

Policies and Procedures Manual
CORPORATE GOVERNANCE POLICY
(Adopted June 8, 1987, revised December 6, 2004)

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Corporate Governance Policy

(Adopted June 8, 1987, revised as of September 21, 2004)

The Board of Trustees of the Houston Firefighters' Relief & Retirement Fund adopts the following policy statement for use in determining its votes on corporate affairs. This policy is hereby adopted effective immediately, but is subject to revision, modification or amendment at anytime by the Board.

I. Delegation

The Board of Trustees recognizes its fiduciary obligation to cast its votes in corporate affairs upon adequate review and in accordance with its expressed policies. Although the Board retains ultimate responsibility for votes cast, the Board may delegate from time to time its power to cast those votes to an "Authorized Representative" such as officials of the Fund, investment advisors, and proxy voting services. When the Board delegates proxy voting responsibility to an Authorized Representative, such representative is obligated to vote the proxies in accordance with the Board's written policies. The Board's Authorized Representative has the authority to interpret the issues to determine which policies shall govern particular issues. The Board's Authorized Representative may also, when appropriate circumstances arise, vote proxies outside the Board's policy.

II. Shareholder's Bill of Rights

The Fund hereby adopts as part of its policy the Shareholder's Bill of Rights, attached herein.

III. Guidelines for Voting Proxies

All proxy ballots are to be voted and returned in a timely manner.

All votes on proxy ballots are to be properly recorded so that voting practices may be reviewed by the Board or other interested parties.

All shareholder proposals are entitled to due consideration and shall be given the same degree of attention as management proposals.

IV. Procedure

The Fund shall follow the following procedure for exercising its proxy duties:

The Board of Trustees shall adopt a written statement of proxy policies and shall review that statement at least annually.

The Board of Trustees shall delegate to the Corporate Governance Committee the responsibility for monitoring proxy voting and determining how to vote on issues not covered by the Fund's Corporate Governance Policy.

The Board of Trustees may delegate to one of its members or duly authorized representative the authority to sign and submit proxy material. Such delegation may include the custodian of the Fund, but may not include any domestic outside managers.

The Board of Trustees may, at its discretion and through contractual means, delegate the authority to sign and submit proxy material on behalf of the Fund, to international outside managers. The Board of Trustees shall only delegate proxy authority as long as such delegation is prudent.

V. Guidelines for Cosponsoring a Shareholder Proposal

The Fund may sponsor any proposal, which has been approved by the Board of Trustees.

The Houston Firefighters' Relief and Retirement Fund may cosponsor any proposal, which has been approved by the Corporate Governance Committee.

Shareholder Bill of Rights

Preamble

American corporations are the cornerstone of the free enterprise system, and as such must be governed by the principles of accountability and fairness inherent in our democratic system. The shareholders of American corporations are the owners of such corporations and the directors elected by the shareholders are accountable to the shareholders. Furthermore, the shareholders of American corporations are entitled to participate in the fundamental financial decisions, which could affect corporate performance and growth and the long range viability and competitiveness of corporations. This Shareholder Bill of Rights insures such participation and provides protection against any disenfranchisement of American shareholders.

I. One-Share, One Vote

Each share of common stock, regardless of its class, shall be entitled to vote in proportion to its relative share in the total common stock equity of the corporation. The right to vote is inviolate and may not be abridged by any circumstances or by any action of any person.

II. Equal and Fair Treatment for All Shareholders

Each share of common stock, regardless of its class, shall be treated equally in proportion to its relative share in the total common stock equity of the corporation, with respect to any dividend, distribution, redemption, tender or exchange offer. In matters reserved for shareholder action, procedural fairness and full disclosure is required.

III. Shareholder Approval of Certain Corporate Decisions

A vote of the holders of a majority of the outstanding shares of common stock, regardless of class, shall be required to approve any corporate decision related to the finances of a company which will have a material effect upon the financial position of the company and the position of the company's shareholders; specifically, decisions which would:

- a) Result in the acquisition of 5% or more of the shares of common stock by the corporation at a price in excess of the prevailing market price of such stock, other than pursuant to a tender offer made to all stockholders;
- b) Result in, or is contingent upon, an acquisition other than by the corporation of shares of stock of the corporation having, on a pro-forma basis, 20% or more of the combined voting power of the outstanding common shares or a change in the ownership of 20% or more of the assets of the corporation;
- c) Abridge or limit the rights of the holders of common shares to:

consider and vote on the election or removal of directors or the timing or length of their term of office, or make nominations for directors or propose other action to be voted upon by shareholders, or call special meetings of shareholders or take action by written consent, or, affect the procedure for fixing the record date for such action;
- d) Permit any executive officer or employee of the corporation to receive, upon termination of employment, any amount in excess of two times that person's average annual compensation for the previous three years, if such payment is contingent upon an acquisition of shares of stock of the corporation or a change in the ownership of the assets of the corporation.
- e) Permit the sale or pledge of corporate assets which would have a material effect on shareholder values.
- f) Result in the issuance of debt to a degree which would leverage a company and imperil the long-term viability of the corporation.

IV. Independent Approval of Executive Compensation and Auditors

The approval of at least a majority of independent directors (or if there are fewer than three directors, the unanimous approval of all such outside directors) shall be required to approve, on an annual basis: (a) the compensation to be provided to each executive officer of the corporation, including the right to receive any bonus, severance or other extraordinary payment to be received by such executive officer; and (b) the selection of independent auditors.

Shareholder Bill of Rights Explanatory Notes

The foregoing document entitled "Shareholder Bill of Rights" is intended as a set of guidelines to ensure shareholder democracy. The Shareholder Bill of Rights states the rights of shareholders as owners of corporations and is not intended to be an exclusive or static statement of shareholder rights, but is instead meant to encompass general principles of shareholder democracy, which are to be liberally interpreted to achieve the contemplated purposes. This explanation provides examples of the types of corporate actions that are intended to be covered by the various sections of the Shareholder Bill of Rights, and briefly explains how the provisions are intended to be applied.

Section I provides for a one share, one vote principle.

To ensure that one generation of shareholders will not be able to deprive future shareholders of their voting rights, this principle cannot be changed by shareholder vote. Under this principle, the issuance of a class of common stock with nonproportional voting rights would be prohibited. Common stock issues by corporations following this principle would not be subject to so-called "phase voting" rights, which discriminated, by charter amendment or otherwise, against short-term or small holders of common stock. (i.e., Potlatch charter amendment providing greater voting rights to long-term holders of stock.) The requirement that each share be entitled to vote in proportion to its relative equity interest in the corporation prohibits the issuance of a class of common stock which represents a fraction of the equity of a share of the class of common stock held by the public but which nevertheless has the same vote. The provisions of Section I need not apply to corporations with less than 500 shareholders, which is intended to help preserve the management prerogatives of entrepreneurs who have founded small companies, up to the point where the company's shares are widely held by the public.

Section II provides equal and fair treatment for all common shareholders.

This section is intended to prohibit corporations from engaging in conduct which discriminated among holders of common stock, and requires corporations to accord equal treatment to all holders of common stock regardless of their identity, reputation, duration of ownership, or relationship with the corporation. This section would preclude exclusionary self-tender or exchange offers, such as the exclusionary self tender offer made by Unocal Corporation. This section would also prohibit discriminatory issuances of dividend or redemption rights, including exclusionary poison pills, such as the poison pill issued by Phillips Petroleum (which entitled all holders, except 30% holders, to exchange, upon a triggering event, one share of common stock for high-yield, short-term senior debt of the issuer) or the poison pill issued by ASARCO (which entitled all holders, except a 20% holder, to receive preferred stock having super voting powers). Tender or exchange offers made to all shareholders but on different terms are also prohibited under this section. In matters reserved for shareholder action, shareholders are entitled to objective recommendations from management and full and complete disclosure in all proxy materials. In matters reserved for shareholder action, shareholders are entitled to objective recommendations from management and full and complete proxy materials.

Section III provides that a majority shareholder vote is required to approve certain corporate financial decisions, including greenmail, poison pills, golden parachutes, disposition of certain assets and the incurrence of excessive debt. Furthermore, any such matter approved by a majority of shareholders could be modified, amended or repealed by a majority shareholder vote. Section III permits a corporation to engage in certain actions not covered by Sections I or II, such as sales of significant amounts of assets or issuances of significant amounts of stock, if the action is approved by shareholders holding a majority of the stock.

