

POLICY NUMBER: 2.05.200**EFFECTIVE DATE:** 12/17/15**TITLE:** Global Proxy Voting Policy**SUPERSEDES:** 9/18/14**BOARD ADOPTION:** 12/17/15**APPROVED:** 

PURPOSE

One of the principal forms of participation in corporate governance by investors is through the proxy. This policy and associated guidelines form the basis of the Washington State Investment Board's (WSIB) participation in proxy voting.

The proxy is an asset of the WSIB and as with all assets of the Board must be managed prudently for the exclusive benefit of the beneficiaries. The root of the corporate governance issue for investors is the separation of ownership from control. The agent—management—may not have the same interests as the principal—the shareowners. Investors invest in equity for good risk adjusted returns, but the power relationship between the investor and the company is unequal. Company management possesses more information and has more ability to act than either the board of directors or the shareholders. The rights of investors to act are limited, sometimes severely. They depend on company directors to look after their interests, but the results are not always satisfactory despite the best intentions of the directors. The agency problem produces a misalignment of interests that can be detrimental to the interests of the shareholders.

The traditional view of corporate governance participation by investors is that an investor who believes governance is important and who is dissatisfied with a company's governance structure will sell the stock. If you don't like the governance, exit the investment. But for institutional investors like the WSIB with their long investment horizon and relatively constant asset allocations, and particularly for ones with allocations to passive index funds, exit via stock sales is not a viable option. Institutional investors become permanent owners of publicly traded corporations. If exit isn't an option, then active participation becomes a necessity.

Corporate governance matters because it is a powerful form of accountability for corporate management that helps to align the interests of owners and managers and thus create an investment climate more favorable to the interests of long term, patient capital.

POLICY

The WSIB or its delegates will vote all proposals submitted to stockholders in the best interest of the beneficiaries of the trust to which the WSIB and its investment managers have a fiduciary duty. In exercising its judgment with respect to voting proxies, the WSIB or its delegates are governed by their primary duty to advance the economic value of the companies who have securities held, within the boundaries of prudent and responsible corporate behavior. If, after careful and thoughtful consideration, the WSIB or its delegates believe that a proposal could adversely affect the long-term value of the company, the proxy is voted against the proposal consistent with the purpose and overall intent of this policy.

The WSIB developed the accompanying guidelines as general principles to guide the exercise of proxy voting rights for global equity investments. These guidelines address the major corporate governance issues which are typically raised by shareholders and management.

These guidelines are intended to provide general direction as to particular issues. They are not meant as a substitute for careful review of ballot proposals or contextual application of the guidelines to the specific circumstances facing any company and its shareholders at any given time. The WSIB votes the issues expressly addressed in the guidelines in accordance with the guidelines except where a different result is warranted in the context of the company, the timing and the issue at hand. The WSIB examines the issues not expressly addressed in the guidelines on a case-by-case basis in a manner consistent with the relevant principles set forth herein and guided by the research and recommendations of the WSIB's proxy voting advisor. The WSIB reserves the ultimate right, where necessary, to specifically direct the exercise of proxy voting rights for any issue, whether or not addressed in the accompanying guidelines.

DUTY

The basic fiduciary requirements under common law are the duty of loyalty and the duty of care. The prudent investor rule, as applied to proxy voting, means that a fiduciary must carefully analyze the implications of proxy proposals. These duties are (1) the fiduciary actually votes the proxies the plan is entitled to vote; (2) the fiduciary votes after careful study of the issues; and (3) the fiduciary can show why the votes cast were in the best interest of the plan beneficiaries.

STRATEGIC ROLE

Corporations are the cornerstones of a market economy, and as such must be governed by the principles of accountability and fairness. Shareholders are the owners of corporations and the directors are accountable to the shareholders who elect them. The WSIB, in turn, is accountable to its fund beneficiaries. This policy is designed to assist the WSIB's staff and investment managers vote proxies on behalf of the WSIB consistent with the WSIB's obligation to maximize investment return at a prudent level of risk for the exclusive benefit of fund beneficiaries.

APPLICATION

This policy and the guidelines are not intended to be a substitute for or be in conflict with statutory, regulatory, or stock exchange requirements. Statutory, regulatory, and stock exchange requirements shall provide the minimum requirements.

The WSIB delegates to the WSIB Executive Director the authority to implement the proxy voting policy and guidelines and to ensure that the WSIB's proxy voting rights are fully and properly exercised. The Executive Director may make necessary updates and adjustments to the guidelines consistent with any changes in statutory, regulatory, or stock exchange requirements, the overall policy and guidelines, and upon consultation with the Chair of the Audit Committee and the Chair of the Board. The Audit Committee and the Board will review this policy and the guidelines annually, at which time any updates and adjustments made to the guidelines by the Executive Director will be reviewed. The WSIB staff and the WSIB's consultants shall provide the Board with an annual report, and such other periodic reports as may be requested by the Board, summarizing the exercise of the WSIB's proxy voting rights.

Public Equity Investments in Separate Accounts

Proxy voting may be performed by staff, contracted to a third-party vendor, or delegated to the investment manager in accordance with the guidelines developed by the WSIB.

U.S. Equity Commingled Accounts

For U.S. equity commingled accounts in the defined benefit program, the WSIB will vote proxies in the companies in which the WSIB holds an indirect public equity interest, in accordance with the guidelines developed by the WSIB.

Other Mutual Funds and Commingled Funds

The WSIB invests in mutual funds and commingled funds which are made available as options in defined contribution plans and, in some cases, invests in commingled funds in the defined benefit fund. The WSIB does not have a direct equity position, but holds units or shares in a mutual fund or commingled fund. The mutual fund or commingled fund is responsible for establishing appropriate guidelines and voting proxies. These proxies are voted according to the guidelines outlined in the mutual fund prospectus and/or established by the investment company managing the commingled fund.

