Alameda County Employees' Retirement Association

ACERA

PROXY VOTING GUIDELINES AND PROCEDURES

Amended May 19, 2016

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PROXY VOTING GUIDELINES AND PROCEDURES[*]

In recognition of its duty to maintain retirement plan assets in the best interests of plan participants, the Alameda County Employees' Retirement Association ("ACERA") has established the following Proxy Voting Guidelines and Procedures (Proxy Guidelines) which are intended to assist ACERA and its employees in the faithful discharge of their duty to vote proxies on behalf of plan participants.

The Proxy Guidelines consist of voting guidelines for specific, recurring proxy voting issues followed by a general statement of voting policies. ACERA will vote in accordance with specific guidelines whenever a vote described in the specific guidelines is solicited. Whenever a vote is solicited that does not fit within a specific guideline, ACERA will cast its vote according to the general voting policies stated in Article II. However, in all cases the following principles will govern:

1. ACERA will, at all times, strive to cast proxy votes in the best interest of the plan participants.

2. ACERA recognizes that a proxy voting proposal may contain a number of provisions, and may have implications for an organization that are not immediately apparent and, therefore, strive to identify such proposals and vote accordingly.

3. ACERA recognizes that the following are merely guidelines and circumstances will arise in which it may not be appropriate to follow the specific guidelines in order to protect the best interests of participants. Also, proxy vote proposals may arise that are not covered by either specific or general guidelines. In both cases, ACERA will cast its vote in order to further best the plan participants' interests.

4. ACERA recognizes that it has limitations in exercising its proxy voting duties. ACERA further recognizes that these limitations are greater in relation to exercising international proxy voting, due to various restrictions on information and the potential for inadequate company disclosure. Therefore, ACERA will cast its vote in the best interest of the plan participants primarily based on the publicly disclosed information by the companies at the time of voting.

5. ACERA may refrain from voting its shares in certain circumstances where it deems appropriate, if, for example, the cost of voting appears to exceed the expected benefits, or when voting could result in the imposition of trading or other restrictions (e.g. shareblocking) that may restrict liquidity or otherwise impair the investment process.

[*] ACERA's Proxy Voting Guidelines and Procedures apply to all ACERA's investment accounts where applicable.

Article I

SPECIFIC GUIDELINES

A. Domestic Proxies.

1. Directors.

a) Election of Directors.

The election of company directors is a very common voting item. In most cases the vote will be for a full slate of directors for a specified term of office. However, some companies have "classified" or "staggered" boards of directors. In this case, shareholders will be asked to vote for a portion, usually one-third, of the total number of directors, who will serve terms of office that overlap with the existing directors. Information about each director nominee will appear in the proxy statement. To the extent possible, each individual nominee should be evaluated on a case-by-case basis. Otherwise, the entire slate of directors should be considered as a whole.

(1) Uncontested Vote.

If the slate of directors is running unopposed, ACERA's policy is to vote for the entire slate unless there is evidence that the nominees have performed poorly in the past or lack the necessary qualifications to serve as directors.

The main areas that ACERA will consider when voting on director nominees in uncontested elections include: board accountability to shareholders, board responsiveness to shareholders, director independence and director competence.

Specifically, ACERA may vote against or withhold votes from individual director nominees, relevant board committees or all incumbent nominees due to: lack of accountability and oversight coupled with sustained poor performance relative to peers; material failures of governance, stewardship, risk oversight or fiduciary responsibilities at the company; unilateral amendment of company bylaws or charter without shareholder approval in a manner that materially diminishes shareholders' rights or that could adversely impact shareholders; a conflict of interest that raises significant potential risk in the absence of mitigating measures and/or procedures; egregious actions related to a 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; adoption of antitakeover devices without shareholder approval, failure to respond to majority supported shareholder proposals, failure to act on takeover offers where the majority of shares are tendered, failure to address high against/withhold votes, misalignment between CEO pay and performance (pay-for-performance disconnect),

poor compensation practices, poor communication and responsiveness, excessive non-audit fees, poor accounting practices, adverse opinion from the auditor, inappropriate indemnification agreement with the auditor, lack of board/committee independence, director overboarding or poor director attendance.

(2) Contested Vote.

All votes in a contested election of directors are made on a case-by-case basis by selecting the most qualified director nominees or the nominees who are most likely to benefit the company.

b) Staggered Boards.

Most companies' boards of directors are elected the same time each year for an annual term. Occasionally, a proxy solicitation will ask shareholders to vote for or repeal a "staggered" or "classified" board of directors. Under most staggered board schemes, one-third of the total number of directors is elected every year for a three-year term. This makes it more difficult to change control of a company, since only a minority of directors can be elected each year. Financial experts generally agree that staggered boards lower share values and, therefore, are contrary to shareholders' best interests.

ACERA's policy is to vote against proposals to adopt staggered boards and to vote in favor of repealing such boards.

c) Majority Vote Standard.

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

d) Cumulative Voting.

The majority of corporations permit shareholders to cast one vote for each director. A shareholder owning 100 shares of a company that has five directors would normally be permitted to cast only 100 votes for each director. Under cumulative voting, the same shareholder would be permitted to cast a total of 500 votes (100 shares times the number of directors) for any director or directors he or she chooses. Thus, cumulative voting tends to protect the interests of minority shareholders better, since minority shareholders can generally elect at least one director of their choosing. Contrarily, under non-cumulative voting, minority shareholders will always be outvoted with respect to every director nominee. Because cumulative voting permits minority shareholders to have an active voice in the running of a company, it is generally believed to promote management accountability toward shareholders, in general.

