San Francisco City & County Employees' Retirement System

Proxy Voting Guidelines – 2024

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I. Director Related Proposals

Introduction

SFERS believes that a company's board of directors represents the focal point of corporate governance. This group of elected individuals oversees the operation and direction of the company on behalf of its owners.

SFERS believes that an ideal board is one which is comprised of independent, or non-management members, acting solely for the benefit of the company's owners.

The individuals who fill these roles should have a diverse mix of professional skills, experiences, and perspectives. What makes the nominated individual a desirable and viable candidate for a particular board is more and more important as corporations become increasingly sophisticated technically and the task of a board member becomes more demanding. Each member on the board should preferably have particular knowledge or skills that will allow them to bring unique expertise to the boardroom.

Board members should be both willing and qualified to serve in such capacity and have the time and focus to do so. Further, SFERS believes that it is important that shareholders have the ability to communicate with the board and exercise an active voice in the many issues which come before the board.

SFERS believes that it is in the best interest of shareholders that corporations have a well-defined, objective director search and nominating process that is reported to shareholders.

When considering proposals related to directors, SFERS considers two simple, but key questions:

1) Will the proposal provide for more diligence by the directors on behalf of shareholders?

2) Will the proposal facilitate directors' tasks on behalf of shareholders?

1. Election of Directors

Policy Guideline: CASE-BY-CASE

SFERS considers the election of directors on a case-by-case basis and including the following factors:

- **Director Qualifications** – SFERS believes a board should be comprised of diverse individuals with the skills, education, experiences, expertise and personal qualities (such as, but not limited to, gender, race, ethnicity, sexual orientation, and disability status) that are appropriate to the company's current and long-term business needs. This diversity is critical in order for the board to properly oversee management, business strategy, risk mitigation, and to maximize financial returns for shareholders.. SFERS supports the structured disclosure of the skills, experience and backgrounds of board members, including how those attributes enhance the long-term strategy of the company.
  - (1) SFERS will vote AGAINST the chair of the nominating committee (or other directors on a case-by-case basis) at U.S. companies when more than 70% of the company's board is the same gender. SFERS will vote AGAINST all members of the nominating committee at U.S. companies when 100% of the company's board are the same gender.
    - Mitigating factors include: a firm commitment as stated in the proxy statement to appoint additional director(s) of the underrepresented gender to the board in the near term; the presence of an additional director(s) of the underrepresented gender on the board at the preceding annual meeting; or other relevant factors as applicable.
  - (2) SFERS will vote AGAINST the chair of the nominating committee (or other directors on a case-by-case basis) at Russell 3000 companies that have no (0%) racial/ethnic diversity.

      - Mitigating factors include: a firm commitment as stated in the proxy statement to appoint additional racially/ethnically diverse director(s) to the board in the near term; the presence of an additional racially/ethnically diverse director(s) on the board at the preceding annual meeting; or other relevant factors as applicable
  (3) SFERS will vote AGAINST the chair of the nominating committee (or other directors on a case-by-case basis) at Russell 1000 companies that fail to disclose the diversity characteristics (inclusive of race/ethnicity and gender) of directors either individually or in aggregate.
  (4) SFERS will vote AGAINST the chair of the nominating committee (or other directors on a case-by-case basis) at Russell 3000 companies that fail to meet all of the following expectations:
      - Explicit inclusion of gender and race/ethnicity within the definition of diversity used in relation to existing and prospective board members;
      - Disclosure of the race/ethnicity of directors either individually or in aggregate; and
      - Adoption of the so-called "Rooney Rule" with respect to director candidate searches, which entails a commitment to include among the pool of prospective directors at least one diverse candidate (but does not require a commitment to nominate that individual).
- **Attendance** – SFERS believes that directors need to devote an adequate amount of time to fulfill their responsibilities and duties. SFERS will generally vote AGAINST directors who attend less than 75 percent of the board and committee meetings without a valid excuse (except for directors who served only part of the fiscal year). In addition, SFERS will generally vote AGAINST the governance committee chair when (1) directors' records for board and committee meeting attendance are not disclosed, or (2) if it is indicated that a director who attended less than 75% of board and committee meetings but disclosure is sufficiently vague that it is not possible to determine which specific director's attendance was lacking.
- **Board Committees** – SFERS believes that companies should have audit, compensation, and nominating committees and these committees should be comprised of independent directors. SFERS will vote AGAINST directors who are insiders or affiliated outsiders and sit on the audit, compensation, or nominating committees, including if the full board serves as the audit, compensation, or nominating committee or the company does not have one of these committees.
- **Board Independence** – SFERS believes that boards should be comprised of at least two-thirds independent directors. SFERS will vote against insiders and affiliated outsiders if the board is not at least two-thirds independent. SFERS defines director inside directors, affiliated outside directors, and independent outside directors in Appendix A;
- **Independent Chair** – SFERS believes that separating the role of the CEO and board chair best serves shareholder interests. While SFERS will not vote against CEOs that serve as the chair of the board, as described below in Section VI, SFERS will generally support proposals to separate the CEO and board chair roles. Many companies have an independent lead or presiding director who performs many of the same functions of an independent chair. While SFERS does not believe this alternate form of independent board leadership provides as robust protection for shareholders as an independent chair, SFERS does expect this structure in the absence of an independent chair. If a company has not designated an independent lead or presiding director (and lacks an independent chair), SFERS will vote AGAINST the chair of the nominating/governance committee.
- **Director Time Commitment** – SFERS believes that a director's responsibilities require the devotion of significant time, energy, and focus. As such, SFERS will generally vote against directors who sit on more than five boards. In addition, SFERS will generally vote against directors who are CEOs of publicly-traded companies (excluding special purpose acquisition vehicles) and who serve on more than two public boards (i.e., more than one public board other than their own), but only at their outside directorships and not at the company in which they presently serve as CEO; SFERS will generally vote against directors who serve as an executive chair of a public company while serving on more than three public company boards (i.e., more than two public boards other than their own), but only at their outside directorships and not at the company in which they presently serve as executive chair;
- **Shareholder Responsiveness** – SFERS expects boards to be responsive to shareholders. As such, SFERS may vote AGAINST the Lead Independent Director or the entire board of directors if:
  (1) The board omits from the proxy ballot a shareholder proposal in instances when the SEC has not explicitly concurred with the company's argument for exclusion (i.e., as opposed to disagreeing with the company or declining to express a view). If such communication from the SEC occurred verbally, SFERS expects that the company provides some public disclosure on the no-action relief.

(2) The board fails to act on a shareholder proposal that received the support of a majority of the shares cast in the previous year or failed to take some action to respond to shareholders if a management proposal seeking to ratify an existing charter/bylaw provision received opposition of a majority of the shares cast in the previous year, while considering the disclosed outreach efforts by the board to shareholders in the wake of the vote, the rationale provided in the proxy statement for the level of implementation, the subject matter of the proposal, the level of support for and opposition to the resolution in past meetings, actions taken by the board in response to the majority vote and its engagement with shareholders, and the continuation of the underlying issue as a voting item on the ballot; and

(3) In certain circumstances when the board fails to engage shareholders when a significant percentage of shareholders (20% or more) withhold or vote against directors or vote against a management-sponsored proposal.

- **Accountability to Shareholders** – SFERS expects boards to be accountable to shareholders. As such, SFERS may vote against directors or the entire board of directors in a variety of instances, including where:
  (1) The board attempts to implement or renew a dead-hand or modified dead-hand poison pill;
  (2) The company has a poison pill that was not approved by shareholders (however, SFERS will consider if the board adopts an initial pill with a term of one year or less, depending on the disclosed rationale for the adoption, and other factors as relevant);
  (3) The board is classified, and a continuing director responsible for a problematic governance issue at the board/committee level that would warrant a WITHHOLD/AGAINST vote recommendation is not up for election;
  (4) Prior to or in conjunction with the company's initial public offering the company has adopted problematic bylaw or charter provisions, such as (but not limited to) supermajority vote requirements to amend the bylaws or charter or a classified board structure.
    - SFERS may consider a reasonable sunset period to such provisions as a mitigating factor.
  (5) The company has opted into, or failed to opt out of, state laws requiring a classified board structure;
  (6) The board failed to act on takeover offers where the majority of shares are tendered;
  (7) The board implements an advisory vote on executive compensation on a less frequent basis than the frequency that received shareholder support;
  (8) The board adopted a unilateral bylaw amendment and failed to reverse or put in place a reasonable sunset provision on the amendment;
  (9) There are material failures of governance, stewardship, risk oversight, or fiduciary responsibilities at the company, such as bribery, large or serial fines or sanctions from regulatory bodies; significant adverse legal judgments or settlements; hedging of company stock; or significant pledging of company stock.
  (10) The board proposes amendments to the company's bylaws or charter without shareholder approval in a manner that materially diminishes shareholders' rights or that could adversely impact shareholders;
  (11) Boards ask shareholders to ratify existing charter or bylaw provisions considering the following factors:
    - The presence of a shareholder proposal addressing the same issue on the ballot;
    - The board's rationale for seeking ratification;
    - Disclosure of actions to be taken by the board should the ratification proposal fail;
    - Disclosure of shareholder engagement regarding the board's ratification request;
    - The level of impairment to shareholders' rights caused by the existing provision;
    - The history of management and shareholder proposals on the provision at the company's past meetings;
    - Whether the current provision was adopted in response to the shareholder proposal;
    - The company's ownership structure; and
    - Previous use of ratification proposals to exclude shareholder proposals.
  (12) A company charter imposes undue restrictions on shareholders' ability to amend the bylaws;
  (13) There is a notable failure to replace management as appropriate;
  (14) There are egregious actions involving a director's service on another company's board; or

(15) If for two consecutive years the company provides inadequate disclosure of related party transactions.

