers to an in-person, or physical, meeting in which shareholders are permitted to participate online.

³ The phrase "virtual-only shareholder meeting" refers to a meeting of shareholders that is held exclusively through the use of online technology without a corresponding in-person meeting.

the United Kingdom requires disclosure of stakes of three percent or greater. In some countries, shareholders may be asked from time to time to reduce the disclosure requirement at a specific company. Public Fund Advisory Services will support such initiatives as they encourage greater disclosure by the company's largest shareholders. However, Public Fund Advisory Services will vote against reductions that are unduly restrictive or could act as a pretext for an antitakeover device.

Transact Other Business

Public Fund Advisory Services Recommendation: Vote against other business when it appears as a voting item.

Discussion

This item provides a forum for questions and any other resolutions that may be brought up at the meeting. In most countries this item is a non-voting formality (not requiring a shareholder vote), but companies in certain countries do include other business as a voting item. Because shareholders who vote by proxy cannot know what issues will be raised under this item, Public Fund Advisory Services cannot approve this request when asked for a vote. While Public Fund Advisory Services recognizes that in most cases this item is a formality or includes discussion that will have no impact on shareholders, shareholders cannot risk the negative consequences of voting in advance on an item for which information has not been disclosed.

2. Board of Directors

Director and Supervisory Board Member Elections

Public Fund Advisory Services Recommendation: Vote for management nominees in the election of directors, unless:

- Adequate disclosure has not been provided in a timely manner prior to the meeting;
- There are clear concerns about the past performance of the company or the board, including:
 - Questionable finances or restatements;
 - Questionable transactions with conflicts of interest;
- The board fails to meet minimum corporate governance standards, including board independence standards;
- There is a lack of independence on the board and/or its key committees;
- There are concerns that long board tenures could compromise the independence and objectivity of board members. Non-executive board members with long-tenures may be classified as non-independent, despite being considered independent by the company;
- There are any records of abuses against minority shareholder interests;
- The board takes actions that are not in shareholders' best interests (excessive executive compensation, adopting antitakeover devices, failure to respond to shareholder concerns/wishes, or demonstrating a "lack of duty or care");
- The company has failed to disclose the audit fees and/or non-audit fees in the latest fiscal year;
- Non-audit fees (Other Fees) paid to the external audit firm exceed audit and audit-related fees; or
- The board has been insensitive to labor interests, human rights, supplier codes of conduct, or has engaged in other corporate activities that affect the reputation of the company in the global market.

Generally vote for employee and/or labor representatives.

In markets where detailed information is generally provided, votes against or withhold votes on individual nominees, key committee members or the entire board can be triggered by one or more of the following concerns:

- Lack of a majority independent board;
- Attendance of director nominees at board and key committee meetings of less than 75 percent without valid reason or explanation;
- Lack of full independence on key board committees (i.e. audit, compensation, and nominating committees);
- Failure to establish any key board committees (i.e. audit, compensation, or nominating) including where the board serves in the capacity of a key committee, and where there is insufficient information to determine whether key committees exist, who the committee members are, or whether the committee members are independent;
- Presence of a non-independent board chair;
- Directors serving on an excessive number of other boards which could compromise their primary duties. In markets where the number of board appointments is routinely available, an excessive number of boards is defined as:
 - Any person who holds more than four mandates at listed companies will be classified as overboarded. For the purposes of calculating this limit, a non-executive directorship counts as one mandate, a non-executive chair position counts as two mandates, and a position as executive director (or a comparable role) is counted as three mandates.
 - Also, any CEO who holds more than two total mandates at listed companies will be classified as overboarded at all boards where the director is not currently CEO.
- The names of nominees are unavailable or not provided in a timely manner prior to the meeting (in markets where this information is available);
- Director terms are not disclosed or exceed market norms;
- Egregious actions including:

- Material failures of governance, stewardship, risk oversight⁴, or fiduciary responsibilities at any company on whose board a director serves (objectively coming to light in legal proceedings, regulatory investigation or enforcement, or other manner which takes place in relation to the company, directors or management);
- Failure to replace management or directors as appropriate; or
- Egregious actions related to the director(s)' service on other boards that raise substantial doubt about his or her ability to effectively oversee management and serve the best interests of shareholders at any company.

For bundled director elections, vote against the entire slate if any of the concerns above apply to a particular nominee.

- At Canadian TSX and TSXV firms, generally withhold votes from all directors nominated by slate ballot at the annual/general or annual/special shareholders' meetings. This policy will not apply to contested director elections. Furthermore, for the Canadian market, Public Fund Advisory Services may recommend withhold votes from individual directors, committee members, or the entire board as appropriate in situations where an advance notice policy has been adopted by the board but has not been included on the voting agenda at the next shareholders' meeting. Continued lack of shareholder approval of the advanced notice policy in subsequent years may result in further withhold recommendations.
- Furthermore, generally withhold from continuing individual directors or the entire board of directors if:
 - At the previous board election, any director received more than 50 percent withhold votes of the votes cast and the company has failed to address the issue(s) that caused the majority withheld vote; or
 - The board failed to act⁵ on a shareholder proposal that received the support of a majority of the votes cast for and against at the previous shareholder meeting.
- In Italy, the election of directors takes place through the voto di lista mechanism (similar to slate elections). Since the Italian implementation of the European Shareholder Rights Directive (effective since Nov. 1, 2010), Italian issuers whose shares are listed on the Italian regulated market Euronext Milan must publish the various lists 21 days in advance of the meeting. Since shareholders only have the option to support one such list, where lists are published in sufficient time, vote recommendations will be made on a case-by-case basis, determining which list of nominees are considered best suited to add value for shareholders. Those companies that are excluded from the provisions of the European Shareholder Rights Directive generally publish lists of nominees seven days before the meeting. In the case where nominees are not published in sufficient time, Public Fund Advisory Services will recommend a vote against the director elections before the lists of director nominees are disclosed. Once the various lists of nominees are disclosed, an alert will be issued to clients and, if appropriate, the vote recommendation will be updated to reflect support for one particular list.
- In Brazil, when a separate election is presented for minority board and/or fiscal council nominees, Public Fund Advisory Services will prioritize support for the election of minority representatives, if timely disclosure is provided. In the absence of timely disclosure regarding minority nominees, a "Do Not Vote" or an "ABSTAIN" recommendation may be issued for the separate minority election proposal. Public Fund Advisory Services will update its report and vote recommendations, as applicable, on a best effort basis, whenever the names and biographical information of minority nominees are disclosed following the publication of the original report.
- In France, generally vote against proposals seeking shareholder approval to elect a censor, to amend bylaws to authorize the appointment of censors, or to extend the maximum number of censors to the board. However,

⁴ Examples of failure of risk oversight include but are not limited to: bribery; criminal conduct; 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 settlements against the company, directors, or management; hedging of company stock; or significant pledging of company stock.

⁵ Responding to the shareholder proposal will generally mean either full implementation of the proposal or, if the matter requires a vote by shareholders, a management proposal on the next annual ballot to implement the proposal. Responses that involve less than full implementation will be considered on a case-by-case basis.

vote on a case-by-case basis when the company provides assurance that the censor would serve on a short-term basis (maximum one year) with the intent to retain the nominee before his/her election as director.

Discussion

Most countries around the world maintain an Anglo-Saxon board structure, as seen in the United States, in which executive and nonexecutive directors are organized into a single board. However, companies in a number of countries maintain two-tiered board structures, comprising a supervisory board of non-executive directors and a management board with executive directors. The supervisory board oversees the actions of the management board, while the management board is responsible for the company's daily operations. Companies with two-tiered boards elect members to the supervisory board only; management board members are appointed by the supervisory board.

Depending on the country, shareholders will be asked to either elect directors or supervisory board members at annual meetings. Public Fund Advisory Services considers director/supervisory board elections to be one of the most important voting decisions that shareholders make, especially because shareholders are only given the opportunity to review their companies' operations once a year at the AGM. Thus, if detailed information on boards or nominees is available, analysis to the highest degree possible is warranted. Directors and supervisory board members function as the representatives of shareholders and stakeholders throughout the year and are therefore, a crucial avenue of ongoing influence on management.

Levels of disclosure regarding directors vary widely. In some countries, such as the United Kingdom, Canada, and Australia, companies publish detailed information such as director biographies, share ownership, and related information that aids shareholders in determining the level of director independence. In these cases, Public Fund Advisory Services applies standards of board and key board committee independence. In many other countries, the only information available on directors is their names, while still other countries disclose no information at all. In low-disclosure markets where sufficiently detailed information about directors is unavailable, it could be counterproductive to vote against directors on the basis of a lack of information. Opposition to specific nominees or boards should be supported by specific problems or concerns.

While Public Fund Advisory Services supports the annual election of directors, boards in many countries are divided into two or more classes that are elected on a staggered basis. This system of classified boards is common across the world. In certain countries, executive directors may be appointed for terms of up to six years, and a company's articles may give executive directors protected board seats under which they are not subject to shareholder election. Public Fund Advisory Services believes directors should stand for reelection annually in order to be accountable to shareholders on an annual basis, and opposes article amendment proposals seeking extensions of director terms. Public Fund Advisory Services also opposes protected board seats and preferential treatment of executive directors. In some countries the trend is moving toward limiting terms for directors. In The Netherlands, the corporate governance code recommends that management and supervisory board members be subject to maximum four-year terms. Although Public Fund Advisory Services recognizes that four-year terms maybe the standard in the some markets, Public Fund Advisory Services will oppose the election of new directors or the reelection of an existing director when their terms are not disclosed or where their term lengths exceed market norms.

When reviewing director election proposals (where possible given information disclosure), Public Fund Advisory Services examines board composition, company performance, and any negative views or information on either the company or individual directors. Public Fund Advisory Services determines the number of executive and independent directors on the board, the existence and composition of board committees, and the independence of the chair. An independent director is one whose only significant relationship with the company is through its board seat. Public Fund Advisory Services defines members of supervisory boards, which represent organized workers' interests, as independent. In cases where board composition is of concern, the company's general health and its recent financial performance may play a part in the evaluation of directors. Individual director information is also considered, including share ownership among director nominees. In markets where board independence

composition information is routinely available, Public Fund Advisory Services will generally oppose all non-independent director nominees if the board is not majority independent. For U.S. firms incorporated in offshore tax or governance havens that do not qualify for disclosure exemptions, Public Fund Advisory Services will apply its U.S. policy and vote against non-independent director nominees if the board is not majority independent or where key board committees are not completely independent.

While complete independence on board committees is widely recognized as best practice, there are some markets in which it is still common to find executive directors serving as committee members. Whenever the level of disclosure is adequate to determine whether a committee includes company insiders, Public Fund Advisory Services will generally vote against these executive directors.

Public Fund Advisory Services also takes into account the attendance records of directors when such information is provided to shareholders, using a benchmark attendance rate of 75 percent of board meetings. If an individual director fails to attend at least 75 percent of board meetings, Public Fund Advisory Services makes further inquiries to the company regarding the absences. Public Fund Advisory Services will vote against /withhold votes from the director unless the company has provided a reasonable explanation for the absences. International companies tend to have directors who reside in other countries on their boards, making attendance difficult. While Public Fund Advisory Services understands the difficulties imposed on such directors, failing to attend meetings prevents directors from fulfilling their fiduciary obligations and adequately representing shareholder interests. Other business obligations and conflicting travel schedules are not acceptable reasons for consistently poor attendance records. Public Fund Advisory Services supports the use of teleconferencing and videoconferencing to cope with the increasing time and travel demands faced by directors in global business.

For shareholder nominees, Public Fund Advisory Services places the persuasive burden on the nominee or the proposing shareholder to prove that they are better suited to serve on the board than management's nominees. Serious consideration of shareholder nominees will be given in cases where there are clear and compelling reasons for the nominee to join the board. These nominees must also demonstrate a clear ability to contribute positively to board deliberations; some nominees may have hidden or narrow agendas and may unnecessarily contribute to divisiveness among directors.

In many countries it is customary to elect a single slate of directors. Public Fund Advisory Services does not approve of this practice because shareholders may wish to express differing views as to the suitability of the director nominees and should have the ability to cast ballots with respect to individuals rather than the entire slate. Given improving best practice in more sophisticated markets, which are moving away from single slate director election items, Public Fund Advisory Services will generally oppose director nominees if their election is not presented to shareholders as an individual item in these markets, and will oppose slate nominees in markets where the practice is prevalent and there are concerns with a particular director nominee up for election.

In recent years, the concept that directors should not serve on an excessive number of boards has gained more support as a legitimate governance concern. A common view among many investors is that a director will not be an effective monitor on any board if he/she serves on numerous boards. In markets where disclosure is sufficient (such as detailed director biographies which include information on the director's role on the board and other external appointments both in the local market and abroad), and markets permit individual election of directors, Public Fund Advisory Services will vote against a candidate when he/she holds an excessive number of board appointments. Executive directors are expected not to hold other executive or chair positions. They may, however, hold up to one other non-executive directorship. Chairs are expected not to hold other executive positions or more than one other chair position. They may, however, hold up to two other non-executive directorships. NEDs who do not hold executive or chair positions may hold up to three other non-executive directorships. Public Fund Advisory Services will take into account board positions held in global publicly-listed companies. An adverse vote will not be applied to a director within a company where he/she serves as CEO; instead, any negative votes will be applied to his/her additional seats on other company boards.

