

## ***RBF PROXY VOTING GUIDELINES AND PROCEDURES***

### ***The Rockefeller Brothers Fund and Responsible Investing***

Motivated by a sense of responsibility that has financial, social, and ecological dimensions, the Rockefeller Brothers Fund attaches a high priority to developing investment policies that enable the foundation to achieve its long-term financial objectives and also align its investments with the Fund's mission of helping to build a more just, sustainable, and peaceful world.

The RBF is entirely dependent on its endowment to generate the funds required to finance its grants and other philanthropic expenditures. The Fund manages its endowment so as to ensure that the foundation can continue to be for future generations the kind of philanthropic resource that it has been in the U.S. and in the larger world since its founding in 1940.

In addition to accomplishing the objective of harmonizing its investment practices with its philanthropic mission, there are financial reasons why the RBF is concerned about the impact on the social and natural environment of the policies and practices of the companies in which it invests. The Fund's financial returns are driven by the performance of innovative, well-managed corporations in dynamic business sectors, and they in

turn, especially in a long-term time frame, are dependent on the health of the human societies and ecological systems that sustain all economic enterprise.

The RBF aspires to be a center of philanthropic excellence in all aspects of its operations. Its conception of excellence includes preparing, disclosing, and adhering to guidelines for responsible investing.

### ***Introduction to Proxy Voting Guidelines***

The Proxy Voting Guidelines that follow (the "Guidelines") are a core component of the RBF approach to responsible investing. They are presented in two sections. The first addresses issues of Corporate Governance, while the second concerns aspects of Ecological and Social Responsibility.

The RBF has developed the Guidelines with the understanding that the voting rights that come with common stock ownership are economic assets of the foundation. Conscientious financial stewardship demands that proxy voting rights, like all other economic assets of the foundation, be managed with proper care and attention. Having Guidelines helps to ensure that result.

The Guidelines also help to advance one of the major objectives of the Fund's grants program, namely to strengthen the democratic governance of key institutions. The foundation is dedicated to helping citizens become more engaged and empowered and to encouraging institutions of governance to become more inclusive, transparent, and responsive in order to increase their effectiveness. Voting rights give shareowners the opportunity – and the responsibility – to participate in the governance of publicly owned corporations. If shareowners engage actively with this responsibility, the structures of corporate governance will be strengthened and the prospects for favorable long-term financial performance will likely be enhanced.

The Guidelines draw heavily from the work of several other institutional investors that have prepared and made

available to the public thoughtful guidelines for the voting of corporate proxies. We are indebted to each of them, and it is fitting to acknowledge here their contributions to this document. They include, in the community of progressive investment managers, Calvert, Domini Social Investments, and Walden Asset Management; in the foundation sector, the Boston Foundation; and in the community of public retirement systems, the California Public Employees' Retirement System (CalPERS), the Connecticut Retirement Plans and Trust Funds, the Florida State Board of Administration, and the State of Wisconsin Investment Board.

The Guidelines apply only to votes solicited by U.S. companies, since this is where the RBF has direct positions in individual corporations. The Fund has investments in non-U.S. corporations, but this exposure is achieved generally through commingled investment vehicles.

### **Shareowner**

With regard to terminology, “shareowner” is used consistently throughout the Guidelines. “Shareowner” was chosen quite deliberately over the more common “shareholder” or “stockholder” in order to emphasize the concept of ownership and the rights and responsibilities that come with being an owner.



Rockefeller  
Brothers Fund

Philanthropy for an Interdependent World

# **PROXY VOTING GUIDELINES: CORPORATE GOVERNANCE**

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## *Board of Directors*

### **Independence**

#### *Guideline*

The Rockefeller Brothers Fund (RBF) will vote in favor of resolutions requiring a company's board of directors to consist of a majority of independent directors.<sup>1</sup> It will oppose slates of directors without at least a majority of independent directors and withhold votes from any non-independent director nominee, excluding the CEO, if 50 percent or more of the directors are (1) employees of the company, or (2) individuals with financial or other ties to the company as reported in the proxy statement.

#### *Rationale*

The board of directors is responsible for overall governance of the corporation, including representing the interests of shareowners and overseeing the company's relationships with other stakeholders. Directors who have financial or other affiliations with companies on whose boards they serve may face conflicts of interest between their own interests and those of the corporation's shareowners and other stakeholders. Accordingly, the board should be composed of a majority of independent directors.

### **Leadership**

#### *Guideline*

The RBF will vote in favor of resolutions requiring the position of board chair to be held by an independent director. It will withhold votes from the chair of the board if that person is not independent.

#### *Rationale*

The chair of the board is the leader of the board, which is responsible for selecting and replacing the CEO, setting executive pay, providing advice and counsel to top management, monitoring and evaluating managerial and company performance, and representing shareowner interests. The board's ability to represent shareowners independently of management can be compromised when the chair is a member of management. Also, the process of monitoring and evaluating the CEO and other senior officers is likely to be more effective when a non-management director is the board chair. Accordingly, the chair of the board should be an independent director.

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<sup>1</sup> Independent directors are those who do not have a material financial or personal relationship with the company or any of its managers that could compromise the director's objectivity and fiduciary responsibility to shareowners. In general, this means that an independent director should have no affiliation with the company other than a seat on the board and (in some cases) ownership of sufficient company stock to given the director a stake in the company's financial performance, but not so great as to constitute a controlling or significant interest.

## **Independence and Board Committees**

### *Guideline*

The RBF will vote in favor of resolutions requiring the nominating and compensation committees to consist exclusively of independent directors. It will also withhold votes from management directors and affiliated outside directors nominated to these committees.