- **Audit Committee** – SFERS expects the audit committee to be comprised of independent directors who can effectively oversee the company's financial reporting processes, internal controls and independent auditors. SFERS may vote WITHHOLD/AGAINST audit committee members in a variety of instances including if:
  (1) The company fails to disclose fees paid to the auditor;
  (2) Non-audit fees paid to the auditor are deemed excessive;
  (3) The company receives an adverse opinion on the company's financial statements from its auditors; or
  (4) There is persuasive evidence that the audit committee entered into an inappropriate indemnification agreement with its auditor that limits the ability of the company, or its shareholders, to pursue legitimate legal recourse against the audit firm.
  (5) Poor accounting practices are identified which rise to a level of serious concern, such as: fraud; misapplication of GAAP; and material weaknesses identified in Section 404 disclosures.
  (6) the company has reported a material weakness that has not yet been corrected and the company has not disclosed a remediation plan; or when a material weakness has been ongoing for more than one year and the company has not disclosed an updated remediation plan that clearly outlines the company's progress toward remediating the material weakness.
- **Compensation Committee** – SFERS believes that the compensation committee has the responsibility to design and continually review a compensation structure for executives that promotes the creation of long-term shareholder value. In the absence of an Advisory Vote on Executive Compensation (MSOP) ballot item or in addition to opposing the Advisory Vote on Executive Compensation, SFERS may vote AGAINST or WITHHOLD from the members of the compensation committee and potentially the full board if:
  (1) There is a significant misalignment between CEO pay and company performance (pay for performance);
  (2) The company maintains significant problematic pay practices;
  (3) The board exhibits a significant level of poor communication and responsiveness to shareholders;
  (4) The company fails to include a Say on Pay ballot item when required under SEC provisions, or under the company's declared frequency of say-on-pay;
  (5) The company fails to include a Frequency Say on Pay ballot item when required under SEC provisions;
  (6) There is a pattern (i.e. two or more years) of awarding excessive non-employee director compensation without disclosing a compelling rationale or other mitigating factors; or
  (7) The company has practices options backdating (considering the severity of the practices and the subsequent corrective actions taken by the board, the reason and motive for the options backdating issue, the length of time of options backdating, the size of restatement due to options backdating, whether a grant policy that prohibits backdating has been adopted, and whether a fixed grant schedule or window period for equity grants has been created going forward).
- **Pledging of Company Stock** – SFERS may vote AGAINST members of the committee that oversees risks related to pledging, or the full board, where a significant level of pledged company stock by executives or directors raises concerns. SFERS will consider the presence of an anti-pledging policy, disclosed in the proxy statement, that prohibits future pledging activity; the magnitude of aggregated pledged shares in terms of total common shares outstanding, market value, and trading volume; disclosure of progress or lack thereof in reducing the magnitude of aggregate pledged shares over time; disclosure in the proxy statement that shares subject to stock ownership and holding requirements do not include pledged company stock; and any other relevant factors.
- **Corporate Performance** – SFERS will vote WITHHOLD/AGAINST from all director nominees (except new nominees) if the board lacks accountability or displays a lack of responsiveness to shareholders, coupled with sustained poor performance relative to peers. Sustained poor performance is measured by one- three, and five-year total shareholder returns in the bottom half of a company's four-digit GICS industry group (Russell 3000 companies only).
- **Oversight of Environmental and Social Risks** – SFERS recognizes that adequate management of material environmental and social risks and opportunities is essential to long-term company performance. To that end, SFERS expects that companies have sufficient board level oversight of material

environmental and social issues, manage these risks in a manner aligned with shareholder interests, and provide adequate transparency and disclosure to shareholders of these issues.

(1) At Russell 3000 companies SFERS will vote AGAINST the chair of the governance committee where there is not clear disclosure concerning the board-level oversight afforded to environmental and/or social issues.

(2) SFERS will vote AGAINST directors responsible for oversight of environmental and social risks (and/or other board members) where:
  - There are material failures to adequately guard against environmental and social risks, including those related to climate change, and/or
  - There is material deficiency in managing environmental and social risks and opportunities, including those related to climate change, and/or
  - There is materially deficient disclosure on management of environmental and social risks and opportunities, including those related to climate change, in the company's public documents and/or website.

- **Conflict of Interest –** SFERS will vote AGAINST certain directors in a variety of situations that create substantial conflicts of interest including AGAINST for a:
  (1) A CFO that sits on the board;
  (2) A director who provides – or a director who has an immediate family member who provides – material consulting or other material professional services to the company;
  (3) A director who engages in – or a director who has an immediate family member who provides – material airplane, real estate, or other similar transactions and/or receives material perquisite type grants;
  (4) Director who serves in a so-called “interlocking directorships” where CEOs, other top executives, and/or close family members serve on each other’s boards; or
  (5) Director who served at a time when a poison pill with a term longer than one year was adopted without shareholder approval within the last twelve months.
- **Governance Following an IPO, Spin-off, or Direct Listing** – While SFERS allows companies that recently completed an IPO, spin-off, or direct listing have adequate time to meet basic corporate governance standards, there are certain instances when SFERS will vote AGAINST directors within a year of the IPO, spin-off, or direct listing.
  (1) **Overly restrictive governance policies**
    - Supermajority vote requirements to amend governing documents
    - The presence of exclusive forum or fee-shifting provisions
    - Lack of ability to call special meetings or act by written consent
    - Non-majority voting standards
    - Lack of ability of shareholders to remove directors without cause
    - The presence of evergreen provisions in the company’s equity compensation arrangements
  (2) **Anti-takeover Provisions**
    - Poison pill
    - Classified board
  (3) **Multi-class Share Structures**
    - The presence of a multi-class share structure which does not afford common shareholders voting power that is aligned with their economic interest

In cases where the board has approved overly restrictive governing documents, SFERS will generally vote AGAINST members of the governance committee.

In cases where, preceding an IPO, the board adopts a multi-class share structure where voting rights are not aligned with economic interest, or an anti-takeover provision, such as a poison pill or classified board, SFERS we will generally vote AGAINST all members of the board who served at the time of the IPO if the board: i) did not also commit to submitting these provisions to a shareholder vote at the company’s first shareholder meeting following the IPO; or ii) did not provide for a reasonable sunset of these provisions (generally three to five years in the case of a classified board or poison pill or seven years or less in the case of a multi-class share structure).

- **Governance Following a Business Combination with a Special Purpose Acquisition Company** – Because the business combination of a private company with a publicly traded special purpose acquisition company (SPAC) facilitates the private entity becoming a publicly traded corporation, the business combination represents the private company's de-facto IPO. SFERS believes that some cases warrant shareholder action against the board of a company that has completed a business combination with a SPAC within the past year.
  (1) **Overly restrictive governance policies**
    - Supermajority vote requirements to amend governing documents
    - The presence of exclusive forum or fee-shifting provisions
    - Lack of ability to call special meetings or act by written consent
    - Non-majority voting standards
    - Lack of ability of shareholders to remove directors without cause
    - The presence of evergreen provisions in the company's equity compensation arrangements

  (2) **Anti-takeover Provisions**
    - Poison pill
    - Classified board

  (3) **Multi-class Share Structures**
    - The presence of a multi-class share structure which does not afford common shareholders voting power that is aligned with their economic interest

  In cases where the new corporate charter for the post-combination company is overly restrictive and shareholders have not had the opportunity to provide an advisory vote on material charter amendments, SFERS will generally vote AGAINST members of the governance committee.

  In cases where, prior to the combined company becoming publicly traded, the board adopts a multi-class share structure where voting rights are not aligned with economic interest, or an anti-takeover provision, such as a poison pill or classified board, SFERS will generally vote against all members of the board who served at the time of the combined company becoming publicly traded if the board: i) did not also submit these provisions to a shareholder vote on an advisory basis at the prior meeting where shareholders voted on the business combination; ii) did not also commit to submitting these provisions to a shareholder vote at the company's first shareholder meeting following the company becoming publicly traded; or iii) did not provide for a reasonable sunset of these provisions (generally three to five years in the case of a classified board or poison pill or seven years or less in the case of a multi-class share structure).
- **Oversight of Cybersecurity** – With companies exposed to ever increasing cyber security threats that can have material impacts on companies' financial performance and operating conditions, SFERS recognizes that adequate oversight of cyber security is now the domain of the board of directors. SFERS will vote against directors in instances when the board's oversight, response or disclosures concerning cybersecurity-related issues to be insufficient or are not provided to shareholders. While SFERS expects strong policies and practices accompanied by robust disclosure around the oversight of this topic, SFERS will generally only taking voting action in cases where a company has experienced a material cyber security related incident and deficiencies in policies, practices, and disclosure are identified.

2. Fixed Board

Policy Guideline: Generally FOR

SFERS would generally vote FOR a proposal to fix the number of directors for a given year or longer. A fixed board size would prevent an increase in the size of the board which could disrupt shareholders' use of cumulative voting. Therefore, fixing the number of directors is preferable to leaving the issue open to board discretion. However, if the proposed ballot change in the number of directors appears to be for the purpose of entrenchment, (e.g., shrinking the board to avoid elections or increasing the board to dilute the votes of dissenting directors), the proposal would be opposed.

3. Limiting Directors' Liability

Policy Guideline: CASE-BY-CASE

For: SFERS believes that in the case of a company whose stock has performed well and whose board and management have shown sensitivity to shareholders' interests, a reduction in potential liability could result in an increase in shareholder value through reduced insurance premiums, the ability to attract desirable directors, or greater board retention. Uncertainty about the liability associated with the exercise of good faith judgment could have an inhibiting effect on a board's decision-making. This could lead to overly conservative actions and stifle a company's true potential. The coverage of directors' legal fees incurred may be appropriate when actions were in good faith.

