

ISS Benchmark Policy

Primary Focus

Client Type: Wall Street investment firms & large institutional investors

Orientation: Total Shareholder Value & Risk Mitigation

Policy Driver: Educate institutional investors on "best practice" standards

Key Highlights

Director Elections Policy:

- + Considers withholding on non-independent directors if board is not majority independent
- + Supports cumulative voting unless majority vote standard is in place and ballot access or similar structure exists
- + Generally supports proposals for majority threshold voting requirements
- + Allows for lead director in lieu of separation of CEO and chairman roles
- + Does not support CEO directors who serve on > 3 boards and non-CEO directors who serve on > 6 boards
- + Performance test applied to director nominees; bottom 5% identified within each GICS group

Compensation Policy:

- + Opposes equity plans if: 1) cost of equity plan is excessive; 2) the company's 3 year burn rate is egregious; 3) Permits repricing
- + Opposes compensation plans if a pay-for-performance disconnect exists
- + Considers withholding for "egregious" pay practices

Shareholder Proposals:

- + Environmental and social issues primarily evaluated on an industry by industry basis through a long-term risk mitigation prism and impact on the firm's immediate economic value compared to peers.

U.S. 2007 Recommendations (S&P 500)

- + Director Elections - 6% "WITHHOLD"
- + Equity Pay Plans - 12% "AGAINST"
- + Auditor Ratification - 0% "AGAINST"
- + Shareholder Proposals - 60% "FOR"

Taft-Hartley Advisory Policy

Primary Focus

Client Type: Taft-Hartley managers; Taft-Hartley pension funds (ERISA)

Orientation: Worker-owner view of long-term corporate value

Policy Driver: AFL-CIO Proxy Voting Guidelines ('03 edt.)

Key Highlights

Director Elections Policy:

- + Considers withholding on non-independent directors if board is not 2/3 independent
- + Always supports cumulative voting
- + Always supports proposals calling for majority threshold voting requirements and shareholder access to the proxy ("open access")
- + Always supports separation of CEO and chairman roles
- + Does not support CEO directors who serve on > 3 boards and non-CEO directors who serve on > 6 boards
- + Performance test applied to director nominees
- + Classify directors if they have served in excess of ten years as affiliated outsiders

Compensation Policy:

- + Equity plans evaluated based on a 10% voting power dilution (VPD) threshold
- + Opposes compensation plans if a pay-for-performance disconnect exists
- + Considers withholding for "egregious" pay practices
- + Opposes option plans with excessive award limits (\$2 million cap)

Shareholder Proposals:

- + Supports adoption of labor standards & codes of conduct for foreign suppliers as ways to protect brands and manage risk
- + Support actions to promote high performance workplaces and improve employee relations

U.S. 2007 Recommendations (S&P 500)

- + Director Elections - 41% "WITHHOLD"
- + Equity Pay Plans - 49% "AGAINST"
- + Auditor Ratification - 60% "AGAINST"
- + Shareholder Proposals - 85% "FOR"

Social Advisory Policy

Primary Focus

Client Type: Investment firms with SRI clients; religious groups; charitable foundations; university endowments

Orientation: The "triple bottom line" perspective

Policy Driver: SRI Professionals

Key Highlights

Director Elections Policy:

- + Considers withholding on all director nominees if board is not majority independent
- + Supports cumulative voting on a case-by-case basis
- + Always supports proposals calling for majority threshold voting requirements and shareholder access to the proxy ("open access")
- + Supports separation of CEO and chairman
- + Does not support CEO directors who serve on > 3 boards and non-CEO directors who serve on > 6 boards
- + Performance test applied to director nominees
- + Supports requests for increasing board diversity

Compensation Policy:

- + Evaluates equity plans that measure shareholder value transfer
- + Opposes compensation plans if a pay-for-performance disconnect exists
- + Considers withholding for "egregious" pay practices

Shareholder Proposals:

- + Assesses socially responsible issues through a "triple bottom" line value creation perspective
- + Generally supportive of social, environmental, and labor standards issues.

U.S. 2007 Recommendations (S&P 500)

- + Director Elections - 8% "WITHHOLD"
- + Equity Pay Plans - 11% "AGAINST"
- + Auditor Ratification - 5% "AGAINST"
- + Shareholder Proposals - 84% "FOR"

Public Fund Advisory Policy

Primary Focus

Client Type: Public pension fund managers; public plan sponsors/trustees

Orientation: Fiduciary consideration of beneficiaries in retirement system balanced with the public good

Policy Driver: Public fund fiduciaries

Key Highlights

Director Elections Policy:

- + Considers withholding on non-independent directors if board is not majority independent
- + Generally supports cumulative voting
- + Generally supports proposals calling for majority threshold voting requirements and shareholder access to the proxy ("open access")
- + Supports separation of CEO and chairman roles
- + Does not support CEO directors who serve on > 3 boards and non-CEO directors who serve on > 5 boards
- + Performance test (total shareholder return) applied to director nominees
- + Classify directors if they have served in excess of ten years as affiliated outsiders

Compensation Policy:

- + Evaluates equity plans based on a 15% voting power dilution (VPD) threshold
- + Opposes compensation plans if a pay-for-performance disconnect exists
- + Considers withholding for "egregious" pay practices
- + Supports the exclusive use of performance-based equity awards

Shareholder Proposals:

- + Supports resolutions attempting to create responsible corporate citizens by emphasizing enhanced reporting and disclosure as a means to protect long-term brand and reputation

U.S. 2007 Recommendations (S&P 500)

- + Director Elections - 31% "WITHHOLD"
- + Equity Pay Plans - 28% "AGAINST"
- + Auditor Ratification - 60% "AGAINST"
- + Shareholder Proposals - 85% "FOR"