

# Proxy Voting Guidelines



*Revised  
August 2015*

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# 1. Introduction

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CBIS votes the proxy ballots of domestic and international holdings on behalf of our participants.

Any CBIS client with an individually managed portfolio, or the trustees of any equity or balanced fund under CBIS advisement, may designate proxy-voting authority to CBIS. Certain organizations may also contract with CBIS to vote proxies for portfolios managed by other investment managers.

CBIS generally votes participant proxies according to the guidelines set forth in this document. This document is intended only as a general guide, however, as it is not possible to anticipate each and every resolution (sponsored either by management or shareholders) on which we may be asked to vote. From time to time, CBIS may also cast company-specific votes that are not, in our judgement, consistent with these guidelines in the event that company-specific information indicates that doing so is in the best interest of our participants or clients. Furthermore, CBIS reserves the right to exercise its reasonable judgement when casting votes on similar items at different companies.

In determining how to cast a vote on an issue not covered in the guidelines, CBIS looks to the principles underlying the guidelines, based upon Catholic

ethical and social teaching, as well as to the values and priorities of our participants, as we understand them, and the potential financial impact if the proposal is implemented.

All CBIS voting decisions are intended to meet our fiduciary obligations to our participants, which include support for high standards of corporate governance and social and environmental responsibility. We foresee no conflicts of interest that would hinder the application of this principle. If a conflict does arise, we will seek to eliminate the conflict if it is feasible to do so and, in any event, we will resolve any such conflict in the best interests of our participants.

CBIS may not be able to vote proxies for companies in an account's securities lending program.

These guidelines may also reflect differences between how CBIS votes proxies for a U.S. company versus an international company. In voting shares of international companies, CBIS must follow the rules of the governing authority in each individual country. In some markets, these rules can be complicated and onerous. At the current time, CBIS cannot guarantee our ability to vote shares in countries that engage in the following activities:

- Block trading in company shares during the period between when a vote is due and the date of the company's annual shareholders' meeting;
- Requiring the payment of fees for voting proxies that CBIS deems excessive.

CBIS may use third-party vendors to obtain information and analysis on general issues and specific ballot items, or to perform certain administrative tasks necessary to implement our voting duties. CBIS' Catholic Responsible Investing Department is responsible for all voting decisions and for casting all votes.

CBIS' proxy voting record is available at [www.cbisonline.com](http://www.cbisonline.com). Participants

may obtain hard-copy voting records for their specific accounts by contacting CBIS directly. Participant reports will comply with all SEC regulations regarding disclosure.

## 2. Auditors & Financial Analysis

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Auditors are charged with ensuring that financial statements accurately reflect the company's financial position. To ensure that investors feel confident that the audit is truly independent of management influence, auditors must be free of conflicts. For this reason, we will not support auditors contracting to provide services beyond the audit and other audit-related work. (Examples of "other audit-related work" might include the preparation of certain financial reports other than those required by the SEC.)

- We oppose auditors who receive fees from the company other than for audit or audit-related work.
- We support resolutions asking companies to separate the audit and consulting functions.
- We oppose substituting internal auditors for independent third-party auditors. In some markets, especially Japan, this is a common practice.
- We support internal auditor proposals, as long as the arrangement does not come at the expense of independent review of financial statements. In some markets that require independent auditors, internal auditors are also subject to shareholder approval.

- We support resolutions asking for greater integrity in financial analysis. For example, we support resolutions asking investment banking to be separated from research functions. We are concerned about conflicts of interest that may inhibit the provision of truly objective research analysis.
- We support proposals to rotate auditors, unless the terms would place undue burden on the company.

## 3. Board of Directors

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### 3.1. INDEPENDENT MEMBERSHIP

The Board is responsible for representing the interests of shareowners and for monitoring the company's relationships with other stakeholders as well. While CBIS prefers that the Board be totally independent of management influence and control, our minimum expectation is that a majority of Directors be independent members.

While the Chief Executive Officer ordinarily has tremendous influence over the nominating process, we believe the interests of shareholders and stakeholders are best represented when the Board nominating process is independent of the CEO.

CBIS considers Board members and nominees independent if they meet the following criteria:

- i. Not an employee or former employee (within five years) of the company, its parent or affiliate firm, a firm acquired by the company, or majority-owned subsidiary;
- ii. Not a member of an entity that serves as a paid consultant, advisor, or professional services provider;

- iii. Not employed by a significant customer or supplier of the company;
- iv. Not a party to personal service contracts with the company or any of its affiliates;
- v. Not part of an interlock in which an executive of the company serves on the board of another corporation that employs the member; and
- vi. Not involved in personal, financial, or professional relationships with any executive officers of the company that would interfere with the exercise of independent judgment.

- We support resolutions asking that the majority of Directors be independent.
- We support resolutions asking that all Directors be independent.

### 3.2. APPROVAL OF NOMINEES

Shareholders of companies have the responsibility to ensure that members of the Board of Directors charged with representing their interests are qualified and committed to the long-term interests of all shareholders. CBIS does not consider the election of Directors to be a routine matter. We believe it is one of the most important responsibilities owners have.

#### 3.2.1. Full Board

- *We withhold approval of all nominees if the company has not demonstrated a willingness to include women and persons of color. (Also see Equality & Diversity, page 33.)*
- *We withhold approval of all nominees when the Board does not include a majority of independent Directors.*
- *We may withhold approval from all nominees when the Board failed to act on shareholder resolutions that passed in the previous year.*
- *For international companies, we withhold approval of nominees if information on each nominee is not provided in either the proxy*



*materials or the annual report — a common practice in many countries.*

- *In international markets where directors are elected as a bundle, CBIS will vote against the slate of directors unless we can support all of the directors individually.*
- *We withhold approval of all nominees if we cannot determine from company disclosures whether the nominees meet our diversity criteria.*
- *In countries where a two-tiered board structure exists, CBIS will evaluate the supervisory board (or equivalent) under all director voting policies. Management Boards will be evaluated under our diversity guidelines only.*
- *In markets where representatives of employees or unions sit on boards of directors, we treat them as insiders. We oppose resolutions to add union representatives to boards of directors.*

### **3.2.2. Individual Directors**

- *We withhold votes for nominees who attend less than 75% of Board and assigned committee meetings each year.*
- *We withhold votes for nominees whose board memberships are so numerous that it is difficult for them to give the company the level of attention that it needs.*
- *We withhold votes for nominees who serve on key committees, or on Boards that lack key committees, but do not meet our criteria for independence. The key committees are the nominating, compensation, and audit committees.*
- *In markets where it is allowed, we oppose the appointment of non-board members to key committees.*

### **3.3. CHAIRPERSON**

The Board of Directors is responsible for representing the interests of its shareholders, and overseeing and evaluating the work of management. There is a potential conflict in the Board's ability to fulfill the latter responsibility when the Chairperson is a member of management. Optimally, CBIS prefers that the Chairperson be an independent Director.

- We support resolutions that seek to separate the positions of Chair of the Board and Chief Executive Officer.
- We support resolutions that ask for the Chair to be an independent member of the Board.

### **3.4. CLASSIFICATION**

Staggered (or classified) boards have members who are elected to terms of multiple years. Staggered terms have the potential to slow down rival attempts to wage a proxy fight to elect new Directors. They also remove the annual accountability for actions taken.

There is also evidence that adoption of a classified Board tends to depress stock price, because the market views it as an antitakeover measure.

- We support resolutions to remove classified Boards and oppose resolutions to install them.
- We support resolutions asking that all Board members be elected annually.

### **3.5. BOARD COMMITTEES**

Directors are charged with selecting and monitoring the corporation's management team. The Board must be structured to encourage the nomination of individuals who are free of ties to the incumbent management.

In addition, Directors are also charged with monitoring the use of corporate assets, which includes setting reasonable and fair compensation for the company's top management. The best way to achieve these goals is to require that the nominating and compensation committees be composed of independent Directors.

CBIS prefers that essential Board committees be staffed by independent Directors and that the Chairpersons of those committees be independent Directors, and we require that the nominating and compensation committees include only independent Directors.

- We support resolutions requiring that the compensation and/or nominating committee be composed entirely of independent Board members.
- We support resolutions asking that the majority of members on each Board committee be independent members.
- We support resolutions requiring that all Board committees have an independent member as Chair.

