



**2019**

PROXY PAPER™

# GUIDELINES

AN OVERVIEW OF THE GLASS LEWIS APPROACH TO PROXY ADVICE

# SHAREHOLDER INITIATIVES



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# Guidelines Introduction

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Shareholders are playing an increasingly important role at many companies by engaging in meetings and discussions with the board and management. When this engagement is unsuccessful, shareholders may submit their own proposals at the companies' annual meetings. While shareholder resolutions are relatively common in some countries like the United States, Japan and Canada, in other markets shareholder proposals are rare. Additionally, securities regulations in nearly all countries define and limit the nature and type of allowable shareholder proposals including submission ownership thresholds. For example, in the United States, shareholders need only own 1% or \$2,000 of a company's shares to submit a proposal for inclusion on a company's ballot. However, American issuers are able to exclude shareholder proposals for many defined reasons, such as when the proposal relates to a company's ordinary business operations. In other countries such as Japan, however, shareholder proposals are not bound by such content restrictions. Additionally, whereas in the U.S. and Canada the vast majority of shareholder proposals are precatory (i.e. requesting an action), such proposals are binding in most other countries. Binding votes in the U.S. are most often presented in the form of a bylaw amendment, thereby incorporating the proponent's "ask" in the company's governing documents.

Glass Lewis believes binding proposals should be subject to heightened scrutiny since they do not allow the board latitude in implementation to ensure consistency with existing corporate governance provisions. Nonetheless, Glass Lewis will recommend supporting well-crafted, binding shareholder proposals that increase shareholder value or protect and enhance important shareholder rights.

We recognize that shareholder initiatives are not just limited to shareholder proposals. For example, in some markets, shareholders may submit counter motions (e.g., Germany) and/or may solicit votes against management proposals, most commonly the ratification of board acts.

While the types and nature of shareholder initiatives vary significantly across markets, Glass Lewis approaches such initiatives in the same manner, regardless of a company's domicile. Glass Lewis generally believes decisions regarding day-to-day management and policy decisions, including those related to social, environmental or political issues, are best left to management and the board as they in almost all cases have more and better information about company strategy and risk exposure. However, when there is a clear link between the subject of a shareholder proposal and value enhancement or risk mitigation, Glass Lewis will recommend in favor of such proposal where the company has inadequately addressed the issue. We strongly believe that shareholders should not attempt to micromanage a company, its businesses or its executives through the shareholder initiative process. Rather, we believe shareholders should use their influence to push for governance structures that protect shareholders and promote director accountability. Shareholders should then vote into place a trustworthy and qualified board of directors, who can make informed decisions that are in the best interests of the business and its owners. These directors can then be held accountable for management and policy decisions through board elections.

Glass Lewis evaluates all shareholder proposals on a case-by-case basis. However, we generally recommend shareholders support proposals on certain issues such as those calling for the elimination or prior shareholder approval of antitakeover devices such as poison pills and classified boards. Additionally, we generally recommend shareholders support proposals that are likely to increase or protect shareholder value, those that promote the furtherance of shareholder rights, those that promote director accountability and those that seek to improve compensation practices, especially those promoting a closer link between compensation and performance as well as those that promote more and better disclosure of relevant risk factors where such disclosure is lacking or inadequate.

## SUMMARY OF CHANGES FOR THE 2019 SHAREHOLDER INITIATIVES POLICY GUIDELINES

Glass Lewis evaluates these guidelines on an ongoing basis and formally updates them on an annual basis. This year we've made noteworthy revisions in the following areas, which are summarized below but discussed in greater detail in the relevant section of this document:

### CONFLICTING AND EXCLUDED PROPOSALS

We have codified our policy regarding conflicting special meeting shareholder resolutions:

- In instances where companies place on the ballot both a management and shareholder proposal requesting different thresholds for the right to call a special meeting, Glass Lewis will generally recommend voting for the lower threshold (in most instances, the shareholder proposal) and recommend voting against the higher threshold.
- In instances where there are conflicting management and shareholder special meeting proposals and the company does not currently maintain a special meeting right, Glass Lewis may consider recommending that shareholders vote in favor of the shareholder proposal and recommending that shareholders abstain from voting on management's proposal.
- In instances where companies have excluded a special meeting shareholder proposal in favor of a management proposal ratifying an existing special meeting right, Glass Lewis will typically recommend against the ratification proposal as well as members of the nominating and governance committee.

Glass Lewis will also be making note of instances where the SEC has allowed companies to exclude shareholder proposals, which may result in recommendations against members of the governance committee. In recent years, we have seen the dynamic nature of the considerations given by the SEC when determining whether companies may exclude certain shareholder proposals. We understand that not all shareholder proposals serve the long-term interests of shareholders and value and respect the limitations placed on shareholder proponents when submitting proposals to a vote of shareholders, as certain shareholder proposals can unduly burden companies. However, in the event that we believe that the exclusion of a shareholder proposal was detrimental to shareholders, we may, in very limited circumstances, recommend against the members of the governance committee.

### DIVERSITY REPORTING

We have revised our policy concerning shareholder proposals that request additional reporting on a company's diversity initiatives. Glass Lewis will generally support shareholder proposals requesting that companies provide disclosure concerning the diversity of their workforce, as well as those asking for details concerning how companies are promoting diversity within their workforce. When making these recommendations, Glass Lewis will consider: (i) the industry in which the company operates and the nature of its operations; (ii) the company's current level of disclosure on issues related to workforce diversity; (iii) the level of such disclosure at the company's peers; and (iv) any lawsuits or accusations of discrimination within the company.

### ENVIRONMENTAL AND SOCIAL RISK OVERSIGHT

We have codified our approach to reviewing how boards are overseeing environmental and social issues. For large cap companies and in instances where we identify material oversight issues, Glass Lewis will review a company's overall governance practices and identify which directors or board-level committees have been charged with oversight of environmental and/or social issues. Glass Lewis will also note instances where such oversight has not been clearly defined by companies in their governance documents.

Further, we have clarified that, in instances where it is clear that companies have not properly managed or mitigated environmental or social risks to the detriment of shareholder value, or when such mismanagement

has threatened shareholder value, Glass Lewis may consider recommending that shareholders vote against members of the board who are responsible for oversight of environmental and social risks. In the absence of explicit board oversight of environmental and social issues, Glass Lewis may recommend that shareholders vote against members of the audit committee. In making these determinations, Glass Lewis will carefully review the situation, its effect on shareholder value, as well as any corrective action or other response made by the company.

## **MATERIALITY CONSIDERATIONS**

We have formalized our consideration of materiality when reviewing and making voting recommendations on shareholder proposals. We have amended our guidelines to reflect our belief that, while all companies face risks associated with environmental and social issues, these risks manifest themselves differently at each company as a result of a company's operations, workforce, structure, and geography, among other things. Accordingly, Glass Lewis will place significant emphasis on the financial implications of a company adopting, or not adopting, any proposed shareholder resolution. We have also noted that, to assist in determining financial materiality, Glass Lewis will consider the standards developed by the Sustainability Accounting Standards Board ("SASB").

## **RECOUPMENT PROVISIONS ("CLAWBACKS")**

We have revised our policy concerning proposals requesting that companies adopt enhanced recoupment provisions. In instances where companies have not adopted policies that provide sufficient protections for reputational and financial harm, we may consider supporting well-crafted resolutions seeking to expand a company's recoupment policy.

## **WRITTEN CONSENT**

We have revised our policy concerning shareholder proposals requesting that companies allow shareholders the right to action by written consent. In instances where a company has adopted a special meeting right of 15% or below and has adopted reasonable proxy access provisions, Glass Lewis will generally recommend that shareholders vote against shareholder proposals asking companies to adopt their bylaws to provide shareholders with the right to action by written consent.

# Governance

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## BOARD AND COMMITTEE COMPOSITION

Glass Lewis believes the selection and screening process for identifying suitably qualified candidates for a company's board of directors requires the examination of many factors, including the balance of skills and talents and breadth of experience, as well as the diversity of candidates and existing board members. Diversity of skills, abilities and points of view can foster the development of a more creative, effective and dynamic board. However, we generally do not believe companies should establish specific quotas regarding board or committee diversity. We believe such matters should be left to a board's nominating committee, which is generally responsible for establishing and implementing policies regarding the nomination of directors and overall composition of the board. Members of this committee may be held accountable through the director election process. However, in cases of egregious oversight lapses or behavior seriously detrimental to shareholder value, we will consider supporting reasonable, well-crafted proposals to broaden a board's composition including, for example, to increase board diversity where there is evidence a board's lack of diversity led to a decline in shareholder value.

## CEO SUCCESSION PLANNING

We recognize that the decision regarding what information to publicly disclose regarding executive succession is a complex issue. Boards must balance the competing demands of safeguarding sensitive information regarding CEO succession against disclosing sufficient and appropriate information to shareholders and employees in a manner consistent with their fiduciary duty and other legal obligations. In general, we believe firms should disclose appropriate and pertinent details of the succession plan including: (i) the process in which the next CEO would be selected, including the board's role in that process; and (ii) whether the CEO reports to the board concerning internal candidates for the CEO position, including an evaluation of the development of senior management. We may consider recommending support for well-crafted proposals requesting companies adopt policies or provide shareholders with more information regarding their CEO succession planning process if the company provides shareholders with no information or assurance regarding this process and if there are specific concerns regarding CEO succession at the company. However, we will generally not recommend supporting such shareholder proposals if the rigidity of the proposed requirements could unduly hinder the board's ability to approach CEO succession planning in a way that it deems most appropriate in the fulfillment of its fiduciary duties or if the requested disclosure encompasses confidential or otherwise sensitive information.

