

POLICY NUMBER: 2.05.200**EFFECTIVE DATE:** 9/18/14**TITLE:** Global Proxy Voting Guidelines**SUPERSEDES:** 12/19/13**BOARD ADOPTION:** 9/18/14**APPROVED:** 

PURPOSE

One of the principal forms of participation in corporate governance by investors is through the proxy. This policy and associated guidelines form the basis of the Washington State Investment Board's (WSIB) participation in proxy voting.

The proxy is an asset of the WSIB and as with all assets of the Board must be managed prudently for the exclusive benefit of the beneficiaries. The root of the corporate governance issue for investors is the separation of ownership from control. The agent—management—may not have the same interests as the principal—the shareowners. Investors invest in equity for good risk adjusted returns, but the power relationship between the investor and the company is unequal. Company management possesses more information and has more ability to act than either the board of directors or the shareholders. The rights of investors to act are limited, sometimes severely. They depend on company directors to look after their interests, but the results are not always satisfactory despite the best intentions of the directors. The agency problem produces a misalignment of interests that can be detrimental to the interests of the shareholders.

The traditional view of corporate governance participation by investors is that an investor who believes governance is important and who is dissatisfied with a company's governance structure will sell the stock. If you don't like the governance, exit the investment. But for institutional investors like the WSIB with their long investment horizon and relatively constant asset allocations, and particularly for ones with allocations to passive index funds, exit via stock sales is not a viable option. Institutional investors become permanent owners of publicly traded corporations. If exit isn't an option, then active participation becomes a necessity.

Corporate governance matters because it is a powerful form of accountability for corporate management that helps to align the interests of owners and managers and thus create an investment climate more favorable to the interests of long term, patient capital.

POLICY

The WSIB or its delegates will vote all proposals submitted to stockholders in the best interest of the beneficiaries of the trust to which the WSIB and its investment managers have a fiduciary duty. In exercising its judgment with respect to voting proxies, the WSIB or its delegates are governed by their primary duty to advance the economic value of the companies whose securities are held, within the boundaries of prudent and responsible corporate behavior. If, after careful and thoughtful consideration, the WSIB or its delegates believe that a proposal could adversely affect the long-term

value of the company, the proxy is voted against the proposal consistent with the purpose and overall intent of this policy.

The WSIB developed the accompanying guidelines as general principles to guide the exercise of proxy voting rights for global equity investments. These guidelines address the major corporate governance issues which are typically raised by shareholders and management. These guidelines are intended to provide general direction as to particular issues. They are not meant as a substitute for careful review of ballot proposals or contextual application of the guidelines to the specific circumstances facing any company and its shareholders at any given time. The WSIB votes the issues expressly addressed in the guidelines in accordance with the guidelines except where a different result is warranted in the context of the company, the timing and the issue at hand. The WSIB examines the issues not expressly addressed in the guidelines on a case by case basis in a manner consistent with the relevant principles set forth herein and guided by the research and recommendations of the WSIB's proxy voting advisor, Glass, Lewis & Co., LLC. The WSIB reserves the ultimate right, where necessary, to specifically direct the exercise of proxy voting rights for any issue, whether or not addressed in the accompanying guidelines.

DUTY

The basic fiduciary requirements under common law are the duty of loyalty and the duty of care. The prudent investor rule, as applied to proxy voting, means that a fiduciary must carefully analyze the implications of proxy proposals. These duties are (1) the fiduciary actually votes the proxies the plan is entitled to vote; (2) the fiduciary votes after careful study of the issues; and (3) the fiduciary can show why the votes cast were in the best interest of the plan beneficiaries.

STRATEGIC ROLE

Corporations are the cornerstones of a market economy, and as such must be governed by the principles of accountability and fairness. Shareholders are the owners of corporations and the directors are accountable to the shareholders who elect them. The WSIB, in turn, is accountable to its fund beneficiaries. This policy is designed to assist the WSIB's staff and investment managers vote proxies on behalf of the WSIB consistent with the WSIB's obligation to maximize investment return at a prudent level of risk for the exclusive benefit of fund beneficiaries.

APPLICATION

This policy and the guidelines are not intended to be a substitute for or be in conflict with statutory, regulatory or stock exchange requirements. Statutory, regulatory, and stock exchange requirements shall provide the minimum requirements.

The WSIB delegates to the WSIB Executive Director the authority to implement the proxy voting policy and guidelines, and to ensure that the WSIB's proxy voting rights are fully and properly exercised. The Executive Director may make necessary updates and adjustments to the guidelines consistent with any changes in statutory, regulatory, or stock exchange requirements, and the overall policy and guidelines, and upon consultation with the Chair of the Audit Committee and the Chair of the Board. The Audit Committee and the Board will review this policy and the guidelines annually, at which time any updates and adjustments made to the guidelines by the Executive Director will be reviewed. The WSIB staff and the WSIB's consultants shall provide the Board

with an annual report, and such other periodic reports as may be requested by the Board, summarizing the exercise of the WSIB's proxy voting rights.

