



INSTITUTIONAL SHAREHOLDER SERVICES

The Boston Foundation Policy on Socially Responsible Investing and Proxy Voting Guidelines - 2007

The Boston Foundation
Website: www.tbf.org



TBF Policy on Socially Responsible Investing

Access. Equity. Diversity. Fairness. Respect. These values are embedded in the Boston Foundation’s history, mission and work, and inform and guide all of its activities in the areas of fundraising, grantmaking, civic leadership and management—as well as its position as a property owner and investor.

As Greater Boston’s community foundation, the Boston Foundation applies a strong civic stewardship ethic to its role as a fiduciary, grounded in the assumption that it will act as a moral agent, inspiring trust, confidence, and responsibility. This ethic recognizes that there are no sharp boundaries between economic and other matters and is applied to three overlapping realms of investment decision-making: screening and selection; shareholder responsibility and proxy voting; and alternative or creative investments.

As an institutional investor with full fiduciary responsibility, the Boston Foundation is required both by law and public expectation to live up to the high standards that authority bestows. These fiduciary and community commitments—with the lowest possible risk of adverse impact—set a positive agenda for equity ownership.

Background

The Boston Foundation first focused on the relationship between its fiduciary stewardship and its broader mission in 1985 when, under the leadership of Board Chair Dwight Allison, Jr., and President Anna Faith Jones, it went on record to express that its commitment to access, equity, diversity, fairness and respect did not square with its ownership of stock in companies with ties to South Africa under apartheid.

In 1995, Boston Foundation Board member David Rockefeller, Jr. led a process that amplified the Foundation’s position and elevated it to a policy level through the “Harmony Statement,” which now serves as a public declaration of civic stewardship. In 1996, the Foundation implemented the Harmony Statement by divesting in companies that were substantially engaged in the business of tobacco.

And in March of 2007, the Boston Foundation, under the leadership of the Reverend Ray Hammond, Board Chair, and Paul S. Grogan, President and CEO, announced a two-part strategy that called for the Foundation to distance itself from companies that are engaged in business with the government of Sudan, which is bankrolling and supporting genocide in the Darfur region. This included, first, divestment of any direct holdings in such companies, and, second, shorting stocks that are held indirectly by the Foundation as the result of investments held in pooled funds.

Proxy Voting

As an institutional investor, the Foundation fully recognizes that proxy voting is subject to fiduciary standards similar to those affecting private pension plans, that voting rights have an

economic as well as moral value—and therefore should be treated as assets—and that proxies are voted in accordance with publicly stated policy and guidelines.

Because of its financial interests and commitment to the values of access, equity diversity, fairness and respect, the Boston Foundation has adopted a policy of voting shareholder resolutions in accordance with these values, particularly on issues that are related to good corporate governance, the environment, community well-being and citizenship.

Although they find expression in different ways as issues arise and do not cover the full range of resolutions filed by shareholders during recent proxy seasons, the following four areas have conveyed the Boston Foundation's sense of public mission, and serve as a template for the ways in which it honorably discharges its ownership responsibility.

Corporate governance: Because good corporate governance has a beneficial impact on shareholders as well as other members of the workplace and society affected by corporate performance, the Boston Foundation will *support* resolutions aimed at corporate adherence to generally-accepted best practices and minimum standards of governance, including transparency, accountability, and board independence.

Environmental stewardship: The Boston Foundation will *support* resolutions that reflect the Foundation's commitment to the environment and sustainable practices. In particular, the Foundation will support resolutions that encourage greater corporate responsibility on environmental issues, particularly as they give rise to minimal standards of environmental performance that can be used for reporting and monitoring purposes. To this end, the Foundation supports the work of the Coalition for Environmentally Responsible Economics (CERES), which was formed in 1989 in the wake of the Exxon Valdez oil disaster, to guide corporate decisions that affect the environment. (By subscribing to the CERES Principles, a ten-point code of corporate conduct, a company commits itself to: working toward positive goals such as sustainable use of natural resources, energy conservation, and environmental restoration; setting definitive goals and a means of measuring progress; and informing the public in an environmental report published in the format of a CERES report. The Boston Foundation therefore supports resolutions asking corporations to study the CERES Principles or subscribe to them.

Community well-being and citizenship: The Boston Foundation is committed to the promotion of community well-being (manifest, at a minimum, through the satisfaction of basic human needs and cultural vitality) and active citizenship (measured by degree of participation, accountability, and representation). More specifically, these social goods are to be found with respect to community building and investment, violence prevention and safety, public health and disease prevention, education and development, the arts, and free and fair political elections.

The Foundation therefore will *support* resolutions aimed at fair access to credit, corporate reporting on health care, reduction of gratuitous violence, labor and human rights in foreign operations, and corporate adherence to laws governing political contributions.

Diversity and Equity: The Boston Foundation is committed to the promotion of equity and inclusiveness in the workplace, and therefore will *support* resolutions aimed at greater diversity on boards of directors, corporate reporting on progress toward achieving greater diversity and equal employment, and nondiscrimination based on sexual preference.

The Foundation has adopted a balanced approach with the goal of encouraging positive corporate behavior while enhancing shareholder returns.

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INTRODUCTION

THE BOSTON FOUNDATION PROXY VOTING GUIDELINES

Approved by the Board of the Boston Foundation on 12/13/01

Because of its financial interests and commitments to the values of **Access, Equity, Diversity, Fairness and Respect**, the Boston Foundation therefore has adopted a policy of voting shareholder resolutions in accordance with these values, particularly on issues related to the **good governance, environment, community well-being and citizenship, and diversity and equity**.

In 2001, The Boston Foundation engaged the services of Institutional Shareholder Services (ISS) to provide it with advice on how to vote on the countless management and shareholder proposals that find their way into the proxy statements issued by those companies in which The Boston Foundation's managers own stock. We originally chose, and continue to use, ISS because they have the experience and expertise. ISS has been in the business since 1985, growing to become the world's leader in proxy voting and corporate governance services. ISS has over 900 clients worldwide including many of the largest financial institutions: Global banks, institutional money managers, mutual funds, pension fund managers, religious groups, foundations, healthcare systems universities and other mission-based organizations with investment responsibilities.

Following are the 2007 ISS guidelines, as customized by The Boston Foundation, for voting positions in the 2007 proxy season.

MANAGEMENT PROPOSALS

1. Director-Related Issues

A corporation's board of directors sits at the apogee of the corporate governance system. Though they normally delegate responsibility for the management of the business to the senior executives they select and oversee, directors bear ultimate responsibility for the conduct of the corporation's business. The role of directors in publicly held corporations has undergone considerable change in recent years. Once derided as rubber stamps for management, directors of public corporations today are expected to serve as guardians of shareholders' interests.

The role and responsibilities of directors has been the subject of much discussion and debate over the past decade. Influential organizations, including the American Law Institute, the American Bar Association, the National Association of Corporate Directors, and the Business Roundtable have issued reports and recommendations about corporate boards. The press has hounded bad boards, and institutional investors have used their power to force changes as well. Corporate America has responded, embracing in principle many of the reforms championed by its critics.

Although differences of opinion remain, a fairly strong consensus has emerged on a number of key issues. It is widely agreed that the board's most important responsibility is to ensure that the corporation is managed in shareholders' best long-term economic interest. This will often require boards to consider the impact of their actions on other constituencies, including employees, customers, and local communities.

The board's principal functions are widely agreed to consist of the following:

- To select, evaluate, and if necessary replace the chief executive officer
- To review and approve major strategies and financial objectives
- To advise management on significant issues
- To assure that effective controls are in place to safeguard corporate assets, manage risk, and comply with the law
- To nominate directors and otherwise ensure that the board functions effectively

Boards are expected to have a majority of directors independent of management. The independent directors are expected to organize much of the board's work, even if the chief executive officer also serves as Chairman of the board. Key committees of the board are expected to be entirely independent of management. It is expected that boards will engage in critical self-evaluation of themselves and of individual members. Individual directors, in turn, are expected to devote significant amounts of time to their duties, to limit the number of directorships they accept, and to own a meaningful amount of stock in companies on whose boards they serve. Directors are ultimately responsible to the corporation's shareholders. The most direct expression of this responsibility is the requirement that directors be elected to their positions by the shareholders. Shareholders are also asked to vote on a number of other matters regarding the role, structure and composition of the board.

TBF classifies directors as either inside directors, affiliated directors, or independent directors. The following chart outlines the requirements for the various classifications:

TBF DIRECTOR CATEGORIZATION CHART	
Inside Director:	<ul style="list-style-type: none"> Employee of the company or its affiliates Non-employee officer of the company if he/she is among the five most highly compensated individuals (excluding interim CEO) Listed as a Section 16 officer in the 10-K or proxy statement¹ Current interim CEO Beneficial ownership of more than 50% of the company's voting power (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% individually, but combined own more than 50%)
Affiliated Director:	<ul style="list-style-type: none"> Board attestation that an outside director is not independent Former executive employee of company or its affiliates Former interim CEO if the service was longer than 18 months, or if the service was between twelve and eighteen months an assessment of the interim CEO's employment agreement will be made Former executive of an acquired firm or affiliate within the past five years Executive of a former parent firm or affiliate at the time the company was sold or split off from the parent/affiliate Executive, former executive, general or limited partner of a joint venture or partnership with the company Relative of a current Section 16 officer of the company or its affiliates Relative of current employee of company or its affiliates where additional factors raise concern (which may include, but are not limited to, the following: a director related to numerous employees; the company or its affiliates employ relatives of numerous board members; or a non-Section 16 officer in a key strategic role)² Relative of former Section 16 officer of company or its affiliates within the last five years Currently provides (or a family member provides) professional services directly to company, to an affiliate of the company or an individual officer of the company or one of its affiliates in excess of \$10,000 per year Employed by (or a family member is employed by) a significant customer or supplier³ Has (or a family member has) any transactional relationship with company or its affiliates excluding investments in the company

¹ "Executives" (Officers subject to Section 16 of the Securities and Exchange Act of 1934) include the chief executive, operating, financial, legal, technology, and accounting officers of a company (including the president, treasurer, secretary, controller, any vice president in charge of a principal business unit, division, or function, and any other officer who performs policy making functions). Corporate secretaries and general counsels not listed as officers and not employed by the company will be considered AO's. "Affiliate" includes a subsidiary, sibling company, or parent company.

² "Relative" follows the SEC definition of "immediate family members" which covers: spouses, parents, children, siblings, in-laws, and anyone sharing the director's home.

³ If the company makes or receives payments exceeding the greater of \$200,000 or five percent of the recipient's gross revenues. (The recipient is the party receiving the financial proceeds from the transaction).

	through a private placement
	<ul style="list-style-type: none"> Party to a voting agreement to vote in line with management on proposals being brought to shareholders
	<ul style="list-style-type: none"> Has (or a family member has) interlocking relationships as defined by the SEC involving members of the board of directors of its Compensation and Stock Option Committee⁴
	<ul style="list-style-type: none"> Founder of a company but not currently an employee
	<ul style="list-style-type: none"> Trustee, director or employee of a charitable or non-profit organization that receives grants or endowments from the company or its affiliates
Independent Director:	<ul style="list-style-type: none"> No connection to company other than board seat

1a. Uncontested Election of Directors

TBF will recommend withholding support for individual nominees or entire slates if we believe that such action is in the best interests of shareholders. In addition to independence, we monitor attendance, stock ownership, conflicts of interest, diversity, and the number of boards on which a director serves.

- Votes on individual director nominees are made on a **case-by-case** basis.
- Votes should be **withheld** from directors who:
 - attend less than 75 percent of the board and committee meetings without a valid excuse for the absences
 - implement or renew a dead-hand or modified dead-hand poison pill
 - Have adopted a poison pill without shareholder approval since the company's last annual meeting and there is no requirement to put the pill to shareholder vote within 12 months of its adoption
 - sit on more than six public company boards or are CEOs of public companies and sit on more than two public company boards besides their own, but only at their outside directorships
 - are on the compensation committee when there is a negative correlation between chief executive pay and company performance, or for poor compensation practices including excessive perks and egregious employment contracts
 - have failed to address the issue(s) that resulted in any of the directors receiving more than 50% withhold votes out of those cast at the previous board election
 - ignore a shareholder proposal that is approved by a majority of the votes outstanding
 - ignore a shareholder proposal that is approved by a majority of the votes cast for two consecutive years
 - have failed to act on takeover offers where the majority of the shareholders have tendered their shares
 - serve as members of the Audit Committee when more than 50 percent of the total fees paid to the auditor is attributable to non-audit work OR if a company is found to have pulled auditor ratification from the ballot within the past year
 - are inside or affiliated directors and sit on the audit, compensation, or nominating committees

⁴ Interlocks include: (a) executive officers serving on each other's compensation or similar committees as directors or (b) executive officers sitting on each other's boards and at least one serves on the other's compensation or similar committee.

- are inside or affiliated directors and the full board serves as the audit, compensation, or nominating committee or the company does not have one of these committees
- serve as a member of the Nominating Committee that has failed to establish gender and/or racial diversity on the board. If the company does not have a formal nominating committee, votes will be withheld from the entire slate.
- serve as a member of the Compensation Committee that has approved egregious compensation packages or has failed to adequately disclose the details of such packages.
- serve at a Russell 3000 company that underperformed its industry group (GICS group). The test will consist of the bottom performers within each industry group (GICS) based on a weighted average TSR. Company's response to performance issues will be considered before withholding.
- serve as a member of the Compensation Committee where a company has practiced options backdating, depending on the severity of the practices and the subsequent corrective action on the part of the board.

