

Proxy voting guidelines

INTRODUCTION

This is the first version of the Triodos Proxy Voting Guidelines (the 'Guidelines'), which outline the broader voting philosophy for the Triodos Meerwaarde Funds. The Guidelines provide a reference framework for analysing resolutions put forward at shareholder meetings and for formulating voting recommendations. It is Triodos' policy to further expand and update these Guidelines regularly in light of new developments.

The Guidelines are underpinned first and foremost by the broader mission of Triodos Bank, namely to *contribute to a more people-oriented society – one which respects people, the environment and culture*. Social, ethical as well as financial considerations are at the heart of Triodos' business practices. Similarly, the Guidelines are developed in the belief that long-term business success will depend on the successful integration of social, environmental and financial considerations in business decisions.

As a sustainable investor, we are seeking to invest in companies that are not in fundamental conflict with our values and which deliver long-term value in harmony with society and the environment. Companies operate in a complex web of stakeholders, including shareholders, employees, suppliers, customers, communities, and the environment. Shareholders provide companies with capital. Communities provide them with employees, consumers, and a legal framework within which to operate. Suppliers provide companies with services and materials for their operations. The environment provides raw materials as well as a sink for emissions and waste. In return, companies provide jobs, goods, services, and profits. A company that intends to deliver value over the long term must effectively manage its relations with all its stakeholders, and be responsive to their needs and possibly changing demands. We believe that those companies that balance these interests effectively will deliver significant value to all stakeholders, including their shareholders.

This document serves two key purposes: First, it aims to provide a point of reference for formulating consistent voting recommendations that are in the long-term interest of shareholders as well as other stakeholders of a company. By publishing this document, we want to provide necessary transparency and accountability as to our activities in this area. Second, the document aims to provide a starting

point for reflecting more generally on the role and responsibilities of shareholders in companies, and how the rights of shareholders' could be used to improve corporate governance and bring further substance to ethical or sustainable investing. Responsible use of voting rights could be a very powerful tool to change public companies to the better. However, to date, investors have largely failed to make use of or be accountable for their voting behaviour. Given the influence that large companies have on our world and our future, shareholder absenteeism poses a potential obstacle towards sustainable development. Ultimately, these Guidelines reflect Triodos' view that our fiduciary obligations to the shareholders in the Meerwaarde Funds include an obligation to vote their proxies in a manner consistent with good corporate governance, and corporate social responsibility. We therefore also hope to further contribute to the debate on good corporate governance and the responsibilities of investors.

Structure of these Guidelines

The guidelines are designed to explain the analysis undertaken as part of our proxy voting activities. The guidelines have two main sections: Corporate Governance (I) and Corporate Social Responsibility (II). The first section is furthermore sub-divided into four sub-sections, in line with the typical proposals that are put forward at shareholders' meetings. These are: Annual Accounts, Discharge and Dividends (A); Directors and Remuneration (B); Auditors (C); and Share Capital and Shareholder Relations (D).

Triodos Voting Policy

Triodos does not believe in a one-size-fits-all approach and resolutions always have to be considered in the particular context, in which a company is operating, notably local standards of best practice. In general, Triodos voting recommendations are as follows:

For

The proposal reflects acceptable practice and is in the long-term interests of shareholders and other stakeholders of the company.

Abstain

The proposal does not meet acceptable practice but either the concern is not considered sufficiently material to warrant an oppose vote or an oppose vote could have a detrimental impact on the company.

Oppose

The proposal does not reflect acceptable practice and is not in the long-term interests of shareholders and other stakeholders of the company.

CORPORATE GOVERNANCE

Annual Accounts, Discharge and Dividends

Annual Accounts

The annual accounts provide key information that enable shareholders and other stakeholders to assess a company's business, strategy and financial situation. It offers the directors of the company with the opportunity to present and comment upon activities during the financial year under review and put forward future strategies and objectives. Consequently, the quality and accuracy of the information presented in this particular document are of key importance to investors.

