

New Hampshire Retirement System Proxy Voting Policy

INTRODUCTION

A proxy is a written power of attorney given by a shareholder of a corporation, authorizing a specific vote on the shareholder's behalf at corporate meetings. A proxy will normally pertain to election of members of the corporation's board of directors, or to various resolutions submitted for shareholder approval. The System's Proxy Voting Policy has been established to protect the System's long-term investment interests and to promote responsible corporate policies and activities which enhance a corporation's financial prospects.

U.S. PROXY VOTING GUIDELINES

I. OPERATIONAL ITEMS

Adjourn Meeting

Generally vote **against** proposals to provide management with the authority to adjourn an annual or special meeting absent compelling reasons to support the proposal.

Vote **for** adjournment proposals that relate specifically to soliciting votes for a merger or transaction if supporting that merger or transaction. Vote **against** such proposals if the wording is too vague or if the proposal includes "other business."

Amend Quorum Requirements

Proposals to amend quorum requirements for shareholder meetings are evaluated based on several factors which include: market norms, the company's reasons for the change, and the company's ownership structure.

Amend Minor Bylaws

Generally, vote **for** proposals to make bylaw or charter changes that are of a housekeeping nature (updates or corrections) unless the proposed changes are believed to be detrimental to shareholder value.

Change Company Name

Generally, vote **for** proposals to change company name unless the reasons behind the change and necessity of the change have not been clearly provided by the company.

Change Date, Time, or Location of Annual Meeting

Generally, vote **for** management proposals to rotate the time or place of annual meetings unless the proposed change is unreasonable and motivation is unclear.

Generally, vote **against** shareholder proposals to rotate the time or place of annual meetings unless the current scheduling or location is unreasonable and change is determined to be in the best interests of the company and its shareholders.

Ratifying Auditors

Generally, vote **for** proposals to ratify auditors unless:

- More than 20 percent of total fees paid to the auditors are attributable to nonaudit, but not including, SEC-related work. Nonaudit fees should be calculated by adding financial information systems design and implementation fees and all other fees.
- An auditor has a financial interest in or association with the company, and is therefore not independent
- There is reason to believe that the independent auditor has rendered an opinion which is neither accurate nor indicative of the company's financial position
- Poor accounting practices are identified that rise to a serious level of concern, such as: fraud; misapplication of GAAP; and material weaknesses identified in Section 404 disclosures

Vote **for** shareholder proposals that request the company rotate its auditors, taking into account the length of rotation specified in the proposal.

Vote **for** shareholder proposals that request the board adopt a policy stating that the company's independent accountants will only provide audit services to the company and no other services.

Vote **for** shareholder proposals requesting the company submit the ratification of its auditors to a shareholder vote.

Transact Other Business

Vote **against** management proposals asking for authority to vote at the meeting for "other business" not already described in the proxy statement.

II. THE BOARD OF DIRECTORS

Voting on Director Nominees in Uncontested Elections

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

- Attend less than 75 percent of the board and committee meetings without a valid excuse
- In cases of chronic poor attendance without reasonable justification, in addition to voting against the director(s) with poor attendance, generally vote against or withhold from appropriate members of the nominating/governance committees or the full board
- Implement or renew a dead-hand or modified dead-hand poison pill
- Adopts a long-term poison pill without shareholder approval. When it comes to the adoption of short-term poison pill, the nomination of directors will be assessed on a case-by-case basis.
- Ignore a shareholder proposal that is approved by a majority of the votes cast
- Are incumbent board members and the board implements an advisory vote on executive compensation on a less frequent basis than the frequency that received the majority of votes cast at the most recent shareholder meeting at which shareholders voted on the say-on-pay frequency
- Failed to act on takeover offers where the majority of the shareholders tendered their shares
- Are inside directors or affiliated outsiders and sit on the audit, compensation, or nominating committees
- Are inside directors or affiliated outsiders and the full board serves as the audit, compensation, or nominating committee or the company does not have one of these committees
- Are audit committee members and the non-audit fees paid to the auditor are more than 20 percent of total fees paid to the auditors
- Are audit committee members and the company receives an adverse opinion on the company's financial statements from its auditor
- Are audit committee members and poor accounting practices are identified that rise to a level of serious concern, such as: fraud; misapplication of GAAP; and material weaknesses identified in Section 404 disclosures

- Are audit committee members and the audit committee entered into an inappropriate indemnification agreement with its auditor
- Are inside directors or affiliated outside directors and the full board is less than majority independent
- Sit on more than two outside public company boards (i.e. more than three boards in total, including the board seat of the company for which the vote is being cast), or sit on more than one outside public company board if they are CEOs of public companies (i.e. more than two boards in total, including the seat for which the vote is being cast)
- Are on the compensation committee and potentially the full board when there is a recurring or egregious negative correlation between chief executive pay and company performance
- Are on the compensation committee and potentially the full board when the company has recurring or egregious problematic pay practices
- Are on the compensation committee and potentially the full board when the company exhibits a significant level of poor communication and responsiveness to shareholders
- Have failed to address the issue(s) that resulted in any of the directors receiving more than 50% withhold votes out of those cast at the previous board election
- Are incumbent board members and the board had material failures of governance, stewardship, risk oversight, or fiduciary responsibilities at the company

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

If the board lacks accountability and oversight coupled with sustained poor performance relative to peers, any or all appropriate nominees may be held accountable.

If the board is classified and a continuing director responsible for a problematic governance issue at the board/committee level that would warrant a **withhold/against** vote recommendation is not up for election, any or all appropriate nominees may be held accountable.

Exception may be made for new nominees.

Term Limits

Generally, vote **against** term limits unless it is determined that the lack of new perspectives, resulting from insufficient turnover, may be unfavorable to long-term investment interests.

Board Size

Generally, vote **for** management proposals to determine board size.

Classification/Declassification of the Board

Vote **against** management proposals to classify the board.

Vote **for** shareholder proposals to repeal a classified board.

