DRAFT ONLY – FOR REVIEW BY SUPPLEMENTAL RETIREMENT BOARD

NORTH CAROLINA DEPARTMENT OF STATE TREASURER
DOMESTIC PROXY VOTING GUIDELINES
RETIREMENT SYSTEMS DIVISION – SUPPLEMENTAL RETIREMENT PLAN

I. PURPOSE & CORPORATE GOVERNANCE PRINCIPLES

A. Purpose

This Domestic Proxy Voting Guidelines ("Proxy Voting Guidelines") is designed to guide the North Carolina Supplemental Retirement Plan's ("NCSRP") proxy voting and shareholder engagement. NCSRP believes that a Proxy Voting Guidelines reflecting well-recognized and sound corporate governance principles will maximize long-term shareholder value. To create and implement our Proxy Voting Guidelines, the North Carolina Department of State Treasurer ("DST") consults and works other public funds (such as the State of Connecticut Office of the Treasurer and the Florida State Board of Administration) and organizations, including Glass Lewis & Co. and Council of Institutional Investors.

The Proxy Voting Guidelines below addresses a broad range of issues, including independent boards, shareowner rights, and executive compensation. However, in many instances, the Proxy Voting Guidelines sets forth a general rule. NCSRP does not expect that board of directors of each company will adopt every issue or rule found in this Proxy Voting Guideline. NCSRP acknowledges that each company has differing business and competitive needs. As such, each issue will be reviewed on a company-by-company basis.

B. Corporate Governance Principles

As long-term investors, NCSRP believes that good corporate governance practices enhance our long-term portfolio value. To this end, voting rights should be exercised for the exclusive benefit of the NCSRP members and their beneficiaries. NCSRP relies on its Corporate Governance Principles ("Principles") to direct its activities to corporate governance and proxy voting. These Principles establish the framework for DST's corporate governance initiatives and help formulate and revise the Proxy Voting Guidelines.

NCSRP believes the primary role of shareowners within the corporate governance system, although limited, is critical. Shareowners' primary functions are to communicate with management and to step in only when management has failed. This means they have two primary obligations: (1) to monitor the performance of the company; and (2) to protect their rights when it is necessary.

II. ACTIVE STRATEGIES AND COMPANY ENGAGEMENT

DST's corporate governance engagement is to improve the governance structures at companies in which NCSRP owns significant shares in order to enhance the value of the NCSRP equity holdings. Because DST does not have the resources and such legal duties of care and loyalty rests primarily with the publicly-traded company's board of directors, DST will engage a limited number of companies in which NCSRP owns shares. These engagements will include communications and conversations with the board of directors, filing shareholder proposals, or any other strategies to achieve the desired corporate governance improvements as necessary.

III. THE BOARD OF DIRECTORS

Corporate governance experts believe that one of most important shareowner rights are electing board of directors. Directors are representatives of shareowners whose purpose is to safeguard the corporation's assets. The directors' main role is to monitor management on behalf of shareowners. Shareowners, in turn, hold directors accountable.

A. Annual Election of Directors: FOR

All directors should be elected on an annual basis. The NCSRP will vote FOR shareholder resolutions that ask companies to declassify their boards.

B. Director Elections: CASE-BY-CASE

The NCSRP generally votes FOR directors up for election. However, NCSRP may vote AGAINST (*i.e.*, "withhold" support for) director nominees for one or more of the following reasons:

- Lack of stock ownership.
- Poor attendance at meetings (*e.g,*. if less than 75 percent attendance rates).
- Too many insiders. NCSRP strongly believes that at least two-thirds of the directors should be independent.
- Ignored a material shareowner proposal that was either approved by a majority of votes cast or approved by a majority of the shares outstanding.
- Negligence in board committee performance.
- Service on too many boards. NCSRP may likely withhold support from a director who serves on more than three publicly-listed boards and who is employed in a full-time position. Directors with significant outside responsibilities (*e.g.*, CEO of a separate company) sitting on more than one external board may also have support withheld.
- Poor performance across all company boards upon which the individual serves as a director.

- Fails to file timely form(s) 4 or 5 (assessed on a case by case basis).

- Director, or a director whose immediate family member, engages in real estate or similar deals, include perquisites type grants from the company.

- Director, or a director whose immediate family members, provide material professional services to the company at any time during the past five years.

C. Independent Board: FOR

NCSRP believes a board will be most effective in protecting shareowners' interest if at least two-thirds of the directors are independent. Shareowners are best served when a supermajority of outside directors bring the most objective and fresh perspective to the board. We also note that the two-thirds threshold position is shared by the Business Roundtable, the Conference Board, and the Council of Institutional Investors.