Subsection (a) limits that ability of a corporation to pay "greenmail" or to otherwise offer to purchase its shares from less than all its shareholders at prices in excess of the market value of the stock.

Subsection (b) would require shareholder approval of the issuance of nondiscriminatory poison pills, or any other action which is triggered by, and therefore contingent upon, the acquisition by any person other than the corporation of stock representing 20% or more of the voting power of the corporation. Other corporate actions which subsection (b) includes:

- The issuance of preferred or common stock or options therefore which dilute the voting power of the existing common stockholders by 20% or more;
- The execution of lockup agreements with a white knight or other person considered friendly to management for 20% or more of the corporation's assets;
- The execution of an agreement to sell 20% or more of the corporation's assets to a bidder considered hostile by management in exchange for a stand-still agreement or other concession by the bidder; and recapitalization, which would result in a change in control of 20% or more of the stock or assets of the corporation.

Subsection (c) requires shareholder approval to limit shareholders' rights to elect and remove directors, to determine the timing or length of the directors' terms of office, to consider and vote on other matters relevant to their interests as shareholders and to call special meetings or take action by written consent. This subsection also limits a corporation's ability to manipulate the procedure for fixing a record date to determine which shareholders are entitled to vote on matters.

Subsection (d) requires shareholder approval of golden parachute contracts with executive officers, which are triggered by voluntary or involuntary termination of employment and a change in control of the corporation.

Subsection (e) is intended to protect the shareholder from the sale of a principal asset or principal subsidiary of a corporation if such sale would have a material adverse effect on the shareholders, sometimes referred to as the sale of a corporation's "crown jewels".

Subsection (f) is intended to protect the shareholder from the issuance of excessive debt, perhaps in the form of "junk bonds", where such debt would materially increase the potential volatility of the corporation's earnings and threaten the long-term viability of the corporation.

The provisions of Section III are limited to specific financial decisions, which have a material effect on shareholders and are not directed towards operational decisions, which are properly the prerogative of corporate managements.

Section IV provides for certain functions of independent directors.

The approval by independent directors for all executive compensation arrangements and the selection of independent accountants is required. Approval by independent directors of all executive compensation arrangements or other benefits, including both routine and extraordinary employment agreements, decreases the appearance and likelihood of self-dealing by corporate executives. In approving executive compensation or other benefits, the independent directors should be guided by the requirements of the marketplace and should reflect the objectives and performance requirements of the position. Independent directors are not as likely to be directly involved in, or affected by, disagreements management may have with accountants regarding sensitive accounting disclosures or other accounting issues. The definition of independent directors excludes those who have ever acted as executive officers of the corporation and those who directly or indirectly through their affiliated organizations provide substantial services to the corporation.

Much of the explanatory sections of the policies contained within have been taken from research reports prepared by the Investor Responsibility Research Center and Institutional Shareholder Services of which the Fund is a subscriber.

Corporate Governance Proposals

10.00 Election of Directors/ Independent Directors/Inside Directors

At every annual meeting, shareholders must elect directors. Directors oversee the management of the corporation and make decisions on the most important issues including the hiring and, if necessary, firing of the CEO, restructuring, the sale of major assets, acquisitions, and, in the event of a bid, the sale of the company. The election of the board is one of the few opportunities shareholders have to shape the way a company is governed. However, unless there is a proxy fight for seats on the board, their only real choice is to support the management-proposed slate or withhold their votes from the slate or from individual directors they feel are unqualified.

Although the election of directors has been considered a routine voting issue and most boards are elected with little dissent, some institutions have begun to scrutinize board composition and performance more carefully. In recent years some have developed policies of withholding votes on various grounds reflecting the belief that boards should have a majority of independent or outside directors or that directors should own a significant number of shares in the company so that their interests are closely aligned with those of shareholders or to protest certain management actions such as the payment of greenmail or the adoption of policies that are seen as contrary to shareholders' interests.

Inside Directors: An inside director is a director who also serves as an employee of the company. This fact alone means that inside directors cannot possibly fulfill one of their primary obligations: to oversee and evaluate management on behalf of shareholders. Directors who have beneficial ownership of more than 50 percent of the company's voting power are also defined as inside directors. This may be aggregated if voting power is distributed among more than one member of a defined group, e.g., members of a family beneficially own less than 50 percent individually, but combined own more than 50 percent.

- 10.01 Votes shall generally be cast in favor of nominees for the board of directors that have demonstrated a commitment to act on behalf of shareholders.
- 10.02 Votes shall not necessarily be withheld from slates of directors, which include a majority of inside directors; however, votes shall be cast in favor of proposals requiring key committees (which include the audit, compensation, and nominating committees) to be made up solely of independent directors.
- 10.03 Votes shall be withheld from the management slate if the company's economic performance has been poor and there is evidence to suggest that the board has not acted for the good of the company over a three-year time frame.
- 10.04 Votes shall be withheld from directors who attended less than seventy-five percent (75%) of the company's board meetings in the preceding year. Exceptions may be made for unusual circumstances such as illness.
- 10.05 Shall withhold votes from the entire slate of directors if the Chairman/CEO or the board appoints a majority of inside directors sitting on Audit, Compensation, or Nominating Committees.

- 10.06 Votes shall be withheld from any insider or affiliated director on the audit, compensation, or nominating committees, and withheld from such individuals on the board if these three committees have not been established. The term affiliated director applies to former executives and their relatives.
- 10.07 Shall vote on a case-by-case basis for directors who ignore proposals that received majority votes for two consecutive years.
- 10.08 Shall vote on a case-by-case basis for directors who fail to act on takeover offers where the majority of shareholders have tendered their shares.
- 10.09 Shall vote on a case-by-case basis on shareholder proposals to separate the Chairman and CEO positions.

20.00 Proxy Contests for Board Seats

Proxy contests refer to any annual or special meeting for which there are generally two groups - management and a dissident person or group, which are soliciting different directors and/or proposals. Such contests are mounted by a dissident in order to gain full or partial control of a board of directors.

Proxy contests refer to any annual or special meeting for which there are generally two groups - management and a dissident person or group, which are soliciting different directors and/or proposals. Such contests are mounted by a dissident in order to gain full or partial control of a board of directors.

Dissidents may wish to gain control of the board for a variety of reasons, ranging from the thought that "fresh ideas" could be infused into the company to gaining approval of a proposed acquisition.

In the recent past, some groups have been placing corporate governance proposals on their proxy materials to gain the favor of the institutional vote. A number of factors must be considered in a proxy contest, including the track record of the proposed slates of directors and their plans for the company. Shareholders must carefully analyze both the short-term and long-term effects of both sides and vote with a goal to maximize long-term shareholder wealth, in light of the whole portfolio.

- 20.01 Votes shall be cast on a case-by-case basis in contests for Board positions.

30.00 Classified Board

Many companies have amended their charters or bylaws to impose a staggered or classified board of directors. Such proposals must be approved by the shareholders.

A classified board is one in which the directors are divided into separate classes, (in most instances, three), with one class of directors elected each year, thus providing for staggered terms. Opponents of classified boards say that electing only a portion of the board each year makes it more difficult for a hostile bidder to seize control of the target company immediately, even if the bidder controls a majority of the company's stock. Opponents of classified boards also say that the annual election of directors increases the board's accountability to shareholders. Proponents argue that the classification of the board "promotes continuity of experience on the board, provides for an orderly succession of directors and would encourage any unsolicited bidder for control of the company to negotiate with the board, which can best represent the interests of all of the stockholders."¹

- 30.01 Votes shall be cast on a case-by-case basis for proposals which create staggered terms for directors or call for the repeal of classified boards. Factors to be considered when voting on these types of proposals include the company's economic performance, the board's history of using devices such as a classified board for entrenchment purposes, and the company's overall responsiveness to shareholders' concerns.

40.00 Director Liability

Many states have passed amendments to their corporation laws that eliminate the financial liability of directors for breaches of the director's duty of care. To take advantage of these laws, a company must adopt a shareholder-approved charter or bylaw amendment limiting director liability. This elimination of financial liability does not apply, in most cases, to actions that involve willful misconduct, self-dealing, knowing violations of the law or the receipt of improper personal benefits.