The WSIB will inform the mutual funds and the commingled funds in which it invests of its proxy voting guidelines on at least an annual basis. The WSIB will work with the mutual funds and commingled funds, where possible, as to how the WSIB might provide input to the funds on proxy voting issues.

International Proxy Voting and Market Differences

Proxy voting in international markets differs somewhat from proxy voting in the U.S. markets, due to the various country specific laws, customs, and regulations. The proxy voting rights in international equity investments will be exercised as deemed appropriate by the WSIB, taking into consideration any restriction that may be placed on the liquidity of the position or any other impediment to proxy voting. In making these decisions, the WSIB will follow conventions considered best practice that allow for differences in local market conditions.

POLICY REVIEW

This policy shall be reviewed every year to ensure that it remains relevant and appropriate.

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PROXY VOTING GUIDELINES

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BOARD OF DIRECTORS

A Board of Directors (“board”) exists to represent shareholders, protect shareholders’ interests, and maximize shareholder value. The WSIB seeks board members with a proven record of protecting shareholders and delivering value over the medium to long-term. In our view, boards working to protect and enhance the best interests of shareholders typically possess substantial independence (the definition of which may vary due to local market practice and regulations) and are comprised of members with a record of positive performance and directors with a breadth and depth of experience.

Board Composition

Director Independence

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

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

purposes of this test.

Directors are not considered independent if their employer has a material financial relationship with the company. This includes a director who owns or is employed by a group that controls 20 percent or more of the company's voting stock.

Where the company does not disclose the names and backgrounds of director nominees with sufficient time in advance of the shareholder meeting to evaluate their independence and performance, we will consider abstaining on the directors' election.

Board Independence

We believe that boards should be composed of a minimum of two-thirds independent directors (though this proportion will vary by local market. Further, we believe that only independent directors should serve on a company's audit, compensation, nominating, and governance committees. The WSIB votes in a manner that encourages such a makeup or encourages change where this is not the case.

We vote against directors who have consulting relationships with the company because we view those relationships as both affecting the board members' ability to act independent of the management from whom the directors received consulting contracts and as potentially interfering with the company's ability to procure services from the best advisor for the issue at hand.

For directors with other personal, familial, or financial relationships, where they sit on a key committee or there are more than one-third insider or affiliated directors on the board, we vote against as many as required to create a two-thirds balance beginning with those who have the most problematic relationships. We will likewise vote against insiders on this basis, though we rarely vote against a CEO to reduce the number of insiders or affiliates on the board.

Controlled Company Exception: We note that in the case of a controlled company, we do not vote against directors where the board reflects the makeup of the shareholder population.

Director Accountability

We closely scrutinize board accountability and oversight at companies that demonstrate poor corporate stewardship. Specifically, the WSIB considers it problematic when companies lack oversight mechanisms and board accountability to shareholders.

We generally vote against directors individually, committee members, or the entire board (except new nominees) due to:

1. Material failures of governance, stewardship, risk oversight, or fiduciary responsibilities
2. Failure to act on a shareholder proposal that received the support of a majority of the shares cast in the previous year
3. Bylaw or charter amendments without shareholder approval in a manner that materially diminishes shareholders' rights or that could adversely impact shareholders (including exclusive venue and fee-shifting bylaw provisions)
4. Adoption of a poison pill (with a term of more than 12 months) or renewal of any existing pill without shareholder approval.

Director Performance

We vote in favor of governance structures that will positively drive performance and create shareholder value. The most crucial test of a board's commitment to the company and to its shareholders lies in the actions of the board and its members. The performance of directors as board members, as well as their performance in their roles at other companies is of substantial importance.

We consider the following key performance factors, among many others, in assessing whether to support a board's nominees:

1. Did a continuing director show an attention and dedication to shareholder representation by attending at least 75 percent of the board and applicable committee meetings last year?
2. Does a continuing director or the director's immediate family members receive perquisites in the form of special compensation or other special benefits not ordinarily conferred on directors?
3. Does the nominee sit on an excessive number of public company boards, especially in light of the director's other professional obligations?
4. Does the nominee, or a member of his or her immediate family, provide material professional services to the company presently or in the past?
5. Does or would the nominee have an interlocking directorship with an executive of the company?
6. Does the nominee have a track record of service as a director or executive at a company where significant performance, transparency, environmental, social, governance, legal, or accounting problems exist or have in the past?
7. Is the nominee currently the CFO or other financial executive of the company on whose board the nominee is proposed to serve?

Director Experience

We look for boards with talented directors who have a diversity of backgrounds and experience that will enable them to understand the issues particular to the company where they serve and who collectively have the ability to review and judge the critical issues they decide on behalf of shareholders.

Nominating committee charters, or equivalent, ought to reflect that boards should be diverse, including, in addition to background and experience, such considerations as age, race, gender, ethnicity, and culture. Where we believe this diversified talent is missing from the board, we vote against directors as appropriate to address the issue.

Vote-No Campaigns

In cases where companies are targeted in connection with public "vote-no" campaigns, we will evaluate director nominees in light of the above described policies for voting on director nominees, taking into consideration the arguments submitted by shareholders and other publicly available information.

The Key Committees

The WSIB votes for board members that meet the criteria identified below.

Audit Committee Members

Audit committee members should be mindful of fees paid to the company's independent auditor and the services underlying those fees. The committee should take care to ensure that the auditor is not conflicted or distracted from the audit function. It is the duty of the audit committee to oversee the company's independent auditor, its internal controls and the filing of

the company's financial statements. Further, we believe shareholders' interests are best protected when the audit committee allows for shareholder ratification of the independent auditor at each annual meeting.

Compensation Committee Members

The members of the compensation committee have the responsibility of overseeing the compensation packages awarded to the company's executives. To successfully fulfill their duty to shareholders, executive compensation should be in line with company performance, and pay should be at a level on par with a company's peers based on the same metrics.