ACERA's policy is to vote against proposals to eliminate cumulative voting and to vote in favor of proposals to permit cumulative voting unless the company has proxy access and majority voting standard (with a carve-out for plurality voting in situation where there are more nominees than seats).

ACERA supports proposals for cumulative voting at controlled companies.

e) <u>Director Compensation</u>.

Proposals relating to director compensation should be voted for on a case-by-case basis. Keeping corporate expenses to a minimum should always be a concern. However, director compensation should not be limited to the point where it is difficult for a company to attract qualified directors.

f) <u>Director Indemnification and Liability Protection</u>.

Indemnification permits a company to reimburse directors for expenses incurred as a result of being sued as directors. Such expenses typically include legal expenses and, to a limited degree, some damage awards against directors. The prospect of incurring personal liability as a result of serving as a director can make it difficult for a company to attract the best directors. On the other hand, limiting liability for breaches of the duty of care owed to shareholders can make a director less diligent in executing his or her duties.

ACERA's policy is to vote in favor of proposals to limit directors' liability owing to "good faith" violations of the duty of care or where liability arises from actions in good faith that the director reasonably assessed to be in the best interests of the company. However, ACERA will vote against proposals to limit liability or to indemnify directors (1) retroactively or (2) in a way that would adversely affect shareholders' interests in pending litigation.

g) <u>Fixing the Size of the Board of Directors</u>.

Proposals may appear in the proxy materials to either increase or decrease the size of the board of directors. There are a number of reasons why such proposals may be submitted. For example, the board of directors of a growing company may wish to increase the number of directors so that directors with more specialized skills may be admitted, or to give board seats to directors of a newly acquired subsidiary.

ACERA's policy is to vote for each proposal on a case-by-case basis. The reason given for a solicited vote should be carefully considered. ACERA will weigh the cost of an increased number of directors against the advantages of having a bigger board. ACERA will vote against proposals to reduce the size of the board when such proposals are an attempt to prevent a takeover, or to squeeze out dissenting directors.

h) Removal of Directors/Filling Vacancies.

The proxy materials may contain proposals restricting removal of directors so that cause must be shown for such removal or stating that vacancies on the board can be filled only by the existing directors' vote.

ACERA's policy is to vote against proposals restricting the removal of directors as they can only make it more difficult for shareholders to remove an undesirable director. ACERA will also vote against proposals permitting only existing directors to elect new directors as they reduce shareholders' control over the corporation.

i) Director Nominations.

ACERA's policy is to vote for proposals which permit large shareholders equal access to proxy materials to discuss and evaluate director nominees since they generally will result in more information about prospective directors being communicated to shareholders and increase the chances that the most qualified director will be selected. (See section 1k below)

j) Inside and Outside Directors.

Generally, it is in the best interest of shareholders to have a majority of outside directors, since such directors' interests are less likely to be adverse to the shareholders' interests whereas inside directors tend to vote in a self-serving manner. Therefore, ACERA will withhold votes from insiders and affiliated outsiders on boards that are not at least majority independent. For similar reasons, ACERA will vote in favor of proposals that any board committees dealing with audit, compensation, or nomination be comprised exclusively of independent directors.

k) Qualifications of Directors.

Proposals may appear which would require certain qualifications for director nominees, including stock ownership or other requirements.

ACERA's policy is generally to vote against restrictive director qualifications, since such requirements may have the effect of barring nominees who would be beneficial to the company.

However, ACERA will vote case-by-case on proposals that establish or amend director qualifications. Votes should be based on the reasonableness of the criteria and the degree to which they may preclude dissident nominees from joining the board.

ACERA will vote case-by-case on shareholder resolutions seeking a director nominee who possesses a particular subject matter expertise, considering:

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

l) Independent Chair (Separate Chair/CEO)

Proposals may appear in the proxy materials which require the Chairman's position be filled by an independent director or that the positions of Chairman and Chief Executive Officer to be held by different individuals.

ACERA's policy is to vote for each proposal on a case-by-case basis.

2. Voting and Proxy System.

a) Proxy Voting Disclosure, Confidentiality, and Tabulation.

Confidential voting permits all shareholders to vote their conscience, and prevents management from retaliating against employee shareholders who do not vote in management's favor. Independent tabulation and inspection of the voting results ensures that the votes on highly contested issues are accurately reported.
While a variety of factors may be considered in each analysis of confidential voting proposals, the guiding principles are: transparency, consistency, and fairness in the proxy voting process. Examples of confidential voting proposals may include: confidential voting of individual proxies and ballots, confidentiality of running vote tallies, and the treatment of abstentions and/or broker non-votes in the company's vote-counting methodology.

ACERA may vote against, as applicable to the proposal, if the scope and structure of the proposal is unreasonable; the company's stated confidential voting policy (or other relevant policies) already ensures a "level playing field" by providing shareholder proponents with equal access to vote information prior to the annual meeting; the company's vote standard for management and shareholder proposals already ensures consistency and fairness in the proxy voting process and maintains the integrity of vote results; the company's disclosure regarding its vote counting method and other relevant voting policies with respect to management and shareholder proposals are consistent and clear; the company has not been recently involved in relevant, recent significant controversies; there could be unintended consequences that may result from implementation of the proposal; and, the terms of the proposal are unfavorable to shareholders.

Generally, ACERA's policy is to vote in favor of confidential voting and independent inspections of the voting results.

b) Advisory Committees.

Votes for the creation of shareholder advisory committees should be evaluated on a case-by-case basis. This takes into account the cost and hindrance such committees may present to the company and the benefit they may provide, in light of the facts and circumstances of each case.

c) Annual Meeting.