### *Rationale*

Much of the important work of a company's board of directors is conducted by committees of the board. Shareowner interests are better served if the nominating committee's process of selecting new directors functions independently of management. The same reasoning applies to the compensation committee's process of setting compensation policy and making decisions about the CEO's compensation. All members of the nominating and compensation committees of the board should therefore be independent directors. It is already required that all members of the board's audit committee be independent directors.

## **Size**

### *Guideline*

The RBF will vote in favor of resolutions requiring the size of the board to be fixed within a range that establishes a reasonable minimum and maximum number of directors. It will vote against proposals that give management the ability to alter the size of the board outside of a specified range without shareowner approval.

### *Rationale*

The Articles of Incorporation or Bylaws of the company typically establish the size of the board of directors. In certain circumstances, frequently in takeover situations, management may attempt to increase or decrease the size of the board at its own discretion without shareowner approval. A board with established parameters for the number of directors will prevent management from increasing the board's size during the course of a proxy contest without shareowner approval. Fixing the size of the board also prevents management from reducing the board's size as a means of removing independent directors who seek to hold management accountable.

## **Diversity**

### *Guideline*

The RBF will vote in favor of resolutions requiring companies to take steps to achieve a composition of their boards of directors that is broadly representative of their stakeholder groups. It will also vote in favor of resolutions requiring that, as companies pursue broad stakeholder representation, they endorse and implement a policy to create boards with gender, racial and ethnic diversity and issue reports to shareowners on their efforts to achieve such diversity on their boards.

*Rationale*

Companies benefit from a wide diversity of perspective and background on their boards. To bring such diversity to the board, directors should be chosen to reflect diversity of experience, perspective, expertise, gender, race, culture and geography. A board that is representative of the company's various stakeholder groups can be a source of competitive advantage.

**Performance Evaluations**

*Guideline*

The RBF will vote in favor of resolutions requiring companies to clarify the responsibilities of directors, establish performance criteria for directors, and periodically review director performance against those criteria.

*Rationale*

No board can truly perform its functions without a system for evaluating itself. Boards of directors should evaluate their performance as a board, as committees, and as individual directors. In order to assess themselves effectively, directors should establish performance criteria for themselves, their committees, and the full board, and periodically review their performance against those criteria.

**Devotion of Time and Effort**

*Guideline*

The RBF will vote in favor of resolutions requiring companies to provide reports of attendance by their directors at board meetings. It will withhold votes from director nominees who have attended less than 75 percent of the meetings of the board and of committees on which they serve without a valid excuse.

The RBF will vote in favor of resolutions requiring companies to adopt guidelines that address the issue of the number of other boards on which director candidates serve. It will generally withhold votes from director candidates who sit on more than six public company boards or on more than two public company boards in addition to their own if they are CEOs of public companies.

*Rationale*

Candidates for director must be able to devote a sufficient amount of time and effort to the board in order to oversee the corporation effectively and represent shareowners' interests. Although attendance at board meetings is not the sole determinant of a director's performance, poor attendance makes it difficult for a director to fulfill his/her responsibilities to the board. Directors who routinely fail to attend board meetings are not devoting sufficient attention to their important responsibilities. The same may be true of directors who have multiple other board commitments.



## **Term Limits**

### *Guideline*

The RBF will vote against resolutions limiting the number of terms a director can serve or imposing a mandatory retirement age.

### *Rationale*

Generally, corporate directors may stand for re-election indefinitely. Opponents of this practice argue that limiting board tenure injects new perspectives into the boardroom and, potentially, creates more opportunity for directors from diverse backgrounds. While new outside directors often contribute fresh ideas that benefit shareowners, continuity is also important. Moreover, term limits are a somewhat arbitrary imposition on boards of directors and may force valuable, experienced directors to leave the board solely as a result of their length of service. As long as an effective system exists for assessing the performance of individual directors, their length of service on the board should not be subject to a strict rule.

## **Compensation Disclosure**

### *Guideline*

The RBF will vote in favor of resolutions requiring companies to provide detailed disclosure on cash and equity compensation delivered to each non-employee director for the most recent fiscal year.

### *Rationale*

Salary and non-salary compensation for directors is one of the most sensitive issues of corporate governance because directors are in the awkward position of having to establish their own compensation. Since directors are responsible for representing the interests of shareowners, shareowners have a right to know how directors are compensated.

## **Stock Ownership**

### *Guideline*

The RBF will vote in favor of resolutions requiring directors to own stock in the company after one year of service. It will, however, vote against resolutions that seek to establish a minimum level of ownership for new or continuing directors that would effectively restrict board membership to financially independent individuals.

### *Rationale*

Directors should own some amount of stock of the companies on whose boards they serve. It is a simple way to align the interests of directors and shareowners. If a minimum level of share ownership is established, it should not be so high as to make it difficult for certain types of directors to meet it. Directors should be expected to invest at least some portion of their director compensation in the stock of companies of which they are directors within one year of their election to the board.

## **Retirement Benefits**

### *Guideline*

The RBF will vote in favor of resolutions requiring companies to eliminate retirement benefits for non-employee directors. It will vote against resolutions that would provide such benefits to non-employee directors.

### *Rationale*

Retirement benefits are not appropriate for non-employee directors. They increase directors' reliance on the corporation and may compromise director independence. Further, rewarding tenure instead of performance serves to benefit management rather than shareowners. Cash and stock-related compensation should be sufficient payment for board service.

## ***Shareowner Rights***

### **Annual Election of Directors**

#### *Guideline*

The RBF will vote in favor of resolutions requiring the annual election of all board members. It will vote against resolutions to adopt classified boards and in favor of resolutions to repeal such boards.

