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## WORKING DRAFT – FOR PUBLIC COMMENT

POLICY BRIEFING NO. 2

# Voting Integrity

## Practices for Investors and the Proxy Industry

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This draft policy briefing is being released for public comment

*Comments:* Comments on any aspect of this draft are welcome. Please address comments to Meagan Thompson-Mann, Visiting Research Fellow, and send to Michele Grammatico, Coordinator, at michele.grammatico@yale.edu.

*Disclaimer:* The views expressed in the policy briefing are the views of the author and do not necessarily reflect the opinions of Yale University, the Yale School of Management, or the event participants.

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## EXECUTIVE SUMMARY


The proxy ballot is one of the most important tools a shareholder can employ in communicating with and influencing the operations of a company, and it is a signal corporate directors rely on to test investor confidence in board stewardship. Shareholders and the proxy voting advisory services face rising pressure to safeguard the integrity of the ballots and the voting intentions behind them. Key threats include conflicts of interest, opacity and faults in the chain by which ballots are transmitted. Investors and advisors can consider a series of remedy options including:

- Drafting robust voting policies that are reviewed regularly to ensure they are fit for purpose;
- Making voting policies public and open to external input;
- Identifying, managing and disclosing real or potential conflicts of interest on a regular basis; and
- Determining the level and quality of resources necessary and appropriate to deliver vote recommendations and decisions that are in line with their voting policies.

A draft code of professional practices is suggested for the proxy advisory industry. Institutional investors have the option of endorsing and following guidance produced by parties such as the International Corporate Governance Network. Further, the SEC may find it critical to undertake modernization of the proxy voting system, with investors and advisors taking the lead in lobbying for reform.

## INTRODUCTION

The Millstein Center's mission is to serve as a vital contributor to the growing architecture of international corporate governance. The Center sponsors research, hosts conferences, generates global databases, designs training and publishes policy briefings on emerging corporate governance policy issues. *Voting Integrity: Practices for Investors and the Voting Industry* is the Center's third policy briefing designed to assist policymaking.

Millstein Center policy briefings are framed as think tank reports rather than scholarly research. They include original material and policy analysis in a concise format. Reports serve both as pointers to further detailed empirical research and as a resource for market practitioners.

The issue of how investors make voting decisions is especially timely as proxy voting turnout rises worldwide, institutional investors address voting decisions with a more critical eye, and U.S. investors assess the impact of expanded voting rights, particularly the majority voting standard for directors. In this context, we believe it vital to shed light on how institutions go about making choices that can have profound consequences for the way corporate boards are composed and how they operate.

This policy briefing was designed to explore how various market institutions around the world develop, set, and maintain their standards for proxy voting; how potential conflicts of interest are identified and controlled; and what resources they have available in the standard setting process.

The policy briefing is based largely on:

- A roundtable workshop with major institutional investors and proxy advisors conducted in New York by the Center in January 2008;
- Independent research on voting-related topics; and
- Correspondence with institutional investors and proxy advisors.

The Center is grateful to the following bodies which provided assistance in the policy briefing project: American Federation of State, County and Municipal Employees (AFSCME); Florida State Board of Administration; Glass, Lewis & Co., Governance for Owners; Hermes Equity Ownership Services; Marco Consulting Group; Morgan Stanley Investment Management; Norges Bank Investment Management; Office of the Connecticut State Treasurer; PROXY Governance, Inc.; Richson Consulting Group, LLC; RiskMetrics Group; TIAA-CREF; and Washington State Investment Board. However, the content of the policy briefing is solely the responsibility of the author.

## 1. WHY VOTING INTEGRITY MATTERS

At the heart of any discussion about proxy voting is the humble shareholder ballot. In its simplest interpretation, the ballot is arguably the principal method by which a company's shareholders can influence its operations and comment on its performance. The ballot is the shareholder's voice at the boardroom table. Shareholders can elect directors (and, in several jurisdictions, have the right to remove them), register approval of transactions, and (increasingly) authorize executive pay packages, all through the medium of the ballot. It is one of the most basic and important tools in the shareholder's toolbox. Depending on the jurisdiction and the identity of the shareholder, it may even be obligatory for the investor to exercise this right.[1]

However, most shareholders do not have the resources to make independent voting decisions on every resolution at every company in which they invest, nor to be present physically to cast a ballot. To remedy this, they employ others to supply analysis, make voting recommendations and to vote the shares by proxy. It is here where the institution's own profile comes into play. The fund should be sufficiently structured and resourced to make informed judgements as an owner in ways that are aligned with the interests of ultimate shareowner clients.

The quality and integrity of other players in the voting process – the proxy voting advisors, custodians, portfolio managers and voting execution services – also contribute to the process. With each stage that the ballot moves away from the hand of the effective owner, there may be a greater opportunity for the voice to lose its impact or even its intention. Without proper oversight by service provider and client, it can become like the children's game "Telephone" – the intended message gets

1 For example, pension and mutual funds may have a fiduciary duty to vote; investment managers voting on behalf of clients may have a contractual duty to do so. The US 1974 ERISA legislation requires certain institutional investors to vote.

slightly distorted with each transmission, to the point where its meaning has changed utterly. Safeguarding the intention must be paramount.

To explore how improvements might be made to the process overall, a group of institutional investors and proxy voting advisors met at the Yale Club in New York on February 29, 2008. The "Voting Standards" roundtable, convened by the Millstein Center for Corporate Governance and Performance, was chaired by Lynn Turner, former chief accountant to the Securities and Exchange Commission, and former executive of Glass Lewis & Co. Participants from the US and Europe included state sector pension funds, mutual funds and fund managers. The session was held under Chatham House rules,[2] allowing for candid dialogue between parties and for sentiments expressed on the topics below to be explored freely, without attribution of any specific idea or quotation. All other information relating to the participants present has been taken from publicly available sources.

This policy report addresses four major areas of concern that arose from discussions at the Voting Standards roundtable:

- *How investors and their advisors set their voting policies;*
- *Recognizing and managing conflicts of interest;*
- *Impediments to efficient and accurate voting; and*
- *Providing adequate resources to the proxy voting function.*

Conclusions include a list of suggested improvements based primarily on recommendations made at the Voting Standards roundtable. Further, the report suggests two additions to the canon of governance to assist in managing real and perceived conflicts of interest, promoting accountability, and refining stewardship:

- a code of best practice for investors; and
- a professional code of ethics for the proxy voting and advisory industry.

This is followed by appendices that include sample voting policies from large investors, as well as the voting principles available from voting advisory services and other interested parties.

2 Under Chatham House rules, content of the meeting may be cited but not attributed to any individual without their explicit agreement.

***Voting policies.*** One of the ways that both investors and advisors can make clear their proxy voting philosophy and objectives is by developing robust voting policies. However, the question is raised as to how these policies should be developed.

At the roundtable, discussions in this area centered on the need for these policies to be clear in order to be most effective. Debate remains whether it is more appropriate for investors and their advisors to develop general policies that are relatively flexible and then adjusted to fit the individual circumstances of the company under consideration, or to have far-reaching and detailed policies that generate consistent recommendations which allow possibly underresourced proxy voting teams to vote without spending too much time considering the vote in the greater context of individual performance. When the proxy team is small, or governance resources sparse, this becomes a crucial issue.

***Conflicts of interest.*** Another concern for most shareholders is whether those conflicts are at a voting service provider or, in the case of institutional investors like pension schemes or mutual funds, at the investor level.

Conflicts are most frequently mentioned in the context of proxy voting advisory services, particularly when those advisors provide services to issuing companies, as well as to the companies' shareholders. Services faced with such concerns have built safeguards; they may disclose substantially and meaningfully how they manage potential conflicts. But some roundtable participants contend that even the possibility of a conflict occurring can be worrisome, no matter how implausible in reality. They ask whether investors can be confident that every conflict – real or potential – has been recognized, assessed and handled genuinely.

***Impediments to voting***. The ballot's true worth becomes ever more apparent when one considers other impediments that exist to weaken or silence the shareholder's vote: ballots "lost" or miscast in complex transit routes from an investor through intermediaries to the company; securities lending and blocking of the stock for extended periods; and onerous paperwork for foreign shareholders, amongst others. Each amounts to a barrier to a shareholder being able to exercise his or her vote, and a step away from effective accountability.

As shareholders gain greater rights through ballots, such as the ability to approve or dismiss executive pay packages, true majority voting for the election of directors, and the power to nominate candidates for election to the board, the ballot becomes even more valuable.

***Resources for voting.*** A further concern for investors and their service providers alike is whether sufficient resources have been made available for proxy voting.

Even large investors, which may be able to assign dedicated staff members to assess individual proxies based on a variety of resources, may find that their efforts at effecting real change through their votes at the companies in which they invest are hindered when their resources do not meet their ambitions. Smaller investors may not have any committed full-time proxy voting staff. Instead, they outsource their voting decision-making to one of the proxy advisory services to discharge their duty to underlying beneficiaries to vote their proxies. Additionally, at the services themselves, staff making recommendations may be inexperienced or temporary, which prompted some roundtable participants to question the validity of the advice. This concern is obviously exacerbated when the investor-client has fully outsourced voting decisions.

## 2. HOW INVESTORS AND THEIR ADVISORS SET THEIR VOTING POLICIES

Advisors and investors at the roundtable discussed the processes by which their institutions set proxy voting policies against which they make voting judgments, as well as how frequently they were reviewed, and by whom. These voting policies set out how the investor or advisor will normally vote on agenda proposals of company meetings if certain criteria (as determined by the policymaker) are met.[3] All participants had developed and continually refined their voting policies. Nevertheless, there were strikingly different patterns of design and review, both between, and amongst, the investors and advisors, and within each group.

Of the proxy advisors present, RiskMetrics Group, Glass Lewis & Co. and Proxy Governance Inc. ("PGI") develop policy through internal and external processes. Marco Consulting and Governance for Owners both keep policy creation and review primarily in-house, with some advice sought from their existing clients.

RiskMetrics, the global industry leader, has established a series of internal advisory sub-committees, each headed by a specialist who looks at an individual proxy subject area (e.g. audit, board, compensation). The lead specialists are part of a greater internal policy steering committee, which forms part of the Governance Services Global Policy Board. Other policy board members include the RiskMetrics CEO and outside governance experts.[4] RiskMetrics obtains and incorporates external sources of information in its policy-setting, mainly through surveying their clients annually and on a global basis as to what the clients feel works or does not work in the policy. More recently, RiskMetrics has taken the step of putting some elements of its draft proxy voting policies on its website for public comment, much in the way the SEC puts its proposals out for public review, keeping them open for about a three-week time period before finalizing the policies. Both the client survey and public comment period are performed on a global basis. Final decisions on policy are made exclusively by RiskMetrics executives.

Glass Lewis also employs internal/external processes of policy development, with some differences compared to the methods employed by RiskMetrics. It too evaluates its policies on an annual basis, using topic–specific sub-committees, and reviewing local regulatory changes, market practices and notable events during the prior proxy season. There is also some ad hoc review occurring throughout the year depending on developments or changes to generally accepted best practices globally. Consideration is given to the ongoing conversation it has with existing clients. Glass Lewis has also recently established an independent external advisory board, called the Research Advisory Council, and is contemplating the introduction of an SEC-style comments period for certain aspects of its policy.

PGI performs an annual review of its policy, using both internal and external resources. The company has two managing directors for policy, who draft only after having met with active state and union pension funds, members of the socially responsible investment community, and potential shareholder resolution proponents. The draft policy then goes to its external policy council, which is composed of independent corporate governance and other business experts, for further commentary and review.

3 For example, an investor may have a policy to vote against all shareholder resolutions unless an economic benefit will flow from approval.

4 Further details at http://www.riskmetrics.com/issgovernance/policy/formulation.html; last accessed May 12, 2008.

Marco's policy is a synthesis of best practices based on the Council of Institutional Investors' governance principles, and ideas that have come out of working with its own clients on bespoke policies. Governance for Owners, one of three members of a new sub-industry of global engagement specialists, uses market-specific policies as starting points in each jurisdiction for which it provides recommendations, but uses in-house resources for refining each policy further.[5] All five service providers were keen to point out the transparency of their policy-setting process.

Just as the advisors have similarities when developing voting policies, institutional investors have common themes in policy-setting while taking very different approaches to the task. A widespread practice, particularly amongst the state-sector funds, is the use of internal committees, usually reporting up to the investment committee, to vet the policy. This can be a fairly time-consuming process, depending on the layers of committees and the scrutiny involved. One of the roundtable participants, the Connecticut Retirement Plans & Trust Funds, has its policy reviewed in public, open sessions. Another, TIAA-CREF, has its policy scrutinized by senior management, trustees and occasionally by the fund's overseers. At the other extreme, one of the other funds present reported that the governance staff has latitude in setting voting policies without the need to seek their approval by the board.