## CONFLICTING AND EXCLUDED PROPOSALS

SEC Rule 14a-8(i)(9) allows companies to exclude shareholder proposals "if the proposal directly conflicts with one of the company's own proposals to be submitted to shareholders at the same meeting." On October 22, 2015, the SEC issued Staff Legal Bulletin No. 14H ("SLB 14H") clarifying its rule concerning the exclusion of certain shareholder proposals when similar items are also on the ballot. SLB 14H increased the burden on companies to prove to SEC staff that a conflict exists; therefore, many companies still chose to place management proposals alongside similar shareholder proposals in many cases.

During the 2018 proxy season, a new trend in the SEC's interpretation of this rule emerged. Upon submission of shareholder proposals requesting that companies adopt a lower special meeting threshold, several companies petitioned the SEC for no-action relief under the premise that the shareholder proposals conflicted with management's own special meeting proposals, even though the management proposals set a higher threshold than those requested by the proponent. No-action relief was granted to these companies; however, the SEC

stipulated that the companies must state in the rationale for the management proposals that a vote in favor of management's proposal was tantamount to a vote against the adoption of a lower special meeting threshold. In certain instances, shareholder proposals to lower an existing special meeting right threshold were excluded on the basis that they conflicted with management proposals seeking to ratify the existing special meeting rights. We find the exclusion of these shareholder proposals to be especially problematic as, in these instances, shareholders are not offered any enhanced shareholder right, nor would the approval (or rejection) of the ratification proposal initiate any type of meaningful change to shareholders' rights. In instances where companies have excluded shareholder proposals, such as those instances where special meeting shareholder proposals are excluded as a result of "conflicting" management proposals, Glass Lewis will take a case-by-case approach, taking into account the following issues:

- The threshold proposed by the shareholder resolution;
- The threshold proposed or established by management and the attendant rationale for the threshold;
- Whether management's proposal is seeking to ratify an existing special meeting right or adopt a bylaw that would establish a special meeting right; and
- The company's overall governance profile, including its overall responsiveness to and engagement with shareholders.

Glass Lewis generally favors a 10-15% special meeting right. Accordingly, Glass Lewis will generally recommend voting for management or shareholder proposals that fall within this range. When faced with conflicting proposals, Glass Lewis will generally recommend in favor of the lower special meeting right and will recommend voting against the proposal with the higher threshold. However, in instances where there are conflicting management and shareholder proposals and a company has not established a special meeting right, Glass Lewis may recommend that shareholders vote in favor of the shareholder proposal and that they abstain from a management-proposed bylaw amendment seeking to establish a special meeting right. We believe that an abstention is appropriate in this instance in order to ensure that shareholders are sending a clear signal regarding their preference for the appropriate threshold for a special meeting right, while not directly opposing the establishment of such a right. In cases where the company excludes a shareholder proposal seeking a reduced special meeting right by means of ratifying a management proposal that is materially different from the shareholder proposal, we will generally recommend voting against the chair or members of the governance committee. In other instances of conflicting management and shareholder proposals, Glass Lewis will consider the following:

- The nature of the underlying issue;
- The benefit to shareholders of implementing the proposal;
- The materiality of the differences between the terms of the shareholder proposal and management proposal;
- The context of a company's shareholder base, corporate structure and other relevant circumstances; and
- A company's overall governance profile and, specifically, its responsiveness to shareholders as evidenced by a company's response to previous shareholder proposals and its adoption of progressive shareholder rights provisions.

In recent years, we have seen the dynamic nature of the considerations given by the SEC when determining whether companies may exclude certain shareholder proposals. We understand that not all shareholder proposals serve the long-term interests of shareholders, and value and respect the limitations placed on shareholder proponents, as certain shareholder proposals can unduly burden companies. However, Glass Lewis believes that shareholders should be able to vote on issues of material importance.

We view the shareholder proposal process as an important part of advancing shareholder rights and encouraging responsible and financially sustainable business practices. While recognizing that certain proposals cross the line between the purview of shareholders and that of the board, we generally believe that companies should not limit investors' ability to vote on shareholder proposals that advance certain rights or promote beneficial disclosure. Accordingly, Glass Lewis will make note of instances where a company has successfully petitioned the SEC to exclude shareholder proposals. If after review we believe that the exclusion of a shareholder proposal is detrimental to shareholders, we may, in certain very limited circumstances, recommend against members of the governance committee.

## **COUNTING SHAREHOLDER VOTES**

The tabulation of proxy votes for U.S. public companies is determined by several sources: Federal securities regulations; the securities regulations of the state in which a company is legally domiciled; rules established by securities exchanges; and a company's charter and/or bylaws. According to the SEC, matters other than voting on the election of directors are typically approved by a vote of a majority of the shares voting or present at the meeting. However, the effect of abstentions on these items varies depending on the voting rules applicable to each company based on its state of incorporation and its own governing documents. Delaware's General Corporation Law Section 216 (2) requires the affirmative vote of the majority of shares present in person or presented by proxy at the meeting entitled to vote on the subject matter for approval of proposals other than the election of directors, unless otherwise stipulated in a company's charter or bylaws.

We believe that companies should clearly communicate their vote tabulation processes to shareholders including how abstentions are treated for vote tabulation. This will ensure that investors fully understand the effects of their abstention votes. Given that shareholders actively decided to abstain for various reasons, absent evidence that a company has clearly ignored the will of shareholders or has been unresponsive to shareholder concerns, we will generally not support proposals requesting that companies exclude abstentions from voting tabulation. In the absence of evidence that a company has clearly ignored the will of shareholders or has been unresponsive to shareholder concerns, we will generally not support proposals requesting that companies change their vote tabulation process to exclude abstentions from their voting tabulation processes.

## **CUMULATIVE VOTE FOR THE ELECTION OF DIRECTORS**

Glass Lewis believes that cumulative voting generally acts as a safeguard for shareholders by ensuring that those who hold a significant minority of shares can elect a candidate of their choosing to the board. This allows the election of directors who are responsive to the interests of all shareholders rather than just a small group of large holders. However, when a company has both majority voting and cumulative voting in place, there is a higher likelihood of one or more directors not being elected as a result of not receiving a majority vote since shareholders cumulating their votes could unintentionally cause the failed election of one or more directors for whom shareholders do not cumulate votes.

As such, where a company (i) has adopted a true majority vote standard; (ii) has simultaneously proposed a management-initiated true majority vote standard; or (iii) is simultaneously the subject of a true majority vote standard shareholder proposal, Glass Lewis will recommend voting against cumulative voting proposals due to the potential incompatibility of the two election methods.

For companies that have not adopted a true majority voting standard but have adopted some form of majority voting, Glass Lewis will also generally recommend voting against cumulative voting proposals if the company has not adopted anti-takeover protections and has been responsive to shareholders.

## **DECLASSIFICATION OF THE BOARD**

Glass Lewis believes that classified boards (or staggered boards) do not serve the best interests of shareholders. Empirical studies have shown that: (i) companies with classified boards may show a reduction in firm value; (ii) in the context of hostile takeovers, classified boards operate as a takeover defense, which entrenches

management, discourages potential acquirers and delivers less return to shareholders; and (iii) companies with classified boards are less likely to receive takeover bids than those with single class boards.

We do not believe that there is persuasive evidence to demonstrate that staggered boards improve shareholder returns in a takeover context. Some research has indicated that shareholders are worse off when a staggered board blocks a transaction; further, when a staggered board negotiates a friendly transaction, no statistically significant difference in premium occurs.<sup>1</sup> Additional research found that charter-based staggered boards “reduce the market value of a firm by 4% to 6% of its market capitalization” and that “staggered boards bring about and not merely reflect this reduction in market value.”<sup>2</sup> A subsequent study reaffirmed that classified boards reduce shareholder value, finding “that the ongoing process of dismantling staggered boards, encouraged by institutional investors, could well contribute to increasing shareholder wealth.”<sup>3</sup>

The annual election of directors provides increased accountability and requires directors to focus on the interests of shareholders. When companies have classified boards, shareholders are deprived of the right to voice annual opinions on the quality of oversight exercised by their representatives.

As such, Glass Lewis believes that classified boards are not in the best interests of shareholders and in nearly all cases will recommend shareholders support proposals seeking their repeal.

## DUAL-CLASS SHARE STRUCTURES

Glass Lewis believes that dual-class voting structures are typically not in the best interests of common shareholders. This is particularly the case when the voting power of one class is significantly different from that of common shareholders, giving a small group of shareholders a significant amount of control over the affairs of the Company. We believe that all shareholders should have a say in decisions that will affect them.