#### *Rationale*

A classified, or staggered, board is a board that is divided into separate classes, with directors serving overlapping terms. A company with a classified board often divides its directors into three classes with each director serving a three-year term. Thus, in any given year, one-third of the directors stand for election. The annual election of all directors is a necessary part of ensuring accountability to shareowners. Directors are likely to represent shareowner interests more effectively when they are forced to stand for re-election each year. Moreover, classified boards may deter legitimate efforts to elect new directors and, in other instances, may thwart takeover attempts that could benefit shareowners.

### **Supermajority Vote Requirements**

#### *Guideline*

The RBF will vote in favor of resolutions to remove supermajority requirements for shareowner votes and oppose resolutions that would impose them.

#### *Rationale*

Supermajority vote requirements in a company's charter or bylaws require the vote of more than a simple majority of shareowners to approve a decision or transaction. Shareowners should have the ability to approve or reject matters presented for a vote based on a simple majority.

## **Cumulative Voting**

### *Guideline*

The RBF will vote against resolutions calling for the elimination of cumulative voting.

### *Rationale*

Most corporations provide that shareowners are entitled to cast one vote for each share owned. Under a cumulative voting scheme, the shareowner is permitted to have one vote per share for each director to be elected and to apportion these votes in any manner he/she wishes among the director candidates. Shareowners have the opportunity to elect a minority shareowner to a board through cumulative voting, thereby ensuring representation for all sizes of shareowners. Shareowners need to have flexibility in supporting candidates for a company's board of directors. This is a valuable mechanism that minority shareowners can use to be represented on a company's board.

## **Shareowner Meetings**

### *Guideline*

The RBF will vote in favor of resolutions asking companies to affirm the practice of in-person annual meetings. It will vote against resolutions calling for shareowner meetings to be held entirely by electronic means.

### *Rationale*

Some corporations have proposed to replace face-to-face annual meetings with virtual meetings broadcast over the Internet. Participation in shareowner meetings is a basic right of share ownership. Purely electronic meetings may inhibit shareowner participation and are therefore not an adequate substitute for meetings in which shareowners are present physically.

## **Special Meetings**

### *Guideline*

The RBF will vote in favor of resolutions that grant to shareowners the right to call special meetings. It will vote against resolutions that limit or deny this right.

### *Rationale*

Most state corporate statutes allow shareowners to call a special meeting when they want to take action on certain matters that arise between regularly scheduled annual meetings. Forcing all action to be taken at an annual meeting can cause long delays in resolving important issues for management and shareowners alike. It is common for company management to retain the right to call special meetings of shareowners at any time. Shareowners should enjoy a similar right.

## **Confidential Voting**

### *Guideline*

The RBF will vote in favor of resolutions requiring corporations to adopt confidential voting and to use independent vote tabulators.

### *Rationale*

In a confidential voting system, all proxies, ballots, and voting tabulations that identify individual shareowners are kept confidential. Only the vote tabulator and election inspector are permitted to examine individual proxies and ballots. Management and shareowners are given only vote totals. In an open voting system, management can determine who has voted against its nominees or proposals and then resolicit those votes before the final vote count is taken. As a result, shareowners can be pressured to vote with management at companies with which they maintain or would like to establish a business relationship. Confidential voting also protects employee shareowners from retaliation. The confidential ballot ensures that voters are not subject to real or perceived coercion.

## **Action by Written Consent**

### *Guideline*

The RBF will vote against resolutions that would eliminate or limit the right of shareowners to act by written consent. It will vote in favor of resolutions that would allow or make easier shareowner action by written consent.

### *Rationale*

Written consent allows shareowners to initiate or carry out a shareowner action without waiting until the next annual meeting or without calling a special meeting. It permits action to be taken by the written consent of the same percentage of outstanding shares that would be required to effect the proposed action at a shareowner meeting.

## **Proxy Voting Process**

### *Guideline*

The RBF will vote in favor of resolutions that would afford significant company shareowners access to management's proxy material in order to evaluate and propose voting recommendations on management's proxy proposals and director nominees.

### *Rationale*

Currently, management has the right to comment on shareowner resolutions and make recommendations concerning how to vote on them. Significant shareowners should enjoy a parallel right with respect to management's proposed resolutions.

## **Accountability**

### *Guideline*

The RBF will withhold votes from director nominees who have failed to act upon a shareowner resolution that (1) has been approved by a majority of the votes outstanding, or (2) has been approved by a majority of the votes cast for two consecutive years.

### *Rationale*

Directors are accountable to shareowners and should not disregard shareowners proposals that enjoy widespread support.

## ***Independent Auditors***

## **Ratification**

### *Guideline*

The RBF will vote in favor of resolutions that would require shareowner ratification of the company's auditors. It will oppose efforts by management to remove shareowner ratification of the company's auditors from the ballot.

### *Rationale*

It is critically important that shareowners have the ability to ratify the auditor in order to determine whether the audit fees are appropriate and whether there are any conflicts of interest that might affect the quality of the audit. Annual election of the auditors is standard practice. The auditors must ultimately be accountable to shareowners.

## **Independence**

### *Guideline*

The RBF will vote against resolutions requesting shareowner ratification of the auditors where non-audit fees constitute more than 50 percent of total fees paid by the company to the audit firm during the previous fiscal year.

### *Rationale*

The relationship between a company and its auditors should be limited primarily to the audit, although it may include certain closely related activities that do not, in the aggregate, raise the appearance of impaired independence. Significant non-audit fees can compromise the independence of the auditor.

## **Auditor Independence and Election of Directors**

### *Guideline*

The RBF will withhold its votes from director candidates who are members of the audit committee in instances where the company has removed auditor ratification from the ballot or where the audit committee has approved an audit contract when non-audit fees exceed audit fees.

