

## Proxy voting guidelines

### INTRODUCTION

This is the third version of the Triodos Proxy Voting Guidelines (the 'Guidelines'), which outline the broader voting philosophy for the Triodos Sustainable Investment 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, cultural, environmental and financial considerations in business decisions.

Besides offering sustainable investment products, Triodos Bank aims to ensure that constructive dialogue is conducted with companies to further stimulate responsible business practices, thereby creating shareholder value. Voting is one of the instruments that can be used for this purpose. Triodos Bank considers the responsible use of voting rights a very powerful tool to change public companies for the better. However, to date, investors have largely failed to make use of or be held 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. As manager of Socially Responsible Investment funds, we have the power to exercise our voting rights on behalf of our clients. In line with our Investment Strategy, it is our duty to exercise these rights. Moreover 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 while remaining in harmony with society and the environment. A company that intends to deliver long-term value must effectively manage its relations with all its stakeholders, and be responsive to their needs and possibly changing demands. Triodos votes in a manner that supports the long-term interest of both shareholders and other company stakeholders, thereby fulfilling our fiduciary duties to our clients.

Proxy voting is only one of the instruments we use to stimulate sustainable business practices. It is part of our broader investment strategy. You may find our Investment Strategy document on our company website [www.triodos.com](http://www.triodos.com).

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. Ultimately, these Guidelines reflect Triodos' view that our fiduciary obligations to the shareholders in our 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 and Repurchase of Shares (A); Directors Appointment and Remuneration (B); Auditors (C); and Share Capital and Shareholder Relations (D). The majority of the time we vote in accord with management, therefore the first section on corporate governance voting describes when we do not support management. However, resolutions as described in section two are often unsupported by management; here we describe when we *will* support the shareholder proposal.

The structure of these guidelines is identical to the previous version (August 2008). New reasons to abstain on or to vote against are marked with an asterisk (\*).

## **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 too 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.

## **I. 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 abstain from related resolutions might include the following:

- The company failed to publish its annual report or to disclose important information on the meeting in time (21 days before the meeting);
- There is a failure to make disclosures on environmental and social issues that are of material importance.

Reasons to vote against related resolutions might include the following:

- There are serious deviations from corporate governance best practices that are not sufficiently explained;
- The accounts have been qualified;
- There is non-compliance with relevant legal or regulatory (local market) requirements.

#### ***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 vote against related resolutions might include the following:

- There is non-compliance with relevant legal or regulatory requirements;
- The auditors' report expresses serious concerns over shortcomings in the conduct of board members;
- There are pending or anticipated legal proceedings against one or several board members that may be rendered more difficult in case the discharge is granted.
- Discharging the board limits the shareholders' right to pursue future legal action against the company in case of misbehaviour\*.

#### ***Dividends, return of capital or repurchase of shares***

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 usage can be achieved within the company, funds should be returned to shareholders. This could be done by return of capital or the repurchase of shares. A company may wish to reward shareholders in exchange for share registrations in order for the company to get to know their shareholders' identity and reward long-

term investors. Loyalty dividends are designed to create an incentive for shareholders who intend to keep their shares longer term. It also allows more direct communication between shareholders and the company, building better relationships and having committed shareholders. The loyalty dividend acts as a device that both rewards long-term shareholders and improves investor relations. Both voluntary registration and de-registration should be available. Triodos supports voluntary loyalty dividend programs.

Reasons to vote against 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 adequately.

## Directors Appointment and Remuneration

### *Directors Appointment*

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.

Triodos Bank considers it best practice if all directors are subject to a separate shareholder vote.

Reasons to abstain from the appointment of executive directors may include:

- The terms of the contracts is not in line with local acceptable practice and no acceptable review procedure is in place.

Reasons to vote against the appointment of executive directors may include:

- 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 the company;
- The roles of CEO and chairman of the Board are combined;
- Insufficient biographical information is disclosed to assess the qualification of the nominee

(disclosure should include gender, age, nationality, recent career history, external positions held, date of joining and term of office);

- Termination provisions are not in line with local acceptable practice.

Reasons to abstain from appointment of non-executive directors may include:

- A director has a history of frequent non-attendance (> 25%) of board meetings without adequate justification;
- A director has in total more than 5 or 6 board positions (non-executive or supervisory) at major companies;
- A director has an executive position and 1 or 2 board positions (non-executive or supervisory) at major companies.

Reasons to vote against the appointment of non-executive directors may include:

- A non-executive director is not considered independent according to our guidelines and there are an insufficient number of independent directors on the board (less than 50% or according to local best practices);
- The nominee is proposed as the chairman of the Board and he/she was CEO of the company in the two years preceding his/her appointment;
- 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 (disclosure should include age, recent career history, external positions held and date of joining);
- The nominee has been in his position for more than 12 years or less if it is not in line with local acceptable practice;
- The nominee is responsible for a poor practice of the company.
- The nominee is a company<sup>1\*</sup>

### *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

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1. In Spain, it is possible to elect a company as a director (usually a participating company). The board member representing the company can change over time.

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 can include 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). Triodos Bank considers it a key responsibility of the non-executive board to define remuneration policies. Shareholder should, however, have the possibility to hold the non-executive board accountable for these policies. 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. Triodos Bank is in favour of corporate social responsibility related targets with a long term horizon for senior management.