D. Independent Chair/Lead Director: CASE-BY-CASE

As a general rule, NCSRP supports proposals to separate the roles of CEO and Chairman of the board positions because it creates a better governance structure than a combined CEO/Chairman position. NCSRP takes this position because it can be difficult for a board to carry out its role as overseer and policy setter when the CEO/Chairman controls the agenda and boardroom discussion. We believe an independent Chairman can better oversee executives and establish a pro-shareholder agenda without the management conflicts that a CEO and other executive insiders face.

NCSRP also believes that the CEO and Chairman roles should be combined in very limited circumstances. In these instances, the board should provide a written statement in the proxy materials discussing why the combined roles is in the best interest of shareowners, and it should name a lead independent director who should have approval over information flow to the board, meeting agendas and meeting schedules to ensure a structure that provides an appropriate balance between the powers of the CEO and those of the independent directors.

E. All-Independent Board Committees: FOR

NCSRP believes that only independent directors should serve on a company's audit, compensation, nominating, and governance committees. The board (not the CEO) should appoint the committee chairs and members.

F. Majority Voting for Election of Directors: FOR

Most companies still elect directors based on plurality, not majority, vote standard. Under the plurality standard, if there is no opposing candidate, a nominee does not need a majority of votes. If one shareowner votes in favor of the candidate (including himself, if the director is a shareowner), that candidate wins the election and assumes a seat on the board.

NCSRP supports the majority vote standard that requires a candidate to receive the support of a majority of the shares voted in order to be elected. As a result, shareowners could collectively vote to reject a director they believe will not pursue their best interests. In addition, most corporate governance experts believe that such a standard will likely lead to more attentive directors and accountability to shareowners.

Furthermore, majority voting for the election of directors is fast becoming the *de facto* standard in corporate board elections. During 2010, Glass Lewis tracked 35 proposals to require a majority vote to elect directors at annual meetings in the United States, slightly under the 46 proposals in 2009, but in sharp contrast to the 147 proposals tracked during 2006. The general decline in the number of proposals can be attributed to many companies adopting some form of majority voting, including approximately 71% of companies in the S&P 500 index.

G. CEO Succession Planning: FOR

The Council of Institutional Investors believes that boards should approve and maintain a detailed CEO succession plan and publicly disclose these features in the proxy statement. An important part of management succession planning involves collaboration between the board and the current CEO to develop the next generation of leaders from within the company's ranks. These succession plans should address short and long-term succession scenarios. As a general rule, NCSRP will vote FOR such proposals.

H. Board Size: CASE-BY-CASE

As a general rule, NCSRP believes that a board should have no fewer than five and no more than 20 members. Typically, a board with more than 20 members will suffer under the weight of "too many cooks in the kitchen" and have difficulty reaching consensus. To that end, NCSRP will generally vote against the chair of the nominating committee at a board with fewer than five directors. With boards consisting of more than 20 directors, NCSRP will vote AGAINST all members of the nominating committee (or the governance committee, in the absence of a nominating committee).

I. Board Service: CASE-BY-CASE

Companies should establish and publish guidelines specifying on how many other boards their directors may serve. Absent unusual, specified circumstances, directors with full-time jobs should not serve on more than three other boards. Currently serving CEOs should not serve as a director of more than one other company. No other director should serve on more than five for-profit company boards.

J. Limit Director Tenure: AGAINST

NCSRP votes AGAINST proposal to limit the tenure of outside directors. Although in principle new outside directors may bring in fresh ideas that benefit shareowners, NCSRP does not believes such a requirement is an appropriate way to achieve that goal.

K. Age Limits: AGAINST

NCSRP votes AGAINST shareowner or management proposals to limit the tenure of outside directors through mandatory retirement ages. Similar to tenure limits, rather than imposing a narrow rule on director age limits, shareowners gain much more by retaining the ability to evaluate and cast their vote on all director nominees once a year and by encouraging companies to perform periodic director evaluations.

L. Classified Boards: AGAINST

A classified or staggered board is one in which directors are divided into three "classes" with directors serving three-year terms. All directors on a non-classified board serve one-year terms and the entire board is reelected each year. Empirical studies have shown: (1) companies with staggered boards reduce a firm's value; and (2) in the context of hostile takeovers, staggered boards operate as a takeover defense, which entrenches management, discourages potential acquirers, and delivers a lower return to target shareowners. For example, a study by Harvard Law professors concluded that companies whose staggered boards prevented a takeover "reduced shareholder returns for targets . . . on the order of eight to ten percent in the nine months after a hostile bid was announced." Given the empirical evidence suggests staggered boards reduce a company's value, NCSRP supports the declassification of boards and the annual election of directors.