*Rationale*

Members of the audit committee should be accountable to shareowners on matters of shareowner ratification of the auditors and independence of the auditors.

**Auditor Rotation**

*Guideline*

The RBF will vote in favor of resolutions requiring the board of directors to establish and publish a policy for the regular rotation of professional, independent audit personnel.

*Rationale*

To minimize any conflicts of interest that might arise between a company and its auditor, mandatory rotation of audit personnel after a reasonable period of time is desirable.

***Executive Compensation***

**Pay Equity**

*Guideline*

The RBF will vote in favor of proposals requiring companies to prepare and publish reports that compare the compensation of the highest and lowest paid employees of the corporation, provided that the release of this kind of information does not either violate employee privacy rights or compromise the company's competitive position. It will examine and vote case-by-case on proposals that would have the effect of narrowing the range of compensation between the highest and lowest paid employees.

*Rationale*

An important objective of compensation policies should be to share risk and reward broadly within the company. Shareowners should have the opportunity to know how compensation motivates employees throughout the company and whether the compensation of top level executives is such that they are effectively insured against downside risk. In corporations where top executives enjoy a disproportionate share of the gain when the company succeeds, shareowners and society at large will benefit from establishing a cap on executive compensation relative to the compensation of the lowest paid employees.

**Overall Structure**

*Guideline*

The RBF will vote in favor of resolutions requiring that executive compensation be correlated strongly to specific performance criteria, taking into account both financial and non-financial indicators of performance and emphasizing the long-term success of the company. It will vote against compensation plans in which there is a disconnect between the chief executive officer's pay and company performance, i.e. an increase in pay and a decrease in performance.

*Rationale*

Executive compensation should be tied to well-articulated performance criteria.

**Shareowner Approval**

*Guideline*

The RBF will vote in favor of resolutions requiring that executive compensation policies (not the compensation packages of specific individuals) be presented to shareowners for approval.

*Rationale*

Compensation programs help companies attract, retain, and motivate key employees, as well as align the interests of employees with those of long-term shareowners. Since a company's performance can be impacted in a material way by the manner in which its executives are compensated, shareowners should have the right to review and approve the company's executive compensation policies.

**Disclosure**

*Guideline*

The RBF will vote in favor of proposals requiring that companies disclose and explain their executive compensation to shareowners, including the preparation of a formal report on executive compensation practices and policies, provided that the information would not put the company at a competitive disadvantage relative to its industry.

*Rationale*

In order to vote intelligently on compensation issues, shareowners must understand the company's executive compensation plan and philosophy. In addition to required disclosures of executive compensation, companies should describe their executive compensation plans clearly in the proxy statement, including the rationale for salary levels, incentive payments and bonuses, and stock options to executives. Disclosure should provide shareowners with information that is adequate to determine the primary "drivers" of the incentive components of compensation packages.

**Compensation and Election of Directors**

*Guideline*

The RBF will withhold its votes for director candidates for election to the board of directors in instances where companies have refused to provide full disclosure of executive compensation. It will also withhold votes for director candidates who are members of the compensation committee where there is a negative correlation between chief executive officer pay and company performance.

*Rationale*

Directors should be accountable to shareowners for the disclosure of executive compensation and for the relationship between executive compensation and company performance.

**Stock Purchase Plans**

*Guideline*

The RBF will vote in favor of resolutions that require boards of directors to submit employee stock purchase plans for shareowner approval. It will vote in favor of plans that are intended to increase company stock ownership among employees, provided that shares purchased under the plan are acquired for no less than 85 percent of their fair market value, that the offering period is 27 months or less, and that the number of shares allocated to the plan is 10 percent or less of the outstanding shares.

*Rationale*

Employee stock purchase plans enable employees to become shareowners, which gives them a stake in the company's performance. Appropriately designed and administered plans of this kind can be an effective way to align the interests of long-term shareowners with those of management and employees. Plans of this type, however, should be balanced and not substantially dilute the ownership interest of other shareowners. They should also not provide participants with excessive benefits.

**Loans for Stock Purchases**

*Guideline*

The RBF will vote against executive compensation plans that permit the company to make loans to employees in order to enable them to purchase stock.

*Rationale*

Allowing loans for this purpose may leave the company with uncollectible debt and inhibit the termination of employees who have outstanding loans with the company.

**Equity-Based Compensation**

*Guideline*

The RBF will vote in favor of resolutions requiring boards of directors to submit stock award plans and stock option plans to shareowners for approval.

When such plans are presented to shareowners, the RBF will generally cast its vote in line with the recommendation of its Proxy Voting Service provider.

*Rationale*

Stock awards and stock option plans can accomplish a desirable alignment of interest between long-term shareowners, on the one hand, and management and employees, on the other. Such equity-based compensation, however, should not substantially dilute the



ownership interest of other shareowners or provide recipients with unreasonable or excessive benefits. Equity-based compensation proposals are often highly complex. Careful measurement and evaluation of them is essential. The RBF Proxy Voting Service provider has a well-developed methodology for this analysis that takes into account differences among companies by size, industry, and financial performance.

### **Golden Parachutes and Executive Severance Agreements**

#### *Guideline*

The RBF will vote in favor of resolutions requiring companies to submit golden parachutes and executive severance agreements to shareowners for ratification. Ratification subsequent to the company's entering into employment contracts with executive personnel is acceptable.

#### *Rationale*

Golden parachutes are compensation agreements that provide for severance payments to top executives who are terminated or demoted as a result of a takeover or other change in control. Agreements of this kind are intended to ease managers' and directors' fears about losing their jobs in the event of a successful takeover, and thus help them make decisions that are in the best interests of the company and its shareowners. There may be times when golden parachutes or other executive severance agreements are appropriate, but shareowners should have the right to review and determine whether the agreements are reasonable or excessive.