All of the investors present described development processes that involved some degree of outside advice in conjunction with in-house expertise. One of the funds relies heavily on input from the Council of Institutional Investors to get further commentary on best practices, and another reaches out to its beneficiaries for their remarks. TIAA-CREF takes a "glass house" approach to the policies it develops. The test applied is whether the fund company's own board would be able to adopt the policies it endorses. To this end, TIAA-CREF has itself embraced "say on pay" and majority voting principles for its own board, so that it can speak with conviction to companies where it is advocating improvements in these areas. This is the closest instance amongst the roundtable participants of a fund exposing its own governance policies to ratification by ultimate shareowners.

5 Others in the sub-industry are F&C and Hermes EOS. All are headquartered in London. The ventures offer institutional investor clients a range of engagement services in addition to voting. Note that Stephen Davis, the Millstein Center's project director with oversight of the voting standards project, is a nonexecutive board member of Hermes EOS.

An interesting recent development in policy is the launch of the RiskMetrics Governance Policy Exchange.[6] The Exchange is a portal that provides access to institutional investors'[7] governance policies and principles. It allows users to compare and contrast policies across various governance topics, and has audio commentary from investors taking part in the project on the policies and their governance philosophies. Exchange subscribers have the option to give feedback to the institutions on the policies, which brings more viewpoints to the table when the participating institutions mount a policy review. RiskMetrics has plans to include more institutions in this project, as well as to bring issuers into the project to get additional perspectives. Although it is currently US-centric, there are future plans to cover other jurisdictions.

## 3. CONFLICTS OF INTEREST

The identification, management and disclosure of conflicts of interest, both real and perceived, are some of the most significant issues facing proxy advisors and their clients. These conflicts of interest can have economic consequences for investors. Recent evidence, for instance, indicates that mutual funds tend to defy investment logic and overweight stock in companies for which they handle 401(k) retirement business – causing client investors to suffer worse returns than they would otherwise.[8] Confidence in the conflicted body may be affected, even when conflicts are not so explicit, or are mitigated to some degree by disclosure or control. Clients may choose to move to a less obviously conflicted advisor. The bona fides of an investor engaging with a company on transparency and accountability could be undermined if the investor has not handled its own conflicts adequately.

Almost all roundtable participants concluded that conflicts were manifold and not easy to eradicate given the nature of the capital markets, and that investors were just as likely to be conflicted as their advisors. Discussions focused on whether, having accepted the inherently conflicted nature of both advi-

6 Available at http://www.riskmetrics.com/policy_exchange/.

7 At the time of writing, these investors were: TIAA-CREF, Morgan Stanley Investment Management, Domini Social Investments, the California Public Employee Retirement System (CalPERS), and the Connecticut Retirement Plans & Trust Funds.

8 Cohen and Schmidt, "Attracting Flows by Attracting Big Clients: Conflicts of Interest and Mutual Fund Portfolio Choice." HBS Working Paper 08-054; January 2008.

sor and client, it is enough to merely disclose the existence of a conflict, or if further steps must be taken to counteract the influence.

Proxy advisors have been the subject of scrutiny regarding conflicts of interest for some time. Concerns and service practices highlighted below are drawn from the public record. The most vocal criticisms have been reserved for advisors that provide both voting advice to institutional investor clients and structural governance advice to the companies on which they also produce voting recommendations. There is an argument that this model allows companies that purchase governance guidance to "game" the system, potentially tainting any voting recommendations to investors because the company in question might also be a client of the advisor.[9]

RiskMetrics, which provides both these services, is also the largest of the proxy voting advisory services and therefore the most obvious target of these criticisms and has suffered some reputational damage due to the controversy.[10] It ranks over 8,000 companies using its Corporate Governance Quotient service, which assesses a company's governance systems and board of directors.[11] Although the companies do not pay to be ranked, RiskMetrics provides other advisory services aimed at helping deficient companies improve their governance standards. Simultaneously, RiskMetrics provides investors who use its voting advisory services with recommendations on these same companies. RiskMetrics has taken measures to keep the two advisory businesses separate, including maintaining separate premises for the two divisions, and openly discloses this conflict, and others. However, uneasiness over hypothetical contamination remains in the market. Roundtable participants stated that they believe various corporations assume that signing up for RiskMetrics consulting provides an advantage in how the firm assesses their governance—despite the fact that RiskMetrics's own extensive safeguards make this highly unlikely.

Glass Lewis, RiskMetrics' nearest rival in terms of size, utilizes a model that seeks to minimize some of these conflicts. But it too has faced criticism for potential conflicts. Although Glass Lewis does not provide advice to the companies on which it supplies voting recommendations, it has gone through two recent changes of control that raised eyebrows. Xinhua Finance Media, a Chinese financial information provider, gained control of Glass Lewis in late 2006. It later emerged that Xinhua's chief financial officer had been under investigation by the SEC, and that the company itself would not have met Glass Lewis' governance standards.[12] Xinhua was also the parent company of businesses such as Taylor Rafferty that sold services to corporate managements. When the Ontario Teachers' Pension Plan (OTPP) acquired Glass Lewis from Xinhua in 2007, some expressed anxiety that the governance policies of OTPP might interfere or override Glass Lewis's own existing policies. Glass Lewis has endeavored in both circumstances to stress its independence from its owners, and from the governance philosophies of the parent organizations.

Although other voting advisory services represented at the Voting Standards Roundtable are less frequently mentioned in discussions of conflicts of interest, each has faced potential tensions in this area. PGI's first subscription was from the Business Roundtable, which represents U.S. chief executive officers and is commonly seen as promoting the interests of corporate America. The subscription was for over 160 Roundtable members, and came on the heels of a 2004 memo from the Roundtable's chairman, former Pfizer chief executive officer Hank McKinnell, urging members to buy PGI's services.[13] PGI has made it clear that the Business Roundtable has never made any effort to exert influence over policy setting. Indeed, the bulk subscription was terminated in 2005.

Governance for Owners (GO) and Marco Consulting face different but no less relevant conflict issues. GO's main conflict appears to be that it also runs a shareholder engagement fund. Ten to 15 times a year, depending on how many companies are in the portfolio, there will be occasions where GO will advise clients on how to vote at companies where they will clearly have an interest of their own. Furthermore, at the time of writing this report, GO's only stewardship client receiving vote recommendations is a pension fund which is sponsored by several publicly listed companies. It may become necessary

9 Rose, "The Corporate Governance Industry". *Journal of Corporation Law*, Vol. 32, No. 4; p. 120.

10 There have been several recent, well-publicized incidents of large institutional investors, including the pension funds of the states of Colorado, Missouri and Ohio moving at least some of their proxy advisory contracts away from RiskMetrics to other providers,. Conflict management has been cited as one of the major reasons for terminating the contracts.

11 http://www.issproxy.com/issgovernance/esg/cgq.html; last accessed May 5, 2008.

12 http://www.cpadaily.com/?p=323; last accessed May 5, 2008.

13 Gretchen Morgenson, "Pfizer and the Proxy Adviser," New York Times, April 21, 2006; http://www.nytimes.com/2006/04/21/business/21proxy.html?pagewanted=print; last accessed May 6, 2008.

for GO to engage with these companies on poor governance practice or recommend a proxy vote against management, and not to overlook bad governance practice at the companies which, after all, pay their fees.

Many of Marco Consulting's clients are Taft-Hartley pension funds. Every year Marco's union clients sponsor a number of shareholder proposals. Most of these are in line with Marco's own proxy voting guidelines, but occasionally one is proposed that is contrary to their principles. Marco is then left in the potentially embarrassing position of recommending a vote against a proposal sponsored by own of its own clients. Marco seeks to limit the appearance of conflicts in such a situation by maintaining very comprehensive and specific proxy voting policies which make clear how the consultant would cast its vote under the circumstances. However, the possibility, though remote, that Marco could compromise its independence to satisfy clients causes concern to some.

It is not just the proxy voting advisors that are open to accusations of being inherently conflicted. The institutional investors also face pressure to acknowledge and manage their own conflicts as well, and their purported independence is less a matter of public record than that of their advisors.

A pension fund may feel it is impolitic to vote against a director of a public company for which it directly manages retirement funds, despite the recommendation of its proxy advisors. Investment managers face similar concerns, and could potentially have even greater numbers of conflicts simply because they provide other services to both institutional investors and the companies on which they have provided recommendations. Whereas the proxy advisory services make clear in their corporate information their recognized conflicts and what steps they are taking to mitigate them, there is some anecdotal evidence that disclosure of investor conflicts is harder to locate and may take an anodyne or boilerplate approach.

## 4. BREAKDOWNS IN THE VOTING CHAIN

One of the continuing problems facing investors is the complexity of an apparently simple process – casting a proxy vote. For many institutional investors, voting a proxy appears to be a straightforward practice. A ballot appears on their electronic voting platform, stating the number of shares held, and in which voting accounts. The ballot may be pre-populated with a proxy voting advisor's recommendations or these may be shown on the ballot alongside blank voting boxes for the investor to register their voting preferences. Submitting the ballot merely requires clicking on boxes and buttons. But how can an investor be sure that their vote preferences have been registered as they intended?

A criticism repeated at the Voting Standards roundtable was that, having pressed the button, there is currently no satisfactory method for an investor to confirm the vote has been cast as directed. Broadridge Financial Solutions, Inc. ("Broadridge"), is the leading provider of proxy voting technology to the financial services industry, and currently acts as the proxy agent for 97% of U.S. banks and brokers[14]. ProxyEdge, Broadridge's proxy voting platform, is used by many institutions to vote their securities[15], and it features a suite of reporting options which attempts to provide a verifiable proxy voting audit trail to the shareowner. However, what comes out in the report does not always reflect the reality of the voting circumstances.

In an October 2003 report by the Brandes Institute, entitled "Proxy Voting: Making Sure the Vote Counts"[16], MaryEllen Andersen, then Vice President of Broadridge's predecessor company ADP, was quoted as saying: "We can confirm the votes as far as the company. What the company does with them is out of our hands." Essentially, although Broadridge has both internal and external audit processes in place to confirm that votes were transmitted to the issuer as instructed by the shareowner, there has been and continues to be no way of getting a true confirmation back from the issuer that the ballots were cast as instructed.

One of the roundtable participants mentioned the now well-known incident in the UK, when Unilever PLC mounted an investigation to understand why voting levels were so low at their May 2003 annual meeting. The company was particularly puzzled when three large institutional investors stated that they had voted their shares through an intermediary, but that the votes had not been executed as instructed. Further enqui-

14 http://www.broadridge.com/investor-communications/us/institutions/proxyedge.asp Last accessed May 1, 2008. The common US practice is an 'issuer-pay' approach – the corporation hires Broadridge as an outside party to distribute proxy materials and gather ballots. Other markets feature issuer-pay and investor-pay models.

15 Although there are other proxy voting platforms available, including proprietary systems provided by RiskMetrics Group and SwingVote amongst others, ProxyEdge is used here as an example.

16 http://www.brandes.com/NR/rdonlyres/57DE4F3E-9211-430B-8803-C0019553BA73/0/ BI_ProxyVoting.pdf; last accessed May 1, 2008

ries uncovered the problem. Although the investors had properly instructed Institutional Shareholders Services, the voting intermediary, it had improperly filled out a voting card. The voting card was then rejected by the registrar, Lloyds TSB. It is believed approximately 12.6 million votes were "lost" in this way.[17] ISS pointed the finger at the registrar, claiming that Lloyds TSB had not provided them notification of rejection – there was no legal requirement for Lloyds to do so.

Further complicating the process, depending on the market, there can be a dizzying number of intermediaries standing between the beneficial owner and the issuer, including custodian and sub-custodian banks, brokers, tabulators and registrars. Any break in this lengthy chain could lead to a discrepancy between the shareowner's stated voting intention and the outcome. There is no real incentive to remove or streamline these layers, as each link stands to benefit economically from being a part of the voting process. Moreover, certain markets may cause further difficulties by requiring re-registration of shares (e.g. Switzerland), up-to-date powers of attorney (Brazil, Sweden, and Russia, amongst others), or personal attendance at the meeting.