M. Adopt Cumulative Voting: FOR

Cumulative voting increases the ability of minority shareowners to elect a director by allowing shareowners to cast as many shares of the stock they own multiplied by the number of directors to be elected. As companies generally have multiple nominees up for election, cumulative voting allows shareowners to cast all of their votes for a single nominee, or a smaller number of nominees than up for election, thereby raising the likelihood of electing one or more of their preferred nominees to the board. In general, NCSRP believe that cumulative voting acts as a safeguard for shareowners by ensuring that those who hold significant minority of shares can elect a candidate of their choosing to the board.

However, in instances, where a company has a adopted a true majority vote standard (*i.e.*, where a director must receive a majority of votes cast to be elected, as opposed to a modified policy indicated by a resignation policy only), NCSRP will recommend voting against cumulative voting proposals due to the incompatibility of the two election methods. Where a company has not adopted a majority voting standard is facing both a shareowner proposal to adopt majority voting and a shareowner proposal to adopt cumulative voting, NCSRP will support only the majority voting proposal.

N. Director Indemnification: CASE-BY-CASE

Indemnification means to "make whole." When a corporation indemnifies its directors and officers it means the company promises to reimburse them for certain legal expenses, damages and judgments incurred as a result of lawsuits relating to their corporate actions. In effect, the company becomes the insurer for its officers and directors. The company then purchases insurance to cover its own risk. NCSRP supports director indemnification proposals. However, NCSRP may vote AGAINST proposals if coverage expands beyond mere legal expenses and to acts, such as gross negligence, that are more serious violations of fiduciary obligations.

O. Require Two or More Nominees Per Board Seat: AGAINST

Shareowners sometimes propose that the board give shareowners a choice of directors for each open board seat in an effort to address lack of access to the ballot. NCSRP opposes such proposals because it would discourage prospective directors from accepting nominations either because the prospective director could not be confident either that he or she is the board's clear choice or that he or she would be elected.

IV. AUDITORS

Auditor Ratification: CASE-BY-CASE

The auditor's role as gatekeeper ensures that financial statements are accurate, fair, and transparent. Shareowners rely on an auditor's impartial and professional opinion to analyze a company's books and ask tough questions. NCSRP votes FOR proposals to ratify auditors unless the auditor's independence or audit integrity has been compromised. These reasons may include:

- When audit fees plus audit-related fees total less than the tax fees and/or other non-audit fees.

- Where the auditor has limited the liability of outside auditor or the audit contract requires the corporation to require to use alternative dispute resolution procedures.

- Recent material restatements of annual financial statements, including those resulting in reporting of material weaknesses in internal controls and including late filings by the company where the auditor bears some responsibility for the restatement or late filing.

- When the company has poor disclosure or lack of transparency in its financial statements.

- When the auditor performs prohibited services such as tax-shelter work, tax services for the CEO or CFO, or contingent-fee work, such as fee based on a percentage of economic benefit to the company.

NCSRP believes the audit committee should seek competitive bids for the external audit engagement at least every five years. In addition, the proxy statement should include a copy of the audit committee charter and a statement by the audit committee that it has complied with the duties outlined in the charter. The audit committee should publicly provide to shareowners a plain-English explanation of the reasons for a change in the company's external auditors. At a minimum, this disclosure should be contained in the same Securities and Exchange Commission ("SEC") filing that companies are required to submit within four days of an auditor change.

V. ANTI-TAKEOVER MEASURES AND MERGERS & ACQUISITIONS

A. Poison Pills: CASE-BY-CASE

Poison pills are corporate-sponsored financial devices that, when triggered by potential acquirers, do one or more of the following: (1) dilute the acquirer's equity holdings in the target company; (2) dilute the acquirer's voting interests in the target company; or (3) dilute the acquirer's equity holdings in the post-merger company. NCSRP believes that poison pills are generally not in shareowner's best interest. Although NCSRP believes boards should be given discretion in directing company's activities, where the link between the shareowners' financial interest and their right to consider and accept a buyout is substantial, NCSRP believe that shareowners should be allowed to vote on whether they support such a plan's implementation.

NCSRP will review proposals on CASE-BY-CASE basis shareholder resolutions that request companies to redeem a company's poison pill. NCSRP relies on the Glass Lewis standard that supports poison pills where the qualifying offer includes the following attributes: (1) the form of offer is not required to be an all-cash transaction; (2) the offer is not required to remain open for more than 90 business days; (3) the offeror is permitted to amend the offer, reduce the offer, or otherwise change the terms; (4) there is no fairness opinion requirement; and (5) there is a low to no premium requirement. Where these requirements are met, NCSRP feels comfortable that shareowners have the opportunity to voice their opinion on any legitimate offer.