- 40.01 Votes shall be cast in favor of proposals that limit director's liability if such liability is reasonable and retains liability of the director for willful or reckless disregard of the director's duties.

50.00 Auditors

At most public companies, shareholders vote on the selection of auditors. In such cases, the board's audit committee recommends a particular auditor to the shareholders.

- 50.01 Votes shall be cast in favor of management's proposals regarding the selection of auditors unless it is believed that the auditors have not been diligent in the performance of their duties.
- 50.02 Vote shall be cast in favor of proposals that call for audit firm rotation, unless the rotation period is so short as to be burdensome (less than five years). Additionally, HFRRF will support shareholder proposals that call for an independent audit when the current auditor has been performing this duty for more than seven consecutive years.
- 50.03 Vote shall be cast in favor of shareholder proposals that call for the expensing of stock options.
- 50.04 Votes shall be cast against auditors and withhold votes from audit committee members if non-audit fees are greater than audit fees, audit related fees, and permitted tax related fees combined. HFRRF shall evaluate shareholder proposals that call for a cap or prohibition on non-audit services on a case-by-case basis.

60.00 Blank Check Preferred Stock

Blank check preferred stock is the term frequently used to describe preferred stock authorization that gives the board of directors broad discretion to establish voting, dividend, conversion or other rights for preferred stock that a company may issue. Such broad discretion may provide flexibility to meet changing business conditions, but could also be used in a way to discourage changes in control. It is often used with the adoption of a poison pill shareholder rights plan.

In a poison pill plan, also known as a shareholder rights plan, shareholders are issued rights to purchase stock in their company or in the acquiring company at a cut-rate price if the hostile bidder acquires a certain percentage of the outstanding shares. These purchases would dilute the acquirer's equity to such an extent that the cost of the acquisition would be prohibitive. The shareholder rights are generally issued as a dividend on common stock, and the companies retain the right to redeem them at a nominal price, usually one to ten cents a right.

Poison pills, usually adopted without shareholder approval, are one of the most effective anti-takeover provisions a board can adopt. The Chief Economist's Office at the Securities and Exchange Commission has reported that the adoption of a poison pill causes a drop in share value. Votes shall be cast in opposition to creating or adding more blank check preferred stock.

70.00 Redemption of Poison Pill

A. Poison Pill

Usually companies adopt a poison pill without shareholder approval (See Blank Check preferred Stock 60.00). In the last few years, however, shareholders have proposed redeeming the poison pill or submitting it to a shareholder vote.

- 70.01 Votes shall be cast in favor of proposals which require a company to redeem a poison pill or submit it to a vote.
- 70.02 Votes shall be cast in favor of poison pills which fall within the guidelines set by Institutional Shareholder Services, Inc. for supporting such plans:

Consider supporting a poison pill only if the following factors are present:

Sunset provision of two or three years;
Qualifying clause that permits shareholders to redeem the pill in the face of a bona fide tender offer;
Record of giving shareholders an opportunity to consider prior tender offers; and
Absence of other takeover defenses.

(See the ISS Proxy Voting Manual, pages 7.9 and 7.10)

B. Dead Hands Poison Pills

A Dead Hands Poison Pill generally only allows the continuing directors (those incumbent directors who adopted the pill) to rescind it. They are a very egregious form of antitakeover device because they prevent any newly elected board from removing the pill.

- 70.03 Shall vote against Dead Hands Poison Pills and any Directors who support such anti-takeover measures.

80.00 Stock Authorization Proposals

When a board of directors acts to increase the number of shares under the plan, shareholders generally must approve the proposed increase. There are many legitimate business reasons for companies to increase their authorized stock, such as for stock splits, stock dividends, raising of capital for acquisitions, and employee benefit plans. However, authorized but

unissued shares may facilitate many schemes such as poison pills, ESOPs and anti-takeover targeted share placements (placement of a large voting block of shares into hands "friendly" to management).

Recently, some companies have begun putting sizable blocks of stock into employee stock ownership plans (ESOPs) solely or primarily to help deter hostile bids. Since poison pill plans and ESOP placements can be accomplished without shareholder approval, the vote to authorize shares may present shareholders with their sole opportunity to deny management their consent for these future board actions.

- 80.01 Votes shall be cast in favor of stock authorization proposals, which fall within the guidelines set by Institutional Shareholder Services, Inc. for supporting such proposals:

Vote on proposed common share authorizations that increase existing authorization by more than 100 percent as it relates to voting fights for mergers and acquisitions on a case-by-case basis.

Shareholders should vote against proposals to increase authorized shares in which the stated purpose is to reserve additional shares to implement a poison pill. Of additional concern is whether or not a targeted share placement might be used to deter a takeover attempt and defeat a possibly worthwhile tender offer.

(See the ISS Proxy Voting Manual, pages 9.4 and 9.5)

90.00 Dual Class Authorization

Dual class stock authorization refers to the creation of a second class of common stock, sometimes referred to as class B common or special common stock. Often this class B common stock may have voting rights and dividend preferences that are different from those of the existing class of common stock. Generally, a new, dual class of common stock is non-transferable, that is, it can generally only be sold back to the company, and it generally must be converted into shares of existing common stock before it can be sold on the market.

One reason a company may seek to create dual class common stock is ultimately to place voting control with a group of company insiders. Some companies have used a "dividend premium", giving existing common shares a higher dividend than the new share to "coerce" this transfer of voting control.

In 1988, the SEC prohibited the issuance of a second class of common stock that had voting rights superior to that of the existing common stock. However, in 1990 a federal court struck down the "one-share, one-vote" rule, stating that the commission did not have the authority to issue it. In addition, a number of states have adopted amendments to their corporation codes, which allow boards to authorize stock with unequal voting rights.

- 90.01 Votes shall be cast in opposition to any proposal, which attempts to limit shareholder voting rights, such as unbundled stock or unequal voting rights plans.

100.00 Fair Price Provisions

Fair price provisions, usually found in a company charter, require a bidder to pay a defined fair price to shareholders in a takeover. These proposals are often included with supermajority provisions.

Fair price provisions allow a bidder to consummate a merger without board approval or a shareholder vote as long as the "fair price" (as defined in the corporations' charter) is met. The common requirement of a "fair price" is that an offeror must pay minority shareholders at least as much as they paid to gain a controlling position in the company. Most fair price provisions do not apply if the target's board approves an offer or if the bidder obtain a specified supermajority level of approval from the target's shareholders.

Companies proposing fair price amendments usually argue that the provisions will protect shareholders from tender offers that are coercive or unfair. Opponents of the provisions argue that, while they may prevent two-tier offers, the provisions may discourage tender offers altogether. Furthermore, depending on how fair price provisions are defined they can entrench inferior management intent on remaining in control.

- 100.01 Votes shall be cast on a case-by-case basis for proposals, which would include a fair price provision in the company's charter.

110.00 Supermajority Requirements

Supermajority lock-in charter or bylaw provisions require a level of approval greater than a standard majority of outstanding shares to change anti-takeover provisions or to approve the actual business combinations. Lock-in vote requirements, which typically range from two-thirds to more than 80%, are intended to discourage change in control efforts.

- 110.01 Votes shall be cast in opposition to proposals, which require a supermajority shareholder vote to approve bylaw changes or mergers and other significant business combinations.

110.02 Votes shall be cast in favor of amending supermajority rules, which reduce the percentage of shareholder's votes required for a supermajority.

120.00 Voting Rights

Several companies have developed anti-takeover charter amendments designed to limit the voting rights of stock held by potential acquirers. In some cases, voting rights associated with common stock may be withheld until the board of directors or shareholders vote to grant them. In other instances, shares of common stock may not receive full voting rights until they are held for some period of time.

120.01 Votes shall be cast in opposition to proposals that limit shareholders' voting rights.

130.00 Greenmail

Greenmail is the term for the deal struck between a raider and a company in which the company agrees to buy back the raider's shares at a premium in exchange for an agreement by the raider to cease takeover activities. A significant number of companies have amended their charters by bylaws to prohibit the practice of paying greenmail. These proposals frequently permit exemptions from a ban on paying greenmail if certain conditions are met.

Antigreenmail provisions in a company's charter prohibit such above-market repurchases unless the same offer is made to all shareholders or unless shareholders approve the transactions by a majority (or supermajority) vote.