Securities lending programs can create additional obstacles to efficient and verifiable voting. These were cited as particularly problematic at the Voting Standards roundtable. When shares are on loan from an investor, the voting rights that accrue to them are also, in essence, on loan. In order to exercise the right to vote, the investor must recall the shares from the borrower. Policies that allow for the efficient termination of the loan contract – and subsequent return of securities – must also be in place. There are several potential snags facing the recalling borrower, not least of which are lost income from having the shares out on loan and being apprised of a significant proxy issue with enough time to recall the shares. The securities lending team at an investor may be reluctant to forego the not insignificant income possible from having shares out on loan, or may have a policy not to recall shares at all, in which case the investor's voice may not be heard. If an issuer delays getting the ballots to the custodians, the window of opportunity for recall may be lost.

Several roundtable participants complained that the reporting available from the intermediaries, in particular from the client-facing voting platforms, was not sufficiently robust to guarantee that the information genuinely reflected their voting intentions. In particular, one participant mentioned running a report on the vote at the Walt Disney Company. The platform showed that the institution had a split vote on the ProxyEdge system, with 92% of shares voted for, and 8% against. However, this participant's fund has a house policy never to split the vote, and was perplexed as to how this might have occurred. The investor called Broadridge to investigate further, and was told there was no way of telling how the vote had been split. The fund speculates that there may have been an error in recalling shares, or in loan tracking, and that occasionally shares that are on loan appear on the voting platform that reflect the way the borrower has voted, even though the voting rights are not currently accrued to the originating fund. Other investors at the Voting Standards roundtable criticized the appearance of lines of stock on the voting platforms when shares have no voting rights, which could lead to confusion. Further complications may arise when the platform gives a direct feed into a public report on the investor's website which shows voting outcomes.

The consequences of a miscast or missed vote can be both economic and reputational. If a report of how the votes were cast does not reflect the true intention of the investor, there is the danger both of embarrassment to the investor and a putative claim of breach of fiduciary duty to vote in line with the agreed voting policy. In mergers and acquisitions activity, particularly in very tight contested takeover situations, a miscast or missed vote could lead to monetary losses for an investor. For other parties, like custodians and vote execution providers, improperly cast ballots could lead to the eventual loss of clients if lapses regularly occur or a particularly sensitive matter was involved.

Although a missed vote here or there does not seem to be a particularly worrisome occurrence at first glance, it does raise some relevant questions about disenfranchisement when those votes are accumulated. As mentioned above, where there is a particularly contentious resolution on the ballot, the matter of a few tenths of a percentage can make the difference as to whether a measure will pass. If even one large shareholder's votes are not cast correctly, a resolution which should not have passed can gain approval. As majority voting for director elections gains ground in the US, it can be argued this becomes even more pertinent. A director who might have the support of a significant shareholder could be voted off the board if that shareholder's vote is lost.

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17 Adam Jones, "Riddle of the missing Unilever votes solved," Financial Times, August 15, 2003. http://search.ft.com/ftArticle?queryText=unilever+proxy&y=0&aje=true&x=0&id=030815005114&ct=0 ; last accessed May 5, 2008.

## 5. PROVIDING ADEQUATE RESOURCES TO PROXY VOTING

"*Who is going to pay for it? It all comes down to money. Money is one, two, and three. Either people pay for it and it can be done properly, or people don't pay for it, and we get less than best practice.*"
– Voting Standards roundtable participant, January 29, 2008.

At the January roundtable, participants from all sides remarked repeatedly that they might be insufficiently resourced given the number and complexity of tasks they are charged with undertaking. Lack of support, whether in monetary terms or staffing levels, can hinder voting capabilities and limit potential improvements in service. Smaller funds appear to be particularly prone to having fewer staff members committed principally to voting. Historically, the seasonality of proxy voting, wherein the lion's share of annual meetings worldwide take place in a 4-5 month period, has required the voting advisory services to take on temporary staff, leading to concerns about the expertise and supervision behind the recommendations. At the institutional level, with a few notable and well-known exceptions, frequently only a few staff members are dedicated to proxy voting and corporate governance, and sometimes these staff members have other duties as well.

For investors, low staff numbers can lead to concerns about how much attention and time is devoted to making voting decisions. According to the proxy advisors present at the roundtable, there has been a marked rise in the number of investors developing, with advisor input, customized voting policies and templates to produce recommendations in line with the investor's philosophy, as opposed to the "plain vanilla" off-the-shelf policies available. There appeared little doubt that a custom policy can produce more tailored voting recommendations and screen out recommendations that contradict the investor's internal governance philosophy. However, there was concern that this might lead to a robotic "set it and forget it" mentality. With the vast number of proxies to consider, any investor who has moved even some of the voting function in-house may, when a recommendation comes through to vote in favor of what appears to be a non-controversial agenda item, vote as recommended without performing further research. Investors may wonder what they are paying for if they can't rely on the voting recommendations derived from a custom policy. One investor present at the roundtable stated that of the more than 2,000 lines of U.S. stock his team voted in 2007, perhaps only fifty merited in-depth analysis beyond review of the advisor's recommendations.

Roundtable participants asserted that this dependence on the advisory services stems from the lack of investment in staffing numbers and the cyclical nature of the proxy calendar. For much of the year, when the annual meeting calendar is fallow, it makes little economic sense to maintain a large team of professionals, unless there are other tasks for them to pursue in the off-season. During the off-season, more time can be devoted (if an investor chooses) to putting each resolution into its greater context at the company in question, with detailed in-house analysis of the issues at hand. It is only during the voting season, generally considered to be March through July for northern hemisphere-based funds and September through November for those in the southern hemisphere, that problems related to low staffing numbers are thrown into sharp relief.

If a fund's custom policy is well-drafted, it can act in effect as a surrogate staff member at all times of the year by scrutinizing the financials, raising red flags, and performing the more mundane aspects of proxy analysis. The danger can come when, during the busy periods, the red flags are heeded, but not the more subtle aspects on the agenda. In one incident related by an investor present at the roundtable, a proxy advisor recommended a vote against a director for serving on multiple audit committees, against the advisor's best practice guidelines. This red flag caught the attention of a portfolio manager, who duly voted against the director, citing concerns about overstretching. When the director came on to yet another board, this time at a troubled company, the recommendation came through to oppose once again. The investor's in-house team judged, however, that the director's presence was part of the company's reconstruction, and that opposing election might cause more harm than good. In the busy times, when there is greater appeal to rely more automatically on service recommendations, it is conceivable that this level of in-depth, company-specific analysis could be missed by the investor's in-house staff.

Lack of resources is not only an issue for investors. The voting advisory services are also affected by the proxy calendar, and the issues relating to having appropriate staffing levels during the busy season. Temporary staffers are frequently employed by the advisors in order to generate the significantly greater number of recommendations during this time. However, some providers are moving away from this model towards permanent staffing. All the proxy advisors present at the roundtable appeared to have robust supervision and detailed training in place for these temporary hires, ranging from several weeks to several months. Nevertheless, there is concern whether someone who may have limited, or no, business or proxy experience can make informed and appropriate voting recommendations. More than one investor present was uneasy about whether relying on the advice of inadequately resourced providers meant that they were not properly discharging their duties. This appeared to be of particular concern in markets where company information has been difficult to obtain or is only available in the market's domestic language.

All the advisors present at the roundtable claimed that any voting recommendation that eventually would be distributed to a client was vetted by a more experienced, permanent member of staff. Despite these safeguards, which the advisors explained were just as strong as those used to control conflicts of interest, skepticism remains amongst consumers whether reliance on outside staff can produce uniformly accurate recommendations. As long as it is as uneconomic for the advisors to maintain large stables of analysts year-round as it is for their investor clients, it remains unlikely that the use of temps will ever disappear.

Complicating matters is the legitimate argument that it may not be economic for investors to devote more resources to the voting function, given that the effect of voting on portfolio value is negligible at best.[18] Devoting resources to a function that yields no obvious economic gain moves resources away from more demonstrably profitable areas. There will always be prominent institutional investors such as CalPERS and TIAA-CREF who disregard the economic disincentive to devote more staff and money to proxy voting. For most investors the benefits of doing so are unclear unless there is some clear justification for the investment.

## 6. RECOMMENDATIONS

One aim of the Millstein Center's Voting Standards project is to suggest possible solutions to these challenges. Below are recommendations for improvements in the four areas highlighted at the New York roundtable. This is not an exhaustive list, but a starting point for further dialogue in these areas.

***Setting voting policies***

- Both advisors and investors should regularly review their voting policies and determine whether any change is needed based on market developments and movements in consensus over best practice.

  From our discussions, it appears that advisors already conduct such reappraisals at least annually, and often more frequently as needed. Investors of all sizes should be encouraged to follow this lead. The appraisal need not be a root-and-branch assessment of all the policy positions, but should be done with reference to any changes in the fund's statement of investment principles; international generally accepted best practice such as that of the International Corporate Governance Network (ICGN); and local market standards and events. Investors may also wish to benchmark their policies against other leading funds. RiskMetrics' Governance Policy Exchange or the new online ProxyDemocracy.org service could assist to this end. Investors and advisors could also consider sharing their policies with each other. Smaller or less well-resourced funds should consider either working closely with a service provider or with a like-minded fellow fund.

- Several of the advisors present at the roundtable either currently expose at least part of their policy for public comment, or are considering doing so. Such outreach can help produce amendments that had not yet been considered through existing forms of review, and could broaden market credibility for voting standards. All advisory services should consider emulating this approach or explain why they prefer a different process in relation to the best interests of their clients.

  Institutional investors might want to reflect on the potential advantages of exposing their voting and governance standards to comment and feedback from their members. This could be accomplished, for instance, through a secure website. Such a process might forge links between beneficiaries and the governance staff, and enhance transparency of the policy-setting process.

- Investors and advisors who do not already do so might consider appointing an external policy advisory board. As with soliciting public opinion, this could provide an additional source of information and accountability. Proxy advisors facing pressure over conflicts and accountability

18 There has been some research that ties better corporate governance at companies to better financial returns, but the role of proxy voting is tangential to this. See Gavin Grant, "Beyond the Numbers: Corporate Governance: Implications for Investors" (Deutsche Bank AG, April 1, 2004). It could be argued that investors who engage through proxy voting to achieve better governance are part of the equation, but this is a stretch and has not yet been proven.

could, for instance, assign ultimate decision making power over general policies to a credible outside, independent board of clients and/or experts. Investors could look to some body representing beneficiaries to fill positions.

- Investors and advisors should consider who has a right to a seat at the table when revisiting their policies. Investors might consider more than just their beneficiaries, shareholders, and the views of their main proxy voting advisor. The views of management and the board are obvious potential participants in the review process. But other stakeholders who should be involved may exist. Input from less orthodox sources may bring some new ideas, but might also distract from the process at hand.

### *Handling conflicts of interest*

- Judging by roundtable comments, it is not enough to recognize and disclose conflicts of interest. Parties must also make an effort to be seen to manage conflicts effectively and, more problematically, be believed that they are doing so. When investors and advisors try to improve corporate accountability and transparency, it is harmful if they do not practice what they preach. Many proxy advisors disclose their conflicts willingly, and understand the importance of doing so. One approach to fortifying such safeguards could be a code of professional ethics for the governance industry modeled on similar codes for other industries. A sample code is below in Appendix A.
- Investors present at the roundtable seemed, for the most part, relatively at ease with the current state of disclosure as a means to manage conflicts when they arise. However, investors themselves are not conflict-free. Business relationships with companies may influence the decision on casting a proxy vote. The proxy voting team may be pressured by management to vote one way or another, or the investor may handle money for the pension fund of a company holding an annual meeting. Few institutions so far meet extensive disclosure standards addressing how they manage those risks.
- It may, therefore, be useful for investors as parties to the proxy voting process to adopt a Code of Conduct for recognizing, managing and disclosing conflicts. The ICGN and the Stanford Institutional Investors' Forum already have macro texts for such a document. A draft Code follows in Appendix B.

### *Mending breaks in the voting chain*

- In the opinion of the roundtable participants, the current US system of casting proxy votes is over-complicated, time-consuming and involves too many parties. It was developed ad hoc for an era in which proxy ballots were seen principally as a compliance exercise rather than a contributor to value. It now falls short of investor needs. Investors and their advisors have need of channels to air faults in the system and to identify and advocate improvements.

  There have been many solutions suggested. In 2004, the Business Roundtable proposed a model that removed brokers and banks from the equation and shifted responsibility for proxy voting to the shareholder; as a sideline, it also eliminated the issue of broker votes.[19] The proposal promised efficiency, but would have shifted costs for voting onto investors, reduced options for shareowner anonymity, and replaced an independent third party (usually Broadridge, in the US) with more corporate influence over the voting system.

