# Proxy Voting Policies

# for the

# Connecticut Retirement Plans and Trust Funds

As approved by the Investment Advisory Council on September 14, 2022

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## I. INTRODUCTION

This document sets forth the State of Connecticut Retirement Plans and Trust Funds' ("CRPTF") Proxy Voting Policies that guide the CRPTF's proxy voting and shareholder activities, which are essential elements of protecting and increasing the long-term value of the CRPTF's equity investments.

The CRPTF does not expect that the board of directors of each company in which it invests will adopt or embrace every issue in these proxy voting policies. The CRPTF recognizes that some policies may not be appropriate for every company, due to differing business needs and structures as well as risk factors and competitive needs. The CRPTF looks to each board of directors to take appropriate action in the best interests of the company and its shareholders. The policies in this document represent the CRPTF's views on best practices relative to corporate policy.

The proxy voting policies conform to common law fiduciary standards, including Connecticut statutes pertinent to fiduciary conduct, such as the Uniform Prudent Investor Act. These policies also are consistent with Connecticut statutes that permits the Treasurer to consider the environmental, social and economic implications of investment decisions.[1]

All votes will be reviewed on a company-by-company basis and no issues will be considered routine. Each issue will be considered 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.

The CRPTF also actively engages companies on issues of concern in an effort to increase shareholder value. When appropriate, the CRPTF will itself sponsor shareholder resolutions. These proxy voting policies provide guidance for these activities as well.

## II. THE BOARD OF DIRECTORS

Electing the board of directors is the most important stock ownership right that shareholders can exercise. By electing directors with views similar to their own, shareholders can help to define performance standards against which management can be held accountable.

The CRPTF believes that at least a majority of board members be independent of management and that all members of key board committees (e.g. nominating, compensation, and audit) be independent. For these purposes, the CRPTF defines an independent director as:

Someone whose only nontrivial professional, familial or financial connection to the corporation, its chairman, CEO or any other executive officer is his or her directorship. Stated most simply, an independent director is a person whose directorship constitutes his or her only connection to the corporation.[2]

The CRPTF also believes that ongoing assessment of directors' skills and performance is an important attribute of a well-functioning board, and that boards have an obligation to ensure a balance of experience and tenure of their directors.

Accordingly, the CRPTF will consider all relevant facts and circumstances to determine whether a director is independent, including a director's years of service on the board.[3]

A director will NOT be considered independent under the following conditions:

- The director is employed by the company or one of its affiliates;
- The Board has determined by attestation that the director is not independent;
- The director is a former CEO of the company (except if served on an interim emergency basis);
- The director is a former CEO of an acquired company within the past five years;
- The director is a former significant executive of the company, an affiliate or an acquired firm within the past five years;
- The director is a relative of a current significant executive level employee of the company or its affiliates;
- The director is a relative of an individual who was a significant executive within the past five years of the company or its affiliate;
- The director currently provides (or a relative provides) professional services directly to the company, to an affiliate of the company or an individual officer of the company or one of its affiliates;
- The director is employed by (or a relative is employed by) a significant customer or supplier;
- The director has (or a relative has) any transactional relationship with the company or its affiliates; or
- The director has any material financial tie or other related party transactional relationship to the company.

### A. Voting for Director Nominees in Uncontested Elections

Traditionally in an uncontested election, all nominees are elected because only a plurality vote is needed to elect each director. Recently, at the urging of shareholders, many companies have moved to either requiring a majority vote to elect a director in an uncontested election, or to require a director that did not receive a majority vote to tender his/her resignation (which can be accepted or rejected by the board). Therefore, uncontested elections have become real elections.

For companies where there is a majority vote standard, the vote options on the proxy are FOR/AGAINST. At plurality vote companies, the proxy vote options are FOR/WITHHOLD.

Votes on director nominees are made on a CASE-BY-CASE basis, considering company performance and individual director performance.

The CRPTF will WITHHOLD votes from or vote AGAINST directors individually or the entire board, for egregious actions or failure to replace management as appropriate.

The CRPTF may WITHHOLD votes from or vote AGAINST directors individually or the entire board where the company has failed to align their business plans with the goals of the Paris Climate Agreement, to establish a plan to achieve net zero emissions by 2050, or where a director individually or the entire board have failed to exercise appropriate risk oversight of environmental and social issues.

The CRPTF will WITHHOLD votes from or vote AGAINST individual directors in some cases based on examination of the following factors:

- Nominee is both the CEO and chairman of the board of directors (except for certain situations as cited in Section II.D.);
- Nominee's attendance of meetings is less than 75 percent without valid reason;
- Non-independent nominee being a member of a key board committee (audit, nominating and compensation committee);
- Nominee is serving on an excessive number of other boards; for a CEO this would be more than two (2) public company boards (one plus his or her own), for a non-CEO with a full time job this would be more than three (3) public company boards and for a non-CEO with no other employment except as a board member, this would be five (5) public company boards unless the company has disclosed in the annual proxy statement reasons why additional board service exceeding the guidelines above would not interfere with a nominee’s ability to perform his or her responsibilities or there are other mitigating circumstances (e.g. a CEO sitting on the board of a wholly-owned subsidiary);
- Nominee is serving on the board or in an executive position of another company where that company was involved in Chapter 7 bankruptcy, or where there were proven SEC violations, or a proven criminal offense related to the nominee;
- Poor performance by nominee on the board of another company, such as being a director of a company which filed for bankruptcy and where there are credible allegations of fraud;
- Interlocking directorships where the CRPTF Proxy Voting Advisor and/or other experts deem those relationships an impairment to independent judgment and action;
- Related party transactions where the CRPTF Proxy Voting Advisor and/or other experts deem those transactions to be more in the interest of the director nominee than the shareholders.

The CRPTF will WITHHOLD votes from or vote AGAINST the entire board of directors (excepting new nominees, who the CRPTF will evaluate based on the other criteria in this section) if:

- The company's poison pill has a dead-hand or modified dead-hand feature;
- The board adopts or renews a poison pill unless the poison pill is subject to shareholder approval;
- The board failed to act on a shareholder proposal that received approval by a majority of shares outstanding the previous year;
- The board failed to act on takeover offers where the majority of the shareholders tendered their shares;
- The board failed to address an issue(s) that caused a 50% or greater withhold vote for any director in the previous director election;
- The board did not respond to a request from major institutional investors about significant policy issues that have material significance to shareholder value;
- The Board does not have in place a succession plan for the CEO and key board members such as the chairman and/or lead director;
- Issues specific to key board committees (as outlined below) are not addressed by the board as a whole;
- The company has no women on its board;

- The board has not ensured that management has installed effective mechanisms to manage risks that may affect the company, its industry and the economy.

The CRPTF will WITHHOLD votes from or vote AGAINST non-independent directors when:

- The non-independent director serves on any of the three key committees: audit, compensation or nominating;
- The company lacks an audit, compensation or nominating committee, enabling the board to function as that committee;
- The full board is less than majority independent.

The CRPTF will WITHHOLD votes from or vote AGAINST members of key board committees in cases of poor performance of those committees of which the nominee is a member.

The CRPTF will WITHHOLD votes from or vote AGAINST members of the Nominating Committee if:

- The committee does not seek out candidates for the board from a diverse candidate pool, with particular attention to race and gender diversity, particularly when such diversity is underrepresented or nonexistent on the board;
- The board did not respond to a request from major institutional investors for information about the racial and/or ethnic composition of its board, or declined to disclose such information**;**
- The board lacks appropriate skills and attributes, including when there is only one woman on the board.

The CRPTF will WITHHOLD votes from or vote AGAINST members of the Audit Committee if:

- The non-audit fees paid to the accounting firm performing the audit are greater than 25% of the total fees paid to the firm by the company (see also Section V.);
- The Audit Committee failed to respond to a material weakness identified in the Section 404 Sarbanes-Oxley Act disclosures;
- There are chronic internal control issues and an absence of established effective control mechanisms identified by the external auditors that are not being addressed in a timely manner;
- The committee has poor oversight of the company's procedures to assure independence of the auditors (see Section V. for further discussion);
- The company fails to allow shareholders the opportunity to vote to ratify the company's audit firm.

The CRPTF may WITHHOLD votes from or vote AGAINST the members of the Compensation Committee if the company has poor compensation practices. (See section IX. B. for discussion of poor compensation practices.)

Appendix A to these guidelines contains a discussion and enumeration of poor compensation practices, is incorporated by reference to this section and will be the criteria used for both voting for re-election of members of the Compensation Committee, as well as for the Say on Pay vote (see Section IX.B.)

If the company holds an annual advisory vote on executive compensation, the CRPTF may vote AGAINST the advisory vote to signal its concerns on compensation issues rather then vote against members of the compensation committee. If the pay practices that raise concerns are not corrected, the CRPTF would vote against re-election of the compensation committee member in the subsequent year.