Many investors believe that long tenure on a board can, in some circumstances, lead to a sense of identification with the company and the interests of its management team which can damage a director's independence, even in the absence of a formal transactional or professional relationship between the director and the company. Listing rules in both Hong Kong and Singapore provide that where a director designated as independent has served on the board for more than nine years, the company should provide the reasons why the board considers such director to still be independent – in effect, creating a rebuttable presumption that independence will be affected by long tenure. In Hong Kong and Singapore, Public Fund Advisory Services would classify an "independent non-executive director" as non-independent if such director has served on the board for more than nine years. In Hong Kong, the classification of a director is also contingent upon the board's failure to provide any justification for the director's continued independence status or on the fact that the stated reasons raise concerns among investors as to the director's true level of independence. In other markets as applicable, Public Fund Advisory Services may classify non-executive board members with long-tenures as non-independent directors, despite such directors being considered independent by the company.

Director accountability and competence have become issues of prime importance given the failings in oversight exposed by the global financial crisis. There is also concern over the environment in the boardrooms of certain markets, where past failures appear to be no impediment to continued or new appointments at major companies and may not be part of the evaluation process at companies in considering whether an individual is, or continues to be, fit for the role and best able to serve shareholders' interests. Public Fund Advisory Services will consider a potential negative vote at the board, committee, or individual level, if a director has had significant involvement with a failed company, or has in the past appeared not to have acted in the best interests of all shareholders, and/or where substantial doubts have been raised about a director's ability to serve as an effective monitor of management and in shareholders' best interests including consideration of past performance on other boards.

Board Diversity

Public Fund Advisory Services will evaluate diversity on boards in international markets when reviewing director elections, to the extent that disclosures and market practices permit.

Canada

Gender Diversity

For S&P/TSX Composite Index companies, generally vote withhold for the chair of the nominating committee or chair of the committee designated with the responsibility of a nominating committee, or chair of the board of directors if no nominating committee has been identified or no chair of such committee has been identified, where women comprise less than 30% of the board of directors.

S&P/TSX Composite Exemptions:

Assuming a publicly disclosed written commitment to achieve 30% representation of women on the board at or prior to the subsequent AGM, an exception will be made for companies which:

- Joined the S&P/TSX Composite Index and have not previously been subject to a 30% representation of women on the board requirement as an S&P/TSX Composite Index constituent in the past; or
- Have fallen below 30% representation of women on the board after achieving such level of representation at the preceding AGM.

For TSX companies which are not also S&P/TSX Composite Index constituents, generally vote withhold for the chair of the nominating committee or chair of the committee designated with the responsibility of a nominating committee, or chair of the board of directors if no nominating committee has been identified or no chair of such committee has been identified, where there are zero women on the board of directors.

Non-S&P/TSX Composite Exemptions:

This policy will not apply to:

- Newly publicly-listed companies within the current or prior fiscal year;
- Companies that have transitioned from the TSXV within the current or prior fiscal year; or
- Companies with four or fewer directors.

Assuming a publicly disclosed written commitment to add at least one woman to the board at or prior to the subsequent AGM, an exception will be made for companies which temporarily have no women on the board after having at least one woman on the board at the preceding AGM.

Evaluate on a case-by-case basis whether withhold recommendations are warranted for additional directors at companies that fail to meet the above policy that would apply to their respective constituent group over two years or more.

Ethnic Diversity

For companies in the S&P/TSX Composite Index, generally vote against or withhold from the chair of the nominating committee or chair of the committee designated with the responsibility of a nominating committee, or the chair of the board of directors if no nominating committee has been identified or no chair of such committee has been identified, where the board has no apparent racially or ethnically diverse members⁶.

S&P/TSX Composite Exemptions:

With a publicly disclosed written commitment to add at least one racially or ethnically diverse director on the board at or prior to the subsequent AGM, an exception will be made for companies which:

- Joined the S&P/TSX Composite Index and have not previously been subject to the racial/ethnic board requirement as an S&P/TSX Composite Index constituent in the past⁷; or
- Have fallen below the minimum racial or ethnic representation on the board after achieving such level of representation at the preceding AGM.

Evaluate on a case-by-case basis whether against/withhold recommendations are warranted for additional directors at companies that fail to meet the policy over two years or more.

Brazil and Americas Regional

Generally vote against director elections at companies where the post-election board contains no female directors.

- For bundled elections, vote against the entire slate.
- For unbundled elections, vote against the chair of the nominating committee or chair of the committee designated with the responsibility of a nominating committee, or all such committee members if no

⁶ Aggregate diversity statistics provided by the board will only be considered if specific to racial and/or ethnic diversity. Racial and/or Ethnic Diversity is defined as: Aboriginal peoples (means persons who are Indigenous, Inuit or Métis) and members of visible minorities (means persons, other than Aboriginal peoples, who are non-Caucasian in race or non-white in colour).

Employment Equity Act (S.C. 1995, c. 44) <https://laws-lois.justice.gc.ca/eng/acts/E-5.401/section-3.html>

⁷ Since the previous AGM.

committee chair has been identified. In case no nominating committee has been disclosed, vote against the chair of the board, or the entire board if no board chair has been identified

South Africa

Generally vote against the nomination committee chair (or, if not on ballot, the board chair or other appropriate director) and there is not at least one woman on the board. Mitigating factors may include:

- Compliance with the relevant board diversity standard at the preceding AGM.
- Clear commitment to address the lack of gender diversity on the board and progress against the agreed voluntary diversity targets during the year.
- Other relevant factors as applicable.

Australia

In Australian companies, generally vote against the chair of the nomination committee or chair of the board (or other relevant directors on a case-by-case basis) if:

- The company is a large Australian listed entity and included in the S&P/ASX300 Index, and the board does not comprise at least 30 percent female representation.
- For any company, there are no women on the board.

Exceptional circumstances from this vote recommendation which may be considered on a case-by-case basis may include:

- The company complying with the standard in the preceding year, and publicly available disclosure by the company of a search being undertaken and firm commitment to meet the gender diversity standard in the next year;
- Non-operating exploration or research & development entities which typically have small boards of three directors; or
- Other relevant factors.

New Zealand

Generally, vote against the chair of the nomination committee or chairman of the board (or other relevant directors on a case-by-case basis) if there are no women on the board.

Mitigating factors include:

- A commitment to appoint at least one female director as disclosed in the company's meeting documents or in an announcement to the NZX;
- The presence of a female director on the board during the preceding year; or
- Other relevant factors.

UK & Ireland

Gender Diversity

For companies required to report against the FCA Listing Rules on a comply or explain basis, Public Fund Advisory Services may consider recommending against the chair of the nomination committee (or another relevant director) if the company has not met the disclosure requirements of the FCA Listing Rules in respect of board diversity, including reporting against the following targets:

- At least 40 percent of the board are women; and
- At least one of the senior board positions (Chair, CEO, Senior Independent Director, or CFO) is held by a woman.

Progress against the targets will be evaluated. Public Fund Advisory Services may consider recommending against the chair of the nomination committee (or another relevant director) in the absence of such progress, unaccompanied by a satisfactory rationale.

The market expects higher diversity standards from FTSE 350 companies, which have been subject to pre-existing diversity recommendations.

In respect of AIM-listed companies with a market capitalisation of over GBP 500 million, Public Fund Advisory Services may consider recommending against the chair of the nomination committee (or another relevant director) if there is not at least one woman on the board.

In the case of ISEQ 20 companies, Public Fund Advisory Services may consider a negative recommendation where less than 33% of the Board is composed of women.

In all cases, diversity is considered in a holistic manner, taking account of the company's explanation. Mitigating factors include, but are not limited to, the company's previous record on board diversity and future commitments.

Ethnic Diversity

For companies required to report against the FCA Listing Rules on a comply or explain basis, Public Fund Advisory Services may consider recommending against the chair of the nomination committee (or another relevant director) if the company has not met the relevant disclosure requirements, including reporting against the target that at least one member of the board is from a minority ethnic background⁸.

Progress against the target will be evaluated. Public Fund Advisory Services may consider recommending against the chair of the nomination committee (or another relevant director) in the absence of such progress, unaccompanied by a satisfactory rationale.

The market expects higher diversity standards from FTSE 350 companies, which have been subject to pre-existing diversity recommendations.

In respect of ISEQ 20 constituents and AIM-listed companies with a market capitalisation of over GBP 500 million, Public Fund Advisory Services will consider recommending against the chair of the nomination committee (or

⁸ Defined by reference to categories recommended by the [Office for National Statistics](https://www.ons.gov.uk/peoplepopulationandcommunity/ethnicity) (ONS) excluding those listed, by the ONS, as coming from a White ethnic background.

another relevant director) if such companies have not appointed at least one individual from an ethnic minority background to the board.

As with gender diversity, ethnic diversity is considered in a holistic manner, taking account of the Company's explanation. Mitigating factors include, but are not limited to, the company's previous record on board diversity and future commitments.

Continental Europe

In Continental Europe, generally vote against the chair of the nomination committee (or other directors on a case-by-case basis) if:

- The underrepresented gender accounts for less than 30 percent (or any higher domestic threshold) of shareholder-elected directors of a widely held company – excluding, where relevant, employee shareholder representatives⁹.
- Both genders are not represented on the board of a non-widely-held company.

Mitigating factors may include:

- Compliance with the relevant standard at the preceding annual meeting and a firm commitment, publicly available, to comply with the relevant standard within a year; or
- Other relevant factors as applicable.

Malaysia

For Malaysia, generally vote against all members of the nomination committee up for reelection if the board has no woman director. For companies with market capitalization of below MYR 2 billion as at Dec. 31, 2021, this policy will be effective for meetings on or after June 1, 2023.

South Korea

- For South Korean companies, generally vote against the chair of the nomination committee (or other senior members of the nomination committee on a case-by-case basis) up for election if the company is non-compliant with the board gender diversity regulation.

Japan

- For Japanese companies with a statutory auditor structure: vote for the election of directors, except top executive(s) if the board, after the shareholder meeting, will not include at least one female director.

Climate Accountability

Public Fund Advisory Services Recommendation: For companies that are significant greenhouse gas (GHG) emitters, through their operations or value chain¹⁰, generally vote against the board chair or the responsible incumbent director(s), or any other appropriate item(s), in cases where Public Fund Advisory Services determines

⁹ In France, when employees exceed a given shareholding threshold in the company, they must be represented by employee shareholder representative(s) on the [supervisory] board.

¹⁰ Companies defined as “significant GHG emitters” will be those on the current Climate Action 100+ Focus Group list.

that the company is not taking the minimum steps needed to understand, assess, and mitigate risks related to climate change to the company and the larger economy.

Minimum steps to understand and mitigate those risks are considered to be the following. Both minimum criteria will be required to be in compliance:

- Detailed disclosure of climate-related risks, such as according to the framework established by the Task Force on Climate-related Financial Disclosures (TCFD), including:
 - Board governance measures;
 - Corporate strategy;
 - Risk management analyses; and
 - Metrics and targets.
- Appropriate GHG emissions reduction targets.

At this time, “appropriate GHG emissions reductions targets” will be medium-term GHG reduction targets or Net Zero-by-2050 GHG reduction targets for a company's operations (Scope 1) and electricity use (Scope 2). Targets should cover the vast majority of the company's direct emissions.

Contested Director Elections

Public Fund Advisory Services Recommendation: Vote case-by-case on contested elections of directors (e.g. the election of shareholder nominees or the dismissal of incumbent directors), considering the factors below in determining which directors are best suited to add value for shareholders:

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

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

Discussion

Once fairly infrequent, contested elections, (also referred to as proxy contests) have become increasingly common in recent years as large shareholders, frustrated by poor returns and unresponsive boards, have sought to challenge the *status quo*. Even when dissidents do not achieve board seats, studies indicate that at least some of their objectives are often achieved because the response to a proxy contest, or one that was narrowly averted, usually includes new strategic initiatives, a restructuring program, governance changes, or selected management changes. Based on these considerations, Public Fund Advisory Services' framework for the evaluation of contested elections has the ultimate goal of increasing long-term value for shareholders.

Discharge of Board and Management

Public Fund Advisory Services Recommendation:

- Vote case-by-case on the discharge of the board and management.
- Vote against the discharge of directors, including members of the management board and/or supervisory board, if there is reliable information about significant and compelling controversies that the board is not fulfilling its fiduciary duties warranted by:
 - A lack of oversight or actions by board members which invoke shareholder distrust related to malfeasance or poor supervision, such as operating in private or company interest rather than in shareholder interest; or
 - Any legal issues (e.g. civil/criminal) aiming to hold the board responsible for breach of trust in the past or related to currently alleged actions yet to be confirmed (and not only the fiscal year in question), such as price fixing, insider trading, bribery, fraud, and other illegal actions; or
 - Other egregious governance issues where shareholders will bring legal action against the company or its directors.
- Vote against proposals to remove approval of discharge of board and management from the agenda.
- For markets which do not routinely request discharge resolutions (e.g. common law countries or markets where discharge is not mandatory), Public Fund Advisory Services may express its concern with the board in other appropriate agenda items, such as approval of the annual accounts or other relevant resolutions to express discontent with the board.