We believe that allowing one vote per share generally operates as a safeguard for common shareholders by ensuring that those who hold a significant minority of shares are able to weigh in on issues set forth by the board, especially in regard to the director election process. Elimination of the dual-class structure creates an even playing field for all shareholders, as well as a board that is more responsive to shareholders. Accordingly, Glass Lewis will generally recommend that shareholders vote in favor of proposals that would eliminate a company’s dual-class share structure to allow for one vote per share.

## EXCLUSIVE FORUM PROVISIONS

Glass Lewis believes that charter or bylaw provisions limiting a shareholder’s choice of legal venue are not in the best interests of shareholders, as such clauses may effectively frustrate shareholder derivative claims. We believe that shareholder derivative lawsuits can provide an important mechanism for shareholders to ensure that directors and officers fulfill their fiduciary duties to a company. Requiring shareholders to bring actions solely in a state of the company’s choosing may discourage the pursuit of derivative claims by increasing their difficulty and cost. Therefore, we believe that companies should seek shareholder approval for the adoption of any exclusive forum provision. Where companies have not sought shareholder approval for the adoption of such provisions, we will generally recommend shareholders support proposals requesting that companies repeal exclusive forum provisions, as we believe that restricting shareholders’ ability to seek remedy under the court of their choosing without prior shareholder approval is not in the best interests of shareholders. However, we may consider recommending shareholders vote against a shareholder proposal to remove an exclusive forum provision if the company makes a cogent case for the adoption of the provision, including benefits to shareholders and evidence of abuse of legal process in other, non-favored jurisdictions.

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1 Lucian Bebchuk, John Coates IV, Guhan Subramanian, “The Powerful Antitakeover Force of Staggered Boards: Further Findings and a Reply to Symposium Participants,” 55 *Stanford Law Review* 885-917 (2002).

2 Lucian Bebchuk, Alma Cohen, “The Costs of Entrenched Boards” (2004).

3 Lucian Bebchuk, Alma Cohen and Charles C.Y. Wang, “Staggered Boards and the Wealth of Shareholders: Evidence from a Natural Experiment,” SSRN: <http://ssrn.com/abstract=1706806> (2010), p. 26.

## FACILITATING NONBINDING SHAREHOLDER PROPOSALS (AUSTRALIA)

In Australia, regulations permit either shareholders owning 5% of voting shares or the support of 100 shareholders who are entitled to vote the ability to give a company notice of a resolution that they propose to move at a general meeting. Although shareholders may submit ordinary resolutions, companies are only required to put forward binding (or special) resolutions and are allowed to exclude precatory (non-binding, or ordinary) resolutions if it is determined that they request the board act in a certain manner.

Some of the matters that may be addressed by ordinary resolution, which requires majority shareholder support to be approved, are: election/re-election of directors; appointment of an auditor; acceptance of reports at the annual general meeting; strategic or commercial decisions; increase or reduction in the number of directors; and passing a board limit resolution. Special resolutions, which require 75% shareholder approval, include but are not limited to: a modification of a company's constitution; company change of name; conversion of ordinary shares into preference shares; and company dissolution.

In recent years, shareholders have proposed amendments to Australian companies' constitutions that would allow shareholders to submit nonbinding shareholder resolutions, similar to those proposed at U.S. or Canadian companies. Although we strongly believe that shareholders should be afforded the right to submit and vote on nonbinding shareholder resolutions, we do not believe that this is a matter that is best addressed through private ordering. Rather, we believe that this is a process best facilitated through regulatory changes that could establish some protections for companies, which could be subject to distracting and time-consuming proposals submitted by shareholders whose interests are not necessarily aligned with that of the broader shareholder base. As such, Glass Lewis will generally recommend shareholders vote against such proposals. However, in instances where we believe that a separate, contingent proposal submitted to a company has merit, we may recommend shareholders abstain from proposals to amend companies' constitutions to facilitate nonbinding proposals.

## INDEPENDENT CHAIR

Glass Lewis believes an independent board chair is better able to oversee executives and set a pro-shareholder agenda without the conflicts that a CEO, executive insider, or close company affiliate may face. As such, separating the roles of CEO and chair may lead to a more proactive and effective board of directors. We believe that the presence of an independent chair can foster the creation of a thoughtful and dynamic board not dominated by the views of senior management. We believe separating these two key roles eliminates the conflict of interest that inevitably occurs when a CEO or other executive is responsible for self-oversight. As such, we will typically support reasonably crafted shareholder proposals seeking the installation of an independent chair. However, we will not support proposals that include overly prescriptive independence definitions and may consider recommending against proposals where the company makes a compelling case for combining the two roles, has a clearly defined lead independent director role, has indicated that it intends to separate the roles, and has strong performance and governance provisions.

## MAJORITY VOTE FOR THE ELECTION OF DIRECTORS

To promote a basic level of director accountability, we believe companies should require that directors must receive a majority of votes cast to be elected. Unlike a plurality vote standard, a majority voting standard allows shareholders to collectively vote to reject a director they believe will not pursue and protect their best interests.

We believe that a majority vote standard leads to more attentive directors. Further, although shareholders only rarely fail to support directors, the occasional majority vote against a director's election will likely deter the election of directors with a record of ignoring shareholder interests. Glass Lewis will generally support shareholder proposals calling for the election of directors by a majority vote in uncontested director elections.

## MUTUAL FUND SHAREHOLDER PROPOSALS

When reviewing shareholder proposals put forth at mutual funds, Glass Lewis generally begins with the premise that decisions regarding capital structure and a fund's management are typically best left to management and the board, as they have more and better information regarding the fund. In addition, the fund's trustees can be held accountable for their decisions through their election. Absent compelling evidence of egregious or illegal behavior, we will typically not recommend supporting shareholder proposals relating to the structure or management of a fund, such as a change in fund structure, the repurchase of shares, or the termination of advisor or management agreements. However, we may consider recommending support for well-crafted proposals in cases where the proponent has clearly demonstrated that adoption of the requested proposal will protect shareholder interests or enhance shareholder value.

## POISON PILLS (“SHAREHOLDER RIGHTS PLANS”)

Glass Lewis believes that shareholder rights plans, or poison pill plans, are not generally in shareholders' best interests. These plans can reduce management accountability by substantially limiting opportunities for corporate takeovers. Rights plans can thus prevent shareholders from receiving a buy-out premium for their stock. On an issue such as this, where there is a substantial link between the shareholders' financial interests and their right to consider and accept buyout offers, we believe that shareholders should be allowed to vote on whether they support such a plan's implementation. This issue is different from other matters that are typically left to board discretion, because its potential impact on and relationship to shareholders is direct and substantial. This is also an issue in which management interests may be different from those of shareholders; thus, ensuring that shareholders have a voice is the only way to safeguard their interests.

We will typically recommend in favor of shareholder proposals that require shareholder approval of any future poison pills or the redemption of a current poison pill adopted without shareholder approval.

## PROXY ACCESS

Glass Lewis will consider supporting reasonable proposals requesting shareholders' ability to nominate director candidates to management's proxy (“proxy access”), as we believe that significant, long-term shareholders should have the ability to nominate their representatives to the board. Glass Lewis reviews proposals requesting proxy access on a case-by-case basis, and will consider the following in our analysis:

- Company size;
- Existing or proposed proxy access provisions;
- Board independence and diversity of skills, experience, background and tenure;
- The shareholder proponent and the rationale for putting forth the proposal at the target company;
- The percentage ownership requested and holding period requirement;
- Shareholder base in both percentage of ownership and type of shareholder (e.g., hedge fund, activist investor, mutual fund, pension fund, etc.);
- Responsiveness of board and management to shareholders evidenced by progressive shareholder rights policies (e.g., majority voting, declassifying boards, etc.) and reaction to shareholder proposals;
- Company performance and steps taken to improve poor performance (e.g., new executives/directors, spin-offs, etc.);

- Existence of anti-takeover protections or other entrenchment devices; and
- Opportunities for shareholder action (e.g., ability to act by written consent or right to call a special meeting).

In recent years, shareholders have requested that companies amend existing proxy access bylaws (commonly referred to as “fix it” proposals) in order to, for example, change the percentage of proxy access nominees that can be submitted to the board or to allow for a larger group limit for shareholder nominators. We will review such proposals on a case-by-case. When evaluating these requests, Glass Lewis will carefully review the company’s existing bylaws in order to assess whether the company’s current provisions unnecessarily restrict shareholders’ ability to exercise this right. In cases where companies have adopted proxy access provisions that reasonably conform with broad market practice, we will generally recommend against such proposals. However, in instances where a company has adopted unnecessarily restrictive proxy access provisions, we may consider support for well-crafted “fix it” proposals that directly address areas of the company’s bylaws that we believe warrant shareholder concern.

## **REIMBURSEMENT OF SOLICITATION EXPENSES**

Where a dissident shareholder is seeking reimbursement for expenses incurred in waging a contest or submitting a shareholder proposal and has received the support of a majority of shareholders, Glass Lewis generally will recommend in favor of reimbursing the dissident for reasonable expenses. In those rare cases where a shareholder has put his or her own time and money into organizing a successful campaign to unseat a poorly performing director (or directors) or sought support for a shareholder proposal, we believe that the shareholder should be entitled to reimbursement of expenses via the company. In such cases, shareholders express their agreement by virtue of their majority vote for the dissident (or the shareholder proposal) and will share in the expected improvement in company performance.

