



# Proxy Voting Guidelines & Procedures

## **WHAT'S INSIDE**

- Why we vote as we do
- Our guidelines for voting on corporate governance, social & environmental issues
- Our proxy voting procedures

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# PROXY VOTING GUIDELINES

## INTRODUCTION

As an investment advisor and mutual fund manager, we at Domini Impact Investments LLC (“Domini”) have an important opportunity to enhance shareholder value and corporate accountability through our proxy voting policies. As socially responsible investors, we have always viewed the proxy voting process as a critically important avenue through which shareholders can engage with management on a wide range of important issues.

We have a fiduciary duty to ensure that the proxy voting responsibilities entrusted to us are exercised in the best interests of our clients and fund shareholders (our “investors”). We also believe that our investors have a right to know how we are exercising these important responsibilities, and to understand the positions we are taking on their behalf.

We vote all our proxies according to published guidelines, which cover more than 100 corporate governance, social, and environmental issues. Our Guidelines were first distributed to Fund shareholders in 1992 and then every year since 1996. The Funds’ Board of Trustees has received quarterly reports on how we are exercising our proxy voting duties since the Funds’ inception. In 1999, we became the first mutual fund manager to publish our actual votes. In 2001, we petitioned the Securities and Exchange Commission to require all mutual funds to disclose their proxy voting policies and actual votes, and in 2003, the SEC adopted a rule requiring funds and investment advisors to do so.

The following Guidelines summarize the Funds’ positions on various issues of concern to socially responsible investors and indicate how the Funds will vote their shares on each issue. The Guidelines have been developed to ensure consistency with the social and environmental standards applied to our Funds’ portfolios and our overall stock selection process.

Because the Funds have a fiduciary duty to vote all shares in the best interests of the Funds’ shareholders, the Funds vote proxies after considering shareholders’ financial interests and social objectives. For that reason, there may be instances in which the Funds’ shares may not be voted in strict adherence to these Guidelines, based on our review of the merits of the proposal and the performance of the issuer on the topic presented. We may, for example, abstain or vote against certain shareholder proposals where we have concerns about the framing of the proposal, including cases where we do not believe the proposal’s request is reasonable, or where we believe the company has sufficiently addressed the core concerns that are raised.

The general principles guiding Domini’s proxy voting practices apply globally, and we will seek to apply these Guidelines consistently in all markets. However, there are significant differences between the U.S. and other markets that may require Domini to modify the application of these Guidelines for certain non-U.S. markets. We may, for example, modify the application of these guidelines in deference to international differences in corporate governance structures, disclosure regimes, and cultural norms. In addition, due to particularly onerous procedural impediments in certain countries, we will not always be assured of our ability to vote our clients’ shares. (See Section II: “Voting in Non-U.S. Markets,” below, for more detail.)

These Guidelines are subject to change without notice.

## **THE RATIONALE GUIDING DOMINI'S PROXY VOTING**

Domini's investors have long-term financial and social objectives. These can include retirement, paying for a college education, building wealth, and working toward a safer, cleaner, more equitable world for their children. These goals are not served when corporations externalize their costs of doing business on society. A corporation that delivers only short-term profits to its shareholders at the long-term expense of its employees, the communities in which it operates, or the natural environment has not delivered the long-term value that our clients are seeking to achieve through their investments.

As socially responsible investors, we are seeking to invest in corporations that deliver long-term shareholder value in harmony with society and the natural environment. Corporations sit within a complex web of stakeholders composed of shareholders, employees, communities, customers, and the environment. Mismanagement of stakeholder relations can involve substantial financial costs. Shareholders provide corporations with capital, but communities provide them with employees, consumers, and a legal framework within which to operate, and the environment provides corporations with raw materials for their operations. In return, corporations provide jobs, goods, services, and profits. A corporation that intends to deliver value over the long term must effectively manage its relations with all its stakeholders, and be responsive to the needs and demands of these various constituencies. We believe that those corporations that eventually achieve this goal will deliver significant value to all stakeholders, including their shareholders.

Shareholders possess certain unique rights and privileges with respect to the management of the corporations they own. As socially responsible investors, it is our view that we have the obligation to appropriately direct management's attention to the broader web of stakeholders upon which the corporation depends. Shareholders are the only corporate stakeholder given an opportunity to communicate with management through the proxy rules. Therefore, we believe it is incumbent upon us to carefully consider the concerns of this broader community that is often without effective voice, and to raise these concerns with management when they are reasonable and consistent with our investors' objectives. In the process, we believe we are building long-term shareholder value.

We believe that corporations are best equipped to create long-term, broad-based wealth both for their stockowners and for their other stakeholders when they are transparent, accountable, and adopt democratic governance principles. Our proxy voting guidelines, while varying in their particulars, are based on and reflect these core values.

## **CORPORATE GOVERNANCE**

### **Annual Meetings — In-Person Annual Meetings**

Some corporations have lobbied to replace "face-to-face" annual meetings with "virtual meetings" broadcast over the Internet. Shareholders have argued that Internet access to annual meetings should only supplement and not replace in-person annual meetings. We will support resolutions asking directors to affirm the continuation of in-person annual meetings.

## **Auditors — Independence**

We will support the reappointment of the company's auditor unless we have reason to believe that the independence of the audit may be compromised. We believe that significant non-audit fees can compromise the independence of the audit. Therefore, we will oppose the appointment of auditors where non-audit fees, such as consulting fees, represent more than 25% of the total fees paid to the auditor, where such data is available. (We will include audit-related fees and tax compliance/preparation fees in our calculation of audit fees.)

In addition, we will review on a case-by-case basis the appointment of auditors who have a significant professional or personal relationship with the company, or where there is reason to believe that the auditor has rendered an inaccurate opinion.

We will support shareholder proposals asking companies to adopt a policy to ensure that the firm that is appointed to be the company's independent accountants will only provide audit services to the company and not provide any other services.

We will also support shareholder proposals that set a reasonable period for mandatory rotation of the auditor (at least every five years).

We will support shareholder proposals asking companies to place the ratification of auditors on the agenda.

## **Audit Committee Accountability**

The Audit Committee is ultimately responsible for the company's internal financial reporting controls, and for addressing problems when they arise. We will consider opposing audit committee members for the following reasons:

- We will **oppose** members of the audit committee where the audit committee has approved an audit contract where non-audit fees exceed audit fees.
- We will **oppose** audit committee members at companies with ineffective internal controls, considering whether the company has a history of accounting problems, or significant recent problems, and the board's efforts to address them.
- Audit committees that remove auditor ratification from the proxy are impairing an important avenue of investor oversight of corporate practices. Such actions raise serious concerns whether the audit committee is adequately serving its proper function. In cases where a company has pulled auditor ratification from the ballot, we will **oppose** members of the audit committee.

## **Board of Directors — Accountability**

We will **oppose** individual directors who have demonstrated disregard for their responsibilities to shareholders and other stakeholders. For example, we will **oppose** directors who have attended less than 75% of board and committee meetings without a valid excuse or who have ignored a shareholder proposal that received the support of a majority of the votes cast in the previous year. We will also **oppose** individual directors, committees, or the entire slate for material failures of governance, stewardship, risk management or violation of other fiduciary responsibilities to the company, including failure to adequately address serious social or environmental risks or impacts.

We will evaluate “Vote No” campaigns on a *case-by-case* basis, considering our governance policies, the arguments presented by proponents of the campaign and the company’s performance on the issues addressed.

We will *oppose* the entire board slate (except for new nominees) in cases where the director(s) receive more than 50% withhold votes out of those cast and the issue that was the underlying cause of the high level of withhold votes in the prior election has not been addressed. The adequacy of the company’s response will be analyzed on a *case-by-case* basis.

## **Board of Directors — Composition**

### ***Diversity***

Typically, a board committee selects nominees for the board, and they run unopposed. If the board does not include at least one woman and one person of color, we will *oppose* the board’s nominees. In addition, if 30% of the board is not represented by either women or persons of color, we will *oppose* the members of the nominating committee. Outside of the United States, we will generally apply this policy with respect to gender only, with the exception of Canada and the United Kingdom.

Shareholders have asked boards to make greater efforts to search for qualified female and minority candidates for nomination to the board of directors, to endorse a policy of board inclusiveness, and to issue reports to shareholders on their efforts to increase diversity on their boards. We will *support* these resolutions.

### **Independence**

#### **Majority of Independent Directors**

It is in the best interest of all stockholders that a majority of board members be independent. NYSE and Nasdaq listing standards require that most listed companies have majority-independent boards. We will *oppose* insiders and affiliated outsiders on boards that do not consist of a majority of independent directors. We will *support* shareholder resolutions asking management to amend company bylaws to ensure that the board has a majority or a supermajority (two thirds or three quarters) of independent directors.

#### **Independent Chair**

To ensure that the board represents the interests of the shareholders and is able to effectively monitor and evaluate the CEO and other top officers, we believe the position of chair of the board should be held by an independent director. We will therefore *oppose* the chair of the board if that person is not independent. We will *support* shareholder proposals to separate the position of chair and CEO, and proposals that request that the position of chair be held by an independent director who has not served as CEO.

#### **Independence of Key Committees**

We believe that it is critical to the protection of shareholder interests that certain key committees, such as the audit committee, the nominating committee, the compensation committee, and the

corporate governance committee, be composed entirely of independent directors. We will *oppose* inside directors and affiliated outside directors nominated to these committees.

We will *support* shareholder resolutions requesting that these committees be composed exclusively of independent directors.

### **Qualifications for Independence**

In determining the independence of board members, we use the definition developed by ISS, as revised from time to time. ISS divides directors into three categories: Inside, Affiliated, and Independent. To be “independent,” a director must have no material connection to the company other than his or her board seat.

Often, “independent” or “outside” directors are so only in that they are not employees of the company. Their ties to management make them de facto insiders, and therefore their representation of the interests of external constituencies is minimal. Some shareholders have proposed that boards nominate independent directors subject to very strict criteria defining “independent.” We will generally *support* these resolutions, unless they impose particularly onerous or unreasonable requirements.

### **Over-Boarded Directors**

To be an effective board member requires a certain time commitment. Many directors serve on more than one board, and do so effectively. However, some directors overextend themselves by serving on a large number of boards. We will *oppose* directors who sit on more than four public company boards, or are CEOs (of a public or, where information is available, private for-profit company) and sit on more than two total public company boards besides their own.

### **Reduce Size**

Some shareholders have sought to reduce the size of boards as a cost-cutting measure. However, the costs associated with boards are relatively small, and considerations other than size should be weighed carefully. We will consider both management and shareholder proposals to change the size of the board on a *case-by-case* basis, and will generally *oppose* proposals to reduce the size of the board solely as a cost-cutting measure, where this can be determined. We will generally *support* proposals to limit the size of the board to a reasonable number, such as 7-10.

We will vote *against* proposals that give management the ability to alter the size of the board without shareholder approval.

