Vermont Pension Investment Commission

Global Proxy Voting Policy

Date Adopted: March 25, 2025

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Statement and Guidelines

This document outlines Vermont's global proxy voting policy and guidelines, which govern how the Vermont Pension Investment Commission ("VPIC") votes as the fiduciary on shareholder matters. VPIC is charged with management of the investments for the combined assets of the Vermont State Teachers' Retirement System (VSTRS), the Vermont State Employees' Retirement System (VSERS), the Vermont Municipal Employees' Retirement System (VMERS), and other public Vermont Retirement Systems with integrity, prudence, and skill to meet or exceed the financial objectives of the beneficiaries of the funds. "Vermont," as used in this document, refers to VPIC as well as investment managers and proxy voting agents delegated responsibility by VPIC for voting Vermont's common stock. These individuals and entities are expected to follow these guidelines when making proxy voting decisions, acting always in the best interest of the above noted Systems' participants.

Vermont votes proxies *solely* in the best interest of its plan participants and beneficiaries. Vermont acts with the care, skill, prudence, and diligence that a prudent person familiar with such matters would use under similar circumstances. The execution of proxy voting rights at shareholder meetings is a required duty of pension fund fiduciaries. The U.S. Department of Labor (DOL) has stated that the fiduciary act of managing plan assets that are shares of corporate stock includes the voting of proxies appurtenant to those shares of stock.[1] This responsibility can be delegated, and Vermont has chosen to do so while maintaining oversight.

These guidelines ensure that Vermont meets its legal obligations regarding proxy voting and is able to cover a range of important issues that can significantly impact the long-term value of pension fund assets. These issues include corporate governance matters, broader corporate citizenship issues and systemic market risks, all of which can directly affect a company's long-term performance. Our goal is to maximize the long-term financial benefits for our plan participants and beneficiaries. We believe that strong corporate governance and responsible corporate practices contribute to increased shareholder value and better long-term returns. While these guidelines offer direction on many common proxy issues, each proposal is evaluated on its individual merits, always considering the long-term interests of our plan participants and beneficiaries. These guidelines are not exhaustive. Many proxy issues arise each year, and it is neither practical nor productive to address every eventuality. The guidelines focus on the most frequent and significant issues. For matters not explicitly covered, Vermont will vote in the best interest of plan participants and beneficiaries. VPIC reviews and updates these guidelines annually, or more frequently as needed.

Vermont publishes reports on an annual basis summarizing its proxy voting activities. These reports demonstrate how our votes align with our stated policy. A copy of this Global Proxy Voting Policy Statement & Guidelines is provided to our designated proxy voting agent and is updated whenever significant revisions are made. The guidelines are also available online at: http://www.vpic.vermont.gov.

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[1] Many public sector pension plans, regulatory bodies, and professional associations have adopted the views of the U.S. Department of Labor on fiduciary duties related to proxy voting. The Department of Labor's Pension and Welfare Benefits Administration has stated in opinion letters and an interpretative bulletin that the voting rights related to shares of stock held by pension plans are plans assets. Therefore, according to the Department, "the fiduciary act of managing plan assets which are shares of corporate stock would include the voting of proxies appurtenant to those shares of stock." Sources include: the Department of Labor Opinion Letter (Feb.23, 1988), reprinted in 15 Pens. Rep. (BNA), 391, the Department of Labor Opinion Letter (Jan.23, 1990), reprinted in 17 Pens. Rep. (BNA), 244 and the Interpretative Bulletins, 94-2, 2016-01.

Board of Directors

Electing directors is the single most important stock ownership right that shareholders can exercise. By electing directors who share their views, shareholders can help to define performance standards against which management can be held accountable. Most countries around the world maintain an Anglo-Saxon board structure, as seen in the United States, in which executive and nonexecutive directors are organized into a single board. However, companies in several countries maintain two-tiered board structures, comprising a supervisory board of nonexecutive directors and a management board with executive directors. The supervisory board oversees the actions of the management board, while the management board is responsible for the company's daily operations. Companies with two-tiered boards elect members to the supervisory board only; management board members are appointed by the supervisory board. In Austria, Brazil, the Czech Republic, Germany, Peru, Poland, Portugal, and Russia, two-tiered boards are the norm. They are also permitted by company law in France and Spain.

Vermont shall hold directors to a high standard when voting on their election, qualifications, and compensation. Vermont aims to evaluate directors fairly and objectively, rewarding them for significant contributions and holding them ultimately accountable to shareholders for corporate performance. Institutional investors should use their voting rights in uncontested elections to influence financial performance and corporate strategies for achieving long-term shareholder value.

When reviewing director election proposals (where possible given information disclosure), Vermont examines board composition, company performance, and any negative views or information on either the company or individual directors. Vermont determines the number of executive and independent directors on the board, the existence and composition of board committees, and the independence of the chairman. An independent director is one whose only significant relationship with the company is through their board seat. Members of supervisory boards, which may represent organized workers' interests, are defined as independent. In cases where the board's composition is of concern, the company's general health and its recent financial performance may play a part in the evaluation of directors. Individual director information is also considered, including share ownership among director nominees.

While complete independence on board committees is widely recognized as best practice, there are some markets in which it is still common to find executive directors serving as committee members. Whenever the level of disclosure is adequate to determine whether a committee includes company insiders, Vermont may decide to vote against these executive directors.

For shareholder nominees, Vermont places the persuasive burden on the nominee or the proposing shareholder to prove that they are better suited to serve on the board than management's nominees. Serious consideration of shareholder nominees will be given in cases where there are clear and compelling reasons for the nominee to join the board. These nominees must also demonstrate a clear ability to contribute positively to board deliberations; some nominees may have hidden or narrow agendas and may unnecessarily contribute to divisiveness among directors.

In many countries it is customary to elect a slate of directors. We do not approve of this practice because shareholders may wish to express differing views as to the suitability of the director nominees and should have the ability to cast ballots with respect to individuals rather than the entire slate. Given improving best practice in more sophisticated markets, which are moving away from slate director election items, we may choose to oppose director nominees if their election is not presented to shareholders as an individual item in these markets.

Director Classification

Board independence from management is of vital importance to a company and its shareholders. Accordingly, Vermont believes votes should be cast in a manner that will encourage the independence of boards. Independence will be evaluated based upon a number of factors, including: employment by the company or an affiliate in an executive capacity or employment by a firm that is one of the company’s paid advisors or consultants within the past five years; personal services contract with the company; family relationships of an executive or director of the company; and service with a non-profit organization that receives significant contributions from the company. Also, the independence standards of the relevant exchange on which a company's securities are listed will serve as an additional input. Furthermore, due to concerns that long board tenure could compromise the independence and objectivity of board members, non-executive board members with long tenures may be considered and reclassified as non-independent, despite being considered independent by the company.

Voting on Director Nominees in Uncontested Elections

Votes concerning the entire board of directors and members of key board committees should be examined using the following factors:

- Lack of independence of the full board and key board committees (fully independent audit, compensation, and nominating committees);
- Diversity of the board;
- Lack of disclosure by companies to enable shareholders to determine whether the composition of the board is sufficiently diverse in terms of race and gender;
- Performance of the board and key board committees (flagrant actions by management or the board, excessive risk-taking, problematic governance provisions, egregious compensation practices, poor accounting practices, imprudent use of corporate assets, etc.);
- Failure of the board to properly respond to majority votes on shareholder proposals;
- Poor long-term corporate performance record relative to peer index and S&P 500 when necessary and in exceptional or tie-breaking circumstances;
- Failure in oversight responsibilities (such as where there is significant corporate misbehavior, repeated financial restatements or inadequate response to systemic risks including climate change that may have a material impact on performance).

Vermont may:

- Review on a CASE-BY-CASE basis votes on individual director nominees.
- WITHHOLD votes from individual director nominees where warranted by the CASE-BY-CASE analysis which includes a review of the following factors:
    - Lack of a board that is at least two-thirds independent – i.e., where the composition of non-independent board members is in excess of 33 percent of the entire board;

- Attendance of director nominees at board meetings of less than 75 percent in one year without valid reason or explanation;
- Failure to establish any key board committees (i.e. audit, compensation, or nominating) including where the board serves in the capacity of a key committee, and where there is insufficient information to determine whether key committees exist, who the committee members are, or whether the committee members are independent;
- Lack of independence on key board committees (i.e., audit, compensation, and nominating committees);
- Directors serving on an excessive number of other boards which could compromise their primary duties of care and loyalty;
- Non-executive board members with long tenures may be classified as non-independent, despite being considered independent by the company.
  - Vote ABSTAIN on directors if company fails to disclose the independent level of the board or nominees.
- Chapter 7 bankruptcy, SEC violations, and criminal investigations by the Department of Justice (DOJ) and/or other federal agencies;
- Interlocking directorships;
- If at the previous board election, any director received more than 50 percent withhold/against votes of the shares cast and the company has failed to address the underlying issue(s) that caused the high withhold/against vote;
- The board failed to act on takeover offers where the majority of the shareholders tendered their shares;
- The board lacks accountability and oversight, coupled with sustained poor performance relative to peers;
- If the company has a classified board and a continuing director is responsible for a problematic governance issue at the board/committee level that would warrant a withhold/against vote, in addition to potential future withhold/against votes on that director, Vermont may vote against or withhold votes from any or all of the nominees up for election, with the exception of new nominees;
- The presence of problematic governance or management issues (including flagrant actions by management or the board with potential or realized negative impacts on shareholders, including interlocking directorships, multiple related-party transactions or other issues putting director independence at risk, problematic corporate governance provisions, or corporate scandals).
- Egregious action by the board such as: not responding to a shareholder proposal that received majority support; material failures of governance, stewardship, risk oversight, or fiduciary responsibilities at the company; failure to replace management as appropriate; actions related to the director(s)' services 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.

* Vote FOR employee and/or labor representatives.

Voting for Director Nominees in Contested Elections

Contested elections of directors frequently occur when a board candidate or "dissident slate" seeks election for the purpose of achieving a significant change in corporate policy or control of seats on the board. Votes in a contested election of directors should be evaluated with the following seven factors in consideration for both slates:

- Long-term financial performance of the target company relative to its industry in exceptional or tie-breaking circumstances;
- Management's historical track record;
- Background to the proxy contest;
- Qualifications of director nominees (both slates);
- Strategic plan of dissident slate and quality of critique against management;
- Evaluation of what each side is offering shareholders as well as the likelihood that the proposed objectives and goals in these proposals are realistic, achievable, demonstrable, and viable under the current conditions by which the company operates;
- Equity ownership positions;
- Total impact on all stakeholders.

Vermont may:

- Review on a CASE-BY-CASE basis votes on director nominees in a contested election.

Non-Independent Chair

Vermont believes that the roles of Chair and CEO should be independent, especially as a company matures. The potential for conflicts of interest in a dual role outweighs potential benefits. Combining these positions compromises the board's ability to provide impartial oversight, a duty essential to protecting shareholder interests. A single leader overseeing both management and the board can create a quid pro quo situation, hindering objective performance assessment and informed decision-making. Furthermore, studies suggest that CEO/Chair combinations often lead to higher executive compensation, potentially diminishing shareholder value. A clear division of responsibilities between the board and the executive team is crucial for effective corporate governance, and separating these roles ensures that poor decisions are challenged, and shareholder interests are protected.

Vermont may:

- Vote AGAINST or WITHHOLD votes from any non-independent director who serves as board chair, including the CEO.
- Vote FOR proposals calling for the separation of the CEO and Chair positions.
- Vote FOR proposals calling for a non-executive director to serve as Chair who is not a former CEO or senior-level executive of the company.

Independent Directors

Vermont believes that a board independent from management is of vital importance to a company and its shareholders. Votes should encourage the independence of boards. Independence will be evaluated based upon a number of factors, including: employment by the company or an affiliate in an executive capacity; past or current employment by a firm that is one of the company's paid advisors or consultants; personal services contract with the company;

family relationships of an executive or director of the company; interlocks where two CEOs/Chairs serve on each other's boards; instances where directors serve on more than one board (and key committees) together; and service with a non-profit that receives significant contributions from the company.

Vermont may:

- WITHHOLD votes from non-independent board members (insiders and affiliated outsiders) where the board is not at least two-thirds (67+ percent) independent.
- WITHHOLD votes from independent board members who have been on the board continually for a period longer than 10 years as affiliated outsiders.
- Vote FOR shareholder proposals requesting that all key board committees (i.e., audit, compensation, and/or nominating) include independent directors exclusively.
- Vote FOR shareholder proposals requesting that the board be comprised of two-thirds of independent directors.

Excessive Directorships

Regulations mandate that directors be more engaged in protecting shareholder interests or else risk civil and/or criminal sanctions. As such, board members must devote time and effort to their oversight duties. In view of the demands placed on board members, Vermont believes that directors who are overextended may be jeopardizing their ability to serve as effective representatives of shareholders. We expect votes to be withheld from directors serving on an excessive number of other boards, which could compromise their primary duties of care and loyalty.

Vermont may:

- Vote AGAINST or WITHHOLD from director nominees who are:
  - CEOs of publicly traded companies who serve on more than two public boards (i.e. more than one public board other than their own board). NOTE: Vermont will vote against or withhold votes from overextended CEO directors only at their outside directorships and not at the company in which they presently serve as CEO.
  - Non-CEO directors without a fulltime job who serve on a total of more than six public company boards.
  - Non-CEO directors with a fulltime job who serve on a total of more than three outside public company boards.

Performance/Governance Evaluation for Directors

We consider long-term financial performance and appropriate governance practices when evaluating directors in uncontested elections. We view deficient oversight and lack of board accountability as problematic, especially in the context of sustained poor performance. We will assess board accountability and oversight, including anti-takeover provisions that may hinder beneficial corporate transactions. Examples are listed below for clarification. We will also consider the company's response to performance issues, recent board and management changes, board independence, and other relevant factors.

Problematic provisions include but are not limited to:

- a classified board structure;
- a supermajority vote requirement;

- majority voting with no carve out for contested elections;
- the inability for shareholders to call special meetings;
- the inability for shareholders to act by written consent;
- a dual-class structure; and/or
- a non-shareholder approved poison pill.

Vermont may:

- Vote AGAINST or WITHHOLD votes from all director nominees if the board lacks accountability and oversight, and/or has sustained poor performance relative to peers on a 5-year basis.

Director Diversity

Vermont recognizes the link between strong governance and financial performance. Board diversity is a key indicator of a company's ability to navigate complex challenges and generate long-term returns. Expanding the pool of available talent to fill director vacancies ensures access to the best thinkers regardless of background. Critically, directors with diverse backgrounds offer valuable insights into the company's increasingly diverse customer base and workforce, providing a deeper understanding of market trends, risks, and opportunities. Homogenous boards risk "groupthink" and a lack of innovative problem-solving, hindering a company's ability to adapt to a rapidly changing world. Moreover, a diverse board is essential for future-proofing the business, as it allows companies to anticipate and capitalize on the growing purchasing power of diverse consumer segments. Diverse boards enhance competitiveness, mitigate risks, and drive shareholder value. Vermont will apply gender representation expectations globally while racial representation expectations are applied in U.S. and Canadian markets.

Vermont may:

- Vote FOR proposals asking the board to include or make a greater effort to include a diverse pool of candidates for nomination to the board of directors.
- Vote FOR proposals that endorse a policy of board inclusiveness.
- Vote FOR proposals that request reporting to shareholders on a company’s efforts to increase diversity and stakeholder participation on their boards.
- Vote AGAINST proposals seeking to reduce board diversity efforts.

