



# UNITED STATES

## SUSTAINABILITY PROXY VOTING GUIDELINES UPDATES

2023 Policy Recommendations

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## Routine/Miscellaneous

### Amend Quorum Requirements

Current Sustainability Policy:	New Sustainability Policy:
<p><b>Sustainability Policy Recommendation:</b> Vote against proposals to reduce quorum requirements for shareholder meetings below a majority of the shares outstanding unless there are compelling reasons to support the proposal.</p>	<p><b>Sustainability Policy Recommendation:</b> Vote case-by-case on proposals to reduce quorum requirements for shareholder meetings below a majority of the shares outstanding, taking into consideration:</p> <ul style="list-style-type: none"> <li>▪ The new quorum threshold requested;</li> <li>▪ The rationale presented for the reduction;</li> <li>▪ The market capitalization of the company (size, inclusion in indices);</li> <li>▪ The company's ownership structure;</li> <li>▪ Previous voter turnout or attempts to achieve quorum;</li> <li>▪ Any provisions or commitments to restore quorum to a majority of shares outstanding, should voter turnout improve sufficiently; and</li> <li>▪ Other factors as appropriate.</li> </ul> <p>In general, a quorum threshold kept as close to a majority of shares outstanding as is achievable is preferred.</p> <p>Vote case-by-case on directors who unilaterally lower the quorum requirements below a majority of the shares outstanding, taking into consideration the factors listed above.</p>

#### Rationale for Change:

U.S. companies are required under state incorporation laws to hold annual shareholder meetings. In order to have a valid meeting, the required quorum (generally a majority of shares outstanding) of shareholders must be represented. While achieving quorum has generally not been an issue for companies included in popular indices (e.g. the Russell 3000 or the S&P 1500) due to institutional investor ownership, companies with large retail ownership face more difficulties. One way to achieve quorum is to include on the ballot items that are considered "routine". For U.S. proxy voting, "routine" has a very specific meaning: it applies to the ballot items that brokers can vote on behalf of their clients if they have received no voting instructions from these clients within 10 days of the AGM. This discretionary voting is usually called the "broker vote" and is often important in ensuring the company achieves the necessary quorum for a valid shareholder meeting. Over time, the [scope of routine items](#) has shrunk; it once included the election of company directors, approval of equity plans, and bylaw or charter amendments. Ratification of auditors is one of the few remaining "routine" ballot items.

Over the last two years, Sustainability Advisory Services has observed a growing number of smaller companies that have had to adjourn their meetings, often repeatedly, due to the lack of a quorum. Eventually, many of them have unilaterally reduced the quorum requirements to less than 50% and were then able to hold the meeting. While mutual funds meetings have always had difficulty in achieving quorum due to the lack of voting by retail investors, this inability to achieve quorum is a relatively new phenomenon for companies. There are likely many contributing factors leading to decreased share voting, but a notable change in the 2020-2021 time period was the decision by certain large brokerage firms to no longer provide discretionary or proportionate broker voting.

Sustainability Advisory Services encourages companies to put quorum reduction resolutions to a shareholder vote, and to maintain a quorum requirement as close to a majority of shares outstanding as is achievable under the new circumstances. (For NYSE and NASDAQ companies, the minimum allowable under listing requirements is a 1/3 of issued shares.) The unilateral reduction of quorum requirements to less than half of outstanding shares is still generally considered to be a materially adverse action, but adverse vote recommendations on directors will still be considered on a case-by-case basis, taking into consideration the factors considered and the immediate circumstances of the meeting/adjournments in progress.

## Board of Directors

### Voting on Director Nominees in Uncontested Elections

#### Accountability – Poison Pills

Current Sustainability Policy:	New Sustainability Policy:
<p><b>Poison Pills:</b> Vote against or withhold from all nominees (except new nominees<sup>1</sup>, who should be considered case-by-case) if:</p> <ul style="list-style-type: none"> <li>▪ The company has a poison pill that was not approved by shareholders<sup>2</sup>. However, vote case-by-case on nominees if the board adopts an initial pill with a term of one year or less, depending on the disclosed rationale for the adoption, and other factors as relevant (such as a commitment to put any renewal to a shareholder vote);</li> <li>▪ The board makes a material adverse modification to an existing pill, including, but not limited to, extension, renewal, or lowering the trigger, without shareholder approval; or</li> <li>▪ The pill, whether short-term<sup>3</sup> or long-term, has a deadhand or slowhand feature.</li> </ul>	<p>Generally vote against or withhold from all nominees (except new nominees<sup>1</sup>, who should be considered case-by-case) if:</p> <ul style="list-style-type: none"> <li>▪ The company has a poison pill with a deadhand or slowhand feature<sup>2</sup>;</li> <li>▪ The board makes a material adverse modification to an existing pill, including, but not limited to, extension, renewal, or lowering the trigger, without shareholder approval; or</li> <li>▪ The company has a long-term poison pill (with a term of over one year) that was not approved by the public shareholders<sup>3</sup>.</li> </ul> <p>Vote case-by-case on nominees if the board adopts an initial short-term pill<sup>7</sup> (with a term of one year or less) without shareholder approval, taking into consideration:</p> <ul style="list-style-type: none"> <li>▪ The disclosed rationale for the adoption;</li> <li>▪ The trigger;</li> <li>▪ The company's market capitalization (including absolute level and sudden changes);</li> <li>▪ A commitment to put any renewal to a shareholder vote; and</li> <li>▪ Other factors as relevant.</li> </ul>