Against: While limited protection from liability may be appropriate, many states go too far in allowing corporations to limit director liability. Delaware, for example, has eliminated director liability for gross negligence. Thus, in states that go to such extremes, SFERS will generally vote AGAINST amendments that decrease the scope of current liability to mirror current as it is not in the best interest of shareholders.

Of particular concern are proposals that seek to limit liability "to the fullest extent permitted by law." SFERS will oppose such proposals even in states that do not currently limit liability or do not over indemnify because they provide for further narrowing of director liability without shareholder vote in the event of future legislative changes.

Even if some restriction of liability is appropriate, SFERS believes directors should still be liable for:

- Inappropriate loans or other personal benefits
- Acts or omissions committed in bad faith
- Intentional misconduct or knowing violations of the law
- Declaration and distribution of unlawful dividends
- Illegal purchases of shares
- Breaches of the duty of loyalty
- Acts of gross negligence

It is reasonable that directors and officers need and should expect some protection from personal financial loss when acts are unintentional and actions are taken in good faith. This requires a balancing of shareholder interests with appropriate protections for officers and directors in order to attract good board members and corporate management.

4. Discharge of Directors

Policy Guideline: Generally FOR

SFERS will generally vote FOR the discharge of liability for directors, including members of the management board and/or supervisory board, unless there is reliable information about significant and compelling controversies demonstrating that the board is not fulfilling its fiduciary duties.

- A lack of oversight or actions by board members which invoke shareholder distrust related to malfeasance or poor supervision, such as operating in private or company interest rather than in shareholder interest; or
- Any legal issues (e.g. civil/criminal) aiming to hold the board responsible for breach of trust in the past or related to currently alleged actions yet to be confirmed (and not only the fiscal year in question), such as price fixing, insider trading, bribery, fraud, and other illegal actions; or

- Other egregious governance issues where shareholders will bring legal action against the company or its directors.

5. Directors' and Officers' Indemnification

Policy Guideline: Generally FOR

For: SFERS believes that in the case of a company whose stock has performed well and whose board and management have shown sensitivity to shareholders' interests, a provision for indemnification could result in an increase in shareholder value through greater ability to obtain desirable directors or greater board retention. However, SFERS believes that indemnification should be limited to the legal expenses of directors and officers who have acted in good faith and with sufficient care.

Against: SFERS will vote AGAINST any proposal not containing an exception to indemnification when the director has committed fraud. SFERS will vote AGAINST Proposals that indemnify directors against liability resulting from willful and certain other violations of the duty of care or the duty of loyalty.

It is reasonable that directors and officers need and should expect some protection from personal financial loss when acts are unintentional and actions taken are in good faith. This requires a balancing of shareholder interests with appropriate protections for officers and directors in order to attract good board members and corporate management.

6. Director Age Restrictions

Policy Guideline: Generally AGAINST

SFERS believes that the mandatory retirement of directors runs the risk of depriving the company of a valuable resource. SFERS believes that board members should be individually judged on their ability and diligence in serving the interests of all shareholders rather than on their ages. If a director can no longer serve, he or she can be removed by shareholders or, in some instances, the board. An arbitrary age limitation deprives the company of the insights that experienced directors develop over time. Therefore, SFERS would vote AGAINST proposals that introduce age restrictions for board members and FOR proposals to remove age restrictions for board members.

Where a board has adopted age and/or tenure limits, however, SFERS believes it should follow through and not waive such limits. In cases where the board waives its term/age limits for two or more consecutive years, SFERS will generally vote AGAINST the nominating and/or governance committee chair, unless a compelling rationale is provided for why the board is proposing to waive this rule, such as consummation of a corporate transaction.

7. Directors' Compensation

Policy Guideline: CASE-BY-CASE

This proposal is considered a routine item of business for many international corporations. For U.S. companies, this type of authority is assumed inherent in the board's standing authority and does not, therefore, get submitted for a shareholder vote. Only certain types of non-salary compensation are likely to appear on the ballot for approval for U.S. corporations.

In many cases, international companies do not include the actual intended amount of compensation to be paid to directors in their discussions of this initiative. Instead, the emphasis of these proposals is simply to renew the board's authority to set directors' remuneration. Unless such authority has been abused in the past, renewal generally is supportable. Because pay packages and various components of pay may not be disclosed, apparent "abuses" may be difficult to impossible to ascertain (this is more likely to occur for non-U.S. companies than U.S. companies).

8. Authorize Board to Fill Vacancies

Policy Guideline: Generally AGAINST

Against: SFERS believes that it is generally preferable that shareholders have the opportunity to elect all directors to the board. For companies which have classified boards, or other provisions which make director removal difficult for shareholders, it would not be appropriate to allow them to fill their own vacancies. If the board can also set its own size, this is especially true. It is noted that once an individual is on the board, as an incumbent, they will almost always be reelected. Thus, if the board can fill its own vacancies, it will essentially control the nominee process in the future by its use of such a provision. In such cases, this type of authorization could serve to limit shareholders' ability to monitor board membership.

For: If a company's board is small in size and elected on an annual basis, this type of initiative could be supportable. Boards which have only a few members could be severely hampered by a vacancy. In such case, the position might need to be filled as quickly as possible. Also, boards which are elected annually could fill vacancies during the year with relatively little harm to shareholders, who could then re-elect or reject the replacement at the next annual meeting. Also, if the company is incorporated in Delaware, shareholders may have the right to remove a director from office with a majority vote at any time, with or without cause. This gives shareholders further protection against a poorly filled vacancy.

9. Classified or Staggered Boards

Policy Guideline: Generally AGAINST

SFERS supports the annual election of directors. SFERS believes that the ability to elect directors is the single most important use of the shareholder franchise, and all directors should be accountable on an annual basis. While oftentimes management believes that staggered/classified boards provide continuity, but empirical evidence has suggested that such a structure is not in shareholders' best interests from a financial perspective. SFERS believes that a staggered/classified board can entrench management and effectively preclude most takeover bids or proxy contests. Board classification forces dissidents and would-be acquirers to negotiate with the incumbent board, which has the authority to decide on offers without a shareholder vote.

10. Establish or Amend Nominee Qualifications

Policy Guideline: CASE-BY-CASE

SFERS will vote CASE-BY-CASE on shareholder resolutions seeking a director nominee candidate who possesses a particular subject matter expertise, considering:

- The company's board committee structure, existing subject matter expertise, and board nomination provisions relative to that of its peers;
- The company's existing board and management oversight mechanisms regarding the issue for which board oversight is sought;

- The company disclosure and performance relating to the issue for which board oversight is sought and any significant related controversies; and
- The scope and structure of the proposal.

SFERS will vote AGAINST shareholder proposals requiring two candidates per board seat.

II. Auditor and Audit-Related Issues

1. Approval of CPA/Auditor

Policy Guideline: CASE-BY-CASE

SFERS believes that an external, independent auditor plays an important role in ensuring that financial statements are free from material misstatements, whether due to fraud or error. SFERS believes that companies should designate a committee of the board of directors as an audit committee, and that committee should be independent.

Accordingly SFERS believes the following:

1. Non-audit fees paid by the company to the audit firm should be less than audit fees;
2. Auditors should not receive indemnification and limited liability;
3. Shareholders should be able to ratify the company's selection of an external auditor; and
4. The tenure of external auditors should be periodically reviewed and assessed for rotation.

2. Non-audit services

Policy Guideline: CASE-BY-CASE

SFERS expects that **Non-audit ("other") fees < audit fees + audit-related fees + permissible tax fees,** where:

- **Audit fees** (includes statutory audits, comfort letters, attest services, consents, and review of filings with SEC)
- **Audit-related fees** (includes employee benefit plan audits, due diligence related to M&A, audits in connection with acquisitions, internal control reviews, consultation on financial accounting and reporting standards)
- **Tax fees*** [includes tax compliance (tax returns, claims for refunds and tax payment planning) and tax consultation and planning (assistance with tax audits and appeals, tax advice relating to M&A, employee benefit plans and requests for rulings or technical advice from taxing authorities)]
- **All other fees** include all other fees paid by the company to the audit firm

SFERS will vote against auditors and withhold votes from Audit Committee members if non-audit fees represent 50 percent or more of the total fees paid to the auditor.

However, in circumstances where "other" fees include fees related to initial public offerings, bankruptcy emergence, and spin-offs, and the company makes public disclosure of the amount and nature of those fees which are determined to be an exception to the standard "non-audit fee" category, then such fees may be excluded from the non-audit fees considered in determining the ratio of non-audit to audit/audit-related fees/tax compliance and preparation for purposes of determining whether non-audit fees are excessive.

3. Audit firm indemnification and limitation of liability

Policy Guideline: Generally AGAINST

SFERS generally believes that auditors should not receive indemnification and limited liability. In reviewing auditor agreements SFERS will assess factors including, but limited to, the terms of the agreement, the degree to which these agreements impact shareholders' rights, motivation and rationale for establishing the agreements, quality of disclosure, and historical practices in the audit area.

SFERS may take action against members of an audit committee in situations where there is persuasive evidence that the audit committee entered into an inappropriate indemnification agreement with its auditor that limits the ability of the company, or its shareholders, to pursue legitimate legal recourse against the audit firm.