Stock Ownership Requirements

Corporate directors should ideally own stock in the companies they serve, as this can help align their interests with those of shareholders. However, mandating minimum stock ownership requirements can inadvertently exclude highly qualified individuals, such as academics and clergy, who may bring valuable perspectives to the boardroom but are unable to purchase significant amounts of stock. A more flexible approach is to evaluate board nominees individually, taking stock ownership into consideration as one factor among many when assessing their qualifications and voting on their candidacy. This allows for a balanced approach that encourages stock ownership while ensuring access to diverse and experienced board members.

Vermont may:

- Vote AGAINST shareholder proposals requiring directors to own a minimum amount of company stock to qualify as a director nominee or remain on the board.

Board and Committee Structure

Resolutions relating to board structures range from fixing the number of directors or establishing a minimum or maximum number of directors to introducing classified boards and director term limits. Vermont seeks efficient boards where management's influence is aligned with shareholder interests and the long-term sustainability of the firm.

Board Size

Vermont believes there is an acceptable board size range which companies should strive to meet and not exceed. Proposals to fix or establish a board size range are common. A range of two or three open slots relative to the existing board size is reasonable, as it gives the company some flexibility to attract potentially valuable board members during the year. Latitude beyond this range is inappropriate, because companies can use this freedom to hinder unwanted influence from potential acquirers or large shareholders. Companies may attempt to increase board size to add related or like-minded directors to the board. Conversely, establishing a minimum number of directors could make it easier to remove independent directors from the board.

Given that the preponderance of boards in the U.S. range between 5 and 15 directors, we believe this is a useful benchmark for evaluating such proposals.

Vermont may:

- Review on a CASE-BY-CASE basis board size and consider WITHHOLDS or other action at companies that have fewer than five directors and more than 15 directors on their board.
- Vote FOR proposals to fix or change board size to maintain a $2/3^{rds}$ independence level or to improve the level of independence of the board (e.g. adding a new independent director to a board with inadequate independence).
- Vote AGAINST proposals to alter board structure or size in the context of a fight for control of the company or the board.

Classified Board

Annual director elections encourage board accountability. While some believe classified boards, where directors serve staggered terms, can provide continuity and consistency for decision-making, evidence suggests potential drawbacks. Classified boards can hinder accountability, limiting shareholder elections of directors to roughly once every three years. This makes it difficult to remove underperforming directors and limits feedback to problematic governance issues at the board/committee level. The classified board structure can also entrench management and effectively preclude most takeover bids or proxy contests.

Vermont prefers that all directors stand for reelection annually. All directors should be accountable to shareholders on an annual basis, as the ability to elect directors is the single most important use of the shareholder vote. Even where classified boards are the norm, companies may choose to place their directors up for annual election.

Vermont may:

- Vote AGAINST the proposals seeking to classify the board.
- Vote FOR management or shareholder proposals to repeal a company's classified board structure.
- Vote AGAINST or WITHHOLD votes from any or all of the director nominees up for election, with the exception of new nominees, if a continuing director is responsible for a

problematic governance issue at the board/committee level, in addition to a potential future vote against or withhold on that director.

Introduction of Mandatory Age of Retirement

Vermont believes that age should not be the sole factor in determining a director's value to a company. Rather, each director's performance should be evaluated based on their individual contribution and experience.

Vermont may:

- Vote AGAINST the introduction of mandatory retirement ages for directors.

Limit Term of Office

Supporters of term limits argue that this requirement would bring new ideas and approaches to a board. Here again we prefer to look at directors as individuals rather than impose a strict rule. While term of office limitations can rid the board of non-performing directors over time, it can also unfairly force experienced and effective directors off the board.

Vermont may:

- Vote AGAINST shareholder proposals to limit the tenure of outside directors.

Cumulative Voting

Most corporations provide that shareholders are entitled to cast one vote for each share owned. Under a cumulative voting scheme, the shareholder is permitted to have one vote per share for each director to be elected. Shareholders are permitted to apportion those votes in any manner they wish among the director candidates. This practice allows shareholders to elect a minority representative to a board through cumulative voting, thereby ensuring representation for all sizes of shareholders.

For example, if there is a company with a ten-member board and 500 shares outstanding, the total number of votes that may be cast is 5,000. In this case, a shareholder with 51 shares (10.2 percent of the outstanding shares) would be guaranteed one board seat because all votes may be cast for one candidate. Without cumulative voting, anyone controlling 51 percent of shares would control the election of all ten directors.

With the prevalence of majority voting for director elections, shareholders have greater flexibility in supporting candidates for a company's board of directors. Cumulative voting and majority voting are two different voting mechanisms designed to achieve two different outcomes. While cumulative voting promotes the interests of minority shareholders by allowing them to achieve representation on the board, majority voting promotes a democratic election of directors for all shareholders and ensures board accountability in uncontested elections. Though different in philosophic view, cumulative voting and majority voting can work together operationally, with companies electing to use majority voting for uncontested elections and cumulative voting for contested elections to increase accountability and ensure minority representation on the board.

In contested elections, proxy access allows shareholder access to the ballot without a veto from the nominating committee and requires majority support to elect such directors. Proxy access allows shareholders to nominate their own candidates for a company's board of directors and have those candidates' names listed on the company's proxy ballot, alongside the board's nominees. This gives shareholders a more direct way to influence the composition of the board.

At controlled companies, where majority insider control would preclude minority shareholders from having any representation on the board, cumulative voting would allow such representation and shareholder proposals for cumulative voting would be supported.

Vermont may:

- Vote AGAINST proposals to eliminate cumulative voting.
- Vote FOR proposals to permit cumulative voting unless:
    - The company has proxy access or a similar structure[2] to allow shareholders to nominate directors to the company's ballot;
    - The company has adopted a majority vote standard, with a carve-out for plurality voting in situations where there are more nominees than seats, and a director resignation policy to address failed elections.
- Vote FOR proposals for cumulative voting at controlled companies (where insider voting power exceeds 50 percent).

Majority Threshold Voting Requirement for Director Elections

Shareholders have expressed strong support for precatory resolutions on majority threshold voting since 2005, with a number of proposals receiving majority support from shareholders. We believe shareholders should have a greater voice in regard to the election of directors and view majority threshold voting as a viable alternative to the current deficiencies of the plurality system in the U.S.

Vermont may:

- Vote FOR reasonable shareholder proposals calling for directors to be elected with an affirmative majority of votes cast and/or the elimination of the plurality standard for electing directors (including binding resolutions requesting that the board amend the company's bylaws), provided the proposal includes a carve-out for a plurality voting standard when there are more director nominees than board seats (e.g. in contested elections).
- Vote AGAINST or WITHHOLD support for directors at companies without the carve-out for plurality voting in contested elections, as the use of a majority vote standard can act as an anti-takeover defense in contested elections (e.g. although the dissident nominees may have received more shares cast, as long as the combination of withhold/against votes and the votes for the management nominees keep the dissident nominees under 50 percent, the management nominees will win, due to the holdover rules). This would contradict the expressed will of shareholders.
- Vote FOR a post-election "director resignation policy" that addresses the situation of holdover directors to accommodate both shareholder proposals and the need for stability and continuity of the board.

Director and Officer Indemnification and Liability Protection

Management proposals typically seek shareholder approval to adopt an amendment to the company's charter to fully eliminate or limit the personal liability of directors to the company and its shareholders for monetary damages for any breach of fiduciary duty permitted by state law. In contrast, shareholder proposals seek to provide for personal monetary liability for fiduciary breaches arising from gross negligence. Vermont believes the great responsibility and authority of directors justifies holding them accountable for their actions and to deter moral hazard. Vermont recognizes companies may have difficulty attracting and retaining directors if

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[2] A similar structure would be a structure that allows shareholders to nominate candidates who the company will include on the management ballot in addition to management's nominees, and their bios are included in management's proxy.

they are subject to personal monetary liability. Each proposal addressing director liability should be evaluated consistently with this philosophy.

Vermont may:

- Vote AGAINST proposals to limit or eliminate director and officer liability in regard to:
    - potential breach of the director's fiduciary "duty of loyalty" to shareholders;
    - acts or omissions made not in "good faith" or involving intentional misconduct or knowledge of violations under the law;
    - acts involving the unlawful purchase or redemption of stock;
    - payment of unlawful dividends;
    - use of the position as director for receipt of improper personal benefits.

Indemnification

Indemnification is the payment by a company of the expenses of directors who become involved in litigation given their service to a company. Proposals to indemnify a company's directors differ from those to eliminate or reduce their liability because with indemnification directors may still be liable for an act or omission, but the company will bear the expense. Vermont favors indemnification proposals that contain provisions limiting such insurance to acts carried out on behalf of the company. The directors covered under the indemnification must be acting in good faith on company business and must be found innocent of any civil or criminal charges for duties performed on behalf of the company.

Vermont may:

- Review on a CASE-BY-CASE basis proposals that provide director liability protection for actions on behalf of the company.
- Vote AGAINST proposals that provide for director liability protection where national law dictates that a shareholder who casts a FOR vote forfeits legal rights, such as the right to sue a company.
- Vote FOR proposals to allow indemnification of directors and officers when actions were taken on behalf of the company and no criminal violations occurred or if the proposal indemnifies officers and directors for expenses from lawsuits, except for egregious acts of misconduct or intentional misconduct.
- Vote AGAINST indemnification proposals that would expand individual coverage beyond ordinary legal expenses to also cover specific acts of negligence which exceed the standard of mere carelessness that is regularly covered in board fiduciary indemnification.
- Vote FOR only those proposals which provide expanded coverage in cases when a director's or officer's legal defense was unsuccessful if:
    - the director was found to have acted in good faith and in a manner that they reasonably believed was in the best interests of the company;
    - the director's legal expenses are covered.

Board Oversight & Accountability

Cybersecurity and AI Governance

Strong cybersecurity and AI governance policies and processes are not merely risk mitigation tools; they are essential for long-term shareholder value creation and preservation. By reducing risks to a company's reputation, financial stability, legal standing, and operational continuity, these policies and processes directly contribute to a company's ability to generate sustainable returns. We believe that companies have a fundamental responsibility to protect sensitive data, maintain robust cybersecurity practices, and govern the use of artificial intelligence responsibly, as these actions are integral to building a resilient and valuable business. Companies should clearly disclose the board's role in overseeing both cybersecurity and AI risks, including how directors are kept informed about evolving cyber threats and AI technologies. This disclosure should address how the board ensures responsible AI development and deployment, including considerations of bias, fairness, transparency, and ethical implications—all of which can significantly impact a company's long-term value. Following a material cyberattack or an incident involving AI misuse, companies should provide regular updates to shareholders on the incident's impact, the ongoing remediation efforts, and the steps taken to prevent future incidents. Such transparency fosters trust and demonstrates a commitment to protecting shareholder investments. While cybersecurity and AI risks are constantly evolving, and perfect prevention isn't always possible, transparency and accountability remain paramount. Boards must be actively engaged in both cybersecurity and AI oversight, as this engagement is crucial for safeguarding shareholder value. Shareholders deserve to be informed about how the company protects their investments and data in the digital age.

Vermont may:

- Review on a CASE-BY-CASE basis the election of directors accountable for cybersecurity oversight after a material cyberattack if the company's oversight, response, or disclosure is deemed inadequate.
- Review on a CASE-BY-CASE basis the election of directors accountable for Artificial Intelligence (AI) oversight after shareholders are deemed materially impacted by insufficient AI oversight or management.

Failure to Act on Shareholder Proposals Receiving Majority Support

Vermont may:

- Vote AGAINST or WITHHOLD from all director nominees at a company that has ignored a shareholder proposal that received a majority of the shareholder votes cast at the last annual meeting.

Establish an Office of the Board

Vermont may:

- Vote FOR proposals requesting that the board establish an Office of the Board of Directors to facilitate direct communication between shareholders and non-management directors, unless the company has effectively demonstrated, via public disclosure, that it has an established structure in place.

Anti-takeover Mechanisms

Common anti-takeover mechanisms include staggered boards, super-voting shares, poison pills, unlimited authorized capital authorizations (including blank check preferred stock), and golden shares. Some of these restrictions are aimed solely at limiting share ownership by foreign or unwanted minority shareholders, and others are designed to preclude an unwanted takeover of the target company by any party. Vermont opposes all forms of such mechanisms, as they limit shareholder value by eliminating the takeover or control premium for the company. As owners of the company, shareholders should be given the opportunity to decide on the merits of takeover offers.

Renew Partial Takeover Provision (Australia)

Australian law allows companies to introduce into their articles a provision to protect shareholders from partial takeover offers, to be renewed by shareholders every three years. If a partial takeover of the company is announced, directors are required to convene a shareholder meeting at least 15 days before the closing of the offer to seek approval of the offer. If shareholders reject the resolution, the offer is considered withdrawn under company law and the company can refuse to register the shares tendered to the offer. This provision has some elements of a takeover defense. It allows a majority of shareholders to block partial tender offers in advance of the offer actually being made to shareholders. If a shareholder wants to respond to a tender offer, they should be able to do so.

Vermont may:

- Vote AGAINST partial takeover provision proposals.

Golden Shares

Recently privatized companies may include in their share structure a golden share held by their respective governments. These shares often carry special voting rights or the power of automatic veto over specific proposals. Golden shares are most common among former state-owned companies or politically sensitive industries such as utilities, railways, and airlines.

Vermont may:

- Review on a CASE-BY-CASE basis golden shares proposals.

Depositary Receipts and Priority Shares (The Netherlands)

Depositary receipts are an especially common anti-takeover defense among large Dutch companies. In the event of a hostile takeover bid, ordinary voting shares are first issued to a company-friendly trust or foundation. The trust or foundation in turn issues depositary receipts, similar to banks in the United States issuing ADRs except that the foundation retains the voting rights of the issued security. The depositary receipts carry only the financial rights attached to the shares (i.e., dividends). In this manner, the company gains access to capital while retaining control over voting rights. Nonvoting preference shares can be issued to trusts or foundations in a similar fashion.

Priority shares, established in a company's articles, may be awarded with certain powers of control over the rest of the company. In practice, priority shares are held by members of the supervisory board, company-friendly trusts or foundations, or other friendly parties. Depending on the articles, priority shareholders may determine the size of the management or supervisory boards or may propose amendments to articles and the dissolution of the company.

Vermont may:

- Vote AGAINST anti-takeover proposals unless they are structured in such a way that they give shareholders the ultimate decision on any proposal or offer.
- Vote AGAINST the introduction of depositary receipts and priority shares.

Poison Pills

Shareholder rights plans, typically known as poison pills, take the form of rights or warrants issued to shareholders and are triggered when a potential acquiring stockholder reaches a certain threshold of ownership. When triggered, poison pills generally allow shareholders to purchase shares from, or sell shares back to, the target company ("flip-in pill") and/or the potential acquirer ("flip-out pill") at a price far out of line with fair market value. Depending on the type of pill, the triggering event can either transfer wealth from the target company or dilute the equity holdings of current shareholders. Poison pills insulate management from the threat of a change in control and provide the target board with veto power over takeover bids. Poison pills greatly alter the balance of power between shareholders and management. Poison pills are seen primarily in the Canadian market. Unlike in the United States, Canadian securities legislation requires shareholder approval of all poison pills.

Canadian poison pills often have a sunset provision, requiring shareholder confirmation of the plan. These are typically three or five years, requiring that shareholders confirm the continuation of the plan three or five years from the date of adoption. Canadian pills also typically include a permitted bid clause, under which the takeover bid must be made on equal terms to all holders of the company's voting shares; the company must extend the expiration of the bid, usually by 45 or 60 days following the date of the bid. Management sets the terms of the permitted bid clause, and therefore it influences the level of protection that will be provided to shareholders.

