State of Connecticut
Office of the Treasurer

Global Proxy Voting Policies

Adopted May 10, 2000

The Connecticut Global Proxy Voting Policies conforms to common law fiduciary standards including Connecticut statutes pertinent to fiduciary conduct such as the Uniform Prudent Investor Act.

Exercising proxy-voting rights is a required duty of the Treasurer and hence the Connecticut Retirement Plans and Trust Funds (CRPTF) by virtue of the rights and responsibilities related to the Treasurer's role as principal fiduciary. Plan fiduciaries have a responsibility to vote proxies on issues that may affect the value of the shares held in a portfolio since proxies are considered plan assets and have economic value.[1]

Proxy voting rights must be exercised in accordance with the fiduciary duties of loyalty and prudence. The duty of loyalty requires that the fiduciary exercise proxy voting for the long-term economic benefit of plan participants and beneficiaries. The duty of prudence includes considerations based on financial criteria and that a clear process exists for evaluating proxy issues. In addition to prudence, Section 3-13a of the Connecticut General Statutes directs the Treasurer to consider the social, economic and environmental implications of all investments. The law also directs the Treasurer to consider the implications of particular investments on foreign policies and the national interests of the United States.

The voting policies contained herein are carefully crafted to meet those requirements by promoting long-term shareholder value, emphasizing the "economic best interests" of plan participants and beneficiaries. The voting fiduciary will assess the short-term and long-term impact of a vote, and will promote a position that is consistent with the long-term economic best interests of plan members. In accordance with state law, the policies take into

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

consideration actions, which promote good corporate citizenship through the proxy process. Many companies realize that it is in their financial interests to pursue business practices that are ethically, environmentally, legally and socially responsible.

The proxy voting guidelines address a broad range of issues, including board size and composition, executive compensation, and mergers and acquisitions—significant voting items that affect long-term shareholder value. In addition, these guidelines address broader issues of corporate citizenship that can have an impact on corporate performance and important stakeholder interests, including:

- corporate policies that affect the environment including adoption of the CERES Principles;
- corporate policies that affect job security and wage levels;
- corporate responsibility to employees and communities, including the implementation of the MacBride Principles; and
- workplace safety and health issues.

Voting of these policies is delegated to external investment managers responsible for international investment. Each issue should be considered by investment managers in the context of the company under review and subject to a rigorous analysis of the economic impact an issue may have on the long-term shareholder value.

I. FINANCIAL REPORTS AND AUDITOR ISSUES

A. DIRECTOR, AUDITOR AND FINANCIAL STATEMENT REPORTS

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

When evaluating a company's financial statements, important factors should be considered including: debt/equity levels on the balance sheet, historical sales and earnings performance, dividend history and payout ratios, and the company's own performance relative to similar companies in its industry.

The CRPTF would:

- Vote FOR approval of financial statements and director and auditor reports, unless:
  - there are concerns about the accounts presented or audit procedures used; or
  - the company is not responsive to shareholder questions about specific items that should be publicly disclosed.

B. APPOINTMENT OF AUDITORS AND AUDITOR COMPENSATION

Most major companies around the world use one of the major international auditing firms to conduct their audits. If a company proposes a new auditor or an auditor resigns and does not seek reelection, companies should offer an explanation to shareholders. The practice of auditors contributing nonaudit services to companies is problematic. While large auditors may have effective internal barriers to ensure that there are no conflicts of interest, an auditor's ability to remain objective becomes questionable when fees paid to the auditor for nonaudit services such as management consulting, general bookkeeping, and special situation audits exceed the standard annual audit fees. While some compensation for nonaudit services is customary, the importance of maintaining the independence of the auditor is paramount.

The CRPTF would:

- Vote FOR the reelection of auditors and proposals authorizing the board to fix auditor fees, unless:

- there are serious concerns about the accounts presented or the audit procedures used;

- the auditors are being changed without explanation; or

- nonaudit-related fees are substantial or are routinely in excess of standard annual audit fees.

• Vote AGAINST the appointment of external auditors if they have previously served the company in an executive capacity or can otherwise be considered affiliated with the company.

• ABSTAIN if a company changes its auditor and fails to provide shareholders with an explanation for the change.

C. APPOINTMENT OF INTERNAL STATUTORY AUDITORS

The appointment of internal statutory auditors is a routine request for companies in Latin America, Italy, Spain, Portugal, Japan, and Russia. The statutory auditing board is usually composed of three to five members, including a group chairman and two alternate members, all of whom are expected to be independent. In addition to the regular duty of verifying corporate accounts, the auditor board is responsible for supervising management and ensuring compliance with the law and articles of association. The auditors must perform an audit of the accounts every three months and present to shareholders a report on the balance sheet at the Annual General Meeting (AGM). For most countries, the auditors are elected annually and may seek reelection.

The CRPTF would:

• Vote FOR the appointment or reelection of statutory auditors, unless:

  - there are serious concerns about the statutory reports presented or the audit procedures used;

  - questions exist concerning any of the statutory auditors being appointed; or

  - the auditors have previously served the company in an executive capacity or can otherwise be considered affiliated with the company.