### **Board of Directors — Cumulative Voting**

Cumulative voting allows shareholders to cast all of their votes for one nominee to the board. Theoretically, it facilitates the election of dissidents to the board. In practice, however, it violates the principles of fairness and equity by granting minority shareholders a disproportionate voice in running the company. We will *oppose* bylaws requiring cumulative voting. We will generally vote *for* the elimination of cumulative voting or *against* shareholder proposals to restore or provide for cumulative voting, unless we are voting at a controlled company (insider voting power >50%).



### **Board of Directors — Director-Shareholder Dialogue**

Shareholders have asked that corporations establish an Office of the Board of Directors to facilitate communication between nonmanagement directors and shareholders. A committee of nonmanagement directors would be responsible for the Office. We will *support* these resolutions.

**Board of Directors — Establish Board Committee on Human Rights or Sustainability**  
Shareholders have filed binding resolutions seeking the creation of a board committee on human rights or sustainability. We believe that a properly constituted board committee focused on these issues would help to ensure a place for human rights and sustainability on the board’s regular agenda, and should help companies to more proactively address the various long-term risks imposed by poor management of these issues. We will generally *support* these proposals.

### **Board of Directors — Indemnification**

A board may use indemnification policies that go well beyond accepted norms to protect itself against shareholder actions in the wake of unsuccessful takeover attempts. We will *oppose* these resolutions.

### **Board of Directors — Mandatory Share Ownership**

Shareholders have proposed that all directors should own stock in the company. In general, directors should own stock in the companies on whose boards they sit. However, boards should not be restricted to those financially able to buy stock. We will *oppose* these resolutions.

### **Board of Directors — Director Elections**

#### **Majority Vote Standard**

In practice, most corporations allow shareholders to approve board candidates as selected by the board, rather than to truly “elect” candidates from a pool of nominees. To further democratize the election process, shareholders have requested that there be more director nominees than there are board seats to be filled during a board election. Such an arrangement would enhance the ability of shareholders to choose candidates who would more accurately represent their interests.

In addition, most U.S. corporations elect their directors based on a plurality vote standard. Under this standard, a director will still be elected, even if 99.9% of shareholders withheld their vote. Shareholders have asked that boards of directors initiate a process to amend the company’s governance documents (certificate of incorporation or bylaws) to require that directors be elected by a majority of votes cast at the annual meeting.

We will generally *support* both binding and non-binding resolutions seeking to establish a majority vote standard. We will scrutinize binding resolutions more carefully to ensure that the specific formulation is workable. For example, we will vote *against* such proposals if there is no carve-out for a plurality standard in contested elections.

### **Proxy Access**

We support the concept of “proxy access”, allowing shareholders access to the corporate proxy to nominate directors and will continue to support public policy proposals and shareholder proposals seeking to achieve this important objective. We will generally **support** management and shareholder proposals with the following features:

- *Ownership threshold*: maximum requirement not more than three percent (3%) of the voting power;
- *Aggregation*: minimal or no limits on the number of shareholders permitted to form a nominating group;
- *Ownership duration*: maximum requirement not longer than three (3) years of continuous ownership for each member of the nominating group;
- *Cap*: cap on nominees of generally twenty-five percent (25%) of the board.

We believe these features constitute an emerging consensus among investors, and will **oppose** proposals that set more restrictive conditions. We will also vote **for** shareholder proposals calling for the reimbursement of reasonable costs incurred in connection with nominating one or more candidates in a contested election.

Consistent with these policies, we will also vote **against** proposals that provide that directors may be removed only for cause and will **support** proposals seeking to promote the ability of shareholders to remove directors with or without cause.

### **Board of Directors — Shareholder Advisory Board**

Shareholders have asked that corporations create a shareholder advisory board to represent the owners’ views to the board. Boards with a sufficient number of outside directors should represent the interests of shareholders. We will **oppose** such resolutions.

### **Board of Directors — Staggered Terms**

The annual election of all directors is considered a necessary part of maintaining accountability to shareholders. Many corporate governance activists also argue that a classified board structure is frequently used as a takeover defense that may shelter an otherwise poorly performing company from a takeover that may be in shareholders’ best interests. We are concerned, however, that the annual election of directors can have the unintended consequence of focusing the board on short-term results and, more specifically, stock price, at the expense of the long-term interests of the company. We believe that short-term thinking is a significant and pervasive threat to long-term shareholder value, and to society. A classified board, while not an ideal structure, may help shield directors from the need to place quarterly results ahead of long-term objectives. We will **oppose** resolutions to abolish staggered boards.

### **CEO Succession Planning**

As investors concerned about the long-term sustainability and viability of the companies we invest in, we believe it is critically important that large corporations have thoughtful plans in place when the need arises to replace the CEO. We will therefore generally vote **for** proposals seeking disclosure on the company’s CEO succession plan.

## **Employee Benefits — Cash Balance Pension Plans**

In the late 1990s, many companies converted their pension plans from traditional defined benefit pension plans to cash-balance plans. Older workers can lose significant pension earnings if their traditional pension is replaced by a cash-balance plan that puts them on an equal earning footing with younger workers. Shareholders have asked companies to give employees the choice of either a defined benefit pension plan or a cash-balance plan. We will *support* these resolutions.

## **Employee Compensation — Employee Stock Ownership Plans (ESOPs)**

In the expectation that companies fostering employee ownership will grow faster, attract and retain higher-quality employees, create more employee wealth, and achieve sustained superior performance, shareholders have asked corporation to create and fund ESOPs, and report on employee ownership. We will *support* these resolutions.

## **Executive and Director Compensation**

### **Reasonable Compensation**

We support reasonable compensation packages for managers and directors. In general, we do not regard the following as reasonable:

- Pension plans for outside directors (since they usually benefit from other plans)
- Gold or silver parachute plans triggered by a takeover
- Total compensation to outside directors exceeding \$100,000 per year
- Total compensation to chief executive officers exceeding \$10,000,000 per year

We will oppose resolutions proposing these or similar compensation schemes. In addition, we will support resolutions calling for companies to review and report on executive compensation.

We will oppose directors serving on the compensation committee where there is evidence that they have not taken steps to address issues of excessive executive or director compensation or other problematic practices, such as options backdating, or have failed to provide investors with adequate disclosure regarding executive and director compensation.

We will generally vote for proposals asking companies to adopt a policy of 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 We will generally vote for proposals calling for companies to adopt a policy of not providing tax gross-up payments to executives, except in situations where gross-ups are provided pursuant to a bonuses, accelerated vesting or the continuation in force of unvested equity grants, perquisites and other payments or awards made in lieu of compensation.plan, policy, or arrangement

applicable to management employees of the company, such as a relocation or expatriate tax equalization policy.

### **Clawback Policies**

We will vote on a case-by-case basis on proposals to recoup unearned incentive bonuses or other incentive payments made to senior executives if it is later determined that the figures upon which incentive compensation is earned later turn out to have been in error.

Shareholders have asked companies to adopt or amend policies to allow the Board of Directors to recoup or “clawback” incentive compensation from senior executives as a result of egregious conduct that has caused reputational or financial harm to the company. Investors have also asked companies to adopt policies to disclose annually whether it, in the previous fiscal year, recouped any incentive compensation from any senior executive or caused a senior executive to forfeit an incentive compensation award as a result of applying existing clawback provisions.

The Policy should cover former senior executives and provide that the general circumstances of the recoupment or forfeiture be described. The Policy should also provide that if no recoupment or forfeiture of the kind described above occurred in the previous fiscal year, a statement to that effect will be made. This disclosure is intended to supplement any disclosure of recoupment or forfeiture required by law or regulation, such as SEC requirements to disclose clawbacks of named executive officers.

We will *support* such proposals.

### **Say-on-Pay**

We are strong supporters of “say-on-pay”, now codified in the Dodd-Frank legislation. We support an *annual* advisory vote on compensation. Although we generally oppose tying executive compensation to short-term measures, we believe that annual review is the best method to ensure accountability. We will consider voting against members of the compensation committee where a company’s previous say-on-pay proposal received the support of less than 70% of votes cast and appropriate steps were not taken to address executive compensation.

### **CEOs Serving on Compensation Committees**

Compensation committees must be independent of management to ensure fair and impartial negotiations of pay with individual executives. We are concerned that the inclusion of CEOs on the compensation committee may result in more generous pay packages for senior executives than what is necessary to attract and retain talent. CEOs who benefit from generous pay may view large compensation packages as necessary to retain and motivate other executives. Perhaps most importantly, because compensation packages are often based on surveys detailing what their peers are earning, CEOs are subject to particularly troublesome conflicts of interest when they serve on compensation committees. It is in their general interest to see their peers’ compensation rise. We will *support* shareholder proposals seeking to bar CEOs from serving on compensation committees, and will *oppose* directors serving on compensation committees that also serve as CEOs of another company.

## **Relative Compensation Levels**

Compensation for corporate CEOs has grown at an astonishing pace in recent years, far faster than that for employees in general. A few enlightened companies have set a maximum range they will tolerate between the salaries of their lowest- and highest-paid employees. Shareholders have asked other companies to do the following:

Prepare reports comparing the compensation packages of the average and lowest wage earners to those of top management  
Establish a cap for CEO compensation, tying it to the wage of the lowest-paid workers

We will *support* these resolutions.

## **Compensation Consultants — Disclosure of Board or Company's Utilization**

We will support resolutions seeking disclosure regarding the company, board, or board committee's use of compensation consultants, such as company name, business relationship(s), and fees paid, in order to surface any potential conflicts of interest, and to allow shareholders to adequately assess the reasonableness of proposed compensation arrangements.

### **Disclosure**

Shareholders have asked companies to disclose the salaries of top management beyond those the SEC requires in the proxy statement. We will *support* these resolutions.

## **Excessive Stock Option Grants to Executives**

Shareholders wishing to promote more broad-based employee ownership of their corporations' stock have asked corporate boards to limit stock options granted to (1) a single individual to no more than 5% of the total options granted in a single year, and (2) the group of executive officers to no more than 10% of the total options granted in a single year. We will *support* these resolutions.

## **Executive Severance Pay Review**

Shareholders have criticized boards of directors that grant retiring executives severance pay packages that significantly exceed the standard benefits granted to other company executives, particularly when the company's financial performance was poor during the executive's tenure. As a result, shareholders have asked boards to prepare reports that summarize and explain the relationship of their executive severance package policies and philosophies to corporate performance, employee morale, and executive performance incentives. We will *support* these resolutions.

## **Nonfinancial Performance**

Shareholders have asked companies to review their executives' compensation and report to shareholders on its link not only to financial performance but also to the company's performance on the following:

- Environmental issues

- Human rights issues
- Improvements in healthcare quality
- Exporting U.S. jobs to low-wage countries
- Closing the wage gap in the U.S. between workers and top management
- Predatory lending
- Diversity issues
- Social issues generally

We will *support* these resolutions.