Governance Committee Members

Governance committee members should be independent. Their focus should be on implementing good corporate governance policies, such as an independent chairman or an independent lead/presiding director, to ensure proper oversight when the chairman is and, insider or affiliate. The governance committee should focus on listening to shareholders and therefore, we will oppose continuing directors if the board fails to implement a majority approved shareholder proposal with a direct and substantial impact on shareholders and their rights.

Nominating Committee Members

Nominating committee members should be independent and should fulfill their duty to shareholders by nominating new independent and shareholder focused directors. They should take caution not to (re)nominate a director who should not sit on the board due to independence, failure to receive majority support of shareholders, or other issues.

Risk Oversight committee members

Risk committee members, or their equivalent in the absence of a dedicated risk committee, are responsible for establishing, implementing, and monitoring sound risk control policies, including relating to financial and cyber risks, and procedures to ensure sustainable company performance.

Slate Elections

In certain countries, companies elect their board members as a slate rather than individually; shareholders are therefore unable to vote on the election of each individual director, but instead are limited to voting for or against the board as a whole. If significant issues exist concerning a preponderance of the board or we have severe concerns with one or more of the nominees, we will vote against the entire slate of directors.

Board-Related Shareholder Proposals

Independent Chair (Separation of the roles of Chairman and CEO)

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

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

We support proposals to separate the roles of chairman of the board and CEO, except in circumstances where the existing arrangement has worked out to be economically beneficial to shareholders, so as to not warrant a change at the time proposed.

In the absence of an independent chairman, we support the existence of a presiding or lead director with authority to call a board meeting, set the agenda for any board meeting, and to lead sessions of the non-employee directors.

Staggered (Classified) Boards

The WSIB favors the annual election of directors and the repeal of staggered boards. We believe that staggered boards are less accountable to shareholders than boards that are elected annually. In our view, the annual election of directors encourages board members to focus on the interests of shareholders.

Election of Directors by a Majority Vote

The ability to elect directors is a fundamental part of shareholder rights. We believe that the plurality method currently used by a significant number of companies does not provide shareholders with meaningful input on the election of directors, since a director could be elected with as few as one vote. Therefore, we support shareholder or other proposals that recommend or require that companies adopt a majority vote standard for election of directors in uncontested elections. We vote against if no carve-out for a plurality vote standard in contested elections is included.

Proxy Access

The WSIB supports the right of long-term shareholders to nominate director candidates. We think shareholders are best served when they have maximum influence on director selection, in order to appoint directors who are independent and focused on the interests of shareholders. Accordingly, we support proposals granting shareholders access to the ballot in consideration of company size, the shareholder proponent and the rationale for putting forth the proposal at the target company, and the percentage ownership requested and holding period requirement. Specifically, we generally support the following provisions:

- *Ownership Threshold:* Maximum requirement not more than 3 percent of the voting power
- *Ownership Duration:* Maximum requirement not longer than 3 years of continuous ownership for each member of the nominating group
- *Aggregation:* Minimal or no limits on the number of shareholders permitted to form a nominating group
- *Cap:* Cap on nominees of generally 20-25 percent of the board, depending on board size.

Generally, the WSIB will vote against proxy access proposals that are more restrictive than these guidelines (including management-initiated access proposals).

Establish/Amend Nominee Qualifications

Resolutions asking companies to address certain issues, such as risk management or the environment, at the board level by nominating an independent director with specific experience in relevant areas, have emerged as areas of focus for some investors.

Shareholder resolutions seeking a director nominee who possesses a particular subject matter expertise are assessed on a case-by-case basis, 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
- The scope and structure of the proposal.

CEO Succession Planning

All companies should have succession planning policies and succession plans in place, and boards should periodically review and update them. Guidelines for disclosure of a company's succession planning process should balance the board's interest in keeping business strategies confidential, with shareholders' interests in ensuring that the board is performing its planning duties adequately.

Generally, the WSIB supports proposals seeking disclosure on a CEO succession planning policy, considering, at a minimum, the following factors:

- The company's existing disclosure on its current CEO succession planning process
- The reasonableness/scope of the request.

Cumulative Voting

The WSIB supports cumulative voting. Cumulative voting is a voting process that maximizes the ability of minority shareholders to ensure representation of their views on the board. Cumulative voting can play an especially important role where a board is controlled mainly by insiders or affiliates, or where the company's ownership structure includes one or more very large shareholder who controls a majority-voting block of the company's stock. In those situations, smaller shareholders need the protections of cumulative voting to ensure their voice is heard. Cumulative voting operates as a safeguard, by allowing those who hold a significant minority of shares are able to elect a candidate of their choosing to the board. This allows for the creation of boards that are broadly responsive to the interests of all shareholders rather than simply to a small group of large holders. However, if a company has adopted a true majority vote standard (e.g., where a director must receive a majority of votes cast to be elected, as opposed to a modified policy indicated by a resignation policy only), we will vote against a cumulative voting proposal, since it may be incompatible with majority voting. Furthermore, when companies have adopted some form of majority voting but it falls short of a true majority voting standard, we will vote against cumulative voting proposals if the company has not adopted antitakeover protections and has been responsive to shareholders.

Mandatory Director Retirement Provisions

Director Term Limits

Term limits are not the best method for pursuing change at the board level. The experience of directors through their service over time can be a valuable asset to shareholders. However, periodic director rotation may be appropriate to ensure a fresh perspective in the boardroom and the generation of new ideas and business strategies. Therefore, where the WSIB believes needed change has not come to the board through other means, and the length of the term is long enough to limit continuous turnover (usually 10 years or more), we may support a term limit.

Director Age Limits

Age limits are not usually in the best interests of shareholders. The experience of directors through their service over time can be a valuable asset to shareholders. Age limits unfairly imply that older or younger directors cannot contribute meaningfully to the oversight of a company.

Board Operations

Shareholders are best served when directors provide effective oversight of management, as well as of each other. Shareholder interests are enhanced when directors have a peer review process, a director training process and an executive review process in place. The WSIB supports proposals calling for these processes, where we believe the board does not have an effective process currently in place.