<p><b>Footnotes:</b></p> <p><sup>1</sup> A "new nominee" is a director who is being presented for election by shareholders for the first time. Recommendations on new nominees who have served for less than one year are made on a case-by-case basis depending on the timing of their appointment and the problematic governance issue in question.</p> <p><sup>2</sup> Public shareholders only, approval prior to a company's becoming public is insufficient.</p> <p><sup>3</sup> If the short-term pill with a deadhand or slowhand feature is enacted but expires before the next shareholder vote, Sustainability Advisory Services will generally still recommend withhold/against nominees at the next shareholder meeting following its adoption.</p>	<p><b>Footnotes:</b></p> <p><sup>1</sup> A "new nominee" is a director who is being presented for election by shareholders for the first time. Recommendations on new nominees who have served for less than one year are made on a case-by-case basis depending on the timing of their appointment and the problematic governance issue in question.</p> <p><sup>2</sup> If the short-term pill with a deadhand or slowhand feature is enacted but expires before the next shareholder vote, Sustainability Advisory Services will generally still recommend withhold/against nominees at the next shareholder meeting following its adoption.</p> <p><sup>3</sup> Approval prior to, or in connection, with a company's becoming publicly-traded, or in connection with a de-SPAC transaction, is insufficient.</p>
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**Rationale for Change:**

When Sustainability Advisory Services considers poison pills put up for a shareholder vote, an important consideration is the ownership level at which the pill is triggered. This update clarifies that the trigger threshold is also a consideration in evaluating the appropriateness of the board's actions in adopting a short-term pill that is not put to a vote. During the initial phase of the COVID-19 pandemic in 2020, with the severe market turbulence, many companies adopted short-term poison pills. Many of these featured very low triggers -- 10 percent or even 5 percent -- implying that the objective of a poison pill has morphed over time from defense against a hostile takeover, to defense against an activist campaign that may or may not contemplate a change in control. Shareholders have a clear interest in preventing an opportunistic takeover at a price that does not reflect the company's long-term fair value, due to factors such as short-term market disruptions. However, this must be balanced against the potential for an inordinately low trigger to entrench an underperforming board and management team by insulating them shareholders who may be seeking operational or strategic changes that could enhance value, or governance changes that could benefit all shareholders.

When looking at the trigger for the pill, Sustainability Advisory Services does not differentiate between the level for a 13D vs a 13G filer but focuses on the lower trigger. This is based on client feedback.

## Accountability – Unilateral Bylaw/Charter Amendments

Current Sustainability Policy:	New Sustainability Policy:
<p>Generally vote against or withhold from directors individually, committee members, or the entire board (except new nominees<sup>1</sup><a href="#">Error! Bookmark not defined.</a>, who should be considered case-by-case) if the board amends the company's bylaws or charter without shareholder approval in a manner that materially diminishes shareholders' rights or that could adversely impact shareholders, considering the following factors:</p> <ul style="list-style-type: none"> <li>▪ The board's rationale for adopting the bylaw/charter amendment without shareholder ratification;</li> <li>▪ Disclosure by the company of any significant engagement with shareholders regarding the amendment;</li> <li>▪ The level of impairment of shareholders' rights caused by the board's unilateral amendment to the bylaws/charter;</li> <li>▪ The board's track record with regard to unilateral board action on bylaw/charter amendments or other entrenchment provisions;</li> <li>▪ The company's ownership structure;</li> <li>▪ The company's existing governance provisions;</li> <li>▪ The timing of the board's amendment to the bylaws/charter in connection with a significant business development; and</li> <li>▪ Other factors, as deemed appropriate, that may be relevant to determine the impact of the amendment on shareholders.</li> </ul> <p>Unless the adverse amendment is reversed or submitted to a binding shareholder vote, in subsequent years vote case-by-case on director nominees. Generally vote against (except new nominees<sup>1</sup>, who should be considered case-by-case) if the directors:</p> <ul style="list-style-type: none"> <li>▪ Classified the board;</li> <li>▪ Adopted supermajority vote requirements to amend the bylaws or charter; or</li> <li>▪ Eliminated shareholders' ability to amend bylaws.</li> </ul>	<p>Generally vote against or withhold from directors individually, committee members, or the entire board (except new nominees<sup>1</sup>, who should be considered case-by-case) if the board amends the company's bylaws or charter without shareholder approval in a manner that materially diminishes shareholders' rights or that could adversely impact shareholders, considering the following factors:</p> <ul style="list-style-type: none"> <li>▪ The board's rationale for adopting the bylaw/charter amendment without shareholder ratification;</li> <li>▪ Disclosure by the company of any significant engagement with shareholders regarding the amendment;</li> <li>▪ The level of impairment of shareholders' rights caused by the board's unilateral amendment to the bylaws/charter;</li> <li>▪ The board's track record with regard to unilateral board action on bylaw/charter amendments or other entrenchment provisions;</li> <li>▪ The company's ownership structure;</li> <li>▪ The company's existing governance provisions;</li> <li>▪ The timing of the board's amendment to the bylaws/charter in connection with a significant business development; and</li> <li>▪ Other factors, as deemed appropriate, that may be relevant to determine the impact of the amendment on shareholders.</li> </ul> <p>Unless the adverse amendment is reversed or submitted to a binding shareholder vote, in subsequent years vote case-by-case on director nominees. Generally vote against (except new nominees<sup>1</sup><a href="#">Error! Bookmark not defined.</a>, who should be considered case-by-case) if the directors:</p> <ul style="list-style-type: none"> <li>▪ Classified the board;</li> <li>▪ Adopted supermajority vote requirements to amend the bylaws or charter; or</li> <li>▪ Eliminated shareholders' ability to amend bylaws.</li> <li>▪ Adopted a fee-shifting provision; or</li> <li>▪ Adopted another provision deemed egregious.</li> </ul>