Some resolutions request a Board to establish a new committee focused on a particular issue, such as sustainability, or to nominate a Board candidate with expertise on a particular issue. We support Corporate Boards possessing a range of skills necessary to effectively oversee the company in the best interest of shareholders and stakeholders. However, we believe that Boards should be able to determine how best to access those skills and have flexibility in how they organize their work, and that shareholders should hold the Board accountable for its performance through the election of Directors.

- We oppose resolutions requesting the establishment of a Board committee to oversee particular issues such as sustainability, the environment, or human rights.
- We oppose resolutions requesting that a Board candidate with particular expertise be nominated.

### 3.6. CUMULATIVE VOTING AND SHAREHOLDER DEMOCRACY

Some advocates of shareholder democracy have argued that shareholders should have greater means of impacting the results of board elections. While CBIS supports both the idea of greater shareholder democracy and the ongoing efforts to explore ways of improving it, some of the proffered solutions are not in line with our principles.

Cumulative voting allows shareholders to cast all of their Board votes for one candidate, which improves small shareholders' chances of naming representatives to a Board. However, while we support the right of small shareholders to fully participate in the Director election process, we also support the basic tenet of democratic representation: one person, one vote. We therefore oppose cumulative voting.

Some proposals ask for greater shareholder participation in the selection of Director nominees. Generally, we believe the Board itself, and its nominating committee, as shareholder representatives, are in the best position to select qualified and independent nominees who will meet the needs of the company. We expect nominating committees to fulfill this responsibility in a manner consistent with shareholder interests. However, we also believe that shareholders should be allowed to nominate Director candidates, balancing their ability to do so with the broad interests of all shareholders.

- We support resolutions asking for the dissolution of cumulative voting.
- We oppose resolutions asking for the institution of cumulative voting.
- We oppose resolutions asking for two nominees for every Board seat.
- We support proposals asking companies to require directors to be elected by majority vote.
- We support on a case-by-case basis resolutions that give shareholders the ability to nominate Director candidates (proxy access). When considering a resolution, we would evaluate ownership requirements including the percentage and duration of outstanding shares held, as

well as limitations on the number of shareholder nominees that could be elected.

- We support proposals, on a case-by-case basis, asking the company to take steps to make it easier for shareholders to communicate directly with the board.

### 3.7. INDEMNIFICATION AND LIABILITY PROTECTION

The increased number of lawsuits against corporations and their Directors has led to increased indemnification insurance costs. Many states have passed or are considering legislation to limit the liability of corporate Directors.

While Directors must be held accountable for their decisions, especially if they involve fraud or other types of malfeasance, they also need to be shielded from liability for decisions made in good faith.

- We support resolutions that seek to limit Director liability consistent with applicable state law, where it is clear that the state has jurisdiction over such matters.
- We support resolutions that seek to limit Director liability in all cases except those involving fraud or other illegal acts.
- We oppose resolutions seeking to indemnify Directors against all acts.

### 3.8. STOCK OWNERSHIP

To adequately reflect the interests of owners, CBIS believes that Directors need to be owners. While we do not wish to establish a requirement that Directors purchase stock, since that may limit the ability of qualified Directors of modest financial means from serving, we prefer that the majority of Directors' compensation be stock-based. We encourage stock-based formulations as substitutions for cash compensation for outside Directors.

We vote on a case-by-case basis on resolutions requiring that Directors' total compensation be stock-based.

- We support resolutions requiring that part of Directors' compensation be in the form of stock or stock options.
- We oppose resolutions establishing a requirement that Directors be required to purchase stock in the company.
- We oppose excessive awards of stock or stock options to Directors.

### 3.9. PROXY CONTESTS

Proxy contests take place when dissident shareholders submit a ballot to compete with that of management, usually calling for a restructuring of the company, or seeking board control. Proxy fights typically result from dissident dissatisfaction with company performance or from a perception that management is unresponsive to shareholders. In most cases, the key dispute involves the company's slate of nominees to the Board of Directors.

In a proxy contest, shareholders receive two ballots, one offered by management, one by dissident shareholders. Each shareholder votes one of the ballots, indicating support for one side in the dispute.

Proxy contests are extremely complicated matters, and CBIS makes extensive use of outside analysts in determining how to vote. In general, CBIS supports initiatives that will improve the overall corporate governance of a company, and opposes changes that do not take into account the impact on a variety of stakeholder groups.

While we are generally predisposed to support management, absent serious concerns, the following would make it more likely for us to support a dissident ballot:

- The company maintains corporate takeover defenses (Also see section Corporate Takeover Defenses, or violates our voting stance on reincorporating, board classification, poison pills or other significant corporate governance issues.

- The company has failed to act on shareholder resolutions that have passed, or has refused to meet with shareholders on issues of concern.
- The company's financial performance has been poor for an extended period of time.
- The dissident shareholder ballot will improve the independence of the Board.
- The dissident shareholder ballot will improve Board diversity.
- The dissidents' plan includes a long-term strategic vision for company improvement, especially in the governance of the corporation.

Conversely, the following would make it more likely for us to support management's position:

- The dissidents' plan for the company involves substantial restructuring of the company's operations or assets without consideration of the social impacts of those changes.
- The dissident's plan involves benefits for a few stakeholders at the expense of the company's broader shareholder and stakeholder constituencies.

## 4. Contributions

### 4.1. POLITICAL

CBIS believes that shareholders have a right to know how corporate assets are being spent in support of political or social causes and/or candidates. Companies are required to disclose their political contributions via public documents filed with Federal and State regulatory authorities. While this makes such information publicly available, many of these documents are not easily accessible to individual investors. We believe that companies can provide this information through current reporting mechanisms, without incurring additional material costs.

- We support resolutions asking companies to disclose political contributions made either directly or through third-parties including political action committees (PACs) and trade associations.
- We support resolutions calling for greater disclosure of government lobbying activities undertaken either directly or through membership in third-party organizations.
- We support resolutions asking companies to report on their philosophy or strategy with respect to political contributions and lobbying.

- We oppose resolutions asking companies to halt political spending or lobbying activities.
- We support, on a case-by-case basis, resolutions asking companies to adopt higher ethical standards for political activities and government relations than those currently in place, so long as the resolution specifies what those standards should be and is consistent with the values of our participants.
- We support resolutions asking companies to report on the impact of government subsidies, sometimes called “corporate welfare,” on their businesses or communities.

#### 4.2. CHARITABLE

- We support resolutions asking companies to disclose charitable contributions if they do not already do so, or if the information is not readily accessible to shareholders.
- We support limited resolutions that curtail contributions to an organization whose activities are contrary to the values, missions, or Catholic responsible investing guidelines of our participants.
- We oppose general resolutions that attempt to diminish or limit all corporate philanthropy.

## 5. Employment & Compensation

### 5.1. GENERAL PRINCIPLES

Workers and companies enter into an agreement in which workers exchange labor for the means to attain a living. Our basic principles on employment-related issues are as follows:

- **Companies Must Respect Basic Human Rights.** The minimum expectation we have is that companies do not violate the basic human rights of their workers, and that companies pay workers a just wage. Even when a company does not abjectly violate the human rights of its employees, there are actions it can undertake to improve its treatment of them.
- Companies are ethically bound to treat workers as partners in the achievement of corporate objectives. Connecting profitability to employee training, establishing performance-based compensation, providing employment security and stability and providing a supportive work environment should be part of the contract between a company and its employees.

- Workers must behave ethically and support corporate goals. The minimum expectation we have for workers is that they act ethically in their work environment and in their dealings with the company. Workers should take seriously their role in creating a prosperous enterprise and achieving corporate objectives.

A social contract informed by Catholic principles between employees and companies would preserve the dignity of each person, provide for mutual respect, provide opportunities for personal fulfillment, and develop ways to share the gains of production fairly. It would also include provisions for worker participation in ownership.