130.01 Votes shall be cast in favor of proposals, which restrict a company's ability to make greenmail payments.

140.00 Special Meetings

Some companies seek to amend their charters or bylaws to make it more difficult for shareholders to call a special meeting or to act by written consent (without a physical meeting). Proposals of this sort are clear limitations of shareholder rights.

140.01 Votes shall be cast in opposition to proposals, which would limit shareholder's right to call a special meeting.

140.02 Votes shall be cast in favor of proposals to allow or make easier shareholder action by written consent.

150.00 Long-term Incentive Plans

The majority of large public companies offer stock based, long-term incentive plans to their executives. Often, the adoption of these plans must be approved by shareholders. Grants under these plans often include stock options or restricted stock.

Acceleration: After a change in control, outstanding unvested stock options may be immediately exercised, or accelerated.

Cash-out: After a change in control, outstanding options may be cashed out. In that event, the difference between the market price and the exercise price on unvested stock options is paid in cash to the option holder.

Performance shares: A type of stock grant for which beneficial ownership generally is not complete until the company or the officer meets certain goals based on the financial performance of their company or the company's stock.

Pyramiding: A process by which a portion of a stock option grant may be used to pay the exercise price of the option grant. For example, an officer is granted the option to purchase 1,000 shares at \$10 a share, and when vested, the price increases to \$15 per share. Pyramiding allows the officer to use one share (now worth \$15) purchased at the \$10 exercise price to pay the exercise price of the next 1.5 shares and so on. This process allows executives to exercise their options using shares of company stock they already own, instead of cash, and thus pyramid their holding without any personal investment.

Stock appreciation rights: Awards based on the performance of common stock. When vested holders of stock appreciation rights may receive the difference between the market price and the exercise price in cash.

Underwater options: Underwater options are options that are exchanged for new ones with a lower market price. As a result of the stock market crash of 1987, a large number of executive stock options are underwater (their exercise price is above the current market price). As long as the options are underwater, they are worthless to the executives.

Omnibus stock plans: Give directors broad discretion to decide how much and what kind of stock to award and when and to whom. ESOPs must be analyzed carefully since they represent both compensation plans and/or large amounts of voting shares.

150.01 Votes shall be cast in favor of stock option/stock plans on a case-by-case basis, based on the features of the plan. Votes shall be cast in favor of stock option and incentive compensation plans if such plans are clearly offered for the purpose of motivating exemplary performance by corporate personnel and are not unduly generous.

150.02 Votes shall be cast in opposition to stock option/stock plans that appear to be created as an anti-takeover measure.

150.03 Votes shall be cast in favor of repricing stock option plans on a case-by-case basis.

150.04 Votes shall be cast in accordance with ISS on performance-based stock options. ISS will examine shareholder proposals advocating the use of performance-based stock options on a case-by-case basis.

150.05 Votes shall be cast in accordance with ISS on compensation proposals to companies incorporated in the tax havens (Bermuda, Cayman Islands, Channel Islands, and Virgin Islands). The compensation model used will depend on where the company was based prior to its reincorporation and will be determined on a case-by-case basis.

160.00 Executive Compensation - Reporting

These shareholder proposals ask companies to report on certain aspects of executive compensation arrangements.

160.01 Votes shall be cast in favor of reasonable executive compensation reporting proposals.

160.02 Votes shall be cast in opposition to executive compensation reporting proposals, which are excessive and which would create undue hardship on the company, such as requiring the company to publish executive compensation figures in a local newspaper.

170.00 Golden Parachutes

Golden parachutes are a special type of severance contract, which are usually reserved for directors, officers and other key employees. These "parachutes" are paid upon the involuntary termination of an individual following a change in control of the corporation. Although current law allows corporations to adopt golden parachutes without a shareholder vote, a 1990 SEC ruling changed their policy to allow shareholders to submit proposals asking that parachutes be put to a vote.

There is some disparity of opinions regarding corporate parachutes among investors.

Although commonly viewed as excessive payments to directors who have left the company, golden parachutes serve a legitimate corporate purpose. In addition, parachutes may be in shareholder's best interest.

Golden parachutes can do the following:

- 1. Attract and retain competent management,*
- 2. Offset resistance from managers who worry about losing their jobs when faced with a possible change in control, and improve the probability of a takeover premium.*

170.01 Votes shall be cast in favor of proposals to have golden parachutes submitted for shareholder ratification.

170.02 Votes shall be cast on a case-by-case basis on golden parachute proposals.

180.00 State Takeover Laws

Sometimes companies and shareholders propose changing the corporation's state of incorporation. Reasons for such a change may be anti-takeover related, among others. A reincorporation proposal requires shareholder approval.

States have a variety of laws that protect companies from takeovers.

Control share acquisition laws: These laws provide that for a company incorporated in the state, shareholder approval is required before a significant shareholder can exercise voting rights. A shareholder triggers the provision and becomes a significant shareholder when he passes an ownership threshold called a "control share". Usually these thresholds are set at 20%, 33%, and 50% of the outstanding shares. Thus, the mere acquisition of "control" shares does not ensure voting control.

Fair price laws: These laws stipulate price and procedural criteria for takeover bids that do not receive supermajority votes. (See fair price provisions, 80.00)

Freeze out laws: A freeze-out provision prevents a merger between a bidder and the target company for a set number of years (usually two, three or five) unless the board approves the transaction. After the specified waiting period, under some freeze-out provisions, the bidder must pay a fair price to all shareholders unless the shareholders decide otherwise. These laws are designed to discourage acquirers who hesitate to have funds tied up for a number of years without consummating a merger or otherwise gaining access to the target's assets. They make control share acquisitions impossible for a bidder who needs the target's assets to service the debt incurred in the acquisition.

Stakeholder laws: These laws give a board of directors the authority to consider the views of groups which may be affected by a business combination. Some examples of stakeholders are employees, customers, suppliers, and the community.

Opponents of stakeholder laws view them as an erosion of a board's fiduciary responsibility to its shareholders.

180.01 Votes shall be cast in opposition to reincorporation proposals which are not designed solely for legitimate corporate planning purposes and appear to be offered for the sole purpose of providing a defense against corporate acquisition or limiting shareholder rights.

180.02 Votes shall be cast on a case-by-case basis on proposals to opt in or out of state takeover laws.

190.00 Leveraged Buyout

A leveraged buyout is a transaction whereby a group of company insiders or other investors offer to buy the company's outstanding shares and take the company private. The buyout is financed by the issuance of debt, usually arranged by an investment bank or buyout firm. If the buyout is successful, but a minority of shares remains outstanding, shareholders vote on the buyout proposal.

190.01 Votes shall be cast in favor of leveraged buyouts of the company upon showing that the offered price is fair to all shareholders and does not confer special benefit to the resulting management and owners, and taking into consideration how the leveraged buyout could affect any debt position the Fund may hold within the company.

200.00 Merger/Acquisition

Often when one company merges with or is acquired by another, the company's board of directors recommends the merger agreement and submits it to the shareholders for their approval. If the board of directors does not approve the merger or acquisition, but the hostile tender offer is successful, a shareholder vote on the merger proposal may also occur.

200.01 Votes shall be cast on a case-by-case basis on merger/acquisition proposals, based on the long-term financial merits of the agreement, and taking into consideration how the merger/acquisition could affect any debt position the Fund may hold within the company.

210.00 Proxy Voting

In response to potential and perceived conflicts in proxy voting, some shareholders have proposed that companies implement a system for confidential proxy voting. Other proposals seek to clarify the method of computing abstentions. Supporters say confidential voting and other related shareholder proposals are an attempt to level the playing field in the proxy process. Opponents say a secret ballot decreases the exchange of information between shareholders and management and could make it impossible to obtain a necessary quorum at annual meetings.

210.01 Votes shall be cast in favor of proposals that support a third party inspector, or tabulator for shareholder proxies and a confidential fair voting system.

220.00 Equal Access to the Proxy

Some shareholders have proposed giving space in management's proxy materials for dissenting views of significant shareholders.

220.01 Votes shall be cast in favor of equal access proposals.

230.00 Cumulative Voting

Cumulative voting allows shareholders to concentrate their votes in the election of directors. Where it is in effect, each shareholder has votes equal to the number of shares held multiplied by the number of directors to be elected. For example, a holder of 100 shares in a corporation with 10 directors would have 1,000 votes, which (s) he could cast for one candidate or distribute in whatever way he wished.