<p><b>Footnotes:</b></p> <p><sup>1</sup> A "new nominee" is a director who is being presented for election by shareholders for the first time. Recommendations on new nominees who have served for less than one year are made on a case-by-case basis depending on the timing of their appointment and the problematic governance issue in question.</p>	<p><b>Footnotes:</b></p> <p><sup>1</sup> A "new nominee" is a director who is being presented for election by shareholders for the first time. Recommendations on new nominees who have served for less than one year are made on a case-by-case basis depending on the timing of their appointment and the problematic governance issue in question.</p>
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**Rationale for Change:**

Fee-shifting is a provision in the governing documents that requires that a shareholder who sues a company unsuccessfully pay all litigation expenses of the defendant corporation and its directors and officers. In the Shareholder Rights & Defenses section of the Sustainability Advisory Services U.S. Proxy Voting Guidelines, the Shareholder Litigation Rights policy states that the unilateral adoption of a fee shifting provision will generally be considered an ongoing failure under the Unilateral Bylaw/Charter Amendment policy; therefore, the latter policy is being updated to explicitly include fee shifting for completeness and clarity. If other egregious unilateral adoptions are identified, they too may result in ongoing recommendations against director nominees.



## Accountability – Problematic Governance Structure

Current Sustainability Policy:	New Sustainability Policy:
<p><b>Problematic Governance Structure - Newly Public Companies:</b> For newly public companies<sup>1</sup>, generally vote against or withhold from directors individually, committee members, or the entire board (except new nominees<sup>2</sup>, who should be considered case-by-case) if, prior to or in connection with the company's public offering, the company or its board adopted the following bylaw or charter provisions that are considered to be materially adverse to shareholder rights:</p> <ul style="list-style-type: none"> <li>▪ Supermajority vote requirements to amend the bylaws or charter;</li> <li>▪ A classified board structure; or</li> <li>▪ Other egregious provisions.</li> </ul> <p>A reasonable sunset provision will be considered a mitigating factor.</p> <p>Unless the adverse provision is reversed or removed, vote case-by-case on director nominees in subsequent years.</p>	<p><b>Problematic Governance Structure:</b> For companies that hold or held their first annual meeting<sup>1</sup> of public shareholders after Feb. 1, 2015, generally vote against or withhold from directors individually, committee members, or the entire board (except new nominees<sup>2</sup>, who should be considered case-by-case) if, prior to or in connection with the company's public offering, the company or its board adopted the following bylaw or charter provisions that are considered to be materially adverse to shareholder rights:</p> <ul style="list-style-type: none"> <li>▪ Supermajority vote requirements to amend the bylaws or charter;</li> <li>▪ A classified board structure; or</li> <li>▪ Other egregious provisions.</li> </ul> <p>A provision which specifies that the problematic structure(s) will be sunset within seven years of the date of going public will be considered a mitigating factor.</p> <p>Unless the adverse provision is reversed or removed, vote case-by-case on director nominees in subsequent years.</p>
<p><b>Footnotes:</b></p> <p><sup>1</sup> Newly-public companies generally include companies that emerge from bankruptcy, SPAC transactions, spin-offs, direct listings, and those who complete a traditional initial public offering.</p> <p><sup>2</sup> A "new nominee" is a director who is being presented for election by shareholders for the first time. Recommendations on new nominees who have served for less than one year are made on a case-by-case basis depending on the timing of their appointment and the problematic governance issue in question.</p>	<p><b>Footnotes:</b></p> <p><sup>1</sup> Includes companies that emerge from bankruptcy, SPAC transactions, spin-offs, direct listings, and those who complete a traditional initial public offering.</p> <p><sup>2</sup> A "new nominee" is a director who is being presented for election by shareholders for the first time. Recommendations on new nominees who have served for less than one year are made on a case-by-case basis depending on the timing of their appointment and the problematic governance issue in question.</p>

### Rationale for Change:

Since 2017, U.S. Sustainability Policy regarding problematic governance structures has stated that the inclusion of a reasonable sunset provision would be considered as a potential mitigating factor. This policy has not, however, distinctly defined the parameters of a sunset provision which would be viewed as reasonable. Although the volume of companies that utilize a sunset provision on governance structures from the time of their IPO has been low, establishing a time period for which a sunset provision will be seen as reasonable will eliminate ambiguity in the current policy.

The seven-year time period to complete the sunset of problematic governance structures aligns with current Sustainability Policy regarding problematic capital structures, which views a seven-year time-based sunset to a dual-class capital structure to be reasonable.

The policy language is also updated to explicitly reflect that a "newly public company" is meant to be those that hold or held their first annual shareholder meeting after Feb. 1, 2015. This information regarding timing is currently included in [policy FAQs](#) but is brought forward here in order to provide better definition and reduce confusion on applicability.

2022 Policy Survey

The 2022 Global Policy survey included a question regarding what would be viewed as an acceptable time-period to sunset these structures:

**While recognizing that the sunset of a classified board may take multiple years, what is the most appropriate time period from the date of their IPO for companies to begin sunsetting problematic governance structures?**

Investor and non-investor responses to this question:

	Investors	Non-Investors
3 years	35%	19%
7 years	11%	26%
Between 3 and 7 years	43%	37%
Other	11%	18%
Total number of respondents	157	109

A plurality of both investor and non-investor respondents responded that a sunset provision should begin between 3 and 7 years from the date of the company's IPO, and that a sunset provision should begin at 3 years from the date of the company's IPO being next favored by investors. Given these initiation period responses, the policy defining seven years to be reasonable provides sufficient time for a sunset provision to complete.