#### 5.1.1. Workforce

- *We support resolutions asking companies to allow workers the means to determine if they wish to have someone represent their collective interests with management.*
- *We support resolutions that promote employee stock ownership at all levels of the company.*
- *We support resolutions asking a company to explain how it intends to respect workers' rights and minimize negative impacts during periods of downsizing and reorganizations.*
- *We support resolutions asking a company to establish a high-performance workplace.*
- *We support resolutions asking companies to analyze workers' compensation and pay workers a just wage.*
- *We oppose resolutions that use downsizing and reorganization to boost the short-term stock price of a company, and do not recognize the human costs of such activities.*
- *We support resolutions asking companies to allow employees to choose whether they wish to participate in cash balance pension plans. (Cash*

*balance pension plans may benefit some workers but may also reduce the savings of other workers, especially older workers.)*

#### 5.1.2. Executive Compensation

The current system of executive compensation is inconsistent with values of fairness and proportionality. Excessive executive compensation has become a widespread problem that needs to be addressed through improved corporate governance.

Because the contribution of workers is essential to corporate success, both executives and workers should share in that success. There is a need to restore some measure of proportionality to the relative levels of compensation received by each.

Currently, top executives are the least at risk, while workers bear a disproportionate share of the risk. We believe that the allocation of gain and risk in compensation plans should be more proportional, and that those who have the most to gain should have more of their compensation at risk.

Compensation plans are a complex issue, and CBIS relies heavily on the analysis of outside advisors to measure the impact of such plans on shareholder wealth.

##### 5.1.2.1. General Principles

Our decisions regarding executive compensation plans are based on four general principles:

- Align managers' risks and rewards with those of shareholders – both in the short and long term. The goal of a compensation system should be to provide incentives to build a successful, sustainable company. We prefer that compensation systems be based on a broad array of both financial and nonfinancial measures. Financial measures should be broad-based, rather than based simply on a rise in stock price. There are standard business measures that can

provide indicators for assessing the success of a business, and these measures should be part of the compensation system.

- Share prosperity broadly within the company. We cannot accept huge awards to a certain subset of employees – primarily executives – that are not shared widely by other employees. Additionally, we cannot support the use of workforce reductions as a strategy for achieving a rise in share price.
- Tie compensation to the well-being of the entire community. We are concerned not only with the financial health of a firm, but with its “ethical health” as well. Therefore, certain critical nonfinancial measures should be part of any well-conceived executive compensation system. Social sustainability should be part of incentive packages. Sustainability goals would be intended to ensure that the company derives profits in a manner that enhances, rather than reduces, the health and well-being of the community at large and the freedom of future generations to meet their own needs.

CBIS strongly believes that executive compensation packages should be transparent and that shareholders have a right and a responsibility to vote on all incentive plans.

#### **5.1.2.2. Pay Proposals**

- We oppose executive compensation plans that are deemed to be excessive.
- We may oppose plans for companies that fail to disclose adequate information about executive pay and perquisites.
- We support shareholder resolutions asking companies to freeze executive pay in times of downsizing.
- We support resolutions requesting companies to hold an annual shareholder vote on executive compensation.

- We support both the expensing of stock options on the income statement and full disclosure of severance agreements for executives.
- In general, we support compensation systems that reward company employees with stock and stock options. A proper incentive structure includes sharing the risk of ownership, especially for senior management.
- We support properly structured employee stock ownership plans that focus on appropriate incentive systems, and that are not takeover defense mechanisms.
- We support cash bonus plans, as long as they are not excessive and there are adequate performance-based incentives in place.
- We support resolutions that call for a fair distribution of wages and other compensation within a corporation.
- We support resolutions calling for equal treatment of all employees in the delivery of pension benefits.
- We oppose the concept of vapor profits: taking funds that have been allocated as workers’ compensation and using them to increase profitability at the expense of workers. For example, during expanding markets, some companies find that their pension funds are over-funded because of returns in excess of expectations. Some companies may count the extra return as income on the income statement, inflating stock price and the value of executive bonuses and options beyond what is justified by the company’s operations.
- We oppose resolutions that seek to micromanage the company, for example through establishing too-narrowly defined limits on compensation. We oppose resolutions that ask companies to provide compensation information that would require unreasonable expense or an unusual reporting method.

- We support proposals to bring Supplemental Executive Retirement Plans (SERPs) to a vote. We are concerned that these plans may provide benefits to executives over and above what other employees receive without measurable benefit to the company or its shareholders.
- We oppose compensation plans where executive compensation is not sufficiently connected to company performance. In considering whether the company’s “pay-for-performance” standard is acceptable, CBIS may consider both existing performance incentives in compensation plans, and whether recent CEO pay increases are in line with the company performance.

### 5.1.2.3. Stock Option Plans

#### 5.1.2.3.1. General Principles

Executive option plans were developed as a means of aligning management’s interests with shareholders’ interests by tying a manager’s rewards to stock price.

An option is the right to purchase a share of stock for a fixed price, called the exercise price. Normally, the exercise price is equal to the market price of the company’s shares on the date of issuance. If the stock price rises, the holder of the option can profit from the difference between the exercise price and the current market price. If the price falls, the option cannot be exercised at a profit (although the option usually retains some value since the stock price may rise in the future). Holders of options, therefore, have incentives to work for an increase in stock price.

However, we are concerned that the structure of these plans may often reward behavior that is not in the best interests of shareholders and other stakeholders. Therefore, we support stock option plans only to the degree that they are consistent with the following principles:

- *Employ performance standards based on multiple criteria, not just stock price. Stock price may be unrelated to management performance: in a rising market, mediocrity may benefit from generally improving prices; while in a falling market even superior performance may not be rewarded. Stock option plans, like all compensation plans, should include performance criteria based on a range of short- and long-term goals aimed at creating value for shareholders and other stakeholders (e.g., employees and communities).*
- *Focus on the long term as well as the short term. Recent corporate scandals revealed that some managers were able to increase their own wealth by boosting stock price for a short while at the expense of the long-term health of the company. Shareholders and stakeholders expect rewards over the longer term, and plans that offer only short-term rewards create incentives to act against the long-term interests of shareholders. Performance goals should include both short- and long-term incentives, and stock option plans should not allow managers to become wealthy by selling their shares at a company’s peak.*
- *Avoid protections for management that are not available to other shareholders. Management and shareholder interests will only be aligned if they share common risks. Practices such as reload options, option repricing and pyramiding offer company executives certain protections against downside risk that are not available to ordinary shareholders. These practices erode both incentives for excellence and the common interests of management and owners.*

Some of the most common features that may dilute performance incentives include:

- *Reload Options: When a reload option is exercised, the holder receives a new option with an exercise price equal to the current market price. This allows the holder to lock in past increases in stock price without sacrificing the possibility of future gains.*



- *Repricing: Some plans allow companies to reduce the exercise price of options in case of a falling stock price. By repricing, the company protects management against a falling stock price, a benefit not available to other shareholders, and one that runs counter to creating incentives for success.*
- *Pyramiding: Pyramiding allows holders to exercise options using existing shares as payment. This allows executives to profit from rising stock price without using any of their own money to pay for shares, a practice counter to the principle of building an ownership stake in the company.*

Despite many abuses in the implementation of compensation plans, we are willing to support well-designed stock option plans that provide real incentives for business success and align the interests of management and shareholders.