B. NOL Poison Pills: CASE-BY-CASE

NCSRP may consider supporting a limited poison pill when a company seeks shareholder approval of a rights plan for the express purpose of preserving a Net Operating Losses ("NOLSs"). While companies with NOLs can generally carry these losses forward to offset future taxable income, Section 382 of the Internal Revenue Code limits companies' ability to use NOLs in the event of a "change of ownership." In this case, a company may adopt or amend a poison pill ("NOL pill") in order to prevent an inadvertent change of ownership by multiple investors purchasing small chunks of stock at the same time, and thereby preserve the ability to carry the NOLs forward. Often such NOL pills have trigger thresholds much lower than the common 15% or 20% thresholds, with some NOL pill triggers as low as 5%.

NCSRP will rely on Glass Lewis to evaluate NOL pills on a strictly CASE-BY-CASE taking into consideration such factors as the value of the NOLS to the company, the likelihood of a change of ownership based on the size of the holding and the nature of the larger shareowners, the trigger threshold and whether the term of the plan is limited in duration (*i.e.*, whether it contains a reasonable "sunset" provision) or is subject to periodic board review and/or shareowner ratification.

C. Fair Price Provision: CASE-BY-CASE

Fair price provisions require that certain minimum price and procedural requirements be observed by any party that acquires more than a specified percentage of a corporation's common stock. The provision is intended to protect minority shareowner value when an acquirer seeks to accomplish a merger or other transaction which would eliminate or change the interests of the minority stockholders. Generally, the provision applies against the acquirer unless the takeover is approved by the majority of "continuing directors" and the holders of a majority, in some cases a supermajority as high as 80%. The effect of a fair price provision is to require approval of any merger or business combination with an "interested stockholder" by 51% of the voting stock of the company, excluding the shares held by the interested stockholder.

As a general rule, NCSRP believes that fair price provisions, while sometimes protecting shareowners from abuse in a takeover situation, more often act as an impediment to takeovers, potentially limiting gains to shareowners from a variety of transactions that could significantly increase share price.

D. Anti-Greenmail: FOR

Greenmail payments are targeted repurchases by management of company stock from individuals or groups seeking control of the company. Since only the hostile party receives payment, usually at a substantial premium over the market value of its shares, the practice discriminates against all other shareowners. NCSRP will vote FOR shareowner resolutions to adopt anti-greenmail charter or bylaw amendments or otherwise restrict a company's ability to make greenmail payments.

E. Disgorgement Provision: FOR

Disgorgement provisions require an acquirer or potential acquirer of more than a certain percentage of a company's stock to disgorge (or pay back) to the company any profits realized from the sale of that company's stock purchased 24 months before achieving control status. All sales of company stock by the acquirer occurring within a certain period of time (between 18 months and 24 months) prior to the investor's gaining control status are subject to these recapture-of-profits provisions. NCSRP votes FOR proposals to opt-out of state disgorgement provisions.

F. Written Consent: CASE-BY-CASE

NCSRP votes AGAINST proposals to restrict or prohibit shareowners' ability to take action by written consent and vote FOR shareowner proposals to allow or make easier shareowner action by written consent. Most states allow shareowners to take direct action such as adopting a shareowner resolution or electing directors through a consent solicitation, which does not involve a physical meeting. Alternatively, consent solicitations can be used to call special meetings and vote on substantive items taking place at the meeting itself

VI. SHAREOWNER RIGHTS

A. Access to the Proxy: FOR

NCSRP believes that companies should provide access to the management proxy for long-term shareowners that own a minimum percentage of company shares. NCSRP supports reasonable and responsible shareholder proposals that seek to change company by-laws to provide proxy access.

B. Advance Notice Requirements: CASE-BY-CASE

NCSRP typically votes AGAINST proposals that would require advance notice of shareholder proposals or of director nominees. Typically, notice requirements range between three to six months prior to the annual meeting. Advance notice requirement make it difficult for a shareowner who misses the deadline to present a shareowner proposal or a director nominee that might be in the best interests of the company and its shareowners.

C. Confidential Voting: FOR

NCSRP votes FOR resolutions requesting companies adopt a policy that includes making all proxy votes confidential and using independent vote tabulators to count ballots. Confidentiality should be automatic, permanent and apply to all ballot items.