Public Equity Investments in Separate Accounts

Proxy voting may be performed by staff, contracted to a third-party vendor, or delegated to the investment manager in accordance with the guidelines developed by the WSIB.

U.S. Equity Commingled Accounts

For U.S. equity commingled accounts in the defined benefit program, the WSIB will vote proxies in the companies in which the WSIB holds an indirect public equity interest in accordance with the guidelines developed by the WSIB.

Other Mutual Funds and Commingled Funds

The WSIB invests in mutual funds and commingled funds which are made available as options in defined contribution plans, and in some cases, invests in commingled funds in the defined benefit fund. The WSIB does not have a direct equity position, but holds units or shares in a mutual fund or commingled fund. The mutual fund or commingled fund is responsible for establishing appropriate guidelines and voting proxies. These proxies are voted according to the guidelines outlined in the mutual fund prospectus and/or established by the investment company managing the commingled fund.

The WSIB will inform the mutual funds and the commingled funds in which it invests of its proxy voting guidelines on at least an annual basis. The WSIB will work with the mutual funds and commingled funds, where possible, as to how the WSIB might provide input to the funds on proxy voting issues.

International Proxy Voting and Market Differences

Proxy voting in international markets differs somewhat from proxy voting in the U.S. markets due to the various country specific laws, customs, and regulations. The proxy voting rights in international equity investments will be exercised as deemed appropriate by the WSIB, taking into consideration any restriction that may be placed on the liquidity of the position or any other impediment to proxy voting. In making these decisions, the WSIB will follow conventions considered best practice that allow for differences in local market conditions.

POLICY GUIDELINES

I. BOARD OF DIRECTORS

A Board of Directors ("board") exists to represent shareholders, protect shareholders' interests, and maximize shareholder value. The WSIB seeks board members with a proven record of protecting shareholders and delivering value over the medium to long-term. In our view, boards working to protect and enhance the best interests of shareholders typically possess substantial independence (the definition of which may vary due to local market practice and regulations), and are comprised of members with a record of positive performance and directors with a breadth and depth of experience.

Board Composition

Independence

We look at each individual on the board and examine his or her relationships with the company, the company's executives and with other board members. The purpose of this inquiry is to determine whether pre-existing personal, familial or financial relationships (apart from compensation as a director) are likely to impact the decisions of that board member. Where the company does not disclose the names and backgrounds of director nominees with sufficient time in advance of the shareholder meeting to evaluate their independence and performance, we will consider abstaining on the directors' election.

We believe a director is independent if he or she has no material financial, familial or other current relationships with the company, its executives or other board members except for service on the board and standard fees paid for that service. Relationships that have existed within the past five years prior to the inquiry are usually considered to be "current" for purposes of this test.

Directors are not considered independent if their employer has a material financial relationship with the company. This includes a director who owns or is employed by a group that controls 20 percent or more of the company's voting stock.

We believe that boards should be composed of a minimum of two-thirds independent directors (though this proportion will vary by local market). Further, we believe that only independent directors should serve on a company's audit, compensation, nominating and governance committees. The WSIB votes in a manner that encourages such a makeup or encourages change where this is not the case.

We vote against directors who have consulting relationships with the company because we view those relationships as both affecting the board members' ability to act independent of the management from whom the directors received consulting contracts and as potentially interfering with the company's ability to procure services from the best advisor for the issue at hand.

For directors with other personal, familial or financial relationships, where they sit on a key committee or there are more than one-third insider or affiliated directors on the board, we vote against as many as required to create a two-thirds balance beginning with those who have the most problematic relationships. We will likewise vote against insiders on this basis though we rarely vote against a CEO to reduce the number of insiders or affiliates on the board.

We note that in the case of a controlled company, we do not vote against directors where the board reflects the makeup of the shareholder population.

Performance

We vote in favor of governance structures that will positively drive performance and create shareholder value. The most crucial test of a board's commitment to the company and to its shareholders lies in the actions of the board and its members. The performance of directors as board members as well as their performance in their roles at other companies is of substantial importance.

We consider the following key performance factors, among many others, in assessing whether to support a board's nominees:

1. Did a continuing director show an attention and dedication to shareholder representation by attending at least 75 percent of the board and applicable committee meetings last year?
2. Does a continuing director or the director's immediate family members receive perquisites in the form of special compensation or other special benefits not ordinarily conferred on directors?
3. Does the nominee sit on an excessive number of public company boards, especially in light of the directors other professional obligations?
4. Does the nominee, or a member of his or her immediate family, provide material professional services to the company presently or in the past?
5. Does or would the nominee have an interlocking directorship with an executive of the company?
6. Does the nominee have a track record of service as a director or executive at a company where significant performance, transparency or legal and accounting problems exist or have in the past?
7. Is the nominee currently the CFO or other financial executive of the company on whose board the nominee is proposed to serve?