Proposals relating to the annual meeting of shareholders should be evaluated on a case-by-case basis, with greater weight given to management proposals. Management proposals of this sort are typically routine and non-controversial, and usually permit the directors to take care of routine matters without having to take a vote at the annual meeting. However, such proposals should be carefully inspected to ensure that there are no hidden surprises. Routine proposals include fixing the date of the annual meeting and authorizing directors to take certain actions on routine matters before the meeting. Shareholder proposals should be viewed more skeptically, since shareholders typically do not have the same experience with corporate governance as directors.

d) Shareholders' Right to Call Special Meetings.

ACERA will generally vote in favor of proposals to allow shareholders to call special meetings and vote against proposals to restrict or prohibit such rights. Any proposal which restricts the right of shareholders to call a special meeting can only entrench management and make it more difficult for shareholders to control their corporation. Such proposals would make it more difficult for shareholders to remove directors who are causing damage to the corporation, and hinder takeover attempts, both of which reduce the value of a company's shares. However, ACERA will take into account the following factors:

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

e) Shareholder Action by Written Consent.

ACERA will generally vote in favor of proposals to allow shareholders to take action by written consent and vote against proposals to restrict or prohibit such actions. However, ACERA will take into account the following factors:

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

In addition, ACERA will vote case-by-case on shareholder proposals if, in addition to the considerations above, the company has the following governance and antitakeover provisions:

- An unfettered[1] right for shareholders to call special meetings at a ten percent (10%) threshold;
- A majority vote standard in uncontested director elections;
- No non-shareholder-approved pill; and
- An annually elected board.

f) Super Majority Vote Requirements.

Super majority provisions typically require a two-thirds vote of shareholders to alter the corporate charter or bylaws. This can effectively permit a one-third minority of shareholders to prevent removal of anti-takeover provisions or other undesirable provisions contained in such charter or bylaws. This can reduce the attractiveness and, hence, the value of a corporation, which is eligible for takeover.

ACERA will vote against proposals to require a super majority to amend bylaws or charter provisions and will vote in favor of proposals to abandon such requirements. ACERA may vote in favor of a super majority provision when it relates to a charter, bylaw amendment, or provision that ACERA favors (e.g., a proposal for cumulative voting).

g) Abstention Votes.

ACERA will vote against any provisions that count abstentions as votes for a proposal because they do not accurately represent the will of the shareholders and slant the proxy system in favor of management which can more easily place issues on the proxy ballot.

h) Adjourning Meetings.

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

Adjourning meetings allows the management of a company to circumvent a proxy vote when shareholders vote against the interest of management. Management typically proposes adjourning meetings in order to solicit shareholders to change their votes. This strategy allows management the opportunity to retaliate against employee shareholders who vote against management's interests.

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

ACERA will vote in favor of proposals that relate specifically to soliciting votes for a merger or transaction if ACERA supports that merger or transaction. However, ACERA will vote AGAINST proposals if the wording is too vague or if the proposal includes "other business."

3. <u>Corporate Governance</u>.

a) <u>Ratification of Auditors</u>.

ACERA will, generally, vote in favor of ratification of independent auditors. However, ACERA will vote against proposals to ratify auditors if the following apply:

- 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 that 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; or
- Fees for non-audit services are excessive (non-audit fees greater than audit fees plus audit-related fees plus tax compliance/preparation fees)

In addition, ACERA will vote against a change in auditors where management has selected new auditors and had dismissed the prior auditor because of strict enforcement of accounting principles by such auditor or for any other reason that would adversely affect shareholders.

b) <u>Rotation of Audit Firms</u>.

ACERA's policy is to vote each proposal requiring audit firm rotation on a case-by-case basis. ACERA will consider the firm's tenure, establishment, and disclosure of company's auditor contract renewal process, length of the rotation period advocated in the proposal, and any significant audit-related issues.

c) <u>Stock Option Plans</u>.

Stock option plans encompass option plans for outside directors, employee stock ownership plans (ESOPs), and stock options for executives. Factors to consider when evaluating a plan include: the total cost of the company's equity plans, the ability to reprice options without prior shareholder approval, the company's burn rate, liberal change of control definition, and if the plan is a vehicle for poor pay practices at the company. In addition, ACERA will consider the granting value of options, and whether awards are granted to a large number of employees or to a select group of executives.

ACERA's policy is to vote each proposal on a case-by-case basis, using a balanced equity plan scorecard that considers a range of positive and negative factors where positive factors may counterbalance negative factors and vice versa. However, for Russell 3000 companies, ACERA will apply a pay-for-performance overlay in assessing stock option plans. Furthermore, the repricing guidelines shall conform to changes in the NYSE and NASDAQ. Occasionally, ACERA will vote in favor of a stock option plan that covers only a select group of executives when it believes the plan is necessary to attract and retain particularly well-qualified people who will significantly benefit the company. (See general principles regarding compensation.)

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

ACERA will vote against management say on pay (MSOP) proposals, equity-based incentive plan proposals**,** and/or vote against/withhold on compensation committee members (or, in rare cases where the full board is deemed responsible, all directors including the CEO) 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; or,
- there is insufficient compensation disclosure that precludes a reasonable assessment of pay programs and practices.

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

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

f) Performance-based Option Awards.