In addition to financial information, it has become more and more customary to include corporate governance as well as key environmental and social information in the annual report and/or in separate publications. We consider these issues to be an integral part of a company's business and therefore an integral part of a company's reporting.

Reasons to withhold support for related resolutions might include the following:

- There are serious breaches of corporate governance/ best practice;
- The accounts have been qualified;
- There is non-compliance with relevant legal or regulatory requirements; or
- There is a failure to make disclosures on environmental and social issues that are of material importance.

Discharge

Discharge of the board(s) typically constitutes formal acceptance of the facts presented in the annual report and the accounts. It also constitutes a declaration that no legal proceedings shall be instituted against the discharged body for its conduct of business during the period under review. The discharge is valid for the facts presented. Once discharge is granted, the rights of shareholders to seek compensation from damages are weakened and prosecution of board members becomes more difficult.

Reasons to withhold support for related resolutions might include the following:

- There is non-compliance with relevant legal or

regulatory requirements

- There are pending legal proceedings against one or several board members that may be rendered more difficult in case the discharge is granted.

Dividends

Dividends are a means for returning value to shareholders. The dividend policy of a company must be seen in a company's particular context and will depend, inter alia, on the financial situation, capital requirements, growth prospects and available investment opportunities. In general, Triodos favours stable and/or predictable dividend policies and payments. In case extraordinary or super-dividends are proposed, the company should provide satisfactory explanations and justifications. In any case, it is important for companies to be accountable to shareholders for the funds they retain for investment purposes. If no satisfactory returns can be achieved within the company, funds should be returned to shareholders.

Reasons to withhold support for related resolutions might include the following:

- There is reason to believe - because of the financial situation or other circumstances - that the current dividend level cannot be maintained and the company failed to provide satisfactory explanations;
- The company is not using funds efficiently and, accordingly, the dividend level is considered too low;
- There are reasons to believe that the dividend payment is not in the long-term interest of shareholders.

Directors and Remuneration

Directors

Company boards, whether in a one-tier board structure (Board of Directors) or a two-tier board structure (Supervisory Board and Executive Board) play a key role in guiding and supervising a company. Inter alia, they play an important role in defining the company's strategy, establishing targets for executives, monitoring implementation and results, and controlling risks. Company board must be active, independent and competent bodies that bring together a broad range of expertise. The company boards are accountable to the company's shareholders.

Reasons to withhold support for the appointment of (executive) directors may include:

- The terms of the contracts are against acceptable practice;
- There is evidence for patronage or directors have not been appointed via a formal appointment/nomination process;

- There is evidence that the director does not act impartially or not in the interest of shareholders and other stakeholders;
- The roles of CEO and chairman of the Board are combined.

Reasons to withhold support for the appointment of (non-executive) directors may include:

- A director has a history of frequent non-attendance of board meetings;
- A non-executive director is not considered independent according to the guidelines used by Triodos and there are an insufficient number of independent directors on the board;
- The nominee is proposed as the chairman of the Board and he/she was CEO of the company in the five years preceding his/her appointment;
- A director has in total more than five (non-executive) board positions at major companies;
- The director is chairman of one of the board committees and there are corporate practices that fall under the responsibility of this committee which are in serious conflict with acceptable corporate governance standards.
- Insufficient biographical information is disclosed to assess the independence and/or qualification of the nominee;
- The nominee has been in his position for more than 12 years;

Remuneration

Corporate boards play a key role in guiding and supervising a company and in securing its long-term success. Remuneration plays an important role in attracting top talent and providing the right incentives for board members to act in the long-term interest of the company and its various stakeholders. Other important factors that may attract and retain top talent may include the reputation of the company, sound governance arrangements, specific responsibilities assigned, social status etc.

To ensure that corporate boards and their members exercise their responsibilities in a judicious manner, director's remunerations should be structured so as to attract and retain top talent while, at the same time, aligning interests of directors with the long-term interests of the corporation and its stakeholders. Both the level of remuneration as well as the structure of remuneration should be set so as to achieve these goals. Conversely, inappropriate remuneration schemes may cause a waste of resources, may result in a focus on short-term result to the detriment of the long-term, may undermine the reputation of the company and may even contribute to corporate failure.