Proponents assert that cumulative voting allows minority shareholders to gain representation on the board. "Whether that is good or bad for share value depends on whether that representation results in gridlock on the board or an airing of constructive new ideas."

Opponents argue that cumulative voting facilitates special interest groups gaining representation on the board, and that boards should represent the concerns of all shareholders, not of a select few. "Opponents also argue that cumulative voting makes it easier for corporate raiders to engineer takeovers and displace incumbent management."

230.01 Votes shall be cast on a case-by-case basis on cumulative voting proposals. Factors to be considered when voting on these types of proposals include the company's economic performance and the company's overall responsiveness to shareholders' concerns.

240.00 Restore Preemptive Rights

Preemptive rights give existing shareholders the first right of purchase of any new issue of common stock. In this way, shareholders automatically maintain their proportional equity interest in the company. With the advent of computerized trading on the national stock markets, many companies have eliminated preemptive rights because they feel there is sufficient

accessibility to the markets for shareholders to maintain their interest. Some shareholder proposals call for the restoration of preemptive rights.

240.01 Votes shall be cast in favor of restoring preemptive rights.

250.00 Annual Meeting Location

Some shareholder proposals ask for the company to change the location, date, and/or time of its annual meeting. Some of these requests are made with specific requirements that may unduly bind the company to hold their meetings in inconvenient locations or at inconvenient times. Proponents argue that the location or scheduled date/time is inconvenient for shareholders who must attend a number of different meetings.

250.01 Votes shall be cast against proposals which require a company to change the location, date, and/or time of the annual meeting unless it is clear that the selected meeting place, date, or time creates undue hardship on shareholders.

260.00 Term of Outside Directors

Some shareholder proposals would impose a mandatory retirement age for directors or limit the number of terms a director may serve. These proposals are intended to allow "fresh blood" on the board to the benefit of the shareholders. However, this requirement may arbitrarily force some experienced and knowledgeable individuals off the Board.

260.01 Votes shall be cast against proposals, which would limit the term of directors.

270.00 Director Compensation

A. Minimum Stock Ownership of Directors

Some shareholder proposals would require directors to hold a specified minimum number or minimum value of shares. Proponents argue that these proposals are intended to align the interests of corporate directors with the interests of the shareholders of the company for which they serve. Proponents also say that directors would be more motivated if their personal wealth were tied with the company.

Opponents say the proposal could limit the diversity of the board, since many highly qualified individuals might not be able to meet imposed minimums.

270.01 Votes shall be in favor of proposals, which would require a director to hold an amount of a company's common stock at a minimum of 25% of his or her annual retainer fee received from a company.

B. Pay Directors in Stock

The arguments outlined in the section above regarding minimum ownership also stand for reasons why proponents support proposals to pay directors in stock.

Opponents also argue that compensation packages must be designed to attract, motivate, and retain qualified directors, and that the compensation committee or the full board is best qualified to design appropriate packages.

270.02 Votes shall be cast in favor of proposals requiring, at a minimum, 25% of a director's annual retainer fee to be comprised of the company's common stock.

C. Eliminating Non-employee Director Pensions

Supporters say retirement benefits for non-employee directors are unnecessary and inappropriate. Such plans may create a conflict of interest by encouraging directors to remain on the board for no other reason than to receive retirement benefits.

Opponents consider pension plans as an integral factor in ensuring that the company's compensation package is competitive to attract and retain qualified directors and that the compensation committee or the full board is best qualified to structure the compensation package.

270.03 Votes shall be cast in favor of eliminating pension plans for non-employee directors.

D. Gross-ups in salary for Directors/CEO

Gross-up in salary for Directors/CEO are additional payments to company officers to offset certain benefits, which increase total taxable wages.

270.04 Votes shall be cast against gross-ups in salary for directors/CEO and top executives.

270.05 Votes shall be cast against any proposal that allows the issuance of restricted stock to replace underwater options.

280.00 Board Diversity

Proponents say that diversity on a company's board of directors helps to keep a company more in tune with the needs of its shareholders and all others that the company represents. They also argue that a corporate board should reflect actual demographics in order to keep the board in touch with consumers and society.

Opponents argue that race and gender are irrelevant to board qualifications, and that special efforts to diversify may distract boards from seeking the best business talent available.

280.01 Votes shall be cast on a case-by-case basis for proposals regarding board diversity, taking into consideration (i) whether a more diverse board in terms of race and gender would be a valuable goal for the company and (ii) whether the requested actions will be effective in achieving more diversity on the board.

Non-corporate Governance Proposals

290.00 Northern Ireland-MacBride Principles

Votes shall be cast on a case- by-case basis recognizing both the MacBride Principle and CERES Principle.

Akin to the Statement of Principles for South Africa, the MacBride principles are aimed at countering anti-Catholic discrimination in employment in the British state of Northern Ireland. They require affirmative steps to hire Catholic workers and promote them in management positions to provide job security and to eliminate inflammatory religious emblems. They do not call for any divestment of stock. Proponents, who have been led by the New York City Comptroller's office, contend the principles directly aim to redress inequalities in employment in Northern Ireland, where unemployment among Catholic men is twice as high as among Protestants.

300.00 Environment

Resolutions concerning the environment include nuclear plant construction and operation, hazardous waste disposal, and disclosure destruction of rain forests, ozone depletion, acceptance of the Valdez principles, carbon dioxide and toxic chemical emissions and increased disclosure regarding company practices, which affect the environment. Proponents believe that now, more than ever, the environment is vulnerable to serious offenses by mankind and that its condition continues to worsen despite considerable efforts by government and industry to arrest the decline. Proponents also believe that our economic system has failed to reckon fully with the environmental costs associated with material progress and that a more responsible method of accounting must be devised to insure the inheritance of future generations. Opponents of the Valdez Principles argue that the company would expose itself to unnecessary public criticism and possibly increased liability if it is a frank report card and that there is time and expense involved in the preparation of such a report.

The Coalition on Environmentally Responsible Economies (CERES) designed the Valdez Principles to "set forth broad standards for evaluating activities by corporations that directly or indirectly impact the Earth's biosphere." CERES also described the principles as "a long-term process rather than a static statement." Companies that sign the statement are expected to work with CERES on a more precise definition of the proposals.

300.01 Votes shall be cast in favor of proposals, which ask a company's management to implement the CERES Principles.

300.02 Votes shall generally be cast in favor of all other environmental reporting proposals when such proposals are reasonable. Votes shall be cast against such proposals which are excessive and would create undue hardship on the company or which deal with issues that are subject to existing federal laws.

310.00 Votes shall be cast on a case-by-case basis related to social, environmental and human rights issues.

320.00 International Debt Crisis

These resolutions ask for a write down of loans to debt ridden third world countries and for a report on efforts to stem capital flight. Related resolutions ask banks not to lend to Chile and not to participate in debt-rescheduling agreements.

320.01 Votes shall be cast on a case-by-case basis for proposals regarding international debt crisis issues.

330.00 Political Action Committees (PACs)

These resolutions ask companies for reports on political contributions and their views on campaign finance reform. The mid 70's campaign finance reform effort that created PACs whereby corporation contributions were strictly limited and subjected to public disclosure has fallen short of cleansing the political process. Opponents believe the power of PACs has contributed to the overwhelming reelection of incumbents and to problems such as the recent thrift crisis, in which PAC opponents charge certain lenders first "bought" relaxed legislation and later paid members of Congress to interfere with regulatory policing efforts. By requiring reporting to shareholders, proponents of these shareholder resolutions contend investors can help police these types of wrongdoing in the political system.

330.01 Votes shall be cast in favor of reasonable PAC reporting proposals. Votes shall be cast against such proposals that are excessive and which would create undue hardship on the company.

340.00 Equal Employment

Equal employment refers to the promotion of women and minorities in the work force. Resolutions generally ask companies to report progress in complying with affirmative action laws. While there are laws that deal with employment discrimination among women and minorities, figures demonstrate that black and female workers receive roughly 2/3rds of the pay of white males, their proportion in higher positions is similarly small, and black unemployment opportunity resolutions support additional reporting as a means of making companies more sensitive to the issue and getting a better picture of companies' performance in the area.

340.01 Votes shall be cast in favor of proposals regarding equal employment issues.

350.00 Charitable Contributions-Reporting

These proposals ask companies to report their charitable contributions.