Cumulative Voting

Vote **against** proposals to eliminate cumulative voting.

Vote **for** proposals to restore or permit cumulative voting in those cases where shareholders have access to the board through their own nominations.

Director and Officer Indemnification and Liability Protection

Vote **for** indemnification proposals that only cover legal expenses when the officer acted in good faith in what he/she believed was the company's interest.

Vote **against** proposals that totally eliminate officers' liability.

A certain level of protection is desirable so as to attract and keep qualified candidates as directors and officers. This protection, however, must not go so far as to excuse officers from being accountable for their actions or for becoming negligent in their duties. The protection should only be effective when officers act in good faith, for the best interests of the company. Specifically, officers should be liable for:

- a) breach of loyalty;
- b) acts or omissions not in good faith or involving intentional misconduct or knowing violations of the law;
- c) unlawful purchases or redemptions of stock;
- d) payments of unlawful dividends; or
- e) receipt of improper personal benefits.

Establish/Amend Nominee Qualifications

Generally, vote **for** management proposals to establish or amend director qualifications unless the proposed criteria are unreasonable and would have a demonstrable effect in precluding dissident nominees from joining the board.

Vote **against** shareholder proposals requiring two candidates per board seat.

Filling Vacancies/Removal of Directors

Vote **against** management proposals to allow for a director's removal from the board only for cause. Directors should be elected or removed by a simple majority vote of shareholders.

Vote **against** management proposals which provide that only continuing directors may fill vacancies on the board.

Vote **for** proposals which allow shareholders to fill vacancies on the board.

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

Independent Chairman (Separate Chairman/CEO)

Vote **for** shareholder proposals to separate the position of chairman of the board and CEO. The combination of the two positions creates an inherent conflict of interests.

Majority Vote Proposals

Vote **for** reasonably crafted proposals calling for directors to be elected with an affirmative majority of votes cast and/or the elimination of the plurality standard for electing directors (including binding resolutions requesting that the board amend the company's bylaws), provided the proposal includes a carve-out for a plurality voting standard when there are more director nominees than board seats (e.g. contested elections).

Majority of Independent Directors/Establishment of Committees

Generally, vote **for** shareholder proposals asking that boards be comprised of a majority of independent directors, unless it has been determined that the current board composition satisfies our independence threshold.

Vote **for** shareholder proposals asking that board audit, compensation, and/or nominating committees be comprised exclusively of independent directors.

Proxy Access to Nominate Directors

Management and shareholder proposals to enact provisions that give shareholders access to the proxy to nominate directors that are evaluated based on the long-term investment interests of the System, and are examined by considering the following factors:

- Company-specific factors; and

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

Open Access

Vote **for** any and all equal access proposals.

Equal access proposals generally relate to three major topics:

- a) discussion of management nominees for the board of directors;
- b) discussion of other management proposals;
- c) discussion of shareholders' own proposals or nominees.

Shareholders should have the freedom to obtain information and discuss all of these topics. Only with sufficient information will they be able to vote their proxies wisely and maximize the value of their stock.

Management will often oppose these equal access proposals, seeing them as an infringement of its rights. Management will argue that the added cost and length of proxy statements is inefficient. The marginal cost of longer proxies, however, will be minimal, and the cost will be borne by the stockholders anyway.

Stock Ownership Requirements

Vote **for** shareholder proposals requiring directors to own company stock in order to qualify as a director, or to remain on the board.

Shareholder proposals asking that the company adopt a holding or retention period for its executives (for holding stock after the vesting or exercise of equity awards) shall be evaluated by taking into account any stock ownership requirements or holding period/retention ratio already in place and the actual ownership level of executives.

Plurality Vote Requirement for Director Nominees

Vote **for** proposals to elect director nominees by the affirmative vote of the majority of votes cast at an annual meeting of shareholders.

III. PROXY CONTESTS

Voting for Director Nominees in Contested Elections

Votes in a contested election of directors are evaluated based on the long-term economic interest of the System, and must be examined by taking the following factors into account:

- Past performance relative to its peers;
- Market in which fund invests;
- Measures taken by the board to address the issues;
- Past shareholder activism, board activity, and votes on related proposals;
- Strategy of the incumbents versus the dissidents;
- Independence of directors;
- Experience and skills of director candidates;
- Governance profile of the company;
- Evidence of management entrenchment.

Reimbursing Proxy Solicitation Expenses

Generally, vote **for** proposals to reimburse all appropriate proxy solicitation expenses when voting in conjunction with support of a dissident slate. We will also generally support shareholder proposals calling for the reimbursement of reasonable costs associated with nominating one or more candidates in a contested election where the following apply:

- The election of fewer than 50% of the directors to be elected is contested in the election;
- One or more of the dissident's candidates is elected;
- Shareholders are not permitted to cumulate their votes for directors; and
- The election occurred, and the expenses were incurred, after the adoption of this bylaw.

IV. ANTI - TAKEOVER MECHANISMS

Confidential Voting

Vote **for** a confidential voting policy.

Confidential voting would minimize the ability of management to influence proxy votes. It would allow shareholders the freedom to vote solely in their best interests, not considering actual or perceived pressure from management.

In order to maintain and monitor fiduciary responsibility, fiduciaries should still make their records available to clients after the confidential vote. Therefore, fiduciaries can still be held accountable for their votes.

Advance Notice Requirements for Shareholder Proposals/Nominations

Generally, vote **for** advance notice resolutions provided that the proposals seek to allow shareholders to submit proposals as close to the meeting date as reasonably possible and within the broadest window possible. A reasonable deadline for shareholder notice of a proposal/ nominations must not be more than 60 days prior to a meeting, with a submittal window of at least 30 days prior to the deadline.

Amend Bylaws without Shareholder Consent

Vote **against** proposals giving the board exclusive authority to amend the bylaws.

Vote **for** proposals giving the board the ability to amend the bylaws in addition to shareholders.

Poison Pills

Vote **for** shareholder resolutions requiring that poison pills must be submitted for shareholder approval before going into effect.