II. AMENDMENTS TO ARTICLES OF ASSOCIATION

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

Amendments to articles range from minor spelling changes to the adoption of an entirely new set of articles. While the majority of such requests are of a technical and administrative nature, minor changes in wording can have a significant impact on corporate governance. From a company's perspective, it is often more efficient to adopt a new set of articles than to introduce numerous amendments. However, bundling changes that treat different provisions of the articles into one voting item prevents shareholders from separating items of concern from routine changes. By leaving a shareholder with an all-or-nothing choice, bundling allows companies to include negative provisions along with positive or neutral changes. The final criterion is whether failure to pass a resolution would cause an immediate loss of shareholder value.

The CRPTF would:

- Vote amendments to the articles of association on a CASE-BY-CASE basis.

A. CHANGE IN COMPANY FISCAL TERM

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

The CRPTF would:

- Vote FOR resolutions to change a company's fiscal term unless a company's motivation for the change is to postpone its AGM.

B. LOWER DISCLOSURE THRESHOLD FOR STOCK OWNERSHIP

Required shareholder disclosure of stock ownership levels vary around the world. In the United States, shareholders owning more than five percent (5%) of outstanding shares are required to disclose share ownership. Some countries require disclosure levels such as ten percent (10%) while other countries require lower levels than the U.S. For example, the United Kingdom requires disclosure of stakes of three percent or greater. In some countries, shareholders may be asked from time to time to reduce the disclosure requirement at a specific company.

The CRPTF would:

- Vote AGAINST reductions that could act as a pretext for an anti-takeover device.

- Vote FOR resolutions to lower the stock ownership disclosure threshold in the interests of providing more disclosure by significant shareholders.

C. TRANSACT OTHER BUSINESS

This item provides a forum for questions and any other resolutions that may be brought up at the meeting. In most countries the item is a formality and does not require a shareholder vote, but companies in certain countries include "other business" as a voting item. When "other business" is included as an item on the ballot to be voted, there is no opportunity for shareholders to receive information in advance related to these items. Therefore, shareholders cannot risk the negative consequences of voting in advance on an item for which information has not been disclosed.

The CRPTF would:

- Vote AGAINST other business when it appears as a voting item.

III. BOARD OF DIRECTORS

A. DIRECTOR AND SUPERVISORY BOARD MEMBER ELECTIONS

Most countries around the world maintain an Anglo-Saxon board structure, prevalent in the United States, in which company executive and non-executive directors are organized into a single board. However, companies in a number of countries maintain two-tiered board structures, comprising a supervisory board of non-executive directors and a management board with executive directors. The supervisory board oversees the actions of the management board, while the management board is responsible for the company's daily operations. At companies with two-tiered boards, shareholders elect members to the supervisory board only; management board members are appointed by the supervisory board. In Austria, Brazil, the Czech Republic, Germany, Peru, Poland, Portugal, and Russia, two-tiered boards are the norm. They are also permitted by company law in France and Spain.

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

Levels of disclosure regarding directors vary widely. In some countries, such as the United Kingdom, Canada, and Australia, companies publish detailed information such as director biographies, share ownership, and related information that aids shareholders in determining the level of director independence. In many other countries, the only information available on directors is their names, while still other countries disclose no information at all. In cases where detailed information about directors is not available, it would be counterproductive to vote against directors on the basis of a lack of information. Opposition to specific nominees or boards should be supported by specific problems or concerns.

When reviewing director election proposals, examine board composition, company performance, and any negative views or information on either the company or individual directors. Determine the number of executive and independent directors on the board, the existence and composition of board committees, and the independence of the chairman. An independent director is one whose only significant relationship with the company is through its board seat. Members of supervisory boards, which represent organized workers' interests, are defined as independent. In cases where board composition is of concern, the company's general health and its recent financial performance may play a part in the evaluation of directors. Individual director information is also considered, including share ownership among director nominees.

The CRPTF takes into account the attendance records of directors when such information is provided to shareholders, using a benchmark attendance rate of 75 percent of board meetings. If an individual director fails to attend at least 75 percent of board meetings for two or more consecutive years, further inquiries should be made to the company regarding the absences. Statements of corporate governance practices are also helpful in reviewing director election proposals, but only in a few countries are these routinely included as part of the annual report, usually as a listing requirement of the major stock exchange. These reports are required in Australia, Canada, South Africa, and the United Kingdom.

Serious consideration of shareholder nominees will be given if there are clear and compelling reasons for the nominee to join the board.

The CRPTF would:

- Vote FOR management nominees in the election of directors, unless:
  - there are clear concerns about the past performance of the company or the board;

- the board fails to meet minimum corporate governance standards, (e.g., board independence, executive compensation that is performance based, disclosure);

- the board takes actions that are not in shareholders' best interests (excessive executive compensation, adopting antitakeover devices, failure to respond to shareholder concerns/wishes, or demonstrating a "lack of duty or care"); or

- the board has been insensitive to labor interests, human rights, supplier codes of conduct, or has engaged in other corporate activities that affect the reputation of the company in the global market.