4. Audit firm rotation

Policy Guideline: CASE-BY-CASE

SFERS believes that it is good practice to periodically review the auditor's tenure and consider the rotation of the auditors. SFERS will examine shareholder proposals asking for Auditor Rotation on a CASE-BY-CASE basis, taking into account:

- Tenure of the Audit Firm
- Competitive bidding process
- Rotation period being advocated in the proposal
- Number of annual Audit Committee meetings held and the number of financial experts that serve on the Audit Committee

III. Capitalization Related Proposals

1. Increase in Authorized Capital

Policy Guideline: CASE-BY-CASE

With respect to common stock issuances or preferred stock issuances:

SFERS will vote FOR proposals to increase the number of authorized shares where the primary purpose of the increase is to issue shares in connection with a transaction on the same ballot that warrants support.

SFERS will vote AGAINST proposals at companies with more than one class of stock (common or preferred) to increase the number of authorized shares of the class of stock (common or preferred) that has superior voting rights.

SFERS will vote AGAINST proposals to increase the number of authorized shares if there is a proposal on the same ballot to execute a reverse stock split for which the number of authorized shares would not be reduced by the same proportion as the number of issued shares.

SFERS will vote CASE-BY-CASE on all other proposals to increase the number of shares of stock authorized for issuance, taking into account company-specific factors that include, at a minimum, the following:

- Past Board Performance:
  - The company's use of authorized shares during the last three years;
- The Current Request:
  - Disclosure in the proxy statement of the specific purposes of the proposed increase;
  - Disclosure in the proxy statement of specific and severe risks to shareholders of not approving the request; and
  - The dilutive impact of the request as determined by an allowable increase calculated by ISS (typically 100 percent of existing authorized shares) that reflects the company's need for shares and total shareholder returns.
  - In the case of preferred shares, whether the shares requested are blank check preferred shares that can be used for antitakeover purposes.

2. Eliminate or Adjust Par Value

Policy Guideline: Generally FOR

SFERS believes that par value is an accounting concept that has become an accounting anachronism. In those states where par value is required, stock is booked as shareholders' equity at a share price designated as the "par value." The par value represents the minimum price at which management may issue the stock.

Although other forms of regulation, which better protect shareholders, have mostly replaced par value there are states where par value regulations remain on the books. SFERS believes that par value rules may be an accounting nuisance to the company, affecting the company's ability to pay dividends, and providing no particular protection to shareholders or may even be imposing a potential liability. SFERS would vote FOR proposals to adjust or eliminate par value.

3. Expanded Authority of Board on Preferred Stock

Policy Guideline: CASE-BY-CASE

SFERS considers proposals to expand board authority related to an existing class of preferred stock in the context of the company's specific situation. Both the board's existing authority with regard to an existing class of preferred stock and the likely effect of the proposed expansion of such authority would be considered in the evaluation.

For: SFERS will generally vote FOR an expansion of board authority related to an existing class of preferred stock that is requested for explicit capitalization purposes. SFERS generally support proposals to increase or issue preferred stock in cases where the company specifies the voting, dividend, conversion and other rights of such stock where the terms of the preferred stock appear reasonable.

Against: SFERS will generally vote AGAINST proposals for blank check authority or authority that could be used to implement anti-takeover measures because of the potential financial impact of certain uses of preferential shares as well as the effect on the rights of common shareholders.

4. Reduce the Number of Authorized Shares

Policy Guideline: CASE-BY-CASE

For: SFERS believes that, in general, a reduction in authorized shares which results in a reduction in the unissued and/or available shares gives shareholders a greater voice in the governance of the company by reducing their potential dilution. When authorized but unissued stock is limited in availability, the company has less opportunity to use stock for various purposes without explicit shareholder approval. Such a reduction could also reduce corporate fees in certain states where annual franchise fees and other taxes levied are based on a company's total capitalization.

Against: SFERS believes that companies should maintain a sufficient reserve of authorized shares that could be used for several purposes. If a company has little stock remaining available for general corporate needs, management would be somewhat restricted in their ability to act quickly on opportunities which arise, such as acquisitions or funding stock options and stock purchase plans.

Additional authorized common shares may also be used to raise capital as business expands, rather than take on additional debt, or to support a stock split or as a reasonable replenishment after a stock split. More common stock may also provide the necessary flexibility to maintain an optimal capital structure in a changing capital market.

IV. Merger and Reorganization Proposals

1. *Reincorporate into Delaware*

Policy Guideline: CASE-BY-CASE

For: SFERS would generally vote FOR a proposal to reincorporate into Delaware if the company requested reincorporation from a state that has laws that are more restrictive of shareholders than Delaware (e.g., Ohio, Indiana, Wisconsin, or Pennsylvania). Reincorporation could be in shareholders' best interest if the current state, such as Pennsylvania or Tennessee, has adopted business corporation statutes that have modified fiduciary duty provisions or added provisions that serve to limit the rights of shareholders, their ability to act, and/or their ability to maximize shareholders' wealth. SFERS would generally expect that the company remove restrictive provisions from the new bylaws and certificate of incorporation or opt out of some of the more restrictive Delaware statutes.

Against: Some of the reasons that typically are put forward by management to support a proposal to reincorporate into Delaware include: The more attractive business climate and the flexibility offered by the "modern" corporate statutes of Delaware. SFERS considers, however, whether the corporation is proposing new, undesirable provisions to its Articles and/or bylaws. If the state of current incorporation has provisions that are more shareholder friendly than those of Delaware, and, on balance, the new provisions to be approved in the company's documents under Delaware law give shareholders fewer and/or less rights, the initiative generally will not be supported.

When a company has been incorporated in a state that is more desirable from the perspective of shareholders than Delaware, the corporation will have available to management "new" undesirable provisions under the Delaware code which could be incorporated into corporate documents in the future. Some companies take the opportunity to bundle a number of these negative additions into the new bylaws and Articles of Incorporation when the firm reincorporates into a new state. Such actions must be balanced against the other aspects of the reincorporation. SFERS would not support granting management the ability to add any number of provisions that entrench management and restrict shareholders.

2. *Reincorporate from One State to Another Via "Merger"*

Policy Guideline: CASE-BY-CASE

For: SFERS will compare the specific legal provisions contained in the business corporation code of both the new and proposed jurisdictions and will also compare the specific provisions of the new and old Articles of Incorporation and bylaws. If, on balance, the new provisions give shareholders more and stronger rights, SFERS will generally support the proposal. In addition, SFERS will evaluate tax implications and impacts on goodwill or other benefits as a result of aligning the legal and actual company location.

Against: SFERS will generally not support this type of proposal if the company requested shareholder approval to reincorporate into a state that has laws that are more restrictive of shareholders than that of the current jurisdiction.

As with proposals to reincorporate into Delaware, some companies take the opportunity to bundle a number of these negative additions into the new bylaws and Articles of Incorporation when the firm reincorporates into a new state. Such actions must be balanced against the other aspects of the reincorporation. SFERS would not support granting management the ability to add any number of provisions that entrench management and restrict shareholders.

V. Executive Compensation Related Proposals

1. *Equity Compensation Plans*

Policy Guideline: CASE-BY-CASE

SFERS considers equity compensation plans on a case-by-case basis in U.S. and Canadian (North American[1]) markets.

SFERS will vote AGAINST compensation proposals that it believes to be excessive, with the consideration of factors including the company's industry, market capitalization, revenues and cash flow. Based on typical market standards, local codes of governance, and applicable listing standards, factors that could result in an AGAINST vote on an equity plan proposal could generally include, but are not limited to, the following:

- The total cost[2] of the company's equity plans is unreasonable;
- The plan expressly permits the repricing of stock options/stock appreciate rights (SARs) or other adjustments that can be considered repricing without prior shareholder approval or the company has a history of repricing stock options or SARS without prior shareholder approval;
- A pay for performance misalignment is found and the plan is a contributing factor;
- The plan permits discretionary or unreasonable participation of non-employee directors (Canada);
- The plan has a liberal change-of-control; or
- The plan is a vehicle for poor pay practices.

SFERS utilizes the analyses and research recommendations of its proxy advisor, Glass Lewis & Co. LLC ("Glass Lewis") as a means to guide the case-by-case consideration and subsequent voting directives. These are described in more detail in Appendix B.

2. *Ratification of Equity Compensation Programs for Non-Employee Directors*

Policy Guideline: CASE-BY-CASE

SFERS votes case-by-case on management proposals seeking ratification of non-employee director compensation, based on whether if the equity plan under which non-employee director grants are made is on the ballot, whether or not it warrants support, and an assessment of the following qualitative factors:

- The relative magnitude of director compensation as compared to companies of a similar profile;
- The presence of problematic pay practices relating to director compensation;
- Director stock ownership guidelines and holding requirements;
- Equity award vesting schedules;
- The mix of cash and equity-based compensation;
- Meaningful limits on director compensation;
- The availability of retirement benefits or perquisites; and

[1] SFERS will generally apply its North American policy to the extent possible to issuers that file DEF 14As, 10-K annual and 10-Q quarterly reports and are thus considered domestic U.S. issuers by the U.S. Securities and Exchange Commission (SEC).

[2] In limited circumstances, director stock plans that set aside a relatively small number of shares when combined with employee or executive stock compensation plans may be supportable despite exceeding the total allowable cap for the company, provided that qualitative factors in the board's compensation, based on typical market standards, are met and disclosed.

- The quality of disclosure surrounding director compensation.

3. *Non-Qualified Employee Stock Purchase Plans*

Policy Guideline: CASE-BY-CASE

SFERS will generally vote FOR nonqualified employee stock purchase plans with the following features:

- Broad-based participation (i.e., all employees of the company with the exclusion of individuals with five percent or more of beneficial ownership of the company).
- Limits on employee contribution, which may be a fixed dollar amount or expressed as a percentage of base salary.
- Company matching contribution up to 25 percent of employee's contribution, which is effectively a discount of 20 percent from market value.
- No discount on the stock price on the date of purchase since there is a company matching contribution.