  Obviously, such radical changes to the architecture of voting would face fierce opposition from parties – custodians, brokers and voting execution platforms – who stand to lose the most revenue. They might also trigger opposition from institutions who favor third party control over the proxy process. This report proposes that the US SEC convene a blue ribbon panel of investor and corporate representatives charged with finding common ground on modernization of the US proxy voting system. This is almost certainly the most pressing of all the difficulties in ensuring effective voting set out in this paper. Given the likelihood of resistance to changes in this area, interested parties should initiate a project towards this end as a matter of urgency.
- Investors might also contemplate further joint projects through collective organizations such as the ICGN or Global Institutional Governance Network (GIGN) to tackle other impediments to effective proxy voting both in the US and across borders. These include re-registration, requirements for personal attendance at annual meetings, shareblocking and overly conservative cut-off dates for casting a ballot. Powers of attorney are necessary to vote in certain markets; investors should take careful note of how long each power is valid and have in place a reminder system to renew these documents. They should also bear in mind that when changing custodians or employing new

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19 The letter is available at http://www.sec.gov/rules/petitions/4-493/georgeson050304.pdf.

outside investment managers, there may be a need to execute new powers of attorney. Advisors have an abundance of information on these matters, and investors should feel free to ask questions.

- Reporting needs to be made more meaningful and accessible to shareholders. Discussions at the roundtable indicate that while there is an abundance of information available from the voting advisors and the execution providers, it is not always presented in ways that are useful or easily understood by the end users. The organizations providing the data should consider holding discussions with their clients, either on a one-to-one basis or in a roundtable summit, to discover what information is actually being used and how this should be presented in a more user-friendly format.

- The proxy voting function is often an afterthought when funds are performing periodic reviews of their relationships with custodians. Generally speaking, governance staff take no part in such discussions and must employ whatever voting platform is used by the custodian, regardless of quality of service. Roundtable participants remarked on missed or improperly executed votes that caused by the platform. It is probably unrealistic to assume that a custodial appointment will hinge on the robustness of a proxy voting platform. However, investors, as a matter of best practice, may be able to insert a clause into a request for proposal that introduces penalties when a vote is missed or information has been transmitted incorrectly. Other investors have already done so; one major UK fund introduced a €100 fine for exceptions. The penalty stresses to the custodian that their client is monitoring their work in this area, even if the financial consequences are relatively minimal.

***Providing adequate and appropriate resources***

- Investors need to undertake regular internal reviews to test whether management of stewardship through proxy voting and engagement at portfolio companies is best treated in a fashion that maximizes ability to affect fund value. There is ample anecdotal evidence[20] that institutional investors often fail to consider the proxy voting and governance unit as a contributor to value creation. It may be marginalized, in part, by insufficient resources. Or the stewardship function could be assigned to a compliance or legal silo distant from fund management.[21]

- Amongst issues that could be addressed in a regular review would be the skills and numbers of permanent staff and their position within the hierarchy; skills and numbers of temporary staff hired during the peak season and whether their training matches responsibilities;[22] and the extent and quality of outside information or engagement resources hired. Institutions could assess whether they need individuals on the stewardship team with experience running corporations, as some believe these individuals could interact more effectively with corporate board members.[23]

- Empirical findings are still mixed on what economic effects proxy voting has on investment return. That both investors and advisors should devote more resources to proxy voting is practically an article of faith in the governance community, despite little empirical evidence that a greater voting resource improves the quality of voting decisions or that it increases returns. Until a causal link has been prov-

20 This evidence comes not only from discussions at the Voting Standards roundtable, but also from the author's own informal conversations with corporate governance and investment staff at major UK and US institutional investors while she served as the corporate governance counsel at a large UK pension fund from 2003-2007.

21 The Millstein Center's *Talking Governance* report on board-shareowner communications (June 2008) includes six original tests to determine the capacity of a fund to integrate governance and money management. The indicators were framed at a Yale roundtable in London by Paul Myners, author of UK fund governance codes.

The Myners Tests are:

1. Do governance professionals participate in meetings that determine the institution's key investment decisions?
2. Do analyses addressing governance risk form an important factor in determining the outcome of the institution's investment decisions?
3. Do governance professionals and fund managers within the same institution advise each other of all contacts with portfolio companies and afford each other the opportunity either to advise colleagues on issues or to participate in the meetings?
4. Is there a high degree of confidence that fund managers, having been advised of governance risks at a portfolio company, will pursue the matter as an integral part of meetings with portfolio companies?
5. Do both fund managers and governance professionals have unfettered and reasonable access to the investing institution's chief investment officer and chief executive?
6. Is governance a featured element in the way the investment company describes itself to the market?

22 Temporary employees could be there simply to press the buttons and compile post-season reports, thus needing less in-depth, issues-based training, or they could be more seasoned proxy specialists who could provide deeper analysis into recommendations.

23 TIAA-CREF, for instance, hired ex-CEO Kenneth West for this purpose. Hermes hired ex-CFO Peter Butler.

en, it will be difficult to convince skeptics that the investment is worthwhile.

Interested parties should consider sponsoring or undertaking research to prove that more active and engaged proxy voting does result in greater returns for investors. This would not only help the case of those agitating for more and better resources, but could help consumers differentiate institutional investors on the basis that more engaged investors create better returns.

- Proxy services, for their part, face equivalent duties regularly to review their internal research skill base to determine if it matches market needs. For instance, they may have to add experts in compensation if management 'say on pay' resolutions become commonplace in the US. They also need routinely to check the adequacy of training of permanent or temporary employees, and the quality of internal research controls. Questions for advisors to ask include whether the ratio of analysts to covered companies is optimal, and if temps are familiar enough with the world of business to gain real insights from reading an annual report. An option might be to disclose to clients and/or potential clients whether and how these regular reviews take place.
- Advisors might consider providing an online course for newly hired temps or permanent members of staff without any business experience. This could teach some of the basics of finance and business – how the markets work, the differences between types of financial instruments, the fundamentals of governance and proxy voting. This could be an in-house, proprietary course, or someone might see this as a business opportunity to create a "mini-diploma" that could be portable to any of the advisors, or indeed to the investors.

Market comments on these suggestions are invited.

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## APPENDIX A – DRAFT CODE OF CONDUCT FOR THE PROXY ADVISORY INDUSTRY

Currently, there is no code of conduct for the proxy advisory industry as a whole pertaining to accountability, transparency, ethical practices and management of actual or potential conflicts of interest. Considering the oft-repeated concerns that proxy advisors can appear opaque or conflicted, and the subsequent worry that conflicts of interest may affect the quality of voting recommendations, it is surprising that such a code has not yet been drafted. The proxy advisors are aware of the conflicts they face, and have in place policies that articulate how they deal with them. However, each advisor has its own exclusive policy, which makes comparison of the policies more challenging. The adoption of an industry-wide code of conduct could bring more comfort to other market parties, including investors, issuers and other stakeholders, who would be able to compare the advisors' policies against an industry standard.

With no code available, it has been necessary to consult other existing codes in related industries for a model. In 2004, the International Organization of Securities Commissions (IOSCO) produced a consultation report, entitled "Code of Conduct Fundamentals for Credit Rating Agencies"[24] which presented a draft code of conduct for credit ratings agencies for use in handling conflicts of interest. Although it is not mandatory that credit ratings agencies adopt the IOSCO Code, IOSCO expects that all the agencies will incorporate the Code Fundamentals in their own codes of conduct. Credit ratings agencies are expected to report back on an annual basis how each provision in the Code Fundamentals is addressed, and compliance is on a "comply or explain" basis. Market pressure to adopt the Code Fundamentals has resulted in voluntary compliance by the largest agencies, including DBRS, Fitch Ratings, Moody's, and Standard and Poor's. Other codes available in other fields dealing specifically with conflicts of interest were deemed to be too industry-specific or indeed dealt only with the conflicts faced by a particular company.

Using the IOSCO Code Fundamentals as a model, below is a draft Code of Conduct for the proxy advisory industry. Compliance should be on a voluntary basis, with disclosure taking the form of a publicly available annual document posted on the advisor's website. Disclosure against the Code should be done on a "comply or explain" basis, which would allow readers to make their own conclusions as to how effectively the Code has been implemented. Mandatory compliance is not intended; as with the IOSCO Code, market pressure should be adequate to convince potential participants of its usefulness.

This draft Code is intended to be a working document; comments are welcomed.

**Draft Code of Conduct for the Proxy Voting Advisory Services**

### I. QUALITY AND INTEGRITY OF THE RECOMMENDATION PROCESS

**A. Quality of the Recommendation Process**

A.1. The proxy voting advisory service ("Advisor") should adopt, implement and enforce written procedures and methodologies to ensure that the opinions it disseminates are based on a thorough analysis of all relevant information available to the Advisor.

A.2. The Advisor should use methodologies that are rigorous, systematic, and, where possible, result in proxy voting recommendations ("recommendations") that can be subjected to some form of objective validation based on historical experience.

A.3. Recommendations should be made by the Advisor and not by any individual analyst employed by the Advisor. However, the Advisor should make the identity of the individual analyst available to clients if requested.

A.4. Recommendations should reflect all public and nonpublic information known, and believed to be relevant, to the Advisor.

A.5. Recommendations from the Advisor should be developed by analysts who individually or collectively have appropriate knowledge and experience in developing recommendations for the jurisdiction in which the company covered by the recommendation is based.

A.6. The Advisor should maintain internal records to

24 Published December 2004; available at http://www.iosco.org/library/pubdocs/pdf/IOSCOPD180.pdf.

support its recommendations for a reasonable period of time.

A.7. The Advisor and its analysts should take steps to avoid issuing any recommendations or reports that contain misrepresentations or are otherwise misleading.

A.8. The Advisor should ensure that it has and devotes sufficient resources to carry out high-quality recommendations for all companies on which it makes recommendations.

A.9. The Advisor should, wherever possible, structure its teams of analysts to promote continuity and avoid bias in the rating process.

**B. Updating Recommendations**

B.1. Should there be any material change in information regarding the company on which the recommendation was made that would have resulted in a different recommendation had the information been available at the time it was published, the Advisor should make known changes to its recommendation in time for its clients to consider the revisions and change their vote, if desired.

B.2. If the Advisor makes recommendations available to other parties, including the issuing companies and the public, these parties should also be informed in a timely manner.

**C. Integrity of the Recommendations Process**

C.1. The Advisor and its employees should comply with all applicable laws, rules and regulations governing its activities in each jurisdiction in which it operates.

C.2. The Advisor and its employees should deal fairly and honestly with its clients, issuers and the public.

C.3. The Advisor's analysts should be held to high standards of integrity, and the Advisor will not employ individuals with demonstrably compromised integrity.

C.4. The Advisor and its employees should not, either implicitly or explicitly, give issuers any assurance or guarantee of a particular recommendation prior to its release.

C.5. The Advisor should institute policies and procedures that clearly specify a person responsible for the Advisor's compliance with the provisions of the Advisor's code of conduct and with applicable laws and regulations.

C.6. Upon becoming aware that another employee or entity associated with the Advisor is or has engaged in conduct that is illegal, unethical or contrary to the Advisor's code of conduct, an employee of the Advisor should report such information immediately to the individual in charge of compliance or an officer of the Advisor, as appropriate, so proper action may be taken. Its employees are not necessarily expected to be experts in the law. Nonetheless, its employees are expected to report the activities that a reasonable person would question. Any officer of the Advisor who receives such a report from a employee of the Advisor is obligated to take appropriate action, as determined by the laws and regulations of the jurisdiction and the rules and guidelines set forth by the Advisor.

## II. ADVISOR INDEPENDENCE AND AVOIDANCE OF CONFLICTS OF INTEREST

**A. General**

A.1. The Advisor and its analysts should use care and professional judgment to maintain both the substance and appearance of independence and objectivity.

A.2. The determination of a recommendation should be influenced only by factors relevant to the credit assessment.

A.3. The Advisor should not forbear or refrain from making a recommendation based on the potential effect (economic or otherwise) of the action on the Advisor, an issuer, an investor, or other market participant.

A.4. The recommendation an Advisor makes should not be affected by the existence of or potential for a business relationship between the Advisor (or its affiliates) and the issuer (or its affiliates) or any other party.

A.5. The Advisor should separate that part of its business which creates recommendations and those analysts who develop such recommendations from any other businesses of the Advisor, including consulting businesses, that may present a conflict of interest.

**B. Advisor Procedures and Policies**

B.1. The Advisor should adopt written internal procedures and mechanisms to (1) identify, and (2) eliminate, or manage and disclose, as appropriate, any actual or potential conflicts of interest that may influence the recommendations and analyses the Advisor makes or the judgment and analyses of the individuals the Advisor employs who have an influence on recommendations. The Advisor's code of conduct should also state that the Advisor will disclose such conflict avoidance and management measures.