#### **5.1.2.3.2. Option Proposals**

- *We support fairly valued options. We prefer option plans with an exercise price above the current market value at issuance.*
- *We support resolutions calling for companies to link option value to the performance of a broad stock index or to the performance of a peer group of companies. We prefer performance-based incentive plans, as long as the focus is long-term and the company identifies a reasonable definition of “long-term.” We prefer option plans that include broad measures of performance that include social criteria such as worker prosperity, customer satisfaction and environmental protection.*
- *There may be times when we oppose a particular award because the total amount awarded any individual or group is so high that by any standard of reasonableness, it is deemed excessive.*
- *We oppose stock option plans that excessively dilute the value of existing shares.*

- *We oppose plans that concentrate the bulk of options in a few hands. Not only does this practice fail to spread prosperity widely, but it may also give disproportionate voting power to management, at the expense of other shareholders.*
- *We prefer plans that require cash payment for the exercise of options, but accept cashless forms as long as they do not involve pyramiding.*
- *We oppose the granting of reload options. Since ordinary shareholders do not have this protection, the practice may disconnect management’s interests from shareholder interests.*
- *We oppose replacing or repricing underwater options, except in extraordinary cases involving market drops that are unrelated to company-specific performance.*
- *We oppose stock depreciation rights, which reimburse recipients the difference between the exercise price of an underwater option and the current market price, enabling them to profit from a falling stock price.*
- *We support restrictive stock bonuses and phantom stock plans if they meet our standards for option plans. Restrictive stock plans award shares conditioned upon continuous service, performance objectives or other criteria. Phantom stock plans either withhold actual stock issuance until the specified conditions are met, or never actually issue the stock at all, but simply compensate the beneficiary in cash equivalent to the phantom equity position.*
- *We oppose omnibus plans that grant the Board discretion over the structure and exercise price of plans. While we accept the fact that most plans have acceleration or cash-out provisions, allowing exercise or compensation in case of a change of control, we oppose excessive provisions.*

- *We support resolutions that ask corporations to limit the concentration of options that are awarded to senior management.*
- *We support proposals asking the company to establish holding periods for their executives (to hold stock after option exercise), as long as the holding period is reasonable.*

## 6. Environment

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### 6.1. GENERAL PRINCIPLES

Our ethic of environmental stewardship is to use the Earth's resources so that they will be preserved and expanded for the benefit of future generations. The Earth's resources are both human and material, and must be nurtured to the fullest extent possible. Economic growth that deprives future generations of natural resources must be rejected in favor of sustainable growth.

CBIS's environmental policies are informed by the following principles:

- **Adopt Sustainable Business Practices.** Ecological sustainability must be recognized as a prerequisite for long-term prosperity. Sustainable business practices meet present needs and expand choices for people and communities without sacrificing the well-being of future generations. An environmental commitment to sustainability must include efforts to ensure that the company increases, rather than reduces, the Earth's stock of natural resources. We expect companies to make continual improvements toward meeting this standard.

- Employ the Precautionary Principle. While there may be a diversity of opinions about the environmental impact of an activity, disagreement should not be used as an excuse to delay needed remedies. Especially in the case of potentially serious or irreversible harm to the ecosystem, lack of scientific consensus should not postpone cost-effective measures to prevent environmental degradation.
- Promote Equality. We are concerned that the poor and minorities may suffer disproportionately from environmental degradation.

Moreover, we would be concerned about any company activity that did not respect the rights of local people to control the natural resources at their disposal. We expect that companies will take steps to preserve and enhance the natural resources available to local communities, with the input and consent of these communities.

- Expand Transparency and Involvement. Companies should disclose data about their environmental performance using commonly accepted formats and metrics, where available, and should work to improve the standard of reporting generally. The reporting process must be broadly inclusive of a range of stakeholder groups, and all data should be submitted to verification by independent outside monitors. Decisions having potential impact on local or national communities should not be made without prior input and consent of a broad array of local stakeholder groups.

## 6.2. CLIMATE CHANGE

Scientific consensus exists that the Earth is warming, that human activity, specifically the emission of “greenhouse gases,” is one important cause, and that climate change will likely have a substantial impact on human health, the global economy and the Earth’s ecosystem. According to the Intergovernmental Panel on Climate Change (IPCC), organized under U.N. auspices, the Earth’s temperature will increase between 3 and 11 degrees Fahrenheit over the next century unless there is a drastic (60 to 80 percent) reduction in carbon dioxide (CO<sub>2</sub>) emissions. While uncertainties remain

about the ultimate impact of climate change on the Earth’s environment, this, uncertainty does not alter companies’ responsibility to dramatically reduce greenhouse gas emissions.

- We support resolutions asking companies to take steps to mitigate the effects of climate change, to develop or use renewable energy, and to set targets for reduction in greenhouse gas emissions in products and operations.
- We support resolutions asking companies to report on greenhouse gas emissions.

## 6.3. GENETICALLY MODIFIED ORGANISMS

While genetic modification (GM) of plants and animals may bring benefits to humanity, the scientific community currently lacks sufficient understanding of the potential long-term environmental and human health impacts. Moreover, many people in developing countries are concerned that GM agriculture will disrupt long-established patterns of agriculture and reduce the ability of people to choose how they will obtain food.

- We support resolutions asking companies to label genetically modified foods.
- We support resolutions asking companies to refrain from marketing these products until long-term safety testing proves them safe for human health and the environment.
- We support resolutions asking companies to report on the risks and benefits to shareholders and to the environment of continued use of GMOs in food products.
- We support resolutions asking companies to ensure that their efforts to protect their patents do not infringe upon the rights of communities in the developing world to control local resources or to continue traditional patterns of agriculture.

#### 6.4. ENVIRONMENTAL JUSTICE

We are concerned that the negative environmental impacts of corporate activities often fall hardest on those with the least voice in society: the poor and people of color. In particular, we are concerned about the tendency to place environmentally damaging plants in poor neighborhoods and to manage operations in developing countries according to environmental standards that would be considered unacceptable in the United States.

Environmental Justice is an issue that cuts across many areas, including health, human rights, ownership of natural resources, and the survival of sacred cultural sites and antiquities of value to local communities. (Also see Equality & Diversity, page 33 and Human Rights, page 45.)

- We support resolutions asking companies to report on whether the health or environmental risks resulting from their activities fall disproportionately on any group, and to take steps to mitigate those risks.
- We support resolutions asking companies to report on, assess the impact of, and curtail health or environmental hazards to communities that result from their activities.
- We support resolutions asking companies to examine their operations in light of their impact on sustainability and biodiversity in ecologically unique or sensitive areas.
- We support resolutions asking companies to respect the rights of local communities to control local natural resources and to fully participate in business decisions impacting their lands.

#### 6.5. REPORTING AND CODES OF CONDUCT

The Global Reporting Initiative (GRI) is the emerging standard for public reporting on sustainable use of the Earth's resources and other issues of corporate social responsibility. We believe that the GRI represents the best such initiative, because it was developed by a broad stakeholder

group, including companies, investors, environmentalists, and grass roots organizations.

- We support resolutions that call on a company to publish an annual environmental or sustainability report, especially when it is fashioned on the design of the GRI report.
- We support resolutions that call on a company to develop a corporate environmental ethic and principles, to endorse a responsible set of intercorporate principles and practices, or to prepare progress or reaction reports designed to foster adoption of either of these two types of principles. Reports should exclude proprietary data and should be prepared at reasonable cost.
- We oppose resolutions that call on a company to restrict, curtail, or promise not to enact public environmental reporting.

#### 6.6. MISCELLANEOUS ENVIRONMENTAL INITIATIVES

- We support resolutions asking companies to report on water use and efforts to improve water use efficiency and pollution remediation. We support resolutions asking companies to adopt a human right to water.
- We support environmental resolutions aimed at matters of specific ecological impact, e.g., sustainable use of natural resources, waste reduction, wiser use of energy, reduction and elimination of health and safety risks, marketing of safer products and services, responsible environmental restoration, etc.
- We support resolutions requesting that companies link executive compensation to their environmental performance.
- We support resolutions asking companies to restrict development of nuclear power plants, and to close plants that are deemed to be health hazards.

- We support resolutions asking companies to report on the impact of environmental liabilities on shareowner value.
- We oppose resolutions that ask companies to close plants or otherwise shut production for environmental reasons without regard to the people affected by such activities.
- We support resolutions that ask companies to report on the treatment of animals in their research or operations. We support, on a case-by-case basis, resolutions asking food and agricultural companies to adopt responsible animal use policies that include protection of human health and the environment and humane treatment of animals. We oppose resolutions asking for the cessation of the use of animals in biomedical testing.
- We support resolutions asking companies to improve the recyclability of their products or packaging. We generally support resolutions asking companies to increase the recycled material content of their packaging.
- We support resolutions asking companies to report on policies governing the use of nanomaterials in products or packaging.
- We support resolutions asking companies to report on efforts to ensure the safety of nuclear power plants and all activities related to the operations of those facilities.

## 7. Equality & Diversity

### 7.1. GENERAL PRINCIPLES

CBIS believes that equal employment opportunity and respect for diversity constitute sound business policies and are consistent with the Catholic imperative to seek justice for all persons. In the United States, investors are especially concerned with barriers that have historically existed in corporations, particularly within senior leadership, for women and people of color.