For companies that do not hold an advisory vote on executive compensation in a particular year, the CRPTF may vote AGAINST the members of the compensation committee as dictated by this subsection.

## B. Voting for Director Nominees in Contested Elections

Competing slates will be evaluated based upon the personal qualifications of the candidates, the economic impact of the policies that they advance, and their expressed and demonstrated commitment to the interests of all shareholders and stakeholders (e.g. employees, customers, and communities in which a company resides), as well as using the criteria outlined in Section II.A. regarding uncontested elections.

Votes in a contested election of directors are evaluated on a CASE-BY-CASE basis, considering the following factors:

- Long-term financial performance of the company relative to its industry;
- Management's track record;
- Performance evaluation of any director standing for re-election;
- Background to the proxy contest;
- Qualifications of director nominees (both slates);
- Evaluation of what each slate is offering shareholders, as well as the likelihood that the proposed objectives and goals can be met;
- Stock ownership positions of individual directors;
- Impact on stakeholders such as the community, employees, customers, etc.

## C. Board Diversity

The CRPTF supports company efforts to ensure a diverse and inclusive board of directors as a means of enhancing long-term financial performance. The charter of the nominating committee should include a policy that commits the company to seeking a diverse slate of candidates, including ethnic, racial and gender diversity, as well as consideration of candidates' experience, skills, age, geography, sexual orientation and gender identity.

Generally, the CRPTF will vote FOR shareholder resolutions requesting reports on the company's efforts to diversify the board, unless:

- The board composition is reasonably inclusive in relation to companies of similar size and business; or

- The board already reports on its nominating procedures and diversity initiatives.

The CRPTF will vote on a CASE-BY-CASE basis on shareholder resolutions asking the company to increase the board's diversity taking into account:

- The degree of board diversity;
- Comparison with peer companies;
- Established processes for improving board diversity including existence of independent nominating committees and use of an outside search firm;
- History of Equal Employment Opportunity (EEO) violations.

## D. Independent Director as Chairman of the Board

The CRPTF believes that the positions of chairman and CEO should be held by different persons, except in extraordinary circumstances. In those circumstances, there should be a lead independent director.

Generally, the CRPTF will WITHHOLD its vote from or vote AGAINST a director nominee who holds both positions.

Overall, the CRPTF will vote FOR shareholder resolutions that ask companies to require the position of chairman of the board be filled by an independent director, except in extraordinary circumstances that are explicitly spelled out.

## E. Substantial Majority of Independent Directors

The CRPTF believes that at a minimum, a substantial majority of every board of directors should be independent from management. Boards should strive to maintain board composition made up of a substantial majority of independent directors.

The CRPTF will vote FOR shareholder resolutions asking that a substantial majority of directors be independent.

## F. Shareholder Access to the Proxy

The CRPTF supports proxy ballot access for shareholders' nominees to the board, provided that shareholders, holding in aggregate at least 3% of a company's voting stock with 3 years of continuous ownership, have shown support for each nominee.

Generally, the CRPTF will vote FOR shareholder resolutions asking companies to provide shareholders, holding in aggregate at least 3% of shares with 3 years of continuous ownership, with the ability to nominate director candidates to be included on management's proxy card.

## G. Nominating Directors on a Company's Proxy Card

Securities and Exchange Commission (SEC) rules permit a shareholder or group of shareholders meeting certain requirements to nominate candidates to the board of directors through the company's proxy card.

The CRPTF will evaluate whether the replacement of individual board members is beneficial to the company and will join other shareholders in nominating candidates on a CASE-BY-CASE basis.

## H. Majority Vote for Election of Directors

Generally, the CRPTF will vote FOR shareholder resolutions (including binding resolutions requesting that the board amend the company's bylaws) calling for directors to be elected with a majority of votes cast[4] for electing directors, provided the proposal includes a carve-out for a plurality voting standard when there are more director nominees than board seats (e.g. contested elections).[5]

## I. Stock Ownership Requirements

The CRPTF will vote FOR shareholder resolutions that ask companies to require members of the board of directors to own some amount of stock of the companies on which they serve as board members. Exceptions should be made for clergy.

## J. Annual Election of Directors

The CRPTF will vote FOR shareholder resolutions that ask companies to ensure all members of the board of directors be elected by shareholders every year.

## K. Term of Office

The CRPTF will vote FOR shareholder resolutions proposing term limits or mandatory retirement age for members of the board of directors, provided that such proposals permit the board to waive this requirement on a CASE-BY-CASE basis.

## L. Cumulative Voting

The CRPTF will generally vote FOR shareholder resolutions to allow cumulative voting in contested elections, provided that the resolution does not require cumulative voting in uncontested elections. Under a cumulative voting scheme, the shareholder is permitted to have one vote per share for each director to be elected and shareholders are permitted to apportion those votes in any manner they wish among the director candidates.

## M. Director and Officer Indemnification and Liability Protection

Management proposals typically seek shareholder approval to adopt an amendment to the company's charter to eliminate or limit the personal liability of directors to the company and its shareholders for monetary damages for fiduciary breaches arising from gross negligence.

Generally, the CRPTF will vote AGAINST management proposals to limit or eliminate entirely director and officer liability for:

- A breach of the duty of loyalty,

- Acts or omissions not in good faith or involving intentional misconduct or knowing violations of the law,
- Acts involving the unlawful purchases or redemptions of stock,
- The payment of unlawful dividends, or
- Use of the position as director for receipt of improper personal benefits.

## III. COMPANY RESPONSIVENESS TO SHAREHOLDERS

Shareholders are the owners of the company and, as such, have an important right and duty to elect members of the board of directors. The members of the board of directors in turn oversee the company and act on behalf of shareholders to protect shareholders' interests. Shareholders often express their concerns through written communications, direct conversations, shareholder resolutions, and voting on proxy issues including voting for directors. Boards of directors need to be responsive to these shareholder communications.

### A. Response to Majority Votes

When a shareholder resolution receives the support of a majority of the shareholders voting, the board of directors and management has an obligation to affirmatively consider the wishes of the shareholders.

The CRPTF will vote FOR shareholder resolutions that request companies to adopt a policy that creates a mechanism and an obligation for the board of directors to take action on any shareholder resolution that receives an affirmative vote of a majority of those shares voted.

### B. Communication with Shareholders

Members of the board of directors have a responsibility to listen to shareholders and to be responsive to their concerns.

The CRPTF will vote FOR shareholder resolutions that request companies to create a formal mechanism for shareholder communication with independent directors.

The CRPTF will vote FOR shareholder resolutions that request companies to require that all directors be present at the annual meeting of shareholders (unless there are extenuating circumstances) and that there is a period set aside at the annual meeting for the independent directors to answer questions from shareholders on issues of concern (management may be present).

## IV. PROXY CONTEST DEFENSES

### A. Poison Pills

"Shareholder rights plans," typically known as poison pills, provide the target board with veto power over takeover bids and insulate management from the threat of a change in control. Because poison pills greatly alter the balance of power between shareholders and management, shareholders should be allowed to make their own evaluation of such plans.

The CRPTF will vote FOR shareholder resolutions that request companies to submit its poison pill for shareholder ratification.

The CRPTF will review on a CASE-BY-CASE basis shareholder resolutions that request companies to redeem a company's poison pill.

The CRPTF will review on a CASE-BY-CASE basis management proposals to ratify a poison pill.

### B. Amend Bylaws without Shareholder Consent

The CRPTF will vote AGAINST management proposals giving the board exclusive authority to amend the bylaws.

The CRPTF will vote AGAINST shareholder resolutions giving the board the ability to amend the bylaws without shareholder approval.

## V. AUDITORS

The CRPTF believes that a company's auditors should be independent of outside influence and therefore should not perform non-audit-related consulting work. The audit committee should adopt and implement a formal policy on the independence of the auditors that is disclosed in the audit committee report of the proxy statement. Such policy should state that the auditors will not be considered independent if they provide significant non-audit services to the company apart from the audit. Services are considered significant if they are worth the lesser of $50,000 or 1 percent of the audit firm's gross revenues for the most recent fiscal year. Under no circumstances should the amount of payment paid to the auditor for non-audit services (including audit related services) be larger than the payment for audit services. The audit committee should not indemnify the auditor. The appointment of the auditor should always be placed before shareholders for approval.

The CRPTF will vote AGAINST management proposals to ratify auditors if:

- An auditor has a financial interest in or association with the company, and is therefore not independent;
- There is reason to believe that the independent auditor has rendered an opinion which is inaccurate or non-indicative of the company's financial position;
- During the prior year, the fees paid to the audit firm for non-audit-related services was more than 25% of total fees paid to the firm by the company.