The remuneration policy of a company typically includes a fixed component (base salary) a short-term variable component (annual bonus), a long-term variable component (e.g. share option or share schemes) and other benefits (medical insurance, pension benefits and in kind awards). Executive compensation should be transparent and shareholders should have the right to vote on remuneration policies and stock option and other incentive plans. Currently, remuneration is still largely set in a local context and therefore, in assessing remuneration schemes, local standards of practice also need to be considered.

Reasons to withhold support for related resolutions might include the following:

- There are serious concerns as to the manner and process in which the remuneration scheme was determined;
- There is inadequate transparency on the proposed remuneration scheme;
- The contractual terms are in serious conflict with relevant best practice standards (e.g. the may include a significant risk of 'rewards for failure');
- The remuneration schemes fails to align the interests of directors with the long-term success of the company;
- Payments are considered potentially excessive if compared to local or international standards.

Auditors

For shareholders and stakeholders alike it is of prime importance that the annual accounts provide a true and fair view of the company's financial situation. To this effect, the board(s) must set up an internal and external monitoring system. Within this framework, the external auditors fulfil a key function as they are meant to provide an external and independent assessment of whether the annual accounts provide a true and fair view of the company. Typically, the auditors are proposed by the board's audit committee. To fulfil their role in a meaningful manner, it is of crucial importance that the auditors are independent of the company and the company board in fact and appearance.

Reasons to withhold support for related resolutions might include the following:

- The non-audit fees paid to the auditor is considered unacceptable;
- The company does not fully disclose the audit fees and non-audit fees paid to the auditor;
- There are other reasons for questioning the independence if the auditors in fact or appearance.

Share Capital and Shareholder Relations

The share capital structure of a company provides a general setting in which the company and its shareholders operate. Notably, the share capital structure defines certain shareholder rights such as the right to vote, and thereby has a direct influence on the exercise of power at a company. Modifications in the capital structure and/or capital increases will modify such relationships and the influence (some) shareholders may have on the company. Also, changes in capital structure may have an important influence on conducting take-overs and mergers or being subject to these.

Most codes of best practice recommend that voting rights should be exercised on a pro rata basis to the investment of capital and therefore promote the 'one share - one vote' principle. Whereas in assessing a particular (unequal) capital structure we will always bear in mind the particular history, context and mission of a company, we consider broader shareholder participation in the decision-making process a welcome development. Responsible use of voting rights can play an important role in promoting corporate sustainability and thereby long-term success. Corporation should therefore encourage and facilitate broader and responsible participation of shareholders in decision-making.

If authority is sought from shareholders to increase share capital or to conduct share buy-backs, the company should provide satisfactory explanations and justifications. Triodos will assess the resolutions on a case-by-case basis, taking into account local practice as well as local and international best-practice standards.

Reasons to withhold support for related resolutions might include the following:

- Proposed changes weaken the possibilities of shareholder to make responsible use of their rights;
- Proposed changes are not considered in the long-term interest of the corporation and its stakeholders;
- The company failed to provide satisfactory explanations.

Other

Other corporate governance related resolutions may be put forward by the company or by shareholders. Triodos will assess these on a case-by case basis, taking into account the principles set forth in this document as well as relevant local practice and local or international best practice standards.

CORPORATE SOCIAL RESPONSIBILITY

To ensure long-term success, companies will need to successfully balance the interests of its various stakeholders on which it depends, including shareholders, employees, customers, communities in which the company is active as well as the natural environment. In a broader perspective, the global economy must find ways to become more sustainable. Notably, it must find ways to create wealth and increase living standards, while avoiding inequality and social exclusion and while preserving and protecting the environment we depend on. Companies are being asked to play a greater role in addressing existing shortcomings and are subject to rising expectations.

