

# John Larsen Foundation Shareholder Policies

## Proxy Voting Guidelines

### *Corporate Governance*

#### *Board of Directors*

##### **Diversity**

###### *Guideline*

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

###### *Rationale*

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

##### **Compensation Disclosure**

###### *Guideline*

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

###### *Rationale*

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

##### **Accountability**

###### *Guideline*

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

### *Rationale*

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

## ***Independent Auditors***

### **Ratification**

#### *Guideline*

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

#### *Rationale*

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

### **Independence**

#### *Guideline*

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

#### *Rationale*

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

### **Auditor Rotation**

#### *Guideline*

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

#### *Rationale*

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

## ***Executive Compensation***

### **Pay Equity**

#### *Guideline*

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

#### *Rationale*

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

### **Overall Structure**

#### *Guideline*

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

#### *Rationale*

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

### **Shareowner Approval**

#### *Guideline*

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

#### *Rationale*

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

## **Disclosure**

### *Guideline*

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

### *Rationale*

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

## **Compensation and Election of Directors**

### *Guideline*

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

### *Rationale*

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

## **Stock Purchase Plans**

### *Guideline*

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

### *Rationale*

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

## **Loans for Stock Purchases**

### *Guideline*

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

### *Rationale*

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

## **Equity-Based Compensation**

### *Guideline*

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

### *Rationale*

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

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

### *Guideline*

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

### *Rationale*

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

## **Employee Stock Ownership Plans**

### *Guideline*

The JLF will vote in favor of proposals to implement an Employee Stock Ownership

Plan (ESOP) or to increase the authorized shares for an existing ESOP, provided that shares purchased under the plan are acquired for no less than 85 percent of their fair market value.

*Rationale*

Companies that foster employee ownership have been shown to create more employee wealth, attract and retain higher quality employees, and achieve superior performance.

ESOPs can play a useful role in facilitating greater employee ownership, particularly among non-management employees. The number of shares allocated to an ESOP, however, should not be excessive.

## ***Ecological and Social Responsibility***

### **Sustainability Reporting**

*Guideline*

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

*Rationale*

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

### **United Nations Global Compact**

*Guideline*

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

### *Rationale*

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

## ***Ecological Responsibility***

### **Environmental Disclosure**

#### *Guideline*

The JLF will vote in favor of resolutions requiring that companies issue regular reports on their environmental policies and practices and on the conformity of these policies and practices with state and federal environmental laws. It will also vote in favor of resolutions urging companies to conduct environmental impact assessments on a regular basis and to report the findings of these assessments.

#### *Rationale*

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

### **Prevention**

#### *Guideline*

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

#### *Rationale*

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

### **Radioactive and Toxic Substances**

### *Guideline*

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

### *Rationale*

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

## **Ceres Principles**

### *Guideline*

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

### *Rationale*

Formulated by the Coalition for Environmentally Responsible Economies, the Ceres Principles set forth a 10-point environmental code of conduct that requires signing companies to address a range of environmental issues, including protection of the biosphere, sustainable use of natural resources, reduction and proper disposal of wastes, energy conservation, and employee and community environmental risk reduction. Companies that endorse the Ceres Principles also agree to report on their environmental performance in a standardized report that is submitted to Ceres and made available to the public.

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

## **Climate Change / Global Warming**

### *Guideline*

The JLF will vote in favor of resolutions requiring companies to disclose information about the risks that climate change poses to their operations. It will vote in favor of resolutions requiring companies to disclose information about their emissions of greenhouse gases. And,

it will vote in favor of resolutions requiring companies to develop and implement strategies with targets for the reduction of such emissions.

#### *Rationale*

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

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

#### *Guideline*

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

#### *Rationale*

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

### **Materials Efficiency and Recycling**

#### *Guideline*

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

#### *Rationale*

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

## **Sustainable Resource Use**

### *Guideline*

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

### *Rationale*

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

## **Old Growth Forests**

### *Guideline*

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

### *Rationale*

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

## **Sustainable Forest Management**

### *Guideline*

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

### *Rationale*

The FSC has emerged in recent years as the leading source of principles, criteria, and standards for sound, long-term management of the world's forests. FSC standards are developed by a diverse group of stakeholders that includes representation from industry, government, and citizens' organizations. Adherence to the independent, third-party

certification standards of the FSC, which balance economic, social, and environmental objectives, will help to ensure the integrity of forest ecosystems and the well-being of life that depends on them.

## ***Social Responsibility***

### **Equal Employment Opportunity and Non-Discrimination**

#### *Guidelines*

The JLF will vote in favor of resolutions requiring companies to provide information on the composition of their workforce by gender, race and position. It will also vote in favor of resolutions requiring companies to establish targets for achieving a diverse workforce and to report on progress toward those targets. The JLF will vote in favor of resolutions requiring companies to adopt a sexual orientation non-discrimination policy and to include language in their equal employment opportunity statements that bars discrimination on the basis of sexual orientation.

#### *Rationale*

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

### **Employee Relations**

#### *Guideline*

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

#### *Rationale*

The way that companies treat their employees can have a significant impact on corporate financial performance, as well as on the quality of the relationships that companies have with the communities and societies in which they operate. Companies that are successful over the long term treat their employees fairly in all locations and avoid exploitation of poor or

marginalized workers. Adherence to widely accepted codes of conduct concerning global labor and human rights practices can help to ensure that a corporation treats its employees in a manner that benefits the firm's, as well as society's, long-term interests.

## **Vendor and Supplier Relations**

### *Guideline*

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

### *Rationale*

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

## **Political Activities**

### *Guidelines*

The JLF will vote in favor of resolutions requiring companies to refrain from using the resources of the corporation to support, directly or indirectly, candidates for political office. It will also vote in favor of resolutions that require corporate boards to review and approve political donations and to disclose to shareowners all contributions made to candidates or political parties, including those made directly and through political action committees. The JLF will vote in favor of resolutions requiring companies to disclose to shareowners the magnitude and character of expenditures for public policy lobbying activity. It will also support resolutions that aim to reduce lobbying activities which, if effective, would result in clear social harm. [Examples of the latter include lobbying efforts to weaken the implementation of existing laws; to halt the enactment of sensible regulations designed to prevent or reduce serious harm to the environment or human health; or to promote militarization around the world.]

### *Rationale*

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

## **Access to Pharmaceuticals**

### *Guideline*

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

### *Rationale*

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