### **Employee Stock Ownership Plans**

#### *Guideline*

The RBF will vote in favor of proposals to implement an Employee Stock Ownership Plan (ESOP) or to increase the authorized shares for an existing ESOP, provided that shares purchased under the plan are acquired for no less than 85 percent of their fair market value and that the shares allocated to the plan comprise less than 10 percent of total outstanding shares.

#### *Rationale*

Companies that foster employee ownership have been shown to create more employee wealth, attract and retain higher quality employees, and achieve superior performance. ESOPs can play a useful role in facilitating greater employee ownership, particularly among non-management employees. The number of shares allocated to an ESOP, however, should not be excessive.

## *Capital Structure*

### **Dual Classes of Common Stock**

#### *Guideline*

The RBF will vote against resolutions to create a new class of common stock with superior voting rights. It will vote for resolutions to create a new class of nonvoting or subvoting common stock if: (1) it is intended for financing purposes with minimal or no dilution to current shareowners; and (2) it is not designed to preserve the voting power of an insider or significant shareowner.

#### *Rationale*

Companies with dual class voting plans have two or more classes of voting common stock, with each class having a different number of votes per share. This can be accomplished by issuing common shares to management or other insiders with voting rights that are superior to the voting rights of all other common shareowners. There may be some instances in which shareowners may want to support the dual class recapitalizations; however, their interests are generally better served by opposing recapitalizations of this kind on the grounds that they reduce the accountability of management, which gains superior voting power.

### **Blank Check Preferred Stock**

#### *Guideline*

The RBF will vote against resolutions that would authorize the creation of new classes of preferred stock with unspecified voting, conversion, dividend distribution, and other rights ("blank check" preferred stock). It will vote for resolutions to authorize preferred stock in cases where the company specifies the voting, dividend, conversion, and other rights of such stock and the terms of the preferred stock appear reasonable.

#### *Rationale*

Preferred stock is an equity security, which has certain features similar to debt instruments, such as fixed dividend payments, seniority of claims to common stock, and in most instances, no voting rights. Blank check preferred stock gives directors the power to issue shares at the board's discretion, with voting, dividend, and conversion rights to be determined by the board at the time of issue. Blank check preferred stock can be used for legitimate corporate purposes, but it can also be used to thwart hostile takeovers without shareowner approval. Preferred stock may also be given conversion rights that can result in significant dilution of common shareowners' equity and voting rights.

## ***Takeover Situations***

### **Poison Pills**

#### *Guideline*

The RBF will vote in favor of resolutions requiring companies to submit shareowner rights (poison pill) plans to shareowners for approval.

#### *Rationale*

Shareowner rights plans, typically known as poison pills, take the form of rights or warrants issued to shareowners and are triggered when a potential acquiring shareowner reaches a certain threshold of ownership. When triggered, poison pills generally allow shareowners to purchase shares from the target company (flip in pill) and/or sell shares back to the potential acquirer (flip out pill) at a price far out of line with the fair market value. They effectively limit a potential acquirer's ability to buy a controlling interest without the approval of the target's board of directors. Such a plan, in conjunction with other takeover defenses, may serve to entrench incumbent management and directors. Because poison pills greatly alter the balance of power between shareowners and management, shareowners should have the right to vote on all new pills and any material change to existing pills.

### **Greenmail**

#### *Guideline*

The RBF will vote in favor of resolutions to adopt anti-greenmail charter or bylaw amendments or otherwise to restrict a company's ability to make greenmail payments.

#### *Rationale*

Greenmail payments are targeted repurchases of company stock by management from individuals or groups that are seeking control of the company. Since only the hostile party receives payment, usually at a substantial premium over the market value of the shares, the practice discriminates against most other shareowners. With greenmail, management transfers significant sums of corporate funds to one entity or group of shareowners solely for the purpose of saving its position and fending off a hostile takeover. These are resources that generally could be put to other, more productive uses by the company.

### **Targeted Share Placements**

#### *Guideline*

The RBF will generally vote in favor of resolutions requiring companies to submit to shareowners for approval targeted stock placements that involve over 10 percent of current outstanding stock.

*Rationale*

Some corporations have placed a large block of shares with a single shareholder. These blocks are typically placed with the company's ESOP, patient capital funds, or a single "friendly" firm or individual. There are concerns that these shares are being placed in friendly hands in order to block a takeover that could enjoy broad shareowner support. Shareowners should have the right to review and evaluate targeted share placements that involve a material amount of the company's outstanding stock.

**Fair Price Provisions**

*Guideline*

The RBF will vote in favor of resolutions requiring companies to adopt a fair price provision. It will vote against resolutions that would repeal a fair price provision.

*Rationale*

Fair price provisions are designed to defend against the two-tiered, front-end-loaded tender offer. Under this scenario, the hostile bidder offers cash for just enough shares to obtain control of the target (usually 51 percent). Once control has been obtained, the payment offered for the remaining stock is less valuable than the payment offered for the initial controlling shares. Shareowners are forced to consider maximizing their value by cashing out earlier rather than later. Fair price provisions require that, absent board or shareowner approval of the acquisition, the bidder must pay the remaining shareowners the same price for their shares as was paid to buy the controlling shares. Ensuring that minority shareowners receive the same price as was paid to obtain the controlling shares is reasonable.

***Financial Accounting***

**Expensing Stock Options**

*Guideline*

The RBF will vote in favor of resolutions requiring companies to expense stock options in their statements of earnings.

