

# Corporate Engagement Policy

**First State Investment Management (UK) Limited  
First State Investments International Limited  
First State Investments (Hong Kong) Limited  
First State Investments (Singapore)**

December 2010

## Contents

1.	Scope & purpose	3
2.	Communication	4
3.	Voting	5
4.	Proxy voting policy & procedures	7
5.	Reporting to clients	8
6.	Policy disclosure	9
	Appendix: Proxy voting guidelines	10

### 1. Scope & purpose

First State Investments is in a position to influence the environmental, social and governance performance of companies via discussions with management or the board of directors and through the exercising of proxy votes. The exercising of the voting rights must be in the best interests of our customers. These proxy voting policies and procedures exist to ensure that First State Investments fulfils its responsibility to its customers in connection with the voting of proxies. First State views the voting of proxies as a part of its investment management responsibility.

This Corporate Engagement Policy applies to all investment funds and customer accounts managed by the First State Investments group of companies.

### 2. Communication

First State believes in having direct contact with the management and/or directors of companies into which we invest. This contact might include constructive communication about performance, corporate governance, environmental and social issues, or other matters affecting stakeholder interests and long-term shareholder value.

As a shareholder, First State is entitled to receive reports and accounts and other explanatory circulars from companies which are required by law or regulatory authorities. We also have the right to attend company meetings and raise questions about the affairs of the company. While these formal bases for communication are necessary, they may not be sufficient to allow companies and shareholders to gain full understanding of each other's aims and requirements.

Direct dialogue will give First State a better appreciation of a company's objectives, its potential aims and the quality of its management, while making the company aware of our expectations and requirements as a shareholder. In regard to environmental and social issues, First State will engage management on those matters that it believes have material impact on company earnings and value, and on best practices which the company should adopt.

### 3. Voting

First State will vote on all issues at company meetings where it has the authority to do so. Voting rights are a valuable asset which should be managed with the same care and diligence as any other asset. Ultimately, shareholders' ability to influence management depends on shareholders' willingness to exercise those rights.

First State generally seeks to engage a company prior to a vote so that appropriate consultation may take place with a view towards achieving a satisfactory solution. If the company does not change its behaviour and is not in-line with what we see is minimum requirements for a given market, we will vote against. We do look to have a positive relationship with the companies we invest in so we can have the most productive engagement. When we are long-term shareholders this also support the effectiveness of engagement and ideally we will not need to vote against the company.

Where a satisfactory outcome cannot be achieved on an important issue, it may be desirable for the relevant fund manager or delegate to attend the relevant meeting of the company and to explain why the proposal is being opposed. In such cases a poll may be requested to ensure that the vote is duly recorded.

All votes must be made in the best interest of our investors. While our goal is to apply our corporate governance guidelines and principles in a consistent manner, there may be occasions where First State believes it is in its investors' best interests to exercise its proxy vote in a manner that is not consistent on certain occasions, as a degree of subjectivity may be required.

#### **Voting with First State's Proxy Voting Guidelines**

First State will generally vote client proxies in accordance with the current First State Proxy Voting Guidelines. In such cases, the analyst assigned to review the proxy indicates that First State is voting its clients' securities with the Guidelines on the emailed Proxy Voting Form, and returns to the Proxy Administrator for the timely posting of the ballot. A summary of First State's Proxy Voting Guidelines is attached in the Appendix.

#### **Voting against First State's Proxy Voting Guidelines**

If the analyst assigned the responsibility of reviewing a proxy determines that it is in First State's clients' best interests to vote against First State's Proxy Voting Guidelines, he or she must indicate on the emailed Proxy Voting Form the reasons for recommending a vote against First State's Proxy Voting Guidelines, and whether any portfolio manager/analyst has a Material Conflict or if First State has a material conflict with respect to the issuer (as defined below); and forward the Proxy Voting Form to the Head of Business Management, Investments or a Managing Partner of the Asia-Pacific/GEM Equities team or their nominee for agreement with the course of action.

If neither any portfolio manager/analyst nor First State has a Material Conflict, then the Head of Business Management, Investments or a Managing Partner of the Asia-Pacific/GEM Equities team or their nominee shall make a final decision on how the proxy is to be voted, which decision shall be indicated on the Proxy Voting Form and returned to the Proxy Administrator for the timely posting of the vote.