- Diversity is both an economic and a justice issue. If all people are to be equally valued in society, then everyone must have access to economic opportunity. It is not in the best interest of a corporation to exclude talented individuals from any level of the organization. Neither is it in the best interests of the company to ignore the changing dynamics of the domestic workforce and consumer base.
- Corporations' responsibility to promote equality extends beyond the company. Communities are impacted in a variety of ways by corporate behavior. Companies should strive to assure that the benefits of corporate behavior are distributed fairly and equally, and that negative impacts are managed so that they do not fall disproportionately on

one or another group. Companies should also solicit input about their practices from a diverse group of stakeholders wherever they operate.

## 7.2. BOARD OF DIRECTORS

CBIS recognizes that there are many factors to consider and balance in making hiring and recruiting decisions, including the credentials and individual qualities of the potential candidates. Quite often, the candidate who is chosen may be superior in some areas but not in others. Thus, we do not think a company's claim of wanting to hire the "best possible candidate" to be a sufficient response to issues related to diversity. We believe there are always qualified women and people of color who should be included in searches for Board positions.

Feedback from various executive search firms suggests that when companies place a single woman or person of color on their Board, the mandate to search for diverse members ends. This suggests that the focus of many companies remains short-term. We seek a continuous process in which the desire for diversity remains an ongoing mandate for the company.

We expect companies to have broadly diverse Boards, including Directors who are women and people of color in sufficient representation.

We understand that definitions of diversity may vary for companies with headquarters in different regions around the world. As a result, our approach to addressing racial and ethnic diversity may vary across countries.

CBIS is consistent in our application of gender diversity. We expect all companies, regardless of their country of domicile, to implement some form of gender diversity throughout the organization.

- We withhold approval of all nominees if the company has not demonstrated a willingness to include women and persons of color on its Board. We expect that the composition of the Board of Directors and top management in the firm will reflect a commitment to diversity.

- For an international company, CBIS withholds approval of nominees if the company has not demonstrated a willingness to include women on its Board. Wherever possible, we will apply a diversity standard that recognizes the difference in demographics of individual countries in which a company's headquarters is located, and where it has operations.
- We support shareholder proposals asking companies to improve board diversity, including adding specific language relating to board diversity in the corporate charter.

## 7.3. WORKFORCE (DOMESTIC AND GLOBAL)

- We support resolutions asking for disclosure of statistical information and policy statements regarding nondiscriminatory hiring, performance evaluation and advancement, and workforce composition.
- In the U.S., we support resolutions asking for disclosure of a company's EEO-1 consolidated data report that is filed with the Equal Employment Opportunity Commission (EEOC).
- We support resolutions asking a company to create policy statements regarding nondiscriminatory hiring, performance evaluations, advancement, and affirmative action.
- We support resolutions asking a company either to create or to publicly disclose its policy on sexual harassment.
- We support resolutions that call for a company to incorporate standards of equal opportunity in its overseas operations similar to or consistent with its domestic operations.
- We support resolutions that seek to link executive compensation to a company's performance in promoting diversity, when that performance is directly tied to the achievement of an articulated goal.

- We support resolutions asking companies to adopt non-discrimination policies for sexual orientation and oppose resolutions asking companies to rescind existing policies.

#### 7.4. COMMUNITIES (LOCAL, INTERNATIONAL, INDIGENOUS)

- We support resolutions calling on companies to avoid the use of advertising that misappropriates images of cultural significance or that portrays any group in a negative or offensive light.
- We support resolutions calling on greater consultation with local indigenous people where company activities may have an impact on their way of life.
- We support resolutions calling on companies to mitigate the negative impacts of their activities on local indigenous communities.

## 8. Global Finance

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### 8.1. GENERAL PRINCIPLES

The following are our principles for voting on issues relating to Banks and Global Finance:

- Capital is to be used responsibly and for the benefit of all humanity. Capital is necessary for modern production. Capital and financial products and services must serve human needs and be allocated in a way to benefit investors, owners, and society.
- Alleviation of poverty is a primary concern. Prosperity is a worthwhile goal only if its effects are spread throughout all societies worldwide. Economic activity that benefits the few at the expense of the many must be rejected in favor of expanding opportunities for all. Historically, the lack of capital directed towards the world's poor has impeded their prosperity and development. A just economic system demands that financial institutions, as a top priority, actively seek out opportunities to rectify this imbalance by providing access to capital for all.
- Development must proceed from within. Development must be understood, not simply in narrow financial terms, but as a means

of expanding people's choices about how to achieve their human potential and strengthen their communities. Policies externally imposed on communities, even if economically sensible, deny them the basic human right to choose their own path to development. Multilateral institutions must join with local and national leaders in creating development strategies that meet the individual needs of unique countries and communities. Commercial and investment banks must involve local leaders in decision-making about how to allocate capital within their communities to serve all members, not just owners of capital.

## 8.2. PROPOSALS

- We support resolutions asking companies to end predatory lending practices.
- We support resolutions asking companies to tie CEO pay to reductions in predatory lending.
- We support resolutions asking companies to ensure that home mortgage programs do not discriminate based upon race or any other criteria other than ability to repay the loan.
- We support resolutions asking commercial lenders to incorporate social criteria into their lending and underwriting practices.
- We support resolutions asking companies to work with highly indebted countries to reduce their debt burden in ways that promote economic justice and the common good.
- We support resolutions calling on banks to dedicate resources to financing projects with positive social impact.
- We support resolutions asking banks to take steps to reduce the risk of their services being used to further criminal enterprises, such as money laundering.

# 9. Health

## 9.1. GENERAL PRINCIPLES

CBIS is guided by the following principles on health care issues:

- Health care is a human right. Lack of health care prevents many individuals from fulfilling their human potential, threatens the sustainability and security of communities and nations, and imposes costs on us all. Because of its importance to human life and society, health care cannot be considered a commodity like any other. Instead, it must be considered a natural right of all people. Health care companies must take steps to ensure that their products are widely available, regardless of ability to pay; employers should strive to increase coverage for all employees.
- Do no harm. Companies have a responsibility to offer safe and useful products. While virtually any product could be hazardous if misused, companies should ensure that their products offer benefits that outweigh any health risks before offering them to the public. Companies should take steps to develop the capability to replace hazardous products with safer ones that meet all requirements for cost and quality.



- Promote informed consumer and patient choice. People can only make informed choices about their health if they are properly educated about those choices. Health care companies have a responsibility to engage in public information campaigns that educate the public and promote greater participation in health care decisions, as opposed to merely advertising products that the companies wish to sell. Consumers have a right to accurate information about product risks that allow them to make educated consumer choices. Activities that restrict important health information from the public, or that actively mislead, are unacceptable.

## 9.2. ACCESS TO HEALTH CARE

In the U.S., the cost of medicine is a significant and growing burden for a number of people, especially the elderly. Those without health insurance are disproportionately poor and non-white.

Over the past two decades, the number of people living with HIV more than quadrupled due to the increase in people receiving antiretroviral therapy, but the need for improved access to therapies, particularly in developing countries and among children, remains significant: in Sub-Saharan Africa, five million people lack access and only 27% of eligible children receive treatment.

The AIDS epidemic is connected to the worsening of other perennial health crises, tuberculosis and malaria. Tuberculosis is the leading cause of death for people living with AIDS. And while progress has been made combating malaria, resistance to medicines and insecticides is increasing.

- We support resolutions asking drug companies to develop programs to make AIDS, Malaria, and Tuberculosis drugs available to disadvantaged groups, especially in Africa.
- We support resolutions asking companies with operations in heavily impacted areas, such as Africa, to ensure that all of their workers receive appropriate coverage.

- We support resolutions asking companies to take steps to increase access to drugs in the U.S., including reducing prices.
- We support resolutions asking companies to improve access to health care.
- We support resolutions asking pharmaceutical and biotechnology companies to develop a set of ethical criteria for extending or enforcing patents.
- We support proposals asking pharmacy benefits managers and others to disclose the incentives that they receive from pharmaceutical companies to purchase their products.

## 9.3. PVC IN MEDICAL DEVICES

PVC plastic may include phthalates, which are used to soften PVC and are believed to have negative effects on human health. When PVC is produced and disposed of, dioxins are released that also impact human health. The use of PVC in medical devices, children's toys, and packaging is on the decline due to increasing awareness of its negative health impacts and recent regulations curtailing its use. Some companies continue to use PVC in products and packaging, however.