B. DIRECTOR FEES

Fees for nonexecutive directors have been rising in recent years in recognition that such directors around the world are being asked to take on more responsibility for company affairs. The primary focus should be on fees paid to nonexecutive directors or fees paid to all directors, separate from the salaries of executive directors. In many countries, only an aggregate amount payable to nonexecutives or to all directors is disclosed.

Retirement benefits for nonexecutive directors are inappropriate, as they increase the directors' financial reliance on the company and could call into question the objectivity of their decision-making. In addition, most directors have served as senior executives of other companies, and adequate retirement benefits should be provided through these companies. The only caveat to this policy would be for professional nonexecutive directors such as those found in the United Kingdom. However, requests for such benefits in the United Kingdom are rare, and the appropriateness of using shareholder funds in this manner is questionable.

The CRPTF would:

- Vote FOR proposals to award director fees unless the amounts are excessive relative to other companies in the country or industry.

- Vote AGAINST proposals to introduce retirement benefits for nonexecutive directors.

C. DISCHARGE OF BOARD AND MANAGEMENT

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

This is a routine item in many countries, and discharge is generally granted unless a shareholder states a specific reason for withholding discharge and plans to undertake legal action Withholding discharge is a serious matter and is advisable only when a shareholder has concrete evidence of negligence or abuse on the part of the board or management, has plans to take legal action, or has knowledge of other shareholders' plans to take legal action.
If evidence suggests that one or more board or management members are responsible for problems such as fraud or grave mismanagement, shareholders can withhold discharge from these individuals and pursue further legal action. Poor performance that can be directly linked to flagrant error or neglect on the part of the board or management, or board actions that are detrimental to shareholders' interests, may also constitute grounds for voting against discharge.

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

The CRPTF would:

- Vote CASE-BY-CASE on the discharge of the board and management.

D. LIABILITY AND INDEMNIFICATION FOR DIRECTORS, OFFICERS AND AUDITORS

Management proposals typically seek shareholder approval to adopt an amendment to the company's charter to eliminate or limit the personal liability of directors to the company and its shareholders for monetary damages for any breach of fiduciary duty to the fullest extent permitted by law. In contrast, shareholder proposals seek to provide for personal monetary liability for fiduciary breaches arising from gross negligence. While recognizing that a company may have a more difficult time attracting and retaining directors if they are subject to personal monetary liability, 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. Support these proposals when the company persuasively argues that such action is necessary to attract and retain directors, but oppose management proposals and support shareholder proposals in light of our philosophy of promoting director accountability.

Specifically, oppose management proposals that limit a director's liability for (i) a breach of the duty of loyalty, (ii) acts or omissions not in good faith or involving intentional misconduct or knowing violations of the law, (iii) acts involving the unlawful purchases or redemptions of stock, (iv) the payment of unlawful dividends, or (v) the receipt of improper personal benefits.

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

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

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

The CRPTF would:

- Vote CASE-BY-CASE on proposals that provide director liability for actions on behalf of the company.

- ABSTAIN on proposals that provide for director liability where national law dictates that a shareholder who casts a FOR vote forfeits legal rights, such as the right to sue a company.

- Vote FOR proposals to allow indemnification of directors and officers when actions were taken on behalf of the company and no criminal violations occurred.

- Vote AGAINST proposals to indemnify auditors.

- Vote AGAINST proposals to reduce or eliminate directors' personal liability when litigation is pending against current board members.

E. BOARD STRUCTURE

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

1. Board Size

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

2. Adopt Classified Board

All directors should be accountable to shareholders on an annual basis, as the ability to elect directors is the single most important use of the shareholder franchise.

While classified boards are the norm in most countries, some companies have chosen to place their directors up for annual election. Classifying the board makes it more difficult to effect a change of control through a proxy contest; because only a minority of the directors are elected each year, a dissident shareholder would be unable to win control of the board in a single election.

3. Introduction of Mandatory Age of Retirement

Age should not be the sole factor in determining a director's value to a company. Rather, each director's performance should be evaluated on the basis of their individual contribution and experience.

4. Altering Board Size

Companies may attempt to increase board size in order to add related or like-minded directors to the board. Conversely, establishing a minimum number of directors could make it easier to remove independent directors from the board.

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

The CRPTF would:

- Vote FOR proposals to fix board size.

- Vote AGAINST the introduction of classified boards and mandatory retirement ages for directors.

- Vote AGAINST proposals to alter board structure or size in the context of a fight for control of the company or the board.

IV. CAPITAL SYSTEMS

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

A. AUTHORIZED CAPITAL SYSTEM

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

B. CONDITIONAL CAPITAL SYSTEM

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

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

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

C. SHARE ISSUANCE REQUESTS

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

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

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

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

D. SPECIFIC ISSUANCES

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

E. FOR ALL OF THE ISSUES DISCUSSED ABOVE – IV. A THROUGH D;

The CRPTF would:

- Vote FOR general issuance requests with preemptive rights up to 50 percent of issued capital;

- Vote FOR general issuance requests without preemptive rights up to ten percent of issue capital; and

- Vote on a CASE-BY-CASE basis for specific issuance requests with or without preemptive rights up to any amount depending on the purpose for the issuance.