In the event a Material Conflict is identified, the Chief Executive Officer or his nominee shall still determine how to vote the proxy, but in such cases shall also keep adequate records to demonstrate that the resulting vote was not the product of the Material Conflict(s).

#### **Material Conflict**

This policy presumes two types of Material Conflict:

A Material Conflict for a portfolio manager/analyst shall be presumed when the proxy involves an issuer: whose account the portfolio manager/analyst is responsible for managing or making investment recommendations; with

respect to which the portfolio manager/analyst is currently involved in the marketing of a First State investment product; or on whose Board of Directors the portfolio manager/analyst sits as a member or on an advisory committee.

A portfolio manager/analyst shall also be deemed to have a Material Conflict if the portfolio manager/analyst has a familial relationship with a director or principal executive officer of the issuer, or a nominee proposed to be elected as a director of the issuer.

A Material Conflict for First State shall be presumed if the proxy involves an issuer who is also a First State advisory client; or the proxy involves an issuer on whose Board of Directors a First State employee serves.

### **Ownership of Commonwealth Bank of Australia shares**

We have an exemption from the Australian securities and investments regulator which allows us to hold shares in our ultimate parent company, the Commonwealth Bank of Australia, in segregated accounts on behalf of our clients. Where such shares are held, we will not instruct votes on behalf of those shares.

### 4. Proxy voting policy & procedures

First State is advised of corporate actions such as proxy voting by its custodian. The Head of each asset class or their authorised signatory is responsible for ensuring that all company resolutions are reviewed and an appropriate and consistent recommendation is made in line with the corporate governance guidelines and principles as outlined in the Appendix. The authorised signatory for any Head of asset class in respect of proxy voting may be the Business Management, Investments team.

Once the proxy voting intentions have been confirmed by the Head of asset class or their authorised signatory, they must communicate the decision to the Settlements & Corporate Actions team in an agreed format by the pre-advised cut-off. The Settlements & Corporate Actions team has sole responsibility for instructing the relevant custodian of the proxy voting instruction. The Settlements & Corporate Actions team will maintain records of all proxy voting decisions in a format which will allow the dissemination of this data to relevant customers.

First State will only vote in the best interests of its customers. It is First State's duty to put any other relationship or interest to one side when deciding how to vote on behalf of customers.

### 5. Reporting to clients

Wherever a discrete mandate client delegates responsibility for exercising proxy votes, First State will report back to the client how votes were cast on their behalf, if requested by the client.

The authority and responsibility for exercising proxy votes will be defined within the investment management agreement executed between First State and each discrete mandate client. However, First State may still receive proxy voting instructions from each client on a case by case basis or alternatively the client may instruct their custodian directly. The frequency and content of any reporting to a client is provided for in the relevant investment management agreement.

**6. Policy disclosure**

This policy may be disclosed to any person entitled to disclosure. This may include current or prospective shareholders or investors in any Fund managed by First State Investments, or any regulator relevant to any of the First State Investments group of companies.

### Appendix: Proxy voting guidelines

#### Directors

##### Voting on Director nominees (uncontested elections)

Votes on director nominees should be made on a case-by-case basis, examining the following factors: composition of the board and key board committees, attendance at board meetings, corporate governance provisions and takeover activity, long-term company performance relative to a market index, directors' investment in the company, whether the chairman is also serving as CEO, and whether a retired CEO sits on the board. However, there are some actions by directors that should result in votes being withheld. These instances include directors who:

- Attend less than 75 percent of the board and committee meetings without a valid excuse,
- Implement or renew a dead-hand or modified dead-hand poison pill (ie a mechanism keeping incumbent directors in control of a company even after a majority of shareholders support a takeover),
- Ignore a shareholder proposal that is approved by a majority of the shares outstanding,
- Ignore a shareholder proposal that is approved by a majority of the votes cast for two consecutive years,
- Failed to act on takeover offers where the majority of the shareholders tendered their shares,
- Are inside directors and sit on the audit, compensation, or nominating committees, and
- Are inside directors and the full board serves as the audit, compensation, or nominating committee or the company does not have one of these committees.