## Accountability – Unequal Voting Rights

Current Sustainability Policy:	New Sustainability Policy:
<p><b>Problematic Capital Structure - Newly Public Companies:</b> For <b>2022</b>, for newly public companies<sup>1</sup>, generally vote against or withhold from the entire board (except new nominees<sup>2</sup>, who should be considered case-by-case) if, prior to or in connection with the company's public offering, the company or its board implemented a multi-class capital structure in which the classes have unequal voting rights without subjecting the multi-class capital structure to a reasonable time-based sunset. In assessing the reasonableness of a time-based sunset provision, consideration will be given to the company's lifespan, its post-IPO ownership structure and the board's disclosed rationale for the sunset period selected. No sunset period of more than seven years from the date of the IPO will be considered to be reasonable.</p> <p>Continue to vote against or withhold from incumbent directors in subsequent years, unless the problematic capital structure is reversed, removed, or subject to a newly added reasonable sunset.</p> <p><b>Common Stock Capital Structure with Unequal Voting Rights:</b> Starting <b>Feb 1, 2023</b>, generally vote withhold or against directors individually, committee members, or the entire board (except new nominees<sup>1</sup>, who should be considered case-by-case), if the company employs a common stock structure with unequal voting rights<sup>3</sup>.</p> <p>Exceptions to this policy will generally be limited to:</p> <ul style="list-style-type: none"> <li>▪ Newly-public companies<sup>1</sup> with a sunset provision of no more than seven years from the date of going public;</li> <li>▪ Limited Partnerships and the Operating Partnership (OP) unit structure of REITs;</li> <li>▪ Situations where the unequal voting rights are considered <i>de minimis</i>; or</li> <li>▪ The company provides sufficient protections for minority shareholders, such as allowing minority shareholders a regular binding vote on whether the capital structure should be maintained.</li> </ul>	<p>Generally vote withhold or against directors individually, committee members, or the entire board (except new nominees<sup>2</sup>, who should be considered case-by-case), if the company employs a common stock structure with unequal voting rights<sup>3</sup>.</p> <p>Exceptions to this policy will generally be limited to:</p> <ul style="list-style-type: none"> <li>▪ Newly-public companies<sup>1</sup> with a sunset provision of no more than seven years from the date of going public;</li> <li>▪ Limited Partnerships and the Operating Partnership (OP) unit structure of REITs;</li> <li>▪ Situations where the unequal voting rights are considered <i>de minimis</i>; or</li> <li>▪ The company provides sufficient protections for minority shareholders, such as allowing minority shareholders a regular binding vote on whether the capital structure should be maintained.</li> </ul>

<p><b>Footnotes:</b></p> <p><sup>1</sup> Newly-public companies generally include companies that emerge from bankruptcy, SPAC transactions, spin-offs, direct listings, and those who complete a traditional initial public offering.</p> <p><sup>2</sup> A "new nominee" is a director who is being presented for election by shareholders for the first time. Recommendations on new nominees who have served for less than one year are made on a case-by-case basis depending on the timing of their appointment and the problematic governance issue in question.</p> <p><sup>3</sup> This generally includes classes of common stock that have additional votes per share than other shares; classes of shares that are not entitled to vote on all the same ballot items or nominees; or stock with time-phased voting rights ("loyalty shares").</p>	<p><b>Footnotes:</b></p> <p><sup>1</sup> Newly-public companies generally include companies that emerge from bankruptcy, SPAC transactions, spin-offs, direct listings, and those who complete a traditional initial public offering.</p> <p><sup>2</sup> A "new nominee" is a director who is being presented for election by shareholders for the first time. Recommendations on new nominees who have served for less than one year are made on a case-by-case basis depending on the timing of their appointment and the problematic governance issue in question.</p> <p><sup>3</sup> This generally includes classes of common stock that have additional votes per share than other shares; classes of shares that are not entitled to vote on all the same ballot items or nominees; or stock with time-phased voting rights ("loyalty shares").</p>
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**Rationale for Change:**

The policy language reflects the expiration of the one-year grace period for companies that had been grandfathered under the prior policy on unequal voting rights. All companies identified as maintaining a capital structure with unequal voting rights will now be subject to adverse director vote recommendations under the Sustainability policy. The policy also defines the level of voting power for super-voting shares that would be considered *de minimis* and therefore an exception to the policy.

**2022 Policy Survey**

The 2022 Global Policy survey included a question regarding a *de minimis* exception to the unequal voting rights policy:

**Potential Exceptions to Adverse Recommendations Under Sustainability Policy on Multi-Class Capital Structures:** Already announced in 2021, and beginning in 2023, Sustainability Advisory Services plans to start recommending votes against certain directors at U.S. companies that maintain a multi-class capital structure with unequal voting rights, including companies that were previously "grandfathered" (exempted from adverse vote recommendations) based on the date they went public. Sustainability Advisory Services plans to apply a "*de minimis*" exception in cases where the capital structure is not deemed to meaningfully disenfranchise public shareholders: for example, where most of the super-voting shares have already been converted into regular common shares. What percentage of total voting power, held by the owners of the super-voting shares, would you consider to be "*de minimis*"?

Of the provided distinct quantifiable thresholds, a 5% *de minimis* was the strongest supported by both investors and non-investors.