B.2. The Advisor's disclosures of actual and potential conflicts of interest should be complete, timely, clear, concise, specific and prominent.

B.3. The Advisor should disclose the general nature of its compensation arrangements with entities upon which it makes a recommendation. The Advisor should disclose where it receives compensation from such an entity, such as compensation for consulting services, and the level of compensation received.

**C. Advisor Analyst and Employee Independence**

C.1. Reporting lines for the Advisor's employees and their compensation arrangements should be structured to eliminate or effectively manage actual and potential conflicts of interest. The Advisor's code of conduct should also state that an Advisor analyst will not be compensated or evaluated on the basis of the amount of revenue that the Advisor derives from issuers that the analyst makes recommendations upon or with which the analyst regularly interacts.

C.2. The Advisor should not have analysts initiate, or participate in, discussions regarding fees or payments with any entity upon which they make recommendations.

C.3. No Advisor employee should participate in or otherwise influence the determination of the Advisor's recommendation on any particular entity if the employee:

a) Owns securities or derivatives of the entity or any related entity thereof;

b) Has had an employment or other significant business relationship with the entity within the previous six months;

c) Has an immediate relation (i.e., spouse, partner, parent, child, sibling) who currently works for the entity; or

d) Has, or had, any other relationship with the entity or any agent of the entity that may be perceived as presenting a conflict of interest.

C.4. The Advisor's analysts and anyone involved in the recommendation process (or members of their immediate household) should not buy or sell or engage in any transaction in any security or derivative based on a security issued, guaranteed, or otherwise supported by any entity within such analyst's area of primary analytical responsibility, other than holdings in diversified mutual funds, while a recommendation for the entity is being drafted.

C.5. Advisor employees should be prohibited from soliciting money, gifts or favors from anyone with whom the Advisor does business and should be prohibited from accepting gifts offered in the form of cash or any gifts exceeding a minimal monetary value.

C.6. Any Advisor analyst who becomes involved in any personal relationship that creates the potential for any real or apparent conflict of interest (including, for example, any personal relationship with an employee of a company upon which a recommendation has been made or agent of such entity within his or her area of analytic responsibility), should be required to disclose such relationship to the appropriate manager or officer of the Advisor, as determined by the Advisor's compliance policies.

## III. ADVISOR RESPONSIBILITIES TO ITS CLIENTS AND ISSUERS

### A. Transparency and Timeliness of Recommendations

A.1. The Advisor should distribute in a timely manner its recommendation decisions regarding the companies upon which it makes recommendations.

A.2. The Advisor should disclose its policies for publishing recommendations and reports.

A.3. The Advisor should make available to its clients and other parties on a selective basis sufficient information about its procedures, methodologies and assumptions so that they may understand how the Advisor developed the recommendation.

A.4. When publicly releasing a recommendation, Advisors should explain in their press releases and reports the key elements underlying their recommendation decision.

A.5. Subject to the Advisor's policy on communicating with an issuer, where feasible and appropriate, prior to issuing or revising a recommendation, the Advisor should advise the issuer of the critical information and principal considerations upon which a recommendation will be based and afford the issuer an opportunity to clarify any likely factual misperceptions or other matters that the Advisor would wish to be made aware of in order to produce an appropriate recommendation. The Advisor will duly evaluate the response.

A.6. The Advisor should disclose when and to what extent the issuer participated in the recommendation process.

### B. The Treatment of Confidential Information

B.1. The Advisor should adopt procedures and mechanisms to protect the confidential nature of information shared with them by a client, issuer or other party under the terms of a confidentiality agreement or otherwise under a mutual understanding that the information is shared confidentially. Unless otherwise permitted by the confidentiality agreement or required by applicable laws or regulations, the Advisor and its employees should not disclose confidential information in press releases, to future employers, or conversations with clients, investors, other issuers, or other persons, or otherwise.

B.2. Where an Advisor is made aware of non-public information of the kind required to be disclosed under applicable laws and regulations, depending on the jurisdiction, the Advisor may be obligated to make this information available to the public. However, prior to doing so, the Advisor should indicate to the issuer its intent to release this information and permit the issuer to immediately disclose this information itself. The timeframe an Advisor should provide an issuer to make this disclosure should be limited.

B.3. Advisor employees should take all reasonable measures to protect all property and records belonging to or in possession of the Advisor from fraud, theft or misuse.

B.4. Advisor employees should be prohibited from engaging in transactions in securities when they possess confidential information concerning the issuer of such security.

B.5. In preservation of confidential information, Advisor employees should familiarize themselves with the internal securities trading policies maintained by their employer, and periodically certify their compliance as required by such policies.

B.6. Advisor employees should not selectively disclose any non-public information about recommendations or possible future recommendations of the Advisor.

B.7. Advisor employees should not share confidential information within the Advisor except on an "as needed" basis.

B.8. Advisor employees should not use or share confidential information for the purpose of trading securities, or for any other purpose except the conduct of the Advisor's business.

## IV. DISCLOSURE OF THE CODE OF CONDUCT

A.1. The Advisor should disclose to the public its code of conduct and describe how the provisions of its code of conduct are consistent with the provisions of this code. The Advisor should also describe generally how it intends to implement and enforce its code of conduct and disclose on a timely basis any changes to its code of conduct or how it is implemented and enforced.

A.2. If an Advisor's code of conduct deviates from the provisions of this code, the Advisor should explain where and why these deviations exist, and how any deviations nonetheless achieve the objectives contained in the provisions of this code. The Advisor should also describe generally how it intends to enforce its code of conduct and should disclose on a timely basis any changes to its code of conduct or how it is implemented and enforced.

A.3. The Advisor should establish a function within its organization charged with communicating with clients, market participants and the public about any questions, concerns or complaints that the Advisor may receive. The objective of this function should be to help ensure that the Advisor's officers and management are informed of those issues that the Advisor's officers and management would want to be made aware of when setting the organization's policies.

## Appendix B – Draft Code of Conduct for Institutional Investors

As Roundtable participants noted, it is not only the proxy advisory services, but the institutional investors themselves, who must contend with market concerns over accountability, transparency and conflicts of interest, whether real, perceived or potential.

Two recent documents include attempts to outline investors' responsibilities in this area: the International Corporate Governance Network "Statement of Principles on Institutional Shareholder Responsibilities," and the Stanford Institutional Investors' Forum Committee on Fund Governance "Best Practice Principles."[25] Both documents make strong cases for identifying and disclosing conflicts on a regular basis, and the importance of having a process for doing so. The Stanford document comes down much more firmly than the ICGN paper on the side of public disclosure of both a policy for dealing with conflicts and the conflicts themselves, while the ICGN includes more detail on best practices in fund governance and oversight of engagement. But both argue convincingly that institutional investors should practice what they preach to companies and advisory services.

To date there have been no examples of sizeable or high-profile funds adopting either of these sets of principles. The boards of institutional investors should consider endorsing one of these policies, or developing a bespoke document that borrows heavily from one or both of these, provided that the principles contained are not weakened. Once adopted, the policy should become a working document, regularly evaluated and not left on the shelf. Boards should also take a "comply or explain" approach to the code where they feel they cannot meet the expectations of the code. At the very least, boards should make an annual disclosure to their beneficiaries of how they meet the principles of the code they endorse.

Furthermore, the boards of institutional investors should also consider these documents in their entirety and adopt them in their entirety. Compliance with the principles contained within could also be handled on a comply or explain basis.

Below are selections from both the ICGN and Stanford papers; for the sake of brevity, the entire codes are not reproduced here. Complete documents are available online at the addresses mentioned in Appendix C.

25 Both documents were released in 2007; weblink references to both documents are in Appendix C.

### ICGN Statement Of Principles On Institutional Shareholder Responsibilities (pp 4-5)

***3.1.ii. Transparency and accountability***

*This requires regular disclosure to ultimate beneficiaries about material aspects of governance and organisation. Governing bodies should develop clear standards with regard to governance of investee companies and its link to the investment process through its impact on value, and for voting of shares and related issues like stock lending. The standards should inform their selection of portfolio managers and other agents.*

*Governing bodies should be critical both in the selection of consultants and in evaluating the advice they receive from them, and ensure they receive value for the fees they pay, including for brokerage. Where they or their agents outsource services, they should disclose the name of the provider of the services in question, the nature of the mandate they have been given and procedures for monitoring performance of the provider.*

*Governing bodies should hold their portfolio managers and other agents employed to account for adhering to the standards set for them. They should develop clear channels for communicating their policies to beneficiaries, their portfolio managers and the companies in which they invest. They should regularly evaluate and communicate their achievements in meeting these policies.*

*Asset managers and others in a similar agency position should also develop clear decision-making procedures and policies with regard to the governance of investee companies and for voting of shares held on behalf of clients. Their incentive structures should reflect the interests of the beneficiaries. Charges incurred on clients' behalf, for example brokerage commissions and payment for research should be justifiable. Asset managers should encourage brokers and research analysts whose services they use to factor governance considerations into their reports.*

***3.1.iii. Conflicts of interest***

*Conflicts of interest will inevitably arise from time to time. It is of paramount importance that these are recognised and addressed by governing bodies and other agents in the chain, if the overarching principle of safeguarding the interest of beneficiaries is to be respected.*

*Those acting as agents should disclose all known potential conflicts of interest to their principal and explain how these are dealt with so as to protect their clients' interests.*

*The governing body should have clear policies for managing conflicts and ensure that they are adhered to. This in turn requires an appropriate governance structure as set out above.*

**Stanford Institutional Investors' Forum Committee on Fund Governance Best Practice Principles (P.13)**

***D. Approach to Addressing Conflicts of Interest and Related Disclosure Policy***

SUMMARY:

» *A fund should* ***establish and publicly disclose its policy for dealing effectively and openly with situations that raise either an actual conflict of interest or the potential for the appearance of a conflict of interest.*** *A fund should clearly identify the persons subject to its conflict policy ("covered persons") and should provide appropriate training to those covered persons.*

» *In order for a conflict of interest policy to be effective, appropriate authorities with the ability to act independently of any potential conflict must have access to information that adequately describes trustee and staff interests and relationships that could, at a minimum, give rise to an appearance of impropriety. A fund should therefore* ***establish a regular, automatic, process that requires all covered persons to report and disclose actual or potential conflicts of interest.***

» *Trustees and staff should periodically affirm and* ***verify compliance*** *with conflict rules, regulatory reporting requirements, and other policies intended to protect the fund against the actuality or appearance of interested transactions and conflicts.*

» *Trustees and staff should* ***under no circumstances pressure anyone, whether or not a covered person, to engage in a transaction that creates an actual conflict or an appearance of impropriety.*** *Trustees and staff should be required to disclose any such attempts to a proper compliance authority as determined by the board.*

» *A fund should* ***publicly disclose necessary information*** *as specified below to ensure that trustees and staff are fulfilling their fiduciary duties to beneficiaries.*

## APPENDIX C – RELATED GOVERNANCE DOCUMENTS

- California Public Employees' Retirement Service – CalPERS Shareowner Forum
  http://www.calpers-governance.org/
- Colorado Public Employees' Retirement Association – Proxy Voting Policy
  https://www.copera.org/pdf/Policy/proxy_voting.pdf
- Connecticut Office of the State Treasurer Proxy Voting Guidelines
  http://www.state.ct.us/ott/proxyvotingpolicies.htm
- Council of Institutional Investors Corporate Governance Policy
  http://www.cii.org/UserFiles/file/council%20policies/CII%20Corp%20Gov%20Policies %204-11-08%20Final.pdf
- Florida State Board of Administration – Corporate Governance
  http://www.sbafla.com/corpgov.aspx
- Hermes Responsible Investment Publications
  http://www.hermes.co.uk/publications/publications_corporate_governance.htm
- ICGN Statement on Global Corporate Governance Principles
  http://www.icgn.org/organisation/documents/cgp/revised_principles_jul2005.php
- ICGN Statement of Principles on Institutional Shareholder Responsibilities (2007)
  http://www.icgn.org/organisation/documents/src/Statement%20on%20Shareholder%20Responsibilities%202007.pdf
- International Organization of Securities Commissions report "Code Of Conduct Fundamentals For Credit Rating Agencies" (October 2004)
  http://www.iosco.org/library/pubdocs/pdf/IOSCOPD173.pdf
- Organisation for Economic Co-operation and Development (OECD) Principles of Corporate Governance
  http://www.oecd.org/dataoecd/32/18/31557724.pdf
- Office of the Connecticut State Treasurer – Proxy Voting Guidelines
  http://www.state.ct.us/ott/proxyvotingpolicies.htm
- RiskMetrics 2008 Policy Information
  http://www.issproxy.com/issgovernance/policy/2008policy.html
- The Stanford Institutional Investors' Forum Committee on Fund Governance Best Practice Principles
  http://www.law.stanford.edu/clapmanreport
- TIAA-CREF Policy Statement on Corporate Governance
  http://www.tiaa-cref.org/pubs/pdf/governance_policy.pdf

## APPENDIX D – OTHER USEFUL WEBSITES

- Broadridge Financial Solutions, Inc.
  http://www.broadridge.com
- Glass, Lewis & Co.
  http://www.glasslewis.com
- Governance for Owners LLP
  http://www.governanceforowners.com
- Hermes Equity Ownership Services
  http://www.hermes.co.uk/EOS/eos_introduction.htm
- Marco Consulting Group
  http://www.marcoconsulting.com
- ProxyDemocracy.org
  http://www.proxydemocracy.org
- Proxy Governance, Inc.
  http://www.proxygovernance.com

## APPENDIX E – MARCO CONSULTING PROXY POLICY STATEMENT

### PROXY POLICY STATEMENT

This statement sets forth the guidelines of the Marco Consulting Group (MCG) regarding the voting of client proxies.