- We support resolutions asking companies to reduce or eliminate PVC in their products and packaging.

## 9.4. ALCOHOL / GAMBLING / TOBACCO

Alcohol, Gambling, and Tobacco raise substantial public health concerns. While the use of these products and services is an adult decision, excessive use can be detrimental to the individual and the family. Moreover, the targeting of advertising to minors or other vulnerable populations is, in our view, unethical. CBIS has instituted a Catholic investment screen for tobacco. This is in part because our participants' concerns about the industry's marketing activities, as we understand them, rise to such a level that no level of

participation is acceptable. For companies in our portfolios that are involved in these activities, we expect them to employ the following principles:

- Do not market specifically to vulnerable populations, especially children. Because the use of these products is restricted legally and ethically to adults, marketing strategies should not target children. Despite company denials, it appears that some companies seek underage customers who may become lifelong customers. CBIS does not accept the explanation that marketing strategies obviously targeted at minors are geared to adults. Such strategies include the use of cartoon-type characters, young-looking actors and/or models and other marketing techniques meant to attract minors.

Similar principles apply to other vulnerable populations, such as people in disadvantaged communities. In these places, individuals may not have sufficient access to information about the health risks of these products to make an informed choice about the risks involved.

- Take responsibility for health and safety risks. While virtually any product can be dangerous if misused, the high public health costs of alcohol, gambling, and tobacco imply greater social responsibility for the companies that produce them. Companies must avoid behaviors that increase the health risks of their products and work to mitigate these risks, if possible. They must also ensure that their public communications do not mislead the public about the health implications of their products.
- Responsibility exists throughout the supply chain. Companies that are suppliers to these industries, or that provide public venues where these products may be used or consumed, bear a responsibility to their customers and other stakeholders. While these companies are not directly providing services of concern, their own behavior must ensure that they do not contribute to unethical conduct of companies, that they respect the rights of their customers to avoid being harmed by these products (such as smoke-free restaurants), and that their

participation in these activities does not conflict with their primary business (such as family-oriented companies).

#### 9.4.1. Alcohol

- We support resolutions aimed at reducing or eliminating marketing practices aimed at certain targeted market segments.
- We support resolutions calling for the elimination of advertising “giveaways,” or sponsorships that are targeted to, or primarily given to, minors and members of minority groups.

#### 9.4.2. Gambling

- We support resolutions asking gaming companies to enact procedures to limit access to credit for individuals not able to demonstrate sufficient capital resources.

#### 9.4.3. Tobacco

CBIS has a Catholic investment screen that restricts investment in companies that produce tobacco. For companies that do not directly produce the product, but are involved in other aspects of the tobacco industry, we have established guidelines for our interactions.

- We support resolutions asking companies to provide educational materials on the health impacts of tobacco use.

##### 9.4.3.1. Suppliers

There are many companies whose primary business is far removed from the tobacco business, but who have business units that supply materials to tobacco companies. This is of particular concern for consumer products companies that market services to families.

- We support resolutions asking companies to evaluate the sale of businesses related to the tobacco industry, and to concentrate on their primary businesses.

- We support resolutions asking companies to spin off tobacco-related businesses from their core operations.

#### 9.4.3.2. Tobacco Access to Minors/Tobacco Advertising

There is considerable concern about the availability of tobacco and tobacco-related products to minors. Critics of the tobacco industry assert that tobacco companies have deliberately tried to promote underage usage as a way of creating a future market for their products. Tobacco companies dispute this assertion, indicating that they only market to adults.

Based on revelations of previously confidential tobacco industry documents, it is clear that tobacco companies have been involved in campaigns meant to create a future market for their products. We do not view the results of these activities as coincidental or incidental.

There is also significant concern about tobacco industry advertising in targeted communities. We view efforts to increase market share among women, minorities, and other segments of society through the use of advertising as an unethical use of corporate resources.

- We support resolutions asking media companies to eliminate tobacco advertising that appeals to minors.
- We support resolutions asking media companies to eliminate tobacco advertising that is specifically targeted to women and minorities.
- We support resolutions asking companies to take specific steps to monitor stores' compliance with state restrictions on the sale of tobacco products to minors.
- We support resolutions asking retail operators who sell tobacco products to report on their training programs for employees, to ensure compliance with local laws prohibiting sales to minors.

## 10. Human Rights

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### 10.1. GENERAL PRINCIPLES

Catholic social teaching has a long and rich history of promoting the rights of individuals. *Rerum Novarum* is a foundational work that prescribes the right of each human not just to exist, but to be provided with an environment that promotes the full development of the individual. It articulates the Church's commitment to the cause of the individual as worker. Many other faith traditions also have statements that focus on the rights of the individual within the context of society.

The Universal Declaration of Human Rights is the most widely recognized secular resource in defining human rights. Crafted by the United Nations and adopted by the General Assembly in 1948, it has become the seminal work that has guided the crafting of many other human rights statements worldwide.<sup>1</sup>

The Declaration identifies “first generation” rights (political) that speak to the right of individuals to be protected from capricious governmental

1. *Universal Declaration of Human Rights*. New York, United Nations, 1993. Number DPI/876/Rev. 1. See also *The International Bill of Human Rights*. New York, United Nations, 1993. Number DPI/925/Rev.

actions.<sup>2</sup> The Declaration also addresses “second generation” rights (social) that permit citizens to realize their full human potential within the context of their society.<sup>3</sup>

There are many countries where human rights are not consistently enforced. U.S. corporations may buy products or set up production facilities in these countries. They may also operate in these countries through joint ventures with companies that are controlled or owned by a regime, or by key members of a regime, deemed by the international community to be violating the human rights of its citizens.

To the degree that profits derive from the exploitation of foreign workers, U.S. corporations and investors benefit from the diminution of those workers’ humanity—which poses serious ethical problems for socially responsible investors.

Our expectations for companies doing business abroad are summarized as follows:

- The community, not the company, is the center of economic activity. The purpose of a company is to offer useful and desirable products to consumers, opportunities to workers, and financial returns to investors. The human and natural resources used in business operations belong to the communities from which they come. The corporation, therefore, is part of the community and not separate from it. All stakeholders are partners and have a right to fully participate in decision-making on matters of relevance to them.
- Companies must uphold universal human rights standards. All people are endowed with the same human rights, as detailed in the

*2. Examples of “first generation” rights: right to be free from excessive detention without charges being filed; right to due process; right to freedom of movement within borders of own State; right to life, liberty, and security, etc.*

*3. Examples of “second generation” rights: right to education; equal protection for mothers and children regardless of their status; right to participate in the cultural life of the community, etc.*

U.N. Charter and elsewhere. In developing human rights standards, companies will make use of universally accepted standards, such as the International Labor Organization conventions. Companies will not adopt business practices in developing countries that would be unacceptable in the United States or Europe. Companies should also ensure that their partnerships with local governments and other entities enhance, rather than compromise, human rights.

- Sustainable development must be a priority. Companies should make a long-term commitment to sustainable development as a condition of using local resources for their businesses. Sustainable communities are independent participants in economic life, providing locally created and sustained opportunities for economic and social development to present and future generations.
- The supply chain is the company’s responsibility. Companies must attend to the impact of all aspects of bringing their products to market. They cannot relieve themselves of these duties by “outsourcing.” Companies must ensure that the activities of suppliers, partners, and distributors are consistent with the highest standards of human rights.
- The company will engage a broad array of stakeholders to ensure transparency. In order to avoid sweatshop practices or other labor or human rights violations, companies should agree to allow independent third parties to monitor their overseas activities. Monitoring programs must include a broad array of stakeholders, including local human rights groups. Companies should make their shareholders and other stakeholders aware of the results of these audits, and provide any other relevant information.

## 10.2. VENDOR STANDARDS

In order to reduce labor costs and focus their workforce on marketing activities rather than manufacturing, many companies outsource their production to external manufacturing companies located in the developing

world. Companies may take advantage, not only of low wage standards found in developing countries, but of lax environmental and worker safety standards as well. The result can be labor conditions that are hazardous to the health of workers and communities and fail to provide for a decent standard of living. Recent controversies about labor conditions in China, India, and Bangladesh highlight the widespread nature of these problems.