Director Stock Ownership

Share ownership by directors helps align directors' interests with those of other shareholders. Accordingly, we support reasonable equity compensation of directors and reasonable ownership and holding requirements for directors.

AUDIT-RELATED

Auditor Ratification

The role of the auditor is crucial to protecting shareholder value. Like directors, auditors should be free from conflicts of interest and should assiduously avoid situations that tempt them to make choices between their own interests and those of the public shareholders whom they serve. The WSIB generally supports management's recommendation regarding the selection of an auditor and supports granting the board the authority to fix auditor fees, except in cases where we believe the independence of an incumbent auditor or the integrity of the audit has been compromised.

The WSIB votes against an auditor and/or authorizing the board to set auditor fees in limited situations, including, among others, the following:

1. The auditor limited its liability through its contract with the company or the audit contract requires the corporation to use alternative dispute resolution procedures without adequate justification
2. The auditor has a conflict of interest or has failed to properly fulfill its duties
3. Any category of non-audit fees exceeds audit fees
4. The company has had recent restatements involving auditor errors or late filings.
5. The company's accounting policies are aggressive
6. The company has poor disclosure or a lack of transparency in its financial statements
7. The company is changing auditors as a result of a disagreement between the company and the auditor on a matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedures.

Auditor Rotation

The WSIB supports audit related proposals regarding mandatory auditor rotation when the rotation occurs after a reasonable period of time (usually not less than 5-7 years).

TRANSPARENCY & INTEGRITY IN FINANCIAL REPORTING

Shareholders' insight into the value of their investments and the growth potential of that investment is only as good as the information disclosed to shareholders by the company. Shareholders ultimately rely on the board members and the auditors they hire to review and approve the company's financial reporting and disclosure. Transparent disclosure to shareholders and unconflicted presentation of a company's financial position is critical to allow

shareholders to make informed investment decisions. Accordingly, we believe that transparency and integrity in financial reporting is one of the most crucial matters for shareholder review and attention. We use proxy voting as a mechanism for supporting companies with transparent disclosure and for demanding transparency where it is lacking.

Pension Accounting Issues

Proxy proposals sometimes raise the question as to whether pension accounting should have an effect on the company's net income and, therefore, be reflected in the performance of the business for purposes of calculating payments to executives. It is our view that pension credits should not be included in measuring income used to award performance-based compensation.

Many of the assumptions used in accounting for retirement plans are subject to the discretion of a company, and management would have a potential conflict of interest if its pay were tied to pension income.

Accounts and Reports

Many countries require companies to submit the annual financial statements, director reports, and independent auditors' reports to shareholders at a general meeting. Shareholder approval of such proposals does not discharge the board or management. The WSIB generally votes in favor of these proposals, except when there are concerns about the integrity of the statements/reports. However, should the audited financial statements, auditor's report, and/or annual report not be published at the writing of our report, we will abstain from voting on this proposal.

Distribution of Dividends

In many countries, companies must submit the allocation of income for shareholder approval. The WSIB will generally vote for such proposals. However, we will give particular scrutiny to cases where the company's dividend payout ratio is exceptionally low or excessively high relative to company performance, dividend history and available cash reserves, and the company has not provided a satisfactory explanation. We generally abstain from voting on dividend policies with payout ratios of less than 10 percent or more than 200 percent.

COMPENSATION AND PERFORMANCE

A company's compensation practices are a key indicator of whether the company's board is looking out for the best interests of shareholders. The WSIB believes that executive and equity compensation plans are two of the most critical areas for shareholder scrutiny. First, because the company is using shareholders' money and must always do so prudently; but, equally important, this is an area that has proven to be rife with conflicts and abuse where it is not carefully monitored.

Our analysis of compensation plans is decidedly quantitative and focused on the cost of the plan, as compared to the operating metrics of the business. Our goal is to determine whether a proposed plan is absolutely excessive or is outside a reasonable deviation from the norm for its peers. We do not rely exclusively on relative comparisons, as we believe the academic literature shows that there should be some absolute limits to avoid endless upward pressure.

Executive Compensation

Executive compensation should be linked directly with the performance of the business the executive is charged with managing. The WSIB carefully evaluates executive compensation

issues at each company whose proxy it votes, to determine whether the compensation to the company's senior executives is in line with the performance of the business. Pay received by executives at a company should also not exceed those of relevant peers. The WSIB considers peer groups in evaluating executive compensation, examines peers selected by compensation data provider Equilar, and compares both the executives' pay and the company's performance to those peers to assess whether the executive pay structure at any given company is appropriate and reasonable. We use the following measures of performance over 3 years in our analysis including total return, stock prices, EPS growth, change in operating cash flow, book value growth, growth in funds from operations, ROA, and ROE.

Excessive Executive Compensation

The U.S., Section 162(m) of the Internal Revenue Code allows companies to deduct compensation in excess of \$1 million for the CEO and the next four most highly compensated executive officers, upon disclosure to and shareholder approval of the excess compensation. Given the shareholder approval requirement of section 162(m), we believe that companies must provide reasonable disclosure to shareholders so that they can make sound judgments about the reasonableness of the proposed plan. We support the plan if the proposal includes specific performance goals, a maximum award pool, and a maximum award amount per employee. We also consider whether the estimated grants are reasonable and in line with the company's peers. Similar principles will be applied to executive compensation in other markets, though the specifics may vary by local market and applicable regulation.

Equity Based Compensation Plans

The WSIB evaluates option and other equity-based compensation on a case-by-case basis. We believe that equity compensation awards are a useful tool, when not abused, for retaining and for providing appropriate incentives for employees to work to improve the performance of the company. When the cost of the plan is not in line with the performance of the business or are excessive on an absolute basis, or where the company has a pattern of excessive compensation and the proposed plan appears to continue in that tradition, we vote against the plan and encourage the company to return with a reasonable plan that reflects the economics of the business and protects value for shareholders.