## Accountability – Climate Risk Mitigation and Net Zero

Current Sustainability Policy:	New Sustainability Policy:
<p>For companies that are significant greenhouse gas (GHG) emitters, through their operations or value chain<sup>1</sup>, generally vote against or withhold from the incumbent chair of the responsible committee (or other directors on a case-by-case basis) in cases where Sustainability Advisory Services determines 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.</p> <p>For <b>2022</b>, minimum steps to understand and mitigate those risks are considered to be the following. Both minimum criteria will be required to be in compliance:</p> <ul style="list-style-type: none"> <li>▪ Detailed disclosure of climate-related risks, such as according to the framework established by the Task Force on Climate-related Financial Disclosures (TCFD), including:                             <ul style="list-style-type: none"> <li>▪ Board governance measures;</li> <li>▪ Corporate strategy;</li> <li>▪ Risk management analyses; and</li> <li>▪ Metrics and targets.</li> </ul> </li> <li>▪ Appropriate GHG emissions reduction targets.</li> </ul> <p>For <b>2022</b>, “appropriate GHG emissions reductions targets” will be any well-defined GHG reduction targets. Expectations about what constitutes “minimum steps to mitigate risks related to climate change” will increase over time.</p>	<p>For companies that are significant greenhouse gas (GHG) emitters, through its operations or value chain<sup>1</sup>, generally vote against or withhold from the incumbent chair of the responsible committee (or other directors on a case-by-case basis) in cases where Sustainability Advisory Services determines that the company is not taking the minimum steps needed to be aligned with a Net Zero by 2050 trajectory.</p> <p>For <b>2023</b>, minimum steps needed to be considered to be aligned with a Net Zero by 2050 trajectory are (all minimum criteria will be required to be in alignment with the policy):</p> <ul style="list-style-type: none"> <li>▪ The company has detailed disclosure of climate-related risks, such as according to the framework established by the Task Force on Climate-related Financial Disclosures (TCFD), including:                             <ul style="list-style-type: none"> <li>▪ Board governance measures;</li> <li>▪ Corporate strategy;</li> <li>▪ Risk management analyses; and</li> <li>▪ Metrics and targets.</li> </ul> </li> <li>▪ The company has declared a Net Zero target by 2050 or sooner and the target includes scope 1, 2, and relevant scope 3 emissions.</li> <li>▪ The company has set a medium-term target for reducing its GHG emissions.</li> </ul> <p>Expectations about what constitutes "minimum steps needed to be aligned with a Net Zero by 2050 trajectory" will increase over time.</p>
<p><b>Footnotes:</b></p> <p><sup>1</sup> For 2022, companies defined as “significant GHG emitters” will be those on the current Climate Action 100+ Focus Group list.</p>	<p><b>Footnotes:</b></p> <p><sup>1</sup> For 2023, companies defined as “significant GHG emitters” will be those on the current Climate Action 100+ Focus Group list.</p>

### Rationale for Change:

Proxy voting is a key shareholder right and responsibility, and, in the context of climate change, is a tool that investors can use to help actively manage and mitigate exposure to climate-related risks in their portfolio companies. Based on client engagement (i.e. surveys, roundtables) after the 2021 Proxy Voting season, a high proportion of Sustainability Advisory Services’ policy clients have indicated support for additional indicators and assessment for significantly GHG emitting companies. In addition, Sustainability Advisory Services’ policy clients have expressed strong expectations for companies to set targets and disclose commitments aligned with a Net Zero by 2050

trajectory (Net Zero defined as consistent with a pathway to limit the temperature increase to 1.5 degrees Celsius above pre-industrial levels). As such, Sustainability Policy guidelines are being updated to include specific minimum requirements on overall disclosure and Net Zero by 2050 commitments for significantly GHG emitting companies.

This policy will take effect during the 2023 calendar year, based on implementation and data availability considerations. Once this policy is implemented, minimum expectations for significantly emitting will be:

- The company has detailed disclosure of climate-related risks, such as according to the framework established by the Task Force on Climate-related Financial Disclosures (TCFD).
- The company has declared a Net Zero target by 2050 or sooner and the target includes scope 1, 2, and relevant scope 3 emissions.
- The company has set a medium-term target for reducing its GHG emissions.

The Sustainability Policy will target the chair or incumbent members of the committee identified as responsible for failure to meet these minimum expectations. In cases where the company has not identified a committee responsible for climate change strategy or members of this committee are not up for election, Sustainability Advisory Services will recommend voting against other nominees on a case-by-case basis.

## Other Board-Related Proposals

### Director and Officer Indemnification, Liability Protection, and Exculpation

Current Sustainability Policy:	New Sustainability Policy:
<p><b>Sustainability Policy Recommendation:</b> Vote case-by-case on proposals on director and officer indemnification and liability protection.</p> <p>Vote against proposals that would:</p> <ul style="list-style-type: none"> <li>▪ Eliminate entirely directors' and officers' liability for monetary damages for violating the duty of care.</li> <li>▪ Expand coverage beyond just legal expenses to liability for acts that are more serious violations of fiduciary obligation than mere carelessness.</li> <li>▪ Expand the scope of indemnification to provide for mandatory indemnification of company officials in connection with acts that previously the company was permitted to provide indemnification for, at the discretion of the company's board (<i>i.e.</i>, "permissive indemnification"), but that previously the company was not required to indemnify.</li> </ul> <p>Vote for only those proposals providing such expanded coverage in cases when a director's or officer's legal defense was unsuccessful if both of the following apply:</p> <ul style="list-style-type: none"> <li>▪ If the director was found to have acted in good faith and in a manner that s/he reasonably believed was in the best interests of the company; and</li> <li>▪ If only the director's legal expenses would be covered.</li> </ul>	<p><b>Sustainability Policy Recommendation:</b> Vote case-by-case on proposals on director and officer indemnification liability protection, and exculpation<sup>1</sup>.</p> <p>Consider the stated rationale for the proposed change. Also consider, among other factors, the extent to which the proposal would:</p> <ul style="list-style-type: none"> <li>▪ Eliminate entirely directors' and officers' liability for monetary damages for violating the duty of care.</li> <li>▪ Eliminate directors' and officers' liability for monetary damages for violating the duty of loyalty.</li> <li>▪ Expand coverage beyond just legal expenses to liability for acts that are more serious violations of fiduciary obligation than mere carelessness.</li> <li>▪ Expand the scope of indemnification to provide for mandatory indemnification of company officials in connection with acts that previously the company was permitted to provide indemnification for, at the discretion of the company's board (<i>i.e.</i>, "permissive indemnification"), but that previously the company was not required to indemnify.</li> </ul> <p>Vote for only those proposals providing such expanded coverage in cases when a director's or officer's legal defense was unsuccessful if both of the following apply:</p> <ul style="list-style-type: none"> <li>▪ If the individual was found to have acted in good faith and in a manner that the individual reasonably believed was in the best interests of the company; and</li> <li>▪ If only the director's legal expenses would be covered.</li> </ul>