## **REQUIRING TWO OR MORE NOMINEES PER BOARD SEAT**

In an attempt to address lack of access to the ballot, shareholders occasionally submit proposals requesting that the board give shareholders a choice of directors for each open board seat in every election. We believe that policies requiring a selection of multiple nominees for each board seat would discourage prospective directors from accepting nominations. A prospective director could not be confident either that he or she is the board’s clear choice or that he or she would be elected. Therefore, Glass Lewis generally will recommend that shareholders vote against such proposals.

## **RIGHT OF SHAREHOLDERS TO ACT BY WRITTEN CONSENT**

We are generally supportive of the right for shareholders to act by written consent. However, we believe that special meetings are preferable to action by written consent, as special meetings provide more protection for minority shareholders and better ensure that management is able to respond to the concerns raised by shareholders. Accordingly, in instances where companies have established other means for shareholders to influence a company’s proxy or act outside the annual meeting cycle, Glass Lewis may consider recommending against shareholder proposals requesting that companies adopt a right for shareholders to act by written consent. Specifically, if a company has adopted a special meeting right of 15% or below and has adopted reasonable proxy access provisions, Glass Lewis will generally recommend that shareholders vote against shareholder proposals asking companies to adopt their bylaws to provide shareholders with the right to action by written consent.

## **RIGHT OF SHAREHOLDERS TO CALL A SPECIAL MEETING**

Glass Lewis strongly believes that investors should have the ability to call meetings of shareholders between annual meetings to consider matters that require prompt attention. However, in order to prevent abuse and waste of corporate resources by a small minority of shareholders, we believe that shareholders representing at

least a sizable minority of shares must support such a meeting prior to its calling. If this threshold is set too low, companies might frequently be subjected to meetings that disrupt normal business operations in order to focus on the interests of only a small minority of owners. Typically we believe this threshold should not fall below 10 to 15% of shares, depending on company size.

In our case-by-case shareholder proposal evaluations, we consider the following:

- Company size;
- Shareholder base in both percentage of ownership and type of shareholder (e.g., hedge fund, activist investor, mutual fund, pension fund, etc.);
- Responsiveness of board and management to shareholders evidenced by progressive shareholder rights policies (e.g., majority voting, declassifying boards, etc.) and reaction to shareholder proposals;
- Company performance and steps taken to improve bad performance (e.g., new executives/directors, spin-offs, etc.);
- Existence of anti-takeover protections or other entrenchment devices;
- Opportunities for shareholder action (e.g., proxy access or the ability to act by written consent); and
- Existing ability for shareholders to call a special meeting.

## **SUPERMAJORITY VOTE REQUIREMENTS**

We believe that a simple majority is appropriate to approve all matters presented to shareholders and will recommend that shareholders vote accordingly. Glass Lewis believes that supermajority vote requirements impede shareholder action on ballot items critical to shareholder interests. In a takeover context, supermajority vote requirements can strongly limit the voice of shareholders in making decisions on crucial matters such as selling the business. These limitations, in turn, may degrade share value and reduce the possibility of buyout premiums for shareholders. Moreover, we believe that a supermajority vote requirement can enable a small group of shareholders to overrule the will of the majority.

# Compensation

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Glass Lewis carefully reviews executive compensation, as we believe that this is an important area in which the board's priorities and effectiveness are revealed. Executives should be compensated with appropriate base salaries and incentivized with additional awards in cash and equity when their performance and that of the company warrant such rewards. We believe that compensation should be closely aligned with company performance, with reference to compensation paid by the company's peers, and compensation programs should be designed to promote sustainable shareholder returns while discouraging excessive risk-taking.

As a general rule, Glass Lewis does not believe shareholders should be involved in the design, approval and negotiation of specific elements of compensation packages. Such matters should be left to the board's compensation committee, which can be held accountable for its decisions through the election of directors. Further, in many cases compensation is subject to an advisory vote, giving shareholders another avenue to express concern about compensation and therefore promote change. Glass Lewis closely scrutinizes shareholder proposals regarding compensation in order to determine if the requested actions or disclosures have already been accomplished or mandated, and whether they provide the board with sufficient, appropriate discretion to design and implement reasonable compensation programs.

## **ACCELERATED VESTING OF SHARES IN THE EVENT OF A CHANGE IN CONTROL**

In general, we do not believe that the practice of accelerating the vesting of shares effectively links executive compensation with performance. In addition, we believe that accelerated vesting of equity upon a change in control may discourage potential buyers from making an offer for a company both because the purchase price will be higher and because substantial numbers of employees may earn significant amounts of money and decide to leave their positions with the company. In short, we believe that this sort of provision may lower the chances of a deal, lower the premium paid to shareholders in a takeover transaction, or both, and believe that the Company should eliminate the practice of accelerated vesting of shares. As such, we will generally recommend that shareholders support proposals that prohibit the accelerated vesting of shares upon a change in control in instances where companies maintain a single-trigger change in control policy.

However, we will consider recommending voting against proposals requesting that companies prohibit the accelerated vesting of shares upon a change in control in instances where companies have a true double-trigger change in control policy, whereby an executive must depart a company prior to the acceleration of vesting of shares. We are concerned that prohibiting the accelerated vesting of shares upon a qualifying termination could penalize executives by forcing them to forfeit shares that they have already earned, but are not yet vested. As such, we believe that double trigger change in control provisions ensure an effective link between pay and performance and that they provide sufficient safeguards to ensure that executives don't receive windfall compensation upon a change in control.

## **ADVISORY VOTES ON COMPENSATION**

In markets where shareholder approval of executive compensation is not required by law, Glass Lewis will generally support shareholder resolutions requesting a company adopt an advisory vote on executive compensation. We believe that an advisory vote to approve executive compensation is an effective mechanism for enhancing transparency in setting executive pay, improving accountability to shareholders and providing a more effective link between pay and performance. While such a vote will not directly affect the board's ability to set executive compensation policy, it will allow shareholders to register their opinions regarding a company's compensation practices. We believe that a vote against a company's executive compensation may compel the board to reexamine its compensation practices and act accordingly.

While we believe shareholders should have the ability to vote on executive compensation, we do not believe such a vote is necessary for director compensation. The relatively straightforward design, the lack of complicated performance metrics and the comparatively low levels of director compensation render shareholder input on non-employee director compensation less necessary. We typically do not recommend shareholders support resolutions requesting an advisory vote on director compensation, but will consider supporting such resolutions in cases where we find the compensation or perquisites received by directors to be egregious or excessive in relation to a company's peer group.

## COMPENSATION CONSULTANTS

Glass Lewis believes that consultants engaged by a company's compensation committee should be unquestionably free of conflicts of interest. Because a potential or actual conflict of interest may arise when a consultant is engaged by a company's compensation committee or performs other business services for the company or management, we believe that such consultants should avoid providing services unrelated to those commissioned by the compensation committee. As mandated by Section 952 of the Dodd-Frank Act, as of January 11, 2013, the SEC approved new listing requirements for both the NYSE and NASDAQ which require compensation committees to consider six factors in assessing compensation advisor independence. These factors include: (1) provision of other services to the company; (2) fees paid by the company as a percentage of the advisor's total annual revenue; (3) policies and procedures of the advisor to mitigate conflicts of interests; (4) any business or personal relationships of the consultant with any member of the compensation committee; (5) any company stock held by the consultant; and (6) any business or personal relationships of the consultant with any executive officer of the company. According to the SEC, "no one factor should be viewed as a determinative factor." In light of these new disclosure requirements, we will review proposals requesting that companies provide more information regarding the independence of or the services obtained from compensation consultants on a case-by-case basis.

## DISCLOSURE OF COMPENSATION

Glass Lewis believes that disclosure of information regarding compensation is critical to allowing shareholders to evaluate the extent to which executive compensation is based on performance. We generally support improving disclosure regarding the compensation paid to top executives, directors and statutory auditors (as applicable per market). We believe this information can allow shareholders to better determine whether an individual's compensation is reasonable in terms of his or her position at a company, relative to the company's performance and to the compensation paid by a company's peers to individuals with similar responsibilities.

In many markets, regulators currently mandate significant disclosure of executive compensation. In those cases, we generally believe that providing information beyond that which is required by law, such as the details of individual employment agreements of employees below the senior level, could create internal personnel tension or put the company at a competitive disadvantage, prompting employee poaching by competitors. Further, we are not convinced that this information would be beneficial to shareholders. Given these concerns, Glass Lewis typically does not believe that shareholders would benefit from additional disclosure of individual compensation packages beyond the significant level that is already required for senior executives in many countries; we therefore typically recommend voting against shareholder proposals seeking such detailed disclosure. We will, however, review each proposal on a case-by-case basis, taking into account the company's history of aligning executive compensation, the company's current disclosure, and the likelihood of the creation or protection of shareholder value from adoption of the proposal.