## VI. ACQUISITIONS AND MERGERS

Votes on mergers and acquisitions and related issues are considered on a CASE-BY-CASE basis, with the primary concern being the best long-term economic interests of shareholders. In making this evaluation, the CRPTF will take into account at least the following:

- Anticipated financial and operating benefits;
- Offer price (cost vs. premium);
- Prospects of the combined companies;
- How the deal was negotiated;

- Fairness opinion (or the lack of one);
- Changes in corporate governance and its impact on shareholder rights;
- Impact on community stakeholders and workforce;
- Strategic rationale for the merger or acquisition;
- Analysis of whether there are any conflicts of interest;
- Analysis of corporate governance of the newly formed entity - both compared to the governance provisions of the companies prior to the merger or acquisition and compared to the governance provisions of these proxy voting policies.

### A. Fair Price Provisions

The CRPTF will vote on a CASE-BY-CASE basis on proposals to adopt fair price provisions (provisions that stipulate that an acquirer must pay the same price to acquire all shares as it paid to acquire the control shares), evaluating factors such as the vote required to approve the proposed acquisition, the vote required to repeal the fair price provision, and the mechanism for determining the fair price.

### B. Greenmail

Greenmail payments are targeted repurchases by management of company stock from individuals or groups seeking control of the company. Since only the hostile party receives payment, usually at a substantial premium over the market value of its shares, the practice discriminates against all other shareholders.

The CRPTF will vote FOR shareholder resolutions to adopt anti-greenmail charter or bylaw amendments or otherwise restrict a company's ability to make greenmail payments.

### C. Stakeholder Provisions

The CRPTF will vote FOR shareholder resolutions that ask the board to consider non-shareholder constituencies including employees, customers, the community in which a company resides, and stakeholder or constituency issues of concern, when evaluating a merger or business combination.

## VII. SHAREHOLDER RIGHTS

### A. Confidential Voting

The CRPTF will vote FOR shareholder resolutions that request companies to adopt a policy allowing for confidential voting.

### B. Shareholder Ability to Call Special Meetings

Shareholders should be permitted to call special meetings of shareholders to address and vote on issues that the Board of Directors is not addressing, including but not limited to, removal of members of the board. The rules implementing this provision should provide for timely calling of such meetings.

The CRPTF will vote FOR shareholder resolutions that request companies to adopt a policy allowing for shareholders' right to call special meetings within the parameters of corporate law of the state in which the company is incorporated to take action on certain matters, including removal of directors, submitting shareholder resolutions or responding to a beneficial offering.

The CRPTF will vote AGAINST proposals to restrict or prohibit shareholder ability to call special meetings and AGAINST provisions that would require advance notice of more than sixty days.

**C. Shareholder Ability to Act by Written Consent**

The CRPTF will vote FOR shareholder resolutions that request companies to adopt a policy allowing for shareholders' ability to take action by written consent within the parameters of corporate law of the state in which the company is incorporated to take action on certain matters including removal of directors, submitting shareholder resolutions or responding to a beneficial offering.

The CRPTF will vote AGAINST proposals to restrict or prohibit shareholder ability to take action by written consent.

**D. Equal Access**

The CRPTF will vote FOR shareholder resolutions that request companies to give shareholders (or group of shareholders), holding in aggregate at least 3% of a company's voting stock with 3 years of continuous ownership, access to management's proxy material for the purpose of nominating candidates to the board of directors.

**E. Unequal Voting Rights**

The CRPTF will vote FOR shareholder resolutions that request companies to maintain or provide one-share one-vote and will vote AGAINST management proposals for dual class stock with different voting rights.

**F. Supermajority Shareholder Vote Requirement to Amend the Charter or Bylaws**

The CRPTF will vote FOR management or shareholder proposals to reduce supermajority vote requirements for charter and bylaw amendments and mergers. However, for companies with shareholders who have significant ownership levels, the CRPTF will vote CASE-BY-CASE, taking into account: (1) ownership structure; (2) quorum requirements; and (3) supermajority requirements.

The CRPTF will vote AGAINST management proposals to adopt supermajority requirements for a shareholder vote to approve charter, bylaw amendments and mergers. The CRPTF also will vote AGAINST management proposals seeking to lower supermajority shareholder vote requirements when such requirements accompany management sponsored proposals which would also change certain charter or bylaw provisions.

**G. Reimbursement of Proxy Solicitation Expenses**

The CRPTF will vote on CASE-BY-CASE basis for shareholder proposals to fully reimburse all appropriate proxy solicitation expenses associated with dissidents waging a proxy contest.

### H. Shareholder Ability to Remove Directors

The CRPTF will vote FOR resolutions requiring shareholder resolutions that request companies to adopt a policy allowing shareholders the ability to remove directors with cause, including causes that do not rise to the level of legal malfeasance. Such causes include: not attending meetings, failure to carry out committee responsibilities, or actions which may be detrimental to the interests of shareholders.

The CRPTF will vote AGAINST resolutions that provide that directors may be removed only for cause and AGAINST resolutions that provide only continuing directors may elect replacements to fill board vacancies.

### I. Action to Fill Board Vacancies

The CRPTF will vote FOR proposals that any board member named to fill a vacancy must be elected by shareholders at the next annual meeting.

The CRPTF will vote AGAINST proposals to allow management or the board to fill vacant board seats on an interim basis if the board fails to allow a shareholder vote for the interim members at the next annual meeting.

### J. Shareholder Ability to Alter the Size of the Board

The CRPTF will vote AGAINST proposals to allow management or the board to alter the size of the board without shareholder approval.

## VIII. CAPITAL STRUCTURE

The management of a corporation's capital structure involves a number of important issues, including dividend policy, types of assets, opportunities for growth, ability to finance new projects internally, and the cost of obtaining additional capital. Many financing decisions have a significant impact on shareholder value, particularly when they involve the issuance of additional common stock, preferred stock, or debt.

The CRPTF will review these proposals for changes in capital structure on a CASE-BY-CASE basis.

In general, the CRPTF will vote FOR proposals that are based on a solid business plan, while opposing proposals that:

- Diminish the rights of the current stockholders;
- Are intended to be used as a takeover defense; or
- Unduly dilute the economic or voting interests of current shareholders.

## A. Common Stock Authorization

CRPTF supports management proposals requesting shareholder approval to increase authorized common stock when management provides persuasive justification for the increase.

CRPTF will evaluate on a CASE-BY-CASE basis proposals where the company intends to use the additional authorized stock to implement a poison pill or other takeover defense.
Generally, the CRPTF will review on a CASE-BY-CASE basis, proposals to increase the number of shares of common stock authorized for issue.
Generally, the CRPTF will vote AGAINST proposed common stock authorizations that increase the existing authorization by more than 50 percent unless a clear need for the excess shares is presented by the company.

## B. Preferred Stock

Preferred stock is an equity security, which has certain features similar to debt instruments, such as fixed dividend payments; seniority of claims compared to common stock; and, in most cases, no voting rights. The terms of blank check preferred stock give the board of directors the power to issue shares of preferred stock at its discretion—with voting rights, conversion, distribution and other rights to be determined by the board at time of issue. Blank check preferred stock can be used for sound corporate purposes but could be used as a devise to thwart hostile takeovers.

Generally, the CRPTF will vote FOR management proposals to create blank check preferred stock in cases where the company expressly states that the stock will not be used as a takeover defense or carry superior voting rights.

Generally, the CRPTF will vote on a CASE-BY-CASE basis on management proposals when the company indicates that such preferred stock may be used as a takeover defense.

## C. Adjust Par Value of Common Stock

The CRPTF will vote FOR management resolutions to reduce the par value of common stock.

## D. Preemptive Rights

Preemptive rights permit shareholders to share proportionately in any new issues of stock of the same class. These rights guarantee existing shareholders the first opportunity to purchase shares of new issues of stock in the same class as their own and in the same proportion. The absence of these rights could cause shareholders' interest in a company to be reduced by the sale of additional shares without their knowledge and at prices unfavorable to them. Preemptive rights, however, can make it difficult for corporations to issue large blocks of stock for general corporate purposes. Both corporations and shareholders benefit when corporations are able to arrange issues without preemptive rights that do not result in a substantial transfer of control.
Generally, the CRPTF will vote on a CASE-BY-CASE basis on management proposals to create or abolish preemptive rights. In evaluating proposals on preemptive rights, the CRPTF will look at the size of a company and the characteristics of its shareholder base.

## E. Debt Restructuring

The CRPTF will vote on a CASE-BY-CASE basis on management proposals to increase common and/or preferred shares and to issue shares as part of a debt restructuring plan. The CRPTF will consider the following issues:

- Dilution - How much will ownership interests of existing shareholders be reduced, and how extreme will dilution to any future earnings be?
- Change in control - Will the transaction result in a change in control of the company?
- Bankruptcy - Is the threat of bankruptcy, which would result in severe losses in shareholder value, the main factor driving the debt restructuring?

Generally, the CRPTF will vote FOR management proposals that facilitate debt restructuring unless there are clear signs of self-dealing or other abuses.