Discussion

The annual formal discharge of board and management represents shareholder approval of actions taken during the year. Discharge is a tacit vote of confidence in the company's management and policies. It does not necessarily eliminate the possibility of future shareholder action, although it does make such action more difficult to pursue. A company's meeting agenda typically lists proposals to discharge both the board and management as one agenda item.

This is a routine item in many countries, and discharge is generally granted unless a shareholder states a specific reason for withholding discharge and plans to undertake legal action. Public Fund Advisory Services will withhold discharge when there are serious questions about actions of the board or management for the year in question or legal action is being taken against the board by other shareholders. Withholding discharge is a serious matter and is advisable only when a shareholder has concrete evidence of negligence or abuse on the part of the board or management, has plans to take legal action, or has knowledge of other shareholders' plans to take legal action.

If evidence suggests that one or more board or management members are responsible for problems such as fraud or grave mismanagement, shareholders can withhold discharge from these individuals and pursue further legal action. Poor performance that can be directly linked to flagrant error or neglect on the part of the board or management, or board actions that are detrimental to shareholders' interests, may also constitute grounds for voting against discharge.

If shareholders approve discharge of the board and management, they may face a greater challenge if they subsequently decide to pursue legal action against these parties. Shareholders would be required to prove that management or the board did not supply correct and complete information regarding the matter in question.

Director and Officer Liability and Indemnification, and Auditor Indemnification

Public Fund Advisory Services Recommendation:

- Vote on a case-by-case basis, proposals seeking indemnification and liability protection for directors and officers.
- Vote against proposals to indemnify auditors.

Discussion

Management proposals typically seek shareholder approval to adopt an amendment to the company's charter to eliminate or limit the personal liability of directors to the company and its shareholders for monetary damages for any breach of fiduciary duty to the fullest extent permitted by law. In contrast, shareholder proposals seek to provide for personal monetary liability for fiduciary breaches arising from gross negligence. While Public Fund Advisory Services recognizes that a company may have a more difficult time attracting and retaining directors if they are subject to personal monetary liability, Public Fund Advisory Services believes the great responsibility and authority of directors justifies holding them accountable for their actions. Each proposal addressing director liability will be evaluated consistent with this philosophy. Public Fund Advisory Services may support these proposals when the company persuasively argues that such action is necessary to attract and retain directors, but Public Fund Advisory Services may often oppose management proposals and support shareholder proposals in light of our philosophy of promoting director accountability.

Specifically, Public Fund Advisory Services will oppose management proposals that limit a director's liability for (i) a breach of the duty of loyalty, (ii) acts or omissions not in good faith or involving intentional misconduct or knowing violations of the law, (iii) acts involving the unlawful purchases or redemptions of stock, (iv) the payment of unlawful dividends, or (v) the receipt of improper personal benefits. In addition, Public Fund Advisory Services will generally oppose proposals to reduce or eliminate directors' personal liability when litigation is pending against current board members.

By indemnifying its directors and officers, a company promises to reimburse them for certain legal expenses, damages, and judgments incurred as a result of lawsuits relating to their corporate actions, thereby effectively becoming the insurer for its officers and directors (the company usually purchases insurance to cover its own risk). Proposals to indemnify a company's directors differ from those to eliminate or reduce their liability because with indemnification directors may still be liable for an act or omission, but the company will bear the expense.

Public Fund Advisory Services will vote in favor of indemnification proposals that contain provisions limiting such insurance to acts carried out on behalf of the company. The directors covered under the indemnification must be acting in good faith on company business and must be found innocent of any civil or criminal charges for duties performed on behalf of the company. Additionally, the company may persuasively argue that such action is necessary to attract and retain directors, but Public Fund Advisory Services will oppose indemnification when it is proposed to insulate directors from actions they have already taken.

Public Fund Advisory Services opposes providing indemnity insurance to auditors. These payments call into question the objectivity of the auditor in carrying out the audit, as the fees paid on its behalf could be greater than the audit fees alone. Eliminating concerns about being sued for carelessness could also lead to a decrease in the quality of the audit. Given the substantial settlements against auditors in recent years for poor audit practices, the cost of such insurance to the company and its shareholders is unwarranted.

Board Structure

Public Fund Advisory Services Recommendation:

- Vote for proposals to fix board size.
- Vote against the introduction of classified boards and mandatory retirement ages for directors.
- Vote against proposals to alter board structure or size in the context of a fight for control of the company or the board.
- Vote against proposals to increase board terms.

Discussion

Resolutions relating to board structures range from fixing the number of directors or establishing a minimum or maximum number of directors to introducing classified boards and director term limits.

Board Size

Public Fund Advisory Services Recommendation:

Proposals to fix board size are common and are routinely approved. Proposals to establish a range of board size are also frequent; a range of two or three open slots relative to the existing board size is reasonable, as it gives the company some flexibility to attract potentially valuable board members during the year. Latitude beyond this range is inappropriate, however, because companies can use this freedom to hinder unwanted influence from potential acquirers or large shareholders.

Adopt Classified Board

Public Fund Advisory Services Recommendation:

Public Fund Advisory Services prefers that all directors stand for reelection every year. All directors should be accountable to shareholders on an annual basis, as the ability to elect directors is the single most important use of the shareholder franchise.

While classified boards are the norm in most countries, some companies have chosen to place their directors up for annual election. Public Fund Advisory Services supports initiatives to declassify boards and opposes proposals to classify previously untagged boards. Classifying the board makes it more difficult to effect a change of control through a proxy contest; because only a minority of the directors is elected each year, a dissident shareholder would be unable to win control of the board in a single election.

Introduction of Mandatory Age of Retirement

Public Fund Advisory Services Recommendation:

Public Fund Advisory Services believes that age should not be the sole factor in determining a director's value to a company. Rather, each director's performance should be evaluated on the basis of their individual contribution and experience.

Altering Board Size

Public Fund Advisory Services Recommendation:

Companies may attempt to increase board size in order to add related or like-minded directors to the board. Conversely, establishing a minimum number of directors could make it easier to remove independent directors from the board. Public Fund Advisory Services considers these proposals on a case-by-case basis.

All proposals to alter board size during a proxy fight or other possible contests for control should be opposed. Allowing directors to alter the terms of a contest while it is underway is not in shareholders' interests, as this tactic could be used to thwart a takeover that is in shareholders' interests.

3. Capital Structure

Companies have one of two main types of capital systems: authorized and conditional. Both systems provide companies with the means to finance business activities, but they are considerably different in structure. Which system is used by a company is determined by the economic and legal structure of the market in which it operates.

Authorized Capital System

Public Fund Advisory Services Recommendation:

The authorized capital system sets a limit in a company's articles on the total number of shares that can be issued by the company's board. The system allows companies to issue shares from this preapproved limit, although in many markets shareholder approval must be obtained prior to an issuance. Companies also request shareholder approval for increases in authorization when the amount of shares contained in the articles is inadequate for issuance authorities. Public Fund Advisory Services reviews proposals for such increases based on the following criteria: the history of issuance requests; the size of the request; the purpose of the issuance (general or specific) associated with the increase in authorization; and the status of preemptive rights.

Conditional Capital System

Public Fund Advisory Services Recommendation:

Under the conditional capital system, companies seek authorizations for pools of capital with fixed periods of availability. For example, if a company seeks to establish a pool of capital for general issuance purposes, it requests the creation of a certain number of shares with or without preemptive rights, issuable piecemeal at the discretion of the board for a fixed period of time. Shares unissued after the fixed time period lapse. This type of authority would be used to carry out a general rights issue or small issuances without preemptive rights.

Requests for a specific issuance authority are tied to a specific transaction or purpose, such as an acquisition or the servicing of convertible securities. Such authorities cannot be used for any purpose other than that specified in the authorization. In this case, a company requests the creation of a certain number of shares with or without preemptive rights, issuable as needed for the specific purpose requested. This pool of conditional capital also carries a fixed expiration date.

In reviewing these proposals, Public Fund Advisory Services takes into consideration the existence of pools of capital from previous years. Because most capital authorizations are for several years, new requests may be made on top of the existing pool of capital. While most requests contain a provision to eliminate earlier pools and replace them with the current request, this is not always the case. Thus, if existing pools of capital are left in place, the aggregate potential dilution amount from all capital requests should be considered.

Share Issuance Requests

Public Fund Advisory Services Recommendation:

- Vote for general issuance requests with preemptive rights up to 50 percent of issued capital;
- For French companies, vote for general issuance requests with preemptive rights, or without preemptive rights but with a binding “priority right,” for a maximum of 50 percent over currently issued capital.
- Vote for general issuance requests without preemptive rights up to 10 percent of issue capital; and
- Vote on a case-by-case basis specific issuance requests with or without preemptive rights up to any amount depending on the purpose for the issuance.
- Vote on a case-by-case basis those issuance requests that exceed one-year periods.

General Issuances

General issuance requests under both authorized and conditional capital systems allow companies to issue shares to raise funds for general financing purposes. Approval of such requests gives companies sufficient flexibility to carry out ordinary business activities without having to bear the expense of calling shareholder meetings for every issuance.

Issuances can be carried out with or without preemptive rights. Preemptive rights permit shareholders to share proportionately in any new issuances of stock. These rights guarantee existing shareholders the first opportunity to purchase shares of new issuances of stock in the class they own in an amount equal to the percentage of the class they already own. Corporate law in many countries recognizes preemptive rights and requires shareholder approval for the disapplication of such rights.

Public Fund Advisory Services believes that the ability to increase share capital by 50 percent through a rights issue (with preemptive rights) provides the company with sufficient financing to meet most contingencies. Rights issues for general capital needs of less than 50 percent of outstanding capital warrant shareholder approval. Issuance authorities of more than 50 percent can lead to excessive cash calls on shareholders, requiring them to provide the funds necessary to maintain their relative positions in the company or to accept substantial dilution.

In some cases, companies may need the ability to raise funds for routine business contingencies without the expense of carrying out a rights issue. Such contingencies could include the servicing of option plans, small acquisitions, or payment for services. When companies make issuance requests without preemptive rights, shareholders suffer dilution as a result of such issuances. Therefore, authorizations should be limited to a fixed number of shares or a percentage of capital at the time of issuance. While conventions regarding this type of authority vary widely among countries, Public Fund Advisory Services routinely approves issuance requests without preemptive rights for up to ten percent of a company's outstanding capital.

In certain markets, issuance requests are made for several years. This is often the case in France, Germany and Spain. In these situations, Public Fund Advisory Services will consider the per annum dilution equivalent as well as consider whether or not the authority can be renewed before the lapse of the specified period. Whenever possible, Public Fund Advisory Services will monitor actual share issuances to assure that the company is not abusing the privilege.

Following the Florange Act of 2016, for French companies listed on a regulated market, Public Fund Advisory Services will generally vote against any general authorities impacting the share capital (i.e. authorities for share repurchase plans and any general share issuances with or without preemptive rights) if they can be used for antitakeover purposes without shareholders' prior explicit approval.

In UK and Ireland, Public Fund Advisory Services will support general issuance authority without preemptive rights of up to 10 percent of the issued share capital, provided that any amount in excess of the standard 5 percent is to

be used only for purposes of an acquisition or a specified capital investment. A company which receives approval for an authority of this nature but is then subsequently viewed to abuse the authority during the year (for example, by issuing shares up to 10 percent for purposes other than set out in the revised guidelines) is likely to receive a negative recommendation on the authority at the following AGM.

Specific Issuances

Specific issuance requests should be judged on their individual merits. For example, a company may request the issuance of shares for an acquisition in the form of a rights issue to raise funds for a cash payment, or else a company could request an issuance without preemptive rights for use in a share-based acquisition or issuance to a third party. Such a request could be of any size, and Public Fund Advisory Services will generally support the request as long as the proposal is sound. A more routine request would be an authority to issue shares without preemptive rights for issuance as needed upon conversion of convertible securities or to service a share option plan. These shares can only be used for the purpose defined in the resolution.

Increases in Authorized Capital

Public Fund Advisory Services Recommendation:

- Vote for non-specific proposals to increase authorized capital up to 50 percent over the current authorization.
- In case the proposals to increase authorized capital include the authorization to issue shares according to the (pre-)approved limit without obtaining separate shareholder approval, the general issuance policy applies.
- Vote for specific proposals to increase authorized capital to any amount unless the specific purpose of the increase (such as a share-based acquisition or merger) does not meet Public Fund Advisory Services' guidelines for the purpose proposed.
- Vote against proposals to adopt unlimited capital authorizations.