Vermont determines whether the permitted bid feature offers shareholders adequate power relative to the board in the event of a bid not being approved. Allowing shareholders the right to override the board as a means of balancing power is crucial, but the specifics of the permitted bid clause are usually insufficient. Under the clause, a shareholder who is not intent on a complete acquisition but merely wishes to purchase a significant stake in the company may trigger the pill. This gives the board the power to deny shareholders the benefit of a large semi-controlling shareholder and precludes partial bids that may be in shareholders' interests. In addition to the sunset provision and the structure of the permitted bid clause, in order to qualify for approval, a shareholder rights plan must satisfy ALL of the following conditions:

- Permitted bid clause structure: a permitted bid clause must allow for partial bids supported by a majority of shareholders to proceed despite board opposition; bid periods should generally not be greater than 60 days; the clause should not contain a "toehold provision" that would any person who already controls a specified percentage of shares from making a permitted bid;
- Amendments: the ability of the board to amend key terms of the plan without shareholder approval following initial adoption of the plan must be limited to clerical and typographical changes and changes required to maintain the validity of the rights plan;
- Exchange option: a plan must not contain a provision that would enable the board to issue in exchange for the right, with or without further charge, debt or equity securities, other assets of the company, or any combination thereof;
- Definition of Fair Market Value: the board must not have the discretion to interpret the fair market value of the company's shares if the board determines that the value was

adversely affected by the news of an anticipated or actual bid or by other means of manipulation;

- Affiliates and Associates: the board’s discretion to decide which parties are acting in concert to determine the level of beneficial ownership, which could be used to trigger the pill should be limited and well-defined in the text of the plan;
- Mandatory Waiver: if the board waives the triggering of the pill with respect to one bidder, the board must be required to waive the pill in favor of any subsequent bids, preventing the board from favoring one bid over another regardless of shareholder interests.

Net operating loss (NOL) pills, which are used to preserve a tax benefit (as opposed to traditional poison pills which are used as a takeover defense), typically have low triggers that some shareholders have difficulty supporting. This lack of support may have the effect of discouraging issuers from seeking shareholder approval for such pills. In assessing NOL pills, we take into account their unique purpose and features and encourage issuers to submit such pills to a shareholder vote.

For management proposals to adopt a poison pill for the stated purpose of preserving a company’s net operating losses (“NOL pills”), Vermont will consider the following factors:

- the trigger (generally below 5 percent);
- the value of the NOLs;
- the term;
- shareholder protection mechanisms (sunset provision, causing expiration of the pill upon exhaustion or expiration of NOLs); and
- other factors as applicable.

Vermont may:

- Vote FOR shareholder proposals that ask a company to submit its poison pill for shareholder ratification.
- Vote AGAINST anti-takeover proposals unless they are structured in such a way that they give shareholders the ultimate decision on any proposal or offer.
- Review CASE-BY-CASE shareholder proposals to redeem a company's poison pill.
- Review CASE-BY-CASE management proposals to ratify a poison pill.
- Vote FOR a three-year sunset provision, which affords shareholders the ability to reconsider the plan in light of changing market conditions and to review management’s use of the plan.
- Vote AGAINST or WITHHOLD votes from any board where a dead-hand poison pill provision is in place. From a shareholder perspective, there is no justification for a dead-hand provision.

Greenmail

Greenmail payments are targeted towards repurchasing shares of company stock from individuals or groups seeking control of the company. Since only the hostile party receives payment, usually at a substantial premium over the market value of shares, this practice discriminates against most shareholders. The transferred cash could be used for reinvestment in the company, payment of dividends, or to fund a public share repurchase program.

Vermont may:

- Vote FOR proposals to adopt an anti-greenmail provision in their charter or bylaws that would thereby restrict a company's ability to make greenmail payments to certain shareholders.
- Review on a CASE-BY-CASE basis all anti-greenmail proposals when they are presented as bundled items with other charter or bylaw amendments.

Shareholder Ability to Remove Directors

Shareholder ability to remove directors, with or without cause, is prescribed by a state's business corporation law, an individual company's articles of incorporation, or its corporate bylaws. Many companies have sought shareholder approval for charter or bylaw amendments that would prohibit the removal of directors except for cause, thus ensuring that directors retain their directorship full-term unless found guilty of self-dealing. By requiring cause to be demonstrated through due process, management insulates the directors from removal even if a director has been performing poorly, not attending meetings, or not acting in the best interests of shareholders.

Vermont may:

- Vote AGAINST proposals that provide that directors may be removed only for cause.
- Vote FOR proposals that seek to restore the authority of shareholders to remove directors with or without cause.
- Vote AGAINST proposals that provide only continuing directors may elect replacements to fill board vacancies.
- Vote FOR proposals that permit shareholders to elect directors to fill board vacancies.

Auditors

Auditors play an integral role in certifying the integrity and reliability of corporate financial statements. Many countries also require the appointment of censors, special auditors who ensure the board and management are in compliance with the company's articles. The censors' role is advisory in nature and proposals to appoint them are routine.

Under SEC rules in the US, disclosed categories of professional fees paid for audit and non-audit services are as follows: (1) Audit Fees, (2) Audit-Related Fees, (3) Tax Fees, and (4) All Other Fees. A company must describe – in qualitative terms – the types of services provided under the three categories other than Audit Fees. The following fee categories are defined as: A) tax compliance or preparation fees excluded from calculations of non-audit fees; and B) fees for consulting services for tax-avoidance strategies and tax shelters will be included in "other fees" and will be considered non-audit fees if the proxy disclosure does not indicate the nature of the tax services. In circumstances where "Other" fees include fees related to significant one-time capital structure events, such as: initial public offerings, bankruptcy emergence, or spin-offs, and the company discloses the amount and nature, they may be excluded from the ratio of non-audit to audit/audit-related fees/tax fees when determining whether non-audit fees are excessive.

As auditors provide the foundation upon which a company's financial health is measured, auditor independence is essential. When an auditor is paid excessive consulting fees in addition to fees paid for auditing, the company-auditor relationship is open to conflicts of interest.

Auditor Ratification

Although US companies are not legally required to allow shareholders to ratify their appointment of independent auditors, most do allow for it. Submission of the audit firm for approval on an annual basis gives shareholders the opportunity to weigh in on their evaluation of the audit firm's independent execution of its duties. Vermont believes mandatory auditor ratification is in line with sound and transparent corporate governance and that it remains an important mechanism to ensure the integrity of the auditor's work. In the absence of legislation mandating shareholder ratification of auditors, the failure by a company to present its selection of auditors should be discouraged, as it undermines good governance and alienates shareholders.

Because accounting scandals impact shareholder value, any proposal to ratify auditors should be examined for potential conflicts of interest, with particular attention to the fees.

Vermont may:

- Vote FOR proposals to ratify auditors when the amount of non-audit fees comprises less than twenty percent of the total paid.
- Vote AGAINST proposals to ratify auditors when the amount of non-audit fees exceeds twenty percent of all fees paid to the auditor.
- Vote FOR proposals seeking to limit companies from buying consulting services from their auditor.
- Vote AGAINST proposals to approve the audited financial statements, auditor, and/or audit committee chair if the company or its activities are materially exposed to climate-related risks, and they fail to properly reflect biodiversity or climate-related risks in the financial statements.
- Vote AGAINST proposals to reappoint the auditor (and their remuneration where applicable) if they fail to detail how they have considered climate risks as part of the audit process, at companies materially exposed to climate risk and at companies whose activities have material climate impacts.

In international markets Vermont may:

- Vote FOR the reelection of auditors and proposals authorizing the board to fix auditor fees, unless:
  - there are serious concerns about the accounts presented or the audit procedures used;
  - non-audit/consulting fees are more than twenty percent of the total fees paid to the auditor.
- ABSTAIN from the vote for the reelection of auditors if information on auditor fees is not available, if it is a stand-alone proposal, or if there is no proposal on approving auditor fees.

Auditor Rotation

Long-term relationships between auditors and their clients can impede auditor independence, objectivity, and professional skepticism. Mandatory auditor rotation is a widely supported safeguard against improper audits and is viewed by many as an effective mechanism for mitigating the potential risks borne by long-term auditor-client relationships. Proponents of compulsory audit firm rotation contend that rotation policies promote objectivity and independence among auditors and minimize the possibility of vested interests developing during the auditor relationship.

Opponents of audit firm rotation argue that regular re-tendering is costly, likely to reduce audit quality, and increases the risk of audit failure in the early years due to the time required to gain cumulative knowledge of a business. One solution around this latter drawback of mandatory rotation is to keep a longer rotation period.

In general, Vermont believes that companies should not maintain the same audit firm in excess of seven years. A revolving seven-year rotation period allows the auditor to develop cumulative knowledge of a company's business. Vermont considers the increased costs associated with compulsory auditor rotation to be a lower risk to shareholder value than the cost of a perceived or real conflict of interest.

Vermont may:

- Vote FOR shareholder proposals to ensure auditor independence through measures such as mandatory auditor rotation.
- Vote AGAINST or WITHHOLD from auditors if their tenure at a company exceeds seven years.

Auditor Indemnification and Limitation of Liability

Indemnification clauses allow auditors to avoid liability for potential damages, including punitive damages. Eliminating concerns about being sued for carelessness could lead to: 1) potential impairment of external auditor independence and impartiality, and 2) decrease the quality and reliability of the audit given the lack of consequence for an inadequate audit.

Given the substantial settlements against auditors for poor audit practices and the cost of such insurance to the company and its shareholders, there are legitimate concerns over the broader use of indemnification clauses. Vermont believes it is important for shareholders to understand the full risks and implications of these agreements and determine what impact they could have on shareholder value.

Vermont may:

- Review on a CASE-BY-CASE basis the use of indemnification clauses and limited liability provisions in auditor agreements.
- Vote AGAINST or WITHHOLD from Audit Committee members if there is substantial evidence that the audit committee entered into an indemnification agreement with its auditor that limits the ability of the company, or its shareholders, to pursue legitimate legal recourse against the audit firm.
- Vote AGAINST proposals to indemnify auditors.

Disclosures Under Section 404 of Sarbanes-Oxley Act

Section 404 of the Sarbanes-Oxley Act is a critical component of corporate governance and financial reporting for publicly traded companies in the US. Public companies must obtain an annual attestation of the effectiveness of their internal controls over financial reporting from external auditors. Companies with significant material weaknesses identified in Section 404 disclosures have ineffective internal financial reporting controls in place, which may lead to inaccurate financial statements, hampering shareholders' ability to make informed investment decisions. The Audit Committee is responsible for the integrity and reliability of the company's financial information and its system of internal controls.

Vermont may:

- Vote AGAINST or WITHHOLD votes from directors when a material weakness rises to a level of serious concern, if there are chronic internal control issues, or if there is an absence of established effective control mechanisms.
- Vote AGAINST proposals to ratify auditors if there is reason to believe that the independent auditor has rendered an opinion which is either inaccurate or not indicative of the company's financial position.

Adverse Opinions

An Adverse Opinion on the company's financial statements is issued when the auditor determines that the financial statements are materially misstated and, when considered as a whole, do not conform to Generally Accepted Accounting Principles (GAAP). This indicates that the information contained in the financial statements is materially incorrect and unreliable to assess the company's financial position.

Adverse opinions on companies' financial statements are generally rare and considered a statement by the auditor that a significant portion of the financial statements are incorrect, and the auditor had no choice but to issue an adverse opinion after a long process of seeking resolution with management.

Vermont may:

- Vote AGAINST or WITHHOLD votes from directors if the company receives an Adverse Opinion on the company's financial statements from its auditors.

Appointment of Internal Statutory Auditors

The appointment of internal statutory auditors is a routine request for companies in Latin America, Italy, Spain, Portugal, Japan, and Russia. The statutory auditing board is usually composed of three to five members, including a group chairman and two alternate members, all of whom are expected to be independent. In addition to the regular duty of verifying corporate accounts, the auditing board is responsible for supervising management and ensuring compliance with the law and articles of association. The auditors must perform an audit of accounts every three months and present a report on the balance sheet to shareholders at the AGM. For most countries, the auditors are elected annually and may seek reelection.

Vermont may:

- Vote FOR the appointment or reelection of statutory auditors, unless:
  - there are serious concerns about the statutory reports presented or the audit procedures used;
  - questions exist concerning any of the statutory auditors being appointed; or
  - the auditors have previously served the company in an executive capacity or can otherwise be considered affiliated with the company.
- Vote AGAINST insiders in the Japanese market if the company does not have two-thirds majority independent outsiders.

Mergers & Acquisitions

When evaluating M&A deals, private placements, or other transactions, Vermont prioritizes long-term shareholder value and responsible corporate governance. We assess the financial and strategic implications, including the impact on shareholders' earnings, voting rights, and the broader community.

Key considerations:

- Fairness and valuation: We evaluate the fairness of the deal terms, including the valuation and any independent fairness opinions.
- Strategic rationale: We assess the strategic rationale for the merger and its potential benefits to shareholders.
- Financial viability: We consider the financial implications of the deal, including the combined company's ability to generate value.
- Corporate governance: We evaluate the impact on the company's governance structure, including board composition, executive compensation, and shareholder rights.
- Impact on stakeholders: We consider the impact on employees, communities, and other stakeholders, including job security, working conditions, and environmental impact.

By carefully analyzing these factors and any specific circumstances, Vermont aims to ensure that M&A deals are in the best interests of shareholders and other stakeholders.

Vermont may:

- Vote AGAINST if the companies do not provide sufficient information upon request to allow for an informed voting decision.
- ABSTAIN if there is insufficient information available to make an informed voting decision.
- Vote AGAINST proposals to require a supermajority shareholder vote to approve mergers and other significant business combinations.
- Vote FOR shareholder proposals to lower the supermajority shareholder vote requirements for mergers and other significant business combinations.

Fair Price Provisions

Fair price provisions were designed to counter coercive two-tiered takeover bids. These bids involve offering a premium for initial shares, then a lower price for remaining shares, forcing shareholders to sell early. Fair price provisions require equal treatment for all shareholders, ensuring they receive the same price regardless of when they sell.

Vermont may:

- Vote FOR fair price proposals if the shareholder vote requirement to activate the fair price provision is a simple majority of disinterested shares.
- Vote FOR shareholder proposals to lower the shareholder vote requirement in existing fair price provisions.

Corporate Restructuring

Vermont may:

- Vote on a CASE-BY-CASE basis concerning corporate restructuring proposals, including minority squeeze-outs, leveraged buyouts, spin-offs, liquidations, and asset sales.
- Vote on a CASE-BY-CASE basis on going-private transactions, taking into account the following: offer price/premium, fairness opinion, how the deal was negotiated, conflicts of interest, other alternatives/offers considered, and non-completion risk.
- Vote on a CASE-BY-CASE basis "going dark" transactions, determining whether the transaction enhances shareholder value by taking into consideration whether the company has attained benefits from being publicly-traded (examination of trading volume, liquidity, and market research of the stock), cash-out value, whether the interests of continuing and cashed-out shareholders are balanced, and market reaction to public announcement of transaction.

Appraisal Rights

Rights of appraisal provide shareholders, who do not approve of the terms of certain corporate transactions, with the right to demand a judicial review to determine the fair value of their shares. The right of appraisal applies to mergers, the sale of corporate assets, and charter amendments that may have a materially adverse effect on the rights of dissenting shareholders.

Vermont may:

- Vote FOR proposals to restore or provide shareholders with the right of appraisal.

Spin-offs

Vermont may:

- Vote on a CASE-BY-CASE basis spin-off proposals taking into consideration the tax and regulatory advantages, planned use of sale proceeds, market focus, and managerial incentives.

Asset Sales

- Vote on a CASE-BY-CASE basis asset sale proposals after considering the impact on the balance sheet/working capital, value received for the asset, and potential elimination of diseconomies.