350.01 Votes shall be cast in favor of charitable contribution-reporting proposals.

360.00 Charitable Contributions

These proposals ask companies to limit or cease making charitable contributions.

360.01 Votes shall be cast against proposals, which would force a company to limit or stop making charitable contributions.

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B

International Corporate Governance Policies

The Shareholders Bill Of Rights, as adopted by the Board, shall apply to the international, as well as the domestic, corporate governance arenas. The Board does recognize, however, that local laws regarding shareholders rights in any given country may not be consistent with those in the United States.

The following policies are intended to serve as guidelines for voting the Fund's international proxies. Due to the fact that disclosure on international proxy statements is often limited, there may be occasions when these policies cannot reasonably be applied. Votes should be cast in accordance with these policies whenever it is feasible to do so.

Whenever the guidelines followed by the investment manager are more stringent than the guidelines established by the Fund, the manager's guidelines should be followed, provided that the manager's guidelines are not inconsistent with those of the Fund.

International Corporate Governance Proposals

10.00 Election of Directors/Director Independence

At every annual meeting, shareholders must elect directors. Directors oversee the management of the corporation and make decisions on the most important issues including the hiring and, if necessary, firing of the CEO, restructuring, and the sale of the company. The election of the board is one of the few opportunities shareholders have to shape the way a company is governed. However, unless there is a proxy fight for seats on the board, their only real choice is to support the management-proposed slate or withhold their votes from the slate or from individual directors they feel are unqualified.

10.01 Vote FOR management proposals to elect directors.

10.02 Votes shall not necessarily be withheld from slates of directors who include a majority of inside directors.

10.03 Votes shall be withheld from the management slate if the company's economic performance has been poor over a 3-year horizon and there is evidence to suggest that the board has not acted for the good of the company.

10.04 Votes shall be withheld from directors who attended less than seventy-five percent (75%) of the company's board meetings in the preceding year. Exceptions may be made for unusual circumstances such as illness.

10.05 Votes shall be cast on a case-by-case basis on shareholder proposals that call for the ousting of one or more directors.

10.06 Votes shall be cast on a case-by-case basis on shareholder proposals that call for the election of one or more directors opposed by management.

20.00 Election of Board

Companies as a takeover defense often use proposals that would allow management to increase or decrease the size of the board at its own discretion.

Shareholders should support management proposals to fix the size of the board at a specific number of directors, thus preventing management –when facing a proxy contest—from increasing the size of the board without shareholder approval

20.01 Vote FOR management proposals to approve maximum and/or minimum limits on the size of the board of directors or supervisory board.

20.02 Vote FOR management proposals to approve changes in the rules governing board powers, procedures or qualifications.

20.03 Vote AGAINST shareholder proposals that ask for changes in board procedures.

20.04 Vote FOR management proposals to elect an audit, control or other committee of the board.

20.05 Vote FOR management proposals to amend rules governing the election of members of the board of directors.

20.06 Votes shall be cast on a case-by-case basis on shareholder proposals that call for the election of one or more members of the supervisory board opposed by management.

20.07 Vote FOR management proposals to approve the supervisory board or corporate assembly fees.

20.08 Vote FOR management proposals to appoint board advisors or deputy directors.

20.09 Vote FOR management proposals to ratify board appointments.

20.10 In Canada, withhold votes from any insider on the audit and compensation committees.

30.00 **Election of Shareholders**

30.01 Vote FOR management proposals to elect shareholder representatives.

30.02 Vote FOR management proposals to approve the fee for the shareholder representative.

40.0 **Director Liability**

Director liability provisions in non-US markets are generally governed by national company laws that eliminate the financial liability of directors for breaches of the director's duty of care. To take advantage of these laws, a company must adopt a shareholder-approved charter or bylaw amendment limiting director liability.

Since those markets where this appears require this item to be submitted to shareholders in accordance with national corporate law, companies must ask shareholders to legally discharge directors from liability. The law does, however, make provision for fraud, willful misconduct and knowing violations of the law; in these cases, shareholders do not waive their right to sue even if they voted for this proposal for the year in question

40.01 Vote FOR management proposals to ratify management's decisions over the year, and discharge it from responsibility for those decisions, so long as the proposals have only symbolic importance

40.02 Vote FOR management proposals to authorize provision of liability insurance to directors and/or officers

50.00 **Auditors**

At most public companies, shareholders vote on the selection of auditors. In such cases, the board's audit committee recommends a particular auditor to the shareholders.

50.01 Vote FOR management proposals to elect and/or set number of statutory auditors

50.02 Vote FOR management proposals to endorse the board's selection of auditors and empower management to pay them or to approve a specific amount for the auditors' remuneration

50.03 In the United Kingdom, vote FOR proposals to appoint the auditors and/or authorize the board to set their fees

50.04 Vote FOR management proposals to endorse the auditors' performance during the previous financial year.

50.05 Vote FOR management proposals to authorize bonuses to statutory auditors that are retiring from the board.

60.00 **Blank Check Preferred Stock**

Blank check preferred stock is the term frequently used to describe preferred stock authorization that gives the board of directors broad discretion to establish voting, dividend, conversion or other rights for preferred stock that a company may issue. Such broad discretion may provide flexibility to meet changing business conditions, but could also be used in a way to discourage changes in control. It is often used with the adoption of a poison pill shareholder rights plan.

In a poison pill plan, also known as a shareholder rights plan, shareholders are issued rights to purchase stock in their company or in the acquiring company at a cut-rate price if the hostile bidder acquires a certain percentage of the outstanding shares. These purchases would dilute the acquirer's equity to such an extent that the cost of the acquisition would be prohibitive. The shareholder rights are generally issued as a dividend on common stock, and the companies retain the right to redeem them at a nominal price.

Poison pills, usually adopted without shareholder approval, are one of the most effective anti-takeover provisions a board can adopt. The Chief Economist's Office at the Securities and Exchange Commission has reported that the adoption of a poison pill causes a drop in share value.

60.01 Vote AGAINST management proposals to issue stock with preemptive rights IF management states explicitly that the purpose is to strengthen takeover defenses

60.02 Vote AGAINST proposals IF the result is a "blank check" stock authorization or implicit takeover defense (includes stocks with warrants)

- 60.03 Vote AGAINST management proposals to create a class of preferred stock IF the authorization is for blank check preferred stock
- 60.04 Vote AGAINST management proposals to amend features of preferred stock or increase the amount of preferred stock the company is authorized to issue IF the change would result in the board having authority to issue blank check preferred stock
- 60.05 Vote AGAINST management proposals to lift the ceiling on authorized capital if the result is a “blank check” stock authorization or implicit takeover defense

70.00 **Stock Authorization Proposals**

When a board of directors acts to increase the number of shares under the plan, the proposed increase generally must be approved by shareholders. There are many legitimate business reasons for companies to increase their authorized stock, such as for stock splits, stock dividends, raising of capital for acquisitions, and employee benefit plans. However, authorized but unissued shares may facilitate many schemes such as poison pills, ESOPs and anti-takeover targeted share placements (placement of a large voting block of shares into hands “friendly” to management).

Distributions may also be seen as a takeover offense, which will make it more difficult for an outsider to accomplish a takeover through open market stock purchases.

- 70.01 Vote FOR management proposals to approve a reverse stock split.
- 70.02 Vote FOR management proposals to abolish preferred or other types of stock.
- 70.03 Vote AGAINST management proposals to allow a subsidiary of the company to issue securities that could be converted into the parent company’s stock, IF potential dilution in the parent company exceeds 20 percent.
- 70.04 Vote FOR management proposals to authorize trade in the company’s stock.
- 70.05 Vote FOR management proposals to permit the company’s stock to be bought and sold on an electronic trading system.
- 70.06 Vote FOR management proposals to approve the use of a book entry system to keep track of stock transactions.

80.00 **Stock Purchase Plans**

- 80.01 Vote AGAINST management proposals to approve stock purchase plans IF potential dilution of this proposal or all company plans exceeds 10 percent.
- 80.02 Vote AGAINST management proposals to amend stock purchase plans IF changes would allow for dilution in excess of 10 percent.
- 80.03 Vote AGAINST management proposals to amend stock purchase plans IF the potential dilution for all company plans (including this proposal) exceeds 20 percent.