Special attention will be paid to companies that show a high level of disregard for shareholder and stakeholder interests; TBF will consider withholding votes from the entire board of directors in these cases. In addition, TBF will recommend withholding votes from the entire board if the board is not composed of a majority of independent directors. TBF will also highlight other governance concerns in the analyses, including whether the company has combined the roles of Chairman and CEO.

1b. Contested Election of Directors

Contested elections of directors frequently occur when a board candidate or slate runs for the purpose of seeking a significant change in corporate policy or control. Competing slates will be evaluated based upon the personal qualifications of the candidates, the economic impact of the policies that they advance, and their expressed and demonstrated commitment to the interests of all shareholders.

- Votes in a contested election of directors are evaluated on a **case-by-case** basis, considering the following factors:
 - long-term financial performance of the target company relative to its industry; management's track record;
 - background to the proxy contest;
 - qualifications of director nominees (both slates); evaluation of what each side is offering shareholders as well as the likelihood that the proposed objectives and goals can be met;
 - stock ownership positions; and
 - impact on stakeholders, such as job loss, community lending, equal opportunity, impact on environment.

1c. Classified Board

Under a classified board structure only one class of directors would stand for election each year, and the directors in each class would generally serve three-year terms. Although staggered boards can provide continuity for companies at the board level, there are also a number of

downsides to the structure. First, a classified board can also be used to entrench management and effectively preclude most takeover bids or proxy contests. Board classification forces dissidents and would-be acquirers to negotiate with the incumbent board, which has the authority to decide on offers without a shareholder vote. In addition, when a board is classified, it is difficult to remove individual members for either poor attendance or poor performance; shareholders would only have the chance to vote on a given director every third year when he or she comes up for election. The classified board structure can also limit shareholders' ability to withhold votes from inside directors that sit on key board committee, or to withhold votes from an entire board slate to protest the lack of board diversity. In addition to these concerns, empirical evidence has suggested that such a structure is not in shareholders' best interests from a financial perspective. Studies performed by SEC economists and by academics support the view that classified boards are contrary to shareholder interests. For example, the SEC studied the impact of 649 antitakeover proposals, including classified boards, submitted between 1979 and 1985. Stocks within the group showed an average loss in value of 1.31 percent. While we recognize that there are some advantages to classified boards, based on the latest studies on classified boards, the fact that classified boards can make it more difficult for shareholders to remove individual directors, and the fact that classified boards can be used as an antitakeover device, TBF recommends against the adoption of classified boards.

- Vote **for** proposals to declassify the board the directors.
- Vote **against** proposals to classify the board of directors.

1d. Shareholder Ability to Remove Directors

Shareholder ability to remove directors, with or without cause, is either prescribed by a state's business corporation law, an individual company's articles of incorporation, or its bylaws. Many companies have sought shareholder approval for charter or bylaw amendments that would prohibit the removal of directors except for cause, thus ensuring that directors would retain their directorship for their full-term unless found guilty of self-dealing. By requiring cause to be demonstrated through due process, management insulates the directors from removal even if a director has been performing poorly, not attending meetings, or not acting in the best interests of shareholders.

- Vote **against** proposals that provide that directors may be removed only for cause.
- Vote **for** proposals to restore shareholder ability to remove directors with or without cause.
- Vote **against** proposals that provide that only continuing directors may elect replacements to fill board vacancies.
- Vote **for** proposals that permit shareholders to elect directors to fill board vacancies.

1e. Cumulative Voting

Most corporations provide that shareholders are entitled to cast one vote for each share owned. Under a cumulative voting scheme the shareholder is permitted to have one vote per share for each director to be elected. Shareholders are permitted to apportion those votes in any manner they wish among the director candidates. Shareholders have the opportunity to elect a minority representative to a board through cumulative voting, thereby ensuring representation for all sizes of shareholders. For example, if there is a company with a ten-member board and 500 shares outstanding—the total number of votes that may be cast is 5,000. In this case a shareholder with 51 shares (10.2 percent of the outstanding shares) would be guaranteed one

board seat because all votes may be cast for one candidate. TBF will monitor any counterbalancing governance structures in place when evaluating cumulative voting.

- Vote **against** management proposals to eliminate cumulative voting.

1f. Alter Size of the Board

Proposals which would allow management to increase or decrease the size of the board at its own discretion are often used by companies as a takeover defense. TBF supports management proposals to fix the size of the board at a specific number, thus preventing management when facing a proxy context from increasing the board size without shareholder approval. By increasing the size of the board management can make it more difficult for dissidents to gain control of the board. Fixing the size of the board also prevents a reduction in the size of the board as a strategy to oust independent directors. Fixing board size also prevents management from increasing the number of directors in order to dilute the effects of cumulative voting.

- Vote **for** proposals that seek to fix the size of the board.
- Vote **case-by-case** on proposals that seek to change the size or range of the board.
- Vote **against** proposals that give management the ability to alter the size of the board without shareholder approval.

2. Ratification of Auditors

Annual election of the outside accountants is standard practice. While it is recognized that the company is in the best position to evaluate the competence of the outside accountants, we believe that outside accountants must ultimately be accountable to shareholders. Furthermore, audit committees have been the subject of a report released by the Blue Ribbon Commission on Improving the Effectiveness of Corporate Audit Committees in conjunction with the NYSE and the National Association of Securities Dealers. The Blue Ribbon Commission concluded that audit committees must improve their current level of oversight of independent accountants. Given the rash of accounting irregularities that were not detected by audit panels or auditors, shareholder ratification is an essential step in restoring investor confidence. Special consideration will be given when non-audit fees exceed audit fees, as high non-audit fees can compromise the independence of the auditor. TBF will also monitor both auditor tenure and whether auditor ratification has been pulled from the ballot.

In the summer of 2002, the U.S. Justice Department indicted Arthur Andersen for obstruction of justice in matters relating to the federal investigation of Enron Corp., and Arthur Andersen's viability as a stand-alone firm has been called into doubt by client and employee defections. In light of recent controversies surrounding companies audited by Arthur Andersen, we question the reliability and independence of their auditing services.

- Vote **for** proposals to ratify auditors, unless the non-audit fees paid represent 25 percent or more of the total fees paid to the auditor or there is reason to believe that the independent auditor has rendered an opinion that is neither accurate nor indicative of the company's financial position.
- **Withhold** votes from members of the Audit Committee, if material weakness identified in the Section 404 Sarbanes-Oxley Act disclosures rises to a level of serious concern; there is chronic internal control issues and an absence of established effective control mechanisms.

3. Proxy Contest Defenses / Tender Offer Defenses

Corporate takeover attempts come in various guises. Usually, a would-be acquirer makes a direct offer to the board of directors of a targeted corporation. The bidder may offer to purchase the company for cash and/or securities. If the board approves the offer, a friendly transaction is completed and presented to shareholders for approval. If, however, the board of directors rejects the bid, the acquirer can make a tender offer for the shares directly to the targeted corporation's shareholders. Such offers are referred to as hostile tender bids. Prior to 1968, tender offers were not federally regulated. In 1968, Congress enacted the Williams Act as an amendment to the 1934 Securities and Exchange Act to regulate all tender offers. The Securities and Exchange Commission has adopted regulations pursuant to the Williams Act that are intended to promote fairness and prevent fraudulent or manipulative practices. At the same time, many of the states have enacted statutes that are aimed at protecting incorporated or domiciled corporations from hostile takeovers. Many of these state statutes have been challenged as being unconstitutional on grounds that they violate the Williams Act and the commerce and supremacy clauses of the U.S. Constitution. Most statutes, however, have been upheld. The result is a complex set of federal and state regulation, with federal regulation designed to facilitate transactions and state laws intended to impede them.

Not wishing to wait until they are subjects of hostile takeover attempts, many corporations have adopted antitakeover measures designed to deter unfriendly bids or buy time. The most common defenses are the shareholders rights protection plan, also known as the poison pill, and charter amendments that create barriers to acceptance of hostile bids. In the U.S., poison pills do not require shareholder approval. Shareholders must approve charter amendments, such as classified boards or supermajority vote requirements. In brief, the very existence of defensive measures can foreclose the possibility of tenders and hence, opportunities to premium prices for shareholders.

3a. Shareholder Ability to Call Special Meeting

Most state corporation statutes allow shareholders to call a special meeting when they want to take action on certain matters that arise between regularly scheduled annual meetings. Sometimes this right applies only if a shareholder or a group of shareholders own a specified percentage of shares, with 10 percent being the most common. Shareholders may lose the ability to remove directors, initiate a shareholder resolution, or respond to a beneficial offer without having to wait for the next scheduled meeting if they are unable to act at a special meeting of their own calling.

- Vote **for** proposals that remove restrictions on the right of shareholders to act independently of management.
- Vote **against** proposals to restrict or prohibit shareholder ability to call special meetings.

3b. Shareholder Ability to Act by Written Consent

Consent solicitations allow shareholders to vote on and respond to shareholder and management proposals by mail without having to act at a physical meeting. A consent card is sent by mail for shareholder approval and only requires a signature for action. Some corporate bylaws require supermajority votes for consents while at others standard annual meeting rules apply. Shareholders may lose the ability to remove directors, initiate a shareholder resolution, or

respond to a beneficial offer without having to wait for the next scheduled meeting if they are unable to act at a special meeting of their own calling.

- Vote **for** proposals to allow or facilitate shareholder action by written consent.
- Vote **against** proposals to restrict or prohibit shareholder ability to take action by written consent.

3c. Poison Pills

Poison pills are corporate-sponsored financial devices that, when triggered by potential acquirers, do one or more of the following: 1) dilute the acquirer's equity holdings in the target company; 2) dilute the acquirer's voting interests in the target company; or 3) dilute the acquirer's equity holdings in the post-merger company. Poison pills generally allow shareholders to purchase shares from, or sell shares back to, the target company (flip in pill) and/or the potential acquirer (flip-out pill) at a price far out of line with fair market value. Depending on the type of pill, the triggering event can either transfer wealth from the target company or dilute the equity holdings of current shareholders. Poison pills insulate management from the threat of a change in control and provide the target board with veto power over takeover bids. Because poison pills greatly alter the balance of power between shareholders and management, shareholders should be allowed to make their own evaluation of such plans.

- Review on a **case-by-case** basis management proposals to ratify a poison pill. Look for shareholder friendly features including a two to three year sunset provision, a permitted bid provision, a 20 percent or higher flip-in provision, shareholder redemption feature, and the absence of dead hand features.

3d. Fair Price Provisions

Fair price provisions were originally designed to specifically defend against the most coercive of takeover devices, the two-tiered, front-end loaded tender offer. In such a hostile takeover, the bidder offers cash for enough shares to gain control of the target. At the same time the acquirer states that once control has been obtained, the target's remaining shares will be purchased with cash, cash and securities or only securities. Since the payment offered for the remaining stock is, by design less valuable than the original offer for the controlling shares, shareholders are forced to sell out early to maximize their value. Standard fair price provisions require that, absent board or shareholder approval of the acquisition, the bidder must pay the remaining shareholders the same price for their shares that brought control.

- Vote **for** fair price proposals, as long as the shareholder vote requirement embedded in the provision is no more than a majority of disinterested shares.

3e. Greenmail

Greenmail payments are targeted share repurchases by management of company stock from individuals or groups seeking control of the company. Since only the hostile party receives payment, usually at a substantial premium over the market value of shares, the practice discriminates against most shareholders. This transferred cash, absent the greenmail payment, could be put to much better use for reinvestment in the company, payment of dividends, or to fund a public share repurchase program.

- Vote **for** proposals to adopt antigreenmail charter or bylaw amendments or otherwise restrict a company's ability to make greenmail payments.
- Review on a **case-by-case** basis antigreenmail proposals when they are bundled with other charter or bylaw amendments.

3f. Unequal Voting Rights

Incumbent managers use unequal voting rights with the voting rights of their common shares superior to other shareholders in order to concentrate their power and insulate themselves from the wishes of the majority of shareholders. Dual class exchange offers involve a transfer of voting rights from one group of shareholders to another group of shareholders typically through the payment of a preferential dividend. A dual class recapitalization also establishes two classes of common stock with unequal voting rights, but initially involves an equal distribution of preferential and inferior voting shares to current shareholders.

- Generally vote **against** dual class.
- Vote **for** dual class recapitalizations when the structure is designed to protect economic interests of investors.

3g. Supermajority Shareholder Vote Requirement to Amend Charter or Bylaws

Supermajority provisions violate the principle that a simple majority of voting shares should be all that is necessary to effect change regarding a company.

- Vote **for** proposals to lower supermajority shareholder vote requirements for charter and bylaw amendments.
- Vote **against** management proposals to require a supermajority shareholder vote to approve charter and bylaw amendments.

3h. Supermajority Shareholder Vote Requirement to Approve Mergers

Supermajority provisions violate the principle that a simple majority of voting shares should be all that is necessary to effect change regarding a company.

- Vote **for** proposals to lower supermajority shareholder vote requirements for mergers and other significant business combinations.
- Vote **against** management proposals to require a supermajority shareholder vote to approve mergers and other significant business combinations.

3i. Director and Officer Liability Protection

Management proposals typically seek shareholder approval to adopt an amendment to the company's charter to eliminate or limit the personal liability of directors to the company and its shareholders for monetary damages for any breach of fiduciary duty to the fullest extent permitted by state law. In contrast, shareholder proposals seek to provide for personal monetary liability for fiduciary breaches arising from gross negligence. While TBF recognizes that a company may have a more difficult time attracting and retaining directors if they are subject to personal monetary liability, TBF believes the great responsibility and authority of directors justifies holding them accountable for their actions. Each proposal addressing director liability will be evaluated consistent with this philosophy. TBF may support these proposals

when the company persuasively argues that such action is necessary to attract and retain directors, but TBF may often oppose management proposals and support shareholder proposals in light of our philosophy of promoting director accountability.