In addition, directors who enacted objectionable corporate governance policies or failed to replace management as appropriate would be subject to recommendations to withhold votes.

##### Separating Chairman and CEO

Vote on a case-by-case basis shareholder proposals requiring that the positions of chairman and CEO be held separately. Because some companies have governance structures in place that counterbalance a combined position, the following factors should be taken into account in determining whether the proposal warrants support:

- Designated lead director appointed from the ranks of the independent board members with clearly delineated duties,
- Majority of independent directors on board,
- All-independent key committees,
- Committee chairpersons nominated by the independent directors,
- CEO performance reviewed annually by a committee of outside directors,
- Established governance guidelines, and
- Company performance.

### **Proposals seeking a majority of independent directors**

Shareholder proposals asking that a majority of directors be independent should be evaluated on a case-by-case basis. Vote for shareholder proposals asking that board audit, compensation, and/or nominating committees be composed exclusively of independent directors.

### **Share ownership requirements**

Vote against shareholder proposals requiring directors to own a minimum amount of company shares in order to qualify as a director or to remain on the board.

### **Term of office**

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

### **Age limits**

Vote against shareholder proposals to impose a mandatory retirement age for outside directors.

### **Director and officer indemnification and liability protection**

Proposals on director and officer indemnification and liability protection should be evaluated on a case-by-case basis. Vote against proposals to eliminate entirely directors' and officers' liability for monetary damages for violating the duty of care. Vote against indemnification proposals that would expand coverage beyond just legal expenses to acts, such as negligence, that are more serious violations of fiduciary obligation than mere carelessness. Vote for only those proposals providing such expanded coverage in cases when a director's or officer's legal defence was unsuccessful if: (1) the director was found to have acted in good faith and in a manner that he reasonably believed was in the best interests of the company, and (2) only if the director's legal expenses would be covered.

### **Voting for Director nominees in contested elections**

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

### **Reimburse proxy solicitation expenses**

Voting to reimburse proxy solicitation expenses should be analyzed on a case-by-case basis. In cases where First State votes in favour of the dissidents, we will also vote for reimbursing proxy solicitation expenses.

## **Auditors**

### **Ratifying auditors**

Vote for proposals to ratify auditors, unless: an auditor has a financial interest in or association with the company, and is therefore not independent; or there is reason to believe that the independent auditor has rendered an opinion which is neither accurate nor indicative of the company's financial position.

## **Contest Defences**

### **Board Structure: Staggered vs. Annual Elections**

Vote against proposals to classify the board.

Vote for proposals to repeal classified boards and to elect all directors annually.

### **Shareholder Ability to Remove Directors**

Vote against proposals that provide that directors may be removed only for cause.

Vote for proposals to restore shareholder ability to remove directors with or without cause.

Vote against proposals that provide that only continuing directors may elect replacements to fill board vacancies.

Vote for proposals that permit shareholders to elect directors to fill board vacancies.

### **Cumulative Voting**

Vote against proposals to eliminate cumulative voting.

Vote proposals to restore or permit cumulative voting on a case-by-case basis relative to the company's other governance provisions.

### **Shareholder Ability to Call Special Meetings**

Vote against proposals to restrict or prohibit shareholder ability to call special meetings.

Vote for proposals that remove restrictions on the right of shareholders to act independently of management.

### **Shareholder Ability to Act by Written Consent**

Vote against proposals to restrict or prohibit shareholder ability to take action by written consent.

Vote for proposals to allow or make easier shareholder action by written consent.

### **Shareholder Ability to Alter the Size of the Board**

Vote for proposals that seek to fix the size of the board.

Vote against proposals that give management the ability to alter the size of the board without shareholder approval.

## **Takeover Defences**

### **Poison Pills**

Vote for shareholder proposals that ask a company to submit its poison pill for shareholder ratification.

Review on a case-by-case basis shareholder proposals to redeem a company's poison pill.

Review on a case-by-case basis management proposals to ratify a poison pill.