Discussion

Increases in authorized capital are requested both for general financing flexibility and to provide for a specific purpose. Companies need an adequate buffer of unissued capital in order to take advantage of opportunities during the year, and thus they often request increases in authorized capital for no specific purpose other than to retain this flexibility. Public Fund Advisory Services believes that approving such requests is reasonable.

An increase of 50 percent over the existing authorization gives the company sufficient flexibility in any given year but also limits the company's ability to abuse this privilege. If a company wishes to issue shares for any unforeseen reason during the year that would double (or possibly triple) outstanding share capital, an EGM to seek shareholder approval is justified.

Another important consideration is the status of preemptive rights. Not all countries recognize shareholders' preemptive rights, and excessive authorizations could lead to substantial dilution for existing shareholders. When preemptive rights are not guaranteed, companies do not need shareholder approval for share issuances as long as the issuance does not result in an increase above the authorized capital limit.

For specific requests, increases in capital up to any size may be justified if the purpose of the new authorization is in shareholders' interests. Such increases may be needed to fund a variety of corporate activities, and thus each proposal must be reviewed on its individual merits.

Public Fund Advisory Services will recommend against proposals seeking to increase authorized capital to an unlimited number of shares. Public Fund Advisory Services does not believe that companies need unlimited financial flexibility to transact ordinary business because such an arrangement precludes management from

periodically consulting shareholders for new capital. Unlimited authorizations may also be used as antitakeover devices, and they have the potential for substantial voting and earnings dilution. As such, they are not in shareholders' best interests.

Reduction of Capital

Public Fund Advisory Services Recommendation:

- Vote for proposals to reduce capital unless the terms are unfavorable to shareholders.
- Vote on a case-by-case basis proposals to reduce capital in connection with corporate restructurings.

Discussion

Proposals to reduce capital are usually the result of a significant corporate restructuring in the face of bankruptcy. Public Fund Advisory Services generally supports such proposals because opposition could lead to insolvency, which is not in shareholders' interests. Evaluation of this type of proposal should take a realistic approach to the company's situation.

Capital Structures

Public Fund Advisory Services Recommendation:

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

Discussion

A key decision for any business is determining its capital structure. When timed correctly, sophisticated capital management—finding the right mix of equity, long-term debt, and short-term financing—can enhance shareholder returns. This process involves coordination of important issues, including dividend policy, tax and interest rates, types of assets, opportunities for growth, ability to finance new projects internally, and cost of obtaining additional capital.

These decisions are best left to a company's board and senior management, who should be given the latitude to determine the company's capital structure. However, shareholders should be aware that many financing decisions could have an adverse effect on shareholder returns. For example, additional equity financing may reduce an existing shareholder's ownership interest and can dilute the value of the investment. Some capital requests can be used as takeover defenses; in response to this situation, company laws establish limits on management's authority to issue new capital and often require shareholder approval for significant changes in management's existing authorizations.

Public Fund Advisory Services supports a one share, one vote policy and opposes mechanisms that skew voting rights. Shareholders' voting rights should accrue in accordance with their equity capital commitment to the company. Dual class capital structures entrench certain shareholders and management, insulating them from possible takeovers or other external influence or action. The interests of parties with voting control may not be the same as those of shareholders constituting a majority of the company's capital. Additionally, research and market experience have shown that companies with dual class capital structures or other antitakeover mechanisms consistently trade at a discount to similar companies without such structures.

When companies with dual class capital structures seek shareholder approval for the creation of new shares, Public Fund Advisory Services opposes the creation of additional super-voting shares because this perpetuates the dual class structure. If companies are seeking to increase ordinary or subordinate share capital, Public Fund Advisory Services reviews such requests on a case-by-case basis. If the shares are needed for a specific purpose, Public Fund Advisory Services will approve as long as the proposal meets the issuance guidelines for specific requests. Refusing such requests could cause an immediate loss of shareholder value by not allowing the company to carry out its ordinary business. However, Public Fund Advisory Services opposes general share creation requests on the grounds that they would perpetuate unequal voting structures. If shareholders routinely approve the creation of ordinary or subordinate voting shares, the company has no incentive to reform its capital structure. By not approving such requests, shareholders can send a signal of dissatisfaction to management.

Preferred Stock

Public Fund Advisory Services Recommendation:

- Vote for the creation of a new class of preferred stock or for issuances of preferred stock up to 50 percent of issued capital unless the terms of the preferred stock would adversely affect the rights of existing shareholders.
- Vote for the creation/issuance of convertible preferred stock as long as the maximum number of common shares that could be issued upon conversion meets Public Fund Advisory Services guidelines on equity issuance requests.
- Vote against the creation of blank check preferred stock unless the board expressly states that the authorization will not be used as a takeover defense.
- Vote proposals to increase blank check preferred authorizations on a case-by-case basis.
- Vote against the creation of a new class of preference shares that would carry superior voting rights to the common shares.

Discussion

Preferred stock (also known as preference shares) is an equity security, but it has certain features that liken it to debt instruments, such as fixed dividend payments, seniority of claims relative to regular common stock, and (in most cases) no voting rights except on matters that affect the seniority of preferred stock as a class. Preferred stock usually ranks senior to a company's ordinary shares with respect to dividends and the distribution of assets or winding down of the company. Companies often request approval for the creation of a new class of preferred stock, the issuance of preferred stock, and the introduction of blank check preferred stock authorization. Public Fund Advisory Services prefers that the terms of preferred stock be set out at the time of the issuance or authorization request.

Preferred stock can be an effective means of raising capital without increasing debt levels, especially if a company has recently concluded a series of acquisitions. In determining the acceptability of proposals relating to preferred stock, Public Fund Advisory Services examines the rights and terms of the proposed shares, including their designation, conditions, restrictions, and limitations. Whether or not the preferred shares carry voting rights is also considered, along with their conversion ratio (if the shares are convertible into common shares). Also important is the company's justification for issuing or authorizing preferred stock. Public Fund Advisory Services supports proposals that would not result in excessive dilution or adversely affect the rights of holders of common shares.

Blank Check Preferred Stock

Public Fund Advisory Services Recommendation: Vote against the creation of blank check preferred stock unless the board clearly states that the authorization will not be used to thwart a takeover bid.

Companies may also seek shareholder approval for blank check preferred stock, which are blanket authorities to issue preferred stock under which the directors are allowed to set the size, terms, and recipient of such shares at the time of issuance. Blank check preferred stock can be used for legitimate corporate purposes such as raising capital or making acquisitions. By not establishing the terms of preferred stock at the time the class of stock is created, companies maintain the flexibility to tailor their preferred stock offerings to prevailing market conditions. However, blank check preferred stock can also be used as an entrenchment device. The ability to issue a block of preferred stock with multiple voting or conversion rights to a friendly investor is a powerful takeover defense.

Public Fund Advisory Services also considers, on a case-by-case basis, proposals to increase authorizations of blank check preferred stock when shareholders have already approved the class of stock and the company has a history of issuing such stock for legitimate financing purposes. Theoretically, companies with authorized blank check preferred stock can use these shares for antitakeover purposes as long as there are a few shares remaining, as they are free to set voting or conversion terms with each issue. Therefore, an increase in authorization may have little effect on the usage of this stock. In cases where a company has issued preferred stock from its authorization for legitimate financing purposes, there is no reason to object to an increase.

Debt Issuance Requests

Public Fund Advisory Services Recommendation:

- Vote non-convertible debt issuance requests with or without preemptive rights on a case-by-case basis.
- Vote against the creation or issuance of convertible debt with preemptive rights if the conversion increases the company's share capital by more than 50 percent over the current outstanding capital.
- Vote against the creation or issuance of convertible debt without preemptive rights if the conversion increases the company's share capital by more than 10 percent over the current outstanding capital.
- Vote for proposals to restructure existing debt arrangements unless the terms of the restructuring would adversely affect the rights of shareholders.

Discussion

Debt issuance is a popular financing strategy. Debt instruments are often issued with the right to convert into equity securities. Many companies issue debt denominated in currencies other than their own. Bonds may be issued with or without preemptive rights.

Companies routinely issue bonds directly to shareholders in order to raise funds while enjoying low borrowing costs. Convertible bonds give holders the choice of becoming shareholders, thereby increasing the shareholder base and liquidity of the company's stock, or selling their newly converted shares on the open market. The issuance of unsecured debt often includes warrants, which are detached at the time of bond issuance. Warrants are usually attached to a debt issuance in order to enhance the marketability of the accompanying fixed income security.

When evaluating a debt issuance request, Public Fund Advisory Services examines the issuing company's present financial situation. The main factor for analysis is the company's current debt-to-equity ratio, or gearing level. A high gearing level may incline markets and financial analysts to downgrade the company's bond rating, increasing its investment risk factor in the process. Public Fund Advisory Services routinely approves of debt issuances for companies when the gearing level is between zero and 50 percent. If the company's gearing level is higher than 50

percent, Public Fund Advisory Services then factors in other financial statistics, such as the company's growth over the past five years relative to earnings or market capitalization, recent corporate events that might affect the company's bottom line (such as the acquisition of a major competitor or the release of a revolutionary product), and the normal debt levels in the company's industry and country of origin. In the case of convertible bonds, Public Fund Advisory Services also takes into consideration the total level of dilution that would result at the time of conversion. Public Fund Advisory Services' guidelines for capital increases would then be applied.

Pledging of Assets for Debt

Public Fund Advisory Services Recommendation: Vote proposals to approve the pledging of assets for debt on a case-by-case basis.

Discussion

In certain countries, shareholder approval is required when a company needs to secure a debt issuance with its assets. In many cases, this is a routine request and is a formality under the relevant law. When reviewing such proposals, Public Fund Advisory Services takes into account the terms of the proposed debt issuance and the company's overall debt level. If both of these factors are acceptable, Public Fund Advisory Services will support these requests.

Increase in Borrowing Powers

Public Fund Advisory Services Recommendation:

- Vote proposals to approve increases in a company's borrowing powers on a case-by-case basis.
- Vote against the removal of a limit on borrowing powers.

Discussion

In some countries, companies are required to seek shareholder approval for increases in their aggregate borrowing power authorities. The aggregate limit on the board's ability to borrow money is often fixed in a company's articles, and shareholder approval to change this limit is therefore legally required. Public Fund Advisory Services believes that a company's financing needs are best determined by the board, and modest increases in borrowing powers are necessary to allow the company to take advantage of new acquisition opportunities or to complete development and restructuring projects. Public Fund Advisory Services' analysis of borrowing power increase requests takes into account management's stated need for the increase, the size of the increase, and the company's current gearing level. Large increases in borrowing powers can sometimes result in dangerously high debt-to-equity ratios that could harm shareholder value. If an increase is excessive without sufficient justification and if a company already has exceptionally high gearing compared to its industry, Public Fund Advisory Services will oppose the request.

Share Repurchase Plans

Public Fund Advisory Services Recommendation:

- Vote for share repurchase programs/market repurchase authorities, unless the terms do not meet the criteria below:
 - A repurchase limit of up to 10 percent of issued share capital (15 percent in UK/Ireland)
 - A holding limit of up to 10 percent of a company's issued share capital in treasury ("on the shelf"); and
 - A duration of no more than 5 years, or such lower threshold as may be set by applicable law, regulation or code of governance best practice.
- Authorities to repurchase shares in excess of the 10 percent repurchase limit will be assessed on a case-by-case basis. Public Fund Advisory Services may support such share repurchase authorities under special circumstances, which are required to be publicly disclosed by the company, provided that, on balance, the proposal is in shareholders' interests. In such cases, the authority should meet the following criteria:
 - A holding limit of up to 10 percent of a company's issued share capital in treasury ("on the shelf"); and
 - A duration of no more than 18 months.
- In markets where it is normal practice not to provide a repurchase limit, the proposal will be evaluated based on the company's historical practice. However, companies should disclose such limits and, Public Fund Advisory Services may recommend against proposals at companies that fail to do so. In such cases, the authority should meet the following criteria:
 - A holding limit of up to 10 percent of a company's issued share capital in treasury ("on the shelf"); and
 - A duration of no more than 18 months.
- In addition, vote against any proposal where:
 - The repurchase can be used for takeover defenses;
 - There is clear evidence of abuse;
 - There is no safeguard against selective buybacks; or
 - Pricing provisions and safeguards are deemed to be unreasonable in light of market practice.

Discussion

Proposals regarding share repurchase plans are routine in most countries, and such plans are usually sufficiently regulated by local laws or listing requirements to protect shareholder interests.

Public Fund Advisory Services looks for the following conditions in share repurchase plans: limitations on a company's ability to use the plan to repurchase shares from third parties at a premium; limitations on the exercise of the authority to thwart takeover threats; and a requirement that repurchases be made at arm's length through independent third parties and that selective repurchases require shareholder approval.

Some shareholders object to companies repurchasing shares, preferring to see extra cash invested in new businesses or paid out as dividends. Public Fund Advisory Services believes that when timed correctly, stock repurchases are a legitimate use of corporate funds and can add to long-term shareholder returns.