## EQUITY HOLDING REQUIREMENTS

Glass Lewis strongly supports the linking of executive compensation to the creation and protection of long-term sustainable shareholder value. Executives generally receive a significant portion of their compensation in equity grants intended to provide this link, i.e., to align their interests with those of shareholders. However, the alignment benefit from equity grants is eliminated when executives sell the shares they have been granted. Therefore we believe shareholders should encourage executives to retain some level of shares acquired through equity compensation programs to provide continued alignment of their interests with those of shareholders.

As such, we will generally recommend support for well-crafted shareholder proposals requiring executives to retain a significant portion of shares until or after termination of employment. As part of our evaluation, we will examine the number of shares executives own as well as any existing executive share ownership requirements and any limitations placed on the sale of their shares.

## **GOLDEN COFFINS**

Glass Lewis does not believe that the payment of substantial, unearned posthumous compensation provides any incentive to executives or in any way aligns the interests of executives with those of shareholders. Glass Lewis firmly believes that compensation paid to executives should be clearly linked to the creation of shareholder value. As such, Glass Lewis favors compensation plans centered on the payment of awards contingent upon the satisfaction of sufficiently stretching and appropriate performance metrics. The payment of posthumous, unearned and unvested awards should be subject to shareholder approval, if not eliminated altogether. Shareholders should be skeptical regarding any putative benefit they derive from costly payments made to executives who are no longer in any position to affect company performance.

To that end, we will consider supporting a reasonably crafted shareholder proposal seeking to prohibit, or require shareholder approval of survivor benefit payments to senior executives' estates or beneficiaries. We will not recommend supporting proposals that would, upon passage, violate existing contractual obligations or the terms of compensation plans currently in effect.

## **HEDGING OF STOCK**

Glass Lewis believes that the hedging of shares by executives in the shares of the companies where they are employed severs the alignment of interests of the executive with shareholders. We believe companies should adopt strict policies to prohibit executives from hedging the economic risk associated with their shareownership in the company. Therefore, in cases where companies have clearly failed to provide proper mechanisms that prevent executives from using financial instruments that are adverse to the interests of shareholders, we will recommend shareholders support shareholder resolutions that request that companies adopt and disclose information regarding restrictions on the hedging of executives' stock.

## **LINKING EXECUTIVE PAY TO ENVIRONMENTAL AND SOCIAL CRITERIA**

We recognize that a company's involvement in environmentally or socially sensitive and labor-intensive industries influences the degree to which a firm's overall strategy must weigh environmental and social concerns. However, we also understand that the value generated by incentivizing executives to prioritize environmental and social issues is difficult to quantify and measure, and necessarily varies among industries and companies.

When reviewing proposals seeking to tie executive compensation to environmental or social practices, we will review the target firm's compliance with (or contravention of) applicable laws and regulations, and examine any history of environmentally and socially related concerns, including those resulting in material investigations, lawsuits, fines and settlements. We will also review the firm's current compensation policies and practices. However, the selection of performance metrics for executive compensation, Glass Lewis generally believes that such decisions should be left to the compensation committee.

## **LINKING EXECUTIVE PAY WITH PERFORMANCE**

Glass Lewis views performance-based compensation as an effective means of motivating executives to act in the best interests of shareholders. In our view, an executive's compensation should be specific to the company and its performance and should also be tied to the executive's achievements within the company.

However, when firms have inadequately linked executive compensation and company performance we will consider recommending support for reasonable proposals seeking to link a percentage of equity awards to performance criteria. We will also consider supporting appropriately crafted proposals requesting that the compensation committee include multiple performance metrics when setting executive compensation, provided that

the terms of the shareholder proposal are not overly prescriptive. Though boards often argue that these types of restrictions would unduly hinder their ability to attract and retain talent, we believe boards can develop an effective, consistent and reliable approach to remuneration utilizing a wide range (and an appropriate mix) of fixed and performance-based compensation.

## PLEDGING OF SHARES

Glass Lewis believes that shareholders should examine the facts and circumstances of each company rather than apply a one-size-fits-all policy regarding employee stock pledging. Glass Lewis believes that shareholders benefit when employees, particularly senior executives, have “skin-in-the-game” and therefore recognizes the benefits of measures designed to encourage employees to both buy shares out of their own pocket and to retain shares they have been granted; blanket policies prohibiting stock pledging may discourage executives and employees from doing either.

However, we also recognize that the pledging of shares can present a risk that, depending on a host of factors, an executive with significant pledged shares and limited other assets may have an incentive to take steps to avoid a forced sale of shares in the face of a rapid stock price decline. Therefore, to avoid substantial losses from a forced sale to meet the terms of the loan, the executive may have an incentive to boost the stock price in the short term in a manner that is unsustainable, thus hurting shareholders in the long-term. We also recognize concerns regarding pledging may not apply to less senior employees, given the latter group’s more limited influence over a company’s stock price. Therefore, we believe that the issue of pledging shares should be reviewed in that context, as should policies that distinguish between the two groups.

Glass Lewis believes that the benefits of stock ownership by executives and employees may outweigh the risks of stock pledging, depending on many factors. As such, Glass Lewis reviews all relevant factors in evaluating proposed policies, limitations and prohibitions on pledging stock, including:

- The number of shares pledged;
- The percentage executives’ pledged shares are of outstanding shares;
- The percentage executives’ pledged shares are of each executive’s shares and total assets;
- Whether the pledged shares were purchased by the employee or granted by the company;
- Whether there are different policies for purchased and granted shares;
- Whether the granted shares were time-based or performance-based;
- The overall governance profile of the company;
- The volatility of the company’s stock (in order to determine the likelihood of a sudden stock price drop);
- The nature and cyclicity, if applicable, of the company’s industry;
- The participation and eligibility of executives and employees in pledging;
- The company’s current policies regarding pledging and any waiver from these policies for employees and executives; and
- Disclosure of the extent of any pledging, particularly among senior executives.

## ADOPT OR AMEND RECOUPMENT PROVISIONS (“CLAWBACKS”)

Section 954 of the Dodd-Frank Act requires the SEC to create a rule requiring listed companies to adopt policies for recouping certain compensation during a three-year look-back period. The rule is more stringent than Section 304 of the Sarbanes-Oxley Act and applies to incentive-based compensation paid to current or former executives in the case of a financial restatement -- specifically, the recoupment provision applies in cases where the company is required to prepare an accounting restatement due to erroneous data resulting from material non-compliance with any financial reporting requirements under the securities laws. Although the SEC has yet to finalize the relevant rules, we believe it is prudent for boards to adopt detailed and stringent bonus recoupment policies that go beyond Section 304 of the Sarbanes-Oxley Act to prevent executives from retaining performance-based awards that were not truly earned.

More broadly, we are mindful that some shareholder proposals may call for board action that contravenes legal obligations under existing employment agreements. In addition, we are mindful that some proposals may excessively limit the board's ability to exercise judgment and reasonable discretion (however, we do not believe that board discretion should be so broad as to negate the effectiveness of any recoupment policies).

We are increasingly focusing attention on the specific terms of recoupment policies, beyond whether a company maintains a clawback that simply satisfies the legal minimum. We believe that clawbacks should be triggered, at a minimum, in the event of a restatement of financial results or similar revision of performance indicators upon which bonuses were based. In addition, we believe that conduct resulting in financial or reputational harm for a company could cause a significant loss of shareholder value. In those instances, we believe that a company should have some recourse to recoup incentive compensation from individuals who are responsible for such conduct.

If the board has already adopted a comprehensive recoupment policy, we will generally not support amendments to that policy. However, in instances where companies have not adopted policies that provide sufficient protections for reputational and financial harm, we may consider supporting resolutions seeking to expand a company's recoupment policy.

## RETIREMENT BENEFITS AND SEVERANCE

As a general rule, Glass Lewis believes that shareholders should not be involved in the design or approval of individual severance plans. Such matters should be left to the board's compensation committee, which can be held accountable for its decisions through the election of its director members.

However, when proposals are crafted to require approval only if the benefit exceeds 2.99 times the amount of the executive's base salary plus bonus, Glass Lewis typically supports such requests. In the United States, above this threshold, based on the executive's average annual compensation for the most recent five years, a company can no longer deduct severance payments as an expense; thus shareholders are deprived of a valuable benefit without an offsetting incentive to the executive. We believe that shareholders should be consulted before such large payments are made, along with the payments' concomitant tax penalty, and that implementing such policies would still leave companies with sufficient freedom to enter into appropriate severance arrangements.

## TAX GROSS-UPS

Tax gross-ups can act as anti-takeover measures, as larger payouts to executives result in larger gross-ups, which could artificially inflate the ultimate purchase price under a takeover or merger scenario. Additionally, gross-ups can result in opaque compensation packages where shareholders are unlikely to be aware of the total compensation an executive may receive, and therefore the ultimate cost to shareholders. In addition, highly compensated executives are already well-positioned to protect themselves financially from the effects of takeover. Further, we believe that in instances where companies have severance agreements in place for executives, payments made pursuant to such arrangements are often large enough to soften the blow of any additional excise taxes. Finally, such payments are not performance based, thus providing no incentive to recipients and, if large, can be a significant cost to companies.