Liquidations

- Vote on a CASE-BY-CASE basis liquidation proposals after reviewing management's efforts to pursue other alternatives, appraisal value of assets, and the compensation plan for executives managing the liquidation.

Changing Corporate Name

Vermont may:

- Vote FOR changing the corporate name if proposed and supported by management.

Shareholder Rights

Confidential Voting

The confidential ballot ensures that voters are not subject to real or perceived coercion. In an open voting system, management is aware of who has voted against its nominees or proposals before a final vote count. As a result, shareholders can be pressured to vote with management at companies with which they maintain or would like to establish a business relationship.

Vermont may:

- Vote FOR shareholder proposals to adopt confidential voting, independent tabulators, and independent inspectors of election, with appropriate provisions for proxy contests.
- Vote FOR management proposals to adopt confidential voting procedures.

In the event of a proxy contest (a situation where two or more groups compete to control a company), management can request that the opposing group (the "dissident group") also agree to confidential voting. If the dissident group agrees, confidential voting remains in place. If they refuse, the confidential voting policy is waived.

This provision aims to balance the benefits of confidential voting with the need for a fair and transparent election process, even in contentious situations.

Shareholder Ability to Call Special Meetings

Most state corporation statutes allow shareholders to call a special meeting when they want to act on certain matters that arise between regularly scheduled annual meetings. Sometimes this right applies only if a shareholder or a group of shareholders owns a specified percentage of shares, with ten percent being the most common.

Vermont may:

- Vote AGAINST proposals to restrict or prohibit shareholder ability to call special meetings.
- Vote FOR proposals that remove restrictions on the right of shareholders to act independently of management.
- Vote AGAINST provisions that would require advance notice of more than sixty days.

Shareholder Ability to Act by Written Consent

Consent solicitations allow shareholders to vote on and respond to shareholder and management proposals by mail without having to act at a physical meeting. A consent card is sent by mail for shareholder approval and only requires a signature for action. Some corporate bylaws require supermajority votes for consents, while at others standard annual meeting rules apply. Shareholders may lose the ability to remove directors, initiate a shareholder resolution, or respond to a beneficial offer without having to wait for the next scheduled meeting if they are unable to act at a special meeting of their own calling.

Vermont may:

- Vote AGAINST proposals to restrict or prohibit shareholder ability to act by written consent.
- Vote FOR proposals to allow or make easier shareholder action by written consent.

Equal Access

Corporate governance practices can fall short of shareholder interests. Directors may award excessive compensation, fail to challenge management, and prioritize short-term gains over long-term value. This can lead to a decline in shareholder value, job losses, and harm to communities.

Proxy access empowers shareholders by allowing them to nominate director candidates directly. This enables shareholders to hold boards accountable and promote a more responsive and shareholder-friendly corporate governance.

Vermont supports proxy access proposals, particularly at companies with:

- A history of disregarding shareholder proposals
- Weak board independence and oversight
- Excessive executive compensation
- Accounting or financial irregularities

By supporting proxy access, Vermont aims to strengthen corporate governance, protect shareholder interests, and promote long-term value creation.

Vermont may:

- Vote FOR shareholder resolutions that would allow shareholders who own at least 3% of a company's shares for at least three years to nominate director candidates.
- Vote on a CASE-BY-CASE basis precatory shareholder proposals asking companies to voluntarily adopt open access.

Supermajority Shareholder Vote Requirement to Amend the Charter or Bylaws

Supermajority shareholder vote requirements for charter or bylaw amendments are often the result of "lock-in" votes, which are the votes required to repeal new provisions to the corporate charter. Supermajority provisions violate the principle that a simple majority of voting shares should be all that is necessary to affect change regarding a company and its corporate governance provisions. Requiring more than this may entrench managers by blocking actions that are in the best interests of shareholders.

Vermont may:

- Vote AGAINST proposals to require a supermajority shareholder vote to approve charter and bylaw amendments.
- Vote AGAINST proposals seeking to lower supermajority shareholder vote requirements when they accompany management-sponsored proposals to also change certain charter or bylaw amendments.
- Vote FOR shareholder proposals to lower supermajority shareholder vote requirements for charter and bylaw amendments.

Reimburse Proxy Solicitation Expenses

Proxy solicitation expenses are the costs incurred by a company or other party (like an activist investor) when communicating with shareholders and attempting to persuade them to vote in a particular way on a matter brought before a shareholder meeting. These matters can include electing directors, approving mergers or acquisitions, changing corporate bylaws, or other proposals.

Vermont may:

- Vote FOR reimbursement for proxy solicitation expenses associated with the election of directors when voting in conjunction with support of a dissident slate.

- Vote FOR requests seeking to reimburse a shareholder proponent for all reasonable campaign expenditures for a proposal approved by the majority of shareholders.

Bundled Proposals

Vermont may:

- Vote on a CASE-BY-CASE basis on bundled or conditional proxy proposals. In the case of items that are conditioned upon each other, examine the benefits and costs of the packaged items.
- Vote AGAINST proposals where the joint effect of the conditioned items is not in shareholders' best interests.

Capital Structure & Shareholder Rights

Vermont prioritizes long-term shareholder value and responsible corporate governance when evaluating proposals focused on a company's capital structure. Vermont shall analyze key factors such as capital allocation, share issuance, debt financing, and shareholder voting rights. By scrutinizing these elements, Vermont aims to ensure that companies operate in the best interest of shareholders.

Voting Rights

Vermont supports a one share, one vote policy and opposes mechanisms that skew voting rights. Dual-class capital structures entrench certain shareholders and management, insulating them from takeovers or other external influence. The interests of parties with voting control may then diverge from those of shareholders representing a majority of the company's capital. Research and market experience show that companies with dual-class capital structures or other anti-takeover mechanisms consistently trade at a discount to similar companies without such structures.

Vermont may:

- Vote FOR resolutions that seek to maintain or convert to a one share, one vote capital structure.
- Vote FOR proposals that support increased transparency of vote totals for each class in dual-class structures.
- Vote FOR proposals that provide for the disclosure of voting results broken down by share class when multi class structures exist.
- Vote AGAINST requests for the creation or continuation of dual-class capital structures or the creation of new or additional super-voting shares.
- Vote FOR proposals to eliminate dual-class common stock.
- Vote AGAINST the creation of a new class of preference shares that would carry superior voting rights to the common shares.

Capital Systems

Companies have one of two main types of capital systems: authorized or conditional. Both systems provide companies with the means to finance business activities, but they are considerably different in structure. Which system used by a company is determined by the economic and legal structure of the market in which it operates.

The management of a corporation’s capital structure involves a number of important issues including dividend policy, types of assets, opportunities for growth, ability to finance new projects, and the cost of obtaining additional capital. Many financing decisions have a significant impact on shareholder value, particularly when they involve the issuance of additional common stock, preferred stock, or debt.

Authorized Capital System

The authorized capital system sets a limit in a company’s articles on the total number of shares that can be issued by the company’s board. The system allows companies to issue shares from this preapproved limit, although in many markets shareholder approval must be obtained prior to issuance. Companies also request shareholder approval for authorization increases when the amount of shares contained in the articles is inadequate. Vermont reviews authorization requests based on the history of issuance requests; size of the request; purpose of issuance (general or specific); and the status of preemptive rights.

Conditional Capital System

Under this system, companies seek authorization for specific pools of capital with defined expiration dates. These pools can be for general purposes (like issuing new shares) or specific transactions (like acquisitions).

- General Purpose Pools: Allow companies to issue shares as needed within a specific timeframe.
- Specific Purpose Pools: Can only be used for designated purposes, such as funding a specific acquisition.

Vermont reviews these requests, considering factors like the size of the pool, its intended use, and any existing pools that may still be active. This helps ensure that the company's capital structure remains aligned with shareholder interests.

Share Issuance Requests

General Issuances

Companies often seek authorization to issue shares for general corporate purposes.

- *Preemptive Rights*: Shareholders are permitted to share proportionately in any new issues of stock of the same class. Shareholders should have the right to maintain their proportional ownership in the company through preemptive rights. However, limited exceptions may be allowed for minor issuances. In evaluating proposals on preemptive rights, Vermont considers the size of a company and the characteristics of its shareholder base.
- *Authorized Capital*: Companies often request increases in authorized capital to provide flexibility for future financing needs. In the US, this is in the form of common stock authorizations for activities such as acquisitions, stock splits, or stock-based compensation plans. However, excessive increases or unlimited authorizations can be detrimental to shareholder interests. Vermont carefully evaluates each request, considering factors such as the specific purpose, the impact on existing shareholders, and the potential for abuse.
- *Reduction in Capital*: These are typically the result of significant corporate restructuring in the face of bankruptcy, where opposition could lead to insolvency, which is not in shareholders’ interests. Vermont’s evaluation of this type of proposal takes a realistic approach to the company’s situation.

Specific Issuances

The purpose of specific issuances should be clear and justified, the size and timing of the issuance should be appropriate, and the impact on existing shareholders, particularly in terms of dilution, should be minimized. By carefully considering these factors, Vermont aims to balance the company's need for capital with the protection of shareholder interests.

Vermont may:

- Vote FOR general issuances with preemptive rights up to 50% of issued capital.
- Vote FOR general issuances without preemptive rights up to 20% of issued capital.
- Review on a CASE-BY-CASE basis specific issuance requests, considering factors like purpose, size, justification, and impact on shareholders.
- Vote FOR increases in authorized capital up to 50% of the current authorization.
- Vote AGAINST unlimited capital authorizations.
- Review on a CASE-BY-CASE basis share repurchases and debt restructurings, considering factors like shareholder value, financial impact, and potential for abuse.
- Vote FOR reasonable increases in authorized common shares, especially for purposes like stock splits or funding growth initiatives.
- Vote AGAINST excessive increases and those that could be used for anti-takeover purposes.

Reverse Stock Splits

Reverse splits exchange multiple shares for a lesser amount to increase share price. Increasing share price is sometimes necessary to restore a company’s share price to a level that will allow it to be traded on the national stock exchanges. In addition, some brokerage houses have a policy of not monitoring or investing in low-priced shares. Reverse stock splits can also help maintain stock liquidity.

Vermont may:

- Review on a CASE-BY-CASE basis proposals to implement a reverse stock split, taking into account whether there is a corresponding proportional decrease in authorized shares.
- Vote FOR proposals requesting a reverse stock split if management provides a reasonable justification for the split and reduces authorized shares accordingly. Without a corresponding decrease, a reverse stock split is effectively an increase in authorized shares by reducing the number of shares outstanding while leaving the number of authorized shares to be issued at the pre-split level.

Preferred Stock

Preferred stock is an equity security, but it has characteristics of both debt and equity. It typically offers fixed dividends, limited voting rights, and seniority of claims in liquidation. Preferred stock can be an effective means of raising capital without increasing debt levels, especially if a company has recently concluded a series of acquisitions. Vermont generally supports the issuance of preferred stock when:

- The terms of the preferred stock, including voting rights, conversion features, and dividend rates, are clearly defined.

- The company provides a valid reason for the issuance, such as raising capital or optimizing capital structure.
- The issuance does not excessively dilute existing common shareholders.

Vermont is cautious about blank check preferred stock authorizations, as they can be used for various purposes, including anti-takeover measures. Such authorizations should be granted only with clear justification and appropriate safeguards.

Vermont may:

- Review on a CASE-BY-CASE basis proposals to increase blank check preferred authorizations.
- Vote AGAINST proposals to create blank check preferred stock unless the board expressly states that the authorization will not be used as a takeover defense.
- Review on a CASE-BY-CASE basis proposals that would authorize the creation or increase of new classes of preferred stock with unspecified voting, conversion, dividend, distribution, and other rights.
- Review on a CASE-BY-CASE basis proposals to increase the number of authorized blank check preferred shares.
- Vote AGAINST proposals to authorize blank check preferred shares if the company does not have any preferred shares outstanding.
- Vote FOR shareholder proposals to have blank check preferred stock placements, other than those shares issued for the purpose of raising capital or making acquisitions in the normal course of business, submitted for shareholder ratification.

Adjust Par Value of Common Stock

Stock that has a fixed per share value on its certificate is called par value stock. The purpose of par value stock is to establish the maximum responsibility of a stockholder in the event that a corporation becomes insolvent. Proposals to reduce par value come from certain regulatory requirements, such as banks, and other legal requirements relating to the payment of dividends.

Vermont may:

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

Share Repurchase Plans

Share repurchases can be a useful tool for returning capital to shareholders and boosting share prices. However, they must be used judiciously to avoid potential drawbacks. Vermont evaluates these proposals based on the following key considerations:

- Fairness: Repurchases should be conducted at fair market value and avoid preferential treatment for insiders.
- Purpose: Repurchases should have a clear strategic purpose, such as optimizing capital structure or returning excess cash to shareholders.
- Anti-takeover measures: Repurchases should not be used as a tool to thwart legitimate takeover attempts.
- Transparency: Companies should disclose clear information about the repurchase program, including its objectives, timing, and potential impact.

By carefully considering these factors, Vermont aims to ensure that share repurchases are used to enhance shareholder value, rather than to benefit management or entrench control.

Vermont may:

- Review on a CASE-BY-CASE basis share repurchase plans greater than 10% of volume, and assess that merits are clearly disclosed and that the plan respects the 10% maximum of shares to be kept in treasury.
- ABSTAIN from proposals for share repurchases that provide no explanation for the request.
- Vote FOR share repurchase plans where a rational is provided, unless:
    - Clear evidence of past abuse of the authority is available;
    - The plan contains no safeguards against selective buybacks;
    - Pricing provisions and safeguards are deemed unreasonable in light of market practice;
    - The repurchase is used to fund stock option plans for management compensation;
    - The repurchase is linked to share-based awards without adequate disclosure;
    - The proposed duration of the authorization exceeds reasonable limits, particularly in markets with shorter standard durations.

Reissuance of Shares Repurchased

Vermont generally believes that properly timed repurchases of company shares can potentially enhance shareholder value and improve returns by increasing earnings per share and signaling management's confidence in the company's future. However, the subsequent reissuance of those shares would typically reverse these potential benefits. When reviewing such proposals, Vermont considers the country's legal framework for such reissuances and the company's history of reissuing shares.

Vermont may:

- Vote to ABSTAIN if no explanation is provided for the request.
- Vote FOR requests to reissue any repurchased shares if the rationale is sound and there is no clear evidence of abuse of this authority in the past.

Debt Issuance Requests

Companies often issue debt, including bonds and convertible bonds, to raise capital. Convertible bonds allow holders to exchange their debt for equity. Debt issuance can be in many currencies and is not limited to the company's domicile currency. Bonds may be issued with or without preemptive rights.

When evaluating debt issuances, Vermont considers:

- Financial Health: The company's debt-to-equity ratio and overall financial performance are key factors.
- Dilution Potential: For convertible bonds, the potential dilution to existing shareholders is assessed.
- Purpose of Issuance: The specific purpose of the debt issuance, whether for general corporate purposes or a specific project, is considered.

- Market Conditions: The prevailing market conditions and interest rates influence the terms of the debt issuance.

Vermont aims to ensure that debt issuances are used responsibly and do not unduly burden the company's financial health or dilute shareholder value.

Vermont may:

- Review on a CASE-BY-CASE basis debt issuance proposals with or without preemptive rights.
- Review on a CASE-BY-CASE basis proposals to create or increase convertible debt with preemptive rights, if the conversion increases the company’s share capital by more than 50 percent over the current outstanding capital.
- Review on a CASE-BY-CASE basis convertible debt proposals without preemptive rights that increase the company’s share capital by more than 20 percent over the current outstanding capital.