ACERA's policy is to vote in favor of proposals advocating the use of performance-based equity awards, unless the proposal is overly restrictive or the company

demonstrates that it is using a "substantial" portion of performance-based awards for its top executives.

g) **Holding Periods (option-award related).**

ACERA's policy is to vote each proposal asking companies to adopt holding periods for equity awards on a case-by-case basis, taking into consideration the company's current holding period or officer share ownership requirements as well as actual officer stock ownership in the company.

h) **Pension Plan Accounting/Executive Compensation.**

ACERA will generally vote in favor of excluding pension fund income in the calculation of earnings used in determining executive bonuses/compensation.

i) **Supplemental Executive Retirement Plans (SERPs).**

ACERA will generally vote in favor of putting supplemental executive retirement plans (SERPs) to a shareholder vote, unless the company's executive pension plans do not contain excessive benefits beyond what is offered under employee-wide plans.

j) **Golden Parachutes.**

Golden parachutes are benefit plans that pay out a large benefit to certain top executives of a company if they lose their jobs as a result of a takeover. Proposals may appear in proxy materials that would limit the amount of golden parachute payments or require shareholder approval before golden parachute plans can be installed.

ACERA will evaluate proposals to approve the company's golden parachute compensation on a case-by-case basis. Features that may lead to a vote against include:

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

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

ACERA will vote in favor of proposals requiring shareholder approval of golden parachutes. ACERA will also vote in favor of proposals to limit golden parachute payments to a reasonable amount, considered in light of the other benefit payments that are available to terminating executives.

k) Litigation Rights (including Exclusive Venue and Fee-Shifting Bylaw Provisions)

Bylaw provisions impacting shareholders' ability to bring suit against the company may include exclusive venue provisions, which provide that the state of incorporation shall be the sole venue for certain types of litigation, and fee-shifting provisions that require a shareholder who sues a company unsuccessfully to pay all litigation expenses of the defendant corporation.

ACERA will vote case-by-case on bylaws which impact shareholders' litigation rights, taking into account factors such as: the company's stated rationale for adopting such a provision; disclosure of past harm from shareholder lawsuits in which plaintiffs were unsuccessful or shareholder lawsuits outside the jurisdiction of incorporation; the breadth of application of the bylaw, including the types of lawsuits to which it would apply and the definition of key terms; and governance features such as shareholders' ability to repeal the provision at a later date (including the vote standard applied when shareholders attempt to amend the bylaws) and their ability to hold directors accountable through annual director elections and a majority vote standard in uncontested elections.

ACERA will generally vote against bylaws that mandate fee-shifting whenever plaintiffs are not completely successful on the merits (i.e., in cases where the plaintiffs are partially successful).

4. Capital Structure, Mergers, and Related Proposals.

a) Additional Shares.

ACERA's policy is to vote on a case-by-case basis on proposals to increase the number of shares on a general basis, or when a specific reason is given for the authorization and the number of shares to be authorized is reasonable for the stated purpose. ACERA will vote against proposals to increase the number of shares when no reason is given for an unreasonable size of increase, or when the reason is to create a "poison pill" or another anti-takeover device.

b) Blank Check Preferred Stock.

Blank check preferred stock is a form of preferred stock which gives the board of directors authority to set the dividend, voting, and other rights of such stock prior to issuing it. This type of stock is often used as an anti-takeover device. Because blank check preferred stock can frustrate a takeover bid and because it gives management broad authority to dilute the ownership interest of existing shareholders, ACERA's policy is to vote against proposals to create blank check preferred or to increase the number of existing blank check preferred.

c) Multiple Classes of Common Stock.

Companies sometimes issue separate classes of common stock that have different voting rights. The issuance of a new class of stock will typically not have a negative impact on the voting rights of existing shareholders, since the new class of stock will have the same or lesser voting rights. However, the new class of stock may have an impact on existing shareholders' financial status. For example, the issuance of a large number of new shares may lower the dividends that the company can afford to pay on existing shares.

ACERA's policy is to examine each proposal related to the issuance of separate classes of stock on a case-by-case basis, in light of the reasons given for the proposal in the proxy statement. ACERA will vote against any proposal to create a new class of stock that does not give a specific reason, or appears to injure existing shareholders' interests.

d) Creation of a Single Class of Common Stock.

A company that has two or more classes of stock may wish to eliminate the diverse classes of stock and create a single class.

ACERA's policy is to vote for re-capitalization into a single class of stock. However, the mechanism by which separate classes of stock are exchanged for new classes should be examined carefully to ensure that it is fair to shareholders.

e) Repurchase Shares.

Companies occasionally seek approval to repurchase their own shares on the open market. This is typically done to acquire shares for an employee benefit plan, or to buy shares at a discount when it is perceived that the company's shares are undervalued. Purchase of shares at a discount can be extremely beneficial to existing shareholders, since it increases their proportional interest in the underlying assets of the company, and can also create an immediate increase in the price of the company's stock. Consequently, ACERA will vote in favor of open-market share repurchases in which all shareholders may participate on equal terms when there is a good reason to repurchase company stock.

f) Preemptive Rights.

Preemptive rights give shareholders the right to purchase new shares whenever a company offers shares to the public. This permits existing shareholders to maintain their proportionate ownership interest in a company. Preemptive rights plans are generally unnecessary when there is an existing market for a company's shares (such as when the company's shares are publicly traded) since shareholders can preserve their proportionate interest in the company by simply purchasing more shares on the stock market. Thus, in most cases, preemptive rights plans are cumbersome and create a needless administrative burden for companies wishing to offer new shares to the public.

ACERA's policy is to vote against preemptive rights, except in the case of a company that does not have a public market for its shares, and to vote in favor of proposals to eliminate preemptive rights plans.

g) Reincorporation.

