

## **PROXY VOTING GUIDELINES**

The majority of votes presented to shareholders are proposals made by management, which have been approved and recommended by its board of directors. One of the primary factors SCM considers when determining the desirability of investing in a particular company is the quality and depth of its management. Accordingly, SCM believes that the recommendation of management on any issue should be given substantial weight in determining how proxy issues are resolved. For routine matters (e.g., those matters that are not expected to measurably change the structure, management, control or operation of the company and are consistent with customary industry standards and practices, and the laws of the state of incorporation of the applicable company), SCM will vote in accordance with the recommendation of management, unless, in SCM's opinion, such recommendation is not conducive to long term value creation or otherwise in the best interest of its clients. Non-routine matters (e.g., those matters relating to directors' liability and indemnity proposals; executive compensation plans; mergers, acquisitions, and other restructurings submitted to a shareholder vote; anti-takeover and related provisions; and shareholder proposals) require company-specific and a **case-by-case** review and analysis. With respect to matters that do not fit in the categories stated below, SCM will exercise its best judgment as a fiduciary to vote in accordance with the best interest of its clients.

### **I. The Board of Directors**

#### **A. Voting on Director Nominees in Uncontested Elections**

These votes are made on a **case-by-case** basis, and SCM may consider the following:

- Long-term performance record relative to a market index;
- Composition of board (e.g., diversity and independence) and key board committees;
- Attendance at board and committee meetings;
- Corporate governance provisions and takeover activity;
- Board decisions regarding executive pay; and
- Director compensation.

#### **B. Director and Officer Indemnification and Liability Protection**

These votes are evaluated on a **case-by-case** basis.

#### **C. Voting for Director Nominees in Contest Elections**

These are evaluated on a **case-by-case** basis, and SCM may consider the following:

- Long-term performance relative to its industry;
- Management's track record;
- Background to the proxy contest;
- Qualifications of director nominees (both slates);
- Evaluation of what each side is offering shareholders and the likelihood that the proposed objectives and goals can be met; and
- Stock ownership positions.

## D. Size of the Board

Proposals to limit the size of the Board will be evaluated on a **case-by-case** basis.

## E. Majority Vote for Director Elections

SCM will evaluate, on a **case-by-case** basis, proposals asking the Board to initiate the process to provide that director nominees be elected by the affirmative majority of votes cast at an annual meeting of shareholders. Resolutions should specify a carve-out for a plurality vote standard when there are more nominees than board seats.

## F. Require Independent Board Chairman

SCM will evaluate, on a **case-by-case** basis, as to whether the role of board chair should be a separate position. Secondary considerations include the role of the board's Lead Independent Director and the board's overall composition.

## II. Auditors

### Ratifying Auditors

SCM generally votes for proposals to ratify auditors, unless:

- an auditor is not independent (i.e., it has a financial interest in or association with the company);
- there is reason to believe the auditor's opinion is not accurate or indicative of the company's financial position;
- poor accounting practices are identified that rise to a level of serious concern, such as: fraud; misapplication of GAAP; or material weaknesses in internal controls;
- Evidence that the committee approved an inappropriate indemnification agreement with the auditor; or
- Non-audit fees are excessive in relation to audit-related fees without adequate explanation.

## III. Proxy Contest Defenses

### A. Cumulative Voting

Proposals on cumulative voting are voted on a **case-by-case** basis. SCM may consider the following, among other, factors:

- the ability of significant stockholders to elect a director of their choosing;
- the ability of minority shareholders to concentrate their support in favor of a director or directors of their choosing; and
- the potential to limit the ability of directors to work for all shareholders.

### B. Proxy Contests

Votes on proxy contests are made on a **case-by-case** basis considering the long-term financial performance of the company relative to its industry, management's track record, the qualifications of the shareholder's nominees, and other factors.

### C. Proxy Solicitation Expenses

Decisions to provide full reimbursement for dissidents waging a proxy contest are made on a **case-by-case** basis.

### D. Proxy Access

Shareholder proposals to provide shareholders proxy access are voted on a **case-by-case** basis taking into account, among other factors:

- Company-specific factors; and
- Proposal-specific factors including:
  - the ownership thresholds proposed in the resolutions;
  - the maximum proportion of directors that shareholders may nominate each year; and
  - the method of determining which nominations should appear on the ballot if multiple shareholders submit nominations.

## IV. Anti-Takeover Issues

SCM conducts an independent review of each anti-takeover proposal. SCM may vote with management when it concludes that the proposal is not onerous and would not harm clients' interests as shareholders. Anti-takeover issues include the following:

### A. Poison Pills

The "poison pill" entitles shareholders to purchase certain securities at discount prices in the event of a change in corporate control. Such a measure would make a potential takeover prohibitively expensive to the acquirer.

SCM votes on a **case-by-case** basis for management proposals to ratify a poison pill.

### B. Fair Price Provisions

Fair price provisions attempt to ensure approximately equal treatment for all shareholders in the event of a takeover. SCM may consider, among other factors:

- the vote required to approve the proposed acquisition;
- the vote required to repeal the fair price provision;
- the mechanism for determining fair price; and
- whether these provisions are bundled with other anti-takeover measures (e.g., supermajority voting requirements) that may entrench management and discourage attractive tender offers.