90.00 **Dual Class Authorization**

Dual class stock authorization refers to the creation of a second class of common stock, sometimes referred to as class B common or special common stock. Often this class B common stock may have voting rights and dividend preferences that are different from those of the existing class of common stock. Generally, a new, dual class of common stock is non-transferable, that is, it can generally only be sold back to the company, and it generally must be converted into shares of existing common stock before it can be sold on the market.

One reason a company may seek to create dual class common stock is ultimately to place voting control with a group of company insiders. Some companies have used a “dividend premium”; giving existing common shares a higher dividend than the new share to “coerce” this transfer of voting control.

In 1988, the SEC prohibited the issuance of a second class of common stock that had voting rights superior to that of the existing common stock. However, in 1990 a federal court struck down the “one-share, one-vote” rule, stating

that the commission did not have the authority to issue it. In addition, a number of states have adopted amendments to their corporation codes, which allow boards to authorize stock with unequal voting rights.

- 90.01 Vote AGAINST management proposals to create a new share class IF the new share class carries nonvoting or other differentiated rights
- 90.02 Vote AGAINST management proposals to authorize the company to sell multiple-voting stock
- 90.03 Vote AGAINST management proposals that ask shareholders for permission to sell nonvoting stock
- 90.04 Vote FOR shareholder proposals asking management to abolish multiple-voting rights attached to company stock.
- 90.05 Vote in Favor of issuing preference shares as long as it would not adversely affect existing shareholders.

100.00 **Change in Capital Authorizations**

A recapitalization plan is any in which a company changes its capital structure. Recapitalization can result in larger or smaller numbers of shares outstanding, or in creation of new classes of stock in addition to common stock. Recapitalization plans must be approved by shareholders.

- 100.01 Vote FOR management proposals to impose a global cap on the amount of new equity the company is allowed to offer under specified proposals.
- 100.02 Vote FOR management proposals to reduce a company's stated capital account.
- 100.03 Vote FOR management proposals to restate/adjust capital due to inflationary pressures.
- 100.04 Vote AGAINST shareholder proposals that aim to restrict management's plans to increase capital.
- 100.05 Votes shall be on a case-by-case basis for management proposals to restructure or recapitalize the company.
- 100.06 Vote AGAINST shareholder proposals that urge the restructuring of a company's investments.
- 100.07 Vote AGAINST shareholder proposals that call for the company to be liquidated.

110.00 **Borrowing, Transfers, etc.**

- 110.01 Vote FOR management proposals to approve borrowing.
- 110.02 Vote FOR management plans for the use or transfer of reserve funds.
- 110.03 Vote FOR management proposals to approve transfers between shareholder equity accounts.
- 110.04 Vote FOR management proposals to endorse related-party transactions already approved by the board.

120.00 **Supermajority Requirements**

Supermajority lock-in charter or bylaws provisions require a level of approval greater than a standard majority of outstanding shares to change anti-takeover provisions or to approve the actual business combinations. Lock-in vote requirements, which typically range from two-third to more than 80%, are intended to discharge change in control efforts.

- 120.01 Vote AGAINST management proposals that would set a supermajority requirement for voting at shareholder meetings
- 120.02 Vote FOR management proposals to abolish the company's supermajority voting requirement
- 120.03 Vote AGAINST management proposals to amend the company's supermajority voting requirement IF they would raise the supermajority requirement

130.00 **Voting Rights**

Several companies have developed anti-takeover charter amendments designed to limit the voting rights of stock held by potential acquirers. In some cases, voting rights associated with common stock may be withheld until the board of directors or shareholders vote to grant them. In other instances, shares of common stock may not receive full voting rights until they are held for some period of time. Therefore, unregistered shares are not entitled to vote so this effectively strips the shares of their voting power.

- 130.01 Vote AGAINST management proposals to amend features, such as rights and terms, of stock the company is authorized to issue IF the change results in a loss of voting rights and/or dividend rights.
- 130.02 Vote AGAINST management proposals to convert one form of stock into another IF change results in a loss of voting rights.
- 130.03 Vote AGAINST management proposals to approve restrictions on shareholders' rights to transfer or register their shares.
- 130.04 Vote FOR management proposals to abolish restrictions on shareholders' rights to transfer or register their shares.
- 130.05 Vote AGAINST management proposals to cap or amend rules capping the number of votes any single shareholder or group of shareholders may cast at a meeting.
- 130.06 Vote FOR management proposals to abolish the cap on the number of votes any single shareholder or group of shareholders may cast at a meeting.

140.00 **Meetings**

Some companies seek to amend their charters or bylaws to make it more difficult for shareholders to call a special meeting or to act by written consent (without a physical meeting). Proposals of this sort are a clear limitation of shareholder rights to call a special meeting.

- 140.01 Vote FOR management proposals to authorize formalities necessary to implement meeting decisions, approve the minutes or take other decisions relating to protocol.
- 140.02 Vote FOR management proposals to approve technical amendments to the corporation's articles, bylaws, charter, statutes or memorandum of association.

150.00 **Long Term Incentive Plans**

The majority of large public companies offer stock based long-term incentive plans to their executives. Often, the adoption of these plans must be approved by shareholders. Grants under these plans often include stock options or restricted stock.

Acceleration: After a change in control, outstanding unvested stock may be immediately exercised, or accelerated.

Cash-out: After a change in control, outstanding options may be cashed out. In that event, the difference between the market price and the exercise price on unvested stock options is paid in cash to the option holder.

Performance shares: A type of stock grant for which beneficial ownership generally is not complete until the company or the officer meets certain goals based on the financial performance of their company or the company's stock.

Pyramiding: A process by which a portion of a stock option grant may be used to pay the exercise price of the option grant. For example, an officer is granted the option to purchase 1,000 shares at \$10 a share, and when vested, the price increases to \$15 per share. Pyramiding allows the officer to use one share (now worth \$15) purchased at the \$10 exercise price to pay the exercise price of the next 1.5 shares and so on. This process allows executives to exercise their options using shares of company stock they already own, instead of cash, and thus pyramid their holding without any personal investment.

Stock appreciation rights: Awards based on the performance of common stock. When vested holders of stock appreciation rights may receive the difference between the market price and the exercise price in cash.

Underwater options: Underwater options are options that are exchanged for new ones with a lower market price. As a result of the stock market crash of 1987, a large number of executive stock options are

underwater (their exercise price is above the current market price). As long as the options are underwater, they are worthless to the executives.

Omnibus stock plans: Give directors broad discretion to decide how much and what kind of stock to award and when and to whom.

- 150.01 Vote AGAINST management proposals to approve or amend stock option plans IF the potential dilution for all company plans (including this proposal) exceeds 10 percent.
- 150.02 Vote AGAINST management proposals to approve specific grants of stock options IF the aggregate dilution exceeds 10 percent of a company's outstanding shares.
- 150.03 Vote AGAINST management proposals to approve or amend stock option plans IF the potential dilution of this proposal exceeds 10 percent.
- 150.04 Vote FOR management proposals to amend employee profit sharing or other types of incentive plans.

160.00 **Executive Compensation Reporting**

These shareholders proposals ask companies to report on certain aspects of executive compensation arrangements.

- 160.01 Vote AGAINST proposals IF performance criteria do not mention return on equity/capital, earnings per share or total shareholder returns.
- 160.02 Vote AGAINST proposals IF awards are granted for average performance.
- 160.03 Vote AGAINST proposals IF awards are pensionable.

170.00 **Leveraged Buyout**

A leveraged buyout is a transaction whereby a group of company insiders or other investors offer to buy the company's outstanding shares and take the company private. The buyout is financed by the issuance of debt, usually arranged by an investment bank or buyout firm. If the buyout is successful, but a minority of shares remains outstanding shareholders vote on the buyout proposal.

- 170.01 Vote FOR management proposals to authorize the sale of bonds or other debt instrument.
- 170.02 Vote AGAINST management proposals that ask shareholders for permission to sell bonds and other debt instruments that may be converted into company stock IF the potential dilution exceeds 20 percent.

180.00 **Share Repurchase Programs**

Stock repurchases can benefit shareholders in two ways. First, it is a more efficient vehicle for distributing cash to shareholders than paying dividends. Second, announcements of repurchase programs tend to result in increased returns to shareholders.

- 180.01 Vote FOR management proposals to repurchase the company's own shares.
- 180.02 Vote FOR management proposals to reissue shares that the company itself has bought back.
- 180.03 Vote FOR management proposals to waive shareholder approval for share repurchases.