**F. Dual-Class Stock**

The CRPTF will vote FOR a one-share one-vote structure.

The CRPTF will vote AGAINST management proposals to create a new class of common stock with superior voting rights.

The CRPTF will vote AGAINST management proposals at companies with dual-class capital structures to increase the number of authorized shares of the class of stock that has superior voting rights.

**G. Issue Stock for Use with Rights Plan**

The CRPTF will vote AGAINST management proposals that increase authorized common stock for the explicit purpose of implementing a non-shareholder approved shareholder rights plan (poison pill).

**H. Recapitalization**

The CRPTF will vote on a CASE-BY-CASE basis on recapitalizations (reclassifications of securities), taking into account the following:

- More simplified capital structure;
- Enhanced liquidity;
- Fairness of conversion terms;
- Impact on voting power and dividends;
- Reasons for the reclassification;
- Conflicts of interest;
- Other alternatives considered.

**I. Reverse Stock Splits**

A reverse stock split occurs when blocks of more than one share of stock are converted into one share.

The CRPTF will vote FOR management proposals to implement reverse stock splits when the number of authorized shares will be proportionately reduced.

The CRPTF will vote on a CASE-BY-CASE basis on management proposals to implement reverse stock splits that do not proportionately reduce the number of shares authorized for issues as determined using a model developed by a proxy voting service.

### J. Share Repurchase Programs

The CRPTF will vote FOR management proposals to institute open-market share repurchase plans in which all shareholders may participate on equal terms, provided that adjustments are made to executive compensation programs to reflect the reduced number of shares outstanding (e.g. calculations of earnings per share).

### K. Stock Distributions: Splits and Dividends

The CRPTF will vote FOR management proposals to increase the common share authorization for a stock split or share dividend, provided that the increase in authorized shares would not result in an excessive number of shares available for issuance as determined using a model developed by a proxy voting service.

### L. Tracking Stock

The CRPTF will vote on a CASE-BY-CASE basis on the creation of tracking stock, weighing the strategic value of the transaction against such factors as:

- Adverse governance changes;
- Excessive increases in authorized capital stock;
- Unfair method of distribution;
- Diminution of voting rights;
- Adverse conversion features;
- Negative impact on stock option plans;
- Alternatives such as spin-off.

## IX. EXECUTIVE AND DIRECTOR COMPENSATION

### A. CRPTF's General Principles for Voting on Executive Compensation

Executive compensation is generally comprised of three basic components: salary, bonus and equity compensation. In addition, there are other forms of compensation, such as retirement benefits, severance benefits, basic employee benefits (such as health and life insurance), loans (and forgiveness of loans), payment of taxes on certain compensation, and "perks" including personal use of company facilities (such as company aircraft).

The CRPTF considers a good compensation policy as one that balances these different forms of compensation to provide incentives for continuous improvement and ties pay to performance. Developing measures of performance for the CEO and other executives is a key component of a compensation plan.

It is the role of the compensation committee to set the compensation for top management and approve compensation policy for the company as a whole. Shareholders look to the compensation committee to align management's interests with shareholder interests while providing incentives for long-term performance.

Exorbitant pay, unwarranted severance packages, lack of internal pay equity, abuse of perquisites ("perks"), and corporate scandals, where executives have been highly paid while shareholders have lost billions of dollars, and employees have lost their jobs and much of their life savings, have shown that many compensation committee members have not been doing their jobs. These examples provide a reminder to all compensation committee members of the importance of their responsibility to align pay with performance, to encourage management to effectively manage risks that may affect the company, its industry and the economy, and to provide compensation incentives for management while protecting the financial interests of shareholders.

The compensation committee should commit to providing full descriptions of the qualitative and quantitative performance measures and benchmarks used to determine annual incentive compensation, including the weightings of each measure. At the beginning of the period during which an executive's performance is to be measured, the compensation committee should calculate and disclose the maximum compensation payable in the event that performance-related targets are met. At the end of the performance cycle, the compensation committee should disclose actual targets and details on the determination of final payouts.

The compensation committee should adopt and implement a formal policy on the independence of compensation consultants that is disclosed in the Compensation Discussion and Analysis (CD&A) of the proxy statement. Such policy should state that a compensation consultant will not be considered independent if the consultant firm provides significant services to the company apart from work performed for the compensation committee. Services are considered significant if they are worth the lesser of $50,000 or 1 percent of the consultant firm's gross revenues for the most recent fiscal year. Under no circumstances should the amount of payment paid to a consultant be larger for management services than the payment for compensation committee services. The compensation committee should not indemnify the compensation consultant for work provide to the committee.

The CRPTF proxy voting policies are based on pay for long-term sustained performance, and the responsibility of the compensation committee to make this happen.

## B. Advisory Vote on Executive Compensation

The CRPTF supports the right of shareholders to exercise an advisory vote on executive compensation practices.

The CRPTF will vote FOR management proposals to require annual advisory votes on executive compensation.

When evaluating executive compensation for the purposes of casting an advisory vote on executive compensation, the CRPTF will evaluate the criteria as enumerated in Appendix A, which is incorporated by Reference into this section.

In evaluating executive compensation for the purposes of casting an advisory vote, the CRPTF will review:

- **Pay for performance** – including how both pay and performance are measured.
- The company's **compensation policy** (for both named executives, other employees) as spelled out in the Compensation Discussion and Analysis – including the clarity and transparency of that policy, as well as how the policy ties compensation to the creation of long-term shareholder value.
- The company's responsiveness to **input from shareholders** on compensation policy and practices.
- The degree to which the company employs **poor compensation practices,** as delineated in the CRPTF proxy voting guidelines, and as outlined below.

The CRPTF will evaluate these issues in a holistic way, considering all of a company's compensation practices (rather than any one issue) in determining how to vote. How a company's compensation policy and practices have changed from previous years – or not changed in the case of poor compensation practices – will be an additional factor considered.

See Appendix A for the factors to be evaluated in determining how to vote.

## C. Golden Parachutes/Severance Agreements for Executives

Golden parachute compensation is defined as any type of compensation (whether present, deferred, or contingent) that is based on or otherwise relates to a merger, acquisition, or sale transaction. (A separate vote would not be required if disclosure of that compensation had been included in a prior advisory vote on Executive Compensation, and that compensation arrangement remained unchanged.)

The CRPTF will vote on these issues on a CASE-BY-CASE basis. When evaluating such benefits, the CRPTF will evaluate a number of criteria outlined below. The CRPTF will evaluate these issues in a holistic way, and no one issue will be decisive in determining how to vote.
An acceptable "golden parachute" change-in-control payment and policy should include, but is not limited to, the following:

- The triggering mechanism is beyond the control of management;
- The amount of the payment does not exceed three times the base amount, defined as the average annual taxable W-2 compensation during the five years prior to the year in which the change-in-control occurs;
- The change-in-control payment is double-triggered, i.e., 1) after a change in control has taken place, and 2) termination of the executive as a result of the change in control. Change-in-control is defined as a change in the company ownership structure;
- The company does not provide tax gross-ups on parachute payments;

- The company takes into account the amount of company stock owned by the executive, the benefits payable under any retirement plan(s) in which the executive is a participant, and the amount of compensation deferred by the executive;
- There is no accelerated vesting of equity held by the executive as a result of a change-in-control, provided that in the case where unvested equity no longer exists, the executive is granted equity of equal value with comparable vesting requirements by the new entity.

The CRPTF will vote FOR shareholder proposals requesting companies to eliminate accelerated vesting of equity following the termination of employment for any reason, excepting change-in-control.

The CRPTF will vote FOR shareholder proposals requesting companies to eliminate accelerated vesting of equity held by the executive as a result of a change-in-control, provided that in the case where unvested equity no longer exists, the executive is granted equity of equal value with comparable vesting requirements by the new entity.

**D. Equity Compensation**

The CRPTF supports compensating executives at a reasonable rate and believes that executive compensation should be strongly correlated to the long-term performance of the company.

Stock option grants and other forms of compensation should be performance-based with an objective of improving shareholder value and maintaining that value over the long term. Well-designed stock option plans align the interests of executives and shareholders by providing that executives benefit when stock prices rise as the company, and shareholders, prosper over the long-term.

The CRPTF will vote on a CASE-BY-CASE basis on proposals for equity-based compensation plans.

The CRPTF will vote FOR proposals for equity compensation plans that provide challenging performance objectives and serve to motivate executives to deliver long-term performance, and vote AGAINST plans that permit reloading of exercised stock options and apparent unreasonable benefits to executives that are not available to any other employees.

The CRPTF will vote on a CASE-BY-CASE basis for management proposals for equity-based compensation plans that link executive compensation to corporate responsibility, such as corporate downsizing, customer or employee satisfaction, community involvement, human rights, environment performance, predatory lending, and executive/employee pay disparities. The CRPTF considers many of these corporate responsibility issues as key business issues linked directly to long-term shareholder return and will evaluate them accordingly.