Experience

We look for boards with talented directors who have a diversity of backgrounds and experience that will enable them to understand the issues particular to the company where they serve and who collectively have the ability to review and judge the critical issues they decide on behalf of shareholders.

Nominating committee charters, or equivalent, ought to reflect that boards should be diverse, including, in addition to background and experience, such considerations as age, race, gender, ethnicity, and culture. Where we believe this diversified talent is missing from the board, we vote against directors as appropriate to address the issue.

The Key Committees

The WSIB votes for board members that meet the criteria identified below.

Audit committee members:

Audit committee members should be mindful of fees paid to the company's independent auditor and the services underlying those fees. The committee should take care to ensure that the auditor is not conflicted or distracted from the audit function. It is the duty of the audit committee to oversee the company's independent auditor, its internal controls and the filing of the company's financial statements. Further, we believe shareholders' interests are best protected when the audit committee allows for shareholder ratification of the independent auditor at each annual meeting.

Compensation committee members:

The members of the compensation committee have the responsibility of overseeing the compensation packages awarded to the company's executives. To successfully fulfill their duty

to shareholders, executive compensation should be in line with company performance and pay should be at a level on par with a company's peers based on the same metrics.

Governance committee members:

Governance committee members should be independent. Their focus should be on implementing good corporate governance policies such as an independent chairman, or an independent lead/presiding director to ensure proper oversight when the chairman is an insider or affiliate. The governance committee should focus on listening to shareholders and therefore we will oppose continuing directors if the board fails to implement a majority approved shareholder proposal with a direct and substantial impact on shareholders and their rights.

Nominating committee members:

Nominating committee members should be independent and should fulfill their duty to shareholders by nominating new independent and shareholder focused directors. They should take caution not to (re)nominate a director who should not sit on the board due to independence, failure to receive majority support of shareholders or other issues.

Risk Oversight committee members:

Risk committee members, or their equivalent in the absence of a dedicated risk committee, are responsible for establishing, implementing and monitoring sound risk control policies, and procedures to ensure sustainable company performance.

Slate Elections

In certain countries, companies elect their board members as a slate rather than individually; shareholders are therefore unable to vote on the election of each individual director but instead are limited to voting for or against the board as a whole. If significant issues exist concerning a preponderance of the board or we have severe concerns with one or more of the nominees, we will vote against the entire slate of directors.

Separation of the roles of Chairman and CEO

The WSIB believes that separating the roles of corporate officers and the chairman of the board is a better governance structure than a combined executive/chairman position. The role of executives is to manage the business on the basis of the course charted by the board. Executives should be in the position of reporting and answering to the board as it relates to their performance in achieving the goals set out by such board. This becomes much more complicated when management actually sits on, or chairs, the board.

We view an independent chairman as better able to oversee the executives of the company and set a pro-shareholder agenda without the management conflicts that a CEO and other executive insiders often face. This, in turn, leads to a more proactive and effective board of directors that is looking out for the interests of shareholders above all else.

We support proposals to separate the roles of chairman of the board and CEO, except in circumstances where the existing arrangement has worked out to be economically beneficial to shareholders so as to not warrant a change at the time proposed.

In the absence of an independent chairman, we support the existence of a presiding or lead director with authority to call a board meeting, set the agenda for any board meeting and to lead sessions of the non-employee directors.

Staggered (Classified) Boards

The WSIB favors the annual election of directors and the repeal of staggered boards. We believe that staggered boards are less accountable to shareholders than boards that are elected annually. In our view, the annual election of directors encourages board members to focus on the interests of shareholders.

Mandatory Director Retirement Provisions*Director Term Limits*

Term limits are not the best method for pursuing change at the board level. The experience of directors through their service over time can be a valuable asset to shareholders. However, periodic director rotation may be appropriate to ensure a fresh perspective in the boardroom and the generation of new ideas and business strategies. Therefore, where the WSIB believes needed change has not come to the board through other means and the length of the term is long enough to limit continuous turnover (usually ten years or more) we may support a term limit.

Director Age Limits

Age limits are not usually in the best interests of shareholders. The experience of directors through their service over time can be a valuable asset to shareholders. Age limits unfairly imply that older or younger directors cannot contribute meaningfully to the oversight of a company.

Board Operations

Shareholders are best served when directors provide effective oversight of management, as well as of each other. Shareholder interests are enhanced when directors have a peer review process, a director training process and an executive review process in place. The WSIB supports proposals calling for these processes where we believe the board does not have an effective process currently in place.