4. *Incentive Bonus Plans and Tax Deductibility Proposals*

Policy Guideline: CASE-BY-CASE

For – SFERS will vote FOR proposals that simply amend shareholder-approved compensation plans to include administrative features or place a cap on the annual grants any one participant may receive to comply with the provisions of Section 162(m) of the Internal Revenue Code.

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

Votes to amend existing plans to increase shares reserved and to qualify for favorable tax treatment under the provisions of Section 162(m) are considered on a CASE-BY-CASE basis using a proprietary, quantitative model developed by SFERS.

Generally, SFERS 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.

Against – SFERS will vote AGAINST proposals if the compensation committee does not fully consist of independent outsiders, as defined in SFERS' definition of director independence.

5. *Allow Board to Enter into Severance Agreements with Company Executives*

Policy Guideline: Generally AGAINST

Against – In most cases, change-in-control agreements are so broad in their application and so generous in their terms that, due to their potential negative impact upon the value of the company in acquisition, it is in the best interest of shareholders to oppose the authorization of such agreements.

SFERS will vote AGAINST overly broad and generous proposals which would allow the board to enter into severance agreements.

Case-by-case evaluation is required to determine a vote decision related to severance provisions. Plans which are excessive, and therefore costly, would not be supported. It is noted, however, that the structure and provisions of many plans provide a defensive mechanism for the corporation and a lucrative opportunity for the participant.

For – In certain cases where the amount of information provided concerning the requested authorization provides specific information about to the individuals to be covered by the agreements and other details of the agreements, SFERS is able to evaluate the fairness of the proposed agreements. Reasons that SFERS may support severance provisions that are properly structured and not considered excessive include:

- There is empirical evidence that severance agreements serve to lead would-be acquirers to more carefully asses a bid for the company and evaluate the additional costs involved due to the severance plan.
- Some studies have shown that parachute/severance agreements have inspired higher bids for target companies.
- Severance provisions generally are positive when they provide for some recompense when employment is arbitrarily terminated but the provisions should not provide a more lucrative option than continued employment would provide.
- The definition of a change in control is narrowly defined and has a reasonable triggering threshold.
- The triggering event of such a provision is beyond the ability of corporate management to control or initiate.

6. *MSOP Proposals & Remuneration Policies*

Policy Guideline: CASE-BY-CASE

SFERS applies six global principles to all markets when determining votes on management say on pay (MSOP) proposals or remuneration policies (binding and non-binding). These proposals or policies should at all times:

(1) Provide shareholders with clear, comprehensive compensation disclosures;
(2) Maintain appropriate pay-for-performance alignment with emphasis on long-term shareholder value;
(3) Avoid arrangements that risk “pay for failure;”
(4) Be overseen by an independent and effective compensation committee;
(5) Avoid inappropriate pay to non-executive directors; and
(6) Not exist with other problematic practices, including the board’s level of responsiveness to shareholder votes.

When applying the six global principles, SFERS will take into account local codes of governance, typical market practices and listing standards as it makes its voting decision. Votes on MSOP proposals will be determined based on the following factors, including, but not limited to:

- An evaluation of performance metrics in short-term and long-term plans, as discussed and explained in the company’s applicable compensation disclosures;
- An evaluation of peer group benchmarking used to set target pay or award opportunities; and
- The balance of performance-based versus non-performance-based pay.

SFERS will vote AGAINST MSOP proposals or remuneration polices, AGAINST/WITHHOLD on compensation committee members (or, in rare cases where the full board is deemed responsible, all directors including the CEO), and/or AGAINST an equity-based incentive plan proposal if, based on local codes of governance, typical market practices and listing standards:

- There is a misalignment between CEO pay and company performance (pay for performance);
- The company maintains problematic pay practices; and
- The board exhibits poor communication and responsiveness to shareholders.

SFERS generally utilizes the analyses and research recommendations of its proxy advisor, Glass Lewis & Co. LLC ("Glass Lewis") as a means to guide the case-by-case consideration and subsequent voting directives. These are described in more detail in Appendix B.

7. *Voting on Golden Parachutes in an Acquisition, Merger, Consolidation, or Proposed Sale*

Policy Guideline: Generally AGAINST

SFERS will vote CASE-BY-CASE on say on Golden Parachute proposals, and will generally vote AGAINST proposals that include one or more of the following, depending on the number, magnitude, and/or timing of issue(s):

- Single- or modified-single-trigger cash severance;
- Single-trigger acceleration of unvested equity awards;
- Excessive cash severance (>3x base salary and bonus);
- Excise tax gross-ups triggered and payable (as opposed to a provision to provide excise tax gross-ups);
- Excessive golden parachute payments (on an absolute basis or as a percentage of transaction equity value); or
- Recent amendments that incorporate any problematic features (such as those above) or recent actions (such as extraordinary equity grants) that may make packages so attractive as to influence merger agreements that may not be in the best interests of shareholders; or
- The company's assertion that a proposed transaction is conditioned on shareholder approval of the golden parachute advisory vote.

Recent amendment(s) that incorporate problematic features will tend to carry more weight on the overall analysis. However, the presence of multiple legacy problematic features will also be closely scrutinized.

SFERS will consider existing change-in-control arrangements maintained with named executive officers rather than focus exclusively on new or extended arrangements.

In cases where the golden parachute vote is incorporated into a company's advisory vote on compensation (management say-on-pay), SFERS will evaluate the say-on-pay proposal in accordance with these guidelines, which may give higher weight to that component of the overall evaluation.

8. *Executive Ownership, Holding Periods, and Retention Requirements*

Policy Guideline: Generally FOR

SFERS will generally support shareholder proposals asking companies to adopt policies requiring senior executive officers to retain a portion of net shares acquired through compensation plans. The following factors will be taken into account:

- The percentage/ratio of net shares required to be retained;
- The time period required to retain the shares;
- Whether the company has equity retention, holding period, and/or stock ownership requirements in place and the
- robustness of such requirements;
- Whether the company has any other policies aimed at mitigating risk taking by executives;
- Executives' actual stock ownership and the degree to which it meets or exceeds the proponent's suggested holding period/retention ratio or the company's existing requirements; and
- Problematic pay practices, current and past, which may demonstrate a short-term versus long-term focus.

VI. Shareholder Rights

Introduction

SFERS believes that anti-takeover measures such as provisions for shareholder rights plans or "poison pills," golden parachutes and other severance packages, fair price provisions, anti-greenmail provisions, reincorporation in market-restricted states, and/or supermajority voting requirements are generally not in shareholders' best interests. These types of provisions can play a role in fending off or deterring hostile bids but the impact on shareholders' rights is typically negative and, in most instances, these provisions have a negative financial impact as well. SFERS believes that adoption of these provisions protects incumbent management from losing their jobs, and many can specifically eliminate the ability of shareholders to participate in the concerns of their companies and thus effectively delete significant rights of ownership.

SFERS believes that most of the anti-takeover proposals that arise are, for the most part, designed to protect the status quo - incumbent management and the existing corporate structure. Proposals to adopt provisions of this type generally are deemed to be detrimental to the best interest of shareholders in that they limit activity that would occur in a free and open market environment. Such provisions could permit the perpetuation of underutilized resources and inefficient or self-interested management practices and generally would not be supported. SFERS would generally support proposals to remove or lessen the terms of existing defensive measures.

1. Multi-Class Share Structure

Policy Guideline: Generally AGAINST

SFERS generally votes against the chair of the governance committee at companies with a multi-class share structure when the company has not provided for a reasonable sunset of the multi-class share structure (generally seven years or less).

SFERS generally votes AGAINST proposals to create a new class of common stock unless:

- The company discloses a compelling rationale for the multi-class capital structure, such as:
  - The company's auditor has concluded that there is substantial doubt about the company's ability to continue as a going concern; or
  - The new class of shares will be subject to a reasonable sunset of the multi-class share structure (generally seven years or less);
  - The new class is intended for financing purposes with minimal or no dilution to current shareholders in both the short term and long term; and
  - The new class is not designed to preserve or increase the voting power of an insider or significant shareholder.

2. *Cumulative Voting*

Policy Guideline: Generally FOR

SFERS believes that cumulative voting guarantees that shareholders with a significant stake in the company are assured a voice on the board. It also encourages management to maximize share value by making it easier for a would-be acquirer to gain board representation. A majority vote standard ensures board accountability in uncontested elections. In contested elections, similar to cumulative voting, proxy access allows shareholder access to the ballot without a veto from the nominating committee, but unlike cumulative voting, it also requires majority support to elect such directors. At controlled companies, where majority insider control would preclude minority shareholders from having any representation on the board, cumulative voting would allow such representation and shareholder proposals for cumulative voting would be supported.

SFERS will generally vote AGAINST proposals to eliminate cumulative voting, and FOR proposals to restore or provide for cumulative voting will be recommended unless:

- the company has proxy access or a similar structure to allow shareholders to nominate directors to the company's ballot, and
- The company has adopted a majority vote standard, with a carve-out for plurality in situations where there are more nominees than seats, and a director resignation policy to address failed elections.
- SFERS will generally vote FOR proposals for cumulative voting at controlled companies (insider voting power > 50%).

3. *Majority vote*

Policy Guideline: Generally FOR

SFERS will generally recommend FOR precatory and binding resolutions requesting that the board change the company's bylaws to stipulate that directors need to be elected with an affirmative majority of votes cast, provided it does not conflict with the state law where the company is incorporated. Binding resolutions need to allow for a carve-out for a plurality vote standard when there are more nominees than board seats.