The CRPTF will vote AGAINST proposals for equity-based compensation plans if any of the following factors apply:

- The total cost of the company's equity-based compensation plans is unreasonable, based on a model developed by a proxy voting service;

- The plan expressly permits the repricing of stock options without prior shareholder approval;
- The plan expressly permits the reloading of stock options;
  - There is a disconnect between CEO pay and the company's performance;
  - The company's three-year burn rate exceeds 3% or the industry average;
  - The plan is a vehicle for poor pay practices.

**E. Employee Stock Ownership Plans (ESOPs)**

The CRPTF will vote FOR proposals to implement an ESOP or increase authorized shares for existing ESOPs, unless the number of shares allocated to the ESOP is excessive (more than five percent of outstanding shares).

**F. Incentive Bonus Plans and Tax Deductibility Proposals**

The CRPTF will vote FOR management proposals that amend shareholder-approved compensation plans to include administrative features or place a cap on the annual grants that any one participant may receive to comply with the provisions of Section 162(m).

The CRPTF will vote FOR management proposals to add performance goals to existing compensation plans to comply with the provisions of Section 162(m) unless they are clearly inappropriate.

The CRPTF will vote on a CASE-BY-CASE basis on management proposals to amend to existing plans to increase shares reserved and to qualify for favorable tax treatment under the provisions of Section 162(m), as long as the plan does not exceed the allowable cap and the plan does not violate any of the supplemental policies.

Generally, the CRPTF will vote FOR cash or cash and stock bonus plans that are submitted to shareholders for the purpose of exempting compensation from taxes under the provisions of Section 162(m), if no increase in shares is requested.

**G. Option Exchange Programs/Repricing Options**

The CRPTF will vote on a CASE-BY-CASE basis on management proposals seeking approval to exchange/reprice options, taking into consideration:

- Historic trading patterns;
- Rationale for the re-pricing;
- Value-for-value exchange;
- Treatment of surrendered options;
- Option vesting;
- Term of the option;
- Exercise price;
- Participation;
- If the surrendered options are added back to the equity plans for re-issuance, the CRPTF will also take into consideration the company's three-year burn rate.

### H. Director Compensation

The CRPTF will vote on a CASE-BY-CASE basis on compensation plans for non-employee directors.

The CRPTF will vote FOR a director compensation plan if ALL of the following qualitative factors are met and disclosed in the proxy statement:

- Director stock ownership policies that require payment of a minimum of 50% of annual director compensation in equity and encourage directors to hold their equity interests while serving on the board.
- A vesting schedule or mandatory holding/deferral period (a minimum vesting of three years for stock options or restricted stock or deferred stock payable at the end of a three-year deferral period);
- Mix between cash and equity;
- No retirement benefits or perquisites provided to non-employee directors;
- Detailed disclosure provided on cash and equity compensation delivered to each non-employee director for the most recent fiscal year, including annual retainer, board meeting fees, committee retainer, committee-meeting fees, and equity grants.

### I. Director Retirement Plans

The CRPTF will vote AGAINST management proposals for retirement plans for non-employee directors.

## X. SHAREHOLDER RESOLUTIONS ON COMPENSATION

### A. Option Expensing

Generally, the CRPTF will vote FOR shareholder resolutions that request companies to expense stock options, unless the company has already publicly committed to expensing options by a specific date.

### B. Option Repricing

The CRPTF will vote FOR shareholder resolutions that require companies to put option repricing to shareholder vote.

### C. Limiting Executive and Director Pay

Shareholder resolutions to limit executive and director pay need to be evaluated on a CASE-BY-CASE basis.

Generally, the CRPTF will vote FOR shareholder proposals that seek additional disclosure of a significant change in executive and director pay information.

Generally, the CRPTF will vote FOR shareholder proposals that seek to eliminate outside directors' retirement benefits.

Generally, the CRPTF will vote FOR shareholder proposals that seek to provide for indexed and/or premium priced options.

Generally, the CRPTF will vote FOR shareholder proposals that seek non-discrimination in retirement benefits (e.g. retirement benefits and pension plans that are different based on age of employee such as cash balance plans).

Generally, the CRPTF will vote FOR shareholder resolutions that request that earnings from a company's pension plan not be included in company earnings for the purpose of evaluating whether an executive met performance targets in their compensation agreement.

The CRPTF will vote FOR shareholder resolutions that request companies to require executives to repay long-term incentive compensation or other performance-based compensation to the company in the event a company restates its financial statements for a previous reporting period and such compensation as recalculated is found not to have been earned.

Generally, the CRPTF will vote FOR shareholder resolutions that request companies to advocate the use of performance-based awards like indexed, premium-priced, and performance-vested options or performance-based shares.

Generally, the CRPTF will vote FOR shareholder resolutions that ask companies to prohibit tax gross-up payments to executives.

### D. Clawbacks

Compensation that is paid based on financial results that are later stated, or on meeting performance metrics that are later revised downward, is compensation that has not been earned. Companies should have policies that "claw-back" unearned compensation.

The CRPTF will vote on a CASE-BY-CASE basis on proposals to recoup unearned incentive bonuses or other incentive payments made to senior executives if it is later determined that the performance metrics upon which the incentive compensation is earned later turn out to have been in error. When making its determination, the CRPTF will take into account:

- If the company has adopted a formal recoupment bonus policy;
- If the company has chronic restatement history or material financial problems; or
- If the company's policy substantially addresses the concerns raised by the proponent.

### E. Internal Pay Equity

Significant differences in pay between top executives and non-executives of a company may adversely impact employee performance, are often an indication of poor compensation practices. The CRPTF will vote on a CASE-BY-CASE basis for shareholder proposals that ask the board compensation committee to adopt a policy regarding internal pay equity, and the relationship between the compensation received by the CEO and other named executive officers whose compensation is disclosed in the proxy statement.

The CRPTF will vote FOR shareholder proposals requesting the company to adopt a policy that asks the board compensation committee to consider internal pay equity in: (a) the establishment, modification and termination of senior executive pay plans and programs; and (b) making specific awards under those plans and programs.

The CRPTF will vote FOR shareholder proposals that ask the company to disclose to shareholders the role of internal pay equity considerations in the process of setting compensation for the CEO and other named executive officers.

The CRPTF will vote AGAINST shareholder proposals asking the board to adopt a policy that would fix the pay ratio between the CEO and other named executive officer to a specific percentage or multiple of pay.

### G. Golden Coffins/Executive Death Benefits

The CRPTF will vote FOR shareholder resolutions that ask the board of directors to submit for shareholder approval any future agreements and corporate policies that would obligate the company to make payments, grants, or awards following the death of a senior executive in the form of unearned salary or bonuses, accelerated vesting of equity awards, perquisites and other payments or awards made in lieu of compensation. This would not apply to any benefit programs or equity plan proposals for which the broad-based employee population are eligible, nor would it apply to compensation earned by the executive and deferred during his or her lifetime.

### H. Supplemental Executive Retirement Plans

Supplemental Executive Retirement Plans (SERPs) are retirement plans for senior executives that are separate from and in addition to retirement plans for all other employees. Often these plans are used to provide compensation to a senior executive that is not based on performance or provides excessive retirement benefits.

Generally, the CRPTF will vote FOR shareholder resolutions that request companies to allow for a shareholder vote to approve SERP agreements, unless the company's executive pension plans do not contain excessive benefits (based on an analysis by the CRPTF's proxy voting service and other expert analysis).

Generally, the CRPTF will vote FOR shareholder resolutions that request companies to call for limitations of annual retirement benefits to a maximum of earned annual salary and bonus.

### I. Stock Retention

The purpose of grants of stock and stocks options to senior executives (rather than cash compensation) is to align their financial interest with that of shareholders. This alignment is maintained only if the executive retains the ownership of the stock.

Generally, the CRPTF will vote FOR shareholder proposals requiring senior executives to retain a percentage of shares acquired through equity compensation programs. When voting for these proposals, the CRPTF will take into account current stock ownership guidelines, existing long-term stock-holding requirements and actual equity ownership by executives, and the length of the current holding period.

### J. Responsible Use of Company Stock

The purpose of grants of stock and stocks options to senior executives (rather than cash compensation) is to align their financial interest with that of shareholders. This alignment can be undermined if the executive enters into a derivative transaction that limits the loss in the event that the company performs poorly, and the stock value declines.

Generally, the CRPTF will vote FOR shareholder proposals asking the board of directors to adopt policies limiting the ability of named executive officers to enter into derivative or speculative transactions involving company stock, including but not limited to trading in puts, calls, covered calls or other derivative products; engaging in hedging or monetization transactions with respect to company stock; holding company stock in a margin account; or pledging company stock as collateral for a loan.