Director Stock Ownership

Share ownership by directors helps align directors' interests with those of other shareholders. Accordingly, we support reasonable equity compensation of directors and reasonable ownership and holding requirements for directors.

II. TRANSPARENCY & INTEGRITY IN FINANCIAL REPORTING

Shareholders' insight into the value of their investments and the growth potential of that investment is only as good as the information disclosed to shareholders by the company. Shareholders ultimately rely on the board members and the auditors they hire to review and approve the company's financial reporting and disclosure. Transparent disclosure to shareholders and unconflicted presentation of a company's financial position is critical to allow shareholders to make informed investment decisions. Accordingly, we believe that transparency and integrity in financial reporting is one of the most crucial matters for shareholder review and attention. We use proxy voting as a mechanism for supporting companies with transparent disclosure and for demanding transparency where it is lacking.

Auditor Ratification

The role of the auditor is crucial to protecting shareholder value. Like directors, auditors should be free from conflicts of interest and should assiduously avoid situations that tempt them to make choices between their own interests and those of the public shareholders whom they serve. The WSIB generally supports management's recommendation regarding the selection of an auditor and supports granting the board the authority to fix auditor fees except in cases where we believe the independence of an incumbent auditor or the integrity of the audit has been compromised. The WSIB votes against an auditor and/or authorizing the board to set auditor fees in limited situations, including, among others, the following:

1. The auditor limited its liability through its contract with the company or the audit contract requires the corporation to use alternative dispute resolution procedures without adequate justification.
2. The auditor has a conflict of interest or has failed to properly fulfill its duties.
3. Any category of non-audit fees exceeds audit fees.
4. The company has had recent restatements involving auditor errors or late filings.
5. The company's accounting policies are aggressive.
6. The company has poor disclosure or a lack of transparency in its financial statements.
7. The company is changing auditors as a result of a disagreement between the company and the auditor on a matter of accounting principles or practices, financial statement disclosure or auditing scope or procedures.

Auditor Rotation

The WSIB supports audit related proposals regarding mandatory auditor rotation when the rotation occurs after a reasonable period of time (usually not less than 5-7 years).

Accounts and Reports

Many countries require companies to submit the annual financial statements, director reports and independent auditors' reports to shareholders at a general meeting. Shareholder approval of such proposals does not discharge the board or management. The WSIB generally votes in favor of these proposals except when there are concerns about the integrity of the statements/reports. However, should the audited financial statements, auditor's report and/or annual report not be published at the writing of our report, we will abstain from voting on this proposal.

Distribution of Dividends

In many countries, companies must submit the allocation of income for shareholder approval. The WSIB will generally vote for such proposals. However, we will give particular scrutiny to cases where the company's dividend payout ratio is exceptionally low or excessively high relative to company performance, dividend history and available cash reserves and the company has not provided a satisfactory explanation. We generally abstain from voting on dividend policies with payout ratios of less than 10 percent or more than 200 percent.

Pension Accounting Issues

Proxy proposals sometimes raise the question as to whether pension accounting should have an

effect on the company's net income and therefore be reflected in the performance of the business for purposes of calculating payments to executives. It is our view that pension credits should not be included in measuring income used to award performance-based compensation.

Many of the assumptions used in accounting for retirement plans are subject to the discretion of a company, and management would have a potential conflict of interest if its pay were tied to pension income.

Reporting Contributions and Political Spending

The area of campaign contributions is heavily regulated in the U.S. by federal, state and local laws, and other countries may also have their own regulations. The WSIB believes that disclosure regarding how a company uses its funds is an important component of corporate accountability. Unfortunately there is no standardized manner in which companies must disclose their political contributions and spending. It is the WSIB's position that companies should provide an itemized list of the amounts of all political contributions and their corresponding recipients, a list of trade associations to which the company in question belongs, and amounts paid to trade associations – in both memberships and donations. Moreover, the board of directors should maintain oversight and approval of all political spending. The board should only approve contributions that are consistent with the interests of the company and its shareholders.

Other than in exceptional circumstances, we believe that the mechanism for disclosure and the standards for donating are best left to the Board's discretion. However, given the broadening of allowable donations as a result of the Supreme Court ruling in *Citizens United v. Federal Election Commission* and the move by many companies to provide more specific disclosure about their political contributions, we will support shareholder proposals seeking more disclosure about a company's political donations.

III. COMPENSATION AND PERFORMANCE

A company's compensation practices are a key indicator of whether the company's board is looking out for the best interests of shareholders. The WSIB believes that executive and equity compensation plans are two of the most critical areas for shareholder scrutiny. First, because the company is using shareholders' money and must always do so prudently; but, equally important, this is an area that has proven to be rife with conflicts and abuse where it is not carefully monitored.