In several countries notably the United States it has become common practice that shareholders put forward resolutions at shareholder meetings in which they ask companies to strengthen corporate standards and management systems as well as related reporting that have a direct relation to sustainability. These resolutions vary in nature and must be analysed on a case-by-case basis. In general, when assessing the merits of relevant resolutions, Triodos will consider the following questions:

- Are the requests reasonable, considering the likely costs and benefits of implementing relevant measures?
- Are there any justifiable concerns with respect to confidentiality issues?
- Are the demands within the realm of influence and responsibility of the company?

The section below provides a indicative selection of typical resolutions that have been tabled in the past at shareholder meetings and which Triodos would generally support if put forward again in the future:

Standards of Conduct

Global manufacturing, resource extraction, financial services, and other companies face complex issues arising from the diverse cultures and political and economic contexts in which they operate. Shareholders have asked companies to develop, adopt, and continually improve codes of conduct to guide company policies, programs, and operations, both within and outside their cultures of origin, and to publicly report these policies. Shareholders believe these codes should include policies designed to ensure the protection of the environment and human rights, the payment of just wages, the maintenance of safe working conditions, the avoidance of child and forced labor, and freedom of association. Shareholders often ask companies to adhere to poli-

cies that conform to the International Labor Organization's Core Conventions and the United Nations Universal Declaration on Human Rights. Triodos will support these resolutions*.

Standards for Suppliers

Corporations have the power to alter the conditions under which their suppliers operate. Shareholders have asked companies for reports describing their supplier standards, focusing especially on the workers' right to organize, working conditions, and worker compensation. They have also asked for (1) the use by companies of external, independent monitoring programs to ensure that their supplier comply with their supplier standards; and (2) reports on companies' efforts to assure that they are not doing business with contractors that use forced labor, child labor, or otherwise have abusive working conditions. Triodos will support these resolutions.

Adopt Global Animal Welfare Standards

Shareholders have asked restaurants and other corporations to adopt animal welfare standards for their operations worldwide, and to report these standards to shareholders. Triodos will support these resolutions.

CO₂ and Climate Change

Shareholders have become increasingly concerned about the potential climate-changing effects of greenhouse gas emissions (GHG emissions) from their companies' operations and products. They have focused particular attention on electric utility, oil, manufacturing, and insurance companies. Some shareholders have asked electric utility companies for reports on policies, programs, and progress to date in helping ratepayers conserve energy and in using benign sources of electricity to reduce CO₂ emissions. Others have asked oil, electric utility, and manufacturing companies to report on GHG emissions from their operations and products, and their progress towards reducing such emissions. Shareholders have also asked property and casualty insurance industry firms to report on their exposure to potentially catastrophic risks from natural disasters brought on by worldwide climate change. Triodos will support these resolutions.

Environmental Hazards to Community

The public has a right to know whether a company uses substances that pose an environmental health or safety risk to a community in which it operates. Shareholders have asked companies to make infor-

mation about these risks available to enable surrounding communities to assess a facility's potential impact. Triodos will support these resolutions.

Sustainability Reports

Shareholders have asked companies to increase reporting on 'sustainability' issues including reporting on company programs, progress, and future plans in the environmental area. Such resolutions have asked companies to make use of the guidelines of the Global Reporting Initiative (GRI) or other international codes of conducts or reporting models. Such resolutions may also ask the company to (1) disclose environmental liabilities in a somewhat clearer fashion than the US Security and Exchange Commission (SEC) requires, (2) report on toxic emissions, or (3) disclose the environmental impact of the company's operations on biodiversity. Other requests have focused on specific environmental problems, such as hazardous waste sites. Shareholders have also asked for reports on the environmental and occupational standards that companies require of their suppliers and vendors. Triodos will support these resolutions.

Environmental Standards for International Electronics Industry Subcontractors

The manufacture of semiconductors requires extensive use of toxic chemicals and the use and discharge of large amounts of water. Shareholders have asked certain large electronics products companies to report on their policies for monitoring the environmental records of their major overseas suppliers. Triodos will support these resolutions.