D. Supermajority Vote Requirement: AGAINST

NCSRP does not support shareowner proposals that require supermajority voting thresholds, except where required by law. Supermajority requirements can be particularly significant with resolutions to approve mergers and other significant business combinations. Conversely, NCSRP will vote FOR shareowner proposals that lower such super-majority vote requirements.

VII. EXECUTIVE COMPENSATION

A. Advisory Vote on Executive Compensation ("Say-on-Pay")

President Barack Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), providing for sweeping financial and governance reforms. One of the most important reforms in the Dodd-Frank Act requires companies to hold an advisory vote on executive compensation at the first shareholder meeting that occurs six months after enactment (January 21, 2011). This practice of allowing shareowners a non-binding vote on a company's compensation report is standard practice in many non-United States countries, and has been a requirement for most companies in the United Kingdom since 2003. A 2007 study of the United Kingdom requirement found that CEO cash compensation and CEO total compensation became more sensitive to negative operating performance.

Given the complexity of the most companies' compensation votes, NCSRP defers largely to our proxy advisor Glass Lewis to conduct a highly nuanced approach when analyzing advisor votes on executive compensation. Glass Lewis reviews each company's compensation on a case-by-case basis, recognizing that each company must be examined in the context of industry, size, maturity, performance, financial condition, its historic pay for performance practices, and other any other relevant internal or external factors.

Glass Lewis focuses on four main areas when reviewing Say-on-Pay proposals:

- The overall design and structure of the company's executive compensation program including performance metrics;
- The quality and content of the company's disclosure;
- The quantum paid to executives; and
- The link between compensation and performance as indicated by the company's current and past pay-for-performance grades.

1. Say-on-Pay Voting Recommendations: CASE-BY-CASE

As stated, NCSRP largely relies on Glass Lewis regarding Say-on-Pay proposals. In these instances where Glass Lewis finds deficiencies in a company's compensation program's design, implementation or management, it will recommend that shareowners vote against the Say-on-Pay proposals. Generally, such instances include evidence of a pattern of poor pay-for-performance practices (*i.e.*, deficient or failing pay for performance grades), unclear or questionable disclosure regarding the overall compensation structure (*e.g.*, limited information regarding benchmarking process, limited rationale for bonus performance metrics and targets, etc), questionable adjustments to certain aspects of the overall compensation structure (*e.g.,* limited rationale for significant changes to performance targets or metrics, the payout of guaranteed bonuses or sizeable retention grants, etc), and/or other egregious compensation practices.

2. **Frequency of Say-on-Pay: EVERY YEAR**

   The Dodd-Frank Act also requires companies to allow shareowners a non-binding vote on the frequency of say-on-pay votes (*i.e.*, every one, two or three years). Additionally, Dodd-Frank requires companies to hold such votes on the frequency of say-on-pay votes at least once every six years.

   NCSRP believes companies should submit say-on-pay votes to shareowners every year. The time and financial burdens to a company with regard to an annual vote are relatively small and incremental and are outweighed by the benefits to shareowners through more frequent accountability.

3. **Golden Parachutes: CASE-BY-CASE**

   The Dodd-Frank Act also requires companies to provide shareowners with a separate non-binding vote on approval of golden parachute compensation arrangements in connection with certain change-in-control transactions. However, if the golden parachute arrangements have previously been subject to say-on-pay vote which shareholders approved, then this required vote is waived. Factors taken in consideration for golden parachute arrangements include the ultimate value of the payments, the tenure and position of the executives in question, and the type of triggers involved (single v. double).

B. Equity-Based Compensation Plans

NCSRP strongly believes that executive compensation should be tied to a company's performance. This is an approach shared by other large institutional shareholders. According to a 2008 study conducted by the Center on Executive Compensation, 20 of the top 25 institutional U.S. equity investors said that the most important issue was the alignment between executive performance and pay.

NCSRP endorses reasonable, appropriately structured pay-for-performance program that rewards executives for sustainable, superior performance over the long-term, consistent with a company's investment horizon. "Long-term" is generally considered to be five or more years for mature companies and at least three years for other companies. While

NCSRP believes that executives should be well paid for superior performance, it also believes that executives should not be excessively paid.

Furthermore, NCSRP believes that executive pay should be timely and transparent in order to allow shareowners to evaluate the extent to which the pay is keeping with company performance. When reviewing proxy materials, NCSRP reviews whether the company discloses the performance metrics used to determine executive compensation.