### K. Compensation Consultant Independence

The CRPTF will vote FOR shareholder resolutions that request companies to include in their corporate governance guidelines that any compensation consultant employed by the compensation committee is independent of management and that such consultant should not provide significant consulting services to the management of the company (see Section IX.A. for further discussion).

## XI. STATE AND COUNTRY OF INCORPORATION

### A. Voting on State Takeover Statutes

The CRPTF will vote on a CASE-BY-CASE basis on proposals to opt in or out of state takeover statutes (including control share acquisition statutes, control share cash-out statutes, freeze out provisions, fair price provisions, stakeholder laws, poison pill endorsements, severance pay and labor contract provisions, anti-greenmail provisions, and disgorgement provisions).

The CRPTF generally supports opting into stakeholder protection statutes if they provide comprehensive protections for employees and community stakeholders. The CRPTF would be less supportive of takeover statutes that only serve to protect incumbent management from accountability to shareholders, and which negatively influence shareholder value.

### B. Voting on Reincorporation Proposals

The CRPTF will vote on a CASE-BY-CASE basis on proposals to change a company's state of incorporation, taking into consideration both financial and corporate governance concerns, including the reasons for reincorporating, a comparison of the governance provisions, comparative economic benefits, and a comparison of the jurisdictional laws.

The CRPTF will vote FOR reincorporation when the economic factors outweigh any neutral or negative governance changes.

### C. Off-Shore Reincorporation

Proposals to reincorporate outside of the U.S. and management proposals to expatriated companies to reincorporate back in the U.S. will be examined closely.

The CRPTF will vote AGAINST any reincorporation management proposals that are found to reduce the rights of shareholders.

The CRPTF will vote FOR shareholder resolutions that request an expatriated company to study reincorporation back in the U.S. and report back to shareholders.

The CRPTF will vote FOR shareholder resolutions to reincorporate back in the U.S. if those proposals are found to increase the rights of shareholders, and/or have financial benefits to shareholders.

## XII. SHAREHOLDER RESOLUTIONS ON EQUAL EMPLOYMENT OPPORTUNITY AND OTHER WORKPLACE PRACTICE REPORTING ISSUES

### A. Equal Employment Opportunity

These proposals generally request that a company establish a policy of reporting to shareholders its progress with equal opportunity and affirmative action programs. The costs of violating federal laws that prohibit discrimination by corporations are high and can affect corporate earnings.

The CRPTF will vote FOR shareholder resolutions that request companies to take action on equal employment opportunity and anti-discrimination.

The CRPTF will vote FOR shareholder resolutions calling for legal and regulatory compliance and public reporting related to non-discrimination, affirmative action, workplace health and safety, environmental issues, and labor policies and practices that affect long-term corporate performance.

The CRPTF will vote FOR shareholder resolutions that request companies to take action calling for non-discrimination in salary, wages and all benefits.

The CRPTF will vote FOR shareholder resolutions that request companies to ask for disclosure of statistical information and policy statements regarding non-discriminatory hiring, performance evaluation and advancement, and workforce composition.

The CRPTF will vote FOR shareholder resolutions that request companies to disclose the EEO-1 consolidated data report that is filed with the Equal Opportunity Commission (EEOC).

The CRPTF will vote FOR shareholder resolutions that request companies to create policy statements regarding non-discriminatory hiring, performance evaluations, advancement and affirmative action.

The CRPTF will vote FOR shareholder resolutions that request companies to add the terms "sexual orientation," "gender identity," and/or "gender expression" to written non-discrimination policies.

## B. Non-Discrimination in Retirement Benefits

Many companies are changing their retirement benefits, including moving to cash balance and defined contribution pension plans. There is the potential for some employees to benefit more than others due to these changes.

The CRPTF will vote FOR shareholder resolutions that request companies to ensure non-discrimination with regard to retirement benefits.

## C. Workplace Diversity

### i. Glass Ceiling

Generally, the CRPTF will vote FOR reports outlining the company's progress towards race and gender inclusiveness in management and the board of directors.

### ii. Sexual Orientation, Gender Identity

The CRPTF will vote FOR shareholder resolutions that request companies to amend EEO statements in order to prohibit discrimination based on sexual orientation or gender identity.

## D. International Labor Standards/Human Rights

### i. Contract Supplier Standards / International Codes of Conduct / Vendor Standards

This section addresses shareholder resolutions that call for compliance with governmental mandates and corporate policies regarding nondiscrimination, affirmative action, right to affiliate or organize, workplace safety and health, and other basic labor and human rights protections, particularly in relation to the use of international suppliers. The global labor standards and human rights resolutions call for global companies to implement comprehensive codes of conduct, and to abide by conventions of the International Labor Organization (ILO) on workplace human rights, in order to assure that its products are made under humane conditions and workers are paid at a minimum the legal minimum wage. The CRPTF proxy voting policies support these resolutions on the grounds that these standards are good business practices that protect shareholder value by improving worker productivity, reducing turnover and time lost due to injury, etc., as well as avoiding negative publicity and a loss of consumer confidence.

Generally, the CRPTF will vote FOR resolutions that request companies to ensure that its products are not made in “sweatshops.”

Generally, the CRPTF will vote FOR resolutions that request companies to help eradicate forced labor and child labor, promote the rights of workers to form and join labor unions and to bargain collectively, seek to ensure that all workers are paid a living wage, and require that company contractors submit to independent monitoring of their factories.

Generally, the CRPTF will vote FOR resolutions that request companies to adopt labor standards – a “Code of Conduct” - for foreign and domestic suppliers and licensees, and a policy that the company will not do business with suppliers that manufacture products for sale using forced labor, child labor, or that fail to comply with applicable laws protecting employees' wages and working conditions including all applicable standards and laws protecting employees’ wages, benefits, working conditions, freedom of association (right to organize), and other rights.

Generally, the CRPTF will vote FOR resolutions that request companies to publish their “Code of Conduct.”

Generally, the CRPTF will vote FOR resolutions that request companies to publish a report summarizing the company's current practices for enforcement of its “Code of Conduct.”

Generally, the CRPTF will vote FOR resolutions that request companies to engage independent monitoring programs by non-governmental organizations to monitor suppliers and licensee compliance with a company’s “Code of Conduct.”

Generally, the CRPTF will vote FOR resolutions that request companies to create incentives to encourage suppliers to raise standards rather than terminate contracts.

Generally, the CRPTF will vote FOR resolutions that request companies to implement policies for ongoing wage adjustments, ensuring adequate purchasing power and a sustainable living wage for employees of foreign suppliers and licensees.

Generally, the CRPTF will vote FOR resolutions that request companies to improve transparency of their contract supplier reviews.

Generally, the CRPTF will vote FOR shareholder resolutions that request companies to outline vendor standards.

### ii. Corporate Conduct and Human Rights

The CRPTF 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 where there is a call by human rights advocates, pro-democracy organizations, or legitimately elected representatives for economic sanctions.

Generally, the CRPTF will vote FOR resolutions that request companies to support Principles or Codes of Conduct relating to the company investment in countries with patterns of workplace and/or human rights abuses.

Generally, the CRPTF will vote FOR shareholder resolutions that request companies to adopt policies that reflect the provisions of the General Statutes of Connecticut.

## E. Equal Credit and Insurance Opportunity

Access to capital and insurance is essential to participating in our society. The Equal Credit Opportunity Act prohibits lenders from discriminating with regard to race, religion, national origin, sex, age and the like. "Redlining," the systematic denial of services in an area based on its economic or ethnic profile has a similar negative impact on denying participation in our society.

The CRPTF will vote FOR shareholder resolutions that request companies to provide reports on lending practices in low/moderate income or minority areas and on steps to remedy mortgage lending discrimination.

The CRPTF will vote FOR shareholder resolutions that request companies to develop fair "lending policies" that would assure access to credit for major disadvantaged groups and require annual reports to shareholders on their implementation.

The CRPTF will vote FOR shareholder resolutions that request insurance companies and banks to appraise their practices and develop policies to avoid redlining.

## XIII. SHAREHOLDER RESOLUTIONS ON ENVIRONMENTAL, SOCIAL AND GOVERNANCE ISSUES

The CRPTF supports the integration of environmental, social, and governance (ESG) factors in the investment decision making process, given that such factors can impact both risk and return over the long term.

In most cases, the CRPTF will vote FOR shareholder resolutions that request companies to disclose non-proprietary information related to ESG issues.

In determining the CRPTF's vote on shareholder resolutions that address these issues, the CRPTF will analyze the following factors:

- Whether adoption of the resolution would have a positive or negative impact on the company's long-term share value;
- 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 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 resolution would achieve the objectives sought in the proposal; and
- Whether the subject of the resolution is best left to the discretion of the board.

In general, the CRPTF will vote FOR shareholder resolutions that request companies to furnish information helpful to shareholders in evaluating the company's operations. In order to be able to monitor their investments, shareholders often need information best provided by the company in which they have invested. Requests to report such information merits support.