However, in certain instances, share buybacks are used to fund stock option plans. In these cases, cash is used to fund stock options plans, which in most cases are a form of management compensation. When possible, Public Fund Advisory Services will make efforts to learn whether share repurchase plans are being used to fund stock option plans. In these instances, extra scrutiny will be paid, and a repurchase plan may be opposed.

For markets that either generally do not specify the maximum duration of the authority or seek a duration beyond 18 months that is allowable under market specific legislation, Public Fund Advisory Services will assess the company's historic practice. If there is evidence that a company has sought shareholder approval for the authority to repurchase shares on an annual basis, Public Fund Advisory Services will support the proposed authority.

Reissuance of Shares Repurchased

Public Fund Advisory Services Recommendation: Vote for requests to reissue any repurchased shares unless there is clear evidence of abuse of this authority in the past.

Discussion

Public Fund Advisory Services generally believes that properly timed repurchases of company shares can enhance shareholder value and improve general shareholder returns. With good timing and proper safeguards, the same returns and improvements in shareholder value can be generated through the reissuance of the shares repurchased. In most countries, the text of this general mandate provides sufficient shareholder protection to make this item routine. When reviewing such proposals, Public Fund Advisory Services takes into account the country's legal framework for such reissuances and the company's history of reissuing shares under the authority.

Capitalization of Reserves for Bonus Issues/Increase in Par Value

Public Fund Advisory Services Recommendation: Vote for requests to capitalize reserves for bonus issues of shares or to increase par value.

Discussion

Companies routinely carry out bonus issues of shares or increases in par value to existing shareholders, usually through the capitalization of reserves from either the share premium reserve or the retained earnings account. Capitalization of these reserves—transferring them into the share capital account—usually requires shareholder approval. These issuances essentially function as dividends.

When companies increase par value or capitalize reserves and distribute new fully paid shares to shareholders free of charge through a bonus issue, there is no cost to shareholders to maintain their stakes and no risk of dilution. This procedure transfers wealth to shareholders and does not significantly impact share value. The only impact on shareholders is that by increasing the number of shares on issue, the company could increase liquidity, enhance marketability, and ultimately expand its shareholder base.

4. Mergers and Corporate Restructurings

Reorganizations/Restructurings

Public Fund Advisory Services Recommendation: Vote reorganizations and restructurings on a case-by-case basis.

Discussion

Requests to approve corporate reorganizations or restructurings range from the routine shuffling of subsidiaries within a group to major rescue programs for ailing companies. Public Fund Advisory Services usually approves such resolutions unless there are clear conflicts of interest among the various parties, shareholders' rights are being negatively affected, or certain groups or shareholders appear to be getting a better deal at the expense of general shareholders.

In the case of routine reorganizations of assets or subsidiaries within a group, Public Fund Advisory Services' primary focus with the proposed changes is to ensure that shareholder value is being preserved. This includes the effect of the reorganization on the control of group assets, the final ownership structure, the relative voting power of existing shareholders if the share capital is adjusted, and the expected benefits arising from the changes.

Public Fund Advisory Services also assesses the proposed restructuring and its impact on job loss with an emphasis on the company's U.S. operations. In certain circumstances, jobs may be lost due to economic inefficiencies. However, we will not support reorganizations that unnecessarily eradicate employment, harming the beneficiaries, communities, and the company's economic position.

In the case of a distress restructuring of a company or group, shareholders' options are far more limited; often, they have no choice but to approve the restructuring or lose everything. In such cases, Public Fund Advisory Services first determines the company's degree of distress by determining whether or not the company still has a positive net asset value—that is, if realizable assets are greater than liabilities. Although rare, liquidation should be considered an option in these situations.

In most cases, however, the company has a negative asset value, meaning that shareholders would have nothing left after a liquidation. Public Fund Advisory Services seeks to ensure that the degree of dilution proposed is consistent with the claims of outside parties and is commensurate with the relative commitments of other company stakeholders. Existing shareholders usually must accept the transfer of majority control over the company to outside secured creditors. Ultimately, ownership of a small percentage of something is worth more than majority ownership of nothing.

Mergers and Acquisitions

For every M&A analysis, Public Fund Advisory Services reviews publicly available information as of the date of our analysis and evaluates the merits and drawbacks of the proposed transaction, balancing various and sometimes countervailing factors.

Public Fund Advisory Services Recommendation: Vote case-by-case on mergers and acquisitions taking into account the following:

- **Valuation:** Is the value to be received by the target shareholders (or paid by the acquirer) reasonable? While the fairness opinion may provide an initial starting point for assessing valuation reasonableness, Public Fund Advisory Services places emphasis on the offer premium, market reaction, and strategic rationale;

- *Market reaction:* How has the market responded to the proposed deal? A negative market reaction will elicit greater scrutiny on a deal;
- *Strategic rationale:* Does the deal make sense strategically? From where is the value derived? Cost and revenue synergies should not be overly aggressive or optimistic, but reasonably achievable. Management should also have a favorable track record of successful integration of historical acquisitions;
- *Negotiations and process:* Were the terms of the transaction negotiated at arm's-length? Was the process fair and equitable? A fair process helps to ensure the best price for shareholders. Significant negotiation "wins" can also signify the deal makers' competency. The comprehensiveness of the sales process (e.g., ability for alternate bidders to participate) can also affect shareholder value.
- *Conflicts of interest:* Are insiders benefiting from the transaction disproportionately and inappropriately as compared to non-insider shareholders? Public Fund Advisory Services will consider whether any special interests may have influenced these directors and officers to support or recommend the merger;
- *Governance:* Impact of the merger on shareholder rights. Will the combined company have a better or worse governance profile than the current governance profiles of the respective parties to the transaction? If the governance profile is to change for the worse, the burden is on the company to prove that other issues (such as valuation) outweigh any deterioration in governance;
- The possibility of a high degree of job loss with no reasonable explanation; and
- Any significant reduction in basic labor standards.

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

Abstain if there is insufficient information available to make an informed voting decision.

Discussion

When evaluating the merits of a proposed acquisition, merger, or takeover offer, Public Fund Advisory Services focuses on the financial and corporate governance impact on shareholder value, both in the immediate and long term. The primary concern is to determine whether or not the proposal is beneficial to shareholders' existing and future earnings stream and to ensure that the impact on voting rights is not disproportionate to that benefit. Generally, Public Fund Advisory Services is interested in the long-term shareholder interests as opposed to short-term gains that devalue assets and could have a negative impact on workers and communities.

Public Fund Advisory Services will evaluate proposed mergers by looking at the justification for the merger; whether a reasonable financial arrangement has been proposed and a fairness opinion rendered; and the long-term impact of the business plans of the competing parties. We will assess the impact of the proposed merger on the affected workforce and community. For example, Public Fund Advisory Services will assess the proposed merger's impact on job loss with an emphasis on the company's U.S. operations. In certain circumstances, jobs may be lost due to economic inefficiencies. However, Public Fund Advisory Services will not support mergers that unnecessarily eradicate employment, harming the beneficiaries, communities, and the company's economic position.

In the case of a cross-border merger, Public Fund Advisory Services consider the proposed merger's effect on labor standards. Public Fund Advisory Services will not support mergers that diminish basic labor standards. The resulting entity should comply with applicable laws and principles protecting employees' wages, benefits, working conditions, freedom of association, and other rights.

In the case of an acquisition, Public Fund Advisory Services examines the level of voting or earnings dilution and the logic of the proposed purchase if large share issuances are required. The method of financing is also important, as various methods can result in different valuations than originally perceived. Public Fund Advisory Services also checks for an independent valuation of the terms, particularly if the target of the acquisition is not a publicly traded entity or asset and precise market valuations are not readily available.

This is important when determining whether or not a specific premium is justified. Control premiums on acquisitions vary widely depending on the industry, the time period, and the country. During the late 1980s in the United States, control premiums of up to 70 percent in certain sectors were considered reasonable. Broad averages over time indicate that premiums in the range of 20 percent to 30 percent are normal, but this must be evaluated on a case-by-case basis. For publicly traded entities or assets, Public Fund Advisory Services looks at the price of the acquisition relative to the average market price prior to any announcement, as well as the historical price trends for 60 days prior. For non-publicly traded entities or assets, an independent financial evaluation becomes even more important.

In the case of mergers, Public Fund Advisory Services examines whether or not the merger makes commercial or strategic sense for the company. Public Fund Advisory Services also considers the method of effecting the merger and the ultimate impact on shareholders of the proposed financial and corporate governance structure. While historical relative valuations based on market prices are useful in the financial evaluation process, the often-complicated financial details of such proposals make an independent fairness opinion of extreme importance. The proposed board structure, share capital structure, and relative share ownership of the new company are all important factors for consideration in this evaluation process.

If the details of a given proposal are unclear or not available and a fairness opinion is also not available, Public Fund Advisory Services will recommend to either abstain on or to vote against the proposal. Abstention would most likely be the result of a lack of information about the proposal. If a company is uncooperative in providing information about the proposal or is evasive when responding to questions, Public Fund Advisory Services will recommend against it.

Reincorporation Proposals

Public Fund Advisory Services Recommendation: Vote reincorporation proposals on a case-by-case basis.

Discussion

Reincorporation proposals are most commonly seen in Canada, where companies may register under one of the provincial business statutes. However, companies in other countries may also seek shareholder approval to reincorporate in a U.S. state or another country. Many companies, including U.S. companies, choose to reincorporate in places such as Bermuda, the Cayman Islands, or the British Virgin Islands for tax purposes. With more U.S.-listed companies seeking to move offshore, shareholders are beginning to understand the web of complexities surrounding the legal, tax, and governance implications involved in such a transaction.

When examining a reincorporation proposal, Public Fund Advisory Services first examines the reasons for the move. Sometimes a reincorporation proposal is part of a restructuring effort or merger agreement that contributes significantly to a company's growth, financial health, and competitive position more than the anticipated negative consequences of incorporating in another province or country. Some reincorporations allow firms to realize lower taxes or incorporation fees. In addition, there may be advantages to incorporating in the province in which the company conducts the bulk of its business.

Companies often adopt a new charter or bylaws with increased protection for management upon reincorporation. For instance, many reincorporation proposals are bundled with the ratification of a new charter that increases the company's capital stock or imposes a classified board. When such changes to the charter include the addition of negative corporate governance provisions, the impact of these new provisions on shareholders must be balanced against the anticipated benefits of the reincorporation.

Public Fund Advisory Services believes that reincorporations to countries, states, or provinces with less stringent disclosure requirements or corporate governance provisions are often management attempts to lessen accountability to shareholders. In such cases, Public Fund Advisory Services will vote against the proposal. The

expenses involved in a change of domicile relating to legal and administrative fees, plus the greater entrenchment such a reincorporation could provide management, would likely harm shareholders' interests. In cases where companies propose to move to a more protective province or country and supply reasonable financial reasons for doing so, the benefits of the reincorporation must be weighed against the costs of possible management entrenchment.

Public Fund Advisory Services also considers the reincorporation's impact on the employment environment. We may not support reincorporations to new jurisdictions that diminish basic labor rights and standards.

While a firm's country of incorporation will remain the primary basis for evaluating companies, Public Fund Advisory Services will generally apply U.S. policies to the extent possible with respect to issuers that file DEF 14As, 10-K annual reports, and 10-Q quarterly reports, and are thus considered domestic issuers by the U.S. Securities and Exchange Commission (SEC). Corporations that have reincorporated outside the U.S. have found themselves subject to a combination of governance regulations and best practice standards that may not be entirely compatible with an evaluation framework based solely on country of incorporation.

Expansion of Business Activities

Public Fund Advisory Services Recommendation: Vote for resolutions to expand business activities unless the new business takes the company into risky areas.

Discussion

Companies are usually required by law to include in their articles of association or memorandum of association specific business purposes in the form of an objects clause. Because most countries require shareholder approval before articles can be amended, any change to the company's objects clause requires shareholder approval. Countries often seek shareholder approval to amend the objects clause to expand business lines.

Expanding business lines is a decision usually best left to management, but there are some instances where Public Fund Advisory Services opposes support for such changes. If a company has performed poorly for several years and seeks business expansion into a risky enterprise, Public Fund Advisory Services would require further clarification from management regarding the purpose of the expansion. If the company does not provide a satisfactory business plan, Public Fund Advisory Services will not support the proposal. Furthermore, if the company does not adhere to basic labor principles or codes of conduct in the expansion of its business, then Public Fund Advisory Services will not support the proposal. For example, the expansion must comply with applicable laws and regulations, provide legitimate policies regarding workplace health and safety, and recognize basic labor rights. Public Fund Advisory Services believes that these policies and practices affect long-term corporate performance and increase shareholder value.