Generally, vote **against** management proposals to approve or renew a poison pill unless the following factors are present:

- 1) 20 percent or higher flip-in
- 2) Two- to three-year sunset provision
- 3) No dead-hand or no-hand provision
- 4) Shareholder redemption feature: If the board refuses to redeem the pill 90 days after an offer is announced, ten percent of the shares may call a special meeting or seek a written consent to vote on rescinding the pill.

Shareholder Ability to Act by Written Consent

Vote **against** management proposals to restrict or prohibit shareholders' ability to take action by written consent.

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

Shareholder Ability to Call Special Meetings

Vote **against** management proposals to restrict or prohibit shareholders' ability to call special meetings.

Vote **for** shareholder proposals to allow or make easier shareholders' ability to call special meetings.

Supermajority Vote Requirements

Vote **against** management proposals to require a supermajority vote to amend any bylaw or charter provision.

Vote **for** shareholder proposals to lower supermajority vote requirements to amend any bylaw or charter provision. However, at companies with shareholder(s) who have significant ownership levels, proposals to lower supermajority vote requirements should be analyzed on a case-by-case basis, taking into account the following:

- Ownership structure;
- Quorum requirements; and
- Vote requirements

Exclusive Venue

Management proposals seeking shareholder approval to limit shareholder litigation to the company's jurisdiction of incorporation are evaluated based on the long-term investment interests of the System, and are examined by considering the following factors:

- Whether the company has been materially harmed by shareholder litigation outside its jurisdiction of incorporation, based on disclosure in the company's proxy statement; and
- Whether the company has the following good governance features:
 - An annually elected board;
 - A majority vote standard in contested director elections; and
 - The absence of a poison pill, unless the pill was approved by shareholders.

Vote **for** shareholder proposals to remove or adjust exclusive venue proposals, unless:

- The company has sufficiently proven that it has been materially harmed by shareholder litigation outside its jurisdiction of incorporation; and
- The company has the following good governance features:
 - An annually elected board;
 - A majority vote standard in contested director elections; and
 - The absence of a poison pill, unless the pill was approved by shareholders.

V. MERGERS AND CORPORATE RESTRUCTURINGS

Appraisal Rights

Vote **for** shareholder proposals to provide rights of appraisal to dissenting shareholders.

Asset Purchases

Votes on asset purchase proposals are evaluated based on the long-term investment interests of the System, and are examined by considering the following factors:

- Purchase price
- Fairness opinion
- Financial and strategic benefits
- How the deal was negotiated
- Conflicts of interest
- Other alternatives for the business
- Noncompletion risk

Asset Sales

Votes on asset sales are evaluated based on the long-term investment interests of the System, and are examined by considering the following factors:

- Impact on the balance sheet/working capital
- Potential elimination of diseconomies
- Anticipated financial and operating benefits
- Anticipated use of funds
- Value received for the asset
- Fairness opinion
- How the deal was negotiated
- Conflicts of interest

Bundled Proposals

Vote **against** bundled proxy proposals.

Conversion of Securities

Votes on proposals regarding conversion of securities are determined based on the long-term economic interest of the System. When evaluating these proposals the investor should review the dilution to existing shareholders, the conversion price relative to market value, financial issues, control issues, termination penalties, and conflicts of interest.

Vote **for** the conversion if it is expected that the company will be subject to onerous penalties or will be forced to file for bankruptcy if the transaction is not approved.

Corporate Reorganization/Debt Restructuring/Prepackaged Bankruptcy Plans/Reverse Leveraged Buyouts/Wrap Plans

Votes on proposals to increase common and/or preferred shares and to issue shares as part of a debt restructuring plan are determined based on the long-term investment interest of the System, by taking into consideration the following:

- Dilution to existing shareholders' position
- Terms of the offer
- Financial issues
- Management's efforts to pursue other alternatives
- Control issues
- Conflicts of interest

Vote **for** the debt restructuring if it is expected that the company will file for bankruptcy if the transaction is not approved.

Formation of Holding Company

Votes on proposals regarding the formation of a holding company should be determined based on the long-term economic interests of the System, taking into consideration the following:

- The reasons for the change
- Any financial or tax benefits
- Regulatory benefits
- Increases in capital structure
- Changes to the articles of incorporation or bylaws of the company

Absent compelling financial reasons to recommend the transaction, vote **against** the formation of a holding company if the transaction would include either of the following:

- Increases in common or preferred stock in excess of the allowable maximum as calculated by the ISS Capital Structure model
- Adverse changes in shareholder rights

Going Private Transactions (LBOs and Minority Squeeze Outs)

Going private transactions are evaluated based on the long-term economic interest of the System, by taking into account the following: offer price/premium, fairness opinion, how the deal was negotiated, conflicts of interest, other alternatives/offers considered, and noncompletion risk.

Joint Ventures

Proposals seeking to form joint ventures are determined based on the long-term investment interests of the System, by taking into account the following: percentage of assets/business contributed, percentage ownership, financial and strategic benefits, governance structure, conflicts of interest, other alternatives, and noncompletion risk.

Liquidations

Proposals on liquidations are considered based on the long-term investment interests of the System, by taking into account the following: management's efforts to pursue other alternatives, appraisal value of assets, and the compensation plan for executives managing the liquidation.

Vote **for** the liquidation if the company will file for bankruptcy if the proposal is not approved.

Mergers and Acquisitions/ Issuance of Shares to Facilitate Merger or Acquisition

Proposals to merge one company with another, or for one company to acquire another are determined based on the long-term economic interest of the System. When evaluating the proposals, shareholders should weigh the cost to the company, market reaction, strategic rationale, the immediate and long-term benefits to shareholders, conflict of interests, and the resulting corporate governance changes.

Private Placements/Warrants/Convertible Debentures

Votes on proposals regarding private placements should be determined based on the long-term investment interests of the System. When evaluating these proposals the investor should review: dilution to existing shareholders' position, terms of the offer, financial issues, management's efforts to pursue other alternatives, control issues, conflicts of interest, and market reaction.