Pledging Assets for Debt

In certain countries, shareholder approval is required when a company needs to secure a debt issuance with its assets. When reviewing such proposals, Vermont takes into account the terms of the proposed debt issuance and the company’s overall debt level.

Vermont may:

- Review on a CASE-BY-CASE basis proposals to approve the pledging of assets for debt.

Increase in Borrowing Powers

In some countries, companies need shareholder approval to increase their borrowing limits. This is often done to prevent excessive debt accumulation and protect shareholder interests. Vermont believes that a company should have some flexibility to borrow money, especially for strategic initiatives like acquisitions or restructuring. However, Vermont also recognizes the risks associated with high debt levels. Vermont will consider the company’s financial health, management’s stated purpose for the increase, the size of the increase, and the impact on shareholders for these proposals.

Vermont may:

- Review on a CASE-BY-CASE basis proposals to increase a company’s borrowing powers.
- Vote AGAINST the removal of a limit on borrowing powers.
- Vote AGAINST proposals that lack sufficient justification for an excessive increase for a company whose financial health is poor compared to its industry peers.

Debt Restructuring

When evaluating debt restructuring proposals, Vermont will carefully consider the following issues:

- Bankruptcy: How real is the threat of bankruptcy? Is bankruptcy the main factor driving the debt restructuring? Would the restructuring result in severe loss to shareholder value?
- Possible self-dealings: Generally approve proposals that facilitate debt restructuring unless there are clear signs of self-dealing or other abuses.

- 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?

Vermont may:

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

Capitalization of Reserves for Bonus Issues/Increase in Par Value

Companies often issue bonus shares to existing shareholders by capitalizing reserves. This essentially transfers retained earnings into additional shares, distributing wealth to shareholders without diluting ownership. While this can increase liquidity and expand the shareholder base, it's important to ensure that such actions are justified and will not negatively impact the company's financial health.

Vermont may:

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

Corporate Meetings

In general, these are routine proposals relating to various requests regarding the formalities of corporate meetings.

Allocation of Income

Many countries require shareholders to approve the allocation of income generated during the year, which can contain an allocation to dividends. When determining the acceptability of this proposal, Vermont focuses primarily on the payout ratio. Payouts of less than 30 percent or more than 100 percent are a trigger for further analysis, including the following factors:

- an examination of historical payouts to determine if there is a long-term pattern of low payouts;
- exceptional events that may have artificially modified earnings for the year;
- the condition of a company's balance sheet;
- comparisons with similar companies both domestically and internationally;
- the classification of the company as growth or mature.

The use of share buybacks is another way to distribute capital to shareholders. In these cases, companies have introduced policies to return capital to shareholders by way of share repurchases instead of through the payment of dividends.

Vermont may:

- Vote FOR proposals to allocate income unless there is material concern about the company's capital efficiency or the company has a pattern of low payouts, fails to adequately justify the retention of capital, or is not experiencing above-average growth.
- Review on a CASE-BY-CASE basis proposals to omit the payment of a dividend in favor of a share buyback and consider the purpose, tax consequences for shareholders, liquidity of the shares, share price movements, and the solvency ratio of the company.

- Review on a CASE-BY-CASE basis extreme payouts, taking into consideration the above noted factors.

Stock (Scrip) Dividend Alternative and Dividend Reinvestment Plans

Stock dividend alternatives, also referred to in some markets as “scrip” dividend alternatives or dividend reinvestment plans (DRIPS), allow shareholders to receive dividends in the form of additional shares. While this does not immediately add to shareholder value, it can strengthen the commitment of long-term shareholders and allow companies to retain cash.

Vermont may:

- Vote FOR stock dividend alternatives proposals that allow for a cash option.
- Vote AGAINST proposals that do not allow for a cash option unless management demonstrates that the cash option is harmful to shareholder value.

Amendments to Articles of Association

Companies often amend their articles of association to adapt to changes in the legal and regulatory environment or to improve their corporate governance. These amendments can range from minor technical changes to significant structural reforms.

Vermont carefully reviews proposed amendments to ensure they align with shareholder interests, using the following key considerations:

- Impact on shareholder rights: Does the amendment strengthen or weaken shareholder rights?
- Potential for abuse: Could the amendment be used to entrench management or harm minority shareholders?
- Clarity and transparency: Is the amendment clear and understandable, and does it promote transparency?
- Structure of revisions: Is the company proposing a new set of articles to adopt or are they introducing numerous amendments for consideration? Bundling leaves shareholders with an all-or-nothing choice.

Vermont will generally support amendments that improve corporate governance and enhance shareholder value. However, Vermont will oppose the amendment if it causes harm to shareholder interests, such as those that weaken shareholder rights or entrench management. Vermont classifies each change according to its potential impact on shareholder value and then weighs the package as a whole. The presence of one strongly negative change will warrant a recommendation against the resolution. In assigning these classifications, Vermont is not concerned with the nature of the article being amended, but rather focuses on whether the proposed change improves or worsens the existing provision.

The final criterion on which Vermont bases its decision is whether failure to pass a resolution would cause an immediate loss of shareholder value. In such cases, Vermont supports even a bundled resolution that includes negative changes.

Vermont may:

- Review on a CASE-BY-CASE basis proposals amending the articles of association.

Reincorporation Proposals

Reincorporation proposals are most common in Canada, where companies may register under a provincial business statute. However, companies in other countries may also seek shareholder approval to incorporate in a U.S. state or another country. Many companies, including U.S. companies, choose to incorporate in jurisdictions such as Bermuda, the Cayman Islands, or the British Virgin Islands, often seeking tax advantages like lower corporate taxes or favorable treatment of specific transactions.

When reviewing a reincorporation proposal, Vermont first examines the reasons for the move. Sometimes a reincorporation is part of a restructuring or merger that demonstrably contributes to a company's growth, financial health, and competitive position, outweighing the potential negative consequences of incorporating elsewhere. Some reincorporations allow firms to realize lower taxes or incorporation fees. There may also be advantages to incorporating in the jurisdiction where the company primarily operates.

Companies often adopt a new charter or bylaws with increased management protections upon reincorporation. For example, many reincorporation proposals are bundled with the ratification of a new charter that increases authorized capital stock or imposes a classified board. When such charter changes include negative corporate governance provisions, such as those that limit shareholder rights or entrench management, the impact of these provisions on shareholders must be carefully balanced against the anticipated benefits of the reincorporation.

Vermont may:

- Vote AGAINST reincorporation to new jurisdiction proposals that diminish basic labor rights and standards.
- Vote AGAINST reincorporation proposals to countries, states, or provinces with less stringent disclosure requirements or corporate governance provisions.
- Vote AGAINST reincorporation proposals where the costs of legal and administrative fees or possible management entrenchment outweigh the benefits of reincorporation in a more protective province, country or state.
- Review on a CASE-BY-CASE basis reincorporation proposals.

Expansion Of Business Activities

Companies often include a specific objects clause in their articles of association, outlining their primary business activities. Any changes to this clause typically require shareholder approval.

While expanding business lines is often a managerial decision, Vermont carefully reviews such proposals, considering factors like:

- Company Performance: Companies with a history of poor performance should provide a clear and compelling rationale for new ventures.
- Labor Standards: The company should adhere to ethical labor practices and comply with relevant laws and regulations.
- Shareholder Value: The expansion should be expected to create long-term value for shareholders.

Vermont believes expansion of business activities with a clear strategic rationale can be beneficial to shareholders, if the company adheres to basic labor principles and codes of conduct.

Vermont believes policies supporting workplace health and safety and basic labor rights strengthen long-term corporate performance and increase shareholder value.

Vermont may:

- Vote AGAINST proposals that lack a clear strategic rationale or that could potentially harm the company's reputation or financial health.
- Vote AGAINST proposals that do not adhere to basic labor principles or codes of conduct in the expansion of the company's business.
- Vote FOR resolutions to expand business activities unless the new business takes the company into risky areas.

Related Party Transactions

Shareholders are often asked to approve commercial transactions between related parties. Transactions 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 and/or stock exchange listing requirements that mandate shareholder approval. Shareholder approval of these transactions is meant to protect shareholders against insider trading abuses. Vermont seeks language in the proposal which indicates that the transaction will be evaluated by an independent body.

Vermont may:

- Review on a CASE-BY-CASE basis related party transactions.
- ABSTAIN from voting when details of a particular arrangement are not available.
- Vote FOR transactions that are conducted in the ordinary course of business and are in arm's length terms without known issues of concern.
- Vote AGAINST transactions that entail material conflicts of interest with the board and/or management of the company, or if the terms of the transaction are not in the best interest of shareholders.

Compensation

Companies should design compensation plans that motivate executives to focus on long-term shareholder value and returns, encourage employee stock ownership, and align employee interests with shareholders. Vermont's methodology for evaluating compensation proposals relies on the type and depth of data made available, which varies by market. Key principles for evaluating these proposals include:

- Fair and Reasonable Pay: Compensation should be fair, competitive, and linked to performance.
- Balanced Incentives: A mix of short-term and long-term incentives can encourage a balanced approach to decision-making.
- Risk Management: Severance packages, change-in-control provisions, and executive retirement plans should be designed to mitigate excessive risk-taking.
- Transparency and Disclosure: Companies should provide clear and concise disclosure of executive compensation practices, including a clear process for determining the quantum of pay compared to industry peers.

- Long-Term Focus: Executive compensation should be structured to encourage a long-term perspective, avoiding excessive short-term incentives.

By adhering to these principles, companies can attract and retain top talent while ensuring that executive compensation is aligned with the interests of shareholders.

Examples of best pay practices Vermont supports include:

- *Employment contracts:* Companies should enter into employment contracts under limited circumstances for a short time period (e.g., a three-year contract) for limited executives. The contracts should not have an automatic renewal feature and have a specified termination date.
- *Severance agreements:* Severance provisions should not be so appealing that they become an incentive for the executive to be terminated. The severance formula should be reasonable and not overly generous to the executive (e.g., use maximum severance multiple of 2.99X pay; use pro-rated target/average historical bonus and not maximum bonus). Failure to renew employment contract, termination under questionable events or for poor performance should not constitute "good reason" for termination with severance payments.
- *Change-in-control payments:* Change-in-control payments should be "double-triggered" – i.e. payouts should only made when there is a significant change in company ownership structure, and when there is a loss of employment or substantial change in job duties associated with the change in company ownership structure. Change-in-control provisions should exclude excise tax gross-ups and should not authorize the accelerated vesting of equity awards upon a change in control unless provided under a double-trigger scenario.
- *Supplemental executive retirement plans (SERPs):* SERPs should not include sweeteners that can increase the payout value significantly or even exponentially, such as additional years of service credited for pension calculations, or inclusion of variable pay (e.g. bonuses and equity awards) into the formula. Pension formulas should not include extraordinary annual bonuses paid close to the time of retirement and should be based on an average, not the maximum, level of compensation earned.
- *Deferred compensation:* Above-market returns or guaranteed minimum returns should not be applied on deferred compensation.
- *Disclosure practices:* The Compensation Discussion and Analysis (CD&A) for U.S. firms should be clear and easy to understand. It should use plain language and be well-structured with headings, bullet points, and visuals to enhance readability. The CD&A should provide detailed information about the company's compensation philosophy, including: compensation strategy, pay mix, performance metrics, goals, challenges, competition and pay for performance linkage, executive compensation trends, risk management practices, among other considerations. By providing clear and concise information, companies can improve transparency and enhance shareholder understanding of executive compensation practices.
- *Responsible use of company stock:* Companies should adopt policies that prohibit executives from speculating in company's stock or using company stock in hedging activities, such as "cashless" collars, forward sales, equity swaps or other similar arrangements. Such behavior undermines the ultimate alignment with long-term shareholders' interests. In addition, the policy should prohibit or discourage the use of company stock as collateral for margin loans, to avoid any potential sudden stock sales

(required upon margin calls) that could have a negative impact on the company's stock price.

- *Long-term focus:* Executive compensation programs should be designed to support companies' long-term strategic goals. Compensation programs embedding a long-term focus with respect to company goals better align with the long-term interests of shareholders. Granting stock options and restricted stock to executives that vest in five years does not necessarily provide a long-term focus, as executives can sell off the company shares once they vest. However, requiring senior executives to hold company stock until retirement or after retirement can encourage a long-term focus on company performance.

Stock Option Plans

Vermont supports compensating executives at a reasonable rate and believes that executive compensation should be strongly correlated to performance. Stock options, restricted stock, and other forms of non-cash compensation should be performance-based with an eye toward improving long-term shareholder value. Well-designed stock option plans can align the interests of executives and shareholders, since, when stock prices rise, the company and shareholders prosper together. Stock option plans grant participants an option to buy company shares at a set price (the exercise price). Shares are usually granted at market prices and may be exercised when the company's share price reaches the exercise price. Participants may then purchase the promised shares at the strike price and may later sell the shares after their purchase (or after a defined holding period when the shares may not be sold).

Among the criteria that Vermont examines in evaluating stock option plans are the following, generally organized from criteria of greater importance to criteria of lesser importance:

- *Shares Reserved for Issuance of Options Under the Plan:* Shares available under stock option plans should be no more than five percent of the issuance at the time of approval under all plans. For countries that adopt revolving limits (a certain percentage of issued shares at any one time) Vermont prefers plans where the limits are sufficiently spread out, e.g., five percent in five years, ten percent in ten years.

- *Exercise Price:* Vermont prefers options be priced at 100 percent of the shares' fair market value on the date of grant. Usually this is taken as the closing price of the company's shares on the day prior to the date of grant. Some countries determine fair market value as an average of the trading price for the five days prior to the date of grant. This is a common and acceptable practice. Some emerging market countries use a 30-day average or longer to determine fair market value; these resolutions must be reviewed on a case-by-case basis, although provisions of longer than 30 days increase the possibility of discounted options.

- *Exercise Price Discounts:* Vermont strongly opposes grants of discounted options to both executive and nonexecutive directors. In the absence of vesting periods or performance criteria (see below), discounted option grants to directors amount to a cash bonus at shareholder expense. Under such circumstances, option holders have an incentive to cash in their grants for an immediate return rather than hold on to their options for future gains. This undermines the incentive value of these plans. A few countries allow for options to be granted at a discount to market prices. Vermont approves of discounts up to 20 percent, but only for grants that are a part of a broad-based employee plan, including all nonexecutive employees.

- *Plan Administration:* Vermont opposes allowing the administering committee to grant options to itself due to the potential for “back scratching” abuse. Administration of plans should be in the hands of directors who are unable to participate in the plan. Plans administered by the full board should not allow voting by executive directors; plans administered by remuneration committees should be composed entirely of independent directors. Plans that allow nonexecutive directors to participate should not give them any discretion on individual grants; instead, an automatic system of grants should be introduced with fixed annual grants at market prices on a fixed date. Alternatively, Vermont approves separate nonexecutive director option plans with independent administration.
- *Eligibility and Participation:* Vermont prefers separate plans for employees, directors, and nonexecutive directors, but most plans include all or some combination of these categories of participants. Other global plans distinguish between full-time and part-time employees or establish a set length of service to the company (usually one year) before options may be granted. Most plans allow the administrating committee to select plan participants.
- *Performance Criteria and Vesting Provisions:* Performance criteria and vesting provisions are important considerations when evaluating a compensation plan and the existence of long vesting provisions and realistic performance criteria are highly preferred. The goal of share option plans is to tie executive and employee remuneration to company performance and to give key employees and executives incentive to stay with the firm. Vermont will oppose plans that do not include sufficiently challenging performance criteria or carry a minimum three-year vesting period. Finally, any matching shares that are provided by companies should be subject to additional performance conditions.
- *Retesting of Performance Criteria:* Remuneration plans should not allow for the retesting of performance criteria over another period if these conditions were not met within the initial period. Retesting is destructive to the incentive value of such plans and undermines the worth of performance criteria. Whenever disclosure is sufficient to determine if retesting is allowed under a company’s plan, we will take this feature into consideration for our overall evaluation of the plan.