Our analysis of compensation plans is decidedly quantitative and focused on the cost of the plan as compared to the operating metrics of the business. Our goal is to determine whether a proposed plan is absolutely excessive or is outside a reasonable deviation from the norm for its peers. We do not rely exclusively on relative comparisons as we believe the academic literature shows that there should be some absolute limits to avoid endless upward pressure.

Executive Compensation

Executive compensation should be linked directly with the performance of the business the executive is charged with managing. The WSIB carefully evaluates executive compensation issues at each company whose proxy it votes to determine whether the compensation to the company's senior executives is in line with the performance of the business. Pay received by

executives at a company should also not exceed those of relevant peers. The WSIB considers peer groups in evaluating executive compensation, and examine peers selected by compensation data provider Equilar and compares both the executives' pay and the company's performance to those peers to assess whether the executive pay structure at any given company is appropriate and reasonable. We use at least five measures of performance over three years in our analysis including: Total return, stock prices, EPS growth, ROA and ROE.

Proposals to Limit Executive Compensation

The WSIB reviews proposals to limit executive compensation in light of the above described analysis. As a general rule, the WSIB believes that executive compensation should be left to the board's compensation committee. We use board voting and, in particular, voting for compensation committee members as the vehicle to express support or displeasure with the company's executive pay structure. However, where a particular proposal to limit compensation is appropriate given the company's track record of pay-for-performance, we may support such a proposal, particularly if we lack confidence that the board will take the necessary steps to address the issue on its own.

Further, the WSIB favors supporting the ability of shareholders to have additional opportunities to express opinions on executive compensation through the means of a shareholder vote. Therefore, the WSIB will support shareholder proposals seeking or requiring a company to grant shareholders an advisory vote on the compensation committee's report on executive compensation.

Excessive Executive Compensation

In the U.S., Section 162(m) of the Internal Revenue Code allows companies to deduct compensation in excess of \$1 million for the CEO and the next four most highly compensated executive officers upon disclosure to and shareholder approval of the excess compensation. Given the shareholder approval requirement of section 162(m), we believe that companies must provide reasonable disclosure to shareholders so that they can make sound judgments about the reasonableness of the proposed plan. We support the plan if the proposal includes: specific performance goals; a maximum award pool; and a maximum award amount per employee. We also consider whether the estimated grants are reasonable and in line with the company's peers. Similar principles will be applied to executive compensation in other markets, though the specifics may vary by local market and applicable regulation.

Limits on Executive Stock Options

Equity compensation is an important component of compensation packages to attract and retain experienced executives and other key employees. Tying a portion of an executive's compensation to the performance of the company also provides an excellent incentive to maximize share values by those in the best position to affect those values. Accordingly, unless there is some pattern of equity compensation abuse at the company, we tend to disfavor proposals that hinder the use of equity as a means of compensating executives.

Golden Parachutes

The WSIB believes that shareholders' ratification should be required for golden parachute severance agreements that exceed IRS guidelines in the U.S. (such as when they exceed 2.99 times the sum of the executive's base salary plus bonus). Accordingly, we support shareholder

or other proposals that provide for such shareholder approval. We will apply similar standards, subject to local considerations, in evaluating “golden parachutes” outside the U.S.

Equity Based Compensation Plans

The WSIB evaluates option and other equity-based compensation on a case-by-case basis. We believe that equity compensation awards are a useful tool, when not abused, for retaining and for providing appropriate incentives for employees to work to improve the performance of the company. When the cost of the plan is not in line with the performance of the business however, or are excessive on an absolute basis, or where the company has a pattern of excessive compensation and the proposed plan appears to continue in that tradition, we vote against the plan and encourage the company to return with a reasonable plan that reflects the economics of the business and protects value for shareholders.

We evaluate option plans based on 10 overarching principles:

1. Companies should seek more shares only when needed.
2. Plans should be small enough that companies seek approval every three to four years (or less) from shareholders.
3. If a plan is relatively expensive, it should not grant options solely to senior executives and board members.
4. Annual net share count and voting power dilution should be limited.
5. Annual cost of the plan (especially if not shown on the income statement) should be reasonable as a percentage of financial results and in line with the company’s peer group.
6. The expected annual cost of the plan should be proportional to the value of the business.
7. The intrinsic value received by option grantees in the past should be reasonable compared with the financial results of the business.
8. Plans should deliver value on a per-employee basis when compared with programs at peer companies.
9. Plans should not permit re-pricing of stock options.
10. Plans should not contain excessively liberal administrative or payment terms.

The WSIB is assisted by a proprietary model developed by our advisors, Glass, Lewis & Co., LLC, to evaluate plans based on each of these 10 principles and to make recommendations accordingly.