### **Fair Price Provisions**

Vote proposals to adopt fair price provisions on a case-by-case basis, evaluating factors such as the vote required to approve the proposed acquisition, the vote required to repeal the fair price provision, and the mechanism for determining the fair price.

Generally, vote against fair price provisions with shareholder vote requirements greater than a majority of disinterested shares.

### **Greenmail (ie company forced to buy back shares when subject to hostile takeover)**

Vote for proposals to adopt anti-greenmail constitution amendments or otherwise restrict a company's ability to make greenmail payments.

Review on a case-by-case basis anti-greenmail proposals when they are bundled with other constitution amendments.

### **Pale Greenmail (ie restructuring transactions that are effectively greenmail)**

Review on a case-by-case basis restructuring plans that involve the payment of pale greenmail.

### **Unequal Voting Rights**

Vote against dual-class exchange offers.

Vote against dual-class recapitalisations.

### **Supermajority Shareholder Vote Requirement to Amend the Charter or Bylaws**

Vote against management proposals to require a supermajority shareholder vote to approve constitution amendments.

Vote for shareholder proposals to lower supermajority shareholder vote requirements for constitution amendments.

### **Supermajority Shareholder Vote Requirement to Approve Mergers**

Vote against management proposals to require a supermajority shareholder vote to approve mergers and other significant business combinations.

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

### **White Knight Placements**

Vote for shareholder proposals to require approval of blank check preferred share issues for other than general corporate purposes.

## **Miscellaneous Governance Provisions**

### **Confidential Voting**

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

Vote for management proposals to adopt confidential voting.

### **Equal Access**

Vote for shareholder proposals that would allow significant company shareholders equal access to management's proxy material in order to evaluate and propose voting recommendations on proxy proposals and director nominees, and in order to nominate their own candidates to the board.

### **Bundled Proposals**

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

### **Shareholder Advisory Committees**

Review on a case-by-case basis proposals to establish a shareholder advisory committee.

## **Capital Structure**

### **Ordinary Shares Authorisation**

Review proposals to increase the number of ordinary shares authorised for issue on a case-by-case basis. Vote against proposals to increase the number of authorised shares of the class that has superior voting rights in companies that have dual-class capitalisation structures.

### **Capital Distributions: Splits and Dividends**

Vote for management proposals to increase ordinary share authorisation for a stock split, provided that the increase in authorised shares would not result in an excessive number of shares available for issuance given a company’s industry and performance in terms of shareholder returns.

### **Reverse Stock Splits**

Vote for management proposals to implement a reverse stock split when the number of shares will be proportionately reduced to avoid delisting. Review on a case-by-case basis on proposals to implement a reverse stock split that do not proportionately reduce the number of shares authorised for issue.

### **Preferred Shares**

Vote against proposals authorising the creation of new classes of preferred shares with unspecified voting, conversion, dividend distribution, and other rights (“blank check” preferred shares). Vote for proposals to create blank check preferred shares in cases when the company expressly states that the shares will not be used as a takeover defence. Vote for proposals to authorise preferred shares in cases where the company specifies the voting, dividend, conversion, and other rights of such shares and the terms of the preferred shares appear reasonable. Vote case-by-case on proposals to increase the number of blank check preferred shares after analyzing the number of preferred shares available for issue given a company’s industry and performance in terms of shareholder returns.

### **Shareholder Proposals Regarding Blank Check Preferred Shares**

Vote for shareholder proposals to have blank check preferred share placements, other than those shares issued for the purpose of raising capital or making acquisitions in the normal course of business, submitted for shareholder ratification.

### **Adjustments to Par Value of Ordinary Shares**

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

### **Pre-emptive Rights**

Review on a case-by-case basis shareholder proposals that seek pre-emptive rights. In evaluating proposals on pre-emptive rights, consider the size of a company and the characteristics of its shareholder base.

### **Debt Restructurings**

Review on a case-by-case basis proposals to increase common and/or preferred shares and to issue shares as part of a debt restructuring plan.

Consider the following issues:

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

**Change in Control:** Will the transaction result in a change in control of the company? **Bankruptcy:** Generally, approve proposals that facilitate debt restructurings unless there are clear signs of self-dealing or other abuses.