Vote **for** the private placement if it is expected that the company will file for bankruptcy if the transaction is not approved.

Spinoffs

Votes on spinoffs should be considered based on the long-term investment interests of the System, taking the following factors into account:

- Tax and regulatory advantages
- Planned use of the sale proceeds
- Valuation of spinoff
- Fairness opinion
- Benefits to the parent company
- Conflicts of interest
- Managerial incentives
- Corporate governance changes
- Changes in the capital structure

Value Maximization Proposals

Shareholder proposals seeking to maximize shareholder value by hiring a financial advisor to explore strategic alternatives, selling the company or liquidating the company and distributing the proceeds to shareholders should be evaluated based on the following factors: prolonged poor performance with no turnaround in sight, signs of entrenched board and management, strategic plan in place for improving value, likelihood of receiving reasonable value in a sale or dissolution, and whether company is actively exploring its strategic options, including retaining a financial advisor.

VI. STATE OF INCORPORATION

Control Share Acquisition Provisions

Vote **for** proposals to opt out of control share acquisition statutes unless doing so would enable the completion of a takeover that would be detrimental to shareholders.

Vote **against** proposals to amend the charter to include control share acquisition provisions.

Vote **for** proposals to restore voting rights to the control shares.

Control Share Cashout Provisions

Vote **for** proposals to opt out of control share cashout statutes.

Disgorgement Provisions

Vote **for** proposals to opt out of state disgorgement provisions, if maximizing shareholder value.

Fair Price Provisions

Vote **for** management proposals to adopt a fair price provision, as long as the shareholder vote requirement embedded in the provision is no more than a majority of the disinterested shares.

Vote **against** all other management fair price proposals.

Vote **for** shareholder proposals to lower the shareholder vote requirement embedded in existing fair price provisions.

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

Freeze Out Provisions

Vote **for** proposals to opt out of state freeze out provisions, if maximizing shareholder value.

Greenmail

Vote **for** proposals to restrict the company's ability to pay greenmail.

Reincorporation Proposals

Proposals to change a corporation's state of incorporation should be examined based on the long-term economic interest of the System, giving consideration to both financial and corporate governance concerns including the following:

- Reasons for reincorporation;
- Comparison of company's governance practices and provisions prior to and following the reincorporation; and
- Comparison of corporation laws of original state and destination state

Vote **against** proposals that seek to reincorporate the company outside of the jurisdiction of the United States.

Stakeholder Provisions

Vote **against** proposals that ask the board to consider nonshareholder constituencies or other nonfinancial effects when evaluating a merger or business combination.

VII. CAPITAL STRUCTURE

Adjustments to Par Value of Common Stock

Vote **for** management proposals to reduce the par value of common stock, if it will not adversely affect shareholder rights.

Common Stock Authorization

Votes on proposals to increase the number of shares of common stock authorized for issuance are determined based on the long-term economic interest of the System, using a model developed by ISS.

Vote **against** proposals at companies with dual-class capital structures to increase the number of authorized shares of the class of stock that has superior voting rights.

Vote **for** proposals to approve increases beyond the allowable increase when a company's shares are in danger of being delisted or if a company's ability to continue to operate as a going concern is uncertain.

Dual-Class Stock

Proposals to recapitalize a company into dual classes of voting stock must be examined based on the long-term economic interest of the System.

Vote **against** the creation of stock with supervoting privileges.

Vote **against** proposals that introduce nonvoting shares or exchange voting shares for nonvoting shares.

Vote **for** shareholder proposals asking that a company report to shareholders on the financial impact of its dual class voting structure.

Vote **for** shareholder proposals asking that a company submit its dual class voting structure for shareholder ratification.

Issue Stock for Use with Rights Plan

Vote **against** proposals that increase authorized common stock for the explicit purpose of implementing a shareholder rights plan (poison pill).

Preemptive Rights

Vote **against** proposals requesting the issuance of shares with or without preemptive rights which are excessive under local market best practice standards.

Preferred Stock

Vote **against** proposals authorizing the creation of new classes of preferred stock with unspecified voting, conversion, dividend distribution, and other rights ("blank check" preferred stock).

Vote **for** proposals to create "declawed" blank check preferred stock (stock that cannot be used as a takeover defense).

Vote **for** proposals to authorize preferred stock in cases where the company specifies the voting, dividend, conversion, and other rights of such stock and the terms of the preferred stock appear reasonable.

Vote **against** proposals to increase the number of blank check preferred stock authorized for issuance when no shares have been issued or reserved for a specific purpose.

Votes on proposals to increase the number of blank check preferred shares are determined after analyzing the number of preferred shares available for issue given a company's industry and performance in terms of shareholder returns.

Recapitalization

Votes on recapitalizations (reclassifications of securities) are considered based on long-term investment interests of the System, taking into account the following: more simplified capital structure, enhanced liquidity, fairness of conversion terms, impact on voting power and dividends, reasons for the reclassification, conflicts of interest, and other alternatives considered.

Reverse Stock Splits

Generally, vote **for** management proposals to implement a reverse stock split provided that the number of authorized shares will be proportionally reduced or the effective increase in authorized shares is equal to or less than the allowable increase calculated in accordance with stock authorization model developed by ISS. In the event that a proportional reduction of authorized shares is not reciprocated, we will only support such proposals if:

- A stock exchange has provided notice to the company of a potential delisting;
- There is substantial doubt about the company's ability to continue as a going concern without additional financing; or
- The company's rationale or other factors as applicable merit support.

Share Repurchase Programs

Proposals to repurchase shares should be considered based on the long-term economic interest of the System. For example, if this is done because management believes the

stock is undervalued then the measure should be approved. If the purchase is proposed as an antitakeover device, then it ought to be opposed. We generally vote **for** management proposals to institute open market share repurchase plans in which all shareholders may participate on equal terms.