- Vote **against** proposals to limit or eliminate entirely director and officer liability for (i) a breach of the duty of loyalty, (ii) acts or omissions not in good faith or involving intentional misconduct or knowing violations of the law, (iii) acts involving the unlawful purchases or redemptions of stock, (iv) the payment of unlawful dividends, or (v) the receipt of improper personal benefits.

3j. Director and Officer Indemnification

Indemnification is the payment by a company of the expenses of directors who become involved in litigation as a result of their service to a company. Proposals to indemnify a company's directors differ from those to eliminate or reduce their liability because with indemnification directors may still be liable for an act or omission, but the company will bear the expense. TBF may support these proposals when the company persuasively argues that such action is necessary to attract and retain directors, but will generally oppose indemnification when it is being proposed to insulate directors from actions they have already taken.

- Vote **against** indemnification proposals that would expand coverage beyond just legal expenses to acts, such as negligence, that are more serious violations of fiduciary obligations than mere carelessness.
- Vote **for** only those proposals that provide such expanded coverage in cases when a director's or officer's legal defense was unsuccessful if: (1) the director was found to have acted in good faith and in a manner that he reasonably believed was in the best interests of the company, and (2) only if the director's legal expenses would be covered.

4. Miscellaneous Governance Provisions

4a. Confidential Voting

Confidential voting, or voting by secret ballot, is one of the key structural issues in the proxy system. It ensures that all votes are based on the merits of proposals and cast in the best interests of fiduciary clients and pension plan beneficiaries. In a confidential voting system, only vote tabulators and inspectors of election may examine individual proxies and ballots; management and shareholders are given only vote totals. In an open voting system, management can determine who has voted against its nominees or proposals and then re-solicit those votes before the final vote count. As a result, shareholders can be pressured to vote with management at companies with which they maintain, or would like to establish, a business relationship. Confidential voting also protects employee shareholders from retaliation. Shares held by employee stock ownership plans, for example, are important votes that are typically voted by employees.

- Vote **for** management proposals to adopt confidential voting.

4b. Bundled Proposals

- Review on a **case-by-case** basis bundled or “conditioned” proxy proposals. In the case of items that are conditioned upon each other, examine the benefits and costs of the packaged items. In instances where the joint effect of the conditioned items is not in shareholders’ best interests, vote against the proposals. If the combined effect is positive, support such proposals.

4c. Adjourn Meeting if Votes are Insufficient

Companies may ask shareholders to adjourn a meeting in order to solicit more votes. Generally, shareholders already have enough information to make their vote decisions. Once their votes have been cast, there is no justification for spending more money to continue pressing shareholders for more votes.

- Vote **against** proposals to adjourn the meeting when votes are insufficient.

4d. Changing Corporate Name

Proposals to change a company’s name are generally routine matters. Generally, the name change reflects a change in corporate direction or the result of a merger agreement.

- Vote **for** changing the corporate name.

4e. Other Business

Other business proposals are routine items to allow shareholders to raise other issues and discuss them at the meeting. Only issues that may be legally discussed at meetings may be raised under this authority. However, shareholders cannot know the content of these issues so they are generally not supported.

- Vote **against** other business proposals.

5. Capital Structure

The equity in a corporate enterprise (that is, the residual value of the company's assets after the payment of all debts) belongs to the shareholders. Equity securities may be employed, or manipulated, in a manner that will ultimately enhance or detract from shareholder value. As such, certain actions undertaken by management in relation to a company's capital structure can be of considerable significance to shareholders. Changes in capitalization usually require shareholder approval or ratification.

5a. Common Stock Authorization

State statutes and stock exchanges require shareholder approval for increases in the number of common shares. Corporations increase their supply of common stock for a variety of ordinary business purposes: raising new capital, funding stock compensation programs, business acquisitions, and implementation of stock splits or payment of stock dividends.

Proposals to increase authorized common stock are evaluated on a case-by-case basis, taking into account the size of the increase, the company's need for additional shares, and the company's performance as compared with their industry peers. A company's need for additional shares is gauged by measuring shares outstanding and reserved as a percentage of the total number of shares currently authorized for issuance. For industry peer comparisons, TBF relies on data compiled by ISS on common stock authorization proposals for companies comprising 98 percent of the investable U.S. equity market. Companies are classified into one of 11 peer groups and each company's performance is measured on the basis of three-year total shareholder returns.

TBF evaluates on a case-by-case basis on proposals when the company intends to use the additional stock to implement a poison pill or other takeover defense.

- Review on a **case-by-case** basis proposals to increase the number of shares of common stock authorized for issue.

5b. Stock Distributions: Splits and Dividends

- Vote **for** management proposals to increase common share authorization for a stock split, provided that the increase in authorized shares would not result in an excessive number of shares available for issuance given a company's industry and performance as measured by total shareholder returns.

5c. Reverse Stock Splits

Reverse splits exchange multiple shares for a lesser amount to increase share price. Increasing share price is sometimes necessary to restore a company's share price to a level that will allow it to be traded on the national stock exchanges. In addition, some brokerage houses have a policy of not monitoring or investing in very low priced shares. Reverse stock splits help maintain stock liquidity.

- We will review management proposals to implement a reverse stock split on a **case-by-case** basis.

- We will generally vote **for** a reverse stock split if management provides a reasonable justification for the split and the company's authorized shares are adjusted accordingly.

5d. Blank Check Preferred Authorization

Preferred stock is an equity security, which has certain features similar to debt instruments, such as fixed dividend payments, seniority of claims to common stock, and in most cases no voting rights. The terms of blank check preferred stock give the board of directors the power to issue shares of preferred stock at their discretion—with voting rights, conversion, distribution and other rights to be determined by the board at time of issue. Blank check preferred stock can be used for sound corporate purposes, but could be used as a device to thwart hostile takeovers without shareholder approval.

- Vote **for** proposals to create blank check preferred stock in cases when the company expressly states that the stock will not be used as a takeover defense or carry superior voting rights.
- Review on a **case-by-case** basis proposals that would authorize the creation of new classes of preferred stock with unspecified voting, conversion, dividend and distribution, and other rights.
- Review on a **case-by-case** basis proposals to increase the number of authorized blank check preferred shares. If the company does not have any preferred shares outstanding we will vote against the requested increase.
- Vote **for** requests to require shareholder approval for blank check authorizations.

5e. Adjustments to Par Value of Common Stock

Stock that has a fixed per share value that is on its certificate is called par value stock. The purpose of par value stock is to establish the maximum responsibility of a stockholder in the event that a corporation becomes insolvent. Proposals to reduce par value come from certain state level requirements for regulatory industries such as banks, and other legal requirements relating to the payment of dividends.

- Vote **for** management proposals to reduce the par value of common stock.

5f. Preemptive Rights

Preemptive rights permit shareholders to share proportionately in any new issues of stock of the same class. These rights guarantee existing shareholders the first opportunity to purchase shares of new issues of stock in the same class as their own and in the same proportion. The absence of these rights could cause stockholders' interest in a company to be reduced by the sale of additional shares without their knowledge and at prices unfavorable to them. Preemptive rights, however, can make it difficult for corporations to issue large blocks of stock for general corporate purposes. Both corporations and shareholders benefit when corporations are able to arrange issues without preemptive rights that do not result in a substantial transfer of control.

- Review on a **case-by-case** basis proposals to create or abolish preemptive rights. In evaluating proposals on preemptive rights, we look at the size of a company and the characteristics of its shareholder base.

5g. Debt Restructurings

Proposals to increase common and/or preferred shares and to issue shares as part of a debt restructuring plan will be analyzed considering the following issues:

Dilution—How much will ownership interest of existing shareholders be reduced, and how extreme will dilution to any future earnings be?

Change in Control—Will the transaction result in a change in control of the company?

Bankruptcy—Generally, approve proposals that facilitate debt restructurings unless there are clear signs of self-dealing or other abuses.

- Review on a **case-by-case** basis proposals regarding debt restructurings.

5h. Share Repurchase Programs

- Vote **for** management proposals to institute open-market share repurchase plans in which all shareholders may participate on equal terms.

6. Executive and Director Compensation

As executive pay levels continue to soar, non-salary compensation remains one of the most sensitive and visible corporate governance issues. Although shareholders have little say about how much the CEO is paid in salary and bonus, they do have a major voice in approving stock option and incentive plans.

Without a doubt, stock option plans transfer significant amounts of wealth from shareholders to employees, and in particular to executives and directors. Rightly, the cost of these plans must be in line with the anticipated benefits to shareholders. Clearly, reasonable limits must be set on dilution as well as administrative authority. In addition, shareholders must consider the necessity of the various pay programs and examine the appropriateness of award types. Consequently, the pros and cons of these proposals necessitate a case-by-case evaluation.

Factors that increase the cost (or have the potential to increase the cost) of plans to shareholders, include: excessive dilution; options awarded at below-market discounts; permissive policies on pyramiding; restricted stock giveaways that reward tenure rather than results; sales of shares on concessionary terms; blank-check authority for administering committees; option repricing or option replacements; accelerated vesting of awards in the event of defined changes in corporate control; stand-alone stock appreciation rights; loans or other forms of assistance; or evidence of improvident award policies.

Positive plan features that can offset costly features include: plans with modest dilution potential (i.e. appreciably below double-digit levels), bars to pyramiding and related safeguards for investor interests. Also favorable are performance programs of two or more year duration; bonus schemes that pay off in non-dilutive, fully deductible cash; 401K and other thrift or profit sharing plans; and tax-favored employee stock purchase plans. In general, we believe that stock plans should afford incentives, not sure-fire, risk-free rewards.

6a. Equity-Based Incentive Plans

The analysis of compensation plans focuses primarily on the transfer of shareholder wealth (the dollar cost of pay plans to shareholders) instead of simply focusing on voting power dilution. Every award type is valued. An estimated dollar cost for the proposed plan and all continuing plans is derived. This cost, dilution to shareholders' equity, will also be expressed as a percentage figure for the transfer of shareholder wealth and will be considered along with dilution to voting power.

Once the cost of the plan is estimated, it is compared to a company-specific dilution cap. The allowable cap is industry-specific, market cap-based, and pegged to the average amount paid by companies performing in the top quartile of their peer groupings. To determine allowable caps, companies are categorized according to Global Industry Classification Standard (GICS) groups. Top quartile performers for each group are identified on the basis of five-year total shareholder returns. Industry-specific cap equations are developed using regression analysis to determine those variables that have the strongest correlation to shareholder value transfer. Industry equations are used to determine a company-specific allowable cap; this is accomplished by plugging company-specific data into the appropriate industry equation to reflect size, performance, and levels of cash compensation. In addition, we prefer that companies take additional steps to improve the incentive value of the plan, particularly those

that aim to encourage executives to focus on long term performance. Holding periods, vesting provisions, and additional performance criteria are therefore encouraged.

Vote recommendations are primarily determined by this quantitative analysis. If the proposed plan cost is above the allowable cap, an **against** recommendation is made. If the proposed cost is below the allowable cap, a vote **for** the plan is recommended unless the plan violates the repricing guidelines or there are other significant concerns with the plan. If the company has a history of repricing options or has the express ability to reprice underwater stock options without first securing shareholder approval under the proposed plan, the plan receives an **against** vote—even in cases where the plan cost is considered acceptable based on the quantitative analysis. TBF will also give special consideration to companies that have been unresponsive to shareholder concerns with executive compensation issues.

In the event there is a disconnect between the CEO's pay and performance, where the main source for the pay increase is equity-based and the CEO participates in the plan being voted on, specifically, if more than half of the increase in total direct compensation is attributable to the equity component, TBF will generally recommend **against** the equity plan in which the CEO participates. In the case of a disconnect between the CEO's pay and performance, TBF will also recommend **withhold** votes from the compensation committee members whether or not an equity plan is on the ballot.

TBF will also consider the average three-year burn rate of companies in evaluating the costs of equity plans. Annual burn-rate levels are becoming important to institutional investors. Burn-rate, also known as run rate, is another measure of dilution that shows how rapid the company is depleting its shares reserved for equity compensation plans. It also captures the annual cost of granting equity to employees in terms of shares. The burn rate policy shall apply when there is an equity plan on the ballot.

- Votes with respect to compensation plans should be determined on a **case-by-case** basis.

6b. Approval of Cash or Cash-and-Stock Bonus Plans

Cash bonus plans can be an important part of an executive's overall pay package, along with stock-based plans tied to long-term total shareholder returns. Over the long term, stock prices are an excellent indicator of management performance. However, other factors, such as economic conditions and investor reaction to the stock market in general and certain industries in particular, can greatly impact the company's stock price. As a result, a cash bonus plan can effectively reward individual performance and the achievement of business unit objectives that are independent of short-term market share price fluctuations.

- Vote **for** plans where the performance measures included under the plan are appropriate, the plan is administered by a committee of independent outsiders, and the preservation of the full deductibility of all compensation paid reduces the company's corporate tax obligation.

6c. Employee Stock Purchase Plans

Employee stock purchase plans enable employees to become shareholders, which gives them a stake in the company's growth. However, purchase plans are beneficial only when they are well balanced and in the best interests of all shareholders. From a shareholder's perspective, plans with offering periods of 27 months or less are preferable. Plans with longer offering

periods remove too much of the market risk and could give participants excessive discounts on their stock purchases that are not offered to other shareholders.

Qualified employee stock purchase plans qualify for favorable tax treatment under Section 423 of the Internal Revenue Code. Such plans must be broad-based, permitting all full-time employees to participate. Some companies also permit part-time staff to participate. Qualified ESPP plans will soon have an expense charge to the income statements. Therefore, some companies offer nonqualified ESPP.