Related Party Transactions

Public Fund Advisory Services Recommendation:

- Vote on a case-by-case basis, resolutions that seek shareholder approval on related party transactions considering factors including, but not limited to, the following:
 - The parties on either side of the transaction;
 - The nature of the asset to be transferred/service to be provided; the pricing of the transaction (and any associated professional valuation);
 - The views of independent directors (where provided);
 - The views of an independent financial adviser (where appointed);
 - Whether any entities party to the transaction (including advisers) is conflicted; and

- The stated rationale for the transaction, including discussions of timing.
- If there is a transaction that is deemed problematic and that was not put to a shareholder vote, vote against the election of the director involved in the related-party transaction or the full board.
- Vote against related party transactions when details of a particular arrangement are not available.
- In Malaysia, vote against a related-party transaction mandate if:
 - A director who is classified by the company as independent has a vested interest ¹¹in the business transaction, and
 - The value of the transaction exceeds MYR 250,000¹².
- In addition, directors involved in related-party transactions in excess of MYR 250,000 will be classified as non-independent.
- In the case of Nigerian companies, vote for proposals relating to renewal of the general mandate for the company to enter into recurrent transactions with related parties necessary for its day-to-day operations in the absence of any concerns with the related party transactions concluded pursuant to this general mandate.

Discussion

Shareholders are often asked to approve commercial transactions between related parties. A transaction between a parent company and its subsidiary, or a company's dealings with entities that employ the company's directors, is usually classified as a related party transaction and is subject to company law or stock exchange listing requirements that mandate shareholder approval. Shareholder approval of these transactions is meant to protect shareholders against insider trading abuses.

In most cases, both the rationale and terms of such transactions are reasonable. Public Fund Advisory Services looks for evidence of an evaluation of the transaction by an independent body, but this is not always available. Unless the agreement requests a strategic move outside the company's charter or contains unfavorable terms, Public Fund Advisory Services will support the proposal. However, in many countries, detailed information about related-party transactions is not available. In some cases, no information is available. When sufficient information is not available, Public Fund Advisory Services will vote against the arrangement.

¹¹ By virtue of being a partner, executive, or major shareholder of the related-party holding more than a 10 percent equity stake or being the direct recipient of the transaction. For the purpose of clarification, directors who are deemed interested by virtue of being a director at the transacting party or who hold immaterial interest in the transacting party will be exempted.

¹² Under Bursa Malaysia Listing Requirements, related-party transactions where the value of the transaction is less than MYR 250,000 are exempt from disclosure and approval requirements.

5. Compensation

Public Fund Advisory Services believes that seeking annual shareholder approval of a company's compensation policy is a positive corporate governance provision, and considers the following compensation best practices in evaluating shareholder votes on corporate compensation practices:

- Appropriate pay structure with emphasis on long-term shareholder value;
- Avoidance of arrangements that risk “pay for failure”;
- Independent and effective compensation committees;
- Provision of clear and comprehensive compensation disclosures to shareholders; and
- Avoidance of inappropriate pay to non-executive directors.

Executive Compensation

Public Fund Advisory Services Recommendation: Vote case-by-case on management proposals seeking ratification of a company's compensation policy.

- Generally vote against a company's compensation-related proposal due to one or a combination of the following factors:
 - The proposed compensation policy/report was not made available to shareholders in a timely manner;
 - The level of disclosure of the proposed compensation policy is below what local market best practice standards dictate;
 - There is a significant misalignment between CEO pay and company performance (pay for performance);
 - Concerns exist with respect to the disclosure or structure of the bonus or other aspects of the remuneration policy such as pensions, severance terms, and discretionary payments;
 - Concerns exist surrounding the company's long-term incentive plan(s), including but not limited to, dilution, vesting period, and performance conditions;
 - Excessive severance arrangements/payments;
 - Overly generous perquisites and/or tax gross-ups, and/or other excessive arrangements;
 - Provision of stock option grants, or similarly structured equity-based compensation, to non-executive directors; or
 - Where boards have, otherwise, failed to demonstrate good stewardship of investors' interests regarding executive compensation practices.
- Should a company be deemed:
 - To have egregious remuneration practices;
 - To have failed to follow market practice by not submitting expected resolutions on executive compensation; or
 - To have failed to respond to significant shareholder dissent on remuneration-related proposals;
- An adverse vote recommendation could be applied to any of the following on a case-by case basis:
 - The election of the chair of the remuneration committee or, where relevant, any other members of the remuneration committee;
 - The reelection of the board chair;
 - The discharge of directors; or
 - The annual report and accounts.
- This recommendation could be made in addition to other adverse recommendations under existing remuneration proposals (if any).

- Where relevant, Public Fund Advisory Services will take into account the European Pay for Performance (EP4P) model¹³ outcomes within a qualitative review of a company's remuneration practices.

Non-Executive Director Compensation

Public Fund Advisory Services Recommendation:

- Vote for proposals to award cash fees to non-executive directors unless:
 - The board fees paid for the fiscal year under review are not disclosed in a timely manner;
 - The proposed amounts are excessive relative to similarly sized companies in the same market/sector, with no justification provided by the company; and
 - There is significant concern on the company's past practices regarding directors' remuneration.
- Vote on the proposal to award cash fees to non-executive directors on a case-by-case basis in cases where there is a significant increase in fees with limited or no justification.
- Vote on non-executive director compensation proposals that include both cash and share-based components on a case-by-case basis.
- Vote on proposals that bundle compensation for both non-executive and executive directors into a single resolution on a case-by-case basis.
- Vote against proposals to introduce retirement benefits for non-executive directors.
- Vote against non-executive director remuneration if documents (general meeting documents, annual report) provided prior to the general meeting do not mention fees paid to non-executive directors.
- Vote against non-executive director remuneration if the company intends to excessively increase the fees in comparison with market/sector practices, without stating compelling reasons that justify the increase.
- Vote against proposals that provide for the granting of stock options, performance-based equity compensation (including stock appreciation rights and performance-vesting restricted stock), and performance-based cash to non-executive directors.

Equity-Based Compensation Plans

Public Fund Advisory Services Recommendation: Generally vote for equity-based compensation proposals or the like if the plan(s) is(are) in line with long-term shareholder interests and align the award with shareholder value. This assessment includes, but is not limited to, the following factors:

- The volume of awards (to be) transferred to participants under all outstanding plans must not be excessive: awards must not exceed 5 percent of a company's issued share capital. This number may be up to 10 percent for high-growth companies or particularly well-designed plans (e.g., with challenging performance criteria, extended vesting/performance period, etc.);
- The plan(s) must be sufficiently long-term in nature/structure: the vesting of awards (i) must occur no less than three years from the grant date, and (ii) if applicable, should be conditioned on meeting performance targets that are measured over a period of at least three consecutive years;

¹³ Definition of Pay-for-Performance Evaluation:

- Public Fund Advisory Services annually conducts a pay-for-performance analysis to measure the alignment between pay and performance over a sustained period. With respect to companies in the European Main Indices, this analysis considers the following:
 - Peer Group Alignment:
 - ✓ 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.
 - ✓ The multiple of the CEO's total pay relative to the peer group median.
 - Absolute Alignment – the absolute alignment between the trend in CEO pay and company TSR over the prior five fiscal years – i.e., the difference between the trend in annual pay changes and the trend in annualized TSR during the period.

- If applicable, performance conditions must be fully disclosed, measurable, quantifiable, and long-term oriented; and
- The awards must be granted at market price. Discounts, if any, must be mitigated by performance criteria or other features that justify such discount

Discussion

The global financial crisis has shown that poor remuneration systems can lead to the inefficient allocation of company resources and can incentivize behavior that is detrimental to long-term shareholder interests. More than ever, shareholders have become concerned with how companies compensate their executives. Scrutiny has been applied to ascertain whether executive pay is appropriate for a company's size, market, and industry, and whether remuneration structures sufficiently incentivize long-term share value growth and avoid "pay for failure". In response to this growing trend, many legislatures/regulators have taken steps to strengthen shareholders' role in the determination of remuneration practices by increasing companies' disclosure requirements with respect to compensation practices as well as by recommending (or requiring) that companies provide voting resolutions on remuneration practices at their annual shareholder meetings.

Public Fund Advisory Services supports plans that motivate participants to focus on maximizing long-term shareholder value and returns, encourage employee stock ownership, and more closely align employee interests with those of shareholders. However, we recognize that in many markets, the degree of information available to evaluate compensation proposals is usually limited in detail. For this reason, Public Fund Advisory Services applies its compensation policies and methodology to the extent that market disclosure practices allow.

Public Fund Advisory Services reviews three main types of compensation plans: stock option plans, incentive plans, and share purchase plans. Also included in this section are grants outside of plans.

Stock Option Plans

Stock option plans grant participants an option to buy company shares at a set price (the exercise price). Shares are usually granted at market prices and may be exercised when the company's share price reaches the exercise price. Participants may then purchase the promised shares at the strike price and may later sell the shares after their purchase (or after a defined holding period when the shares may not be sold). Among the criteria that Public Fund Advisory Services examines in evaluating stock option plans are the following, generally organized from criteria of greater importance to criteria of lesser importance:

Shares Reserved for Issuance of Options under the Plan

The maximum number of shares Public Fund Advisory Services approves under a plan depends on the classification of a company's stage of development as growth or as mature. Growth companies are usually smaller, in new industries requiring significant research and development, and have restricted cash flows. A company in an established industry but expanding rapidly, or a mature company that is experiencing an extended period of rapid expansion, may also be classified as growth. Mature companies are characterized by stable sales and revenue growth, production efficiencies resulting from volume gains, and strong cash flow resulting from developed products in the payoff stage.

For mature companies, shares available under stock option plans should be no more than five percent of the issued capital at the time of approval under all plans. For growth companies, shares available should be no more than ten percent of the issued capital at the time of approval under all plans (and five percent under the proposed plan.) For all companies, an absolute number of shares fixed at the time of approval is ideal, but many countries do not include such a limit. In these cases, revolving limits (a certain percentage of issued shares at any one time) of five or ten percent are common. The practice of setting a percentage of shares issuable over a certain number of years before or after the plan is adopted appears to be a compromise between these first two methods. Public

Fund Advisory Services prefers plans where the limits are sufficiently spread out, e.g., five percent in five years, ten percent in ten years.

Exercise Price

Public Fund Advisory Services prefers that options be priced at 100 percent of the shares' fair market value on the date of grant. Usually this is taken as the closing price of the company's shares on the day prior to the date of grant. Some countries determine fair market value as an average of the trading price for the five days prior to the date of grant. This is a common and acceptable practice. Some emerging market countries use a 30-day average or longer to determine fair market value; these resolutions must be reviewed on a case-by-case basis, although provisions of longer than 30 days increase the possibility of discounted options.

Exercise Price Discounts

Public Fund Advisory Services strongly opposes grants of discounted options to both executive and nonexecutive directors. In the absence of vesting periods or performance criteria, discounted option grants to directors amount to a cash bonus at shareholder expense. Under such circumstances, option holders have an incentive to cash in their grants for an immediate return rather than hold on to their options for future gains. This undermines the incentive value underlining these plans. A few countries allow for options to be granted at a discount to market prices. Public Fund Advisory Services approves of discounts up to 20 percent, but only for grants that are a part of a broad-based employee plan, including all nonexecutive employees.

Plan Administration

Public Fund Advisory Services opposes allowing the administering committee to grant options to itself due to the potential for "backscratching" abuse. Administration of plans should be in the hands of directors who are unable to participate in the plan. Plans administered by the full board should not allow voting by executive directors; plans administered by remuneration committees should be composed entirely of independent directors. Plans that allow nonexecutive directors to participate should not give them any discretion on individual grants; instead, an automatic system of grants should be introduced with fixed annual grants at market prices on a fixed date. Alternatively, Public Fund Advisory Services approves of separate nonexecutive director option plans with independent administration.

Eligibility and Participation

Public Fund Advisory Services prefers separate plans for employees, directors, and nonexecutive directors, but most plans include all or some combination of these categories of participants. Other global plans distinguish between full-time and part-time employees or establish a set length of service to the company (usually one year) before options may be granted. Most plans allow the administering committee to select plan participants.

Performance Criteria and Vesting Provisions

Performance criteria and vesting provisions are important considerations when evaluating a compensation plan, and the existence of long vesting provisions and realistic performance criteria are highly preferred. The ultimate goal of share option plans is to tie executive and employee remuneration to company performance and to give key employees and executives incentive to stay with the firm. Generally in markets where disclosure is an issue, if a plan meets all other aspects of Public Fund Advisory Services' guidelines, these two criteria are not mandatory. However, whenever greater disclosure is the market norm, we will oppose plans that do not include sufficiently challenging performance criteria or carry a minimum three-year vesting period. This information is commonly provided in markets such as the United Kingdom, Canada, The Netherlands and Australia. Finally, any matching shares that are provided by companies should be subject to additional performance conditions.

Retesting of Performance Criteria

Remuneration plans should not allow for the retesting of performance criteria over another time period if these conditions were not met within the initial period. Retesting is destructive to the incentive value of such plans and undermines the worth of performance criteria. Whenever disclosure is sufficient enough to determine if retesting is allowed under a company's plan, Public Fund Advisory Services will take this feature into consideration for our overall evaluation of the plan.

Issue Terms

Some countries require optionees to pay a nominal fee (often equivalent to \$0.01) for every option received. This is common and acceptable, although many companies that once enforced this provision are now deleting it from the rules of their plans.