Stock Distributions: Splits and Dividends

Vote **for** management proposals to increase the common share authorization for a stock split or share dividend, provided that the increase in authorized shares would not result in an excessive number of shares available for issuance as determined using a model developed by ISS.

Generally, vote **for** proposals to approve stock splits or share dividends unless it is determined that such authorities are detrimental to the long-term economic interest of the System.

Tracking Stock

Vote case-by-case on the creation of tracking stock, weighing the strategic value of the transaction against such factors as:

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

VIII. EXECUTIVE COMPENSATION

Vote **for** resolutions intended to improve the transparency of executive compensation by:

- Requiring a company to place a dollar value on all forms of compensation paid to a company's top-five executives and to include such monetarized disclosure in the summary compensation tables filed by the company with the SEC.
- Requiring a company to disclose to shareholders that compensation paid to a company's top-five executives that are not tax-deductible for federal income tax purposes, and to state the monetary value of the costs of such non-deductibility to the company.
- Requiring a company to disclose to shareholders those gains realized by a company's top-five executives in their exercise of stock options (or in the vesting of restricted shares for restricted share grants) and to report what fraction, if any, is attributable to company outperformance of its industry peers.

- Requiring a company to periodically disclose to shareholders equity investments received as compensation and unloaded by any of the company's top-five executives.

Vote **for** resolutions intended to improve the linkage of executive pay-for-performance by:

- Indexing the exercise price of a company's stock option grants to industry sector or broad market stock movements, or by linking the exercise price to changes in the stock price of firms among the company's industry peer group.
- Establishing executive bonus plans that would discount those improvements in a company's financial performance attributable to industry sector or broad market movements.
- Establishing executive bonus plans that would not utilize metrics based on a company's absolute increases in earnings, sales, or revenues, but rather based on the company's performance relative to its industry peer group.
- Prohibiting a company's top-five executives from unwinding equity-based incentive compensation received from the company.
- Prohibiting a company's top-five executives from hedging or employing any measure intended to eliminate their exposure to a decline in the company stock price.
- Requiring a company's top-five executives to publicly disclose, not less than ten days in advance, their intention to sell company stock, including the number of shares to be sold.
- Requiring "clawback" provisions in executive compensation arrangements that would result in a return to the company of executive over-payments based on performance metrics that are subsequently depressed upon a company's restatement of earnings.
- Requiring equity-based executive compensation arrangements to be "dividend neutral" – i.e., neither encouraging nor discouraging the payment of stock dividends to shareholders.
- Requiring executive stock option plans to adjust downward the exercise price of such options to reflect dividend payments made on company stock during the executive's holding period.
- Curtailing Supplemental Executive Retirement Plans (SERPs) for the top-five executives in the event a company terminates, "freezes", or otherwise curtails a defined benefit plan covering its rank-and-file employees.
- Reducing benefits provided under severance arrangements for a company's chief executive officer (CEO).
- Limiting the ratio of the sum of the compensation paid to a company's top-five executives to 8% of the company's aggregate earnings.

Advisory Votes on Executive Compensation (Say-on-Pay) Management Proposals

Generally, evaluate executive pay and practices based on the overall executive compensation structure's ability to effectively motivate participants to focus on long-term shareholder value and returns, while adhering to market law, disclosure and best practice standards.

Vote **against** management say on pay (MSOP) proposals, **against/withhold** on compensation committee members (or, in rare cases where the full board is deemed responsible, all directors including the CEO), and/or **against** an equity-based incentive plan proposal if:

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

Frequency of Advisory Vote on Executive Compensation (Management "Say on Pay")

Vote **for** annual advisory votes on compensation, which provide the most consistent and clear communication channel for shareholder concerns about companies' executive pay programs.

Advisory Vote on Golden Parachutes in an Acquisition, Merger, Consolidation, or Proposed Sale

We will evaluate these proposals based on our existing policies related to severance packages and problematic pay practices.

Equity-Based and Other Incentive Plans

Proposals concerning director compensation are determined based on compensation methodology developed by ISS.

Vote **against** awarding stock option plans as compensation for directors.

Stock Plans in Lieu of Cash

Votes **for** plans which provide directors with the choice of taking all or a portion of their cash compensation in the form of stock or which provide a dollar-for-dollar cash for stock exchange.

Director Retirement Plans

Vote **against** retirement plans for non-employee directors.

Vote **for** shareholder proposals to eliminate retirement plans for non-employee directors.

Management Proposals Seeking Approval to Reprice Options

Vote **against** management proposals seeking approval to reprice options.

Shareholder Proposals Regarding Executive and Director Pay

Vote **for** shareholder proposals seeking additional disclosure of executive and director pay information, provided the information requested is relevant to shareholders' needs, would not put the company at a competitive disadvantage relative to its industry, and is not unduly burdensome to the company.

Vote **against** shareholder proposals seeking to set absolute levels on compensation or otherwise dictate the amount or form of compensation.

Vote **against** shareholder proposals requiring director fees be paid in stock only.

Vote **for** shareholder proposals to put option repricings to a shareholder vote.

All other shareholder proposals regarding executive and director pay are evaluated by taking into account company performance, pay level versus peers, pay level versus industry, and long term corporate outlook.

Qualified Employee Stock Purchase Plans

Vote **for** proposals to approve qualified employee stock purchase plans where all of the following are aligned with local market best practice standards:

- Purchase price;
- Offering period; and
- The number of shares.

Nonqualified Employee Stock Purchase Plans

Vote **for** proposal to approve nonqualified employee stock purchase plans where all of the following are aligned with local market best practice standards:

- Broad-based participation;
- Limits on employee contribution;
- Company matching contribution;
- No discount on the stock price on the date of purchase (since there is a company matching contribution).

In the event of excessive company matching contributions, we will evaluate the cost of plan against an allowable cap developed by ISS.

Employee Stock Ownership Plans (ESOPs)

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

401(k) Employee Benefit Plans

Vote **for** proposals to implement a 401(k) savings plan for employees.