We will usually recommend voting against approval of the compensation report or policy when any of the following occur:

1. Service contracts provide for notice periods longer than one year;
2. Service contracts provide for the enhancement of employment terms or compensation rights in excess of one year in the event of a change of control;

3. Payments have been made or longer-term obligations entered into (including pension obligations) to compensate an executive who has voluntarily left the company and this has not been fully disclosed and justified;
4. Ex gratia or other non-contractual payments have been made and the reasons for making the payments have not been fully explained or the explanation is unconvincing; or
5. Egregious or excessive bonuses, equity awards or severance payments.

Option Exchanges

We disfavor option exchanges, which re-price options after their initial grant. We believe that employees are more likely to look after the interests of shareholders when they face the same risks shareholders face.

We may support a re-pricing if the following conditions are true:

1. Officers and board members do not participate in the program.
2. The stock decline mirrors the market or industry price decline in terms of timing and approximates the decline in magnitude.
3. The exchange is value neutral or value creative to shareholders with very conservative assumptions and recognition of the adverse selection problems inherent in voluntary programs.
4. Management and the board make a cogent case for needing to provide incentives to and retain existing employees, such as being in a competitive employment market.

Performance Based Options

The WSIB favors reasonable performance based option proposals. We feel that employees should be compensated with equity when their performance and that of the company warrants such rewards. We evaluate these plans using the same economic analysis described above. We also may support shareholder proposals that recommend moving from a non-performance based equity arrangement to a performance based plan, especially where the company has a track record of paying its employees in a manner inconsistent with the performance of the business.

Options Expensing

We strongly favor the expensing of stock options which are an important component of executive compensation. The expense of that compensation should be reflected in a company's operational earnings. Accordingly, we regularly support proposals that require or encourage companies to expense options.

Director Compensation Plans

Non-employee directors should receive compensation for the time and effort they spend serving on the board and its committees. In particular, we support compensation plans that include option grants or other equity-based awards, which help to align the interests of outside directors with those of shareholders. Director fees should be competitive in order to retain and attract qualified individuals, especially in an environment where the responsibilities of directors are increasing. However, excessive fees represent a financial cost to the company and threaten the objectivity and independence of non-employee directors. Therefore, we believe a balance is required.

We are assisted by a proprietary model developed by our advisors, Glass, Lewis & Co., LLC, to help us evaluate the fees paid to directors relative to those paid to the company's peers. This model helps evaluate whether fees are designed to allow for the selection of the most qualified board members but not so unreasonable as to constitute a waste of shareholder resources.

Advisory Votes on Compensation

We closely review companies' remuneration practices and disclosure as outlined in company filings to evaluate management-submitted advisory compensation vote proposals. In evaluating these proposals, which can be binding or non-binding depending on the country, we examine how well the company has disclosed information pertinent to its compensation programs, the extent to which overall compensation is tied to performance, the performance metrics selected by the company and the levels of remuneration in comparison to company performance and that of its peers.

IV. MERGERS, CAPITALIZATION AND CORPORATE STRUCTURE ISSUES

The WSIB considers corporate structure, capitalization and merger issues in the context of their economic impact on shareholders. We rely on the expertise of our investment staff and the expertise of our investment and investment-related advisers to assess the potential impacts of these sorts of proposals to ensure that we are exercising our votes consistent with the best value for our shareholders.

Mergers, Acquisitions and Sale of Corporate Assets

We support mergers where we believe that the value being delivered to the WSIB is reasonable and represents the best alternative available to the company. The most critical analysis we undertake is our own analysis, with the help of our advisers, to assess whether the transaction is fair and delivers appropriate value to our fund. However, in coming to a conclusion about the economic benefits of a proposed transaction, we also consider the process employed by the board in reviewing and recommending the merger. We look at whether the board's interests are aligned with shareholders based on the details of the proposed deal. In particular, we look at executive and board member payouts associated with the proposed transaction. We consider the financial advice received by the board in support of its recommendation to ensure that the advice was unbiased and well-reasoned. The overwhelming majority of merger transactions meet these criteria, thus we regularly support them.

Capitalization

Authorized Shares

Adequate capital stock is important to the operation of a company. When analyzing a request for additional shares, we review four common reasons why a company might need additional capital stock beyond what is currently available:

1. Stock split
2. Anti-takeover defenses
3. Financing for acquisitions
4. Financing for operations

The WSIB votes for the authorization of additional shares, unless we find that the company does not have a reasonable plan for use of the proposed shares, or we believe the plan is inappropriate (e.g. to fund a poison pill or to serve as a component of some other anti-takeover defense), or where the number of shares far exceeds those needed to accomplish the proposed plan.

We also typically support reverse stock splits because they tend to allow for decreased cost by shareholders in trading the stock and may increase marketability of the stock.