We evaluate option plans based on 10 overarching principles:

1. Companies should seek more shares only when needed
2. Plans should be small enough that companies seek approval every 3-4 years (or less) from shareholders
3. If a plan is relatively expensive, it should not grant options solely to senior executives and board members
4. Annual net share count and voting power dilution should be limited
5. Annual cost of the plan (especially if not shown on the income statement) should be reasonable as a percentage of financial results, and in line with the company's peer group
6. The expected annual cost of the plan should be proportional to the value of the business.
7. The intrinsic value received by option grantees in the past should be reasonable compared with the financial results of the business
8. Plans should deliver value on a per-employee basis when compared with programs at peer companies
9. Plans should not permit re-pricing of stock options
10. Plans should not contain excessively liberal administrative or payment terms.

The WSIB is assisted by a proprietary model developed by our proxy voting advisors to evaluate plans based on each of these 10 principles and to make recommendations accordingly.

Option Exchanges

We disfavor option exchanges, which re-price options after their initial grant. We believe that employees are more likely to look after the interests of shareholders when they face the same risks shareholders face.

We may support a re-pricing if the following conditions are true:

1. Officers and board members do not participate in the program
2. The stock decline mirrors the market or industry price decline in terms of timing and approximates the decline in magnitude
3. The exchange is value neutral or value creative to shareholders with very conservative assumptions and recognition of the adverse selection problems inherent in voluntary programs.

Management and the board make a cogent case for needing to provide incentives to and retain existing employees, such as being in a competitive employment market.

Director Compensation Plans

Non-employee directors should receive compensation for the time and effort they spend serving on the board and its committees. In particular, we support compensation plans that include option grants, or other equity-based awards, which help to align the interests of outside directors with those of shareholders. Director fees should be competitive in order to retain and attract qualified individuals, especially in an environment where the responsibilities of directors are increasing. However, excessive fees represent a financial cost to the company and threaten the objectivity and independence of non-employee directors. Therefore, we believe a balance is required.

We are assisted by a proprietary model developed by our proxy voting advisors to help us evaluate the fees paid to directors relative to those paid to the company's peers. This model helps evaluate whether fees are designed to allow for the selection of the most qualified board members, but not so unreasonable as to constitute a waste of shareholder resources.

Advisory Votes on Compensation

We closely review companies' remuneration practices and disclosure, as outlined in company filings, to evaluate management-submitted advisory compensation vote proposals. In evaluating these proposals, which can be binding or non-binding depending on the country, we examine how well the company has disclosed information pertinent to its compensation programs, the extent to which overall compensation is tied to performance, the performance metrics selected by the company, and the levels of remuneration in comparison to company performance and that of its peers.

We support an annual advisory vote on executive compensation, as it provides the greatest degree of accountability and constructive communication by linking the vote to the information presented in the accompanying proxy statement for the annual shareholders' meeting.

Remuneration Report and Policy

We will usually vote against approval of the compensation report or policy when any of the following occur:

1. Service contracts provide for notice periods longer than 1 year
2. Service contracts provide for the enhancement of employment terms or compensation rights in excess of 1 year in the event of a change of control
3. Payments have been made or longer-term obligations entered into (including pension obligations) to compensate an executive who has voluntarily left the company, and this has not been fully disclosed and justified
4. Ex gratia or other non-contractual payments have been made and the reasons for making the payments have not been fully explained or the explanation is unconvincing
5. Egregious or excessive bonuses, equity awards, or severance payments.

Shareholder Proposals on Compensation

Proposals to Limit Executive Compensation

The WSIB reviews proposals to limit executive compensation in light of the above described analysis. As a general rule, the WSIB believes that executive compensation should be left to the board's compensation committee. We use board voting and, in particular, voting for compensation committee members as the vehicle to express support or displeasure with the company's executive pay structure. However, where a particular proposal to limit compensation is appropriate given the company's track record of pay-for-performance, we may support such a proposal, particularly if we lack confidence that the board will take the necessary steps to address the issue on its own.

Further, the WSIB favors supporting the ability of shareholders to have additional opportunities to express opinions on executive compensation through the means of a shareholder vote. Therefore, the WSIB will support shareholder proposals seeking or requiring a company to grant shareholders an advisory vote on the compensation committee's report on executive compensation.

Limits on Executive Stock Options

Equity compensation is an important component of compensation packages to attract and retain experienced executives and other key employees. Tying a portion of an executive's compensation to the performance of the company also provides an excellent incentive to maximize share values by those in the best position to affect those values. Accordingly, unless there is some pattern of equity compensation abuse at the company, we tend to disfavor proposals that hinder the use of equity as a means of compensating executives.

Performance Based Options

The WSIB favors reasonable performance based option proposals. We feel that employees should be compensated with equity when their performance and that of the company warrants such rewards. We evaluate these plans using the same economic analysis described above. We also may support shareholder proposals that recommend moving from a non-performance based equity arrangement to a performance based plan, especially where the company has a track record of paying its employees in a manner inconsistent with the performance of the business.

Golden Parachutes

The WSIB believes that shareholders' ratification should be required for golden parachute severance agreements that exceed IRS guidelines in the U.S. (such as when they exceed 2.99 times the sum of the executive's base salary plus bonus). Accordingly, we support shareholder or other proposals that provide for such shareholder approval. We will apply

similar standards, subject to local considerations, in evaluating “golden parachutes” outside the U.S.

Limit Accelerated Vesting of Equity Awards Upon a Change in Control (Pro-rata Vesting)

In the case of equity awards, their disposition in connection with a change in control is generally provided for under the equity-based incentive plan, under which they are granted. The WSIB believes that such provisions should not “default” to automatic vesting or payout of outstanding awards upon a change in control, but rather should permit that action only as a “last resort” if there is no possibility of the awards being assumed or replaced by the surviving corporation, and subject to acceleration only if the participant’s employment terminates.