Performance-Based Awards

Generally vote **for** shareholder proposals advocating the use of performance-based awards like indexed, premium-priced, and performance-vested options or performance-based shares, unless:

- The proposal is overly restrictive (e.g., it mandates that awards to all employees must be performance-based or all awards to top executives must be a particular type, such as indexed options)
- The company demonstrates that it is using a substantial portion of performance-based awards for its top executives

Pay-for-Superior-Performance Standard

Generally vote **for** shareholder proposals requesting to establish a pay-for-superior-performance standard whereby the company discloses defined financial performance criteria and a detail list of comparative peer group to allow shareholders to sufficiently determine the pay and performance correlation established in the plan. In addition, establish that no award should be paid out unless the company performance exceeds its peer's median or mean performance on the selected financial and stock price performance criteria.

Golden Parachutes and Executive Severance Agreements

Vote **for** shareholder proposals to require golden parachutes or executive severance agreements to be submitted for shareholder ratification, unless the proposal requires shareholder approval prior to entering into employment contracts.

Proposals to ratify or cancel golden parachutes are determined based on several qualifying factors. An acceptable parachute should include the following:

- The triggering mechanism should be beyond the control of management

- The amount should not exceed three times base amount (defined as the average annual taxable W-2 compensation during the five years prior to the year in which the change of control occurs)
- Change-in-control payments should be double-triggered, i.e., (1) after a change in control has taken place, and (2) termination of the executive as a result of a “change in control”, meaning a change in the company ownership structure
- The agreements do not contain problematic features (e.g. excessive cash severance; excessive golden parachute payments)

Pension Plan Income Accounting

Vote **for** shareholder proposals to exclude pension plan income in the calculation of earnings used in determining executive bonuses/compensation.

Supplemental Executive Retirement Plans (SERPs)

Vote **for** shareholder proposals requesting to put extraordinary benefits contained in SERP agreements to a shareholder vote unless the company’s executive pension plans do not contain excessive benefits beyond what is offered under employee-wide plans. In addition, generally vote **for** shareholder proposals urging the board to limit the executive benefits provided under the company’s supplemental executive retirement plan (SERP) by limiting covered compensation to a senior executive’s annual salary and excluding of all incentive or bonus pay from the plan’s definition of covered compensation used to establish such benefits.

Advisory Vote on Executive Compensation (Say-on-Pay)

Generally vote **for** shareholder proposals asking the board to propose an advisory resolution seeking to ratify the compensation of the company’s named executive officers (NEOs) on an annual basis. The proposal submitted to shareholders should make it clear that the vote is non-binding and would not have an impact on compensation paid or awarded to any NEO.

Disclosure of Board or Company’s Utilization of Compensation Consultants

Generally vote **for** shareholder proposals seeking disclosure regarding the Company, Board, or Board committee’s use of compensation consultants, such as company name, business relationship(s) and fees paid.

IX. SOCIAL AND ENVIRONMENTAL ISSUES

Social issue proposals will be considered based on their potential impact on the long-term economic interests of the System. Generally, we will **abstain** absent clear effect of proposal on share value.

NON-U.S. PROXY VOTING GUIDELINES

I. OPERATIONAL ITEMS

Allocation of Income

Vote **for** approve of the allocation of income, unless:

- The dividend payout ratio has been consistently below 30 percent without adequate explanation; or
- The payout is excessive given the company's financial position.

Amend Minor Bylaws/Articles of Association

Generally, vote **for** proposals to make bylaw or charter changes that are of a housekeeping nature (updates or corrections) unless the proposed changes are believed to be detrimental to shareholder value or in absence of adequate information to evaluate the proposal per local market best practice standards.

Amend Quorum Requirements

Proposals to amend quorum requirements for shareholder meetings are evaluated based on several factors which include: market norms, the company's reasons for the change, and the company's ownership structure.

Change in Company Fiscal Term

Vote **for** proposals to change a company's fiscal term unless the company's motivation for the change is to postpone its annual general meeting.

Financial Statements/Director and Auditor Reports

Vote **for** proposals to approve financial statements and director and auditor reports, unless:

- There are concerns about the accounts presented or audit procedures used; or
- The company is not responsive to shareholder questions about specific items that should be publicly disclosed.

General Meeting Formalities

In some markets, shareholders are routinely asked to approve:

- the opening of the shareholder meeting
- acknowledge proper convening of meeting
- that the meeting has been convened under local regulatory requirements
- the presence of quorum
- the agenda for the shareholder meeting
- the election of the chair of the meeting
- the appointment of shareholders to co-sign the minutes of the meeting
- regulatory filings
- the designation of inspector or shareholder representative(s) of minutes of meeting
- the designation of two shareholders to approve and sign minutes of meeting
- the allowance of questions
- the publication of minutes
- the closing of the shareholder meeting
- authorize board to ratify and execute approved resolutions
- prepare and approve list of shareholders

As these are typically formalities associated with the convening of general shareholder meetings, generally vote **for** these and similar routine management proposals.

Lower Disclosure Threshold for Stock Ownership

Vote **against** proposals to lower the stock ownership disclosure threshold below 5 percent unless specific reasons exist to implement a lower threshold.

Stock (Scrip) Dividend Alternative

Generally, vote **for** stock (scrip) dividend proposals.

Vote **against** proposals that do not allow for a cash option unless management demonstrates that the cash option is detrimental to shareholder value.

Transact Other Business

Vote **against** other business when it appears as a voting item.

II. AUDITORS

Appointment of Auditors and Auditor Fees

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

- There are serious concerns about the accounts presented or the audit procedures used;
- The auditors are being changed without explanation;
- The name(s) of the proposed auditors has not been published;
- The auditors are being changed without explanation;
- For widely-held companies, excessive fees for non-audit services as determined by local market best practice standards; or
- The lead audit partner(s) has been linked with a significant auditing controversy.