Corporations may change their state of incorporation from one state to the other by reincorporating. Reincorporation requires shareholder approval and requires a new corporate charter which may or may not be the same as the existing charter. Reincorporation is typically done to take advantage of different state laws, which may be more favorable to the corporation or to management. It is important, in assessing whether to vote for reincorporation, to examine the reasons for the incorporation and the provisions presented in the new charter. Both are explained in the proxy statement.

ACERA's policy is to vote for reincorporations on a case-by-case basis, taking into account all of the provisions in the new corporate charter, with particular attention to shareholders' rights, super majority requirements, and any other changes from the existing corporate charter. ACERA will vote against changes in the state of incorporation which are simply to protect management (e.g., taking advantage of a lower standard of care towards shareholders). ACERA will weigh the costs of reincorporation (e.g., the possibility of additional taxation, the cost of reincorporating, the possibility of being subject to lawsuit in the new state of incorporation) against the benefits of reincorporation which are stated in the proxy materials as justifications for the proposal to reincorporate.

h) Takeovers, Mergers, and Acquisitions.

Occasionally, as a part of a "takeover," shareholders will be asked to tender (i.e., sell) shares to a purchaser, or to vote for a merger with a purchaser, a new board of directors or a sale of a major portion of the company's assets, or some other form of corporate restructuring. ACERA will assess each invitation to tender shares or to vote on merger/takeover terms and/or issues on a case-by-case basis, by undertaking a detailed analysis of the benefits and drawbacks of accepting the proposal. Factors to consider include the following: valuation, strategic rationale, market reaction, negotiations and process, conflict of interest and governance.

i) Anti-Takeover Measures.

(1) Fair Price Proposals.

Fair price proposals require that anyone wishing to purchase the company must pay all shareholders a "fair price." Generally, this prevents an acquirer from paying a higher price to a select group of people and a lower price to the remaining shareholders.

ACERA's policy is to vote in favor of fair price provisions which require the approval of shareholders of a specified majority of shares (usually two-thirds) or of a majority of the shares that are not being offered the higher price.

(2) Anti-Greenmail Proposals.

Greenmail occurs when a potential buyer of a company acquires a large stake in the company, and then the company offers to buy back the shares at a premium in order to prevent the "greenmailer" from obtaining control of the company. Greenmail payments benefit the greenmailer at the expense of the corporation and shareholders.

ACERA's policy is to vote in favor of proposals that prohibit the payment of greenmail, except where such proposals are ill-defined or contain anti-takeover measures that are not desirable (e.g., certain types of fair price provisions).

(3) Poison Pills.

A poison pill is an anti-takeover device that generally gives all shareholders the right to buy shares at a discount when a potential buyer acquires a certain percentage of the company. This has the effect of preventing a takeover because a potential buyer who crosses the ownership threshold that triggers the poison pill will find his or her ownership in the company drastically reduced, resulting in severe financial loss. Poison pills may take a number of forms, but all have a severe deterrent effect on potential takeovers. This reduces the value of a company's shares by making a takeover unlikely, even in the event the company is undervalued.

ACERA's policy is to vote on a case-by-case basis on proposals to adopt a poison pill for the stated purpose of preserving a company's net operating losses ("NOLs"), examining factors that include: the ownership threshold to transfer, the value of the NOLs, the term of the pill, shareholder protection mechanisms, the company's existing governance structure, any other problematic governance concerns or factors that may be applicable.

ACERA will evaluate all other forms of poison pills on a case-by-case basis taking into account impact on shareholders.

(4) Opting Out of State Takeover Laws.

ACERA's policy is to vote in favor of opting out of state takeover laws because such laws can reduce the value of a company by making a takeover unlikely, even in the event that the company is undervalued.

(5) White Knight or Targeted Share Placements.

A "white knight placement" or "targeted share placement" is an anti-takeover measure which involves issuing voting stock, or securities convertible into voting stock, to a person or corporation that is friendly to the management of a company subject to a hostile takeover bid. The "white knight" effectively rescues management by acquiring voting stock or rights to voting stock sufficient to block a hostile takeover. Shareholders may be asked to approve a proposal that would require shareholder approval before management could issue stock to a "white knight."

ACERA's policy is to vote in favor of proposals that would require shareholder approval before management could issue stock to a "white knight." because of the undesirable effects of anti-takeover measures in general.

j) Proxy Access.

ACERA will evaluate each proposal that requires companies to give shareholders access to the proxy ballot for the purpose of nominating board members on a case-by-case basis, taking into account the ownership threshold proposed in the resolution and the proponent's rationale for the proposal at the targeted company in terms of board and director conduct.

B. International Proxies.

The foregoing guidelines shall also apply to international proxies where applicable and not provided for otherwise herein. The following additional guidelines provide for differing regulatory and legal requirements, market practices, and political and economic systems existing in various international markets. As a matter of policy, ACERA will support economic, social, and political justice by companies where they do business. ACERA will support human rights and encourage equal opportunity at all levels of employment, including racial and gender diversity on decision-making committees and boards. ACERA will support greater tolerance and understanding among peoples and improve the quality of life for communities, workers, and children with dignity and equality.

1. Routine Shareholder Meeting Formalities.

a) Routine Agenda Items.

In some markets, shareholders are routinely asked to approve:

• the opening of the shareholder meeting;
• acknowledgement of properly convening a 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 the meeting;
• the designation of two shareholders to approve and sign minutes of the meeting;
• the allowance of questions;
• the publication of minutes;
• the closing of the shareholder meeting;
• authorization of the board ratifying and executing approved resolutions; and
• prepare and approve a list of shareholders.

ACERA's policy is, generally, to vote in favor of these and similar routine management proposals.

b) <u>Financial Statements and Director and Auditor Reports</u>.