E. INCREASES IN AUTHORIZED CAPITAL

Increases in authorized capital are requested both for general financing flexibility and to provide for a specific purpose. Companies need an adequate buffer of unissued capital in order to take advantage of opportunities during the year, and thus they often request increases in authorized capital for no specific purpose other than to retain this flexibility. An increase of 50 percent over the existing authorization gives the company sufficient flexibility in any given year but also limits the company's ability to abuse this privilege. If a company wishes to issue shares for any unforeseen reason during the year that would double (or possibly triple) outstanding share capital, an AGM to seek shareholder approval is justified.

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

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

Companies do not need unlimited financial flexibility to transact ordinary business because such an arrangement precludes management from periodically consulting shareholders for new capital. Unlimited authorizations may also be used as antitakeover devices, and they have the potential for substantial voting and earnings dilution.

The CRPTF would:

- Vote FOR nonspecific proposals to increase authorized capital up to 50 percent over the current authorization.

- Vote FOR specific proposals to increase authorized capital to any amount, unless:

  - the specific purpose of the increase (such as a share-based acquisition or merger) does not meet the guidelines for the purpose being proposed.

- Vote AGAINST proposals to adopt unlimited capital authorizations.

F. REDUCTION OF CAPITAL

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

The CRPTF would:

- Vote FOR proposals to reduce capital unless the terms are unfavorable to shareholders.

V. CAPITAL STRUCTURES

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

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

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

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

The CRPTF would:

- Vote FOR resolutions that seek to maintain or convert to a one share, one vote capital structure.

- Vote AGAINST requests for the creation or continuation of dual class capital structures or the creation of new or additional super-voting shares.

A. PREFERRED STOCK AND BLANK CHECK PREFERRED STOCK

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

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

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

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

The CRPTF would:

- Vote FOR the creation of a new class of preferred stock or for issuances of preferred stock up to 50 percent of issued capital unless the terms of the preferred stock would adversely affect the rights of existing shareholders.
- Vote AGAINST the creation of blank check preferred stock.
- Vote proposals to increase blank check preferred authorizations on a CASE-BY-CASE basis.

B. DEBT ISSUANCE REQUESTS

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

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

When evaluating a debt issuance request, CRPTF expects that the issuing company's present financial situation will be examined. The main factor for analysis is the company's current debt-to-equity ratio, or gearing level. A high gearing level may incline markets and financial analysts to downgrade the company's bond rating, increasing its investment risk factor in the process. These guidelines approve debt issuances for companies when the gearing level is between zero(0%) and fifty (50%) percent. If the company's gearing level is higher than fifty percent (50%), the guidelines expect that other financial statistics will be factored into the analysis, such as the company's growth over the past five years relative to earnings or market capitalization, recent corporate events that might affect the company's bottom line (such as the acquisition of a major competitor or the release of a revolutionary product), and the normal debt levels in the company's industry and country of origin. In the case of convertible bonds, the total level of dilution that would result at the time of conversion should also be taken into account.

The CRPTF would:

- Vote debt issuance requests on a CASE-BY-CASE basis, with or without preemptive rights.
- Vote AGAINST an issuance of convertible bonds with preemptive rights if the conversion increases the company's outstanding shares by more than one hundred percent (100%).
- Vote AGAINST an issuance of convertible bonds without preemptive rights if the conversion increases the company's share capital by more than 20 percent over the current outstanding capital.

C. PLEDGING OF ASSETS FOR DEBT

In certain countries, shareholder approval is required when a company needs to secure a debt issuance with its assets. In many cases, this is a routine request and is a formality under the relevant law. When reviewing such proposals, the terms of the proposed debt issuance and the company's overall debt level need to be considered.

The CRPTF would:

- Vote proposals to approve the pledging of assets for debt on a CASE-BY-CASE basis.

D. INCREASE IN BORROWING POWERS

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

The CRPTF would:

- Vote proposals to approve increases in a company's borrowing powers on a CASE-BY-CASE basis.

E. SHARE REPURCHASE PLANS

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

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

The CRPTF would:

- Vote AGAINST, if there is evidence of past abuse of the authority is available; or the plan contains no safeguards against selective buybacks.

- Vote AGAINST, if additional investment is needed in business upgrades.

F. CAPITALIZATION OF RESERVES FOR BONUS ISSUES/INCREASE IN PAR VALUE

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

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

The CRPTF would:

- Vote FOR requests to capitalize reserves for bonus issues of shares or to increase par value.