Other Features Specific to Option Plans

- *Issue Terms:* Some countries require optionees to pay a nominal fee (often equivalent to $0.01) for every option received. This is common and acceptable, although many companies that once enforced this provision are now deleting it from the rules of their plans.
- *Option Repricing:* Some plans include specific provisions allowing for the repricing of options at the board’s discretion. Vermont opposes plans that include option repricing when the exercise price is reduced in response to a dropping share price. Repricing outstanding options reduces the incentive that options provide to raise the share price for shareholders.
- *Financial Assistance:* Some plans offer participants loans to pay the full exercise price on their options. If loans are part of a company’s option plan, Vermont prefers that loans be made to employees as part of a broad-based, company-wide plan to encourage ownership rather than being given only to executive directors. Vermont also prefers loans with interest set at market rates that must be paid back in full over a reasonable length of time.

The absence of these features does not necessary warrant a recommendation against an option plan, but they are taken into consideration in Vermont' analysis of the plan.

- *Plans for International Employees:* Many overseas companies introduce separate plans or delegate a special section of their option plan to deal with tax considerations raised by having a large number of employees working in other countries. Many of these plans contain provisions that deal directly with particular U.S. tax code provisions on stock options. Vermont applies the same criteria to these plans as to country-specific plans.
- *Stock Appreciation Rights:* Stock appreciation rights (SARs) allow participants to receive the difference between the exercise price and the market price at the date of exercise. Many companies use SARs in lieu of regular options. While SARs do not result in the dilution associated with large option exercises, there is little difference between an SAR and a regular option from a shareholder perspective because the financial cost to the company is the same. However, SARs do not encourage stock ownership by participants because they involve no purchase or sale of company stock. Vermont reviews SARs in the context of the option plan under which they are issued.
- *Phantom Stock Option Plans:* Phantom stock options offer participants cash bonuses based on the increase in share price during a set period of time. Phantom plans are distinct from SARs in that they often form their own separate plan. Some companies will create a phantom stock option plan to award employees who reside in countries that do not allow stock-based compensation. Participants are designated a set number of hypothetical (phantom) shares, on which the award is based. While Vermont prefers compensation plans that encourage employee ownership, SARs and phantom options are an effective way to provide incentive. Vermont reviews phantom plans in a similar manner of a stock option plan.
- *Super Options:* Super options exceed the limits in a particular country for the value of options granted to any one individual, although they are usually tied to significantly more restrictive vesting provisions and performance criteria. U.K. super options, for example, exceed the Association of British Insurers' recommended limit that options represent no more than four times a participant's salary, yet the stricter performance criteria and longer vesting periods usually mitigate excessive grants. Additionally, dilution resulting from super options has historically been fairly moderate. Super options appear most often in advanced markets with developed stock option plans.
- *Restricted Stock:* Restricted stock is specifically designated stock offered at a discount to executives, often under U.S. option plans but increasingly among overseas plans as well. Company shares may be granted outright to optionees with no payment required for the receipt of the shares. Such awards can be extremely expensive, as participants exercise awards at fixed prices far below the current market price. If restricted stock is included as part of a stock option plan, Vermont expects strict limits on the amount of shares that may be issued in this form and evaluates the performance criteria of such plans.
- *Dividends Under Option and Dividend Equivalent Payment Provisions:* Most holders of stock options do not receive dividend payments. However, some option plans allow participants to receive dividends or dividend equivalent payments prior to the exercise of options. Vermont believes that any economic benefit derived from option plans should occur at the time of exercise.
- *Incentive Plans:* Share incentive plans tie employee compensation to company performance, often using performance metrics like EPS or total shareholder return. These plans can motivate employees and align their interests with shareholders.

Vermont supports well-designed incentive plans with strict vesting periods and clear performance criteria. The plans should avoid excessive dilution and ensure fair treatment of all participants. Evaluation of incentive plans is like that of option plans in that acceptable dilution and impartial administration and eligibility remain key factors for a positive recommendation. Insufficient performance criteria or abbreviated vesting provisions are deciding factors as well.

Share Purchase Plans

Share purchase plans allow participants to purchase shares in the company, often at a discount to market prices. These plans are often broad-based in nature, as they are usually open to all employees. Other plans operate via monthly deductions from employees' paychecks, gathered and held for safekeeping by a trust or a bank and used every month or year to purchase company stock.

Vermont generally supports broad-based, employee-directed share purchase plans with discounts up to 20 percent. Dilution, eligibility, and administration are the key factors in determining Vermont's recommendation.

Other Features Specific to Share Purchase Plans

- *Eligibility*: While eligibility under share purchase plans is evaluated similarly to stock option plans, Vermont affords more flexibility with the terms of broad-based employee purchase plans. The inclusion of permanent part-time employees and employees who have been with the company for less than one year are provisions of employee plans that are routinely approved.
- *Loan Terms:* Some plans offer participants loans to pay for the shares. If loans are part of a share purchase plan, Vermont prefers that loans be made to employees as part of a broad-based, company-wide plan to encourage ownership rather than being given only to executive directors. Vermont also prefers loans with interest set at market rates that must be paid back in full over a reasonable length of time. The absence of these features does not necessary warrant a recommendation against a share purchase plan, but they are taken into consideration in Vermont' analysis of the plan.
- *Grants Outside of Plans:* Resolutions asking shareholders to approve specific grants of shares or cash outside of established plans are problematic. Some companies prefer not to adopt formal share plans, instead asking shareholders to approve yearly grants to specific employees. Vermont prefers that companies make such grants in the context of an established plan. Vermont's primary concern with grants outside of plans is the level of dilution they afford. The number of shares issued as part of the grants, when combined with the number of shares reserved for the company's other share plans, must fall within acceptable dilution limits. Vesting provisions and performance criteria are also important and are evaluated on the same basis as if the grants were part of a formal plan.

Vermont supports option plans that provide legitimately challenging performance targets that serve to truly motivate executives in the pursuit of long-term performance goals and award reasonable benefits to executives. Vermont will take into consideration dilution, full market value, evergreen features, and repricing when analyzing equity pay plans.

Fair Market Value, Dilution, and Repricing: Vermont shall consider whether the proposed plan is being offered at fair market value or at a discount; whether the plan excessively dilutes the earnings per share of the outstanding shares; and whether the plan gives management the ability to replace or reprice "underwater" options. Repricing is an amendment to a previously granted stock option contract that reduces the option exercise price. Options are "underwater" when their current price is below the current option contract price. Options can also be repriced through cancellations and re-grants. The typical new grant would have a ten-year term, new vesting restrictions, and a lower exercise price reflecting the current lower market price.

Evergreen Provisions: Vermont also opposes plans that reserve a specified percentage of outstanding shares for award each year (evergreen plans) instead of having a termination date. Such plans provide for an automatic increase in the shares available for grant with or without limits on an annual basis. Because they represent a transfer of shareholder value and have a dilutive impact on a regular basis, evergreen plans are expensive to shareholders. Evergreen features also minimize the frequency that companies seek shareholder approval in increasing the number of shares available under the plan.

Vermont may:

- Review on a CASE-BY-CASE basis compensation plans, including executive and director compensation plans.
- Vote AGAINST plans in which the potential voting power dilution (VPD) of all shares outstanding exceeds five percent.
- Vote FOR plans that grant at 100% of fair market value on the date of grant, except in stances when a plan is open to broad-based employee participation and excludes the five most highly compensated employees, then a discount of 15% is acceptable.
- Vote AGAINST plans that reserve a specified percentage of outstanding shares for award each year instead of having a termination date.
- Vote AGAINST plans if the company's policy permits repricing of "underwater" options or if the company has a history of repricing past options.
- Vote AGAINST plans that provide no performance element or lack clear insight into performance requirements.
- Vote FOR the repricing of shares if the repricing represents a "value for value" exchange, the five most highly compensated employees are excluded from the repricing, the plan is broad-based, and the current vesting schedule is maintained.

Restricted Stock

Vermont supports the use of performance-vesting restricted stock so long as the absolute amount of restricted stock being granted is a reasonable proportion of an executive's overall compensation. The best way to align the interests of executives with shareholders is through direct stock holdings, coupled with at-risk variable compensation that is tied to explicit and challenging performance benchmarks. Performance-vesting restricted stock both adds to executives direct share holdings and incorporates at-risk features.

To reward performance and not job tenure, restricted stock vesting requirements should be performance-based rather than time-lapsing. Such plans should explicitly define the performance criteria for awards to senior executives and may include a variety of corporate performance measures in addition to the use of stock price targets. In addition, executives should be required to hold their vested restricted stock as long as they remain employees of the company.

Option Exchange Programs/Repricing Options

Vermont may:

- Vote FOR shareholder proposals to put option repricing to a shareholder vote.

- Review on a CASE-BY-CASE basis proposals seeking approval to exchange/reprice options and take into consideration the following factors:
    - Historic trading patterns: the stock price should not be so volatile that the options are likely to be back "in-the-money" over the near term.
    - Rationale for the repricing: was the stock price decline beyond management's control?
    - Option vesting: does the new option vest immediately or is there a black-out period?
    - Term of the option: the term should remain the same as that of the replaced option.
    - Exercise price: should be set at fair market or premium to market.
    - Participants: the plan should be broad-based and executive officers and directors should be excluded.
    - Is this a value-for-value exchange?
    - Are surrendered stock options added back to the plan reserve?
    - If the surrendered options are added back to the equity plans for re-issuance, then the impact on the company's equity plans and its three-year average burn rate will be considered.
    - Review the intent, rationale, and timing of any repricing proposal. Boards must clearly justify the exchange program. Repricing underwater options after a recent stock price drop (within the past year) is unacceptable and may warrant a vote AGAINST. Market deterioration alone is not a valid reason for repricing options or resetting performance goals.
    - Consider the terms of the surrendered options, such as the grant date, exercise price and vesting schedule. Grant dates of surrendered options should be far enough back (two to three years) so as not to suggest that repricings are being done to take advantage of short-term downward price movements. Similarly, the exercise price of surrendered options should be above the 52-week high for the stock price.

Poor Compensation Practices and Compensation Committee Performance

Compensation plans with design flaws or a lack of transparency can lead to excessive executive compensation that is detrimental to shareholders. Such plans often reflect a poorly performing compensation committee.

To ensure shareholders can readily assess total executive pay, understand the link between pay and performance, and avoid misinformation, companies must provide clear tally sheet disclosures. If this information is lacking, Vermont will hold the compensation committee responsible for insufficient disclosure in its report.

Vermont may:

- Vote AGAINST or WITHHOLD votes from directors on a CASE-BY-CASE basis if the company has poor executive compensation practices and shareholders do not have the option of voting directly through an advisory vote on executive compensation.

- Vote AGAINST or WITHHOLD votes from the entire board if the whole board was involved in and contributed to egregious compensation.
- Vote AGAINST or WITHHOLD votes from the compensation committee due to insufficient disclosure in its committee report.

Poor compensation practices include, but are not limited to, the following:

- Egregious employment contracts (e.g., those containing multi-year guarantees for bonuses and grants);
- Excessive perks that dominate compensation (e.g., tax gross-ups for personal use of corporate aircraft, personal security systems maintenance and/or installation, car allowances, and/or other inappropriate arrangements);
- Income tax reimbursements for any executive perquisites or other payments;
- Unprecedented scale of the potential payout that is misaligned with peers in the industry;
- Stock option-based structure with no guaranteed cash component;
- Extended vesting periods for performance-based compensation, potentially decoupling executive rewards from the decisions and performance overseen by the current board;
- Performance metrics that are changed, canceled or replaced during the performance period without adequate explanation of the action and the link to performance;
- Egregious SERP (Supplemental Executive Retirement Plans) payouts (e.g. inclusion of additional years of service not earned or inclusion performance-based equity awards in the pension calculation);
- New CEO with overly generous new hire package (e.g., including excessive "make whole" provisions or any of the poor pay practices listed under this policy);
- Excessive severance and/or change-in-control provisions (e.g. payments upon an executive's termination in connection with performance failure, provisions for the payment of excise tax gross-ups (including modified gross-ups) and/or modified single-triggers (under which an executive may voluntarily depart for any reason and still receive change-in-control severance payments), perquisites for former executives including car allowances, personal use of corporate aircraft, or other inappropriate arrangements);
- Change-in-control payouts without loss of job or substantial diminution of job duties (single-triggered);
- Liberal change-in-control definitions in individual contracts or equity plans which could result in payments to executives without an actual change in control occurring;
- Poor Disclosure Practices (e.g. unclear explanation of how the CEO is involved in the pay setting process, retrospective performance targets and methodology not discussed, methodology for benchmarking practices and/or peer group not disclosed and explained);
- Internal pay disparity (excessive differential between CEO total pay and that of next highest-paid named executive officer);
- Significant pay disparity between the CEO and median worker;
- Payment of dividends or dividend equivalents on unvested/unearned performance awards:
- Options backdating (covered in a separate policy);

- For companies that use non-GAAP metrics in their incentive programs, a lack of detailed discussion within the proxy statement of the adjustments akin to a GAAP-to-non-GAAP reconciliation and their impact on payouts where there are significant adjustments applied to performance results to determine incentive payouts;
- Other excessive compensation payouts or poor pay practices at the company.

Moreover, if there is an equity plan proposal on the ballot and the plan is a vehicle for poor pay practices, we may consider voting against the proposal based on past compensation practices.

Executive Holding Periods

Vermont believes senior level executives should be required to hold a substantial portion of their equity compensation awards, including shares received from option exercises (e.g., 50 or 75 percent of their after-tax stock option proceeds), while they are employed at a company or in some cases beyond the termination date. Equity compensation awards are intended to align management interests with those of shareholders, and allowing executives to sell these shares while they are employees of the company undermines this purpose. Given the large size of a typical annual equity compensation award, holding requirements that are based on a multiple of cash compensation may be inadequate.

Performance-Based Options

Stock options are intended to align the interests of management with those of shareholders. However, stock option grants without performance-based elements can excessively compensate executives for stock increases due solely to a general stock market rise, rather than improved or superior company stock performance. When option grants reach the hundreds of thousands, a relatively small increase in the share price may permit executives to reap millions of dollars without providing material benefits to shareholders.

Vermont advocates performance based options, such as premium-priced or indexed, which encourage executives to outperform rivals and the market as a whole rather than being rewarded for any rise in the share price, which can occur if there are not empirical performance measures incorporated into the structure of the options. Additionally, it should be noted that performance-accelerated vesting and premium priced options allow fixed plan accounting, whereas performance-vested and indexed options entail certain expensing requirements.

Vermont may:

- Vote FOR shareholder proposals that seek to provide performance-based options such as indexed and/or premium priced options.

Options Backdating

Options backdating has serious implications and has resulted in financial restatements, delisting of companies, and/or the termination of executives or directors. Instances in which companies have committed fraud are more disconcerting, and Vermont will look to them to adopt formal policies to ensure that such practices will not re-occur in the future.

Vermont may:

- Vote AGAINST or WITHHOLD votes from the incumbent directors, depending on the severity of the backdating practices and the subsequent corrective actions on the part of the board.

- Review on a CASE-BY-CASE basis the approach to the options backdating issue to differentiate companies that had sloppy administration vs. those that had committed fraud, as well as those companies which have since taken corrective action.