For nonqualified ESPPs, companies provide a match to employees' contributions instead of a discount in stock price. Also, limits are placed on employees' contributions. Some companies provide a maximum dollar value for the year and others specify the limits in terms of a percent of base salary, excluding bonus or commissions. For plans that do not qualify under Section 423 of the IRC, a plan participant will not recognize income by participating in the plan, but will recognize ordinary compensation income for federal income tax purposes at the time of the purchase.

- Vote **for** qualified employee stock purchase plans with an offering period of 27 months or less when voting power dilution is ten percent or less.
- Vote **against** qualified employee stock purchase plans with an offering period of greater than 27 months or voting power dilution of greater than ten percent.
- Vote **for** nonqualified employee stock purchase plans with broad-based participation, limits on employee contribution, company matching of up to 25 percent, and no discount on the stock price on the date of purchase.
- Vote **against** nonqualified employee stock purchase plans without broad-based participation, or when company matching exceeds 25 percent, or discounts are offered on the stock price at the date of purchase.

6d. Outside Director Stock Awards / Options in Lieu of Cash

These proposals seek to pay outside directors a portion of their compensation in stock rather than cash. By doing this, a director's interest may be more closely aligned with those of shareholders.

- Vote **for** proposals that seek to pay outside directors a portion of their compensation in stock rather than cash.

7. Mergers and Corporate Restructurings

A merger occurs when one corporation is absorbed into another and ceases to exist. The surviving company gains all the rights, privileges, powers, duties, obligations and liabilities of the merged corporation. The shareholders of the absorbed company receive stock or securities of the surviving company or other consideration as provided by the plan of merger. Mergers, consolidations, share exchanges, and sale of assets are friendly in nature, which is to say that both sides have agreed to the combination or acquisition of assets.

Shareholder approval for an acquiring company is generally not required under state law or stock exchange regulations unless the acquisition is in the form of a stock transaction which

would result in the issue of 20 percent or more of the acquirer's outstanding shares or voting power, or unless the two entities involved require that shareholders approve the deal. Under most state laws, however, a target company must submit merger agreements to a shareholder vote. Shareholder approval is required in the formation of a consolidated corporation.

7a. Mergers and Acquisitions

When voting on mergers and acquisitions we will take into account at least the following:

- anticipated financial and operating benefits;
 - offer price (cost vs. premium);
 - prospects of the combined companies;
 - how the deal was negotiated;
 - the opinion of the financial advisor;
 - potential conflicts of interest between management's interests and shareholders' interests;
 - changes in corporate governance and their impact on shareholder rights; and
 - impact on community stakeholders and workforce including impact on stakeholders, such as job loss, community lending, equal opportunity, impact on environment.
- Votes on mergers and acquisitions are considered on a **case-by-case** basis.

7b. Voting on State Takeover Statutes

- We review on a **case-by-case** basis proposals to opt in or out of state takeover statutes (including control share acquisition statutes, control share cash-out statutes, freezeout provisions, fair price provisions, stakeholder laws, poison pill endorsements, severance pay and labor contract provisions, antigreenmail provisions, and disgorgement provisions).
- We generally vote **for** opting into stakeholder protection statutes if they provide comprehensive protections for employees and community stakeholders. We would be less supportive of takeover statutes that only serve to protect incumbent management from accountability to shareholders and which negatively influence shareholder value.

7c. Voting on Reincorporation Proposals

- Proposals to change a company's state of incorporation should be examined on a **case-by-case** basis. Review management's rationale for the proposal, changes to the charter/bylaws, and differences in the state laws governing the corporations. Reincorporations into "tax havens" will be given special consideration.

7d. Corporate Restructuring

- Votes on corporate restructuring proposals, including minority squeezeouts, leveraged buyouts, spin-offs, liquidations, and asset sales, should be considered on a **case-by-case** basis.

7e. Spin-offs

- Votes on spin-offs should be considered on a **case-by-case** basis depending on the tax and regulatory advantages, planned use of sale proceeds, market focus, and managerial incentives.

7f. Asset Sales

- Votes on asset sales should be made on a **case-by-case** basis after considering the impact on the balance sheet/working capital, value received for the asset, and potential elimination of diseconomies.

7g. Liquidations

- Votes on liquidations should be made on a **case-by-case** basis after reviewing management's efforts to pursue other alternatives, appraisal value of assets, and the compensation plan for executives managing the liquidation.

7h. Appraisal Rights

Rights of appraisal provide shareholders who do not approve of the terms of certain corporate transactions the right to demand a judicial review in order to determine the fair value for their shares. The right of appraisal generally applies to mergers, sales of essentially all assets of the corporation, and charter amendments that may have a materially adverse effect on the rights of dissenting shareholders.

- Vote **for** proposals to restore, or provide shareholders with, rights of appraisal.

7i. Going Private Transactions

- Vote **case-by-case** on going private transactions, taking into account the following: offer price/premium, fairness opinion, how the deal was negotiated, conflicts of interest, other alternatives/offers considered, and non-completion risk.
- Vote **case-by-case** on “going dark” transactions, determining whether the transaction enhances shareholder value by taking into consideration:
 - Whether the company has attained benefits from being publicly-traded (examination of trading volume, liquidity, and market research of the stock);
 - Cash-out value;
 - Whether the interests of continuing and cashed-out shareholders are balanced; and
 - The market reaction to public announcement of transaction.

8. Mutual Fund Proxies

8a. Election of Trustees

Votes on trustee nominees are made on a **case-by-case** basis, votes on the entire board of directors will examine the following factors:

Votes should be WITHHELD from directors who:

- 1) attend less than 75 percent of the board and committee meetings without a valid excuse for the absences
- 2) implement or renew a dead-hand or modified dead-hand poison pill
- 3) ignore a shareholder proposal that is approved by a majority of the votes cast
- 4) have failed to act on takeover offers where the majority of the shareholders have tendered their shares

8b. Investment Advisory Agreement

An investment advisory agreement is an agreement between a mutual fund and its financial advisor under which the financial advisor provides investment advice to the fund in return for a fee based on the fund's net asset size.

- Votes on investment advisory agreements should be evaluated on a **case-by-case** basis.

8c. Fundamental Investment

Fundamental investment restrictions are limitations within a fund's articles of incorporation that limit the investment practices of the particular fund.

- Votes on amendments to a fund's fundamental investment restrictions should be evaluated on a **case-by-case** basis.

8d. Distribution Agreements

Distribution agreements are agreements between a fund and its distributor which provide that the distributor is paid a fee to promote the sale of the fund's shares.

- Votes on distribution agreements should be evaluated on a **case-by-case** basis.

SHAREHOLDER PROPOSALS

9. Corporate Governance and Executive Compensation

9a. Shareholder meetings/housekeeping issues

9a-1. Rotate Annual Meeting:

The argument in favor of rotating annual meeting location sites is to enable a greater number of shareholders to attend and participate in the meeting.

- Vote **for** shareholder proposals to rotate the annual meeting of shareholders or change the date and time of the meeting.

9b. Board-Related Issues

9b-1. Declassify Board of Directors:

Under a classified board structure only one class of directors would stand for election each year, and the directors in each class would generally serve three-year terms. Although staggered boards can provide continuity for companies at the board level, there are also a number of downsides to the structure. First, a classified board can also be used to entrench management and effectively preclude most takeover bids or proxy contests. Board classification forces dissidents and would-be acquirers to negotiate with the incumbent board, which has the authority to decide on offers without a shareholder vote. In addition, when a board is classified, it is difficult to remove individual members for either poor attendance or poor performance; shareholders would only have the chance to vote on a given director every third year when he or she comes up for election. The classified board structure can also limit shareholders' ability to withhold votes from inside directors that sit on key board committee, or to withhold votes from an entire board slate to protest the lack of board diversity. In addition to these concerns, empirical evidence has suggested that such a structure is not in shareholders' best interests from a financial perspective. Studies performed by SEC economists and by academics support the view that classified boards are contrary to shareholder interests. For example, the SEC studied the impact of 649 antitakeover proposals, including classified boards, submitted between 1979 and 1985. Stocks within the group showed an average loss in value of 1.31 percent. While we recognize that there are some advantages to classified boards, based on the latest studies on classified boards, the fact that classified boards can make it more difficult for shareholders to remove individual directors, and the fact that classified boards can be used as an antitakeover device, TBF recommends against the adoption of classified boards.

- Vote **for** proposals to declassify the board the directors.

9b-2. Separate Chairman and CEO:

One of the principle functions of the board is to monitor and evaluate the performance of the CEO. The chairman's duty to oversee management is obviously compromised when he is required to monitor himself. Generally we vote for shareholder proposals that would require the positions of chairman and CEO to be held by different persons.

- Vote **for** shareholder proposals that would require the positions of chairman and CEO to be held by different persons.

9b-3. Adopt Cumulative Voting:

Most corporations provide that shareholders are entitled to cast one vote for each share owned. Under a cumulative voting scheme the shareholder is permitted to have one vote per share for each director to be elected. Shareholders are permitted to apportion those votes in any manner they wish among the director candidates. Shareholders have the opportunity to elect a minority representative to a board through cumulative voting, thereby ensuring representation for all sizes of shareholders. For example, if there is a company with a ten-member board and 500 shares outstanding—the total number of votes that may be cast is 5,000. In this case a shareholder with 51 shares (10.2 percent of the outstanding shares) would be guaranteed one board seat because all votes may be cast for one candidate. Cumulative voting therefore makes it easier for dissidents to be elected to a board.

- Vote **for** shareholder proposals to permit cumulative voting.

9b-4. Majority of Independent Directors:

TBF believes that a board independent from management is of vital importance to a company and its shareholders. Accordingly, TBF will cast votes in a manner that shall encourage the independence of boards. Independence will be evaluated based upon a number of factors, including: employment by the company or an affiliate in an executive capacity within the last five years; past or current employment by a firm that is one of the company's paid advisors or consultants; personal services contract with the company; family relationships of an executive or director of the company; interlocks with other companies on which the company's chairman or chief executive officer is also a board member, service with a non-profit that receives significant contributions from the company.

- Vote **for** shareholder proposals that request that the board be comprised of a majority of independent directors.
- Vote **for** shareholder proposals to strengthen the definition of independence for board directors.

9b-5. Independent Committees:

Most corporate governance experts agree that the key board committees (audit, compensation, and nominating/corporate governance) of a corporation should include only independent directors. The independence of key committees has been encouraged by regulation. For example, the NYSE requires that the audit committees of listed companies to be entirely "independent." SEC proxy rules require disclosure of any members of a compensation committee who have significant business relationships with the company or interlocking directorships. TBF believes that initiatives to increase the independent representation of these committees or require that these committees be independent should be supported.

- Vote **for** shareholder proposals that request that the board audit, compensation and/or nominating committees include independent directors exclusively.

9b-6. Adopt Director Term Limits:

Those who support term limits argue that this requirement would bring new ideas and approaches to a board. However, we prefer to look at directors and their contributions to the board individually rather than impose a strict rule.

- Vote **against** shareholder proposals to limit the tenure of outside directors.

9b-7. Implement Director Share Ownership Requirement:

Corporate directors should own some amount of stock of the companies on which they serve as board members. It is a simple way to align the interests of directors and shareholders. However, many highly qualified individuals such as academics and clergy, might not be able to meet this requirement. A preferred solution is to look at the board nominees individually and take stock ownership into consideration when voting on candidates. Vote against shareholder proposals requiring directors to own a minimum amount of company stock in order to qualify as a director or to remain on the board.

- Vote **against** shareholder proposals that seek to establish mandatory share ownership requirements for directors.
- Vote **for** shareholder proposals that ask directors to accept a certain percentage of their annual retainer in the form of stock.

9b-8. Majority Threshold Voting Requirement for Directors:

Shareholders have expressed strong support for precatory shareholder proposals on majority threshold voting. TBF believes shareholders should have a greater voice in regard to the election of directors and believes majority threshold voting represents a viable alternative to the current plurality system in the U.S.

- Generally vote **for** reasonably crafted shareholders proposals calling for directors to be elected with an affirmative majority of votes cast and/or the elimination of the plurality standard for electing directors (including binding resolutions requesting that the board amend the company's bylaws), provided the proposal includes a carve-out for a plurality voting standard when there are more director nominees than board seats (e.g. contested elections) and it does not conflict with the state law where the company is incorporated.
- Consider voting **against** the shareholder proposal if the company has adopted formal corporate governance principles that present a meaningful alternative to the majority voting standard and provide an adequate response to both new nominees as well as incumbent nominees who fail to receive a majority of votes cast.

9c. Shareholder Rights & Board Accountability

9c-1. Reduce Supermajority Vote Requirements:

Supermajority provisions violate the principle that a simple majority of voting shares should be all that is necessary to effect change regarding a company.

- Vote **for** proposals to lower supermajority shareholder vote requirements for charter and bylaw amendments.

- Vote **for** proposals to lower supermajority shareholder vote requirements for mergers and other significant business combinations.

9c-2. Remove Antitakeover Provisions:

There are numerous antitakeover mechanisms available to corporations that can make takeovers prohibitively expensive for a bidder or at least guarantee that all shareholders are treated equally. The debate over antitakeover devices centers on whether these devices enhance or detract from shareholder value. One theory argues that a company's board, when armed with these takeover protections, may use them as negotiating tools to obtain a higher premium for shareholders. The opposing view maintains that managements afforded such protection are more likely to become entrenched than to actively pursue the best interests of shareholders. Such takeover defenses also serve as obstacles to the normal functioning of the marketplace which, when operating efficiently, should replace incapable and poorly performing managements.