G. STOCK (SCRIP) DIVIDEND ALTERNATIVE AND DIVIDEND REINVESTMENT PLANS

Stock dividend alternatives, also referred to in some markets as "scrip" dividend alternatives or dividend reinvestment plans (DRIPS), offer shareholders the option of receiving their dividend payment in the form of fully paid ordinary shares and are common proposals worldwide. While dividend payments in the form of shares in lieu of cash do not immediately add to shareholder value, they allow companies to retain cash and to strengthen the position and commitment of long-term shareholders.

The CRPTF would:

- Vote FOR stock (scrip) dividend proposals.

- Vote AGAINST proposals that do not allow for a cash option unless management demonstrates that the cash option is harmful to shareholder value.

VI. RESTRUCTURING AND TRANSACTIONS

A. REORGANIZATIONS/RESTRUCTURINGS

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

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

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

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

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

The CRPTF would:

- Vote reorganizations and restructurings on a CASE-BY-CASE basis.

B. MERGERS AND ACQUISITIONS

When evaluating the merits of a proposed acquisition, merger, or takeover offer, focus on the financial and corporate governance impact on shareholder value, both in the immediate and long term. The primary concern is to determine whether or not the proposal is beneficial to shareholders' existing and future earnings stream and to ensure that the impact on voting rights is not disproportionate to that benefit. Generally, we are interested in the long-term shareholder interests as opposed to short-term gains that devalue assets and have a negative impact on workers and communities. Based on this premise, evaluate proposed mergers by looking at the justification for the merger; whether a reasonable financial arrangement has been proposed and a fairness opinion rendered; and the long-term impact of the business plans of the competing parties. Also, assess the impact of the proposed merger on the affected workforce and community including the proposed merger's impact on job loss with an emphasis on the company's U.S. operations. In certain circumstances, jobs may be lost due to economic inefficiencies. However, we will not support mergers that unnecessarily eradicate employment, harming the beneficiaries, communities, and the company's economic position.

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

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

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

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

The CRPTF would:

- Vote FOR mergers and acquisitions, unless:
    - the impact on earnings or voting rights for one class of shareholders is disproportionate to the relative contributions of the group; or
    - the company's structure following the acquisition or merger does not reflect good corporate governance (this will be defined differently within each market context, but should consider such basic provisions as board independence, performance based executive compensation and disclosure of major corporate reorganizations); or
    - there is a high degree of job loss with no reasonable explanation; or
    - there is a significant reduction in basic labor standards.
- Vote AGAINST if the companies do not provide sufficient information upon request to make an informed voting decision.
- ABSTAIN if there is insufficient information available to make an informed voting decision.

C. REINCORPORATION PROPOSALS

Reincorporation proposals are most commonly seen in Canada, where companies may register under one of the provincial business statutes. However, companies in other countries may also seek shareholder approval to reincorporate in a U.S. state or another country. Many companies, including U.S. companies, choose to reincorporate in places such as Bermuda, the Cayman Islands, or the British Virgin Islands for tax purposes.

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

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

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

The CRPTF would:

- Vote reincorporation proposals on a CASE-BY-CASE basis.

- Vote AGAINST the reincorporations to countries, states, or provinces with less stringent disclosure requirements or corporate governance provisions that may be management attempts to lessen accountability to shareholders.

- Vote AGAINST reincorporations to new jurisdictions that diminish basic labor rights and standards.

D. EXPANSION OF BUSINESS ACTIVITIES

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

Expanding business lines is a decision usually best left to management, but there are some instances where these guidelines anticipate that support will be withheld for such changes. If a company has performed poorly for several years and seeks business expansion into a risky enterprise, further clarification from management regarding the purpose of the expansion is required. If the company does not provide a satisfactory business plan, the CRPTF will not support the proposal. Furthermore, if the company does not adhere to basic labor principles or codes of conduct in the expansion of its business, then

CRPTF will not support the proposal. For example, the expansion must comply with applicable laws and regulations, provide legitimate policies regarding workplace health and safety, and recognize basic labor rights. The CRPTF believes these policies and practices affect long-term corporate performance and increase shareholder value.

The CRPTF would:

- Vote FOR resolutions to expand business activities unless the new business takes the company into risky areas.

E. RELATED PARTY TRANSACTIONS

Shareholders are often asked to approve commercial transactions between related parties. A transaction between a parent company and its subsidiary, or a company's dealings with entities that employ the company's directors, are usually classified as related party transactions and are subject to company law or stock exchange listing requirements that mandate shareholder approval. Shareholder approval of these transactions is meant to protect shareholders against insider trading abuses. In most cases, both the rationale and terms of such transactions are reasonable but an evaluation of the transaction by an independent body is not always available. Unless the agreement requests a strategic move outside the company's charter or contains unfavorable terms, support the proposal

The CRPTF would:

- Vote related party transactions on a CASE-BY-CASE basis.

- ABSTAIN from voting when details of a particular arrangement are not available.

VII. COMPENSATION PLANS

Disclosure on compensation in most countries is not as extensive as U.S. disclosure. However, compensation plans are becoming more common on meeting agendas of foreign companies, and the structures of these plans are of vital interest to shareholders. When given the opportunity to review these structures, we support plans that motivate participants to focus on long-term shareholder value and returns are performance-based, encourage employee stock ownership, and more closely align employee interests with those of shareholders.