Genetically Engineered (GE) Agricultural Products

There is growing concern that GE foods may be harmful to humans, animals, or the environment. There is also concern that any detrimental impact on public health and the environment resulting from these foods may expose companies to substantial financial liabilities. Shareholders have asked companies to delay marketing GE foods until testing proves these products to be safe over the long term. They have also asked companies that are currently marketing GE foods to (1) label them as such; (2) adopt a policy to phase them out; (3) report on the financial and environmental costs, benefits, and risks associated with the production and consumption of these products; and/or (4) report on the feasibility of phasing them out, unless long-term testing proves them safe to humans, animals, and the environment. Triodos will support these resolutions.

* In 2004, the Triodos Meerwaardefonds supported such a resolution at Home Depot Inc.

No Mining or Exploration and Production in Certain Environmentally Sensitive Regions

Certain regions such as the US Arctic National Wildlife Refuge are particularly environmentally sensitive. Shareholders have asked natural resource extraction companies to adopt a policy of not exploiting these regions. Triodos will support these resolutions.

Paper Production and Use - Chlorine Bleaching

The insatiable demand for paper has led to clear-cutting of forest for pulp and the use of chlorine bleaching to achieve whiteness in the end product. As both these practices have dire environmental consequences, shareholders have asked paper manufacturers to report on plans to phase out the production of paper using these processes. In addition, shareholders have also asked companies to report on steps taken to eliminate the use of chlorine bleaching in the production of their products. Triodos will support these resolutions.

Paper Production - Telephone Directories

Some producers of telephone books use paper derived from virgin rainforests. Since alternative sources of paper exist, shareholders have asked publishers to phase out the use of paper from these sources. Triodos will support these resolutions.

PVCs (Polyvinyl Chloride Plastics), Phthalates

PVC's are environmentally hazardous throughout their life cycle (production, use, and disposal). Dioxin, a known human carcinogen, is created during the production of PVC feedstocks, as well as when PVC's are burned in waste incinerators. Among other things, dioxin has been linked to endocrine disruption, reproductive abnormalities, neurological problems, and infertility in humans and animals. In addition, large amounts of chemicals called 'phthalates' are used to manufacture flexible PVC products. A commonly used phthalate plasticizer called di-ethylhexyl-phthalate (DEHP) is a probable reproductive toxicant, as well as a toxicant of the liver and kidney. PVC's are the primary component in 25% of all

medical products. These include IV, blood, and enteral feeding bags; oxygen tubing and masks; dialysis tubing; enteral feeding tubes; examination gloves; and sterile packaging. Many non-PVC medical supplies (IV bags, gloves, plasma collection bags, and containers) are currently available and others (tubing, film for collection bags, and blood bags) are under development. Triodos will support resolutions asking companies to phase out the manufacture of PVC- or phthalate containing medical supplies where safe alternatives are available. PVC's are also extensively used in building materials such as furniture and floor coverings. Triodos will support resolutions asking companies to report on the risks, financial costs and benefits, and environmental and health impacts of the continued use of PVC's in these types of products.

Use of Parabens in Beauty Products

Parabens, used as preservatives in beauty products, have been identified as estrogenic chemicals. Estrogenic chemicals are those that mimic the action of estrogen, a hormone that has been shown to control the growth of breast cells. In addition, it has also been shown that exposure to external estrogens, those not naturally produced by the body, increases the risk of breast cancer. The National Research Council has determined that certain synthetic chemicals that mimic the function of estrogen are associated with adverse effects on the reproductive health of wildlife and other animals. There is substantial scientific evidence to suggest that increased exposure to substances that behave like estrogen in the body may elevate an individual's risk of developing cancer. Triodos will support resolutions asking companies to report on the feasibility of removing, or substituting with safer alternatives, all parabens used in their products.*

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* In 2004, the Triodos Meerwaardefonds supported such a resolution at Avon Products Inc.



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