As such, we will typically recommend supporting proposals requesting that a compensation committee adopt a policy that it will not make or promise to make to its senior executives any tax gross-up payments, except those applicable to management employees of the company generally, such as a relocation or expatriate tax equalization policy.

# Environmental and Social Issues

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## OVERALL APPROACH

We believe part of the board's role is to ensure that management conducts a complete risk analysis of company operations, including those that have environmental and social implications. We believe that directors should monitor management's performance in mitigating environmental and social risks related to operations in order to eliminate or minimize the risks to a company and its shareholders. Companies face significant financial, legal and reputational risks resulting from poor environmental and social practices, or negligent oversight thereof. Therefore, in cases where the board or management has neglected to take action on a pressing issue that could negatively impact shareholder value, we believe that shareholders should take necessary action in order to effect changes that will safeguard their financial interests.

We believe shareholders should use their influence to push for governance structures that protect shareholders and promote director accountability. Therefore, we recognize that the support of appropriately-crafted shareholder initiatives may at times serve to promote or protect shareholder value. When management and the board have displayed disregard for environmental or social risks, have engaged in egregious or illegal conduct, or have failed to adequately respond to current or imminent environmental and social risks that threaten shareholder value, we believe shareholders should hold directors accountable. When a substantial environmental or social risk has been ignored or inadequately addressed, we may recommend voting against members of the audit committee, or members of a committee specifically charged with oversight of the issue in question.

To that end, Glass Lewis evaluates shareholder resolutions regarding environmental and social issues in the context of the financial materiality of the issue to the company's operations. We believe that all companies face risks associated with environmental and social issues. However, we recognize that these risks manifest themselves differently at each company as a result of a company's operations, workforce, structure, and geography, among other factors. Accordingly, we place a significant emphasis on the financial implications of a company adopting, or not adopting, any proposed shareholder resolution. To assist us in determining financial materiality, Glass Lewis will also consider the standards developed by the Sustainability Accounting Standards Board ("SASB"). Additionally, Glass Lewis also examines:

**Direct environmental and social risk** — Companies should evaluate financial exposure to direct environmental risks associated with their operations. Examples of direct environmental risks include those associated with oil or gas spills, contamination, hazardous leakages, explosions, or reduced water or air quality, among others. Social risks may include non-inclusive employment policies, inadequate human rights policies, or issues that adversely affect the company's stakeholders. Further, firms should consider their exposure to risks emanating from broad range of issues, over which they may have no or only limited control, such as insurance companies being affected by increased storm severity and frequency resulting from climate change or membership in trade associations with controversial political ties.

**Risk due to legislation and regulation** — Companies should evaluate their exposure to changes or potential changes in regulation that affect current and planned operations. Regulation should be carefully monitored in all jurisdictions in which the company operates. We look closely at relevant and proposed legislation and evaluate whether the company has responded proactively.

**Legal and reputational risk** — Failure to take action on important environmental or social issues may carry the risk of inciting negative publicity and potentially costly litigation. While the effect of high-profile campaigns on shareholder value may not be directly measurable, we believe it is prudent for firms to evaluate social and environmental risk as a necessary part of assessing overall portfolio risk.

**Governance risk** — Inadequate oversight of environmental and social issues carries significant risks to companies. When leadership is ineffective or fails to thoroughly consider potential risks, such risks are likely unmitigated and could thus present substantial risks to the company, ultimately leading to loss of shareholder value. Glass Lewis believes that one of the most crucial factors in analyzing the risks presented to companies in the form of environmental and social issues is the level and quality of oversight over such issues. When management and the board have displayed disregard for environmental risks, have engaged in egregious or illegal conduct, or have failed to adequately respond to current or imminent environmental risks that threaten shareholder value, we believe shareholders should hold directors accountable. When a substantial environmental or social risk has been ignored or inadequately addressed, we may recommend voting against responsible members of the risk committee or its equivalent (including an environmental or sustainability committee), or in favor of a well-crafted shareholder proposal that addresses the company's failure to address such risks, particularly around providing more disclosure and reporting regarding the risk and related mitigation initiatives. In addition, or alternatively, depending on the proposals presented, we may also consider recommending voting against a company's accounts and reports and/or ratification of management and board acts.

## ANIMAL WELFARE

Glass Lewis believes that it is prudent for management to assess potential exposure to regulatory, legal and reputational risks associated with all business practices, including those related to animal welfare. A high-profile campaign launched against a company could result in shareholder action, a reduced customer base, protests and potentially costly litigation. However, in general, we believe that the board and management are in the best position to determine policies relating to the care and use of animals. While we review all such proposals on a case-by-case basis, we will generally recommend voting against proposals seeking to eliminate or limit board discretion regarding animal testing or animal slaughter unless there is a clear and documented link between the board's policies and the degradation of shareholder value.

## CLIMATE CHANGE REPORTING

Glass Lewis will consider recommending a vote in favor of reasonably crafted proposals that request disclosure of a company's climate change and/or greenhouse gas ("GHG") emission strategies when: (i) a company has suffered material financial impact from reputational damage, lawsuits or government investigations; (ii) there is a strong link between climate change and its resultant regulation and shareholder value at the firm; (iii) a company lags its peers regarding the requested disclosure or actions; and/or (iv) a company has inadequately disclosed how it has addressed climate change risks.

We will generally recommend in favor of shareholder resolutions requesting that companies in certain extractive or energy-intensive industries that have increased exposure to climate change-related risks provide information to shareholders concerning their climate change scenario analyses and other climate change-related considerations. Although we are generally supportive of the disclosure recommendations recently developed by the Task Force on Climate-related Financial Disclosure ("TCFD"), we will review proposals requesting that companies report in accordance with these recommendations on a case-by-case basis. When reviewing proposals asking for increased disclosure on either of the aforementioned issues, we will evaluate: (i) the industry in which the company operates; (ii) the company's current level of disclosure; (iii) the oversight afforded to issues related to climate change; (iv) the disclosure and oversight afforded to climate change-related issues at peer companies; and (v) if companies in the company's market and/or industry have provided any disclosure that is aligned with the TCFD's recommendations.

On a case-by-case basis, we will consider supporting well-crafted proposals requesting that companies report their GHG emissions and adopt a reduction goal for these emissions. Particularly for companies operating in carbon- or energy- intensive industries, such as those in the basic materials, integrated oil and gas, iron and steel, transportation, utilities and construction industries, we believe that managing and mitigating carbon emissions are important to ensuring long-term financial and environmental sustainability. As such, we will carefully review these proposals on a case-by-case basis, taking into account: (i) the industry in which the company operates; (ii) a lack of robust risk management of environmental issues as evidenced by material fines, lawsuits or reputational damage; and (iii) whether a company's peers have provided disclosure concerning their GHG emissions and future reduction goals.

## **DIVERSITY REPORTING**

Glass Lewis believes that human capital management is an area of material importance to all companies. Maintaining a diverse and engaged workforce can help mitigate risks related to low worker productivity, employee turnover, and lawsuits based on discrimination or harassment. Given the importance of this issue, we believe that companies should provide shareholders with adequate information to be able to assess the management of this critical aspect of their operations, and the mitigation of any attendant risks. Accordingly, Glass Lewis will generally support shareholder proposals requesting that companies provide disclosure concerning workforce diversity, as well as shareholder proposals asking for details concerning how companies are promoting diversity within their workforce. When making these recommendations, Glass Lewis will consider: (i) the industry in which the company operates and the nature of its operations; (ii) the company's current level of disclosure on issues related to workforce diversity; (iii) the level of such disclosure at the company's peers; (iv) any lawsuits or accusations of discrimination within the company.

## **ENERGY-RELATED PROPOSALS**

When reviewing proposals requesting an action or disclosure related to renewable energy or energy efficiency, Glass Lewis considers the following factors: (i) current energy regulations facing the company and their attendant risks to its operations; (ii) the company's responsiveness to issues related to energy efficiency and renewable energy; (iii) the company's current disclosure on this issue; and (iv) whether the company's actions and disclosure are aligned with that of its peers. Glass Lewis may consider recommending in favor of a well-crafted proposal that requests increased disclosure of renewable energy strategies or efforts toward increased energy efficiency, if: (i) there is credible evidence of egregious or illegal behavior regarding the company's energy strategy or actions in this regard; (ii) the company has been largely unresponsive to shifting regulatory changes related to energy policies; or (iii) adoption of the requested disclosure will clearly lead to an increase in or the protection of shareholder value. However, we are not inclined to support proposals requesting the adoption of renewable energy goals or proposals seeking the implementation of prescriptive policies related to energy efficiency or renewable energy.

## **ENVIRONMENTAL AND SOCIAL RISK OVERSIGHT**

Glass Lewis understands the importance of ensuring the sustainability of companies' operations. We believe that an inattention to material environmental and social issues can present direct legal, financial, regulatory and reputational risks that could serve to harm shareholder interests. Therefore, we believe that these issues should be carefully monitored and managed by companies, and that companies should have an appropriate oversight structure in place to ensure that they are mitigating attendant risks and capitalizing on related opportunities to the best extent possible.