190.00 **Changing Company Name**

While this subject may be trivial to some, the fact is that companies spend thousands or even millions of dollars in changing their name. And at least one empirical study shows that name changes that are distinctive, or are more functional than the original name, have a positive effect on stock prices.

- 190.01 Vote FOR management proposals to approve a change in the company's official name.
- 190.02 Vote FOR management proposals to amend articles, bylaws or other key corporate documents to update the description of company operations.

190.03 Vote AGAINST shareholder proposals aimed at changing the company's goals or purposes.

200.00 **Proxy Voting**

In response to potential and perceived conflicts in proxy voting, some shareholders have proposed that companies implement a system for confidential proxy voting. Other proposals seek to clarify the method of computing abstentions. Supporters say confidential voting and other related shareholder proposals are an attempt to level the playing field in the proxy process. Opponents say a secret ballot decreases the exchange of information between shareholders and management and could make it impossible to obtain a necessary quorum at annual meetings.

200.01 Vote FOR shareholders proposals asking management to adopt a policy ensuring that shareholder votes are kept confidential.

210.00 **Equal Access to the Proxy**

Some shareholders have proposed giving space in management's proxy materials for dissenting views of significant shareholders.

210.01 Vote FOR shareholder proposals that ask management to adopt rules making it easier for shareholders to place proposals on the ballot.

220.00 **Restore Preemptive Rights**

Preemptive rights give existing shareholders the first right of purchase of any new issue of common stock. In this way, shareholders automatically maintain their proportional equity interest in the company. With the advent of computerized trading on the national stock markets, many companies have eliminated preemptive rights because they feel there is sufficient accessibility to the markets for shareholders to maintain their interest. Some shareholder proposals call for the restoration of preemptive rights.

220.01 Vote AGAINST management proposals to issue stock without preemptive rights IF potential dilution exceeds 10 percent.

220.02 Vote AGAINST management proposals to issue stock with warrants that give the holder the right to purchase additional shares later IF preemptive rights are waived.

220.03 Vote AGAINST management proposals to issue bonds with warrants that give the holder the right to purchase stock in the company later IF potential dilution exceeds 10 percent.

220.04 Vote AGAINST management proposals to issue, with or without preemptive rights, warrants that give holders the right to new stock IF potential dilution exceeds 10 percent.

220.05 Vote FOR shareholder proposals that call on management to restore preemptive rights.

230.00 **Annual Meeting Location**

Some shareholder proposals ask for the company to change the location, date, and/or time of its annual meeting. Some of these requests are made with specific requirements that may unduly bind the company to hold their meetings in inconvenient locations or at inconvenient times. Proponents argue that the location or scheduled date/time is inconvenient for shareholders that must attend a number of different meetings.

230.01 Vote FOR management proposals to approve rule changes affecting the conduct of meetings or to change a meeting date.

230.02 Vote FOR management proposals to approve a change in the location of the official headquarters of the company.

240.00 **Term Of Directors**

Some shareholder proposals would impose a mandatory retirement age for directors or limit the number of terms a director may serve. These proposals are intended to allow "fresh blood" on the board to the benefit of the shareholders. However, this requirement may arbitrarily force some experienced and knowledgeable individuals off the Board.

- 240.01 Vote AGAINST shareholder proposals asking for rules that impose or modify a retirement age for directors or supervisory board members.
- 240.02 Votes shall be cast on a case-by-case basis on shareholder proposals asking for a limit on the number of different corporate boards on which a director may serve.

250.00 **Director Compensation**

Some shareholder proposals would require outside directors to hold a specified minimum number or minimum value of shares. Proponents argue that these proposals are intended to align the interest of corporate directors with the interest of the shareholders of the company for which they serve. Proponents also say that directors would be more motivated if their personal wealth were tied with the company. Opponents also argue that compensation packages must be designed to attract, motivate, and retain qualified directors, and that the compensation committee or the full board is best qualified to design appropriate packages.

- 250.01 Vote FOR management proposals to permit the participation of directors in stock option or purchase plans.
- 250.02 Vote FOR management proposals to approve the directors' fees.
- 250.03 Vote AGAINST management proposals to approve or amend a stock option plan for outside directors IF the potential dilution of the plan exceeds 10 percent.
- 250.04 Vote FOR management proposals to authorize reasonable bonuses to directors who are retiring from the board and such bonuses are not considered as golden parachutes.
- 250.05 Votes will be cast in favor of proposals requiring, at a minimum, 25% of a director's annual retainer fee to be comprised of the company's common stock.
- 250.06 Gross-ups in salary for Directors/CEO are additional payments to company officers to offset certain benefits, which increase total taxable wages. Votes shall be cast against gross-ups in salary for directors/CEO and top executives.
- 250.07 In Japan, Vote against option plans or grants to directors or employees of related companies without adequate disclosure justification.

260.00 **Charitable and Political Contributions**

Charitable contributions by companies are generally useful for assisting worthwhile causes and creating a goodwill relationship with the community. They also provide long-term benefits for the shareholders, such as favorable tax treatment.

There are resolutions that ask companies for reports on political contribution and their views on campaign finance reform. Opponents believe the power of PACs has contributed to the overwhelming reelection of incumbents and to problems such as the recent thrift crisis, in which PAC opponents claim certain lenders first "bought" relaxed legislation and later paid members of Congress to interfere with regulatory policing efforts. By requiring reporting to shareholders, proponents of these shareholder resolutions contend investors can help police these types of wrongdoing in the political system.

- 260.01 Vote FOR management proposals to approve donations made to political parties.

270.00 **Environment**

Resolutions concerning the environment include nuclear plant construction and operation, hazardous waste disposal, and disclosure of rain forest, ozone depletion, acceptance of the Valdez principles, carbon dioxide and toxic chemical emissions and increased disclosure regarding company practices that affect the environment. Proponents believe that now, more than ever, the environment is vulnerable to serious offenses by mankind and that its condition continues to worsen despite considerable efforts by government and industry to arrest the decline. Proponents also believe that our economic system has failed to reckon fully with the environmental costs associated with material progress and that a more responsible method of accounting must be devised to insure the inheritance of future generations. Opponents of the Valdez Principles argue that the company would expose itself to unnecessary public criticism and possibly increased liability if it is a frank report card and that there is time and expense involved in the preparation of such a report.

- 270.01 Vote FOR shareholder proposals aimed at getting management to endorse a set of environmental principles.
- 270.02 Votes shall be cast on a case-by case basis on shareholder proposals that ask management to disclose additional information on environmental performance.
- 280.00 **Product Integrity**
- In most cases, vote recommendations on proposals that ask companies to end their production of legal, but socially questionable products is refrained. However, shareholders must consider what effects continuing operations might have on company revenues.*
- 280.01 Vote AGAINST shareholder proposals aimed at pushing the company to cease manufacturing certain products.
- 280.02 Vote AGAINST shareholder proposals aimed at pushing the company to cease exporting certain products.
- 290.00 **Foreign Investors**
- 290.01 Vote FOR management proposals to abolish rules that deprive foreign investors of the same share ownership rights that domestic investors have.
- 290.02 Vote FOR shareholder proposals that press management to abolish restrictions on foreign investors' voting or activities in the company.
- 300.00 **Financial Statements – Reporting**
- 300.01 Vote FOR management proposals to extend the consolidated taxation status of a company.
- 300.02 Vote FOR management proposals to approve the company's financial statements for the fiscal year.
- 300.03 Vote FOR shareholder proposals asking management to disclose more information, or make it available more widely, to shareholders *if the proposal is reasonable and is not a financial hardship on the company.*
- 300.04 Vote FOR management proposals to give the board authority to compel shareholders to disclose their stake in the company and/or to penalize shareholders that refuse to comply.
- 310.00 **Dividend Distributions**
- 310.01 Vote FOR management proposals to approve the dividends and endorse management's decision on how to allocate the company's earnings and ratify decisions on fees for board members
- 310.02 Vote FOR management proposals to approve a special bonus dividend or bonus share issue.
- 310.03 Vote FOR management proposals to authorize a program allowing investors to receive additional stock in lieu of a cash dividend or a program to facilitate the reinvestment of cash dividends in the company.
- 310.04 Vote FOR management proposals to approve technical changes in the way dividends are distributed to shareholders.