When reviewing Vermont will consider several factors, including, but not limited to, the following:

- Reason and motive for the options backdating issue, such as inadvertent vs. deliberate grant date changes;
- Length of time of options backdating;
- Size of restatement due to options backdating;
- Corrective actions taken by the board or compensation committee, such as canceling or repricing backdated options, or recoupment of option gains on backdated grants;
- Adoption of a grant policy that prohibits backdating, and creation of a fixed grant schedule or window period for equity grants going forward.

Pension Plan Income Accounting

Vermont may:

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

Shareholder Proposals to Limit Executive and Director Pay

Vermont may:

- Vote FOR shareholder proposals that seek additional disclosure of executive and director pay information.
- Review on a CASE-BY-CASE basis other shareholder proposals that seek to limit executive and director pay, including shareholder proposals that seek to link executive compensation to customer, employee, or stakeholder satisfaction.

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

Vermont may:

- Vote FOR shareholder proposals that request a shareholder vote on executive compensation.
- Vote FOR annual votes on executive compensation rather than every two or three years.

U.S. Advisory Vote on Executive Compensation (Say-on-Pay) Management Proposals and Additional Votes on Executive Compensation

Vermont may:

- Review on a CASE-BY-CASE basis management proposals for an advisory vote on executive compensation.
- Vote AGAINST the proposal in cases where boards have failed to demonstrate good stewardship of investors’ interests regarding executive compensation practices.

- Review on a CASE by CASE basis a company's compensation-related proposal taking the following factors into account:
    - The alignment between executive company and corporate performance on a relative peer basis;
    - The balance of performance versus time-vested stock awards;
    - The level of dilution in stock compensation plans;
    - The use of tax gross-ups or golden parachute arrangements;
    - The ratio of CEO to median worker pay;
    - The use of adjusted GAAP metrics and the robustness of the explanatory disclosure.
- Vote AGAINST if one or more of the following features are evident:
    - The proposed compensation policy/report was not made available to shareholders in a timely manner;
    - The level of disclosure of the proposed compensation policy is below what local market best practice standards dictate;
    - Concerns exist with respect to the disclosure or structure of the bonus or other aspects of the remuneration policy such as pensions, severance terms, and discretionary payments;
    - Concerns exist surrounding the company’s long-term incentive plan(s), including but not limited to, dilution, vesting period, and performance conditions:
        - The potential dilution from equity-based compensation plans exceeds Vermont guidelines;
        - Any short or long term compensation plan do not include a maximum award limit. For example, in the Netherlands and the UK, we expect plans to include individual award limit;
        - There is not a clear link between a company’s performance and share awards;
        - Long Term Share Plans do not include sufficiently challenging performance criteria and vesting periods (a minimum three-year vesting period).
    - Performance standards must be quantifiable and fully disclosed, with relative performance measures being preferred. However, companies may choose targets other than relative financial measures provided that those measures are relevant to their business and an explanation is provided.
        - Share Option Plans or Share Plans do not contain acceptable vesting periods (a minimum three-year vesting period) or provide insufficient disclosure of:
            - the exercise/strike price (options);
            - discount on grant (outside of market practice);
            - performance criteria

        - Related-party transactions with a current company executive regarding post-mandate exercise of share-based plans (or an auditor's report including such a transaction) if the transaction implies an adverse impact on shareholders' interests or is not in line with good market practices;
    - Severance payments are excessive;
    - Plan creates adverse incentives for non-executive directors;
    - The policy or plan is in breach of any other supplemental market specific Vermont voting policies.

The above applies as supported by local market best practice standards and practices in markets which operate a "comply or explain" regime, if no compelling reason/justification has been provided.

Compensation Consultants - Disclosure of Board Or Company's Utilization

Vermont may:

- Vote FOR proposals seeking disclosure regarding the Company, Board, or Compensation Committee's use of compensation consultants, such as company name, business relationship(s) and fees paid.

Golden and Tin Parachutes

Golden parachutes are designed to protect the employees of a corporation in the event of change-in-control. Under most golden parachute agreements, senior level management employees receive a lump sum pay-out triggered by a change-in-control at usually two to three times base salary. Increasingly, companies that have golden parachute agreements for senior level executives are extending coverages for all their employees via "tin" parachutes. The SEC requires disclosure of all golden parachute arrangements in the proxy statement, while disclosure of tin parachutes in company filings is not required.

Vermont may:

- Vote FOR proposals to have all golden and tin parachute agreements submitted for shareholder ratification.
- Vote AGAINST proposals to ratify golden parachutes.
- Review on a CASE-BY-CASE basis tin parachutes.

Executive Perquisites and Retirement/Death Benefits

Vermont supports enhanced disclosure and shareholder oversight of executive benefits and other in-kind retirement perquisites. For example, compensation devices like executive pensions (SERPs), deferred compensation plans, below-market-rate loans, or guaranteed post-retirement consulting fees can amount to significant liabilities to shareholders and it is often difficult for investors to find adequate disclosure of their full terms. In general, we oppose the provision of any perquisite or benefit to executives that exceeds what is generally offered to other company employees. From a shareholder prospective, the cost of these executive entitlements would be better allocated to performance-based forms of executive compensation during their term in office.

Vermont may:

- Vote FOR proposals requesting extraordinary benefits contained in SERP agreements go to a shareholder vote unless the company's executive pension plans do not contain excessive benefits beyond what is offered under employee-wide plans.
- Vote FOR proposals calling companies to adopt a policy of discontinuing, or obtaining shareholder approval for, any future agreements and corporate policies that could oblige the company to make payments or awards following the death of a senior executive in the form of unearned salary or bonuses, accelerated vesting, or the continuation in force of unvested equity grants, perquisites and other payments or awards made in lieu of compensation. This would not apply to any benefit programs or equity plan proposals that the broad-based employee population is eligible.

Employee Stock Ownership Plans (ESOPs)

ESOPs, which make employees company owners, are linked to increased sales, employment, and sales per employee, as well as higher business survival rates.

Vermont may:

- Vote FOR proposals that request shareholder approval to implement an ESOP or to increase authorized shares for existing ESOPs except in cases when the number of shares allocated to the ESOP is deemed "excessive" (i.e., generally greater than five percent of outstanding shares).

Approval of Cash or Cash-and-Stock Bonus Plans

Vermont may:

- Vote AGAINST plans that are deemed to be "excessive" because they are not justified by performance measures.

State of Incorporation

Voting on State Takeover Statutes

Stakeholder protection statutes can provide comprehensive protections for employees and community stakeholders. Vermont will take into consideration whether the takeover statutes only serve to protect incumbent management from accountability to shareholders, which can negatively influence shareholder value.

Vermont may:

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

Offshore Reincorporation & Tax Havens

When reviewing proposals for an offshore move, Vermont will consider a company's strategic rationale for offshore reincorporation, the potential economic ramifications, potential tax benefits, and any corporate governance changes that may impact shareholders. Vermont will also consider the following factors:

- Legal recourse for US stockholders of the new company and the enforcement of legal judgments against the company under the US securities laws;
- The transparency (or lack thereof) of the new locale's legal system;
- Adoption of any shareholder-unfriendly corporate law provisions;
- Actual, qualified tax benefits;
- Potential for accounting manipulations and/or discrepancies;
- Any pending US legislation concerning offshore companies;
- Prospects of reputational harm and potential damage to brand name via increased media coverage concerning corporate expatriation.

Vermont may:

- Vote AGAINST offshore reincorporation for a company unless the above factors warrant otherwise.
- Review on a CASE-BY-CASE basis proposals where the factors above merit a move offshore.
- Vote FOR proposals calling for "expatriate" companies that are domiciled abroad yet predominantly owned and operated in America to re-domesticate back to a US state jurisdiction.

Social, Environmental, and Sustainability Issues

Vermont supports proposals that promote responsible corporate citizenship and long-term shareholder value. We prioritize proposals that:

- Improve transparency: Request additional disclosure of non-proprietary information.
- Address relevant social and environmental issues: Encourage companies to consider the social and environmental impact of their operations on long-term shareholder value.
- Enhance corporate governance: Promote stronger corporate governance practices, such as board independence and executive compensation.

When evaluating proposals, we consider, but are not limited to, the following factors:

- Relevance: Does the proposal align with the company's core business and industry's best practices?
- Feasibility: Can the proposal be implemented effectively and efficiently?
- Shareholder value: Will the proposal positively impact shareholder value?
- Company response: Has the company adequately addressed the issues raised in the proposal?

Vermont supports proposals promoting responsible, sustainable business practices that reduce systemic risks and enhance long-term shareholder value. We encourage improved disclosure and measurement of these risks, as they can significantly impact a company's financial performance and reputation, enabling informed investor decisions. However, Vermont may oppose proposals that could harm a company's long-term financial performance or competitive position. The following guidelines address specific proposals, but emerging issues will be evaluated using this framework.

Corporate Social Responsibility

Special Policy Review and Shareholder Advisory Committees

These resolutions propose the establishment of special committees of the board to address broad corporate policy and provide forums for ongoing dialogue on issues including, but not limited to shareholder relations, the environment, occupational health and safety, and executive compensation.

Vermont may:

- Vote FOR proposals that establish special committees of the board to address corporate policy and provide forums for ongoing dialogues when they appear to offer a potentially effective method for enhancing shareholder value.

International Financial Related

Companies with significant international operations should regularly monitor them to protect brand integrity and mitigate risks. Vermont generally supports shareholder proposals that require reporting on core business policies and procedures governing these operations. These reports often include details on FDI impact, anti-money laundering/terrorist financing safeguards, economic destabilization concerns, relationships with IFIs, and product sales/marketing abroad (e.g., tobacco, drug pricing).

Vermont may:

- Vote FOR proposals asking for policy clarification and reporting on foreign-related matters that can materially impact the company's short and long-term bottom-line.

Political Contributions Reporting & Disclosure

Shareholders deserve transparency regarding corporate political activities, and management's knowledge that such information can be made publicly available should encourage a company's lawful and responsible use of political contributions. Companies must have robust internal controls and necessary capabilities to monitor and track all monies distributed toward political groups and causes to adequately manage the significant reputational and financial risks associated with political giving. While such activity can serve strategic interests, accountability is essential to ensure returns for shareholders. Vermont will give special consideration to proposals targeting companies with controversial political activity, a lack of disclosure policies, or related litigation.

Vermont may:

- Vote FOR proposals affirming political non-partisanship.
- Vote FOR proposals requesting disclosure on contributions made to trade associations and other tax-exempt entities that are used for political purposes.
- Vote FOR proposals requesting reporting of political and political action committee (PAC) contributions.
- Vote FOR proposals that establish corporate political contributions guidelines and internal reporting provisions and controls.
- Vote FOR proposals requesting companies review and report on their direct and indirect lobbying activities including efforts to influence governmental legislation, memberships in tax-exempt organizations that write legislation, and payments.

- Vote AGAINST proposals that take issue with corporate charitable support of organizations that work on behalf of issues aligned with a company's stated values.
- Vote AGAINST proposals asking for publishing in newspapers and public media the company's political contributions as such publications could present significant cost to the company without providing commensurate value to shareholders.

Military Sales

Proposals that request detailed reports on foreign military sales provide shareholders with information affecting corporate performance and decision-making.

Vermont may:

- Vote FOR proposals requesting reports on foreign military sales and economic conversion of facilities and where such reporting will not disclose sensitive information that could impact the company adversely or increase its legal exposure.
- Vote AGAINST proposals asking a company to develop specific military contracting criteria.

Operations in Sensitive Regions

Many companies, particularly those in the extractive industries, have faced scrutiny for operating in geopolitically sensitive regions. These regions often involve human rights abuses, political instability, and potential exposure to sanctions. The U.S. State Department's list of state sponsors of terrorism pose significant risks to companies operating within their borders.

Such involvement can lead to various consequences that diminish long-term shareholder value, including:

- Reputational Risk: Negative publicity and consumer boycotts can damage a company's brand and reputation.
- Regulatory Risks: Exposure to sanctions, export controls, and other legal liabilities.
- Operational Risks: Political instability, civil unrest, and security threats can disrupt operations.
- Financial Risks: Potential loss of investments and assets due to political or economic turmoil.

To mitigate these risks, investors and companies should conduct thorough due diligence, assess the potential impact of their activities, and consider the ethical implications of operating in such regions. Engaging with stakeholders, including human rights organizations and local communities, can also help to manage these risks and build a more sustainable business model.

Vermont may:

- Vote FOR proposals asking companies to adopt labor standards in connection with involvement in potentially sensitive geopolitical regions.
- Vote FOR proposals seeking reports on geopolitically sensitive regional operations and activities, as well as reports on costs of continued involvement in such countries.
- Review on a CASE-BY-CASE basis proposals to stop operations in geopolitically sensitive regions considering factors such as overall cost, Foreign Direct Investment (FDI) exposure, level of disclosure to investors, and business focus of the company.
- Vote FOR proposals supporting transparency about company activities in countries engaged in the sponsorship of terrorism or genocide, as identified by the U.S. State

Department, Treasury Department, or any other authorized agency of the U.S. Government, as well as requests for companies to play a role of constructive engagement in those countries.

Evaluating Shareholder Proposals

When evaluating shareholder proposals, Vermont will consider:

- The specific circumstances of the company and the potential impact of the proposal on long-term shareholder value.
- The proposal's alignment with industry and regional best practices, regulatory requirements, and the company's overall business strategy.
- The potential risks and benefits associated with the proposal, including its potential impact on the company's reputation, financial performance, and operational efficiency.

Vermont may:

- Review on a CASE-BY-CASE basis the motives of the proponent of a shareholder proposal and the company specific circumstances.

Long-term Corporate Sustainability

Vermont prioritizes sustainability because it directly contributes to long-term shareholder value. Addressing climate change, promoting social equity, and adopting sustainable practices are smart business strategies. These efforts mitigate operational risks, enhance brand reputation, improve resource efficiency (reducing costs), attract and retain top talent, and open doors to new markets and investment opportunities. Key areas of focus for Vermont:

- Environmental Impact: Adopting climate resilient practices along with the global economy to enhance brand reputation, mitigate systemic and systematic economic risks, cost-effectively manage resource consumption, and improve operational efficiencies.
- Social Responsibility: Adhering to labor and human rights standards, leveraging a diverse workforce to drive innovation, promoting board diversity to improve decision-making, and supporting community development.
- Transparency and Accountability: Encouraging companies to disclose material information in a consistent and comparable manner, aligned with global standards like the Task Force on Climate-Related Financial Disclosure (TCFD).

Steps to achieve these goals:

- Enhanced Disclosure**:** Requesting increased transparency on systemic and systematic risks to the business.
- Sustainable Practices: Promoting the adoption of sustainable business practices that enhance shareholder value and company efficiency.
- Accountability: Holding companies accountable for their performance and actions through robust reporting and target-setting.

By embracing sustainability, companies can create long-term value for shareholders, mitigate risks, and contribute to a more sustainable global economy.

Vermont may:

- Vote FOR proposals seeking greater disclosure of the company’s practices, and/or risks and liabilities.

- Vote FOR proposals that would adopt climate resilient practices aligned with the scientific community and global economy, under a reasonable timeline, and when possible encourage the adoption of science-based quantitative reduction targets.
- Vote FOR proposals calling for reporting on the company's environmental impact, including disclosure of greenhouse gas and other emissions to allow shareholders adequate information to assess the company's climate-related risks.
- Vote FOR proposals seeking increased cost-effective resource consumption and management, .
- Vote FOR proposals seeking greater disclosure on the company's environmental practices, environmental risks and liabilities, and associated impacts to employees and communities under the principle of Just Transition.
- Vote FOR proposals that encourage the adoption of practices and policies to reduce harm to workers and vulnerable communities. These measures are essential for mitigating legal and reputational risks that can directly erode shareholder value.
- Vote FOR proposals that request disclosure outlining potential environmental damage from operations in protected regions, including wildlife refuges as applicable.
- Vote FOR proposals that require companies that utilize hydraulic fracturing to report on the environmental impact of the practice, risks to the community, and policies aimed at reducing risks and hazards associated with the process.
- Vote FOR proposals requesting a report on the company's risks linked to water use.
- Vote FOR proposals requesting the company disclose an operationally and financially credible transition plan where climate change and biodiversity loss pose significant financial risks.
- Vote FOR proposals requesting greater disclosure of companies' environmental or human rights policies, as these disclosures help mitigate legal and reputational risks that can erode shareholder value.