- We support resolutions calling for a just wage or for the company to study whether it is providing a just wage.
- We support resolutions asking companies to develop, implement, and report on policies and initiatives to eliminate forced/slave labor, child labor, and sexual exploitation in their operations and those of their suppliers.
- We support resolutions asking companies to develop, implement, and report on policies and initiatives to combat human trafficking and slavery.
- We support resolutions calling for higher standards of worker health and safety.
- We support resolutions asking companies to end discrimination and discriminatory practices against any group.
- We support resolutions requesting that a company establish independent monitoring of suppliers that it owns or with whom it contracts. The independent monitoring needs to include local non-governmental organizations (NGO) and/or local stakeholder groups.
- We support resolutions asking companies to report on policies and initiatives to ensure responsible working conditions throughout their supply chain.
- We support resolutions that ask for statistical information and policy statements regarding nondiscriminatory hiring, performance evaluation and advancement, and affirmative action progress.

- We support resolutions asking a company to tie executive compensation to improved social practices in its overseas factories.

### 10.3. GLOBAL STANDARDS

As the impact of multinational corporations grows, shareholders have begun to ask companies to adopt comprehensive codes of conduct that encompass all aspects of their business, including worker rights, environmental protection, diversity and corporate governance.

- CBIS supports resolutions calling for companies to develop global codes of conduct, as long as those codes are consistent with the values of our participants. We expect that company principles will be consistent with and reference the conventions of The International Labor Organization (ILO) (affiliated with the United Nations), the most comprehensive generally accepted principles for labor rights in the world.
- CBIS supports resolutions asking for companies to report on the sustainability of their practices. The Global Reporting Initiative (GRI) is one such reporting tool.
- We support resolutions requesting that companies include adherence to strict environmental standards in the practices and facilities they operate, as well as those of their contractors.

### 10.4. NATIONS AND COMMUNITIES

We carefully review resolutions addressing operations in countries where human rights are not respected, to make sure that companies are not complicit in or contributing to human rights violations.

- We support resolutions asking companies to develop or adopt a code of responsible business practices for their operations in specific countries of concern, as long as those codes are consistent with the values of our participants. These codes should be developed with local stakeholder input.

- We support, on a case-by-case basis, resolutions asking companies to cease operations in countries that have been identified by the international community as major transgressors against human rights.
- We support resolutions calling for companies to examine their partnerships with governments in light of human rights criteria and to engage in those partnerships only if they serve to enhance human rights and human development. We expect that any examination and decision-making will be undertaken with the input of local people.
- We support resolutions asking companies to ensure that security arrangements do not compromise the human rights of local communities.
- We support resolutions asking companies to report on the impacts related to the outsourcing of business to developing countries. We oppose resolutions asking companies to curtail outsourcing activities.

## 11. Life Ethics

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Since CBIS has established a Catholic investment screen restricting investment in companies that directly contribute to or participate in the cessation of human life, we do not own securities of any companies that are directly involved in these activities. As a result, it is unlikely that we would vote proxies with these companies.

There may be companies whose products are not manufactured specifically for purposes of ending life, and which have no direct participation in this activity, yet are engaged in activities that raise life ethics concerns. In these situations, there may be a possibility of voting a proxy ballot containing a proposal addressing a life ethics issue.

- Generally, CBIS will support resolutions that seek to curtail corporate activities which contribute to ending human life and that promote respect for human life consistent with Catholic teachings on life ethics.
- We support resolutions asking a company to publicly affirm whether its product(s) contribute to life-ending activities.
- We support resolutions asking a company to take all reasonable efforts to restrict access to company product(s) for those who would use the same for cessation of human life.

## 12. Ownership Rights & Corporate Defenses

### 12.1. CONFIDENTIAL VOTING

Open balloting allows companies to obtain information about institutional shareholders, and to resolicit them in order to urge them to change their votes. We see no reason why confidential voting, a basic tenet of democracy, should not be applied to corporate governance.

- We support resolutions asking that the company institute confidential voting.

### 12.2. STOCK-RELATED PROPOSALS

#### 12.2.1. Issuance of Stock / Increasing Shares

There are many appropriate reasons why a company may increase or decrease the number of its authorized shares. However, shareholders are owners of the company, and the number and amount of shares they own determine their level of ownership. As a result, proposals that seek to change the level of shareholders' ownership interest deserve special attention.

Of prime concern in analyzing these issues is the dilution of shareholders' interest in the company.

- *We support, on a case-by-case basis, requests for issuing stock for specific corporate activities, as long as the issuance is consistent with other matters described in this document.*
- *We support resolutions that seek the issuance of stock for matters that are considered to be routine. However, we will oppose increases that are excessive given the company's situation.*
- *We generally oppose the issuance of certain types of stock, such as preferred, dual-class common, etc., where the voting rights deviate from the one-share, one-vote concept.*
- *We oppose resolutions that seek to issue new stock or increase shares when that activity is to advance antitakeover activities, such as poison pill plans, greenmail, etc.*
- *We oppose the issuance of blank-check preferred stock, which may be used at any time by the company and with unspecified terms (including extra voting rights) that may be defined at a later date by the Directors without shareholder approval.*
- *We oppose the issuance of authorized preferred stock if the Board asks for unlimited rights in determining the terms and conditions for its use without prior shareholder approval.*

#### 12.2.2. Preferred Rights

Owners have the right to defend their stakes in a firm against dilution (preemptive rights). These rights are traditional in Europe, especially in the U.K., to prevent private trans-Atlantic placements at a discount to domestic prices. Many U.S. companies have dropped the provision of these rights.

Proposals to drop or establish preemptive rights are voted on a case-by-case basis, considering the market capitalization of the company, the number of shareholders and the cost of providing such rights to all.

### 12.3. CORPORATE RESTRUCTURING

Mergers, acquisitions, spin-offs and other forms of corporate restructuring involve a change in control of the company's assets. CBIS considers them a matter of both financial and social interest. These proposals are voted on a case-by-case basis after careful study of the business decisions that led to the proposal, as well as the recommendations of management, outside analysts, and other advisors.

As long-term investors, our decisions about corporate restructuring proposals are based on the long-term prospects for the new entity, and not on short-term benefits that may accrue to shareowners. At a minimum, we expect that any rationale for a restructuring be accompanied by an analysis of its long-term effect on the company.

In addition, we believe that transactions that materially affect current shareholders' ownership in the new entity must be scrutinized closely, especially when the ownership position will be a minority one. We also prefer that management consider effects on the company's various stakeholders, including customers, suppliers, employees, and host communities.

- We support resolutions asking management to study and report on the impact of a restructuring plan on the various stakeholders in the company.
- We oppose restructuring that places the interests of one stakeholder group above others. We will consider a number of social factors, including executive compensation, layoffs, environmental sustainability, and community impact.
- We oppose the payment of restructuring expenses without some

demonstrably clear long-term benefit accruing to shareowners.

- Unless there are significant synergies to be achieved, we oppose diversification strategies that result in payment of a premium, when independent open market purchases by shareholders can afford the same benefit at lower cost.
- We oppose restructuring that results in the establishment of a weak corporate governance regime, including restructuring that involves and violates our voting stance on reincorporation, board classification, poison pills, or other significant corporate governance issues.
- We oppose a hostile bid, even at the sacrifice of an immediate premium, if we believe that the long-term interests of shareholders will best be served by the continuation of the company as is. We also consider the community impact of a hostile bid.
- We oppose mergers that involve companies restricted under our Catholic investment screens.
- We vote against proposals to adjourn meetings in order to solicit additional proxies in order to approve a merger agreement. This runs counter to the idea of shareholder democracy.

### 12.4. REINCORPORATING

At times, shareholders are asked to approve a change in the state where the company is incorporated. This may be done for ordinary business reasons, e.g., the company wants to incorporate in the state of its most active operations or where its headquarters is located. However, it can sometimes be an attempt to relocate to a state that has enacted stringent antitakeover or lenient directors' responsibility laws.