NCRSP relies on Glass Lewis' analysis of equity-based compensation plan proposals. They run twenty different analyses, comparing the program with absolute limits that are tied to equity value creation and against their chosen peer group. In general, the Glass Lewis model seeks to determine whether the proposed plan is either absolutely excessive or is more than one standard deviation away from the average plan for the peer group on a range of criteria, including dilution to shareowners and the projected annual cost relative to the company's financial performance. Each of the twenty analyses is weighted and the plan is scored in accordance with that weight.

1. Option Exchanges: CASE-BY-CASE

Generally, NCSRP opposes the repricing of stock options. Shareowners have significant risk in owning stock and employees, officers, and directors who receive stock options should be similarly situated to align their interests with shareowner interests. Specifically, Glass Lewis expresses concern that option grantees who believe they will be "rescued" from underwater options will be more inclined to take unjustifiable risks. Repricing and option exchange programs change the bargain between shareowners and employees after the bargain has been struck.

There is one rare instance in which a repricing or option exchange program is acceptable: if macroeconomic or industry trends cause a stocks' value to decline dramatically and the repricing is necessary to motivate and retain employees. In this example, NCSRP would SUPPORT such a proposal.

2. Options Backdating: AGAINST

As a general rule, NCRS believes that backdating stock options undermines the reason for stock options. Stock options should align the interest of executives and shareholders.

In 2005, a study examining the timing of stock options found that the granting of stock option at the lowest price occurred so frequently that it was manipulated rather than luck. Another study found that such backdating results in an eight percentage average loss to shareowners (translating to approximately $500 million per firm) while it is a potential gain to all executives in these companies (approximately $600,000 annually). A 2007 Congressional Research Service study noted similar costs to shareowners but also pointed out additional costs: delisting, lawsuits, probes, and fines.

A 2006 study of option grants made between 1996 and 2005 at 8,000 companies found that option backdating can be an indication of poor internal controls. The study found that option backdating was more likely to occur at companies without a majority independent board and with a long-serving CEO. Both factors, the study concluded, were associated with greater CEO influence on the company's compensation and governance practices.

For the most part, the 2002 Sarbanes-Oxley Act has eliminated the ability to backdate stock options. Companies are required to report option grants within two business days.

3. **Expensing Stock Options: FOR**

NCRS supports expensing stock options. Stock options should be expensed given this is a transfer of shareowner value. Expensing does two things: first, it creates more accurate accounting statements, and second, it fosters more responsible corporate behavior. NCRS position is also consistent with FASB Rule 123 that now requires all companies to expense stock options.

4. **Tax Gross-Up Shareowner Proposals: FOR**

Gross-ups are tax reimbursements to executives paid by the company to cover their executive's tax liability. According to a 2008 study, tax gross-ups are costly to shareowners: it takes between $2.50 to $4 to cover each $1 of excise tax that must be "grossed-up." Providing gross-ups to executives has become widespread and represents a clear disconnect between pay and performance. As a general rule, NCRS votes FOR shareowner proposals calling for companies to adopt a policy of not providing tax gross-up payments to executives.

5. **Severance Agreements for Executives / Golden Parachutes: CASE-BY-CASE**

Golden parachutes are a special kind of employment contract for directors, officers, and other key employees. This change in contract severance package typically includes a continuation of the individual's base salary for two or three years or a lump sum payment valued at two to three times the base salary rate, plus retirement and other benefits guaranteed in the contract following termination.

NCSRP supports initiatives to reduce the time frame of severance agreements and to tie them to executive performance. NCSRP also votes FOR shareowner proposals requiring shareowner ratification of golden parachutes unless the proposal requires shareowner approval prior to entering into the employment contracts. Shareowners should allow the compensation committee to set benefit levels, provided that shareowner approval is sought when benefits will exceed 2.99 times salary plus bonus to allow for tax advantages.

6. Limits on Executive Compensation: CASE-BY-CASE

Generally, NCRS believes that shareholders should not be directly involved in setting executive pay. Such matters should be left to a company's compensation committee. In the event a problem arises with a company's executive compensation, NCRS can vote AGAINST or WITHHOLD on individual members of the compensation committee as the appropriate response.

7. Adopt 162(m) Plan: CASE-BY-CASE

Section 162(m) of the Internal Revenue Code allows companies to deduct compensation in excess of $1 million for the CEO and the next three most highly compensation executive officers, excluding the CFO, upon shareowner approval of the excess compensation.

Glass Lewis believes it is important for companies to provide robust disclosure so shareowners have meaningful review. Glass Lewis prefers that disclosures include specific performance metrics, a maximum award pool, and a maximum award amount per employee. They also believe it is important to analyze the estimated grants to see if they are reasonable and in line with the company's peers.