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

Appointment of Internal Statutory Auditors

Vote **for** the appointment or reelection of statutory auditors, unless:

- There are serious concerns about the statutory reports presented or the audit procedures used;
- Questions exist concerning any of the statutory auditors being appointed; or
- The auditors have previously served the company in an executive capacity or can otherwise be considered affiliated with the company.

Auditor Indemnification and Liability Provisions

Vote **against** proposals to indemnify auditors.

III. THE BOARD OF DIRECTORS

Voting on Director Nominees in Uncontested Elections (Non-U.S.)

Votes on management nominees in the election of directors are evaluated by observing relevant market listing rules and regulations, coupled with local market best practice standards. We will typically not support nominees if:

- Adequate disclosure has not been provided in a timely manner;

- There are clear concerns over questionable finances or restatements;
- There have been questionable transactions with conflicts of interest;
- There are any records of abuses against minority shareholder interests; or
- The board fails to meet minimum corporate governance standards.

Vote **for** individual nominees unless there are specific concerns about the individual, such as criminal wrongdoing or breach of fiduciary responsibilities.

Vote **against** individual directors if repeated absences at board meetings have not been explained (in countries where this information is disclosed).

Votes in a contested election of directors are evaluated based on the long-term economic interest of the System, and must be examined by taking the following factors into account:

- Past performance relative to its peers;
- Market in which fund invests;
- Measures taken by the board to address the issues;
- Past shareholder activism, board activity, and votes on related proposals;
- Strategy of the incumbents versus the dissidents;
- Independence of directors;
- Experience and skills of director candidates;
- Governance profile of the company;
- Evidence of management entrenchment.

Vote **for** employee and/or labor representatives if they sit on either the audit or compensation committee *and* are required by law to be on those committees. Vote **against** employee and/or labor representatives if they sit on either the audit or compensation committee, if they are not required to be on those committees.

Under extraordinary circumstances, vote **against** or **withhold** from directors individually, on a committee, or the entire board, due to:

- Material failures of governance, stewardship, or fiduciary responsibilities at the company; or
- Failure to replace management as appropriate; or
- Egregious actions related to the director(s)' service on other boards that raise substantial doubt about his or her ability to effectively oversee management and serve the best interests of shareholders at any company.

Board Structure

Generally, vote **for** management proposals to determine board size.

Director and Officer Indemnification and Liability Provisions

Votes on proposals seeking indemnification and liability protection for directors and officers are examined based on the indemnification and liability protections applicable in each respective market, provided that they are within reason. We will generally only support those proposals that provide directors and officers protection if they have acted in good faith on company business and were found innocent of any civil or criminal charges for duties performed on behalf of the company.

Discharge of Directors

Generally vote **for** the discharge of directors, including members of the management board and/or supervisory board, unless there is reliable information about significant and compelling controversies that the board is not fulfilling its fiduciary duties warranted by:

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

IV. PROXY CONTESTS

Voting for Director Nominees in Contested Elections

Votes in a contested election of directors are evaluated based on the long-term economic interest of the System, and must be examined by taking the following factors into account:

- Past performance relative to its peers;
- Market in which fund invests;
- Measures taken by the board to address the issues;
- Past shareholder activism, board activity, and votes on related proposals;
- Strategy of the incumbents versus the dissidents;
- Independence of directors;

- Experience and skills of director candidates;
- Governance profile of the company;
- Evidence of management entrenchment.

V. ANTI - TAKEOVER MECHANISMS

Anti-takeover/Entrenchment Devices

Generally vote **against** all antitakeover proposals, unless they are structured in such a way that they give shareholders the ultimate decision on any proposal or offer.

Depositary Receipts and Priority Shares

Generally vote **against** the introduction of depositary receipts and priority shares.

Issuance of Free Warrants

Generally vote **against** the issuance of free warrants.

Mandatory Takeover Bid Waivers

Generally, vote **for** proposals to waive mandatory takeover bid requirements provided that the event prompting the takeover bid is a repurchase by the company of its own shares. During a buyback of shares, the relative stake of a large shareholder increases even though the number of shares held by the large shareholder has not changed. In certain markets, the mandatory bid rules require a large shareholder to make a takeover offer if its stake in the company is increased on a relative basis as a result of a share repurchase by the company. Companies in such markets may seek a waiver from the takeover bid requirement applicable to their large shareholder.

Renew Partial Takeover Provision

Generally vote **for** the adoption of this proposal as this article provides protection for minority shareholders by giving them ultimate decision-making authority based on their own interests.

VI. MERGERS AND CORPORATE RESTRUCTURINGS

Control and Profit Transfer Agreements

Generally vote **for** management proposals to approve control and profit transfer agreements between a parent and its subsidiaries.

Expansion of Business Activities

Vote **for** resolutions to expand business activities unless the new business takes the company into risky areas.

Mergers and Acquisitions/ Issuance of Shares to Facilitate Merger or Acquisition

Proposals to merge one company with another, or for one company to acquire another are determined based on the long-term economic interest of the System. When evaluating the proposals, shareholders should weigh the cost to the company, market reaction, strategic rationale, the immediate and long-term benefits to shareholders, conflict of interests, whether the transaction is contested, and the resulting corporate governance changes.

Vote **against** if the companies do not provide sufficient information upon request to make an informed voting decision.

Related-Party Transactions

Evaluate resolutions that seek shareholder approval on related party transactions (RPTs), considering factors including, but not limited to, the following:

- the parties on either side of the transaction;
- the nature of the asset to be transferred/service to be provided;
- the pricing of the transaction (and any associated professional valuation);
- the views of independent directors (where provided);
- the views of an independent financial adviser (where appointed);
- whether any entities party to the transaction (including advisers) are conflicted; and
- the stated rationale for the transaction, including discussions of timing.

If there is a transaction that NHRS deemed problematic and that was not put to a shareholder vote, we may recommend against the election of the director involved in the related-party transaction or the full board.

Reorganizations/Restructurings

Proposals to approve reorganizations and restructurings are evaluated based on the long-term economic interest of the System. When evaluating such proposals, shareholders should consider if there are clear conflicts of interest among the various parties, if shareholder rights are being negatively affected, or if certain groups or shareholders appear to be getting a better deal at the expense of general shareholders.