Fair price proposals are voted on a **case-by-case** basis.

### C. Greenmail

Greenmail payments are targeted share repurchases by management of company stock from individuals or groups seeking control of the company. Since only the hostile party receives payment, usually at a substantial premium over the market value of its shares, the practice discriminates against all other shareholders.

Proposals to adopt anti-greenmail charter or bylaw amendments or otherwise restrict a company's ability to make greenmail payments are voted on a **case-by-case** basis.

#### **D. Superstock/Duel-class Equity**

Another takeover defense is superstock, i.e., shares that give holders disproportionate voting rights. For example, a company could propose authorizing a class of preferred stock which "could be issued in a private placement with one or more institutional investors" and "could be designated as having voting rights which might dilute or limit the present voting rights of the holders of common stock...." The purpose of this additional class of stock would be to give insiders an edge in fending off an unsolicited or hostile takeover attempt.

SCM votes on a **case-by-case** basis for proposals that would authorize the creation/removal of new classes of "superstock."

#### **E. Supermajority Rules**

Supermajority provisions require approval by holders of minimum amounts of the common shares (usually 75% to 80%). While applied mainly to merger bids, supermajority rules also may be extended to cover substantive transfers of corporate assets, liquidations, reverse splits and removal of directors for reasons other than cause. A supermajority provision would make it nearly impossible in some cases for shareholders to benefit from a takeover attempt.

Supermajority shareholder vote requirements to approve mergers, amend the charter or bylaws are voted on a **case-by-case** basis.

#### **F. Board Classification**

A "classified" or "staggered" board is a structure in which only a portion of a company's board of directors (typically one-third) is elected each year. A company may employ such a structure to promote continuity of leadership and thwart takeover attempts. In evaluating a classified board proposal, SCM may consider the following factors, among others:

- the company's long-term strategic plan;
- the extent to which continuity of leadership is necessary to advance that plan; and
- the need to guard against takeover attempts.

SCM votes on board classification on a **case-by-case** basis.

### **V. Miscellaneous Governance Provision**

#### **A. Approval of Financial Statements**

In some markets, companies are required to submit their financial statements for shareholder approval. Approval of financial statements is voted on a **case-by-case** basis. However, SCM may abstain if the information is not available in advance of the meeting.

#### **B. Adopting or Amending the Charter, Bylaws, or Articles of Association**

SCM votes on a **case-by-case** basis proposals on adopting or amending the charter, bylaws, or articles of association, and may consider whether:

- Shareholder rights are protected;
- There is negligible or positive impact on shareholder value;
- Management provides sufficiently valid reasons for the amendments;
- The company is required to do so by law (if applicable); and
- They are of a housekeeping nature (updates or corrections).

### C. Bundled Proposals

SCM votes on a **case-by-case** basis bundled or “conditioned” proxy proposals. In this case where items are conditioned upon each other, SCM examines the benefits and costs of the packages items. In instances when the joint effect of the conditioned items is not in shareholder’s best interests, SCM votes against the proposals. If the combined effect is positive, SCM votes for such proposals.

### D. Share Re-Registration Consent

SCM will **typically** vote for this proposal. Certain securities are subject to share re-registration in order to receive and vote the shareholder meeting. In order to be eligible to vote, shares must be re-registered in the beneficial owner’s name by a certain deadline. SCM will vote these proposals on a **case-by-case** basis.

### E. “Other Business”

SCM will **typically** vote against this proposal if there is a lack of information available. While this request is usually routine, the potential for the discussion and subsequent approval of items could be dangerous to minority shareholders. SCM will vote these proposals on a **case-by-case** basis.

## VI. Capital Structure

### A. Common Stock Authorization

SCM votes on a **case-by-case** basis for proposals that increase the number of shares of common stock authorized for issue.

### B. Stock Distributions; Splits and Dividends

SCM votes on a **case-by-case** basis for proposals that increase the common share authorization for a stock split or share dividend.

### C. Debt Restructuring

SCM votes on a **case-by-case** basis for proposals that increase common and/or preferred shares and to issue shares as part of a debt restructuring plan.

## VII. Executive and Director Compensation

SCM believes that because a company has exclusive knowledge of material information not available to shareholders regarding its business, financial condition, and prospects, the company itself usually is in the best position to make decisions about compensation and benefits. Accordingly, SCM generally votes with management on such matters. However, SCM may oppose management on a **case-by-case** basis if it deems a company’s compensation to be excessive or inconsistent with its peer companies’ compensation, SCM

believes a company's compensation measures do not foster a long-term focus among its executive officers and other employees, or SCM believes a company has not met performance expectations, among other reasons. Discussed below are some specific types of compensation-related proposals that SCM may encounter.

SCM votes on a **case-by-case** basis items related to executive pay and practices.