Companies are strongly encouraged to also adopt a post-election policy (also known as a director resignation policy) that will provide guidelines so that the company will promptly address the situation of an incumbent director (also referred to as a holdover director).

SFERS believes that the majority vote election standard coupled with a post-election "director resignation policy" has emerged as the current state of the art: shareholders have a clear, legally significant vote, and the board retains the ability to address the situation of "holdover" directors to accommodate both shareholder concerns and the needs for stability and continuity of the board. As such, SFERS supports majority voting and has eliminated the alternative structure from its guidelines.

4. *Poison Pill*

Policy Guideline: Generally AGAINST

While SFERS generally opposes poison pill, SFERS may support certain plans after considering the company's rationale for adopting the pill and its existing governance structure as additional factors.

In the U.S. SFERS may support a poison pill plan if it has the following attributes:

- 20% or higher flip-in or flip-over;
- Two-to-three-year sunset provision;
- No dead-hand, slow-hand, no-hand or similar features;
- Shareholder redemption feature - if the board refuses to redeem the pill 90 days after an offer is announced, ten percent of the shares may call a special meeting or seek a written consent to vote on rescinding the pill.

In addition, the rationale for adopting the pill should be thoroughly explained by the company. In examining the request for the pill, SFERS will also take into consideration the company's existing governance structure, including: board independence, existing takeover defenses, and any problematic governance concerns.

5. *Protective Amendments*

Policy Guideline: Generally AGAINST

SFERS will vote AGAINST proposals to adopt a protective amendment for the stated purpose of protecting a company's net operating losses ("NOLs") if the effective term of the protective amendment would exceed the shorter of three years or the exhaustion of the NOL.

SFERS will vote CASE-BY-CASE, considering the following factors, for management proposals to adopt an NOL protective amendment that would remain in effect for the shorter of three years (or less) or the exhaustion of the NOL:

- The ownership threshold (NOL protective amendments generally prohibit stock ownership transfers that would result in a new 5-percent holder or increase the stock ownership percentage of an existing 5-percent holder);
- The value of the NOLs;
- Shareholder protection mechanisms (sunset provision or commitment to cause expiration of the protective amendment upon exhaustion or expiration of the NOL);
- The company's existing governance structure including: board independence, existing takeover defenses, track record of responsiveness to shareholders, and any other problematic governance concerns;
- the inclusion of an acting in concert provision;
- whether the pill is implemented following the filing of a Schedule 13D by a shareholder or there is evidence of hostile activity or shareholder activism; and
- Any other factors that may be applicable.

Also, SFERS will recommend to vote withhold/against the entire board of directors (except new nominees, who should be considered on a CASE-by-CASE basis) if the board adopts or renews a NOL protective amendment without shareholder approval, does not commit to putting it to a shareholder vote within 12 months of adoption (or in the case of a newly public company, does not commit to put the NOL protective amendment to a shareholder vote within 12 months following the IPO), or reneges on a commitment to put the NOL protective amendment to a vote, and has not yet received a withhold recommendation for this issue.

6. Control Share Acquisition

Policy Guideline: Generally AGAINST

SFERS believes that control-share provisions serve to entrench management by discouraging outside bidders from making a takeover attempt and therefore are not generally in the best interest of shareholders. SFERS will generally vote AGAINST such provision.

SFERS will generally vote FOR proposals to opt out of control share acquisition statutes, unless doing so would allow the completion of a takeover that is not in the best interests of shareholders; and recommend voting against proposals to amend the charter to include control share acquisition provisions.

Evaluation of the governance profile of thousands of companies reveals that anti-takeover measures almost always appear in a group and the combined presence of such provisions have been found to have a negative financial impact. Several such provisions can leave shareholders with little or no avenue for exercising a voice in the operations of the company. A control share provision is often one of the several provisions adopted by a single corporation with multiple provisions.

7. Rescind Fair Price Provision

Policy Guideline: Generally FOR

SFERS will vote FOR proposals to rescind anti-takeover measures such as a fair price provision. An exception vote would likely be appropriate when there are significant strings attached or there is a trade-off which would be viewed as being more negative than the fair price provision currently in place, such as removing the fair price provision but adopting a shareholder rights plan poison pill.

8. Allow for Adjournment for Specified Period to Obtain Desired Vote

Policy Guideline: Generally AGAINST

SFERS would generally vote AGAINST a proposal submitted for the stated purpose of providing management with the ability to solicit votes on their own behalf or hire a soliciting firm to do so indefinitely (i.e., until they "win"). In addition to being costly and time consuming such as measure would create coercive pressures and inappropriate conflicts in the voting process.

9. Require Advance Notice of Shareholder Proposals

Policy Guideline: CASE-BY-CASE

SFERS believes that, in general, presenting shareholder proposals at a meeting without any advance notice to other shareholders is not the most effective manner since other shareholders would not have an opportunity to do any due diligence on the issue.

While issues can be brought up from the floor, generally such initiatives are discussed but not dealt with formally. Also, those who are not physically attending the meeting would not have an opportunity to hear these issues of concern or to participate in any discussion. It would be more appropriate to use the SEC advanced filing deadline as the official date for filing notice of intent to bring up an issue at the shareholders meeting. Shareholders need sufficient notice to research and to consider the proposed issue. A 60-90 day notice requirement that also stipulates reasonable other criteria in support of the proposal could be supported.

Against: Because shareholder proposals serve as a mechanism for promoting value maximizing behavior, SFERS will vote AGAINST any unreasonable encumbrances placed on such proposals, including excessive advanced notice requirements. SFERS will support proposals which aligned with SEC language on the matter; however, those that exceed it or add additional hurdles to the shareholder process would not be supported.

10. Ability to Call Special Meetings

Policy Guideline: Generally FOR

SFERS will generally vote FOR management or shareholder proposals that provide shareholders with the ability to call special meetings taking into account the following factors:

- Shareholders' current right to call special meetings;
- Minimum ownership threshold necessary to call special meetings (10% preferred);
- The inclusion of exclusionary or prohibitive language;
- Investor ownership structure; and
- Shareholder support of and management's response to previous shareholder proposals.

SFERS will vote AGAINST management or shareholder proposals that attempt to restrict or prohibit shareholders' ability to call special meetings.

11. Supermajority Vote Requirements

Policy Guideline: Generally AGAINST

SFERS will vote AGAINST proposals to require a supermajority shareholder vote.

SFERS will vote FOR management or shareholder proposals to reduce supermajority vote requirements. However, for companies with shareholder(s) who have significant ownership levels, vote CASE-BY-CASE, taking into account:

- Ownership structure;
- Quorum requirements; and
- Supermajority vote requirements.

12. Ability to Act by Written Consent

Policy Guideline: Generally FOR

SFERS will generally vote FOR management and shareholder proposals that provide shareholders with the ability to act by written consent, taking into account the following factors:

- Shareholders' current right to act by written consent;
- The consent threshold;
- The inclusion of exclusionary or prohibitive language;
- Investor ownership structure; and
- Shareholder support of, and management's response to, previous shareholder proposals.

SFERS will vote CASE-BY-CASE on shareholder proposals if, in addition to the considerations above, the company has the following governance and antitakeover provisions:

- An unfettered* right for shareholders to call special meetings at a 10 percent threshold;
- A majority vote standard in uncontested director elections;
- No non-shareholder-approved pill; and
- An annually elected board.

** "Unfettered" means no restrictions on agenda items, no restrictions on the number of shareholders who can group together to reach the 10 percent threshold, and only reasonable limits on when a meeting can be called: no greater than 30 days after the last annual meeting and no greater than 90 prior to the next annual meeting.*

13. Exclusive Forum Management

Policy Guideline: CASE-BY-CASE

SFERS will vote CASE-BY-CASE on exclusive forum proposals, taking into account:

- Whether the company has been materially harmed by shareholder litigation outside its jurisdiction of incorporation, based on disclosure in the company's proxy statement; and
- Whether the company has the following good governance features:
  - An annually elected board;

    - A majority vote standard in uncontested director elections; and
    - The absence of a poison pill, unless the pill was approved by shareholders.

14. Confidential Voting

Policy Guideline: Generally FOR

Confidential voting resolutions typically request that all proxy cards, ballots, and voting tabulations that identify shareholders be kept confidential and inspectors of elections be independent third parties. SFERS supports these resolutions on the belief that secret balloting is part of the American political process and confidential voting would prevent a company's management from putting undue pressure on shareholders to support management on particular issues.

The only financial impact of confidential voting upon the company would be the increased cost of conducting an election which should be more than offset by the enhanced market value of company shares resulting from an increased openness to bids for representation and control. The IRRC notes that most of the companies with confidential voting stated that the added cost of implementing confidentiality was negligible. The cost estimates ranged from nothing to about $30,000.

15. Separate Chairperson and CEO

Policy Guideline: Generally FOR

SFERS will generally recommend a vote FOR shareholder proposals requiring that the chairperson's position be filled by an independent director, unless the company satisfies all of the following criteria:

- The company maintains the following counterbalancing governance structure:
- Designated lead director, elected by and from the independent board members with clearly delineated and comprehensive duties. (The role may alternatively reside with a presiding director, vice chairperson, or rotating lead director; however the director must serve a minimum of one year in order to qualify as a lead director.) The duties should include, but are not limited to, the following:
    - presides at all meetings of the board at which the chairperson is not present, including executive sessions of the independent directors;
    - serves as liaison between the chairperson and the independent directors;
    - approves information sent to the board;
    - approves meeting agendas for the board;
    - approves meeting schedules to assure that there is sufficient time for discussion of all agenda items;
    - has the authority to call meetings of the independent directors;
    - if requested by major shareholders, ensures that he is available for consultation and direct communication;
- Two-thirds independent board;
- All independent key committees;
- Established governance guidelines;
- The company does not have any problematic governance or management issues, examples of which include, but are not limited to:
    - egregious compensation practices;
    - multiple related-party transactions or other issues putting director independence at risk;
    - corporate and/or management scandals;
    - excessive problematic corporate governance provisions; or
    - Flagrant actions by management or the board with potential or realized negative impacts on shareholders.