Issuance of Shares

Issuing additional shares can dilute existing holders. Further, the availability of additional shares, where the board has discretion to implement a poison pill, can often serve as a deterrent to interested suitors. Accordingly, where we find that the company has not disclosed a detailed plan for use of the proposed shares, or where the number of shares requested are excessive, we typically vote against the issuance. In the case of a private placement, we will also consider whether the company is offering a discount to its share price.

In addition some companies may request shareholder approval to authorize the board to issue shares with or without preemption rights over a defined time period, in order to allow the board the flexibility to finance operations and future business opportunities. In general, we will support proposals to authorize the board to issue shares (with pre-emption rights) when the requested increase is the lesser of (i) the unissued ordinary share capital; or (ii) a sum equal to one-third of the issued ordinary share capital. This authority should not exceed five years. In some countries, if the proposal contains a figure greater than one-third, the company should explain the nature of the additional amounts.

We will also generally support proposals to authorize the board to issue shares without pre-emption rights for a maximum of 5 percent of the issued ordinary share capital of the company. If the proposal contains a figure greater than 5 percent, the company should provide an explanation. This authority should not exceed five years, or less for some countries.

Repurchase of Shares

We will recommend voting in favor of a proposal to repurchase shares when the plan includes the following safeguards: (i) a maximum number of shares which may be purchased (typically not more than 15 percent of the issued share capital); and (ii) a maximum price which may be paid for each share (as a percentage of the market price).

Corporate Structure

Bylaw / Corporate Charter Amendments

Offshore Reincorporation of U.S. companies

The WSIB considers the proposed economic benefits of such a proposed transaction relative to some of the substantial drawbacks of offshore reincorporation, such as decreased shareholder rights, potential business losses (including government contracting), and difficulty realizing tax advantages based on often discussed tax and legal changes by Congress. Where the financial benefits are *de minimis* and there is a decrease in shareholder rights, we will recommend voting against the transaction.

Reincorporation in a Different Locale

The WSIB reviews the relevant law to assess whether the protections built into a particular locale's code are better for shareholders than the existing forum. Where shareholder protections are enhanced or remain the same, we support these changes.

Shareholder Access to the Proxy

The WSIB supports the right of long-term shareholders to nominate director candidates. We think shareholders are best served when they have maximum influence on director selection in order to appoint directors who are independent and focused on the interests of shareholders. Accordingly, we support proposals granting shareholders access to the ballot in consideration of company size, the shareholder proponent and the rationale for putting forth the proposal at the target company and the percentage ownership requested and holding period requirement.

Amendments to the Articles of Association

We will evaluate proposed amendments to a company's articles of association on a case-by-case basis. We are opposed to the practice of bundling several amendments under a single proposal because it prevents shareholders from evaluating each amendment on its own merits. In such cases, we will analyze each change individually. We will vote for the proposal only when we believe that all of the amendments are in the best interests of shareholders.

Voting Structure

Cumulative Voting

The WSIB supports cumulative voting. Cumulative voting is a voting process that maximizes the ability of minority shareholders to ensure representation of their views on the board. Cumulative voting can play an especially important role where a board is controlled mainly by insiders or affiliates or where the company's ownership structure includes one or more very large shareholders who control a majority-voting block of the company's stock. In those situations, smaller shareholders need the protections of cumulative voting to ensure their voice is heard. Cumulative voting operates as a safeguard by allowing those who hold a significant minority of shares are able to elect a candidate of their choosing to the board. This allows for the creation of boards that are broadly responsive to the interests of all shareholders rather than simply to a small group of large holders. However, if a company has adopted a true majority vote standard (i.e., where a director must receive a majority of votes cast to be elected, as opposed to a modified policy indicated by a resignation policy only), we will vote against a cumulative voting proposal since it may be incompatible with majority voting. Furthermore, when companies have adopted some form of majority voting but it falls short of a true majority voting standard we will vote against cumulative voting proposals if the company has not adopted antitakeover protections and has been responsive to shareholders.

Supermajority Vote Requirements

The WSIB favors a simple majority voting structure. Supermajority vote requirements act as impediments to shareholder action on ballot items that are critical to our interests. One key example is in the takeover context where supermajority vote requirements can limit shareholders' power to make decisions on such crucial matters as selling shares at a premium.

Election of Directors by a Majority Vote

The ability to elect directors is a fundamental part of shareholder rights. We believe that the plurality method currently used by the vast majority of companies does not provide shareholders

with meaningful input on the election of directors since a director could be elected with as few as one vote. Therefore, we support shareholder or other proposals that recommend or require that companies adopt a majority vote standard for election of directors.