Beyond the problems presented by limited disclosure, local conditions and traditions in particular countries also hinder the creation of a comprehensive compensation evaluation procedure. Standard market practice in one country may be illegal activity in another. Some countries establish numerical limits on the number of shares available under their plans, while others have percentage limits that apply over a specific length of time. Holding all global companies to the strict standards of the United States, for example, could result in recommendations against almost every compensation plan in many countries. Conversely, making too many allowances for local practices may only encourage poor governance standards over the long term.

The structure of compensation plans in overseas markets vary widely and there are many provisions that will be factored into the analysis of such plans. The absence or presence of these features do not necessarily warrant a recommendation for or against a given plan, but their presence should be taken into consideration in the analysis of a plan.

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

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

Phantom Stock Options
Phantom stock options offer participants cash bonuses based on the increase in share price during a set period of time. Phantom plans are distinct from SARs in that they often form their own separate plan. Some companies will create a phantom stock option plan to award employees who reside in countries that do not allow stock-based compensation. Participants are designated a set number of hypothetical (phantom) shares, on which the award is based.

While the CRPTF prefers compensation plans that encourage employee ownership, SARs and phantom options are an effective way to provide incentive.

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

A. STOCK OPTION PLANS

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

The CRPTF would:

- Vote compensation plans on a CASE-BY-CASE basis, taking into account the dilution that will arise from the plan and by analyzing the key features of such plans. Among the criteria that the CRPTF examines in evaluating stock option plans are the following, generally organized from criteria of greater importance to criteria of lesser importance:

1. Shares Reserved for Issuance of Options Under the Plan

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

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

The CRPTF would:

- Vote FOR plans that feature dilution levels of up to five percent (5%) at mature companies and of up to ten percent (10%) at growth-oriented companies.

2. Exercise Price and Discounts

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

In the absence of vesting periods or performance criteria, discounted option grants to directors amount to a cash bonus at shareholder expense. Under such circumstances, option holders have an incentive to cash in their grants for an immediate return, rather than hold on to their options for future gains. This undermines the incentive value underlining these plans. A few countries allow for options to be granted at a discount to market prices.

The CRPTF would:

- Vote FOR plans that permit discounts up to fifteen percent (15%), but only for grants that are a part of a broad-based employee plan, including all nonexecutive employees.

- Vote AGAINST plans that allow for grants of discounted options to executive officers and/or nonexecutive directors.

3. Plan Administration

Administration of plans should be in the hands of directors who are unable to participate in the plan. Plans administered by the full board should not allow voting by executive directors; plans administered by remuneration committees should be composed entirely of independent directors. Plans that allow nonexecutive directors to participate should not give them any discretion on individual grants; instead, an automatic system of grants should be introduced with fixed annual grants at market prices on a fixed date.

The CRPTF would:

- Vote FOR plans that are administered by individuals who are unable to participate in the plan, as long as all of the other plan terms are in line with guidelines.

- Vote AGAINST plans that allow the administering committee to grant options to itself due to the potential for “backscratching” abuse.

4. Performance Criteria and Vesting Provisions

Performance criteria and vesting provisions are important considerations when evaluating a compensation plan, and the existence of long vesting provisions and realistic performance criteria are highly preferred. The ultimate goal of share option plans is to tie executive and employee remuneration to company performance and to give key employees and executives incentive to stay with the firm.

The CRPTF would:

- Vote on a CASE-BY-CASE basis considering the absence of these features do not necessarily warrant a recommendation for or against a given plan, but their presence should be taken into consideration in the analysis of a plan. The existence of strong performance criteria can compensate for minor shortcomings in a plan.

B. OTHER FEATURES SPECIFIC TO OPTION PLANS

1. Option Repricing

Some plans include specific provisions allowing for the repricing of options at the board’s discretion. In Canada, companies listed on the Toronto Stock Exchange must seek shareholder approval for repricing options held by insiders of the company. Repricing outstanding options reduces the incentve that options provide to raise the share price for shareholders.

The CRPTF would:

- Vote AGAINST plans that include provisions allowing for option repricing when the exercise price is reduced in response to a drop in the share price and vote against the introduction of plans where there is a history of repricing options, unless options are repriced for lower level employees, in which case we vote on a case-by-case basis.

- Vote AGAINST proposals seeking shareholder approval to reprice options.

2. **Financial Assistance**

Some plans offer participants loans to pay the full exercise price on their options. If loans are part of a company's' option plan, they are more preferable as part of a broad-based, company-wide plan to encourage ownership rather than being given only to executive directors. Loans should have interest set at market rates that must be paid back in full over a reasonable length of time.

The CRPTF would:

- Vote FOR plans that allow for the use of loans in option plans as long as such loans are full-recourse, are set a market rates, and have a reasonable term.

3. **Restricted Stock**

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

The CRPTF would:

- Vote AGAINST the use of restricted stock in option plans, unless there are strict limits on the number of awards that may be granted as restricted stock.