### **Pension Plan Accounting and Financial Transparency**

Some corporations use “pension credits,” a projection of the growth of a company’s pension plan, as part of their formula for calculating executive compensation and bonuses. Because pension credits reflect neither operating performance nor even actual returns on company pension plan assets, their use can improperly inflate executive compensation. Pension credits are not based on actual investment returns, but on the “expected return” on plan assets and other assumptions set by management. We believe boosting performance pay with pension income also creates incentives contrary to long-term shareholder interests. Such incentive pay formulas could, for example, encourage management to skip cost-of-living adjustments expected by retirees, or to reduce expected retirement benefits.

We will *support* resolutions asking companies to exclude pension credits from the calculation of executive compensation. Several companies including AT&T (in response to a Domini proposal), General Electric, Verizon Communications, and Qwest Communications International have adopted these proposals.

We will also *support* resolutions asking companies to provide transparent reports to shareholders of profit from real company operations, and/or to use part of their pension fund surplus to adjust retiree pay for inflation.

### **Extraordinary Supplemental Executive Retirement Plans (SERPs) and Preferential Retirement Arrangements**

Many companies establish Supplemental Executive Retirement Plans (SERPs) to provide supplemental retirement benefits that exceed IRS limitations on benefits that can be paid from tax-qualified pension plans. Some companies also maintain what are known as extraordinary SERPs, which provide preferential benefit formulas or supplemental pension benefits not provided to other managers under these companies’ regular tax-qualified plans. Some companies also make individual pension agreements with executives that have similar features. The resulting gross disparities between the retirement security offered to senior executives and to other employees can create potential morale problems that may increase employee turnover. Moreover, because these forms of pension compensation are not performance-based, they do not help to align management incentives with long-term shareholder interests.

Shareholders have asked companies to seek shareholder approval of executive pension agreements of this kind. We will *support* these resolutions.

### **Performance-Based Stock Options**

Shareholders have asked companies to tie executive compensation more closely to company, rather than stock market, performance through the use of performance-based stock options.

Performance-based stock options include indexed stock options, which link option exercise prices to an industry index; premium-priced stock options, which have exercise prices that are above the market price of the stock on the date of grant; and performance-vesting options, which vest only after the market price of the stock exceeds a target price greater than the market price on the grant date. We will **support** these resolutions.

### **Salary Freeze During Layoffs**

Layoffs are generally undertaken as cost-saving measures designed to improve profits and increase the company's long-term competitiveness. However, increasing the pay of corporate officers while asking employees to sacrifice is hypocritical, damaging to a company's culture, and indicative of poor corporate governance. We will **support** resolutions that require companies to freeze the salaries of corporate officers during layoffs and/or until the positive benefits of the layoffs are demonstrated.

### **Stock Option Expensing**

The use of stock options that are not expensed can lead to distorted earnings reports and excessive use of stock options for executive compensation. We will **oppose** the use of stock options where they are not fully expensed, and **support** shareholder proposals calling for companies to expense stock options in the company's annual income statement.

### **Mergers and Acquisitions — In General**

Many studies have concluded that a sizable majority of mergers and acquisitions fail to deliver shareholder value. Nevertheless, shareholders overwhelmingly approve most mergers and acquisitions. At the same time, significant mergers and acquisitions may entail serious social and environmental risks. For this reason, we will review the potential social and environmental costs of any merger or acquisition along with purely financial considerations. Although mergers and acquisitions may offer financial, and even social and environmental, benefits, their tendency to under perform, and their potential to do harm, creates the need for special scrutiny on a **case-by-case** basis.

We will **oppose** any merger or acquisition whose resulting company would not qualify for inclusion in our Funds' portfolios based on their line of business (for example, we would oppose the acquisition of a portfolio holding by a tobacco manufacturer). We will also generally **oppose** mergers that involve a two-tiered stock offer. When evaluating mergers and acquisitions, in addition to the business case for the deal, where information is available, we will generally consider the following factors:

- The relative social and environmental performance of the two companies
- The impact of the merger on employees, including layoffs and proposed post-merger investments in human resources
- Whether this is a hostile acquisition of a company with a substantially unionized workforce by a company with a non-unionized workforce
- The acquiring company's plans for cultural integration of the two companies
- The acquiring company's history of acquisitions
- Executive and board compensation packages tied to successful completion of the merger
- Change in control provisions in executive employment contracts triggered by the merger
- Conflicts of interest

- Corporate governance changes as a result of the merger

In certain industries, such as media, banking, agriculture, telecommunications, and pharmaceuticals, we will consider with caution mergers that will create notably high levels of industry concentration, and may weight such considerations heavily in our decision-making. In some cases, considerations of industry concentration may be the decisive factor.

The Dodd-Frank Wall Street Reform and Consumer Protection Act requires an advisory vote on “golden parachute” arrangements for Named Executive Officers (NEOs) in conjunction with an acquisition, merger, consolidation or proposed sale. We will review these proposals on a *case-by-case* basis.

### **Mergers and Acquisitions — Impact of Merger**

Shareholders have requested companies to present a report on the impact a merger or acquisition has on employment levels, director and executive compensation, philanthropic commitment, and company products. For example, in the case of a bank merger, shareholders have asked what effect the merger will have on community reinvestment activities (CRA). We will *support* these resolutions.

### **Mergers and Acquisitions — Shareholder Approval**

Some shareholders have sought to require submission to shareholders of any merger or acquisition, regardless of size. While mergers and acquisitions that decisively change a company’s character should be submitted to its owners for approval, we will *oppose* all-inclusive resolutions since they are both impractical and entail an unnecessary expense.

### **Proxy Voting — Confidential Ballot**

Many companies’ proxies bear the name of the shareholder, allowing companies to learn who voted how in corporate elections. Confidential voting is necessary to maintain a proxy voting system that is free of pressure. Shareholders have asked that proxy voting be kept confidential, except in those limited circumstances when the law requires disclosure. We will *support* these resolutions.

### **Proxy Voting — Supermajority Votes**

A company may propose a bylaw requiring that certain types of shareholder resolutions receive a supermajority — sometimes as much as 80% of the vote — to be adopted. We will *oppose* these resolutions.

We will vote *against* proposals giving the board exclusive authority to amend the bylaws, and will *support* proposals to lower supermajority shareholder vote requirements for charter and bylaw amendments as well as for mergers and other significant business combinations.

### **Reincorporation**

When a corporation seeks approval from its shareholders to reincorporate into a different jurisdiction, we will review management’s rationale, and consider such proposals on a *case-by-case* basis. Occasionally, a corporation will seek to reincorporate in order to reduce its tax burden,



or to shield itself from shareholder or consumer lawsuits. We will *oppose* reincorporation into jurisdictions that serve as tax shelters, such as Bermuda, or that significantly reduce legal rights for shareholders and other corporate stakeholders. We will *support* shareholder proposals to reincorporate corporations from such jurisdictions.

### **Shareholder Proposals — Identification of Proponents**

Shareholders have asked that management fully identify proponents of all shareholder resolutions. We will *support* these resolutions.

### **Shareholder Proposals – Simple Majority Vote Counting Standard**

Responsible investors submit a wide array of binding and non-binding shareholder proposals to corporations. Companies routinely announce the voting results of these proposals at their annual meetings, and then report the raw data in an 8-K. Companies are not currently required to count the votes for all proposals according to a consistent simple majority vote standard. Instead, many companies count abstentions as votes against the proposal, often dramatically reducing the reported results. In some cases, true majority votes have been portrayed at the annual meeting as having failed to achieve a majority. This creates confusion among shareholders, with one outcome that the company reports to shareholders and the press, but an entirely different outcome mandated by the SEC for determining a proponent's eligibility to resubmit a proposal. Although this confusion can be cleared up by re-calculating the vote results based on the raw data provided in the 8-K, the vote announced at the annual meeting is generally the result that is picked up by the press. This diminishes the message shareholder proponents and voters intend to send to management and the board. Many shareholders use abstentions to send a particular signal to management. It is not their intent that such votes be counted against the proposal. We believe companies and shareholders would benefit from a uniform simple majority standard.

We *support* proposals asking companies to adopt a simple majority vote-counting standard for shareholder proposals, whether in the form of not including abstentions in the formula, or in the form of removing supermajority requirements that are not either approved by shareholders, or mandated by regulation.

### **Shareholder Rights & Defenses**

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

We will vote *case-by-case* on bylaws which impact shareholders' litigation rights, taking into account factors such as:

- The company's stated rationale for adopting such a provision;
- The breadth of application of the bylaw, including the types of lawsuits to which it would apply and the definition of key terms; and
- Governance features such as the shareholders' ability to repeal the provision at a later date (including the vote standard applied when shareholders attempt to amend the bylaws) and

their ability to hold directors accountable through annual director elections and a majority vote standard in uncontested elections.

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

### **Takeover — Employee Stock Ownership Plans (ESOPs)**

ESOPs should promote active employee ownership. However, some companies have proposed ESOPs as a way to park stock to avoid a takeover. We will *oppose* ESOPs not intended and designed to promote active employee ownership.

### **Takeovers — Stock Issuance**

Management may seek authorization to issue stock in an effort to avoid a takeover. We will *oppose* these resolutions.

## **CAPITAL STRUCTURE**

We will vote *against* proposals at companies with more than one class of common stock to increase the number of authorized shares of the class that has superior voting rights.

We will generally vote *against* dual class capital structures. We will *support* proposals seeking the approval of a recapitalization plan for all stock to have one vote per share.

We will vote *for* proposals to increase the number of authorized common shares where the primary purpose of the increase is to issue shares in connection with a transaction on the same ballot that warrants support.

### **Share Buybacks**

We will generally *support* shareholder proposals to increase disclosure to investors about how share buyback decisions are made, and by whom, as well as how potential conflicts of interest are managed.

## **SOCIAL AND ENVIRONMENTAL ISSUES**

### **GENERAL**

#### **Sustainability Reports**

Concerned investors increasingly believe that the long-term financial health of a corporation is tied to the economic sustainability of its workers and the communities in which they operate, source, and sell their products. Consequently, these investors have sought to analyze corporate financial, social, and environmental performance, and have asked corporations to prepare sustainability reports detailing their firms' records in these areas. Some shareholders have

requested that companies prepare such reports using the sustainability guidelines issued by the Global Reporting Initiative (GRI). We will *support* resolutions requesting these reports.