The official financial statements and director and auditor reports are valuable documents when evaluating a company's annual performance.

ACERA's policy is generally to vote in favor of management proposals seeking approval of financial accounts and reports unless there is concern about the past/present actions of the company's auditors or directors.

c) <u>Allocation of Income and Dividends</u>.

When determining the acceptability of this proposal, ACERA focuses primarily on the payout ratio. Payouts of less than 30 percent or more than 100 percent are a trigger for further analysis. The minimum level of 30 percent is based on a review of international practice. Payouts of more than 100 percent are a signal that the company is dipping into reserves to make the payment.

ACERA will generally vote in favor of management proposals concerning allocation of income and the distribution of dividends, unless the amount of the distribution is consistently and unusually small (less than 30%) or large (greater than 100%) payout ratio without clear justification.

d) <u>Stock (Scrip) Dividend Alternatives</u>.

ACERA's policy is generally to vote in favor of most stock (scrip) dividend proposals. However, ACERA will vote against proposals that do not allow for a cash option unless management demonstrates that the cash option is harmful to shareholder value.

e) **Transact Other Business.**

ACERA will vote against proposals to transact other business when it appears as a voting item.

2. **Directors.**

a) **Election of Directors.**

Votes on management nominees in uncontested elections of directors are evaluated by observing relevant market listing rules and regulations, coupled with local best practices standards. ACERA will typically not support nominees if: adequate disclosure has not been provided in a timely manner; there are specific concerns about the individual, such as criminal wrongdoing or breach of fiduciary responsibilities; there are clear concerns over questionable finances and restatements; there have been questionable transactions with conflicts of interests; there are any records of abuses against minority shareholder interests; there have been material failures of governance, stewardship, risk oversight, or fiduciary responsibilities at the company; there is a conflict of interest that raises significant potential risk in the absence of mitigating measures and/or procedures; egregious actions related to a director's service on other boards; or, if the board fails to meet minimum corporate governance standards in line with market practice (e.g. board and committee independence, attendance, overboarding, slate elections, etc.).

ACERA will vote in favor of individual nominees unless there are specific concerns about the individual, such as criminal wrongdoing or breach of fiduciary responsibilities.

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

All votes in a contested election of directors are made on a case-by-case basis by selecting the most qualified director nominees or the nominees who are most likely to benefit the company.

b) **Discharge of Duties of Directors.**

ACERA will generally vote in favor of the discharge of duties of management and supervisory board members, unless there is concern about the past/present actions of the company's directors. This is an advisory vote.

c) **Board Structure.**

ACERA will vote against the introduction of staggered boards.

d) **Retirement Age.**

ACERA will vote against proposals seeking to impose a mandatory retirement age for directors.

3. Auditors.

a) Remuneration of Auditors.

ACERA's policy is to vote for proposals to authorize the board to determine the remuneration of auditors, unless there is evidence of excessive compensation relative to the size and nature of the company.

b) Independent Statutory Auditors.

With respect to companies that have a statutory auditor board structure, ACERA will vote against any nominee to the position of "independent statutory auditor" who is considered affiliated, e.g., if the nominee has worked a significant portion of his or her career for the company, its main bank, or one of its top shareholders. Where shareholders are forced to vote on multiple nominees in a single resolution, ACERA will vote against all nominees.

c) Indemnification of Auditors.

Generally, ACERA votes against proposals to indemnify auditors.

4. Corporate Governance Issues.

a) Article Amendments.

ACERA will evaluate each article amendment proposal on a case-by-case basis and will generally vote in favor of article amendments if:

- shareholder rights are protected;
- there is negligible or positive impact on shareholder value;
- management provides adequate reasons for the amendments; and
- the company is required to do so by law (if applicable).

b) Expand Business Activities.

Companies are usually legally required to include in their articles of association or memorandum of association specific business purposes in the form of an objects clause. Because most countries require shareholder approval before articles can be amended, any change to the company's objects clause requires shareholder approval. Countries often seek shareholder approval to amend the objects clause to expand business lines.

ACERA reviews all proposals seeking to expand the company's business activities on a case-by-case basis.

c) **Amend Quorum Requirements.**

In many global markets, the percentage of shares represented at meetings is not as high as in the United States. Indeed, many companies incorporated in markets outside the United States have difficulty attaining a quorum.

ACERA evaluates proposals to amend quorum requirements for shareholder meetings on a case-by-case basis, based on market norms, the company's reasons for the change, and the company's ownership structure. With respect to the latter, companies that have a substantial shareholder or shareholder group should set their quorum requirement well above the percentage of shares owned by such shareholder or shareholder group.

d) **Lower Disclosure Threshold for Stock Ownership.**

ACERA's policy is to vote against resolutions to lower the stock ownership disclosure threshold below 5% unless specific reasons exist to implement a lower threshold. A level below that does not add substantially to shareholders' interests and is often only a pretext for an antitakeover defense.

5. **Capital Structure.**

a) **Capital Issuance Requests.**

General issuance requests under both authorized and conditional capital systems allow companies to issue shares to raise funds for general financing purposes. Issuances can be carried out with or without preemptive rights. Corporate law in many countries recognizes preemptive rights and requires shareholder approval for the disapplication of such rights.

ACERA will vote for the ability to double share capital through a rights issue (with preemptive rights) as it provides the company with sufficient financing to meet most contingencies, unless local market practice prescribes a lower threshold.

ACERA will vote in favor of general issuance requests without preemptive rights for up to 20% of a company's outstanding capital, unless local market practice prescribes a lower threshold. Less strict issuance thresholds may be applied for REITs or other similar entities based on market best practice, regulatory standards, or local governance codes, recognizing the need for operational flexibility, while protecting unitholders and strengthening accountability.