Generally, the WSIB supports proposals seeking a policy that prohibits acceleration of the vesting of equity awards to senior executives in the event of a change in control (except for pro rata vesting, considering the time elapsed and attainment of any related performance goals between the award date and the change in control).

Recoupment of Compensation in Specified Circumstances (Clawback Policy)

Many companies have adopted policies that permit recoupment in cases where an executive’s fraud, misconduct, or negligence significantly contributed to a restatement of financial results that led to the awarding of unearned incentive compensation. The emerging best practice calls for recoupment not only in such cases, but also when misstated results did not involve outright fraud or misconduct, as new concerns about “risk motivating” incentives have put focus on the potential of robust clawback policies to mitigate that effect.

The WSIB assesses, on a case-by-case basis, proposals to recoup incentive cash or stock compensation made to senior executives if it is later determined that the figures upon which incentive compensation is earned turn out to have been in error, or if the senior executive has breached company policy, engaged in any misconduct, or failed to manage or monitor risks that subsequently led to significant financial or reputational harm to the company. In considering whether to support such shareholder proposals, we will take into consideration the following factors:

- The company’s recoupment policy (if any)
- The rigor of the recoupment policy focusing on how and under what circumstances the company may recoup incentive or stock compensation
- The company’s restatement history or track record of material financial problems
- Whether the company’s policy substantially addresses the concerns raised by the proponent
- Disclosure of recoupment of incentive or stock compensation from senior executives or lack thereof
- Any other relevant factors.

Holding Period/Retention Ratio for Executives

Encouraging executives to behave like owners has largely been promoted over the years, through the use of stock options. Many firms rely on stock ownership and retention requirements to ensure that corporate executives maintain a long-term equity interest in the company following sizable option grants.

We evaluate shareholder proposals, asking companies to adopt policies requiring senior executive officers to retain all or a significant portion of the shares acquired through compensation plans on a case-by-case basis, either until retirement or for a substantial period following the lapse of any other vesting requirement. We take the following factors into account:

- The company's holding period, retention ratio, or officer ownership requirements
- Actual officer stock ownership and the degree to which it meets or exceeds the proponent's suggested holding period/retention ratio, or the company's own stock ownership, or retention requirements
- Post-termination holding requirement policies or any policies aimed at mitigating risk taking by senior executives
- Problematic pay practices, current and past, which may promote a short-term versus a long-term focus.

We generally vote against shareholder proposals that mandate a minimum amount of stock that directors must own in order to qualify as a director or to remain on the board. While we favor stock ownership on the part of directors, the company should determine the appropriate ownership requirement.

MERGERS, CAPITALIZATION, AND CORPORATE STRUCTURE ISSUES

The WSIB considers corporate structure, capitalization, and merger issues in the context of their economic impact on shareholders. We rely on the expertise of our investment staff and the expertise of our investment and investment-related advisers to assess the potential impacts of these sorts of proposals, to ensure that we are exercising our votes consistent with the best value for our shareholders.

Mergers, Acquisitions, and Sale of Corporate Assets

We support mergers where we believe that the value being delivered to the WSIB is reasonable and represents the best alternative available to the company. The most critical analysis we undertake is our own analysis, with the help of our advisers, to assess whether the transaction is fair and delivers appropriate value to our fund. However, in coming to a conclusion about the economic benefits of a proposed transaction, we also consider the process employed by the board in reviewing and recommending the merger. We look at whether the board's interests are aligned with shareholders based on the details of the proposed deal. In particular, we look at executive and board member payouts associated with the proposed transaction. We consider the financial advice received by the board in support of its recommendation to ensure that the advice was unbiased and well-reasoned. The overwhelming majority of merger transactions meet these criteria, thus we regularly support them.

Capitalization

Authorized Shares

Adequate capital stock is important to the operation of a company. When analyzing a request for additional shares, we review 4 common reasons why a company might need additional capital stock beyond what is currently available:

1. Stock split
2. Anti-takeover defenses
3. Financing for acquisitions
4. Financing for operations

The WSIB votes for the authorization of additional shares, unless we find that the company does not have a reasonable plan for use of the proposed shares, or we believe the plan is inappropriate (e.g., to fund a poison pill or to serve as a component of some other anti-takeover defense), or where the number of shares far exceeds those needed to accomplish the proposed plan.

Blank Check Preferred Stock and Unequal Voting Rights

Blank check preferred stock which allows the board to implement unequal voting rights and other forms of stock with existing unequal voting rights, are typically counter to the interests of ordinary public shareholders. We believe that each share should have one vote and all shareholders should be treated equally in their ability to set the direction of the company, based only on their percentage of holdings. Accordingly, we favor the removal or reduction of unequal voting rights wherever possible.

Reverse Stock Splits

We also typically support reverse stock splits because they tend to allow for decreased cost by shareholders in trading the stock, and it may increase marketability of the stock.

Issuance of Shares

Issuing additional shares can dilute existing holders. Further, the availability of additional shares, where the board has discretion to implement a poison pill, can often serve as a deterrent to interested suitors. Accordingly, where we find that the company has not disclosed a detailed plan for use of the proposed shares, or where the number of shares requested are excessive, we typically vote against the issuance. In the case of a private placement, we will also consider whether the company is offering a discount to its share price.

In addition, some companies may request shareholder approval to authorize the board to issue shares with or without preemption rights over a defined time period, in order to allow the board the flexibility to finance operations and future business opportunities. In general, we will support proposals to authorize the board to issue shares, with pre-emption rights, up to a maximum of 100 percent of the issued ordinary share capital of the company. This authority should not exceed 5 years, or less for some countries. If the proposal contains a figure greater than 100 percent, the company should provide an acceptable explanation.

We will also generally support proposals to authorize the board to issue shares without pre-emption rights for a maximum of 20 percent of the issued ordinary share capital of the company. If the proposal contains a figure greater than 20 percent, the company should provide an acceptable explanation. This authority should not exceed 5 years.