Anti-Corporate Social Responsibility (CSR) Proposals

In recent years, a handful of shareholders have filed proposals modeled on sustainability reporting and political contributions reporting resolutions submitted by social investors. Although the “resolved” clause of these proposals is often very similar—if not identical—to proposals we would generally support, the “whereas” clauses generally advance a very different agenda, calling into question, for example, a company’s efforts to address climate change. Where such proposals request “charitable contribution reports”, prohibit or impose criteria on charitable giving, or require shareholder ratification of charitable grants, we will *oppose* them as their intent is clearly to limit corporate philanthropy, and because we have generally not had any difficulty obtaining basic information about a company’s charitable giving. Where these proposals seek sustainability reports, we will generally *abstain* or *oppose* the proposal, carefully considering the message a vote against a “sustainability report” proposal may send to the company. In general, we view such “anti-social” proposals with skepticism, and will generally oppose them, based on a review of the proposal.

## COMMUNITY

### **Access to Pharmaceuticals — Disclosure of Incentives to Pharmaceutical Purchasers**

Drug companies have provided doctors, pharmacy benefit managers, and other pharmaceutical purchasers rebates, payments, and other incentives to purchase their drugs. These incentives are often hidden, and are therefore not passed on to patients. Shareholders have called on pharmaceutical companies to issue reports disclosing the extent and types of incentives they use to influence pharmaceutical purchasers to select their drugs. We will *support* these resolutions.

### **Access to Pharmaceuticals — Ethical Criteria for Drug Patent Extensions**

Patents on “me too” drugs – modified or identical versions of existing drugs - extend the time it takes for generic drugs to come to market, which are lower in cost but equally effective alternatives to brand names. Shareholders have called into question the ethics of effectively extending the patents on existing drugs, and are concerned about the negative effects of this practice on their companies’ reputations and on consumers’ access to needed treatments. We will *support* resolutions asking companies to develop ethical criteria for the extension of patents on prescription drugs and to issue reports on the implications of such criteria.

### **Cable Companies and Pornography**

The availability and the level of graphic, sexually explicit, and/or obscene content on cable channels is expanding. This “mainstreaming” of pornography has become a source of serious concern for some shareholders on both social and financial grounds. Among other things, shareholders have asked cable companies to do the following:

- Outline the business case for their increasing distribution of pornography
- Review policies governing content decision-making for cable operations
- Assess the potential legal issues and financial liabilities posed by possible violations of local obscenity laws and lawsuits from individuals and communities

We will **support** these resolutions.

### **Citizen Initiatives — Noninterference by Corporations**

According to the Supreme Court, large corporations have a constitutional right to participate in initiative campaigns. However, their financial contributions can and do defeat citizen initiative campaigns for environmental protection, recycling, sustainable resource use, and right to know laws. Shareholders have asked corporations to refrain from contributing to initiative campaigns unless a competitor would gain a competitive advantage from it. We will **support** such resolutions.

### **Confidentiality of Personal Information**

A variety of high profile data breaches has made cyber-security a key financial and social issue. Some shareholders have called on companies to report on policies and procedures to ensure all personal and private customer information remains so even when business operations are outsourced overseas, contracted, or subcontracted. We will **support** these resolutions.

### **Corporate Welfare**

Corporate welfare, according to a *Time* magazine article on the subject, is “any action by local, state or federal government that gives a corporation or an entire industry a benefit not offered to others.” Government officials, business leaders, shareholders, and others worry that corporate welfare leads to unfair market competition and softens the ability of American businesses to compete. We will **support** resolutions that ask corporations to report the corporate welfare benefits they receive.

### **Corporate Tax Avoidance**

According to the IRS, the United States loses as much as \$30 billion annually from corporations that avoid taxes through the use of tax havens. The IRS has also documented how banks as well as investment companies, lawyers, and stockbrokers help clients avoid millions of dollars in taxes by setting up shell companies offshore. U.S. multinational corporations are increasingly attributing their profits to offshore jurisdictions. Globally, the grand total of wealth held offshore has been estimated at \$11.5 trillion. Oxfam has noted that “developing countries could be missing out on tax revenues of at least US\$50 billion a year; roughly equivalent to the global aid budget.”

Shareholders have filed resolutions with financial institutions seeking a report on policies that are in place to safeguard against the provision of financial services for corporate or individual clients that enables capital flight and results in tax avoidance, and to companies seeking disclosure of the policies and procedures that guide the company’s global tax strategies. We will **support** these proposals.

## **Equal Credit Opportunity**

Access to capital is essential to participating in our society. The Equal Credit Opportunity Act prohibits lenders from discriminating with regard to race, religion, national origin, sex, age, and the like.

Shareholders have asked for the following:

- Reports by credit card issuers evaluating credit card marketing, lending and collection practices and the impact these practices have on borrowers in order to avoid engaging in predatory practices.
- Reports on lending practices in low/moderate-income or minority areas and on steps to remedy mortgage-lending discrimination.
- The development of fair lending policies that would ensure access to credit for major disadvantaged groups and require annual reports to shareholders on their implementation.
- The development of policies to ensure that the firm does not securitize predatory loans.
- Specific actions to prevent predatory lending. (The subprime lending industry was a key component of the financial meltdown of 2008, and has historically been the subject of widespread criticism for systemic abuses known collectively as predatory lending. Predatory lending includes the charging of excessive rates and fees, failing to offer borrowers with good credit interest rates that reflect their sound credit records, requiring borrowers to give up their full legal rights by agreeing to mandatory arbitration as a condition of receiving the loan, and paying large prepayment penalties that make refinancing loans prohibitively expensive. These practices have disproportionate impact on low-income, elderly, and minority borrowers.)
- The application by nonfinancial corporations, such as auto companies, of Equal Credit Opportunity Act standards to their financial subsidiaries.
- The application of domestic Community Reinvestment Act standards to emerging market countries.

We will *support* these resolutions.

## **Insurance Companies and Economically Targeted Investments**

Economically targeted investments (ETIs) are loans made to low- to moderate-income communities or individuals to foster, among many things, small businesses and farms, affordable housing, and community development banks and credit unions. Shareholders have asked for reports outlining how insurers could implement an ETI program. We will *support* these resolutions.

## **Land Procurement**

Retail firms, particularly “big-box retailers,” can have a significant negative impact on local communities, permanently altering the character of the community’s economy and environment. Controversies that arise as a result may negatively impact the company’s reputation and ability to attract consumers. We will *support* shareholder proposals asking such companies to develop socially and environmentally sensitive land-procurement policies, and to report to shareholders on their implementation.

Occasionally corporations locate facilities on sites of archeological or cultural importance. Local citizens often protest such plans. Shareholders have asked companies to do the following:

- Prepare a report on the impact of their plans in culturally sensitive sites
- Develop policies that would ensure the preservation of communities cultural heritage and the natural environment
- Consult with affected communities on development plans
- Maintain high ethical standards when working with governments and partners
- Cease their operations on these sites once operations have begun

We will **support** these resolutions.

### Lower Drug Prices

Millions of Americans have severely limited or no practical access to crucial prescription drugs because they are either uninsured or underinsured. In addition, shareholders have criticized pharmaceutical companies for using a two-tiered pricing system through which retail purchasers are charged significantly more for drugs than are group purchasers like HMOs and federal government agencies. As a result, the underinsured and uninsured must often pay higher prices for the same drugs than their adequately insured counterparts. We will **support** resolutions asking companies to report on price restraint policies for pharmaceutical products, and will generally support, on a *case-by-case* basis, resolutions asking for companies to implement price restraint policies. We will **support** proposals seeking reports to allow investors to understand the factors pharmaceutical companies use to determine price increases for their drugs.

### Minimum Wage Principles

Until the early 1980s, an annual minimum-wage income—after adjusting for inflation—was above the poverty line for a family of two. Today, the federal minimum wage of \$7.25 per hour, working 40 hours per week, 52 weeks per year, yields an annual income of only \$15,080, well below the federal poverty line for families.<sup>1</sup>

A minimum wage below the poverty line constitutes an unfair method of competition which burdens business by depressing sales, undermining productivity, increasing worker turnover and leading to labor disputes.

We will **support** proposals asking companies to adopt principles for minimum wage reform, which recognize that a sustainable economy must ensure a minimum standard of living necessary for the health and general well-being of workers and their families; and the minimum wage should be indexed to maintain its ability to support a minimum standard of living; and to allow for orderly increases, predictability and business planning. We will also **support** proposals asking companies to report on their response to wealth inequality in our society.

### Opioid Risks

Shareholders have asked companies involved in the manufacture, sale or distribution of opioids to disclose information about how the board of directors monitors opioid-related risks, including whether these risks have been designated a “material” issue for sustainability reporting and risk

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<sup>1</sup> <http://www.epi.org/publication/minimum-wage-workers-poverty-anymore-raising/>

management purposes, and how such risks are incorporated into executive compensation arrangements.

We will **support** such proposals.

### **Over-The-Counter (OTC) Derivatives Risk**

The use of complex derivatives instruments were a key factor in the financial crisis of 2008. Prior to the crisis, some shareholders sought to evaluate the credit risks associated with exposure to the derivatives market by filing proposals requesting financial companies to provide adequate disclosure of the collateral for over-the-counter derivatives. We will **support** these resolutions.

### **Political Contributions, Lobbying Activities and Nonpartisanship**

The Supreme Court's decision in *Citizens United v. Federal Election Commission* dramatically increased concerns relating to undisclosed corporate spending to influence elections, by sweeping away all limitations on corporate 'independent expenditures,' allowing companies to finance advertisements supporting or opposing particular candidates. These payments can be funneled through trade associations and other tax exempt entities that are not required to disclose the sources of their funding.

State regulations regarding political contributions vary widely, and it can be very difficult, if not impossible, to obtain an accurate picture of a corporation's political involvement. Corporate contributions to entities organized under Section 527 of the Internal Revenue Code, for example, are not required to be disclosed by the corporation, and may present significant risks to shareholder value when these contributions end up supporting causes that contradict corporate policies, or are inimical to shareholder interests.

In addition, corporate contributions to industry trade associations and similar entities that engage in political activity raise additional concerns. These organizations generally do not disclose their membership or the source of their funding. Increasingly, these organizations have taken radical positions, forcing individual corporations to distance themselves from their own representatives. In addition, companies do not always receive full disclosure from the trade associations to which they contribute. Corporate involvement in state judicial races, think-tanks, and other political organizations have also raised concerns. These activities present a broad range of legal, political and reputational risks to companies. We are also concerned that corporate political spending may be creating systemic risks to our economy and our political system.

Shareholders have asked boards of directors to establish oversight of corporate political contributions, to establish corporate political contributions guidelines, to publicly disclose all political contributions made from the corporate treasury, including payments to trade associations and other tax-exempt entities, to disclose the business rationale for the company's political involvement and the public policy positions taken by the company, and to produce reports detailing the use of corporate resources for political purposes. We will **support** these resolutions.

We will also **support** similar proposals seeking transparency in corporate lobbying expenditures.

We will also **support** proposals advancing principles of corporate nonpartisanship: for example, requesting corporations to refrain from using corporate treasury funds to influence the outcomes

of elections or ballot initiatives; or for other partisan political activities, or compelling their employees to contribute to or support particular causes.