- Vote **for** shareholder proposals that seek to remove antitakeover provisions.

9c-3. Submit Poison Pill (Shareholder Rights Plan) to a Vote:

Shareholder rights plans, typically known as poison pills, take the form of rights or warrants issued to shareholders and are triggered when a potential acquiring stockholder reaches a certain threshold of ownership. When triggered, poison pills generally allow shareholders to purchase shares from, or sell shares back to, the target company (flip in pill) and/or the potential acquirer (flip-out pill) at a price far out of line with fair market value. Depending on the type of pill, the triggering event can either transfer wealth from the target company or dilute the equity holdings of current shareholders. Poison pills insulate management from the threat of a change in control and provide the target board with veto power over takeover bids. Because poison pills greatly alter the balance of power between shareholders and management, shareholders should be allowed to make their own evaluation of such plans.

- vote **for** shareholder proposals that ask a company to submit its poison pill for shareholder ratification.
- review on a **case-by-case** basis shareholder proposals to redeem a company's poison pill.
- Vote **case-by-case** on proposals to amend an existing shareholder rights plan.

9c-4. Confidential Voting:

Confidential voting, or voting by secret ballot, is one of the key structural issues in the proxy system. It ensures that all votes are based on the merits of proposals and cast in the best interests of fiduciary clients and pension plan beneficiaries. In a confidential voting system, only vote tabulators and inspectors of election may examine individual proxies and ballots; management and shareholders are given only vote totals. In an open voting system, management can determine who has voted against its nominees or proposals and then resolicit those votes before the final vote count. As a result, shareholders can be pressured to vote with management at companies with which they maintain, or would like to establish, a business relationship. Confidential voting also protects employee shareholders from retaliation. Shares held by employee stock ownership plans, for example, are important votes that are typically voted by employees.

The confidential ballot ensures that voters are not subject to real or perceived coercion. In an open voting system management can determine who has voted against its nominees or proposals before a final vote count. As a result, shareholders can be pressured to vote with management at companies with which they maintain or would like to establish a business relationship.

- Vote **for** shareholder proposals that request corporations to adopt confidential voting, use independent tabulators and use independent inspectors of election as long as the proposals include clauses for proxy contests as follows: *In the case of a contested election, management is permitted to request that the dissident group honor its confidential voting policy. If the dissidents agree, the policy remains in place. If the dissidents do not agree, the confidential voting policy is waived.*

9c-5. Written Consent/Special Meeting:

Consent solicitations allow shareholders to vote on and respond to shareholder and management proposals by mail without having to act at a physical meeting. A consent card is sent by mail for shareholder approval and only requires a signature for action. Some corporate bylaws require supermajority votes for consents while at others standard annual meeting rules apply. Shareholders may lose the ability to remove directors, initiate a shareholder resolution, or respond to a beneficial offer without having to wait for the next scheduled meeting if they are unable to act at a special meeting of their own calling. Most state corporation statutes allow shareholders to call a special meeting when they want to take action on certain matters that arise between regularly scheduled annual meetings. Sometimes this right applies only if a shareholder or a group of shareholders own a specified percentage of shares, with 10 percent being the most common. Shareholders may lose the ability to remove directors, initiate a shareholder resolution, or respond to a beneficial offer without having to wait for the next scheduled meeting if they are unable to act at a special meeting of their own calling.

- Vote **for** shareholder proposals that provide for shareholder ability to take action by written consent and/or call a special meeting.

9c-6. Elect Auditors/ Ensure Auditor Independence:

These shareholder proposals request that the board allow shareholders to elect the company's auditor at each annual meeting. Annual election of the outside accountants is standard practice. While it is recognized that the company is in the best position to evaluate the competence of the outside accountants, we believe that outside accountants must ultimately be accountable to shareholders. Furthermore, audit committees have been the subject of a report released by the Blue Ribbon Commission on Improving the Effectiveness of Corporate Audit Committees in conjunction with the NYSE and the National Association of Securities Dealers. The Blue Ribbon Commission concluded that audit committees must improve their current level of oversight of independent accountants. Given the rash of accounting irregularities that were not detected by audit panels or auditors, shareholder ratification is an essential step in restoring investor confidence. TBF believes that shareholders should have the ability to ratify the auditor on an annual basis.

- Vote **for** proposals that would allow shareholders to elect the auditors.
- Vote **for** proposals that ask a company to adopt a policy on auditor independence
- Vote **for** proposals that seek to limit the non-audit services provided by the company's auditor

- Vote **for** shareholder proposals to allow shareholders to vote on auditor ratification.

9c-7. Auditor Rotation:

To minimize any conflict of interest that may rise between the company and its auditor, TBF supports the rotation of auditors. Currently, SEC rules provide that partners should be rotated every five years. However, TBF also believes that the long tenure of audit firms at U.S. companies can be problematic.

- Vote **for** shareholder proposals to rotate company's auditor every five years or more. TBF believes that proposing a rotation period less than five years is unreasonably restrictive and may negatively affect audit quality and service while increasing expense.

9d. Compensation Issues

9d-1. Increase Disclosure of Executive Compensation:

The SEC requires that companies disclose, in their proxy statements, the salaries of the top five corporate executives (who make at least \$100,000 a year). Companies also disclose their compensation practices and details of their stock-based compensation plans. While this level of disclosure is helpful, it often does not provide a complete picture of the company's compensation practices. For shareholders to make informed decisions on compensation levels, they need to have clear, concise information at their disposal. Increased disclosure will help ensure that management (1) has legitimate reasons for setting specific pay levels, and (2) is held accountable for its actions.

- Vote **for** shareholder proposals seeking increased disclosure on executive compensation issues including the preparation of a formal report on executive compensation practices and policies.

9d-2. Limit Executive Compensation:

Proposals that seek to limit executive or director compensation usually focus on the absolute dollar figure of the compensation or focus on the ratio of compensation between the executives and the average worker of a specific company. A *Business Week* article cited by the AFL-CIO has stated that the average CEO of a major corporation made 42 times the pay of a typical American factory worker in 1980. By 1990, that ratio had more than doubled to 85 times the average factory wage. Eight years later the ratio was a "staggering" 419 times the average factory wage in 1998. According to the AFL-CIO, if this rate of growth were to continue, the average CEO's salary would equal that of about 150,000 American factory workers in the year 2050. Proponents argue that the exponential growth of executive salaries is not in the best interests of shareholders, especially when that pay is exorbitant when compared to the compensation of other workers.

- Vote **for** proposals to prepare reports seeking to compare the wages of a company's lowest paid worker to the highest paid workers.
- Vote **case-by-case** on proposals that seek to establish a fixed ratio between the company's lowest paid workers and the highest paid workers.

9d-3. Prohibit/Require Shareholder Approval for Option Repricing:

Repricing involves the reduction of the original exercise price of a stock option after the fall in share price. TBF does not support repricing since it undermines the incentive purpose of the plan. The use of options as incentive means that employees must bear the same risks as shareholders in holding these options. Shareholder resolutions calling on companies to abandon the practice of repricing or to submit repricings to a shareholder vote will be supported.

- Vote **for** shareholder proposals seeking to limit repricing.
- Vote **for** shareholder proposals asking the company to have option repricings submitted for shareholder ratification.

9d-4. Severance Agreements/ Golden Parachutes:

Golden and tin parachutes are designed to protect the employees of a corporation in the event of a change in control. With Golden Parachutes senior level management employees receive a pay out during a change in control at usually two to three times base salary. Increasingly companies that have golden parachute agreements for executives are extending coverage for all their employees via tin parachutes. The SEC requires disclosure of all golden parachutes arrangements in the proxy, such disclosure is not required of tin parachutes.

- Vote **for** shareholder proposals to have golden and tin parachutes submitted for shareholder ratification.

9d-5. Cash Balance Plans:

A cash balance plan is a defined benefit plan that treats an earned retirement benefit as if it were a credit from a defined contribution plan, but which provides a stated benefit at the end of its term. Because employer contributions to these plans are credited evenly over the life of a plan, and not based on a seniority formula they may reduce payouts to long-term employees who are currently vested in plans.

Cash-balance pension conversions are undergoing congressional and federal agency scrutiny in the wake of high-profile EEOC complaints on age discrimination and employee anger at companies like IBM. While significant change is unlikely in the short-term, business interests are worried enough that the National Association of Manufacturers and other business lobbies are forming a Capitol Hill coalition to preserve the essential features of the plans and to overturn a recent IRS ruling. Driving the push behind conversions from traditional pension plans to cash-balance plans are the substantial savings that companies generate in the process. Critics point out that this savings is gained at the expense of the most senior employees. Resolutions call on corporate boards to establish a committee of outside directors to prepare a report to shareholders on the potential impact of pension-related proposals now being considered by national policymakers in reaction to the controversy spawned by the plans.

- Vote **for** shareholder proposals calling for non-discrimination in retirement benefits.
- Vote **for** shareholder proposals asking a company to give employees the option of electing to participate in either a cash balance plan or in a defined benefit plan.

9d-6. Performance-Based Options/Indexed Options:

TBF supports compensating executives at a reasonable rate and believes that executive compensation should be strongly correlated to performance. TBF supports option plans that provide challenging performance objectives and serve to motivate executives to excellent performance, and oppose plans that offer unreasonable benefits to executives that are not available to any other shareholders. TBF supports stock options as a significant component of compensation, but believes that there should be limits on grants to both individuals and the company's top executives, including: (1) no individual may be granted more than five percent of the total options granted in a single year, and (2) a company's group of executive officers may not be granted more than ten percent of the total options granted in the single year.

- Vote **for** shareholder proposals to link executive pay to performance, including the use of indexed options and other indicators.

9d-7. Link Compensation to Non-Financial Factors:

Proponents of these proposals feel that social criteria should be factored into the formulas used in determining compensation packages for executives. These shareholders are looking for companies to review current compensation practices and to include social performance criteria, such as increasing investment in order to revitalize "distressed areas," meeting environmental goals, and accounting for "poor corporate citizenship" when evaluating executive compensation. One of the companies cited by proponents as an example sets annual goals such as employee satisfaction, corporate responsibility, diversity and customer satisfaction as part of a written policy used in linking compensation with financial performance and non-financial bases for evaluation. Proponents believe that many of these factors such as poor environmental performance, workplace lawsuits, etc. are likely to have an impact on the company's financial performance in the future if they are not addressed adequately today. As a result, shareholders believe they should be considered along with traditional financial considerations when determining executive pay.

- Vote **for** shareholder proposals calling for the preparation of a report on the feasibility of linking executive pay to nonfinancial factors, such as social and environmental goals.
- Vote **for** shareholder proposals seeking to link executive pay to non-financial factors.

9d-8. Expensing of Stock Options:

Beginning in 2002, companies came under intense pressure to expense stock options to reflect the true financial impact of the compensation arrangements on the company's bottom line. Although a number of companies have already moved to expense options, many have not. TBF believes that options expensing provides shareholders with a more accurate view of company performance.

- Vote **for** shareholder proposals asking companies to expense stock options.

9e. Strategic Issues

9e-1. Seek sale of company/assets:

These shareholder proposals generally call for the prompt sale of the company to the highest bidder. Shareholder value maximization proposals that suggest exploring alternatives, including a sale or merger, should be considered on a case-by-case basis. While under normal

circumstances the decision to buy, sell, or engage in a merger is best left in the hands of management and the board, it is recognized that certain situations may justify the adoption of such proposals, such as a prolonged period of poor or sluggish performance with no turnaround in sight. Support of such proposals is further justified in cases where the board and management have become entrenched. Adoption of poison pills, golden parachutes, and other antitakeover provisions in the face of an attractive offer may be signs of entrenchment.

- We vote on a **case-by-case** basis proposals that seek the sale of the company or company assets.

9e-2. Hire advisor/maximize shareholder value:

These shareholder proposals recommend that the board engage the services of a nationally recognized investment banker to explore all alternatives to enhance shareholder value, including the possible sale or merger of the company. Shareholder value maximization proposals that suggest exploring alternatives, including a sale or merger, should be considered on a case-by-case basis. While under normal circumstances the decision to buy, sell, or engage in a merger is best left in the hands of management and the board, it is recognized that certain situations may justify the adoption of such proposals, such as a prolonged period of poor or sluggish performance with no turnaround in sight. Support of such proposals is further justified in cases where the board and management have become entrenched. Adoption of poison pills, golden parachutes, and other antitakeover provisions in the face of an attractive offer may be signs of entrenchment.

- We vote on a **case-by-case** basis proposals that request the company hire an advisor to maximize shareholder value.

9e-3. Convert closed-end fund to open-end fund:

Although, approval of these proposals would eliminate the discount at which the fund's shares trade. The costs associated with converting the fund, in addition to the potential risks to long-term shareholder value, outweigh the potential benefits of the conversion.

- Vote **case-by-case** on shareholder proposals to convert a closed-end fund to an open-end fund.

10. Social & Environmental Proposals

Socially responsible shareholder resolutions are receiving a great deal more attention from institutional shareholders today than in the past. In addition to moral and ethical considerations intrinsic to many of these proposals, there is a growing recognition of their potential impact on the economic performance of the company. Among the reasons for this change are:

- the number and variety of shareholder resolutions on social and environmental issues has increased;
- many of the sponsors and supporters of these resolutions are large institutional shareholders with significant holdings, and therefore, greater direct influence on the outcomes;
- the proposals are more sophisticated – better written, more focused, and more sensitive to the feasibility of implementation; and
- investors now understand that a company's response to social and environmental issues can have a serious economic consequences for the company and its shareholders.