Reasons to vote against 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 (considered are maximum individual awards, performance targets, rewarded targets, pension plans, vesting schemes, severance arrangements and composition of peer group);
- The contractual terms are in serious conflict with relevant best practice standards (e.g. they may include a significant risk of 'rewards for failure');
- Payments are considered potentially excessive if compared to local or international standards and no acceptable explanation is given by the company;
- The remuneration schemes fails to align the interests of directors with the long-term success of the company (this includes inappropriate variable remuneration such as dividend-linked component or certain types of stock option awards);

- Termination provisions are not in line with local acceptable practice;
- Executive Incentive Schemes potentially lead to unacceptable dilution of issued share capital.
- Proposed employee share incentive scheme includes an unacceptable discount for employees according to local market practices;
- The proposed employee share incentive scheme fails to align interests of the corporation and employees.

#### *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 board's audit committee proposes the auditors. To fulfil their role in a meaningful manner and to avoid a mutual or conflicting interest between the auditor and the audited company, it is of crucial importance that the auditors are independent of the company and the company board in fact and appearance.

Reasons to abstain on related resolutions might include the following:

- The non-audit fees paid to the auditor are equal to or greater than 25% of the audit fee in the year under review and over the previous three years without an acceptable explanation provided;
- The company does not fully disclose the audit fees and non-audit fees paid to the auditor.

Reasons to vote against related resolutions might include the following:

- The non-audit fees paid to the auditor are equal to or greater than the audit fee in the year under review and over the previous three years;
- There are other reasons for questioning the independence of the auditors in fact or appearance;
- If there is a change of auditor proposed without sufficient explanation to justify this change;
- If the service of the auditor is extended for too long (>12 years) which may result in excessive trust or insufficient objective testing.

### *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 takeovers 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 abstain on related resolutions might include the following:

- Proposed changes weaken the possibilities of shareholder to make responsible use of their rights without satisfactory explanation from the company as to why the proposal is in the best interest of all stakeholders;
- Proposed changes to weaken the voting rights of shareholders have a duration period of more than six months and they do not have a satisfactory explanation;
- Proposed share issue or share repurchase allows companies to buy or sell shares during a public offer period.

Reasons to vote against related resolutions might include the following:

- Proposed changes are not considered to balance the long-term interest of the corporation and its stakeholders.

### *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.

## II. 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 and 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 an 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. Triodos will report on the success rate of these proposals to measure their effectiveness.

### **Animal Welfare Standards\***

Society is becoming increasingly concerned about large-scale, high-density production systems for animals because of impacts on biodiversity, climate change, and animal welfare.

Large, global companies, especially companies that have relations to the agricultural sector such as food production and food retail companies should develop standards and programmes to protect the environment and should uphold animal welfare standards. If sufficient information is provided, Triodos will support these resolutions.<sup>2</sup>

#### **Charitable Donations**

Whether by contributions through charities or through their own foundations, companies can improve the communities in which they operate. Effects include strengthening the relationship with the company's stakeholders, contributing to sustainable operations, and reputational benefits both in manufacturing communities and where products are sold. However the company should be transparent, providing sufficient information to assess the benefit for the stakeholders of such a charitable contribution. If sufficient information is provided, Triodos will support these resolutions.<sup>3</sup>

#### **Recouping Unearned Management Bonuses**

Some corporations have come under fire for accounting irregularities, which resulted in substantial restatements of financial accounts. Triodos considers it appropriate to recoup award if they were triggered by financial statements which turned out to be false, and that provision should be made for the recovering of awards in executives' employment agreements. Furthermore, we do not accept the company's implicit arguments that recoupment should only be carried out when misconduct has been proven. Triodos will support these resolutions.<sup>4</sup>

#### **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. In addition, some resolutions have called for working conditions to be written into supplier contracts to increase accountability.

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<sup>2</sup> In 2008, the Triodos Meerwaardefonds co-filed such a shareholder resolution at Tesco.

<sup>3</sup> In 2007, the Triodos Meerwaardefonds supported such a resolution at H&M.

<sup>4</sup> In 2007, the Triodos Meerwaardefonds supported such a resolution for Motorola.

Triodos will support these resolutions.<sup>5</sup>

#### **CO<sub>2</sub> 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 CO<sub>2</sub> 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 information 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.

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<sup>5</sup> In 2007, the Triodos Meerwaardefonds supported such a resolution for Tesco.

## Political Donations

Corporate political contributions may have an influence on elections and government. Such contributions could be viewed as encouraging preferential treatment and interfering with the democratic process. Corporations should not be regarded as 'citizens' with full democratic rights, and supporting industry associations that lobby could be inconsistent with the claim of good corporate citizenship.

Triodos will support proposals to disclose contribution amounts, and objectives and rationale for making such a contribution.<sup>6</sup> Making donations to EU political organizations within pre-defined limits is acceptable, however Triodos will withhold support on donations for political events, specific political parties, and relatively high contribution amounts.<sup>7</sup>

April 2010

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<sup>6</sup> In 2008, the Triodos Meerwaardefonds supported such a resolution at Waste Management and in 2009 the Triodos Meerwaardefonds supported such a resolution at Walt Disney.

<sup>7</sup> In 2009, the Triodos Meerwaardefonds withheld support from such a resolution at United Utilities.

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