NCSRP typically supports these proposals; however, NCSRP will vote AGAINST them where: (1) a company fails to provide at least a list of the performance targets; (2) a company fails to provide one of either a total pool or an individual maximum; or (3) the proposed plan is excessive when compared with the plans of the company's peers.

VIII. CAPITAL STRUCTURE

The management of a company's capital structure involves a number of important issues, including dividend policy, taxes, types of assets, opportunities for growth, ability to finance new project internally, and the cost of obtaining additional capital. While most of these decisions are best left to company management, many financing decision have significant impact of shareowner value, particularly when they involve the issuance of additional common stock, preferred stock, or the assumption of additional debt.

A. Increase Common Stock Authorization: CASE-BY-CASE

It is important for a company to increase common stock for ordinary business purposes, including raising new capital, funding reasonable executive compensation programs, and facilitating stock splits and dividends. However, issuing additional shares can dilute existing holders in limited circumstance. Further, the availability of additional shares, where the board has discretion to implement a poison pill, can often serve as a deterrent to interested suitors. Accordingly, NCSRP will evaluate the increased common stock authorization on a CASE-BY-CASE basis. Where the company has not detailed a plan for use of the proposed shares, or where the number of shares far exceeds those needed to accomplish a detailed plan, NCSRP will typically vote against the authorization of additional shares.

B. Preferred Shares: CASE-BY-CASE

Preferred shares refer to a class of stock that provides preferred dividend distributions and preferred liquidation rights as compared to common stock. However, preferred shares do not carry voting rights except under rare circumstances. NCSRP will evaluate preferred shares on a CASE-BY-CASE basis. If the preferred shares do have voting rights, then NCSRP will vote AGAINST the issuance as this dilutes the shareowners' proposals. Similarly, if a company seeks to amend its preferred shares to provide for voting rights, NCSRP will vote AGAINST such a proposal because these new shares will dilute NCSRP's voting position. In the event a company wants to issue preferred shares without voting rights and with no conversion rights to common shares, then NCSRP will be more likely vote FOR such an issuance as long as the company issues the preferred shares for legitimate financial issues.

C. Preemptive Rights: CASE-BY-CASE

Preemptive rights guarantee existing company shareowners the first opportunity to purchase shares or new issues of company stock in the class they own and in an amount equal to the percentage they already own. The absence of these rights could cause shareowners' interest in a company to be reduced by the sale of additional shares without their knowledge and at prices unfavorable to them. However, preemptive rights can make it difficult for companies to issue large blocks of stock for general corporate purpose. Generally, the NCSRP will vote on a CASE-BY-CASE basis management proposals to create or abolish preemptive rights.

D. Dual Class Stock Authorization: CASE-BY-CASE

As a general rule, NCSRP supports the principle that each share of common stock should have one vote. Corporations should not have classes of common stock with disparate voting rights. Authorized, unissued common shares that have voting rights to be set by the board should not be issued with unequal voting rights without shareowner approval.

Dual class capitalization plans are not anti-takeover measure, but they may help management deter takeovers when management controls the class of stock with higher voting rights. This can be done when management purchases or is awarded the majority of new issues with super voting rights, thereby reducing the total voting power of public shareowners. In these instances, NCSRP will vote AGAINST such proposals.

E. Minimum Stock Ownership: FOR

Executives and directors should own, after a reasonable period of time, a meaningful position in the company's common stock. Executive should be required to own stock – excluding unexercised options and unvested stock awards – equal to a multiple of salary. The stock subject to ownership requirement should not be pledged or otherwise encumbered. The multiple should be scaled based on position, for example: two times salary for lower-level executives and up to six times salary for the CEO. NCSRP will support proposals that require directors and executive to own a minimum amount of company stock.

VII. ENVIRONMENTAL AND SOCIAL SHAREHOLDER INITIATIVES

A. Environmental

1. CERES Principles: FOR

CERES, formerly known as the Coalition for Environmentally Responsible Economics Principles, is a 10-point environmental code of conduct drafted by environmental groups and investor advocates to be advocated by companies in any industry. CERES focuses on protection of the biosphere, prevention of environmentally harmful accidents, conservation of natural resources, proper reduction and disposal of waste, marketing of safe products and services, and appointments of environmental experts to corporate boards.

NCSRP will vote FOR shareowner resolutions requesting companies to adopt the CERES principles, taking into account:

- The company's current environmental disclosure beyond legal requirements, including environmental, health, and safety audits and reports that may duplicate CERES;
- The company's environmental performance record, including violations of federal and state regulations, level of toxic emissions, and accidental spills;
- Environmentally conscious practices of peer companies, including endorsement of CERES; and
- Costs to the company of members and implementation.