### **Public Interest Obligations**

The Federal Communications Act of 1934 requires media companies utilizing the publicly owned airwaves to act as a public trustee, and to fulfill a public interest obligation. Shareholders have asked media companies to report on their activities to meet their public interest obligations. We will *support* such proposals.

### **Quality of Healthcare**

Many communities are increasingly concerned about the ability of for-profit healthcare institutions to provide quality healthcare. Shareholders have asked corporations operating hospitals for reports on the quality of their patient care. We will *support* these resolutions.

### **Redlining**

“Redlining” is the systematic denial of services to an area based on its economic or ethnic profile. The term originated in banking, but the same practice affects businesses as different as insurance companies and supermarkets. Shareholders have asked management to appraise their lending practices and develop policies to avoid redlining.

Shareholders have also asked insurance companies to develop “fair housing” policies that would assure adequate homeowner insurance protection in low-income neighborhoods. We will *support* these resolutions.

### **DIVERSITY**

Note: See also “Board of Directors — Diversity” in our Corporate Governance section.

### **Equal Employment Opportunity and Affirmative Action Report**

All corporations have the power to promote equality in the workplace and the marketplace. Shareholders have asked for reports that may include the following:

- A chart identifying employees by sex, race, and the various job categories defined by the EEOC
- A description of affirmative action policies and programs in place
- The company’s Form EEO-1 disclosure report
- A report on the percentage of hires during the previous year who were persons with disabilities
- A description of programs designed to increase the number of women and/or minority managers



- A description of programs designed to increase the number of persons employed with disabilities
- A description of how the company is working to eliminate “glass ceilings” for female and minority employees
- A description of policies and goals to reduce the gender pay gap
- A report on any material litigation facing the company concerning diversity-related controversies
- A description of how the company publicizes its affirmative action policies and programs to suppliers and service providers
  - A description of programs directing the purchase of goods and services from minority- and/or female-owned businesses

We will *support* these resolutions.

### **Equality Principles on Sexual Orientation**

In 1995, a coalition of advocacy groups and businesses, primarily in financial services, developed the Equality Principles on Sexual Orientation. The principles call on companies to do the following:

- Adopt written prohibitions against discrimination in employment based on sexual orientation
- Recognize and grant equal status to employee groups formed to address sexual orientation issues in the workplace
- Include sexual orientation issues in diversity training
- Grant spousal benefits to domestic partners, regardless of sexual orientation
- Refrain from using negative stereotypes of sexual orientation in advertising
- Practice nondiscrimination in the sale of goods and services and the placement of advertisements

Shareholders have asked for reports on the implementation of the Principles. We will *support* these resolutions. We will *oppose* shareholder proposals asking companies to remove the words “sexual orientation” from their non-discrimination policies.

### **Pay Equity**

Historically women have not received comparable wages for comparable work in many sectors of our economy, although national legislation requires that they be comparably compensated. Shareholders have asked for reports that companies undertake studies to assure that all women and minorities are paid comparably with their counterparts. We will *support* these resolutions.

### **Racial Stereotypes in Advertising**

Racial stereotyping persists in advertising and team logos, including the Washington Redskins, and the Cleveland Indians’ “Chief Wahoo.” Shareholders have asked companies to display more sensitivity toward the images they present. We will *support* these resolutions.

## ENVIRONMENT

Note: See also “Board of Directors—Establish Board Committee on Human Rights or Sustainability” in our Corporate Governance section.

### **Animal Welfare**

Shareholders have asked restaurants and other corporations to adopt animal welfare standards for their operations and suppliers worldwide, and to report these standards, and their progress towards implementing these standards, to shareholders. Shareholders have also filed proposals addressing the practice of “battery cages”, asking supermarkets and other firms to adopt policies to purchase cage-free eggs. We will **support** these resolutions.

We will examine resolutions asking companies to eliminate animal testing on a *case-by-case* basis, considering the industry and the purpose of the testing, and whether viable alternatives exist. We will generally **support** resolutions that ask companies to phase out unnecessary testing, and will **support** resolutions calling for more humane forms of slaughter, such as “controlled atmosphere killing.”

### **Chemical Safety**

There is rising public awareness and concern about toxic chemicals in consumer products and in the environment. Governments in Europe and elsewhere are acting to restrict the use of toxic chemicals that remain in the environment for long periods, accumulate over time, or are associated with such health effects as cancer, mutations, birth defects, neurological disorders, and learning disabilities (such as Mercury, PVCs, and Phthalates, described below). Companies face increased risk of market exclusion, damage to their reputation, interruption of supply chains, and potential lawsuits as a result. To protect and enhance shareholder value, companies should know what toxic chemicals are in their products, and work to lower toxic hazards and their associated costs.

Shareholders have asked companies to do the following:

- Phase out specific chemicals of concern that are used in their products where safer alternatives are available, or report on the feasibility of doing so
- Report on the expected impact on their business of chemical regulation and emerging scientific findings
- Disclose their policies for identifying, handling, and marketing products containing potentially hazardous chemicals, and for seeking safer substitutes for these chemicals
- Reformulate products globally to meet the most stringent national or regional standards for toxic chemicals of high concern applicable to those products.
- To comply with actions sought by the Campaign for Safe Cosmetics, including conducting an inventory of products containing chemicals of concern, proactively seeking safer alternatives, and public reporting on these efforts

We will **support** these resolutions.

## **Mercury-Containing Devices**

Mercury, a bioaccumulative neurotoxin contained in such devices as thermometers and sphygmomanometers, poses a significant threat to public health. We will *support* resolutions asking corporations to phase out their production and/or sale of mercury-containing devices.

## **Nanotechnology Safety**

Nanomaterials are molecular-sized materials – much smaller than the head of a pin or a human hair – increasingly used in consumer products. Because of their extremely small size, these materials may easily enter the bloodstream when inhaled or swallowed, and possibly when applied to the skin. Shareholders, including Domini, have filed proposals seeking reports on the use of nanomaterials, which may pose certain risks to human health. We will *support* these proposals.

## **PVCs (Polyvinyl Chloride Plastics), Phthalates**

PVCs are environmentally hazardous throughout their life cycle (production, use, and disposal). Dioxin, a known human carcinogen, is created during the production of PVC feedstocks, as well as when PVCs are burned in waste incinerators. Among other things, dioxin has been linked to endocrine disruption, reproductive abnormalities, neurological problems, and infertility in humans and animals. In addition, large amounts of chemicals called “phthalates” are used to manufacture flexible PVC products. A commonly used phthalate plasticizer called di-ethylhexyl-phthalate (DEHP) is a probable reproductive toxicant, as well as a toxicant of the liver and kidney.

PVCs are the primary component in 25% of all medical products. These include IV, blood, and enteral feeding bags; oxygen tubing and masks; dialysis tubing; enteral feeding tubes; examination gloves; and sterile packaging. Many non-PVC medical supplies (IV bags, gloves, plasma collection bags, and containers) are currently available and others (tubing, film for collection bags, and blood bags) are under development. We will *support* resolutions asking companies to phase out the manufacture of PVC- or phthalate-containing medical supplies where safe alternatives are available.

PVCs are also extensively used in building materials such as furniture and floor coverings. We will *support* resolutions asking companies to report on the risks, financial costs and benefits, and environmental and health impacts of the continued use of PVCs in these types of products.

## **Greenhouse Gas Emissions and Climate Change**

In light of the severe climate-changing effects of greenhouse gas emissions from companies’ operations and products, shareholders have asked companies in a wide variety of industries, including electric utility, oil, real estate, and manufacturing to report on these emissions (using widely accepted formats such as the CDP) and their progress towards reducing them, and to

report on how the company is responding to rising regulatory, competitive, and public pressure to significantly reduce carbon dioxide and other greenhouse gas emissions.

Companies have also been asked to tie executive compensation to progress in this area. In addition, oil companies have been asked about their progress toward developing renewable energy sources, and their efforts to comply with climate regulation, oil and gas companies have been asked to report and set targets for reduction of methane emissions in their operations due to intentional venting of natural gas or leakage, while electric utility companies have been asked to report on their progress in helping ratepayers conserve energy and in using benign sources of electricity to reduce CO<sub>2</sub> emissions. Shareholders have also asked property and casualty insurance industry firms to report on their exposure to potentially catastrophic risks from natural disasters brought on by worldwide climate change. Increasingly, shareholders, including Domini, are asking companies to set “science based” greenhouse gas reduction targets. We will **support** these resolutions.

### **Environmental Hazards to Community**

The public has a right to know whether a company uses substances that pose an environmental health or safety risk to a community in which it operates. Shareholders have asked companies to make information about these risks available to enable surrounding communities to assess a facility’s potential impact. We will **support** these resolutions.

Serious concerns have been raised about the practice of **hydraulic fracturing** to extract natural gas from shale deposits deep underground. Often, communities are not adequately apprised of potential risks to water and air, and are not provided adequate information during these operations. We will vote **for** proposals seeking greater transparency on the practice of hydraulic fracturing and its associated risks to both communities and investors.

### **Environmental Reports**

Shareholders have asked companies to prepare general reports describing company programs, progress, and future plans with respect to the reduction of the company’s environmental impacts. Some requests have focused on specific environmental problems, such as hazardous waste sites, pesticide sales and use, deforestation or seafood sourcing. Shareholders have also asked for reports on the environmental and occupational standards that companies require of their suppliers and vendors. We will **support** these resolutions.

### **Environmental Standards for International Electronics Industry Subcontractors**

The manufacture of semiconductors requires extensive use of toxic chemicals and the use and discharge of large amounts of water. Shareholders have asked certain large U.S. electronics products companies to report on their policies for monitoring the environmental records of their major overseas suppliers. We will **support** these resolutions.

## Forestry Practices

According to the United Nations, forests are rapidly declining at a rate of 33 soccer fields per minute. Endangered forests are home to nearly 50% of the world's species and 200 million indigenous people worldwide. These forests store extensive amounts of carbon and are critical to mitigating the effects of climate change.

The forest products industry is the largest industrial consumer of endangered forests. Many forests are unnecessarily threatened by industrial logging to meet the demand for paper products that are often used once and discarded.

Stemming this tide of destruction requires a change in how forests are managed, while also looking for opportunities to decrease paper use and increase recycled content. Companies can ensure that their wood products are harvested from sustainably managed forests by purchasing wood or wood fiber bearing the Forest Stewardship Council (FSC) seal. The FSC, a third-party auditor, offers the only independent certification system in the world accepted by the conservation, aboriginal, and business communities. FSC certification recognizes forestry operations that adopt environmentally and socially responsible practices. In addition, virgin tree fiber from logging operations certified to FSC standards is increasingly available.

Shareholders have asked companies to review their policies on the sale of products containing material from old-growth or virgin forests to develop and implement comprehensive policies prohibiting the harvest and trade in products from old growth and endangered forests, to phase out the use of paper from these sources, to report on the feasibility of phasing out the use of non-FSC certified wood products, to increase the use of recycled material, and to report generally on their progress toward implementing sustainable forestry policies. We will **support** these resolutions.