Our policy is designed to reflect the fiduciary duty to vote proxies in favor of shareholder interests. In determining our vote, we will not subordinate the economic interest of the plan participants to any other entity or interested party.

Per the terms of ERISA, we will "cast the (client's) proxies in a timely manner solely in the interests of the participants and beneficiaries of (client's) Plan for the exclusive purpose for providing benefits to participants and their beneficiaries and defraying the reasonable expenses of administering the Plan with care, skill, prudence and diligence under the circumstances then prevailing that a prudent man acting in like capacity familiar with such matters would use in the conduct of an enterprise of like character and with like aims in accordance with the documents and instruments governing the Plan in accord with the provisions of ERISA."

Each proxy will be reviewed on a case-by-case basis with final decisions based on the merits of each case. In reviewing the proxy issues, we will use the following Issue Guidelines (effective **January 1, 2004**) for each of the categories of issues listed below. If any conflicts of interest should arise, MCG will resolve them pursuant to the steps prescribed in the Administrative Procedures (effective **August 1, 2003**) section below.

### ISSUE GUIDELINES

#### *Election of Directors*

The members of the boards of directors are elected by shareholders to represent the shareholders' interests. This representation is most likely to occur if two-thirds of the members are independent outsiders as opposed to insider directors (such as senior management employees, former employees, relatives of management or contractors with the company). If two-thirds of the board is not represented by independent outsiders, a vote will usually be cast to withhold authority on the inside directors.

Other factors that will be considered when reviewing candidates will be the number of corporate boards on which they already serve (ideally directors with fulltime jobs should serve on no more than three boards and no individual should serve on more than five boards), their performance on committees and other boards, the company's short-term and long-term financial performance under the incumbent candidates, the company's responsiveness to shareholder concerns (particularly the responsiveness to shareholder proposals that were approved by a majority of shareholders in the past 12 months) and other important corporate constituents, the overall conduct of the company (e.g., excessive executive compensation, adopting anti-takeover provisions without shareholder approval) and not attending at least 75% of Board and Committee meetings unless there is a valid excuse.

Recently, more emphasis has been placed on the independence of key Board committees – audit, compensation and nominating committees. It is in the best interests of shareholders for only independent directors to serve on these committees. Votes will be withheld from any insider nominee who serves on these committees.

In contested elections of directors, the competing slates will be evaluated upon the personal qualifications of the candidates, the quality of the strategic plan they advance to enhance long-term corporate value, management's historical track record, the background to the proxy contest and the equity ownership positions of individual directors.

#### *Ratification of Auditors*

The ratification of auditors used to be universally considered a routine proposal, but a disturbing series of audit scandals at publicly-traded companies and SEC-mandated disclosures that revealed auditors were being paid much more for "other" work at companies in addition to their "audit" work have demonstrated that the ratification of auditors needs to be scrutinized as much as the election of directors.

Although the Sarbanes-Oxley Act of 2002 attempted to address the issue of auditor conflicts of interest, it still allows auditors to do substantial "other" work (primarily in the area of taxes) for companies that they audit. Therefore MCG will weigh the amount of the non-audit work and if it is so substantial as to give rise to a conflict of interest, it will vote against the ratification of auditors. Concern will be raised if the non-audit work is more than 20% of the total fees paid to the auditors. Other factors to weigh will be if the auditors provide tax avoidance strategies, the reasons for any change in prior auditors by the company, and if the same firm has audited the company for more than seven years.

***Routine Proposals***

Routine proposals are most commonly defined as those, which do not change the structure, by laws, or operation of the company to the detriment of the shareholders. Traditionally, these issues include:

- Indemnification provisions for directors;
- Liability limitations of directors;
- Stock splits/reverse stock splits;
- Name changes.

Given the routine nature of these proposals, proxies will usually be voted with management. However, each will be examined carefully. For example, limitations on directors' liability will analyzed to ensure that the provisions conform with the law, do not affect their liability for such actions as the receipts of improper personal benefits or the breach of their duty of loyalty and whether any litigation is pending against current board members.

***Non-Routine Proposals***

Issues in this category are more likely to affect the structure and operation of the company and, therefore will have a greater impact on the value of a shareholder's investment. We will review each issue in this category on case-by case basis.

As previously stated, voting decisions will be made based on the financial interest of the plan beneficiaries. Non-routine matters include:

*Mergers/Acquisitions and Restructuring*
Our analysis will focus on the strategic justifications for the transaction and the fairness of any costs incurred.

*Fair-Price Provisions*
These attempt to guard against two-tiered tender offers in which some shareholders receive less value for their stock than other shareholders from a bidder who seeks to take a controlling interest in the company. There can be an impact on the long-term value of holdings in the event shareholders do not tender. Such provisions must be analyzed on a case-by-case basis.

*Reincorporating*
A company usually changes the state or country of its incorporation to take advantage of tax and corporate laws in the new state or country. These advantages will be weighed along with any loss in shareholder rights and protections under the laws of the new state or country.

*Changes in Capitalization*
Our inquiry will study whether the change in necessary and beneficial in long run to shareholders. An example of a change that was neither was at Harcourt, Brace & Jovanich, which took on $3 billion in debt to ward off future hostile suitors and saw the value of its price per share plummet from $44.00 to $0.75. Creation of blank check preferred stock, which gives the board broad powers to establish voting, dividend and other rights without shareholder review, will be opposed.

*Increase in Preferred and Common Stock*
Such increases can cause significant dilution to current shareholder equity and can be used to deter acquisitions that would be beneficial to shareholders. We will determine if any such increases have a specific, justified purpose and if the amounts of the increase are excessive.

*Stock/Executive Compensation Plans*
The purpose of such plans should be to reward employees or directors for superior performance in carrying out their responsibilities and to encourage the same performance in the future. Consequently, the plan should specify that awards are based on the executive's/director's and the company's performance. In the case of directors, their attendance at meetings should also be a requirement. In evaluating such plans we will also consider whether the amount of the shares cause significant dilution (5% or more) to current shareholder equity, how broad based and concentrated the grant rates are, if there are holding periods, if the shares are sold at less than fair market value, if the plan contains change-in-control provisions that deter acquisitions, if the plan has a reload feature, and if the plan allow the repricing of "underwater" options.

*Employee Stock Purchase Plans*

These are broad-based plans, federally regulated plans which allow almost all fulltime and some part-time workers to purchase limited amounts of company stock at a slight discount. Usually the amount of dilution is extremely small. They will normally be supported because they do give workers an equity interest in the company and better align their interests with shareholders.

*Creation of Tracking Stock*
Tracking stock is designed to reflect the performance of a particular business segment. The problem with tracking stocks is they can create substantial conflicts of interest between shareholders, board members and management. Such proposals must be carefully scrutinized and they should be supported only if a company makes a compelling justification for them.

*Approving Other Business*
Some companies seek shareholder approval of management being given broad authority to take action at a meeting without shareholder consent. Such proposals are not in the best interests of shareholders and will be opposed.

***Corporate Governance Proposals***

We will generally vote against any management proposal that is designed to limit shareholder democracy and has the effect of restricting the ability of shareholders to realize the value of their investment. Proposals in this category would include:

*Golden Parachutes*
These are special severance agreements that take effect after an executive is terminated following a merger or takeover. In evaluating such proposals we will take into account the salaries, bonuses, stock option plans and other forms of compensation already available to these executives to determine if the additional compensation in the golden parachutes is excessive. Shareholder proposals requesting that they be approved by shareholders will be supported.

*Greenmail Payments*
Greenmail is when a company agrees to buy back a corporate raider's shares at a premium in exchange for an agreement by the raider to cease takeover activity. Such payments can have a negative impact on shareholder value. Given that impact, we will want there to be a shareholder vote to approve such payments and we will insist that there be solid economic justification before ever granting such approval.

*Super Majority Voting*
Some companies want a super majority (e.g., 66%) vote for certain issues. We believe a simple majority is generally in the best interest of shareholders and we will normally vote that way unless there is strong evidence to the contrary.

*Dual Class Voting*
Some companies create two classes of stock with different voting rights and dividend preferences. We will examine the purpose that is being used to justify the two classes as well as to whom the preferred class of stock is being offered. Proposals that are designed to entrench company management or a small group of shareholders at the expense of the majority of shareholders will not be supported. Proposals that seek to enhance the voting rights of long-term shareholders will be given careful consideration.

*Fair Price Proposals*
These require a bidder in a takeover situation to pay a defined "fair price" for stock. Our analysis will focus on how fairly "fair price" is defined and what other anti-takeover measures are already in place at the company that might discourage potential bids that would be beneficial in the long term to shareholders.

*Classified Boards*
These are boards where the members are elected for staggered terms. The most common method is to elect one-third of the board each year for three-year terms. We believe the accountability afforded by the annual election of the entire board is very beneficial to stockholders and it would take an extraordinary set of circumstance to develop for us to support classified boards.

*Shareholders' Right To Call Special Meetings and Act By Written Consent*
These are important rights for shareholders and any attempts to limit or eliminate them should be resisted. Proposals to restore them should be supported.

***Shareholder Proposals***

Proposals submitted by shareholders for vote usually include issues of corporate governance and other non-routine matters. We will review each issue on a case-by-case basis in order to determine the position that best represents the financial interest of the plan beneficiaries. Shareholders matters include:

*Poison Pill Plans*
These plans are designed to discourage takeovers of a company, which can deny shareholders the opportunity to benefit from a change in ownership of the company. Shareholders have responded with proposals to vote on the plans or to redeem them. In reviewing such plans we check whether the poison pill plans were initially approved by shareholders and what anti-takeover devices are already in place at the company.

*Independence of Boards and Auditors*

The wave of corporate/audit scandals at the start of the 21st Century provided compelling evidence that it is in the best interests of shareholders to support proposal seeking increased independence of boards (e.g., requiring supermajority of independents on boards, completely independent nominating, compensation and audit committees, stricter definitions of "independence", disclosures of conflicts of interest) and auditors (e.g., eliminate or limit "other" services auditors perform, rotation of audit firms). A related issue is the independence of analysts at investment banking firms. Proposals seeking to separate the investment banking business from the sell-side analyst research and IPO allocation process should be supported.

*Military Conversion*

With the end of the Cold War and the collapse of the Soviet Empire, there is a distinct likelihood that the federal government will be reducing its military budget. This likelihood has prompted shareholders to request that companies that depend heavily on military contracts start planning a transition to civilian contracts. We will analyze such proposals to see if they are appropriate for the company and proposed in a prudent manner.

*Cumulative Voting*

This allows each shareholder to vote equal to the number of shares held multiplied by the number of directors to be elected to the board. Shareholders can then target all their votes for one of a few candidates or allocate them equally amongst all candidates. It if one of the few ways shareholders can attempt to elect board members. In studying cumulative voting proposals we will review the company's election procedures and what access shareholders have to the nominating and voting process.

*Confidential Voting*

Most voting of proxies in corporate America is not confidential. This opens the process to charges that management pressures shareholders or their investment mangers to vote in accordance with management's recommendations. We believe the concept of confidential voting is so fundamental to the democratic process and is so much in the best interest of shareholders that we would oppose it only in the most extraordinary circumstances.

*Shareholder Access To the Proxy For Director Nominations*

Proposals to provide shareholders access to the company proxy statement to advance non-management board candidates will generally be supported unless they are being used to promote hostile takeovers.