2. Environmental and Sustainability Disclosure: FOR

The increased awareness of climate change risks has resulted in more shareowner proposals of environmental and sustainability issues. Such issues are viewed as factors likely to impact a company's long term growth and profitability. The Global Reporting Initiative ("GRI") was developed by CERES and the United Nations Development Programme ("UNDP"). The GRI allows companies to increase disclosure relevant information to shareowners. NCSRP encourages companies to support GRI disclosure standards:

- Generally, NCSRP votes FOR shareowner proposals seeking greater disclosure of a company's environmental practices and contingency plans.

- Generally, NCSRP votes FOR shareowner proposals which seek greater disclosure of a company's environmental risks and liabilities, as well as company opportunities and strengths in this area.

- Generally, NCSRP votes FOR shareowner proposals asking companies to report in accordance with the GRI.

NCSRP may also vote AGAINST such proposals if the company has already disclosed reports to the public.

3. Climate Change and Green House Gas Emissions Disclosure: FOR

NCSRP will consider supporting shareowner proposals for climate change and/or greenhouse gas emission strategies when (1) a company has suffered financial impact from reputational damage, lawsuits and/or government investigations, (2) there is a strong link between climate change and its resultant regulation and shareowner value at the firm, and/or (3) the company has inadequately disclosed how it has addressed climate change risks.

Typically, NCSRP will support shareowner proposals seeking disclosure of greenhouse gas emissions at companies operating in carbon- or energy-intensive industries such as basic materials, integrated oil, gas, utilities, and construction.

4. Environmental, Sustainability, and Climate Change Directives: AGAINST

NCSRP applies a stricter standard for any shareowner proposals that would compel directors to adopt a particular environmental and sustainability initiative. NCSRP is not inclined to support proposals seeking emissions reductions or proposals seeking the implementation of prescriptive policies relating to climate change.

5. Sustainable Forestry: CASE-BY-CASE

Sustainable forestry provides for the long-term sustainable management and use of trees and other non-timber products. Retaining the economic viability of forests is one of the tenets of sustainable forestry, along with encouraging more responsible corporate use of forests. Sustainable land use and the effective management of land are viewed by some shareowners as important in light of the impact of climate change. Forestry certification has emerged as a way that corporations can address prudent forest management. There are currently several primary certification schemes such as the Sustainable Forestry Initiative ("SFI") and the Forest Stewardship ("FSC")

Shareowner proposals regarding sustainable forestry have typically requested that the company comply with SFI and FSC principles as well as assess the feasibility of phasing out the use of uncertified fiber and the use of certified fiber. NCSRP will support sustainable forestry proposals which demonstrate that the implementation is clearly linked to an increase in shareowner value.

B. Social Issues

1. Non-Discrimination Policies: FOR

Companies with records of poor labor relations may face lawsuits, efficiency-draining turnover, poor employee performance, and/or distracting, costly investigations. Furthermore, as an increasing number of companies adopt inclusive equally employment opportunity policies, companies without comprehensive policies may fact damaging recruitment, reputation and legal risks. A pattern of making financial settlements as a result of lawsuits based on discrimination could indicate investor exposure to ongoing financial risk. Where there is clear evidence of employment practices resulting in negative economic exposure, NCSRP will support shareowner proposals addressing such risks.

2. MacBride Principles: CASE-BY-CASE

The MacBride Principles request American companies operating in Northern Ireland to support the equal employment opportunity policies. These signatories of the MacBride Principles must make a reasonable, good faith effort to abolish all differential employment criteria whose effect is discrimination based on religion. NCSRP will evaluate the company's current equal employment opportunity and the extent to which the company has been subject to protests, fines, or litigation regarding discrimination in the workplace.

3. Human Rights: CASE-BY-CASE

NCSRP believes that explicit policies set out by companies' boards of directors on human rights provide shareowners with the means to evaluate whether the company has taken steps to mitigate risks from its human rights practices. NCSRP believes it is prudent for firms to actively evaluate risks to shareowners value stemming from global activities and human rights practices along entire supply chains. As such, NCSRP relies on the expertise of the board on these important policy issues. In some instances, NCSRP recognizes that shareowners could benefit from increased reporting or further codification of human rights policies.

4. Charitable and Political Contributions: CASE-BY-CASE

NCSRP evaluates proposals to improve the disclosure of a company's political contributions and trade association spending on a CASE-BY-CASE basis. NCSRP believes that the board should develop and disclose publicly its guidelines for approving charitable and political contributions. The board should disclose on an annual basis the amounts and recipients of all monetary and non-monetary contributions made by the company during the prior fiscal year.