The CRPTF will evaluate on a CASE-BY-CASE basis proposals that request the company to cease 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.

## A. Principles for Responsible Investment

The Principles for Responsible Investment (PRI)[6] provide a framework to give consideration to ESG issues that can affect the performance of investment portfolios. The Principles were developed in 2006 by a number of institutional investors, including the Connecticut State Treasurer's Office. These proxy voting policies reflect the principle of active ownership, and the associated responsibility to "incorporate ESG issues into our ownership policies and practices."

## C. Climate Change, Energy, and Environment

### i. Global Warming, Climate Change, and Sustainability

The United Nations' Intergovernmental Panel on Climate Change concluded in 2018 that the current pace of greenhouse gas emissions will have significant, adverse impact on the world's economy as soon as 2040.[7] And, according to a joint study by the World Bank's International Finance Corporation and Mercer, climate change "will inevitably have an impact on investment returns, so investors need to view it as a new return variable." [8]

There are direct economic and financial risks to companies from physical damage due to extreme weather patterns caused by climate change. Economic and financial risks can also occur when companies are not prepared for complying with new regulations curbing carbon emissions.

The CRPTF will vote FOR shareholder resolutions that request companies to assess actions the company is taking to mitigate the economic impact on the company of increasing regulatory requirements, competitive pressures, and public expectations to significantly reduce carbon dioxide and other emissions and issue a report to shareholders.

The CRPTF will vote FOR shareholder resolutions that request companies to assess financial risks resulting from climate change and its impacts on shareholder value in the short-, medium- and long-terms, as well as actions the board of directors deems necessary to provide long-term protection of business interests and shareholder value and issue a report to shareholders.

The CRPTF will vote FOR shareholder resolutions that request companies to report on greenhouse gas emissions from company operation and of the company's products in relation to their impact on global climate change.

The CRPTF will vote FOR shareholder resolutions that request companies to develop a standard reporting format and data baseline so that data from the company can be accurately compared to data from other companies and compared to recognized measurement standards.

The CRPTF will vote FOR shareholder resolutions that request companies to provide a "sustainability report (also called a "corporate social responsibility report)," such as the Global Reporting Initiative, that describes how the company plans to address issues of climate change and other long-term social, economic and environmental issues in order to maintain the long-term financial health of the company in a changing environment.

The CRPTF will vote FOR shareholder resolutions that request companies respond to the annual questionnaire of the Carbon Disclosure Project.

### ii. Paris Climate Agreement

The global climate change agreement reached at the 21st Conference of the Parties, also known as "The Paris Agreement", provides globally supported targets related to climate change.
Generally, the CRPTF will vote FOR shareholder resolutions that request that companies to outline their preparations to comply with standards established by The Paris Agreement and any successor protocol in countries in which the protocol applies.

Generally, the CRPTF will vote FOR shareholder resolutions that request companies to report on or adopt accounting metrics that can better address market changes induced by climate change.

Generally, the CRPTF will vote FOR shareholder resolutions that request companies to conduct and disclose planning and policies for transitioning the company business model to align with a low carbon economy including, specifically, alignment with the Paris Agreement's goal of limiting global warming to well below 2°C, including addressing the company's (Scope 1-3) greenhouse gas emissions.

### iii. CERES Principles

The CRPTF will vote FOR shareholder resolutions requesting companies to adopt the CERES Principles, taking into account:

- The company's current environmental disclosure beyond legal requirements, including environmental health and safety (EHS) audits and reports that may duplicate CERES;
- The company's environmental performance record, including violations of federal and state regulations, level of toxic emissions, and accidental spills;
- Environmentally conscious practices of peer companies, including endorsement of CERES;
- Costs to the company of membership and implementation.

Generally, the CRPTF will vote FOR shareholder resolutions that request companies to sign onto the Global Compact, Equator Principles, and other similarly broadly recognized commitments to sustainability principles.
The CRPTF will vote FOR shareholder resolutions that request companies to address matters of specific ecological impact, e.g. sustainable use of natural resources, waste reduction, wiser use of energy, reduction of health and safety risks, marketing of safer products and services, reduction or elimination of chlorine in production processes, responsible environmental restoration, etc.

The CRPTF will vote FOR shareholder resolutions that request companies to report on, assess the impact of, and curtail environmental hazards to communities that result from their activities.

The CRPTF will vote FOR shareholder resolutions that request oil companies not to explore and oil and gas extraction in areas where there is a significant danger of permanent damage to the environment.

### iv. Water Risk

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

The CRPTF will vote FOR shareholder resolutions that request companies to assess their current and future water usage, evaluate whether sufficient water will be available in the future, develop plans to reduce water usage, and report to shareholders on these assessments.

The CRPTF will vote FOR shareholder resolutions that request companies to respond to the Carbon Disclosure Project's water disclosure questionnaire and similar investor-backed initiatives.

The CRPTF will vote FOR shareholder resolutions that request companies to on or adopt policies for water use that incorporate social and environmental factors.

#### v. Arctic National Wildlife Refuge

Generally, the CRPTF will vote FOR shareholder resolutions that request companies to provide reports outlining how it would prevent potential environmental damages from drilling in the Arctic National Wildlife Refuge (ANWR).

#### vi. Environmental - Economic Risk Report

Generally, the CRPTF will vote FOR shareholder resolutions that request companies to perform an economic risk assessment of environmental performance, unless the company has already publicly demonstrated compliance with the spirit of the resolution by including a report of such risk assessment in a sustainability report, corporate responsibility report, or similar report.

#### vii. Environmental Reports

Generally, the CRPTF will vote FOR shareholder resolutions that request companies to provide reports disclosing the company's environmental policies, unless the company already has environmental management systems that are well-documented and available to the public.

#### viii. Nuclear Safety

Generally, the CRPTF will vote FOR shareholder resolutions that request companies to provide reports on risks and/or benefits associated with their nuclear reactor designs and/or the production and interim storage of irradiated fuel rods.

#### ix. Operations in Protected Areas

Generally, the CRPTF will vote FOR shareholder resolutions that request companies to provide reports outlining potential environmental damage from operations in protected regions, including wildlife refuges.

#### x. Renewable Energy

Generally, the CRPTF will vote FOR requests for reports on the feasibility of developing renewable energy sources, unless the report is duplicative of existing disclosure or irrelevant to the company's line of business.

### xi. Environmental Justice

The CRPTF will generally support proposals asking companies to report on whether environmental and health risks posed by their activities fall disproportionately on any one group or groups, and to take action to reduce those risks at reasonable costs to the company.

The CRPTF will generally support proposals asking companies when sitting and addressing issues related to facilities which may have impact on local environment and to respect the rights of local communities to participate in decisions affecting their local environment.

## D. Special Policy Review and Shareholder Advisory Committees

The CRPTF will vote FOR shareholder resolutions that request companies to support advisory committees when they appear to offer a potentially effective method for enhancing shareholder value.

## E. Drug Reimportation

Generally, the CRPTF will vote FOR shareholder resolutions that request companies to provide reports on the financial and legal impact of their policies regarding prescription drug reimportation, unless such information is already publicly disclosed.

Generally, the CRPTF will vote AGAINST shareholder resolutions requesting that companies adopt specific policies to encourage or constrain prescription drug reimportation.

## F. HIV/AIDS, Malaria, Tuberculosis

The CRPTF will vote FOR shareholder resolutions to request companies to establish, implement, and report on a standard of response to the HIV/AIDS, tuberculosis, and malaria health pandemic in Africa and other developing countries, unless the company doesn't have significant operations in these markets or has adopted policies and/or procedures to address these issues comparable to those of industry peers.

## G. Predatory Lending

The CRPTF will vote FOR shareholder resolutions that request companies to adopt policies that preclude predatory lending practices.

The CRPTF will vote on a CASE-BY-CASE basis on requests for reports on the company's procedures for preventing predatory lending, including the establishment of a board committee for oversight, taking into account:

- Whether the company has adequately disclosed mechanisms in place to prevent abusive lending practices;
- Whether the company has adequately disclosed the financial risks of its subprime business;
- Whether the company has been subject to violations of lending laws or serious lending controversies;
- Peer companies' policies to prevent abusive lending practices.

### H. Toxic Chemicals

Generally, the CRPTF will vote FOR shareholder resolutions that request companies disclose its policies related to toxic chemicals.

The CRPTF will vote on a CASE-BY-CASE basis on resolutions requesting that companies evaluate and disclose the potential financial and legal risks associated with utilizing certain chemicals.