### **Share Repurchase Programs**

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

### **Tracking Stock**

Votes on the creation of tracking stock are determined on a case-by-case basis, weighing the strategic value of the transaction against such factors as:

- adverse governance changes,
- excessive increases in authorised shares,
- unfair method of distribution,
- diminution of voting rights,
- adverse conversion features,
- negative impact on share option plans, and
- other alternatives such as spin-off.

### **Executive and Director Compensation**

Votes with respect to compensation plans are determined on a case-by-case basis.

Our focus is primarily on the transfer of shareholder wealth (the currency cost of pay plans to shareholders instead of simply focusing on voting power dilution).

### **Management Proposals Seeking Approval to Reprice Options**

Vote on management proposals seeking approval to reprice options on a case-by-case basis.

### **Director Compensation**

Votes on share-based plans for directors are made on a case-by-case basis.

### **Employee Share Purchase Plans**

Votes on employee share purchase plans should be made on a case-by-case basis.

### **Shareholder Proposals to Limit Executive and Director Pay**

Generally, vote for shareholder proposals that seek additional disclosure of executive and director pay information.

Review on a case-by-case basis all other shareholder proposals that seek to limit executive and director pay.

### **Golden Parachutes**

Vote for shareholder proposals to have golden parachutes submitted for shareholder ratification.

Review on a case-by-case basis all proposals to ratify or cancel golden parachutes.

### **Employee Share Ownership Plans**

Vote for proposals that request shareholder approval in order to implement an ESOP or to increase authorised shares for existing ESOPs, except in cases when the number of shares allocated to the ESOP is “excessive” (ie, generally greater than five percent of outstanding shares).

### **Employee Pension Schemes**

Vote for proposals to implement a pension scheme for employees.

## **Incorporation**

### **Voting on Takeover Laws**

Review on a case-by-case basis proposals to opt in or out of local takeover laws (including control share acquisition laws, control share cash-out laws, freeze-out provisions, fair price provisions, stakeholder laws, poison pill endorsements, severance pay and employee contract provisions, anti-greenmail provisions, and disgorgement provisions).

### **Voting on Reincorporation Proposals**

Proposals to change a company’s location of incorporation should be examined on a case-by-case basis.

## **Mergers and Corporate Restructurings**

### **Mergers and Acquisitions**

Votes on mergers and acquisitions should be considered on a case-by-case basis, taking into account at least the following: anticipated financial and operating benefits; offer price (cost vs. premium); prospects of the combined companies; how the deal was negotiated; and changes in corporate governance and their impact on shareholder rights.

### **Corporate Restructuring**

Votes on corporate restructuring proposals, including minority squeeze-outs, leveraged buyouts, demergers, liquidations, and asset sales should be considered on a case-by-case basis.

### **Demergers**

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

### **Asset Sales**

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

### **Liquidations**

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

### **Appraisal Rights**

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

### **Changing Corporate Name**

Vote for changing the corporate name.

### Social and Environmental Issues

#### Consumer Issues & Public Safety

##### Animal Rights

Vote case-by-case on proposals to phase out the use of animals in product testing, taking into account:

- The nature of the product and the degree that animal testing is necessary or mandated (such as medical products),
- The availability and feasibility of alternatives to animal testing to ensure product safety, and
- The degree that competitors are using animal-free testing.

##### Drug Pricing

Vote case-by-case on proposals asking the company to implement price restraints on pharmaceutical products, taking into account:

- Whether the proposal focuses on a specific drug and region;
- Whether the economic benefits of providing subsidised drugs (e.g., public goodwill) outweigh the costs in terms of reduced profits, lower R&D spending, and harm to competitiveness;
- Whether the company already limits price increases of its products;
- Whether the company already contributes life-saving pharmaceuticals to the needy; and
- The extent that peer companies implement price restraints.

##### Genetically Modified Foods

Vote case-by-case on proposals to label genetically modified (GMO) ingredients voluntarily in the company's products, or alternatively to provide interim labelling and eventually eliminate GMOs, taking into account:

- The costs and feasibility of labelling and/or phasing out;
- The nature of the company's business and the proportion of it affected by the proposal;
- The proportion of company sales in markets requiring labelling or GMO-free products;
- The extent that peer companies label or have eliminated GMOs;
- Competitive benefits, such as expected increases in consumer demand for the company's products; and
- The risks of misleading consumers without federally mandated, standardized labelling.
- Vote for proposals asking for a report on the feasibility of labelling products containing GMOs.