<p><b>Footnotes:</b></p>	<p><b>Footnotes:</b></p> <p><sup>1</sup> <b>Indemnification:</b> the condition of being secured against loss or damage.</p> <p><b>Limited liability:</b> a person's financial liability is limited to a fixed sum, or personal financial assets are not at risk if the individual loses a lawsuit that results in financial award/damages to the plaintiff.</p> <p><b>Exculpation:</b> to eliminate or limit the personal liability of a director or officer to the corporation or its shareholders for monetary damages for breach of fiduciary duty as a director or officer.</p>
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**Rationale for Change:**

The Delaware General Corporation Law (“DGCL”) was amended in August 2022 to permit corporations to limit or eliminate the personal liability of officers for claims of breach of the fiduciary duty of care (Section 102(b)(7)). While the DGCL previously allowed corporations to exculpate directors from breach of fiduciary duty of care claims, the recent amendments expand that exculpation authority to corporate officers, in both cases only if the corporation’s certificate of incorporation includes an exculpation provision. Advocates of this amendment believe that it will offer protection for officers, who are held to the same fiduciary duties as directors under the DGCL, as well as eliminate confusion in applying exculpation provisions to individuals serving as both a director and officer.

The exculpation of officers is limited to the following officers: president, chief executive officer, chief operating officer, chief financial officer, chief legal officer, controller, treasurer or chief accounting officer, “named executive officers” identified in the corporation’s SEC filings, and individuals who have agreed to be identified as officers of the corporation. As with director exculpation, officer exculpation would not include breach of the duty of loyalty, acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law, or any transaction in which the officer derived an improper personal benefit. In addition, the protection does not include actions that occurred prior to the relevant DGCL provisions. However, unlike the directors’ exculpation, officers may not be exculpated from liability for claims brought by or in the right of the corporation, such as derivative claims.

The laws of certain other states, including Nevada, allow companies to limit the liability of directors and officers even for violations of the duty of loyalty. It is questionable how shareholders might benefit from exculpation in cases where directors or officers place their own interests above those of the company and its shareholders, and provisions to extend exculpation to violations of the duty of loyalty will generally not be supported even where permitted under state law.



## Capital/Restructuring

### Share Issuance Mandates at U.S. Domestic Issuers Incorporated Outside the U.S.

Current Sustainability Policy:	New Sustainability Policy:
[none]	<p><b>Sustainability Policy Recommendation:</b> For U.S. domestic issuers incorporated outside the U.S. and listed <u>solely</u> on a U.S. exchange, generally vote for resolutions to authorize the issuance of common shares up to 20 percent of currently issued common share capital, where not tied to a specific transaction or financing proposal.</p> <p>For pre-revenue or other early-stage companies that are heavily reliant on periodic equity financing, generally vote for resolutions to authorize the issuance of common shares up to 50 percent of currently issued common share capital. The burden of proof will be on the company to establish that it has a need for the higher limit.</p> <p>Renewal of such mandates should be sought at each year’s annual meeting.</p> <p>Vote case-by-case on share issuances for a specific transaction or financing proposal.</p>

#### Rationale for Change:

Companies incorporated in certain markets are required by the laws of the country of incorporation to seek shareholder approval for all share issuances. Commonly, this takes the form of an annual "mandate" to cover all share issuances over the period until the next annual meeting, though some countries allow such mandates to cover as long as a five-year period. Sustainability Advisory Services U.S. policy does not currently include a policy for such issuance mandates, because U.S.-incorporated companies are generally permitted to issue shares up to the level of authorized share capital specified in the charter without a shareholder vote, except where such a vote is required by Nasdaq or NYSE listing rules. As a result, Sustainability Advisory Services currently evaluates share issuance mandate proposals under the policy of the market of incorporation. However, such policies generally follow local listing rules and best practice recommendations, which presume a local market listing, but the U.S. domestic issuers covered by this policy update are listed solely in the U.S. For markets such as the UK, Continental Europe, and certain Asia-Pacific markets, where pre-emptive rights are commonly offered with respect to new share issuances, Sustainability Advisory Services policies include limits on share issuances without pre-emptive rights. However, pre-emptive rights are nearly non-existent in the U.S., and companies with a primary or sole listing in the U.S. believe that being forced to offer pre-emptive rights, to an investor base largely unfamiliar with the concept, will delay the process of fundraising and put the company at a disadvantage relative to U.S.-incorporated peers that do not offer such rights.