16. *Equal Access to the Proxy Ballot*

Policy Guideline: Generally FOR

SFERS supports proxy access as an important shareholder right complementary to other best-practice corporate governance features. However, in the absence of a uniform standard, proposals to enact proxy access may vary widely. Therefore, SFERS will take a case-by-case approach in evaluating these proposals.

Vote CASE-BY-CASE on proposals to enact proxy access, taking into account factors including:

- Company specific factors; and
- Proposal-specific factors, such as:
  - The ownership thresholds proposed in the resolution (i.e., percentage and duration);
  - The maximum number of directors that shareholders may nominate each year; and
  - The method of determining which nominations should appear on the ballot if multiple shareholders submit nominations.

17. *Option Expensing*

Policy Guideline: Generally FOR

SFERS will generally support shareholder proposals to expense options. However, such resolution should not be supported if the company has already publicly committed to expensing options by a specific date.

Excessive use of fixed-price stock options can be attributed to the favorable accounting and tax treatment these awards are accorded over other forms of compensation, including indexed options. Stock options represent a bona fide cost to companies and shareholders, which should be reflected in the income statement. Expensing options would provide greater transparency of the company's earnings and profitability, as well as curb excessive option grants. Currently, fixed-price options enjoy a favorable accounting and tax treatment over other forms of compensation, including indexed options which are more closely tied to firm performance.

18. *Ban Stock Sales by Executive (Holding Periods)*

Policy Guideline: Generally FOR

Generally, SFERS supports shareholder proposals asking companies to adopt full tenure holding periods for their executives, unless the company has already established some sort of holding period. However, SFERS will vote AGAINST resolutions that are too restrictive.

Recent studies show that stock ownership, rather than stock options, is positively linked to improved firm performance over the long term. Recognizing this, some firms are requiring executives to hold the stock received upon option exercise for a specified period of time, ranging from one year to the executives' entire tenure with the company.

While the principle of holding periods is supportable, it is also important to recognize that mandating executives to hold their stock throughout their tenure with the company is very inflexible. Ideally, executives should be able to sell a portion of the stock received from option exercise to cover their taxes. In addition, a full-tenure holding period precludes executives from taking any of their wealth out of the company until they leave which could encourage turnover.

19. Management Proposals Seeking to Ratify Existing Charter or Bylaw Provisions

Policy Guideline: Generally AGAINST

SFERS will generally vote AGAINST management proposals to ratify provisions of the company's existing charter or bylaws, unless these governance provisions align with best practice.
In addition, voting AGAINST/WITHHOLD from individual directors, members of the governance committee, or the full board may be warranted, considering:

- The presence of a shareholder proposal addressing the same issue on the same ballot;
- The board's rationale for seeking ratification;
- Disclosure of actions to be taken by the board should the ratification proposal fail;
- Disclosure of shareholder engagement regarding the board's ratification request;
- The level of impairment to shareholders' rights caused by the existing provision;
- The history of management and shareholder proposals on the provision at the company's past meetings;
- Whether the current provision was adopted in response to the shareholder proposal;
- The company's ownership structure; and
- Previous use of ratification proposals to exclude shareholder proposals.

20. Officer Exculpation

Policy Guideline: CASE-BY-CASE

In August 2022, the Delaware General Assembly amended Section 102(b)(7) of the Delaware General Corporation Law ("DGCL") to authorize corporations to adopt a provision in their certificate of incorporation to eliminate or limit monetary liability of certain corporate officers for breach of fiduciary duty of care.

Exculpation provisions only apply to claims for breach of the duty of care, and not to breaches of the duty of loyalty. Exculpation provisions also do not apply to acts or omissions not in good faith or that involve intentional misconduct, knowing violations of the law, or transactions involving the receipt of any improper personal benefits.

SFERS closely evaluate proposals to adopt officer exculpation provisions on a case-by-case basis. We will generally vote against such proposals eliminating monetary liability for breaches of the duty of care for certain corporate officers, unless compelling rationale for the adoption is provided by the board, and the provisions are reasonable.

VII. Environmental & Social Related Shareholder Proposals

1. Disclosure Related Environmental & Social Proposals

Policy Guideline: Generally FOR

SFERS generally votes FOR proposals that seek additional disclosure, reporting, and information – and where relevant, policy formation – on a wide range of environmental and social topics including, but not limited to:

- Data privacy and security;
- Sexual orientation policy;
- Workforce diversity (including disclosures of pay data by gender, race, or ethnicity);
- Human capital management issues;
- Environmental and social risks in the supply chain (included at outsourced or offshored factories);
- Human rights practices;
- Workforce health, safety, and wellbeing;
- Environmental risks and hazards;
- Product safety;
- Drug pricing;
- Tobacco marketing;
- Genetically modified organism labeling;
- Military contracts and defense expenditures;
- Animal welfare practices, and
- Operations in "high-risk" markets (e.g., areas of active conflict, terrorism sponsoring states, etc.).

When considering such proposals, SFERS will evaluate the following

- Materiality – Is the topic in question material to the core operations of the company? SFERS will vote AGAINST proposals seeking disclosure or policy formation on environmental and social topics that it does not determine are material to a company.
- Cost Effectiveness – Can the disclosure or development of a policy be done at a reasonable cost and/or such that benefits outweigh costs?
- Past Performance – If the company has demonstrated poor performance historically on a topic, including incurring fines or litigation, SFERS is more likely to vote FOR a proposal.

2. Political Contributions and Lobbying Expenditures

Policy Guideline: Generally FOR

SFERS will generally vote FOR proposals that request greater disclosure of a company's lobbying (including direct, indirect, and grassroots lobbying) activities policies or procedures, political contributions, or trade association spending policies and activities.

3. Climate Change Risk Proposals

Policy Guideline: Generally FOR

SFERS will generally vote FOR resolutions requesting that a company disclose information on the financial, physical, or regulatory risks it faces related to climate change on its operations and investments, or on how the company identifies, measures, and manages such risks.

SFERS will generally vote FOR shareholder proposals that:

- Call for the reduction of GHG or adoption of GHG goals in products and operations.
- Seek reports on responses to regulatory and public pressures surrounding climate change, and for disclosure of research that aided in setting company policies around climate change.
- Request reports on greenhouse gas emissions from companies' operations and/or products.

4. Call to Action Related Environmental Proposals

Policy Guideline: Generally FOR

SFERS will generally vote FOR call to actions beyond disclosure reporting, including shareholder proposals that require the board of directors to adopt or implement policies to encourage sustainability initiatives, address environmental concerns related to company operations, or encourage environmental initiatives such as the use of renewable energy. Also generally vote FOR shareholder proposals to adopt or implement global principles on environmental related issues.

Vote CASE-BY-CASE on proposals that ask the company to cease the production of nuclear power.

5. Establishing a Committee with Environmental or Social Focus

Policy Guideline: Generally FOR

SFERS will generally vote FOR shareholder proposals to establish a new board committee to address broad corporate policy topics or to provide a forum for ongoing dialogue on issues such as the environment, human or labor rights, shareholder relations, occupational health and safety etc. when the formation of such committees appears to be a potentially effective method of protecting or enhancing shareholder value. In evaluating such proposals, the following issues will be considered:

- Existing oversight mechanisms (including current committee structure) regarding the issue for which board oversight is sought;
- Level of disclosure regarding the issue for which board oversight is sought;
- Company performance related to the issue for which board oversight is sought;
- Board committee structure compared to that of other companies in its industry sector; and
- The scope and structure of the proposal.

6. Require Environmental/Social Issue Qualifications for Directors

Policy Guideline: Generally FOR

SFERS will generally vote FOR shareholder resolutions seeking a director nominee candidate who possesses a particular subject matter expertise on issues such as the environment, considering:

- The company's board committee structure, existing subject matter expertise, and board nomination provisions relative to that of its peers;
- The company's existing board and management oversight mechanisms regarding the issue for which board oversight is sought;
- The company's disclosure and performance relating to the issue for which board oversight is sought and any significant related controversies; and
- The scope and structure of the proposal.

SFERS will vote CASE-BY-CASE on shareholder proposals that establish or amend director qualifications. Votes should be based on the reasonableness of the criteria and to what degree they may preclude dissident nominees from joining the board.

7. Linking Executive Compensation to ESG

Policy Guideline: Generally FOR

SFERS will generally vote FOR proposals to link, or report on linking, executive compensation to environmental and social criteria (such as corporate downsizings, customer or employee satisfaction, community involvement, human rights, environmental performance, or predatory lending), considering:

- The scope and prescriptive nature of the proposal
- Whether the company has significant and/or persistent controversies or regulatory violations regarding social and/or environmental issues;
- Whether the company has management systems and oversight mechanisms in place regarding its social and environmental performance;
- The degree to which industry peers have incorporated similar non-financial performance criteria in their executive compensation practices; and
- The company's current level of disclosure regarding its environmental and social performance.

Appendix A – Definition of Director Independence

SFERS categorized directors as either (1) independent, (2) affiliated), or (3) inside based on an examination of the type of relationship they have with the company.

Independent Director — An independent director has no material financial, familial or other current relationships with the company, its executives, or other board members, except for board service and standard fees paid for that service. Relationships that existed within three to five years before the inquiry are usually considered "current" for purposes of this test. For material financial relationships with the company, SFERS applies a three-year look back, and for former employment relationships with the company, SFERS applies a five-year look back.