Option Repricing

Some plans include specific provisions allowing for the repricing of options at the board's discretion. Public Fund Advisory Services opposes plans that include option repricing when the exercise price is reduced in response to a dropping share price. Repricing outstanding options reduces the incentive that options provide to raise the share price for shareholders.

At Canadian TSX and TSXV firms, Public Fund Advisory Services generally votes against proposals to reprice outstanding options. The following and any other adjustments that can be reasonably considered repricing will generally not be supported:

- reduction in exercise price or purchase price,
- extension of term for outstanding options,
- cancellation and reissuance of options,
- substitution of options with other awards.

Public Fund Advisory Services has long opposed option repricing. Market deterioration is not an acceptable reason for companies to reprice stock options.

Although not required by TSX rules, Public Fund Advisory Services believes that any proposal to reduce the price of outstanding options, including those held by non-insiders, should be approved by shareholders before being implemented (see discussion under Plan Amendment Provisions).

The extension of option terms is also unacceptable. Options are not meant to be a no-risk proposition and may lose their incentive value if the term can be extended when the share price dips below the exercise price. Shareholders approve option grants on the basis that recipients have a finite period during which to increase shareholder value, typically five to ten years. As a company would not shorten the term of an option to rein in compensation during, for example, a commodities bull market run, it is not expected to extend the term during a market downturn when shareholders suffer a decrease in share value.

Financial Assistance

Some plans offer participants loans to pay the full exercise price on their options. If loans are part of a company's option plan, Public Fund Advisory Services prefers that loans be made to employees as part of a broad-based, company-wide plan to encourage ownership rather than be given only to executive directors. Public Fund Advisory Services also prefers loans with interest set at market rates that must be paid back in full over a reasonable length

of time. The absence of these features does not necessary warrant a vote against an option plan, but they are taken into consideration in Public Fund Advisory Services' analysis of the plan.

Plans for International Employees

Many overseas companies introduce separate plans or delegate a special section of their option plan to deal with tax considerations raised by having a large number of employees working in other countries. Many of these plans contain provisions that deal directly with particular U.S. tax code provisions on stock options. Public Fund Advisory Services applies the same criteria to these plans as to country-specific plans.

Stock Appreciation Rights

Stock appreciation rights (SARs) allow participants to receive the difference between the exercise price and the market price at the date of exercise. Many companies use SARs in lieu of regular options. While SARs do not result in the dilution associated with large option exercises, there is little difference between an SAR and a regular option from a shareholder perspective because the financial cost to the company is the same. However, SARs do not encourage stock ownership by participants because they involve no purchase or sale of company stock. Public Fund Advisory Services reviews SARs in the context of the option plan under which they are issued.

Phantom Stock Option Plans

Phantom stock options offer participants cash bonuses based on the increase in share price during a set period of time. Phantom plans are distinct from SARs in that they often form their own separate plan. Some companies will create a phantom stock option plan to award employees who reside in countries that do not allow stock-based compensation. Participants are designated a set number of hypothetical (phantom) shares, on which the award is based. While Public Fund Advisory Services prefers compensation plans that encourage employee ownership, SARs and phantom options are an effective way to provide incentive.

Super Options

Super options exceed the limits in a particular country for the value of options granted to any one individual, although they are usually tied to significantly more restrictive vesting provisions and performance criteria. U.K. super options, for example, exceed the Association of British Insurers' recommended limit that options represent no more than four times a participant's salary, yet the stricter performance criteria and longer vesting periods usually mitigate excessive grants. Additionally, dilution resulting from super options has historically been fairly moderate. Super options appear most often in advanced markets with developed stock option plans.

Restricted Stock

Restricted stock is specifically designated stock offered at a discount to executives, often under U.S. option plans but increasingly among overseas plans as well. Company shares may be granted outright to optionees with no payment required for the receipt of the shares. Such awards can be extremely expensive, as participants exercise awards at fixed prices far below the current market price. If restricted stock is included as part of a stock option plan, Public Fund Advisory Services expects strict limits on the amount of shares that may be issued in this form.

Dividends under Option and Dividend Equivalent Payment Provisions

Most holders of stock options do not receive dividend payments. However, some option plans allow participants to receive dividends or dividend equivalent payments prior to the exercise of options. Public Fund Advisory Services believes that any economic benefit derived from option plans should occur at the time of exercise.

Incentive Plans

Share incentive plans tie key employees' compensation more directly to company performance. Though most popular in the United Kingdom, incentive plans are becoming increasingly popular across the globe. Incentive plans provide participants with free grants of company shares (or, less frequently, cash grants) in proportion with prearranged performance criteria—often earnings per share measured against inflation or total shareholder return. These indicators are frequently compared with those of other firms in the company's industry or stock market index, creating a benchmark and a further determinant of the number of shares granted to a particular participant. Proponents of incentive plans note that they offer shareholders the potential for less dilution and that they more directly encourage participants to focus on long-term company performance through strict performance criteria tied to more than just share price movements.

Most incentive plans are organized with strict vesting provisions, where participants may not receive the share awards until after a period of three years or more. Many plans also grant a percentage of the total amount reserved for each participant on a sliding scale measured against performance criteria. Performance criteria targets that have been satisfied only to a certain point may represent disbursement of 25 percent of the shares or cash to a participant, while 100-percent satisfaction may represent the full allotment of the grant. From a shareholder perspective, this graduated system of performance criteria is a major advance.

Evaluation of incentive plans is similar to that of option plans in that acceptable dilution and impartial administration and eligibility remain key factors for a positive recommendation. Insufficient performance criteria or abbreviated vesting provisions are deciding factors as well.

Share Purchase Plans

Share purchase plans allow participants to purchase shares in the company, often at a discount to market prices. These plans are often broad-based in nature, as they are usually open to all employees. Other plans operate via monthly deductions from employees' paychecks, gathered and held for safe keeping by a trust or a bank and used every month or year to purchase company stock.

Public Fund Advisory Services will approve many of these plans because they encourage wide share ownership in the company among employees. Public Fund Advisory Services generally approves broad-based, employee-directed share purchase plans with discounts up to 20 percent. Dilution, eligibility, and administration are the key factors in determining votes on purchase plans.

Eligibility

While eligibility under share purchase plans is evaluated similarly to stock option plans, Public Fund Advisory Services affords more flexibility with the terms of broad-based employee purchase plans. The inclusion of permanent part-time employees and employees who have been with the company for less than one year are provisions of employee plans that are routinely approved.

Loan Terms

Some plans offer participants loans to pay for the shares. If loans are part of a share purchase plan, Public Fund Advisory Services prefers that loans be made to employees as part of a broad-based, company-wide plan to encourage ownership rather than being given only to executive directors. Public Fund Advisory Services also prefers loans with interest set at market rates that must be paid back in full over a reasonable length of time. The absence of these features does not necessarily warrant a vote against a share purchase plan, but they are taken into consideration in Public Fund Advisory Services' analysis of the plan.

Grants Outside of Plans

Resolutions asking shareholders to approve specific grants of shares or cash outside of established plans are problematic. Some companies prefer not to adopt formal share plans, instead asking shareholders to approve yearly grants to specific employees. Public Fund Advisory Services prefers that companies make such grants in the context of an established plan.

Public Fund Advisory Services' primary concern with grants outside of plans is the level of dilution they afford. The number of shares issued as part of the grants, when combined with the number of shares reserved for the company's other share plans, must fall within acceptable dilution limits. Vesting provisions and performance criteria are also important and are evaluated on the same basis as if the grants were part of a formal plan.

6. Antitakeover Mechanisms

Public Fund Advisory Services Recommendation: Vote against all antitakeover proposals, unless they are structured in such a way that they give shareholders the ultimate decision on any proposal or offer.

Discussion

Common antitakeover mechanisms include staggered boards, super-voting shares, poison pills, unlimited authorized capital authorizations (including blank check preferred stock), and golden shares. Some of these restrictions are aimed solely at limiting share ownership by foreign or unwanted minority shareholders, and others are designed to preclude an unwanted takeover of the target company by any party. Public Fund Advisory Services opposes all forms of such mechanisms, as they limit shareholder value by eliminating the takeover or control premium for the company. As owners of the company, shareholders should be given the opportunity to decide on the merits of takeover offers.

Renew Partial Takeover Provision (Australia)

Australian law allows companies to introduce into their articles a provision to protect shareholders from partial takeover offers, to be renewed by shareholders every three years. If a partial takeover of the company is announced, directors are required to convene a shareholder meeting at least 15 days before the closing of the offer to seek approval of the offer. If shareholders reject the resolution, the offer is considered withdrawn under company law and the company can refuse to register the shares tendered to the offer. Public Fund Advisory Services approves of consulting shareholders on takeover offers, and this article provides protection for minority shareholders by giving them ultimate decision-making authority based on their own interests, not the interests of directors or outside parties. Public Fund Advisory Services supports the adoption of this proposal in almost all cases.

Golden Shares

Recently privatized companies across the world often include in their share structure a golden share held by their respective governments. These shares often carry special voting rights or the power of automatic veto over specific proposals. Golden shares are most common among former state-owned companies or politically sensitive industries such as utilities, railways, and airlines. While the introduction of golden shares is not a desirable governance practice, Public Fund Advisory Services recognizes the political importance certain companies hold for governments and treats the introduction or amendment of government shares on a case-by-case basis.

Poison Pills (Canada, Japan)

Otherwise known as shareholder rights plans, poison pills are seen primarily in the Canadian and Japanese markets. Companies generally state that they seek to adopt or renew pills in order to protect shareholders against unfair, abusive, or coercive takeover strategies and to give the target company's board time to pursue alternatives to a hostile takeover bid. Theoretically, the board will refuse to redeem the pill in the face of an unfair offer in order to force a bidder to negotiate for a better offer, at which point it will redeem the pill.

In accomplishing these goals, however, many rights plans place too much of the decision-making powers in the hands of the board and management and out of the hands of shareholders. However, Public Fund Advisory Services notes that many Canadian companies have adopted new shareholder rights plans that address the concerns of institutional investors, namely providing for three-year sunset provisions, allowing for partial bids to proceed despite board opposition, and curtailing the overall level of discretion afforded the board in interpreting the pills.

Nonetheless, Public Fund Advisory Services guidelines generally do not support the adoption of poison pills on the grounds that they serve to entrench management. Improperly structured rights plans have been used by boards to ward off offers beneficial to shareholders. Current owners should decide who will own the company, with advice and negotiation from the board and management. When considering the merits of a poison pill, Public Fund Advisory Services also examines what other antitakeover devices the company has and the company's treatment of shareholders in past situations.

Poison pills often have a sunset provision, which requires shareholder confirmation of the plan. Most pills have either a three-year or a five-year sunset provision, requiring that shareholders confirm the continuation of the plan three or five years from the date of adoption. Public Fund Advisory Services guidelines support a three-year sunset provision, which affords shareholders the ability to reconsider the plan in light of changing market conditions and to review management's use of the plan. Canadian pills also typically include a permitted bid clause, under which the takeover bid must be made on equal terms to all holders of the company's voting shares; the company must extend the expiration of the bid, usually by 45 or 60 days following the date of the bid. Management sets the terms of the permitted bid clause, and therefore it influences the level of protection that will be provided to shareholders.

Public Fund Advisory Services determines whether the permitted bid feature offers shareholders adequate powers relative to the board in the event of a bid not being approved by the board. Allowing shareholders the right to override the board as a means of balancing power is crucial, but the specifics of the permitted bid clause are usually insufficient. Under the clause, a shareholder who is not intent on a complete acquisition but merely wishes to purchase a significant stake in the company may trigger the pill. This gives the board power to deny shareholders the benefit of a large semi-controlling shareholder and precludes partial bids that may be in shareholders' interests. In addition to the sunset provision and the structure of the permitted bid clause, in order to qualify for approval, a shareholder rights plan must satisfy ALL of the following conditions:

- Permitted bid clause structure: a permitted bid clause must allow for partial bids supported by a majority of shareholders to proceed despite board opposition; bid periods should generally not be greater than 60 days; the clause should not contain a "toehold provision" that would prevent any person who already controls a specified percentage of shares from making a permitted bid;
- Amendments: the ability of the board to amend key terms of the plan without shareholder approval following initial adoption of the plan must be limited to clerical and typographical changes and changes required to maintain the validity of the rights plan;
- Exchange option: a plan must not *contain* a provision that would enable the board to issue in exchange for the right, with or without further charge, debt or equity securities, other assets of the company, or any combination thereof;
- Definition of Fair Market Value: the board *must* not have the discretion to interpret the fair market value of the company's shares if the board determines that the value was adversely affected by the news of an anticipated or actual bid or by other means of manipulation;
- Affiliates and Associates: the board's *discretion* to decide which parties are acting in concert to determine the level of beneficial ownership, which could be used to trigger the pill should be limited and well-defined in the text of the plan;
- Mandatory Waiver: if the board waives the triggering of the pill with respect to one bidder, the board must be required to waive the pill in favor of any subsequent bids, preventing the board from favoring one bid over another regardless of shareholder interests.