NYSE and Nasdaq listing rules both require shareholder approval of issuances above 20 percent of currently-issued share capital in a private placement or in connection with an acquisition, but these rules do not cover public offerings for cash. This creates the potential for significant dilution through issuances of new shares, and the 20 percent limit in this policy is intended to safeguard against excessive dilution, while still allowing a reasonable degree of flexibility for capital raising. Because pre-revenue companies are typically dependent on periodic equity financing to continue operations prior to commercialization of a product, a higher issuance limit is considered appropriate for such companies. However, the onus will be on the company to demonstrate that the higher limit is appropriate.

The introduction of the specific policy for U.S. domestic issuers incorporated outside the U.S. and listed solely on a U.S. exchange is intended to better reflect the expectations and concerns of investors in the U.S. market. The policy will apply to companies with a sole listing in the U.S., but which are required by the laws of the country of incorporation to seek approval for all share issuances. Dual-listed companies will continue to be evaluated under the policy of their market of incorporation.

# Compensation

## Executive Pay Evaluation

### Advisory Votes on Executive Compensation – Problematic Pay Practices

Current Sustainability Policy:	New Sustainability Policy:
<p>The focus is on executive compensation practices that contravene the global pay principles, including:</p> <ul style="list-style-type: none"> <li>▪ Problematic practices related to non-performance-based compensation elements;</li> <li>▪ Incentives that may motivate excessive risk-taking or present a windfall risk; and</li> <li>▪ Pay decisions that circumvent pay-for-performance, such as options backdating or waiving performance requirements.</li> </ul> <p><b>Problematic Pay Practices related to Non-Performance-Based Compensation Elements</b></p> <p>Pay elements that are not directly based on performance are generally evaluated case-by-case considering the context of a company's overall pay program and demonstrated pay-for-performance philosophy. Please refer to <a href="#">ISS' Compensation Policies FAQ</a> document for detail on specific pay practices that have been identified as potentially problematic and may lead to negative recommendations if they are deemed to be inappropriate or unjustified relative to executive pay best practices. The list below highlights the problematic practices that carry significant weight in this overall consideration and may result in adverse vote recommendations:</p> <ul style="list-style-type: none"> <li>▪ Repricing or replacing of underwater stock options/SARs without prior shareholder approval (including cash buyouts and voluntary surrender of underwater options);</li> <li>▪ Extraordinary perquisites or tax gross-ups;</li> <li>▪ New or materially amended agreements that provide for:</li> </ul>	<p>Problematic pay elements are generally evaluated case-by-case considering the context of a company's overall pay program and demonstrated pay-for-performance philosophy. The focus is on executive compensation practices that contravene the global pay principles, including:</p> <ul style="list-style-type: none"> <li>▪ Problematic practices related to non-performance-based compensation elements;</li> <li>▪ Incentives that may motivate excessive risk-taking or present a windfall risk; and</li> <li>▪ Pay decisions that circumvent pay-for-performance, such as options backdating or waiving performance requirements.</li> </ul> <p>The list of examples below highlights certain problematic practices that carry significant weight in this overall consideration and may result in adverse vote recommendations:</p> <ul style="list-style-type: none"> <li>▪ Repricing or replacing of underwater stock options/SARs without prior shareholder approval (including cash buyouts and voluntary surrender of underwater options);</li> <li>▪ Extraordinary perquisites or tax gross-ups;</li> <li>▪ New or materially amended agreements that provide for:                             <ul style="list-style-type: none"> <li>▪ Excessive termination or CIC severance payments (generally exceeding 3 times base salary and average/target/most recent bonus);</li> <li>▪ CIC severance payments without involuntary job loss or substantial diminution of duties ("single" or "modified single" triggers) or in connection with a problematic Good Reason definition;</li> <li>▪ CIC excise tax gross-up entitlements (including "modified" gross-ups);</li> <li>▪ Multi-year guaranteed awards that are not at risk due to rigorous performance conditions;</li> </ul> </li> </ul>

<ul style="list-style-type: none"> <li>▪ Excessive termination or CIC severance payments (generally exceeding 3 times base salary and average/target/most recent bonus);</li> <li>▪ CIC severance payments without involuntary job loss or substantial diminution of duties ("single" or "modified single" triggers) or in connection with a problematic Good Reason definition;</li> <li>▪ CIC excise tax gross-up entitlements (including "modified" gross-ups);</li> <li>▪ Multi-year guaranteed awards that are not at risk due to rigorous performance conditions;</li> <li>▪ Liberal CIC definition combined with any single-trigger CIC benefits;</li> <li>▪ Insufficient executive compensation disclosure by externally-managed issuers (EMIs) such that a reasonable assessment of pay programs and practices applicable to the EMI's executives is not possible; Any other provision or practice deemed to be egregious and present a significant risk to investors.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Liberal CIC definition combined with any single-trigger CIC benefits;</li> <li>▪ Insufficient executive compensation disclosure by externally-managed issuers (EMIs) such that a reasonable assessment of pay programs and practices applicable to the EMI's executives is not possible;</li> <li>▪ Severance payments made when the termination is not clearly disclosed as involuntary (for example, a termination without cause or resignation for good reason);</li> <li>▪ Any other provision or practice deemed to be egregious and present a significant risk to investors.</li> </ul> <p>The above examples are not an exhaustive list. Please refer to <a href="#">ISS' Compensation Policies FAQ</a> document for additional detail on specific pay practices that have been identified as problematic and may lead to negative vote recommendations.</p>
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**Rationale for Change:**

This update is not a policy application change, but rather codifies Sustainability Advisory Services' current approach to evaluating severance payments received by an executive when the termination is not clearly disclosed as involuntary, as described in ISS' Compensation Policies FAQ document. The language of the policy is also updated to (i) conform with the current approach to evaluating problematic pay practices, which is not confined to "non-performance-based pay elements," and (ii) clarify that the examples of problematic pay practices identified in the policy language are not an exhaustive list of practices that may result in adverse vote recommendations.