Reincorporation to foreign countries has become more common in recent years as well. Companies often reincorporate abroad, usually while retaining most corporate and operational functions in the U.S., in order



to avoid paying U.S. taxes and possibly to take advantage of lax corporate governance standards. We cannot support such efforts to weaken corporate governance protections or avoid legal tax liabilities.

- We support reincorporation only when there are valid business reasons for it.
- We oppose reincorporation outside the United States if shareholder rights will be impacted, or if the primary reason for reincorporation is tax avoidance.
- We support resolutions to opt out of state laws that violate our stances on key governance issues, such as antitakeover measures.
- Other reincorporation and opt-out resolutions are voted on a case-by-case basis.

## 12.5. CORPORATE TAKEOVER DEFENSES

### 12.5.1. Golden Parachutes

A golden parachute is an employment contract that rewards top executives with generous severance benefits in the event of a change in control. Silver and tin parachutes are similar arrangements for middle management and non-management personnel. Companies are required to submit golden parachutes to a shareholder vote.

Properly conceived, a generous severance arrangement can free management to act in the best interests of shareowners in responding to acquisition offers. Often, however, it is an attempt to raise the cost to a third party of acquiring the company, discouraging all such offers.

- *We support severance contracts on a case-by-case basis. Criteria for analyzing the actual approval of parachute plans include necessity, breadth of participation, payout size, sensitivity of triggers, and leveraged buyout restrictions.*

### 12.5.2. Poison Pills

Shareholder rights plans (poison pills) are the most prevalent type of antitakeover defense measures. They come in many forms, have a number of unique names, and are used to prevent the acquisition of a company.

A poison pill is designed to make a company a less attractive takeover target. By triggering a pill's provision, an acquirer/bidder has to swallow some bitter medicine — dramatically increased costs — to successfully complete its takeover.

- *A scorched-earth policy is used by a takeover target to make itself wholly unattractive to a takeover bidder. It may, for example, require the sale of the most attractive assets (the crown jewels) of a company, or it may schedule all debt to become due immediately after a merger.*
- *The earliest pill was a preferred stock plan, in which a dividend of preferred stock convertible into common stock was issued. If triggered, the holders of the preferred stock — other than the raider — redeemed it at the highest price paid for common stock during the past year.*
- *Back-end plans allow shareholders — other than the acquirer — to exchange shares for a specified amount of cash or notes far in excess of market value.*
- *Voting plans distribute preferred shares with multiple votes that are exercisable when triggered. Back-end plans and various courts have found voting plans discriminatory, but elements may be found in current pills.*
- *Dead-hand poison pills allow a shareholder rights plan to be redeemed only by the individual Directors who enacted it, empowering Directors after their term of service with the company has ended and making it more difficult for current Directors to act in the interests of shareholders.*

- *Flip-over rights in a poison pill give shareholders the right to purchase shares in the surviving company at half the market value upon a business combination. Flip-in rights allow purchase of shares in one's own company at deep discounts when triggered, typically upon acquisition of 20% of the company's voting stock. Many pills contain both flip-over and flip-in provisions.*

*Enacting these and similar deterrence provisions may entrench current management. In the short term, the deterrent effect of these devices tends to decrease shareholder value, and the long-term effect is indeterminable.*

*Any activity which automatically restricts consideration of an acquisition, without first exploring the merits of the offer, or which serves mainly to entrench current management, is not viewed favorably.*

- *We support resolutions that call for shareholder approval of shareholder rights plans.*
- *We oppose resolutions that seek to limit or restrict the ability of shareholders to vote on these plans.*
- *We oppose the introduction of poison pills, unless they are presented with convincing arguments in a specific case.*

## 12.6. SUPERMAJORITY VOTE

Supermajority voting provisions in a company's by-laws usually require anywhere from 67% to 85% of outstanding shares to approve an action. We believe this type of provision to be an erosion of the principle of majority rule.

- We support resolutions limiting supermajority voting provisions and oppose resolutions that seek to institute these provisions.

## 12.7. SPECIAL MEETINGS / ACTION BY WRITTEN CONSENT

While management generally may call special meetings at any time, shareholders are often limited or prevented from doing so. Such limits can be invoked to prevent a bidder from calling a meeting to address a possible takeover. However, this also eliminates an important tool shareholders possess to force management to address other issues, including social responsibility.

Shareholders may generally initiate and implement a shareholder action without waiting for the annual meeting, or calling a special meeting, by obtaining the written consent of a certain percentage of the ownership. Elimination of this right can be a takeover defense.

- We support reasonable limitations on the right of shareholders to call special meetings, and oppose the total elimination of this right.
- We may support reasonable limitations on the use of written consent, and oppose the total elimination of this right.

## 13. Peace

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Protection and preservation of life is a core teaching of the Catholic faith. CBIS participants are concerned both about the global proliferation of offensive military capability and the increase in handguns and other weapons in local communities.

A 1994 document, “The International Arms Trade: an Ethical Reflection,” summarizes the position of the Church on arms production: “The right of legitimate defense exists, [but] it is not an absolute right; it is coupled with the duty to do all possible to reduce to a minimum, and indeed eliminate, the causes of violence... Arms can never in any way be treated like other goods exchanged on the world or internal market. While the possession of arms can serve as a deterrent, arms also have another finality. There is a close and indissociable relationship between arms and violence.”

The policy is informed by recognition of the delicate balance between the legitimate need for national defense and what our participants consider to be the illegitimate, excessive buildup of arms for other purposes. According to this view, military activities must be designed only to reduce violence and the threat of violence. Those designed for purposes beyond those necessary to protect innocent citizens are unacceptable to a majority of our participants because they contribute to the spread of violence.

CBIS’ Catholic investment screens prohibit ownership of the major contributors to global militarism (but not all military contractors); the manufacturers of landmines; and the producers of handguns for the retail market.

- We support resolutions asking management to consider prospective military contracts in the light of basic canons of ethical business practice, environmental impact, stability of employment, lobbying practices and costs, company dependence on militarism, export practices, and the social consequences of nuclear, space, chemical and biological weapons systems.
- We support resolutions asking management to develop and report on current and potential plans for economic diversification and conversion of facilities that currently service military contracts.
- We support resolutions asking companies to report on or to provide a rationale for their foreign military sales.
- We support resolutions asking companies to report on foreign military sales.
- We support resolutions asking retailers to restrict the sale of firearms that threaten the safety or well-being of communities.
- We support resolutions asking companies to develop policies aimed at curtailing the sale to minors of electronic media, including video games, that are inappropriate for children and teenagers.

Christian Brothers Investment Services (CBIS) manages funds for Catholic organizations seeking to combine faith and finance through the responsible stewardship of Catholic assets. CBIS' combination of premier institutional asset managers, diversified product offerings, and careful risk-control strategies constitutes a unique investment approach particularly suited to Catholic institutions and their fiduciaries. CBIS strives to integrate faith-based values into the investment process through Catholic Responsible Investing, a disciplined approach to investing that includes Catholic investment screens and active ownership strategies (proxy voting, corporate engagements, and shareholder resolutions). The firm contributes a portion of all profits to support the Church's educational and social ministry.

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*[www.cbisonline.com](http://www.cbisonline.com)*



#### NEW YORK

777 Third Avenue, 29<sup>TH</sup> Floor  
New York, NY 10017  
TEL 800.592.8890  
TEL 212.490.0800  
FAX 212.490.6092

#### CHICAGO

20 N. Wacker Drive, Suite 2000  
Chicago, IL 60606  
TEL 877.550.2247  
TEL 312.803.6440  
FAX 312.803.6441

#### SAN FRANCISCO

One Embarcadero Center, Suite 500  
San Francisco, CA 94111  
TEL 800.754.8177  
TEL 415.623.2080  
FAX 415.623.2070

#### CBIS GLOBAL

##### ROME SERVICE CENTRE

Via Aurelia, 476  
CP 9099 (Aurelio)  
00165 Roma - Italia  
TEL (39) 06 66 01 72 18  
FAX (39) 06 663 88 21

#### ACCOUNT SERVICES

Catholic United Investment Trust  
PO Box 9683  
Providence, RI 02940-9683  
U.S. TEL 800-321-7194  
INT'L TEL 508-871-9942  
U.S. FAX 844-261-6489  
INT'L FAX 508-599-4183