C. INCENTIVE PLANS

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

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

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

The CRPTF would:

- Vote proposals to adopt incentive plans on a CASE-BY-CASE basis, employing the criteria used to examine stock option plans outlined in Section A above.

D. EMPLOYEE SHARE PURCHASE PLANS

Share purchase plans allow participants to purchase shares in the company, often at a discount to market prices. These plans are often broad-based in nature, as they are usually open to all employees. While eligibility under share purchase plans is evaluated similarly to stock option plans, PVS affords more flexibility with the terms of broad-based employee purchase plans. The inclusion of permanent part-time employees and employees who have been with the company for less than one year are provisions of employee plans that are routinely approved. Some plans operate via monthly deductions from employees' paychecks, gathered and held for safe keeping by a trust or a bank and used every month or year to purchase company stock. We approve of these plans if they encourage wide share ownership in the company among employees as well as dilution, eligibility and administration.

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

The CRPTF would:

- Vote FOR broad-based, employee-directed share purchase plans with discounts up to fifteen percent (15%).

- Vote FOR plans that allow for the use of loans in employee share purchase plans, unless there are specific concerns with the terms of the loans.

E. GRANTS OUTSIDE OF PLANS

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

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

The CRPTF would:

- Vote proposals to approve grants outside of formal plans on a CASE-BY-CASE basis, employing the criteria used to examine stock option plans outlined in Section A above.

VIII. ANTITAKEOVER MECHANISMS

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

A. RENEW PARTIAL TAKEOVER PROVISION (AUSTRALIA)

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

B. GOLDEN SHARES

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

C. POISON PILLS (CANADA)

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

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

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

Canadian poison pills often have a sunset provision, requiring shareholder confirmation of the plan. Most pills have either a three-year sunset provision or a five-year sunset provision, requiring that shareholders confirm the continuation of the plan three or five years from the date of adoption. We support a three-year sunset provision, which affords shareholders the ability to reconsider the plan in light of changing market conditions and to review management's use of the plan.

Canadian pills also typically include a permitted bid clause, under which the takeover bid must be made on equal terms to all holders of the company's voting shares; the company must extend the expiration of the bid, usually by 45 or 60 days following the date of the bid. Management sets the terms of the permitted bid clause, and therefore it influences the level of protection that will be provided to shareholders.

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

- Permitted bid clause structure: a permitted bid clause must allow for partial bids supported by a majority of shareholders to proceed despite board opposition; bid periods should generally not be greater than 60 days; the clause should not contain a "toehold provision" that would any person who already controls a specified percentage of shares from making a permitted bid;

- Amendments: the ability of the board to amend key terms of the plan without shareholder approval following initial adoption of the plan must be limited to clerical and typographical changes and changes required to maintain the validity of the rights plan;

- Exchange option: a plan must not contain a provision that would enable the board to issue in exchange for the right, with or without further charge, debt or equity securities, other assets of the company, or any combination thereof;

- Definition of Fair Market Value: the board must not have the discretion to interpret the fair market value of the company's shares if the board determines that the value was adversely affected by the news of an anticipated or actual bid or by other means of manipulation;

- Affiliates and Associates: the board's discretion to decide which parties are acting in concert to determine the level of beneficial ownership, which could be used to trigger the pill should be limited and well-defined in the text of the plan;

- Mandatory Waiver: if the board waives the triggering of the pill with respect to one bidder, the board must be required to waive the pill in favor of any subsequent bids, preventing the board from favoring one bid over another regardless of shareholder interests.

D. DEPOSITARY RECEIPTS AND PRIORITY SHARES (THE NETHERLANDS)

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

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

E. FOR ISSUES OF VIII - A THROUGH D

The CRPTF would:

- Vote AGAINST all antitakeover proposals unless they are structured in such a way that they give shareholders the ultimate decision on any proposal or offer.

- Vote AGAINST the adoption of poison pills unless they meet ALL of the criteria outlined in Section VII - C above.

- Vote AGAINST the introduction of depositary receipts and priority shares.

IX. SHAREHOLDER PROPOSALS

Most resolutions fall into three basic categories: corporate governance, social, and environmental. While shareholder proposals in most countries are not as prevalent as they are in the United States, they are becoming more common, and standards for reviewing the various types of proposals are necessary. In general shareholder proposals seen at global companies cover a wide variety of issues, including fundamental corporate governance topics, social issues, direct action proposals, as well as many unique proposals.

Shareholder’s proposals are becoming more common in the German market, where there are two types of such proposals-shareholder proposals and counterproposals. Counterproposals are filed in direct opposition to proposals put forward by management at a given shareholder meeting. Many shareholder and counterproposals in Germany focus on environmental and labor issues. The number of shareholder proposals is also on the rise in Canada, although the aggregate annual number still pales in comparison to the U.S

A. CORPORATE GOVERNANCE PROPOSALS

Support for corporate governance proposals must be measured against the likely impact that approval would have on the company's operations. If a measure would improve disclosure of company activities in non-strategic areas and at minimal costs, we support the proposal. If a proposal seeks to improve the company's corporate governance structure, such as adopting board committees, eliminating staggered board structures, or canceling anti-takeover instruments, approval is also warranted. However, if acceptance of a proposal is likely to lead to a disruption in board or management operations and to cause the company to incur significant costs without clear benefit we will oppose the proposal.