Affiliated Director — An affiliated director has, (or within the past three years, had) a material financial, familial or other relationship with the company or its executives, but is not an employee of the company. This includes directors whose employers have a material financial relationship with the company. In addition, SFERS views a director who either owns or controls 20% or more of the company's voting stock, or is an employee or affiliate of an entity that controls such amount, as an affiliate.

SFERS views 20% shareholders as affiliates because they typically have access to and involvement with the management of a company that is fundamentally different from that of ordinary shareholders. More importantly, 20% holders may have interests that diverge from those of ordinary holders, for reasons such as the liquidity (or lack thereof) of their holdings, personal tax issues, etc. SFERS applies a three-year look back period to all directors who have an affiliation with the company other than former employment, for which SFERS applies a five-year look back.

Definition of "Material" — A material relationship is one in which the dollar value exceeds:

- $50,000 (or where no amount is disclosed) for directors who are paid for a service they have agreed to perform for the company, outside of their service as a director, including professional or other services This threshold also applies to directors who are the majority or principal owner of a firm that receives such payments; or

- $120,000 (or where no amount is disclosed) for those directors employed by a professional services firm such as a law firm, investment bank, or consulting firm and the company pays the firm, not the individual, for services. This dollar limit would also apply to charitable contributions to schools where a board member is a professor; or charities where a director serves on the board or is an executive; and any aircraft and real estate dealings between the company and the director's firm; or

- 1% of either company's consolidated gross revenue for other business relationships (e.g., where the director is an executive officer of a company that provides services or products to or receives services or products from the company).

Definition of "Familial" — Familial relationships include a person's spouse, parents, children, siblings, grandparents, uncles, aunts, cousins, nieces, nephews, in-laws, and anyone (other than domestic employees) who shares such person's home. A director is an affiliate if: i) he or she has a family member who is employed by the company and receives more than $120,000 in annual compensation; or, ii) he or she has a family member who is employed by the company and the company does not disclose this individual's compensation.

Definition of "Company" — A company includes any parent or subsidiary in a group with the company or any entity that merged with, was acquired by, or acquired the company.

Inside Director — An inside director simultaneously serves as a director and as an employee of the company. This category may include a board chair who acts as an employee of the company or is paid as an employee of the company. In SFERS' view, an inside director who derives a greater amount of income as a result of affiliated transactions with the company rather than through compensation paid by the company (i.e., salary, bonus, etc. as a company employee) faces a conflict between making decisions that are in the best interests of the company versus those in the director's own best interests. Therefore, SFERS will recommend voting against such a director.

Additionally, SFERS believes a director who is currently serving in an interim management position should be considered an insider, while a director who previously served in an interim management position for less than one year and is no longer serving in such capacity is considered independent. Moreover, a director who previously served in an interim management position for over one year and is no longer serving in such capacity is considered an affiliate for five years following the date of his/her resignation or departure from the interim management position.

Appendix B – Regarding Glass Lewis Compensation Analysis

1. Say on Pay Analysis

Glass Lewis' approach to say-on-pay has two main components: (i) a qualitative assessment of the structure of a company's compensation program and the accompanying disclosure; and (ii) a quantitative assessment reflected in a pay-for-performance grade. As a result of this approach, a poor grade in pay-for-performance analysis will not automatically result in a negative recommendation, and a favorable grade does not guarantee a positive recommendation.

The quantitative approach is derived from the Glass Lewis pay-for-performance model. The relationship between relative executive compensation and relative performance is the basis of the pay-for-performance model. The model evaluates the compensation of the top five executives against the compensation of the top five officers at peer companies, then compares the company's performance with those same peers. Through these analyses, Glass Lewis evaluates whether the company's executives have been paid in line with the company's relative performance.

In considering the qualitative merits of a compensation program, Glass Lewis reviews industry, company size, maturity, financial position, historical pay practices and any other relevant internal and external factors. Glass Lewis generally highlights any compensation-related decisions or features believed to be detrimental to shareholders' interests, as well as any important information that has not been clearly provided.

Glass Lewis' review of a company's practices also takes into consideration the compensation committee's response to previous say-on-pay votes and the level of shareholder support. When a company receives low support for its say-on-pay proposal, Glass Lewis believes the compensation committee should provide some level of response to shareholders' concerns, including engaging with large shareholders to identify the concerns driving the opposition. Shareholders should also expect adequate disclosure of any such engagement and any resulting feedback or changes being made to address outstanding concerns.

Glass Lewis' say-on-pay analysis also includes two additional views of compensation for the chief executive officer that may differ from a company's statutory disclosure of compensation. One figure is realizable pay; the other is a breakdown of CEO compensation granted but not necessarily earned for the year in review, excluding changes in pension value and non-qualified deferred compensation earnings ("NQDCE").

Although not an exhaustive list, the following issues when weighed together may cause Glass Lewis to recommend voting against a say-on-pay vote:

- Inappropriate or outsized self-selected peer groups and/or benchmarking issues such as compensation targets set well above the median without adequate justification;
- Egregious or excessive bonuses, equity awards or severance payments, including golden handshakes and golden parachutes;
- Insufficient response to low shareholder support;
- Problematic contractual payments, such as guaranteed bonuses;
- Insufficiently challenging performance targets and/or high potential payout opportunities;
- Performance targets lowered without justification;
- Discretionary bonuses paid when short- or long-term incentive plan targets were not met;
- High executive pay relative to peers that is not justified by outstanding company performance;
- Insufficient recoupment (clawback) provisions to promote accurate financial reporting and deter misconduct; and
- The terms of the long-term incentive plans are inappropriate.

2. Equity-Based Compensation Analysis

Glass Lewis evaluates equity-based compensation plans based on criteria key to equity value creation. Glass Lewis' model seeks to determine whether the company's granting practices are excessive when compared to a peer group.

The analyses can be classified into three categories: program size and granting pattern; program cost; and program features. Glass Lewis analysts also consider relevant specific situations before making a recommendation on a case-by-case basis.

1. <u>Program Size and Granting Pattern</u>

   The program size analysis generally focuses on two questions: Does the company already have a sufficient number of shares available under its existing plans? If the proposed plan were approved, approximately how many years would the company be able to grant awards without returning to shareholders for approval of more shares? Generally, Glass Lewis believes that companies should only seek new shares when needed and that shareholders have the right to review equity compensation programs roughly every three years.

   Glass Lewis also measures the company's pace of historical grants to see if it is excessive. Glass Lewis considers the full-share equivalent dilution during the past three years to measure dilution. Full-share equivalent grants are calculated as [(net options granted / full-value grant multiplier) + net full-value awards granted].

   Additionally, Glass Lewis measures the level of overhang at the company and compare this dilutive measure to peer companies. Glass Lewis believes programs should not be excessively dilutive on a whole and provide a peer comparison to identify company overhang that is significantly above that of a peer group.

2. <u>Program Cost</u>

   Glass Lewis measures the annual cost of a company's equity compensation in two ways before comparing it with peer companies.

   The "projected cost" is an estimate of the grant-date fair value of awards for the coming year based on the company's historical granting patterns. Generally, the estimate is a weighted average calculation of the company's gross grants for the past three years. The analyst then determines whether the weighted average should be adjusted due to any company-specific circumstances.

   Glass Lewis performs its own valuation to determine the value of stock options using the Black-Scholes model, along with standardized methodologies, to derive some of the input variables for all companies in the model. Using these standardized calculations ensures that the valuation can be compared on an equalized basis across peer companies. For full value awards, Glass Lewis uses the average of the company's closing share price over the last four quarters.

   Glass Lewis also measures the cost of the plan as disclosed by the company; referring to this as a company's "expensed cost." This is the company's recognized amount of stock-based compensation expense for the most recently completed fiscal year in its statement of cash flows.

   The projected cost and expensed cost are then measured as a percentage of a company's operating metrics (operating cash flows and revenues) and enterprise value. As with the pay-for-performance model, operating cash flow is replaced with: (i) tangible book value for companies in the Banks, Diversified Financials and Insurance sectors; and (ii) funds from operations for REITs, with the exception of Mortgage and Specialized

REITs. Projected cost is also measured on a per-employee basis. A plan will “fail” one or more of these criteria when the plan’s cost is significantly above the average of a peer group.

3. Program Features

Glass Lewis also considers the following features of an equity-based compensation plan:

- Does the plan permit the administrator to reprice, exchange or buyout underwater options?
- Do interested parties administer the plan?
- Does the plan have an evergreen provision?
- Does the plan have a reload provision?
- Does an excessive proportion of awards (greater than 70%) go to a company’s top executives?
- Does the company provide loans to employees to exercise options?
- Has the company engaged in repricing or an option exchange in the past 3 years?
- Does the plan have a single-trigger change of control provision?
- Does the plan contain an “inverse” multiplier or fungible share reserve that counts options as less than one award under the plan?

Appendix C – International Proxy Voting Guidelines

The San Francisco City and County Employees’ Retirement System Proxy Voting Guidelines address a broad range of issues, including director elections, executive compensation, capitalization and capital structure related items, and other potentially significant voting items.

Due to foreign market variations in corporate, legal, and governance standards, SFERS will take relevant market-specific factors into account when making voting decisions. In general, SFERS will endorse the analysis and recommendation of its proxy advisor, Glass Lewis & Co. LLC in voting securities held in markets outside of North America. Glass Lewis’ research analysts have specific market purviews globally, reviewing each company and proposal on a case-by-case basis, applying best practices within market practices and advocating for the rights of shareholders in any context.

For more information regarding Glass Lewis and for detailed overviews of key policies applied in international markets, please refer to: https://www.glasslewis.com/.