## XIV. SHAREHOLDER RESOLUTIONS ON GENERAL CORPORATE ISSUES

### A. Corporate Political Expenditures

Political contributions can benefit the strategic interests of a company. Shareholders understand that corporate participation in the political process including through political contributions can benefit companies strategically and contribute to value creation. However, shareholders are concerned that board level policies and processes need to exist to ensure that such giving is aligned with shareholders' long-term interests. Shareholders are concerned about the influence of corporate political giving. This activity has the potential to create risks to shareholder value, through reputational harm and through reactions by employees and/or customers.

Shareholders seek to understand who sets political giving policies, who makes the decisions on contributions, and what types of internal controls are in place at the board level to manage, monitor and disclose political contributions, and manage related risks. Shareholders are not interested in obtaining disclosure of the reason specific contributions are made, but instead seek data on contributions and an understanding of mechanisms, such as board-level policies and processes, through which the board exercises oversight over the process.

It is not an appropriate role for shareholders to vote on specific political expenditures--whether such vote is in the form of an advisory proposal or would be binding.

Corporate political expenditures can be direct in the form of campaign contributions or indirect in the form of advertising or publicity on politically related issues.

In the aftermath of the U.S. Supreme Court ruling in *Citizens United*, which ruled that corporations have a constitutional right to free speech – including political advertising – new forms of corporate political spending have emerged. New organizations have been created under sections 501(c) (4), 501 (c) (5) and 501 (c) (6) of the Internal Revenue Code that receive corporate contributions and engage in political advertising. These organizations are not required to disclose their donors.

The CRPTF will vote FOR shareholder resolutions that request companies to provide greater disclosure of corporate campaign financing.

The CRPTF will vote FOR shareholder resolutions that request companies to disclose any and all corporate expenditures for advertising in support of, or in opposition to, any political candidate, issue, and/or ballot referendum, including contributions to political candidates, political action committees, 501(c) (3, 4, and 5) organizations or any other expenditure which may be used to influence an election.

The CRPTF will vote FOR shareholder resolutions that call on the board to establish corporate political giving guidelines and internal reporting provisions or controls.

The CRPTF will vote AGAINST shareholder resolutions that seek shareholder input to corporate political giving policies or on the contributions themselves. The CRPTF will vote AGAINST shareholder resolutions seeking an advisory vote on political contributions.

### B. Charitable Contributions

The CRPTF will vote AGAINST shareholder resolutions that request companies not to make charitable contributions.

### C. Link Executive Compensation to Corporate Activities Promoting Sustainability

The CRPTF will vote on a on a CASE-BY-CASE basis on equity-based compensation plans that link executive compensation to responsible business practices that promote the long-term sustainability of the environment, the economic vibrancy of the local community and the welfare of the company's employees.

Such resolutions will be evaluated in the context of:

- The degree to which the issue can be linked to executive compensation and the long-term financial performance of the company;
- The degree that performance standards are related to corporate activities those promote long-term sustainability.
- Violations or complaints filed against the company relating to such performance standards;
- Current company pays levels.

### D. Outsourcing

The CRPTF will vote on a CASE-BY-CASE basis on proposals calling for companies to report on the risks and opportunities associated with outsourcing.

### E. Military Sales

Generally, the CRPTF will vote FOR shareholder resolutions that request companies to report on foreign military sales and economic conversion of facilities, as long as such resolutions permit non-disclosure of confidential and proprietary information.

## F. Operations in Nations Sponsoring Terrorism Business Strategy

The CRPTF will vote on a CASE-BY-CASE basis on shareholder resolutions that require the establishment of a board committee to review and report on the company's financial, legal and reputational risks from its operations in a terrorism-sponsoring state.

## G. Business Strategy

Shareholders have introduced resolutions asking boards of directors to examine the impact of particular business strategies on long-term corporate value in light of changing market conditions that could affect those particular business strategies, and to report back to shareholders. The CRPTF generally supports enhanced disclosure to shareholders on how the company addresses issues that may present significant risk to long-term corporate value.

# XV. GLOBAL PROXY VOTING

All international proxies shall be voted consistent with the CRPTF's Proxy Voting Policies and the relevant provisions of contracts with advisors, as necessary, and take into account relevant market listing rules and regulations, local laws and regulations, as well as local market best practice standards.

## APPENDIX A

## Executive Compensation Evaluation Criteria

### Pay for Performance

- The degree to which pay is tied to long term performance, and the alignment of compensation practice with long term shareholder value – including salary, bonus, equity compensation, long term incentive plans, retirement benefits, perquisites, etc.
- The rigor of performance metrics that are used to evaluate executive performance in determining compensation, and the company's practice in disclosing these metrics to shareholders.
- The amount of payments provided for in contracted severance agreements, including change of control, severance for cause, and severance without cause, and whether and how these payments would be based on past performance. (See section X.D. below for more detail on criteria).
- The relationship between compensation granted in the current year to amount of key executives' walk-away pay (compensation received at time of termination, including severance benefits, accelerated vesting of stock options, restricted stock and restricted stock units, deferred compensation, pension benefits, and other post-retirement benefits).
- The inclusion of "claw back" provisions which recapture incentive payments that were made to executives on the basis of having met or exceeded performance targets and subsequent financial restatements show that performance targets were not met. Claw back provisions should be triggered whether or not the executive was involved in fraudulent activity or the executive was found personally responsible for the financial misstatements.
- Appropriate use of peer companies to benchmark compensation structures

### Compensation Policy

- The clarity and thoroughness of the Compensation Committee's statement of their compensation philosophy contained in the committee's annual report to shareholders, (as well as in the Committee's charter).
- The clarity and transparency of the presentation in the Compensation Discussion and Analysis (CD&A).

### Input from Shareholders

- Willingness of the company's compensation committee members to engage with shareholders and discuss executive compensation policies and practices.
- Use of other mechanisms by the company to seek shareholder input, including surveys of shareholders, mechanisms for shareholders to provide written input to the compensation committee (letters, e-mail, directly from a website, etc.), management meetings with shareholders, etc.

### Poor Compensation Practices

The CRPTF will consider the extent to which a company uses what are considered poor compensation practices. The CRPTF will review these criteria holistically, and no one poor practice will result in a no vote. The CRPTF considers the following to be poor compensation practices:

- Re-pricing of stock options and/or options policies that provide for "reloading" of exercised stock options.
- Awarding of equity compensation (including stock options, restricted stock, restricted stock units, etc.) that excessively dilutes shareholder economic value or shareholder voting rights.
- Awarding Golden Coffins - provisions that award continuing compensation after an executive's death.
- Implementing compensation schemes that encourage excessive risk-taking, including both risks to the company and, for financial service companies, risks to the national and global financial system and the economy.
- Allowing for tax gross ups (except for pay adjustments that recognize extraordinary expenses related to work assignments).
- Engaging a compensation consultant that is retained by the company to provide other significant services other than work performed for the compensation committee (non-independent compensation consultant).
- Allowing for contractual severance provisions that would reward poor performance.
- Including change-in-control agreements that do not require both a change-in-control and loss of employment or diminution of job responsibilities to trigger payments.
- Changing performance metrics during the performance period in a way that misaligns pay and performance or that are not adjusted to reflect stock repurchase programs.
- Paying for Supplemental Executive Retirement Plans (SERP) that are deemed overly generous, based on an analysis by the CRPTF's proxy voting service and other expert analysis.
- Awarding new hire packages to new CEOs which are deemed overly generous ("golden hello package"), based on an analysis by the CRPTF's proxy voting service and other expert analysis.
- Failing to provide for a "claw back" policy – requiring repayment of performance-based compensation when financial restatements shows that compensation was not earned. Failing to submit one-time transfers or stock options to a shareholder vote.

[1] Conn. Gen. Stat. § 3-13(d)(a).
[2] Council of Institutional Investors' Corporate Governance Polices, Section 7.2, Revised September 17, 2019, https://www.cii.org/files/ciicorporategovernancepolicies/09_17_19_corp_gov_policies.pdf
[3] *See* Harvard Law School's Forum on Corporate Governance: "[C]ompanies with a balanced board composition relative to director tenure tend to show better financial results and have a lower risk profile compared to their peers. At the same time, companies whose directors' tenure is heavily concentrated (whether mostly short-tenured or mostly long-tenured) exhibit poorer performance and have a higher risk profile. Therefore, as an extension beyond practicing basic board refreshment, companies may gain significant benefits by maintaining a balance of experience and new capacity on the board. https://corpgov.law.harvard.edu/2018/09/01/board-refreshment-finding-the-right-balance/
[4] This would replace the plurality vote standard which is an election where the candidate with the most votes is elected rather than requiring a majority of the votes for election – withhold votes do not count.
[5] In contested elections a majority vote is not needed because these elections are competitive.
[6] www.unpri.org
[7] https://www.ipcc.ch/sr15/
[8] Investing in a Time of Climate Change, https://www.ifc.org/wps/wcm/connect/e9bfa328-e091-465b-9da6-8fe312261b98/Investing+in+a+time+of+climate+change.pdf?MOD=AJPERES&CVID=kTFEATf