VII. COUNTRY OF INCORPORATION

Reincorporation Proposals

Proposals to change a corporation's country of incorporation should be examined based on the long-term economic interest of the System, giving consideration to both financial and corporate governance concerns including the following:

- Reasons for reincorporation;
- Comparison of company's governance practices and provisions prior to and following the reincorporation; and
- Comparison of corporation laws of original country and destination country

VIII. CAPITAL STRUCTURE

Adjust Par Value of Common Stock

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

Capitalization of Reserves for Bonus Issues/Increase in Par Value

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

Debt Issuance Requests

Votes on non-convertible debt issuance requests with or without preemptive rights are evaluated based on their individual merits, demonstrated need, and long-term investment interests of the company. We will examine the potential impact the proposed authority may have on the company's debt ratio, and further compare the level with similar peers in the industry.

Vote **for** the creation/issuance of convertible debt instruments as long as the maximum number of common shares that could be issued upon conversion meets recommended guidelines on equity issuance requests.

Vote **for** proposals to restructure existing debt arrangements unless the terms of the restructuring would adversely affect the rights of shareholders.

Increases in Authorized Capital

Vote **for** non-specific proposals to increase authorized capital in line with local market best practice standards.

Vote **against** proposals to adopt unlimited capital authorizations.

Increase in Borrowing Powers

Votes on proposals to approve increases in a company's borrowing powers are evaluated based on their individual merits, demonstrated need, and long-term investment interests of the company. We will examine the potential impact the proposed authority may have on the company's debt ratio, and further compare the level with similar peers in the industry.

Pledging of Assets for Debt

Votes on proposals to approve the pledging of assets for debt are evaluated based on their individual merits, demonstrated need, and long-term investment interests of the company. We will examine the potential impact the proposed authority may have on the company's debt ratio, and further compare the level with similar peers in the industry.

Preferred Stock

Vote **for** the creation of a new class of preferred stock or for issuances of preferred stock up to 50 percent of issued capital unless the terms of the preferred stock would adversely affect the rights of existing shareholders.

Vote **for** the creation/issuance of convertible preferred stock as long as the maximum number of common shares that could be issued upon conversion meets ISS guidelines on equity issuance requests.

Vote **against** the creation of a new class of preference shares that would carry superior voting rights to the common shares.

Vote **against** the creation of blank check preferred stock unless the board clearly states that the authorization will not be used to thwart a takeover bid.

Votes on proposals to increase blank check preferred authorizations are evaluated based on the rationale for requested increase, the ability for the company to use the blank check preferred stock as a takeover defense, and whether the company has historically issued such stock for legitimate financing purposes.

Preemptive Rights

Vote **against** proposals requesting the issuance of shares with or without preemptive rights which are excessive under local market best practice standards.

Reduction of Capital

Vote **for** proposals to reduce capital for routine accounting purposes unless the terms are unfavorable to shareholders.

Generally, vote **for** proposals to reduce capital in connection with corporate restructuring, as opposition could lead to insolvency, which is not in the long-term economic interests of shareholders. Evaluation of this type of proposal should take a realistic approach to the company's situation and the future prospects for shareholders.

Reissuance of Repurchased Shares

Vote **for** requests to reissue any repurchased shares unless there is clear evidence of abuse of this authority in the past.

Share Repurchase Programs

Generally vote **for** share repurchase programs/market repurchase authorities, provided that the proposal meets local market best practice standards regarding:

- Maximum volume;
- Duration.

For markets that either generally do not specify the maximum duration of the authority or seek an excessive duration that is allowable under market specific legislation, we will assess the company's historic practice. If there is evidence that a company has sought shareholder approval for the authority to repurchase shares on an annual basis, we will support the proposed authority.

In addition, vote **against** any proposal where:

- The repurchase can be used for takeover defenses;
- There is clear evidence of abuse;
- There is no safeguard against selective buybacks;
- Pricing provisions and safeguards are deemed to be unreasonable in light of market practice.

We may support share repurchase plans with excessive volume under exceptional circumstances, such as one-off company specific events (e.g. capital restructuring). Such proposals will be assessed based on merits, which should be clearly disclosed in the annual report.

IX. EXECUTIVE COMPENSATION

Executive Compensation Plans

All compensation proposals will be reviewed based on local market best practice standards.

Director Remuneration and Compensation

Vote **for** proposals to award cash fees to non-executive directors unless the amounts are excessive relative to other companies in the country or industry.

Votes on non-executive director compensation proposals that include both cash and share-based components are determined based on whether the terms of the proposed compensation can effectively motivate participants to focus on long-term shareholder value and returns, while adhering to local market law, disclosure and best practice standards. However, we will typically vote **against** awarding stock option plans as compensation for non-executive directors.

Votes on proposals that bundle compensation for both non-executive and executive directors into a single resolution are determined based on whether the terms of the proposed compensation can effectively motivate participants to focus on long-term shareholder value and returns, while adhering to local market law, disclosure and best practice standards. However, we will typically vote **against** awarding stock option plans as compensation for non-executive directors.

Vote **against** proposals to introduce retirement benefits for non-executive directors.

Director and Statutory Auditor Retirement Plans

Vote **against** retirement plans for nonemployee directors and statutory auditors.

Vote **for** shareholder proposals to eliminate retirement plans for nonemployee directors and statutory auditors.

Remuneration Report

Management proposals seeking ratification of a company's remuneration policy are evaluated by considering a combination of local market law and best practice standards. We will typically oppose a company's remuneration policy if the proposed compensation policy/report was not made available to shareholders in a timely manner, or if the level of disclosure of the proposed compensation policy is below what local market best practice standards dictate.

X. SOCIAL AND ENVIRONMENTAL ISSUES

Social issue proposals will be considered based on their potential impact on the long-term economic interests of the company. Generally, we will **abstain** absent clear effect of proposal on share value.