*Separate Chairperson and Chief Executive Officer*

The primary purpose of the board of directors is to protect shareholder interests by providing independent oversight of management. If the Chair of the Board is also the Chief Executive Officer of the company, the quality of oversight is obviously hindered. Therefore, proposals seeking to require that an independent director serve as Chair of the Board will be supported. An alternative to this proposal would be the establishment of a lead independent director, who would preside at meetings of the board's independent directors and coordinate the activities of the independent directors.

*Term Limit For Directors*

Proposals seeking to limit the term for directors will normally not be supported because they can deny shareholders the service of well-qualified directors who have effectively represented shareholder interests.

*Broader Participation On Boards*

A more diverse board of qualified directors is in the best interests of shareholders. Therefore proposal requesting companies to make efforts to seek more qualified women and minority group members will be supported.

*Greater Transparency and Oversight*

Shareholders benefit from full disclosure of board practices and procedures, company operating practices and policies, business strategy, and the way companies calculate executive compensation. Proposals seeking greater disclosure on these matters will generally be supported.

*Executive/Director Compensation*

Proposals seeking to tie executive/director compensation to specific performance standards, to impose reasonable limits on it or to require greater disclosure of it are in the best interests of shareholders. The expense of options should be included in financial statements (as required in Canada). Financial performance is the traditional measurement for executive compensation—the more specific the better. Other performance measures can be a useful supplement to the traditional financial performance measurement and are worthy of consideration. Examples are regulatory compliance, international labor standards, high performance workplace standards and measures of employee satisfaction.

*High Performance Workplaces*
We will support proposals encouraging the high performance workplace practices identified in the Department of Labor's report that contribute to a company's productivity and long-term financial performance.

*Codes of Conduct*
Proposals seeking reports on and/or implementation of such commonly accepted principles of conducts as the Ceres Principles (environment), MacBride Principles (Northern Ireland), Code of Conduct for South Africa, United Nations' International Labor Organization's Fundamental Conventions, fair lending practices and the U.S. Equal Employment Opportunity Commission are in the best interests of shareholders because they provide useful information and promote compliance with the principles.

*Pension Choice*
There has been a recent trend by companies to convert traditional defined benefit pension plans into cash-balance plans. This has proved controversial because cash-balance plans often hurt older workers and may be motivated by a company's desire to inflate its book profits by boosting surpluses in its pension trust funds. Shareholder proposals giving employees a choice between maintaining their defined benefits or converting to a cash-balance will generally be supported.

**Administrative Procedures**

The procedures for receipt and voting of proxies by MCG are as follows:

1. The client notifies the custodian bank to forward all proxies to us.

2. We track the portfolio to ensure current listing of all securities held.

3. We track the shareholders meeting dates to ensure that all proxies are voted on time.

4. We notify the bank of any missing or improper proxies to secure all proxies due the Fund.

5. We provide a report annually on shares voted and positions taken. Clients are welcome to contact MCG at any time to find out how we have voted on a particular issue.

6. The Securities and Exchange Commission (SEC) has expressed concern that proxy-voting agents may have material conflicts that can affect how it votes proxies. The SEC notes that advisers may render services to a publicly traded company or they may have business or personal relationships with participants in proxy contests, corporate directors or candidates for directorships. Since we do not render services to publicly traded companies and we do have a comprehensive, detailed proxy voting policy that dictates the overwhelming majority of our votes, it is extremely unlikely that such material conflicts will arise. If they do, any MCG employee will immediately recuse himself/herself from the analysis/voting of the pertinent issue and our General Counsel will deal with the issue. If our General Counsel also has a material conflict, he will recuse himself/herself and refer the issue to our President. If our President also has a material conflict, he will recuse himself/herself and the issue will be referred to MCG's outside law firm for resolution.

7. For SEC record keeping purposes, we will retain copies of (i) our proxy voting policies and procedures; (ii) proxy statements received as preserved through access to the SEC's EDGAR system; (iii) records of the votes we cast as preserved on ADP's Proxy Edge System; (iv) records of client requests for proxy voting information; (v) documents we prepared material to making a decision on how to vote as preserved on ADP's Proxy Edge System.

July 18, 2003

## APPENDIX F – GLASS LEWIS & CO. PROXY VOTING POLICY FOR US COMPANIES

### I. ELECTION OF DIRECTORS

*Board of Directors*

Boards are put in place to represent shareholders and protect their interests. Glass Lewis seeks boards with a proven record of protecting shareholders and delivering value over the medium- and long-term. In our view, boards working to protect and enhance the best interests of shareholders typically consist of at least two-thirds independent directors, have a record of positive performance and include directors with a breadth and depth of experience.

*Board Composition*

We look at each individual on the board and examine his or her relationships with the company, the company's executives and with other board members. The purpose of this inquiry is to determine whether pre-existing personal, familial or financial relationships are likely to impact the decisions of that board member.

We vote in favor of governance structures that will drive positive performance and enhance shareholder value. The most crucial test of a board's commitment to the company and to its shareholders is the performance of the board and its members. The performance of directors in their capacity as board members and as executives of the company, when applicable, and in their roles at other companies where they serve is critical to this evaluation.

We believe a director is independent if he or she has no material financial, familial or other current relationships with the company, its executives or other board members except for service on the board and standard fees paid for that service. Relationships that have existed within the five years prior to the inquiry are usually considered to be "current" for purposes of this test.

In our view, a director is affiliated if he or she has 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. This also includes a director who owns or controls 25% or more of the company's voting stock.

We define an inside director as one who simultaneously serves as a director and as an employee of the company. This category may include a chairman of the board who acts as an employee of the company or is paid as an employee of the company.

Although we typically vote for the election of directors, we will withhold from directors for the following reasons:

- A director who attends less than 75% of the board and applicable committee meetings.
- A director who fails to file timely form(s) 4 or 5 (assessed on a case-by-case basis).
- A director who is also the CEO of a company where a serious restatement has occurred after the CEO certified the pre-restatement financial statements.
- All board members who served at a time when a poison pill was adopted without shareholder approval within the prior twelve months.

We also feel that the following conflicts of interest may hinder a director's performance and will therefore withhold from a:

- CFO who presently sits on the board.
- Director who presently sits on an excessive number of boards
- Director, or a director whose immediate family member, provides material professional services to the company at any time during the past five years.
- Director, or a director whose immediate family member, engages in airplane, real estate or other similar deals, including perquisite type grants from the company.
- Director with an interlocking directorship.

*Board Committee Composition*

All key committees including audit, compensation, governance, and nominating committees should be composed solely of independent directors and each committee should be focused on fulfilling its specific duty to shareholders. We typically recommend that shareholders withhold their votes for any affiliated or inside director seeking appointment to an audit, compensation, nominating or governance committee or who has served in that capacity in the past year.

*Review of the Compensation Discussion and Analysis Report*

We review the CD&A in our evaluation of the overall compensation practices of a company, as overseen by the compensation committee. In our evaluation of the CD&A, we examine, amongst other factors, the extent to which the company has used performance goals in determining overall compensation, how well the company has disclosed performance metrics and goals and the extent to which the performance metrics, targets and goals are implemented to enhance company performance. We would recommend voting against the chair of the compensation committee where the CD&A provides insufficient or unclear information about performance metrics and goals, where the CD&A indicates that pay is not tied to performance, or where the compensation committee or management has excessive discretion to alter performance terms or increase amounts of awards in contravention of previously defined targets.

*Separation of the roles of Chairman and CEO*

Glass Lewis believes that separating the roles of corporate officers and the chairman of the board is a better governance structure than a combined executive/chairman position. The role of executives is to manage the business on the basis of the course charted by the board. Executives should be in the position of reporting and answering to the board for their performance in achieving the goals set out by such board. This becomes much more complicated when management actually sits on, or chairs, the board.

We view an independent chairman as better able to oversee the executives of the company and set a pro-shareholder agenda without the management conflicts that a CEO and other executive insiders often face. This, in turn, leads to a more proactive and effective board of directors that is looking out for the interests of shareholders above all else.

We do not withhold votes from CEOs who serve on or chair the board. However, we do support a separation between the roles of chairman of the board and CEO, whenever that question is posed in a proxy.

In the absence of an independent chairman, we support the appointment of a presiding or lead director with authority to set the agenda for the meetings and to lead sessions outside the presence of the insider chairman.

*Majority Voting for the Election of Directors*

Glass Lewis will generally support proposals calling for the election of directors by a majority vote in place of plurality voting. If a majority vote standard were implemented, a nominee would have to receive the support of a majority of the shares voted in order to assume the role of a director. Thus, shareholders could collectively vote to reject a director they believe will not pursue their best interests. We think that this minimal amount of protection for shareholders is reasonable and will not upset the corporate structure nor reduce the willingness of qualified shareholder-focused directors to serve in the future.

*Classified Boards*

Glass Lewis favors the repeal of staggered boards in favor of the annual election of directors. We believe that staggered boards are less accountable to shareholders than annually elected boards. Furthermore, we feel that the annual election of directors encourages board members to focus on protecting the interests of shareholders.

*Mutual Fund Boards*

Mutual funds, or investment companies, are structured differently than regular public companies (i.e., operating companies). Members of the fund's adviser are typically on the board and management takes on a different role than that of other public companies. As such, although many of our guidelines remain the same, the following differences from the guidelines at operating companies apply at mutual funds:

1. We believe three-fourths of the boards of investment companies should be made up of independent directors, a stricter standard than the two-thirds independence standard we employ at operating companies.
2. We recommend withholding votes from the chairman of the nominating committee at an investment company if the chairman and CEO of a mutual fund are the same person and the fund does not have an independent lead or presiding director.

## II. FINANCIAL REPORTING

*Auditor Ratification*

We believe that role of the auditor is crucial in protecting shareholder value. In our view, shareholders should demand the services of objective and well-qualified auditors at every company in which they hold an interest. Like directors, auditors should be free from conflicts of interest and should assiduously avoid situations that require them to make choices between their own interests and the interests of the shareholders.

Glass Lewis generally supports management's recommendation regarding the selection of an auditor. However, we recommend voting against the ratification of auditors for the following reasons:

- When audit fees added to audit-related fees total less than one-third of total fees.
- When there have been any recent restatements or late filings by the company where the auditor bears some responsibility for the restatement or late filing (e.g., a restatement due to a reporting error).
- When the company has aggressive accounting policies.
- When the company has poor disclosure or lack of transparency in financial statements.
- When there are other relationships or issues of concern with the auditor that might suggest a conflict between the interest of the auditor and the interests of shareholders.
- When the company is changing auditors as a result of a disagreement between the company and the auditor on a matter of accounting principles or practices, financial statement disclosure or auditing scope or procedures.

*Auditor Rotation*
We typically support audit related proposals regarding mandatory auditor rotation when the proposal uses a reasonable period of time (usually not less than 5-7 years).

*Pension Accounting Issues*
Proxy proposals sometimes raise the question as to whether pension accounting should have an effect on the company's net income and therefore be reflected in the performance of the business for purposes of calculating payments to executives. It is our view that pension credits should not be included in measuring income used to award performance-based compensation. Many of the assumptions used in accounting for retirement plans are subject to the discretion of a company, and management would have an obvious conflict of interest if pay were tied to pension income.

## III. Compensation

*Equity Based Compensation Plans*
Glass Lewis evaluates option and other equity-based compensation on a case-by-case basis. We believe that equity compensation awards are a useful tool, when not abused, for retaining and incentivizing employees to engage in conduct that will improve the performance of the company.

We evaluate option plans based on ten overarching principles:

- Companies should seek additional shares only when needed.
- The number of shares requested should be small enough that companies need shareholder approval every three to four years (or more frequently).
- If a plan is relatively expensive, it should not be granting options solely to senior executives and board members.
- Annual net share count and voting power dilution should be limited.
- Annual cost of the plan (especially if not shown on the income statement) should be reasonable as a percentage of financial results and in line with the peer group.
- The expected annual cost of the plan should be proportional to the value of the business.
- The intrinsic value received by option grantees in the past should be reasonable compared with the financial results of the business.
- Plans should deliver value on a per-employee basis when compared with programs at peer companies.
- Plans should not permit re-pricing of stock options.

*Option Exchanges*
Option exchanges are reviewed on a case-by-case basis, although they are approached with great skepticism. Repricing is tantamount to a re-trade. We will support a repricing only if the following conditions are true:

- Officers and board members do not participate in the program.
- The stock decline mirrors the market or industry price decline in terms of timing and approximates the decline in magnitude.
- The exchange is value neutral or value creative to shareholders with very conservative assumptions and a recognition of the adverse selection problems inherent in voluntary programs.
- Management and the board make a cogent case for needing to incentivize and retain existing employees, such as being in a competitive employment market.