Repurchase of Shares

We will recommend voting in favor of a proposal to repurchase shares when the plan includes the following safeguards: (i) a maximum number of shares which may be purchased (typically not more than 15 percent of the issued share capital), and (ii) a maximum price which may be paid for each share (as a percentage of the market price).

Corporate Structure

Bylaw/Corporate Charter Amendments

Offshore Reincorporation of U.S. Companies

The WSIB considers the proposed economic benefits of such a proposed transaction relative to some of the substantial drawbacks of offshore reincorporation, such as decreased shareholder rights, potential business losses (including government contracting), and difficulty realizing tax advantages based on often discussed tax and legal changes by

Congress. Where the financial benefits are *de minimis* and there is a decrease in shareholder rights, we will vote against the transaction.

Reincorporation in a Different Locale

The WSIB reviews the relevant law to assess whether the protections built into a particular locale's code are better for shareholders than the existing forum. Where shareholder protections are enhanced or remain the same, we support these changes.

Amendments to the Articles of Association

We will evaluate proposed amendments to a company's articles of association on a case-by-case basis, considering whether:

- Management provides sufficiently valid reasons for the amendments
- Shareholder rights are protected
- There is a negligible or positive impact on shareholder value
- The company is required to do so by law (if applicable)
- They are of a housekeeping nature (updates or corrections).

We are opposed to the practice of bundling several amendments under a single proposal because it prevents shareholders from evaluating each amendment on its own merits. In such cases, we will analyze each change individually. We will vote for the proposal only when we believe that the overall effect of the amendments is in the best interests of shareholders.

SHAREHOLDER RIGHTS AND ANTI-TAKEOVER PROVISIONS

Companies sometimes seek to implement certain provisions in order to create thresholds for the exercise of shareholder rights and thresholds for takeover efforts. Where these thresholds are reasonable and do not unduly impair shareholder value and rights, the WSIB will not oppose them. In many instances, however, these thresholds seek to place undue barriers to the exercise of shareholder rights and undue barriers to legitimate takeover efforts. In such instances, the WSIB will oppose such proposals.

Shareholder Rights

Right of Shareholders to Call a Special Meeting

The WSIB favors proposals that allow shareholders to call special meetings. In order to prevent abuse and waste of corporate resources by a very small minority of shareholders, we believe that such rights should be limited to a minimum threshold of at least 15 percent of the shareholders requesting such a meeting. A lower threshold may leave companies subject to meetings whose effect might be the disruption of normal business operations, in order to focus on the interests of only a small minority of owners.

Shareholder Action by Written Consent

The WSIB favors proposals that allow shareholders to act by written consent. In order to prevent abuse and waste of corporate resources by a very small minority of shareholders, we believe that such rights should be limited to a minimum threshold of at least 15 percent of the shareholders requesting action by written consent.

Advance Notice Requirements for Shareholder Ballot Proposals

These proposals typically attempt to require a certain amount of notice before shareholders are allowed to place proposals on the ballot. Notice requirements may be unduly lengthy, such as those that range between 3 to 6 months prior to the annual meeting. These

proposals make it very difficult for shareholders to present a proposal or a director nominee, even if that proposal is in the best interests of the company and its shareholders.

The WSIB believes it is in the best interests of shareholders to have the opportunity to review and vote on all proposals and director nominees submitted prior to the final printing of the proxy statement. Shareholders are capable of assessing for themselves whether they have adequate notice and enough information to support a particular proposal.

Anti-takeover Provisions

Poison Pills (Shareholder Rights Plans)

The WSIB believes that poison pill or similar shareholder rights plans are not in the best interests of the fund or its beneficiaries. Specifically, poison pills can reduce management accountability by substantially limiting opportunities for corporate takeovers. Shareholder rights plans can thus prevent the WSIB from receiving a buy-out premium for our stock. We believe that shareholders should be allowed to vote on whether or not they support such a plan's implementation. This is also an issue in which the interests of management may be very different from ours, and therefore, pursuing shareholders' approval is the best way to safeguard our interests. We generally vote against these plans; however, in certain limited circumstances, we will support the adoption of poison pills that are limited in scope, provide reasonable protection to shareholders, and are designed to provide the board and shareholders adequate time to pursue value-maximizing alternatives.

We are particularly opposed to "dead-hand poison pills" that only allow former directors who have left office to determine whether or not the pill can be revoked.

Supermajority Vote Requirements

Supermajority vote requirements act as impediments to shareholder action on ballot items that are critical to our interests. One key example is in the takeover context where supermajority vote requirements can limit shareholders' power to make decisions on such crucial matters as selling shares at a premium. The WSIB favors a simple majority voting structure. However, for companies with shareholders who have significant ownership levels, we vote case-by-case, taking into account the company's ownership structure, quorum requirements, and vote requirements.

Fair Price Provisions

The WSIB disfavors the use of "Fair Price Provisions" that attempt to dictate the price for all shares in a tender offer situation, as we believe these provisions tend to act like those of a poison pill in discouraging takeover offers.

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

Bylaw provisions impacting shareholders' ability to bring suit against the company may include: (1) exclusive venue provisions, which provide that the state of incorporation shall be the sole venue for certain types of litigation; and, (2) fee-shifting provisions that require a shareholder who sues a company unsuccessfully to pay litigation expenses of the defendant corporation.

The WSIB does not support exclusive venue bylaw provisions that require a company's state of incorporation to be the sole venue for certain types of litigation. Additionally, we generally vote against bylaws that mandate fee-shifting whenever plaintiffs are not completely successful on the merits (e.g., shifting the fees even in cases where the plaintiffs are partially successful).

Procedural Matters

Transaction of Other Business at an Annual or Special Meeting of Shareholders

The WSIB believes that shareholders should have a say in all matters up for a vote. Therefore, we do not give our proxy to management with unfettered discretion to vote on any other business items that may properly come before the annual meeting.