We will also **support** resolutions seeking reports on the company's forestry practices and use of certification schemes. Domini was an early endorser of the Forest Footprint Disclosure Project, now part of CDP (formerly known as the Carbon Disclosure Project), and will support efforts to encourage companies to complete the annual CDP forestry survey regarding exposure to certain key commodities that are linked to deforestation. These commodities include timber, soy, beef, palm oil and biofuels. We will also **support** proposals asking companies to set appropriate policies to avoid contributing to deforestation and human rights abuses through the sourcing of these commodities, and to produce reports on the implementation of these policies.

## Genetically Engineered (GE) Agricultural Products

There is growing concern that GE foods may be harmful to humans, animals, or the environment. There is also concern that any detrimental impact on public health and the environment resulting from these foods may expose companies to substantial financial liabilities. Shareholders have asked companies to delay marketing GE foods until testing proves these products to be safe over the long term. They have also asked companies that are currently marketing GE products to (1) label them as such; (2) adopt a policy to phase them out; (3) report on the financial and environmental costs, benefits, and risks associated with the production and consumption of these products; (4) report on the company's internal controls related to potential adverse impacts

associated with GE organisms and/or (5) report on the feasibility of phasing them out, unless long-term testing proves them safe to humans, animals, and the environment. We will generally **support** these resolutions, reviewing resolutions related to 1 and 2, above, on a *case-by-case* basis.

### **Mining or Exploration and Production in Certain Environmentally Sensitive Regions**

Certain regions, such as the Arctic National Wildlife Refuge, the Boreal Forest or the Okefenokee National Wildlife Refuge, are particularly environmentally sensitive. Shareholders have asked natural resource extraction companies to adopt a policy of not exploiting these regions. We will **support** these resolutions.

### **Paper Production and Use — Chlorine Bleaching**

The insatiable demand for paper has led to clear-cutting of forest for pulp and the use of chlorine bleaching to achieve whiteness in the end product. As both these practices have dire environmental consequences, shareholders have asked paper manufacturers to report on plans to phase out the production of paper using these processes. In addition, shareholders have also asked companies to report on steps taken to eliminate the use of chlorine bleaching in the production of their products. We will **support** these resolutions.

### **Pollution Prevention, Recycling, and Product Life-Cycle Responsibility**

Implementation of pollution-prevention and recycling programs results in clear benefits to corporations, shareholders, and the environment. Shareholders have asked corporations in environmentally risky industries to adopt a policy requiring each major facility to conduct an annual review of pollution-prevention measures. Shareholders have also asked companies to adopt and report upon plans for the virtual elimination from their operations of certain pollutants that cause severe environmental harm. Others have asked corporations to increase the use of recycled materials in their production processes and/or to implement a strategy encouraging consumers to recycle company products. In addition, shareholders are increasingly asking companies to commit to taking responsibility for the environmental impact of their products during their entire life cycles and to report on the initiatives they use to achieve this objective. We will **support** these resolutions.

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

Burning coal and oil contributes to global climate change, acid rain, deteriorating air quality, and related public health and environmental problems. In addition, the use of nonrenewable fuels such as oil and coal is, by definition, an unsustainable business practice. Corporations can significantly reduce their negative impact on the environment by implementing more energy-efficient manufacturing processes and marketing more energy-efficient products. They may also do so through creating products and manufacturing processes that utilize renewable energy sources,

several of which are currently cost-competitive. In addition, energy companies can help by increasing their investments in the development of renewable energy sources.

We will **support** resolutions asking corporations to develop products and operations that are more energy-efficient and/or that rely on renewable fuel sources. We will also **support** resolutions asking energy companies to increase their investments in the development of renewable energy sources.

### **Risks Linked to Water Use**

There is a need for long-term corporate water use strategies. Corporations are exposed to the following risks linked to water use:

- Increasing water costs
- Increasing competition for water supplies
- Conflicts with local communities over water rights
- Risk of disruption of water supplies and its impact on business operations

In particular, social investors are concerned with companies involved in the bottled-water industry. These companies risk the potential of being involved in water rights disputes with local communities. We will **support** resolutions requesting companies to report on the business risks associated with water use and its impact on the corporation's supply chain, and steps taken to mitigate the impact on water supplies of communities near company operations.

### **HUMAN RIGHTS**

Note: See also "Board of Directors—Establish Board Committee on Human Rights or Sustainability" in our Corporate Governance section.

### **Affordable HIV/AIDS, Tuberculosis, Malaria, and Other Drugs for Developing Countries**

The vast majority of the millions of living with HIV/AIDS reside in developing countries. Tuberculosis (TB), a disease that is frequently a complication of AIDS, claims approximately 2 million lives annually and is the world's leading infectious killer. Malaria similarly claims approximately 1.1 million lives.

Shareholders have called on pharmaceutical companies in industrialized nations to develop and implement a policy to provide HIV/AIDS, TB, malaria, and other drug treatments in ways that the majority of people affected by these diseases in developing countries can afford. These resolutions are intended to help provide relief to developing countries that are gravely suffering from these epidemics and to protect the intellectual property of their companies' products in order to ensure their long-term profitability. We will **support** these resolutions.

## **AIDS, Tuberculosis, and Malaria — Impact on Operations**

According to UNAIDS, the Joint United Nations Programme on HIV/AIDS, in 2004, 39.4 million people were infected with HIV, and 3.1 million died from the disease. While two thirds of global HIV cases remain in sub-Saharan Africa, infections are rising in every region of the world. In addition, tuberculosis kills 2 million people per year, and malaria an additional million. India and Russia have the steepest increases in HIV infection and are highly exposed to malaria and tuberculosis, respectively. UNAIDS stated that in order to achieve sustainable development in these regions, both the government and the private sector need to address the local AIDS epidemic. The private sector can do so through the provision of comprehensive workplace health coverage, counseling, testing, and treatment programs. In addition, the HIV/AIDS, tuberculosis, and malaria pandemics may have a profound impact on companies that produce products essential to combating infectious diseases, and companies with significant operations in affected areas. We will *support* resolutions that call for corporate reports on the impact of these diseases on corporate operations in affected areas.

## **Child Sexual Exploitation**

Each year more than two million children are exploited in the global commercial sex trade, some of them as young as 5 years old, with an average age of 14. Child sex tourism is the practice of foreigners sexually exploiting children in another country. It is an organized multibillion-dollar industry that includes tour guides, websites, and brothel maps. Problem countries include Cambodia, Thailand, Costa Rica, Mexico, Dominican Republic, Brazil, India, and others. In 2003, ECPAT, the World Tourism Organization, created a “Code of Conduct for the Protection of Children from Sexual Exploitation in Travel and Tourism” with funding from the United Nations.

Shareholders have filed resolutions asking companies involved in providing tourism services, including hotels, to adopt a policy prohibiting the sexual exploitation of minors on company premises in line with the ECPAT code, and to report to shareholders on the implementation of this policy. We will *support* these proposals and similar proposals seeking to protect children from other forms of sexual exploitation.

## **Choosing Where and How to Do Business (Country Selection Criteria)**

Companies choose where they will do business, where they will operate their factories, where they will subcontract their work or buy finished goods, and where they will extract natural resources. Shareholders have asked companies to develop guidelines for these choices that include consideration of prevailing human rights conditions in that country, and to report on their due diligence process and metrics for measuring and reducing these risks. They have also asked companies to report on their relationships with individual governments that have poor human rights records, and on their operations in countries suspected of supporting terrorism. We will *support* these resolutions.



Because companies do not generally disclose all of the countries from which they source product, we will also *support* proposals seeking disclosure of all countries that represent more than 5% of a company's global spend.

### **Financial Services Firms**

Global financial institutions play a critical role in ensuring the economic stability of local and national economies, providing financing for a wide variety of development projects and ensuring access to credit for individuals and institutions large and small. They have therefore been the subject of serious attention by concerned investors seeking to achieve a more just and sustainable economic system. For example, Amnesty International and others filed proposals with banks seeking policies to address the genocide in Darfur. These proposals ask these firms to issue reports on how their investment policies address or could address human rights issues. Financial institutions have also received proposals seeking more complete disclosure to allow investors to understand the bank's exposure to structured investment vehicles, structured securities, and conduits, and its policies to manage these risks.

Banks have been asked to incorporate social and environmental standards into their underwriting criteria, to adopt environmental commitments, such as the Equator Principles, and to address their impact on climate change by ending financing or investment in mountaintop removal mining, construction of coal-fired plants or the coal industry generally. We will *support* these proposals.

### **International Lending and Economic Development**

Programs enforced by the IMF and World Bank are supposed to help developing countries repay loans, but considerable evidence indicates their effects have included the following:

- Encouraging capital flight from less economically developed countries
- Eroding human and natural resources
- Encouraging the inefficient use of capital
- Decreasing spending for health, education, and housing
- Undermining a country's long-term capacity to repay its debts

To help remedy these matters, shareholders have asked financial services companies to develop criteria for the evaluation, support, and use of intermediaries capable of promoting appropriate development in emerging economies. Others have asked for the disclosure of the criteria used in extending loans to developing countries so as to avoid adding to their \$1.3 trillion debt to industrialized countries. Shareholders have also asked companies to cancel debts owed to them by developing countries, particularly those designated as Heavily Indebted Poor Countries by the World Bank and the IMF. Still others have asked for information on structural adjustment programs. We will *support* these resolutions.

### **Money Laundering**

In order to prevent money laundering, shareholders have asked financial institutions not to engage in financial transactions, including no correspondent or payable-through accounts, for any financial institution that is not willing to provide the identity and address of the participants in transactions or relationships or the identity of the beneficial ownership of funds. We will *support* these resolutions.

### **Global Companies — Standards of Conduct**

Global manufacturing, resource extraction, financial services, Internet sector, and other companies face complex issues arising from the diverse cultures and political and economic contexts in which they operate. Shareholders have asked companies to develop, adopt, and continually improve codes of conduct to guide company policies, programs, and operations, both within and outside their countries of origin, and to publicly report these policies. Shareholders believe these codes should include policies designed to ensure the protection of the environment and human rights, including the payment of just wages, the maintenance of safe working conditions, the avoidance of child and forced labor, and the rights of freedom of association and collective bargaining. Shareholders often ask companies to adhere to policies that conform to the International Labor Organization's Core Conventions, the United Nations Universal Declaration on Human Rights and the UN Guiding Principles on Business and Human Rights. Shareholders have also asked companies to investigate and report on particular human rights controversies they face. We will *support* these resolutions.