Blank Check Preferred Stock and Unequal Voting Rights

Blank check preferred stock which allows the board to implement unequal voting rights and other forms of stock with existing unequal voting rights are typically counter to the interests of ordinary public shareholders. We believe that each share should have one vote and all shareholders should be treated equally in their ability to set the direction of the company based only on their percentage of holdings. Accordingly, we favor the removal or reduction of unequal voting rights wherever possible.

V. SHAREHOLDER RIGHTS AND ANTI-TAKEOVER PROVISIONS

Companies sometimes seek to implement certain provisions in order to create thresholds for the exercise of shareholder rights and thresholds for takeover efforts. Where these thresholds are reasonable and do not unduly impair shareholder value and rights, the WSIB will not oppose them. In many instances, however, these thresholds seek to place undue barriers to the exercise of shareholder rights and undue barriers to legitimate takeover efforts. In such instances, the WSIB will oppose such proposals.

Shareholder Rights

Right of Shareholders to Call a Special Meeting

The WSIB favors proposals that allow shareholders to call special meetings. In order to prevent abuse and waste of corporate resources by a very small minority of shareholders, we believe that such rights should be limited to a minimum threshold of at least 15 percent of the shareholders requesting such a meeting. A lower threshold may leave companies subject to meetings whose effect might be the disruption of normal business operations in order to focus on the interests of only a small minority of owners.

Shareholder Action by Written Consent

The WSIB favors proposals that allow shareholders to act by written consent. In order to prevent abuse and waste of corporate resources by a very small minority of shareholders, we believe that such rights should be limited to a minimum threshold of at least 15 percent of the shareholders requesting action by written consent.

Advance Notice Requirements for Shareholder Ballot Proposals

These proposals typically attempt to require a certain amount of notice before shareholders are allowed to place proposals on the ballot. Notice requirements may be unduly lengthy such as those that range between three to six months prior to the annual meeting. These proposals make it very difficult for shareholders to present a proposal or a director nominee, even if that proposal is in the best interests of the company and its shareholders.

The WSIB believes it is in the best interests of shareholders to have the opportunity to review and vote on all proposals and director nominees submitted prior to the final printing of the proxy statement. Shareholders are capable of assessing for themselves whether they have adequate notice and enough information to support a particular proposal.

Anti-takeover Provisions*Poison Pills (Shareholder Rights Plans)*

The WSIB believes that poison pill or similar shareholder rights plans are not in the best interests of the fund or its beneficiaries. Specifically, poison pills can reduce management accountability by substantially limiting opportunities for corporate takeovers. Shareholder rights plans can thus prevent the WSIB from receiving a buy-out premium for our stock. We believe that shareholders should be allowed to vote on whether or not they support such a plan's implementation. This is also an issue in which the interests of management may be very different from ours and therefore pursuing shareholders' approval is the best way to safeguard our interests. We generally vote against these plans, however, in certain limited circumstances we will support the adoption of poison pills that are limited in scope, provide reasonable protection to shareholders and are designed to provide the board and shareholders adequate time to pursue value-maximizing alternatives.

We are particularly opposed to "dead-hand poison pills" that only allow former directors who have left office to determine whether or not the pill can be revoked.

We also disfavor the use of "Fair Price Provisions" that attempt to dictate the price for all shares in a tender offer situation as we believe these provisions tend to act like those of a poison pill in discouraging takeover offers.

Procedural Matters*Transaction of Other Business at an Annual or Special Meeting of Shareholders*

The WSIB believes that shareholders should have a say in all matters up for a vote. Therefore, we do not give our proxy to management with unfettered discretion to vote on any other business items that may properly come before the annual meeting.

Right of the Board to Adjourn a Meeting of Shareholders

The WSIB supports the right of the board to adjourn a meeting of shareholders where we support the proposals put forth by management. Adjourning the meeting, if necessary, can give the board time to solicit the votes of shareholders who may not yet have voted, in order to pass such proposals.

VI. SHAREHOLDER INITIATIVES & MANAGEMENT OF THE FIRM

As a long-term investor, the WSIB favors proposals that are designed to increase or protect shareholder value and/or promote and protect shareholder rights. We typically prefer to leave decisions regarding day-to-day management of the business and policy decisions related to political, social or environmental issues to management and the board except where a shareholder proposal demonstrates that a company's operations, practices or lack of attention, pose risks to the current or long-term shareholder value in the company.

We will generally support proposals calling for greater disclosure of risks and risk mitigation actions related to financial, environmental, social, and governance issues, believing that such disclosure tends to be beneficial and in the long-term best interest of the company and its shareholders, absent any meaningful competitive reasons for limiting disclosure.

Generally, the WSIB supports shareholder proposals seeking greater disclosure of a company's practices that address environmental issues and risks. This includes disclosure of actual and potential liabilities and contingency plans that respond to potential risks posed by climate change.

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