Specific issuance requests will be judged on their individual merits.

b) **Share Repurchase Programs.**

Share repurchase plans are usually sufficiently regulated by local laws or listing requirements to protect shareholder interests.

ACERA votes, on a case-by-case basis, on management proposals to institute open-market share repurchase plans in which all shareholders may participate on equal terms. ACERA will support well-structured plans that keep repurchased shares to a minimum (generally between 10% and 15% of shares outstanding).

c) <u>Reissuance of Shares Repurchased</u>.

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

d) <u>Adjust Par Value of Common Stock</u>.

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

e) <u>Debt Restructurings</u>.

ACERA reviews, on a case-by-case basis, proposals to increase common and/or preferred shares and to issue shares as part of a debt-restructuring plan. We consider the following issues:

- *Dilution* - How much will ownership interests of existing shareholders be reduced and how extreme will dilution to any future earnings be?
- *Change in control* - Will the transaction result in a change in control of the company?
- *Bankruptcy* - Is the threat of bankruptcy, which would result in severe losses in shareholder value, the main factor driving the debt restructuring?
- *Terms of the offer* - We look at discount/premium in purchase price to investor, including any fairness opinion, termination penalties, and an exit strategy.
- *Financial issues* - We look at the company's financial situation; degree of need for capital; use of proceeds; and the effect of the financing on the company's cost of capital.
- *Alternatives* - We look at management's efforts to pursue other alternatives.
- *Conflicts of interest* - We look at whether it is an arm's length transaction and whether there are managerial incentives.

Generally, ACERA votes in favor of proposals that facilitate debt restructurings unless there are clear signs of self-dealing or other abuses.

f) <u>Debt Issuance Requests</u>.

Debt issuance is a popular financing strategy in world markets. Companies routinely issue bonds directly to shareholders in order to raise funds while enjoying low borrowing costs, although bonds are also often issued without preemptive rights. The issuance of

unsecured debt can often include warrants, which are detached at the time of bond issuance.

When evaluating a debt issuance request, the issuing company's present financial situation is examined. The main factor for analysis is the company's current debt-to-equity ratio, or gearing level. A high gearing level may incline markets and financial analysts to downgrade the company's bond rating; this increases its investment risk factor in the process. A gearing level up to 100% is considered acceptable.

ACERA votes for debt issuances for companies when the gearing level is between zero and 100%. ACERA reviews on a case-by-case basis proposals where the issuance of debt will result in the gearing level being greater than 100%. Any proposed debt issuance is compared to industry and market standards.

g) Financing Plans.

ACERA generally votes for the adoption of financing plans, if they are in the best economic interests of shareholders.

h) Control and Profit Transfer Agreements/Affiliation Agreements.

ACERA votes for proposals to approve control and to profit transfer agreements between a parent and its subsidiaries.

i) Capitalization of Reserves.

Companies routinely carry out bonus issues of shares or increases in par value to existing shareholders, usually through the capitalization of reserves from either the share premium reserve or the retained earnings account. Capitalization of these reserves --- transferring them into the share capital account --- usually requires shareholder approval. These issuances essentially function as dividends.

ACERA votes for proposals to capitalize the company's reserves for bonus issues of shares or to increase the par value of shares.

j) Defensive Use of Authorized Share Issuances.

This is a common anti-takeover measure in several European countries. The provision allows management to issue all previously approved pools of capital in the event of a hostile tender offer.

ACERA votes against management requests to issue shares in the event of a takeover offer or an exchange bid for the company's shares, unless the plan is structured in a way that gives shareholders the ultimate decision on any proposal or offer.

k) **Reduction of Capital.**

Proposals to reduce capital can cover a variety of corporate actions, ranging from routine accounting measures to reductions pertaining to a significant corporate restructuring in the face of bankruptcy. In addition, proposals to reduce capital can vary significantly from market to market as a result of local laws and accounting standards. ACERA reviews proposals to reduce capital in connection with corporate restructuring on a case-by-case basis.

l) **Pledging of Assets for Debt.**

In certain countries, shareholder approval is required when a company needs to secure a debt issuance with its assets. In many cases, this is a routine request and is a formality under the relevant law. ACERA evaluates proposals to approve the pledging of assets for debt on a case-by-case basis.

m) **Increase in Borrowing Powers.**

The aggregate limit on the board's ability to borrow money is often fixed in a company's articles; shareholder approval to change this limit is, therefore, legally required. ACERA evaluates proposals to approve increases in a company's borrowing powers on a case-by-case basis.

6. **Executive and Director Compensation.**

a) **Remuneration Report/Policy.**

Seeking annual shareholder approval for a company's remuneration policy allows shareholders to express their support or displeasure over how the company pays and provides incentive to its directors and executives in the most direct way possible. Shareholders displeased with a particular remunerative provision may vote against this item, instead of (or in addition to) voting against a director or the company's financial statements.

ACERA evaluates proposals seeking ratification of a company's remuneration report/policy on a case-by-case basis, considering a combination of local market law and best practices standards. ACERA votes against 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 practices standards dictate.

b) **Fix Maximum Variable Compensation Ratio.**

ACERA generally supports resolutions to fix the ratio between the fixed and variable components of remuneration unless:

- Adequate disclosure has not been provided in a timely manner;
- There are concerns about the company's motivation for a change; and
- There are specific concerns with the company.

c) <u>Director Remuneration</u>.

ACERA generally supports resolutions regarding directors' fees unless they are excessive relative to fees paid by other companies in the same country or industry.

d) <u>Retirement Bonuses</u>.