*Rationale*

Under current accounting rules, companies generally have a choice of expensing the fair value of employee stock options or disclosing their theoretical value in the footnotes to the financial statements. While some companies have begun to expense options, most have chosen the latter approach since treating stock options as an expense would result in a charge against earnings. Expensing stock options gives shareowners valuable additional information about companies' financial performance and should therefore be encouraged.



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**PROXY VOTING GUIDELINES:  
ECOLOGICAL AND SOCIAL  
RESPONSIBILITY**

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## *Ecological and Social Responsibility*

### **Sustainability Reporting**

#### *Guideline*

The Rockefeller Brothers Fund (RBF) will vote in favor of resolutions requiring that companies prepare reports on their policies and initiatives related to social, economic, and environmental sustainability, including publishing annual reports in accordance with the Global Reporting Initiative (GRI) or other reasonable international codes of conduct and reporting models.

#### *Rationale*

Concerned investors increasingly believe that the long-term financial health of a corporation is closely linked to the well-being of its workers, the availability of essential natural resources, and the vitality of the ecosystems on which the corporation's economic activities depend. This has led to requests that companies provide information about their operations in a framework that integrates data and commentary on financial, social, and environmental performance. The GRI is the leading standard for producing reports of this kind. Its guidelines were developed collaboratively, responsibly, and with integrity, and they provide a basis for comparisons across companies. Companies should be encouraged to use common reporting systems – especially the GRI – to provide investors with comprehensive information about company performance.

### **United Nations Global Compact**

#### *Guideline*

The RBF will vote in favor of resolutions requesting companies to sign and adhere to the principles of the United Nations Global Compact.

#### *Rationale*

The Global Compact is an initiative of the United Nations to bring companies together with UN agencies, labor, and civil society to support ten principles in the areas of human rights, labor, the environment, and anti-corruption. The principles are derived from the following existing international agreements: the Universal Declaration of Human Rights, the International Labor Organization's Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development, and the United Nations Convention Against Corruption. The purpose of the Global Compact is to advance responsible corporate citizenship so that business can be part of the solution to the challenges of globalization.

## *Ecological Responsibility*

### **Environmental Disclosure**

#### *Guideline*

The RBF will vote in favor of resolutions requiring that companies issue regular reports on their environmental policies and practices and on the conformity of these policies and practices with state and federal environmental laws. It will also vote in favor of

resolutions urging companies to conduct environmental impact assessments on a regular basis and to report the findings of these assessments.

*Rationale*

All corporations have an impact on the environment. A company's environmental policies and performance can have a substantial effect on the firm's public image and financial performance. Information about such matters is helpful to shareowners in evaluating the company's operations and should be disclosed.

**Prevention**

*Guideline*

The RBF will vote in favor of resolutions requiring corporations to adopt a policy of preventing harm as the best method of environmental protection and of adopting a precautionary approach when scientific knowledge regarding the consequences of a proposed activity is limited.

*Rationale*

It is much better for the environment and human health and far less expensive to prevent environmental harm than to try to clean up pollution and restore damaged ecosystems and lost biodiversity.

**Radioactive and Toxic Substances**

*Guideline*

The RBF will vote in favor of resolutions calling on companies to disclose their use of radioactive, toxic, and other hazardous substances and to develop and implement strategies for reducing and eliminating the release of such substances into the environment.

*Rationale*

The build-up of radioactive, toxic, and other hazardous substances in the environment is an especially dangerous form of pollution, and every effort should be made to prevent it.

**Ceres Principles**

*Guideline*

The RBF will vote in favor of resolutions requiring companies to become signatories to the Ceres Principles and to conform their policies and practices to those principles.

*Rationale*

Formulated by the Coalition for Environmentally Responsible Economies, the Ceres Principles set forth a 10-point environmental code of conduct that requires signing companies to address a range of environmental issues, including protection of the biosphere, sustainable use of natural resources, reduction and proper disposal of wastes, energy conservation, and employee and community environmental risk reduction.



Companies that endorse the Ceres Principles also agree to report on their environmental performance in a standardized report that is submitted to Ceres and made available to the public.

Corporate experience suggests that environmentally conscious companies may realize long-term savings by implementing programs that reduce pollution and conserve resources. In addition, environmentally responsible companies stand to benefit from good public relations. Moreover, the reports that Ceres signatory companies prepare provide shareowners with information they may deem relevant to an assessment of the corporation's financial well-being. For these reasons, more widespread adoption and implementation of the Ceres Principles is desirable.

### **Climate Change / Global Warming**

#### *Guideline*

The RBF will vote in favor of resolutions requiring companies to disclose information about the risks that climate change poses to their operations. It will vote in favor of resolutions requiring companies to disclose information about their emissions of greenhouse gases. And, it will vote in favor of resolutions requiring companies to develop and implement strategies with targets for the reduction of such emissions.

#### *Rationale*

Shareowners have become increasingly concerned about the potential for climate change, particularly abrupt changes in average temperatures and increased incidence of extreme weather events, to impact adversely the long-term financial prospects of companies. Concern has focused on companies in the electric utility, oil, manufacturing, transportation, housing, and insurance sectors. Directors and management personnel should be encouraged to assess the risks posed by climate change and to pursue cost-effective and cost-saving measures to reduce emissions of greenhouse gases in their companies' operations.

### **Energy Efficiency and Renewable Energy**

#### *Guideline*

The RBF will vote in favor of resolutions requiring companies to study and report to shareowners on the feasibility of increasing the efficiency of the consumption of energy in the company's business operations and in the use of the company's products and services by consumers. It will vote in favor of resolutions requiring companies to study and report to shareowners on the feasibility of substituting energy generated from renewable sources for that produced from non-renewable sources. And, it will vote in favor of resolutions requiring companies to implement strategies for increasing energy efficiency and the use of energy from renewable sources in ways that are cost-effective and profitable.