Glass Lewis believes that companies should ensure appropriate board-level oversight of material risks to their operations, including those that are environmental and social in nature. Accordingly, for large cap companies and in instances where we identify material oversight issues, Glass Lewis will review a company's overall governance practices and identify which directors or board-level committees have been charged with oversight of environmental and/or social issues. Glass Lewis will also note instances where such oversight has not been clearly defined by companies in their governance documents.

Where it is clear that a company has not properly managed or mitigated environmental or social risks to the detriment of shareholder value, or when such mismanagement has threatened shareholder value, Glass Lewis may consider recommending that shareholders vote against members of the board who are responsible for oversight of environmental and social risks. In the absence of explicit board oversight of environmental and social issues, Glass Lewis may recommend that shareholders vote against members of the audit committee. In making these determinations, Glass Lewis will carefully review the situation, its effect on shareholder value, as well as any corrective action or other response made by the company.

## **EQUAL EMPLOYMENT OPPORTUNITY PRINCIPLES**

Glass Lewis carefully reviews proposals requesting the implementation of equal employment opportunity principles in order to determine whether the actions requested of the company will clearly lead to the protection or enhancement of shareholder value. Glass Lewis believes that directors who are conscientiously exercising their fiduciary duties will typically have more and better information about the Company and its situation than shareholders. In general, therefore, Glass Lewis believes board and management should be allowed wide discretion in designing and implementing employment policies. Where shareholders identify a lapse in directors fulfilling their duty, shareholders can hold them accountable in director elections. However, Glass Lewis may recommend supporting reasonable proposals seeking enhancements to, or the establishment of, an equal employment opportunity policy if there is evidence of discriminatory treatment of employees that the company failed to address, leading to a decrease in shareholder value.

## **MACBRIDE PRINCIPLES**

To promote peace, justice and equality regarding employment in Northern Ireland, Dr. Sean MacBride, Nobel Peace laureate and founder of Amnesty International, proposed the adoption of equal opportunity employment principles (“MacBride Principles”) in that region. Proposals requesting the implementation of these proposals are typically submitted at firms that operate, or maintain subsidiaries that operate, in Northern Ireland. In each case, we will examine a company’s current equal employment opportunity policy and the extent to which the company has been subject to protests, fines or litigation with a material economic impact due to discrimination in the workplace, if any. Further, we will examine any evidence of the firm’s specific record of labor concerns in Northern Ireland.

## **HOLY LAND PRINCIPLES**

In order to address some of the issues of economic disparity between Israelis and Palestinians, the Holy Land Principles were launched by Fr. Sean McManus, who was also involved the MacBride principles campaign. Whereas the MacBride principles consisted of nine fair employment principles for U.S. companies with operations in Northern Ireland, the Holy Land Principles have been established to promote fair and just employment practices in the Holy Land, which the principles describe as encompassing Israel/Palestine, the West Bank, the Gaza Strip, and East Jerusalem. In evaluating proposals requesting adoption of the Holy Land Principles, Glass Lewis will examine a company’s current equal employment opportunity policy and the extent to which the company has been subject to protests, fines or litigation with a material economic impact resulting from discrimination in the workplace. We will also examine any evidence of the firm’s specific record of labor concerns in the above-described Holy Land.

## **FOREIGN GOVERNMENT BUSINESS POLICIES**

When a company operates in foreign countries, Glass Lewis believes that the company and board should maintain sufficient controls to prevent illegal or egregious conduct with the potential to decrease shareholder value, examples of which include bribery, money laundering, severe environmental violations or human rights violations. We believe that shareholders should hold board members, particularly those that serve on the audit committee, or the CEO accountable for these issues when they face reelection, as these concerns may subject the company to financial risk. In some instances, we will support appropriately crafted shareholder proposals specifically addressing concerns with a company’s actions outside its home jurisdiction.

## GENDER PAY EQUITY

Failing to address issues related to gender pay inequity can present legal and reputational risks for companies. Not only can inequitable compensation inhibit companies ability to attract and retain women and cause workplace dissatisfaction, lost productivity and high turnover, but pay inequity can result in expensive and time-consuming lawsuits for the Company. Further, there has been a growing recognition by regulators of the gender pay gap. Given these risks, companies are increasingly being asked by shareholders to report on efforts being made to ensure pay parity. Glass Lewis will review such proposals on a case-by-case basis, taking into consideration: (i) the company's industry; (ii) the company's current efforts and disclosure with regard to gender pay equity; (iii) practices and disclosure provided by a company's peers concerning gender pay equity; and (iv) any legal and regulatory actions at the company. We will consider supporting well-crafted shareholder resolutions requesting more disclosure on the issue of gender pay equity in instances where the company has not adequately addressed the issue and there is some evidence to suggest that such inattention could present a risk to the company's operations and/or shareholders.

## GENETICALLY MODIFIED ORGANISMS

Genetically modified organisms ("GMOs") are plants and animals that have had specific changes introduced into their DNA through genetic engineering. Given the potential reputational, legal, regulatory and direct environmental risks associated with the production and use of GMOs, we believe that it is prudent for management to assess its potential exposure to these risks and incorporate this information into its overall business risk profile. When reviewing proposals requesting enhanced disclosure or the adoption of policies regarding GMOs, Glass Lewis considers a company's current disclosure on this topic, any associated legal or regulatory violations associated with a company's use of GMOs and a company's overall approach to the risks associated with its use or production of GMOs. While we generally believe that management of GMOs and their attendant risks falls under the purview of management, we may consider recommending in favor of well-crafted proposals requesting that companies disclose more information regarding the risks associated with their use of GMOs, particularly if there is credible evidence of reputational risk or egregious or illegal behavior with respect to this issue.

## HUMAN RIGHTS

Glass Lewis believes explicit policies set out by companies' boards of directors on human rights provide shareholders with the means to determine whether companies have taken steps to mitigate risks from their human rights practices. We believe that it is prudent for a company to actively evaluate risks to shareholder value stemming from global activities and human rights practices along its entire supply chain. Findings and investigations of human rights abuses can inflict, at a minimum, reputational damage on targeted companies and have the potential to dramatically reduce shareholder value. This is particularly true for companies operating in extractive industries and in politically unstable regions. As such, while we typically rely on the oversight of the board on these important policy issues, we recognize that, in some instances, shareholders could benefit from increased reporting or further codification of human rights policies.

## INTERNET CENSORSHIP

Legal and ethical questions regarding the use and management of the Internet have been present since access was first made available to the public almost twenty years ago. Prominent among these debates are the issues of privacy, censorship, freedom of expression and freedom of access. Glass Lewis believes that it is prudent for management to assess its potential exposure to risks relating to the internet management and censorship policies. Even the perceived violation of user privacy or censorship of Internet access can lead to high-profile campaigns that could potentially result in decreased customer bases or potentially costly litigation. However, we generally believe that management and boards are best equipped to deal with the evolving nature of this issue in the various jurisdictions of their operation.

## MILITARY AND GOVERNMENT BUSINESS POLICIES

Glass Lewis believes that disclosure of information on key company endeavors is important. However, we generally do not support resolutions that call for shareholder approval of policy statements for or against government programs, most of which are subject to thorough review by the federal government and elected officials at the national level. We also do not support proposals favoring disclosure of information where similar disclosure is already mandated by law, unless circumstances exist that warrant the additional disclosure.

## NONDISCRIMINATION POLICIES

Companies with records of poor labor relations may face lawsuits, efficiency-draining turnover, poor employee performance, and distracting, costly investigations. Moreover, as an increasing number of companies adopt inclusive equal employment opportunity (“EEO”) policies, companies without comprehensive policies may face damaging recruitment, reputational and legal risks. We believe that a pattern of making financial settlements as a result of lawsuits based on discrimination could indicate investor exposure to ongoing financial risk. Where there is clear evidence of employment practices resulting in negative economic exposure, Glass Lewis may support shareholder proposals addressing such risks. In addition, Glass Lewis may consider supporting proposals requesting that companies adopt broader nondiscrimination policies in cases where a company’s lack of alignment with peers in this regard may hamper its ability to attract and retain employees or where a company may be subject to regulatory scrutiny as a result of its nondiscrimination policies.

## NUCLEAR PROPOSALS

Shareholder proposals requesting that companies decommission their nuclear operations are most common in Japan, but are also seen in other markets, including the United States. As with other environmental and safety issues, we believe that operational decisions, particularly those related to the decommissioning of a nuclear power plant or ending nuclear operations, are best left to management and the board. As such, we typically recommend shareholders vote against proposals regarding operational matters. However, as nuclear operations have significant attendant risks, we believe that companies should thoroughly address their exposure to direct environmental, regulatory, legislative, legal and reputational risks stemming from nuclear operations and incorporate this information into their overall business risk profile. In cases where companies have been negligent in ensuring the safety of their nuclear operations or there is credible evidence of egregious or illegal behavior on behalf of the company, we may consider supporting proposals requesting increased disclosure of a company’s nuclear operations or other related issues.

## OIL SANDS

We believe firms should strongly consider and evaluate exposure to financial, legal and reputational risks associated with operations in oil sands since the procedure required to extract usable crude from oil sands emits significantly more greenhouse gases than do conventional extraction methods. In addition, development of the oil sands has a deleterious effect on the local environment, such as Canada’s boreal forests which sequester significant levels of carbon.