In general, TBF votes for shareholder social, workforce, and environmental proposals that create good corporate citizens while enhancing long-term shareholder and stakeholder value. TBF will vote for disclosure reports that seek additional information particularly when it appears companies have not adequately addressed shareholders' social, workforce, and environmental concerns. In determining our vote on shareholder social, workforce—and environmental proposals, we also analyze the following factors:

- whether adoption of the proposal would have either a positive or negative impact on the company's short-term or long-term share value;
- the percentage of sales, assets and earnings affected;
- the degree to which the company's stated position on the issues could affect its reputation or sales, or leave it vulnerable to boycott or selective purchasing;
- whether the issues presented should be dealt with through government or company-specific action;
- whether the company has already responded in some appropriate manner to the request embodied in a proposal;
- whether the company's analysis and voting recommendation to shareholders is persuasive;
- what other companies have done in response to the issue;
- whether the proposal itself is well framed and reasonable;
- whether implementation of the proposal would achieve the objectives sought in the proposal; and
- whether the subject of the proposal is best left to the discretion of the board.

In general, TBF supports proposals that request the company to furnish information helpful to shareholders in evaluating the company's operations. In order to be able to intelligently monitor their investments shareholders often need information best provided by the company in which they have invested. Requests to report such information merit support. Requests to establish special committees of the board to address broad corporate policy and provide forums for

ongoing dialogue on issues including, but not limited to shareholder relations, the environment, occupational health and safety, and executive compensation, will generally be supported, particularly when they appear to offer a potentially effective method for enhancing shareholder value. We will closely evaluate proposals that ask the company to cease certain actions that the proponent believes are harmful to society or some segment of society with special attention to the company's legal and ethical obligations, its ability to remain profitable, and potential negative publicity if the company fails to honor the request. TBF supports shareholder proposals that improve the company's public image, and reduce exposure to liabilities.

10a. Diversity and Workplace Issues

Significant progress has been made in recent years in the advancement of women and racial minorities in the workplace and the establishment of greater protections against discriminatory practices in the workplace. However, discrimination on the basis of race, gender, religion, nationality, and sexual preference continues. Shareholder proposals on diversity may target a company's board nomination procedures or seek greater disclosure on a company's programs and procedures on increasing the diversity of its workforce, and make reference to one or more of the following points:

- Violations of workplace anti-discrimination laws lead to expensive litigation and damaged corporate reputations that are not in the best interests of shareholders.
- Employers already prepare employee diversity reports for the EEOC, so preparing a similar report to shareholders can be done at minimal cost.
- The presence of women, ethnic minorities and union members in workforce and customer pools gives companies with diversified boards a practical advantage over their competitors as a result of their unique perspectives.
- Efforts to include women, minorities and union representatives on corporate boards can be made at reasonable costs.
- Reports can be prepared "at reasonable expense" describing efforts to encourage diversified representation on their boards.
- Board diversification increases the pool of the company's potential investors because more and more investors are favoring companies with diverse boards.
- A commitment to diversity in the workforce can lead to superior financial returns.

10a-1. Add Women and Minorities to Board:

Board diversification proposals ask companies to put systems in place to increase the representation of women, minorities, union members or other underrepresented minority groups on boards of directors. In prior years, board diversification proposals requested that companies nominate board members from certain constituencies, appoint special committees to recommend underrepresented classes of board members, establish board positions reserved for representatives of certain groups, or simply "make greater efforts" to nominate women and ethnic minorities to their boards.

- Vote **for** shareholder proposals that ask the company to take steps to nominate more women and minorities to the board.
- Vote **for** shareholder proposals asking for reports on board diversity.
- Vote **for** shareholder proposals asking companies to adopt nomination charters or amend existing charters to include reasonable language addressing diversity.

10a-2. Prepare Report/Promote EEOC-Related Activities:

Filers of proposals on this issue generally ask a company to make available, at reasonable cost and omitting proprietary information, data the company includes in its annual report to the Equal Employment Opportunity Commission (EEOC) outlining the make-up of its workforce by race, gender and position. Shareholders also ask companies to report on any efforts they are making to advance the representation of women and ethnic minorities in jobs in which they have been historically underrepresented, such as sales and management. The costs of violating federal laws that prohibit discrimination by corporations are high and can affect corporate earnings. The Equal Opportunities Employment Commission does not release the companies' filings to the public, unless it is involved in litigation, and it is difficult to obtain from other sources. Companies need to be sensitive to minority employment issues as the new evolving work force becomes increasingly diverse. This information can be provided with little cost to the company and does not create an unreasonable burden on management.

- Vote **for** shareholder proposals that ask the company to report on its diversity and/or affirmative action programs.
- Vote **for** shareholder proposals calling for legal and regulatory compliance and public reporting related to non-discrimination, affirmative action, workplace health and safety, and labor policies and practices that effect long-term corporate performance.
- Vote **for** shareholder proposals requesting nondiscrimination in salary, wages and all benefits.
- Vote **for** shareholder proposals calling for action on equal employment opportunity and antidiscrimination.

10a-3. Report on Progress Toward Glass Ceiling Commission Recommendations:

In November 1995, the Glass Ceiling Commission (Commission), a bipartisan panel of leaders from business and government, issued a report describing "an unseen yet unbreachable barrier that keeps women and minorities from rising to the upper rungs of the corporate ladder." The Commission recommended that companies take practical steps to rectify this disparity, such as including diversity goals in business plans, committing to affirmative action for qualified employees and initiating family-friendly labor policies. In recent years, shareholders have submitted proposals asking companies to report on progress made toward the Commission's recommendations.

- Vote **for** shareholder proposals that ask the company to report on its progress against the Glass Ceiling Commission's recommendations.
- Vote **for** shareholder proposals seeking to eliminate "glass ceiling" for women and minority employees.

10a-4. Prohibit Discrimination on the Basis of Sexual Orientation:

Federal law does not ban workplace discrimination against gay and lesbian employees, and only a handful of states have enacted workplace protections for these employees. Although an increasing number of US companies have explicitly banned discrimination on the basis of sexual orientation in their equal employment opportunity (EEO) statements, many still do not. Shareholder proposals on this topic ask companies to change the language of their EEO statements in order to put in place anti-discrimination protection for their gay and lesbian employees. In addition, proposals may seek disclosure on a company's general initiatives to create a workplace free of discrimination on the basis of sexual orientation, including reference

to such items as support of gay and lesbian employee groups, diversity training that addresses sexual orientation, and non-medical benefits to domestic partners of gay and lesbian employees.

- Vote **for** shareholder proposals to include language in EEO statements specifically barring discrimination on the basis of sexual orientation.
- Vote **for** shareholder proposals seeking reports on a company's initiatives to create a workplace free of discrimination on the basis of sexual orientation.
- Vote **against** shareholder proposals that seek to eliminate protection already afforded to gay and lesbian employees.

10a-5. Report on/Eliminate Use of Racial Stereotypes in Advertising:

Many companies continue to use racial stereotypes or images perceived as racially insensitive in their advertising campaigns. Filers of shareholder proposals on this topic often request companies to give more careful consideration to the symbols and images that are used to promote the company.

- Vote **for** shareholder proposals seeking more careful consideration of using racial stereotypes in advertising campaigns, including preparation of a report.

10a-6. Report on the Distribution of Stock Options by Gender and Race:

Companies have received requests from shareholders to prepare reports documenting the distribution of the stock options and restricted stock awards by race and gender of the recipient. Proponents of these proposals argue that, in the future, there will be a shift toward basing racial and gender discrimination suits on the distribution of corporate wealth through stock options. The appearance of these proposals is also in response to the nationwide wage gap and under representation of minorities and women at the highest levels of companies.

- Vote **for** shareholder proposals asking companies to report on the distribution of stock options by race and gender of the recipient.

10b. Codes of Conduct, Labor Standards & Human Rights

Investors, international human rights groups, and labor advocacy groups have long been making attempts to safeguard worker rights in the international marketplace. In instances where companies themselves operate factories in developing countries for example, these advocates have asked that the companies adopt global corporate standards that guarantee sustainable wages and safe working conditions for their workers abroad. Companies that contract out portions of their manufacturing operations to foreign companies have been asked to ensure that the products they receive from those contractors have not been made using forced labor, child labor, or sweatshop labor. These companies are asked to adopt formal vendor standards that, among other things, include some sort of monitoring mechanism. Globalization, relocation of production overseas, and widespread use of subcontractors and vendors, often make it difficult to obtain a complete picture of a company's labor practices in global markets. Efforts that seek greater disclosure on a company's labor practices and that seek to establish minimum standards for a company's operations will be supported. In addition, requests for independent monitoring of overseas operations will be supported.

TBF generally supports proposals that call for the adoption and/or enforcement of principles or codes relating to countries in which there are systematic violations of human rights; such as the

use of slave, child, or prison labor; a government that is illegitimate; or there is a call by human rights advocates, pro-democracy organizations, or legitimately-elected representatives for economic sanctions. The use of child, sweatshop, or forced labor is unethical and can damage corporate reputations. Poor labor practices can lead to litigation against the company, which can be costly and time consuming.

10b-1. Codes of Conduct and Vendor Standards:

In recent years, an increasing number of shareholder proposals have been submitted that pertain to the adoption of codes of conduct or seek greater disclosure on a company's international workplace standards. Companies have been asked to adopt a number of different types of codes, including a workplace code of conduct, standards for international business operations, human rights standards, International Labor Organization (ILO) standards and the SA 8000 principles. The ILO is an independent agency of the United Nations which consists of 175 member nations represented by workers, employers, and governments. The ILO's general mandate is to promote a decent workplace for all individuals. The ILO sets international labor standards in the form of its conventions and then monitors compliance with the standards. The seven conventions of the ILO fall under four broad categories: Right to organize and bargain collectively, Nondiscrimination in employment, Abolition of forced labor, and End of child labor. Each of the 180 member nations of the ILO is bound to respect and promote these rights to the best of their abilities. SA 8000 is a set of labor standards, based on the principles of the ILO conventions and other human rights conventions, and covers eight workplace conditions, including: child labor, forced labor, health and safety, freedom of association and the right to collective bargaining, discrimination, disciplinary practices, working hours and compensation. The Global Sullivan Principles are a set of guidelines that support economic, social and political justice by companies where they do business; to support human rights and to encourage equal opportunity at all levels of employment.

- Vote **for** shareholder proposals to implement human rights standards and workplace codes of conduct.
- Vote **for** shareholder proposals calling for the implementation and reporting on ILO codes of conduct, SA 8000 Standards, or the Global Sullivan Principles.
- Vote **for** shareholder proposals that call for the adoption of principles or codes of conduct relating to company investment in countries with patterns of human rights abuses (Northern Ireland, Burma, former Soviet Union, and China).
- Vote **for** shareholder proposals that call for independent monitoring programs in conjunction with local and respected religious and human rights groups to monitor supplier and licensee compliance with codes.
- Vote **for** shareholder proposals that seek publication of a "Code of Conduct" to the company's foreign suppliers and licensees, requiring they satisfy all applicable standards and laws protecting employees' wages, benefits, working conditions, freedom of association, and other rights.
- Vote **for** shareholder proposals seeking reports on, or the adoption of, vendor standards including: reporting on incentives to encourage suppliers to raise standards rather than terminate contracts and providing public disclosure of contract supplier reviews on a regular basis.
- Vote **for** shareholder proposals to adopt labor standards for foreign and domestic suppliers to ensure that the company will not do business with foreign suppliers that manufacture products for sale in the U.S. using forced labor, child labor, or that fail to comply with

applicable laws protecting employee's wages and working conditions.

10b-2. Prepare Report on Operations in Burma/Myanmar:

Since the early 1960s, Burma (also known as Myanmar) has been ruled by a military dictatorship that has been condemned for human rights abuses, including slave labor, torture, rape and murder. Many companies have pulled out of Burma over the past decade given the controversy surrounding involvement in the country. Oil companies continue to be the largest investors in Burma, and therefore are the usual targets of shareholder proposals on this topic. However, proposals have also been filed at other companies, including financial companies, for their involvement in the country.

- Vote **for** shareholder proposals to adopt labor standards in connection with involvement in Burma.
- Vote **for** shareholder proposals seeking reports on Burmese operations and reports on costs of continued involvement in the country.
- Vote shareholder proposals to pull out of Burma on a **case-by-case** basis.

10b-3. Adopt/Report on MacBride Principles:

The MacBride Principles, a set of nine fair employment guidelines for companies with operations in Northern Ireland, were created to remedy the under-representation of a minority (Catholics) in the workforce. Critics of the principles, most notably the British Government, point out that companies in Northern Ireland already are subject to Britain's Fair Employment Act (FEA) that has been credited with significantly improving the representation of Catholics in the workforce in that region. Some MacBride opponents say that by agreeing to abide by the Principles, companies may unintentionally run afoul of the FEA by engaging in reverse discrimination. Aware of the potential legal liability, shareholder proponents of the Principles word their MacBride resolutions to request only that firms, "take all lawful steps" to implement the MacBride Principles.

- Vote **for** shareholder proposals to report on or to implement the MacBride Principles.

10b-4. Adopt/Report on China Principles:

Documented human rights abuses in China continue to raise concerns among investors, specifically with respect to alleged use of prison labor in manufacturing. In June 23, 1997 the Food and Allied Service Trades Department (FAST) of the AFL-CIO released a report that identified U.S. companies with direct or indirect ties to companies controlled by the Chinese military, the People's Liberation Army (PLA), and hence ties to prison labor. The US Business Principles for Human Rights of Workers in China may help a company with operations in China avoid being blacklisted by U.S. states and municipalities, many of whom have limited their contracts with companies who fail to adopt similar principles in other countries recognized for committing gross human rights violations. Based on the country's human rights record, investors have asked companies to refrain from beginning new projects in the country until improvements are made. In addition, investors have asked for greater disclosure on the nature of a company's involvement in the country and on the impact of their involvement.