*Rationale*

Corporate experience reveals that there are cost-effective and cost-saving steps that companies can take to increase the efficiency of their use of energy and reduce their reliance on energy produced from non-renewable sources. Performing the analysis that informs decisions on such matters has proven to be useful in its own right. Companies should be encouraged to undertake studies of this kind and use the information they generate to increase energy efficiency and increase the use of energy from renewable sources, in ways that improve the companies' long-term financial performance and enhance shareowner value.

**Materials Efficiency and Recycling**

*Guideline*

The RBF will vote in favor of resolutions requiring companies to study and report to shareowners on the efficiency with which materials of various kinds are used throughout their operations and in the goods and services that they produce for consumers. It will also vote in favor of resolutions directing companies to pursue cost-effective initiatives that reduce, reuse and recycle materials used in production processes.

*Rationale*

A conscientious commitment to pursue greater efficiencies in the use of materials will reduce costs, reduce waste, reduce the depletion of natural resources, and help protect the environment.

**Sustainable Resource Use**

*Guideline*

The RBF will vote in favor of resolutions that call on companies to manage their use of renewable resources such as water, soils, forests, and fisheries in sustainable ways that do not exceed rates of regeneration and that protect the health of ecosystems.

*Rationale*

A fundamental goal of sustainable patterns of production and consumption is safeguarding the regenerative capacities of Earth's ecosystems. When renewable resources are used in ways that exceed rates of regeneration, people are not living off the income from Earth's capital but are consuming the capital itself. If this continues unchecked, it will lead to the loss of natural resources and eventually ecosystem collapse.

**Old Growth Forests**

*Guideline*

The RBF will vote in favor of resolutions requiring companies to refrain from purchasing or selling products containing wood from old growth and endangered forests.

*Rationale*

Old growth forests are critically important ecological assets that are disappearing rapidly around the world. Companies selling products that contain wood from old growth and endangered forests may suffer financially from emerging consumer and regulatory movements. They should be urged to prohibit harvest and trade practices that contribute to the destruction of these valuable natural resources.

**Sustainable Forest Management**

*Guideline*

The RBF will vote in favor of resolutions requiring companies to manage forest resources and/or purchase wood products in accord with the standards for sustainable forest management promulgated by the Forest Stewardship Council (FSC).

*Rationale*

The FSC has emerged in recent years as the leading source of principles, criteria, and standards for sound, long-term management of the world's forests. FSC standards are developed by a diverse group of stakeholders that includes representation from industry, government, and citizens' organizations. Adherence to the independent, third-party certification standards of the FSC, which balance economic, social, and environmental objectives, will help to ensure the integrity of forest ecosystems and the well-being of life that depends on them.

***Social Responsibility***

**Equal Employment Opportunity and Non-Discrimination**

*Guidelines*

The RBF will vote in favor of resolutions requiring companies to provide information on the composition of their workforce by gender, race and position. It will also vote in favor of resolutions requiring companies to establish targets for achieving a diverse workforce and to report on progress toward those targets.

The RBF will vote in favor of resolutions requiring companies to adopt a sexual orientation non-discrimination policy and to include language in their equal employment opportunity statements that bars discrimination on the basis of sexual orientation.

*Rationale*

Companies need to be sensitive to gender and minority employment issues as the workforce becomes increasingly diverse. The costs of violating federal laws that prohibit discrimination by corporations are high and can affect corporate earnings. Corporations routinely file information about the composition of their employee populations with the Equal Employment Opportunity Commission, but the Commission does not release this data to the public unless a company is involved in litigation. And, it is difficult to obtain

from other sources. Shareowners would benefit from having the opportunity to view this information, which can be provided at little incremental cost to the company.

### **Employee Relations**

#### *Guideline*

The RBF will vote in favor of resolutions requiring companies to adopt codes of conduct that address global labor and human rights practices, such as those based on the International Labor Organization's Declaration on Fundamental Principles and Rights at Work and the United Nations' Norms on the Responsibilities of Transnational Corporations with Regard to Human Rights. It will also vote in favor of resolutions requiring companies to agree to independent monitoring and reporting on the implementation of such codes of conduct. Finally, it will vote in favor of resolutions requiring companies to avoid exploitative labor practices and to commit to providing safe workplaces.

#### *Rationale*

The way that companies treat their employees can have a significant impact on corporate financial performance, as well as on the quality of the relationships that companies have with the communities and societies in which they operate. Companies that are successful over the long term treat their employees fairly in all locations and avoid exploitation of poor or marginalized workers. Adherence to widely accepted codes of conduct concerning global labor and human rights practices can help to ensure that a corporation treats its employees in a manner that benefits the firm's, as well as society's, long-term interests.

### **Vendor and Supplier Relations**

#### *Guideline*

The RBF will vote in favor of resolutions requiring companies to publish a code of conduct that applies to their major vendors and suppliers and that requires these firms to satisfy all applicable standards and laws protecting employees' wages, benefits, working conditions, worker health and safety, freedom of association, and other rights.

#### *Rationale*

The general reputation of a company can be significantly affected by the business practices of its major vendors and suppliers. Ensuring that these business partners adhere to a code of best practice in the treatment of their workers will reduce the likelihood that these relationships could have an adverse impact on the corporation.

### **Political Activities**

#### *Guidelines*

The RBF will vote in favor of resolutions requiring companies to refrain from using the resources of the corporation to support, directly or indirectly, candidates for political

office. It will also vote in favor of resolutions that require corporate boards to review and approve political donations and to disclose to shareowners all contributions made to candidates or political parties, including those made directly and through political action committees.