Since 2006, the vast majority of Japanese poison pills have been so called "advance warning-type" ("advance notice-type") defense plans. In these cases, the board announces in advance a set of disclosure requirements it expects any bidder to comply with, as well as a waiting period between the submission of this information and the launch of the bid. As long as the bidder complies with these rules, the company "in principle" will take no action to block the bid, but will allow shareholders to decide.

The exceptions are where the bid is judged to be clearly detrimental to shareholders, such as in situations defined by a Japanese court or in a report of the government's Corporate Value Study Group. These include greenmail, asset stripping and coercive two-tier offers. Usually, such judgments are made by a "special committee" or "independent committee," but the committee's decision is usually subject to being overruled by the board. At some companies the decisions are made by the board with no committee input at all. Advance warning-type defenses do not require shareholder approval, although in most cases companies are choosing to put them to a shareholder vote, as it is believed that doing so will put the company in a stronger position in the event of a lawsuit.

Where a company implements an advance warning-type defense without a shareholder vote, Public Fund Advisory Services will similarly examine the details of the plan, and where we deem it to be detrimental to shareholder value, we will consider a vote against the company's representative director(s).

Depository Receipts and Priority Shares (The Netherlands)

Depository receipts are an especially common antitakeover defense among large Dutch companies. In the event of a hostile takeover bid, ordinary voting shares are first issued to a company-friendly trust or foundation. The trust or foundation in turn issues depository receipts, similar to banks in the United States issuing ADRs except that the foundation retains the voting rights of the issued security. The depository receipts carry only the financial rights attached to the shares (i.e., dividends). In this manner, the company gains access to capital while retaining control over voting rights. Nonvoting preference shares can be issued to trusts or foundations in a similar fashion.

Priority shares, established in a company's articles, may be awarded with certain powers of control over the rest of the company. In practice, priority shares are held by members of the supervisory board, company-friendly trusts or foundations, or other friendly parties. Depending on the articles, priority shareholders may determine the size of the management or supervisory boards or may propose amendments to articles and the dissolution of the company. Public Fund Advisory Services will vote against the introduction of depository receipts and priority shares.

7. Shareholder Rights and Defenses

Exclusive Forum Proposals (Canada)

Public Fund Advisory Services Recommendation: Vote case-by-case on proposals to adopt an exclusive forum by-law or to amend by-laws to add an exclusive forum provision, taking the following into consideration:

- Jurisdiction of incorporation;
- Board rationale for adopting exclusive forum;
- Legal actions subject to the exclusive forum provision;
- Evidence of past harm as a result of shareholder legal action against the company originating outside of the jurisdiction of incorporation;
- Company corporate governance provisions and shareholder rights;
- Any other problematic provisions that raise concerns regarding shareholder rights.

Discussion

Exclusive forum by-laws, which have been adopted widely in the US market, are still relatively new to the Canadian market, although an increasing number of companies continue to adopt these provisions as by-laws which require shareholder approval. There is merit to the notion that judges based in a corporation's jurisdiction of incorporation are best suited to apply that jurisdiction's law to those companies. As well, given a corporation's typically strong presence in that province or jurisdiction, an exclusive forum provision may help to reduce the likelihood of high legal costs accrued through litigation outside of the jurisdiction of incorporation.

It can be argued, however, that there is often more than one proper forum available to shareholder plaintiffs, and this proposal would curtail the right of shareholders to select any proper forum of their choosing. The proposed exclusive forum jurisdiction and the details of the extent and types of legal actions that would be subject to the exclusive forum by-law provide critical information to shareholders whose rights may be impacted. This information together with the board of directors' rationale in adopting an exclusive forum by-law will be key considerations in evaluating the acceptability of such a proposal. As well, the absence of a compelling company-specific history with regard to out-of-province/jurisdiction shareholder litigation is important in light of the limitation on shareholder litigation rights that this provision represents. More generally, a company's track record vis-à-vis corporate governance and shareholder rights should be examined to identify any other concerns when considering the acceptability of an exclusive forum by-law.

This policy codifies the policy approach currently applied as it is expected that more companies will adopt exclusive forum by-laws, providing more transparency and a rationale.

8. Shareholder Proposals

Public Fund Advisory Services Recommendation:

- Vote all shareholder proposals on a case-by-case basis.
- Vote for proposals that would improve the company's corporate governance or business profile at a reasonable cost.
- Vote against proposals that limit the company's business activities or capabilities or result in significant costs being incurred with little or no benefit.

Discussion

Unlike in the United States where shareholders proposals are quite common, they are less common overseas. One market where proposals sponsored by shareholders are more common is the German market. There are two types of such proposals—shareholder proposals and counterproposals. Counterproposals are filed in direct opposition to proposals put forward by management at a given shareholder meeting. Many shareholder and counterproposals in Germany focus on environmental and labor issues. The number of shareholder proposals is also on the rise in Canada, although the aggregate annual number still pales in comparison to the U.S. In general shareholder proposals seen at global companies cover a wide variety of issues, including fundamental corporate governance topics, social issues, direct action proposals, as well as many unique proposals.

Public Fund Advisory Services' position on the issues covered in many of these proposals has already been discussed. Generally, Public Fund Advisory Services will evaluate shareholder proposals to determine whether they are in the best economic interests of the participants and beneficiaries we represent. Public Fund Advisory Services' clients choose the companies in which they invest and, ultimately, Public Fund Advisory Services' responsibility is to protect their economic interests. This does not mean, though, that Public Fund Advisory Services must take a short-term approach when evaluating these proposals. Rather, Public Fund Advisory Services will issue recommendations in a manner consistent with the long-term economic best interests of the participants and beneficiaries.

In general, Public Fund Advisory Services supports proposals that request the company to furnish information helpful to shareholders in evaluating the company's operations. In order to intelligently monitor their investments, shareholders often need information best provided by the company in which they have invested. Requests to report such information merit support. Public Fund Advisory Services will evaluate proposals seeking the company to cease taking certain actions that proponents believe are harmful to society or some segment of society with special attention to the company's legal and ethical obligations, its ability to remain profitable, and potential negative publicity if the company fails to honor the request.

Public Fund Advisory Services reviews all shareholder proposals to ascertain whether the proposals are beneficial or detrimental to shareholder value. Most resolutions fall into three basic categories: corporate governance, social, and environmental. While shareholder proposals in most countries are not as prevalent as they are in the United States, they are becoming more common, and standards for reviewing the various types of proposals are necessary.

Corporate Governance Proposals

Corporate governance-related proposals must be evaluated carefully because any changes can dramatically affect shareholder value. Support for such proposals must be measured against the likely impact that approval would have on the company's operations. If a measure would improve disclosure of company activities in nonstrategic areas and at minimal costs, Public Fund Advisory Services would generally support the proposal. If a proposal seeks to improve the company's corporate governance structure, such as adopting board committees, eliminating

staggered board structures, or canceling antitakeover instruments, approval is also warranted. However, if acceptance of a proposal is likely to lead to a disruption in board or management operations and to cause the company to incur significant costs without clear benefit, Public Fund Advisory Services will oppose the proposal.

Social and Environmental Proposals

Public Fund Advisory Services Recommendation: In determining votes on shareholder social and environmental proposals, the following factors are considered:

- Whether the proposal itself is well framed and reasonable;
- Whether adoption of the proposal would have either a positive or negative impact on the company's short-term or long-term share value;
- Whether the company's analysis and voting recommendation to shareholders is persuasive;
- The degree to which the company's stated position on the issues could affect its reputation or sales, or leave it vulnerable to boycott or selective purchasing;
- Whether the subject of the proposal is best left to the discretion of the board;
- Whether the issues presented in the proposal are best dealt with through legislation, government regulation, or company-specific action;
- The company's approach compared with its peers or any industry standard practices for addressing the issue(s) raised by the proposal;
- Whether the company has already responded in an appropriate or sufficient manner to the issue(s) raised in the proposal;
- Whether there are significant controversies, fines, penalties, or litigation associated with the company's environmental or social practices;
- If the proposal requests increased disclosure or greater transparency, whether or not sufficient information is publicly available to shareholders and whether it would be unduly burdensome for the company to compile and avail the requested information to shareholders in a more comprehensive or amalgamated fashion; and
- Whether implementation of the proposal would achieve the objectives sought in the proposal.

Public Fund Advisory Services generally supports social and environmental proposals if they either contribute to the long term interests of plan participants and beneficiaries, or will have no adverse impact on plan participants and beneficiaries.

Global codes of conduct for social, human, and economic standards are an important component in the stability of world economic conditions and in protecting the current lifestyle of plan beneficiaries and participants. Without agreement on international codes, some companies could pursue a race to the bottom strategy that could ultimately undermine environmental and economic conditions.

Say on Climate (SoC) Management Proposals

Public Fund Advisory Services Recommendation: Vote case-by-case on management proposals that request shareholders to approve the company's climate transition action plan¹⁴, taking into account the completeness and rigor of the plan. Information that will be considered where available includes the following:

- The extent to which the company's climate related disclosures are in line with TCFD recommendations and meet other market standards;
- Disclosure of its operational and supply chain GHG emissions (Scopes 1, 2, and 3);
- The completeness and rigor of company's short-, medium-, and long-term targets for reducing operational and supply chain GHG emissions (Scopes 1, 2, and 3 if relevant);
- Whether the company has sought and received third-party approval that its targets are science-based;
- Whether the company has made a commitment to be "net zero" for operational and supply chain emissions (Scopes 1, 2, and 3) by 2050;
- Whether the company discloses a commitment to report on the implementation of its plan in subsequent years;
- Whether the company's climate data has received third-party assurance;
- Disclosure of how the company's lobbying activities and its capital expenditures align with company strategy;
- Whether there are specific industry decarbonization challenges; and
- The company's related commitment, disclosure, and performance compared to its industry peers.

Say on Climate (SoC) Shareholder Proposals

Public Fund Advisory Services Recommendation: Vote case-by-case on shareholder proposals that request the company to disclose a report providing its GHG emissions levels and reduction targets and/or its upcoming/approved climate transition action plan and provide shareholders the opportunity to express approval or disapproval of its GHG emissions reduction plan, taking into account information such as the following:

- The completeness and rigor of the company's climate-related disclosure;
- The company's actual GHG emissions performance;
- Whether the company has been the subject of recent, significant violations, fines, litigation, or controversy related to its GHG emissions; and
- Whether the proposal's request is unduly burdensome (scope or timeframe) or overly prescriptive.

Report on Environmental Policies

These resolutions request the company to disclose its environmental practices. For example, Public Fund Advisory Services will generally support proposals calling for a report on hazardous waste policies, and adopting the Global Reporting Initiative (GRI) disclosure standards.

Adoption of Ceres Roadmap to 2030

These resolutions call for the adoption of principles that encourage the company to protect the environment and the safety and health of its employees. Many companies have voluntarily adopted these principles.

¹⁴ Variations of this request also include climate transition related ambitions, or commitment to reporting on the implementation of a climate plan.

Public Fund Advisory Services Recommendation: Generally vote for proposals calling for the adoption of Ceres Roadmap 2030 as they often improve the company's public image, reduce exposure to liabilities, and establish standards so that environmentally responsible companies and markets are not at a competitive financial disadvantage.

Adoption of "MacBride Principles"

These resolutions call for the adoption of the MacBride Principles for operations located in Northern Ireland. They request companies operating abroad to support the equal employment opportunity policies that apply in facilities they operate domestically. Public Fund Advisory Services will generally support such proposals.

Contract Supplier Standards

These resolutions call for compliance with governmental mandates and corporate policies regarding nondiscrimination, affirmative action, work place safety and health and other basic labor protections. Public Fund Advisory Services will generally support proposals that:

- Seek publication of a "Code of Conduct" by the company's foreign suppliers and licensees, requiring they satisfy all applicable standards and laws protecting employees' wages, benefits, working conditions, freedom of association, and other rights;
- Request a report summarizing the company's current practices for enforcement of its Code of Conduct;
- Establish independent monitoring programs in conjunction with local and respected religious and human rights groups to monitor supplier and licensee compliance with the Code of Conduct;
- Create incentives to encourage suppliers to raise standards rather than terminate contracts;
- Implement policies for ongoing wage adjustments, ensuring adequate purchasing power and a sustainable living wage for employees of foreign suppliers and licensees;
- Request public disclosure of contract supplier reviews on a regular basis.

Corporate Conduct and Human Rights

Public Fund Advisory Services will generally support proposals that call for the adoption and/or enforcement of principles or codes relating to countries in which there are systematic violations of human rights; such as the use of slave, child, or prison labor; a government that is illegitimate; or there is a call by human rights advocates, pro-democracy organizations, or legitimately-elected representatives for economic sanctions.

9. Other Items

Charitable Donations

Public Fund Advisory Services Recommendation: Vote proposals seeking the approval of donations on a case-by-case basis, considering factors including, but not limited to, the following:

- Size of the proposed donation request;
- The destination of the proposed allocation of funds; and
- The company's historical donations practices, including allocations approved at prior shareholder meetings.

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