- Vote **for** shareholder proposals requesting more disclosure on a company's involvement in China

- Vote on a **case-by-base** basis shareholder proposals that ask a company to terminate a project or investment in China.

10b-5. Prepare Report on Company Activities Affecting Indigenous Peoples' Rights:

In recent years, a number of US public companies have found their operations or expansion plans in conflict with local indigenous groups. Shareholders, concerned with the negative impact that the company's operations may have on the indigenous people's land and community, have sought reports detailing the impact of the company's actions and presence on these groups.

- Vote **for** shareholder proposals to prepare reports on a company's impact on indigenous communities.

10c. Environment and Energy

Proposals addressing environmental and energy concerns are plentiful, and generally seek greater disclosure on an issue or seek to improve a company's environmental practices in order to protect the world's natural resources. In addition, some proponents cite the negative financial implications for companies with poor environmental practices, including liabilities associated with site clean-ups and lawsuits, as well as arguments that energy efficient products and clean environmental practices are sustainable business practices that will contribute to long-term shareholder value. Shareholders say the majority of independent atmospheric scientists agree that global warming poses a serious problem to the health and welfare of this country, citing the findings of the Intergovernmental Panel on Climate Change. Shareholders argue that companies can report on their greenhouse gas emissions within a few months at reasonable cost.

10c-1. Environmental/Sustainability Report:

Shareholders may request general environmental reports or reports on a specific location/operation, often requesting that the company detail the environmental risks and potential liabilities of a specific project. Companies have begun to report on environmental and sustainability issues using the Global Reporting Initiative (GRI) standards. The GRI is was established in 1997 with the mission of developing globally applicable guidelines for reporting on economic, environmental, and social performance. The GRI was developed by the Coalition for Environmentally Responsible Economies (CERES) in partnership with the United Nations Environment Programme (UNEP).

- Vote **for** shareholder proposals seeking greater disclosure on the company's environmental practices, and/or environmental risks and liabilities.
- Vote **for** shareholder proposals asking companies to report in accordance with the Global Reporting Initiative (GRI).

10c-2. Global Warming/Greenhouse Gas Emissions:

Scientists generally agree that gases released by chemical reactions including the burning of fossil fuels contribute to a "greenhouse effect" that traps the planet's heat. Environmentalists claim that the greenhouse gases produced by the industrial age have caused recent weather crises such as heat waves, rainstorms, melting glaciers, rising sea levels and receding coastlines. With notable exceptions, business leaders have described the rise and fall of global

temperatures as naturally occurring phenomena and depicted corporate impact on climate change as minimal. Shareholder proposals asking a company to issue a report to shareholders, “at reasonable cost and omitting proprietary information,” on greenhouse gas emissions ask that the report include descriptions of efforts within companies to reduce emissions, their financial exposure and potential liability from operations that contribute to global warming, and their direct or indirect efforts to promote the view that global warming is not a threat. Proponents argue that there is scientific proof that the burning of fossil fuels causes global warming, that future legislation may make companies financially liable for their contributions to global warming, and that a report on the company’s role in global warming can be assembled at reasonable cost.

- Vote **for** shareholder proposals seeking disclosure of liabilities or preparation of a report pertaining to global warming and climate change risk.
- Vote **for** shareholder proposals calling for the reduction of greenhouse gas.
- Vote **for** shareholder proposals seeking reports on responses to regulatory and public pressures surrounding climate change, and for disclosure of research that aided in setting company policies around climate change.

10c-3. Invest in Clean/Renewable Energy:

Filers of proposals on renewable energy ask companies to increase their investment in renewable energy sources and to work to develop products that rely more on renewable energy sources. Increased use of renewable energy will reduce the negative environmental impact of energy companies. In addition, as supplies of oil and coal exist in the earth in limited quantities, renewable energy sources represent a competitive, and some would argue essential, long-term business strategy.

- Vote **for** shareholder proposals seeking the preparation of a report on a company’s activities related to the development of renewable energy sources.
- Vote **for** shareholder proposals seeking increased investment in renewable energy sources unless the terms of the resolution are overly restrictive.

10c-4. Drilling in the Artic National Wildlife Refuge:

The Arctic National Wildlife Refuge (ANWR) is a federally protected wilderness along Alaska’s North Slope. Legislation has been introduced in both the House and Senate that, if passed, would allow a portion of this area to be leased to private companies for the development and production of oil. Oil companies have expressed an interest in bidding for these leases given the opportunity. In response, shareholder activists have filed resolutions asking these companies to cancel any plans to drill in the ANWR and cease their lobbying efforts to open the area for drilling. Proponents of shareholder proposals on this issue argue that the Coastal Plain section of the ANWR is the most environmentally sensitive area of the refuge, the majority of Alaska’s North Slope that is not federally designated wilderness already provides the oil industry with sufficient resources for oil production, advocates of drilling in ANWR overstate the benefit to be derived from opening the wilderness to oil production. Those in favor of opening the area up to drilling note that only a small portion of ANWR would be considered for exploration, and if drilling were to take place, it would be on less than one percent of the entire area, that modern technology reduces the environmental impact of oil drilling on both the land and surrounding wildlife, and that oil production in ANWR would have considerable benefit to company shareholders, Alaskans, and the United States as a whole.

- Vote **for** shareholder proposals asking companies to prepare a feasibility report or to adopt a policy not to mine, drill, or log in environmentally sensitive areas such as ANWR.
- Vote **for** shareholder proposals seeking to prohibit or reduce the sale of products manufactured from materials extracted from environmentally sensitive areas such as old growth forests.

10c-5. Adopt/Implement CERES Principles:

The CERES Principles (Coalition for Environmentally Responsible Economies) require signing companies to address environmental issues, including protection of the biosphere, sustainable use of natural resources, reduction and disposal of wastes, energy conservation, and employee and community risk reduction. A signee to the CERES Principles would disclose its efforts in such areas through a standardized report submitted to CERES and made available to the public. CERES was formed in the wake of the March 1989 Exxon Valdez oil spill, when a consortium of investors, environmental groups, and religious organizations drafted what were originally named the Valdez Principles, and later to be renamed the CERES Principles. CERES has been widely criticized by corporations for being duplicative with existing programs, vague, and difficult to implement. However, CERES is still regarded by many shareholder activists as being an important component of a company's approach to environmental issues.

- Vote **for** shareholder proposals to study or implement the CERES principles.

10c-6. Phase Out Chlorine-Based Chemicals:

A number of shareholder proposals have been filed in recent years asking companies to report on the possible phase-out of chlorine bleaching in the production of paper because of the negative environmental impact.

- Vote **for** shareholder proposals to prepare a report on the phase-out of chlorine bleaching in paper production.
- Vote on a **case-by-case** basis on shareholder proposals asking companies to cease or phase-out the use of chlorine bleaching.

10c-7. Report/Reduce Toxic Emissions and Assess Community Impact:

Shareholder proposals asking companies to take steps to minimize their emissions of toxic chemicals or release of toxic waste into the environment can vary greatly. Some focus on reporting on the impact of these chemicals on the communities in which the company operates. Still others ask for a review of the company's efforts to minimize pollution.

- Vote **for** shareholder proposals that seek to prepare a report on the company's procedures for reducing or preventing pollution and/or the impact of the company's pollution on the surrounding communities.
- Vote **for** shareholder proposals calling on the company to establish a plan reduce toxic emissions.

10c-8. Adopt a Comprehensive Recycling Policy:

A number of companies have received proposals to step-up their recycling efforts, with the goal of reducing the company's negative impact on the environment and reducing costs over the long-term.

- Vote **for** shareholder proposals requesting the preparation of a report on the company's recycling efforts.
- Vote **for** shareholder proposals that ask companies to increase their recycling efforts or to adopt a formal recycling policy.

10c-9. Nuclear Energy:

Nuclear power continues to be a controversial method of producing electricity. Opponents of nuclear energy are primarily concerned with serious accidents and the related negative human health consequences and with the difficulties involved in nuclear waste storage.

- Vote **for** shareholder proposals seeking the preparation of a report on a company's nuclear energy procedures.
- Vote **case-by-case** on proposals that ask the company to cease the production of nuclear power.

10c-10. Water Use:

Shareholders may ask for a company to prepare a report evaluating the business risks linked to water use and impacts on the company's supply chain, including subsidiaries and bottling partners. Such proposals also ask companies to disclose current policies and procedures for mitigating the impact of operations on local communities in areas of water scarcity.

- Vote **for** shareholder proposals seeking the preparation of a report on a company's risks linked to water use.

10c-11 Kyoto Protocol Compliance

With the Kyoto Protocol operational as of February 2005, ratifying countries have agreed to reduce their emissions of carbon dioxide and five other greenhouse gases. While some signatories have yet to release specific details of corporate regulations, the impact on multinationals operating in Kyoto-compliant countries is anticipated to be significant.

- Vote **for** shareholder proposals asking companies to review and report on how companies will meet reduction targets of the Kyoto-compliant countries in which they operate.

10c-12 Report on the Sustainability of Concentrated Area Feeding Operations

The potential environmental impact on water, aquatic ecosystems, and local areas from odor and chemical discharges from CAFOs have led to lawsuits and EPA regulations. Certain shareholders have asked companies to provide additional details on their CAFOs in addition to those with which the companies contract to raise their livestock.

- Vote **for** requests that companies report on the sustainability and the environmental impacts of both company-owned and contract livestock operations.

10d. Weapons

Weapons-related proposals may target handguns, landmines, defense contracting, or sale of weapons to foreign governments.

10d-1. Report on Handgun Safety Initiatives:

Shareholders may ask for a company to report on policies and procedures that are aimed at curtailing the incidence of gun violence. Such a report may include: implementation of the company's contract instruction to distributors not to sell the company's weapons at gun shows or through pawn shops; recalls or retro-fits of products with safety-related defects causing death or serious injury to consumers, as well as development of systems to identify and remedy these defects; names and descriptions of products that are developed or are being developed for a combination of higher caliber/maximum capacity and greater conceal-ability; and the company's involvement in promotion campaigns that could be construed as aimed at children.

- Vote **for** shareholder proposals asking the company to report on its efforts to promote handgun safety.
- Vote **for** shareholder proposals asking the company to stop the sale of handguns and accessories.

10d-2. Prepare Report to Renounce Future Landmine Production:

Although very few companies currently produce landmines, some companies continue to have links to landmine production or produce components that are used to make landmines. Shareholders have asked companies to renounce the future development of landmines or components or to prepare a report on the feasibility of such a renouncement.

- Vote **for** shareholder proposals seeking a report or the renouncement of future landmine production.

10d-3. Prepare Report on Foreign Military Sales:

Every year, shareholders file proxy resolutions asking companies to account for their policies surrounding the sale of military equipment to foreign governments. The proposals take various forms. One resolution simply calls on companies to report on their foreign military sales, providing information about any military products exported over the past three years, the company's basis for determining whether those sales should be made, and any procedures used to market or negotiate those sales. Another resolution calls for companies to report on "offsets" e.g. guarantee of new jobs in the purchasing country and technology transfers. Offsets involve a commitment by military contractors and the U.S. government to direct benefits back to a foreign government as a condition of a military sale.

- Vote **for** shareholder proposals to report on foreign military sales or offset agreements.
- Vote **case-by-case** on proposals that call for outright restrictions on foreign military sales.

10d-4. Adopt Ethical Criteria for Weapons Contracts:

Shareholders have requested that companies review their code of conduct and statements of ethical criteria for military production-related contract bids, awards and execution to incorporate environmental factors and sustainability issues related to the contract bidding process. Sustainability is a business model that requires companies to balance the needs and interests

of various stakeholders while concurrently sustaining its business, communities, and environment for future generations.

- Vote **for** shareholder proposals asking companies to review and amend, if necessary, the company's code of conduct and statements of ethical criteria for military production-related contract bids, awards and execution.

10e. Consumer Issues & Public Safety

10e-1. Phase-out or Label Products Containing Genetically Engineered Ingredients:

Shareholders ask companies engaged in the development of genetically modified agricultural products to adopt a policy of not marketing or distributing such products until "long term safety testing" demonstrates that they are not harmful to humans, animals or the environment. Until further long term testing demonstrates that these products are not harmful, companies in the restaurant and prepared foods industries are being asked to remove genetically altered ingredients from products they manufacture or sell, and label such products in the interim. Shareholders are asking supermarket companies to do the same for their own private label brands.

- Vote **for** shareholder proposals to label products that contain genetically engineered products.
- Vote **for** shareholder proposals that ask the company to phase out the use of genetically engineered ingredients in their products.
- Vote **for** shareholder proposals that ask the company to report on the use of genetically engineered organisms in their products.
- Vote **for** shareholder proposals asking for reports on the financial, legal, and operational risks posed by the use of genetically engineered organisms.

10e-2. Tobacco-related Proposals:

Shareholders file resolutions annually asking that companies with ties to the tobacco industry account for their marketing and distribution strategies, particularly as they impact smoking by young people. While the specific resolutions for shareholder proponents vary from year to year, activist shareholders consistently make the tobacco industry one of their most prominent targets. Examples of tobacco proposals include: attempting to link executive compensation with teen smoking rates; the placement of company tobacco products in retail outlets; the impact of second hand smoke; and a review of advertising campaigns and their impact on children and minority groups.