### **Supply Chain Standards**

The outcry against the use of offshore sweatshops by U.S. retailers that began in the late 1990s, has many origins. Underlying those protests, however, is a common assumption: U.S. corporations have the power to alter the conditions under which their vendors operate. Shareholders have asked companies to adopt codes of conduct that incorporate, at a minimum, the core conventions of the International Labor Organization, and to report on these standards, focusing especially on the workers' rights to organize and bargain collectively, overall working conditions, and worker compensation. They have also asked for (1) companies to use external, independent monitoring programs to ensure that their vendors comply with their standards; and (2) reports on companies' efforts to implement and enforce their code of conduct. We will *support* these resolutions.

In an effort to ensure that migrant workers are protected from exploitation by unscrupulous labor brokers and other forms of forced labor, investors have asked companies to amend their codes and disclose specific remedial efforts taken to ensure that their global supply chain is free of forced or bonded labor, including any efforts to reimburse workers for recruitment fees that were paid. We will *support* these proposals.

### **Infant Formula**

Nutrition researchers have learned that substitution of infant formula for breast milk increases health risks to children. Shareholders have asked companies that produce infant formula to

endorse the WHO/UNICEF Code of Marketing for Breast-Milk Substitutes. We will **support** these resolutions.

### **Internet and Telecommunications Censorship and Surveillance**

The growth of the Internet and mobile telecommunication services offers considerable opportunities for global broad-based wealth creation, including the advancement of human rights. Companies involved in providing these services and technology are playing a leading role in building global communities and sharing knowledge. We believe that government action to censor, monitor, isolate, and jail users of these technologies for exercising basic human rights outlined in the Universal Declaration of Human Rights threatens the ultimate realization of these benefits. We believe these actions also present significant barriers to growth for Internet and telecommunication sector businesses. As documented by Human Rights Watch and others, the presence of the Internet in repressive-regime countries can help dissidents and others stay informed about relevant political issues, and generally advance the cause of human rights.

In response to revelations that certain U.S. companies are complying with government requests to assist in their efforts to censor and monitor the Internet, which in some cases has resulted in the imprisonment of dissidents, Domini, Boston Common Asset Management, and Reporters Without Borders drafted a joint statement of investors in 2005 calling on Internet businesses to support freedom of expression worldwide (available at [www.domini.com](http://www.domini.com)). Domini is also a founding member of the Global Network Initiative ([www.globalnetworkinitiative.org](http://www.globalnetworkinitiative.org)), a multi-stakeholder initiative designed to assist companies and other stakeholders to oppose government demands that threaten freedom of expression and privacy on the Internet and telecommunication technologies.

Shareholders have filed a variety of resolutions on this issue. We will **support** those resolutions that advance principles of freedom of expression and privacy by asking companies to adopt policies and procedures to safeguard these rights, and to publicly report on their implementation, but will generally **oppose** resolutions that require that Internet and telecommunication sector companies pull out of repressive-regime countries.

### **Justice for Indigenous Peoples**

Shareholders have asked natural resource extraction companies to report on their operations on indigenous lands and to address the impact and implications of their activities on both the land and the people. Shareholders have also asked these companies to cease operations on indigenous lands that have an adverse environmental, socioeconomic, or human rights impact on the local population. We will **support** these resolutions.

### **Mexico — Maquiladoras**

Maquiladoras are facilities operated by U.S. companies just south of the U.S.-Mexico border. There, Mexican workers — paid a fraction of what U.S. workers would require to subsist — assemble parts made in the U.S. and ship the finished goods north. Shareholders may ask corporations' management to do the following:

- Initiate a review of their maquiladora operations, addressing issues such as environmental health and safety, or fair employment and wage practices, as well as standards of living and community impact
- Prepare a report with recommendations for changes in light of the findings

We will **support** these resolutions.

### **Privacy Rights**

Revelations that telecommunications and Internet firms provided access to customer phone records and communications data to the U.S. National Security Agency have prompted shareholders to ask companies to report on these practices, including steps the company is taking to protect its customers' private records to ensure that such records are only released when required by law. We will **support** these resolutions.

### **Questionable Overseas Payments**

U.S. corporations can provide valuable goods and services to developing countries that help them attain a higher standard of living. At the same time, corporations doing business in these countries must be certain they are not violating provisions of the Foreign Corrupt Practices Act that prohibit the accepting of bribes and other questionable payments. Shareholders have asked companies to audit their foreign contracts to ensure that no violations of the Foreign Corrupt Practices Act are occurring. We will **support** these resolutions.

## **MILITARISM AND VIOLENCE**

### **Firearms Sales**

Violence in the U.S. has increasingly become a major concern. Tens of thousands of Americans die annually due to gunfire, including many children. Restricting easy access to guns is one way of reducing the possibility of gun violence. We will **support** resolutions that ask certain mainstream retail companies to stop selling firearms and related ammunition, and to return all inventories and related ammunition to their manufacturers.

### **Violence in Children's Programming and in Video Games**

Children's television programming can regularly expose children to numerous acts of violence. By the time children finish elementary school, on average they have watched 8,000 murders and 100,000 acts of violence. Shareholders have asked media companies and program sponsors for reports on standards for production and mechanisms for monitoring violent programming. We will **support** these resolutions.

In addition, researchers have raised concern that playing violent video games may lead to violent behavior among children and adolescents. Shareholders have asked retailers to report on their marketing policies for violent video games. We will *support* these resolutions.

### **Workplace Violence**

The Bureau of Labor Statistics Census of Fatal Occupational Injuries has documented the significant number of fatal work injuries caused by intentional acts of violence, particularly for female workers. In keeping with the recommendations of the U.S. Occupational Safety and Health Administration, shareholders have asked corporations to develop violence prevention programs in the workplace. We will *support* these resolutions.

## **TOBACCO**

### **Insurance and Healthcare Companies Investing in Tobacco**

Shareholders have asked insurance and healthcare company boards to report on the appropriateness of investments in the tobacco industry. They have also asked for reports on the impact of smoking on benefit payments for death, disease, and property loss. Shareholders have also asked insurance companies and healthcare providers not to invest in the stocks of tobacco companies. We will *support* these resolutions.

### **Limitation on Tobacco Sales to Minors and Others**

Shareholders have submitted proposals asking management of grocery chains, convenience stores, service stations, and pharmacies to implement programs to ensure that they do not sell tobacco products to minors, to restrict the promotion and marketing of tobacco products both in the U.S. and abroad, and/or to stop selling them altogether. We will *support* these resolutions.

### **Sales of Non-Tobacco Products to Tobacco Industry**

Shareholders have asked companies making significant sales of non-tobacco products to the tobacco industry to study the effects of ending these transactions or to stop immediately. Shareholders have also asked companies to study the health impact of certain products sold to the tobacco industry that become part of tobacco products. We will *support* these resolutions.

### **Smoke-Free Restaurants**

Exposure to secondhand smoke from cigarettes can be harmful to the health of nonsmokers. Shareholders have asked restaurant companies to adopt a smoke-free policy. We will *support* these resolutions.

## **Tobacco Advertising**

Tobacco is among the most heavily advertised products in the U.S. Shareholders have asked media companies that profit from cigarette advertising to do the following:

- Develop policies and practices that would ensure that cigarette advertising is not manipulative or misleading
- Voluntarily adopt the 1996 Food and Drug Administration regulations pertaining to tobacco advertising
- Assure that tobacco ads are not youth-friendly
- Assess the financial impact of refusing to run tobacco ads
- Develop counter-tobacco ad campaigns funded from the revenues they receive from tobacco advertising
- Prepare reports that address the media's role in encouraging smoking, particularly among children

Shareholders have also asked media firms to review and report on the ways in which smoking is portrayed in films and television programming. We will *support* these resolutions.

## **Tobacco Smoke in the Environment**

The hazards of tobacco smoke in the environment — particularly indoors — are well documented. Shareholders have requested that a company refrain from efforts to undermine legislation geared toward restricting smoking in public places and to adopt smoke-free policies. We will *support* these resolutions.

## **VOTING IN NON-U.S. MARKETS**

The general principles guiding Domini's proxy voting practices apply globally, and we will seek to apply these Guidelines consistently in all markets. However, there are significant differences between the U.S. and other markets that may require Domini to modify the application of these Guidelines for certain non-U.S. markets. We will not, however, lower our standards to conform to local market practice. We will always seek to hold companies to best practices within their markets. Our policies, therefore, will serve as the baseline, but where local best practices exceed our policies, we will apply the higher standard.

### **Shareblocking and Other Obstacles to Voting**

Certain countries impose "shareblocking" restrictions, meaning that a shareholder is prevented from trading shares for a period of time between the date of the deadline for submission of the vote and the annual meeting (these restrictions vary from country to country). Domini will seek to vote its shares for every holding in its portfolio. However, we will forego the opportunity to vote when, in our judgment, shareblocking restrictions could impair our ability to effectively manage our Funds' portfolios.

In addition, due to particularly onerous procedural impediments in certain countries, we will not always be assured of our ability to vote our clients' shares, and in certain circumstances may choose not to vote where we believe it may not be in our clients' best interests to cast a vote. We may also miss opportunities to vote our shares when companies fail to provide information in a timely manner or when custodial or proxy advisory delays prevent us from voting our shares on time. We may also choose not to vote in certain markets that impose fees for voting proxies.

#### Availability of Information

The availability of information necessary to make informed voting decisions varies widely in non-U.S. markets.

It is common for European companies, for example, to seek shareholder approval of company financial statements. In many cases, however, companies fail to provide their financial statements in a timely manner. Although this is considered a "routine" matter, where we are being asked to approve a report that has not been received, we will vote *against* the proposal.

Where we are being asked to vote on an item where we have insufficient information to apply our guideline (such as auditor independence), we will *abstain*, unless it is clear market practice in that country to provide the required information, in which case we will vote *against* the proposal. As stated below, where we cannot determine the independence of a director, we will assume that director is not independent.

#### Bundled Proposals

Frequently, non-U.S. companies "bundle" proposals, meaning that they combine several issues into one vote. We believe that shareholders should have the opportunity to vote on each individual issue. We will vote *against* bundled proposals if we have reason to vote against any individual issue presented, but will *support* the proposal if we would have supported each issue had they been presented individually.

#### Election of Directors

We strongly believe that directors should be elected individually. In France, where it is market practice to present directors individually, and Germany, where it is recommended best practice, we will vote *against* all director slates that are presented as a bundled proposal.

In other countries, where it is common practice to bundle these proposals, we will vote *against* the entire slate if we have reason to oppose any individual director, where, for example, an individual non-independent director sits on a key committee, or if the board does not include any women.

Due to the difficulty of obtaining information about the background of directors at non-US companies and in consideration of the local context, we will only consider race and ethnicity when applying our board diversity guideline in jurisdictions where we are able to obtain

consistent data (currently, Australia, Canada and the United Kingdom). We will apply our voting policy on gender consistently in all markets.