#### **A. Management Say on Pay**

“Say on pay” proposals give shareholders a nonbinding vote on executive compensation. These proposals are designed to serve as a means of conveying to company management shareholder concerns, if any, about executive compensation.

SCM votes on a **case-by-case** basis for management proposals seeking approval of advisory vote on executive compensation.

#### **B. Equity-Based Compensation Plans**

A company's equity-based compensation plan should be in alignment with the shareholders' long-term interests. SCM believes that executive compensation should be directly linked to the performance of the company.

SCM vote on a **case-by-case** basis on proposals for equity-based compensation plans.

#### **C. Incentive Bonus Plans and Tax Deductibility Proposals (Section 163(m))**

SCM votes on a **case-by-case** basis on proposals for incentive bonus plans and tax deductibility proposals.

#### **D. Golden Parachutes**

Golden Parachutes assure key officers of a company lucrative compensation packages if the company is acquired and/or if the new owners terminate such officers. SCM recognizes that offering generous compensation packages that are triggered by a change in control may help attract qualified officers. However, such compensation packages cannot be so excessive that they are unfair to shareholders or make the company unattractive to potential bidders, thereby serving as a constructive anti-takeover mechanism.

SCM votes on a **case-by-case** basis proposals to submit severance plans.

#### **E. Golden Coffins / Executive Death Benefits**

Survivor benefit compensation plans, or “golden coffins,” can require a company to make substantial payments or awards to a senior executive's beneficiaries following the death of the senior executive. The compensation can take the form of unearned salary or bonuses, accelerated vesting or the continuation in force of unvested equity grants, perquisites and other payments or awards. This compensation would not include compensation that the senior executive chooses to defer during his or her lifetime.

SCM recognizes that offering generous compensation packages that are triggered by the passing of senior executives may help attract qualified officers. However, such compensation packages cannot be so excessive that they are unfair to shareholders or make the company unattractive to potential bidders, thereby serving as a constructive anti-takeover mechanism.

SCM votes on a **case-by-case** basis proposals on Golden Coffins / Executive Death Benefits.

## **VIII. State of Incorporation**

### **A. Voting on State Takeover Statutes**

SCM votes on a **case-by-case** basis proposals to opt in or out of state takeover statutes (including control share acquisition statutes, control share cash-out statutes, freeze-out provisions, fair price provisions, stakeholder laws, poison pill endorsements, severance pay and labor contract provisions, anti-greenmail provisions and disgorgement provisions).

### **B. Voting on Reincorporation Proposals**

SCM votes on a **case-by-case** basis proposals to change a company's state of incorporation.

## **IX. Mergers and Corporate Restructurings**

### **A. Mergers and Acquisitions**

SCM votes on a **case-by-case** basis proposals on mergers and acquisitions.

### **B. Corporate Restructuring**

SCM votes on a **case-by-case** basis proposal on corporate restructuring, including minority squeeze outs, leveraged buyouts, spin-offs, liquidations, and asset sales.

### **C. Spin-offs**

SCM votes on a **case-by-case** basis proposals on spin-offs.

### **D. Changing Corporate Name**

SCM votes on changing the corporate name on a **case-by-case** basis.

### **E. Authority to Issue Shares without Preemptive Rights**

SCM votes on giving authority to issue shares without preemptive rights on a **case-by-case** basis.

## **X. Socially Oriented Proposals**

### **A. Proposals of a Social or Environmental Nature**

Consistent with its fiduciary duty to clients, SCM will vote on social and environmental issues with a view toward promoting good corporate citizenship. However, SCM realizes that it cannot require a portfolio company to go beyond applicable legal requirements or put itself in a non-competitive position.

SCM considers environmental and social issues alongside traditional financial measures to provide a more comprehensive view of the value, risk, and return potential of an investment. Companies may face significant financial, legal and reputational risks resulting from poor environmental and social practices, or negligent oversight of environmental or social issues. SCM's Environmental, Social, and Governance Framework describes SCM's approach to consideration of environmental, social, and governance issues within its processes and ownership practices.

SCM votes on a **case-by-case** basis proposals regarding environmental or social issues. To do this, SCM uses research reports from SCM's external proxy advisors, company filings and sustainability reports, research from other investors and non-governmental organizations, and the Research Team.

## **B. Political Spending and Lobby Proposals**

Companies may engage in certain political activities, within legal and regulatory limits, in order to influence public policy consistent with the companies' values and strategies, and thus serve shareholders' best long-term economic interests. These activities can create risks, including: the potential for allegations of corruption; the potential for reputational issues associated with a candidate, party or issue; and risks that arise from the complex legal, regulatory and compliance considerations associated with corporate political activity. SCM believes that companies which choose to engage in political activities should develop and maintain robust processes to guide these activities and to mitigate risks, including a level of board oversight.

When presented with shareholder proposals requesting increased disclosure on corporate political activities, SCM may consider the political activities of that company and its peers, the existing level of disclosure, and its view regarding the associated risks. SCM generally believes that it is the duty of boards and management to determine the appropriate level of disclosure of all types of corporate activity.

SCM votes on a **case-by-case** basis proposals regarding political spending and lobbying activities.