## Equity-Based and Other Incentive Plans

### Three-Year Value-Adjusted Burn Rate

Current Sustainability Policy:	New Sustainability Policy:
<p>For meetings held prior to February 1, 2023, burn-rate benchmarks (utilized in Equity Plan Scorecard evaluations) are calculated as the greater of: (1) the mean (<math>\mu</math>) plus one standard deviation (<math>\sigma</math>) of the company's GICS group segmented by S&amp;P 500, Russell 3000 index (less the S&amp;P500), and non-Russell 3000 index; and (2) two percent of weighted common shares outstanding. In addition, year-over-year burn-rate benchmark changes will be limited to a maximum of two (2) percentage points plus or minus the prior year's burn-rate benchmark. See the <a href="#">U.S. Equity Compensation Plans FAQ</a> for the benchmarks.</p> <p>For meetings held prior to February 1, 2023, a company's adjusted burn rate is calculated as follows:</p> <p>Burn Rate = (# of appreciation awards granted + # of full value awards granted * Volatility Multiplier) / Weighted average common shares outstanding</p> <p>The Volatility Multiplier is used to provide more equivalent valuation between stock options and full value shares, based on the company's historical stock price volatility.</p> <p>Effective for meetings held on or after February 1, 2023, a "Value-Adjusted Burn Rate" will instead be used for stock plan evaluations. Value-Adjusted Burn Rate benchmarks will be calculated as the greater of: (1) an industry-specific threshold based on three-year burn rates within the company's GICS group segmented by S&amp;P 500, Russell 3000 index (less the S&amp;P 500) and non-Russell 3000 index; and (2) a <i>de minimis</i> threshold established separately for each of the S&amp;P 500, the Russell 3000 index less the S&amp;P 500, and the non-Russell 3000 index. Year-over-year burn-rate benchmark changes will be limited to a predetermined range above or below the prior year's burn-rate benchmark.</p> <p>The Value-Adjusted Burn Rate will be calculated as follows:</p>	<p>A "Value-Adjusted Burn Rate" is used for stock plan evaluations. Value-Adjusted Burn Rate benchmarks are calculated as the greater of: (1) an industry-specific threshold based on three-year burn rates within the company's GICS group segmented by S&amp;P 500, Russell 3000 index (less the S&amp;P 500) and non-Russell 3000 index; and (2) a <i>de minimis</i> threshold established separately for each of the S&amp;P 500, the Russell 3000 index less the S&amp;P 500, and the non-Russell 3000 index. Year-over-year burn-rate benchmark changes will be limited to a predetermined range above or below the prior year's burn-rate benchmark.</p> <p>The Value-Adjusted Burn Rate will be calculated as follows:</p> <p>Value-Adjusted Burn Rate = ((# of options * option's dollar value using a Black-Scholes model) + (# of full-value awards * stock price)) / (Weighted average common shares * stock price).</p>

<p>Value-Adjusted Burn Rate = ((# of options * option’s dollar value using a Black-Scholes model) + (# of full-value awards * stock price)) / (Weighted average common shares * stock price).</p>	
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**Rationale for Change:**

The transition to the new "Value-Adjusted Burn Rate" (VABR) methodology was previously included in the U.S. Policy Updates for 2022, at which time it was announced that following a one-year transition period the new VABR methodology would become effective in 2023. As the transition period has elapsed, the VABR methodology will become effective for meetings on and after Feb. 1, 2023.

The VABR methodology more accurately measures the value of recently granted equity awards using a methodology that more precisely measures the value of option grants. In addition, the VABR is based on calculations that are more readily understood and accepted by the market: the actual stock price for full-value awards, and the Black-Scholes value for stock options. More details can be found in the FAQs on the Policy Gateway.

## Social and Environmental Issues

### Political Activities

#### Political Expenditures and Lobbying Congruency

Current Sustainability Policy:	New Sustainability Policy:
[none]	<p><b>Sustainability Policy Recommendation:</b> Generally vote for proposals requesting greater disclosure of a company’s alignment of political contributions, lobbying, and electioneering spending with a company’s publicly stated values and policies, unless the terms of the proposal are unduly restrictive. Additionally, Sustainability Advisory Services will consider whether:</p> <ul style="list-style-type: none"> <li>▪ The company’s policies, management, board oversight, governance processes, and level of disclosure related to direct political contributions, lobbying activities, and payments to trade associations, political action committees, or other groups that may be used for political purposes;</li> <li>▪ The company’s disclosure regarding: the reasons for its support of candidates for public offices; the reasons for support of and participation in trade associations or other groups that may make political contributions; and other political activities;</li> <li>▪ Any incongruencies identified between a company’s direct and indirect political expenditures and its publicly stated values and priorities;</li> <li>▪ Recent significant controversies related to the company’s direct and indirect lobbying, political contributions, or political activities.</li> </ul>

#### Rationale for Change:

The numbers of shareholder proposals requesting company transparency on the congruency of its political contributions to its public commitments and/or of its climate lobbying to its climate goals have been growing in recent years. Current Sustainability Policy related to political contributions and political ties does not cover political spending and lobbying congruency directly. The new policy will provide more transparency to the market about how assessments of these shareholder proposals are made, and codifies previous practices used in the 2022 proxy season

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