In all markets, we will vote *against* the election or reelection of any director whose name is not disclosed. Where information is not provided to determine the independence of the director, we will assume the director is not independent. Where the board does not include an audit or remuneration committee, we will assume the entire board serves in that capacity, and will vote *against* any non-independent directors.

In Sweden, some companies have sought permission to have the Board Chair and representatives of the firm's largest shareholders (who are not directors) serve on the nominating committee. We will *oppose* these proposals, as we believe only independent board members should serve on this key committee.

In Germany, and other countries where up to half of the board must consist of employee representatives, we will exclude board members appointed by the government, employees' representative(s), and employee shareholders' representative(s) when determining whether the board consists of a majority of independent directors.

#### Japan and Brazil— Statutory Auditors

**Japan:** We will generally vote *for* the election of statutory auditors, unless:

- The outside statutory auditor nominee is regarded as non-independent based on ISS independence criteria for Japan; or
- The outside statutory nominee attended less than 75 percent of meetings of the board of directors or board of statutory auditors during the year under review; or
- The statutory auditor is judged to be responsible for clear mismanagement or shareholder-unfriendly behavior; or
- Egregious actions related to a statutory auditor's service on other boards that raise substantial doubt about his or her ability to effectively oversee management and serve the best interests of shareholders at any company.

**Brazil:** We will vote *for* the appointment or (re)election of fiscal council members, unless:

- The name of the management nominee(s) is not disclosed in a timely manner prior to the meeting;
- 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.
- Minority shareholders have presented timely disclosure of minority fiscal council nominee(s) to be elected under separate elections, as allowed under Brazilian law.



## DOMINI IMPACT INVESTMENTS' PROXY VOTING PROCEDURES

These Procedures are designed to ensure that all proxies for which Domini Impact Investments LLC ("Domini") has voting authority are cast in the best interests of our clients and Domini Funds' shareholders, to whom we owe a fiduciary duty.

Domini works with ISS to implement its proxy voting policies, as described below. Domini retains oversight of the proxy voting function, and retains the authority to set voting policies and to vote the proxies of the Domini Funds.<sup>2</sup>

### *Domini Impact Investments LLC*

Primary responsibility for the proxy voting function at Domini rests with Domini's Managing Director of Corporate Engagement. Domini's primary responsibilities include the following:

1. *Developing the Proxy Voting Guidelines:* These Guidelines, which set voting policies for all securities for which Domini has authority to vote, are reviewed on at least an annual basis, and updated, when necessary, to reflect new issues raised by shareholder activists, regulatory changes and other developments.<sup>3</sup> Domini is also responsible for developing procedures and additional policies, where necessary, to ensure effective implementation of the Guidelines. The BOT has delegated to Domini the authority to make non-material amendments to the policies and procedures as necessary, subject to annual ratification.
2. *Evaluation of vendors:* To ensure that proxies are being voted in a timely fashion, and in accordance with the Guidelines, Domini will receive and review reports from ISS on a quarterly and an as-needed basis.
3. Identify and address conflicts of interest where they arise (See "Conflicts of Interest," below)
4. *Voting:* ISS makes voting recommendations to Domini based on the Guidelines and casts the actual votes. Domini may override ISS's vote where we disagree with ISS's recommendation, up to the "cut off" date for submitting the vote. Where the Guidelines are silent on an issue, where there are unique circumstances that require further examination, or where the Guidelines require a "case-by-case" analysis, ISS will "refer" these items to Domini to determine how to vote, except as noted below.

In making these voting determinations, Domini may draw upon a variety of materials including, for example, analyses provided by ISS or other proxy advisory services, Domini's independent research, newspaper reports, academic studies, nongovernmental

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<sup>2</sup> The Board of Trustees ("BOT") of the Domini Funds has delegated the responsibility to vote proxies for the Funds to Domini Impact Investments LLC, the Funds' investment advisor ("Domini"), and to resolve conflicts of interest that may arise in the execution of the proxy voting function. The BOT reviews and adopts Domini's Proxy Voting Policies and Procedures on an annual basis on behalf of the Funds, and receives quarterly reports from Domini regarding the execution of its proxy voting duties.

<sup>3</sup> *Domini applies one set of voting guidelines to all of its current clients. We are willing to work with reasonable special instructions from clients, subject to resource limitations and overall consistency with our investment approach.*

organizations with expertise in the particular issue being voted on, affected stakeholders, and corporate SEC filings, including management’s position on the issue in question.

ISS shall vote on matters otherwise eligible for referral in accordance with its own SRI (socially responsible investing) voting policy for certain matters as instructed by Domini based on an annual written comparison of Domini and ISS’ SRI proxy voting guidelines (“Domini/ISS Voting Guideline Comparison”).

Domini shall review and update the default voting instructions set forth in the Domini/ISS Voting Guideline Comparison no less frequently than annually. Documentation of the default voting instructions set forth in the Domini/ISS Voting Guideline Comparison shall also be included in the materials submitted to the Funds’ Board of Trustees for its annual review of applicable proxy voting policies.

5. *Reporting to Clients (where client is a fund, to the Domini Funds Board of Trustees):* Domini is responsible for ensuring that the following reporting duties are performed: (a) Annual preparation and filing of Form N-PX, containing an annual record of all votes cast for each client. The Form will be posted to Domini’s website and on the SEC’s website at [www.sec.gov](http://www.sec.gov); (b) Availability of Domini’s Web page containing an ongoing record of all votes cast for the Domini Funds each year; (c) Responding to client requests for proxy voting information; (d) Annual review and update of proxy voting information in Form ADV, Part II, the Statement of Additional Information for the Domini Funds and the Funds’ shareholder reports; (e) Communication of material changes to the Policies or Procedures; (f) Ensuring that all new clients receive a copy of the most recent Form ADV, containing a concise summary of Domini’s proxy voting policies and procedures; (g) Quarterly reporting to the Domini Funds’ Board of Trustees on proxy voting activity.

6. *Recordkeeping* — Domini will maintain the following records: (a) the Procedures and Policies, as amended from time to time; (b) records of a client’s written request for information on how Domini voted proxies for the client, and any written response to an oral or written client request for such information; (c) any documents prepared or reviewed by Domini that were material to making a voting decision, or that memorialized the basis for that decision. With the exception of ISS analyses and corporate proxy statements, which are maintained by ISS as noted below, these records will be maintained in an easily accessible location for at least five years from the end of the fiscal year during which the last entry was made on such record. For the first two years, such records will be stored at the offices of Domini Impact Investments.

Domini relies upon ISS to maintain the following records on its behalf, and to provide such records to Domini upon request: (a) proxy statements received regarding client securities (Such proxy statements are also available via electronic filings from the SEC’s EDGAR filing system); (b) records of votes cast on behalf of Domini clients (Annual records are maintained at Domini and filed with the SEC; Database of votes cast is maintained by ISS, and available upon request by Domini).

## *ISS*

ISS and the clients’ custodian monitor corporate events. ISS provides analyses of each issue to be voted on, makes recommendations based on Domini’s Guidelines, and casts each vote (subject to override by Domini). ISS is also responsible for maintaining complete records of all votes cast, including hard copies of all proxies received, preparing voting reports for Domini, and maintaining Domini’s Web page containing an ongoing record of all votes cast for the Domini

Funds each year. On occasion, ISS provides consulting services to Domini on the development of proxy voting policies.

### ***Conflicts of Interest***

Although Domini Impact Investments does not currently manage any pension plans, administer employee benefit plans, or provide brokerage, underwriting, insurance, or banking services, there are occasions where potential conflicts of interest may arise. For example, potential conflicts of interest may present themselves in these circumstances:

- A Domini fund is included in the 401(k) plan of a client holding, or Domini may be actively seeking to have one of its funds included in the 401(k) plan of a client holding.
- A significant vendor, business partner, client or Fund shareholder may have a vested interest in the outcome of a proxy vote.
- A Domini executive or an individual involved in the proxy voting function may have a personal or business relationship with the proponent of a shareholder proposal or an issuer, or may otherwise have a vested interest in the outcome of a proxy vote.

Our proxy voting policies and procedures are designed to ensure that all proxies are voted in the best interests of all of our clients and Fund shareholders by isolating the proxy voting function from potential conflicts of interest, to the extent possible. Most importantly, the majority of our Guidelines are predetermined, meaning that they outline an issue and determine a specific vote. With few exceptions, these policies are applied as drafted.

In most instances, therefore, votes are cast according to predetermined policies, and potential conflicts of interest cannot influence the outcome of our voting decisions. There are, however, several voting guidelines that require a case-by-case determination, and other instances where we may vary from our predetermined policies where we believe it is in our clients' and Fund shareholders' best interests to do so.

Any Domini employee involved in a voting decision is directed to identify any conflicts of interest he or she is aware of, including any contacts from outside parties or other members of Domini's staff or management team regarding the proxy issue in question.

If conflicts are identified, and they are of a personal nature, that individual will be asked to remove himself or herself from the decision-making process.

Where a proxy voting decision is decided in-house by Domini, the following additional procedures have been adopted to ensure that conflicts of interest are identified and appropriately addressed:

Domini is a relatively small firm, and it is not possible to completely insulate decision-makers from all potential conflicts of interest relating to Domini's business. If the conflicts are related to Domini's business, therefore, Domini will do the following:

1. Domini will delegate the decision to ISS to cast the vote, after verifying that ISS does not have a material conflict of interest. Domini will take all necessary steps to insulate ISS from knowledge of the specific nature of the conflict so as not to influence the voting decision.

2. If ISS has a conflict as well, where practical, Domini will present the conflict to the client and seek guidance or consent to vote the proxy (where the client is a mutual fund, Domini will seek guidance from the Domini Funds' independent trustees).<sup>4</sup>
3. Where Domini is unable to pursue (a), above, or at the direction of the client, Domini will abstain.
4. Domini will keep records of how the conflict was identified and what resolution was reached. These records will be available for review at the client's request.

These policies and procedures are subject to change without notice. They will be reviewed, and updated where necessary, on at least an annual basis and will be posted to Domini's website at [www.domini.com/investing-for-impact/advocacy/proxyvoting](http://www.domini.com/investing-for-impact/advocacy/proxyvoting).

## FOR MORE INFORMATION

**Domini Impact Investments** is dedicated to the fundamental belief that the way you invest matters. We manage assets for individual and institutional mutual fund investors seeking to create positive change in society by integrating social and environmental standards into their investment decisions.

To find out more and get a copy of our prospectus, which includes information on the Domini Funds' investment objectives, risks, fees, expenses, and other topics, please contact us.

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<sup>4</sup> In some cases, disclosure of the specific nature of the conflict may not be possible because disclosure is prohibited by Domini's privacy policy (where, for example, the conflict concerns a client or Fund shareholder) or may not otherwise be in the best interests of a Domini client, disclosure may violate other confidentiality obligations of the firm, or the information to be disclosed may be proprietary and place Domini at a competitive disadvantage. In such cases, we will discuss the situation with the client and seek guidance.