Vote against proposals to completely phase out GMOs from the company's products. Such resolutions presuppose that there are proven health risks to GMOs—an issue better left to federal regulators—which outweigh the economic benefits derived from biotechnology.

Vote case-by-case on reports outlining the steps necessary to eliminate GMOs from the company's products, taking into account:

- The relevance of the proposal in terms of the company's business and the proportion of it affected by the resolution;
- The extent that peer companies have eliminated GMOs;
- The extent that the report would clarify whether it is viable for the company to eliminate GMOs from its products; and
- Whether the proposal is limited to a feasibility study or additionally seeks an action plan and timeframe actually to phase out GMOs.

Vote against proposals seeking a report on the health effects of GMOs. Studies of this sort are better undertaken by regulators and the scientific community.

##### Handguns

Generally vote against requests for reports on a company's policies aimed at curtailing gun violence unless the report is confined to product safety information.

Criminal misuse of firearms is beyond company control and instead falls under police and other law enforcement bodies.

### **Predatory Lending**

Vote case-by-case on requests for reports on the company's procedures for preventing predatory lending, including the establishment of a board committee for oversight, taking into account:

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

### **Tobacco**

Most tobacco-related proposals should be evaluated on a case-by-case basis, taking into account the following factors:

#### *Second-hand smoke:*

- Whether the company complies with all local laws and regulations;
- The degree that voluntary restrictions beyond those mandated by law might hurt the company's competitiveness; and
- The risk of any health-related liabilities.

#### *Advertising to youth:*

- Whether the company complies with local laws on the marketing of tobacco or if it has been fined for violations;
- Whether the company has gone as far as peers in restricting advertising; and
- Whether the company has previously agreed to restrict marketing of tobacco to youth.

#### *Cease production of tobacco-related products or avoid selling products to tobacco companies:*

- The percentage of the company's business affected and
- The economic loss of eliminating the business versus any potential tobacco-related liabilities.

#### *Demerge tobacco-related businesses:*

- The percentage of the company's business affected;
- The feasibility of a demerger; and
- Potential future liabilities related to the company's tobacco business.

#### *Stronger product warnings:*

Vote against proposals seeking stronger product warnings. Such decisions are better left to governments.

#### *Investment in tobacco stocks:*

Vote against proposals prohibiting investment in tobacco equities. Such decisions are better left to portfolio managers.

### Environment & Energy

#### Environmental Reports

Generally vote for requests for reports disclosing the company's environmental policies unless it already has well-documented environmental management systems that are available to the public.

#### Global Warming

Generally vote for reports on the level of greenhouse gas emissions from the company's operations and products, unless the report is duplicative of the company's current environmental disclosure and reporting. However, additional reporting may be warranted if:

- The company's level of disclosure lags that of its competitors or
- The company has a poor environmental track record, such as violations of local regulations.

#### Recycling

Vote case-by-case on proposals to adopt a comprehensive recycling strategy, taking into account:

- The nature of the company's business and the percentage affected;
- The extent that peer companies are recycling;
- The timetable prescribed by the proposal;
- The costs of implementation; and
- Whether the company has a poor environmental track record, such as violations of local regulations.

#### Renewable Energy

Vote case-by-case on proposals to invest in renewable energy sources, taking into account:

- The nature of the company's business and the percentage affected;
- The extent that peer companies are switching from fossil fuels to cleaner sources;
- The timetable and specific action prescribed by the proposal; and
- The costs of implementation.

### General corporate issues

#### Link Executive Compensation to Social Performance

Vote case-by-case on proposals to review ways of linking executive compensation to social factors, such as corporate downsizings, customer or employee satisfaction, community involvement, human rights, environmental performance, predatory lending, and executive/employee pay disparities. Such resolutions should be evaluated in the context of:

- The relevance of the issue to be linked to pay;
- The degree that social performance is already included in the company's pay structure;
- The degree that social performance is used by peer companies in setting pay;
- Violations or complaints filed against the company relating to the particular social performance measure;
- Artificial limits sought by the proposal, such as freezing or capping executive pay;
- Independence of the compensation committee; and
- Current company pay levels.