Biodiversity

Recognizing the dependance of economic output on nature and biodiversity, investors are increasingly considering biodiversity loss and land degradation as financial and material risks for companies whose operations and supply chains rely on these inputs. Proposals that ask companies to provide disclosure or improve policies and processes can mitigate risks to long-term shareholder value. Companies whose business strategies are heavily reliant on the availability of natural resources or whose supply chains are exposed to locations with material nature-related risks can see losses arise from biodiversity decline, disruptions to a healthy ecosystem, reputational damage, regulatory risks, operational disruptions, legal penalties, project delays, and additional financial impacts.

Vermont may:

- Vote FOR proposals calling on companies to disclose the impact of their operations on biodiversity and the extent to which their business models rely on ecosystem services. Such disclosures are essential for investors to assess the potential financial risks and opportunities associated with biodiversity and ecosystem health, thereby protecting and enhancing shareholder value.
- Vote FOR proposals calling on companies to disclose in a manner that is aligned with the Taskforce on Nature Related Financial Disclosure (TNFD) guidelines. TNFD-aligned

reporting provides investors with standardized and comparable data, enabling better evaluation of nature-related financial risks and opportunities, ultimately contributing to informed investment decisions and maximizing shareholder returns.

- Vote FOR proposals that ask companies to improve disclosure or report on supply chain deforestation impacts, including in areas of native vegetation and intact forests. Deforestation poses significant financial risks, including reputational damage, supply chain disruptions, and potential legal penalties, all of which can negatively impact shareholder value. Enhanced disclosure allows investors to assess these risks and hold companies accountable.
- Vote FOR proposals that ask companies to adopt no deforestation policies, as these mitigate reputational damage, ensure supply chain stability, and avoid potential legal and financial penalties associated with deforestation, all of which contribute to long-term shareholder value.
- Vote FOR proposals that request the company improve supply chain transparency and disclosures, including through enhanced monitoring across all supply and value chain impacts, to reduce the potential for disruptions, reputational damage, and financial losses, thereby protecting and enhancing shareholder investments.
- Vote FOR proposals that request the company adopt a supply chain policy not to harvest or trade in endangered species. Protecting endangered species minimizes reputational harm, reduces legal risks, and supports long-term ecosystem health, all of which contribute to the company's sustainable operations and long-term shareholder value.
- Vote FOR proposals that request the company adopt strategies to protect threatened and endangered species. Proactive strategies to protect these species mitigate potential operational disruptions, reduce legal liabilities, and enhance a company's reputation as environmentally responsible, all of which contribute to long-term shareholder value.
- Vote FOR proposals that request better disclosure of a company’s policies related to land use or development and compliance with local and national laws and zoning requirements. Transparent land use policies and compliance with regulations reduce the risk of legal challenges, project delays, and reputational damage, all of which protect shareholder investments.

Workplace Practices & Human Rights

Equal Employment Opportunity, Diversity, and Other Workplace Practices

Vermont supports initiatives that promote a diverse workforce to drive innovation and better decision-making. We believe that a diverse and inclusive workplace can lead to improved overall performance.

Key areas of focus:

- Non-discrimination: Supporting policies and practices that prohibit discrimination based on race, color, religion, sex, national origin, age, disability, or sexual orientation.
- Diversity and Inclusion: Encouraging companies to create inclusive workplaces that value diversity of thought, background, and perspective.
- Employee Well-being: Promoting workplace health and safety, work-life balance, and employee engagement to retain and attract talent.

To achieve these goals, Vermont supports:

- Enhanced Disclosure: Requesting increased transparency on diversity metrics, such as workforce demographics, hiring policies, and employee satisfaction.
- Accountability: Holding companies accountable through robust reporting and target-setting.

By prioritizing equal employment opportunity and diversity, companies can create a more positive and productive work environment, attract and retain top talent, and enhance their long-term performance.

Vermont may:

- Vote FOR proposals calling for action on equal employment opportunity and anti-discrimination.
- Vote FOR legal and regulatory compliance and public reporting related to non-discrimination, affirmative action, workplace health and safety, environmental issues, and labor policies and practices that affect long-term corporate performance.
- Vote FOR proposals which promote non-discrimination in salary, wages, and all benefits.

High-Performance Workplace

High-performance workplace practices emphasize employee engagement, development and empowerment. The concept has been endorsed by the US Department of Labor and refers to a workplace that is designed to provide workers with the information, skills, incentives, and responsibility to make decisions essential for innovation, quality improvement, and rapid responses to changes in the marketplace. Studies have shown that improvement in human resources practices is associated with increases in shareholder value. High-performance workplace standards proposals can include linking compensation to social measures such as employee training, morale and safety, environmental performance, and workplace lawsuits.

Vermont may:

- Vote FOR proposals that incorporate high-performance workplace standards.

Workplace Safety

Safe and healthy workplaces are a sound business practice. By prioritizing workplace safety, companies can reduce accidents, improve employee morale, and enhance productivity. Vermont supports proposals that aim to increase transparency and accountability regarding workplace safety.

Vermont may:

- Vote FOR proposals requesting disclosure of workplace safety, including reports on accident risk reduction efforts.

Non-Discrimination in Retirement Benefits

Cash balance plans are a type of defined benefit plan that combines features of traditional defined benefit and defined contribution plans.

While they offer some advantages, such as portability and transparency, they have also raised concerns about potential discrimination against older workers when a company converts from a traditional pension plan to a cash balance plan. The driving push behind conversions is the substantial savings that companies generate in the process.

Vermont may:

- Vote FOR proposals calling for non-discrimination in retirement benefits.
- Vote FOR proposals requesting disclosure of the potential impacts to employees of pension-related conversions.

Fair Lending Reporting and Compliance

These resolutions call for financial institutions to comply with fair lending laws and statutes while avoiding predatory practices in their sub-prime lending. These predatory practices include lending to borrowers with inadequate income who will then default; not reporting on payment performances of borrowers to credit agencies; implying that credit life insurance is necessary to obtain the loan (packing); unnecessarily high fees; refinancing with high additional fees rather than working out a loan that is in arrears (flipping); and high pre-payment fees.

Vermont may:

- Vote FOR proposals calling for full compliance with fair-lending laws.
- Vote FOR proposals requesting reporting on overall lending policies and data.

Contract Supplier Standards

These resolutions call for compliance with governmental mandates and corporate policies regarding nondiscrimination, affirmative action, workplace safety and health, and other basic labor protections. Vermont generally supports proposals that:

- Seek publication of a “Worker Code of Conduct” to the company’s foreign suppliers and licensees, requiring they satisfy all applicable labor standards and laws protecting employees’ wages, benefits, working conditions, freedom of association, right to collectively bargain, and other rights.
- Request a report summarizing the company’s current practices for enforcement of its Worker Code of Conduct.
- Establish independent monitoring programs in conjunction with local and respected religious and human rights groups to monitor supplier and licensee compliance with the Worker Code of Conduct.
- Create incentives to encourage suppliers to raise standards rather than terminate contracts.
- Implement policies for ongoing wage adjustments, ensuring adequate purchasing power and a sustainable living wage for employees of foreign suppliers and licensees.
- Request public disclosure of contract supplier reviews on a regular basis.
- Adopt labor standards for foreign and domestic suppliers to ensure that the company will not do business with foreign suppliers that manufacture products for sale in the US using forced or child labor or that fails to comply with applicable laws protecting employees’ wages and working conditions.

Corporate Conduct, Human Rights, and Labor Codes

Shareholder activists have long been concerned about labor rights and working conditions in global supply chains. They advocate for companies to adopt and enforce ethical labor standards, including:

- Fair Labor Practices: Ensuring fair wages, reasonable working hours, and safe working conditions.
- Worker Rights: Respecting workers' rights to organize and bargain collectively.
- Elimination of Forced Labor and Child Labor: Preventing the use of forced labor, child labor, and other forms of exploitation.

To achieve these goals, shareholders often propose resolutions that call for increased transparency, accountability, and independent monitoring of supply chains. By supporting these initiatives, investors can help to drive positive change in the global workplace.

Vermont may:

- Vote FOR proposals requesting adoption of principles and codes of conduct relating to company investment and/or operations in countries with patterns of human rights abuses or pertaining to geographic regions experiencing political turmoil.
- Vote FOR proposals that request implementation and reporting on International Labour Organization (ILO) codes of conduct, or similar standards.
- Vote FOR proposals requesting independent monitoring programs in conjunction with religious and human rights groups to monitor supplier and licensee compliance with codes.
- Vote FOR proposals seeking transparency and accountability for human rights concerns within the supply chain.

Consumer Health & Public Safety

Products Containing Genetically Engineered Ingredients

Genetically modified organisms (GMOs) have become a prominent part of modern agriculture. These organisms, whose genetic material has been altered using genetic engineering techniques, offer potential benefits such as increased crop yields, pest resistance, and improved nutritional content. However, the widespread adoption of GMOs has also raised concerns about potential risks to human health, the environment, and biodiversity. In many countries, including the US, there are regulations in place that require labeling of products containing GMOs. The specific labeling requirements vary by country. In the US, the Bioengineered Food Disclosure Standard requires food manufacturers to label products containing bioengineered ingredients. Labeling allows consumers to make informed choices.

Vermont may:

- Vote FOR proposals to label products that contain genetically engineered products.
- Vote AGAINST proposals calling for a full phase out of product lines containing GMO ingredients.

Tobacco-Related Proposals

Shareholders file resolutions annually asking that companies with ties to the tobacco industry account for their marketing and distribution strategies, particularly as they impact smoking by young people.

Vermont may:

- Vote FOR proposals seeking to limit the sale of tobacco products to children and vulnerable populations.

- Vote AGAINST proposals calling for a full phase out of tobacco-related product lines that would have a material impact on long-term profitability and shareholder value.

Toxic Emissions

Shareholder proposals asking companies to take steps to minimize their emissions of toxic chemicals or release of toxic waste into the environment can vary greatly. Some focus on reporting on the impact of these chemicals on the communities in which the company operates. Still others ask for a review of the company's efforts to minimize pollution.

Vermont may:

- Vote FOR proposals calling on the company to establish a plan to reduce toxic emissions.

Toxic Chemicals

The use of toxic chemicals in cosmetics, consumables, and household products has become a growing issue of concern for shareholders as international regulations on this topic continue to expand, providing increased scrutiny over potentially toxic materials or compounds used or emitted in the conduct of operations or as an ingredient in consumer goods. Shareholders must recognize the impact that changing regulation and consumer expectations could have on shareholder value and should encourage companies to disclose their policies regarding the use or emission of toxic chemicals. Specific considerations should be made regarding a company's geographic markets and the appearance of historical difficulties with controversy, fines, or litigation, requests for disclosure on the potential financial and legal risk associated with toxic chemicals.

Vermont may:

- Vote FOR proposals requesting that a company disclose its policies related to toxic chemicals.
- Vote FOR proposals requesting companies evaluate and disclose the potential financial and legal risks associated with utilizing certain chemicals.
- Review on a CASE-BY-CASE basis proposals requesting companies to substitute or replace existing products with consideration for applicable regulations and standards in the markets in which the company participates.

Nuclear Safety

These resolutions are filed at companies that manage nuclear power facilities or produce components for nuclear reactors to request disclosure on the risks to the company associated with these operations, including physical security and the potential for environmental damage. Current reporting requirements for companies that operate nuclear facilities are managed by the Nuclear Regulatory Commission (NRC) and include detailed reports on safety and security that are available to the public.

Vermont may:

- Vote FOR proposals requesting that companies report on risks associated with their nuclear reactor designs and/or the production and interim storage of irradiated fuel rods.

Concentrated Area Feeding Operations (CAFOs)

The level of pollution resulting from CAFOs has drawn increased attention in recent years as certain legal decisions have established the precedent that a company can be held liable for the actions of the contract farms it sources from. Fines and remediation expenses stemming from these cases have been significant and could have a notable impact on the companies' operations and shareholder value.

Vermont may:

- Vote FOR proposals requesting that companies report to shareholders on the risks and liabilities associated with concentrated animal feeding operations (CAFOs) unless the company has publicly disclosed guidelines for its corporate and contract farming operations, including compliance monitoring or if the company does not directly source from CAFOs.

Pharmaceutical Product Reimportation

One of the most visible aspects of the legal and political debate over rising health care costs in the United States can be seen through prescription drug reimportation through Canada. While U.S. and Canadian regulations limit reimportation, several states have taken steps to encourage employees to actively seek less expensive medications through reimportation.

Shareholders at major pharmaceutical companies have requested increased disclosure of the financial and legal risks associated with company policies or called on companies to change distribution limits to increase product availability in Canada, thereby encouraging product reimportation to the United States. The level of public concern over this issue and associated impact that a poorly developed policy could have on the companies suggest that additional disclosure of company policies related to reimportation could be beneficial to shareholders and generally merits support.

Vermont may:

- Vote FOR proposals requesting that companies report on the financial and legal impact of their policies regarding prescription drug reimportation, unless such information is already publicly disclosed.
- Vote FOR proposals requesting that companies adopt specific policies to encourage or not constrain prescription drug reimportation.

Pharmaceutical Product Pricing

Pharmaceutical drug pricing, both within the United States and internationally, has raised many questions of the companies that are responsible for creating and marketing these treatments.

Shareholder proponents, activists, and even some legislators have called upon drug companies to restrain pricing of prescription drugs.

The high cost of prescription drugs is a vital issue for senior citizens across the country. Seniors have the greatest need for prescription drugs, accounting for about one-third of all prescription drug sales, but they often live on fixed incomes and are underinsured. Today about 20 million elderly people have little or no drug coverage in the U.S. In addition, the uninsured and underinsured pay substantially more for drugs than manufacturers favored customers such as HMOs and Federal agencies.

Proponents note that efforts to reign-in pharmaceutical costs will not negatively impact research and development (R&D) costs and that retail drug prices are consistently higher in the U.S. than in other industrialized nations. Pharmaceutical companies often respond that adopting a formal drug pricing policy could put the company at a competitive disadvantage.

Vermont will evaluate proposals asking a company to implement price restraints on its pharmaceutical products on a CASE-BY-CASE basis, taking into account the following factors:

- Whether the proposal focuses on specific drugs and regions;
- Whether the economic benefits of providing subsidized drugs (e.g., public goodwill) outweigh the costs in terms of reduced profits, lower R&D spending, and harm to competitiveness;
- The extent that reduced prices can be offset through the company's marketing expenditures without significantly impacting R&D spending;
- Whether the company already limits price increases of its products;
- Whether the company already contributes life-saving pharmaceuticals to the needy and Third World countries;
- The extent to which peer companies implement price restraints.

Vermont may:

- Vote FOR proposals requesting that companies implement specific price restraints for its pharmaceutical products in developing markets or targeting certain population groups.
- Vote FOR proposals requesting that the company evaluate their global product pricing strategy, increase drug price transparency, consider the existing level of disclosure on pricing policies, disclose deviations from established industry pricing norms, and report the company's existing philanthropic initiatives.
- Vote FOR proposals that call on companies to develop a policy to provide affordable access to drugs that reduce systemic risks that exacerbate existing health inequities to citizens in the developing world.