The CRPTF would:

- Generally vote FOR shareholder social, workforce, and environmental proposals that create good corporate citizens while enhancing long-term shareholder value.

- Generally vote FOR disclosure reports that seek additional information that is not available elsewhere and that is not proprietary, 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, we support 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. We will evaluate proposals seeking the company to cease taking certain actions that the proponent believes is 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.

B. SPECIAL POLICY REVIEW AND SHAREHOLDER ADVISORY COMMITTEES

These resolutions propose the establishment of 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.

The CRPTF would:

- Vote FOR proposals calling for special policy review and shareholder advisory committees when they appear to offer a potentially effective method for enhancing shareholder value.

C. ENVIRONMENTAL REPORTING, CODES OF CONDUCT AND THE "CERES PRINCIPLES"

Resolutions calling for environmental reporting and/or adoption of principles that encourage the company to protect the environment and the safety and health of its employees generally merit support.

Evidence suggests that environmentally conscious companies may realize long-term savings by implementing programs to pollute less and conserve resources. In addition, environmentally responsible companies stand to benefit from good public relations and new marketing opportunities. Moreover, environmental reporting provides shareholders with more information may be relevant to their company's financial well being including regulatory compliance, environmental risk management and brand name protection. One formulation of reporting seen in the United States that may be emulated internationally is the CERES Principles, formulated by the Coalition of Environmentally Responsible Economies. CERES 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. Many companies have voluntarily adopted these principles.

The CRPTF would:

- Vote FOR proposals on codes of conduct that improve the company's public image, reduces exposure to liabilities, and establish standards so that environmentally responsible companies and markets are not at a competitive financial disadvantage.

- Vote FOR adoption of reports to shareholders on environmental issues.

- Vote FOR the adoption of the CERES Principles.

D. "MACBRIDE PRINCIPLES"

These resolutions call for the implementation of the MacBride Principles for operations located in Northern Ireland. They request companies operating abroad to support the equal employment opportunity policies that apply in facilities they operate domestically. State of Connecticut statutes require such a policy of companies in which it is invested. The principles were established to address the sectarian hiring problems between Protestants and Catholics in Northern Ireland. It is well documented that Northern Ireland's Catholic community faces much higher unemployment figures than the Protestant community. In response to this problem, the U.K. government instituted the New Fair Employment Act of 1989 (and subsequent amendments) to address the sectarian hiring problems.

The CRPTF would:

- Vote FOR proposals to support the implementation of the MacBride Principles for operations in Northern Ireland that request companies to abide by equal employment opportunity policies within the legal requirements of the law.

E. CONTRACT SUPPLIER STANDARDS

These resolutions call for compliance with governmental mandates and corporate policies regarding nondiscrimination, affirmative action, work place safety and health and other basic labor protections.

The CRPTF would generally support 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.

- Request a report summarizing the company’s current practices for enforcement of its Code of Conduct.

- Establish independent monitoring programs in conjunction with local and respected religious and human rights groups to monitor supplier and licensee compliance with the Code of Conduct.

- Create incentives to encourage suppliers to raise standards rather than terminate contracts.

- Implement policies for ongoing wage adjustments, ensuring adequate purchasing power and a sustainable living wage for employees of foreign suppliers and licensees.

- Request public disclosure of contract supplier reviews on a regular basis.

- 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.

F. CORPORATE CONDUCT, HUMAN RIGHTS AND LABOR CODES

CRPFT will generally support proposals that call for the adoption and/or enforcement of principles or codes relating to countries in which there are systematic violations of human rights; such as the use of slave, child, or prison labor; a government that is illegitimate; or there is a call by human rights advocates, pro-democracy organizations, or legitimately-elected representatives for economic sanctions. Many times proposals refer to the conventions of the International Labor Organization (ILO). These proposals relate to a series of seven conventions (commonly referred to as the “Declaration on Fundamental Principles and Rights at Work”) ratified by the ILO, a tri-partite Non-Governmental Organization dedicated to the protection of workers’ rights. The seven conventions fall under four broad categories: right to organize and bargain collectively, non-discrimination in employment, abolition of forced labor and end of child labor. Each of the 180 member nations of the ILO are bound to respect and promote these rights to the best of their abilities.

The CRPTF would:

- Vote FOR 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) and that are in accordance with the provisions of the general statutes of Connecticut, Section 3-13, 45a-203 and 45a-541.

- Vote FOR proposals that support implementation and reporting on ILO codes of conduct.

- Vote FOR proposals that support independent monitoring programs in conjunction with local and respected religious and human rights groups to monitor supplier and licensee compliance with Codes.