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The RBF will vote in favor of resolutions requiring companies to disclose to shareowners the magnitude and character of expenditures for public policy lobbying activity. It will also support resolutions that aim to reduce lobbying activities which, if effective, would result in clear social harm. [Examples of the latter include lobbying efforts to weaken the implementation of existing laws; to halt the enactment of sensible regulations designed to prevent or reduce serious harm to the environment or human health; or to promote militarization around the world.]

#### *Rationale*

Shareowners have a right to know how corporate assets are being spent in furtherance of political campaigns or government lobbying. Corporate lobbying activity and political contributions may at times be inconsistent with or actually undermine shareowner interests. Although companies may in some instances be required to make disclosures of this kind pursuant to federal and state law, the information disclosed is often not readily available to investors and shareowners. Shareowners would benefit from having the opportunity to view this information

#### **Access to Pharmaceuticals**

##### *Guideline*

The Rockefeller Brothers Fund will vote in favor of resolutions requesting pharmaceutical companies to make drugs more accessible and affordable for the treatment of HIV/AIDS, malaria, tuberculosis and other serious diseases affecting poor countries or populations.

##### *Rationale*

Societies of healthy people are good environments for a thriving business sector. It is true of all industries, but especially so for the pharmaceutical industry, that actions taken to promote health are in the interest of society at large and that actions which reduce the health of a population are contrary to the common good. The cost of medicine is directly relevant to these issues throughout the world. In Africa and in many other regions of the developing world, millions of people have already died from the AIDS virus and tens of millions more are infected. Medications to treat HIV/AIDS, malaria, tuberculosis and other diseases are often so costly as to be out of reach of most of those affected. Making these medications more accessible and affordable will contribute to better management of epidemic and pandemic disease in these areas and will help to eradicate poverty and promote equity. In addition, pharmaceutical companies stand to benefit from good public relations by participating actively in such initiatives.

# **PROXY VOTING PROCEDURES**

### **General Oversight**

The Proxy Voting Committee shall be responsible for maintaining and updating the RBF Proxy Voting Guidelines (the “Guidelines”) and for overseeing the proxy voting process. The committee shall consist of at least four RBF trustees and no more than three RBF staff members. The trustee members shall be the chair of the board, the president, and two others, preferably one of whom is also a member of the investment committee. The staff members shall be the treasurer and two program officers.

### **Proxy Voting Guidelines**

At least once each year, typically during the final months of the calendar year, the Proxy Voting Committee shall review the Guidelines and determine whether any changes to the Guidelines are in order. In making this determination, the Proxy Voting Committee shall consider the RBF proxy voting experience during the preceding twelve-month period; general developments and trends in corporate proxy voting; and the continuing evolution of the Fund’s philanthropic interests and initiatives.

Any modifications to the Guidelines that the Proxy Voting Committee favors shall be forwarded to the RBF investment committee for its review and comment and thereafter recommended to the RBF board of trustees for approval.

### **Proxy Administrator**

The Proxy Administrator shall be responsible for supporting the work of the Proxy Voting Committee and coordinating the activity of all third-party service providers that have an involvement in the voting of RBF proxies, including the Fund’s custodian and the Proxy Voting Service (see below). The president of the RBF will appoint the Proxy Administrator.

### **Proxy Voting Service**

The RBF has engaged an independent Proxy Voting Service to assist with the voting of its proxies. The Proxy Voting Service is responsible for coordinating with the Fund’s custodian to ensure that all proxy materials received by the custodian on behalf of RBF investment manager accounts are processed in a timely fashion. In addition, the Proxy Voting Service is responsible for maintaining copies of all proxy materials and providing copies of such materials to the RBF promptly upon request. Finally, the Proxy Voting Service will supply the Fund with information about all votes cast in a manner and format that facilitates the oversight function of the Proxy Voting Committee.

### **Voting**

To the extent possible, the Proxy Voting Service will process all proxy votes in accordance with the Guidelines.

In circumstances where (1) the application of the Guidelines is unclear, (2) a particular proxy question is not covered by the Guidelines, or (3) the Guidelines call for further input from the RBF, the Proxy Voting Service will refer proxy questions to the Proxy Administrator for further instruction. In these situations, the Proxy Administrator

will solicit feedback, as necessary, from the Proxy Voting Committee and from RBF program staff before providing instruction to the Proxy Voting Service.

**Reporting**

Prior to October 1 of each calendar year, the Proxy Administrator will provide a report on RBF proxy voting activity to the Proxy Voting Committee. This annual report, which is expected to draw heavily from information supplied by the Proxy Voting Service, should include detail on all votes cast on behalf of the RBF during the preceding proxy season, as well as information about the ultimate resolution of the ballot issues for which the votes were cast. The annual report might also include commentary of a more general nature about developments and trends in proxy voting that would be relevant to the Proxy Voting Committee's responsibilities.

Prior to December 31 of each calendar year, the Proxy Voting Committee shall provide a summary report on RBF proxy voting activity to the Fund's board of trustees.

**Co-Sponsoring Shareholder Resolutions**

From time to time, the RBF is approached by other institutional investors with requests to co-sponsor or co-file shareholder resolutions on particular proxy issues. All such inquiries should be directed in the first instance to the Proxy Administrator and to the RBF president.

The Proxy Administrator and the president will make an initial determination of the appropriateness of associating the RBF with the particular shareholder resolution and, in that connection, will seek input, as necessary, from the Proxy Voting Committee and from RBF program staff. Before the RBF can sign onto any shareholder resolution, approval of the Proxy Voting Committee is required.