We believe companies should adequately disclose information regarding operations in oil sands, including a discussion of exposure to sensitive political and environmental areas. Companies should broadly outline the scope of oil sands operations, describe the commercial methods for producing oil, and discuss the management of greenhouse gas emissions. However, we believe that detailed disclosure of investment assumptions could unintentionally reveal sensitive information regarding operations and business strategy, which would not serve shareholders’ interest. We will review all proposals seeking increased disclosure of oil sands operations in the above context, but will typically not support proposals seeking cessation or curtailment of operations.

## PHARMACEUTICAL AND HEALTHCARE-RELATED PROPOSALS

Healthcare reform in the United States has long been a contentious political issue and Glass Lewis therefore believes firms must evaluate and mitigate the level of risk to which they may be exposed regarding potential changes in healthcare legislation. However, Glass Lewis believes that individual corporate boardrooms are not the appropriate forum in which to address evolving and contentious national policy issues. We will review proposals regarding healthcare-related issues on a case-by-case basis and may consider supporting proposals in cases where proponents have clearly demonstrated that a company's current practices or policies present significant financial or reputational harm.

Additionally, we generally recommend against proposals requesting that companies adopt policies of price restraint on their branded pharmaceuticals in order to ensure that their drugs are affordable. Glass Lewis believes that strategic and operational decisions regarding investments in innovation and pricing structures are best left to management and the board, as they know what pricing structures are appropriate based on current market conditions and are better able to assess the desirability of any market-based price adjustments. To that end, Glass Lewis will review proposals requesting increased disclosure of risks associated with drug pricing on a case-by-case basis.

## REPORTING CONTRIBUTIONS AND POLITICAL SPENDING

While in the United States corporate contributions to national political parties and committees controlled by federal officeholders are prohibited under federal law, corporations can legally donate to state and local candidates, organizations registered under 26 USC Sec. 527 of the Internal Revenue Code and state-level political committees. There is, however, no standardized manner in which companies must disclose this information. As such, shareholders often must search through numerous campaign finance reports and detailed tax documents to ascertain even limited information. Corporations also frequently join trade associations, which are not required to report funds they receive for or spend on political activity and which may be politically active.

Further, in 2010 the *Citizens United v. Federal Election Commission* decision by the United States' Supreme Court affirmed that corporations are entitled to the same free speech laws as individuals and that it is legal for groups including a corporation to donate to political causes without monetary limit. While that decision did not remove bans on direct contributions to candidates, companies are now able to contribute indirectly, and substantially, to candidates through political organizations.

When evaluating whether adoption of a proposal would benefit shareholders, Glass Lewis generally considers the following:

- The risk to shareholders from the company's political activities;
- The comprehensiveness and accessibility of the company's existing corporate political spending disclosures;
- How the company's corporate political spending disclosure compares to that provided by its peers;
- The level of oversight afforded to issues of corporate political spending; and
- Whether adoption of the resolution would lead to an increase in or the protection of shareholder value.

Glass Lewis will consider supporting a proposal seeking increased disclosure of corporate lobbying or political expenditure and contributions if the firm's current disclosure is insufficient, or if the firm's disclosure is significantly lacking compared to its peers, or if the company faces significant risks as a result of its political activities. We will typically recommend voting for proposals requesting reports on lobbying or political contributions and expenditures when there is no explicit board oversight or there is evidence of inadequate board oversight of such contributions. Given that political donations are strategic decisions intended to increase shareholder value but at the same time have the potential to negatively affect the company, we believe the board should either implement processes and procedures to ensure the proper use of the funds or closely evaluate the process and procedures used by management. We will also consider supporting such proposals when there is evidence, or credible allegations, that the company is mismanaging corporate funds through political donations or lobbying activities. In the case of particularly egregious actions by the company, we will consider recommending voting against the governance committee members or other responsible directors.

While we consider proposals requesting reports on political contributions and expenditures and lobbying activities on a case-by-case basis, we generally recommend against proposals requesting that companies adopt an advisory vote on electioneering expenditures. We believe that absent egregious behavior allowing shareholders a vote on political contributions oversteps the line between tasks appropriately conducted by the board and those reasonably subject to shareholder approval or ratification. We will also consider proposals requesting that companies construct policies that ensure that their values are aligned with their political spending on a case-by-case basis. Generally, we believe that companies should disclose as much relevant information as possible to help shareholders assess whether political spending activities are aligned with a company's policy and best interests and that companies should carefully consider the inherent reputational risks associated with supporting candidates or trade associations whose positions can be interpreted as contrary to company values. We may consider supporting these proposals in cases where there is clear evidence of a lack of oversight of political spending that has resulted in a degradation of shareholder value or in cases where companies have acted illegally or egregiously with respect to corporate political spending.

Glass Lewis will generally not support shareholder resolutions requesting that companies either provide a study on prohibiting or prohibit corporate political spending. While we believe that boards should investigate and report to shareholders what benefit, if any, a company is deriving from the use of its corporate political spending, we do not believe that firms should be explicitly prohibited from legal participation in the political process. We believe that legal participation by companies in the political process can benefit shareholders by facilitating legislation and regulations that are favorable and likely to increase shareholder value.

## **SAFETY-RELATED ISSUES**

Glass Lewis recognizes the complexity of accurately gauging the potential risks to shareholder value with respect to safety and accident mitigation issues. Despite these difficulties and challenges, we believe it is prudent for management to assess its potential exposure to associated risks and incorporate this information into its overall business risk profile. When reviewing proposals requesting that companies increase disclosure regarding their efforts toward increased safety and accident mitigation, we consider a company's exposure to direct risks, regulatory, legislative and legal risks and reputational risks. We also consider a company's current level of disclosure and the level of oversight given to safety issues. In certain situations, we may consider supporting a proposal requesting increased disclosure regarding a company's efforts to ensure safe operations if the company has been unresponsive to safety violations or injuries, if there is credible evidence of egregious or illegal behavior, or if there is a clear link between the adoption of the requested proposal and an increase in or the protection of shareholder value.

## SUSTAINABILITY AND ENVIRONMENTALLY-RELATED REPORTS

When evaluating requests that a firm produce a sustainability report or an environmentally-related report, such as a report on coal combustion waste or hydraulic fracturing, we will consider, among other things:

- The financial risk to the company from its business operations, particularly as it relates to its environmental and social practices and/or applicable regulation;
- The company's current level of relevant disclosure;
- The quality and comprehensiveness of sustainability information disclosed by the company's peers;
- The industry in which the company operates;
- The company's oversight of sustainability issues;
- The level and type of sustainability concerns and controversies at the company;
- The time frame within which the relevant report is to be produced; and
- The level of flexibility granted to the board in implementing the proposal.

We believe that firms with significant exposure to sustainability-related risks, such as in the extractive industries, should produce reports regarding the risks presented by their environmental and adverse effects on stakeholders that reduce shareholder value, and will consider recommending a vote for reasonably crafted proposals requesting that such a report be produced; however, as with all shareholder proposals, we will evaluate these report requests on a case-by-case basis.

## SUSTAINABLE FORESTRY

Sustainable forestry provides for the long-term sustainable management and use of trees and other non-timber forest products. Retaining the economic viability of forests is one of the tenets of sustainable forestry, along with encouraging more responsible corporate use of forests. Sustainable land use and the effective management of land are viewed by some shareholders as important in light of the impact of climate change. Forestry certification has emerged as a way that corporations can address prudent forest management. There are currently several primary certification schemes such as the Sustainable Forestry Initiative ("SFI") and the Forest Stewardship Council ("FSC").

Shareholder proposals regarding sustainable forestry have typically requested that a firm comply with SFI or FSC principles, and assess the feasibility of phasing out the use of uncertified fiber and increasing the use of certified fiber. We will evaluate firms' current mix of certified and uncertified paper and the firms' general approach to sustainable forestry practices, both absolutely and relative to its peers, but will only consider supporting proposals of this nature when we believe that the proponent has clearly demonstrated that the implementation of this proposal is linked to an increase in shareholder value.

## TOBACCO

Glass Lewis recognizes the contentious nature of the production, procurement, marketing and selling of tobacco products. We also recognize that tobacco companies are particularly susceptible to reputational and regulatory risk due to the nature of their operations. As such, we will consider supporting uniquely tailored and appropriately crafted shareholder proposals requesting increased information or the implementation of suitably broad policies at target firms on a case-by-case basis. However, we typically do not recommend support for proposals requesting that firms shift away from, or significantly alter, the legal production or marketing of core products.

## WATER-RELATED PROPOSALS

Glass Lewis believes that companies whose operations are especially susceptible to water scarcity issues should integrate water management into their overall business strategy. Failure to appropriately manage water resources could lead to increased shareholder risk, either through reputational damage or increased economic costs associated with water procurement. In the case of proposals requesting that a company adopt policies or improve disclosure regarding some aspect of its water usage or its impact on water supplies, Glass Lewis will consider a company's current level of related disclosure, the level of oversight afforded to water-related issues and a company's overall management of its water usage and impact on water supplies. We will also review a company's exposure to potential regulatory, legislative, legal, reputational and direct environmental and social risks associated with its water management.

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