- Vote **for** shareholder proposals seeking to limit the sale of tobacco products to children.
- Vote **for** shareholder proposals asking producers of tobacco product components (such as filters, adhesives, flavorings, and paper products) to halt sales to tobacco companies.
- Vote **for** shareholder proposals that ask restaurants to adopt smoke-free policies and that ask tobacco companies to support smoke-free legislation.
- Vote **for** shareholder proposals seeking a report on a tobacco company's advertising approach.
- Vote **for** shareholder proposals at insurance companies to cease investment in tobacco companies.

- Vote **for** proposals at producers of cigarette components calling for a report outlining the risks and potential liabilities of the production of these components.
- Vote **for** proposals calling for tobacco companies to cease the production of tobacco products.
- Vote **for** shareholder proposals asking companies to stop all advertising, marketing and sale of cigarettes using the terms “light,” “ultra-light,” “mild,” and other similar words and/or colors.
- Vote **for** shareholder proposals asking companies to increase health warnings on cigarette smoking. (i.e.: information for pregnant women, “Canadian Style” warnings, filter safety)

10e-3. Adopt Policy/Report on Predatory Lending Practices:

Predatory lending involves charging excessive fees to sub prime borrowers without adequate disclosure. More specifically, predatory lending includes misleading sub prime borrowers about the terms of a loan, charging excessive fees that are folded into the body of a refinancing loan, including life insurance policies or other unnecessary additions to a mortgage, or lending to homeowners with insufficient income to cover loan payments.

- Vote **for** shareholder proposals seeking the development of a policy or preparation of a report to guard against predatory lending practices.

10e-4. Disclosure on Credit in Developing Countries (LDCs) or Forgive LDC Debt:

Shareholders have asked banks and other financial services firms to develop and disclose lending policies for less developed countries. Proponents are concerned that, without such policies, lending to developing countries may contribute to the outflow of capital, the inefficient use of capital, and corruption, all of which increase the risk of loan loss. In the interest of promoting improved LDC lending practices and responsible loan disclosure, TBF usually recommends voting for this type of proposal. In cases where it can be determined that companies have been proactive and responsible in developing policies, TBF recommends a vote against the proposal’s adoption. TBF usually recommends against proposals that call for outright loan forgiveness; such action represents an unacceptable loss to lending institutions and their shareholders. TBF may support such proposals at banks that have failed to make reasonable provisions for non-performing loans as a means to encourage banks to change their policies.

- Vote **for** shareholder proposals asking for disclosure on lending practices in developing countries, unless the company has demonstrated a clear proactive record on the issue.
 - Vote **against** shareholder proposals asking banks to forgive loans outright.
 - Vote **case-by-case** on shareholder proposals asking for loan forgiveness at banks that have failed to make reasonable provisions for non-performing loans.
 - Vote **for** proposals to restructure and extend the terms of non-performing loans.

10e-5. Adopt Policy/Report on Drug Pricing:

Shareholder proponents, activists and even some legislators have called upon drug companies to restrain pricing of prescription drugs. According to proponents, the high cost of prescription drugs is a vital issue for senior citizens across the country. Seniors have the greatest need for prescription drugs, accounting for about one-third of all prescription drug sales, but they often live on fixed incomes and are underinsured. Today about 20 million elderly people have little or

no drug coverage in the U.S. and it is precisely this group, proponents argue, that faces that highest prescription drug costs. Proponents argue that the uninsured and underinsured pay substantially more for drugs than manufacturers' "favored" customers, such as HMOs and Federal agencies, and drug manufacturers are responsible for this discrepancy. Proponents also note that efforts to reign-in pharmaceutical costs will not negatively impact research and development (R&D) costs and that retail drug prices are consistently higher in the U.S. than in other industrialized nations. Proponents highlight this disparity, noting that pharmaceuticals sold to Canada are sold at a lower price than in the United States which has encouraged certain states and municipalities to re-import drugs from Canada, an action currently illegal under U.S. federal law. Pharmaceutical companies often respond that adopting a formal drug pricing policy could put the company at a competitive disadvantage. Against the backdrop of the AIDS crisis in Africa, shareholders have called on companies to address the issue of affordable drugs for the treatment of AIDS, as well as TB and Malaria. Generally TBF supports increased disclosure of economic and legal risks, as well as developing policies favorable to consumer welfare, however we recommend that shareholders do not encourage companies to enact plans that run counter to existing laws and regulations.

- Vote **for** shareholder proposals to prepare a report on drug pricing.
- Vote **for** shareholder proposals to adopt a formal policy on drug pricing.
- Vote **for** shareholder proposals that call on companies to develop a policy to provide affordable HIV, AIDS, TB and Malaria drugs in third-world nations.
- Vote **for** proposals asking for reports on the economic effects and legal risks of limiting pharmaceutical products to Canada or certain wholesalers.
- Vote **against** proposals requesting that companies adopt policies not to constrain prescription drug re-importation by limiting supplies to foreign markets.

10e-6. Report on the Impact of Health Pandemics on Company Operations

Sub-Saharan Africa is the most affected region in the world with regard to the HIV/AIDS epidemic. In 2003, an estimated 26.6 million people in this region were living with HIV and approximately 2.3 million people died of AIDS. With limited access to antiretroviral treatment for HIV/AIDS, the increasing death toll is expected to have profound social, political and economic impact on that region and the companies or industries with operations in Sub-Saharan Africa. In the past, shareholder proposals asked companies to develop policies to provide affordable HIV/AIDS, Malaria, and Tuberculosis drugs in third-world countries. However, in recent years, shareholders have changed their tactic, asking instead for reports on the impact of these pandemics on company operations, including both pharmaceutical and non-pharmaceutical companies operating in high-risk areas. This change is consistent with the general shift in shareholder proposals towards risk assessment and mitigation.

- Vote **for** shareholder proposals asking for companies to report on the impact of pandemics, such as HIV/AIDS, Malaria, and Tuberculosis, on their business strategies.

10e-7. Adult Entertainment:

Traditionally, there have not been many proposals filed in the area of adult entertainment. However, with the consolidation of the communications industry, a number of large companies have ended up with ownership of cable companies. These cable companies may offer their customers access to pay-per-view programming or channels intended for adult audiences. Proponents of shareholder proposals on this issue ask cable companies and companies with

interests in cable companies to assess the costs and benefits of continuing to distribute sexually-explicit content, including the potential negative impact on the company's image.

- Vote **for** shareholder proposals that seek a review of the company's involvement with pornography.

10e-8. Abortion/Right to Life Issues:

Shareholder proposals pertaining to abortion and right to life issues are rare. However, in the past shareholders have asked companies to stop manufacturing abortifacient drugs, to separate abortifacient drug operations from other operations, or to discontinue acute-care or physician management practices that involve support for abortion services. As long as abortion is legal, TBF's position is that issues related to abortion should be a personal decision, not a corporate one. Therefore TBF recommends abstaining on anti-abortion and right-to-life proposals.

- **Abstain** on shareholder proposals that address right to life issues.

10e-9. Animal Rights:

Shareholders and animal rights groups, including People for the Ethical Treatment of Animals (PETA), may file resolutions calling for the end to painful and unnecessary animal testing on laboratory animals by companies developing products for the cosmetics and medical supply industry. Since advanced testing methods now produce many reliable results without the use of live animals, TBF generally recommends voting for proposals on this issue. In cases where it can be determined that alternative testing methods are unreliable or are required by law, TBF recommends voting against such proposals. Other resolutions call for the adoption of animal welfare standards that would ensure humane treatment of animals on vendors farms and slaughter houses. TBF will generally vote in favor of such resolutions.

- Vote **for** shareholder proposals that seek to limit unnecessary animal testing where alternative testing methods are feasible or not required by law.
- Vote **for** shareholder proposals that ask companies to adopt or/and report on company animal welfare standards.
- Vote **for** shareholder proposals asking companies to report on the operational costs and liabilities associated with selling animals.

10e-10. Disclosure on Plant Closings:

Shareholders have asked that companies contemplating plant closures consider the impact of such closings on employees and the community, especially when such plant closures involve a community's largest employers. TBF usually recommends voting for greater disclosure of plant closing criteria. In cases where it can be shown that companies have been proactive and responsible in adopting these criteria, TBF recommends against the proposal.

- Vote **for** shareholder proposals seeking greater disclosure on plant closing criteria if such information has not been provided by the company.

10e-11. Report on the Feasibility of Removing “Harmful” Ingredients from Cosmetic Products:

Shareholders have targeted a large cosmetics company with proposals asking the company to report on the feasibility of removing parabens from their cosmetic products. Parabens are synthetic preservatives that can prevent microbial bacteria and fungal growth in products and have come under scrutiny following a few key studies that identify the alkyl hydroxy benzoate preservatives (methyl-, ethyl-, propyl-, and butylparaben) as estrogenic, or mimicking the hormone estrogen. Steroidal estrogen has been identified as a “known human carcinogen” by the U.S. Department of Health Public Health Service and has caused concern that other ingredients with estrogenic properties may also contribute to increased cancer risk. Proponents of these paraben-related proposals usually note that although parabens are not actually carcinogenic, they do exhibit estrogenic characteristics and, therefore, their safety in cosmetic products should be “reassessed.”

- Vote **for** shareholder proposals asking companies to report on the feasibility of removing, or substituting with safer alternatives, all “harmful” ingredients used in company products.

10e-12 Land Procurement and Development

Certain real estate developers including big-box large retailers have received criticism over their processes for acquiring and developing land. Given a 2005 Supreme Court decision allowing for the usage of eminent domain laws in the U.S. to take land from property-owners for tax generating purposes, as well as certain controversies outside of the U.S. with land procurement, some shareholders would like assurances that companies are acting ethically and with local stakeholders in mind.

- Vote **for** shareholder proposals requesting that companies report on or adopt policies for land procurement and use that in corporate social and environmental factors.

10e-13 Violence and Adult Themes in Video Games

Perceptions of increased sex and violence in video games have led certain shareholders to question the availability of adult-themed content to children and teens. The Entertainment Software Ratings Board, which provides ratings for video games, has classified approximately 34 percent of the total games it reviews as either Teen, Mature, or Adults Only.

- Vote **for** shareholder proposals asking for reports on company policies related to the sale of mature-rated video games to children and teens.

10f. Donations, Government Relations & Outsourcing

10f-1. Control over Charitable Contributions:

Shareholders have attempted to impose criteria on companies for the selection of recipients of corporate charitable contributions that would further specific objectives supported by the sponsors of the proposals. TBF believes that management is in a much better position than shareholders to decide what criteria are appropriate for corporate charitable contributions. Also, some of the proposals would require companies to poll their shareholders as part of the grant-making process. Since many companies have hundreds of thousands of shareholders, contacting, confirming, and processing each individual opinion and/or consent would be burdensome and expensive.

- Vote **against** shareholder proposals giving criteria or to require shareholder ratification of grants.
- Vote **against** shareholder proposals requesting that companies prohibit charitable contributions.

10f-2. Non-Partisanship/ Political Contributions:

Proponents of resolutions calling for the abolishment of political contributions or making contributions to political campaigns are concerned with the increasing power of corporations in the country's political process. These resolutions seek to limit the involvement of corporations in the political process.

- Vote **for** proposals calling for a company to disclose its political contributions, unless the terms of the proposal are unduly restrictive
- Vote **for** proposals calling for a company to maintain a policy of non-partisanship and to limit political contributions.
- Vote **against** proposals calling for a company to refrain from making any political contributions.

10f-3. Disclosure on Prior Government Service:

Shareholders have asked companies to disclose the identity of any senior executive and/or other high-level employee, consultant, lobbyist, attorney, or investment banker who has served in government. Although the movement of individuals between government and the private sector may benefit both, the potential also exists for conflicts of interest, especially in industries that have extensive dealings with government agencies.

- Vote **for** shareholder proposals calling for the disclosure of prior government service of the company's key executives.

10f-4. Report on Risks of Outsourcing:

Consumer interest in keeping costs low through comparison shopping, coupled with breakthroughs in productivity have prompted companies to look for methods of increasing profit margins while keeping prices competitive. Through a practice known as off-shoring, the outsourcing or moving of manufacturing and service operations to foreign markets with lower labor costs, companies have found one method where the perceived savings potential is quite substantial. Shareholder opponents of outsourcing argue that there may be long-term consequences to offshore outsourcing that outweigh short-term benefits such as backlash from a public already sensitive to off-shoring, security risks from information technology development overseas, and diminished employee morale. Shareholder proposals addressing outsourcing ask that companies prepare a report to shareholders evaluating the risk to the company's brand name and reputation in the U.S. from outsourcing and off-shoring of manufacturing and service work to other countries.

- Vote **for** shareholders proposals asking for companies to report on the risks associated with outsourcing or off-shoring.

10f-5. Lobbying Efforts:

Shareholders have asked companies to report on their lobbying efforts to refute established scientific research regarding climate change, the health effects of smoking, and fuel efficiency standards. Given the poor performance of the US automotive industry and the highly litigious

nature surrounding the tobacco industry, shareholders would like assurances that companies are acting in their best long-term interests.

- Vote **for** shareholder proposals asking companies to review and report on how companies utilize lobbying efforts to challenge scientific research and governmental legislation.

10f-6. Product Sales to Repressive Regimes:

Certain internet technology companies have been accused of assisting repressive governments in violating human rights through the knowing misuse of their hardware and software. Human rights groups have accused companies such as Yahoo!, Cisco, Google, and Microsoft of allowing the Chinese government to censor and track down dissenting voices on the internet.

- Vote **case-by-case** on shareholder proposals requesting that companies cease product sales to repressive regimes that can be used to violate human rights.
- Vote **for** proposals to report on company efforts to reduce the likelihood of product abuses in this manner.