ACERA is generally in favor of such proposals if all payments are for directors and auditors who have served as executives of the company. ACERA generally votes against such proposals if one or more payment is for non-executive, affiliated directors or statutory auditors, or when one or more of the individuals to whom the grants are being proposed has (1) not served in an executive capacity for the company for at least three years or (2) been designated by the company as an independent statutory auditor, regardless of the length of time he/she has served. Retirement bonus proposals are all-or-nothing, meaning that split votes against individual payments cannot be made. If any one individual does not meet ACERA's criteria, ACERA will vote against the entire item.

e) <u>Option Plans for International Stocks.</u>

Vote AGAINST equity-based compensation proposals if:

- The exercise price the awards are set at a discount to the current market price, unless they are mitigated by performance criteria or other features that justify such discount;
- The maximum dilution level for the scheme exceeds 5 percent of issued capital for a mature company and 10 percent for a growth company. However, ACERA will support plans at mature companies with dilution levels up to 10 percent if the plan includes other positive features such as challenging performance criteria and meaningful vesting periods, as these features partially offset dilution concerns by reducing the likelihood that options will become exercisable unless there is a clear improvement in shareholder value;
- Directors eligible to receive options under the scheme are involved in the administration of the scheme; or
- The company fails to set challenging performance hurdles for exercising the stock options compared with its historical financial performance or the industry benchmarks.
- The minimum vesting period is not in line with best practice (i.e. generally less than three years); or

- Directors eligible to receive options under the scheme are involved in the administration of the scheme; or participation in the scheme is not in line with local market practice.

f) Stock Option Plans for Internal Statutory Auditors.

ACERA’s policy is to generally vote against proposals regarding option grants to independent internal statutory auditors.

g) Stock Option Plans for Suppliers, Customers, and other Outsiders.

ACERA’s policy is to vote against option plans which allow the grant of options to suppliers, customers, and other outsiders with little-to-no ability to impact the share price of the granting company.

7. Transaction-Related Items.

a) Mandatory Takeover Bid Waivers.

Many countries impose a bid threshold that forces any shareholder, whose stake exceeds the limit, to tender a public bid to all the other owners and to purchase the remaining shares. The thresholds are imposed either by national law, stock exchange rules, or a company's articles of association. This mandatory takeover bid rule prohibits a shareholder from owning a large stake in the company and from having a dominating voice in the decision making without being required to purchase the remainder of the shares.

ACERA evaluates proposals to waive mandatory takeover bid requirements on a case-by-case basis.

b) Related-Party Transaction.

Shareholders are often asked to approve commercial transactions between related parties. A transaction between a parent company and its subsidiary, or a company's dealings with entities that employ the company's directors, are usually classified as related party transactions and are subject to company law or stock exchange listing requirements that mandate shareholder approval. Shareholder approval of these transactions is meant to protect shareholders against insider trading abuses.

ACERA evaluates related-party transactions on a case-by-case basis. Generally, ACERA will vote for approval of such transactions unless the agreement requests a strategic move outside the company’s charter or contains unfavorable terms.

Article II

GENERAL GUIDELINES

A. **Social/Environmental Issues.**

ACERA's policy is to evaluate each social/environmental issue on an individual basis and to analyze the financial impact of such proposal on the company as a whole and on the value and performance of the company's shares. ACERA's policy is to vote against social and political issues that do not relate to the company's business or which will not benefit shareholders. ACERA will also vote against social or environmental measures that have a negative impact on shareholder rights. Analysis of the financial impact of a proposal will include the following considerations:

- whether adoption of the proposal is likely to enhance or protect shareholder value;
- whether the information requested concerns business issues that relate to a meaningful percentage of the company's business as measured by sales, assets, and/or earnings;
- the degree to which the company's stated position on the issues raised in the proposal could affect its reputation or sales, or leave it vulnerable to a boycott or selective purchasing;
- whether the issues presented are more appropriately/effectively dealt with through governmental or company-specific action;
- whether the subject of the proposal is best left to the discretion of the board;
- whether the company has already responded in some appropriate manner to the request embodied in the proposal;
- whether the company's analysis and voting recommendation to shareholders are persuasive;
- what other companies have done in response to the issue addressed in the proposal;
- whether the proposal itself is well framed and the cost of preparing the report is reasonable; or
- whether implementation of the proposal's request would achieve the proposal's objectives.

B. **Compensation Issues.**

In dealing with proposals that relate to compensation of management or employees, it is important to keep in mind the general rule: compensation should be designed to provide an incentive for future performance, not be excessive, and not be unduly restricted, so as to put the company at a competitive disadvantage in the labor market.

C. **All Proposals.**

In all cases ACERA will pay particular attention to whether a given proposal comes from management or from shareholders. ACERA recognizes that management proposals

relating to matters of corporate governance should be given extra weight because of management's superior knowledge of the day-to-day operations of a company. Management proposals that result in some benefit for management will be viewed with a measure of skepticism. Also, self-serving proposals from majority shareholders will be given extra scrutiny, as they may injure minority shareholders like ACERA.

D. Ill-Defined or Unexplained Proposals.

ACERA will vote against proposals that are poorly drafted so that some doubt exists as to their intention and proposals that are not supported by justifications given in the proxy statement, unless the justifications are apparent or obvious. ACERA will generally vote against proposals on international proxies if the company fails to provide shareholders with adequate information on which to base their voting decision.

Exhibit I

TABLE OF AMENDMENT DATES

December, 1990
January, 1999
October, 2004
September, 2005
April, 2007
April, 2011
May, 2012
March, 2014
May, 2016