#### Charitable/Political Contributions

Generally vote against proposals asking the company to affirm political non-partisanship in the workplace so long as:

- The company is in compliance with laws governing corporate political activities, and
- The company has procedures in place to ensure that employee contributions to company-sponsored funds used partly or wholly for political purposes are strictly voluntary and not coercive.

Vote against proposals to report or publish in newspapers the company's political contributions. Local laws usually restrict the amount of corporate contributions and include reporting requirements.

Vote against proposals disallowing the company from making political contributions.

Businesses are affected by legislation and barring contributions can put the company at a competitive disadvantage.

Vote against proposals restricting the company from making charitable contributions. Charitable contributions are generally useful for assisting worthwhile causes and for creating goodwill in the community. In the absence of bad faith, self-dealing, or gross negligence, management should determine which contributions are in the best interests of the company.

### Employment Standards & Human Rights

#### Country-specific human rights reports

- Vote case-by-case on requests for reports detailing the company's operations in a particular country and steps to protect human rights, based on:
- The nature and amount of company business in that country;
- The company's workplace code of conduct;
- Proprietary and confidential information involved;
- Company compliance with local regulations on investing in the country; and
- Level of peer company involvement in the country.

#### International Codes of Conduct/Vendor Standards

Vote case-by-case on proposals to implement certain human rights standards at company facilities or those of its suppliers and to commit to outside, independent monitoring. In evaluating these proposals, the following should be considered:

- The company's current workplace code of conduct or adherence to other global standards and the degree they meet the standards promulgated by the proponent;
- Agreements with foreign suppliers to meet certain workplace standards;
- How company and vendor facilities are monitored;
- Company participation in fair employment organizations;
- Type of business;
- Proportion of business conducted overseas;
- Countries of operation with known human rights abuses;
- Whether the company has been recently involved in employment and human rights controversies or violations;
- Peer company standards and practices; and
- Union presence in company's international factories.

Generally vote against proposals that mandate outside independent monitoring, which may entail sizable costs to the company unless there are serious concerns or controversies surrounding the company's overseas operations.

Generally vote for reports outlining vendor standards compliance unless:

- The company does not operate in countries with significant human rights violations;
- The company has no recent human rights controversies or violations; or
- The company already publicly discloses information on its vendor standards compliance.

### Business

#### Foreign Military Sales/Offsets

Vote against reports on foreign military sales or offsets. Such disclosures may involve sensitive and confidential information. Moreover, companies must comply with government controls and reporting on foreign military sales.

#### Landmines

Vote case-by-case on proposals asking a company to renounce future involvement in anti-personnel landmine and cluster bomb production, taking into account:

- Whether the company currently manufactures landmines or landmine components and
- Whether the company's peers have renounced future production.

#### Space-Based Weaponisation

Generally vote for reports on a company's involvement in space-based weaponisation unless:

- The information is already publicly available or
- The disclosures sought could compromise proprietary information.

### Workplace Diversity

#### Board Diversity

Generally vote for reports on the company's efforts to diversify the board, unless:

- The board composition is reasonably inclusive in relation to companies of similar size and business or
- The board already reports on its nominating procedures and diversity initiatives.

Vote case-by-case on proposals asking the company to increase the representation of women and minorities on the board, taking into account:

- The degree of board diversity;
- Comparison with peer companies;
- Established process for improving board diversity;
- Existence of independent nominating committee;
- Use of outside search firm; and
- History of EEO violations.

#### Equal Employment Opportunity (EEO)

Generally vote for reports outlining the company's affirmative action initiatives unless:

- The company has well-documented equal opportunity programs;
- The company already publicly reports on its company-wide affirmative initiatives and provides data on its workforce diversity; and
- The company has no recent EEO-related violations or litigation.

Vote against proposals seeking information on the diversity efforts of suppliers and service providers, which can pose a significant cost and administration burden on the company.