*Performance Based Options*
We generally recommend that shareholders vote in favor of performance-based option requirements. We feel that executives should be compensated with equity when their performance and that of the company warrants such rewards. We believe that boards can develop a consistent, reliable approach, as boards of many companies have, that would attract executives who believe in their ability to guide the company to achieve its targets.

*Linking Pay with Performance*
Executive compensation should be linked directly with the performance of the business the executive is charged with managing. Glass Lewis grades companies on an A to F scale based on our analysis of executive compensation relative to performance and that of the company's peers and will recommend withholding votes for the election of compensation committee members at companies that receive a grade of F.

*Director Compensation Plans*
Non-employee directors should receive compensation for the time and effort they spend serving on the board and its committees. In particular, we support compensation plans that include equity-based awards, which help to align the interests of outside directors with those of shareholders. Director fees should be competitive in order to retain and attract qualified individuals.

*Advisory Votes on Compensation*
Glass Lewis will generally recommend voting in favor of shareholder proposals to allow shareholders a non-binding or advisory vote on compensation policies and practices at companies. In evaluating the advisory vote proposals, we will examine how well the company has disclosed information pertinent to its compensation programs, the extent to which overall compensation is tied to performance, the performance metrics selected by the company and the levels of compensation in comparison to company performance and that of its peers.

*Limits on Executive Compensation*
Proposals to limit executive compensation will be evaluated on a case-by-case basis. As a general rule, we believe that executive compensation should be left to the board's compensation committee. We view the election of directors, and specifically those who sit on the compensation committee, as the appropriate mechanism for shareholders to express their disapproval or support of board policy on this issue.

*Limits on Executive Stock Options*
We favor the grant of options to executives. Options are a very important component of compensation packages designed to attract and retain experienced executives and other key employees. Tying a portion of an executive's compensation to the performance of the company also provides an excellent incentive to maximize share values by those in the best position to affect those values. Accordingly, we typically vote against caps on executive stock options.

## IV. GOVERNANCE STRUCTURE

***Anti-Takeover Measures***

*Poison Pills (Shareholder Rights Plans)*
Glass Lewis believes that poison pill plans generally are not in the best interests of shareholders. Specifically, they can reduce management accountability by substantially limiting opportunities for corporate takeovers. Rights plans can thus prevent shareholders from receiving a buy-out premium for their stock.

We believe that boards should be given wide latitude in directing the activities of the company and charting the company's course. However, on an issue such as this where the link between the financial interests of shareholders and their right to consider and accept buyout offers is so substantial, we believe that shareholders should be allowed to vote on whether or not they support such a plan's implementation.

In certain limited circumstances, we will support a limited poison pill to accomplish a particular objective, such as the closing of an important merger, or a pill that contains what we believe to be a reasonable 'qualifying offer' clause.

*Right of Shareholders to Call a Special Meeting*
We will vote in favor of proposals that allow shareholders to call special meetings. In order to prevent abuse and waste of corporate resources by a very small minority of shareholders, we believe that such rights should be limited to a minimum threshold of at least 15% of the shareholders requesting such a meeting.

*Shareholder Action by Written Consent*
We will vote in favor of proposals that allow shareholders to act by written consent. In order to prevent abuse and waste of corporate resources by a very small minority of shareholders, we believe that such rights should be limited to a minimum threshold of at least 15% of the shareholders requesting action

by written consent.

*Authorized Shares*
Proposals to increase the number of authorized shares will be evaluated on a case-by-case basis. Adequate capital stock is important to the operation of a company. When analyzing a request for additional shares, we typically review four common reasons why a company might need additional capital stock beyond what is currently available:

1. Stock split
2. Shareholder defenses
3. Financing for acquisitions
4. Financing for operations

Unless we find that the company has not disclosed a detailed plan for use of the proposed shares, or where the number of shares far exceeds those needed to accomplish a detailed plan, we typically recommend in favor of the authorization of additional shares.

### *Voting Structure*

*Cumulative Voting*
Glass Lewis will vote for proposals seeking to allow cumulative voting. Cumulative voting is a voting process that maximizes the ability of minority shareholders to ensure representation of their views on the board. Cumulative voting generally operates as a safeguard for by ensuring that those who hold a significant minority of shares are able to elect a candidate of their choosing to the board.

*Supermajority Vote Requirements*
Glass Lewis favors a simple majority voting structure. Supermajority vote requirements act as impediments to shareholder action on ballot items that are critical to our interests. One key example is in the takeover context where supermajority vote requirements can strongly limit shareholders' input in making decisions on such crucial matters as selling the business.

### *Shareholder Proposals*

Shareholder proposals are evaluated on a case-by-case basis. We generally favor proposals that are likely to increase shareholder value and/or promote and protect shareholder rights. We typically prefer to leave decisions regarding day-to-day management of the business and policy decisions related to political, social or environmental issues to management and the board except when we see a clear and direct link between the proposal and some economic or financial issue for the company.

## APPENDIX G – GOVERNANCE FOR OWNERS GERMAN CORPORATE GOVERNANCE POLICY

Last update: 12 September 2007

**Introduction**

Our governance assessment of the German market is based on

- the rules and regulations relevant to listed German companies,
- the German Corporate Governance Code,
- international best practice guidelines[26] and
- our experience with German market practices.

When companies have the choice between alternative governance arrangements we will consider whether these choices are in line with our corporate governance policies.

If the *rules and regulations* allow for the general meeting to adopt company-specific rules in the articles of association we urge companies to propose a shareholder-friendly solution.

We welcome the fact that the *German Corporate Governance Code* receives high public attention. The Code helps to make the German corporate governance system more transparent and its flexibility allows a continuous development of *best practice*. We therefore carefully consider companies' compliance with the provisions of the Code. However, we regard the Code as a consensus between the interests of managers, employees and shareholders and we reserve the right to deviate in our policy from Code provisions in the areas further described below.

When companies deviate from the Code we expect them to explain their reasons. We are willing to support companies who provide convincing arguments for deviation from certain Code provisions. Without such explanatory statements we are not able to consider the appropriateness of any deviation.

As a matter of principle we engage in a dialogue with companies where we perceive cause for concern. If we vote against a resolution at the general meeting we would explain the reason for this decision in writing to the company.

**Principles**

When we apply our corporate governance policy for the German market we particularly focus on the following issues:

**General Meeting**

- We would expect companies to actively support electronic proxy voting. This includes timely disclosure of all relevant documents also in English and waiving any requirement to submit written instructions.
- We encourage companies not to bundle resolutions under a single item of the meeting agenda if it was more appropriate to separate them. This ensures that shareholders can express their approval or disapproval on important matters individually.
- The discharge is a vote of shareholders' confidence in the management and supervisory board members. As a matter of best practice this resolution should be split up to allow shareholders to vote on the discharge individually. Any board member failing to gain a majority should consider to step down and at least abstain from chairing the supervisory board and from committee work.
- In the case of takeovers and significant transactions we expect companies to convene an EGM and ask shareholders for approval.
- Companies should publish the voting results immediately after the general meeting on their website.

**Supervisory board**

- *Election of board members:* We expect companies to propose individual election of board members. The current practice of five year terms – the legal maximum – facilitates the supervisory board to be entrenched from shareholders. We therefore support shorter terms of three years.
- *Independence of the supervisory board:* We require at least one-third of the supervisory board members to be independent. We wouldn't support the election of non-independent supervisory board members unless the minimum requirement is fulfilled. Board members are considered to be potentially conflicted if they represent employees or large shareholders, are former personnel or maintain a business relationship with the company. If conflicts of in-

26 We consider, for example, the respective policy documents developed by the ICGN available at http://www.icgn.org.

terest present a material concern we consider the respective board member non-independent. A term in office of 10 years and more imposes an additional burden of proof on the supervisory board to convince shareholders of the independence of the respective supervisory board member.

- *Chairman's independence:* With respect to the independence of the chairman of the supervisory board on appointment we would normally oppose a resolution which provides for a former management board member to immediately become chairman of the supervisory board.
- *Conflicts of interest:* We expect the supervisory board to disclose any conflicts of interest of its members.
- *Committee composition:* Committee membership should only be based on qualification and independence. In this respect particular requirements apply for committee chairmen. The committee composition should not be guided by co-determination rules.
- *Audit committee:* Independence is crucial, therefore, the chairman of the supervisory board should not be a member of the audit committee. If in the committee he should not be the chairman of it. Equally, a representative of a large shareholder should not chair the audit committee.
- *Nomination Committee:* The nomination committee should ensure that candidates for the supervisory board have the required qualifications and independence and can commit sufficient time to their role. The nomination committee should publish its assessment of a candidate's qualifications and independence as well as the expected contributions to the supervisory board together with meaningful biographical information as part of the AGM agenda.

**Remuneration of the management board**

- *Remuneration report:* Companies should provide a comprehensive remuneration report explaining their remuneration policy and providing a clear picture of the individual remuneration elements (i.e. basic salary, annual bonus, long-term share-based incentives, benefits), pensions arrangement and the material issues of the service contracts (duration, severance pay, change-of–control clause).
- *Management board remuneration:* Companies should limit any termination payment to one year salary excluding bonus payments in order to avoid excessive payouts especially in the case of failure. We do not support termination payments triggered by a change-of-control. We consider the respective suggestions 4.2.3 of the Code introduced in July 2007 as a minimum requirement at best and we ask companies to apply the more common international best practice standards.
- *Share-based long-term incentives:* The main criteria for us to support share-based incentive plans are the existence of performance targets that are measured relative to a demanding benchmark, of a three year vesting period and of a limit on the maximum payout under the plan for individual participants (cap).

**Capital pools**

- As a general rule we expect companies to grant pre-emption rights if proposing a capital increase. As a matter of best practice any such capital increase should be subject to shareholder approval on the basis of the company's specific investment needs. Shareholders tend to support any well reasoned resolution that has the potential to increase the value of the company.
- Since capital pools are usually authorised without a specific purpose they increase the risk that the management undermines shareholder rights in important M&A transactions and the share capital of existing shareholders could be significantly diluted.

The maximum volume of capital pools *with* pre-emptive rights that we would generally support is 20% of the share capital. This amount is sufficient to ensure the financial flexibility of the company under normal conditions. We regard the legal maximum of 100% as inappropriate. For any transaction that involves a capital increase in excess of 20% we expect the company to convene an extraordinary shareholder meeting.

- We consider an aggregated capital pool *without* pre-emptive rights of 10% of the share capital as an upper limit and prefer significantly lower levels.
- **As an** *interim position* **we would consider a capital pool with pre-emptive rights of up to 40% and a capital pool without pre-emptive rights of up to 20% of the share capital as being acceptable if the history and the current situation of the company allows for this. Over time we would lower the maximum to 20% and 10%, respectively.**
- Furthermore, for unspecified use of a capital pool the approval should be limited to one year instead of the current five year period.

- Capital pools according to article 186 of the corporate law ("bedingte Kapitalerhöhung") that are intended for share-based remuneration will only be supported if the respective incentive plan receives our support.

**Auditors' independence**

- Companies should disclose their audit policy explaining the selection process and the measures that ensure the auditor's independence. When assessing the auditor's independence we include into the analysis the fees paid to the auditors', in particular, the amount of non-audit fees, which should not exceed audit fees.

**Articles of association**

- *Recall of supervisory board members:* We would oppose a resolution that asks for the approval of majority requirements above the 75% majority rule which represents the default legal value of the corporate law. We urge companies to either maintain or introduce a 50% majority rule for the recall of a supervisory board member according to § 103 (1) AktG.
- *Remuneration of the supervisory board:* We object to short-term oriented variable pay elements (e.g. dividend or earnings targets) and prefer supervisory board members to receive fixed pay only. We would support incentive elements in the pay package if they consist of a defined number of restricted shares to be held until the term on office finishes. As an interim position we would consider a long-term oriented variable pay-element that is linked to average earnings growth over a period of three years as being acceptable if the history and the current situation of the company allows for this.
- *Legal form:* As a matter of principle we object the KGaA legal form as an alternative to the AG because of the limited shareholder rights. With regard to the S.E. statutes (Societas Europaea) we have generally no objections but expect that the respective resolutions are proposed individually (in particular separate resolutions for the new articles of association and the supervisory board members of the S.E.).

To be considered for future inclusion:

**Supervisory board**

- *Election:* Ideally, companies should allow shareholders to vote on the election of the supervisory board annually.

**Management board**

- *Contract duration:* one year rolling contracts

**Remuneration of the management board**

- *Advisory vote on pay:* As a matter of best practice we encourage companies to voluntarily put the remuneration report on the agenda for a non-binding vote.