Right of the Board to Adjourn a Meeting of Shareholders

The WSIB supports the right of the board to adjourn a meeting of shareholders where we support the proposals put forth by management. Adjourning the meeting, if necessary, can give the board time to solicit the votes of shareholders who may not yet have voted, in order to pass such proposals.

SHAREHOLDER INITIATIVES & MANAGEMENT OF THE FIRM

As a long-term investor, the WSIB favors proposals that are designed to increase or protect shareholder value and/or promote and protect shareholder rights. We typically prefer to leave decisions regarding day-to-day management of the business and policy decisions related to political, social, or environmental issues to management and the board, except where a shareholder proposal demonstrates that a company's operations, practices, or lack of attention pose risks to the current or long-term shareholder value in the company.

We will generally support proposals calling for greater disclosure of risks and risk mitigation actions related to financial, environmental, social, and governance issues, believing that such disclosure tends to be beneficial and in the long-term best interest of the company and its shareholders, absent any meaningful competitive reasons for limiting disclosure.

Generally, the WSIB supports shareholder proposals seeking greater disclosure of a company's practices that address environmental issues and risks. This includes disclosure of actual and potential liabilities and contingency plans that respond to potential risks posed by climate change.

Climate Change/Greenhouse Gas (GHG) Emissions

Climate change is one of the most prominent and persistent topics that have been raised in the more than 40 years of proxy voting on social and environmental issues. At the core of this effort is an examination of the financial risks and opportunities posed by climate change and policies to address it. The WSIB evaluates how companies are managing their climate-related exposure and how this may affect shareholder value.

Generally, the WSIB supports resolutions requesting that a company disclose information on the impact of climate change and greenhouse gas (GHG) emissions on its operations and investments, considering:

- Availability of company information on the impacts that climate change may have on the company, as well as associated company policies and procedures to address related risks and/or opportunities
- Level of disclosure compared to that of industry peers
- Presence of significant controversies, fines, penalties, or litigation associated with the company's relevant environmental performance.

The WSIB evaluates proposals that call for the adoption of GHG reduction goals from products and operations on a case-by-case basis, taking into account:

- Availability of company disclosure of year-over-year GHG emissions performance data
- Level of disclosure is comparable to that of industry peers
- The company's actual GHG emissions performance
- The company's current GHG emission policies, oversight mechanisms, and related initiatives
- Presence of significant, controversies, fines, penalties, or litigation associated with the company's GHG emissions.

Sustainability Reporting

The idea of sustainability is a business model that encourages companies to balance current business requirements without compromising future business, societal, and environmental needs. How best to promote sustainable development — defined by the United Nations as "meeting the needs of the present without compromising the ability of future generations to meet their own needs" — has been an area of focus for investors that have long-term investment horizons. When evaluating resolutions calling for a sustainability report, the WSIB reviews the current reporting policies of the company as they relate to sustainability issues and avoiding duplications.

Generally, the WSIB supports proposals requesting that a company report on its policies, initiatives, and oversight mechanisms related to social, economic, and environmental sustainability, unless:

- The company already provides similar information through existing reports or policies, such as an environment, health, and safety (EHS) report; a comprehensive code of corporate conduct; and/or a diversity report
- The company has formally committed to the implementation of a reporting program based on Global Reporting Initiative (GRI) guidelines or a similar standard within a specified time frame.

Reporting Contributions and Political Spending

The area of campaign contributions is heavily regulated in the U.S. by federal, state, and local laws, and other countries may also have their own regulations. The WSIB believes that disclosure regarding how a company uses its funds is an important component of corporate accountability. Unfortunately, there is no standardized manner in which companies must disclose their political contributions and spending. It is the WSIB's position that companies should provide an itemized list of the amounts of all political contributions and their corresponding recipients, a list of trade associations to which the company in question belongs, amounts paid to trade associations, and amounts from the company used by trade associations for lobbying – in both memberships and donations. Moreover, the board of directors should maintain oversight and approval of all political spending. The board should only approve contributions that are consistent with the interests of the company and its shareholders.

Other than in exceptional circumstances, we believe that the mechanism for disclosure and the standards for donating are best left to the board's discretion. However, given the broadening of allowable donations as a result of the Supreme Court ruling in *Citizens United v. Federal Election Commission* and the move by many companies to provide more specific disclosure about their political contributions, we will support shareholder proposals seeking more disclosure about a company's political donations.

Human Rights

Adherence to globally-accepted workplace codes of conduct and human rights standards is a vital part of corporate stewardship. We expect companies to appropriately report on company and company vendor standards, and provide clear explanation of how the approach taken by the company represents the best interest of shareholders. We may favor requests to report on such standards if such information is not already made publicly available. Similarly, the WSIB may support proposals to implement labor and human rights standards if we believe that a company's disclosed practices are not in alignment with globally adopted standards, or if we have concerns regarding recent, significant company controversies, fines, or litigation regarding human rights at the company or its suppliers which may have a potential adverse impact on our long-term economic interests.

Board Diversity

The WSIB supports a diverse board. The WSIB believes a diverse board has benefits that can enhance corporate financial performance, particularly in today's global market place. Nominating committee charters, or equivalent, ought to reflect that boards should be diverse, including such considerations as background, experience, age, race, gender, ethnicity, and culture. Many shareholders believe that the best indicator of a company's commitment to workplace diversity is reflected by the composition of its board.

The WSIB evaluates proposals, asking a company to increase diversity on its board on a case-by-case basis, taking into account:

- The degree of existing diversity on the company's board and among its executive officers
- The level of diversity that exists at the company's industry peers
- The company's established process for addressing diversity
- The independence of the company's nominating committee
- The company's use of an outside search firm to identify potential director nominees
- Presence of recent controversies, fines, or litigation regarding equal employment practices

The scope of the request, including whether the proposal contains an overly prescriptive request to amend nominating committee charter language.